

MEREDITH CORP

Form 10-Q

October 26, 2017

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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 September 30, 2017 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  No

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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

Yes  No

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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 September 30, 2017

|                                 |            |
|---------------------------------|------------|
| Common shares                   | 39,557,003 |
| Class B shares                  | 5,119,107  |
| Total common and Class B shares | 44,676,110 |

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TABLE OF CONTENTS

|  | Page       |
|--|------------|
| Part I - Financial Information   |            |
| Item 1. Financial Statements (Unaudited)   |            |
| Condensed Consolidated Balance Sheets as of September 30, 2017 and June 30, 2017                                 | <u>1</u>   |
| Condensed Consolidated Statements of Earnings for the Three Months Ended September 30, 2017 and 2016             | <u>2</u>   |
| Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2017 and 2016 | <u>3</u>   |
| Condensed Consolidated Statement of Shareholders' Equity for the Three Months Ended September 30, 2017           | <u>4</u>   |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2017 and 2016           | <u>5</u>   |
| Notes to Condensed Consolidated Financial Statements   | <u>6</u>   |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                    | <u>15</u>  |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk   | <u>23</u>  |
| Item 4. Controls and Procedures  | <u>24</u>  |
| Part II - Other Information  |            |
| Item 1A. Risk Factors  | <u>25</u>  |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | <u>25</u>  |
| Item 6. Exhibits   | <u>26</u>  |
| Signature  | <u>27</u>  |
| Index to Attached Exhibits   | <u>E-1</u> |

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  | September 30,<br>2017 | June 30,<br>2017 |
|---|-----------------------|------------------|
| (In thousands)  |                       |                  |
| Current assets  |                       |                  |
| Cash and cash equivalents                             | \$ 27,811             | \$ 22,287        |
| Accounts receivable, net                              | 286,723               | 289,052          |
| Inventories   | 23,263                | 21,890           |
| Current portion of subscription acquisition costs     | 150,318               | 144,896          |
| Current portion of broadcast rights                   | 19,301                | 7,853            |
| Other current assets                                  | 28,307                | 19,275           |
| Total current assets                                  | 535,723               | 505,253          |
| Property, plant, and equipment                        | 547,370               | 549,536          |
| Less accumulated depreciation                         | (346,775)             | (359,670)        |
| Net property, plant, and equipment                    | 200,595               | 189,866          |
| Subscription acquisition costs                        | 78,883                | 79,740           |
| Broadcast rights                                      | 22,990                | 21,807           |
| Other assets  | 72,503                | 69,616           |
| Intangible assets, net                                | 951,111               | 955,883          |
| Goodwill  | 907,558               | 907,458          |
| Total assets  | \$ 2,769,363          | \$ 2,729,623     |
| Liabilities and Shareholders' Equity                  |                       |                  |
| Current liabilities                                   |                       |                  |
| Current portion of long-term debt                     | \$ 62,500             | \$ 62,500        |
| Current portion of long-term broadcast rights payable | 19,773                | 9,206            |
| Accounts payable                                      | 76,726                | 66,598           |
| Accrued expenses and other liabilities                | 123,525               | 116,907          |
| Current portion of unearned subscription revenues     | 212,240               | 204,459          |
| Total current liabilities                             | 494,764               | 459,670          |
| Long-term debt  | 642,759               | 635,737          |
| Long-term broadcast rights payable                    | 23,894                | 22,454           |
| Unearned subscription revenues                        | 105,295               | 106,506          |
| Deferred income taxes                                 | 397,386               | 384,726          |
| Other noncurrent liabilities                          | 97,504                | 124,558          |
| Total liabilities                                     | 1,761,602             | 1,733,651        |
| Shareholders' equity                                  |                       |                  |
| Series preferred stock                                | —                     | —                |
| Common stock  | 39,557                | 39,433           |
| Class B stock   | 5,119                 | 5,119            |
| Additional paid-in capital                            | 56,631                | 54,726           |
| Retained earnings                                     | 924,880               | 915,703          |
| Accumulated other comprehensive loss                  | (18,426)              | (19,009)         |
| Total shareholders' equity                            | 1,007,761             | 995,972          |

|  |              |              |
|--|--------------|--------------|
| Total liabilities and shareholders' equity | \$ 2,769,363 | \$ 2,729,623 |
|--|--------------|--------------|

See accompanying Notes to Condensed Consolidated Financial Statements.

1

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

| Three months ended September 30,        | 2017      | 2016      |
|---|-----------|-----------|
| (In thousands except per share data)    |           |           |
| Revenues                                |           |           |
| Advertising                             | \$209,249 | \$225,889 |
| Circulation                             | 68,927    | 68,668    |
| All other                               | 114,595   | 105,322   |
| Total revenues                          | 392,771   | 399,879   |
| Operating expenses                      |           |           |
| Production, distribution, and editorial | 155,802   | 150,228   |
| Selling, general, and administrative    | 167,621   | 174,993   |
| Depreciation and amortization           | 12,550    | 13,896    |
| Total operating expenses                | 335,973   | 339,117   |
| Income from operations                  | 56,798    | 60,762    |
| Interest expense, net                   | (5,078 )  | (4,749 )  |
| Earnings before income taxes            | 51,720    | 56,013    |
| Income taxes                            | (18,279 ) | (22,040 ) |
| Net earnings                            | \$33,441  | \$33,973  |
|   |           |           |
| Basic earnings per share                | \$0.75    | \$0.76    |
| Basic average shares outstanding        | 44,779    | 44,558    |
|   |           |           |
| Diluted earnings per share              | \$0.73    | \$0.75    |
| Diluted average shares outstanding      | 45,620    | 45,484    |
|   |           |           |
| Dividends paid per share                | \$0.520   | \$0.495   |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Three months ended September 30,<br>(In thousands)      | 2017     | 2016     |
|---|----------|----------|
| Net earnings  | \$33,441 | \$33,973 |
| Other comprehensive income, net of income taxes         |          |          |
| Pension and other postretirement benefit plans activity | 327      | 537      |
| Unrealized gains on interest rate swaps                 | 256      | 1,469    |
| Other comprehensive income, net of income taxes         | 583      | 2,006    |
| Comprehensive income                                    | \$34,024 | \$35,979 |

