



FP Newspapers Inc. reports fourth quarter 2019 results

Winnipeg, May 15, 2020 – FP Newspapers Inc. (“FPI”) announces financial results for the quarter ended December 30, 2019. FPI owns securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership (“FPLP”).

Fourth quarter operating results of FPI

FPI reported net income of \$0.7 million for the three months ended December 30, 2019, compared to net income of \$0.6 million for the same period in 2018.

Fourth quarter operating results of FPLP

FPLP’s revenue for the three months ended December 31, 2019 was \$16.2 million, a decrease of \$1.4 million or 8.1% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2019 were \$8.5 million, a 13.6% decrease compared to the same quarter last year. FPLP’s largest print advertising revenue category, display advertising including colour, was \$4.3 million, a decrease of \$1.1 million or 20.5% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, government, telecommunications and retail categories. Classified advertising revenues for the fourth quarter decreased by \$0.1 million or 6.8% compared to the same period last year, primarily due to a decrease in the real estate, employment and obituary categories. Flyer distribution revenues for the fourth quarter decreased by \$0.2 million or 5.0% compared to the same period last year, primarily due to decreased flyer volumes, partly offset by slightly higher average rates.

Circulation revenues for the three months ended December 31, 2019 remained at relatively the same level compared to 2018 as a result of an increase in print subscription prices and increased digital subscription revenue, offset by decreases in print unit sales. Commercial services revenues remained at relatively the same level compared to 2018. Digital advertising revenues for the three months ended December 31, 2019 decreased by \$0.1 million or 16.2%, primarily due to a decrease in internet web ad revenues. Other revenue remained at relatively the same level compared to 2018.

Operating expenses for the three months ended December 31, 2019 were \$14.7 million, a \$1.2 million or 7.5% decrease from the same quarter last year. Employee compensation costs, excluding restructuring charges, for the fourth quarter decreased by \$0.7 million or 9.7%, primarily due to a \$0.3 million tax credit for the fourth quarter from the federal government’s previously announced support for Canadian journalism program as well as staff reductions from voluntary resignations and retirements. Restructuring charges for the three months ended December 31, 2019 were \$0.1 million, \$0.1 million higher than the prior year and represented voluntary and involuntary severance payments to employees. On December 31, 2019, as a result of Colleges of Applied Arts & Technology Pension Plan (the “CAAT Pension Plan”) merger, the FPLP Plans were amended to cease all service accruals on this date. As a result of this amendment during the quarter ended December 31, 2019, FPLP recognized a non-cash curtailment gain of \$0.8 million. Newsprint expense for FPLP’s own publications for the three months ended December 31, 2019 decreased by \$0.3 million or 19.4%, primarily due to lower printing volumes and lower newsprint prices. Newsprint expense for commercial use remained at relatively the same

level compared to the same period in 2018. Delivery costs for the three months ended December 31, 2019 decreased by \$0.2 million or 6.8% primarily due to cost savings related to the initiatives implemented to improve delivery route efficiency in addition to fewer printed copies being delivered.

EBITDA⁽¹⁾, for the three months ended December 31, 2019 was \$3.0 million, an increase of \$0.5 million or 20.2% from the same period last year. EBITDA⁽¹⁾ margin, for the three months ending December 31, 2019 was 18.2%, compared to 13.9% in the same period last year.

FPLP's net income was \$2.1 million for the three months ended December 31, 2019, compared to \$1.5 million for the same period last year.

Twelve month operating results of FPI

Revenue for the year ended December 30, 2019 was \$2.2 million compared to \$1.2 million in 2018. The increase was primarily the result of higher equity earnings from FPI's investment in FPLP. Net income for the year ended December 30, 2019 was \$1.4 million compared to a net loss of \$2.0 million in 2018. A non-cash write-down of \$3.1 million was recorded in the twelve months ended December 30, 2018, based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP. Excluding the non-cash write-down of the equity investment in FPLP in 2018, FPI reported net income of \$1.1 million for the year ended December 30, 2018. The increase in the 2019 net income is primarily due to an increase in the equity share of the net earnings of FPLP, with details of this increase disclosed in the FPLP section of this report. For the year ended December 30, 2019, FPI recorded a current income tax expense of \$0.2 million and a deferred income tax expense of \$0.4 million compared to a current income tax expense of \$0.2 million and a deferred income tax recovery of \$0.3 million in 2018. The deferred income tax expense in 2019 is primarily from the deferral of taxes from amounts owing from the general partners of FPLP who have agreed to pay FPLP for their respective shares of the refundable tax credit for qualifying Canadian Journalism Organizations and the year end timing differences of FPI and FPLP. Other comprehensive loss for 2019 was \$0.8 million compared to other comprehensive income of \$0.2 million in 2018. The change in other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains and losses related to its defined benefit pension plan.

