CORUS ENTERTAINMENT

Moderator: John Cassaday
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1:00 pm CT

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Corus Entertainment's Q3 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 speak to an operator, press star 0. As a reminder, this conference call is being recorded, Thursday, July 12, 2012.

I would now turn the conference call over to Mr. John Cassaday, President and CEO of Corus Entertainment. Please go ahead sir.

John Cassaday: Thank you, operator. Good afternoon everyone. I'm John Cassaday and welcome to Corus Entertainment's fiscal 2012 Third Quarter Report and Analyst Call. Thank you for joining us today.

Before we read the cautionary statement, we would 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 corusent.com in the Investor Relations segment.

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 you to the Corus Entertainment team joining me on the call today. First of all, Tom Peddie, Executive Vice President and Chief Financial Officer. Next, Doug Murphy, Executive Vice President and President of our Television Division; and finally, Chris Pandoff, Executive Vice President and President of our Radio Division.

Turning to Slide 3 of the PowerPoint presentation and our third quarter results, we continued to generate solid earnings growth despite a challenging economic environment, tough year-over-year comparables particularly on our TV business and against the backdrop of strong Olympic spending obligations for many of our major customers. On a consolidated basis, both revenues and segment profit were down 4% from the very strong quarter we had in the prior year.

Turning to Slide 4, net income attributable to shareholders increased significantly, up 7% and growth in earnings per share was up 6% to 52 cents per share. Our Television and Radio businesses maintained exceptional profit margins at 43% and 33% respectively as a result of our rigorous cost controls. As well, with our capital requirements returning to normal levels, the business generated strong free cash flow, up 17% year-to-date.

Moving to Slide 5 and the Radio business, revenues were down 3% for Radio in the quarter. However, segment profit was up 1% as a result of Radio's disciplined focus on cost containment measures. As we mentioned previously, the division generated impressive operating margins of 33% in the quarter.

In terms of advertising performance, a number of our key clusters, particularly in the West, outperformed the market and grew year-over-year generating mid-single-digit growth. Our Vancouver stations for a third consecutive quarter outpaced the market, a clear indication of that cluster's ongoing return to growth.

Ontario however was soft due to a decline in the regional ad market and some rating softness at our Toronto cluster, which has since been corrected. Overall expenses were down 5% for the quarter mitigating some of the impact of regional advertising softness in Ontario.

Moving to Television. A very tough quarter in the kids ad market and a decrease in subscriber revenues were primarily responsible for a 4% decline in segment revenues in the quarter.

However, Corus continued to capitalize on a strong market demand for the female demographic led by W Network's impressive ratings performance, which grew ad revenues.

It's important to note for this quarter that we should not characterize our declines in specialty advertising as general declines. There were substantial pockets of growth in the quarter.

We were also extremely pleased to see further gains in the quarter from our Nelvana business, which drove merchandise distribution and other revenue growth of 8%. Beyblade performed well with toys sales above Hasbro's expectations in the post-holiday period. Subscriber revenues were down 2% due primarily to a modest decline in pay TV subscribers to 975,000 and ABC Spark's free preview period.

While segment profit was down 5% due to increased investments in programming and incremental costs associated with the launch of new channels, television maintained a strong segment profit margin of 43%. Investments in programming and new offerings remain an important part of our long-term strategy to drive audience tune in and growth for the division.

Moving to Slide 6 and our outlook for the next quarter, we are seeing signs of a stronger advertising market in Q4. In our Radio business, for example, we are forecasting an increase in revenues compared to last year of low single digits.

According to last month's PPMs, our Western and Toronto clusters have made significant rating gains and we expect the division's performance to build on this momentum. As a result of improved ratings and retail confidence, sales for July and August are pacing ahead of last year in key markets including the Toronto cluster, which is up mid-single digits.

While we expect continued softness in some of our smaller regional clusters in Ontario, we are seeing signs of advertising growth in large markets, including the West particularly in Alberta, which is forecasted to be up in the low double digits.

In order to maintain this forward momentum, the division will concentrate on continued ratings improvements in our top five markets, driving new media development and optimizing revenue opportunities with established categories like automotive and in new categories such as financial services and insurance while at the same time maintaining our ongoing rigorous cost control.

