

## MEREDITH CORPORATION

Merrill Lynch Advertising/Marketing, Education and Information Conference  
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### INTRODUCTION

Good morning and welcome. My name is Karl Choi from Merrill Lynch, and I'm here to present the first presenting company, Meredith. Meredith is a publisher of major magazine brands such as *Better Homes and Gardens* and *Ladies' Home Journal*, but as Lauren mentioned, they're also a direct marketer, and they have one of the largest consumer databases out there. They also own or operate 14 television stations in the U.S.

With us today are Bill Kerr, Chairman and CEO, Steve Lacy, President and COO, and Suku Radia, CFO. Welcome.

### BILL KERR

Thank you, Karl and Lauren. It's a pleasure to be here. I'm Bill Kerr. I'm the Chairman and CEO, and we have Steve Lacy and Suku Radia over here. I'm going to make a few upfront comments, and then Steve, our Chief Operating Officer, is going to take you through the operations of the business.

But for those of you who may be less familiar with the Meredith, we're a company that's been around for 103 years. We're one of the few publishing franchises not in New York. Our headquarters are in Des Moines, Iowa. And every month we touch about 75 to 80 million Americans in a variety of ways, through our magazines, through our book programs, custom publications, our websites and our television stations, as Karl referenced.

I thought from Lauren's comments – just an aside here from what I was going to say – when she talked about consumer options, I think that is absolutely right on the mark, and it's an issue all of us, I think, in the media space are grappling with. It's interesting to me – today there is no way that I would create a new magazine or launch a new magazine if it did not have a major web component with it as part of that magazine. And indeed that's integrated into all of our existing magazines. An area which we're very, very new at but are starting to get involved with, is video on demand, flowing out of our magazines as a way to reach consumers. And in fact that has been more demand-driven, I think, at this point in time – not a business as yet that is producing anything in the way of substantial money.

I think the other point about the focus of marketers on more than advertising is absolutely precise. And I think often in our space it's easy for everyone to think about – how are you doing on pages, and how are you doing on advertising revenue? But it's a much more complicated relationship with the marketer. As Karl indicated, our database, which is 75 million plus, where we have about 300 data points on the average name on that database, is one of the huge, huge assets, I think. Historically, it has been used mostly to drive our own products and services, but

increasingly we are seeing the interest in providing it to advertisers or marketers on a fee-based arrangement. And I think Steve may mention one of those situations in his comments.

I would say also that increasingly with many of our major marketing partners, much of the dialog has moved away from simply buying space or buying time on our television stations. It gets much more into complicated marketing programs where you need the ability to deliver on a turnkey basis. And I would argue that, you know, if you're going to play in the space, the database is particularly critical for the ability to do that. In many respects, in that part of our relationship, we're becoming a little bit more like an agency than a peddler of space and time. And it requires some changes in the nature of people and the way they get with major customers, gets away from simply the transaction mentality into really more of a consultative sale. And it's something I think we as a company have excelled at and I think stand in a strong, competitive position to go forward on in this kind of new marketing environment.

What I'm going to do is just say a couple of words now about the business and start first of all by just restating what some of you I know have heard before frequently, and what you should hear frequently, because I hope basic strategies don't change constantly. But we have sort of three things that we're focused on in terms of how we run our business.

First we have, as I'll show in a second on some data, we have a very, very strong record of producing organic growth from within our two businesses. And maintaining that growth and maintaining that momentum is obviously something that's just a given in terms of how we have to conduct our business.

Second, we are focused on some targeted and selected acquisitions to fill in some gaps we think may exist in our product portfolio. I would tell you, when we look at acquisitions, we are looking to them to have a truly apparent business logic. We're not likely to venture very far from what we're good at. We want them to be manageable in size, and we want them to be immediately or very, very quickly accretive to our own performance.

I think a couple of good examples in the last couple of years was the *American Baby* acquisition, which we made from Primedia, which has just been phenomenal in terms of its performance and has given us a much bigger footprint in the younger marketplace. And secondly, the acquisitions in the last year of the two WB affiliates in our broadcasting space, one in Chattanooga, which allows us to cluster in the Tennessee area, and the other in Kansas City, which allowed us to duopolize in that marketplace.

