

MEREDITH CORPORATION
Investor Call
May 24, 2005 - 9:00 A.M.

CALL OPERATOR

Ladies and gentlemen, thank you for standing by, and welcome to the Meredith Corporation teleconference. At this time all participants are in a listen-only mode. Later we will conduct a Question and Answer session. At that time, if you wish to ask a question, please press *, then 1 on your touchtone phone. You will hear a tone indicating that you have been placed in queue, and you can remove yourself from queue at any time by placing the # key. Once again, ladies and gentleman, when we go to Q&A, if you do have a question, please press *, then 1 on your touchtone phone. If you should require any assistance during the call, please press *, then 0, and an operator will assist you.

As a reminder, this teleconference is being recorded. I would now like to turn your teleconference over to the Director of Investor Relations, Mr. Jim Jacobson. Please go ahead, sir.

JIM JACOBSON

Thank you, Bill. Good morning, everyone. I'm Jim Jacobson, Director of Investor Relations for Meredith. Joining me are Chairman and Chief Executive Officer, Bill Kerr, President and Chief Operating Officer, Steve Lacy, Publishing Group President, Jack Griffin, and Chief Financial Officer, Suku Radia. In our remarks today, we will include statements that are considered forward-looking within the meaning of federal securities laws. The forward-looking statements are based on management's current knowledge and expectations and are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. A description of the risk factors can be found in our news release issued today and in certain of our SEC filings. The Company undertakes no obligation to update any forward-looking statement. Now Bill will begin the discussion.

BILL KERR

Thank you, Jim, and good morning, and thanks to all of you for joining us on such short notice. I want to welcome you to our conference call to discuss our acquisition of *Parents*, *Child*, *Fitness* and *Family Circle* magazines. I trust you've had a chance to review the press release issued this morning, and I'll provide a few opening remarks, and then the management team will respond to your questions.

Earlier this morning we announced that Meredith had reached an agreement in principle with Gruner + Jahr to acquire *Parents*, *Child*, *Fitness* and *Family Circle* magazines for \$350 million in cash. This transaction is subject to completion of our due diligence, the execution of definitive agreements, and is subject to certain closing conditions. We expect to sign the definitive agreements in early June, and we are targeting a June 30, 2005, close.

As I think we have stated previously on many occasions, one of our growth strategies is to broaden our magazine portfolio to reach younger women and to serve the rapidly growing Hispanic market. The acquisition clearly solidifies our position as the leading publishing company serving women, whose primary interests are their homes, their families and their personal development. We are now in a position to offer advertising clients the opportunity to reach even more women at different stages of their lives.

Parents, *Child*, *Fitness* and *Family Circle* are established and well-known consumer magazines that will benefit from Meredith's proven editorial, circulation, sales, database and brand-building expertise. These titles have significant upside but have underperformed in recent years. We have the unique skills and resources needed—particularly in the circulation area—to help these magazines realize their potential.

We expect the transaction to generate EBITDA in the low-to-mid \$30 million range and to be modestly accretive to earnings per share in fiscal 2006. We will be more precise about the amount of accretion after the valuation of intangibles and related amortization is determined. The transaction will increase the Publishing Group's revenues by approximately \$300 million to more than \$1.2 billion.

There are a number of reasons why we are excited about this transaction. First, it increases our reach and our scale. Meredith titles will now reach more than 135 million adult American women, giving us the largest female reach in the magazine industry. Our titles will have a combined circulation approaching 30 million, making us the second-largest consumer magazine publisher in the United States.

It furthers our strategy to reach younger women. Our December 2002 acquisition of *American Baby* helped us establish a foothold in this market. Now, with the addition of *Parents*, *Child* and *Fitness*, we will have added approximately 30 million female readers with a median age below 35, in a little over two years. As a result, Meredith will become the premier magazine company serving expecting and new families, a demographic that is a leading purchaser of consumer products and services.

We will leverage our editorial, circulation, sales and database expertise to grow these titles. These are well-known magazines with proud traditions and with significant upside potential. They've experienced some weakness recently, largely caused by poor circulation practices, and we believe we have exactly the right skills needed to restore their luster. We will employ our long-term, direct-to-publisher circulation strategy that emphasizes our editorial content and commitment to service journalism. Over the years, this has proven to be effective in generating highly profitable circulation for Meredith.

