

# FINAL TRANSCRIPT

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## **MDP - Q2 2011 Meredith Corporation Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Joe Ceryanec**

*Meredith Corporation - VP & CFO*

**Tom Harty**

*Meredith Corporation - President, Meredith National Media Group*

**Paul Karpowicz**

*Meredith Corporation - President, Local Media Group*

**Stephen (Steve) Lacy**

*Meredith Corporation - Chairman, President & CEO*

## CONFERENCE CALL PARTICIPANTS

**William Bird**

*Lazard Capital - Analyst*

**Jared Schramm**

*Roth Capital Partners - Analyst*

**Jason Bazinet**

*Citigroup - Analyst*

**Michael Meltz**

*JPMorgan Securities Inc. - Analyst*

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**Edward Atorino**

*The Benchmark Company - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Meredith Corporation reports fiscal 2011 second quarter results. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. (Operator Instructions)As a reminder, this conference is being recorded. I would now like to turn the conference over to Mike Lovell. Please go ahead, sir.

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**Mike Lovell** - *Meredith Corporation - Director IR*

Good morning, and thanks everyone for joining us. We'll begin the call this morning with comments from our Chairman and Chief Executive Officer, Steve Lacy, and our Chief Financial Officer, Joe Ceryanec. Then we'll turn the call over to questions. Also on the line this morning are Paul Karpowicz, President of our Local Media Group, and Tom Harty, President of our National Media Group. An archive of today's discussion will be available later this afternoon on our Investor web site and the transcript will follow.



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Let me remind you that our remarks today include forward-looking statements and that actual results may differ from forecasts. Some of the reasons why are described at the end of our press release issued earlier this morning and in some of our SEC filings. With that, Steve will begin the presentation.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Thank you, Mike, and good morning, everyone. Once again, thank you for joining us. I'm pleased to report fiscal 2011 second quarter earnings per share of \$0.88, a record high for Meredith in the second fiscal quarter. A year ago, our earnings per share were \$0.49 before special items.

We also delivered record results for the fiscal first half with earnings per share of \$1.45, up over 75% compared to last year's first half. Our very strong second quarter performance was driven by total revenue growth of 9% across the Company along with continued strong expense management. These efforts produced an operating margin of 19%. Of particular note during the second quarter of fiscal '11, we delivered a 14% increase in total Company ad revenue, 30% growth in Local Media Group advertising revenue, including \$22 million in net political advertising.

We delivered 5% growth in National Media Group ad revenue, including more than 30% growth in digital revenue across our national web sites.

Meredith Integrated Marketing delivered 14% growth in revenue, led by expansion of digital and customer relationship management services for our national clients.

We achieved more than 35% growth in Brand Licensing revenue driven by continued expansion of Better Homes and Gardens branded products at Wal-Mart.

Finally, we continued our track record of very disciplined expense management as operating expenses declined 1%. Over a two-year period, we've lowered operating expenses by 9%.

Stepping back for a moment, I'd like to provide some perspective on calendar 2010 and the early calendar 2011 advertising environment. Total Company advertising revenues as measured over calendar 2010 grew 9% compared to the prior year, reflecting our aggressive efforts to drive revenue growth along with a broader industry rebound following what was a very difficult calendar 2009.

Political advertising in our Local Media Group accounted for about half of our growth as we delivered a record \$39 million in total net political ad revenue as measured over calendar 2010.

The other half of our revenue growth came from our core brands and businesses, including magazine, television, nonpolitical, and digital advertising all increased over calendar 2009.

While we delivered advertising growth across the board in calendar 2010, it wasn't sequential and we experienced significant marketplace volatility period to period.

For example, local nonpolitical advertising ranged from up 16% in the first calendar quarter to up 3% in the fourth. National Media Group advertising posted year-over-year growth in six months of calendar 2010 and declined in the other six months with its best month up 9% and its worst down 6%. We expect that period to period volatility to continue in calendar 2011 as well.

Persistent high unemployment, rising commodity prices, and a still uncertain national economic outlook make forecasting calendar 2011 advertising demand very difficult at this point in time. Industry data we've seen suggests calendar 2011 advertising

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is off to a slow start. Min Boxscore data for the women's service and lifestyle sector show a mid-single digit decline in ad pages in early calendar 2011. Additionally as I just mentioned, we faced difficult year-ago comparisons in the first quarter of calendar 2010, where last year the Local Media Group nonpolitical advertising was up 16%, and the National Media Group advertising was up 4%.

But as I have said many times in the past, we managed this business to produce sustained long-term growth. To that end, we're encouraged by the latest industry forecast which call for magazine, local television, and digital advertising growth as we look ahead over the next four-year time period. As many of you are aware, we have a proven track record here at Meredith of outperforming our industries over time as well.

