

# FINAL TRANSCRIPT

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## MDP - Q1 2012 Meredith Corp Earnings Conference Call

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*Meredith Corp - Chairman, President & CEO*

**Joe Ceryanec**

*Meredith Corp - VP & CFO*

**Tom Harty**

*Meredith Corp - President, Meredith National Media Group*

**Paul Karpowicz**

*Meredith Corp - President, Local Media Group*

## CONFERENCE CALL PARTICIPANTS

**Mark Zgutowicz**

*Piper Jaffray - Analyst*

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**Michael Meltz**

*JPMorgan Securities Inc. - Analyst*

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*Deutsche Bank - Analyst*

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Meredith Corporation reports fiscal 2012 first quarter conference call. 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, today's conference is being recorded. I would now like to turn the conference over to our host, Director of Investor Relations, Mike Lovell. Please go ahead.

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**Mike Lovell** - *Meredith Corp - Director IR*

Hi. Good morning and thanks, everyone, for joining us extra early today. We will begin the call this morning with comments from Chairman and Chief Executive Officer, Steve Lacy, and Chief Financial Officer, Joe Ceryanec, and then we will turn the call

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over to questions. Also on the line this morning is 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 website and the transcript will follow. Let me remind you that our remarks today include forward-looking statements and that actual results may differ from our forecasts. Some of the reasons why are described at the end of our news release issued a couple hours ago and in some of our SEC filings. With that, Steve will begin.

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Thank you very much, Mike, and good morning, everyone. I hope by now you've had a chance to review our first quarter fiscal 2012 earnings release and the press release announcing our new financial strategy and significant dividend increase. We've also posted a brief presentation to the investor relations section of our website that gives more detail on our new financial strategy as well as our thinking and the philosophy behind it.

This new policy is a clear reflection of our confidence in the enduring strength of our brands, our robust business model and the sustainability of our future cash flow. It also reaffirms our strong commitment to providing tangible shareholder value by returning significantly more cash to our shareholders while also maintaining the ability to make strategic investments in our business.

To recap the highlights of this policy, last night we announced a 50% increase in our dividend to \$1.53 per share on an annualized bases. At its new rate, the dividend delivers a 6.1% yield and a payout ratio of approximately 55%. This places Meredith's yield at the top of our SEC peer group and in the top 2% of all companies in the S&P 500.

We also authorized a new \$100 million share repurchase program representing approximately 10% of our market cap.

Both of these actions reflect the confidence we have in Meredith's financial strength and in our continuing ability to generate substantial cash flow. It also demonstrates our commitment to prudent capital stewardship and to Total Shareholder Return.

The business model we built at Meredith generates very strong cash flow. Even in difficult economic times our record is quite impressive. We generated \$157 million in free cash flow during our fiscal 2009, \$167 million in fiscal 2010 and \$185 million in our most recently completed year, fiscal 2011. In fact, over the last 10 years we've generated about \$2 billion in cash.

In recent years, we felt that the most responsible use of our cash was maintaining our historical track record of growing our dividend annually while also paying down debt. This was driven by a very difficult and uncertain economy and the desire for flexibility to add to our portfolio strategically as opportunities became available.

Today we are in a much stronger position. We have strengthened our balance sheet by paying down \$250 million of our debt since fiscal 2008 and executed a series of strategic acquisitions along the way.

Our new financial strategy is the result of a thoughtful and structured assessment. We have pressure tested these changes under multiple theoretical scenarios and have reached the following conclusions.

First, that a meaningful increase in our dividend is possible and can be sustained and grown over time through our very strong free cash flow.

Second, a significant new buyback authorization, representing approximately 10% of our current float, would give us the flexibility to make opportunistic share repurchases.

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And, third, that we could fund the dividend increase, the share buyback and maintain our ability to reinvest in our businesses and pursue strategic acquisitions.

Over the last 6 months we have demonstrated our ability and willingness to execute strategic acquisitions and invest in the longer-term growth of our business. As examples -

We recently agreed to acquire the popular Every Day with Rachael Ray magazine and its related digital assets. We launched the multi-channel food brand recipe.com and acquired the EatingWell media group. These moves are all part of a strategic initiative to increase our reach and share of the food category across media platforms.

In addition, we invested in the global marketing company, Iris Worldwide, that will allow marketing services arm to better compete for contracts that have international components. We also re-branded this business, Meredith Xcelerated Marketing, to reflect the many capabilities that we have developed over the last 5 years in digital, database, social and mobile media.

