MEREDITH CORPORATION
Banc of America Securities Media, Telecommunications and Entertainment Conference
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INTRODUCTION

Good morning, and welcome to the Banc of America Securities Media, Telecommunications and Entertainment Conference. My name is John Janedis, and for those of you who don't know me, I cover the publishing and Internet media sectors here at Banc of America Securities. And I'm very pleased to welcome both Bill Kerr and Suku Radia of Meredith Corporation. Bill is the Chairman and CEO of Meredith Corp. and has been with the company for about 14 years. Suku is VP and CFO; he's been with Meredith for about five years. So with no further adieu I'd like to welcome Bill Kerr, CEO of Meredith Corp.

BILL KERR

Thank you, John. We're delighted to be with you today, and thank you all for being with us this morning. Suku Radia, as indicated, is our CFO, and he's with me today. I'm going to talk a little bit about some corporate overview and a bit on publishing, and then Suku is going to deal with our Broadcasting Group and a little bit about our outlook as we go forward. We'll do our little disclosure bit here.

This presentation does contain some forward-looking statements. I'm not going to read the text, but it's important to note that a number of factors may affect our business and its performance. The presentation includes references to non-GAAP financial measures such as EBITDA, and the financial statements and tables that reconcile GAAP can be found on our Web site, if you're interested in doing that.

As a quick word of overview, particularly for those of you who are less familiar with the company, we've been in the business of serving the needs of American families for 103 years now, largely through what we call service journalism. Each month we reach about 75 million people through our magazines, our books, our custom publications, our web sites and our television stations.

Fundamentally, we're pursuing three broad initiatives as they relate to the company in aggregate here. First is a track record – and I'll come back with some data on this – of producing what we think is pretty strong organic growth out of our existing businesses, and that's been our prime focus.

Secondly, we are pursuing some targeted acquisitions, and I would say just a word about those. I think when we do them, they will have a very apparent business logic, we hope for all of you. We are interested in acquisitions that are immediately or very quickly accretive. We are particularly in the magazine area interested in acquiring, where we may have younger readers than those who we traditionally reach, and in the broadcasting arena, we're focused on duopolies and maybe fill-in acquisitions that would allow us to cluster our stations.

We usually don't comment on merger and acquisition activity beyond stating our broad objectives, but there was some press comment the other day that indicated we were one of the lead bidders to spend $650 million to buy F&W Publications. And what I would tell you simply is we have no interest in doing that, and we're not pursuing that acquisition. We did have some one-on-one's earlier this morning, and a couple of our shareholders had expressed concern that we might in fact go spend that $650 million on that acquisition. But that's not on the drawing boards.

Finally, I think in terms of the cash with our business, if we can't make intelligent investments in the business, we're very focused on getting that money back to the shareholders. We've increased our dividend substantially over the last couple of years, and we recently authorized another two million shares in our stock repurchase program.

I think if you look at our operating performance over the last few years, we have had a, certainly in the media space, very, very strong performance. Going back in this chart, I think we start with 2002, we grew our earnings about 35 percent in fiscal 2003, 24 percent in 2004, and we're on track for about a 25 percent increase this year. So that's compounded over that three-year period at about 28 percent in terms of growth. And I would maintain that's a reasonable performance.

We talked before, and I'll just state again, we have certain financial targets and objectives that we've tried to articulate. In the broadcasting arena, having been a weak performer in that space a number of years ago, when we were earning about 23 percent in terms of an EBITDA margin, which was quite low, we set a target to get to 40 percent over a few years, and we moved that up very sharply into the 30s, and we're making good progress this year, and that target is one we maintain.

On the publishing side where we started with one of the higher margins in the industry, we were running at about the 16 percent profit level. We said we wanted to bring it up to about 20 percent over about a three-year period. We actually brought it up two points in the first year, 16 to 18, and we're well on track and should certainly meet that 20 percent objective.

