

Gannett Co., Inc.
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 25, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-36874

GANNETT CO., INC.
(Exact name of registrant as specified in its charter)

Delaware 47-2390983
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7950 Jones Branch Drive, McLean, Virginia 22107-0910
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 854-6000.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

(Do not check if a smaller reporting company) Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

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As of July 28, 2017, the total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding was 113,695,608.

INDEX TO GANNETT CO., INC.
Q2 2017 FORM 10-Q

| Item No. | | Page |
|----------|--|-----------|
| | <u>Part I</u> | |
| 1 | <u>Financial Statements</u> | <u>2</u> |
| 2 | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>17</u> |
| 3 | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>34</u> |
| 4 | <u>Controls and Procedures</u> | <u>34</u> |
| | <u>Part II</u> | |
| 1 | <u>Legal Proceedings</u> | <u>35</u> |
| 1A | <u>Risk Factors</u> | <u>35</u> |
| 2 | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>35</u> |
| 3 | <u>Defaults Upon Senior Securities</u> | <u>35</u> |
| 4 | <u>Mine Safety Disclosures</u> | <u>35</u> |
| 5 | <u>Other Information</u> | <u>35</u> |
| 6 | <u>Exhibits</u> | <u>35</u> |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

Gannett Co., Inc. and Subsidiaries

Unaudited; in thousands, except share data

| | Jun. 25, 2017 (Unaudited) | Dec. 25, 2016 |
|--|---------------------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 126,940 | \$ 114,324 |
| Accounts receivable, net of allowance for doubtful accounts of \$9,371 and \$10,317 | 317,843 | 358,041 |
| Other current assets | 142,758 | 131,141 |
| Total current assets | 587,541 | 603,506 |
| Property, plant and equipment, at cost net of accumulated depreciation of \$1,457,313 and \$1,481,897 | 981,891 | 1,087,701 |
| Goodwill | 726,424 | 698,288 |
| Intangible assets, net | 157,653 | 154,644 |
| Deferred income taxes | 196,345 | 218,232 |
| Investments and other assets | 70,261 | 82,310 |
| Total assets | \$2,720,115 | \$2,844,681 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$377,637 | \$438,724 |
| Deferred income | 137,351 | 133,263 |
| Total current liabilities | 514,988 | 571,987 |
| Income taxes | 15,790 | 25,467 |
| Postretirement medical and life insurance liabilities | 83,224 | 90,134 |
| Pension liabilities | 710,201 | 739,262 |
| Long-term portion of revolving credit facility | 385,000 | 400,000 |
| Other noncurrent liabilities | 160,422 | 161,070 |
| Total liabilities | 1,869,625 | 1,987,920 |
| Equity | | |
| Preferred stock of \$0.01 par value per share, 5,000,000 shares authorized, none issued | — | — |
| Common stock of \$0.01 par value per share, 500,000,000 shares authorized, 117,417,393 shares issued at Jun. 25, 2017 and 116,624,726 shares issued at Dec. 25, 2016 | 1,174 | 1,166 |
| Treasury stock at cost, 3,750,000 shares | (32,667) | (32,667) |
| Additional paid-in capital | 1,776,970 | 1,769,905 |
| Retained earnings (deficit) | (37,661) | 1,269 |
| Accumulated other comprehensive loss | (857,326) | (882,912) |
| Total equity | 850,490 | 856,761 |
| Total liabilities and equity | \$2,720,115 | \$2,844,681 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Gannett Co., Inc. and Subsidiaries

Unaudited; in thousands, except share data

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | Jun. 25, 2017 | Jun. 26, 2016 | Jun. 25, 2017 | Jun. 26, 2016 |
| Operating revenues: | | | | |
| Advertising | \$445,214 | \$409,834 | \$880,729 | \$761,055 |
| Circulation | 273,676 | 287,586 | 556,962 | 550,289 |
| Other | 55,617 | 51,371 | 110,273 | 96,815 |
| Total operating revenues | 774,507 | 748,791 | 1,547,964 | 1,408,159 |
| Operating expenses: | | | | |
| Cost of sales and operating expenses | 485,609 | 484,824 | 994,032 | 902,780 |
| Selling, general and administrative expenses | 210,413 | 203,103 | 423,118 | 368,491 |
| Depreciation | 43,681 | 29,292 | 83,132 | 53,251 |
| Amortization | 8,169 | 1,640 | 15,535 | 2,958 |
| Facility consolidation and asset impairment charges | 16,131 | 3,943 | 20,610 | 4,487 |
| Total operating expenses | 764,003 | 722,802 | 1,536,427 | 1,331,967 |
| Operating income | 10,504 | 25,989 | 11,537 | 76,192 |
| Non-operating expenses: | | | | |
| Interest expense | (3,454) | (3,001) | (7,709) | (4,857) |
| Other non-operating items, net (see Note 1) | (5,301) | (1,908) | (9,188) | (5,878) |
| Total non-operating expenses | (8,755) | (4,909) | (16,897) | (10,735) |
| Income (loss) before income taxes | 1,749 | 21,080 | (5,360) | 65,457 |
| Provision (benefit) for income taxes | 2,236 | 8,599 | (2,794) | 13,380 |
| Net income (loss) | \$(487) | \$12,481 | \$(2,566) | \$52,077 |
| Earnings (loss) per share – basic | \$(0.00) | \$0.11 | \$(0.02) | \$0.45 |
| Earnings (loss) per share – diluted | \$(0.00) | \$0.10 | \$(0.02) | \$0.44 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Gannett Co., Inc. and Subsidiaries

Unaudited; in thousands

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | Jun. 25, 2017 | Jun. 26, 2016 | Jun. 25, 2017 | Jun. 26, 2016 |
| Net income (loss) | \$(487) | \$12,481 | \$(2,566) | \$52,077 |
| Other comprehensive income, before tax: | | | | |
| Foreign currency translation adjustments | 8,129 | (16,024) | 13,957 | (39,073) |
| Pension and other postretirement benefit items: | | | | |
| Amortization of prior service credit, net | 759 | 675 | 1,511 | 1,069 |
| Amortization of actuarial loss | 18,478 | 15,775 | 36,223 | 31,187 |
| Other | (9,077) | 9,215 | (15,725) | 30,523 |
| Pension and other postretirement benefit items | 10,160 | 25,665 | 22,009 | 62,779 |
| Other comprehensive income, before tax | 18,289 | 9,641 | 35,966 | 23,706 |
| Income tax effect related to components of other comprehensive income | (5,044) | (7,081) | (10,380) | (16,972) |
| Other comprehensive income, net of tax | 13,245 | 2,560 | 25,586 | 6,734 |
| Comprehensive income | \$12,758 | \$15,041 | \$23,020 | \$58,811 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Gannett Co., Inc. and Subsidiaries

Unaudited; in thousands

| | Six months ended | |
|---|------------------|------------------|
| | Jun. 25, 2017 | Jun. 26, 2016 |
| Operating activities: | | |
| Net income (loss) | \$(2,566) | \$52,077 |
| Adjustments to reconcile net income to net cash flow from operating activities: | | |
| Depreciation and amortization | 98,667 | 56,209 |
| Facility consolidation and asset impairment charges | 20,610 | 4,487 |
| Pension and other postretirement expenses, net of contributions | (7,082) | (40,548) |
| Equity (income) loss in unconsolidated investees, net | 863 | (1,610) |
| Stock-based compensation | 10,059 | 10,071 |
| Change in other assets and liabilities, net | 8,993 | 12,655 |
| Net cash provided by operating activities | 129,544 | 93,341 |
| Investing activities: | | |
| Capital expenditures | (29,831) | (26,136) |
| Payments for acquisitions, net of cash acquired | (31,459) | (260,529) |
| Payments for investments | (2,414) | (8,652) |
| Proceeds from sale of certain assets | 3,200 | 10,418 |
| Changes in other investing activities | 52 | — |
| Net cash used for investing activities | (60,452) | (284,899) |
| Financing activities: | | |
| Dividends paid | (36,364) | (55,784) |
| Proceeds from issuance of common stock upon settlement of stock awards | 560 | 404 |
| Payments for employee taxes withheld from stock awards | (3,607) | (3,328) |
| Proceeds from borrowings under revolving credit agreement | 35,000 | 250,000 |
| Repayments of borrowings under revolving credit agreement | (50,000) | (50,000) |
| Changes in other financing activities | (395) | — |
| Net cash (used for) provided by financing activities | (54,806) | 141,292 |
| Effect of currency exchange rates change on cash | (1,670) | (2,304) |
| Increase (decrease) in cash and cash equivalents | 12,616 | (52,570) |
| Balance of cash and cash equivalents at beginning of period | 114,324 | 196,696 |
| Balance of cash and cash equivalents at end of period | \$126,940 | \$144,126 |
| Supplemental cash flow information: | | |
| Cash paid for taxes, net of refunds | \$(16,518) | \$22,809 |
| Cash paid for interest | \$9,204 | \$4,242 |
| Non-cash investing and financing activities: | | |
| Accrued capital expenditures | \$1,907 | \$7,141 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Basis of presentation and summary of significant accounting policies

Description of business: Gannett Co., Inc. (Gannett, our, us, and we) is a next-generation media company that empowers communities to connect, act, and thrive. Gannett owns ReachLocal, Inc. (an international digital marketing solutions company that recently acquired SweetIQ Analytics Corp. (SweetIQ)), the USA TODAY NETWORK (made up of USA TODAY (USAT) and 109 local media organizations in 34 states in the U.S. and Guam), and Newsquest (a wholly owned subsidiary with more than 160 local media brands in the U.K.). Gannett delivers high-quality, trusted content where and when consumers want to engage with it on virtually any device or platform, and helps clients connect with the consumers they seek to help grow their businesses.

Basis of presentation: Our condensed consolidated financial statements are unaudited; however, in the opinion of management, they contain all of the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) applicable to interim periods. All intercompany accounts have been eliminated in consolidation. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 25, 2016 (2016 Form 10-K).

Use of estimates: The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and footnotes thereto. Actual results could differ from those estimates. Significant estimates and judgments inherent in the preparation of financial statements include accounting amounts for income taxes, pension and other post-employment benefits, allowances for doubtful accounts, equity-based compensation, depreciation and amortization, business combinations, litigation matters, contingencies and the valuation of long-lived and intangible assets.

New accounting pronouncements adopted: The following are new accounting pronouncements that we adopted in the first six months of 2017:

Inventory: We adopted Financial Accounting Standards Board (FASB) guidance that requires entities using the first-in, first-out inventory costing method to subsequently value inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The impact of adopting this guidance was not material to our consolidated financial results.

Compensation—Retirement Benefits: We early adopted FASB guidance requiring changes to the presentation of net periodic pension and other postretirement benefit costs. Specifically, this guidance requires entities to classify the service cost component of the net benefit cost in the same income statement line item as other employee compensation costs while all other components of net benefit cost must be presented as non-operating items. The guidance further requires such classification changes to be retrospectively applied beginning in the interim period in which the guidance is adopted.

As a result of adopting this guidance, total operating expenses decreased \$5.7 million and \$10.5 million for the three and six months ended June 25, 2017, respectively. For the three and six months ended June 26, 2016, total operating expenses decreased \$2.0 million and \$4.7 million, respectively. Cost of sales decreased \$3.1 million and \$6.0 million

for the three and six months ended June 25, 2017, respectively, while selling, general, and administrative expenses decreased \$2.6 million and \$4.5 million, respectively. For the three and six months ended June 26, 2016, cost of sales decreased \$1.7 million and \$3.4 million, respectively, while selling, general, and administrative expenses decreased \$0.3 million and \$1.3 million, respectively. Net income, retained earnings, and earnings per share for both years remained unchanged.

New accounting pronouncements not yet adopted: The following are new accounting pronouncements that we are evaluating for future impacts on our financial position:

Revenue from Contracts with Customers: In August 2014, the FASB issued a new revenue standard, "Revenue from Contracts with Customers," which prescribes a single comprehensive model for entities to use in the accounting of revenue arising from contracts with customers. The new guidance will supersede virtually all existing revenue guidance under U.S. GAAP and is effective for fiscal years beginning after December 31, 2017. The core principle contemplated by this new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an

amount reflecting the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers are also required.

In April and May 2016, the FASB also issued clarifying updates to the new standard specifically to address certain core principles including the identification of performance obligations, licensing guidance, the assessment of the collectability criterion, the presentation of taxes collected from customers, non-cash considerations, contract modifications, and completed contracts at transition.

We currently anticipate adopting the new revenue recognition standard using the modified retrospective approach in the fiscal year beginning January 1, 2018. This approach consists of recognizing the cumulative effect of initially applying the standard as an adjustment to opening retained earnings. As part of the modified retrospective approach, we will also amend our disclosures to reflect results under "legacy GAAP" for the initial year of adoption.

To date, we have made progress in our assessment of the impact of adopting this new guidance, and initial steps towards implementation have been taken. Our approach to implementation has consisted of (1) performing a bottoms-up analysis of the impact of the standard on our portfolio of contracts, (2) reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our existing revenue contracts, and (3) meeting with key stakeholders across the organization to discuss the impact of the standard on our existing contracts. We expect material impacts to the content and structure of our financial statements in the form of enhanced disclosures. Our preliminary evaluation and conclusions are subject to change as our assessment continues to progress as well as in the event additional updates to the standards are promulgated. Our full evaluation is expected to be completed and finalized during the fourth quarter of 2017.

