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Meredith Corp. (MDP)

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CORPORATE PARTICIPANTS

Michael A. Lovell
Director-Investor Relations, Meredith Corp.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

Thomas H. Harty
President & Chief Operating Officer, Meredith Corp.

Jon Werther
President-National Media Group, Meredith Corp.

Paul A. Karpowicz
President, Meredith Local Media Group, Meredith Corp.

OTHER PARTICIPANTS

John Janedis
Analyst, Jefferies LLC

Eric Katz
Analyst, Wells Fargo Securities LLC

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Barry L. Lucas
Analyst, Gabelli & Company, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to the Meredith Corporation Second Quarter Fiscal Year 2018 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will a question-and-answer session. [Operator Instructions] Thank you.

Mike Lovell, you may begin your conference.

Michael A. Lovell
Director-Investor Relations, Meredith Corp.

Good afternoon, and thanks everyone for joining us. Our call today will begin with comments from Chairman and Chief Executive Officer, Steve Lacy; President and Chief Operating Officer, Tom Harty; and Chief Financial Officer, Joe Ceryanec. Then, we'll turn the call over to your questions. Also on the line today are Local Media Group President, Paul Karpowicz; and National Media Group President, Jon Werther.

An archive of the call will be available tomorrow on our investor website. Our remarks will include forward-looking statements, and actual results may differ from forecasts. Some of the reasons why are described at the end of our news release issued earlier today and in some of our SEC filings.

Certain financial measures that we are discussing on this call are expressed on a non-GAAP basis and have been adjusted to exclude the impact of special items. Reconciliations of these non-GAAP measures are included in our earnings release, which is available in the Investor Relations section of our website.

With that, Steve will begin.

Stephen M. Lacy

Chairman & Chief Executive Officer, Meredith Corp.

Thank you very much, Mike, and good afternoon, everyone. I hope you've seen our news release issued earlier this afternoon. We're very pleased to have closed our acquisition of Time Inc. in just two short months and to have delivered record earnings per share for a non-political second quarter and for the first half of our fiscal 2018.

I'll begin this afternoon with Meredith's second quarter and first half results. Next, I'll review the strategic rationale that drove the Time Inc. acquisition and give you a day one snapshot of what the new Meredith looks like now. Then, I'll turn it over to Joe and Tom, who will discuss a series of events and activities that have happened since the November 26 acquisition announcement, update you on how the Meredith and the Time Inc. properties have performed, outline our integration and go-forward strategy and provide insight into how we're thinking about our financial outlook for the near term.

We're quite pleased to report record earnings per share for a non-political second quarter and first half. Our performance was driven by strong growth in non-political ad revenue in our Local Media Group, along with record digital performance and solid expense discipline in our National Media Group.

Fiscal 2018 second quarter earnings per share were $3.49 compared with $1.58 per share in the prior-year period. Excluding special items in both periods, fiscal 2018 second quarter earnings per share were $1.14 compared to earnings per share of $1.30 a year ago, when we benefited from $0.52 per share in political-related ad revenue.

Total company revenues were $418 million. That compares to $443 million in the prior-year period, again, reflecting the absence of $38 million of political advertising revenue.

Special items in our fiscal 2018 second quarter included a benefit of $2.92 per share from revaluing deferred income taxes related to changes in the U.S. corporate income tax rate, transaction expenses of $0.23 per share related to the Time Inc. acquisition, and a charge of $0.34 per share related to the impairment of a trademark and a realignment in our National Media Group.

Taking out all of the special items and the impact of tax reform, second quarter earnings per share would have been $0.93. That's above the high-end of the $0.87 to $0.92 per share range we communicated on our earnings call on October 27 of 2017. First half fiscal 2018 earnings per share were $4.23. That compares to $2.33 per share in the prior-year period.

Excluding special items in both periods, fiscal 2018 first half earnings per share were $1.83 compared to $2.05 a year ago, again, when we benefited from $0.72 per share in political-related ad revenue. Total company revenues for the first half were $810 million compared to $843 million in the prior-year period, reflecting the absence of $53 million of political advertising revenue.

Turning now to our operating group results. Fiscal 2018 second quarter Local Media Group revenues were $170 million and operating profit was $51 million, both are record highs for a non-political second quarter. Our results reflect the absence of $38 million of high-margin political advertising, as expected in a non-election year.

Non-political ad revenues were up 13%, led by growth in Phoenix, Atlanta and in our Las Vegas markets. Our two largest ad categories, auto and professional services, were particularly strong. Fiscal 2018 second quarter

National Media Group revenues were $247 million. National Media Group operating profit was $12 million. That compares to $47 million in the prior-year period.

Excluding special items in both periods, fiscal 2018 second quarter National Media Group operating profit increased 2% to $35 million, driven by lower expenses in our magazine activity. Total ad revenues were $126 million. Our magazines grew their share of industry advertising to a record 14%. At the same time, digital ad revenues increased 7%, driven by stronger yield, particularly, on our programmatic platform. Digital ad revenues accounted for 44% of total National Media Group ad revenues in the period.

With that review of our fiscal 2018 second quarter and first half, I'll pivot the conversation this afternoon to our Time Inc. acquisition, starting with a review of the strategic rationale for the transaction.