Twelve month operating results of FPLP

FPLP's revenue for the year ended December 31, 2019 was \$63.8 million, a decrease of \$3.2 million or 4.8% from the prior year. Print advertising revenues for the year ended December 31, 2019 were lower by \$3.5 million or 9.6% compared to last year. FPLP's largest print advertising revenue category, display advertising including colour, was \$17.2 million, a decrease of \$2.2 million or 11.3% from the prior year, primarily due to decreased spending in the local and national automotive, government and retail categories, partially offset by a slight increase in the telecommunications category. Classified advertising revenues for the 2019 year decreased by \$0.5 million or 8.6% compared to last year, primarily due to lower spending in the employment, obituary and real estate categories. Flyer distribution revenues were \$10.5 million, a decrease of \$0.8 million or 7.1% from 2018, primarily due to a decrease in flyer volumes, partly offset by slightly higher rates.

Circulation revenues for the year ended December 31, 2019 were \$24.5 million, an increase of \$0.2 million or 0.7% compared to 2018 as a result of an increase in print subscription prices and increased digital subscription units, partially offset by decreases in print unit sales. Commercial services revenues increased by \$0.1 million compared to 2018 and digital advertising revenues and other revenue for 2019 remained at relatively the same level compared to 2018.

Operating expenses for the year ended December 31, 2019 were \$58.7 million, a \$5.0 million or 7.8% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by \$2.3 million or 7.6%, primarily due to a \$1.1 million tax credit for 2019 from the federal government's previously announced support for Canadian journalism program as well as staff reductions from voluntary resignations and retirements. Restructuring charges for the year ending December 31, 2019 were \$0.2 million, \$0.1 million higher than the prior year and represented voluntary and involuntary severance payments for employees. On December 31, 2019, as a result of the CAAT Pension Plan merger, the FPLP Plans were amended to cease all service accruals on this date. As a result of this amendment during the year ended December 31, 2019, FPLP recognized a non-cash curtailment gain of \$0.8 million. Newsprint expense for FPLP's own publications for the year decreased by \$0.6 million or 12.9%, primarily due to lower printing volumes, partly offset by a slightly higher average newsprint price. Newsprint expense for commercial use remained at relatively the same level compared to 2018. Delivery costs decreased by \$1.1 million or 9.1% primarily due to cost savings related to the initiatives implemented to improve delivery route efficiency, together with savings from lower print circulation units delivered. Other expenses for the year decreased by \$0.1 million or 1.1% compared to the prior year.

EBITDA⁽¹⁾, excluding goodwill and intangible assets impairment charges, for the year ended December 31, 2019 was \$8.0 million compared to \$6.3 million in 2018, an increase of 27.3%. EBITDA⁽¹⁾ margin, excluding the goodwill and intangible assets impairment charge, for the year ended December 31, 2019 was 12.5% compared to 9.4% in 2018.

For the year ended December 31, 2019, finance costs decreased by \$0.3 million or 28.4% primarily due to the lower level of debt outstanding.

FPLP's net income was \$4.4 million for the year ended December 31, 2019, compared to net loss of \$3.9 million in the prior year. As a result of continued declines in revenue and earnings, FPLP recorded a non-cash impairment charge relating to its goodwill and intangible assets of \$6.4 million during the year ended December 31, 2018. Excluding this impairment charge, FPLP's net income was \$2.4 million for the year ended December 31, 2018.