Leases: In February 2016, the FASB issued updated guidance modifying lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the provisions of the updated guidance and assessing the impact on our consolidated financial statements.

Cash and Cash Equivalents, including Statement of Cash Flows and Restricted Cash: In November 2016, the FASB issued updated guidance requiring entities to explain, in their statements of cash flows, the change during the period in the total of cash, cash equivalents, and amounts generally described as "restricted cash" or "restricted cash equivalents." As a result, restricted cash and restricted cash equivalents must now be included within the total of cash and cash equivalents when reconciling the beginning and end of period totals shown on the statement of cash flows. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the provisions of this update and assessing the impact on our consolidated financial statements.

Intangibles—Goodwill and Other: In January 2017, the FASB issued new guidance which simplifies the subsequent measurement of goodwill. The guidance permits an entity to perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with such losses not exceeding the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the provisions of the updated guidance and assessing the impact on our consolidated financial statements.

NOTE 2 — Acquisitions

SweetIQ: In April 2017, our ReachLocal subsidiary completed the acquisition of SweetIQ for approximately \$31.6 million, net of cash acquired. SweetIQ has a platform that provides services which enable customers to launch and execute marketing campaigns to convert online searches to in-store foot traffic. SweetIQ's customers include businesses with multi location brands and agencies that target local marketing.

The allocation of the purchase price is preliminary pending the finalization of the fair value of the acquired net assets and liabilities assumed as well as the acquired deferred income tax assets and liabilities and assumed income and non-income based tax liabilities. As of the acquisition date, the purchase price was assigned to the acquired assets and assumed liabilities as follows: goodwill of \$20.5 million, intangible assets of \$15.2 million, noncurrent assets of \$0.6 million, noncurrent liabilities of \$3.5 million, and positive net working capital of \$0.3 million. We do not expect the purchase price allocated to goodwill and intangibles to be deductible for tax purposes. Goodwill associated with the acquisition of SweetIQ is allocated entirely to the ReachLocal segment.

7

ReachLocal: In August 2016, we completed the acquisition of 100% of the outstanding common stock of ReachLocal for approximately \$162.5 million, net of cash acquired. We financed the transaction by borrowing \$175.0 million under our credit facility as well as with available cash.

ReachLocal offers online marketing, digital advertising, software-as-a-service, and web presence products and solutions to local businesses. It delivers its suite of products and solutions to local businesses through a combination of its proprietary technology platform, its direct inside and outside sales force, and select third-party agencies and resellers.

The purchase price, based on management's preliminary estimates, was allocated to the tangible assets and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The allocation of the purchase price is preliminary pending the finalization of the fair value of the acquired net assets and liabilities assumed as well as the acquired deferred income tax assets and liabilities and assumed income and non-income based tax liabilities. Measurement-period adjustments of \$1.2 million were recognized during the period primarily related to deferred income taxes. As of the acquisition date, the purchase price assigned to the acquired assets and assumed liabilities is summarized as follows:

In thousands

| | |
|-------------------------------|------------|
| Cash acquired | \$ 13,195 |
| Other current assets | 15,058 |
| Property, plant and equipment | 13,486 |
| Intangible assets | 88,500 |
| Goodwill | 120,716 |
| Other noncurrent assets | 9,852 |
| Total assets acquired | 260,807 |
| Current liabilities | 63,005 |
| Noncurrent liabilities | 22,059 |
| Total liabilities assumed | 85,064 |
| Net assets acquired | \$ 175,743 |

Acquired property, plant, and equipment is depreciated on a straight-line basis over the assets' respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships as well as expected future synergies. Goodwill associated with the acquisition of ReachLocal is allocated entirely to the ReachLocal segment. We do not expect the purchase price allocated to goodwill and trade names to be deductible for tax purposes.

ReachLocal, including SweetIQ, is a separate segment, and its results of operations are provided in Note 11 — Segment reporting.

Assets of North Jersey Media Group: In July 2016, we completed the acquisition of certain assets of North Jersey Media Group, Inc. (NJMG) for approximately \$39.3 million. NJMG is a media company with print and digital publishing operations serving primarily the northern New Jersey market. Its brands include such established names as The Record (Bergen County) and The Herald.

The purchase price, based on management's preliminary estimates, was allocated to the tangible assets and identified intangible assets acquired and liabilities assumed based on their estimated fair values. As of the acquisition date, the purchase price was assigned to the acquired assets and assumed liabilities as follows: property, plant, and equipment

of \$26.0 million, goodwill of \$8.1 million, intangible assets of \$7.2 million, noncurrent assets of \$1.0 million, noncurrent liabilities of \$0.3 million, and negative net working capital of \$2.7 million. Any goodwill recognized related to the acquisition of NJMG is allocated to the publishing segment.

Journal Media Group: In April 2016, we completed the acquisition of 100% of the outstanding common stock of Journal Media Group, Inc. (JMG) for approximately \$260.6 million, net of cash acquired. Further, approximately \$2.3 million of the purchase price paid was treated as post-acquisition expense for accounting purposes. We financed the transaction by borrowing \$250.0 million under our credit facility as well as with available cash.

JMG is a media company with print and digital publishing operations serving 15 U.S. markets in nine states, including the Milwaukee Journal Sentinel, the Knoxville News Sentinel, and The Commercial Appeal in Memphis. The acquisition expanded our print and digital publishing operations domestically.

The allocation of the purchase price was based upon estimated fair values. The determination of the fair value of the assets acquired and liabilities assumed has been completed and the final allocation of the purchase price is as follows:

In thousands

| | |
|-------------------------------|-----------|
| Cash acquired | \$36,825 |
| Other current assets | 54,571 |
| Property, plant and equipment | 264,357 |
| Intangible assets | 42,880 |
| Goodwill | 25,258 |
| Other noncurrent assets | 3,825 |
| Total assets acquired | 427,716 |
| Current liabilities | 71,519 |
| Noncurrent liabilities | 61,151 |
| Total liabilities assumed | 132,670 |
| Net assets acquired | \$295,046 |

Acquired property, plant, and equipment is depreciated on a straight-line basis over the assets' respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships as well as expected future synergies. Any goodwill recognized related to the acquisition of JMG was allocated to the publishing segment. The purchase price allocated to goodwill and mastheads was not deductible for tax purposes.

JMG revenues were \$94.8 million and \$196.7 million for the three and six months ended June 25, 2017, respectively. JMG was integrated into our publishing segment and, as a result, it is not practicable to determine standalone earnings for 2017.

Pro forma information: The following table sets forth unaudited pro forma results of operations assuming the ReachLocal, NJMG, and JMG acquisitions, along with transactions necessary to finance the acquisitions, occurred at the beginning of 2016:

| | |
|------------------------------|---|
| | Six months ended Jun. 26, 2016 |
| In thousands; unaudited | |
| Total revenues | \$1,737,315 |
| Net income | \$29,412 |
| Earnings per share - diluted | \$0.25 |

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition accounting adjustments, and is not necessarily indicative of what our results would have been had we operated the businesses from the beginning of the periods presented. The pro forma adjustments reflect depreciation expense and amortization of intangibles related to the fair value adjustments of the assets acquired, additional interest expense related to the financing of the transactions, the elimination of acquisition-related costs, and the related tax effects of the adjustments.

NOTE 3 — Restructuring activities and asset impairment charges

Over the past several years, we have engaged in a series of individual restructuring programs designed to right size our employee base, consolidate facilities, and improve operations, including those of recently acquired entities.

Severance-related expenses: We recorded severance-related expenses of \$4.7 million in costs of sales and operating expenses and \$3.7 million in selling, general, and administrative expenses for the three months ended June 25, 2017. Of these

9

expenses, \$5.3 million related to the publishing segment and \$2.8 million related to corporate and other. The remainder is captured within our ReachLocal segment.

We recorded severance-related expenses of \$15.0 million in costs of sales and operating expenses and \$3.0 million in selling, general, and administrative expenses during the three months ended June 26, 2016. These expenses all related to the publishing segment.

We recorded severance-related expenses of \$13.4 million in costs of sales and operating expenses and \$6.9 million in selling, general, and administrative expenses for the six months ended June 25, 2017. Of these expenses, \$15.8 million related to the publishing segment and \$4.2 million related to corporate and other. The remainder is captured within our ReachLocal segment.

We recorded severance-related expenses of \$18.0 million in costs of sales and operating expenses and \$3.7 million in selling, general, and administrative expenses during the six months ended June 26, 2016. These expenses all related to the publishing segment.

The activity and balance of the severance-related liabilities are as follows:

| In thousands | Severance Activities |
|--------------------------|-------------------------|
| Balance at Dec. 25, 2016 | \$ 18,651 |
| Expense | 20,265 |
| Payments | (28,476) |
| Balance at Jun. 25, 2017 | \$ 10,440 |

Facility consolidation and impairment charges: Facility consolidation and other cost savings plans led us to recognize asset impairment charges, shutdown costs, and charges associated with revising the useful lives of certain assets over a shortened period. As part of our plans, we are selling certain assets which we have classified as held-for-sale and reduced the carrying values to equal the fair values less costs to dispose.

We recorded pre-tax charges for facility consolidations and asset impairments of \$16.1 million and \$3.9 million for the three months ended June 25, 2017 and June 26, 2016, respectively. In addition, we incurred accelerated depreciation of \$13.8 million for the three months ended June 25, 2017, which is included in depreciation expense. No accelerated depreciation was incurred for the three months ended June 26, 2016. These expenses all related to the publishing segment.

We recorded pre-tax charges for facility consolidations and asset impairments of \$20.6 million and \$4.5 million for the six months ended June 25, 2017 and June 26, 2016, respectively. In addition, we incurred accelerated depreciation of \$23.6 million for the six months ended June 25, 2017, which is included in depreciation expense. No accelerated depreciation was incurred for the six months ended June 26, 2016. These expenses all related to the publishing segment.

NOTE 4 — Revolving credit facility

We maintain a secured revolving credit facility pursuant to which we may borrow from time to time up to an aggregate principal amount of \$500 million (Credit Facility). Under the Credit Facility, we may borrow at an applicable margin above the Eurodollar base rate (LIBOR loan) or the higher of the Prime Rate, the Federal Funds Effective Rate plus 0.50%, or the one month LIBOR rate plus 1.00% (ABR loan). The applicable margin is determined based on our total leverage ratio but differs between LIBOR loans and ABR loans. For LIBOR-based borrowing, the margin varies from 2.00% to 2.50%. For ABR-based borrowing, the margin varies from 1.00% to

1.50%. Up to \$50 million of the Credit Facility is available for issuance of letters of credit. The Credit Facility matures on June 29, 2020.

Customary fees are payable related to the Credit Facility, including commitment fees on the undrawn commitments of between 0.30% and 0.40% per annum, payable quarterly in arrears, based on our total leverage ratio. Borrowings under the Credit Facility are guaranteed by our wholly-owned material domestic subsidiaries. All obligations of Gannett and each subsidiary guarantor under the Credit Facility are or will be secured by first priority security interests in our equipment, inventory, accounts receivable, fixtures, general intangibles and other personal property, mortgages on certain material real property, and pledges of the capital stock of each subsidiary guarantor.

Under the Credit Facility, our consolidated interest coverage ratio cannot be less than 3.00:1.00, and our total leverage ratio cannot exceed 3.00:1.00, in each case as of the last day of the test period consisting of the last four consecutive fiscal quarters. We were in compliance with all financial covenants under the Credit Facility as of June 25, 2017.

The Credit Facility also contains a number of covenants that, among other things, limit or restrict our ability, subject to certain exceptions, to: (i) permit certain liens on current or future assets, (ii) enter into certain corporate transactions, (iii) incur additional indebtedness, (iv) make certain payments or declare certain dividends or distributions, (v) dispose of certain property, (vi) make certain investments, (vii) prepay or amend the terms of other indebtedness, or (viii) enter into certain transactions with our affiliates. We were in compliance with these covenants as of June 25, 2017.

As of June 25, 2017, we had \$385.0 million in outstanding borrowings under the Credit Facility and \$12.1 million of letters of credit outstanding, leaving \$102.9 million of availability remaining.

NOTE 5 — Pensions and other postretirement benefit plans

We, along with our subsidiaries, have various defined benefit retirement plans, including plans established under collective bargaining agreements. Our retirement plans include the Gannett Retirement Plan (GRP), Newsquest and Romanes Pension Schemes in the U.K. (Newsquest Plans) and other defined benefit contribution plans. We also provide health care and life insurance benefits to certain retired employees who meet age and service requirements.