First of all, in combining these companies, we've created a diversified multiplatform media company with significant scale. Scale is exceptionally important in today's evolving media landscape. More and more marketers and their agencies are consolidating budgets with partners who have scale; trusted brands and the ability to deliver improved return on ad spend. We now reach $200 million unduplicated consumers, including 85% of adult millennial women.

We possess a multiplatform product suite that delivers our highly coveted audience to advertisers and marketers alike. We have a leading position in entertainment, food, lifestyle, parenting, home, news and sports from a content creation perspective, and we also enhanced our position in beauty, in fashion and the luxury ad categories.

Second, we added to our portfolio a best-in-class national brands, which now includes People, along with Better Homes and Gardens, SHAPE and InStyle. We are, without a doubt, the number one U.S. magazine operator, reaching 115 million women each and every month and the owner of five of the industry's top brands. Along with print advertising, our diversified revenue streams include, digital ad revenue, stable circulation spread across nearly 60 million individual subscribers, a highly profitable brand licensing business; and e-commerce; events; and content management activities.

Third, we have significantly accelerated our digital scale, with nearly 170 million monthly unique visitors in the U. S. and over 10 billion annual video views. This scale moves us solidly into the top 10 among U.S.-based companies as ranked by traffic, just behind Amazon and the Microsoft sites. We expect to generate nearly $700 million in digital ad revenue, representing more than 30% of our advertising revenue. We are the number one digital publisher in the lifestyle and food categories and for millennial women.

We're well positioned to benefit from fast-growing digital ad platforms, including native, video, shopper marketing, programmatic and social. With our new scale, including 250 million addressable e-mail accounts, we'll have many new segmentation and targeting tools to better leverage our data in real-time, putting the right offering in front of the right consumer at exactly the right time. This means delivering higher returns for our advertising clients and growth in digital ad revenues beyond the combined $700 million level.

Fourth, we'll continue to benefit from the strong and growing contribution from our Local Media Group. Our portfolio of 17 high-performing television stations is a consistent generator of strong cash flow, averaging approximately $230 million of EBITDA annually and coming off a record fiscal 2017. We have highly profitable duopolies in 5 of our 12 markets. Our stations reach 11% of U.S. television households and are primarily Big 4 network affiliates. Because ad dollars generally follow the consumer audience, we're focused on large and mid-sized markets that are, in fact, growing faster than the U.S. average. Our stations are local market leaders, with the number one or number two audience position in the morning or late news time slots in most of our markets. This is an important distinction, because the largest players command more than their fair share of local market ad revenue.

Fifth, this combination meaningfully enhances our financial strength and flexibility. We expect to generate cost synergies at the high end of the previously stated $400 million to $500 million range within the first two full years of combined operation. We have an excellent track record of achieving cost synergies with prior acquisitions and are confident in our ability to optimize the cost structure of the combined businesses.

Sixth, we expect to maintain a strong credit profile and continue to generate strong cash flow. We have a modest leverage under three times, including synergies at close. The pro forma company is well equitized, with total equity representing more than 50% of capitalization.

And finally, Meredith continues to be led by a very experienced, best-in-class management team, with a proven track record of outperforming our peers and successfully integrating acquisitions.

I'm pleased to announce that effective tomorrow, February 1, my longtime business partner Tom Harty becomes President and Chief Executive Officer. I will continue as an employee of Meredith, serving as Executive Chairman. These new roles of the next phase in a well-planned succession process that began when Tom was promoted to President and Chief Operating Officer in 2016, and he's done an outstanding job leading our operating groups.

In my new role, I'll work with Tom to determine Meredith's strategic agenda, continue to represent Meredith to the investment and financial communities, lead our board activities while playing a greater role in media industry association activities, particularly, legislative initiatives.

In his new role, Tom will continue to lead our National and Local Media Groups with a significant emphasis on successfully integrating the Time Inc. acquisition and delivering the financial results for our shareholders. In addition, Tom will add oversight for our finance and legal activities.

I look forward to working closely with Tom and the senior leadership team, as together we create an even more powerful media and marketing company.

With those remarks, I'll turn the discussion over to Joe Ceryanec to discuss what has transpired since we announced the Time Inc. transaction right after Thanksgiving weekend.

Joseph H. Ceryanec

Chief Financial Officer, Meredith Corp.

Thanks, Steve. It's been just two months since we announced this transaction, and we're here today announcing that we've closed. Many positive developments have occurred during that two-month period, and here are some highlights.

First, we cleared the Hart-Scott-Rodino process without a second request, which has allowed us to close this transaction so quickly. Second, Time Inc. shareholders supported this transaction as 66% of the shares were tendered as of last night. Third, as you may have heard, we had very positive results earlier this month, marketing both our secured credit facilities and bonds.

Both of our facilities were well received and significantly oversubscribed, which allowed us to tighten the pricing below what we initially expected in our financial model. We expect this will save us about $10 million annually in interest compared to our original assumptions.

And speaking of the financial model, and my fourth point is that as you know, the impact of tax reform reduces the federal corporate tax rate to 21% from 35%, effective for tax years beginning on or after January 1, 2018.