The transaction also significantly extends our retail presence. It will add approximately 250,000 newsstand pockets. This will bring our newsstand pockets at supermarket checkouts and other retailers across the country to nearly one million.

It will add to our growing presence in the Hispanic marketplace. *Parents'* Spanish-language title, *Ser Padres*, is an established title with a distribution of 500,000. Combined with *American Baby's* Hispanic titles, our custom marketing programs, and the September 2005 launch of our

new Spanish language women's title, *Siempre Mujer!*, Meredith will be uniquely positioned to serve Hispanic consumers, the fastest-growing segment in the American population.

You will note in the press release that Gruner + Jahr has an option until June 30, 2005, to sell *Fast Company* and *Inc.* to us, if it desires. G + J is marketing these titles to potential buyers. If we do acquire the business publications, we plan to sell these magazines either through a private sale or an auction. If we do temporarily acquire the business publications, we will account for them as assets held for sale and, consistent with the required GAAP reporting treatment, classify their results from operations as a separate category within our income statement. We do not believe the net impact of the purchase and subsequent sale of the business publications will be material to the overall purchase price.

From an organizational perspective, we plan to continue operating the new titles from New York. We will integrate the new magazines into our existing portfolio by creating three operating groups within the Publishing Group.

The first will be the Meredith Parenting Group, which will consist of the *American Baby* Group, *Parents*, *Child*, and the related Hispanic publications. It will be positioned to serve consumers and advertisers through the parenting cycle from pre-natal to pre-teen.

Second will be the Meredith Women's Lifestyle Group, which will include *Ladies' Home Journal*, *MORE* magazine, and *Fitness* magazine. With their focus on fashion, beauty and women's health, these titles allow us to serve women and advertisers across a wide range of age and income demographics.

And third will be the Meredith Mass Reach Magazine Group, which will consist of *Better Homes and Gardens* and *Family Circle*. We will be a leading player in the packaged goods and household products categories. We also believe our group sales operation will be able to leverage the two brands to create customized advertising programs second to none in the industry.

We believe these consumer magazines will benefit tremendously from our successful model of consolidating critical functions that are common to all magazines—the procurement of paper, the negotiation of printing contracts, the generation of subscriptions, and the management of the accounting and financial functions are all good examples of this consolidated model.

We plan to finance the acquisition through a new, \$250 million private placement of senior notes. The balance will be financed under our existing credit facilities. The new private placement debt will mature in staggered terms over the next two to five years. We expect the debt covenants to be similar to our existing private placement debt. Following the transaction, we will have total debt of approximately \$620 million, resulting in a debt-to-EBITDA ratio of approximately 2 to 1, which is well below the 3.5 to 1 ratio that is allowed by our existing debt covenants.

Our strong balance sheet and our ability to generate cashflow from operations will continue to provide the financial flexibility to return capital to shareholders through share repurchases and dividend increases and to pursue targeted acquisitions. As a reminder, we increased the dividend 26 percent in calendar 2004 and 17 percent in calendar 2005. In the current fiscal year, we have

repurchased approximately 1.95 million shares compared with 750,000 shares in all of fiscal 2004.

We know you may have questions, so in closing, I just want to say that today is truly historic for Meredith. This is our largest publishing acquisition in our 103-year history. We believe *Parents*, *Child*, *Fitness* and *Family Circle* will be a great fit into our existing stable of leading home and family magazines. We are excited to help these titles reach their potential through our proven editorial, circulation, sales, database and brand-building skills. And now we would all be happy to take your questions.

QUESTION & ANSWER SESSION

CALL OPERATOR

Thank you. Ladies and gentlemen, if you wish to ask a question, please press *, then 1 on your touchtone phone. Once again, ladies and gentlemen, if you do have a question or a comment, please press * and then 1. One moment for your first question. The first line will open, is the line of Doug Arthur with Morgan Stanley. Please go ahead.

