Corrected Transcript

04-Feb-2021

Meredith Corp. (MDP)

Q2 2021 Earnings Call

CORPORATE PARTICIPANTS

Michael Alan Lovell
Director-Investor Relations, Meredith Corp.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

Jason M. Frierott
Chief Financial Officer, Meredith Corp.

Catherine Levene
President & Chief Digital Officer, Meredith Corp.

Patrick McCreery
President-Local Media Group, Meredith Corp.

OTHER PARTICIPANTS

John Janedis
Analyst, Wolfe Research, LLC

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.

Kyle Evans
Analyst, Stephens, Inc.

Aaron Watts
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Meredith Fiscal 2021 Second Quarter Earnings Conference. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference call over to your speaker for today, Mr. Mike Lovell. Sir, you may begin.

Michael Alan Lovell
Director-Investor Relations, Meredith Corp.

Good morning, and thanks, everyone for joining us. Our call will begin with comments from Chairman and Chief Executive Officer, Tom Harty; followed by Chief Financial Officer, Jason Frierott. Remarks this morning will include forward-looking statements and actual results may differ from our forecasts. Reasons for the differences are described at the end of our news release that was issued earlier this morning and in our SEC filings. Certain financial measures that we're 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 slide presentation. Our earnings release and slide presentation are available in the Investor Relations section of meredith.com and archive of our prepared comments will available on our website later today.

And now, I'll turn the call over to Tom.

Thomas H. Harty

President, Chief Executive Officer & Director, Meredith Corp.

Thank you, Mike, and good morning everyone. I hope you've had the chance to see our news release and our related slide presentation issued earlier this morning. They include disclosures we think you'll find very useful.

I'll start with slide 3. Our audiences continue to count on Meredith's trusted brands and our advertisers are responding in kind. As a result, we delivered record revenue and adjusted EBITDA performance in our fiscal 2021 second quarter, even as the COVID pandemic continues to impact certain aspects of our business.

To summarize, EBITDA growth for each of our segments was driven by strong gains in the National Media Group digital advertising and the Local Media Group political advertising revenues, which more than offset adverse COVID-related impacts.

We had the best second quarter free cash flow performance in our history and finished the quarter with more than $375 million of cash in the bank. This performance has enabled us to continue strengthening our liquidity and reducing our net debt.

As we've discussed in the past, the strategy we're pursuing has two facets.

First, net debt reduction is our number one priority. Our leverage ratio target is 2 times adjusted EBITDA over the long-term. We're making great progress with improvement in our leverage ratio compared to September 30.

Second, we will continue strengthening and enhancing our digital and consumer-focused capabilities. We reached a critical milestone in the quarter as digital advertising revenues surpassed magazine for the first time, and our licensing and digital consumer businesses reached record highs.

Meanwhile, consumer engagement remains strong. Response rates for our magazine subscription solicitations remain above historic norms and traffic to our National Media Group sites is expanding. National Media Group consumer-related revenues account for nearly 50% of the segment and we are leaning aggressively into growing licensing and e-commerce opportunities. We believe we have a strong opportunity for growth ahead.

With that, let's go into detail of the quarter. Starting with the digital side of the National Media Group, our team delivered outstanding performance. Digital advertising revenues grew 22% for a record high $161 million. Our multi-year efforts to bring all of our brands together on a single digital platform continues to enable strong consumer engagement along with growth in advertising and e-commerce revenues.

Of note, traffic to our digital properties and partner networks grew significantly with 16% session growth from the prior-year period. Our fiscal second quarter, which includes several holidays, is heavily influenced by food. Allrecipes, the world's largest digital food site as ranked by comScore, delivered record performance with almost 0.5 billion sessions, up 23% from the prior period. PEOPLE.com also delivered record performance and remains the number one destination in the entertainment category.

Additionally, our powerful National Media Group brands, led by PEOPLE and Better Homes & Gardens, delivered strong growth in brand licensing revenues, particularly from our digital relationship with Apple News+ along with continued growth from our longtime licensing partner, Walmart.

Our performance is driven by our trusted brands, relevant content and consumer experiences at scale, digital first-party data and unique offerings for our partners. We're seeing significant demand from the capabilities offered by our Meredith Data Studio, which we launched last quarter. Our clients are seeing value from it across a broad range of offerings, including: predictive insights that help our brands and our partners create the right content and messaging for consumers; robust data driven audience targeting for our partners, and leveraging our taxonomy that is unique to the industry; and predictive advertising solutions based on our contextual data that's driven click-to-cart experiences.

