CORUS ENTERTAINMENT

Moderator: John Cassaday
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1:00 pm CT

Operator: Ladies and gentlemen thank you for standing by. Welcome to the Corus Entertainment Second Quarter Analyst and Investor call. During the presentation all participants will be in a listen-only mode. Afterwards we will conduct a question and answer session.

At that time if you have a question please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an Operator please press star 0. As a reminder this conference is being recorded Thursday, April 12, 2012.

I would now like to turn the conference over to John Cassaday, President and Chief Executive Officer. Please go ahead sir.

John Cassaday: Thank you Operator. Good afternoon everyone. John Cassaday here and welcome to Corus Entertainment's Fiscal 2012 Second Quarter Report and Analyst call. And just anecdotally we believe this is our 50th analyst call, so kind of a momentous occasion. Thank you for joining us today.

Before we read the cautionary statement we'd like to remind everyone that there are a series of PowerPoint slides that accompany this call. The slides can be found on our Web site at coruseent.com in the Investor Relations section.

We will now run through the standard cautionary statement. This discussion contains forward-looking statements, which may involve risks and uncertainties. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the company's filings with the Canadian Securities Administrators.

Now we would like to introduce to you the Corus Entertainment team joining me on the call today, Tom Peddie, Executive Vice President and Chief Financial Officer; Doug Murphy, Executive Vice President and President of our television division; and Chris Pandoff, Executive Vice President and President of our Radio division.

Turning to Slide 3 of the PowerPoint presentation, we are very pleased with our Q2 results. We finished the quarter with consolidated revenues of $206 million, up 8% from year ago and consolidated segment profit of $62 million, up 4% from prior year. Please note that the prior year numbers have been adjusted to reflect the sale of Quebec Radio, which we sold in February 2011.

Turning to Slide 4, despite a challenging economic environment we continued to show solid growth overall in Q2. Revenue increases in the quarter were driven by the television division, which was up 10% from prior year, led by our Women's portfolio and the merchandising arm of our Kid's business. Our western radio markets also saw a return to growth in the quarter. In Q2 our consolidated net income from continuing operations increased significantly, up 16%.

Moving to Slide 5, although Radio revenue was down 1% due to a challenging ad sales environment segment profit was up 2% demonstrating our disciplined focus on cost controls and margin improvement. In a number of key markets our stations performed very well.

While there was softness in Ontario's ad market this was offset by growth in B.C., Alberta and Manitoba. With two consecutive quarters of growth the Vancouver market is clearly showing signs of continued recovery and our cluster is outperforming the market according to TRAM Data.

We are pleased with television's performance in Q2 as well. For the second consecutive quarter the division achieved double-digit revenue growth, up 10% compared to last year. Increased programming investments did impact segment profit, which was up 1%.

Subscriber revenues were also up slightly for the quarter driven by gains on Movie Central and Cosmopolitan Television, which were offset by declines on a few of our more mature services. Movie Central ended the quarter with 988,000 paid subscribers.

Television saw gains in specialty advertising revenues, up 4% with strong growth from our Women's and co-view audiences. Ad spending in the Women's portfolio was particularly strong as a result of impressive ratings and increased demand for the female demographic amongst our advertisers.

Performance on the W Network was robust with a 9% increase in primetime audience tuning in response to aggressive promotional support around our holiday schedule, the launch of attention grabbing programming, such as Undercover Boss Canada and W Network's ongoing strength in movies.

We continue to make our Canadian programming investments work harder for us. This is exemplified by the success of the original series, Undercover Boss Canada, which is attracting impressive ratings similar to those seen on conventional television, reaching highs of 600,000 viewers two plus audience, excuse me. In addition renewed series, such as Property Brothers, Love It or List It and Come Dine With Me Canada continue to perform well for W Network.

Our Kid’s portfolio did see some seasonal advertising softness in the quarter, but it was offset by impressive gains in our international merchandising distribution and other business, which has achieved strong top line growth generating revenue increases of 46% for the quarter. These gains were fueled primarily by the continued outstanding performance of our breakout brand Beyblade.

Over the holiday season Hasbro toy sales for Beyblade were strong in many key territories. The brand’s strength was also bolstered by extensive retail programs deployed in major territories, including Canada, France and the United States.

If you’d move now to Slide 6 we’ll share with you our outlook for the next quarter. Overall we expect Q3 to be challenging as a result of a number of factors. Importantly a soft kid ad market, which I know we’ll get into in a little more detail later on; increased programming costs; and of course up against a very strong comp from Q3 year ago of 17% improvement in operating earnings.

Further detail on Q3, the Oprah Winfrey Network was launched on March 1, 2011, so our Q3 will be, for the first time, a straight year-over-year comparison with the results from Oprah in Q3 last year.

For Radio we continue to have limited visibility and we continue to expect some challenges in the third quarter. Again we are pacing well in Western Canada, but we are experiencing some softness in Ontario and particularly in Toronto.

We're seeing continued strength in Calgary and Winnipeg and we're seeing improved ratings in Vancouver and we're very confident of continued recovery mode in the Vancouver market.

As we continue our disciplined cost management we have a number of initiatives in place for improved audience share in the upcoming Spring BBM as well.

Moving to television, we anticipate further ad growth in the Women's segment, which will be offset to some extent by continued softness in the kid's advertising market.

Our exciting new service, ABC Spark, was launched in the quarter with a free preview, which when coupled with a decline in subscription revenues for some of our more mature services will impact our year-over-year subscriber revenue comps. Additionally increased costs associated with programming investments will impact segment profit.