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)   | Class                        |                               |                            | Retained Earnings | Accumulated Other Comprehensive Loss | Total       |
|--|------------------------------|-------------------------------|----------------------------|-------------------|--------------------------------------|-------------|
|  | Common Stock - \$1 par value | Class B Stock - \$1 par value | Additional Paid-in Capital |                   |                                      |             |
| Balance at June 30, 2017   | \$39,433                     | \$5,119                       | \$54,726                   | \$915,703         | \$ (19,009 )                         | \$995,972   |
| Net earnings   | —                            | —                             | —                          | 33,441            | —                                    | 33,441      |
| Other comprehensive income, net of income taxes                                  | —                            | —                             | —                          | —                 | 583                                  | 583         |
| Shares issued under incentive plans, net of forfeitures                          | 423                          | —                             | 11,575                     | —                 | —                                    | 11,998      |
| Purchases of Company stock   | (299 )                       | —                             | (17,394 )                  | —                 | —                                    | (17,693 )   |
| Share-based compensation   | —                            | —                             | 6,682                      | —                 | —                                    | 6,682       |
| Dividends paid   |                              |                               |                            |                   |                                      |             |
| Common stock   | —                            | —                             | —                          | (20,960 )         | —                                    | (20,960 )   |
| Class B stock  | —                            | —                             | —                          | (2,662 )          | —                                    | (2,662 )    |
| Cumulative effect adjustment for adoption of Accounting Standards Update 2016-09 | —                            | —                             | 1,042                      | (642 )            | —                                    | 400         |
| Balance at September 30, 2017  | \$39,557                     | \$5,119                       | \$56,631                   | \$924,880         | \$ (18,426 )                         | \$1,007,761 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| Three months ended September 30,<br>(In thousands)                                 | 2017      | 2016      |
|--|-----------|-----------|
| Cash flows from operating activities   |           |           |
| Net earnings   | \$33,441  | \$33,973  |
| Adjustments to reconcile net earnings to net cash provided by operating activities |           |           |
| Depreciation   | 7,878     | 9,112     |
| Amortization   | 4,672     | 4,784     |
| Share-based compensation   | 6,682     | 6,358     |
| Deferred income taxes  | 12,697    | 8,700     |
| Amortization of broadcast rights   | 4,871     | 4,249     |
| Payments for broadcast rights  | (5,495 )  | (4,042 )  |
| Gain on disposition of assets  | (3,282 )  | —         |
| Fair value adjustments to contingent consideration                                 | (258 )    | 708       |
| Excess tax benefits from share-based payments                                      | —         | (2,071 )  |
| Changes in assets and liabilities  | (9,820 )  | (26,411 ) |
| Net cash provided by operating activities  | 51,386    | 35,360    |
| Cash flows from investing activities   |           |           |
| Acquisitions of and investments in businesses                                      | (1,000 )  | —         |
| Additions to property, plant, and equipment  | (20,613 ) | (2,232 )  |
| Proceeds from disposition of assets, net of cash sold                              | 2,193     | —         |
| Net cash used in investing activities  | (19,420 ) | (2,232 )  |
| Cash flows from financing activities   |           |           |
| Proceeds from issuance of long-term debt   | 20,000    | 20,000    |
| Repayments of long-term debt   | (13,125 ) | (16,250 ) |
| Dividends paid   | (23,622 ) | (22,432 ) |
| Purchases of Company stock   | (17,693 ) | (18,378 ) |
| Proceeds from common stock issued  | 11,998    | 13,019    |
| Payment of acquisition-related contingent consideration                            | (4,000 )  | (4,000 )  |
| Excess tax benefits from share-based payments                                      | —         | 2,071     |
| Net cash used in financing activities  | (26,442 ) | (25,970 ) |
| Net increase in cash and cash equivalents  | 5,524     | 7,158     |
| Cash and cash equivalents at beginning of period                                   | 22,287    | 24,970    |
| Cash and cash equivalents at end of period   | \$27,811  | \$32,128  |

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, 2017, filed with the SEC.

The condensed consolidated financial statements as of September 30, 2017, and for the three months ended September 30, 2017 and 2016, 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, 2017, 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.

**Adopted Accounting Pronouncements**—

**ASU 2016-07**—In March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) simplifying the transition to the equity method of accounting. The new guidance eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The Company adopted this standard effective July 1, 2017. The adoption of this guidance did not have an impact on our results of operations, cash flows, or disclosures.

**ASU 2016-09**—In March 2016, as a part of its simplification initiative, the FASB issued guidance on the accounting for employee share-based payments. The new guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax treatment, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this standard effective July 1, 2017.

The adoption of this guidance resulted in the prospective recognition of realized excess tax benefits related to the exercise or vesting of share-based awards in our Condensed Consolidated Statements of Earnings instead of in additional paid-in capital within our Condensed Consolidated Balance Sheets. We recognized an excess tax benefit of \$2.1 million as a credit to income tax expense in our Condensed Consolidated Statements of Earnings for the quarter ended September 30, 2017. Using a modified retrospective application, the Company has elected to recognize forfeitures as they occur and recorded a \$1.0 million increase to additional paid-in capital, a \$0.6 million reduction to retained earnings, and a \$0.4 million reduction to deferred taxes to reflect the incremental share-based compensation expense, net of the related tax impacts, that would have been recognized in prior years under the modified guidance. Presentation requirements for cash flows related to employee taxes paid using withheld shares had no impact to all

periods presented as such cash flows have historically been presented as financing activities. We no longer classify excess tax benefits related to share-based awards as a financing cash inflow and an operating

cash outflow. This classification requirement was adopted prospectively and, as such, our Condensed Consolidated Statement of Cash Flows has not been retrospectively adjusted.

#### Pending Accounting Pronouncements—

ASU 2017-12—In August 2017, the FASB issued guidance amending hedge accounting requirements. The purpose of this guidance is to better align a company's risk management activities and financial reporting requirements, and to simplify the application of hedge accounting. The effective date is the first quarter of fiscal 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our results of operations, cash flows, or disclosures.

ASU 2014-09—In May 2014, the FASB issued an accounting standards update that replaces existing revenue recognition guidance. The new guidance requires a company to recognize revenue for the transfer of promised goods or services equal to the amount it expects to receive in exchange for those goods or services. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. Additionally, the guidance requires new and significantly enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows from customer contracts as well as judgments made by a company when following the framework. The FASB continues to issue amendments to further clarify provisions of this guidance. These amendments will be effective upon adoption of the standard.

The Company will adopt the standard beginning July 1, 2018 (fiscal 2019). The two permitted transition methods are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized in the earliest period shown; or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. While a final decision has not been made, we currently anticipate adopting the standard using the modified retrospective method.

We are in the process of documenting the impact of the guidance on our current accounting policies and practices to identify material differences, if any, that would result from applying the new requirements to our revenue contracts. We continue to make progress on our revenue recognition analyses and are currently evaluating the impact, if any, on changes to our business processes, systems, and controls to support recognition and disclosure requirements under the new guidance. As these analyses are completed, the Company will be better able to quantify the anticipated impact, if any, to our consolidated financial statements.

## 2. Acquisitions and Dispositions

On December 7, 2016, Meredith acquired the assets of a digital lead-generation company in the home services market, which has been rebranded Meredith Performance Marketing by the Company. During the first quarter of fiscal 2018, the provisional amount of goodwill was increased by \$0.1 million, with a corresponding decrease to intangible assets.

On April 21, 2017, Meredith acquired WPCB-TV, an independent television station in Atlanta, Georgia, which was operated by Meredith prior to its acquisition.

Effective July 1, 2017, Meredith's national media group sold a 70 percent interest in Charleston Tennis LLC, which operates the Family Circle Tennis Center, to an unrelated third party. In return, Meredith received \$0.6 million in cash and a note receivable for \$8.5 million. The note receivable is due in annual installments over a period of 8 years. At September 30, 2017, there was \$3.8 million in unamortized discount and an allowance of \$2.7 million recorded against the note. This transaction generated a gain of \$3.3 million, which was recorded in the selling, general, and administrative line of the Condensed Consolidated Statements of Earnings. Of this gain, \$1.0 million related to the

remeasurement of the retained investment. As Meredith retains a 30 percent interest, has a seat on the

7

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board, and has approval rights over certain limited matters, Meredith will now account for this investment under the equity method of accounting.