As a result of our unique and robust suite of offerings, we sold twice as many million-dollar-plus programs during the second quarter compared to last year. As our digital business continues to grow, we expect to provide additional disclosures in an effort to provide more transparency. We've already heard from many of you about this and continue to welcome feedback on digital related disclosures that would be helpful to better understand our business results.

Turning to our National Media Group magazine business. We're encouraged by our continued recovery in magazine advertising and delivered sequential improvement from the prior quarter. As you may recall, at the pandemic start, we put together a plan to maximize performance during the crisis. It included differentiating ourselves by maintaining publishing frequencies and schedules, which has contributed to Meredith gaining nearly 5 points of market share in the last year.

We continue to see strength in magazine subscription solicitation. Direct mail response rates were up 50% in the spring, 38% in the summer and 35% in the fall. Online sales at Magazine.store are up for 39 of the last 41 weeks, and up 40% year-over-year. These strong response rates form the basis for a long-term relationship with our customers. Subscribers we source ourselves renew at higher rates than agent sources allowing us to grow the profit contribution from our subscription activities over the long-term as rates stepped up over time.

Looking more closely at our broadcasting portfolio. We delivered record political advertising results in the second quarter. Competitive races, particularly those in our Phoenix and Atlanta media markets, drove nearly 100% growth versus two years ago.

Our local digital efforts have gained significant traction and are giving us a platform to capture digital political growth. Our team delivered $12 million of digital political advertising revenues in the quarter compared to less than $1 million two years ago. Non-political advertising was clearly impacted by political crowd out, while still improving sequentially versus the prior quarter.

Turning to slide 4, we have more than 40 brands in our portfolio and we continue to develop new opportunities for growth. For example, we announced last month a strategic relationship with Wyndham Destinations that includes the sale of the Travel + Leisure brand for $100 million in cash and a commitment for $30 million in marketing spend across our portfolio over the next five years. We'll receive $55 million in cash in fiscal 2021 and the balance over the next three years.

Our agreement also grants Meredith a 30-year renewable royalty free license to continue operating Travel + Leisure's media assets. So, we expect little change to our P&L going forward.

We're expanding our brands to new media platforms, including broadcast television. A great example is our recent launch of the PEOPLE show, which debuted in September 2020 across our 12 markets and remains the number one new show this season according to the most recent Nielsen ratings in December 2020.

Television is a natural extension for the PEOPLE brand, and the show's ratings were compelling. As a reminder, we're working with Sony Pictures Television to syndicate the show to non-Meredith stations beginning in the fall of 2022.

In the third column, we're pursuing consumer driven opportunities, including e-commerce. As an example, our content commerce team drove a fourfold increase in partner retail sales during Amazon's Prime Day through solid execution of custom editorial and promotion across our sites. Weeks later, we delivered similarly strong performance during the Black Friday Cyber Monday weekend retail event.

Finally, we're launching new products including podcasts and more video. Video views across our owned and operated properties and network partners grew 17% in the second quarter of fiscal 2021 compared to the prior-year period. We've doubled the number of our brands creating podcasts in the last year and podcast production is up nearly 30% from a year ago. While the macroeconomic backdrop is still uncertain, we're excited about our performance for the first half of fiscal 2021 and the groundwork we've laid for future growth.

With that overview, I'll turn it over to Jason. I'll come back to highlight certain trends we're seeing in our third quarter and offer closing comments. Then, we'll invite your questions.

Jason M. Frierott

Chief Financial Officer, Meredith Corp.

Thanks, Tom. I'll begin on slide 5, looking at the second quarter 2021 consolidated performance. Revenues were $902 million, up 11% from the prior-year period. Adjusting for portfolio changes announced over the last year, total revenues would have been up 14% on a comparable basis. With the second quarter complete, we have now cycled through these portfolio changes as the last actions taken happened in the second quarter of 2020.

Advertising related revenues were $525 million, 23% higher than the prior-year period. On a comparable basis, excluding $10 million of portfolio changes, advertising related revenues were up 26%.

As Tom said, growth was led by record political advertising across our station group and record digital advertising across our National Media sites. That said, COVID continues to impact our results, particularly on our legacy magazine and non-political advertising channels. As we continue to progress through the pandemic, quantifying the precise impact has become more challenging.

Our estimate of the COVID-related revenue impact to advertising consumer-related and other activities for the second quarter totaled between $25 million and $35 million, with a majority of declines in the National Media Group.

Consumer-related revenues were $358 million, up 3% from the prior-year period. On a comparable basis, excluding $8 million of portfolio changes, consumer-related revenues were up 5% driven by licensing and retransmission growth. Other revenue was $18 million, down 46% from the prior-year period. This was primarily the result of non-repeat project work and sunsetting service agreements for sold brands including Time, Sports Illustrated and Fortune.