The third element of the strategy, which really ties into how we grow shareholder value, is our quite obvious and hopefully apparent willingness to get cash back into the hands of the shareholder if we don't have a highly productive way to use it in terms of running the business. In January of this year, we increased the dividend by 17 percent after a substantial increase last year, and the board authorized another two million additional shares as part of our repurchase program.

I would also point out that particularly over the last few years, we have been an exceptionally strong performer in the media space. You know, if you go back to the recession and in the period of 9/11, as this chart will indicate, in our fiscal 2003 we grew about 35 percent

and 2004 we grew 24 percent. And the numbers we've given to the street and where most people are triangulating for this year around the \$2.50 level, would give us, I guess it's a 28 percent compound earnings growth over that period.

We've articulated, and are focused on, certain financial objectives for our basic businesses. What we've said in terms of the margins of those businesses, we want to get our broadcasting business up to a 40 percent EBITDA margin. It was as low as 23 percent back in fiscal 2002, and we've indicated we want to get our Publishing Group to a 20 percent operating profit level, and it was about 17 percent when we articulated that objective. And we are on strong track for achieving both of those objectives.

We also think, just as a general parameter here, that what you should be expecting from us in political years, given the nature of television advertising, you ought to be looking at least for high teens growth from us in the political years, and we're looking for generally low double-digit growth in the nonpolitical years. And that's a track record that we have outperformed over the recent years.

As I suggested earlier, we recognize the value we believe is in our shares, and what this slide highlights is the forward P/E and EBITDA multiples for our stock at the beginning of March for the last four years. And you'll see, even with the strong performance we've demonstrated, we are trading currently at really the lowest multiple during this time period. Not only do we say we recognize the value in our shares, we act on that. So far in this fiscal year, we've repurchased about a million and a half shares. That's about twice as many as we repurchased in the entire prior year.

So with that little tee-up in terms of the business, I'd now like to turn it over to Steve Lacy. He's our Chief Operating Officer, and he's going to walk you through the two businesses, and then the three of us are here for the Q&A. Thanks.

STEVE LACY

Thank you very much, Bill, and good morning, everybody. It certainly is a pleasure to be here and talk to you about our publishing and our broadcasting operations. Many of you know that publishing has been, in fact, a core strength of Meredith now for over a hundred years. Today we publish under 18 subscription titles led by *Better Homes and Gardens*, along with *Ladies' Home Journal*. In addition, we have a series of mid-size magazines including *MORE*, *Country Home*, *Traditional Home* and *Midwest Living*, which are very successful franchises as well. And as Bill mentioned, the American Baby Group, which was our latest acquisition, extends our portfolio to reach younger women and also the Hispanic marketplace, and we'll talk more about our growing operation in that regard in just a few moments.

In addition to those subscription magazines, we also have a lineup of 150 special interest publications that are sold primarily at retail. We have about 350 books in print, major marketing relationships with some of the country's largest companies, including Home Depot, DIRECTV and Chrysler. And we also have a very significant Internet presence and believe that is a big part of our future, especially in the area of subscription acquisition.

In the publishing area, we focus around these four major growth initiatives, obviously continuing to develop and grow the businesses that we own and operate today by increasing our market share in the advertising space, expanding into new and growing ad categories, and also increasing the rate base and the frequency of some of our mid-size titles as appropriate, along with growing our circulation profitability.

We will continue to focus on broadening our portfolio of magazines, and that's actually through both acquisitions and launches, expanding our brand franchises and, of course, creating new sources of revenue and profit.

The next slide looks at PIB data for *Better Homes and Gardens* and *Ladies' Home Journal*. And you can see that we have increased the combined share of these magazines in the women's service field about a point each year over the past decade, so they really are the powerhouses as it relates to the women's service advertising space.

We've talked on a number of occasions about working to broaden our portfolio and really serve younger readers and the rapidly growing Hispanic marketplace in a more aggressive fashion. As many of you know, according to Census Bureau information, one in every five new homeowners over the next decade will in fact be Hispanic. And tying back to the comments that Bill made earlier about our consumer database, it really is the database of the home-owning households in the country and includes information on seven out of ten homeowners in the United States. The Hispanic market from a spending standpoint currently represents about \$600 billion in spending power, expected to grow to about a trillion by the year 2010.