Retirement plan costs include the following components:

| In thousands | Three months ended | | | |
|--|--------------------|----------------|---------------|----------------|
| | Jun. 25, 2017 | | Jun. 26, 2016 | |
| | Pension | Postretirement | Pension | Postretirement |
| Operating expenses: | | | | |
| Service cost-benefits earned during the period | \$400 | \$ 26 | \$727 | \$ 34 |
| Non-operating expenses: | | | | |
| Interest cost on benefit obligation | 27,595 | 863 | 31,287 | 887 |
| Expected return on plan assets | (41,961) | — | (46,668) | — |
| Amortization of prior service cost | 1,675 | (916) | 1,685 | (1,010) |
| Amortization of actuarial loss (gain) | 18,551 | (73) | 15,961 | (186) |
| Total non-operating expenses (credit) | 5,860 | (126) | 2,265 | (309) |
| Total expense for retirement plans | \$6,260 | \$ (100) | \$2,992 | \$ (275) |
| | Six months ended | | | |
| | Jun. 25, 2017 | | Jun. 26, 2016 | |
| | Pension | Postretirement | Pension | Postretirement |
| Operating expenses: | | | | |
| Service cost-benefits earned during the period | \$1,220 | \$ 78 | \$1,628 | \$ 97 |
| Non-operating expenses: | | | | |
| Interest cost on benefit obligation | 55,374 | 1,804 | 63,718 | 1,874 |
| Expected return on plan assets | (84,378) | — | (93,148) | — |
| Amortization of prior service cost | 3,335 | (1,824) | 3,329 | (2,260) |
| Amortization of actuarial loss | 36,171 | 52 | 31,123 | 64 |
| Total non-operating expenses (credit) | 10,502 | 32 | 5,022 | (322) |
| Total expense for retirement plans | \$11,722 | \$ 110 | \$6,650 | \$ (225) |

Pursuant to our adoption of new guidance surrounding the presentation of net periodic benefit costs as discussed in Note 1 — Basis of presentation and summary of significant accounting policies, net periodic benefit costs other than service costs are now included in the Other non-operating items, net line in the unaudited Condensed Consolidated Statements of Income (Loss).

During the six months ended June 25, 2017, we contributed \$14.1 million to our pension plans. We expect to contribute approximately \$25.0 million to the GRP in each of the fiscal years 2017 through 2020 and \$15.0 million in 2021. We also expect to contribute approximately £15.0 million per year to the Newsquest Pension Scheme from 2017 through 2022.

NOTE 6 — Income taxes

Our reported effective income tax rate on pre-tax income was 127.9% for the three months ended June 25, 2017, compared to 40.8% on pre-tax income for the three months ended June 26, 2016. The tax rate for the three months ended June 25, 2017 was attributable to both income mix changes and the inability to benefit from the tax losses being generated by ReachLocal's foreign operations.

Our reported effective income tax rate on pre-tax loss was 52.1% for the six months ended June 25, 2017, compared to 20.4% on pre-tax income for the six months ended June 26, 2016. The increase in our effective tax rate is primarily attributable to the swing from a pretax income position to a pretax loss position and a smaller benefit from share based compensation generated during the first six months of 2017 compared to the same period in 2016 and other 2017 non-recurring tax beneficial items.

Our quarterly effective rate is calculated in part based on the full year forecasted income, over 50% of which is expected to be generated in foreign jurisdictions where the income tax rate is lower than in the U.S. This is similar to full year 2016, where the ratio of income earned in foreign jurisdictions to domestic income was higher than in 2014 and 2015. The lower domestic income is attributable to higher expenses domestically for corporate expenses related to public company costs, restructuring charges and asset impairments as compared with foreign jurisdictions. The recent changes in the mix of income generated from lower tax rate foreign jurisdictions relative to U.S. domestic income have had the effect of decreasing our tax expense.

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was approximately \$13.9 million as of June 25, 2017 and \$17.3 million as of December 25, 2016. The amount of accrued interest and penalties payable related to unrecognized tax benefits was \$0.9 million as of June 25, 2017 and \$3.8 million as of December 25, 2016.

It is reasonably possible that the amount of unrecognized benefits with respect to certain of our unrecognized tax positions will increase or decrease within the next 12 months. These changes may be the result of settlement of ongoing audits, lapses of statutes of limitations, or other regulatory developments. At this time, we estimate the amount of gross unrecognized tax positions may be reduced by approximately \$2.4 million within the next 12 months primarily due to lapses of statutes of limitations and settlements of ongoing audits in various jurisdictions.

NOTE 7 — Supplemental equity information

The following table summarizes equity account activity:

| In thousands | Six months ended | |
|--------------------------------|------------------|------------------|
| | Jun. 25, 2017 | Jun. 26, 2016 |
| Balance at beginning of period | \$856,761 | \$1,058,576 |
| Comprehensive income: | | |
| Net income | (2,566) | 52,077 |
| Other comprehensive income | 25,586 | 6,734 |
| Total comprehensive income | 23,020 | 58,811 |
| Dividends declared | (36,364) | (37,283) |
| Stock-based compensation | 10,059 | 10,071 |
| Other activity | (2,986) | 15,364 |
| Balance at end of period | \$850,490 | \$1,105,539 |

The following table summarizes the components of, and the changes in, Accumulated other comprehensive loss (net of tax):

| In thousands | Retirement Plans | Foreign Currency Translation | Total |
|--|---------------------|------------------------------------|-------------|
| Balance at Dec. 25, 2016 | \$(1,183,196) | \$ 300,284 | \$(882,912) |
| Other comprehensive income (loss) before reclassifications | (12,639) | 13,957 | 1,318 |
| Amounts reclassified from accumulated other comprehensive income | 24,268 | — | 24,268 |
| Other comprehensive income | 11,629 | 13,957 | 25,586 |
| Balance at Jun. 25, 2017 | \$(1,171,567) | \$ 314,241 | \$(857,326) |
| Balance at Dec. 27, 2015 | \$(1,058,234) | \$ 384,810 | \$(673,424) |
| Other comprehensive income (loss) before reclassifications | 25,057 | (39,073) | (14,016) |
| Amounts reclassified from accumulated other comprehensive loss | 20,750 | — | 20,750 |
| Other comprehensive income (loss) | 45,807 | (39,073) | 6,734 |
| Balance at Jun. 26, 2016 | \$(1,012,427) | \$ 345,737 | \$(666,690) |

Accumulated other comprehensive loss components are included in computing net periodic postretirement costs as outlined in Note 5 — Pensions and other postretirement benefit plans. Reclassifications out of accumulated other comprehensive loss related to these postretirement plans include the following:

| In thousands | Three months ended | | Six months ended | |
|---|-----------------------|------------------|------------------|------------------|
| | Jun. 25, 2017 | Jun. 26, 2016 | Jun. 25, 2017 | Jun. 26, 2016 |
| Amortization of prior service credit, net | \$759 | \$675 | \$1,511 | \$1,069 |
| Amortization of actuarial loss | 18,478 | 15,775 | 36,223 | 31,187 |
| Total reclassifications, before tax | 19,237 | 16,450 | 37,734 | 32,256 |
| Income tax effect | (6,867) | (5,876) | (13,466) | (11,506) |
| Total reclassifications, net of tax | \$12,370 | \$10,574 | \$24,268 | \$20,750 |

NOTE 8 — Fair value measurement

We measure and record certain assets and liabilities at fair value. A fair value measurement is determined based on market assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require use of our own estimates and assumptions through present value and other valuation techniques in determination of fair value (Level 3).

As of June 25, 2017 and December 25, 2016, assets and liabilities measured or disclosed at fair value on a recurring basis primarily consist of pension plan assets and our revolving credit facility. The carrying value of our revolving credit facility approximates the fair value and is classified as Level 3.

We also have certain assets requiring fair value measurement on a non-recurring basis. Our assets measured on a non-recurring basis are assets held for sale, which are classified as Level 3 assets and evaluated using executed purchase agreements or third party valuation experts when certain circumstances arise. Assets held for sale totaled \$34.3 million as of June 25, 2017 and \$4.5 million as of December 25, 2016.

NOTE 9 — Commitments, contingencies and other matters

Telephone Consumer Protection Act (TCPA) litigation: In January 2014, a class action lawsuit was filed against Gannett in the U.S. District Court for the District of New Jersey (Casagrand et al v. Gannett Co., Inc., et al). The suit claims various violations of the Telephone Consumer Protection Act (TCPA) arising from allegedly improper telemarketing calls made to consumers by one of our vendors. The plaintiffs sought to certify a class that would include all telemarketing calls made by the vendor or us. The TCPA provides for statutory damages of \$500 per violation (\$1,500 for willful violations). In April 2016, we

13

agreed to settle all claims raised. The settlements are reflected in our financial statements as of June 25, 2017 and were not material to our results of operations, financial position, or cash flows.

Environmental contingency: In 2011, the Advertiser Company (Advertiser), a subsidiary that publishes the Montgomery Advertiser, was notified by the U.S. Environmental Protection Agency (EPA) that it had been identified as a potentially responsible party (PRP) for the investigation and remediation of groundwater contamination in downtown Montgomery, Alabama. The Advertiser is a member of the Downtown Environmental Alliance, which has agreed to jointly fund and conduct all required investigation and remediation. In 2015, the Advertiser and other members of the Downtown Environmental Alliance reached a settlement with the U.S. EPA regarding the costs the U.S. EPA spent to investigate the site. The U.S. EPA has transferred responsibility for oversight of the site to the Alabama Department of Environmental Management, which has approved the work plan for the additional site investigation that is currently underway. The Advertiser's final costs cannot be determined until the investigation is complete, a determination is made on whether any remediation is necessary, and contributions from other PRPs are finalized.

Other litigation: We are defendants in judicial and administrative proceedings involving matters incidental to our business. While the ultimate results of these proceedings cannot be predicted with certainty, we expect the ultimate resolution of all pending or threatened claims and litigation will not have a material effect on our consolidated results of operations, financial position, or cash flows.

NOTE 10 — Earnings (loss) per share

The following table is a reconciliation of weighted average number of shares outstanding used to compute basic and diluted earnings (loss) per share (EPS):

| In thousands, except per share data | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | Jun. 25, 2017 | Jun. 26, 2016 | Jun. 25, 2017 | Jun. 26, 2016 |
| Net income (loss) | \$(487) | \$12,481 | \$(2,566) | \$52,077 |
| Weighted average number of shares outstanding - basic | 113,652 | 116,516 | 113,574 | 116,414 |
| Effect of dilutive securities | | | | |
| Restricted stock units | — | 1,642 | — | 1,536 |
| Performance share units | — | 954 | — | 991 |
| Stock options | — | 265 | — | 277 |
| Weighted average number of shares outstanding - diluted | 113,652 | 119,377 | 113,574 | 119,218 |
| Earnings (loss) per share - basic | \$(0.00) | \$0.11 | \$(0.02) | \$0.45 |
| Earnings (loss) per share - diluted | \$(0.00) | \$0.10 | \$(0.02) | \$0.44 |

For the three and six months ended June 25, 2017, all outstanding common stock equivalents were excluded from the computation of diluted loss per share because their effect would have been anti-dilutive due to the net loss for the periods. Approximately 252,000 and 188,000 shares were excluded from the computation of diluted EPS for the three and six months ended June 26, 2016 because their effect would have been anti-dilutive.

On May 10, 2017, we declared a dividend of \$0.16 per share of common stock, which was paid on June 19, 2017, to shareholders of record as of the close of business on June 5, 2017. Furthermore, on July 20, 2017, we declared a second dividend of \$0.16 per share of common stock, payable on September 18, 2017, to shareholders of record as of the close of business on September 1, 2017.

NOTE 11 — Segment reporting

We define our reportable segments based on the way the chief operating decision maker (CODM), currently the Chief Executive Officer, manages the operations for purposes of allocating resources and assessing performance. We classify our operations into two reportable segments as follows:

- Publishing, which consists of our portfolio of local, regional, national, and international newspaper publishers. The results of this segment include retail, classified, and national advertising revenues consisting of both print and

digital advertising, circulation revenues from the distribution of our publications on our digital platforms, home delivery of our publications, and single copy sales, and other revenues from commercial printing and distribution arrangements. The publishing reportable segment is an aggregation of two operating segments: Domestic Publishing and the U.K.

ReachLocal, which consists of our ReachLocal digital marketing solutions subsidiaries and SweetIQ. The results of this segment include advertising revenues from our search and display services and other revenues related to web presence and software solutions provided by ReachLocal.

In addition to the above operating segments, we have a corporate and other category that includes activities not directly attributable to a specific segment. This category primarily consists of broad corporate functions and includes legal, human resources, accounting, analytics, finance, and marketing as well as activities and costs not directly attributable to a particular segment such as tax settlements and other general business costs.

In the ordinary course of business, our reportable segments enter into transactions with one another. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues and expenses recognized by the segment that is the counterparty to the transaction are eliminated in consolidation and do not affect consolidated results.

The CODM uses adjusted EBITDA to evaluate the performance of the segments and allocate resources. Adjusted EBITDA is a non-GAAP financial performance measure we believe offers a useful view of the overall operation of our businesses. Adjusted EBITDA is defined as net income before (1) income taxes, (2) interest expense, (3) equity income, (4) other non-operating items, (5) severance-related charges, (6) acquisition-related expenses (including integration expenses), (7) facility consolidation and asset impairment charges, (8) other items (including certain business transformation costs, litigation expenses and multi-employer pension withdrawals), (9) depreciation, and (10) amortization. When adjusted EBITDA is discussed in this report, the most directly comparable GAAP financial measure is net income.

Management considers adjusted EBITDA to be the appropriate metric to evaluate and compare the ongoing operating performance of our segments on a consistent basis across reporting periods as it eliminates the effect of items which we do not believe are indicative of each segment's core operating performance. Adjusted EBITDA is considered a non-GAAP measure and may be different than similarly-titled non-GAAP financial measures used by other companies.