On a consolidated level, adjusted EBITDA grew 57% to $304 million from the prior-year period. Growth was driven by $130 million of political advertising revenues, including $118 million of political spot and $12 million of digital advertising revenues, along with 22% growth in National Media Group digital advertising revenues.

Fiscal 2021 second quarter free cash flow was $174 million, $107 million better than the prior-year period as we benefited from digital and political advertising revenues, lower employee-related items and lower restructuring payments.

Turning to next page on slide 6, National Media Group revenues were $576 million down 4% from the prior-year period. The portfolio changes I mentioned earlier accounted for $18 million of the decline with consumer and advertising generally impacted equally. On a comparable basis, excluding portfolio changes, National Media Group revenues were down 1%.

Advertising-related revenues were $295 million, down 2% from the prior-year period. Adjusting for portfolio changes, advertising-related revenues were up 1%. That includes comparable digital advertising growth of 22% or $29 million, which more than offset comparable magazine declines of $19 million, a critical milestone for the company.

As the COVID recovery continues and due to seasonality of our advertising businesses, we don't expect this transition between digital and magazine advertising to happen every quarter in the immediate term, but we continue progressing toward a more permanent portfolio shift.

Giving some more color on our advertising performance during the quarter, we are benefiting from our multiyear investment in the technology platform we highlighted last quarter. As a reminder, the new platform brings together consumer profiles, real-time insights and intent signals to: one, predict trends that inform our editorial and product roadmap; two, provide personalized experiences to our consumers; and three, give our advertisers the ability to tailor the right messages and products to the users most likely to buy at any given time. It also prepares us well for a world where third-party cookies are no longer supported.

The magazine platform is recovering in line with our expectations. Here too, clients are looking for dependability, flexibility and brand safety. As a result, our magazine brands are outperforming their competitive set and continue to take market share. According to MediaRadar Meredith's share of US magazine advertising market stood at more than 35% in calendar 2020 through December, up from 31% in the same period a year ago.

National Media Group consumer-related revenues were up 1% from the prior-year period. Adjusting for portfolio changes consumer-related revenues grew 4%. Subscription revenues were down 5% on a comparable basis, primarily due to our efforts to shift our subscription solicitation mix towards direct-to-publisher and away from third-party agents. As a reminder, this strategy reduces revenue but increases profitability over time and our rate base remained stable at 36 million.

Newsstand revenues grew $3 million. Despite the challenging environment, which continues to impact certain retail channels including airports and bookstores, we saw opportunities based on current events and published more special interest titles compared to the prior-year period. Our licensing and digital consumer activities, which includes e-commerce, lead generation and content commerce continued to deliver strong growth, up 34% in the quarter from the prior-year period.

Other revenues were $47 million down 34%, primarily the result of non-repeat project work and sunsetting service agreements for sold brands.

Adjusted EBITDA was $156 million, up 11% despite continued impact from COVID compared to the prior-year period. The driving factor was digit revenue, which reached a milestone of surpassing magazine advertising revenue in the second quarter and helped deliver margin expansion for the National Media Group.

Similar to our discussion last quarter and consistent with our goal to expand disclosures related to our digital business, let me walk you through a few digital KPIs on the right side of the page.

Digital sessions were up 16% from the prior-year period. Allrecipes delivered the strongest year-over-year traffic growth as consumers visited the site for holiday-related food inspiration. This performance was followed by PEOPLE.com, which continues to benefit from strong interest in celebrity and entertainment related information.

We saw more advertisers coming back into the open programmatic market, which helped increase programmatic pricing. Importantly, we also saw strong growth in direct sales from advertiser demand for our powerful brands, premium content and first party data along with the flexibility that our digital platform offers.

Looking beyond advertising at the bottom right of the page, our licensing and e-commerce activities continue to gain traction led by relationships including those with Walmart and Amazon.

Turning to slide 7, Local Media Group revenues were $328 million, up 53%. Political spot advertising revenues of $118 million, retransmission revenues of $92 million and third-party digital political advertising revenues of $12 million offset a 16% decline in non-political spot advertising revenues driven by crowd-out from political demand.

We estimate crowd-out from political spot advertising revenues lowered second quarter non-political spot advertising revenues by approximately 14 to 16 points. Adjusted EBITDA more than doubled to $161 million, driven primarily by political demand. Looking more closely at political advertising, the map on the right side shows where we delivered the most revenue by market as depicted by the size of the shaded circle.

In the second quarter, political advertising revenues were up 96% from the prior election cycle two years ago. Approximately 60% of second quarter revenues came from the senate races in Arizona and in Georgia where we also benefited from run-off races in the US Senate.