As stated in our news release issued earlier this morning, we continue to expect fiscal 2011 full-year earnings per share to range from \$2.60 to \$2.80, which would represent an increase of between 15% and 25% over fiscal 2010 results.

Additionally, our ongoing commitment to develop new revenue sources continues to yield results, particularly in custom marketing and brand licensing. Demand for Meredith Integrated Marketing services is growing, fueled by our very competitive combination of direct marketing and digital capabilities, and we continue to be very pleased with the enthusiastic consumer response to our branded products at retail.

Finally, our connection to the consumer which is really the bedrock of our advertising and marketing activities continues to grow as we add new platforms. Ensuring our brands are relevant to consumers as we look to the future in a fragmented media landscape is a top priority.

Now let's take a closer look at our two major business operations beginning with our Local Media Group.

Fiscal 2011 second quarter operating profit more than doubled, due primarily to 30% growth in television spot advertising revenues. Our Local Media Group EBITDA margin was 46%, as all 12 of our television stations grew revenue over the prior year period.

Political ad revenues were \$22 million in the quarter led by strong spending particularly at our stations in Hartford, Las Vegas, Portland, and Kansas City. For the political season, which includes the July through November time frame, our stations delivered 50% growth in political advertising when compared to the last election cycle. This is due in part to our efforts to increase political advertising market share, particularly at our Fox affiliates such as Portland and Las Vegas.

Nonpolitical advertising revenues grew 3% in the quarter reflecting some crowding out by the very strong political season. Nine of our top ten ad categories grew including automotive, professional services, and the retail categories. Automotive advertising was up nearly 20%, its fourth straight quarter of double digit growth.

Another factor in our success is our continued strong connection to the local consumer. During the most recent November ratings period, our CBS affiliates had very strong books. In Hartford and Kansas City, we were number one sign on to sign off. In Phoenix and Saginaw, we were number two sign on to sign off. And additionally, Atlanta finished number two in the all important, late news time period. Our NBC affiliate in Nashville was also number two sign on to sign off. And finally, our Fox affiliates continue to perform very well. In Las Vegas, our station was number one in both morning and late news. In Portland, we were number one in late news as well. This type of news performance clearly enhances our efforts to capture political advertising.

Revenues grew at Meredith Video Studios during the quarter led by growth from the Better Daily syndicated television show and custom video production for our corporate clients. The Better show increased its carriage to more than 80 markets reaching nearly 60% of the US television household.



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Early last week, we announced a new joint services agreement with the Turner Broadcasting System in the fast-growing Atlanta marketplace. Specifically, our CBS Atlanta station, WGCL, will manage the day-to-day operations of Turner's Peachtree TV, WPCH. The joint services agreement covers functions including advertising sales, marketing and promotions, and technical operations and takes effect later in our third fiscal quarter.

This strategic partnership provides us greater access to a larger share of the growing Atlanta advertising marketplace due to Peachtree's younger viewership, strong lineup of sports programming, and increased inventory in both access and prime time day parts. It clearly raises our profile in Atlanta, the number eight television market in the country.

Now turning to our National Media Group. Fiscal 2011 second quarter advertising revenues grew 5% to \$123 million at the higher end of our earlier expectations. Net advertising revenue per magazine page increased as well.

From an advertising category standpoint, revenue growth was led by prescription and nonprescription drugs, household supplies, and the media and entertainment categories.

Our National Media Group's share of magazine industry advertising was 11.1% during our second fiscal quarter, according to the most recent data available from Publishers Information Bureau. That's up nearly two full percentage points from our second quarter two years ago.

Online advertising revenues grew more than 30%, driven by the parenthood, retail, and consumer packaged goods categories. This included multi-platform advertising programs for clients such as Kraft, Campbell's, and Wal-Mart. Our online success is due to very strong growth in consumer traffic, which I'll detail in just a moment.

We continue to expand our 360 degree marketing approach in the second quarter. Examples include an expanded relationship with Elizabeth Arden through a new integrative program called True Beauty Secrets. The campaign utilizes strategic blogger relationships and a mix of traditional and social media to generate excitement and dialogue around their skin care franchise. With innovative advertorials, expert tips, and video segments, the True Beauty Secrets campaign will reach millions of beauty enthusiasts through social media, print, and the video platforms.

To promote the launch of the new StriVectin-SD formula, we tapped into our social media agency new media strategies to help drive consumers to sign up for special offers and incentives. The program also includes custom video content from Meredith Video Studios, a social outreach via Facebook, Twitter, and YouTube promotions as well, digital advertising on Meredith Women's Network and a sponsorship at More's Reinvention Convention.

Beyond advertising, we continued to strengthen our connection to the consumer at the national level during the second quarter as well, as evidenced by a 2% gain in readership for our measured magazines according to the fall 2010 data from Media Mark Research and Intelligence.