We also renewed and expanded our major Better Homes & Gardens brand licensing program with Wal-Mart stores across the country. The new agreement announced just last week extends the program through our fiscal 2016.

We recently launched tablet editions of our popular brands across a variety of digital platforms and introduced a number of new mobile apps.

We began operating Turner Broadcasting's Peachtree TV station, significantly increasing our market share in the growing Atlanta market.

We also built a new studio for our Better syndicated television show that began airing this fall in New York City, the nation's largest market.

These steps, in conjunction with our new financial strategy, represents strategic and tangible actions we're taking to strengthen the performance of our businesses and increased shareholder value. We remain confident and committed to strong cash flow generation over time into a balanced Total Shareholder Return agenda.

Our new financial strategy is only one of several clearly defined strategic growth initiatives that we focused on for some time. I think it's worth restating these goals because they frame our activities and accomplishments so far in fiscal 2012 and going forward.

So, first and foremost we will continue to pursue actions that strengthen our core magazine and television businesses.

Second, we will aggressively expand our digital activities. They have more than doubled from 5 years ago, and today are approaching 10% of total company revenue.

Third, we will expand businesses where revenues are not dependent on traditional advertising. Our brand licensing and marketing services activities contributed approximately 1/3 of total Company operating profits in the first quarter fiscal 2012.

Fourth, we will pursue acquisitions and investments that grow our scale and capabilities. You've seen our actions against this goal so far in our current fiscal year.

Finally, we will continue to reward our shareholders by growing the amount of cash we return to them.

We believe the steps we have taken so far in fiscal 2012 are a great example of success at executing our strategic initiative.

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Now, I will turn the discussion over to Chief Financial Officer, Joe Ceryanec, for an update on our operating group performance in the first quarter, as well as our outlook for the second quarter and the balance of fiscal 2012.

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

Thanks, Steve, and good morning everybody. Overall, we were pleased to finish the quarter at the higher end of our previously communicated range of \$0.45 to \$0.50 per share. We also reduced total Company operating expenses 2% which is the fifth consecutive quarter we have driven declines in year-over-year operating expenses.

Turning to the National Media Group, quarterly operating profit was \$36 million compared to \$40 million generated in the year-ago period.

Print and digital advertising revenues in the quarter were negatively impacted by two categories, food and beverage and pharmaceuticals. Combined, they accounted for the entire net advertising declines in the quarter, reflecting pressures our clients are facing from higher commodity costs and fewer new drugs coming to market.

Toiletries and cosmetics, our second largest category, was our best performing and grew about 20% in the quarter, which reflects our concentrated efforts to diversify our categories and grow beauty advertising across our women's portfolio. Another of our largest categories, business and finance, also performed strongly in the quarter in both print and online. Additionally, average net ad revenues per magazine page increased about 4% in the quarter.

To counter the weaknesses in national media advertising we introduced a new research based product proving the effectiveness of advertising in Meredith magazines. The Meredith Engagement Dividend guarantees a return on investment for marketers. It overlays our 85 million name database with the Nielsen Company's home scan data and proves advertising in Meredith titles increases retail sales. To participate, we are asking for commitments from advertisers to significantly increase their calendar 2012 spend with us. We had more than 100 meetings with clients so far about this program and response to date has been very strong.

Turning to circulation, we grew both subscription and newsstand revenues. Family Circle, More, and our Spanish language titles help drive subscription revenue for the quarter. At Newsstand, this quarter's results reflect in part the many improvements we have made in our special interest media business.

Growth in circulation revenues is just one example of the very strong connection our brands have to the individual consumer. During the first quarter of fiscal 2012 as compared to the year ago period -

One, we delivered higher traffic to our nationally branded websites. Average monthly uniques grew 25% and page views were up 35%, our recent re-launch of recipe.com, an example of how we are achieving that growth. Recipe.com is a robust consumer site that combines trusted recipes with coupons, shopping tools and cooking videos. It is currently serving 2.4 million uniques every month which is up four times from the year ago period.

Demand is also growing at our mobile related sites, where traffic has tripled and mobile traffic is about 5% of our total online traffic today.

We announced an agreement with Apple during the first quarter of fiscal 2012 to sell subscriptions to Better Homes, Parents and Fitness in the iTunes store. Tablet sales are modest so far, but over time we believe this platform has great potential to strengthen our consumer relationship while increasing our operating margins.



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Retail sales of our Better Homes & Gardens line of products continues to grow at Wal-Mart. Our program helped drive a more than 10% increase in total brand licensing revenue during this quarter. It's an important component to Wal-Mart's retail home business, and we are very pleased to have recently announced the extended and expanded program through 2016.