We've also said, as you think about us as a business, that in nonpolitical years, look for a low double-digit EPS growth, and probably in political years look for mid-to-high teens in terms of our earnings per share growth. And that's something we have achieved and exceeded over the last few years.

We think that our stock right now is not valued entirely as it should be. I suppose you've heard that before, but we've laid out here our multiple over the last few years, and we're currently showing either on an EPS basis or an EBITDA basis at one of the lowest multiples we've had in a three-year period, at a time where we've been growing in the mid-twenty percent level. So we have acted on that sense of value. This year we have purchased 1.7 million of our shares – that's about 3.5 percent of our outstanding shares, and that compares to about three-quarters of a million in the entire prior year, so we've stepped up in light of the situation.

Let me just say a few words about the publishing part of our business, which kind of has three broad components. They're all quite interrelated with each other, but I think for understanding the business, we've broken them into three pieces here in terms of explaining them.

At the heart of the group is our traditional consumer magazine franchise, which is led by *Better Homes and Gardens*, which is our huge flagship operation, as well as *Ladies' Home Journal*. In that group we have a number of what we call our mid-size titles, *Country Home, More, Traditional Home, Midwest Living*, and all of these titles are very successful, and they're leaders in their field and have been gaining share over quite a few years. We added to this group the American Baby Group, which extended our portfolio into younger readers, and that has also been quite successful.

The second component in our publishing arena is what we call our specialty publication activities, and this is comprised of our book business, which has about 350 titles in print, a lineup of 150 special interest publications, which are very narrowly focused magazines sold primarily at newsstand, and a number of enthusiast titles, *Wood* magazine being one, *American Patchwork and Quilting* being another one.

And, finally, the third component of the publishing business is our marketing services activities, and these include integrated marketing, our interactive media, our brand licensing and our database activities. And we have major marketing relationships that get us outside the advertising arena with a number of the major marketers in this country – Wal-Mart, Home Depot, Chrysler, DIRECTV, Hyundai are a number of the major relationships. And I'm going to say a bit more about each of these segments in a second, or each of these components of the business.

Our strategy, as we look at the business in the publishing side, really it's got four elements to it, and they're laid out on this sheet. The first, of course, focuses on growing our major current businesses, and that's really one that's focused on advertising share and on growing our nets per page. It's one on penetrating new advertising categories for us. It's one of increasing our rate bases and frequencies of our magazines, and growing our circulation in a profitable fashion. And I think something that probably differentiates us from many of the players in our space is, we actually make a lot of money off circulation, which in many cases is a money-losing operation in the magazine space.

The second part of our strategy, as I referenced a little earlier, was to broaden our magazine portfolio. We're targeting younger women, and we're trying to strengthen the foothold we have in the Hispanic marketplace, and that's something I'll talk about in a couple of minutes.

We're also trying to expand our brand franchises. *Better Homes and Gardens*, which has a huge reach and generates significant revenue simply beyond the pages of the magazine, that we're trying to continue to expand. And we also think that *American Baby* and *More* have tremendous capacity for developing into brands that are more than simply the magazines themselves.

And, finally, we're very focused on trying to create new revenue streams and profit streams for us. Those may be in our database services, consumer marketing activities, or product sales. And that has become important for us as an organization.

What I would say is, as we look at the magazine part of the business, we have been very successful in strengthening and growing the share of our major titles. *Better Homes and Gardens* and *Ladies' Home Journal*, which are really the lead players in the mass women's field, over the last decade, we've grown the share there by about a point a year from about 35 percent to 45 percent, and they are absolutely the lead players in the field. We've also had tremendous success with our mid-size titles in terms of their growth. In this case, what we've laid out is a circulation growth over the last four years. And you'll note across these mid-size titles we've grown the aggregate circulation of them by about 900,000. That's close to, equivalent to creating a new magazine with about a million in circulation. And this is at a time when circulation growth in the magazine space has been quite limited. And to put this kind of number in perspective, if you take the last decade, there were just under 9,000 new magazines launched in this country, which seems like an awful lot of magazines. Out of those magazines, out of that 9,000, only 12 reached the level of a million in circulation. So this kind of growth is really very substantial.