Revenue growth from our Women's vertical will be led by W, which is firing on all cylinders. And to continue this momentum W is launching a number of high profile programs, including the comedy series The Big C, executive produced and starring Academy Award Nominee Laura Linney; and Interior Therapy with Jeff Lewis, a new design series from one of L.A.'s leading interior designer personalities.

The Oprah Winfrey Network marched, or marked rather, its first year anniversary in Canada in March and continues to pace ahead compared to year ago. Oprah, as you are all well aware, is fully committed and engaged creatively in the network with more prominent visibility now on the programming schedule and this will continue to build audiences for OWN in Canada.

With three Oprah hosted series airing in primetime, Oprah's Next Chapter, Oprah's Master Class, and Oprah's Life Class, the Oprah Winfrey Network has become the only outlet where viewers can access Oprah.

Next week Oprah is coming to Toronto along with guests Deepak Chopra and Tony Robins for a live taping of her new show Lifeclass: The Tour. This highly successful tour recently taped shows in Chicago, St. Louis and New York and tickets to the two Toronto tapings, which take place on Monday, sold out in a matter of minutes.

In addition to initiatives like The Tour, in the coming months Oprah will be featured in various formats to reinforce her presence on the network. With the sustained support of advertisers and affiliates we look forward to growing this business.

We are, as I said earlier, very excited about the newest addition to our television portfolio, ABC Spark, which is a great compliment to our three strategic verticals, Women's, Kid's and Family.

The service launched on March 26, with a free preview in over 6 million households and we're pleased to have this opportunity to expand our relationship with the Disney ABC Television Group and bring ABC Family's highly successful and exclusive programming to Canada with a service that resonates with audiences, service providers and advertisers. We see this network as potentially a very strong performer for Corus.

On the pay front the third quarter will see an extensive lineup of program offerings, including a new season of Game of Thrones, which launched its eagerly anticipated Season 2 on April 1, to great acclaim. As HBO Canada's highest rated series to-date Game of Thrones has become a certified hit.

Other high profile launches in the quarter include HBO's Veep, staring Julia Louis-Dreyfus; the Judd Apatow produced comedy series Girls; and the Ricky Gervais show Season Three.

In addition we will be deploying more premium content on HD, SVOD, mobile and broadband platforms as we continue to work with our BDU partners to expend, extend rather, the value of the pay offering with our audiences and ensure our premium content is available everywhere.

Turning to our merchandising and distribution business, sales of Beyblade tops have surpassed the 150 million mark to-date. Beyblade continues to be a key driver for the division.

Last month Corus successfully hosted the World Beyblade Championships with participants flown in from over 25 countries. Fans around the world were able to follow the action online with highlights from the events streamed live throughout the competition.

The show continues to rate well, retail promotions are in place in key international markets and a new series and toy line are planned for the fall to support the performance of this popular brand.

On the broadcast front our live action series, Life with Boys, has recently been sold to Nickelodeon in the United States and in Europe and Mr. Young has been a huge success for Disney XD in the United States where it ranks among the Top 3 programs for boys 9 to 14.

Our preschool brand, Franklin, is a smash hit for Nickelodeon and Mike the Knight phenomena continues garnering extremely strong ratings in the United Kingdom and on Nickelodeon in the United States where the show ranks among the network’s Top 5. Our Kid’s content represents great strategic value on an international level as we continue to leverage our shows across platforms and around the world.

Looking further ahead, our content business assets will continue to grow as we activate more non-linear offerings to meet customer needs and build our brands globally.

Nelvana is introducing a full slate of digital offerings this year, including new apps, Web sites and eBooks featuring popular characters such as Franklin the Turtle, Sidekick and Scaredy Squirrel. Last week one of our new apps for Max and Ruby, Max’s Mole Mash, was ranked Canada’s Number One app for kids.

On March 1, 2012, Corus reached an agreement with the minority shareholders of Toon Boom Animation to acquire their remaining shares allowing us to assume 100% control of this company. Corus originally invested in Toon Boom to gain preferred access to their animation production software, which resulted in significant savings as Nelvana made the transition to digital 2D animation.

The cost of custom solutions developed for Nelvana was offset by Toon Boom's sales of software around the world to major customers such as Disney, FOX, Warner and DreamWorks.

Toon Boom has continued to gain market share and is now poised to enter the prosumer and consumer markets with their creative software products. This investment will allow Nelvana to further build on cost savings, creative excellence and participate in Toon Boom's new product successes.

On Radio we continue to facilitate access to our content in a digital world with new customizable Corus Radio apps for iPhones that provide customers with streaming access to their favorite Corus Radio stations, along with a robust selection of content ranging from news and information to YouTube and Twitter content.

In addition as part of our on-air, online and onsite Radio strategy we have made investments in technology companies like Supernova Interactive, a developer and distributor of social relationship management software for entertainment companies, which will further enhance the online experience for our Radio users and generate future ratings and ad revenue gains for Corus. Technology and innovation will continue to be key drivers of our business in the next quarter and beyond.

In summary, we're excited about our new and ongoing initiatives and investments that will support the continued growth of our business, including the international appeal of our content, which will sustain the expansion of our merchandising and distribution opportunities; the introduction of new and innovative linear and non-linear product offerings into the marketplace; and importantly the launch of a promising new service, ABC Spark.

Despite our challenging Q3 outlook our financial guidance for total Fiscal 2012 targeting consolidated segment profit of $300 million to $310 million and free cash flow in excess of $125 million remains unchanged.

We hope that you have found the comments on our outlook helpful and now we will take any questions that you may have. Operator over to you.

