MEREDITH CORP
Form 10-Q
January 28, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014 Commission file number 1-5128

MEREDITH CORPORATION
(Exact name of registrant as specified in its charter)

Iowa	42-0410230
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1716 Locust Street, Des Moines, Iowa	50309-3023
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (515) 284-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares of stock outstanding at December 31, 2014	
Common shares	37,246,735
Class B shares	7,287,666
Total common and Class B shares	44,534,401

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Meredith Corporation and its consolidated subsidiaries are referred to in this Quarterly Report on Form 10 Q (Form 10 Q) as Meredith, the Company, we, our, and us.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

Meredith Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

Assets	December 31, 2014	June 30, 2014
(In thousands)		
Current assets		
Cash and cash equivalents	$18,123	$36,587
Accounts receivable, net	289,658	257,644
Inventories	26,213	24,008
Current portion of subscription acquisition costs	97,609	96,893
Current portion of broadcast rights	12,083	4,551
Assets held for sale	54,610	32,900
Other current assets	24,381	17,429
Total current assets	522,677	470,012
Property, plant, and equipment	524,803	501,216
Less accumulated depreciation	(312,274)	(296,168)
Net property, plant, and equipment	212,529	205,048
Subscription acquisition costs	105,808	101,533
Broadcast rights	2,809	3,114
Other assets	87,419	86,935
Intangible assets, net	930,090	835,531
Goodwill	941,237	841,627
Total assets	$2,802,569	$2,543,800
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$62,500	$87,500
Current portion of long-term broadcast rights payable	12,137	4,511
Accounts payable	76,308	81,402
Accrued expenses and other liabilities	149,186	136,047
Current portion of unearned subscription revenues	184,282	173,643
Total current liabilities	484,413	483,103
Long-term debt	796,250	627,500
Long-term broadcast rights payable	4,223	4,327
Unearned subscription revenues	166,464	151,533
Deferred income taxes	287,509	277,477
Other noncurrent liabilities	140,604	108,208
Total liabilities	1,879,463	1,652,148
Shareholders' equity		
Series preferred stock	—	—
Common stock	37,247	36,776
Class B stock	7,288	7,700
Additional paid-in capital	43,555	41,884
Retained earnings	844,189	814,050
Accumulated other comprehensive loss	(9,173)	(8,758)

Total shareholders' equity	923,106	891,652
Total liabilities and shareholders' equity	$2,802,569	$2,543,800

See accompanying Notes to Condensed Consolidated Financial Statements.

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Meredith Corporation and Subsidiaries
Condensed Consolidated Statements of Earnings
(Unaudited)

	Three Months		Six Months	
Periods ended December 31,	2014	2013	2014	2013
(In thousands except per share data)				
Revenues				
Advertising	$241,422	$193,531	$459,453	$392,078
Circulation	59,468	67,733	125,353	143,467
All other	98,015	92,784	185,283	174,955
Total revenues	398,905	354,048	770,089	710,500
Operating expenses				
Production, distribution, and editorial	140,283	132,216	282,170	272,993
Selling, general, and administrative	175,452	158,341	339,128	319,413
Depreciation and amortization	14,308	11,590	27,077	23,385
Total operating expenses	330,043	302,147	648,375	615,791
Income from operations	68,862	51,901	121,714	94,709
Interest expense, net	(4,785)	(2,555)	(9,027)	(5,268)
Earnings before income taxes	64,077	49,346	112,687	89,441
Income taxes	(24,486)	(18,777)	(43,731)	(34,831)
Net earnings	$39,591	$30,569	$68,956	$54,610
Basic earnings per share	$0.89	$0.68	$1.55	$1.22
Basic average shares outstanding	44,483	44,696	44,471	44,672
Diluted earnings per share	$0.87	$0.67	$1.52	$1.20
Diluted average shares outstanding	45,268	45,619	45,224	45,499
Dividends paid per share	$0.4325	$0.4075	$0.8650	$0.8150

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months		Six Months	
Periods ended December 31,	2014	2013	2014	2013
(In thousands)				
Net earnings	$39,591	$30,569	$68,956	$54,610
Other comprehensive income, net of income taxes				
Pension and other postretirement benefit plans activity	42	268	84	658
Unrealized loss on interest rate swaps	(1,276)	—	(499)	—
Other comprehensive income (loss), net of income taxes	(1,234)	268	(415)	658
Comprehensive income	$38,357	$30,837	$68,541	$55,268

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Condensed Consolidated Statement of Shareholders' Equity
(Unaudited)