Moving to Television. We anticipate solid advertising growth in the high single digits led by our women's vertical and our co-view segment initiatives. Ongoing ratings momentum from W Network is expected to drive advertising growth in the women's portfolio as a result of the service's strong lineup of popular returning series, including Undercover Boss, Love It or List It, Property Brothers and Come Dine with Me Canada as well as the network's must see dramas and robust lineup of Hollywood movies scheduled every weekend all weekend long.

The Oprah Winfrey Network will continue to focus on rating drivers with more primetime Oprah-hosted programming and exclusive interviews featuring guests like NBA stars LeBron James, Dwayne Wade and Chris Bosh, also the Kardashians and Rihanna, to name a few, in addition to the launch of a new reality series this summer called Lovetown, USA.

We're excited about the growth and growth potential of our recently launched service ABC Spark, which launched in six million households on March 26. This network, ABC Spark, is off to a great start generating advertising revenues and rating momentum built around an appealing primetime slate of ABC Family original programming that includes The Secret Life of the American Teenager, Melissa & Joey and Bunheads from the creator of Gilmore Girls in addition to a lineup of new original movies.

Additional initiatives include a summer tent-pole event, Campus Crush, featuring a strong lineup of school-themed series and movies that will drive audience tune in and attract back-to-school advertisers.

Our Pay business is focused on driving subscribers with a lineup of high-profile, must see dramatic series that include new seasons of True Blood and Episodes as well as the provocative new series, Girls, and one of the most talked about premieres, Aaron Sorkin's The Newsroom.

This summer Movie Central and our distribution partners launched the see it first campaign, which gives subscribers access to premieres of movies on Movie Central on demand before they premiere on Movie Central.

In addition, Movie Central has partnered with our distribution partners across the country rolling out robust offers to retain current subscribers and attract new ones. We also continue to deploy more content on high definition and subscription video on demand. Our nonlinear offerings ensure our premium content is available everywhere and will drive revenue growth for the business.

On the kids front, rating drivers like Next Star and Nelvana studio's live action series Life With Boys and Mr. Young, currently among YTV's top-rated shows, will deliver the much desired co-view audience.

In addition, by tapping into kid culture, YTV's one-to-one series featuring live performances and one-on-one interviews with the world's hottest music acts including boy band phenomena One Direction and Katy Perry will continue to drive strong ratings for the network. We're also excited about the launch of TELETOON's Cartoon Network, which debuted in Canada on July 4. We anticipate a great response to this service.

In the United States, Cartoon Network ranked as the Number 1 network in total day among boys 6 to 11 and 9 to 14 and its evening Adult Swim programming block is the Number 1 offering on basic cable with adults 18 to 34.

On the international merchandise and distribution front, we anticipate that Beyblade will continue to be a strong merchandising performer for us but will not match the outstanding results achieved in Q4 of last year. A whole new season of Beyblade is set to launch on air next month and the exciting new BeyWheels toy line makes its debut on shelf this fall and is expected to provide continuing support for the brand.

We are also aiming to capitalize on our ratings breakthrough on the preschool front in the United States market where Mike the Knight, Max and Ruby and Franklin are now top ten rating hits on Nickelodeon.

We're also very excited about Mike the Knight, which Mattel and Fisher-Price views as a hidden gem in its recent acquisition of HIT Entertainment. Mattel and its Fisher Price division is signing on as master toy partner for Mike the Knight with a full global merchandising program underway beginning next spring.

Heading into next fiscal we will continue to leverage the strategic value of our Kids content internationally by capitalizing on a number of OTT and subscription video on demand opportunities with media partners in the United States, Europe, Latin America and Asia.

In addition, we've increased our ownership in the international children's channel KidsCo to 47% in partnership with NBC Universal International who also increased their stake to 51%. We believe this increased investment in KidsCo strengthens our foothold in the international marketplace and our ability to leverage Nelvana's content for future growth opportunities.

In conclusion, we are encouraged by signs of a stronger advertising market particularly for our women's and co-view audiences. On the content front, the Nelvana library will continue to support revenue growth principally in the international marketplace as we activate more nonlinear offerings to meet customer demand and build our brands globally.

As well we are excited about the growth potential from the recent launches of ABC Spark and Cartoon Network in the Canadian marketplace. At our annual Investor Day on November 30, 2011, the company announced its fiscal 2012 guidance target of consolidated segment profit of 300 million to 310 million and free cash flow in excess of 125 million.