The following tables present our segment information:

| In thousands | Publishing | ReachLocal | Corporate and Other | Intersegment Eliminations | Consolidated |
|----------------------------------|------------|------------|---------------------|---------------------------|--------------|
| Three months ended Jun. 25, 2017 | | | | | |
| Advertising - external sales | \$ 369,001 | \$ 76,213 | \$— | \$ — | \$ 445,214 |
| Advertising - intersegment sales | 3,959 | — | — | (3,959) | — |
| Circulation | 273,676 | — | — | — | 273,676 |
| Other - external sales | 44,863 | 9,713 | 1,041 | — | 55,617 |
| Other - intersegment sales | 681 | — | — | (681) | — |
| Total revenues | \$ 692,180 | \$ 85,926 | \$ 1,041 | \$ (4,640) | \$ 774,507 |
| Adjusted EBITDA | \$ 104,120 | \$ 1,217 | \$(21,683) | \$ — | \$ 83,654 |
| Three months ended Jun. 26, 2016 | | | | | |
| Advertising | \$ 409,834 | \$ — | \$— | \$ — | \$ 409,834 |

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| | | | | | |
|-----------------|------------|------|-------------|------|------------|
| Circulation | 287,586 | — | — | — | 287,586 |
| Other | 50,652 | — | 719 | — | 51,371 |
| Total revenues | \$ 748,072 | \$ — | \$ 719 | \$ — | \$ 748,791 |
| Adjusted EBITDA | \$ 114,269 | \$ — | \$ (22,619) | \$ — | \$ 91,650 |

15

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| In thousands | Publishing | ReachLocal | Corporate and Other | Intersegment Eliminations | Consolidated |
|----------------------------------|-------------|------------|---------------------|---------------------------|--------------|
| Six months ended Jun. 25, 2017 | | | | | |
| Advertising - external sales | \$734,086 | \$ 146,695 | \$(52) | \$ — | \$ 880,729 |
| Advertising - intersegment sales | 3,959 | — | — | (3,959) | — |
| Circulation | 556,962 | — | — | — | 556,962 |
| Other - external sales | 91,416 | 16,796 | 2,061 | — | 110,273 |
| Other - intersegment sales | 681 | — | — | (681) | — |
| Total revenues | \$1,387,104 | \$ 163,491 | \$2,009 | \$ (4,640) | \$ 1,547,964 |
| Adjusted EBITDA | \$195,784 | \$ 4,363 | \$(46,812) | \$ — | \$ 153,335 |
| Six months ended Jun. 26, 2016 | | | | | |
| Advertising | \$761,055 | \$ — | \$ — | \$ — | \$ 761,055 |
| Circulation | 550,289 | — | — | — | 550,289 |
| Other | 94,707 | — | 2,108 | — | 96,815 |
| Total revenues | \$1,406,051 | \$ — | \$2,108 | \$ — | \$ 1,408,159 |
| Adjusted EBITDA | \$211,790 | \$ — | \$(39,769) | \$ — | \$ 172,021 |

Pursuant to our adoption of new guidance surrounding the presentation of net periodic benefit costs as discussed in Note 1 — Basis of presentation and summary of significant accounting policies, net periodic benefit costs other than service costs are now included in the "Other non-operating items, net" line in the unaudited Condensed Consolidated Statements of Income (Loss). As a result of adopting this guidance, second quarter 2017 adjusted EBITDA increased \$5.7 million. Similarly, second quarter 2016 adjusted EBITDA increased \$2.0 million. In addition, year-to-date 2017 adjusted EBITDA increased \$10.5 million while year-to-date 2016 adjusted EBITDA increased \$4.7 million.

We changed certain corporate allocations at the beginning of fiscal year 2017 and retrospectively applied that change.

The following table presents our reconciliation of adjusted EBITDA to net income:

| In thousands | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | Jun. 25, 2017 | Jun. 26, 2016 | Jun. 25, 2017 | Jun. 26, 2016 |
| Net income (loss) (GAAP basis) | \$(487) | \$12,481 | \$(2,566) | \$52,077 |
| Provision (benefit) for income taxes | 2,236 | 8,599 | (2,794) | 13,380 |
| Interest expense | 3,454 | 3,001 | 7,709 | 4,857 |
| Other non-operating items, net | 5,301 | 1,908 | 9,188 | 5,878 |
| Operating income (GAAP basis) | 10,504 | 25,989 | 11,537 | 76,192 |
| Severance-related charges | 8,415 | 17,998 | 20,265 | 21,694 |
| Acquisition-related expenses | 1,570 | 12,788 | 2,593 | 14,639 |
| Facility consolidation and asset impairment charges | 16,131 | 3,943 | 20,610 | 4,487 |
| Other items | (4,816) | — | (337) | (1,200) |
| Depreciation | 43,681 | 29,292 | 83,132 | 53,251 |
| Amortization | 8,169 | 1,640 | 15,535 | 2,958 |
| Adjusted EBITDA (non-GAAP basis) | \$83,654 | \$91,650 | \$153,335 | \$172,021 |

Asset information by segment is not a key measure of performance used by the CODM. Accordingly, we have not disclosed asset information by segment. Additionally, equity income in unconsolidated investees, net, interest

expense, other non-operating items, net, and provision for income taxes, as reported in the condensed consolidated financial statements, are not part of operating income and are primarily recorded at the corporate level.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations and quantitative and qualitative disclosures should be read in conjunction with our unaudited condensed consolidated financial statements and related notes. Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and other factors described under Cautionary Statement Regarding Forward-Looking Statements and throughout this Quarterly Report, as well as the factors described in our 2016 Annual Report on Form 10-K and subsequent periodic reports filed with the Securities and Exchange Commission, particularly under "Risk Factors."

Overview

Gannett Co., Inc. (Gannett, we, us, our, or the company) is a next-generation media company that empowers communities to connect, act, and thrive. Gannett owns ReachLocal (an international digital marketing solutions company that includes SweetIQ), the USA TODAY NETWORK (made up of USA TODAY (USAT), its digital sites and affiliates, and 109 local media organizations in 34 states in the U.S. and Guam), and Newsquest (a wholly owned subsidiary operating in the U.K. with more than 160 local media brands).

The USA TODAY NETWORK is the largest local to national media network in the U.S. The network is powered by an integrated and award-winning news organization comprised of more than 3,300 journalists with deep roots in 109 local communities, plus USA TODAY, and a combined reach of more than 109 million visitors monthly. There have been more than 24 million downloads of USA TODAY's award-winning app on mobile devices and 4 million downloads of apps associated with our local publications. In addition, Newsquest is a digital leader in the U.K. where its network of websites attracts over 26 million unique visitors monthly. With more than 120 markets in the U.S. and the U.K., Gannett is known for Pulitzer Prize-winning newsrooms, powerhouse brands such as USA TODAY, and specialized media properties.

Through the USA TODAY NETWORK and Newsquest, Gannett delivers high-quality, trusted content where and when consumers want to engage with it on virtually any device or platform. According to comScore, more people access our content than access content from Netflix, CBSnews.com, New York Times Digital, BuzzFeed.com, Huffington Post, or WashingtonPost.com. The company reports in two operating segments, Publishing and ReachLocal, as well as a corporate and other category.

ReachLocal provides and sells online marketing products to local businesses. ReachLocal offers search engine marketing and optimization, display and social advertising, listing management, software-as-a-service, and web presence, as well as other products and solutions.

Certain Matters Affecting Current and Future Operating Results

The following items affect period-over-period comparisons from 2016 and will continue to affect period-over-period comparisons for future results:

Acquisitions

SweetIQ – In April 2017, we completed the acquisition of SweetIQ Analytics Corp. (SweetIQ) for approximately \$31.6 million, net of cash acquired. SweetIQ has a platform that provides services which enable customers to launch and execute marketing campaigns to convert online searches to in-store foot traffic. SweetIQ's customers include businesses with multi location brands and agencies that target local marketing.

ReachLocal – In August 2016, we completed the acquisition of 100% of the outstanding common stock of ReachLocal for approximately \$162.5 million, net of cash acquired. ReachLocal offers online marketing, digital advertising, software-as-a-service, and web presence products and solutions to local businesses. In connection with the ReachLocal acquisition, we established a newly formed separate reportable segment that reflects its results since the acquisition date.

Certain assets of North Jersey Media Group (NJMG) – In July 2016, we completed the acquisition of certain assets of NJMG for approximately \$39.3 million. NJMG is a media company with print and digital publishing operations serving primarily the northern New Jersey market.

Journal Media Group (JMG) – In April 2016, we completed the acquisition of 100% of the outstanding common stock of JMG for approximately \$260.6 million, net of cash acquired. JMG is a media company with print and digital publishing operations serving 15 U.S. markets in 9 states.

In the Results of Operations discussion below within the publishing segment, JMG and NJMG are considered 2016 publishing acquisitions.

Restructuring

Over the past several years, we have engaged in a series of individual restructuring programs, designed to right size our employee base, consolidate facilities and improve operations, including those of recently acquired entities.

Facility consolidation and asset impairment charges – Facility consolidation and other cost savings plans led us to recognize asset impairment charges, shutdown costs, and charges associated with revising the useful lives of certain assets over a shortened period. As part of our plans, we are selling certain assets which we have classified as held-for-sale and reduced the carrying values to equal the fair value less cost to dispose. We recorded pre-tax charges for facility consolidations and asset impairments of \$16.1 million and \$3.9 million for the second quarter of 2017 and the second quarter of 2016, respectively, and \$20.6 million and \$4.5 million year-to-date 2017 and 2016, respectively. In addition, we incurred accelerated depreciation of \$13.8 million and \$23.6 million for the three and six months ended June 25, 2017, respectively. No accelerated depreciation was incurred for the three and six months ended June 26, 2016.

Severance-related expenses – During 2017 and 2016, we initiated various cost reducing actions associated with our facility consolidation and other cost efficiency efforts that are severance related, of which we incurred \$8.4 million and \$18.0 million for the second quarter of 2017 and 2016, respectively, and \$20.3 million and \$21.7 million year-to-date 2017 and 2016, respectively.

Other

Foreign currency – Our earnings from operations in foreign regions are translated into U.S. dollars at average exchange rates prevailing during the period, and assets and liabilities are translated at exchange rates in effect at the balance sheet date. With respect to Newsquest, results for the second quarter of 2017 were translated from the British pound sterling to U.S. dollars at an average rate of 1.28 compared to 1.44 for the comparable period last year. This 11% decline in the exchange rate unfavorably impacted second quarter 2017 revenue comparisons by approximately \$9.1 million. Newsquest results for the six months ended June 25, 2017 were translated from the British pound sterling to U.S. dollars at an average rate of 1.26 compared to 1.44 for the comparable period last year. Impacts stemming from foreign currency translation gains and losses for ReachLocal are immaterial to date.

Outlook for the remainder of 2017: We intend to continue to drive growth opportunities by capitalizing on our national brand equity to increase the integration of local and national content, enhance our position as a trusted provider of local news and information through expanded digital offerings, and leverage our expertise to provide integrated solutions to advertisers. While we expect traditional advertising and circulation revenues to remain challenged due to market pressures, we anticipate some of that decline will be offset by growth in digital marketing services and other digital revenues. We will continue to focus on maximizing the efficiency of our print, sales, administrative, and distribution functions to reduce costs and increase profitability.

Selective acquisitions or dispositions, leveraging our revenue opportunities, and digital innovation will supplement our operating results. Furthermore, total operating expenses excluding acquisitions and restructuring charges are expected to decrease in comparison to 2016 as a result of lower spending due to potential headcount and cost reductions and efficiency gains as well as lower newsprint expenses as consumption continues to decline.

Results of Operations

A summary of our segment results is presented below:

| In thousands | Quarter-to-Date | | | Year-to-Date | | |
|--------------------------------------|-----------------|-----------|--------|--------------|-------------|--------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating revenues: | | | | | | |
| Publishing | \$692,180 | \$748,072 | (7 %) | \$1,387,104 | \$1,406,051 | (1 %) |
| ReachLocal | 85,926 | — | 100 % | 163,491 | — | 100 % |
| Corporate and Other | 1,041 | 719 | 45 % | 2,009 | 2,108 | (5 %) |
| Intersegment eliminations | (4,640) | — | 100 % | (4,640) | — | 100 % |
| Total operating revenues | 774,507 | 748,791 | 3 % | 1,547,964 | 1,408,159 | 10 % |
| Operating expenses: | | | | | | |
| Publishing | 639,974 | 682,854 | (6 %) | 1,291,379 | 1,267,995 | 2 % |
| ReachLocal | 93,815 | — | 100 % | 176,152 | — | 100 % |
| Corporate and Other | 34,854 | 39,948 | (13 %) | 73,536 | 63,972 | 15 % |
| Intersegment eliminations | (4,640) | — | 100 % | (4,640) | — | 100 % |
| Total operating expenses | 764,003 | 722,802 | 6 % | 1,536,427 | 1,331,967 | 15 % |
| Operating income | 10,504 | 25,989 | (60 %) | 11,537 | 76,192 | (85 %) |
| Non-operating expense | (8,755) | (4,909) | 78 % | (16,897) | (10,735) | 57 % |
| Income (loss) before income taxes | 1,749 | 21,080 | (92 %) | (5,360) | 65,457 | *** |
| Provision (benefit) for income taxes | 2,236 | 8,599 | (74 %) | (2,794) | 13,380 | *** |
| Net income (loss) | \$(487) | \$12,481 | *** | \$(2,566) | \$52,077 | *** |
| Diluted earnings (loss) per share | \$(0.00) | \$0.10 | *** | \$(0.02) | \$0.44 | *** |

*** Indicates an absolute value percentage change greater than 100.

To facilitate a comparison of our publishing results without the impact of acquisitions or foreign currency translation fluctuations, we are also providing explanations for 2017 revenues and expenses for our publishing segment on a "same store" basis, which are calculated as follows:

Reported revenues or expenses

⚡ Less: revenues or expenses for our 2016 publishing acquisitions from the beginning of fiscal year 2017 through the first year anniversary of their applicable acquisition date

⚡ Less: operations exited in 2016

⚡ Add (less): decreases (increases) in foreign currency translation impacts based on a constant currency calculation

In the comparisons of the publishing operating revenues and expenses, amounts specifically attributed to our 2016 publishing acquisitions reflect only those revenues or expenses from the beginning of fiscal year 2017 through the first-year anniversary of their applicable acquisition date, all of which amounts are excluded from our calculations of "same store" publishing results.

