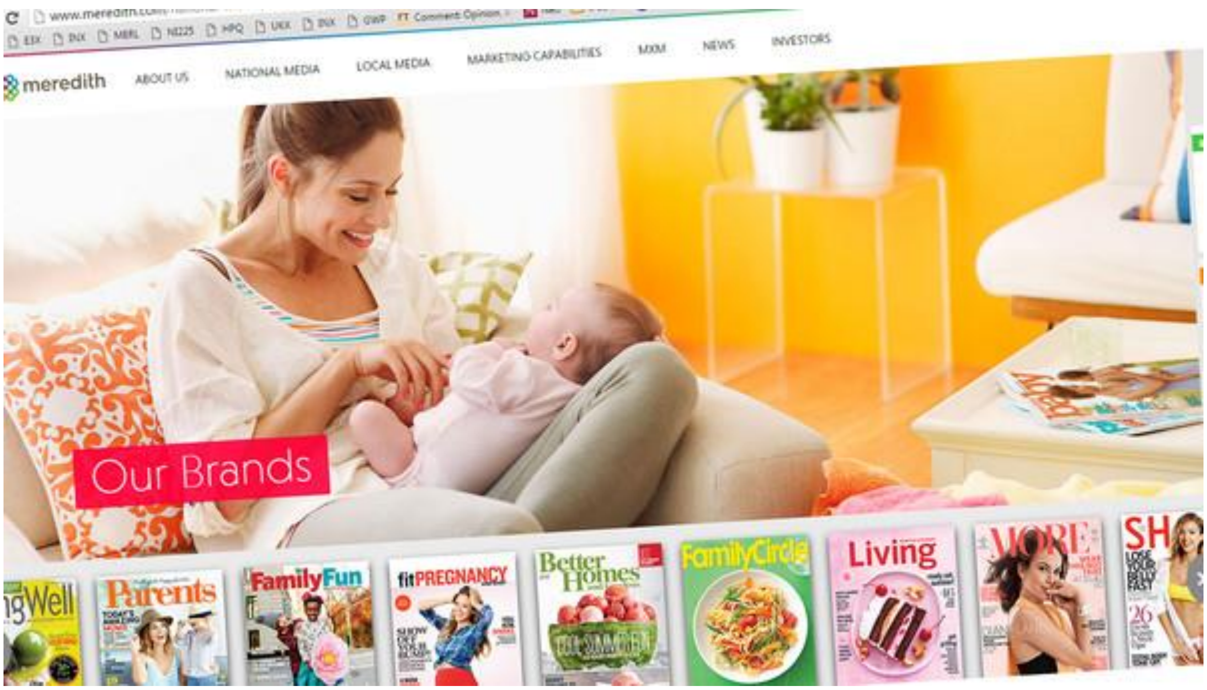
FINANCIAL TIMES

March 31, 2016 3:06 pm

Publisher Meredith expects digital sales milestone

Shannon Bond in New York



Meredith Corporation expects digital ad sales to grow faster than print revenue declines for the first time next year, as it predicts that its online audience will reach 100m a month.

Steve Lacy, chief executive of the publisher of magazines including *Better Homes and Gardens* and *Martha Stewart Living*, told the Financial Times that the company will reach an “inflection point” in its 2017 fiscal year, which begins in July.

Digital revenues account for about a third of the $137m the company's publishing arm made in advertising sales in its most recent quarter, up from 25 per cent last year. Print sales have been shrinking at about 4-6 per cent a year, a pace that Mr Lacy expects to continue.

Meredith predicts its online audience will expand from 75m monthly unique visitors to 100m through acquisitions of titles that will bring substantial web traffic and technology to improve its online ad offerings.

The company's plan follows the collapse of its planned merger with television station owner Media General. The deal was scrapped in January after a months-long battle with rival bidder Nexstar Broadcasting Group. Meredith's shares have fallen more than 15 per cent in the last year.

The deal would have made the combined Meredith Media General — led by Mr Lacy — the country's third-largest local TV operator, with 88 stations in 54 markets, reaching nearly a third of US households. Media General is instead being acquired by Nexstar, creating the number two US operator.

For Meredith, it is "back to plan A", Mr Lacy says. The company will pursue three initiatives: increasing the audience for its female-focused titles, particularly online and among millennial consumers; adding to its local television holdings, which number 17 stations; and return nearly half of its free cash flow to shareholders through buybacks and dividend increases.

Acquisitions will probably come on the publishing side. Mr Lacy points to its deal for editorial and operational control of *Martha Stewart Living* and *Martha Stewart Weddings*, its purchase of *Shape*, the women's fitness magazine, and its acquisition of Selectable Media, a native ad technology company, as models.