Ad sales in July and August are pacing well ahead of year ago, as I said, in both Radio and Television. But despite the expectation of strong ad revenues in Q4, it will be a challenge for us to hit the low end of our segment profit guidance.

We hope that you found the comments on our outlook helpful. And now we would be happy to take any questions that you may have. Operator, we'll turn the call over to you.

Operator: Ladies and gentlemen, if you would like to register a question, 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 registration, press the 1 followed by the 3. Once again, to ask a question, press 1-4. One moment please for the first question.

Our first question comes from the line of Drew McReynolds with RBC Capital Markets. Please go ahead.

Drew McReynolds: Yeah. Thanks very much. Good afternoon.

John Cassaday: Good afternoon Drew.

Drew McReynolds: Yeah. Just a - I have a couple of questions here and then I'll leave it for others. Just first of all, with respect to unlikely to meet the low end of guidance, you know, I think certainly street estimates are below that already. Not asking for a point forecast here, John or Tom, but, you know, when you look at consensus kind of in the mid 290s, you know, do you get the sense that that's in the ballpark? If you could kind of help us out there.

John Cassaday: Well really can't at this point. We're just - I can assure you we're going to do the best that we can. We've got certainly good momentum. We've got a good handle on our costs. But beyond that Drew we're not prepared to commit any more than beyond what we said in our press release or report to shareholders and in our opening comments.

Drew McReynolds: Okay, no, no. Fair enough. Just going to Television, certainly the Television margin in the quarter was quite strong. Just wondering if there was anything unusual in the quarter with respect to all the moving parts.

John Cassaday: Well I think the most unusual thing was the performance of our kids advertising piece. And I tried to bring focus on this in my opening comments because it would be easy to assume from the overall declines in our specialty advertising that the sector is in decline.

But the reality of it is is we came off an extraordinarily strong quarter a year ago for TV. Memory serves me right, we were up about 20%. Doug may correct me on this, but about 20% in the kids business on this quarter last year. And this year we had somewhat of a perfect storm on the kids' front. We're highly concentrated on three categories, first and foremost toys.

The reality of it is it was a tough year for our toy partners in North America in particular. There wasn't really a new hit show, rather a continuation of some of the old standbys. So we saw some hurt there.

The food industry was our second largest category and it also was impacted I think to some degree by some of the initiatives in the United States around childhood obesity and particularly the multinationals really looking to fine tune their messaging to kids.

And then third, in the entertainment sector, which is also an important part, we were hurt to some degree by the declining sales of DVD and also some kid movie timing. But we've done a lot of work in the last little while to broaden the categories that are going to be attracted to our kids business. We just landed some significant business with the Canadian government.

We're working hard with the banks to interest them in reaching out to kids to talk about financial literacy. We just conducted a major study on DVD sales and I think brought some real insight into our partners in this sector as to what motivates people particularly those interested in youth-oriented properties to build their DVD libraries.

So we're very optimistic about the future of our kids advertising business. We're actually seeing a return to growth at least from a pacing point of view for Q4. And we're just, you know, hitting the pedal hard to keep that going.

Douglas Murphy: Drew, it's Doug. I would just add in terms of the margin for Q3, we did do a bit of a restructuring in that quarter. So we addressed some opportunities to kind of tighten some of our cost structure. We've said in the past that our desire is to put more dollars on the screen and we have opportunities to get more efficient, we'll do that. So there was that one event in the third quarter.

Thomas Peddie: And Drew, just not the beat the issue to death - it's Tom. But one of the other things that, you know, John talked about Q3 last year as being a particularly strong quarter, but also, we were investing in our costs in that quarter last year, which would have lowered the margin.

And what happened this year in Q3, which was consistent with what we said in the last call, is that our cost would be lower. So we had lower costs, which helped to improve the margin over last year.

Drew McReynolds: Okay. No, that's helpful from all of you. Would - just as a follow-up to the margin question, would kind of mix have something to do with it as well with respect to relative contribution of merchandising or is that not really a delta in the big picture?

Douglas Murphy: Well mix - this is Doug. Mix always swings around. As we talked about in the past, there's all kinds of components that narrow margin. So it's a little bit noisy. So that - there's always a variability you're going to see in our margin from quarter-to-quarter based on, you know, what the share of merchandising revenue is versus the share of advertising, subscriber, other. So you can always count on a little bit of back and forth on - from that.