(In thousands except per share data)	Common Stock - $1 par value	Class B Stock - $1 par value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2014	$36,776	$7,700	$41,884	$814,050	$ (8,758)	$891,652
Net earnings	—	—	—	68,956	—	68,956
Other comprehensive loss, net of income taxes	—	—	—	—	(415)	(415)
Share-based incentive plan transactions	786	—	27,603	—	—	28,389
Purchases of Company stock	(726)	(1)	(35,450)	—	—	(36,177)
Share-based compensation	—	—	8,431	—	—	8,431
Conversion of Class B to common stock	411	(411)	—	—	—	—
Dividends paid						
Common stock	—	—	—	(32,509)	—	(32,509)
Class B stock	—	—	—	(6,308)	—	(6,308)
Tax benefit from share-based awards	—	—	1,087	—	—	1,087
Balance at December 31, 2014	$37,247	$7,288	$43,555	$844,189	$ (9,173)	$923,106

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Six months ended December 31,	2014	2013
(In thousands)		
Cash flows from operating activities		
Net earnings	$68,956	$54,610
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	18,806	16,735
Amortization	7,012	6,650
Share-based compensation	8,431	7,926
Deferred income taxes	13,486	10,764
Amortization of broadcast rights	8,063	4,437
Payments for broadcast rights	(7,847)	(5,338)
Provision for write-down of impaired assets	1,450	—
Fair value adjustment to contingent consideration	(1,100)	(1,100)
Excess tax benefits from share-based payments	(6,035)	(3,866)
Changes in assets and liabilities	(36,853)	(30,131)
Net cash provided by operating activities	74,369	60,687
Cash flows from investing activities		
Acquisitions of and investments in businesses	(183,944)	(879)
Additions to property, plant, and equipment	(11,855)	(11,272)
Net cash used in investing activities	(195,799)	(12,151)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	285,000	106,000
Repayments of long-term debt	(141,250)	(116,000)
Dividends paid	(38,817)	(36,628)
Purchases of Company stock	(36,177)	(58,198)
Proceeds from common stock issued	28,389	50,633
Excess tax benefits from share-based payments	6,035	3,866
Other	(214)	—
Net cash provided by (used in) financing activities	102,966	(50,327)
Net decrease in cash and cash equivalents	(18,464)	(1,791)
Cash and cash equivalents at beginning of period	36,587	27,674
Cash and cash equivalents at end of period	$18,123	$25,883

See accompanying Notes to Condensed Consolidated Financial Statements.

Meredith Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation—The condensed consolidated financial statements include the accounts of Meredith Corporation and its wholly owned subsidiaries (Meredith or the Company), after eliminating all significant intercompany balances and transactions. Meredith does not have any off-balance sheet arrangements. The Company's use of special-purpose entities is limited to Meredith Funding Corporation, whose activities are fully consolidated in Meredith's condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in Meredith's Annual Report on Form 10 K for the year ended June 30, 2014, filed with the SEC.

The condensed consolidated financial statements as of December 31, 2014, and for the three and six months ended December 31, 2014 and 2013, are unaudited but, in management's opinion, include all normal, recurring adjustments necessary for a fair presentation of the results of interim periods. The year-end condensed consolidated balance sheet data as of June 30, 2014, were derived from audited financial statements, but do not include all disclosures required by GAAP. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year.

Derivative Financial Instruments—Meredith does not engage in derivative or hedging activities, except to hedge interest rate risk on debt as described in Note 6. Fundamental to our approach to risk management is the desire to minimize exposure to volatility in interest costs of variable rate debt, which can impact our earnings and cash flows. In the first quarter of fiscal 2015, we entered into interest rate swap agreements with counterparties that are major financial institutions. These agreements effectively fix the variable rate cash flow on $200 million of a combination of our variable-rate private placement senior notes and bank term loan. We designated and accounted for the interest rate swaps as cash flow hedges in accordance with Accounting Standards Codification 815, Derivatives and Hedging. The effective portion of the change in the fair value of interest rate swaps is reported in other comprehensive income (loss). The gain or loss included in other comprehensive income (loss) is subsequently reclassified into net earnings on the same line in the Condensed Consolidated Statements of Earnings as the hedged item in the same period that the hedge transaction affects net earnings. The ineffective portion of a change in fair value of the interest rate swaps would be reported in interest expense. During the first six months of fiscal 2015, the interest rate swap agreements were considered effective hedges and there were no material gains or losses recognized in earnings for hedge ineffectiveness.

Adopted Accounting Pronouncements—In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. The guidance was effective for the Company in the first quarter of fiscal 2015. The adoption of this guidance did not have an impact on our results of operations or cash flows and we have updated our presentation of unrecognized tax benefits net of our deferred tax assets where applicable on our Condensed Consolidated Balance Sheets.