Total readership in our measured magazines is growing as well, according to the most recent data from Mediemark Research and Intelligence. It currently stands at 111 million readers.

Meredith Xcelerated Marketing posted another quarter of revenue and operating profit growth. This performance was driven in large part by our programs at Lowe's and Chrysler. We are very excited about the group's new positioning and recently announced relationship with Iris. We believe the next phase of growth for MXM includes helping our current clients to take their marketing programs overseas, as well as helping foreign clients expand to the American market. Over the last 5 years and MXM has delivered 17% compound annual growth in revenues through both organic growth and a series of strategic acquisitions.

Now turning to our Local Media Group. Fiscal 2012 first quarter operating profit was \$11 million compared to \$17 million in the prior-year quarter. Note that we generated \$11 million less in political advertising in the first quarter 2012, which we expect in an off election year.

Non-political ad revenues were up 3%, that is the eighth consecutive quarter of year-over-year growth and we outperformed the industry as a whole.

From a market standpoint growth was strongest at our stations in Portland, Hartford, Springfield and Las Vegas.

Also, we grew all 5 at our top 5 ad categories. Automotive, which is our top category, grew 4%, which is on top of the 40% increase in the prior year quarter. We expect automotive performance to continue to be strong, especially now that the Japanese automakers have returned to a more normalized production schedule.

We also grew non-advertising revenues by more than 40% in the first quarter and this is due primarily to our management of the Turner Broadcast Peachtree TV station in the fast-growing Atlanta market, and the strategic partnership is giving us access to a larger share of Atlanta.

We delivered strong revenue growth at Meredith Video Studios, as well led by custom video projects for corporate clients and continued expansion of our daily Better show. In September, we launched Better in New York City, the nation's largest market. The show currently reaches more than 80% of the households across 140 markets in the United States. We now have presence in 9 of the top 10 markets in the US.

Finally, even with the revenue growth in the majority of our businesses we were able to reduce operating expenses 2% in the quarter from last year.

Now looking forward, I will provide our fiscal 2012 second quarter as well as our full-year outlook. So with 9 weeks remaining in the second order -

We expect National Media Group advertising revenue performance to be similar to what we have experienced on a quarterly basis so far in calendar 2011 which has been down in the 8% to 12% range.

I would also note that we are cycling against our strongest quarter in fiscal 2011 ad performance when it was up 4%.

On the local media side, non-political ad revenues are currently pacing up in the mid single-digit range.

We currently expect for fiscal 2012, second quarter earnings per share to range from \$0.65 to \$0.70. And, as a reminder, we recorded \$22 million or \$0.30 per share of net political ad revenues in our second quarter last fiscal year.

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And, consistent with what we said in July, we expect fiscal 2012 full-year earnings per share to range from \$2.40 to \$2.80. With that, we would like to open up the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) One moment for the first question. Mark Zgutowicz from Piper Jaffray. Please go ahead.

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### Mark Zgutowicz - Piper Jaffray - Analyst

Great results, guys. Just a question, Steve, for you. You talked about the strength of your positioning both financially and in the marketplace. I am curious how you are marketing or how you will be marketing your re-branded Meredith Xcelerated Marketing and sort of how you guys are positioning yourself obviously in a competitive digital marketplace and what do you want to be known for in the marketplace?

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### Steve Lacy - Meredith Corp - Chairman, President & CEO

Good morning, Mark, and thank you. That is an absolutely great question. We were just all together over this past weekend at the largest event where chief marketing officers of all of our major clients come together which is the ANA conference which was held in Phoenix. That is where we unveiled Meredith Xcelerated Marketing. Our real significant point of difference from our major and what I would say traditional agency competitors is our ability not only to take messages out to the consumer across platform but to, in fact, generate the content that is necessary to create those messages because obviously we have been messaging to the consumer for 100-some years.

Our agency competitors do not have the content creation capability to populate the website, to put messages in the e-mail marketing, to direct Facebook likes to the brand and that is really our very significant point of differentiation is our long-standing database and capability to create content that delivers marketing messages and sales product. That will be our continued platform not only domestically but now internationally because more and more in the last 12 to 18 months we saw opportunities to execute major programs but they had an international component. And that is the reason for at the same time the investment in Iris.