Drew McReynolds: Okay. No, that's great. Just two final ones for me. Thanks for the outlook on Q4. I think that's great guidance for all of us. Just wondering if it's too premature, but could you speak to maybe the seasonally stronger quarter in Q1 of 2013, if you can?

And then just a final question on pay television subs, obviously a little bit of step back here in Q3. Just what are your expectations looking, you know, at for the rest of the year? And, you know, was any of it kind of unusual due to, you know, a more - a longer free preview period that Astral alluded to this morning? Or - and I'll just leave it there.

John Cassaday: Well first of all, as it relates to the forward outlook on ad sales, both Radio and Television are pacing ahead in Q1 of next year. So as we stand here today, we continue to be optimistic about the ad recovery. The caveat of course we all have is that it's been choppy recently and so much of it depends on sustained levels of consumer confidence.

So what we can't predict is what might happen in Europe next week or next month or whether or not there is going to be further quantitative easing in the United States and these other factors that I think you all are aware of are impacting everybody's psyche as it relates to getting excited about a more prosperous future and therefore investing in advertising.

You'll often hear us say that we are largely in the business of confidence, right? If people feel confident about investing in advertising because they feel they're going to get a return, they do it. If they're concerned, they will sit on their wallets.

Right now what we're seeing is a return to a level of confidence that we haven't seen in many weeks and that's very comforting to us. So all I can tell you today is the pacing is good.

We made a strategic decision this year, particularly on our Women's businesses, to in fact sell less upfront than we have historically because we have a high level of confidence in the spot market going forward.

It's a gamble but those are the kinds of gambles that we get paid to make and it is again a further indication about our optimistic outlook for the future. I'll ask Doug to just little - talk a little bit about some of the plans that we have in place to build our subscriber base.

Douglas Murphy: Thanks John. Yeah. Yes, pay - we're now kind of full steam ahead on a variety of acquisition campaigns in pay. We have six months 50% off campaign with all of our VDUs West, save one. We are promoting strongly some feature tent-pole programming. The new season of True Blood has come out and it's rating extremely well.

We've actually seen our audiences - we track our audiences on pay and our actual audience and reach are increasing now with these new great shows of HBO coming out. So - and concurrent to that, as we mentioned, the pending and now happening the launch of HD on demand for our pay services to really bolster the value proposition.

So noted, it was a bit of a step back from the sub count for this last quarter but we believe we've got the right strategies in place now to kind of return to a steady growth scenario on pay going forward.

Drew McReynolds: Thank you very much.

Operator: Our next question comes from the line of Paul Steep with Scotia Capital.

Paul Steep: Great. I guess to carry on with our chat about the ad market generally, I think John you've helped clarify a lot around the kids. The one thing that sort of came up this morning with Astral Edge I wanted to bring up with you guys was how much of this did we see sort of unusual behavior in terms of abnormal push out or sort of a cyclical pauses that were in the quarter that may be influenced the results?

I think the kid's stuff you've laid out well but I'm just looking broader than that in other categories if there was anything else.

John Cassaday: Well broader than that - for example, in terms of our two key women's brands, W and Cosmo, both were very, very strong, which is why I made this cautionary statement that don't read into that Corus' ad number for especially Television as a general malaise in advertising. I think we just got hit darn hard on the kids piece and but there were other, you know, really good and strong pockets of growth for us on our portfolio.

And from a sectoral point of view, generally speaking we're still continuing to see good growth on a number of sectors particularly many of the women-oriented brands as we predicted. Regardless of economic circumstances, you're going to see continued growth on a number of fronts.

Pharmaceutical continued to be strong in the quarter, retail was strong, and I'm talking double-digit growth for these categories. Automotive was very strong for both Radio and Television in the quarter, particularly domestic automotive. Entertainment was a problem across the piece, not just on the kid's side. So some really - I think generally some very positive sectors within the ad economy.

Douglas Murphy: I would - this is Doug, Paul. I was just kind of stepping up to the macro side. There was a noticeable and I think you've saw it in the results from Astrals this morning, there's a noticeable industry-wide kind of air pocket in April and May. I mean the spend levels just dropped fairly dramatically in those two months.