I did mention earlier the focus we've had on the Hispanic marketplace, and I think you all know some of the statistics about the demography of growth in this particular part of the market. We picked up a foothold in this area when we acquired *American Baby*, and we've launched, we've announced our own new ventures in the area. And we have a couple of things going on.

The first is the announced launch of a new magazine, ¡*Siempre Mujer!*, which will be on women, obviously, since that's our expertise, in the fall of 2005. We're going to start it as a bi-monthly. The initial rate base is going to be 350,000. And in addition to our traditional circulation activities and through the mail and at newsstand, we have arrangements with our licensing partner, Home Interiors, which does in effect Tupperware-type parties. It has 70,000 people in the field providing those kinds of activities, of which a large component are in the Hispanic community. We're going to sell the magazines through that vehicle as well, and we think that offers a significant opportunity for launching a new magazine.

The second broad initiative as part of the Hispanic effort is to provide a variety of marketing services to other marketers who are trying to reach this marketplace. And one of our most important activities is with Proctor & Gamble at this point in time, where we've been engaged to design and produce for them a whole series of custom publications in what they call their Hispanic cohort effort. We think this is important for the future of our industry and for our business and something we'll report on as we go forward.

That second area that I referenced was our specialty publications. This area really involves our book activities, our SIPs, the special interest publications, and our large retail distribution network. We are one of the largest players at newsstand or in the retail trade in terms of the sale of magazines. We have over 625,000 pockets at newsstands throughout the country, and that's been an important factor for us in launching magazines and indeed providing a highly successful retail book magazine program with our special interest publications. Our book program has also been highly successful and has helped drive a significant portion of our growth in our revenue.

Finally, in the publishing spaces, our marketing services activity, and that is made up of several elements, the first being our integrated marketing, which is where we do largely custom programs, customer loyalty programs for other marketers. These have been highly successful, have grown very rapidly and produce very good profit margins for us as a company. It's also been the use of our database, not only for the development of our own circulation but for use with our customers and our marketing partners.

A good example of this is the relationship we have with Hyundai, which has a major customer loyalty program. We house their database; it's a business where we not only generate revenue and fees for the materials we create for them for their program, but for the housing and manipulation and work on their database. And we believe there is a significant opportunity with other marketers to take those database services and translate them into a good revenue and profit-producing business over time. In fact, these kinds of activities, which I would call a nontraditional part of our business, that is not advertising and not circulation, now represent over a quarter, as a matter of fact 26 percent, of our publishing revenue stream, and that's up from 20 percent just a couple of years ago and again has been an important part of our growth.

That's a little flavor of Publishing. I'm now going to turn it over to Suku, and he's going to give you a little flavor of Broadcasting, and then we'll get into the questions that you may have for us.

SUKU RADIA, CFO

Thank you, Bill. Good morning to all of you. Here is a map of our Broadcasting station group. We own or operate 14 TV stations, and the breakdown is: 6 CBS affiliates, 4 FOX, 2 WB, 1 NBC and 1 UPN. Eight of our stations are in the country's top 35 markets, and Las Vegas, which is market 51st in terms of population, is market 28 in terms of revenues. In total, our group reaches nearly 10 percent of all the U.S. households. We also have one radio station that serves in the Saginaw/Bay City, Michigan, market that helps our station, our CBS affiliate in that market.

Paul Karpowicz became the new president of the Meredith Broadcasting Group in mid-February. Paul is a highly respected veteran with 30 years of industry experience, and prior to joining Meredith, Paul served as Vice President and Director for LIN Television, where he oversaw LIN's 23 properties in 14 markets. Paul also has the experience and proven leadership required to take our Broadcasting Group to the next level. He has run a leading station group with network affiliates in major markets, and he has an extensive background in news programming, sales and broadcast transactions. Paul is a strong addition to the Meredith senior management team.

