# NEWS
## FROM ADVO, INC.

# ADVO Reports Fourth Quarter Results

WINDSOR, Conn. – October 21, 2004 – ADVO, Inc. (NYSE: AD) today reported that revenue for its fourth fiscal quarter ended September 25, 2004 grew to $320.3 million, an increase of $25.1 million, or 8.5%, over the prior year quarter. Diluted E.P.S. for the quarter was $0.41, including the expected additional distribution expense and start-up costs related to the Company's recently announced expansions in Southern California and Pittsburgh, as well as minor negative impacts from the Florida hurricanes. For the full fiscal year 2004, revenues were $1,245.8 million, up 7.1% over prior year, and E.P.S. was $1.59 as reported, and $1.70 excluding charges in the first and third quarters of $0.03 and $0.08, respectively.

The Company's fourth quarter revenue growth was driven by continued strength in advertising piece volumes, which were up 9.2% over the prior year quarter, to 7.8 billion pieces. Total shared advertising packages were up 8.3%, driven by growth in the frequency and reach of advertising programs in response to client demand. Pieces per package and revenue per piece each grew 0.8%. As anticipated, the Company's September expansions in Southern California and Pittsburgh increased the number of advertising packages distributed, and reduced pieces per package. Excluding the effect of these expansions, total packages increased 6.2%, and pieces per package increased 2.1% (see table below).

Gross margin was up $4.3 million in the fourth quarter versus the prior year period despite $2.4 million of additional distribution costs in Southern California and Pittsburgh. As expected, these expansions negatively impacted gross margin as a percent of revenue, which was down 0.7 percentage points. Excluding the expansions, gross margin was up $6.0 million, and flat as a percent of revenue versus prior year. SG&A for the quarter was $59.1 million, significantly less than recent quarterly run-rates, but up $4.0 million versus the prior year period. Year-over year increases in SG&A included investments in the Company's selling capabilities, and new systems implementations. The Company's balance sheet showed continued strength, with the only outstanding debt $125.2 million of 10-year notes, $30.3 million in cash, and record shareholders equity of $141.8 million.

ADVO Board Member, Bobbie Gaunt, who was ADVO's Interim CEO, stated, "Our results demonstrate the continuing success and evolution of our growth strategy. This quarter we began important investments in the future to fulfill significant growth opportunities in Southern California and Pittsburgh. I am pleased to report the start-up of these programs was executed by our associates exceptionally well. They are anchored by strong, marquee advertisers including Albertsons, Giant Eagle, and Food Lion. These clients provided important "base player" content from which to grow and develop the new programs, and our sales efforts are off to a strong start. Importantly, our core revenue momentum in other markets across the country continues to be very strong, with our growth continuing to be broad-based across geographies and categories. Given our fourth quarter results, we remain comfortable with our ability to achieve full-year fiscal 2005 E.P.S. in line with previous guidance of $1.80-1.85."

Ms. Gaunt continued, "We are also pleased the Company is beginning fiscal 2005 under the leadership of Scott Harding, as its new CEO. His depth of experience in the industry coupled with his entrepreneurial spirit and demonstrated success, make him the right person to drive ADVO's growth now and into the future."

Scott Harding, ADVO's newly appointed CEO stated, "As we begin the new fiscal year, we will focus on building upon the growth momentum the business is beginning to demonstrate. I know first-hand from my experience as an advertiser the effectiveness and superior return on investment of ADVO's targeting. As a result, we have a unique competitive advantage that delivers significant value to the marketplace. I look forward to leading the Company to realize its full potential with a strong focus on delivering both top and bottom-line results."

The Company will hold an analyst conference call to discuss its fourth quarter earnings today at 5:15-6:00 p.m. ET. The call in number is 800-565-5442, and the replay number is 888-203-1112 (access code #944028). The replay will be available until midnight November 21, 2004. The call will also be available via webcast through the Investor Relations section of ADVO's website at www.advo.com.

Key Statistics – 4Q04 Results and Growth vs. 4Q03

| | Total | New Southern California Weekend (Began 9/16/04) | New Pittsburgh Mid-Week (Began 9/14/04) | Total Adjusted For So. Cal. and Pittsburgh ("Same Program" Results*) |
|---|---|---|---|---|
| Advertising Pieces *(millions)* | 7,772.2 | 25.5 | 25.8 | 7,720.9 |
| Advertising Piece Growth | 9.2% | | | 8.4% |
| Advertising Packages *(millions)* | 935.8 | 12.7 | 4.9 | 918.1 |
| Ad Package Growth | 8.3% | | | 6.2% |
| Pieces per Package | 8.3 | 2.0 | 5.3 | 8.4 |
| Pieces per Package Growth | 0.8% | | | 2.1% |
| Revenue per Thousand Pieces | $37.91 | 33.51 | 36.56 | $37.92 |
| Revenue per Piece Growth | 0.8% | | | 0.8% |
| % Underweight | 21.6% | 65.6% | 35.0% | 20.8% |
| Percentage Point Decrease (Increase) | 0.6pp | | | 1.3pp |