When we did our acquisition financial model, we used 38.5% as a combined federal and state effective tax rate. We now expect that our effective combined rate will come down to the mid-20% level, beginning in our fiscal 2019. This lower rate should save us several hundred million dollars in taxes over the next five years.

Fifth, the team at Time Inc. was more successful than we expected at select asset sales prior to our acquisition close. And while all the deals have not closed, we expect these sales to add more than $200 million of cash to our balance sheet, further reducing our net leverage. We have not assigned much value to any of these businesses and, therefore, their sale did not reduce the value of the business that we acquired. Also, the success of these asset sales gives us significantly higher expectations for the net proceeds we might receive for any assets that we may choose to divest as a result of our portfolio review.

Finally, I'd like to share with you that preliminary indications are that Time has delivered calendar 2017 results in line with its previously stated expectation of $400 million of adjusted OIBDA. And from what we can tell, it appears that Time delivered about $25 million of its previously announced expense reductions during calendar 2017.

With that, I'll turn it over to Tom to discuss our plans, now that the transaction has closed.

Thomas H. Harty

President & Chief Operating Officer, Meredith Corp.

Thanks, Joe. Our go-forward strategy consists of four key components: One, bring the advertising and circulation performance of the acquired timing properties to, at least, industry norms by the start of calendar year 2019; two, aggressively grow revenue and raise the margins of the acquired Time Inc. digital properties to Meredith's mid-to-high teens margin levels; three, conduct a portfolio review of the combined company's media assets and divest those not core to our business, which might be more value to another operator; four, fully realize the high-end of the $400 million to $500 million range of annual cost synergies within the first two full years of operations.

Let me provide you with more detail on each of these initiatives, starting with improving the print advertising performance of the acquired titles to at least industry norms. Several years ago at Meredith, we began budgeting for mid-to-high single-digit annual declines in print advertising volumes. And for each of the past five years, that's exactly what we've experienced, with organic declines ranging from 4% to 7% annually. I would characterize this performance as slightly above overall industry results.

Historically, Time Inc., which owns the best portfolio of media assets in the industry, outpaced industry performance. However, in 2016, Time Inc. realigned its sales structure and its go-to-market strategy to focus on advertising categories instead of their individual media brands. This has resulted in revenue declines much steeper than both our own or average industry performance. For example, in calendar year 2017, Time Inc. print magazine and digital advertising revenue declined 13% compared to a 3% decline for Meredith's National Media Group.

Looking into the first quarter of calendar 2018, it appears Time Inc.'s advertising revenue performance will be down in the high to mid-to-high teens. By comparison, we expect Meredith's National Media Group advertising revenue performance for the first quarter of calendar 2018 to be down in the high-single digits.

Turning around the performance of the Time Inc. titles will take time. Fortunately, we were able to close the acquisition in just over 60 days. This gives us the balance of calendar year 2018 to implement Meredith's strategies, standards and discipline across the portfolio, and we expect to see progress starting in the second half of calendar 2018.

Importantly, it gives us a head-start before large client ad buys are negotiated in the late summer [ph] as well (00:22:02). Similarly, Meredith's circulation business, anchored by our strong subscription activities that account for more than 90% of our circulation base, has outperformed Time Inc.'s, which is more dependent on the news ad. We plan to launch a large-scale initiative to use our respective subscription files to cross promote titles to both increase circulation revenue and lower subscription acquisition cost. Additionally, we'll use our new scale to achieve cost efficiencies.

Our second go-forward strategy is to aggressively grow revenue and increase the margin of the acquired Time Inc. digital properties. For the past five years, Meredith has operated a profitable digital business with margins in the mid-to-high teens. In fiscal 2017, we achieved the important milestone of digital ad revenue grains, more than offsetting print ad declines, resulting in organic ad growth for our national properties.

With the acquisition of the Time Inc. properties, we'll become a top 10 digital player with 170 million monthly unique visitors. Importantly, we will more than triple the $200 million of digital advertising revenues, we generate to nearly $700 million for the combined company. There is tremendous upside in raising the performance of the former Time Inc. digital properties to Meredith's levels. Frankly, the increased scale and potential upside of our digital business is something we believe has been overlooked by the financial community in evaluating the transaction.

Third, now that we officially own both portfolios, we are launching a thorough combined media asset review to determine where the most opportunity exists to grow revenues and improve profitability. We will focus on creating stronger and more profitable properties with the goal to be the number one or number two brand in the space, because just like our television business, top brands [ph] going to (00:24:10) lion share of the ad revenues.

Additionally, we'll explore divesting assets that are not core to our business and might perform better with a different owner. As Joe mentioned, we've been pleasantly surprised with recent transaction prices in the media space and inbound interest for certain properties has been strong.

Finally, we are very focused on fully realizing the high end of the $400 million to $500 million range of annual cost savings within the first two full years of operation. Given our previous initiatives to acquire Time Inc., we are very familiar with the available synergy opportunities. We are laser-focused on this goal and we will bring the bear of the cost discipline you've come to expect from Meredith.