### 3. Inventories

Major components of inventories are summarized below. Of total net inventory values shown, 61 percent are under the last-in first-out (LIFO) method at September 30, 2017, and 65 percent at June 30, 2017.

| (In thousands)                  | September 30,<br>2017 | June 30,<br>2017 |
|---------------------------------|-----------------------|------------------|
| Raw materials                   | \$ 12,553             | \$13,404         |
| Work in process                 | 10,841                | 8,665            |
| Finished goods                  | 1,159                 | 1,111            |
|                                 | 24,553                | 23,180           |
| Reserve for LIFO cost valuation | (1,290 )              | (1,290 )         |
| Inventories                     | \$ 23,263             | \$21,890         |

### 4. Intangible Assets and Goodwill

Intangible assets consist of the following:

| (In thousands)                                   | September 30, 2017 |                             |               | June 30, 2017   |                             |               |
|--|--------------------|-----------------------------|---------------|-----------------|-----------------------------|---------------|
|  | Gross<br>Amount    | Accumulated<br>Amortization | Net<br>Amount | Gross<br>Amount | Accumulated<br>Amortization | Net<br>Amount |
| Intangible assets<br>subject to amortization     |                    |                             |               |                 |                             |               |
| National media                                   |                    |                             |               |                 |                             |               |
| Advertiser relationships                         | \$ 13,810          | \$ (11,817 )                | \$ 1,993      | \$ 18,610       | \$ (15,514 )                | \$ 3,096      |
| Customer lists                                   | 4,200              | (420 )                      | 3,780         | 7,280           | (3,395 )                    | 3,885         |
| Other  | 21,325             | (9,662 )                    | 11,663        | 22,325          | (9,850 )                    | 12,475        |
| Local media                                      |                    |                             |               |                 |                             |               |
| Network affiliation agreements                   | 229,309            | (143,823 )                  | 85,486        | 229,309         | (142,216 )                  | 87,093        |
| Retransmission agreements                        | 27,923             | (11,754 )                   | 16,169        | 27,923          | (10,700 )                   | 17,223        |
| Other  | 1,670              | (553 )                      | 1,117         | 1,680           | (472 )                      | 1,208         |
| Total  | \$ 298,237         | \$ (178,029 )               | \$ 120,208    | \$ 307,127      | \$ (182,147 )               | \$ 124,980    |
| Intangible assets not<br>subject to amortization |                    |                             |               |                 |                             |               |
| National media                                   |                    |                             |               |                 |                             |               |
| Internet domain names                            |                    |                             | 7,827         |                 |                             | 7,827         |
| Trademarks                                       |                    |                             | 147,915       |                 |                             | 147,915       |
| Local media                                      |                    |                             |               |                 |                             |               |
| FCC licenses                                     |                    |                             | 675,161       |                 |                             | 675,161       |
| Total  |                    |                             | 830,903       |                 |                             | 830,903       |
| Intangible assets, net                           |                    |                             | \$ 951,111    |                 |                             | \$ 955,883    |

Amortization expense was \$4.7 million and \$4.8 million for the three months ended September 30, 2017 and 2016, respectively. Annual amortization expense for intangible assets is expected to be as follows: \$17.1 million in fiscal 2018, \$14.6 million in fiscal 2019, \$13.7 million in fiscal 2020, \$9.7 million in fiscal 2021, and \$7.3 million in fiscal 2022.





Changes in the carrying amount of goodwill were as follows:

| Three months ended September 30, 2017<br>(In thousands) | 2017              |                |             | 2016              |                |             |
|---|-------------------|----------------|-------------|-------------------|----------------|-------------|
|   | National<br>Media | Local<br>Media | Total       | National<br>Media | Local<br>Media | Total       |
| Balance at beginning of period                          |                   |                |             |                   |                |             |
| Goodwill  | \$943,803         | \$80,604       | \$1,024,407 | \$931,303         | \$68,775       | \$1,000,078 |
| Accumulated impairment losses                           | (116,949 )        | —              | (116,949 )  | (116,949 )        | —              | (116,949 )  |
| Total goodwill  | 826,854           | 80,604         | 907,458     | 814,354           | 68,775         | 883,129     |
| Activity during the period                              |                   |                |             |                   |                |             |
| Acquisition adjustments                                 | 100               | —              | 100         | —                 | —              | —           |
| Balance at end of period                                |                   |                |             |                   |                |             |
| Goodwill  | 943,903           | 80,604         | 1,024,507   | 931,303           | 68,775         | 1,000,078   |
| Accumulated impairment losses                           | (116,949 )        | —              | (116,949 )  | (116,949 )        | —              | (116,949 )  |
| Total goodwill  | \$826,954         | \$80,604       | \$907,558   | \$814,354         | \$68,775       | \$883,129   |

## 5. Restructuring Accrual

Details of changes in the Company's restructuring accrual are as follows:

| Three months ended September 30, | 2017     | 2016     |
|----------------------------------|----------|----------|
| (In thousands)                   |          |          |
| Balance at beginning of period   | \$8,674  | \$7,388  |
| Cash payments                    | (2,953 ) | (2,267 ) |
| Balance at end of period         | \$5,721  | \$5,121  |

## 6. Long-term Debt

Long-term debt consists of the following:

| (In thousands)  | September 30,<br>2017 | June 30,<br>2017 |
|---|-----------------------|------------------|
| Variable-rate credit facilities                             |                       |                  |
| Asset-backed bank facility of \$100 million, due 10/18/2019 | \$75,000              | \$75,000         |
| Revolving credit facility of \$200 million, due 11/30/2021  | 95,000                | 85,000           |
| Term loan due 11/30/2021                                    | 237,500               | 240,625          |
| Private placement notes                                     |                       |                  |
| 3.04% senior notes, due 3/1/2018                            | 50,000                | 50,000           |
| Floating rate senior notes, due 12/19/2022                  | 100,000               | 100,000          |
| Floating rate senior notes, due 2/28/2024                   | 150,000               | 150,000          |
| Total long-term debt  | 707,500               | 700,625          |
| Unamortized debt issuance costs                             | (2,241 )              | (2,388 )         |
| Current portion of long-term debt                           | (62,500 )             | (62,500 )        |
| Long-term debt  | \$642,759             | \$635,737        |



In connection with the asset-backed bank facility, Meredith entered into a revolving agreement to sell all of its rights, title, and interest in the majority of its accounts receivable related to advertising and miscellaneous revenues to Meredith Funding Corporation, a special-purpose entity established to purchase accounts receivable from Meredith. At September 30, 2017, \$174.0 million of accounts receivable net of reserves was outstanding under the agreement. Meredith Funding Corporation in turn may sell receivable interests to a major national bank. In consideration of the sale, Meredith receives cash and a subordinated note, bearing interest at the prime rate of 4.25 percent at September 30, 2017, from Meredith Funding Corporation. The agreement is structured as a true sale under which the creditors of Meredith Funding Corporation will be entitled to be satisfied out of the assets of Meredith Funding Corporation prior to any value being returned to Meredith or its creditors. The accounts of Meredith Funding Corporation are fully consolidated in Meredith's condensed consolidated financial statements.

In October 2017, we renewed our asset-backed bank facility for an additional two-year period on terms substantially similar to those previously in place. The renewed facility will expire in October 2019.