Operator: Thank you. Ladies and gentlemen if you would like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three-toned prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your information please press the 1 followed by the 3. If you're using a speakerphone please lift your handset before entering your request. One moment please for the first question.

Our first question coming from the line of Adam Shine with National Bank Financial. Please proceed with your question.

Adam Shine: Thanks a lot. Good afternoon. So John I know it's not your style to change the guidance quarter-to-quarter and you've just, you know, I guess a minute ago reiterated that guidance for the year.

Having said that, you know, given some of the challenges heading into Q3, which clearly is or does face a tough comp, does that just mean that your confidence rises for more heavy lifting in Q4 or do we have perhaps higher concerns that maybe you come in below the low end of the guidance?

John Cassaday: Well I guess two comments, first of all I would say that I would have you all look at the sort of consensus that you had coming out of our last call, which was really around the low end of our guidance. So I think there's no question that that's about where we will be. So that would be the first more specific direction that we'd give you on that.

Now secondly we are, there's no doubt about this, seeing some substantial improvement in the economy. We're certainly seeing substantial improvement in business confidence. We saw a report from The Bank of Canada earlier this week to that effect.

So we continue to be optimistic about our ability to continue to grow our ad revenues. We feel competitively we're well positioned, our ratings are good, we're excited about ABC Spark going forward, we're excited about the continued prospects for Beyblade and most importantly some of the challenges that we've seen in the Kid's business we see dissipating to some degree in Q4 and certainly as we look at next fiscal year and beyond.

Adam Shine: Okay John that's great. And maybe just following up on ABC Spark, can you just clarify maybe a number of elements? First off is this in fact still a 51/49 joint venture with Shaw Media?

John Cassaday: Yes it is.

Adam Shine: Okay. And in terms of...

John Cassaday: What we did, we simply harvested a service called DUSK that had generally good distribution and Shaw Media was our partner in that network.

Adam Shine: And in terms of - because sometimes you differentiate in terms of how you would account for some of these things, will you simply take 51% into your operations or will you show the minority interest for Shaw below?

John Cassaday: The latter.

Adam Shine: The latter, okay. And I guess just with respect to Cartoon Network, and maybe even going back to ABC Spark, are there any particular one-time items related to startup costs that we should be aware of any materiality through H2?

John Cassaday: Well I think the - we expense all of these costs now as we go, so we're not amortizing any of our costs. But I think the biggest thing to keep in mind is that we have this free preview period, so you're not seeing the initial bump up in subscriber revenue coming out of the shoot, but you'll see continued growth in that going forward.

Adam Shine: Okay and any color that you'd like to give us with respect to what sort of incremental contribution these channels could provide or too early at that point?

John Cassaday: Well I think we certainly feel very optimistic about it and the reason for it is two-fold. Doug and his group very cleverly nested the ABC Spark programming in CMT, W and YTV and we had just outstanding results from that test, and I'll ask Doug to elaborate on that, so we're very, very optimistic about the appeal of the programming in Canada.

And secondly this is a network, which unlike many, many others, will have content which is not available anywhere else. So the shows are well-known. That audience really a savvy sort of 14 to 22 year old audience is well aware of these shows from their friends in the United States and we have the opportunity here to bring something that's not available anywhere else and not simulcast. So it's a unique program offering as well, which gives us additional confidence.

Doug Murphy: Thanks John. Adam, hi, it's Doug. Just a couple of things, back to your first question, any sort of one time costs for the launch of Spark was in Q2. If you look at our marketing investments the launch of that service landed in Q2, so that's in the numbers.

With regards to the exclusive nature of the content, Walt Disney Company embargoed basically a number of their hit series for the last 18 months as they kind of set the table to launch ABC Spark in Canada, such series as the Secret Life of the American Teenager, Switched at Birth and others.

And so we, to John's comment about the nesting strategy, we nested, for example, Switched at Birth on both W and on Y TV for the first season so that when we launched this service the second season was kind of coming right off the launch of the first. And without giving you specific audience numbers I can tell you that our estimates for the 12 Noon slot on W on Saturday's were doubled and in some cases quadrupled with that show.

So it just shows the level of high demand that's kind of pent up for this service in Canada and it's very consistent with the performance of ABC Family in the U.S. in that on any given day it's a Top 5 network for women 18 to 49 in the U.S. And we're seeing some very similar trending here in Canada.

Adam Shine: Okay, great. Thank you for that.

Operator: Thank you. Our next question coming from the line of Drew McReynolds with RBC Capital Markets. Please proceed with your question.

Drew McReynolds: Yes thanks very much. Good afternoon. Maybe just start just with respect to the subscriber revenue, I guess, decline on the mature channels. Just wondering if you can add a little color in terms of, you know, whether it's rate driven and/or penetration driven?

And then with respect to television margins, you know, just wondering with, you know, what seems to be a pretty good investment in programming whether there's, you know, cost efficiencies that you can still take out of the equation on the non-programming side?

And then one Radio question, just can you provide a little bit more granularity on what's happening in Ontario, I guess specifically Toronto? Is it kind of ratings, is it a weak market, is it kind of tough comps, maybe all three, and I'll leave it there?

John Cassaday: Well I'll handle the cost one and then Doug and Chris can give you specific color on the BDU and the Toronto Radio situation.

We have got a number of issues affecting our cost line right now. One of them, of course, is the fact that we've been so successful and our Canadian programming costs increase as we increase our top line growth. So we have a regulatory induced cost increase, which we need to absorb.

Secondly no company in Canada has been anywhere near as aggressive as we have in launching new brands. I think we shared with you the little anecdote at our Investor Day that we've launched more new products than any - than the rest of the industry combined.