In closing, we've hit the ground running. For the past two months, integration teams from Meredith and Time Inc. have been preparing for this day. Now that we are all one company, work on the initiatives outlined today will progress quickly. I look forward to updating everyone on our progress on our fiscal 2018 third quarter earnings call in late April.

Now, I'll turn it back to Joe to discuss our financial outlook.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

Thanks, Tom. Normally, this is the point on the call where we would provide a forward-looking outlook. However, because; one, we just closed the transaction today; two, as Tom said, we are doing a deep dive into our combined portfolios and may divest certain assets; three, we're still analyzing the impact of tax reform on the combined company; four, we're still analyzing the timing of the synergies we committed to; and lastly, we are analyzing impact of the reevaluation of Time Inc.'s balance sheet, including performing fair value calculations as part of purchase accounting.

Thus, at this point, we are not ready to share forward-looking outlook for our fiscal third quarter or the remainder of fiscal 2018. We do expect to be in a position to provide a more definitive outlook, including any divestitures we plan to execute on at the end of our third fiscal quarter when we report our March quarterly results.

This would include revenue and profit expectations for both our fiscal fourth quarter and full fiscal year ending June 30, 2018. We then expect to be able to return to Meredith's traditional outlook methodology in late July when we close out our fiscal 2018 and provide our outlook for fiscal 2019.

With that, I'm going to turn it back to Steve, who will lead the Q&A.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

Thank you very much, Joe and Tom. And now, we'd be happy to answer any question that you might have this afternoon.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from John Janedis with Jefferies. John, your line is open.

John Janedis
Analyst, Jefferies LLC

Q

Thank you.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Hi, John.

John Janedis
Analyst, Jefferies LLC

Q

Best of luck, Steve. Steve, best of luck. Hi. Congratulations. So, look, as you guys know, there's been a lot of discussion around synergies since you announced the deal.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Yes.

John Janedis
Analyst, Jefferies LLC

Q

So, given the update of something, say, in 450-plus range, can you give a little bit more color on what you're seeing there? And to confirm, that's only cost and does not include revenue, correct?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

That's only cost, John, and it does not include revenue. And I'll ask Joe to give you a little bit more color in terms of where we are in that process, and maybe even give you a couple interesting examples that we've come across thus far.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

Yeah. So, John, I know there is a lot of questions out there given the fact that Time Inc., on a standalone basis, had announced a project to pull cost out of the business. And obviously, we're talking about $400 million to $500 million. We are in the process of working with the Time folks, including they had engaged [ph] Mackenzie (00:28:44) to work with them, to really analyze what the types of items were that were behind their $400 million and how those relate to our $400 million to $500 million. I think, as I said earlier on the call, as we looked at how they closed out 2017, there were about $25 million of cost savings that I would say would have been part of their $400 million number.

So, the good news, if you will, is they have not earned through a lot to hit through 2017. We're not in a position to sit here today and tell you exactly where that overlap is. But, as we've said, we're focused on the high end and truly expect after we compare the, I'll call it the, duplicative that might've been in their number and our number. The net-net is still above $400 million.

John Janedis
Analyst, Jefferies LLC

Q

Okay, thanks. And separately, look, understanding you're not going to provide the typical guidance, can you talk a little bit more about print-only advertising in the National segment? It looks like it's weakening a little bit from the results. So, anything to highlight in terms of certain verticals? Can you clarify the comment on, I guess, what I would call, say, legacy Meredith on the National side in the current quarter? Did you say that total advertising down high singles or is that print-only?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Tom will go back to the advertising again for you. So, then, we'll double check and make sure we've answered your questions at the very end. So, why don't you start, Tom, with Meredith?

Thomas H. Harty
President & Chief Operating Officer, Meredith Corp.

A

Yes, John. With Meredith, in the second quarter, print was down – the trend was down, a little worse than what we expected, it was down 16% and digital was actually better than we expected. So, the last time we talked to you after the first quarter earnings call, we were looking at digital trends being a little tougher. And there is a couple of things that are driving this that are more cyclical than anything else.

In the summer, we felt, summer to early fall, we felt a significant pullback from what I would call is that – the package good companies. I think this was kind of stated in the press also. Now, we're kind of pulling back on budgets.

And what we saw towards into the holidays was some of these food advertisers, packages food advertisers, actually came back. It was little too late for some of the print titles, because we have to close, we have a longer lead time, it's about a two-month close. But we kind of saw a surge during the holidays on the digital space. That's why, you saw the digital being up better than what we expected, which was 7% and print being slightly down.

The other category that was driving it from a cyclical perspective was pharma. We had a very, very strong pharma year-over-year before and we were up against some tough comps. Again, this depends on what drugs are coming in and out, it's not really industry trend, but more about timing on a cyclical perspective.

And then, looking forward, the number that I gave you for the third quarter was a combined print and digital high single-digit decline that we're kind of seeing right now. We've got a [ph] little ways (00:31:56) to go, a little further to go from a digital perspective and print the last issues for print aren't enclosed yet, but that's what we're seeing.

The trending is a little better in print in the fiscal third quarter than it was in the second; and digital, we're kind of in that range of being about the same.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

John, we always are at a situation on this call where we have kind of one month closed, another month pretty well closed from a print perspective, and we're working on the third. And then, digital, and especially we saw that in the fourth quarter, it's still building at this point. So, the best we can do is kind of that combined point of view. So, that's Meredith. Does that answer your questions?