Finally, as Tom mentioned, our digital efforts extend to our Local Media Group, where our local digital team has expanded beyond non-political and captured $12 million of third-party digital political advertising revenues in the quarter. This compares to less than $1 million during the last election cycle two years ago. The highlight can be found in our segment schedule within the Local Media Group third-party advertising revenue line.

Turning to slide 8. Cash flow, liquidity and balance sheet strength remain critically important to Meredith. Net debt reduction is our number one priority and we continue to target our leverage ratio of 2 times adjusted EBITDA over the long-term. As a company, one of our key performance measures is free cash flow and we generated $174 million in free cash flow in the second quarter.

It was the most free cash flow generated during the second fiscal quarter in our company's 119-year history, and compares to $67 million in the prior-year period. This improvement was primarily driven by our strong political advertising and digital performance, lower employee-related items and lower restructuring payments. As a result of our cash and adjusted EBITDA performance, our leverage ratio on a reported basis was 3.9 times adjusted EBITDA as of December 31, 2020, a significant improvement from the prior quarter.

Looking at the bottom of the slide, we ended the second quarter of 2021 with $379 million of cash in the bank, compared to $21 million in the prior-year period. Our revolver balance was zero at December 31 and continues to be unused.

We continue to see positive momentum in our efforts to improve cash flow, helped by strong digital and political advertising demand. We had approximately $450 million of cash in the bank as of January 31, 2021 and we expect to continue generating positive free cash flow each quarter throughout fiscal 2021.

Now I'll turn it back to Tom for closing thoughts on slide 9.

Thomas H. Harty

President, Chief Executive Officer & Director, Meredith Corp.

Thanks, Jason. Our consumers today continue to focus on food, home, health, entertainment and news and information about their local communities. These subjects are the cornerstone of the Meredith Corporation.

As we think about our priorities today, I want to leave you with four key thoughts. First, our number one priority is debt reduction. Our goal is to reduce our net debt to a leverage ratio of 2 times and we're making progress with approximately $450 million of cash in the bank at January 31.

Second, we're excited at our digital advertising and consumer revenue growth. This includes achieving a critical milestone with digital advertising revenues surpassing magazine advertising revenue for the first time in our history. We attribute this success to several factors, including: investments in our National Media Group digital platform; our deep first-party data and analytics capabilities; and our powerful brands, which include PEOPLE, Allrecipes, Better Homes & Gardens and Southern Living.

These brands are backed by a tremendous creative engine and collectively reach and engage nearly 95% of American women, more women than any other media portfolio in the United States. Together these assets and capabilities are Meredith's differentiators and form the basis of our value proposition to advertisers and shareholders. They also position us to benefit from incremental advertising spend as the economy recovers.

Third, non-political spot and magazine advertising are recovering at a measured pace and we expect continued improvement over time.

Finally, our advertising and marketing partners are expressing optimism for calendar 2021, citing the expected passage of further economic stimulus legislation and large scale deployment of COVID-19 vaccines.

That said, near-term uncertainty caused by the unstable political environment and persistently high cases of COVID nationwide are contributing to a slower start to advertising spending in the March quarter. This is particularly true for magazine advertising, including our luxury and travel related brands.

As we look into our fiscal 2021 third quarter compared to the prior-year period, assuming no changes in trajectory due to COVID or other macro factors, we expect: National Media Group digital advertising revenues up in the mid-teens; magazine advertising revenues down in the high-teens; Local Media Group non-political spot advertising revenues to be approximately flat; and we expect costs in the third and fourth quarter to return to the normal run rates.

In closing, we're excited by our performance in the first half of fiscal 2021. We're cautiously as we look into the second half of fiscal 2021 as there continues to be significant variables at play. To reiterate, our goals are to reduce debt and continue to strengthen and enhance our digital and consumer growth opportunities.

With that, we'll open it up to your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] At this time, I would like to turn the call over to Tom Harty.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

Good morning, everyone. Joining Jason and myself this morning, we have Patrick McCreery, the President of the Local Media Group. We also have Catherine Levene, the President of the National Media Group. And since our last earnings call, Catherine was promoted into a leadership position of the National Media Group, where she previously ran our digital business. So, we're thrilled to have Catherine in this leadership position and joining us today.

Now, we're happy to take your first question.

QUESTION AND ANSWER SECTION

Operator: Your first question comes from the line of John Janedis with Wolfe Research.