The Company holds interest rate swap agreements to hedge variable interest rate risk on the \$250.0 million floating rate senior notes and on \$50.0 million of the term loan. The expiration of the swaps is as follows: \$50.0 million in August 2018, \$100.0 million in March 2019, and \$150.0 million in August 2019. Under the swaps the Company will pay fixed rates of interest (1.36 percent on the swap maturing in August 2018, 1.53 percent on the swap maturing in March 2019, and 1.76 percent on the swaps maturing in August 2019) and receive variable rates of interest based on the one to three-month London Interbank Offered Rate (1.24 percent on the swap maturing in August 2018, 1.33 percent on the swap maturing in March 2019, and 1.32 percent on the swaps maturing in August 2019 as of September 30, 2017) on the \$300.0 million notional amount of indebtedness. The swaps are designated as cash flow hedges. The Company evaluates the effectiveness of the hedging relationships on an ongoing basis by recalculating changes in fair value of the derivatives and related hedged items independently.

Unrealized gains or losses on cash flow hedges are recorded in other comprehensive income to the extent the cash flow hedges are effective. The amount of the swap that offsets the effects of interest rate changes on the related debt is subsequently reclassified into interest expense. Any ineffective portions on cash flow hedges are recorded in interest expense. No material ineffectiveness existed at either September 30, 2017 or 2016.

The fair value of the interest rate swap agreements is the estimated amount the Company would pay or receive to terminate the swap agreements. At September 30, 2017, the swaps were in a net liability position. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to the swap agreements. The Company strives to manage this exposure through diversification and monitoring of the creditworthiness of the counterparties. There was \$0.3 million of potential loss that the Company would incur on the interest rate swaps if the counterparties were to fail to meet their obligations under the agreements at September 30, 2017. Given the strong creditworthiness of the counterparties, management does not expect any of them to fail to meet their obligations. Additionally, the concentration of risk with any individual counterparty is not considered significant at September 30, 2017.

## 7. Pension and Postretirement Benefit Plans

The following table presents the components of net periodic benefit costs:

| Three months ended September 30,  | 2017     | 2016     |
|-----------------------------------|----------|----------|
| (In thousands)                    |          |          |
| Pension benefits                  |          |          |
| Service cost                      | \$3,251  | \$3,137  |
| Interest cost                     | 1,470    | 1,225    |
| Expected return on plan assets    | (2,616 ) | (2,298 ) |
| Prior service cost amortization   | 72       | 48       |
| Actuarial loss amortization       | 513      | 897      |
| Net periodic benefit costs        | \$2,690  | \$3,009  |
| Postretirement benefits           |          |          |
| Service cost                      | \$19     | \$23     |
| Interest cost                     | 82       | 80       |
| Prior service credit amortization | (85 )    | (98 )    |
| Actuarial gain amortization       | (81 )    | (78 )    |
| Net periodic benefit credit       | \$(65 )  | \$(73 )  |

The amortization of amounts related to unrecognized prior service costs and net actuarial gain/loss was reclassified out of other comprehensive income as components of net periodic benefit costs.

## 8. Earnings per Share

The following table presents the calculations of earnings per share:

| Three months ended September 30,                 | 2017     | 2016     |
|--|----------|----------|
| (In thousands except per share data)             |          |          |
| Net earnings                                     | \$33,441 | \$33,973 |
| Basic average shares outstanding                 | 44,779   | 44,558   |
| Dilutive effect of stock options and equivalents | 841      | 926      |
| Diluted average shares outstanding               | 45,620   | 45,484   |
| Earnings per share                               |          |          |
| Basic earnings per share                         | \$0.75   | \$0.76   |
| Diluted earnings per share                       | 0.73     | 0.75     |

For the three months ended September 30, 2017 and 2016, antidilutive options excluded from the above calculations totaled 0.5 million (with a weighted average exercise price of \$56.14) and 0.5 million (with a weighted average exercise price of \$54.11), respectively.

In the three months ended September 30, 2017 and 2016, options were exercised to purchase 0.3 million and 0.3 million common shares, respectively.

## 9. Fair Value Measurements

We estimated the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts we would realize upon disposition.

The fair value hierarchy consists of three broad levels of inputs that may be used to measure fair value, which are described below:

- Quoted prices  
(unadjusted)  
in active  
Level 1 markets for  
identical  
assets or  
liabilities;  
Inputs other  
than quoted  
prices  
included
- Level 2 within Level  
1 that are  
either directly  
or indirectly  
observable;  
Assets or  
liabilities for  
which fair  
value is based  
on valuation  
models with  
significant  
Level 3 unobservable  
pricing inputs  
and which  
result in the  
use of  
management  
estimates.

The following table sets forth the carrying value and the estimated fair value of the Company's financial instruments not measured at fair value on a recurring basis:

| (In thousands)           | September 30,<br>2017 |            | June 30, 2017  |            |
|--------------------------|-----------------------|------------|----------------|------------|
|                          | Carrying Value        | Fair Value | Carrying Value | Fair Value |
| Broadcast rights payable | \$43,667              | \$42,013   | \$31,660       | \$30,544   |
| Total long-term debt     | 707,500               | 707,570    | 700,625        | 700,714    |

The fair value of broadcast rights payable was determined using the present value of expected future cash flows discounted at the Company's current borrowing rate with inputs included in Level 3. The fair value of total long-term debt was determined using the present value of expected future cash flows using borrowing rates currently available for debt with similar terms and maturities with inputs included in Level 2.

The following table sets forth the assets and liabilities measured at fair value on a recurring basis:

| (In thousands)                         | September 30,<br>2017 | June 30,<br>2017 |
|--|-----------------------|------------------|
| Property, plant, and equipment         |                       |                  |
| Corporate airplanes, held for sale     | \$                    | — \$ 1,927       |
| Other assets                           |                       |                  |
| Interest rate swaps                    | 293                   | 158              |
| Accrued expenses and other liabilities |                       |                  |
| Contingent consideration               | 25,906                | 4,000            |
| Interest rate swaps                    | 297                   | 602              |
| Other noncurrent liabilities           |                       |                  |
| Contingent consideration               | 4,047                 | 30,211           |

The fair value of interest rate swaps was determined using discounted cash flows derived from market observable inputs including swap curves that are included in Level 2. The fair values of contingent consideration are significant unobservable inputs and thus represent Level 3 measurements. The key inputs used to determine the fair value of contingent consideration included projected financial performance of acquisitions and a probability-weighted discounted cash flow model. Estimated financial performance is based upon internally developed estimates based

on industry knowledge and historical performance. The corporate airplanes fair value was also based on significant inputs not observable in the market and thus represents a Level 3 measurement.

Details of changes in the fair value of Level 3 contingent consideration and corporate airplanes are as follows:

| Three months ended September 30,<br>(in thousands)                 | 2017     | 2016     |
|--|----------|----------|
| Contingent consideration   |          |          |
| Balance at beginning of period                                     | \$34,211 | \$56,631 |
| Payments   | (4,000 ) | (4,000 ) |
| Change in present value of contingent consideration <sup>(1)</sup> | (258 )   | 708      |
| Balance at end of period   | \$29,953 | \$53,339 |
| Corporate airplanes, held for sale                                 |          |          |
| Balance at beginning of period                                     | \$1,927  | \$2,800  |
| Sale of corporate airplanes  | (1,927 ) | —        |
| Balance at end of period   | \$—      | \$2,800  |

<sup>(1)</sup> Change in present value of contingent consideration is recorded in the selling, general, and administrative expense line on the Condensed Consolidated Statements of Earnings and is comprised of changes in estimated earn out payments based on projections of performance and the accretion of the present value discount.