As we continue to integrate our acquisitions, we will continually adjust how we allocate certain expenses related to our acquired businesses. These adjustments may impact the comparability of same store expense numbers across periods; however, such impacts are expected to be immaterial.

Operating revenues:

Our publishing segment generates revenue primarily through advertising and subscriptions to our print and digital publications. Our advertising teams sell retail, classified, and national advertising across multiple platforms including print, online, mobile, and tablet as well as niche publications. Circulation revenues are derived principally from distributing our publications on our digital platforms and from home delivery and single copy sales of our publications. Other revenues are derived mainly from commercial printing and distribution arrangements.

Our ReachLocal segment generates advertising revenue through search and display services and other services ranging from search optimization to social media. Other revenues are attributable to web presence, listings and software-as-a-service solutions.

Quarter ended June 25, 2017 versus quarter ended June 26, 2016

Total operating revenues were \$774.5 million in the second quarter of 2017, an increase of 3% from the same period in 2016 primarily attributable to revenues from our ReachLocal acquisition of \$85.9 million and 2016 publishing acquisitions of \$33.2 million. Partially offsetting the impact of acquisitions was the continued softness for our publishing segment in same store advertising revenues and declining trends in circulation revenues of \$52.1 million and \$21.3 million, respectively. Foreign currency rate fluctuations negatively affected publishing revenues by \$9.1 million. In addition, intersegment sales of \$4.6 million were eliminated.

Six months ended June 25, 2017 versus six months ended June 26, 2016

Total operating revenues were \$1.55 billion in 2017, an increase of 10% from the same period in 2016 primarily attributable to revenues from our ReachLocal acquisition of \$163.5 million and 2016 publishing acquisitions of \$153.7 million. Partially offsetting the impact of acquisitions was the continued softness for our publishing segment in same store advertising revenues and declining trends in circulation revenues of \$98.0 million and \$42.4 million, respectively. Foreign currency rate fluctuations negatively affected publishing revenues by \$20.5 million. In addition, intersegment sales of \$4.6 million were eliminated.

Operating expenses:

Payroll and benefits are the largest component of our operating expenses. Other significant operating expenses include production and distribution costs.

Quarter ended June 25, 2017 versus quarter ended June 26, 2016

Total operating expenses increased 6% during the quarter to \$764.0 million compared to the same period in 2016. ReachLocal operating expenses were \$93.8 million in the second quarter of 2017. In addition, our 2016 publishing acquisitions contributed \$33.4 million to this increase. The increase in expenses was partially offset by a decline in our same store publishing expenses of \$70.2 million, which was primarily attributable to continued company-wide cost efficiency efforts and lower newsprint expenses. Foreign currency rate fluctuations also reduced publishing expenses by \$7.0 million. In addition, corporate expenses decreased by \$5.1 million and there were intersegment eliminations of \$4.6 million. Also impacting operating expenses in the second quarter of 2017, and included in the above numbers, were severance-related charges of \$8.4 million, accelerated depreciation of \$13.8 million, facility

consolidation and asset impairment charges of \$16.1 million, and acquisition-related items of \$1.6 million. Impacting the same period in the prior year were severance-related charges of \$18.0 million, acquisition-related items of \$12.8 million, and facility consolidation and asset impairment charges of \$3.9 million.

Six months ended June 25, 2017 versus six months ended June 26, 2016

During the first six months of 2017, total operating expenses increased 15% to \$1.54 billion compared to the same period in 2016. ReachLocal operating expenses were \$176.2 million for the first six months of 2017. In addition, our 2016 publishing acquisitions contributed \$156.1 million to this increase. The increase in expenses was partially offset by a decline in our same store publishing expenses of \$115.1 million which was primarily attributed to continued company-wide cost efficiency efforts and lower newsprint expenses. Foreign currency rate fluctuations also reduced publishing expenses by \$15.8 million. In

addition, corporate expenses increased by \$9.6 million and there were intersegment eliminations of \$4.6 million. Also impacting the first six months of 2017, and included in the above numbers, were severance-related charges of \$20.3 million, accelerated depreciation of \$23.6 million, acquisition-related items of \$2.6 million, and facility consolidation and asset impairment charges of \$20.6 million. Impacting the same period in the prior year were severance-related charges (including the early retirement program) of \$21.7 million, acquisition-related items of \$14.6 million and facility consolidation and asset impairment charges of \$4.5 million.

Publishing

| In thousands | Quarter-to-Date | | | Year-to-Date | | |
|---|-----------------|-----------|--------|--------------|-----------|--------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating revenues: | | | | | | |
| Advertising | \$372,960 | \$409,834 | (9 %) | \$737,993 | \$761,055 | (3 %) |
| Circulation | 273,676 | 287,586 | (5 %) | 556,962 | 550,289 | 1 % |
| Other | 45,544 | 50,652 | (10 %) | 92,149 | 94,707 | (3 %) |
| Total operating revenues | 692,180 | 748,072 | (7 %) | 1,387,104 | 1,406,051 | (1 %) |
| Operating expenses: | | | | | | |
| Cost of sales | 435,934 | 482,607 | (10 %) | 896,312 | 898,579 | — % |
| Selling, general, and administrative expenses | 150,271 | 169,194 | (11 %) | 303,394 | 316,176 | (4 %) |
| Depreciation | 36,344 | 25,470 | 43 % | 68,487 | 45,795 | 50 % |
| Amortization | 1,294 | 1,640 | (21 %) | 2,576 | 2,958 | (13 %) |
| Facility consolidation and impairment charges | 16,131 | 3,943 | *** | 20,610 | 4,487 | *** |
| Total operating expenses | 639,974 | 682,854 | (6 %) | 1,291,379 | 1,267,995 | 2 % |
| Operating income | \$52,206 | \$65,218 | (20 %) | \$95,725 | \$138,056 | (31 %) |

*** Indicates an absolute value percentage change greater than 100.

Operating revenues:

Quarter ended June 25, 2017 versus quarter ended June 26, 2016

Advertising revenues were \$373.0 million for the second quarter of 2017, a decrease of 9% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 13% due to lower print advertising demand consistent with general trends adversely impacting the publishing industry. This decline was partially offset by advertising revenues associated with our 2016 publishing acquisitions of \$21.0 million. Foreign currency exchange rates also negatively affected advertising revenues by \$5.8 million.

Digital advertising revenues were \$99.5 million in the second quarter of 2017, an increase of 1% compared to the same period in 2016. Digital advertising revenues associated with our 2016 publishing acquisitions were \$2.6 million. On a same store basis, digital advertising revenues remained flat, with increases in mobile display revenue offset by losses in the employment category. Foreign currency exchange rates negatively affected digital advertising revenues by \$1.6 million.

Retail, national, and classified advertising revenues consist of both print and digital advertising.

Retail advertising revenues were \$198.4 million in the second quarter of 2017, a decrease of 10% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 15% due to lower advertising demand in print publications. This decline was partially offset by retail advertising revenues associated with our 2016 publishing acquisitions of \$14.0 million. Foreign currency exchange rates negatively affected retail advertising revenues by \$2.5 million.

National advertising revenues were \$49.4 million in the second quarter of 2017, a decrease of 2% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 4% due to lower advertising demand in print publications. This decline was partially offset by national advertising revenues associated with our 2016 publishing acquisitions of \$1.2 million. Foreign currency exchange rates negatively affected national advertising revenues by \$0.6 million.

Classified advertising revenues were \$121.2 million in the second quarter of 2017, a decrease of 12% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 14% primarily due to declines in employment and automotive advertising revenues of \$5.6 million and \$5.4 million, respectively. This decline was partially offset by classified advertising revenues associated with our 2016 publishing acquisitions of \$5.8 million. Foreign currency exchange rates negatively affected classified advertising revenues by \$2.7 million.

Circulation revenues were \$273.7 million in the second quarter of 2017, a decrease of 5% compared to the same period in 2016. This decrease is attributable to the decline in same store circulation revenues of 7%. Print circulation revenues on a same store basis were \$212.5 million for the second quarter of 2017, a 4% decrease year over year due to reduction in volume, reflecting general industry trends. Digital circulation revenues on a same store basis were \$53.8 million for the second quarter in 2017, an 18% decrease year over year due to a reduction in volume and fair value pricing. This decline was partially offset by circulation revenues associated with our 2016 publishing acquisitions of \$9.9 million. Foreign currency exchange rates negatively affected circulation revenues by \$2.5 million.

Commercial printing and other revenues were \$45.5 million in the second quarter of 2017, a decrease of 10% compared to the same period in 2016. Other revenues accounted for approximately 7% of total publishing revenues for the quarter.

Six months ended June 25, 2017 versus six months ended June 26, 2016

Advertising revenues were \$738.0 million for the first six months of 2017, a decrease of 3% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 13%, which reflects lower advertising demand consistent with general trends adversely impacting the publishing industry. This decline was partially offset by advertising revenues associated with our 2016 publishing acquisitions of \$88.1 million. Foreign currency exchange rates negatively affected advertising revenues by \$13.1 million.

Digital advertising revenues were \$194.1 million for the first six months of 2017, an increase of 5% compared to the same period in 2016. This increase is attributable to digital advertising revenues associated with our 2016 publishing acquisitions of \$10.7 million. Digital advertising revenues on a same store basis increased 1%, with increases in mobile display revenues offset by losses in the employment category. Foreign currency exchange rates negatively affected digital advertising revenues by \$3.5 million.

Retail, national, and classified advertising revenues consist of both print and digital advertising.

Retail advertising revenues were \$391.0 million for the first six months of 2017, a decrease of 2% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 15% due to lower advertising demand in print publications. This decline was partially offset by retail advertising revenues associated with our 2016 publishing acquisitions of \$57.7 million. Foreign currency exchange rates negatively affected retail advertising revenues by \$5.5 million.

National advertising revenues were \$96.8 million for the first six months of 2017, a decrease of 4% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 7% due to lower advertising demand in print publications. This decline was partially offset by national advertising revenues associated with our 2016 publishing acquisitions of \$3.9 million. Foreign currency exchange rates negatively affected national advertising revenues by \$1.5 million.

Classified advertising revenues were \$246.2 million for the first six months of 2017, a decrease of 5% compared to the same period in 2016. This decrease is attributable to the decline in same store advertising revenues of 13% due to decline in real estate, automotive, and employment advertising revenue of \$6.6 million, \$9.0 million, and \$10.6

million, respectively, which reflect general trends in the newspaper industry. This decline was partially offset by classified advertising revenues associated with our 2016 publishing acquisitions of \$26.5 million. Foreign currency exchange rates negatively affected classified advertising revenues by \$6.2 million.

Circulation revenues were \$557.0 million for the first six months of 2017, an increase of 1% compared to the same period in 2016. This increase is attributable to circulation revenues associated with our 2016 publishing acquisitions of \$54.7 million. This increase was partially offset by a decline in circulation revenues on a same store basis of 8%. Print circulation revenues on a same store basis were \$408.0 million for the first six months of 2017, a 4% decrease year over year due to a reduction in volume, reflecting general industry trends. Digital circulation revenues on a same store basis were \$99.9 million for the first six

months in 2017, a 21% decrease year over year due to a reduction in volume and fair value pricing. Foreign currency exchange rates negatively affected circulation revenues by \$5.6 million.

Commercial printing and other revenues were \$92.1 million for the first six months of 2017, a decrease of 3% compared to the same period in 2016. Other revenues accounted for 7% of total publishing revenues for the first six months of 2017.

Operating expenses:

Quarter ended June 25, 2017 versus quarter ended June 26, 2016

Cost of sales for the second quarter of 2017 decreased 10% to \$435.9 million from the same period in 2016. Cost of sales on a same store basis decreased 14%, which was driven primarily by the decrease in newsprint costs and distribution and production efficiencies. Cost of sales associated with our 2016 publishing acquisitions were \$25.1 million. In addition, foreign currency exchange rate fluctuations contributed to our decrease in cost of sales by \$4.3 million. Newsprint costs on a same store basis of \$27.9 million decreased 15% due to lower volume for newsprint. Also contributing to the decrease in cost of sales was a favorable assessment of a multi-employer pension liability of \$7.8 million.