John Janedis
Analyst, Wolfe Research, LLC

Q

Hi. Thanks, Tom. You guys, you talked about your direct marketing response rates. How do you see those trending as your comp at start of the pandemic and how are you thinking about retention relative to historical levels? And then maybe quickly on your comments related to magazine advertising. In terms of the outlook, is that, call it, down high teens. Is that broad-based or is that still confined to some of the categories you talked to on prior calls? Thank you.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Great, John. Yeah. So, the one insight that we found through the pandemic consumer insight, I think you probably took this most by surprise was, the response rates to magazines. So, consumer demand for magazine solicitations shot up on day one of the pandemic. And as I mentioned, we had a 50% lift in direct response rates in the spring and close to 40% for the balance of the year, but those trends continue. There's something I think when we look at women, they're doing both. They're looking at digital. They're looking at magazines. And there's something about the magazine format in the pandemic and the content that we deliver that's spiking that demand. So, we're taking advantage of it. And actually Jason has been leaning in and giving the team more investment dollars.

So, as we talked about in the past that more direct to publisher or deals that we have ourselves with consumers, in the long run when you look at consumer lifetime value, it's a great, great thing for us. So, we see that trend continue and we're excited about it. When you look at advertising where we've been most hurt through the pandemic has obviously been in our travel and luxury brands. So, some of those have been down and continue to be down over 50% year-over-year. So, we're seeing that trend continue.

So, when you say, when we look at the whole portfolio, some of our brands are performing closer to flat in some instances actually up. And then we have others like luxury and travel that are down significantly. So, it's a little bit of a tale of two cities depending on the brand and the category. But we're excited to see as the COVID vaccines come out, we expect all that travel advertising to come back and we'll prepare for it. So, again we don't know exactly when it's going to happen, but we're cautiously optimistic as we look to the future with some of those categories have been highly impacted by COVID-19.

John Janedis
Analyst, Wolfe Research, LLC

Q

Okay. Thanks, Tom. May be one last one. So, on your comment on costs moving to a normal run rate going forward, are there specific areas to call out how we'll see the investment? What this normalized life cost levels actually mean?

Jason M. Frierott
Chief Financial Officer, Meredith Corp.

A

Yeah. I think, as we look at kind of cost levels pre-pandemic, I think that's what that's really referring to, John. I think as you think about our cost levels in the third and the fourth quarter last year, I think we're low for reasons that we've talked about before specifically in employee-related costs. We talked about kind of the one-time salary actions that we've taken. We talked about in terms of benefits and healthcare costs. People weren't going to doctors and those types of things. And now that's kind of come back to a more normal run rate. So, those types of costs of employee-related nature I think would be the most – the highlights that I'd give you there.

John Janedis
Analyst, Wolfe Research, LLC

Q

All right. Thanks a lot guys.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Thank you, John.

Operator: Your next question comes from the line of Dan Kurnos with Benchmark.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Yeah. Good morning. First off, congratulations, Catherine, well deserved. Just, Tom and maybe even Catherine here, I guess, we've been hearing a lot obviously and just kind of a tie-in to something that John just asked [ph] about (28:25) your tail end remarks here, Tom, just around the impact of mobility here. Obviously visible, based on your initial expectations when we started the quarter and then were they finished even much better, we've had some unfortunate resurgence of COVID, which continues to appear in Q1 here.

And I just want to get a sense from you guys how you're thinking about the sustainability of the growth here. Given all of the changes you've made, clearly you guys are benefiting from trends but also a lot of internal investment so. To the extent that you have kind of any visibility here in terms of the digital outlook and how long the sustained level of backend traffic revenue year-over-year growth given that it's pacing above what I think kind of your long-term targets are that would be super helpful to start. Thanks.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Sure. Sure. I'll ask Catherine to pile on. But just to begin, I think that our guidance for advertising for digital in Q3 up mid-teens kind of shows the strength of what we're looking for in Q3. So, we believe we've got a long runway for growth from an advertising perspective. But also, I want to make sure that you're focusing in on some of our other digital growth specifically related to consumers. So, I'd like Catherine to make some comments about what we're seeing in our licensing area and in our e-commerce area. And those investments that we've made over the last five years are really starting to pay dividends. So, maybe Catherine can give some observations about advertising but also focusing on consumer.

Catherine Levene
President & Chief Digital Officer, Meredith Corp.

A

Sure. So, let me just start with advertising. I think, obviously, our session growth has been strong and it's been sustained. I think as people go back to the office and life opens up, traffic may not be at the same growth rate as it's been through COVID. On the other hand, open programmatic is only a third of the driver of growth in the digital business, in every demand channel we saw growth. So that includes our direct sales and premium programmatic, that's our large sponsorship and that was up 22%. Video is up significantly, audio is up significantly, digital consumer, as Tom said, is up significantly, and we signed twice as many million dollar plus partnerships.

So, in the advertising category, every channel, direct and premium programmatic which are sold by our sales force and really driven by our competitive advantage that noted through our new platform, our relationship with consumers and our ability to target really specific messages that's growing equally to our open programmatic discussion growth. So that's the first part in advertising.