## 10. Financial Information about Industry Segments

Meredith is a diversified media company focused primarily on the home and family marketplace. On the basis of products and services, the Company has established two reportable segments: national media and local media. There have been no changes in the basis of segmentation since June 30, 2017. There have been no material intersegment transactions.

There are two principal financial measures reported to the chief executive officer (the chief operating decision maker) for use in assessing segment performance and allocating resources. Those measures are operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA). Operating profit for segment reporting, disclosed below, is revenues less operating costs excluding unallocated corporate expenses. Segment operating expenses include allocations of certain centrally incurred costs such as employee benefits, occupancy, information systems, accounting services, internal legal staff, and human resources administration. These costs are allocated based on actual usage or other appropriate methods, primarily number of employees. Unallocated corporate expenses are corporate overhead expenses not directly attributable to the operating groups. In accordance with authoritative guidance on disclosures about segments of an enterprise and related information, EBITDA is not presented below.

The following table presents financial information by segment:

| Three months ended September 30, 2017 | 2016      |           |
|---------------------------------------|-----------|-----------|
| (In thousands)                        |           |           |
| Revenues                              |           |           |
| National media                        | \$238,960 | \$247,293 |
| Local media                           | 153,811   | 152,586   |
| Total revenues                        | \$392,771 | \$399,879 |
| Segment profit                        |           |           |
| National media                        | \$28,256  | \$24,111  |
| Local media                           | 40,942    | 50,622    |
| Unallocated corporate                 | (12,400 ) | (13,971 ) |
| Income from operations                | 56,798    | 60,762    |
| Interest expense, net                 | (5,078 )  | (4,749 )  |
| Earnings before income taxes          | \$51,720  | \$56,013  |
| Depreciation and amortization         |           |           |
| National media                        | \$3,987   | \$4,518   |
| Local media                           | 7,938     | 8,990     |
| Unallocated corporate                 | 625       | 388       |
| Total depreciation and amortization   | \$12,550  | \$13,896  |



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to various uncertainties and changes in circumstances. Important factors that could cause actual results to differ materially from those described in forward-looking statements are set forth below under the heading "Forward Looking Statements."

### EXECUTIVE OVERVIEW

Meredith Corporation has been committed to service journalism for 115 years. Today, Meredith uses multiple distribution platforms—including broadcast television, print, digital, mobile, tablets, and video—to provide consumers with content they desire and to deliver the messages of its advertising and marketing partners.

Meredith operates two business segments: local media and national media. The local media segment includes 17 television stations reaching 11 percent of United States (U.S.) households. Meredith's portfolio is concentrated in large, fast-growing markets, with seven stations in the nation's Top 25 markets—including Atlanta, Phoenix, St. Louis, and Portland—and 13 in Top 50 markets. Meredith's stations produce nearly 700 hours of local news and entertainment content each week, and operate leading local digital destinations.

Our national media segment reaches 110 million unduplicated women and more than 70 percent of American millennial women. Meredith is the leader at creating content across media platforms in key consumer interest areas such as food, home, parenting, and lifestyle through well-known brands such as Better Homes & Gardens, Allrecipes, Parents, and Shape. The national media segment features robust brand licensing activities, including more than 3,000 SKUs of branded products at 5,000 Walmart stores across the U.S. Meredith Xcelerated Marketing is a leader at developing and delivering custom content and customer relationship marketing programs for many of the world's top brands.

Both segments operate primarily in the U.S. and compete against similar media and other types of media on both a local and national basis. The national media segment accounted for 61 percent of the Company's \$392.8 million in revenues in the first three months of fiscal 2018 while the local media segment contributed 39 percent.

### LOCAL MEDIA

Local media derives the majority of its revenues—58 percent in the first three months of fiscal 2018—from the sale of advertising, both over the air and on our stations' websites and apps. The remainder comes from television retransmission fees and other services. Political advertising revenues are cyclical in that they are significantly greater during biennial election campaigns (which take place primarily in odd-numbered fiscal years) than at other times. Local media's major expense categories are employee compensation costs and programming fees paid to the networks.

### NATIONAL MEDIA

Advertising revenues represented 50 percent of national media's first three months' revenues. These revenues were generated from the sale of advertising space in our magazines, websites, and apps to clients interested in promoting

their brands, products, and services to consumers. Circulation revenues accounted for 29 percent of national media's first three months' revenues. Circulation revenues result from the sale of magazines to consumers through

subscriptions and by single copy sales on newsstands in print form, primarily at major retailers and grocery/drug stores, and in digital form on tablets and other media devices. The remaining 21 percent of national media's revenues came from a variety of activities which included the sale of customer relationship marketing products and services as well as brand licensing, product sales, and other related activities. National media's major expense categories are production and delivery of publications and promotional mailings and employee compensation costs.

## FIRST QUARTER FISCAL 2018 FINANCIAL OVERVIEW

Local media revenues increased 1 percent as compared to the prior-year period. Operating profit declined 19 percent. These changes are primarily due to declines in higher-margin political advertising revenues due to the cyclical nature of political advertising partially offset by increased retransmission revenues and related profit.

National media revenues declined 3 percent compared to the prior-year period as declines in the revenues of our magazine operations of \$8.6 million more than offset increased revenues in our digital operations of \$1.3 million. National media operating profit increased 17 percent primarily due to growth in the operating profit of our magazine operations of \$4.2 million and a \$3.3 million gain related to the sale of a majority stake in Charleston Tennis LLC (Charleston Tennis), which operates the Family Circle Tennis Center. These increases were partially offset by declines in the operating profit of our digital operations of \$2.2 million.

Diluted earnings per share decreased 3 percent to \$0.73 from \$0.75 in the prior-year first three months primarily due to the decrease in political advertising partially offset by higher retransmission revenues, a gain related to the sale of a majority stake in Charleston Tennis, and a credit to income taxes for excess tax benefits on share-based compensation.

## RESULTS OF OPERATIONS

| Three months ended September 30,     | 2017       | 2016       | Change |    |
|--------------------------------------|------------|------------|--------|----|
| (In thousands except per share data) |            |            |        |    |
| Total revenues                       | \$392,771  | \$399,879  | (2)    | )% |
| Operating expenses                   | (335,973 ) | (339,117 ) | (1)    | )% |
| Income from operations               | \$56,798   | \$60,762   | (7)    | )% |
| Net earnings                         | \$33,441   | \$33,973   | (2)    | )% |
| Diluted earnings per share           | 0.73       | 0.75       | (3)    | )% |

The following sections provide an analysis of the results of operations for the local media and national media segments and an analysis of the consolidated results of operations for the three months ended September 30, 2017, compared with the prior-year period. This commentary should be read in conjunction with the interim condensed consolidated financial statements presented elsewhere in this report and with our Annual Report on Form 10-K (Form 10-K) for the year ended June 30, 2017.