John Janedis
Analyst, Jefferies LLC

Q

Yes.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

Okay. And on the Time Inc. numbers, Time Inc., again, kind of underperformed from the perspective compared to Meredith. Their numbers in the combined, I don't know if I have the exact number for the second quarter, but it was high to over 20% declines, kind of mid-20s from a print perspective and in lower than we performed on a digital perspective, same comp.

So, again, we're seeing their trends have been underperforming us for a period of time, the whole calendar year, and we saw that in the fiscal second quarter over the calendar fourth quarter.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

And again, it's early, John, in 2018, but the trends feel about the same.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.
A

About the same, yeah, for Time Inc.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

For Time Inc., separate.

John Janedis
Analyst, Jefferies LLC
Q

Okay. All right. Thanks so much, guys.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

Thank you, John.

Operator: Your next question comes from Eric Katz with Wells Fargo. Eric, your line is open.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

Hey, Eric. How are you?

Eric Katz
Analyst, Wells Fargo Securities LLC
Q

Good. Good. Congratulations.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

Thank you.

Eric Katz
Analyst, Wells Fargo Securities LLC
Q

So, we've talked to quite a few investors over the last few months as well and the biggest concern [ph] on parent thesis (00:33:52) is around I guess Time side. People seem very comfortable with your trajectory. I was wondering if you could just talk in a little more detail on how you plan on stabilizing Time's revenue, because I think that's one of the biggest pressure points for a lot of people out there. And I know you said you can't really talk too much due to the timeline, but I do know that their numbers will give some easier comps, going I guess later into the year. So, I don't know if that's necessarily true or not, but anything you can talk to that would be super helpful.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

Yeah. I don't know that there is anything about necessarily easier comps. But I'm just going to open this up a little bit with a little historical perspective, and then, I'm going to ask Tom to give you a little bit more color on what he and Jon Werther and Doug Olson, who run that business are working on to move this in the right direction. The real honest to God truth and I would have never have said this from the podium, was that for years and years and years, were 20 years for me and 30-plus years for Tom, we've been competing against Time Inc. and they always had the best portfolio of brands, the best assets and the larger scale. And no matter what the industry did, they outperformed.

And so, now, we've gone into a situation where, for a period of time, now kind of 18 months, sort of, they have been significantly underperforming for some structural changes that they made in their go-to market strategy. So, I'm going to ask Tom to speak to that, and then, Jon Werther, if you want to add anything from a digital point of view, feel free after Tom gives a few remarks there.

Thomas H. Harty
President & Chief Operating Officer, Meredith Corp.

A

Yeah. As I mentioned being specific, entering the summer of 2016, Time Inc., actually the prior leadership made a decision to go away from selling – having People selling from a broad perspective. Sp. previously, you had somebody wake up every day and think about People magazine or Cooking Light or Southern Living and they reversed that and went to more of this vertical selling strategy. So, you will have a food vertical, a pharma vertical, financial vertical. And if you were a seller in that vertical, you would have to think about plus-20 brands and have answers on everything.

And the marketplace really reacted – the advertising marketplace reacted really badly to this. It is not the way they wanted. They weren't getting service correctly, they weren't getting the answers, nobody could tell them specific marketing ideas around some of their big [ph] tent pole (00:36:33) things like the Oscars, or the People magazine or the Sports Illustrated swimsuit issue.

So, that's really [ph] led (00:36:39). If you look at the numbers and you look at the industry, that really points to what went happened, and it's exactly what we hear from the advertisers. So, what we've been working on is reversing that and we're going to take a little bit of pause for a short period of time, four to six weeks, and then come out with a new go-to-market strategy where we're going to reverse it and we're going to take the best of both worlds and go back and have people responsible for their brands, which we think are really important and that's how we sell.

The good news is that as I've been down there over the last two months, a lot of those brand leaders are still there. [ph] They're just off (00:37:17) in these verticals. So, someone that used to be in-charge of Sports Illustrated is there, someone who used to be in-charge of Real Simple. So, it's not a real stretch for us to kind of undo that and put some of these people back in place and actually they're really eager to do that.

So, I think, from our perspective, it takes a little bit of time from the advertising sales cycle, but we're going to see sequential improvement quarter-to-quarter through the remainder of 2018 and really getting ready for the calendar year 2019. We think that's when it'll be steady-state going forward and getting them back into what, we would say, the industry performance which would be about half of the decline of what they've been saying.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

So, Tom has been working along with the other leaders, Eric, and identifying the individuals who used to lead these brands and getting them positioned and getting the right groupings of the individual properties. And at Meredith, we've always had brand leaders, we've had a digital sales force, we've had a corporate go-to market strategy where we have verticals as well. And so, we'll go to that model.

And it's important to remember that we're closing the April issues now. So, that's why, in our prepared remarks, Tom made reference to beginning to see some improvement in the second half of calendar 2018. So, July, August, September going forward, and working with the largest advertisers through our – in all sincerity, the largest share of revenue, that activity really kind of starts in the later part of the summer, into the fall, with the objective of having things where they should be as we turn the corner into calendar 2019. So, I want us to pause here and see if we answered your question.