DOUG ARTHUR

Yeah, Bill, two questions. First, *Family Circle*, do you anticipate any Justice review of that acquisition to the extent that it's sort of part of the traditional "Seven Sisters," or now "Six Sisters" group? And then, secondly, with the expanded reach, what are the implications for your very successful integrated marketing group with this bigger platform, if any? Thanks.

BILL KERR

Doug, good morning to you. I'll take the first one. We do not anticipate any meaningful anti-trust issues in regard to this acquisition. And I'm going to ask maybe Steve and Jack to speak to the question of integrated marketing and how that may benefit from this.

STEVE LACY

I do not know that it has really a material effect on integrated marketing. It will allow us relationships with some other advertisers and marketers that we may not be as close to. And clearly the ability to have the content archive from *Parents* and *Child* and *Fitness* may provide us some opportunity to enrich some of the work that we do. But most of the implications are really in the magazine business and in our retail activity because of the tremendous number of newsstand pockets that *Family Circle* has. We'll have a total of over a million pockets at retail for selling magazines on the newsstand. And those things are probably the biggest factors in the market.

DOUG ARTHUR

Let me just follow up on the *Family Circle* question. Let me ask it another way. If you look at sort of the end markets for *Better Homes* and *Ladies' Home Journal*, how do you see *Family*

Circle sort of playing into that? I realize it's going to be in a slightly different group than *Ladies' Home Journal*, but sort of where do you see the strengths and weaknesses in that kind of greater women's franchise of that title?

BILL KERR

Doug, I'm going to ask Jack Griffin to deal with that question, and I would just probably echo what's inherent in your question, that the differentiation in the positioning is going to be exceptionally important as we go forward. And Jack's going to be the captain of that ship, and I think he's the right guy to talk to you about it.

JACK GRIFFIN

Sure. *Family Circle*, first, has, as you know, a storied history in the magazine business and is a tremendous brand. It's published 15 times a year. It has an MRI audience of over 21 million adults. And when you add that to *Better Homes and Gardens*, which is about 38 million adults, you just get a combined reach that's quite significant, as you can tell.

I'd say the other distinguishing character of *Family Circle* relative to the rest of our women's service portfolio is it has a higher percentage of its circulation that comes from the newsstand. We view that as a good thing that creates sampling; it brings new readers into the franchise. And we believe we have substantial opportunities to cross-pollinate the various titles. I also think that *Family Circle* will benefit on the subscription side from the Meredith database, which has been substantial and critical to our success. I think that *Family Circle* as a magazine product, we're going to have to do some work on that positioning. But if you look at a cover of *Family Circle*, you'll see that in and out of every issue it's quite different than the *Ladies' Home Journal* focus, which is much more on the inner life of a woman, a beauty focus in *Ladies' Home Journal* that is quite different than *Better Homes and Gardens* and *Family Circle*.

DOUG ARTHUR

Great, thank you.

JACK GRIFFIN

You're welcome.

CALL OPERATOR

Next line that will open is the line of Karl Choi with Merrill Lynch. Please go ahead.

BILL KERR

Good morning, Karl.

KARL CHOI

Hi, good morning. A couple questions. One, I wonder if you can quantify the amount of cost savings you expect from the acquisition in terms of consolidating some of the functions that you talked about. And, two, in terms of investments in the subscriber database, given some of the issues that the titles, or the company, I should say, Gruner + Jahr, has had in the past, so can you just talk about what kind of investments you need to make in the subscriber database, and how much do you actually think you need to spend on that kind of efforts?

BILL

I'll let Steve take that, Karl.

STEVE LACY

Karl, let me kind of take it I guess in two pieces. We are in, beginning today, very significant confirmatory due diligence and really getting into the significant detail of the circulation models. We believe that we will be required to make some additional investments, especially in direct-mail activities, but it's really premature for me in fact to be able to quantify that for you, although, the next time we speak to this, we'll have it figured out. And we have made certain assumptions that we think are adequate within the modeling that we've done up to this point in time.

And as it relates to the former Gruner + Jahr infrastructure, I think it's important to realize that we're in fact buying is four magazine businesses that we are working into the existing Meredith infrastructure. So really the corporate support functions that they had put in place in the United States to support their businesses aren't really relevant in terms of the way the numbers flow together. We're simply acquiring four magazine businesses and putting them into our existing structure.

