

Executive Summary of
FINANCIAL REVIEW
of
CONSUMER MAGAZINES

For the year 2003

Analysis and Commentary on the
MPA Summary of Financial Survey Responses

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EXECUTIVE SUMMARY

Overview For the better part of the 1990's, consumer magazines reaped the benefits of a booming US economy and the aggressive advertising budgets that such an economy fosters. Consumer confidence led to increased consumption of goods and services, which in turn, raised the level of corporate profits, a key driver for advertising growth. Fueling this spending increase was the additional impact of Internet companies advertising to establish their brands in a blossoming and highly competitive new economy.

2001 was a pivotal year for all media companies and for consumer magazine publishers in particular. In that year, three factors combined to bring the robust advertising market to a halt. First, an alarming number of stand-alone Web-based companies that had been aggressive advertisers went out of business. Second, as the Internet bubble burst, advertisers responded by tightening their marketing budgets. Last, the terrorist attacks of September 11th further diminished corporate confidence levels.

Reported data for 2002 and 2003 confirm that the publishing industry reclaimed some momentum in the marketplace, as net ad revenue was up significantly in both years over 2001 levels. Following the significant challenges faced by the industry in 2001, the upturn in 2002 and 2003 serves to confirm the industry's diligence, resolve and imagination in protecting its core reader and advertiser franchises.

Revenue Advertising was the key revenue driver for consumer magazines from 1999 to 2003, accounting for over half of the average magazine's total revenue. For 2003, net advertising revenue increased nearly 1% from 2002, surpassing 1999 levels, but still lagging the record level set in 2000. Due to the increase in advertising revenue in 2003, net advertising revenue increased at a compound annual growth rate (CAGR) of 0.4% from 1999 to 2003.

Circulation revenue, which accounted for approximately 45% of the average magazine's total revenue during the Period, fell 2% from 2002 to 2003. Circulators struggled to maintain subscriber levels, and average subscription prices eroded, causing total circulation revenue in 2003 to fall below 1999 levels. As a result, circulation revenue showed a negative CAGR over the Period.

Subscription revenue generated more than 70% of total circulation revenue, with single-copy sales producing the balance. Both subscription revenue and single-copy revenue fell 2% from 2002 to 2003. However, subscription revenue in 2003 was higher than 1999 levels, while single-copy sales were significantly lower in 2003 vs. 1999. In fact, single-copy revenue decreased each year of the Period, except during 2001, when news and information were in high demand following the events of September 11th, despite annual increases in cover prices.



Expenses In order to optimize revenue and profits, publishers were forced to be resourceful throughout the Period, as each year seemed to present new challenges and various market dynamics. Hiring of staff was robust, until 2001, when revenue and profit began to shrink, mainly due to the downturn in advertising. As a result, publishers aggressively managed down expenses across all operating departments starting in 2001 through 2003. Over the Period, total magazine expense declined at a CAGR of (0.6%), and total magazine expenses decreased 2% from 2002 to 2003.

Profit & Loss In 1999, the average magazine generated over \$16.4 million in operating profit and produced an operating margin of 21.1%. In 2001, operating profit had fallen to \$13.2 million (more than \$3 million less than in 1999), with an operating margin of 17.3%. Additionally, the contribution per copy fell from \$0.68 in 1999 to \$0.53 in 2001.

The overall financial picture for publishers improved in 2002, as operating profit grew 7.8% to \$14.2 million. However, operating margin remained low at 18.2%, closer to 2001 levels. The picture brightens even further in 2003, when operating profit increased another 6.4%, reaching \$15.1 million, with an operating margin of 19.4%, closer to 1999 levels.

Summary of Magazine Profitability, 1999-2003							
(000)	1999	2000	2001	2002	2003	1999-2003 CAGR	2002-2003 % Change
Total magazine revenue	\$77,881	\$81,837	\$76,234	\$78,376	\$77,985	0.0%	-0.5%
Change vs. year ago		5.1%	-6.8%	2.8%	-0.5%		
Total magazine expense	\$61,452	\$65,725	\$63,034	\$64,148	\$62,853	-0.6%	-2.0%
Change vs. year ago		7.0%	-4.1%	1.8%	-2.0%		
Operating profit (000)	\$16,429	\$16,112	\$13,200	\$14,228	\$15,132	-2.0%	6.4%
Change vs. year ago		-1.9%	-18.1%	7.8%	6.4%		
Operating margin	21.1%	19.7%	17.3%	18.2%	7.0%		

Summary of Profitability per Paid Copy, 1998-2002							
	1999	2000	2001	2002	2003	1999-2003 CAGR	2002-2003 % Change
Total revenue per paid copy	\$3.24	\$3.35	\$3.05	\$3.38	\$3.16	-0.6%	-6.5%
Change vs. year ago		3.4%	-8.8%	10.8%	-6.5%		
Total expense per paid copy	\$2.56	\$2.69	\$2.52	\$2.77	\$2.55	0.1%	-7.9%
Change vs. year ago		5.2%	-6.1%	9.7%	-7.9%		
Operating profit/paid copy	\$0.68	\$0.66	\$0.53	\$0.61	\$0.61	-2.6%	-0.1%
Change vs. year ago		-3.5%	-19.8%	16.2%	-0.1%		