Total selling, general, and administrative expenses for the second quarter of 2017 decreased by 11% to \$150.3 million from the same period in 2016. Selling, general, and administrative expenses on a same store basis decreased 14%, primarily attributable to continued company-wide cost efficiency efforts. Selling, general, and administrative expenses associated with our 2016 publishing acquisitions were \$6.9 million. Foreign currency exchange rate fluctuations contributed to our decrease in selling, general, and administrative expenses by \$2.4 million.

Severance-related expenses for the second quarter of 2017 totaled \$5.3 million compared to \$18.0 million from the same period in 2016. Of total severance-related expenses reported in the three months ended June 25, 2017, \$4.4 million was reported as a component of cost of sales while \$0.9 million was reported as a component of selling, general, and administrative expenses. Of total severance-related expenses in the second quarter of 2016, \$15.0 million was reported in cost of sales and \$3.0 million was reported in selling, general, and administrative expenses.

Our facility consolidation initiative continued in the second quarter of 2017, including the disposition of older, under-utilized buildings, relocations to more efficient, flexible, digitally-oriented office spaces, efforts to reconfigure spaces to take advantage of leasing and subleasing opportunities, and the combination of production and distribution operations where possible. As a result, we recognized facility consolidation and asset impairment charges during all periods presented. These charges are discussed in Note 3 — Restructuring activities and asset impairment charges to the unaudited condensed consolidated financial statements.

Depreciation and amortization expense for the second quarter of 2017 was 39% higher compared to the same period in 2016. Depreciation and amortization expense on a same store basis increased 37% primarily due to the \$13.8 million of accelerated depreciation expense that we incurred in the second quarter of 2017 associated with our facility consolidation efforts, compared to no accelerated depreciation incurred in the second quarter of 2016. In addition, depreciation and amortization expenses associated with our 2016 publishing acquisitions were \$1.4 million. Foreign currency exchange rates reduced depreciation expense by \$0.3 million.

Six months ended June 25, 2017 versus six months ended June 26, 2016

Cost of sales for the first six months of 2017 were \$896.3 million, which remained flat when compared to the same period in 2016. Cost of sales associated with our 2016 publishing acquisitions were \$115.7 million. Foreign currency

exchange rate fluctuations contributed to a decrease in cost of sales by \$9.6 million. Cost of sales on a same store basis decreased 12%, which was driven primarily by the decrease in newsprint costs and distribution and production efficiencies. Newsprint costs on a same store basis of \$56.3 million decreased 14% due to lower volume for newsprint. Also contributing to the decrease in cost of sales was a favorable assessment of a multi-employer pension liability of \$7.8 million.

Total selling, general, and administrative expenses for the first six months of 2017 decreased by 4% to \$303.4 million from the same period in 2016. Selling, general, and administrative expenses associated with our 2016 publishing acquisitions were \$30.6 million. Foreign currency exchange rate fluctuations partially offset the increase in selling, general, and administrative expenses by \$5.4 million. Selling, general, and administrative expenses on a same store basis decreased 12%, primarily attributable to continued company-wide cost efficiency efforts.

Severance-related expenses for the first six months of 2017 totaled \$15.8 million compared to \$21.7 million from the same period in 2016. Of total severance-related expenses reported in the first six months of 2017, \$13.1 million was reported as a component of cost of sales while \$2.6 million was reported as a component of selling, general, and administrative expenses. Of total severance-related expenses in the first six months of 2016, \$18.0 million was reported in cost of sales and \$3.7 million was reported in selling, general, and administrative expenses.

Our facility consolidation initiative continued in the first six months of 2017, including the disposition of older, under-utilized buildings, relocations to more efficient, flexible, digitally-oriented office spaces, efforts to reconfigure spaces to take advantage of leasing and subleasing opportunities, and the combination of production and distribution operations where possible. As a result, we recognized facility consolidation and asset impairment charges during all periods presented. These charges are discussed in Note 3 — Restructuring activities and asset impairment charges to the unaudited condensed consolidated financial statements.

Depreciation and amortization expense for the first six months of 2017 was 46% higher compared to the same period in 2016. Depreciation and amortization expense on a same store basis increased 30% primarily due to the \$23.6 million of accelerated depreciation expense that we incurred in the first six months of 2017 associated with our facility consolidation efforts, compared to no accelerated depreciation incurred in the first six months of 2016. In addition, depreciation and amortization expenses associated with our 2016 publishing acquisitions were \$9.7 million. Foreign currency exchange rates reduced depreciation expense by \$0.8 million.

Adjusted EBITDA:

| In thousands | Quarter-to-Date | | | Year-to-Date | | |
|---|-----------------|-----------|--------|--------------|-----------|--------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Operating income (GAAP basis) | \$52,206 | \$65,218 | (20 %) | \$95,725 | \$138,056 | (31 %) |
| Severance-related charges | 5,340 | 17,998 | (70 %) | 15,760 | 21,694 | (27 %) |
| Acquisition-related expenses | 244 | — | 100 % | (89) | — | 100 % |
| Facility consolidation and asset impairment charges | 16,131 | 3,943 | *** | 20,610 | 4,487 | *** |
| Other items | (7,439) | — | *** | (7,285) | (1,200) | *** |
| Depreciation | 36,344 | 25,470 | 43 % | 68,487 | 45,795 | 50 % |
| Amortization | 1,294 | 1,640 | (21 %) | 2,576 | 2,958 | (13 %) |
| Adjusted EBITDA (non-GAAP basis) | \$104,120 | \$114,269 | (9 %) | \$195,784 | \$211,790 | (8 %) |

*** Indicates an absolute value percentage change greater than 100.

Adjusted EBITDA for our publishing segment was \$104.1 million in the second quarter of 2017, a decrease of 9% compared to the same period in 2016. Adjusted EBITDA was unfavorably impacted by \$2.5 million of foreign exchange rate changes as well as declines in print advertising and circulation revenues, primarily in the U.S. and U.K. local markets, partially offset by the impact of contributions from acquired publishing businesses and ongoing operating efficiencies.

Adjusted EBITDA for our publishing segment was \$195.8 million for the first six months of 2017, a decrease of 8% compared to the same period in 2016. Adjusted EBITDA was unfavorably impacted by \$5.5 million of foreign exchange rate changes as well as the same factors affecting the second quarter comparisons.

ReachLocal

ReachLocal was acquired and became a new operating segment in August 2016. As such, there is no comparison to ReachLocal's segment results for the prior year. The following table is a summary of ReachLocal's segment results for the quarter and six months ended June 25, 2017:

| In thousands | Quarter-to-Date 2017 | Year-to-Date 2017 |
|---|-------------------------|----------------------|
| Operating revenues: | | |
| Advertising | \$ 76,213 | \$ 146,695 |
| Other | 9,713 | 16,796 |
| Total operating revenues | 85,926 | 163,491 |
| Operating expenses: | | |
| Cost of sales | 50,592 | 95,170 |
| Selling, general, and administrative expenses | 34,440 | 64,324 |
| Depreciation | 1,908 | 3,699 |
| Amortization | 6,875 | 12,959 |
| Total operating expenses | 93,815 | 176,152 |
| Operating loss | \$ (7,889 |) \$ (12,661) |

| | Jun. 25, 2017 | Dec. 25, 2016 |
|-------------------------------------|---------------------|---------------------|
| As of date | | |
| Active Clients ⁽¹⁾ | 19,400 | 15,300 |
| Active Product Units ⁽²⁾ | 36,800 | 27,900 |

Active Clients is a number calculated to approximate the number of clients served. Active Clients is calculated by adjusting the number of Active Product Units to combine clients with more than one Active Product Unit as a

⁽¹⁾ single Active Client. Clients with more than one location are generally reflected as multiple Active Clients. This number includes clients with which ReachLocal does not have a direct client relationship. Numbers are rounded to the nearest hundred.

Active Product Units is a number we calculate to approximate the number of individual products, licenses, or services we are providing under contract for Active Clients. For example, if we were performing both ReachSearch

⁽²⁾ and ReachDisplay campaigns for a client that also licenses ReachEdge, we consider that three Active Product Units. Similarly, if a client purchases ReachSearch campaigns for two different products or purposes, we consider that two Active Product Units. Numbers are rounded to the nearest hundred.

Operating revenues:

Quarter ended June 25, 2017

ReachLocal advertising revenues were \$76.2 million in the second quarter of 2017. Included in advertising revenues were \$19.9 million from ReachLocal's international entities.

ReachLocal other revenues were \$9.7 million in the second quarter of 2017 and primarily consisted of the sale of software-as-a-service products.

Six months ended June 25, 2017

ReachLocal advertising revenues were \$146.7 million for the six months ended June 25, 2017. Included in advertising revenues were \$40.4 million from ReachLocal's international entities.

ReachLocal other revenues were \$16.8 million for the first six months of 2017 and primarily consisted of the sale of software-as-a-service products.

The increase in Active Clients and Product Units as of June 25, 2017 compared to December 25, 2016 was attributable to a mixture of organic growth from the ReachLocal base business in North America, the migration of Gannett's online advertising clients to ReachLocal solutions, the acquisition of SweetIQ, and the onboarding of a significant number of new clients in Brazil, partially offset by declines in Europe and Asia Pacific.

Operating expenses:

Quarter ended June 25, 2017

ReachLocal cost of sales was \$50.6 million and 59% of its total revenues in the second quarter of 2017. Cost of sales consists primarily of the costs of online media acquired from third-party publishers of \$39.0 million. Cost of sales also includes third-party direct costs as well as costs to manage and operate ReachLocal's various solutions and technology infrastructure.

ReachLocal selling, general and administrative expenses were \$34.4 million in the second quarter of 2017. Selling, general, and administrative expenses consist primarily of personnel and related expenses for selling and marketing staff, product development and engineering professionals, finance, human resources, legal, and executive functions. Selling and marketing expenses consisted of salaries, benefits, commissions and other costs of \$22.3 million. General and administrative expenses were \$9.0 million, while product and technology expenses were \$3.1 million.

ReachLocal depreciation and amortization were \$8.8 million in the second quarter of 2017 and consisted primarily of the amortization of developed technology intangible assets of \$4.9 million.

Six months ended June 25, 2017

ReachLocal cost of sales was \$95.2 million and 58% of its total revenues for the first six months of 2017. Cost of sales consists primarily of the costs of online media acquired from third-party publishers of \$74.3 million. Cost of sales also includes third-party direct costs as well as costs to manage and operate ReachLocal's various solutions and technology infrastructure.

ReachLocal selling, general and administrative expenses were \$64.3 million for the first six months of 2017. Selling, general, and administrative expenses consist primarily of personnel and related expenses for selling and marketing staff, product development and engineering professionals, finance, human resources, legal, and executive functions. Selling and marketing expenses consisted of salaries, benefits, commissions and other costs of \$42.5 million. General and administrative expenses were \$16.2 million while product and technology expenses were \$5.6 million.

ReachLocal depreciation and amortization were \$16.7 million for the first six months of 2017 and consisted primarily of the amortization of developed technology intangible assets of \$9.4 million.

Adjusted EBITDA:

| In thousands | Quarter-to-Date 2017 | Year-to-Date 2017 |
|----------------------------------|-------------------------|----------------------|
| Operating income (GAAP basis) | \$ (7,889) | \$ (12,661) |
| Severance-related charges | 323 | 323 |
| Acquisition-related expenses | — | 43 |
| Depreciation | 1,908 | 3,699 |
| Amortization | 6,875 | 12,959 |
| Adjusted EBITDA (non-GAAP basis) | \$ 1,217 | \$ 4,363 |

Adjusted EBITDA for our ReachLocal segment was \$1.2 million in the second quarter of 2017 and \$4.4 million for the first six months of 2017. Adjusted EBITDA for our ReachLocal segment included increased expenses related to the migration of Gannett's online advertising clients to ReachLocal solutions and the acquisition and ongoing

integration of SweetIQ into ReachLocal's business.

Corporate and other

Corporate operating expenses were \$34.9 million in the second quarter of 2017, a decrease of 13% from \$39.9 million in the same period in 2016. The decrease was primarily driven by a reduction in acquisition-related expenses of \$11.5 million when compared to the same period in 2016, partially offset by severance-related charges of \$2.8 million, other business transformation costs of \$2.6 million and additional overhead costs associated with onboarding acquisitions and strategic investments. In addition, depreciation expense increased \$1.6 million from the same period in 2016.

Corporate operating expenses were \$73.5 million for the first six months of 2017, an increase of 15% from \$64.0 million in the same period in 2016. The increase was primarily driven by an increase in other business transformation costs of \$6.9 million, severance-related charges of \$4.2 million and additional overhead costs associated with onboarding acquisitions and strategic investments, partially offset by a decrease in acquisition-related expenses of \$12.0 million. In addition, depreciation expense increased \$3.5 million from the same period in 2016.

Non-operating expense

Interest expense: Interest expense for the second quarter of 2017 was \$3.5 million compared to expense of \$3.0 million in the same period in 2016. Interest expense for the first six months of 2017 was \$7.7 million compared to expense of \$4.9 million in the same period in 2016. The increase in interest expense was primarily attributable to borrowing under the Credit Facility to fund our acquisitions.

Other non-operating items, net: Our non-operating items, net, are driven by certain items that fall outside of our normal business operations. Our non-operating expense, net, for the second quarter of 2017 was \$5.3 million compared to expense of \$1.9 million in the same period in 2016. As a result of our early adoption of guidance, included in non-operating expenses are certain net periodic pension and postretirement benefit costs of \$5.7 million and \$2.0 million for the second quarter of 2017 and 2016, respectively.