There are four main themes to the Meredith Broadcasting Group's growth strategies. First, we will continue the turnaround of our existing station group by increasing our news ratings and converting those ratings to revenue growth and profit growth. We will also continue to create new revenue streams. We also want to form more duopolies and regional station clusters, and we want to acquire stations that will expand our reach. Our growth strategies are very much targeted, and we have executed these strategies well.

Improving our news ratings has led to improved audience share, and this slide highlights the audience share of our late news, comparing the February 2005 book with the February 2002 book in our eight largest markets. And as you can see, we've produced impressive gains. Let me share a couple of highlights from the February book.

Our CBS affiliate in Kansas City boasted excellent results, building on its strong performance in the November book. Its Monday through Friday late newscast was the market leader again. KCTV posted strong gains for all of its other newscasts as well.

Our CBS affiliate in Phoenix also posted a strong book. It increased audience share by more than 30 percent for its morning news and doubled its share for the new 6:30 P.M. newscast. Our stations are creating a winning news culture and news products that are resonating very well in the marketplace, and we look forward to building on that success.

As I told you earlier, improving ratings is obviously important but only if you convert all of those gains into revenue, and we have done an impressive job of growing the topline. And this graph compares our spot advertising growth with the industry average as reported by TVB for the past two years. We continued our strong performance in January, growing revenues in the mid-single digits compared with the industry, which was flat according to the data released by TVB.

Adding new revenue streams is also a very important growth strategy. Our Cornerstone programs are unique and differentiate Meredith from other television broadcasters. We leverage our publishing brands by packaging content from our magazines with print ads from local advertisers. And the result is a customized mini magazine delivered to targeted customers in our local television markets. The revenues from these Cornerstone programs, additional market-specific promotions, and Internet sales increased from about $3 million in fiscal 2001 to approximately $22 million in fiscal 2004. And for fiscal 2005, we expect to generate between $25 and $30 million from these programs.

With that review of our two businesses, let me reiterate the outlook we provided at our January 25th second quarter earnings call. For all of fiscal 2005, we stated that option expense would reduce earnings per share approximately 14 cents for the year, and given this accounting adjustment, we anticipate option adjusted earnings per share to approximately $2.50 in fiscal 2005. For the third quarter, we stated that broadcast pacings, which are obviously a snapshot in time and change frequently, were running up in the low single digits. We expect publishing to grow operating profit in the mid-to-high single digits, and publishing advertising revenues are expected to be down in the low single digits. Expensing options will reduce earnings per share approximately 4 cents per share in each of the third and the fourth fiscal quarters. Given this accounting adjustment, we also stated that we anticipate third quarter earnings to be in the range of 67 cents to 69 cents per share for the third quarter of fiscal 2005.

And with those remarks, I'll turn it back to Bill for some concluding comments. Thank you.

BILL KERR

Before we get into the questions, let me add maybe a word on the advertising environment. And this is all really consistent with what Suku has just said to you, but I think, you know, we started in – this is our fiscal year, and we're a June 30th fiscal year – we started with our first fiscal quarter was a very strong quarter in the magazine space. The last subsequent two quarters have frankly been flattish to slightly down. We are seeing in the magazine arena, and for our properties, a significant strengthening going on in what will be our fiscal fourth quarter, the quarter ending June 30th. The Broadcasting environment is along the lines that Suku outlined just a moment ago. So with that little elaboration, I think, John, its open for the Q&A, however you want to handle it from here.

Q&A SESSION

John Okay, great. Since we finished with TV, let's start out with TV on the Q&A side. You mentioned TV duopolies briefly. The cost benefits there seem clear, but what are really the benefits from your perspective?

Bill Suku, you want to deal with it?