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### Mark Zgutowicz - Piper Jaffray - Analyst

That's helpful, thanks. One question as it relates to the upcoming Kindle Fire. I'm curious how you might quantify the opportunity there? I know, at least I recall you guys had some research out that indicated some nice scale at a \$200 to \$300 tablet price point and I think we've gotten obviously there now with the \$200 Kindle Fire a little sooner than maybe you would've expected. I'm curious how you're looking at that opportunity and how you think about when you move titles over sort of what goes in to that decision making.

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### Steve Lacy - Meredith Corp - Chairman, President & CEO

Your timing on that is great, Mark, because yesterday morning we just had a session with our chief digital officer so I'm going to ask Tom Harty to speak to that from the National Media Group perspective.

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

Yes. We are very excited we have a deal with Amazon to put our products on their new Kindle Fire. Some of the early numbers that we are hearing from a forecast perspective is that they are looking to sell about 5 million units in the holiday timeframe. Again, this business model is emerging for us, but what we are really excited about, to your point, is the price point of the Fire at \$199, which is half the price of the iPad.

To give you an example of the demographics, what we are seeing even with the Barnes & Noble Nook product, the Barnes & Noble Nook product probably has about 5 million units sold so far and the iPad has over 30 million units, but what we are seeing demographically is some of our brands are actually outperforming the iPad on the Barnes & Noble Nook because it is skewing more towards women. So to have another player out there like the Amazon Fire at that price point, we are very excited about the opportunity to kind of grow our sales numbers moving into next year.

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**Mark Zgutowicz** - Piper Jaffray - Analyst

Just from a titles perspective, what is it that goes in to -- how do you think about titles on the Kindle versus the Nook versus the iPad? I'm just kind of curious how you think through that as you look at the new offering here?

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

Basically, we are looking at putting our brands everywhere the consumer -- eventually where the consumer can consume our media, but to start, because of our production flow, we started with our 3 largest titles on the iPad, Better Homes & Gardens, Fitness and Parents. These were enhanced versions. The enhanced version is where we give extra content, video, interactivity because the iPad had the capability where the Barnes & Noble Nook was more of a PDF format where we are basically replicating our print versions onto that product. So as we look to the future, we are looking to have all of our brands all of our products. We're not going to do an exclusive deal with any of the platform players, so we are just kind of experimenting and seeing really what the consumer wants versus a PDF version versus enhanced version and obviously we have to wait for what's going to happen on the technology side and what these players are bringing to the marketplace.

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**Mark Zgutowicz** - Piper Jaffray - Analyst

Okay. That's helpful. And then just one last one on the Wal-Mart licensing extension. Without getting into specifics, I am just curious how you characterize the terms versus your prior agreement in terms of being similar, better, how would you characterize that opportunity going forward?

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**Steve Lacy** - Meredith Corp - Chairman, President & CEO

Too be clear, there were 2 years remaining of the initial agreement and we were very excited when Wal-Mart came to was wanting to renew early and to expand because of changes they are making within the home category, in particular with their brand of strategy. We have the opportunity to have basically 5 years ahead of us with a 3-year extension onto the original agreement. We are providing some incremental media and marketing to drive consumers into the stores from our existing brands and businesses. On an overall basis when you net it all together, we are pretty excited about the growth potential we see going forward with the new and expanded program.

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**Mark Zgutowicz** - Piper Jaffray - Analyst

Super, thanks very much.



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**Operator**

William Bird with Lazard.

**Bill Bird** - *Lazard Capital Markets - Analyst*

Thank you. I was wondering if you could just talk about the timeframe on the buyback program and also if you could just discuss what is driving the 4% revenue per page and what are you seeing on pricing in the December quarter? Thank you.

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Why don't we take those, Bill, and by the way good morning. We will take those in opposite order. I will ask Tom to talk about pricing in the marketplace and then Joe can talk a bit about the timeframe of the share repurchase authorization.

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

Our increase of 4% on our net yield, we call it a weighted average CPM when you look across our portfolio, is something we started a few years ago is strategically looking at how we are going to build value in our margins. And really what is driving that, it's not that we're getting in this very difficult advertising marketplace, advertisers to give a 4% increase, but when you look at our mix of business, we are actually getting more rate per page from new advertisers and new categories of business which is driving our overall mix. So we are still facing a tough marketplace with a lot of inventory with decreased demand, but it is a great performance on our part where we are able to actually increase our yield per page. Now I believe it is our third year in a row that we are actually doing this by looking at how we can drive higher rates per page from new advertisers and in new categories.

**Bill Bird** - *Lazard Capital Markets - Analyst*

Do you think the 4% yield will be sustainable in the December quarter?