## LOCAL MEDIA

Local media operating results were as follows:

| Three months ended September 30, 2017<br>(In thousands) | 2016      | Change    |        |
|---|-----------|-----------|--------|
| Non-political advertising                               | \$87,785  | \$84,184  | 4 %    |
| Political advertising                                   | 1,381     | 16,353    | (92) % |
| Other   | 64,645    | 52,049    | 24 %   |
| Total revenues  | 153,811   | 152,586   | 1 %    |
| Operating expenses                                      | (112,869) | (101,964) | 11 %   |
| Operating profit  | \$40,942  | \$50,622  | (19) % |
| Operating profit margin                                 | 26.6 %    | 33.2 %    |        |

## Revenues

Local media revenues increased 1 percent in the first quarter. Political advertising revenues totaled \$1.4 million in the first quarter compared with \$16.4 million in the prior-year first quarter. Fluctuations in political advertising revenues at our stations and throughout the broadcasting industry generally follow the biennial cycle of election campaigns. Non-political advertising revenues increased 4 percent in the first quarter. Local non-political advertising revenues increased 4 percent in the first quarter while national non-political advertising revenues increased 1 percent. Digital advertising, a component of non-political advertising revenues, grew 14 percent in the first quarter as the local media group recently relaunched all of the mobile news, weather, and traffic apps across its station group, yielding record app opens and unique page views.

Other revenues grew 24 percent in the first quarter of fiscal 2018 primarily due to increased retransmission consent fees from cable, satellite, and telecommunications operators.

## Operating Expenses

Local media operating expenses increased 11 percent in the first quarter of fiscal 2018 primarily due to higher programming fees paid to affiliated networks.

## Operating Profit

Local media operating profit decreased 19 percent in the first quarter of fiscal 2018 primarily due to lower political advertising revenues due to the cyclical nature of political advertising.

## NATIONAL MEDIA

National media operating results were as follows:

| Three months ended September 30, 2017<br>(In thousands) | 2016      | Change    |       |
|---|-----------|-----------|-------|
| Advertising   | \$120,083 | \$125,352 | (4) % |
| Circulation   | 68,927    | 68,668    | 0 %   |
| Other   | 49,950    | 53,273    | (6) % |
| Total revenues  | 238,960   | 247,293   | (3) % |
| Operating expenses                                      | (210,704) | (223,182) | (6) % |
| Operating profit  | \$28,256  | \$24,111  | 17 %  |
| Operating profit margin                                 | 11.8 %    | 9.7 %     |       |



## Revenues

National media advertising revenues decreased 4 percent in the first quarter. In the first quarter of fiscal 2018, magazine advertising revenues declined 5 percent and advertising pages decreased 8 percent. Gains in our women's service and shelter titles were more than offset by weakness in our parenting and lifestyle titles. Digital advertising revenues declined 1 percent. Among our core advertising categories, beauty, food, and travel categories showed strength while demand was weaker for the non-prescription drug, prescription drug, and retail categories.

Magazine circulation revenues were flat in the first quarter of fiscal 2018. Subscription revenues were up 3 percent as increased subscription revenues from The Magnolia Journal more than offset declines in subscription revenue for several titles caused by ongoing efforts to source a larger percentage of magazine subscribers from Meredith's own database instead of external agent sources. Newsstand revenues declined in the low teens on a percentage basis in the first quarter primarily due to strategic decisions by the Company to significantly reduce the newsstand draw for certain titles. Over time, these subscription and newsstand strategies are expected to lower circulation revenues but increase circulation profits.

Other revenues decreased 6 percent in the first quarter primarily due to the sale of a majority stake in Charleston Tennis as of the beginning of the first quarter of fiscal 2018.

## Operating Expenses

National media operating expenses decreased 6 percent in the first quarter of fiscal 2018 primarily due to a gain related to the sale of a majority stake in Charleston Tennis of \$3.3 million, which was recorded as a reduction in operating expenses. In addition, decreases in employee compensation costs of \$3.2 million, lower postage and other delivery costs of \$2.2 million, declines in paper costs of \$1.8 million, and decreases in processing costs of \$1.4 million contributed to the decline.

## Operating Profit

National media operating profit increased 17 percent in the first quarter of fiscal 2018 primarily due to growth in the operating profit of our magazine operations of \$4.2 million and a gain related to the sale of a majority stake in Charleston Tennis of \$3.3 million. These increases were partially offset by a decline in the operating profit of our digital operations of \$2.2 million.

## UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses are general corporate overhead expenses not attributable to the operating groups. These expenses were as follows:

| Three months ended September 30, 2017 | 2016     | Change         |
|---------------------------------------|----------|----------------|
| (In thousands)                        |          |                |
| Unallocated corporate expenses        | \$12,400 | \$13,971 (11)% |

Unallocated corporate expenses decreased 11 percent compared to the prior-year first quarter primarily due to a decline in medical benefit costs.

## CONSOLIDATED

## Consolidated Operating Expenses

Consolidated operating expenses were as follows:

| Three months ended September 30,<br>(In thousands) | 2017      | 2016      | Change |    |
|--|-----------|-----------|--------|----|
| Production, distribution, and editorial            | \$155,802 | \$150,228 | 4      | %  |
| Selling, general, and administrative               | 167,621   | 174,993   | (4)    | )% |
| Depreciation and amortization                      | 12,550    | 13,896    | (10)   | )% |
| Operating expenses                                 | \$335,973 | \$339,117 | (1)    | )% |

Fiscal 2018 production, distribution, and editorial costs increased 4 percent in the first quarter as increases in programming fees paid to affiliated networks of \$9.8 million more than offset lower postage and other delivery costs of \$2.2 million, declines in paper costs of \$1.8 million, decreases in processing costs of \$1.4 million, and lower employee compensation costs of \$1.2 million.

Selling, general, and administrative expenses decreased 4 percent in the first quarter of fiscal 2018 primarily due to a gain related to the sale of a majority stake in Charleston Tennis of \$3.3 million, which was recorded as a reduction in operating expenses. In addition, decreases in employee compensation costs of \$1.5 million and lower benefit costs of \$1.4 million contributed to the decline.

Depreciation and amortization expense declined 10 percent in the first quarter of fiscal 2018 primarily due to decreases in depreciation in our local media segment.

## Income from Operations

Income from operations decreased 7 percent in the first quarter of fiscal 2018 primarily due to lower operating profit in our local media operations of \$9.7 million partially offset by a gain related to the sale of a majority stake in Charleston Tennis of \$3.3 million.

## Net Interest Expense

Net interest expense increased to \$5.1 million in the fiscal 2018 first quarter compared with \$4.7 million in the prior-year first quarter. Average long-term debt outstanding was \$702.3 million in the first quarter of fiscal 2018 compared with \$693.4 million in the prior-year first quarter. The Company's approximate weighted average interest rate was 3.0 percent in the first three months of fiscal 2018 and 2.8 percent in the first three months of fiscal 2017. The weighted average interest rates include the effects of derivative financial instruments.

## Income Taxes

Our effective tax rate was 35.3 percent in the first quarter of fiscal 2018 as compared to 39.3 percent in the prior-year first quarter. Effective July 1, 2017, the Company adopted new accounting guidance related to share-based compensation. Under this new guidance, excess tax benefits and deficiencies are to be recognized as a discrete component of the income tax provision in the period they occur and not as an adjustment to additional paid-in capital. As such, \$2.1 million in excess tax benefits were recorded against the income tax provision in the first quarter of fiscal 2018 as the majority of the Company's annual share-based grants vest in the first quarter of each fiscal year.