Eric Katz
Analyst, Wells Fargo Securities LLC

Q

That is really helpful. And I guess the gist of what you're saying is that's not very difficult to do some of those things, just sort of putting some of it back to where it was?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

That's correct. I mean, you can look at industry data and see forever that they outperformed us and everybody else. And the brands are there, the consumer audience is solid as a rock. And I think there's a real cry in the marketplace that want these businesses to be successful in this new combined business that is, without a doubt, by any measure, the market leader to, in fact, lead the market. And then, on top of that, Eric, we've never had the kind of digital scale to go to the market. And Jon, you should – Jon Werther, you should talk about how these major digital ad buys come down and why the scale as you and your team have been in the market, why the scale matters.

Jon Werther
President-National Media Group, Meredith Corp.

A

Yeah. Thanks, Steve. As Steve has said, obviously, scale does matter and brand marketers and agency partners are increasingly looking to partner with fewer companies like Meredith now, combined with Time Inc., that can offer not only that scale that top 10 reach that we have in digital to strike larger upfront commitment or always on deals or opportunities that are increasingly content and data-led. And we think we have a very unique opportunity together to capture a greater share of spend in the digital marketplace.

And we really have four things, and I think, what you'll see just as on the brand side, the print side, as Tom alluded to, we really have a very formulaic approach to opportunities into digital market and it's really one that begins with our brands. We believe we have a best-in-class portfolio of brands that consumers trust to inspire, inform, entertain and connect them, whether within our print titles, our digital sites, our social presences, connected devices, over-the-top, et cetera. And these are brands that are trusted, iconic, have a very, very long heritage of being part of the fabric of consumers' lives. We think that is something that provides us with a very strong position in the market place competitively.

When you combine those for that portfolio of these trusted and respected brands with the large audience we now reach, 200 million consumers as Steve and Tom said earlier across channels, and that includes 80% of all millennials, 85% of all millennial women and three quarters of all Latinas, that is a very big foundation for, again, a larger ad spent with us from a digital perspective as well.

And on top of that, we offer now, as Steve said, more than 10 billion video views annually of 340 million social followers. And that unique combination of content and utility that we have is really, really important in driving that engagement. So, brands, audiences and then, obviously, two other things; first-party data from these 200 million direct consumer relationships, which together, with our now even deeper editorial insights from our portfolio, will enable us to uniquely profile our consumers interests and their needs and allow us to continue to predict trends and identify actionable insight that drive not only our clients' median targeting decisions, but also increasingly their leader product development and content strategies.

And when you combine those brands, that audience, our insights and analytics with the propriety technology products that we have across our business from the areas of shopper marketing, branded content, voice, programmatic, people-based targeting, e-commerce, all of which are large, growing revenue streams in the digital ecosystem. We believe there's no one better positioned in the marketplace than us with that combination of assets to take even greater share in the market, our fair share of spend from the marketing clients and agencies with whom we work strategically.

Eric Katz
Analyst, Wells Fargo Securities LLC

Q

[ph] Thanks a lot for the color (00:43:32).

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

So, that's a quick hit on digital. And digital, we really believe is kind of the hidden gem inside of this business that really Meredith standalone, Time Inc. standalone, really wasn't getting any credit for and we have to deliver on the promise, we got to bring this together, we have to grow it. There is a lot of margin work to do on the Time Inc. side to get the margin up to the Meredith level, which is actually a couple of points better than the National Media segment that we report standalone, but that's the growth vehicle to returning this business to organic growth going forward.

Eric Katz
Analyst, Wells Fargo Securities LLC

Q

Thanks for the detail.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

That's the real strategic intent. So, thanks, Eric.

Eric Katz
Analyst, Wells Fargo Securities LLC

Q

Good luck.

Operator: Your next question comes from Dan Kurnos with Benchmark Company. Dan, your line is open.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Hey Dan. Hey Dan. How are you?

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Mr. Lacy, I hope you at least pop in every once in a while. No, you're not going anywhere, but – and I hope you're seated when I say this, but you deserve a lot of credit for what you've done with the company over – during your tenure and I'm sure you'll continue to help drive the company in the right direction in the future. So, congratulations, Steve.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

I just wrote that down. It's only kind thing you've ever said to me, Dan.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC
Q

Come on the – just make sure you're on the callback tonight and we can have a real conversation.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

Yeah. All right. What can we help you with?

Dan L. Kurnos
Analyst, The Benchmark Co. LLC
Q

Anyway, so since everybody seems to only want to focus on Time and publishing, I'm going to ask two quick TV questions.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

All right.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC
Q

My numbers have you guys kind of plus 8 for core, I think, [ph] ex-speech (00:45:14) in the quarter. I think you mentioned some auto strength there and professional services. Can you just give us a sense of if that's accurate? And if – how calendar Q1 is pacing? And then, also on the political front, I think, it's only 10% of your political comes from presidential and you did $66 million in 2016, you have a pretty good footprint. Can you just give a sense of how you're thinking about political going into 2018, calendar 2018?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

So quickly, I'm going to give you a couple of quick numbers here. And then, Paul, I want you to give a bit of a preview, one of your cautiously optimistic previews on the political cycle, which will be upon us very, very soon, so non-political [ph] ex-speech (00:46:03) up 10%.