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

We believe that trend will continue for the next quarter, yes.

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Okay, Bill, we will turn to the share repurchase authorization.

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

Good morning, it's Joe. We have not given specific guidance on the buy-back plan. We are not planning on buying X number of shares every week or every month, but truly are looking to be opportunistic when we buy back shares. Obviously, we are going to look at things like where our debt levels are, what our acquisition and development opportunities are as well as our internal investment needs and what all of those mean to cash flow. Again, as we have said opportunistic, so we're going to look at how our stock is performing compared to the market and our peers and how we think we are trading vis-a-vi [RP] and EBITDA multiples and how those are trading against our peers and really how we're trading against our averages. Again, we are not

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being specific to say we are buying X shares or X dollar's worth at this time, but it does give us the ability to get back in the market because, as you may know, our previous repurchase authorization program was pretty much exhausted.

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Does that help, Bill?

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**Bill Bird** - *Lazard Capital Markets - Analyst*

Very helpful. Separately, what the digital grow within the National Media Group?

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

Sorry, you cut out on the first part.

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**Bill Bird** - *Lazard Capital Markets - Analyst*

I was wondering the growth rate was for the digital slice in the National Media Group?

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Let's look for that data, Bill and somewhere along the call I will repeat it. We have to get to the right page of the book. Okay?

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**Bill Bird** - *Lazard Capital Markets - Analyst*

Okay, thanks a lot.

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**Operator**

Michael Meltz with JPMorgan.

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

Thank you. 3 questions for you, one related to Bill's last question. As you went through this shareholder return plan and you are weighing dividends versus repurchase versus acquisition, can you talk a little bit about the repurchase element and why aren't you pursuing an accelerated share program or a tender or something given where the stock is? Why aren't you be more aggressive on the repurchase. And then a separate question on the TSR plan. Did you do a portfolio review as well? For instance, consider all the magazine assets or whether you should still be in television, and then I have one follow-up. Thank you.

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Let me take those, Bill, in the order you -- I'm sorry, Michael, the order that you laid them out. First and foremost, thinking about the dividend compared to the share repurchase, we wanted to be very clear that we were making a strong and definitive commitment to increase the amount of cash that we return to our loyal shareholders and moving to a 6% yield on the dividend we think is a very, very strong message and in some ways I think of it as marriage as opposed to dating. On the repurchase, as Joe said, we have to weigh that against a number of different alternatives and we believe that there are going to be a number



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of interesting opportunities in the marketplace to add to our portfolio over time as we go forward. And certainly there is much more action than there was a year ago or 18 months ago across not only print but digital and also on the broadcast side. We wanted the ability to step in and be aggressive, as Joe said, in an opportunistic way when we look at all the parameters and we had excess cash to do so, but we also want the flexibility over time to add to our portfolio in a way that we think makes longer-term sense for the business.

As it relates to the portfolio of assets, I think you know that we have an ongoing process at looking at the parts and pieces and whether we should keep something or sell it or close it is part of really an ongoing activity and we went through that process as part of this strategic review and part of a detailed market research piece we did with our shareholders. We feel really good about where we came out and think we are delivering a very strong message to our shareholders about returning more cash to them in a definitive way going forward.

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

Okay. One follow-up question, Steve. Can you give an update on reverse compensation? I think you or one of the trades had reported a deal with CBS and can you just talk about where you are there, please?

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**Steve Lacy** - Meredith Corp - Chairman, President & CEO

The only piece of new news is the extension of our CBS affiliation agreement through August 2012 and then obviously we will be in discussions and negotiations going forward and also with Fox as well. As we have said in the past, we believe that when all of this shakes out there will be some sharing of the retransmission fees that we generate. The good news is that as we get closer into the latter part of 2012 and into 2013, we have the ability to go back to the marketplace and renegotiate the fees from the cable providers and since we were in the market 5 years ago what people are receiving in the market is much higher than what we're receiving today. Net-net, our objective is when all of this shakes out to maintain or increase a bit the net retransmission revenue that we received today.

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

Michael, as Steve said we have extended the agreement with CBS through next August so it will not be --the economics of that revenue stream will not change in this fiscal year. And I would expect next spring or as we move into early next summer we will be able to provide much more definitive guidance on where we stand vis-a-vis on the CBS and Fox agreements as well as what Steve said, our agreement with the cable providers.

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

Okay, thank you for your time.