So what you're seeing happening, of course, is the influx of the cost of these new programs onto our schedule, Oprah Winfrey would be an example. And it's going to take us some time, as you know that network started off slowly, but it's gaining momentum, so we're not getting the initial return on that investment that we had hoped for, but we continue to be optimistic about that. We've got significant incremental costs associated with the HBO output arrangement.

So there are certain program costs that are going to just naturally go up and then what we've got to do is just be really tough on inflation and other program services that we have and we are on that in a big way.

But to your broader point, are there other areas that we can look at costs? And the answer to that is, yes. We've put together a cost task force here at Corus. We're looking at everything from our streaming costs to our distribution costs. Really there is going to be no rock left unturned as we focus on continuing our earnings growth momentum and achieving our, sort of, long-term strategic guidance going forward.

Doug Murphy: Thanks John. Drew, hi it's Doug. Just addressing the notion of just distribution in general and kind of keying off of John's comments, it's been a chosen strategy of us at Corus as brand stewards to make investments in brands that have huge equity with the Canadian audience and John spoke to OWN and spoke to ABC Spark.

Those are two examples of brands that we have shepard in Canada and took existing brands, such as Viva and DUSK, that in this new world of visual migration would have been in harms way and have kind of upgraded to carry, you know, content and brand equity that has real resonance with audiences in Canada. Now we've improved our economic position accordingly.

As regard specifically to the affiliate universe we said to you during Investor's Day that we foresaw an increased and heightened level of cost consciousness on behalf of our BDU partners. That has certainly been the case over these last six months. We've found that there's been enormous pressure on all of the BDU's, especially the vertically integrated ones, to reluctantly give up revenue increases to players such as Corus.

But we're - in many cases we've been successful in securing and/or increasing the distribution of TV commercial networks and also implementing kind of volume based rate cards so that in the event of, you know, pick-and-pay and other sort of different migration outcomes that we lose potential distribution and pick it up on the per sub basis.

So net-net it's a more competitive environment, but we have done a good job protecting our distribution and ensuring that our services reach the maximum audiences.

Chris Pandoff: Drew it's Chris. On Radio you had asked about the Ontario situation relative to ratings, comps or market. Let me start with market, what we're seeing in the first half of the year, national dollars going into Ontario outside of Toronto have shrunk fairly considerably and what that really says is that the overall ad spend in Q2 was down and that's really underlined by the fact that the Toronto TRAM was down about 1.6% year-to-date through the end of the second quarter.

So that's been part of it is that the ad spend has been down. Most of the ad buys over the quarter have been fairly well balanced 25/54, although I would say a slight skew towards female demographics away from adult. So that's been one of the factors.

And really the final thing on ratings is that when you look at the rank positions of say the top half dozen stations in Toronto you've got quite a bit of compression in the number one through the number five or six position and so with fewer dollars going into the market you're seeing some really, really strong rate compression and the ability for stations not to be able to maximize sort of their true value.

On a cost per listener basis this year versus last year we're down right across the market and that's really reflected in the fact that there's less dollars going into the market.

Drew McReynolds: Okay. Thanks very much for that.

Operator: Thank you. Our next question coming from the line of Paul Steep with Scotiabank. Please proceed with your question.

Paul Steep: Great, thanks. John, I guess maybe to you and then to the rest of the team, on national advertisers what's the outlook there? How much of what we're seeing in TV and as well in Radio is a tough comp versus just maybe a change in ad behavior or is it purely, you know, we had a really strong 2011 broadcast year and, you know, we're up against tough comps here?

John Cassaday: Well I have had a number of meetings with agency presidents and with agent - with, sort of, advertiser presidents in the last few weeks and what I can tell you is that everyone is expecting positive momentum going forward. No one is anticipating that the ad economy is going to drop off. Contrary to what you read about massive shifts away from traditional media into digital it's not happening. There is certainly a lot of experimentation. There's probably no one not looking for a degree of integration in their buys.

But what I hope you're not sensing from any of the cautious comments that we made about Q3 is that we're seeing any sort of seismic behavioral shift in advertisers out there. Next week we'll be hosting all of the media presidents here at Corus and we'll get a chance to get some really good color from all of them, but I think I've got a strong enough cross representation out there to allay any fears that anyone has about fundamental changes in the ad economy.

I think what you see happening here is as we've started to come out of the, sort of, loss of confidence in the overall economy it takes 12 to 16 weeks for plans to be changed and adjusted and for advertisers to reflect their confidence in the future in the form of increased ad spend.

And so like, I think, the Astral people tried to portray yesterday there are more positive signs than negative signs for sure out there right now, but I think what we're just experiencing is a lag that it takes to respond to this shift in overall business confidence.

Doug Murphy: And Paul, it's Doug, just building on John's comments, I think for Q3 certainly in many regards we were kind of a victim of our own success last year. All three of our verticals, you know, Kid's was plus almost 20%, Family was plus 20%, you know, OWN and the Women's vertical was plus, you know, massive. So as we lap that 12 months (unintelligible) of course we, you know, we have to temper expectations about what the comps will look like.

But just to echo John's comments, you know, everything looks pretty positive out there, pretty (unintelligible), on an advertisers point of view and we think we continue to have three very, very strong verticals with some of the best brands that attract advertisers and agencies alike.

John Cassaday: Just to drill a little deeper, one other comment that we would like to make related to the impact of our Kid's advertising is the Zellers decision to leave the market. So what happened is for our toy manufacturers you had a huge gap in distribution and for retailers obviously they could take their foot off the pedal a little bit as a major competitor came out of the marketplace.