We recently announced our plans to launch a new business to serve this growing marketplace, and it will really be centered around two broad initiatives. First of all, we will launch in the fall a lifestyle and shelter magazine focused on Hispanic women. It'll premier as a bimonthly title with an initial rate base of 350,000.

In addition to our existing consumer database that we've talked about, we'll use our newsstand distribution network where we have over 600,000 checkout pockets across the country and extend our marketing alliance with Home Interiors and Gifts to help us increase the circulation of that magazine. Home Interiors and Gifts has a sales force with a very, very strong presence in the Hispanic marketplace, and they will help us sell subscriptions to their customers as well.

The second broad initiative around the Hispanic population is expansion of our existing marketing services operation to leverage our custom publishing capabilities and our database expertise to help our marketing partners reach this Hispanic woman. This initiative was kick-started recently with a major program that we're undertaking for Proctor & Gamble as part of their Hispanic cohort activity.

We really believe that our existing core competencies in the area of home ownership, building, decorating, remodeling, cooking and all sorts of family advice are quite relevant topics for this Hispanic woman and are looking at this as a wonderful new business opportunity for us into the future.

Tying back to some of Lauren's comments a few moments ago, our activities really go well beyond creation of subscription-based magazines into what we call our integrated marketing operation that is represented here on the next slide. It has been a rapidly growing business in the first half of our fiscal 2005. Really sources of revenue for Meredith other than advertising or circulation represent now about 26 percent of the revenue of the Publishing Group – and that's up a couple points compared to the prior year.

In our integrated marketing business, we have large programs, as I mentioned earlier, for DIRECTV and customer loyalty activity for Chrysler, Dodge, Jeep, and Carnival Cruise Lines, along with Nestlé, just to name just a few of the major accounts.

Probably our most interesting new piece of business that Bill referenced a few moments ago has to do with really leveraging our consumer database expertise and providing very, very comprehensive services for Hyundai. We're not only creating and providing what we think of as traditional customer loyalty programs, and we're also doing their dealer communication, but we're helping them by maintaining their database of individual automobile owners on our existing Meredith technology, overlaying their data with information that we have on those particular households, to improve and enrich their data and help them improve their loyalty programs.

In addition to integrated marketing, we have a robust book business, and as an example, we shipped over 650,000 copies of the 75<sup>th</sup> Anniversary Edition of the *Better Homes and Gardens New Cook Book* that you see here on the slide, during the first half of fiscal 2005. Part of that business is a robust licensing activity where we license in other brands to publish under. We recently established major programs with Discovery Communications, Marvel Enterprises and DC Comics that will help continue to strengthen our pipeline of new books that we publish and sell through the retail channel.

I'll close that brief discussion this morning on publishing really to restate that this part of our business has been growing rapidly over the past couple years; and, as Lauren mentioned, more and more dollars are directed towards these types of marketing programs. And we think we're well positioned to take advantage of that growth as we look to the future.

So if we shift now to our broadcasting operations, as Karl mentioned, we are a major player in this activity. Today we own six CBS affiliates, four FOX, an NBC in Nashville, Tennessee, a UPN and a WB affiliate. Eight of our stations are in the top 35 markets, and Las Vegas, which is actually market 51, performs as market 28 in terms of local broadcasting revenue. In total, our group reaches about 10 percent of the TV households across the country. We have an AM radio station in Saginaw, Michigan, and operate KSMO, the WB affiliate in Kansas City, through a joint sales agreement.

Paul Karpowicz was recently named as president of the Meredith Broadcasting Group. He is a very highly respected veteran of the television industry with over 30 years of industry experience. Prior to joining Meredith, he ran the television operations for LIN Television and oversaw their 23 properties in 14 markets. He has tremendous experience and proven leadership and we believe has the required knowledge to take our broadcasting business to the next level. He's run a leading group with major network affiliates in big markets, also has had extensive

experience in developing news, programming, sales initiative and a major series of broadcast transactions over many years. And he's a very strong addition to the Meredith senior management team.