** "Same Program" Results reflect ADVO's shared mail program revenue statistics for all geographies and frequencies except the new start-up programs in Southern California and Pittsburgh*

Diluted Earnings per Share: Reconciliation of
GAAP to Non-GAAP Measures*

| | Twelve Months Ended | |
|---|---|---|
| | September 25, 2004 | September 27, 2003 |
| Diluted Earnings per share – As Reported | $1.59 | $1.64 |
| Charge – CEO Departure (3Q04) | 0.08 | -- |
| Charge – Refinancing (1Q04) | 0.03 | -- |
| Diluted Earnings per share – Pro Forma | $1.70 | $1.64 |

* This non-GAAP financial measure reconciliation is provided because management believes the charges the Company incurred in its first and third quarters of fiscal 2004 are not directly related to operating results for the period, and that reconciling E.P.S. in this manner facilitates comparisons to prior period results. The non-GAAP E.P.S. measure is also comparable to earnings forecasts made by securities analysts and others, which have generally excluded these special items. The above non-GAAP E.P.S. calculation should not be considered a substitute for GAAP E.P.S.

This report contains certain forward looking statements regarding the Company's results of operations and financial position within the meaning of Sections 21E of the Securities Exchange Act of 1934, as amended. Such forward looking statements are based on current information and expectations and are subject to risks and uncertainties which could cause the Company's actual results to differ materially from those in the forward looking statements. The Company's business is promotional in nature, and ADVO serves its clients on a "just in time" basis. As a result, fluctuations in the amount, timing, pages, weight, and kinds of advertising pieces can vary significantly from week to week, depending on its customers' promotional needs, inventories, and other factors. In any particular quarter these transactional fluctuations are difficult to predict, and can materially affect the Company's revenue and profit results. The Company's business contains additional risks and uncertainties which include, but are not limited to: general changes in customer demand and pricing; the possibility of consolidation in the retail sector; the impact of economic or political conditions on advertising spending and the Company's distribution system; postal and paper prices; possible governmental regulation or legislation affecting aspects of the Company's business; the efficiencies achieved with technology upgrades; the amount of shares the Company repurchases in the future under its buyback program; fluctuations in interest rates related to the outstanding debt; and other general economic factors.

ADVO, Inc. (NYSE: AD) is the largest targeted in-home print advertising company in the United States, with annual revenues in excess of $1.2 billion. The Company's shared mail advertising programs reach, on average, 67 million US households weekly, and 112 million households monthly. This includes its core ShopWise™ branded programs, and the reach of its ADVO National Network Extension (A.N.N.E.) program. Additionally, the Company's SuperCoups® advertising solutions provide targeted advertising for local neighborhood businesses. ADVO launched the America's Looking For Its Missing Children® program in partnership with the National Center for Missing & Exploited Children and the United States Postal Service in 1985, and ADVO's missing child cards are responsible for safely recovering 133 children. ADVO has 23 mail processing facilities and 34 sales offices nationwide and in Canada. ADVO's corporate headquarters are located at One Targeting Centre, Windsor, Connecticut 06095, and the Company can be visited at its Web site at www.advo.com.

CONTACT:

Chris Hutter
Vice President, FP&A, Investor Relations, and Treasurer
ADVO, Inc.
(860) 285-6424

**ADVO, Inc.**
**Results of Operations (Unaudited)**
**Quarter and Year Ended September 25, 2004**
**(In thousands, except per share data)**

| | Quarter Ended | | Year Ended | |
|---|---|---|---|---|
| | Sept. 25, 2004 | Sept. 27, 2003 | Sept. 25, 2004 | Sept. 27, 2003 |
| **Revenues** | **$320,271** | **$295,184** | **$1,245,838** | **$1,163,113** |
| Cost of sales | 239,588 | 218,791 | 915,767 | 859,223 |
| Selling, general & administrative | 59,077 | 55,086 | 249,093 | 222,248 |
| **Operating Income** | **21,606** | **21,307** | **80,978** | **81,642** |
| Interest (expense) | (1,407) | (1,286) | (5,364) | (7,356) |
| Write-off debt issue costs | --- | --- | (1,401) | --- |
| Other income / (expense), net | 276 | 259 | 1,919 | 1,123 |
| Income before income taxes | 20,475 | 20,280 | 76,132 | 75,409 |
| Provision for income taxes | 7,755 | 6,195 | 27,408 | 25,865 |
| **Net Income** | **$12,720** | **$14,085** | **$48,724** | **$49,544** |
| **Basic earnings per share** | **$0.42** | **$0.47** | **$1.61** | **$1.67** |
| **Diluted earnings per share** | **$0.41** | **$0.46** | **$1.59** | **$1.64** |
| Weighted average basic shares: | 30,534 | 29,817 | 30,193 | 29,749 |
| Weighted average diluted shares: | 30,894 | 30,395 | 30,680 | 30,129 |