Our national media web sites delivered nearly 20 million monthly unique visitors and 300 million monthly page views. We set several daily and monthly traffic records in the quarter as part of our annual 100 Day of Holiday promotion. BHG.com alone reached a record eight million unique visitors and 200 million page views during the quarter.

Additionally, we completed the acquisition of Real Girls Media which we expect will add more than four million monthly unique visitors to the Meredith Women's Network as we move into the third quarter.

During the second quarter, we launched the Better Homes and Gardens, Celebrate the Holidays iPad app, and it was named to Apple's Hot Trends 2010 list. This spring, we will launch full interactive tablet editions for Better Homes and Gardens, Parents, and the Fitness brand.



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Additionally, demand continues to grow for our mobile-related sites that were launched about six months ago, once again for Better Homes and Gardens, Parents, and the Fitness brand. Monthly unique visits and page views to these sites from mobile devices now account for about 5% of our total digital traffic.

Our branded presence at retail continues to grow led by continued expansion of the Better Homes and Gardens branded line of home products sold at Wal-Mart. The program now includes approximately 2,500 SKUs, up from about 1,500 a year ago in the quarter.

Also during the second quarter, we launched Better Homes and Gardens magazine in Russia under a license agreement.

Turning now to Meredith Integrated Marketing, operating profit increased more than 20% on revenue growth of about 14%. Results were driven in large part by expanded relationships with major existing clients. For example, we continued to expand our relationship with Chrysler, a client that utilizes many of our marketing capabilities including integrated direct marketing, data management, and social media. Our assignment for Chrysler covers the United States and Canada and encompasses the full life cycle of vehicle ownership from prospect management and [owner] welcome to ongoing owner communication across sales and service.

We also grew our assignment with Lowe's, a home improvement retailer. We now publish all of Lowe's custom magazine programs and continue to develop digital content for Lowe's creative ideas web operation.

Finally, we increased our relationships with Mitsubishi in support of its acquisition and retention efforts for new owners across both direct and digital marketing disciplines.

These gains reflect Meredith Integrated Marketing's cross-platform approach that incorporates content development, CRMs, digital, and social capabilities. Program and revenue growth is expected to continue for Meredith Integrated Marketing in early calendar 2011 as well.

To summarize our National Media Group discussion this morning, while the advertising environment remains volatile, we're encouraged by our ability to develop and grow our consumer connection and deliver the messages of our advertising and marketing clients across multiple platforms. We continue to develop businesses that are not dependent on traditional advertising and are aggressively managing our costs.

Now, I'll turn the discussion over to Joe Ceryanec, our Chief Financial Officer, for a financial update and our outlook.

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**Joe Ceryanec** - *Meredith Corporation - VP & CFO*

Thanks, Stephen, and good morning.

As Steve mentioned, earnings per share were up sharply due to our ability to grow revenues 9% while keeping our operating expenses in check. Company-wide, total operating expenses decreased 1% in our second fiscal quarter of 2011, or up 1% excluding the prior year's special items. Over a two-year time frame, operating expenses are down 9%, or 6% excluding prior year's special items.

We generated \$85 million in cash flow from operations and reduced our debt to \$245 million from June 30, resulting in a debt to EBITDA ratio of less than one times at December 31.

Over the first half of our fiscal year, total revenues grew 6% to \$711 million, and ad revenues grew 11% to \$420 million, which included record political advertising of \$34 million. Operating expenses over this period were about flat leading to an improvement

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in our operating margins of more than six hundred basis points from the first half of fiscal 2010 and 77% growth in earnings per share when compared to the year-ago period.

We continue to aggressively manage our cash and expenses, and we are in a very good position to capitalize on opportunities as they arise. During the first half of fiscal 2011, we invested approximately \$30 million in acquisitions which included The Hyperfactory and Real Girls Media, as well as the final contingent payment for New Media Strategies.

As we look at our priorities for cash, our first priority is to deploy capital to grow the business, and we have an aggressive corporate development function that continues to be focused on adding media and marketing assets to Meredith.

In addition to our development activity, we plan to discuss other options for use of our cash with our Board later this week during our annual strategic retreat.

If you look back at the last ten years, we've reinvested about half of the cash we've generated from operations into growing the business and returned the balance, or the other half, to shareholders through dividends and share repurchases. We expect to continue that same balanced mix in the future.

Now turning to our outlook.

As Steve mentioned, as we look to the remainder of fiscal 2011, we have limited visibility into our customers 2011 ad and marketing budgets. We continue to expect fiscal 2011 full-year earnings per share to range from \$2.60 to \$2.80, which range we increased earlier this month. This represents a growth of 15% to 25% over fiscal 2010.