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**Steve Lacy** - Meredith Corp - Chairman, President & CEO

Thank you, Michael. Back again on the question in the National Media Group, total digital related revenues were up about 6% and total company digital related revenues were up about 9%. A lot of that is driven by the digital activities in Meredith Xcelerated Marketing. Next question.

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**Operator**

Our next question comes from Koji Ikeda with Roth Capital Partners. Go ahead.



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**Koji Ikeda** - Roth Capital Partners - Analyst

(Inaudible - Echo in Audio).

**Steve Lacy** - Meredith Corp - Chairman, President & CEO

You were asking about pay down on the debt?

**Koji Ikeda** - Roth Capital Partners - Analyst

Right.

**Steve Lacy** - Meredith Corp - Chairman, President & CEO

We are comfortable with the debt level around the \$200 million range. We were a little higher than that right now because of the recent acquisition of the EatingWell media group. Our intention would be not to go below where we were at the end of the last fiscal year which was around \$200 million.

**Koji Ikeda** - Roth Capital Partners - Analyst

Great, thanks.

**Steve Lacy** - Meredith Corp - Chairman, President & CEO

Thank you.

**Operator**

The next question comes from Shagun Singh with CRT Capital Group. Please go ahead.

**Shagun Singh** - CRT Capital - Analyst

Hi. Thanks for taking the questions. Can you provide some details on the Rachael Ray transaction, just the economics behind it? And any sense of LTM EBITDA and also, doesn't allrecipes.com fit in to your strategy and if you think it's something worth taking a look at? Thank you.

**Steve Lacy** - Meredith Corp - Chairman, President & CEO

I will take those in reverse order. I think many of you are aware the Reader's Digest put out a press release that they plan to sell the All Recipes business. I don't believe the materials, the black book so to speak, has yet been distributed, but we will clearly basically every major transaction that comes in the deal flow, but I don't believe the materials in fact have been provided.

As it relates to Rachael Ray, we will be acquiring the net assets of that business from the Reader's Digest and entering into a 10-year license agreement with Rachael Ray for the use of her brand in publicizing that magazine and running its digital related assets. And we will pick up that activity in the early goings of calendar 2012, so the second half of our fiscal year. We don't think it will have a material impact on the current year but we certainly think it will be a growth opportunity for us as we go forward.

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We have so many more assets to sell back into the marketplace with, plus we believe our database and digital and direct mail consumer marketing capabilities are much, much better fit for the Rachael Ray business than where it was. I will ask Tom to speak a bit about how we plan to take that to the marketplace from an advertising and marketing perspective within our portfolio.

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

We are excited about the pending acquisition of Rachael Ray. It fits very well with our emphasis on food and also our women's lifestyle category. We're also very excited about the demographics of Rachael Ray. It fits nicely with our portfolio. It's actually a little younger, the median age of the readers are 42 years old and actually the household income is significantly higher than our average household income. So when we see the opportunity, a lot of the advertisers that are currently with Rachael Ray are clients of ours and we have our corporate sales and marketing machine to kind of bring in all of our assets to help Rachael Ray kind of fulfill their promise compared to where it was at Reader's Digest.

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**Steve Lacy** - Meredith Corp - Chairman, President & CEO

Does that help?

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**Shagun Singh** - CRT Capital - Analyst

Yes, that's helpful, thank you.

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**Operator**

Michael Corty from Morningstar.

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**Michael Corty** - Morningstar - Analyst

Good morning. Thanks for taking my question. Congratulations on (inaudible - echo in audio). You called out the food and beverage and pharmaceutical as the areas that were a bit weak. Are there any categories on the opposite side that were stronger than you expected or that has held up better than you expected?

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

Yes, Michael. As I said, if you take food and beverage and DTC pharma, if you take those 2 categories, that basically was the net decrease in that entire ad business. We did have a couple categories up, I think I mentioned toiletries and cosmetics which is our number 2 category and was up almost 20% in the first quarter. Last year our business and finance group, our number 6 category, was also up and a couple of the other smaller categories were up as well.

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**Michael Corty** - Morningstar - Analyst

Okay, thank you.

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

Thank you.

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**Operator**

Matt Chesler with Deutsche Bank.

**Matt Chesler** - *Deutsche Bank - Analyst*

Good morning, thanks for taking my call. Looking ahead, I wanted to drill down a little bit more to your revenue guidance for national advertising. Your declines are larger. Is it that the food and beverage declines are getting larger or are the declines broadening at all across other categories?