In consumer, we're seeing even stronger growth. And it may be hard to see in some of our numbers, but the e-commerce portion of our consumer digital revenue is up in the mid-60s, right. So, we're talking about affiliate e-commerce, marketplace, promotions, et cetera. That's growing significantly and we expect that to be sustained and at those rates moving forward. You can see that in some of our prime day numbers that Tom talked about Black Friday. But it's ongoing throughout the quarter.

The other area we see and we expect to be moving into a paid product. We're still in the early part of our thinking around paid products in our strategy. But we are developing new products and services that consumers will ultimately pay for. So, we see a lot of opportunity in the content commerce and consumer revenue categories of our business on top of advertising.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

Yeah. I mean, I was going to ask that next. I just didn't want to put it all in one question, Tom. But Catherine, can you dig a little bit more into that? I know this is a question I asked in the last call just around kind of e-com and licensing opportunities. Obviously, you have had a very strong [ph] BHG (33:10) relationship with Walmart.

It feels like there's increasing Allrecipes opportunities. I'm just curious, are you driving a lot of your revenues through affiliates through Amazon? Are there opportunities to get more incremental brands into the marketplace? How heavy are you leaning into those areas? And I mean big growth rates off of slightly smaller numbers, but just over time over the next, I don't know, three to five years, how big a piece of the business do you think kind of those components can get to?

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Yeah. I'll start off and I'll ask Catherine. I think that our licensing business grew by just over 40% in the quarter. And to your point, Dan, there's two main drivers of that. And one of them is Apple News+. So, that's our relationship with Apple, where we have our premium content in a paid environment in Apple News and we get paid a royalty on that. And that's been growing significantly.

And then Walmart continues with the Better Homes & Gardens brand to grow. Through the pandemic, it's up in the over 10% kind of consistently. And so, we've seen nice growth through this period of time. And that's been a long-term relationship that we've been growing kind of year-over-year.

So, licensing, I'll ask Catherine to get a little bit more detail about the digital consumer area and make some comments. But again it's not just about advertising, our strategy from a digital perspective is to grow consumer revenues on products and services and some of that's going to be licensing, some of that's going to be direct products that we sell to the consumer, some of it's going to be affiliate deals, but a significant area of growth that we see going forward.

I don't know, Catherine, if you have any of the comments in that area.

Catherine Levene
President & Chief Digital Officer, Meredith Corp.

A

I think that's exactly right. I'm happy to answer any other questions as well.

Dan L. Kurnos
Analyst, The Benchmark Co. LLC

Q

No. that's fine. I appreciate the incremental color. Anyway, thanks for the clarity guys. Congrats on the quarter and make sure you put that money in the bank ASAP before [indiscernible] (35:27).

Operator: Your next question comes from the line of Jason Bazinet with Citi.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Can I just ask a follow-up on that $10 million nominally in licensing growth? I think the thing that everyone's probably trying to figure out is, how much of that sort of has the or the growth sort of has the secular tailwinds that could continue like Apple News+ as opposed to commerce driven, right, which will obviously be a bit more bumpy up and down versus the holiday season versus a normal quarter. Is it sort of like 20% of the growth is Apple News and the other part is commerce related something like that?

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

We can dig out the numbers. I'll ask Jason to see if we have the numbers on that, but I don't have it off the top of my head. But I think, what I would say about Apple News+, Jason, is that, it's really not related to anything related to COVID. This was a long-term deal that we cut with them. And we have escalators related to – year-over-year escalators related to the deal, related to our content performance within Apple News+, so it's really on time spent with our brands.

So this is something a lot of [audio gap] (36:50-36:59).

Catherine Levene
President & Chief Digital Officer, Meredith Corp.
A

...over half of our businesses are e-commerce business which is our affiliate business. And that's the business that I said [audio gap] (37:06) growing in the high 60s this past quarter. And we see that continuing. So, we are in fact investing more in that area affiliate and commerce. So, I don't see that slowing down in the near-term. So I don't see that slowing down in the near term.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Even sequentially?

Catherine Levene
President & Chief Digital Officer, Meredith Corp.
A

Year-over-year.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Year-over-year. okay. That's what we're trying to...

Catherine Levene
President & Chief Digital Officer, Meredith Corp.
A

Yeah.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Okay, perfect. Thank you.

Catherine Levene
President & Chief Digital Officer, Meredith Corp.
A

Yeah, year-over-year.

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

Yeah, obviously, there is some seasonality associated with that, Jason. There is a lot of commerce activity that happens, Jason talked about, with Amazon Prime Day and things like that in fall. Yeah.