OUTLOOK

REVENUE

The COVID-19 Pandemic has resulted in a number of significant uncertainties throughout our businesses. While advertising revenues started to decline in March, the full impact of the shut-down of the economy was not felt until the start of the second quarter. Print Advertising revenues including flyer delivery represented approximately 52% of FPLP's total revenues in 2019. While print advertising revenues declined by approximately 16%, in the first quarter, they fell dramatically after the March 16 physical distancing directives were put into place in Manitoba. April print ad revenue levels were lower by roughly 50% compared to the same weeks last year. In large part from the efforts of the production and delivery department employees and contractors, print and digital circulation revenues are relatively stable and to date we have maintained our pre-COVID-19 publication schedule for each of our titles. Overall revenues were lower by between 30% and 35% in April compared to the prior year. Given the uncertainty around what the economic re-start will look like we are not able to provide any further guidance on full year expected revenue levels.

At the start of the pandemic we opened up our COVID-19 extended coverage free outside of our paywall. As expected, significant increases in traffic resulted with average total users up by about 60% compared to pre-crisis weeks this year. We are experiencing significant Digital subscription starts with 563 new starts in the first two weeks of April which represents a 229% increase over the same period last year. Our total digital subscriptions stand at just under 12,500 which is up by approximately 26% compared to this time last year.

OPERATING EXPENSES

In light of the pressing response needed in dealing with the economics of steep revenue losses, we announced in our April news release an agreement was reached with Winnipeg and Canstar employees to implement a temporary salary reduction of between 12% and 20% for staff depending on which pay grid they are on. In addition to these wage reductions, temporary layoffs and reduction of part time staffing hours were implemented as workloads permitted at each of our business units. The estimated monthly compensation savings from these changes to date is \$0.4 million. FPLP does anticipate being eligible for the federal government's employee wage subsidy program for each of the three 4-week periods starting March 16. We estimate each of the 4-week subsidy payments to be in the range of \$1.0 million. The previously announced merger of the Winnipeg defined benefit pension plan with the CAAT Pension Plan will lower FPLP's required pension funding by approximately \$2.1 million with \$0.8 million of this reduction generated from the company's use of its share of the excess assets calculated by CAAT to offset company contributions otherwise payable. The company's contributions to the CAAT pension plan will start in January 2021. The pension regulators in Manitoba and Ontario are still required to give formal approval prior to transferring the assets and liabilities to the CAAT plan. For 2020 we're estimating a similar level of support as we recorded in 2019 (\$1.1 million) from the federal government's Canadian Journalism Labour Tax credit.

Newsprint expense will be lower partly as a result of lower average newsprint prices and partly due to fewer pages printed resulting from the advertising revenue decline. Delivery costs will be lower as flyer volumes decrease. On-going efforts to reduce other expenses will continue in-light-of the anticipated print revenue declines. The in-house re-assumption of the Winnipeg Free Press editorial page layout and copy-editing function in January has allowed for the cancellation of an outsourced service contract which we estimate will save us \$0.4 million annually after factoring in new incremental in-house labour costs.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2020 was originally budgeted at \$0.3 million, however in-light-of the economic uncertainty due to the COVID-19 outbreak, capital spending will be limited to emergency capital items only.

Finance costs are forecasted to be lower by approximately \$0.3 million in 2020 primarily resulting from the combination of lower principal balances on our term debt and lower interest rates on our variable rate term loan. After the \$2.0 million principal repayment at the end of January our term loan principal stands at \$13.5 million.

Additional Information

Additional information including financial statements and management's discussion and analysis can be found on the Company's website at www.fpnewspapers.com and in the disclosure documents filed by FP Newspapers Inc. with the securities regulatory authorities available at www.sedar.com.

Caution Regarding Forward-looking Statements

Certain statements in this news release may constitute forward-looking statements within the meaning of applicable securities laws. All statements other than statements of historical fact are forward-looking statements. These statements include but are not limited to statements regarding management's intent, belief or current expectations with respect to market and general economic conditions, future costs and operating performance. Generally, but not always, forward-looking statements will be indicated by words such as "may", "will", "intend", "anticipate", "expect", "believe", "plan", "forecast", "is budgeting for" or similar terminology.

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of FPI or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws.

In addition, although the forward-looking statements contained in this news release are based upon assumptions that management of FPI and FPLP believe to be reasonable, such assumptions may prove to be incorrect.