In the broadcasting part of the business, we also focus around four major growth strategies: once again obviously continuing to grow and develop the businesses that we own and operate, and that's through creation of strong local news that increases ratings and monetizing those ratings for increased revenue and profit growth; continuing to create new revenue streams; forming duopolies and regional clusters as appropriate; and acquiring stations to fill in our portfolio and expand our reach. We are very much on target with these growth strategies, and I believe that you'll see us continue to execute well against them in the future.

As I mentioned a moment ago, improving news ratings and audience share is a very, very important part of our initiative. This slide highlights our audience share in late news, comparing the February 2005 book with February 2002 in our eight largest markets. As you can see, we've really on the whole produced quite impressive gains.

I want to take just a moment and mention our CBS affiliate in Kansas City, which has posted extremely strong ratings both in the most recent November and the February book. In its Monday through Friday late newscast, it's now the market leader, and it has really posted very strong gains in all of its newscasts across the board. Our stations are developing and expanding on a very winning news culture and producing products that resonate well in the local marketplace.

But, of course, increasing ratings is important only if we're able to convert those gains into revenue growth. And we've done an impressive job of that over the recent past. This graph shows our spot advertising revenue growth compared to the industry average, and that's as reported by TVB, over the past two years. We continued our strong performance in January of this year, growing revenues in the mid single-digit range, compared to the industry which was flat according to TVB.

We also work hard to create new revenue streams and a point of difference in the local marketplace, and we do that through our Cornerstones and also our specialized local marketing programs. They really differentiate our business from other television stations in the market by leveraging our publishing brands, packaging content from our magazine portfolio, along with print advertising from local television advertisers. The result is a customized mini magazine – some of them you see here on the slide – that's delivered to targeted customers in the local marketplace. Revenues from these Cornerstone programs has grown very, very aggressively, along with other market-specific programs and our Internet sales, from about \$3 million back in fiscal 2001 to \$22 million in 2004. And we expect these programs to generate somewhere in the range of \$25 to \$30 million in our current fiscal year that will end on June 30<sup>th</sup>.

With that brief overview of both of our major businesses, I wanted to take just a moment and restate the outlook that we provided in our January conference call.

As many of you know, the FASB recently finalized its option expensing standard, and, consistent with what we've said many times, we early adopted those by expensing our options in the second fiscal quarter, which ended last December. So for all of our fiscal 2005, we stated that option expense would reduce earnings per share by approximately 14 cents a share. And given that accounting adjustment, we anticipate option adjusted earnings per share, as Bill mentioned earlier, of around \$2.50 a share for our fiscal 2005.

In the third quarter, we stated that broadcasting pacings, which of course are always a snapshot in time, are running up in the low single-digit range. We expect publishing to grow operating profit in the high mid single-digit range, and publishing advertising revenues will be down in the low single digits.

Expensing options will reduce earnings per share by about 4 cents a share in the third and the fourth quarters of fiscal 2005. And once again, given that accounting adjustment, we anticipate earnings per share in the range of 67 to 69 cents a share for the third quarter of fiscal 2005, which for us will end on March 31 of 2005.

So once again, thank you for your time and attention, and we'd be happy to answer any questions that you may have. And I'll turn it back over to Karl.

#### Q&A Session

**Karl** Great. Thank you. And once again, if you have questions, either just raise your hands, and we'll get people with microphones, or you can just hand in your index cards. I guess I'll kick off the Q&A session by asking you – this week Hearst announced that they are planning to launch a lowcost women's service title. A couple of titles were launched recently by Time Inc. and Hachette. Any thinking about whether you're seeing any impact on other advertising or newsstand sales on your magazines?

**Steve** Well, always when a new title comes into the marketplace, there is an impact – and it doesn't mean, obviously, that advertising budgets grow because a new magazine comes out. We are, as we have been over a long period of time, very focused on finding opportunities to serve additional marketplaces. And, you know, each new title that comes out has an impact on advertising and an impact on newsstand. But that really hasn't changed, and there are in fact about a thousand new magazines that are launched each and every year. Very few, of course, survive. In our particular case, as I mentioned a few moments ago, our initiatives over, I would say, the last 36 months or so have been focused on both the younger women's market and Hispanic. And, of course, the *American Baby* acquisition was a strong move against the younger women's marketplace, and we think the Hispanic business that we announced recently is the best place for us to spend our product development resources at this point in time.