2. Acquisitions

Fiscal 2015
On October 31, 2014, Meredith acquired WGGB, the ABC affiliate in Springfield, Massachusetts. The results of WGGB's operations have been included in the condensed consolidated financial statements since that date. The acquisition-date fair value of the consideration totaled $53.3 million, which consisted of $50.0 million of cash and $3.3 million of contingent consideration. The contingent consideration arrangement requires the Company to pay contingent payments based on certain future regulatory actions. We estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. The fair value is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in Note 9. As of December 31, 2014, the Company estimates the future payments will range from zero to $4.0 million. The maximum amount of contingent payments the seller may receive is $4.0 million.

Effective November 1, 2014, Meredith completed its acquisition of Martha Stewart Living magazine and its related digital assets (collectively Martha Stewart Living Media Properties). In addition, Meredith entered into a 10 year licensing arrangement with Martha Stewart Living Omnimedia (MSLO) for the licensing of the Martha Stewart Living trade name. The acquired business operations include sales and marketing, circulation, production, and other non-editorial functions. Meredith will source editorial content from MSLO. The results of the Martha Stewart Living Media Properties have been included in the condensed consolidated financial statements since the effective date. There was no consideration exchanged in this transaction.

On November 13, 2014, Meredith acquired 100 percent of the membership interests in My Wedding, LLC (Mywedding) resulting in the acquisition of Mywedding.com. Mywedding.com is one of the top five wedding websites in the U.S., providing couples with a complete wedding planning product suite. The results of Mywedding have been included in the condensed consolidated financial statements since that date. The acquisition-date fair value of the consideration was $42.6 million, which consisted of $20.0 million of cash and $22.6 million of contingent consideration. The contingent consideration arrangement requires the Company to pay a contingent payment based on certain financial targets achieved during fiscal 2018 generally based on earnings before interest, taxes, depreciation, and amortization (EBITDA), as defined in the acquisition agreement. The contingent consideration is not dependent on the continued employment of the sellers. We estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. The fair value is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in Note 9. As of December 31, 2014, the Company estimates the future payments will range from $11.1 million to $40.0 million. The maximum amount of contingent payments the seller may receive is $40.0 million.

On December 19, 2014, Meredith acquired WALA, the FOX affiliate in Mobile, Alabama-Pensacola, Florida. The results of WALA's operations have been included in the condensed consolidated financial statements since that date. The cash purchase price, including the purchase of working capital, was $89.9 million.

On December 30, 2014, Meredith acquired 100 percent of the outstanding stock of Selectable Media, Inc. (Selectable Media), a leading native and engagement-based digital advertising company. The results of Selectable Media have been included in the condensed consolidated financial statements since that date. The acquisition-date fair value of the consideration totaled $30.2 million, which consisted of $23.0 million of cash and $7.2 million of contingent consideration. The contingent consideration arrangement requires the Company to pay contingent payments based on certain financial targets over the next three fiscal years generally based on revenue, as defined in the acquisition agreement. The contingent consideration is not dependent on the continued employment of the sellers. We estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. The fair value is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in Note 9. As of December 31, 2014, the Company estimates the future payments will range from $7.3 million to $8.0 million. The maximum amount of contingent payments the seller may receive is $8.0 million.

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As of the date of each acquisition, Meredith allocates the purchase price to the assets acquired and liabilities assumed based on their respective preliminary fair values. The Company is in the process of obtaining third-party valuations of fixed and intangible assets; thus, the provisional measurements of fixed assets, intangible assets, goodwill, and deferred income tax balances are subject to change. The following table summarizes the total estimated fair values of the assets acquired and liabilities assumed by segment:

(In thousands)	Local Media Acquisitions	National Media Acquisitions	Total
Accounts receivable	$ 4,375	$ 4,060	$ 8,435
Current portion of broadcast rights	1,582	—	1,582
Other current assets	1,106	1,070	2,176
Property, plant, and equipment	13,695	140	13,835
Other noncurrent assets	1,907	3,063	4,970
Intangible assets	107,518	17,400	124,918
Total identifiable assets acquired	130,183	25,733	155,916
Deferred subscription revenue	—	(26,866)	(26,866)
Current portion of broadcast rights	(1,582)	—	(1,582)
Other current liabilities	(1,387)	(7,702)	(9,089)
Long-term liabilities	(5,242)	(31,434)	(36,676)
Total liabilities assumed	(8,211)	(66,002)	(74,213)
Net identifiable assets acquired	121,972	(40,269)	81,703
Goodwill	17,974	83,269	101,243
Net assets acquired	$ 139,946	$ 43,000	$ 182,946

The following table provides details of the acquired intangible assets by acquisition:

(In thousands)	WGGB	Martha Stewart	Mywedding	WALA