**ADVO, Inc.**
**Consolidated Balance Sheets (Unaudited)**
**(In thousands)**

| | *September 25, 2004* | *September 27, 2003* |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 30,284 | $ 17,012 |
| Accounts receivable, net | 149,606 | 122,104 |
| Inventories | 2,123 | 2,491 |
| Prepaid expenses and other current assets | 7,788 | 10,875 |
| Deferred income taxes | 15,484 | 12,496 |
| Total Current Assets | 205,285 | 164,978 |
| Property, plant and equipment – net | 177,937 | 143,025 |
| Investment in deferred compensation plan | 12,800 | 11,106 |
| Goodwill | 22,514 | 22,242 |
| Other assets | 8,873 | 12,130 |
| **Total Assets** | **$ 427,409** | **$ 353,481** |
| **Liabilities** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ --- | $ 36,250 |
| Accounts payable | 51,880 | 36,581 |
| Accrued compensation and benefits | 28,050 | 25,286 |
| Customer advances | 8,650 | 4,991 |
| Federal and state income taxes payable | 3,405 | 10,398 |
| Accrued other expenses | 24,088 | 20,559 |
| Total Current Liabilities | $ 116,073 | $134,065 |
| Long-term debt | 125,159 | 94,000 |
| Deferred income taxes | 25,330 | 19,765 |
| Deferred compensation plan | 13,821 | 11,917 |
| Other liabilities | 5,205 | 4,666 |
| **Stockholders' Equity** | | |
| Preferred Stock, $.01 par value | --- | --- |
| Common Stock, $.01 par value | 310 | 200 |
| Additional paid-in capital | 160,145 | 137,252 |
| Unamortized deferred compensation | (1,878) | (1,628) |
| Accumulated (deficit) earnings | (9,073) | (44,384) |
| Common stock held in treasury at cost | (6,547) | (1,716) |
| Common stock held in deferred compensation trust | (1,022) | (811) |
| Accumulated other comprehensive (loss) income | (114) | 155 |
| Total Stockholders' Equity | $ 141,821 | $ 89,068 |
| **Total Liabilities and Stockholders' Equity** | **$ 427,409** | **$ 353,481** |

**ADVO, Inc.**
**Consolidated Statements of Cash Flows (Unaudited)**
**(In thousands)**

| | *Year ended September 25, 2004* | *Year ended September 27, 2003* |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 48,724 | $ 49,544 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation | 35,901 | 33,671 |
| Amortization of intangibles and deferred compensation | 1,703 | 1,715 |
| Amortization of debt issue costs | 627 | 992 |
| Deferred income taxes | 2,811 | 7,688 |
| Provision for bad debts | 6,836 | 3,826 |
| Equity earnings from joint ventures | (2,601) | (1,476) |
| Write off of debt issue costs | 1,401 | --- |
| Other | 53 | 248 |
| Change in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (34,408) | (5,217) |
| Inventories | 371 | (61) |
| Prepaid expenses and other current assets | 2,650 | (3,735) |
| Investment in deferred compensation plan | 491 | (81) |
| Other assets | 3,917 | 402 |
| Accounts payable | 15,385 | 3,572 |
| Accrued compensation and benefits | 2,769 | 461 |
| Deferred compensation plan | (491) | 81 |
| Customer advances | 3,653 | (2,182) |
| Federal and state income taxes payable | (954) | 5,933 |
| Other liabilities | 3,580 | (3,458) |
| **Net cash provided by operating activities** | **92,418** | **91,923** |
| Cash flows from investing activities: | | |
| Acquisitions, net of cash acquired | (220) | 19 |
| Expenditures for property, plant and equipment | (70,955) | (49,212) |
| Proceeds from disposals of property, plant and equipment | 97 | 675 |
| Distributions from equity joint ventures | 2,559 | 1,197 |
| **Net cash used by investing activities** | **(68,519)** | **(47,321)** |
| Cash flows from financing activities: | | |
| Payments on term loan | (101,250) | (22,500) |
| Revolving line of credit – net | (29,000) | (16,500) |
| Proceeds on private placement notes | 125,000 | --- |
| Note payable | --- | (1,715) |
| Proceeds from exercise of stock options | 15,231 | 1,645 |
| Treasury stock transactions | (5,179) | (922) |
| Payment of debt issue costs | (2,213) | --- |
| Cash dividends paid | (13,275) | --- |
| **Net cash used by financing activities** | **(10,686)** | **(39,992)** |
| Effect of exchange rate changes on cash and cash equivalents | 59 | 121 |
| Change in cash and cash equivalents | 13,272 | 4,731 |
| Cash and cash equivalents at beginning of year | 17,012 | 12,281 |
| **Cash and cash equivalents at end of year** | **$ 30,284** | **$ 17,012** |