Thomas H. Harty
President & Chief Operating Officer, Meredith Corp.
A

In the quarter, in Q2.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.
A

In Q2. And automotive, up 8%; professional services, up 36%, really strong.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

In Q1?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

I would say, early calendar 2018 [ph] pastings (00:46:23) are a little bit softer. And I think we're still kind of trying to see how the market forms. And I'll ask Paul to give you a little color about some of the comparability challenges we have in Q1. And Joe can add to that first and then we'll turn to you, Paul. So, [ph] just wait for a minute (00:46:42), Paul.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

We may be, Dan, expect to be down a couple of points in Q3, but remember that we only have one NBC and you've got both Super Bowl and Olympics on NBC. So, we're most likely going to underperform overall because of that. But right now, we're looking at maybe flat to down a couple of points.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

And Paul, why don't you give a little color around that and your views on political going forward into – a lot of that, Dan, will be in next fiscal. But go ahead, Paul.

Paul A. Karpowicz
President, Meredith Local Media Group, Meredith Corp.

A

Yeah. And what Joe described is exactly correct that the combination of the Super Bowl and the Olympics on NBC. While it's great for NBC affiliates, we've just got one. So, it's sort of unusual that you've got a quarter where you have two high-high profile events that are on one network and on one network, right in the middle of the quarter.

So, what we have seen is, we have seen some weakness in February but as we look into March, March looks okay and there is not a fundamental problem. It's just this is a very, very unusual quarter. As it relates to political, we've set a record last year with our political revenues. Again, as Steve said, I'm cautiously optimistic, but if you do look at where our stations are located and you look at some of the races that are being profiled as the high profile major, major contentious races, we are positioned very, very well.

So, we're already seeing some political spending in some of our markets, kind of very early days, but the expectation is that political spending will start earlier than it has in the past and will probably be greater than we've ever seen before. And I don't want to overstate that, but we are positioned quite well with the races that we know were out there.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it. That's helpful. And just to be clear on this, so Q4 had some – obviously had some comp benefit and calendar Q4, just to be clear here. So Q2, fiscal Q2, you got some comp benefit. And nothing's fallen off a cliff. Q1, if not for calendar Q1, if not for your NBC exposure, core is still may be up low-single, or something like that, is that fair?

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Yeah. I think that's very fair.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Okay.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

Yeah. I mean, we're [ph] comping (00:49:07) against real strong political year ago in the December quarter. So, we did get a benefit from that.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Yeah.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it. All right. And then, Joe, just – I don't know if you're going to be able to really give an answer to this now since it's so early days. But, just – since everyone is nitpicking on the synergy number, a lot of times cost savings were going to be reinvested, people are trying to figure out if that's going to all flow through. So, even if you hit the high-end, is that a flow-through number at the end of the day? Is there some incremental investment? How should we just think about how that translates into EBITDA from a pro forma basis?

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

The number we are giving is the net. So, if there is reinvestments, that's outside of that $400 million to $500 million, that is the net savings.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Okay. I appreciate that. And then, just lastly on the print trends, just turning back to it, your guide going into the quarter, it seems like it came in a little bit, it came in softer than your guide and even though fiscal 3Q was a little bit better than that. Historically, as you guys have said, you've been kind of in sort of like minus 6-ish on average, this is outside of that norm. How long does it take for you, guys, to organically, forget Time for a second, to get back to kind of that print number that historical down print number, and what's causing these outlier quarters right now?

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

I guess, our guide, Dan – I'll start and Tom can pile in on more of the trend. I think the guidance we gave back in October for total National was total revenue down mid-single digits and I think we came in 5%. So, overall, we came in right where we said we would be.

Now, to your point, print was a little bit softer, a little bit, digital came in stronger, especially late, which we didn't get on the print side, but [ph] your points on (00:51:07), and Tom can speak to this. I think part of it is category issues, especially with the pharma, which tends to be cyclical, not seasonal, but cyclical, and that's really been which pulled us down a bit more than what we would say is our long-term outlook.

Thomas H. Harty
President & Chief Operating Officer, Meredith Corp.

A

Yeah. I don't think there's anything that would change – that we would note today that would change our kind of long-term view. As you look back, we mentioned on the call, we've been kind of in that – for five consecutive years, kind of in that 4% to 7%. We've had quarters where we been down 15% and we've had quarters where we've been up in print. And then, that quarter, when we were up in print, we're actually down in digital, and that was two years ago. So, there is a lot of quarter-to-quarter changes, but when you look at the years in totality, it kind of comes out in the range. And I don't think there's anything to change our thoughts on that. We've got a couple of categories that we're facing a few headwinds in, but we're confident about the numbers overall.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Got it. All right. Thanks for the color, guys. And Steve, in all seriousness, congratulations and best of luck.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Thanks, Dan. Talk to you soon.