Our non-operating expense, net, for the first six months of 2017 was \$9.2 million compared to expense of \$5.9 million in the same period in 2016. As a result of our early adoption of guidance, included in non-operating expenses are certain net periodic pension and postretirement benefit costs of \$10.5 million and \$4.7 million for the first six months of 2017 and 2016, respectively.

Income tax expense (benefit)

Our reported effective income tax rate on pre-tax income was 127.9% for the three months ended June 25, 2017, compared to 40.8% on pre-tax income for the three months ended June 26, 2016. The tax rate for the three months ended June 25, 2017 was attributable to both income mix changes and the inability to benefit from the tax losses being generated by ReachLocal's foreign operations.

Our reported effective income tax rate on pre-tax loss was 52.1% for the six months ended June 25, 2017, compared to 20.4% on pre-tax income for the six months ended June 26, 2016. The increase in our effective tax rate is primarily attributable to the swing from a pretax income position to a pretax loss position and a smaller benefit from share based compensation generated during the first six months of 2017 compared to the same period in 2016 and other 2017 non-recurring tax beneficial items.

We expect the effective tax rate to normalize in the second half of the year as net income increases due to seasonality.

Our quarterly effective rate is calculated in part based on the full year forecasted income, over 50% of which is expected to be generated in foreign jurisdictions where the income tax rate is lower than in the U.S. This is similar to

full year 2016, where the ratio of income earned in foreign jurisdictions to domestic income was higher than in 2014 and 2015. The lower domestic income is attributable to higher expenses domestically for corporate expenses related to public company costs, restructuring charges and asset impairments as compared with foreign jurisdictions. The recent changes in the mix of income generated from lower tax rate foreign jurisdictions relative to U.S. domestic income have had the effect of decreasing our tax expense.

Net income (loss) and earnings (loss) per share

Net income (loss): Net losses were \$0.5 million for the second quarter of 2017, compared to net income of \$12.5 million for the same period in 2016. Adversely affecting net income for the second quarter of 2017 were severance-related charges of \$8.4 million, facility consolidation and asset impairment charges of \$16.1 million, and accelerated depreciation of \$13.8 million. In addition, the provision for income taxes declined \$6.4 million compared to the same period in 2016 due to the factors discussed above.

Net losses were \$2.6 million for the first six months of 2017, compared to net income of \$52.1 million for the same period in 2016. Adversely affecting net income for the first six months of 2017 were severance-related charges of \$20.3 million, acquisition related expenses of \$2.6 million, facility consolidation and asset impairment charges of \$20.6 million, and accelerated depreciation of \$23.6 million. In addition, the provision for income taxes declined \$16.2 million compared to the same period in 2016 due to the factors discussed above.

Diluted earnings (loss) per share: Diluted losses per share were less than \$0.01 for the second quarter of 2017, compared to diluted earnings per share of \$0.10 for the same period in 2016. Diluted losses per share were \$0.02 for the first six months of 2017, compared to diluted earnings per share of \$0.44 for the same period in 2016. The decreases in diluted earnings per share for the second quarter and first six months of 2017 compared to the same periods in 2016 were primarily attributable to the net losses incurred in the first three and six months of 2017.

Liquidity and Capital Resources

Our operations, which have historically generated strong positive cash flow, along with our Credit Facility described below, are expected to provide sufficient liquidity to meet our requirements, including those for investments and expected dividends or share repurchases. For strategic acquisitions, we will consider financing options as appropriate.

Details of our cash flows are included in the table below:

| In thousands | Year-to-date | |
|--|--------------|-------------|
| | 2017 | 2016 |
| Net cash provided by operating activities | \$ 129,544 | \$ 93,341 |
| Net cash used for investing activities | (60,452) | (284,899) |
| Net cash (used for) provided by financing activities | (54,806) | 141,292 |
| Effect of currency exchange rate change on cash | (1,670) | (2,304) |
| Net increase (decrease) in cash | \$ 12,616 | \$ (52,570) |

Operating cash flows

Our net cash flow from operating activities was \$129.5 million for the first six months of 2017, an increase of \$36.2 million compared to the same period in 2016. The increase in net cash flow from operating activities primarily resulted from the year-over-year decreased pension and other postretirement contributions of \$28.1 million offset by changes in working capital of \$3.7 million. We made a pension contribution of \$25.0 million to the GRP following the end of our second quarter 2017.

Investing cash flows

Cash flows used for investing activities totaled \$60.5 million for the first six months of 2017, primarily consisting of capital expenditures of \$29.8 million and payments for acquisitions, net of cash acquired, of \$31.5 million, which primarily related to the SweetIQ acquisition.

Cash flows used for investing activities totaled \$284.9 million for the first six months of 2016, primarily consisting of payments of \$260.5 million for the JMG acquisition, capital expenditures of \$26.1 million, and investments of \$8.7 million, partially offset by proceeds from sales of certain assets of \$10.4 million.

Financing cash flows

Cash flows used for financing activities totaled \$54.8 million for the first six months of 2017, primarily consisting of the payment of dividends to our shareholders of \$36.4 million, the net repayments of borrowings under revolving credit agreement of \$15.0 million, and \$3.6 million in payments for employee taxes withheld from stock awards.

Cash flows from financing activities totaled \$141.3 million for the first six months of 2016, primarily consisting of proceeds from borrowings under our Credit Facility of \$250.0 million to purchase JMG, partially offset by the payment of dividends to our shareholders of \$55.8 million, the repayment of borrowings under our Credit Facility of \$50.0 million, and \$3.3 million in payments for employee taxes withheld from stock awards. We also paid out two quarterly dividends in the second quarter of 2016.

Revolving credit facility

We maintain a secured revolving credit facility pursuant to which we may borrow from time to time up to an aggregate principal amount of \$500 million. Under the Credit Facility, we may borrow at an applicable margin above the Eurodollar base rate (LIBOR loan) or the higher of the Prime Rate, the Federal Funds Effective Rate plus 0.50% or the one month LIBOR rate plus 1.00% (ABR loan). The applicable margin is determined based on our total leverage ratio but differs between LIBOR loans and ABR loans. For LIBOR-based borrowing, the margin varies from 2.00% to 2.50%. For ABR-based borrowing, the margin varies from 1.00% to 1.50%. Up to \$50 million of the Credit Facility is available for issuance of letters of credit. The Credit Facility matures on June 29, 2020.

Customary fees are payable related to the Credit Facility, including commitment fees on the undrawn commitments of between 0.30% and 0.40% per annum, payable quarterly in arrears and based on our total leverage ratio. Borrowings under the Credit Facility are guaranteed by our wholly-owned material domestic subsidiaries. All obligations of Gannett and each subsidiary guarantor under the Credit Facility are or will be secured by first priority security interests in our equipment, inventory, accounts receivable, fixtures, general intangibles and other personal property, mortgages on certain material real property, and pledges of the capital stock of each subsidiary guarantor.

Under the Credit Facility, our consolidated interest coverage ratio cannot be less than 3.00:1.00, and our total leverage ratio cannot exceed 3.00:1.00, in each case as of the last day of the test period consisting of the last four consecutive fiscal quarters. We were in compliance with all financial covenants under the Credit Facility as of June 25, 2017.

The Credit Facility also contains a number of covenants that, among other things, limit or restrict our ability, subject to certain exceptions, to: (i) permit certain liens on current or future assets, (ii) enter into certain corporate transactions, (iii) incur additional indebtedness, (iv) make certain payments or declare certain dividends or distributions, (v) dispose of certain property, (vi) make certain investments, (vii) prepay or amend the terms of other indebtedness, or (viii) enter into certain transactions with our affiliates. We were in compliance with these covenants as of June 25, 2017.

As of June 25, 2017, we had \$385.0 million in outstanding borrowings under the Credit Facility and \$12.1 million of letters of credit outstanding, leaving \$102.9 million of availability remaining.

Additional information

On May 10, 2017, we declared a dividend of \$0.16 per share of common stock, which was paid on June 19, 2017, to shareholders of record as of the close of business on June 5, 2017. Furthermore, on July 20, 2017, we declared a second dividend of \$0.16 per share of common stock, payable on September 18, 2017, to shareholders of record as of

the close of business on September 1, 2017.

In July 2015, our Board of Directors approved a share repurchase program authorizing us to repurchase shares with an aggregate value of up to \$150 million over a three-year period. Shares may be repurchased at management's discretion, either in the open market or in privately negotiated block transactions. Management's decision to repurchase shares depends on several factors, including share price and other corporate liquidity requirements. No shares were repurchased in the second quarter of 2017. As of June 25, 2017, there was \$117.3 million in availability to repurchase shares under the share repurchase program.

Results of Operations - Non-GAAP Information

Presentation of non-GAAP information

We use non-GAAP financial performance and liquidity measures to supplement the financial information presented on a GAAP basis. These non-GAAP financial measures should not be considered in isolation from or as a substitute for the related GAAP measures and should be read together with financial information presented on a GAAP basis.

In this report, we present adjusted EBITDA, adjusted net income, and adjusted diluted earnings per share (EPS), which are non-GAAP financial performance measures that exclude from our reported GAAP results the impact of certain items consisting of workforce restructuring charges, facility consolidation costs, and non-cash asset impairment charges. We believe such expenses, charges, and gains are not indicative of normal, ongoing operations, and their inclusion in results makes for more difficult comparisons between years and with peer group companies. In the future, however, we are likely to incur expenses, charges, and gains similar to the items for which the applicable GAAP financial measures have been adjusted and to report non-GAAP financial measures excluding such items. Accordingly, exclusion of those or similar items in our non-GAAP presentations should not be interpreted as implying the items are non-recurring, infrequent, or unusual.

We define our non-GAAP measures as follows:

Adjusted EBITDA is a non-GAAP financial performance measure we believe offers a useful view of the overall operation of our businesses. Adjusted EBITDA is defined as net income before (1) income taxes, (2) interest expense, (3) equity income, (4) other non-operating items, (5) severance-related charges, (6) acquisition-related expenses (including certain integration expenses), (7) facility consolidation and asset impairment charges, (8) other items (including certain business transformation costs, litigation expenses and multi-employer pension withdrawals), (9) depreciation, and (10) amortization. When adjusted EBITDA is discussed in this report, the most directly comparable GAAP financial measure is net income.

Adjusted net income is a non-GAAP financial performance measure we use for calculating adjusted EPS. Adjusted net income is defined as net income before the adjustments we apply in calculating adjusted EPS as described below. We believe presenting adjusted net income is useful to enable investors to understand how we calculate adjusted EPS, which provides a useful view of the overall operation of our business. The most directly comparable GAAP financial measure is net income.

Adjusted EPS is a non-GAAP financial performance measure we believe offers a useful view of the overall operation of our business. We define adjusted EPS, which may not be comparable to a similarly titled measure reported by other companies, as EPS before tax-effected (1) severance-related charges, (2) facility consolidation and asset impairment charges, (3) acquisition-related expenses (including certain integration expenses), and (4) other items (including certain business transformation expenses, litigation expenses and multi-employer pension withdrawals). The tax impact on these non-GAAP tax deductible adjustments is based on the estimated statutory tax rates for the U.K. of 19.25% and the U.S. of 38.7%. In addition, tax is adjusted for the impact of non-deductible acquisition costs. When adjusted EPS is discussed in this report, the most directly comparable GAAP financial measure is diluted EPS.

Free cash flow is a non-GAAP liquidity measure that adjusts our reported GAAP results for items we believe are critical to the ongoing success of our business. We define free cash flow, which may not be comparable to a similarly titled measure reported by other companies, as cash flow from operating activities less capital expenditures, which results in a figure representing free cash flow available for use in operations, additional investments, debt obligations and returns to shareholders. The most directly comparable GAAP financial measure is net cash from operating activities.

We use non-GAAP financial measures for purposes of evaluating our performance and liquidity. Therefore, we believe each of the non-GAAP measures presented provides useful information to investors by allowing them to view our businesses through the eyes of our management and Board of Directors, facilitating comparison of results across historical periods, and providing a focus on the underlying ongoing operating performance of our business. Many of our peer group companies present similar non-GAAP measures to better facilitate industry comparisons.