For the third quarter of fiscal 2011, we'll be cycling against our strongest quarterly ad performance in the prior year for both the National Media Group, when it was up 4%, and Local Media Group, when nonpolitical advertising was up 16%.

National Media Group advertising remains volatile on an issue-by-issue basis across brands and categories. After a mid-single digit increase in the second quarter of fiscal 2011 with two of three magazine issues closed, third quarter advertising revenues are currently down in the mid-single digits compared to the prior year period.

Local Media Group nonpolitical advertising pacsings are also volatile on a week-to-week basis across markets and categories. After a low single digit increase in the second quarter of fiscal '11 with nine weeks remaining in the quarter, third quarter pacings are currently up in the high single digits compared to the prior year period. As a result, we expect fiscal 2011 third quarter earnings to range from \$0.60 to \$0.65.

To conclude our prepared remarks, we have a lot of work ahead of us to regain and surpass our performance that was achieved prior to the recession. However, we've made strong progress in the first half of fiscal 2011 with our record earnings and share performance, and we're committed to building shareholder value over time.

So with that, we'd be happy to open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) William Bird, your line is open.

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**William Bird** - Lazard Capital - Analyst

Thanks. Steve, I was wondering if you could just talk a little bit about some of the trends you're seeing in circulation volume and pricing. And just how you see things developing?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Sure, Bill. Thank you very much. I guess what I would say about circulation is a broad statement that it's very stable at this point in time. I'll ask Tom Harty to give a little bit more color in just a second. This is one of the areas that we've been most pleased with throughout the economic downturn. That response that we see to our direct mail and digital subscription efforts are very solid. Pay-up rates are up, and the rate bases are really quite strong. The difference in revenue that we see is primarily due to the decision we made about a year ago to tighten up significantly the special interest media business, and that has paid off very well because profit there is really up sharply compared to the prior year. So pricing to the individual consumer is stable, and volumes are stable as well. Tom, I don't know if you'd like to add anything to that -- those comments -- because you are a bit closer to the surf than I am.

**Tom Harty** - Meredith Corporation - President, Meredith National Media Group

I think to Steve's point, consumer demand is very stable and actually has been increasing through the recession. On the special interest media side, we did take down our portfolio. In fiscal 2010, we had about 175 releases, and fiscal 2011, we will have about 115. Again, that will take overall revenue down but will significantly increase profits.

**William Bird** - Lazard Capital - Analyst

So as we look at the circulation revenues down 4% and change in the December quarter, and you roll up all of the effects of the puts and takes you mentioned, what kind of a trend would you likely see in the March quarter?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

In both the third and the fourth quarter, we're going to see an acceleration of the reduction in the special interest media because that's really where it starts to hit from a top line perspective, Bill. And I think we've modeled revenue to be down more like in the 7% or 8% range rather than the 4% range, but we feel pretty confident, and obviously, this depends on what the consumer buys at retail for spring spruce-up and gardening and all of those things that happen. We feel pretty confident though, that we'll continue to deliver improved profit from those activities. So we had some impact in the first half of the year, but the bigger impact on revenue is really in the second half of fiscal 2011. Then we'll be back to a more normalized environment when we start fiscal 2012 in July.

**Operator**

Next question comes from Jared Schramm. Your line is open.

**Jared Schramm** - Roth Capital Partners - Analyst

Good morning. This is Jared Schramm in for Rich Ingrassia.

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**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Hi, Jared.

**Jared Schramm** - Roth Capital Partners - Analyst

Could you go more in depth on what download volume has been like on the digital apps? What titles do you have in queue to be released next?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

So you're back to what we talked about -- the Celebrate the Holidays app. Is that your question?

**Jared Schramm** - Roth Capital Partners - Analyst

Just in general. Kind of an overview of the digital apps space you are experiencing.

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Yes. I think we have had pretty good results. Tom, do you recall how many downloads we've had on --?

**Tom Harty** - Meredith Corporation - President, Meredith National Media Group

Yes. We've had approximately 10,000 downloads of the Celebrate the Holiday app at \$3.99 during the holiday season. We're going to be launching, as Steve mentioned, his comments, Better Homes, Fitness, and Parents in the May -- April-May timeframe.

**Jared Schramm** - Roth Capital Partners - Analyst

Could you provide more color on the environment in paper prices you are currently experiencing? Do you expect the prices to normalize here in calendar 2011? Or do you believe prices will continue to tick upwards throughout the next 12 months?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

I'll ask Joe Ceryanec to give you some of the data on what's going on with paper right now.