Jason B. Bazinet
Analyst, Citigroup Global Markets, Inc.
Q

Totally get it. Thank you.

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

Anything else from you?

Operator: [Operator Instructions] Your next question comes from the line of Kyle Evans with Stephens.

Kyle Evans
Analyst, Stephens, Inc.

Q

Hi. Good morning, thanks.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Good morning, Kyle.

Kyle Evans
Analyst, Stephens, Inc.

Q

Catherine, congratulations. We've talked a lot about the...

Catherine Levene
President & Chief Digital Officer, Meredith Corp.

A

Thank you.

Kyle Evans
Analyst, Stephens, Inc.

Q

...and kind of the unit volume trends on the digital side. What is the contribution of video to the national digital and where do you think that settles over time?

Catherine Levene
President & Chief Digital Officer, Meredith Corp.

A

Yeah. So, video is still a fairly small portion of total video advertising revenue, which in some ways is that's the good news and the bad news. The good news is that we have a lot of runway in video. So, we're starting to invest more and more I think we talked last year about investments in video. We weren't able to use all of that money in the past year because of COVID, but we expect to be leaning in heavily into video.

And in fact, we just hired a new Chief Digital Content Officer who came from Tastemade if you're familiar with Tastemade, they reach hundreds of millions of users each month in video. And she's the head of content there. So, we just brought her over to bring her expertise across our digital editorial but to really lean heavily into video.

Kyle Evans
Analyst, Stephens, Inc.

Q

Great. I'll switch over to Patrick. You've been neglected, Patrick. If I heard Jason correctly, your estimate on political crowd-out would almost completely negate the year-over-year decline in non-political spot TV ads. First off, did I hear that right? And I think it should mean we were kind of flattish ex-political? And then, how do we get there? I mean, this is a business that was waylaid in March and was down massively kind of where are the pockets of strength that are getting us back to flattish course?

Patrick McCreery
President-Local Media Group, Meredith Corp.

A

Yeah. No, you did hear it correctly. And so, those stations of ours that were not heavy and political that's exactly what we saw flattish. I think, look, we've saw – we've seen strong growth in professional services quarter-over-quarter and we've even seen strong growth quarter-over-quarter in auto.

I mean, look, retail and restaurants are still really challenged, no doubt about it. There's a level of uncertainty there. But we are seeing continued sequential quarter-over-quarter improvement. So I mean, really that's I think there's also a lot of frankly pent-up demand out there, right, for these businesses that would like to grow and need a way to do that.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

And, Kyle, just piling on with Patrick too. The portfolio – it's not – we have a different portfolio with different performance by market too. So, we have some markets like Las Vegas and Portland that have obviously been more affected by COVID in some of the political unrest that's been happening in those markets. So that's where you would expect to see some recovery as we get through this crisis.

Kyle Evans
Analyst, Stephens, Inc.

Q

But just I'm not asking you to guide, but how should we think about annualizing the pandemic pressures that hit us last March and end of the reverse political displacement kind of in the second half of calendar 2021. I'm having trouble thinking about core over the next four quarters.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Yeah. Well, look, I think that I'm looking forward to this quarter because I've got the Super Bowl on CBS. That's a nice a nice bump. And then we're up against not having NCAA tournament last March and April, which returns this year. And that'll provide another nice secular bump. So, I think as you look at core, there are still plenty of items and reasons that come advertise and I think you're going to continue to see the quarter-over-quarter improvement that we've been seeing. I don't want to – I know you're not looking for a guide and I'm probably not the one to give you the guide, but we're seeing good pacings this quarter that continue that trend.

Kyle Evans
Analyst, Stephens, Inc.

Q

Got it. On the national side, I feel like I don't want to beat this horse again. You talked about very strong direct response mail in digital for subscriptions but we're still looking at negative revenue numbers there. I feel like we're rolling off of some of the third party stuff that you inherited with time as well as rolling off some kind of comparable title changes that you made. Can you just kind of update us on where you all are and rolling off at the time subscriptions are progressing and rolling off to the comparable titles on the magazine side.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Well, I think, Kyle, I would say that we're in our third year. This is the third year we actually just celebrated our anniversary of the Time Inc. acquisition on February 1st. So, the thing that I was most excited about we talked about the journey after Time Inc. that it was the integration was a heavy lift and it was going to be full two-year integration. And what we're seeing in this year is the fruits of our labor for those two years. And we're starting to see the digital performance because we're on one unified platform. We got rid of the titles that we didn't want to set we sold.

So, even with the COVID pandemic that we were hit with which obviously wasn't a complete surprise, the National Media Group in the current quarter that we just closed is up in operating profit, up in adjusted EBITDA year-over-year and they also are up for those same metrics in the first half of the fiscal year. So, outstanding performance. We wish we didn't have the effect of the COVID backs, the COVID issue.