**Bill** I would just add to that, Karl, I think just kind of philosophically where we are on that issue. I think some of the approaches that we've referenced are really focusing on a relatively low end, relatively low-priced consumer product which would probably raise, I would say, probably a fairly low-market advertising revenue. But I think our strategy has been a much different one. I think we are very focused on trying to just provide

marketing services that go beyond simply the needs of the advertising where we were getting a premium price on what we provide the advertisers. And we're also trying to create a product that the consumer will pay what I would view as a premium price for it. So I think we have a little different viewpoint, which, of course, our database allows us to do.

Q A few questions about your integrated marketing efforts. You mentioned that you act more like an agency. Can you talk a little bit about who actually bring... Well, do you work with the agencies, or do you work directly with the marketers in such a relationship?

Steve Well, in most cases in the advertising work that we do, we work through the agency network, but when you get into these marketing services programs or what we call integrated marketing, generally speaking the relationships are directly with the client companies. We are helping them execute against their marketing strategies, and the money for these programs do not come out of the advertising budgets. They come out of marketing programs that in fact are generally committed for longer periods of time, three to five years – because you're creating a whole program that only has its fullest benefit if it's replicated over quite a period of time. As a result, the programs tend to stay in place, the budgets tend not to get cut, and it's a more consistent and predictable stream of revenue than is the advertising marketplace.

Q And related question – what are your margins in integrated marketing and the renewal rates?

Steve The renewal rates are really quite good. The only time, Karl, that you have a change is if a new leader comes into the business and decides to take their marketing programs in a dramatically different direction. Generally we renew our existing business quite well, and sometimes we're the beneficiary of the new marketing approach, and sometimes, you know, sometimes we lose. But the margins in that business are very, very similar to the Publishing Group taken as a whole, maybe just a little bit better overall.

Bill Yes. Karl, I would add, the only kind of serious disruption that took place in that business was around the events of 9/11 where I think that many people kind of moved back from longer-term thinking for lot of programs and wanted to advance things that were in the pipeline at that time. But other than that, fairly quickly, we moved to ..... and this has been a very, very good return on business, with the capital expenditures this season.

Q In the launch of this Hispanic women's magazine in such a different market, different language, different culture, could you expand a little bit on the size of the investment that you're making there in terms of staffing up with employees. And then secondly, on your broadcasting strategy, could you talk a little bit about what a typical station acquisition would mean for you in terms of the size of market you'd look to get into and the amount of money you would be willing to spend.

Bill Steve, you want to take that?

Steve In terms of the Hispanic initiative, that will be, as it gets fully wrapped up, the investment required there would be somewhere in the \$3 to \$5 million range, not, you know, not a huge endeavor. That's around, of course, creative resources that are required to put the product together and of course sales and marketing. We are fortunately really leveraging off of a part of the *American Baby* acquisition, which already had a series of publications directed at the Hispanic marketplace. And we had four on the creative side, and we also had four on sales and marketing, which we're augmenting. And with the help of Home Interiors and Gifts, we're going about the circulation in a little different way, and so that's been helpful as well.

From a broadcast acquisition standpoint, we're really looking at a couple things. First of all, in certain markets where we might have an opportunity to own more than one business. And we model that more on the cost savings than we do on the revenue side. That's what we've done in Hartford recently, in Saginaw and in Kansas City. And you know, there's a few of those opportunities out there but not a lot. Beyond that, you would see us do what I think of as more of a regional fill-in. We have a powerhouse CBS station in Phoenix. If we could get a station in Tucson, it would make a great deal of sense, because that's about what there is in the Arizona market. We could get a second station in Las Vegas because of what a robust television marketplace that is. So it's more of a fill-in acquisition strategy in regional areas that make sense. Generally we would look for major network affiliates.