**Joe Ceryanec** - Meredith Corporation - VP & CFO

Jared, we -- if you listened to our prior calls, we had seen paper prices come down during our fiscal 2010, and really kind of bottomed out last summer. We started experiencing some increases as we moved into our fiscal 2011, in the 2% to 4%. As you may or may not know, we renegotiate those prices every January 1. We basically lock into a one-year contract -- or one-year contracts with our paper suppliers that have quarterly market adjustments. So we expect as we move into calendar 2011 for those prices to return a little more stable as we have renegotiated to flat to maybe up low single digits.

**Jared Schramm** - Roth Capital Partners - Analyst

Okay. Thank you very much.

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**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Thanks, Jared.

**Operator**

Next question comes from Jason Bazinet.

**Jason Bazinet** - Citigroup - Analyst

Thanks. I just have a question for Mr. Lacy -- .

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Good morning, Jason.

**Jason Bazinet** - Citigroup - Analyst

Good morning, how are you? I just have a question about Vision 2013. I think nominally the gap between peak earnings and maybe trough earnings is roughly \$1.30 or something like that, roughly. As you think about the potential to get back to peak earnings by 2013, qualitatively how much of that is predicated on a favorable macro backdrop replicating 2007? And how much is driven by the other five elements that you have initiated -- or talked about in the past? Regarding, optimizing the core business and pushing digital and extending your key brands and expanding Meredith Integrated Marketing?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

So I think you're spot on with your question, and your data is exactly right. The peak earnings were \$3.31, and the trough was like \$2.03. So assuming that we finalize the year within the range that we have suggested, we're sort of halfway back to the peak period as we finish fiscal 2011 under the guidance that's there. And I would say Jason, that about half of that growth is really coming from recovery in the core businesses that we have operated for a number of years, and the other half comes from three or four different areas.

A very aggressive move on the top line from a digital perspective, really across the two major core businesses. The strong growth that we're experiencing at Meredith Integrated Marketing, and actually about half of that strong growth is related to the core and the other half from the businesses that we've acquired. Then the third leg of that stool is really the very tremendous success of our branded program at retail with Walmart. And so that's the way we're modeling it going forward, and absent some major decline in the environment or the advertising marketplace, I'm pleased that we're halfway back to the peak.

**Jason Bazinet** - Citigroup - Analyst

So the splits you gave are trough to peak? Or those are prospective? Or those are from trough to where you are now?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Those would be trough to peak.



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**Jason Bazinet** - Citigroup - Analyst

Okay. Got it. Thank you very much.

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Thanks, Jason.

**Operator**

Our next question comes from Michael Meltz. Please go ahead.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Hello there. I think I have three questions for you. Can you just clarify for us the third quarter outlook and what you said about National Media. Is that number -- the mid-single digits? Is that the first two issues of the quarter are down that? Or you're saying the first two plus whatever you've sold at the third? Then I have two follow-ups.

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

No, we're saying exactly the way it's written, the first two issues. Because we've been experiencing so much volatility that we want to be very, very precise and not predictive, if you will. Same thing about the Local Media. What's in there is basically, Michael, where we were pacing last Friday when we pulled the paces and put the final numbers in the release. Because it will be up 15 points in a week and down 25 the next, and so we are giving you exactly where we are at this point in time.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Right. But isn't the television -- it's just more clarifications? The television paces would include what you have sold into March, but the magazine number is the two issues. It doesn't include March, right?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

That's correct.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Okay. So you've exhibited some nice net yield improvement in recent quarters. Where do you think you are in that process? Are we close to that cycling? Or is there still -- is the expectation that there is still a nice benefit in terms of per page ad revenues? Per page pricing.

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

I'm pretty sure when everything is finished, at least looking on the data for the first couple issues, that we're continuing to pick up a little bit of share and a little bit on price. Tom, why don't you speak to the nets and how you feel about them at this point in time?



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**Tom Harty** - Meredith Corporation - President, Meredith National Media Group

The nets for the first half of the fiscal are up in the mid- to-single digit range, and we're seeing that continue into the first two issues of the fiscal third quarter which is very nice. Considering the two prior fiscal years, we were actually down during the recession in rates. So we see that trend to continue for the balance of the fiscal year.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Okay. And then on the television pacings, excuse me, you actually have a Super Bowl comp. That seems like a good number to me given the Super Bowl comp and Olympics. Can you talk about -- I guess it's early, but how are the months looking? How is March looking?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Paul, do you want to speak to the phenomena of the major events that are in and out of the time period?

**Paul Karpowicz** - Meredith Corporation - President, Local Media Group

Yes. We had a scenario last year where we had the Super Bowl on the CBS stations where we obviously did well. We've got the Super Bowl this year on the Fox stations. We don't have as many Fox stations, but nonetheless, it's still looking very, very strong. Generally, the Super Bowl in any given market represents about one pace point in the quarter. If you've got the Super Bowl versus not.