Offsetting that is the pending arrival of Target, which I think is going to stimulate retail sales dramatically in Canada and I think it will undoubtedly have a significant effect on the outlook for the toy manufacturers in Canada next year.

Paul Steep: Okay, great. That helps and I think the comments line up for Q3 I just wanted to really see it more. But the point that we are up against tough comps and on that point, I guess, of tough comps, with merchandising, maybe it's to Doug, on the backend of the year and into early next year how should we think about Beyblade's?

Like it sounds like new line coming is there another add-on to the line here beyond Beyblade that we should start to think about or consider or is it more, you know, temper some of the expectations temporarily and we'll see how it goes towards Christmas or holiday season 2012?

Doug Murphy: A couple of comments, obviously I wish I had a crystal ball to tell you specifically what the next holiday looks like, but I can tell you a couple of things, that the seasonality trending, you know, the swings from quarter-to-quarter typically will be consistent because that's sort of the nature of the business. We've got, obviously a very strong Q4 calendar, I'm talking now, and typically a fairly solid Q2 Easter kind of break and then you've got lulls in-between on the calendar cycle.

You know, we are working, as I mentioned during the last call, very diligently with Hasbro and with our Japanese partners to put together a longer term plan to make Beyblades an (unintelligible) expectation. Everything we - will rest on continued success at retail.

And, you know, it's sort of the more the product line sells through the more the retailers want to reload. And if we see any evidence of less enthusiasm on behalf of the sell through it shows up quickly on our business.

Thus far everything is very, very positive. We are not seeing any significant signs of lack of interest on behalf of consumers and therefore retailers are still placing orders. And our challenge and opportunity is to continue to work and innovate the toy and innovate the content.

So I feel we're in pretty good shape, you know, looking at the next 18 months. Beyond that, you know, we're working hard to keep it going, but it's hard to give you any specific comments.

John Cassaday: And we had two lucky breaks too, not related to Beyblade, but Doug's talked a lot about our flight plan over the last year or so and the two lucky breaks are, one, Franklin has done much better than we thought it would at its relaunch. We've got to figure out how to monetize that from a merchandising point of view, but at least we know there's still a very strong following amongst preschoolers for that property.

And then the second big break we got is we entered into a 50/50 joint venture with HIT Entertainment to launch Mike the Knight and lo and behold HIT got bought out by Mattel, so we now have as our partner, a 50/50 JV as I said, a, you know, global toy company.

And as much as we were delighted to be partners with HIT you can only imagine our delight in partnering with this toyetic property with Mattel. So we'll see what happens there, but they're all over this one and hopefully good things will come from it as well.

Doug Murphy: And both of those properties, Paul, Franklin and Mike the Knight are Top 5 rated properties on Nickelodeon in the U.S., so that's a real achievement and we're very proud of that. And we're seeing some more success on - in the international markets and our domestic markets in Canada. So the Corus advantage continues to play out nicely.

Paul Steep: And last one from me and I'll pass the line. On Max and Ruby you took out the partner, I guess, subsequent to quarter end. Is there any sort of increased spend in terms of investment or building out the property now that it's sort of a single entity or business as usual?

John Cassaday: Well that's a - that was a opportunistic and, you know, easy decision to make to pick up a backend participation of the original creative publishing partner, Silver Lining, which is owned by (Corian). The - you're right in saying that it does have - give us complete control of rights to the property. It's not that we didn't have, you know, the ability to do more with it in the prior circumstance, but now we do own everything.

And Max and Ruby continues to be this sleeper property that we think one day with the right amount of strategy and effort could break out. So I think it's one to keep in your sights and it's one that we believe has got lots of potential and now that we own all of it we're, you know, taking another good hard look at what we can do to make it bigger.

Paul Steep: Great. Thanks guys.

Operator: Thank you. Our next question coming from the line of Scott Cuthbertson with TD Securities. Please proceed with your question.

Scott Cuthbertson: Thanks very much. One of my questions has been answered, but let me ask a general one John. Just wondered, you know, if there's been any sort of change in, or any new opportunities that you see, in terms of being able to work more closely with Shaw Media?

John Cassaday: Well we - obviously there's no common share ownership between Corus and Shaw Media, or Shaw Communications for that matter. The shared ownership position is at the family level.

So we are structurally separate companies with different shareholders, so we have to be very mindful of the fact that when either of us involves ourselves in discussing synergies that we're not disadvantaging any one group of shareholders.

Having said that, it makes good common sense to cooperate with players in this market where you're not directly competitive and we would have done that even before. So you are seeing examples now where we're doing some new sharing amongst our Radio and local TV stations. We have had some instances where we work together on program (finds).

But, you know, as it comes to, you know, more broader areas than that, no that is not the case right now. Again largely because of the fact that these are two structurally separate companies with different shareholder groups.

Scott Cuthbertson: Just on the timing of that, like I think there was some expectation that, you know, after Shaw got more heavily into the media business that, you know, there would be a period of time when they sort of digested that and then after that period of time there might be, you know, more opportunities would become evident. Do you think we're, you know, getting into that timeframe now?

John Cassaday: I really couldn't comment on that Scott. I think that will be a decision made at the family level.

Scott Cuthbertson: Okay. Moving on, just a - the HBO GO initiative, if I can call it that, I just wondered if we could get a bit of an update on that? It seems like a pretty exciting opportunity and you did mention, you know, your desire to get more into more non-linear stuff, so I wondered if that was part and parcel of that initiative?

Doug Murphy: Scott, hi it's Doug. How are you?

Scott Cuthbertson: Good.