## Net Earnings and Earnings per Share

Net earnings were \$33.4 million (\$0.73 per diluted share) in the quarter ended September 30, 2017, down 2 percent from \$34.0 million (\$0.75 per diluted share) in the prior-year first quarter. The decrease in net earnings was primarily due to lower income from operations partially offset by a lower effective tax rate as discussed above. Average basic and diluted shares outstanding increased in the period.





## LIQUIDITY AND CAPITAL RESOURCES

| Three months ended September 30,<br>(In thousands) | 2017      | 2016      |
|--|-----------|-----------|
| Net earnings                                       | \$33,441  | \$33,973  |
| Cash flows provided by operating activities        | \$51,386  | \$35,360  |
| Net cash used in investing activities              | (19,420 ) | (2,232 )  |
| Net cash used in financing activities              | (26,442 ) | (25,970 ) |
| Net increase in cash and cash equivalents          | \$5,524   | \$7,158   |

## OVERVIEW

Meredith's primary source of liquidity is cash generated by operating activities. Debt financing is typically used for significant acquisitions. We expect cash on hand, internally generated cash flow, and available credit from financing agreements will provide adequate funds for operating and recurring cash needs (e.g., working capital, capital expenditures, debt repayments, and cash dividends) into the foreseeable future. As of September 30, 2017, we had up to \$105.0 million of additional available borrowings under our revolving credit facility and up to \$25.0 million of additional available borrowings under our asset-backed bank facility (depending on levels of accounts receivable). While there are no guarantees that we will be able to replace current credit agreements when they expire, we expect to be able to do so.

## SOURCES AND USES OF CASH

Cash and cash equivalents increased \$5.5 million in the first three months of fiscal 2018 compared to an increase of \$7.2 million in the first three months of fiscal 2017.

## Operating Activities

The largest single component of operating cash inflows is cash received from advertising customers. Other sources of operating cash inflows include cash received from magazine circulation sales and other revenue generating transactions such as customer relationship marketing, retransmission consent fees, brand licensing, and product sales. Operating cash outflows include payments to vendors and employees and payments of interest and income taxes. Our most significant vendor payments are for production and delivery of publications and promotional mailings, broadcasting programming rights, employee benefit plans (including pension plans), and other services and supplies.

Cash provided by operating activities totaled \$51.4 million in the first three months of fiscal 2018 compared with \$35.4 million in the first three months of fiscal 2017. The increase in cash provided by operating activities was primarily due to a decrease in income tax payments.

## Investing Activities

Investing cash inflows generally include proceeds from the sale of assets or a business. Investing cash outflows generally include payments for the acquisition of new businesses; investments; and additions to property, plant, and equipment.

Net cash used in investing activities increased to \$19.4 million in the first three months of fiscal 2018 from \$2.2 million in the prior-year period primarily due to increased additions to property, plant, and equipment in the current period.

## Financing Activities

Financing cash inflows generally include borrowings under debt agreements and proceeds from the exercise of common stock options issued under share-based compensation plans. Financing cash outflows generally include

repayment of long-term debt, payment of dividends, and repurchases of Company stock.

20

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Net cash used by financing activities increased slightly to \$26.4 million in the three months ended September 30, 2017, from \$26.0 million in the prior-year period.

#### Long-term Debt

At September 30, 2017, long-term debt outstanding totaled \$707.5 million. The balance consisted of \$237.5 million under a term loan, \$50.0 million in fixed rate unsecured senior notes, \$250.0 million in floating rate unsecured senior notes, \$75.0 million under an asset-backed bank facility, and \$95.0 million under a revolving credit facility.

The Company holds interest rate swap agreements to hedge variable interest rate risk on the \$250.0 million floating rate senior notes and on \$50.0 million of the term loan. The expiration of the swaps is as follows: \$50.0 million in August 2018, \$100.0 million in March 2019, and \$150.0 million in August 2019. Under the swaps the Company will pay fixed rates of interest (1.36 percent on the swap maturing in August 2018, 1.53 percent on the swap maturing in March 2019, and 1.76 percent on the swaps maturing in August 2019) and receive variable rates of interest based on the one to three-month London Interbank Offered Rate (LIBOR) (1.24 percent on the swap maturing in August 2018, 1.33 percent on the swap maturing in March 2019, and 1.32 percent on the swaps maturing in August 2019 as of September 30, 2017) on the \$300.0 million notional amount of indebtedness.

The revolving credit facility has a capacity of up to \$200.0 million. Both the revolving credit facility and the term loan have a five-year term which expires in November 2021. The interest rate under both the revolving credit facility and the term loan is variable based on LIBOR and Meredith's debt to trailing 12 month EBITDA (earnings before interest, taxes, depreciation, and amortization as defined in the debt agreement) ratio. The term loan is payable in quarterly installments based on an amortization schedule set forth in the agreement. At September 30, 2017, \$237.5 million was outstanding under the term loan and \$95.0 million was outstanding under the revolver. Of the term loan, \$12.5 million is due in the next 12 months. We expect to repay this with cash from operations and credit available under existing credit agreements.

The \$50.0 million fixed rate unsecured senior note, which carries an interest rate of 3.04 percent, is due on March 1, 2018. We expect to repay this senior note with cash from operations and credit available under existing credit agreements.

The floating rate unsecured senior notes are due in December 2022 and February 2024. The weighted average effective interest rate for \$150.0 million of the floating rate unsecured senior notes was 3.26 percent at September 30, 2017, after taking into account the effect of outstanding interest rate swap agreements. The weighted average effective interest rate for \$100.0 million of the floating rate unsecured senior notes was 3.03 percent at September 30, 2017, after taking into account the effect of outstanding interest rate swap agreements. None of the floating rate senior notes are due in the next 12 months. The interest rate on the asset-backed bank facility is variable based on LIBOR plus a fixed spread. As of September 30, 2017, the asset-backed bank facility had a capacity of up to \$100.0 million (depending on levels of accounts receivable). In October 2017, we renewed our asset-backed bank facility for an additional two-year period on terms substantially similar to those previously in place. The renewed facility will expire in October 2019.

All of our debt agreements include financial covenants, and failure to comply with any such covenants could result in the debt becoming payable on demand. The Company was in compliance with all financial covenants at September 30, 2017.

#### Contractual Obligations

As of September 30, 2017, there had been no material changes in our contractual obligations from those disclosed in our Form 10-K for the year ended June 30, 2017.

#### Share Repurchase Program

As part of our ongoing share repurchase program, we spent \$17.7 million in the first three months of fiscal 2018 to repurchase 299,000 shares of common stock at then-current market prices. We spent \$18.4 million to repurchase 340,000 shares in the first three months of fiscal 2017. We expect to continue repurchasing shares from time to time

subject to market conditions. Shares that are deemed to be delivered to us on tender of stock in payment for the exercise price of options do not reduce the repurchase authority granted by our Board of Directors. Of the 299,000 shares of common stock purchased during the first three months of the current fiscal year, 201,000 were deemed to be delivered to us on tender of stock in payment for the exercise price of options. As of September 30, 2017, \$62.3 million remained available under the current authorization for future repurchases. The status of the repurchase program is reviewed at each quarterly Board of Directors meeting. See Part II, Item 2 (c), Issuer Repurchases of Equity Securities, of this Form 10-Q for detailed information on share repurchases during the quarter ended September 30, 2017.