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

As we look into the second quarter, we are not seeing it broaden against categories, it's basically the same of what we are seeing this calendar year as Joe stated before in the down 8% to 12% range. Many of our advertisers look at their advertising on a yearly basis and make commitments to different mediums, so we are cycling through this calendar year 2011 period. As Joe mentioned, we are also coming up that we had last year which was our second quarter where we were up 4%. We are guarded as we look to 2012. We are cautiously optimistic about 2012, right in the middle of when our advertisers are starting to make their decisions about next year.

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

I think the message we are trying to give, Matt, is we don't see the fourth quarter category wise or volume wise much different really than what we have experienced on a quarterly bases throughout calendar 2011.

**Matt Chesler** - *Deutsche Bank - Analyst*

Okay. We are all focused on where budgets are going to for 2012. Can you be a little more specific or are you at a point where you are able to be more helpful in terms of what some of those early conversations are leading you to believe about calendar 2012?

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

It is still very early. We have had a call about this earlier, but we are very excited about the Meredith Engagement Dividend that we partnered with Nielsen on. We have had upwards of 125 meetings now with leading advertisers talking about them and the return that they get for advertising in print and we are guaranteeing those returns. It's still a little early but right now we have one firm commitment from one large advertiser that is moving forward with a significant increase in advertising commitment to Meredith for next year. We have in the vicinity of 15 to 20 proposals out there all looking for advertising increases for us to be able to give them the commitment where we guarantee an ROI return for them. Again, clients are looking at the broader economic issues going on and making decisions later and later on advertising commitments compared to what we used to see years ago.

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

What I find interesting, having cycled through this a number of times, the fourth calendar quarter is always a time where we find there is extra money that we have the opportunity to deal with and that generally comes not into our National Media Group digital business but it also comes in special project activities that will flush their way through Meredith Xcelerated Marketing. I think in the current environment what we see and feel across our major customers that they are basically the same in our



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media business as they are in a marketing services business that those dollars are being held right now in the back half of calendar 2011 and in the fourth quarter rather than being flushed out into the marketplace. We can just see it and feel it across our major customers whether it be advertising or be marketing services. I think it is sort of the nature of the current environment in the fourth calendar quarter.

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**Matt Chesler** - *Deutsche Bank - Analyst*

And then real quickly on the cost side, can you give us an update on how your FTEs, your head count is trending on a year over year basis and maybe some other major costs OEM such as paper so we can think about some of the underlying cost drivers in the division?

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Headcount is down with the exception of the acquisitions we have made, the EatingWell group and obviously soon the Rachael Ray folks will come in. But otherwise headcount is down kind of in the low single-digit range and there is not a broad salary increase built into our numbers for fiscal 2012 compared to fiscal 2011. I will ask Joe. Printing is down as a result of a recent contract that we negotiated the paper situation.

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

Matt, as Steve mentioned, on the -- I will call it the cost goods sold or input side of the magazine, we did renegotiate the print contract so we are enjoying some cost decreases that will continue for a period of time. Paper obviously is volatile in the commodity but I think given the softness, we have seen a little bit of a price decrease and, as you know, we renegotiate those contracts January 1 and so to use one of Tom's terms, guardedly optimistic that we may see a little more softness on the paper prices as well. And obviously we are always looking at the back office on that business. We moved all our New York employees from 2 locations to 1 and we were able to reduce our facilities cost in New York.

It's obviously an ongoing process on the local side, our programming costs are down, we are no longer carrying Oprah events. And we are constantly looking to increase our own programming vis-a-vis news or the Better show which helps our cost [directly] which we've been talking about some time is done and we've been able to take some cost out. On the MXM side, now that those businesses are all out of the earn outs, we are looking at ways to streamline kind of the back offices of those businesses as well. It's kind of an ongoing process. No large, major things. We're not anticipating any significant headcount reductions or things like that but just a constant focus.

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**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Expenses will definitely be down in the second quarter compared to a year ago period. It's volume related. Okay?

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**Matt Chesler** - *Deutsche Bank - Analyst*

Thank you very much.

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**Operator**

Barry Lucas from Gabelli & Company.

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

Good morning. Thank you, Steve, for taking the question. I'd like to drill down a little bit more if you would. I know you have got several questions on the returning of value to shareholder area. A couple of things come to mind. One is the tax inefficiency of increasing the dividend. You already had one of the highest dividends in the group so maybe you could talk a little bit about how you thought about taxes and in the same-- when I look at opportunities, you are dipping your toe in the water with Rachael Ray and Iris which turn out to be terrific, but you had a chance to bulk up and build scale and television that you passed on with McGraw-Hill station. So maybe you could talk about the opportunities or how you look at returns or what would change your attitude in terms of building scale materially in one or the other businesses?