Doug Murphy: We - it's a critical initiative for our company. We've been working very closely with Astral for some time now to align the class and national effort to deliver our (unintelligible) services on mobile and broadband. It's clearly something that we're committed to as quickly as possible.

You know, we've been - we signaled during our last call that we were of the view it will be a kind of early next fiscal year timing item, which we continue to believe so. For our pay service we think it's essential to offer our audiences, sort of, the 360 ability to consume content whenever and however they would like to, so that delivers that promise.

I'd also add a couple of other comments on pay, if you would, first of all Game of Thrones debuted like a rocket most recently. It's actually performing on a ratings basis higher than Sopranos did, so we have put in motion a very focused acquisition campaign in Western Canada to use Game of Thrones as hook to get new subs.

And partnered with that has been the rollout of our Movie Central and HBO high-definition (F-SQUAD) product. So now we can compliment a high rating and performing second season of Game of Thrones with HD (F-SQUAD) product. So we're feeling pretty optimistic that we've got some good wind in our sails to pursue a return to meaningful subscriber growth in our pay business in the back half of the year and beyond.

Scott Cuthbertson: So Doug it sounds like, you know, some of that's going to show up in Q3, a bit more in Q4 is that realistic?

Doug Murphy: Yes it's always hard to predict the timing of the sub-ads and losses. Our view is that we're, I would like to think, that we're kind of sort of going up from here but, you know, it's hard to say. I mean we've been doing a lot of research and studying audiences and the trending of seasonality's in years gone by.

What we have seen is that when you have a show that really resonates with the audience that can be a real locomotive to kind of drive your subscription uptake. So we're cautiously optimistic that we have one of those now with Game of Thrones. And I might also add that True Blood's next season launches in July as well, so there's a few real destination content series coming to the service.

Scott Cuthbertson: Great. And just two housekeeping questions for Tom if he's there, just in the last call you mentioned that corporate costs you expected to come in around

$28 million this year and I think you were pointing towards the tax rate in a 27% range. Just wondered if that's still the case?

Tom Peddie: Hi Scott it is Tom and you are correct. In Q1 we guided you to 28, which is a good number, however with the current run up in our share price, you know, if we continue to trade above the $24 that corporate number could be closer to the $30 million range.

And with respect to the corporate tax rate, as you saw it was lower in Q2 as we benefited from, you know, some lower tax stuff through our Irish operation. We would still guide to the 27%, however one of the items that could impact us is the Ontario budget. If that does come down in Q4 we'll see an increase in our tax rate in Q4. (Unintelligible) item, but it could affect that overall number.

Scott Cuthbertson: Great. Thanks very much.

Operator: Thank you. Our next question coming from the line of (Aravina Galapathe) with Canaccord Genuity. Please proceed with your question.

Aravinda Galappatthige: Thanks very much. I had a - I wanted to start off with a three-part question on the content side of the business Nelvana. First of all I was wondering if you can tell us whether the extent to which the margins at Nelvana have changed year-over-year given the sharp growth that you've seen so far this year?

And then secondly can you give a sense of the incremental margins that this, the merchandising business, carries? So essentially every additional dollar of merchandising revenue what kind of additional margins does it come with?

And then finally, you know, would the margins stay the same as you continue to drive the growth in this business or would that expand once you kind of surpass certain thresholds?

John Cassaday: Well at a very general level the margins on Beyblade are good, but not as good as on Bakugan, so you're seeing some impact on our margins as a result of the success of Beyblade.

And the second general comment is that the margin situation depends entirely on the nature of the deal, the number of partners that we have involved, the amount of leverage that we have in that partnership. So we've got properties that have margins as, you know, in the high single digits all of the way up to 70% - 80% and it really depends on a property-to-property basis. So Doug?

Doug Murphy: No I think that's right John and I - this is not the modeling answer you're looking for Aravinda, but each piece of content is kind of like a snowflake. It's a uniquely structured business model and obviously we always try to tilt the business towards higher margin product, but in, you know, many cases sometimes it makes sense to have a smaller margin of a bigger piece of pie.

Now there's one thing I can tell you definitively is that we, you know, we're moving away from doing some service work in the studio. In the years gone by, last few years at least, we had, you know, two, maybe three projects that we were doing on pretty low margin service basis. You know, we have one now and we don't intend to do beyond one, so we're trying to focus our activities on wholly owned intellectual property, which by its very nature would suggest a better margin structure.

But these things are, and we've had this conversation before in the past with Mr. Cuthbertson, these things are enormously difficult to forecast and predict and it really is it's a brick-by-brick business and every structure of every deal differs. So that's the best I can do in terms of responding to your question.

Aravinda Galappatthige: Okay. So just to get to an idea of sort of what we've seen so far though, I mean the content business has done really well, but are you suggesting that the margins may have taken a small tick down on a year-over-year basis so far this year because of the change in the mix or has that kind of held up the same?

Doug Murphy: I would say that there's a lot of factors that play into the margin in general. There's the margin on our film asset revenues, those have been considerably improving over the last few years because we're optimizing our financing capabilities and minimizing our service work.

And then you look at the key drivers of revenue, Bakugan versus Beyblade. Bakugan had a higher margin than Beyblade did on a percentage basis but, you know, Beyblade's an in aggregate anomaly a higher dollar business at the moment.

So again I would say that in general the merchandising business kind of blends out to be around the same target as our TV divisional margin target, which is about 35% to 40%.

Tom Peddie: Yes Aravinda it's Tom. I'd just say that the enterprise business the margins are pretty, for the Fiscal 2012, would be pretty consistent with what they were in Fiscal 2011, but they're in the lower end of the 30 range as opposed to the higher end, which is where TV's at.