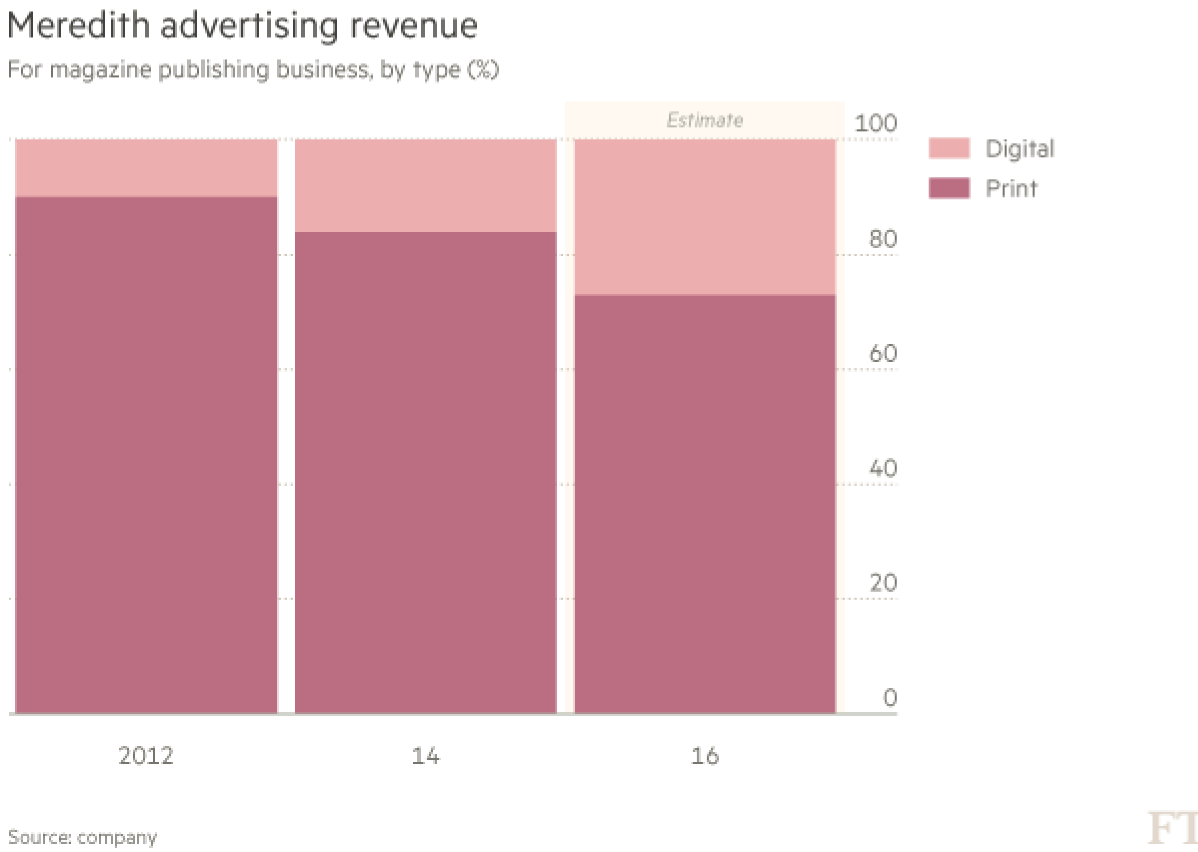
Meredith would be a potential buyer for the right print titles, Mr Lacy says. Even though once-lucrative print ads are in decline, the company has increased readership of physical copies of its magazines.

Print still accounts for 60 per cent of Meredith's total audience, and circulation made up about a third of $1.1bn in total magazine revenue in 2015. The company is now focused on generating more money from its subscribers by converting them to auto-renewal plans where their credit cards are automatically charged for another year of delivery.

Three years ago, Meredith discussed buying some Time Inc titles when they were still owned by Time Warner. Those conversations fell apart and Time Warner ultimately spun the magazines into a separate company. Mr Lacy says Time Inc is not looking to sell any titles today, although he sees value in some of its properties such as *People* and *Southern Living*.

A doubt still remains over its television business at a time when station owners are seeking greater scale in their negotiations with cable and satellite providers, whose retransmission fees have become an important source of revenue. Unlike other media companies including Time Warner, News Corp, Gannett and Tribune, Meredith has not separated its TV business from its publishing arm.

“We would love to split our business, but we need to scale up in such a way so we wouldn’t be two teeny tiny public companies that nobody pays attention to,” Mr Lacy says. That would mean doubling television revenues to $1bn, he says, putting it on par with the magazine business.



The Media General transaction would have accomplished that quickly and likely resulted in a splitting off of Meredith’s magazines. Now the timeline for any separation will be much longer, as Meredith looks to add smaller groups of stations that fit with its goal of owning the top news channels in big markets.

“I felt really good about that [Media General] deal,” Mr Lacy says, and would not rule out another such large-scale transaction. But, he cautions, “I’d have to feel shareholders would be better with it than without it . . . I don’t want to be levered up to my eyeballs.”

That is why he says he tells board members and investors he is taking it slowly. “This is not like shopping at Target. Somebody has to want to buy, somebody has to want to sell.”

Link:
http://www.ft.com/intl/cms/s/0/a9531500-f3c2-11e5-9afe-dd2472ea263d.html#axzz44VsxRATC