KARL CHOI

Okay, and I guess one follow-up question: I do not know if you've had a chance to look at in terms of the EBITDA margin's potential for the titles. It looks like at this point you're looking at sort of in the 10%-plus range. Is there any reason to believe... What sort of potential do you expect the titles to eventually get to.

STEVE LACY

Well, obviously you know what our margin is for our business taken as a whole.

KARL CHOI

Right.

STEVE LACY

So we look at this as a wonderful upside opportunity. Once again, in terms of where they will be as we look into the future and the period of time it will take to get there, I think has a great deal to do with our ultimate valuation of the circulation activities and our ability to shore that up – because, as you know, in our model we focus against very significant profitability coming from that side of the house. So I think we're just a little bit, once again, Karl, premature to make those kind of predictions. But obviously we know that the margins of our existing business are about twice as good, so clearly that gives us a wonderful runway for growth as we look to the future.

KARL CHOI

One last question. Can you tell us what your interest rate assumptions are for the acquisition?

BILL KERR

Suku?

SUKU RADIA

Sure. Karl, based on the fact that, you know, Bill talked about the \$250 million in private placement and the balance coming from our existing credit facilities, as I look at it, a combined rate in the 5 to 5¼% all inclusive is probably a realistic assumption.

KARL CHOI

Great, thank you.

CALL OPERATOR

Thank you. The next line we'll open is the line of Barton Crockett with JP Morgan. Please go ahead.

BARTON CROCKETT

Okay, great. I was wondering if you could give us a little bit more description of what this will do to newsstand exposure and circulation as a percentage of the total. And also tell us how you expect to manage through the declines, I guess, of those magazines or that the industry is experiencing obviously at the newsstand level and I think the additional reliance that these magazines have relative to your current... And I guess the concern is that you would go through some volume decline before you were able to pull out of it as you convert from their model to your model. But if you could sort of describe how you should be able to manage that and how long it might take before you're able to put that on a better trajectory. And then secondly, I was wondering if you could talk a little bit. It looks like the year one return on invested capital from this might be, depending on what you assume for depreciation and the tax rate, somewhere around 5%, which I assume would be below your rated average cost of capital, which I guess suggests that you see substantial margin improvement over time to get it up to an acceptable investment for you. And I was just wondering if you could comment on that return on invested capital and if my assumption there is accurate.

BILL KERR

Suku, do you want to react to the return on capital question?

SUKU RADIA

Sure, Barton. Our weighted cost of capital is somewhat in the 8 percent range currently, and of course until we have completely performed a valuation, we will not know from a GAAP standpoint what the allocation is to the intangible assets, which require amortization. ... internal modeling, as we look out, what we did was a hurdle internal rate of about 10 percent and beyond that it would probably be a little bit premature, since we have not done a formal valuation, to make any comment. Keep in mind also that the entire transaction is going to be subject to 15-year tax-deductible amortization because it is an asset purchase. So from a pure cash standpoint, we will have quite a bit of deduction. The tax benefit will be \$140 million over the 15 years, and if you apply the 9% discount rate, that translates into about a \$75 million benefit at current tax rates.

BILL KERR

Yeah. We think your 5% number is a little on the low side.

SUKU RADIA

Yeah.

BARTON CROCKETT

Okay, great. I didn't factor in the tax benefit, which is helpful to hear that.

SUKU RADIA

Right, exactly.

BARTON CROCKETT

Okay. And then in terms of the newsstand exposure and how you manage through that, could you walk us through how long it'll take to stabilize that and maybe show the volume recovery there?

STEVE LACY

Let me speak to it a couple ways. First of all, acquiring that sort of an incremental number of pockets at retail is a very, very challenging thing to do in this sort of space. And in our particular case, you know that in our existing subscription magazines we have a very, very small reliance on newsstand. But we also operation a very large and wonderful business, our special interest publication business, where these magazines are only sold at retail. So as we really look to the future and understand the business better, we're just thrilled to have the opportunity to add that

kind of inventory. And what we will do is find a way to maximize the benefit of those pockets in the most profitable fashion over time. And that was really the point that we were making regarding the newsstand pockets; because, as you know, we publish somewhere in the range of 150 to 160 special interest publications with a very high cover price and a very, very important and profitable part of our business. So we may be able to deploy our total million pockets in a slightly configuration as we look down the road. And all of these activities, I think, we have to look to a period of about 12 months to sort through what's the best thing to do with all of these assets. But I don't think there's any reason to believe that the additional pockets at retail will be anything other than an upside opportunity for the magazine group taken as a whole.