Aravinda Galappatthige: Okay excellent that's helpful. And then one other question, actually for you Tom, relating to the working capital changes that we're seeing this year, I mean you never really had major upswings in working capital and, you know, nothing really beyond $10 million.

Is there anything to suggest that may be different this year? I mean your working capital use so far this year seems to be a little bit more, a fair bit more than last year. Anything to suggest that you're going to see sort of a more sharp swing this year than in the past?

Tom Peddie: I would say no. I guess a couple of comments, you know, you saw that our free cash flow at the half way mark is about $72 million compared to $58 last year. On a net basis programming's up about 5, capital expenditures are down by about 19 and as you saw in the financials our program spend certainly is higher this year than last year, but it's all built on the comments that both John and Doug made earlier.

Aravinda Galappatthige: Okay, thanks. And one last question, I think you've commented in the past about softness in the ratings in the Kid's side. Are you seeing any improvement there as you kind of step into Q3?

Doug Murphy: Doug here. Yes we are. Although the answer is yes we are, the larger issue, as John touched upon, is that the demand side on Kid's has been, John touched upon sort of the displacement effect of the switchover from Zellers to Target, which has generally meant that there's been less inventory in the channel and therefore less advertising to support the inventory.

The other element that I'd add to the Kid's demand piece is that the large studios this year have a smaller list of kid's feature films than they had in year's prior. It's really just a shift in timing and that's affected, at some level, the number of, you know, kid's only promoted feature films that fall into this fiscal.

But, you know, we believe that in both of these cases, you know, we'll get beyond that and at the end of the day if you want to advertise to kids you have to come to Corus because we control, you know, 93% of the gross rating points in the country.

Aravinda Galappatthige: Okay, great. That's all I have. Thanks very much.

Doug Murphy: Thanks Aravinda.

Operator: Thank you. Our next question coming from the line of David McFadgen with Cormark Securities. Please proceed with your question.

David McFadgen: Yes a couple of questions, first of all just on the TV side of the business, would we start to see comparisons ease off in terms of the TV investments on the expense side and if so when?

John Cassaday: Well the HBO output arrangement is a variable one based on the amount of product that they push our way, so I can't say with any certainty that that would be up or down. It depends on how prolific they are as a studio. In the case of Oprah Winfrey that output deal will escalate to some degree next year and the following year. And then the CPE, or the Canadian Programming Expenditure, part of our overall programming budget is entirely dependent on our revenue growth.

And as you know, coming out of group based licensing essentially we have an obligation to spend approximately 30% of regulated revenue on programming. So I guess the answer is I kind of hope that one keeps going up because that would indicate that our business is continuing to grow.

So the big, big bump that you saw this year, you know, the HBO bump and the OWN bump will be mitigated somewhat, but they will continue to go up. So the challenge on us is going to be to continue to grow the revenue on those businesses and justify the investment that we've made in the programming and the branding.

David McFadgen: So another way to maybe ask it is, you know, the cost inflation has overall been greater than revenue. If we look next year would the cost inflation be less than revenue growth?

John Cassaday: Well it depends on what the revenue outlook is for next year, but we would certainly see that our cost inflation on programming next year would be greater than 5% and less than 10%.

David McFadgen: Okay. And then just on the kid's ratings so, you know, there's been some articles about the U.S. channels, kid's channels, having pretty soft ratings, particularly on Viacom and you guys have got a lot of Viacom product, but then on the other hand Doug you said that the ratings are starting to improve in Q3. So are they really improving? Are we starting to see the end of this or?

Doug Murphy: A couple of different answers to that question, David. First of all we recently spent a lot of time with our partners at Nickelodeon and Viacom in the U.S. and I can tell you with 100% confidence that they are focused in a very diligent way on, you know, getting a lot more great content coming. So I think we're going to see a nice tick up in the quantity and quality of fresh content coming out of the Nickelodeon output deal.

What we're especially proud of and which we alluded to during Investor's Day, and which John alluded to today in terms of the Women's business, is we're making our (unintelligible) work harder. And the Nelvana properties (unintelligible) are really driving ratings.

So Scaredy Squirrel, we think, has got the potential to be a breakout comedic hit. It's been placed globally very, very well. (Unintelligible) and the ratings are phenomenal. Similarly Sidekick is doing extremely well. So many of the Nelvana shows, and you'll recall during Investor's Day we had a graph on this, are really, really driving ratings and we're seeing more and more of that. So that's contributing nicely in addition to what we're doing with Nickelodeon.

David McFadgen: Okay.

John Cassaday: And I would say just, David, just to underscore what Doug said earlier, I think Nickelodeon's rating problems have a more direct link on revenue than ours do, while they're up against Cartoon and Disney XD. Disney XD's a fledgling service here, Cartoon Network/Teletoon we control here. So our issue is more demand related than rating related.

David McFadgen: Okay. And then just on the Radio business, you used to provide disclosure on how Western Canada Radio was doing and then Ontario was doing. And Western Canadian Radio EBITDA has declined, you know, a fair bit over the last few years and now you're starting to see a turnaround there.

So how much is it really turning because now just based on your disclosure now we just see a consolidated Radio EBITDA and it hasn't really, you know, improved that much? So I'm just wondering like how much really is the delta in Western Canada? Is it still to come or what's happening there?

John Cassaday: It's still to come, but the ratings - the issues that we had in Western Canada were really two-fold. One, we were seeing ratings on our classic rock, rating erosion, on our classic rock station in Vancouver. That is starting to turn around.