Suku Sure. From the cost standpoint, let me just… I know your question really focuses on revenues, but our most relevant experience, John, was the creation of the duopoly in Portland. And we were able to save about 28 percent on the cost side; and not having previously had any experience with duopolies, we thought perhaps about 25 percent would be a reasonable number when you have two full-fledged operations being merged. So clearly we were very pleased with the fact that we were able to get that much out on the cost side. But we also realized that on the sales side, each station is going to stand on its own. You're going to have two distinct sales forces, and each station is going to still have to continue performing, vis-à-vis news, and doing all the right things. Now, in one case, because of the fact that we have a UPN station and a FOX, we really didn't feel that it was proper to have the UPN station continue with the news, in effect cannibalize our news. So you don't have the news piece to deal with; however, you still have a lot of other things that you can sell against. So it still comes to the fact that each station is pretty much going to have to continue with its own sales program and keep two distinct sales forces. So I would not say that necessarily in a duopoly there's a huge play on the revenue side from a duopoly creation itself.

Bill Yeah. Let me just add to that, John. I would think from our experience and from what I have gleaned from discussions with other players in the space, the cost side of the equation is pretty clear. I think it's arguable, depending on the market, how much people really get in the way of revenue synergy. And when we go about a duopoly, we've fundamentally, in the two we've been in, we've predicated our financial performance exclusively on what we can get out of the cost side, and we view anything on the revenue side, any synergy on the revenue side as just an extra.

John On the news ratings, for instance, you referenced some of the increases there. How much of that has been a function of better lead-ins versus just a change in programming?

Bill I think there's no question in my mind that the CBS lead-ins have helped the late news at the stations, that without a question. That's the one area where I think the lead-ins have had an importance. Having said that, I would also say at our CBS stations we've done a much better job on the news than the lead-ins. So I would certainly give CBS credit for some of that, but I think our own news itself has been added significantly to that. And as you saw from the one chart, the news gains are pretty much across the board on the station. So with the reference to CBS, I would say most of it has come actually from the news itself. But there's no question, at 10 o'clock at night, they did anybody with a CBS station a big favor.

John On deregulation, how do you see that shaking out? Are there any scenarios you envision that would affect your strategy?

Bill Suku, you want to take that?

Suku For example, in Kansas City, the acquisition of KSMO through a joint sales agreement, obviously, was driven by the question mark around exactly where the regulation ends up. But we've talked about the fact that we would certainly be very amenable to more duopolies, clusters, etc. So when we take a look at all of that, part of the issue we face, obviously, is the paucity of transactions available in the marketplace. And I think the cloud surrounding the whole issue of regulation is probably holding some of that up, no question about it. But from our standpoint, there is clarity in that equation. I think we probably, if anything, see more ___ acquisition strategy coming into play.

John Going to the publishing side, how quickly can a new special interest magazine be launched, and what are your plans there over the coming year?

Bill When you say "special interest," are you defining it the way we define it as our SIPs?

John Yeah.

Bill Oh, they can be launched in months, and they're either profitable or they're not profitable right out of the box. You know, it's your traditional consumer magazine, subscription-based magazine, that when you launch them, it's usually a four- to five-year period to get the profitability.

John Could we open it up to questions?

Q Are there any specific trends in advertising that can be noticed across the company's different markets that you're seeing?

Bill Are you talking both publishing and broadcasting?

Q Yeah.

Bill Well, for us I would say – and Suku, you jump in on this too –pharmaceutical has been very erratic in both parts of the business, and I think it's largely a function of the new products that are coming into place and whether they're male skewed or whether they're female skewed in terms of the nature. I think, for example, our slow couple of quarters, the weak pharmaceutical activity in magazines with women's-oriented drugs was an element in that play. Having said that, (so that's one category) I would say there's a growing interest in the women's marketplace and some categories that have historically not been strong. Finance is one of those, though we're seeing some movement in that regard. Technology is the second one. And even in this day and age in the automotive environment where there is frankly still some reticence to accept the fact that women buy the majority of cars in this country, we're seeing a little trend in that direction, which is one we like. Suku, I don't know if there are any others you'd like to talk about.

Suku In broadcasting, if I were to look across the board, you know, auto is always a big piece of it, but professional services and restaurants are probably two categories where we've seen some pretty decent growth.