#### Dividends

Dividends paid in the first three months of fiscal 2018 totaled \$23.6 million, or \$0.520 per share, compared with dividend payments of \$22.4 million, or \$0.495 per share, in the first three months of fiscal 2017.

#### Capital Expenditures

Investment in property, plant, and equipment totaled \$20.6 million in the first three months of fiscal 2018 compared with prior-year first three months' investment of \$2.2 million. Current year and prior year investment spending primarily relate to assets acquired in the normal course of business. We have no other material commitments for capital expenditures. We expect funds for future capital expenditures to come from operating activities or, if necessary, borrowings under existing credit agreements.

### OTHER MATTERS

#### CRITICAL ACCOUNTING POLICIES

Meredith's critical accounting policies are summarized in our Form 10-K for the year ended June 30, 2017. As of September 30, 2017, the Company's critical accounting policies had not changed from June 30, 2017.

The Company has a significant amount of goodwill and indefinite-lived intangible assets that are reviewed at least annually for impairment. At September 30, 2017, goodwill and intangible assets totaled \$1.9 billion with \$1.0 billion in the national media group and \$0.9 billion in the local media group. Management is required to evaluate goodwill and intangible assets with indefinite lives for impairment on an annual basis or when events occur or circumstances change that would indicate the carrying value exceeds the fair value. See Item 1A. Risk Factors and Note 4 to the consolidated financial statements in our Form 10-K for the year ended June 30, 2017, for additional information.

#### ACCOUNTING AND REPORTING DEVELOPMENTS

There were no new accounting pronouncements issued or effective during the fiscal year which have had or are expected to have a material impact on the consolidated financial statements during fiscal 2018. See Note 1 to the condensed consolidated financial statements for further detail on applicable accounting pronouncements that were adopted in the first three months of fiscal 2018 or will be effective in future periods.

#### FORWARD LOOKING STATEMENTS

Except for the historical information contained herein, the matters discussed in this Form 10-Q are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These statements are based on management's current knowledge and estimates of factors affecting the Company's operations. Readers are cautioned not to place undue reliance on such forward-looking information. Factors that could adversely affect future results include, but are not limited to, downturns in national and/or local economies; a softening of the domestic advertising market; world, national, or local

events that could disrupt broadcast television; increased consolidation among major advertisers or other events depressing the level of advertising spending; the unexpected loss or insolvency of one or more major clients; the

integration of acquired businesses; changes in consumer reading, purchasing and/or television viewing patterns; increases in paper, postage, printing, syndicated programming or other costs; changes in television network affiliation agreements; technological developments affecting products or methods of distribution; changes in government regulations affecting the Company's industries; increases in interest rates; and the consequences of acquisitions and/or dispositions. Meredith's Form 10-K for the year ended June 30, 2017, includes a more complete description of the risk factors that may affect our results. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Meredith is exposed to certain market risks as a result of our use of financial instruments, in particular the potential market value loss arising from adverse changes in interest rates. The Company does not utilize financial instruments for trading purposes and does not hold any derivative financial instruments that could expose the Company to significant market risk. Readers are referred to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in the Company's Form 10-K for the year ended June 30, 2017, for a more complete discussion of these risks.

#### Interest Rates

We generally strive to manage our risk associated with interest rate movements through the use of a combination of variable and fixed rate debt. At September 30, 2017, Meredith had \$50.0 million outstanding in fixed rate long-term debt. In addition, Meredith has effectively converted the \$250.0 million floating rate senior notes and \$50.0 million of the term loan to fixed rate debt through the use of interest rate swaps. Since the interest rate swaps hedge the variability of interest payments on variable-rate debt with the same terms, they qualify for cash flow hedge accounting treatment. There are no earnings or liquidity risks associated with the Company's fixed rate debt. The fair value of the fixed rate debt (based on discounted cash flows reflecting borrowing rates currently available for debt with similar terms and maturities) varies with fluctuations in interest rates. A 10 percent decrease in interest rates would have resulted in no change to the \$50.1 million fair value of the fixed rate debt at September 30, 2017.

At September 30, 2017, \$657.5 million of our debt was variable-rate debt before consideration of the impact of the swaps. The Company is subject to earnings and liquidity risks for changes in the interest rate on the portion of this debt that is not hedged by interest rate swaps. A 10 percent increase in interest rates would increase annual interest expense by \$1.0 million.

The fair value of the interest rate swaps is the estimated amount, based on discounted cash flows, the Company would pay or receive to terminate the swap agreements. We intend to continue to meet the conditions for hedge accounting. However, if hedges were not highly effective in offsetting cash flows attributable to the hedged risk, the changes in the fair value of the derivatives used as hedges could have an impact on our consolidated net earnings.

#### Broadcast Rights Payable

There has been no material change in the market risk associated with broadcast rights payable since June 30, 2017.

Item 4. Controls and Procedures

Meredith's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that Meredith files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to Meredith's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. There have been no significant changes in the Company's internal control over financial reporting in the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II OTHER INFORMATION

## Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as disclosed in Item 1A, Risk Factors, in the Company's Form 10-K for the year ended June 30, 2017.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Issuer Repurchases of Equity Securities

The following table sets forth information with respect to the Company's repurchases of common stock during the quarter ended September 30, 2017.

| Period                               | (a)<br>Total<br>number<br>of<br>shares<br>purchased <sup>1, 2</sup> | (b)<br>Average<br>price<br>paid<br>per<br>share | (c)<br>Total<br>number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>programs | (d)<br>Approximate<br>dollar value<br>of shares<br>that may yet<br>be purchased<br>under<br>programs<br><br>(in<br>thousands) |
|--------------------------------------|---|---|---|---|
| July 1 to<br>July 31, 2017           | 134,430   | \$61.98   | 36,331  | \$ 65,785   |
| August 1 to<br>August 31, 2017       | 161,813   | 56.99   | 60,783  | 62,325  |
| September 1 to<br>September 30, 2017 | 2,534   | 54.92   | 459   | 62,300  |
| Total                                | 298,777   |   | 97,573  |   |

The number of shares purchased includes 36,331 shares in July 2017, 60,783 shares in August 2017, and 459 shares in September 2017 delivered or deemed to be delivered to us in satisfaction of tax withholding on option exercises<sup>1</sup> and the vesting of restricted shares. These shares are included as part of our repurchase program and reduce the repurchase authority granted by our Board.

The number of shares purchased includes 98,099 shares in July 2017, 101,030 in August 2017, and 2,075 shares in<sup>2</sup> September 2017 deemed to be delivered to us on tender of stock in payment for the exercise price of options. These shares do not reduce the repurchase authority granted by our Board.

In May 2014, Meredith announced the Board of Directors had authorized the repurchase of up to \$100.0 million in additional shares of the Company's stock through public and private transactions.

For more information on the Company's share repurchase program, see Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Share Repurchase Program."

Item Exhibits  
6.

10 Amendment No. 4 to First Amended and Restated Receivables Purchase Agreement dated as of October 12, 2017, among Meredith Funding Corporation (a wholly-owned subsidiary of Meredith Corporation) as Seller, Meredith Corporation, as Servicer, The Financial Institutions from time to time party hereto and JPMorgan Chase Bank, N.A., as Agent.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEREDITH CORPORATION  
Registrant

/s/ Joseph Ceryanec  
Joseph Ceryanec  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
Date: October 26, 2017

INDEX TO ATTACHED EXHIBITS

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E-1