And we were seeing some, I think, measurement system issues on our two country stations in Alberta. The move from diary to PPM for country was a devastating one and we're now seeing, certainly in the case of Calgary, that turning around.

And it can be a very small number of people in the sample that are or are not country listeners that can sway something like that. I don't think there's a lot of people moving back and forth between country and classic rock like there would be between classic rock and new rock.

So if you're a country listener you're probably listening to a country radio station or your iPod and whereas there's much more mobility in the other formats on a radio station and as a result the diary was much kinder to us on country than it's been on the PPM.

Chris Pandoff: David it's Chris. What I would add to that is that the - we've been doing a lot of work in and around the ratings, as John pointed out, in Western Canada. And, you know, two things there, the markets in Alberta are not as buoyant as they were back in sort of the mid-2008 level, but they are showing some good signs of strength. Year-to-date they're both up, you know, kind of single mid-digit in terms of the TRAM.

So I think the growth for us on a go-forward for the Radio division will be out of the west and you'll probably see that as the years pass by and the next few quarters in the improvement that we get on the bottom line.

David McFadgen: So maybe just to flush that out a little further, so it sounds like you haven't really seen a big change in the Radio EBITDA out of the west, but the ratings are improving and that should follow through later with an increase in EBITDA. Is that the correct way to look at it?

Chris Pandoff: Yes. You know, I think it's the way you define big. You know, is it material in the current quarter? No, but on a go-forward basis yes it will be much stronger.

David McFadgen: Okay. And then just last thing, how much was the additional investment in ToonRoom?

John Cassaday: Not material.

David McFadgen: Okay so less than $10 million?

John Cassaday: Yes well less than that.

David McFadgen: Alright. Okay. Alright thanks.

Operator: Thank you. Our next question coming from the line of Colin Moore with Credit Suisse. Please proceed with your question.

Colin Moore: Great. Thanks for fitting me in. I just had a broader question, I guess, for Doug. You touched on it a bit earlier as well, I guess we're in an environment where some of the distributors under increasing competitive pressure are looking more at some flexible options and maybe putting the packaging option a little more in the customer's hand and I think, as you eluded to, it's going to become a bit more of a battle of brand and content, which you guys are quite strong in.

I was just wanting to know if you could maybe dig into that a bit deeper in just how Corus is approaching that potential increased flexibility outside of Quebec and how you might see the business model evolve in the next coming years?

John Cassaday: Certainly. The - well first off obviously one of the reasons why we aspire to being stewards of great brands in Canada is because it's our view that they have economic value and we always attempt to extract value from the distributors accordingly. So our first position is always to achieve an increase in sub-rate for these brands.

Secondly, in the event where we're finding ourselves challenged to get rate we, at a bare minimum, require, and ask, and negotiate very hard for maximum distribution so as to provide the opportunity for our commercial networks to achieve the greatest amount of reach in households and hence for our airtime sales team to monetize the great content that comes with those brands.

And then lastly, and as a defensive measure, we will always negotiate to put in place, you know, as I said earlier, volume based, you know, penetration rate cards so that in the event that there's (unintelligible) in the future at a minimum we've got a floor on our plate of revenues in that regard. So those are kind of like, you know, I would say the three sorts of key approaches we take to the distributors.

Colin Moore: Great. Thanks for the color. And just maybe an add-on, in such an environment do you think - is it - would it be more difficult to launch new services in light of the fact you kind of have to get the customer's attention or given some of the strategies you've done in the past, like embedding content in existing programs, do you think the option - opportunities going forward for even more services would still be there?

John Cassaday: It's still there, but it is getting more challenging. As you've seen recently there's been a harvesting strategy used by both us and another player in our business and people are saying, okay if it's getting tougher to get meaningful distribution, and I would define meaningful distribution as 3.5 million subs or more where you can actually have a impact on advertising, then I think you've got to start looking at how do I phase out of underperforming networks into ones that have got better performing, performance, characteristics.

So in answer to your question, less brand new and more replacement of old I would see as the way of continuing to innovate in our category.

Doug Murphy: Hey I would just build on John's comments, Colin, by saying that we are extremely focused on building within the three verticals, which we've chosen, and those verticals give us scale benefits, not just in distribution, but in the sales piece of the equation.

So we, you know, if it doesn't fit like a glove inside of Kid, Family and Women we're not very interested in it because that's how we leverage our core competencies, both at the distributors and with the agencies and clients.

Colin Moore: Great. Thanks for the comments.

Operator: Thank you. Our last question coming from the line of Drew McReynolds with RBC Capital Markets. Please proceed with your question.

Drew McReynolds: Yes. Thanks very much. Sorry to prolong with one more question, but thanks for taking it. Maybe a question for you Chris, I noticed the other day CBC on the radio front looks to be increasing, you know, it's advertising out there on a couple of its networks. Just wondering if you've looked at what potential impact this could have for the private radio market? Thank you.

Chris Pandoff: Yes I believe their application and commission will be for CBC 2, but I guess what I would say is for the purpose of this call and our business going forward for the next year and a half there will be a whole bunch of hearings that are required before they're granted the right to do that.

So beyond having a cursory look at their ratings across the country I don't think it will be worth financially modeling it at any point before the next year and a half.

Drew McReynolds: Okay we'll leave it there. Thank you very much.

Chris Pandoff: Okay.

Operator: Thank you. Mr. Cassaday I will now turn the call back to you for your closing remarks.

John Cassaday: Thank you Operator and thanks everyone for your continued interest in Corus. We'll look forward to seeing you and talking to you individually over the next few weeks. Bye for now.

Operator: Ladies and gentlemen that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day.

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