BARTON CROCKETT

Okay, great. I'll leave it there. Thank you.

CALL OPERATOR

Once again, ladies and gentlemen, if you do have a question or a comment, please press * and then 1. The next line we'll open is Paul Ginocchio with Deutsche Bank. Please go ahead.

PAUL GINOCCHIO

Hi there. Two quick questions. First, does your exposure to any large advertisers change significantly, does advertiser concentration get worse with this transaction, or is it more diversified? And second, could you just talk a little bit more about the option you've given to Gruner + Jahr and why it was given?

BILL KERR

I'm going to ask Jack to deal with the first question in regard to advertising. Not to preempt what he's going to tell you, but we think it really helps us open up some categories where we're looking for some strength. But Jack...

JACK GRIFFIN

Yeah, you bet. That's definitely correct. If you look at *Child* and *Parent* and *Fitness* and each of those businesses, the beauty category, which is an important target category for us—it's either the number one or the number two of advertising—so that's a tremendous leverage point for us at Meredith because that's a central category for our existing stable. And if you look across the category landscape, these magazines do do better than our magazines do in some other important categories like media and entertainment and automotive and some of the remedies. So we think it does really wonderful things for the advertising diversity from a category standpoint. And I think also important here is these magazines, none of them is tremendously dependent on the home category, which is obviously a central category for our existing stable. So overall the category mixture with these magazines is quite good for Meredith overall.

BILL KERR

And, Steve, do you want to deal with the business question.

STEVE LACY

Yeah. When we looked at this possibility, we believe very, very strongly that the four properties that we are acquiring, we can have a lot of value to from a circulation standpoint, and as Jack just mentioned, from a balancing and expanding of advertising category perspective. When it comes to the two business titles, our belief is that there is probably a better home for those titles. But we didn't want to have a situation—and that would be the collective “we,” the Gruner + Jahr leadership and the Meredith leadership—of holding up the transaction, of closing on the consumer titles that we're acquiring while Gruner + Jahr works to find the right home for their two business titles. So they are marketing those separately, but if, from a timing standpoint, there's a need for us to take them for a short period of time and hold them as assets held for resale, we would be happy to do that in a prearranged fashion. And that's really why we put that accommodation in place, because we're very anxious to take over the consumer titles and do so in a very, very rapid fashion and put them into our existing portfolio.

PAUL GINOCCHIO

Great, thank you.

CALL OPERATOR

We have no additional questions in queue at this time. Please continue with your presentation.

BILL KERR

All right. If there are no further questions, I want to thank you all again for joining us. I know this was very short notice. I think as I look at this, as I said in my opening comments, a very important strategic acquisition for Meredith that will do well for us financially. If you use a sports analogy, I think here we are really keeping our eye on the ball. That's important for us with our business. And if we're thinking tennis, I think we're hitting this one with the sweet spot of the skills that we have that can really make this acquisition work effectively. Obviously, the burden on us is to execute it, but I think it is absolutely in the center of what we're good at. And we're looking to get significant results and to frankly help provide another way to maintain the kind of strong growth we've had over the last years as we look out over the next few years ahead of us. And this should be an important building block in that future growth.

So again, thanks for being with us on the call, and we appreciate you doing this on such short notice.

CALL OPERATOR

Ladies and gentlemen, this teleconference will be available for replay beginning today at 12:30 and running through May 31st. You may access the AT&T Executive Playback Service at any

time by dialing 800-475-6701. International participants may dial 320-365-3844. And your access code is 782830. Again, the toll-free number is 800-475-6701. International is 320-365-3844. And your access code is 782830. That does conclude your teleconference for today. Thank you for your participation and for using the AT&T Executive Teleconference. You may now disconnect.