Forward-looking statements speak only as of the date hereof and, except as required by law, FPI and FPLP assume no obligation to update or revise them to reflect new events or circumstances. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them.

About FPI

FPI owns securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"). FPLP owns the Winnipeg Free Press, the Brandon Sun, and their related businesses, as well as the Canstar Community News division, the publisher of six community newspapers in the Winnipeg region, The Carillon in Steinbach with its related commercial printing operations. The businesses employ approximately 364 full-time equivalent people in Winnipeg, Brandon, Steinbach, Manitoba.

Further information can be found at www.fpnewspapers.com and in disclosure documents filed by FP Newspapers Inc. with the securities regulatory authorities, available at www.sedar.com.

Non-IFRS financial measures

(1) EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's interim condensed consolidated statements of earnings, EBITDA is a useful supplemental measure as it is a measure used by many of FPLP's unitholders, creditors and analysts as a proxy for performance and the amount of cash generated by FPLP's operating activities. EBITDA is not a recognized measure of financial performance under IFRS. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of FPLP's performance. FPLP's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. FPLP's method of calculating EBITDA is detailed in the Management's Discussion and Analysis for the year ended December 31, 2019 on FPI's website www.fpnewspapers.com or on SEDAR at www.sedar.com.

For further information please contact:

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FP Newspapers Inc.**Statements of Income (Loss) and Comprehensive Income (Loss)**

(unaudited, in thousands of Canadian dollars except per share amounts)

	Three Months Ended December 30,		Twelve Months Ended December 30,	
	2019	2018	2019	2018
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	\$ 1,026	\$ 739	\$ 2,172	\$ 1,183
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	(3)	-	(3)	(3,112)
Administration expenses	(53)	(46)	(173)	(160)
Other income	-	1	4	4
Net income (loss) before income taxes	970	694	2,000	(2,085)
Current income tax (expense)	(8)	(134)	(188)	(226)
Deferred income tax (expense) recovery	(275)	-	(368)	346
Net income (loss) for the period	\$ 687	\$ 560	\$ 1,444	\$ (1,965)
Items that will not be reclassified to net income (loss):				
Equity interest of other comprehensive (loss) income from FP Canadian Newspapers Limited Partnership	(94)	(431)	(1,056)	326
Deferred income tax recovery (expense)	25	116	285	(89)
Comprehensive income (loss) for the period	\$ 618	\$ 245	\$ 673	\$ (1,728)
Weighted average number of Common Shares outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net income (loss) per share	\$ 0.100	\$ 0.081	\$ 0.209	\$ (0.285)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited, in thousands of Canadian dollars)

	Three Months Ended December 31,		Twelve months Ended December 31,	
	2019	2018	2019	2018
Revenue				
Print advertising	\$ 8,517	\$ 9,854	\$ 33,172	\$ 36,683
Circulation	6,168	6,169	24,509	24,347
Commercial printing	866	858	3,380	3,279
Digital advertising	533	636	2,227	2,155
Promotion and services	143	134	532	557
TOTAL REVENUE	\$ 16,227	\$ 17,651	63,820	\$ 67,021
Employee compensation	6,631	7,346	27,667	29,934
Newsprint and other paper	1,280	1,539	5,221	5,848
Delivery	2,843	3,049	11,140	12,254
Other	3,232	3,233	12,426	12,561
Depreciation and amortization	695	708	2,839	2,881
OPERATING INCOME BEFORE IMPAIRMENT, RESTRUCTURING AND PENSION CURTAILMENT GAIN	1,546	1,776	4,527	3,543
Impairment of goodwill and intangible assets	(6)	-	(6)	(6,350)
Restructuring charge	(118)	(28)	(198)	(139)
Pension curtailment gain	833	-	833	-
OPERATING INCOME (LOSS)	2,255	1,748	5,156	(2,946)
Other income	12	29	52	102
Finance costs	(179)	(269)	(781)	(1,091)
NET INCOME (LOSS) FOR THE PERIOD	\$ 2,088	\$ 1,508	\$ 4,427	\$ (3,935)
Items that will not be reclassified to net income (loss):				
Remeasurements for defined benefit pension plan	(191)	(880)	(2,155)	666
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ 1,897	\$ 628	\$ 2,272	\$ (3,269)