Bill You know, I would say the biggest phenomenon or to me one of the more interesting phenomenon coming out of this last recession is that clearly we've had a slower and spottier advertising recovery than we've had traditionally coming out of the recession. And there have been a couple of long-term trends in the advertising environment that have been manifested even more of late. One is the volatility that we see and the shorter timeframe that advertisers bring to the equation. You know, the old days when you would maybe negotiate a year's worth of advertising and expect it to have some meaning – that has disappeared and is replaced by very short-term, tactical purchasing of advertising, which means that you get a later and later close on the advertising. And our magazines, for example, after the official close date of the magazine; the magazine could bounce in either direction another 5 to 10 percent in terms of advertising pages, which I know causes all of you some frustration when we have to hedge what we say about advertising out there in terms of forward-looking. But that short-term execution has enhanced dramatically as a trend of advertising, without question – probably been the single biggest phenomenon that we've all experienced.

Q Just along those lines then, if you go back a few years versus today, what percentage of your business is an annual type of contract or the equivalent, now versus then?

Bill Well, there are virtually none today. And there would have been some five years ago; twenty years ago there would have been a lot. But it's more than a two- or three-year trend; this is a long-term trend that's taken place. And even if you had… You know, today what you'd have, you might have a quasi year's commitment that's not really a commitment; it might be more of a planning-level discussion. But it could bounce dramatically from time period to time period, and there was nothing sacrosanct about the amount that's been discussed. You might have an adjustment on price at the end of the period, but that would be about it.

Q And Suku, you touched on the auto category and TV. Can you give us your thoughts there? I think generally speaking, it hasn't been what most people would have thought it would have been at this point, but are you more optimistic going forward on that?

Suku I think, you know, we seem to be doing a pretty decent job of holding our own. You know, that category ranges anywhere from, oh, 26 to 29 percent, and it seems to be holding its own.

Bill I think we've done better than the industry on that, and I think part of that has been the increased performance of our news programming, and news is an area of reasonable automobile focus. So I think we've run a little ahead of the trend.

Q Back to the magazine front, you've had some pretty good yields there. Can you talk about the mix and where you see that going over time now in terms of the yield spread.

Bill You want to talk to that, Suku?

Suku There's always going to be pressure on the yield, no question about it. But on the other hand, when you have a property with the type of reach that *Better Homes and Gardens* has, I think if you looked at, for a moment, the reach in terms of what MRI releases – 7.6 million rate base; that translates into about 40 million readers. There's very little television that can deliver 40 million readers. So *Better Homes and Gardens,* if there were such a thing as a must-buy, *Better Homes and Gardens* would have to be it, so you're going to have more leverage on that front. So I think overall, go back to our second quarter conference call – we talked about the fact that the advertising revenues on the magazine side were a little down, but profit was up nicely. And part of it was the yield story, so I think we'll continue to do a pretty good job, especially in our bigger books, to hold our yield. But it's a slow growth environment overall, no question about it.

Bill You know, I think the yield thing often, too, tracks to your position in your competitive set. You know, we are, I guess, literally in every magazine we have, we're either number one or number two in terms of the set at which we're competing. And there's no question that that gives you a little bit of leverage in terms of yield. I think the other thing that helps is, when you are able to tie in the more sophisticated marketing programs, which may involve an Internet component, or they may involve a database component, and becomes part of a larger purchase that's bringing a less commodity-like product to the table. I mean, you can argue very clearly that a page is a page is a page, or a thirty second is a thirty second is a thirty second. But when you've got a marketing program that's engaged with space or time and it's also engaged with database utilization and one-on-one elements that may be part of that, you're able to price better in that environment. And that's why we put a lot of emphasis on getting that 26 percent of our business right now in the publishing space, that is, things other than simply pedaling space or selling circulation. That's an important part of the pricing tool.

John Anymore questions from the audience? Okay.

Bill Thank you very much.