Discussion of non-GAAP financial results

Consolidated adjusted EBITDA: Reconciliations of adjusted EBITDA from net income (loss) presented in accordance with GAAP on our unaudited Condensed Consolidated Statements of Income (Loss) are presented below:

| In thousands | Quarter-to-Date | | | Year-to-Date | | |
|---|-----------------|----------|--------|--------------|-----------|--------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Net income (loss) (GAAP basis) | \$(487) | \$12,481 | *** | \$(2,566) | \$52,077 | *** |
| Provision (benefit) for income taxes | 2,236 | 8,599 | (74 %) | (2,794) | 13,380 | *** |
| Interest expense | 3,454 | 3,001 | 15 % | 7,709 | 4,857 | 59 % |
| Other non-operating items, net | 5,301 | 1,908 | *** | 9,188 | 5,878 | 56 % |
| Operating income (GAAP basis) | 10,504 | 25,989 | (60 %) | 11,537 | 76,192 | (85 %) |
| Severance-related charges | 8,415 | 17,998 | (53 %) | 20,265 | 21,694 | (7 %) |
| Acquisition-related expenses | 1,570 | 12,788 | (88 %) | 2,593 | 14,639 | (82 %) |
| Facility consolidation and asset impairment charges | 16,131 | 3,943 | *** | 20,610 | 4,487 | *** |
| Other items | (4,816) | — | 100 % | (337) | (1,200) | (72 %) |
| Depreciation | 43,681 | 29,292 | 49 % | 83,132 | 53,251 | 56 % |
| Amortization | 8,169 | 1,640 | *** | 15,535 | 2,958 | *** |
| Adjusted EBITDA (non-GAAP basis) | \$83,654 | \$91,650 | (9 %) | \$153,335 | \$172,021 | (11 %) |

*** Indicates an absolute value percentage change greater than 100.

Adjusted EBITDA was \$83.7 million in the second quarter of 2017, a 9% decrease compared to the same period in 2016. Adjusted EBITDA was unfavorably impacted by \$2.5 million of foreign exchange rate changes as well as declines in print advertising and circulation revenues, primarily in the U.S. and U.K. local markets, partially offset by growth in local digital advertising revenues, the impact of contributions from acquired businesses and ongoing operating efficiencies. Adjusted EBITDA was \$153.3 million in the first six months of 2017, a 11% decrease compared to the same period in 2016. These declines in the year-to-date amounts are driven by the same factors affecting the second quarter comparisons.

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Consolidated adjusted EPS: Reconciliations of adjusted diluted EPS from net income (loss) presented accordance with GAAP on our unaudited Condensed Consolidated Statements of Income (Loss) are presented below:

| In thousands, except per share data | Quarter-to-Date | | | Year-to-Date | | |
|---|-----------------|-----------|--------|--------------|-----------|--------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Severance-related charges | \$8,415 | \$17,998 | (53 %) | \$20,265 | \$21,694 | (7 %) |
| Acquisition-related expenses | 1,570 | 12,788 | (88 %) | 2,593 | 14,639 | (82 %) |
| Facility consolidation and asset impairment charges (including accelerated depreciation) | 29,929 | 3,943 | *** | 44,347 | 4,550 | *** |
| Other Items | (4,702) | — | 100 % | (3,198) | (1,200) | *** |
| Pre-tax impact | 35,212 | 34,729 | 1 % | 64,007 | 39,683 | 61 % |
| Income tax impact of above items | (13,394) | (10,864) | 23 % | (24,432) | (12,657) | 93 % |
| Impact of items affecting comparability on net income | \$21,818 | \$23,865 | (9 %) | \$39,575 | \$27,026 | 46 % |
| Net income (loss) (GAAP basis) | \$(487) | \$12,481 | *** | \$(2,566) | \$52,077 | *** |
| Impact of items affecting comparability on net income (loss) | 21,818 | 23,865 | (9 %) | 39,575 | 27,026 | 46 % |
| Adjusted net income (non-GAAP basis) | \$21,331 | \$36,346 | (41 %) | \$37,009 | \$79,103 | (53 %) |
| Earnings (loss) per share - diluted (GAAP basis) | \$(0.00) | \$0.10 | *** | \$(0.02) | \$0.44 | *** |
| Impact of items affecting comparability on net income (loss) | 0.18 | 0.20 | (10 %) | 0.34 | 0.22 | 55 % |
| Adjusted earnings per share - diluted (non-GAAP basis) | \$0.18 | \$0.30 | (40 %) | \$0.32 | \$0.66 | (52 %) |
| Diluted weighted average number of common shares outstanding (GAAP basis) | 113,652 | 119,377 | (5 %) | 113,574 | 119,218 | (5 %) |
| Diluted weighted average number of common shares outstanding (non-GAAP basis) | 115,918 | 119,377 | (3 %) | 115,595 | 119,218 | (3 %) |

*** Indicates an absolute value percentage change greater than 100.

Adjusted EPS on a fully diluted basis were \$0.18 for the second quarter of 2017 compared to \$0.30 for the same period in 2016. Adjusted EPS on a fully diluted basis were \$0.32 for the first six months of 2017 compared to \$0.66 for the same period in 2016. The declines in adjusted diluted EPS were attributable to the same factors discussed above for adjusted EBITDA.

The following table presents a reconciliation of the weighted average number of outstanding basic shares on a GAAP basis to the adjusted, non-GAAP weighted average number of outstanding diluted shares:

| In thousands | Quarter-to-Date | | Year-to-Date | |
|---|-----------------|---------|--------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average number of shares outstanding - basic (GAAP basis) | 113,652 | 116,516 | 113,574 | 116,414 |
| Effect of dilutive securities (GAAP basis) | | | | |
| Restricted stock units | — | 1,642 | — | 1,536 |
| Performance share units | — | 954 | — | 991 |
| Stock options | — | 265 | — | 277 |
| Weighted average number of shares outstanding - diluted (GAAP basis) | 113,652 | 119,377 | 113,574 | 119,218 |
| Effect of dilutive securities (non-GAAP basis) | | | | |
| Restricted stock units | 1,323 | — | 1,298 | — |
| Performance share units | 825 | — | 587 | — |
| Stock options | 118 | — | 136 | — |
| Weighted average number of shares outstanding - diluted (non-GAAP basis) | 115,918 | 119,377 | 115,595 | 119,218 |

Free cash flow: Reconciliations of free cash flow from net cash flow provided by operating activities presented in accordance with GAAP on our unaudited Condensed Consolidated Statements of Cash Flow are presented below:

| In thousands | Year-to-Date | |
|---|--------------|-----------|
| | 2017 | 2016 |
| Net cash flow provided by operating activities (GAAP basis) | \$ 129,544 | \$ 93,341 |
| Capital expenditures | (29,831) | (26,136) |
| Free cash flow (non-GAAP basis) | \$ 99,713 | \$ 67,205 |

Free cash flow increased by \$32.5 million from 2016 to 2017. This increase was attributable to net cash flow from operating activities of \$129.5 million in 2017, an increase of \$36.2 million compared to the prior year. This increase was primarily attributable to the year-over-year decrease in pension and other postretirement contributions of \$28.1 million, offset by changes in working capital of \$3.7 million. We made a pension contribution of \$25.0 million to the GRP following the end of our second quarter 2017. Cash outflows for capital expenditures increased by \$3.7 million during 2017 compared to the prior year.

Off-Balance Sheet Arrangements

As of June 25, 2017, we had no material off-balance sheet arrangements as defined in the rules of the Securities and Exchange Commission.

Seasonality

Our revenues are subject to moderate seasonality due to fluctuation in advertising volumes. Our advertising revenues for publishing are typically highest in the fourth quarter due to holiday and seasonal advertising. The volume of advertising sales in any period is also impacted by other external factors such as competitors' pricing, advertisers' decisions to increase or decrease their advertising expenditures in response to anticipated consumer demand, and general economic conditions.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements regarding business strategies, market potential, future financial performance, and other matters. Forward-looking statements include all statements that are not historical facts. The words "believe," "expect," "estimate," "could," "should," "intend," "may," "plan," "seek," "anticipate," "project," and similar expressions, among others, generally identify "forward-looking statements" which speak only as of the date the statements were made and are not guarantees of future performance. The matters discussed in these forward-looking statements are subject to many risks, trends, uncertainties, and other factors that could cause actual results to differ materially from those projected, anticipated, or implied in the forward-looking statements. Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of our management, is expressed in good faith, and is believed to have a reasonable basis. However, there can be no assurance the expectation or belief will result, be achieved, or be accomplished. Whether or not any such forward-looking statements are in fact achieved will depend on future events, some of which are beyond our control. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect new information, events, or circumstances occurring after the date of this report. Factors, risks, trends, and uncertainties that could cause actual results or events to differ materially from those projected, anticipated, or implied include the matters described above under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the statements made under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2016 Annual Report on Form 10-K, and the following other factors, risks, trends and

uncertainties:

• Macroeconomic trends and conditions;

• An accelerated decline in general print readership and/or advertiser patterns as a result of competitive alternative media or other factors;

• An inability to adapt to technological changes or grow our digital businesses;

Risks associated with the operation of an increasingly digital business, such as rapid technological changes, frequent new product introductions, declines in web traffic levels, technical failures and proliferation of ad blocking technologies;

• Competitive pressures in the markets in which we operate;

33

- An increase in newsprint costs over the levels anticipated;
- Potential disruption or interruption of our IT systems due to accidents, extraordinary weather events, civil unrest, political events, terrorism or cyber security attacks;
- Variability in the exchange rate relative to the U.S. dollar of currencies in foreign jurisdictions in which we operate;
- Risks and uncertainties related to strategic acquisitions or investments, including distraction of management attention, incurrence of additional debt, integration challenges, and failure to realize expected benefits or synergies or to operate businesses effectively following acquisitions;
- Risks and uncertainties associated with our ReachLocal segment, including its significant reliance on Google for media purchases, its international operations and its ability to develop and gain market acceptance for new products or services;
- Our ability to protect our intellectual property or defend successfully against infringement claims;
- Our ability to attract and retain talent;
- Labor relations, including, but not limited to, labor disputes which may cause business interruptions, revenue declines or increased labor costs;
- Risks associated with our underfunded pension plans;
- Adverse outcomes in litigation or proceedings with governmental authorities or administrative agencies, or changes in the regulatory environment, any of which could encumber or impede our efforts to improve operating results or the value of assets;
- Our inability to engage in certain corporate transactions following the separation;
- Volatility in financial and credit markets which could affect the value of retirement plan assets and our ability to raise funds through debt or equity issuances and otherwise affect our ability to access the credit and capital markets at the times and in the amounts needed and on acceptable terms; and
- Other uncertainties relating to general economic, political, business, industry, regulatory and market conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe our market risk from financial instruments, such as accounts receivable and accounts payable, is not material. We are exposed to foreign exchange rate risk due to our publishing operations in the U.K., for which the British pound sterling is the functional currency. If the price of the British pound sterling against the U.S. dollar had been 10% more or less than the actual price, operating income would have increased or decreased approximately \$2.7 million for the six months ended June 25, 2017. In addition, our ReachLocal segment has operating activities denominated in currencies other than the U.S. dollar, including the Australian dollar, Canadian dollar, European euro, Japanese yen, Indian rupee, Mexican peso, New Zealand dollar, Singapore dollar and Brazilian real. A 10% fluctuation in each of these currencies relative to the U.S. dollar would have increased or decreased operating income by approximately \$0.7 million for the six months ended June 25, 2017. Translation gains or losses affecting the Condensed Consolidated Statements of Income (Loss) have not been significant in the past.

We are exposed to fluctuations in interest rates on borrowings outstanding under our Credit Facility. Based on the variable-rate debt outstanding as of June 25, 2017, we estimate that a 1% increase or decrease in interest rates would have increased or decreased interest expense by \$1.9 million for the six months ended June 25, 2017.

Item 4. Controls and Procedures

Based on their evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective as of June 25, 2017 to ensure information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in our internal control over financial reporting or in other factors during the fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments with respect to our potential liability for legal and environmental matters previously reported in our 2016 Annual Report on Form 10-K.

Item 1A. Risk Factors

There have been no material changes from the risk factors described in the "Risk Factors" section of our 2016 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

This item is not applicable.

Item 3. Defaults Upon Senior Securities

This item is not applicable.

Item 4. Mine Safety Disclosures

This item is not applicable.

Item 5. Other Information

This item is not applicable.

Item 6. Exhibits

Incorporated by reference to the Exhibit Index attached hereto and made a part hereof.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 3, 2017 GANNETT CO., INC.

/s/ Alison K. Engel
Alison K. Engel
Senior Vice President, Chief Financial Officer and Treasurer
(on behalf of Registrant and as Principal Financial Officer)

EXHIBIT INDEX

| | | |
|------|--|---|
| 4-1 | Amendment to 2015 Omnibus Incentive Compensation Plan | Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed by the Company with the SEC on May 11, 2017. |
| 10-1 | Gannett Co., Inc. 2015 Deferred Compensation Plan Rules for Post-2004 Deferrals, Amendment No. 2, effective as of June 1, 2017 | Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed by the Company with the SEC on June 6, 2017. |
| 10-2 | Gannett Co., Inc. 2015 Deferred Compensation Plan Rules for Pre-2005 Deferrals, Amendment No. 1, effective as of June 1, 2017 | Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed by the Company with the SEC on June 6, 2017. |
| 10-3 | 2015 Change in Control Severance Plan, as amended as of July 20, 2017 | Attached. |
| 10-4 | Executive Severance Plan, as amended as of July 20, 2017 | Attached. |
| 31-1 | Rule 13a-14(a) Certification of CEO | Attached. |
| 31-2 | Rule 13a-14(a) Certification of CFO | Attached. |
| 32-1 | Section 1350 Certification of CEO | Attached. |
| 32-2 | Section 1350 Certification of CFO | Attached. |
| 101 | The following financial information from Gannett Co., Inc. Quarterly Report on Form 10-Q for the quarter ended June 25, 2017, formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets at June 25, 2017 and December 25, 2016, (ii) Unaudited Condensed Consolidated Statements of Income (Loss) for the fiscal quarters and six months ended June 25, 2017 and June 26, 2016, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the fiscal quarters and six months ended June 25, 2017 and June 26, 2016, (iv) Unaudited Condensed Consolidated Cash Flow Statements for the six months ended June 25, 2017 and June 26, 2016, and (v) Unaudited Notes to Condensed Consolidated Financial Statements | Attached. |