The real story for us continues to be the strength of automotive, and the fact that automotive is continuing to drive our growth in the quarter which is very positive. One of the anecdotes I've been telling is that last year in the national broadcast of the Super Bowl, there were two automotive spots. This year, from what I understand, there are 22 automotive spots in the national broadcast which is just a reflection of the strength of automotive and the new brands and models and so forth. So it's really what continues to drive our growth in the quarter.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Okay. Then one last one for you. Joe, what's the outlook on cost expectations? You've had very strong cost control in the first half, and is the expectation modest growth going forward? Or how should we think about that?

**Joe Ceryanec** - Meredith Corporation - VP & CFO

Michael, I think for the year -- and I think our theme has been pretty consistent as we moved through the year. Let me speak to Q3. I think for Q3, we'll be flat to up slightly. By up slightly, I mean less than 1%. We expect National Media to hold its own. But as we look at corporate, the spending on the next issue media in e-tablet development has rolled out a little slower than we thought. So we expect corporate may pick up a little bit in Q3. So overall, maybe somewhere between flat to up 1%. I think as we look at the rest of the year, however, we expect the year to be about flat.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Okay. You know what? That's fine. And then, let me just tack on one more. Within the tablets and the digital strategy? Tom, is there -- where are you now on a subscription model? How should we be thinking about that?

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**Tom Hartly** - Meredith Corporation - President, Meredith National Media Group

We currently -- we're in discussions with Apple. But our planned launch for our three big brands on the iPad currently will not have subscription offerings. We continue those discussions and hope to resolve that. On the next issue media platform, we will be launching when they launch their store front later this spring, and we will have subscription options in that platform.

**Michael Meltz** - JPMorgan Securities Inc. - Analyst

Okay. Thank you for your time.

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Thanks, Michael.

**Operator**

Edward Atorino, your line is open.

**Edward Atorino** - The Benchmark Company - Analyst

Hello. Good morning. I've got a couple of questions. One, particularly marketing seems to be kicking into -- I don't know if it is high gear but good gear. Is the growth in those programs -- is part of it catch-up from the dramatic cutbacks of say a year ago? Or is it all new business?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

In this particular period, Ed, it is mostly expansion of existing client relationships as opposed to a completely new account. Obviously, that's one of the most important reasons to have these major, cornerstone client relationships because there's much more opportunity to help those clients solve problems and sell in additional services. And as I mentioned -- the case of Chrysler, the case of Lowe's -- it's primarily additional Meredith services going into relationships that were already in place when the year began.

**Edward Atorino** - The Benchmark Company - Analyst

On the digital ad agencies, digital slowed a little, and then it has come back. Are you seeing that type of improvement in the digital ad agencies?

**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

The answer to that is yes, but interestingly enough, our core, our original CRM activities, the traditional, if you will, Meredith Integrated Marketing had a very, very strong first half as well. So those tried-and-true direct outreach methodologies continue to be very, very well received by our clients. I think one of the interest things about Meredith Integrated Marketing where we went from an advertising perspective with about ten difficult quarters in a row.

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**Edward Atorino** - *The Benchmark Company - Analyst*

Right.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Meredith Integrated Marketing had two difficult quarters before it returned to growth.

**Edward Atorino** - *The Benchmark Company - Analyst*

Yes.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

That's kind of an interesting factoid.

**Edward Atorino** - *The Benchmark Company - Analyst*

On the licensing, the SKUs are up. Did -- they lagged the revenues, right? We should see continued expansion and revenues in line with expansion in the product line, correct?

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

The answer to that is yes. We always move now into the kind of interesting spring timeframe where we have a tremendous presence in the garden center, which will even be broader this year. Of course, the real question is how soon does spring come? Not soon enough for many of us, but we're going to have a much expanded presence in garden in the spring of 2011 as well.

**Edward Atorino** - *The Benchmark Company - Analyst*

Now the -- I think in your last presentation or one of the last presentations, you had a forecast -- or maybe it was an actual number, \$35 million in licensing. Would you care to make a forecast for the next 12 months?

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Well, I would be pretty confident that that number will increase by -- what percent I'm not sure. But I would be surprised if it didn't continue to be a mid-single digit growth based on everything I can see at this point in time.

**Edward Atorino** - *The Benchmark Company - Analyst*

How are the non-Walmart deals going?

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Well, let me kind of go through them one to another. We have an international licensing operation that I think you're aware of, and it's up almost -- about 10% full year. We have a very nice but small relationship that I think you're aware of with a real estate partner, Realogy, that has launched right into the face of a really tough marketplace, a Better Homes and Gardens program at

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retail. That is up as well although off a small base. Probably, the brightest spot is our new arrangement with FTD Florist under the Better Homes and Gardens brand. And that's up almost 50%, but once again, it's off a small base because it has been in existence now for just a touch less than a full year.