Q Given the shift from a buyer's to a seller's market in broadcast, how do you counsel the station on the inventory pressures between taking care of good old advertisers that have been advertising for years on a consistent basis and the new players in the market that come in with a lot of money and are bumping some of the old advertisers? How do you counsel them as far as balancing that out?

Steve Well, you know, it is a very interesting business, different than publishing because of the limits of inventory. And one of the greatest challenges is the inventory management in making sure that you take full advantage of that pricing opportunity. Some of our people are better at it than others. And I think that generally speaking, there is a pretty good way in each one of our markets to take care of both of those particular customers, because in many cases the longstanding customer who is well positioned in the local market is willing to take the positioning that goes with a lower-spot rate. And you have someone who comes in and is trying to make a major splash, and they're really willing to step up and pay very, very significant rates for the time periods that matter to them. And it's really not a problem that brings itself to bear very often, because generally we have some inventory and we can accommodate both of those types of customers – and they do exist in the market.

Bill Yeah. I would add one other thing to that. I think we have today a much, much better control and knowledge of our inventory than we might have had 36 months ago. We happen to be an investor in a company called Wide Orbit, which we use as part of our inventory management system, which is web-based, which we can easily monitor essentially as well. It's giving you all the interactive capabilities for management to have whether it's opposed to kind of a black box in the past. So I think, you know, this is an

art, not a science in terms of how this really happens. But I do think we now have an ability to exercise greater discipline, and we bring some greater central knowledge of what is actually happening at the stations. So I think that's enhanced our ability to do it.

Q A question regarding magazine advertising, it was a bit soft in the December, and it looks like it's again a little bit soft in the March quarter. Any update on the outlook?

Steve Well Karl, we will, of course, give our formal fourth quarter update when we release earnings at the end of April. What I would say is that it continues to be quite volatile issue to issue, and I just spent a half a day yesterday with all of the publishers that run each of our individual businesses. And the sense I get is that the marketplace is a bit stronger than it was, but we really haven't closed issues in the fourth fiscal quarter yet. So we'll give you our best information on that when we release our next quarterly earnings.

Bill Yeah. I think Steve said actually is an increase taking place. But we'll announce that once we've actually seen the magazines close.

Karl Last couple questions.

Q Will you comment on the printing environment and what you're seeing there in terms of your relationships and specifically RH Donnelley?

Steve Yeah. We have several major relationships, our largest being with Donnelley. We have just gone through a series of renegotiations of our printing contracts, and that has been a business where over a decade we've seen significant reductions in unit printing costs; although obviously our business is much larger than it was, and so our actual total printing bill is much, much bigger. And we see that continuing. And I would say in terms of vendor relationships, probably the best place where over a long period of time we have worked together to jointly take costs out of the system and share in that, and I think if you ask Donnelly about us, they would tell us that we have been a very, very good customer. That's where we print both *Better Homes and Gardens* and *Ladies' Home Journal*, some major, major print runs. And we do some other things with them as well. But we have dedicated teams of people really in both of our businesses, and we focus around a continued efficiency and reduction of cost, and we've seen that in our average unit costs, and we'll see that as well in this next contract.

Bill And I would just add to Steve that I think that Donnelley along with our other major printers have both embraced that strategy with us, and I think they know what we realistically expect, and I think they operate with the fact that we will continue to impose cost controls with them in the future.

Q Our last question regarding video on demand – can you talk a little bit about what you're doing there?

Steve For some of you who might be familiar with our special interest publication business that I mentioned, which are really very, very strongly targeted magazines that take the inspiration that the consumer might have and help them go to action – remodel your

kitchen, build a deck, redo your bathroom – we're in a very significant development phase to understand how we can augment that with video and video on demand. It's very much in my mind, like what we see in terms of an SIP that you can view as opposed to read. And we're in discussions with some of our marketing partners through integrated marketing as well who are looking to augment their existing programs with video on demand. And we have a few of those activities sort of in what I would call the demo phase at this point. And the real challenge that we're focused on is how to turn that into a business that generates real revenue and profit, and I don't think that model, Karl, in fact, has been established. But there is a need, and we have targeted resources focused on trying to turn that need into a real business.

Karl With that, we'll stop here. I want to thank the management team from Meredith for presenting this morning.