But again kind of what we expected that this was the year where we were going to finally see the fruits of our labor pay off and really start to see us return to growth. It's always lumpy, I know we make it a little hard for you guys when we made a decision on Family Circle last year and it creates some adjustments that we need to make. This will be the first clean quarter with no adjustments as we enter Q3.

And again, on to your question on consumer, we're always looking to take advantage of consumer profits over the long-term and I'm talking decades. We've optimized the National Media Group magazine business to more of an advertising driven model. Obviously, we get revenues from consumers and advertisers, but we've sacrificed consumer profits and had higher rate bases and more copies to be able to take advantage of a robust advertising marketplace.

Over the last year and into the future, we're going to be changing that model because obviously when advertising demand comes down and you see the numbers that we mentioned, where we see that demand for consumer can we increase price, can we get rid of less profitable circulations. That's an ongoing change that will happen over time and you got to think about long-term on consumer marketing where you get lifetime value, you acquire somebody you can step them up in price, you have order renewals. So it takes time and we have that accounting issue where we've talked about that when we optimize profit direct-to-publisher service, which are more profitable over the long run can decrease circulation revenue related to agents.

So, a long winded answer, but we see opportunity for the magazine business, consumers love magazines, we sell more copies in our special interest copies last year than we did the year before. Even with the pandemic, subscriptions revenues – subscriptions profits are going to be up. So it's something that we're excited about. We're always going to be tweaking and optimizing that model.

Kyle Evans
Analyst, Stephens, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Aaron Watts with Deutsche Bank.

Aaron Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, everyone. Thanks for having me on. I appreciate your comments around net debt reduction being a priority and you clearly built a healthy cash balance at the end of the calendar year, which helps all of your leverage metrics. I'm curious how you're thinking about the priorities for that cash and when you might be comfortable enough with the operating backdrop to perhaps use that cash to pay down minimal debt balances and bring your gross debt leverage down alongside here net debt leverage.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Well, I'll ask Jason to kind of pick that.

Jason M. Frierott
Chief Financial Officer, Meredith Corp.

A

Yeah, Aaron. I mean, in terms of how we thought about it obviously navigating that the pandemic of a whole host of unknowns has been kind of a sense of caution for us. As we look into the beginning of this calendar year a little bit of a slow start in advertising as Tom said before. We're looking at consumer metrics, GDP those types of things in terms of where we are and what we see in front of us those are the kind of key metrics that we're looking for to kind of give us a little bit of a guide in terms of the time they're doing that. We're absolutely going to do that. I just want to make sure that we're being thoughtful in terms of the timing of doing that and kind of working through that in a methodical way versus maybe kind of a step back. So, as the vaccine takes course and takes the impact, those are all positive trends for us. So, I'd say that those are positive indicators. And as we move forward, we'll continue to evaluate that and make sure that we'll take that into consideration as we determine kind of when to take down our debt and pay that off.

Aaron Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. That's helpful. And then if I could ask one other question, consolidation in the TV space understandably took a bit of a breather in 2020. As we embark upon a new year with a new administration and a new [ph] FCC head (48:21), how are you thinking about the potential for meaningful M&A activity to take place in the space broadly? And what are your latest thoughts on how we should be thinking about Meredith participates in and that is either a buyer or seller of TV assets? Thank you.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

A

Yeah. Listen, we always are looking in the marketplace for opportunities. We participated in the past 12 months looking at opportunities to acquire. Obviously, our number one priority is debt reduction. So, would have to be something really extraordinary that fits our strategy either on the Local Media Group side or on the National Media Group side to make a decision on that. But we're always looking and considering opportunities as we go forward.

We believe we have a fantastic portfolio of television stations that obviously had record performance and threw off a lot of cash. And these two operating segments together are really performing super well and generating cash and allowing us to pay down debt and give us more flexibility as we go forward with our balance sheet and how we look at that. So that's kind of where we stand.

Aaron Watts
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thanks again for the time.

Thomas H. Harty
President, Chief Executive Officer & Director, Meredith Corp.

Thanks. So, I think that wraps up our Q&A session. Thank you all for participating today. I just want to make one comment that we're 11 months into the COVID pandemic crisis and I'd just like to thank the Meredith employees and we're almost coming up to the anniversary where we asked all of them to pivot and work from home and they've obviously faced a lot of things, change from a personal perspective and obviously from a work perspective. And I'm just thrilled with their performance and I appreciate all they've done to move Meredith forward during this crisis and thank them.

So with that, I'd just like to close and thank you very much for participating. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.