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**Edward Atorino** - *The Benchmark Company - Analyst*

Anyway, thanks much. Fantastic job.

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**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Thank you, Ed.

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**Operator**

Our next question comes from Michael Corty. Your line is open.

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**Michael Corty** - *Morningstar - Analyst*

Good morning. One of my questions have been answered.

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**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Okay. What can we help you with?

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**Michael Corty** - *Morningstar - Analyst*

I had a question on the Integrated Marketing business. Revenue up 14% after up 7% in the first quarter. Is there any acquisition growth in that 14% revenue increase?

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**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Not in this particular time period. It would be pretty square period over period. Very small amount related to The Hyperfactory but it would not -- which was our mobile acquisition right in the beginning of the fiscal, but it would not have a material impact on those results.

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**Michael Corty** - *Morningstar - Analyst*

Okay. And this seems to be an area of growth for Meredith. Can you reiterate what your expectations for long-term revenue growth are in this business maybe over the next three to four years?

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**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

It's interesting. This is always a time of the year where we look at a lot of industry projections for all sorts of spending by platform, and most of the ones that we have seen that would relate to what I'll call the broader marketing services arena would think that it would be certainly a low double digit top line growth over the next several years from an industry perspective. We have pretty

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good footprint into most of the areas where that opportunity comes to pass and obviously looking to continue to build out that portfolio as well. Those are the growth rates that I have seen, looking out over, let's say, the next three-to-five-year timeframe.

**Michael Corty** - *Morningstar - Analyst*

Okay. That's great. Thank you.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Thank you.

**Operator**

Next question comes from Barry Lucas. Please go ahead.

**Barry Lucas** - *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

Thank you, and good morning.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Hello, Barry.

**Joe Ceryanec** - *Meredith Corporation - VP & CFO*

Hello, Barry.

**Barry Lucas** - *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

One quickie on the Better Show with reach around 60%, what does that have to do -- how far do you have to go in terms of markets to maybe make that material where we could see some real payback on the show?

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

Paul, do you want to take that one in terms of where we are with syndication of the show?

**Paul Karpowicz** - *Meredith Corporation - President, Local Media Group*

Sure. I'm actually at the NATPE programming convention right now in Miami. We picked up four additional markets yesterday. To answer your question, Barry, really New York is the key for the show. That if we can clear New York, that takes us really to the next level. At that point, the potential and the value of the barter becomes much more significant. So we are very, very close. Probably New York plus an additional random 5% would take us to the Promised Land as it were.

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**Barry Lucas** - *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

Very helpful. Thank you.

**Stephen (Steve) Lacy** - *Meredith Corporation - Chairman, President & CEO*

So I'm excited for the Promised Land, Barry.

**Joe Ceryanec** - *Meredith Corporation - VP & CFO*

We all are.

**Barry Lucas** - *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

Hallelujah. Claims on cash, Joe. If I look at the CapEx and maybe any other contingent payments, what would the outflow this year look like? I've got a little follow-up.

**Joe Ceryanec** - *Meredith Corporation - VP & CFO*

Let me pull the cash flow, Barry. I think for the first six months, investing activities were about \$30 million. And that was really the final payment on the New Media Strategies as well as some Hyperfactory and some Real Girls Media. So I think the number was actually \$29 million. There's not much left in the year as we kind of look at the year. That number's probably going to be about \$35 million.

CapEx, we guided at the beginning of the year. We said \$35 million. Our normal run rate tends to be about \$25 million, but we're moving the two New York facilities into a new facility. So we expect as we move into 2011, that construction activity will take place. So, I'm still saying \$35 million. We may be a little bit south of that, but that's what's in our forecast right now.

Things like dividends are pretty easy to model. That runs around \$10 million, \$10.5 million a quarter. As we mentioned, we have got our Board retreat next week, so out the other side of that, we'll talk about what we're doing with dividends.

So we don't see anything out of the ordinary. And if you take the first half of the year on the CapEx side, pick that up a little bit. Not a whole lot more on the acquisition side. At least, what we've announced to date. That's not to say that John doesn't have other things he's looking at. But, no big one-time unusual items if you look at our history.

**Barry Lucas** - *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

That's helpful, Joe. So let me throw something out to see if this winds up on the table at the board meeting. When you think about -- by my numbers -- something around, call it \$200 million of net debt maybe a little less, maybe a little more at the end of the year. So you look at the capital structure and a business that is largely mature outside the digital arena. How do you think about not just the uses of cash but the capital structure? Would you consider some financial engineering? Whether it's using the balance sheet to buy back stock? Or we've had a couple of corporate split-ups announced -- Fortune brands, ITT Industries. Would you think about maybe separating the local and national businesses? Anything along those lines in terms of discussions would be helpful.