Operator: Our last question comes from Barry Lucas with Gabelli and Company. Barry, your line is open.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Hey Barry. How are you?

Barry L. Lucas
Analyst, Gabelli & Company, Inc.

Q

I'm well, Steve, and you sound terrific on the phone. So, thanks for providing the time here. I want to come back to television as well and post a question about how constrained do you feel with $3 billion of debt, three times leverage, as we go into a year where, if the [ph] law jam (00:52:48) ever breaks in, Sinclair-Tribune closes, there is likely to be a lot of M&A activity on the station side.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

A

Yeah. We did a lot of work on this. I'm going to ask Joe to respond, because obviously, it's very, very important that we can stay in the market and continue to grow on the local side. Obviously, as we were in discussion with our board, the Time Inc. acquisition, they asked exactly that question. So, I'm going to ask Joe to give you the response, because we did a lot of work with the lending community before we moved forward.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

So, very back in November when we did the original model, when we were talking to our banker friends, we felt we had dry powder, generally, $0.5 billion to $1 billion of dry powder. And as you may or may not know, we went after the San Diego station that wound up going to TEGNA. They were very aggressive in their bid, that was north of $300 million and we would have been very happy to get that asset. So, that was clearly within something we were very comfortable of doing.

I don't know if I was very clear, but the message that I was trying to give in my prepared remarks is, from the original model we did, the acquisition model back in November, we've seen some really positive things. Tax reform, as I mentioned, is hundreds of millions of savings in tax. The debt deal coming in, tighter pricing, what Time Inc. has sold which includes Essence and SI Play and assets we really didn't put much value on, a couple hundred million on those and that just gives us more comfort that if we do divest certain titles, the value was out there.

So, we felt comfortable with the original model doing and I'll say select broadcast M&A and I'd say we feel even better about that now and obviously, the Sinclair [ph] trip (00:55:04) process letter finally came out. So, we're taking a hard look at what we're going to do with a bid on those stations.

Stephen M. Lacy — A
Chairman & Chief Executive Officer, Meredith Corp.

Does that help, Barry?

Barry L. Lucas — Q
Analyst, Gabelli & Company, Inc.

It does, Steve. Let me try one more, since – if I can.

Stephen M. Lacy — A
Chairman & Chief Executive Officer, Meredith Corp.

Sure.

Barry L. Lucas — Q
Analyst, Gabelli & Company, Inc.

Sure. You talked about the issues in trying to go through the finances and the difficulties or impediments to providing guidance at this juncture and may be we'll go to the next call and the following call. But, with all the puts and takes that are likely to be seen as we go forward, asset sales and what have you, how should we best measure your results, because there's clearly going to be a lot of noise in them? So, whether for Tom, how do you think about this going forward? What are the key benchmarks that we can – we should be looking for to identify success or lack thereof?

Thomas H. Harty — A
President & Chief Operating Officer, Meredith Corp.

Well, this is Tom, Barry. It's a good question. I think the debt level that we're going to have going forward and the leverage we're going to have as a key benchmark in our stated goal is to pay that down as quickly as we can and get to that 2 times level. And I think you're going to hear us talk about that quite a bit. And then, I think the other benchmark for us is that EBITDA line, which is going to reflect the synergy benefits that we're going to take over time.

So, that's the two things. We just got done with our board meeting this weekend and those are two things that I'm 100% focused on and we're going to talk about in the future.

Joseph H. Ceryanec
Chief Financial Officer, Meredith Corp.

A

Yeah. I mean, Barry, one of the – as we do the portfolio review, one of the – the real reasons we didn't want to give some forward-looking guidance is because the minute we give a revenue number and then we decided we were going to sell an asset, then we got to come out and modify that. So, we're really hoping by the end of our fiscal third quarter, we're through that, we've been able to model what those dispositions might be, maybe treat those as held for sale, so we can take them out of the P&L. So, we would love to give revenue guidance on a go-forward portfolio.

To Tom's point, EBITDA/cash flow will, obviously, become critical along with leverage. And then, the question is, will we have the entire balance sheet revalued and understand how those valuations are going to manifest themselves back through the P&L and D&A and the other full P&L where we can get back to EPS. I mean, we've always been an EPS company. I would expect we, for sure, will, as we look into fiscal 2019. But as we think about guidance for the end of the – at the end of March, it may be revenue, EBITDA, leverage target with more color, I know everybody wants more color on what the net-net synergies are going to be, that we're going to bring above what Time Inc. had already announced.

Barry L. Lucas
Analyst, Gabelli & Company, Inc.

Q

Great. Thanks for that, Joe. I appreciate the color.

Stephen M. Lacy
Chairman & Chief Executive Officer, Meredith Corp.

So, we appreciate everyone being on the call. We don't have any other questions in the queue. We're going to be in the Time Inc. offices in the morning, greeting the new employees and welcoming them to Meredith. And we are very, very aggressively moving on the revenue side and also, obviously, on delivering on the synergies.

So, more to come when we release earnings in April, and as Joe said, full traditional guidance by the time we get to fiscal 2019. So, we appreciate everybody jumping on the call and we'll keep you posted on our progress going forward. Thank you very much.

Operator: This concludes today's conference call. You may now disconnect.