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

That's quite a few questions in a row so if I missed something, correct me. First of all, I will start with the McGraw-Hill station. We took a very, very aggressive look at those properties and we established a range where we felt excited about it at one end and sort of a high end range we felt would still have been a good value for our shareholders. Where those stations ended up selling and the multiple regardless of how it's been portrayed, we have the real numbers. That multiple, you take our broadcast EBITDA be in excess of the market cap of the entire Meredith Corporation. We think that was a heavy price. We think there was a lot of work to be done to those businesses. I don't believe we feel the need to do a bad deal just to do a deal. Paul, I don't know if you would like to add anything to that on McGraw-Hill?

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

I would only say if nothing else we are very disciplined about the way we look at stations and how we put together the pro forma. We took a very close look and we were very aggressive till the very end. But, as Steve indicated, at a certain point we developed our range, and once it appeared the deal was going outside of that range we felt it was appropriate to step back. To the extent we still have a strong enough portfolio, we are not in a position where we have to do a deal. I think we can be very opportunistic and make sure that we do the right deal.

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

That is our feeling on that set of properties. I was personally involved with, Paul visited every station, we took a very, very disciplined look. If you get to EatingWell and Rachael Ray, we think of those more as tuck-ins around the strategy that we've been very, very definitive about. When you look over the longer haul, regardless of the current commodity environment, the food category to Meredith is like automotive to our broadcasting side. And it held up better than any other category during the worst part of the recession. We are going to continue to move aggressively to build out our capabilities across platform in that space and we think that those acquisitions, although not huge, really add to what Tom is wanting to accomplish.

From a dividend perspective on increasing the dividend, although the tax law may change, it is still 15% tax on the receiving end and we think that is a pretty favorable activity. Most importantly, I think the message is that we want to reward our long-standing and loyal shareholders with a definitive return on their investment. And I think at a 6% yield in the current marketplace that is a pretty strong position.

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

And have the flexibility, Barry, on the share buyback as we talked about. We view that as a lever we can pull when we need to, when we've got other opportunities we don't need to. A strong commitment on the dividend, as Steve said, a guarantee if you will to the shareholders of a return and then we can be opportunistic with the buyback lever.

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

One more if I could squeeze it in, Steve or Paul. You have spoken a bit about the Better show and expanding I think it was originally a cost offset on the program but now it is looking a bit more like an opportunity. So maybe you could size that for us a bit?

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Paul, do you want to speak to the Better show?

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

Yes. Thanks, Barry. We are just starting to see the benefits of being able to claim that 80% national distribution. As we look ahead, we are looking for a much more significant contribution from our Better show and our video group in general relative to advertising revenues. This just occurred in September where we got the nationwide distribution basically. At this point we have a pretty aggressive budget laid out for the rest of the year.

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

Thanks, Paul.

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Thank you, Barry.

**Operator**

Our next question comes from Jason Bazinet with Citi. Please go ahead.

**Kristina Warmus** - *Citi - Analyst*

Hi, there. This is Kristina on for Jason. Thanks for taking the call. Given the Supreme Court's ruling that political donations are now a form of free speech, some clients are expecting a large increase in political spend in 2012. Just wondering if you can give any color on what kind of impact this could be or what opportunity there would be in calendar 2012 for Meredith?

**Steve Lacy** - *Meredith Corp - Chairman, President & CEO*

Paul, do you want to speak to that?

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

I will be the third one to use cautiously optimistic. We are very encouraged. As we look across our markets and the gubernatorial races, the Senate races, the house races, we are very optimistic this could be a pretty strong political year for us. In addition to the candidates, there appears there's already a lot of issue advertising that is starting to percolate across our market.

So to answer your questions, we do look ahead to the political season which, ironically is starting already. We are already seeing issue advertising and trickles of some candidate advertising. The recent movement that we saw with some of the primaries

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moving around will probably benefit us in South Carolina and Nevada. We are looking ahead to what we think could be a pretty positive political year.

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**Unidentified Participant**

Terrific, thanks very much.

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**Operator**

We have no further questions in queue at this time.

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**Steve Lacy - Meredith Corp - Chairman, President & CEO**

Thank you all for participating this morning. As always, Joe, Michael and I are available for the balance of the day and beyond for follow-up questions if you have any and we appreciate your ongoing support of Meredith. Have a good day.

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**Operator**

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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