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**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Well, let me give you just a couple thoughts on that, Barry, and you can imagine how many black decks I've seen over the years of doing some different sorts of financial engineering. I think one of the challenges is that the businesses have become so much more interrelated than they once were. Paul runs a business called Meredith Video Studios because he's got all of the studio capability and the talent. But it actually utilizes the brands that are under Paul's stewardship.

You heard me talk about the Meredith 360 sales programs that really go to the corporate clients that we serve at the National Media level. But in almost every case, you'll hear about custom video production from Meredith Video Studios. You'll hear about activities that come out of the digital agencies we've acquired. You have heard New Media Strategies mentioned several times because oftentimes these programs have a social media component to them. And I think if you actually looked at the numbers having two pretty darn small public companies to deal with would be maybe not the best use of our time and effort.

Back again to the balance sheet, we are obviously very, very aware, and as you're aware having followed up from many years when we saw the economic downturn, we went aggressively to squeezing the balance sheet and paying debt down. Because I've been at this now for a dozen years. After we came through the first downturn where I was involved, we got the opportunity to extract American Baby out of the PRIMEDIA assets which has been an exceedingly successful deal for us. Followed as you're well aware with the Gruner & Jahr assets that came really after the whole 9-11 downturn in the marketplace.

So we are very optimistic that while continuing to properly return cash to the shareholders that we've got some great potential to add to actually the National Media level through some digital and maybe offline brands that are good brands but may be part of not very healthy portfolios. Some digital properties like Real Girls Media that allow us -- that's about a 25% bulk-up in our traffic and unique visitors that allows Tom to sell against, and some opportunities in Meredith Integrated Marketing. The recent Peachtree deal that Paul executed in Atlanta, I think is going to be something downstream we are going to be very pleased with. A number of the banker friends that call on us believe there could be quite a few television properties that come to the marketplace over the next 18 to 24 months. So we want to be careful about our opportunities there as well.

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**Joe Ceryanec** - Meredith Corporation - VP & CFO

Yes, and Barry, let me just pile on. I think as Steve said and our history is we've maintained a conservative capital structure, and I think we'll continue to do so. With that said, and in my earlier comments, historically we've balanced reinvesting in the business through acquisitions and CapEx and dividends and share repurchases. As I look at this year we're in, and a little bit through the cash flow comment. If we do \$30 million to \$35 million in acquisition payments this year, and we hit the budget for CapEx, we'll be at \$65 million to \$70 million between those two amounts reinvesting in the business. Our dividends, even at our current run rate, are about \$40 million -- low \$40 millions -- as public information we got at 1.1 million shares remaining under prior share repurchase programs. And if you just said we were to utilize those shares, that's about \$35 million. So \$40 million in dividends, \$35 million using our current capacity on buybacks. That's \$75 million. So it would be pretty easy to keep that kind of 50-50 split between reinvestment and return to shareholder even in this fiscal year. So we'll be talking to the Board, but I would expect that we'll be in that position as we look at the rest of 2011.

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**Barry Lucas** - GAMCO Investors, Inc./Gabelli & Co. - Analyst

Thanks very much, Joe.

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**Stephen (Steve) Lacy** - Meredith Corporation - Chairman, President & CEO

Thanks, Barry.

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**Operator**

(Operator Instructions) (inaudible), your line is open.

**Unidentified Speaker**

Yes. On the publishing side, we have a very late Easter this year. Does that enter into any marketing programs on some of your advertisers?

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

I don't believe that that would have any impact. Tom, do you think that a late Easter would have any impact on the advertising marketplace from your perspective?

**Tom Harty - Meredith Corporation - President, Meredith National Media Group**

I don't think so. Not from my perspective, no.

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

What about you, Paul, on the local side?

**Paul Karpowicz - Meredith Corporation - President, Local Media Group**

No. I really don't think it will make a difference.

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

Okay.

**Unidentified Speaker**

Secondly, there were rumors or commentary that you were interested in Elle Magazine. Was there any substance to that?

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

To the best of our knowledge, Hachette is into a period of time here in an exclusive negotiating relationship with Hearst, and I think we'll see how that plays out over time.

**Unidentified Speaker**

Thank you.

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

Thank you.

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**Operator**

And there are no more questions from the panel.

**Stephen (Steve) Lacy - Meredith Corporation - Chairman, President & CEO**

Okay. All right. Thank you all for participating today. We appreciate your interest and ongoing support. And we'll get back to work, obviously focused on revenue and profit growth. Thank you very much.

**Operator**

Ladies and gentlemen, this conference will be available for replay starting at 1.00 PM Eastern today through February 8 at midnight. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code 188378. Again, the number is 1-800-475-6701 and access code 188378. That does conclude our conference for today. We thank you for your participation and for using AT&T executive teleconference service. You may now disconnect.

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