And you've heard it now from Astral and from us, we are seeing some more firming of the marketplace and that's very encouraging. But it was clearly something that happened, you know, with all the noise out of Europe and such that played out in the confidence of advertisers in the spring.

Paul Steep: Okay. Just to maybe move on then. Again, for you Doug, on the merchandising side in the outlook, you know, looks like we had a super strong 2011. It's clear you called out that hey, we're not going to match it. How much of it's going to be a timing issue in terms of obviously the launch of BeyWheels?

And then into I guess sort of mid-2013, fiscal 2013, the Mike the Knight launch? How much should we sort of be aware that maybe there's a ramp up or timing issue just in terms of getting programs going when we think about the numbers?

Douglas Murphy: Yeah. So on the Beyblade front, we're in the market right now with our new stealth battler tops, which is part of the Beyblade XTS, Extreme Top System line that was launched in the fall. And they have new surprise attacks and they change battle quickly and powerfully. They're quite exciting. Personally, I find them fantastic.

We have a new season of animation beginning in the fall, Beyblade: Metal Fury, which is - there's a key item in that called the Destroyer Dome. It's a 360 arena, which was kind of the talk of the licensing show in Las Vegas in June. Got a lot of interest and our friends at Hasbro are very enthusiastic that it changes the way kids will compete with the tops.

And then John alluded to BeyWheels, which is sort of an all-new kind of iteration of the spinning top, you know, within the Beyblade brand, which launches in fall and that's supported the 13 episodes in animation. And we're in discussions about new seasons of both BeyWheels and new seasons of Beyblade.

So we're working, you know, as you'd expect, very diligently to continue to bring innovative product to market. To continue to place great animation on the air and working to time that with launch of toys with Hasbro. So the Beyblade is a top priority.

As regard to the pre-school properties, we're in various stages of activity with the brands. Franklin is launching in force in France in the fall. Franklin you may remember - well you may not actually, but in 2004, '05 and '06 was the Number 1 preschool brand in France. So there's lots of heart for that property. We think we've got an opportunity now to kind of reintroduce Franklin. The show is performing extremely well on CF1.

The bar will be in market - actually it is in market now and we expect to get some reads at retail in the next quarter, which is encouraging. The Fisher-Price master toy deal of Mike the Knight will - that will be probably a fall '13 launch as opposed to anything sooner. So you need to take a little bit of time in terms of your modeling for that show. And we have a new toy deal with Max and Ruby that will be coming out for spring of '13.

So one of the things that we knew we needed to do -- this is back before the second launch of Beyblade, about 18 months ago -- was to aggressively move forward with our preschool properties and we've done that with Babar, Max and Ruby, Franklin and Mike the Knight to provide sort of the offset for any expected decline in the boys' action businesses.

The absolute timing of those obviously is very hard to predict so I can't give you any steer there. But I can tell you that strategically we have a plan and we're executing that plan.

Paul Steep: That's great. That helps a lot. And I guess the last one for me today would be on Radio and for Chris, with Bill C-11 now getting implemented I guess June 18, or it got written into law at that point, what's sort of the thoughts around timing? I know various times you and Tom have given us the big picture around for a full year but Parliament being what it is, we ended up with maybe a little later timing on this?

Chris Pandoff: Yeah. Even though it's been written into law Paul, it still needs to have the Cabinet approve it or force it into law. Not much before fall; probably the end of the first quarter.

Paul Steep: Okay. Great. Thanks guys.

Operator: Our next question comes from the line of Adam Shine with the National Bank Financial. Please go ahead.

Adam Shine: Thanks a lot. Good afternoon. John or Tom, you know, you're looking at leverage now sitting at about 1.6 time. My forecast obviously has it going steadily lower. Can you talk about sort of two things, I guess, at least. One, you know, are you still comfortable talking about comfort levels of 3 to 3.5

times metrics, which in the absence of any big M&A seems a far cry higher or away?

And number two, you know, just in the context of use of proceeds of free cash flow next year, I mean obviously, we continue to see you growing the dividend but what about share buyback? And then maybe you can touch thirdly on anticipation of maybe calling your bonds in February next year. Thanks.

Thomas Peddie: Adam, it's Tom. With respect to the leverage target of 3 to 3-1/2, we'd set that particular target a couple of years ago just simply to give the investors a comfort level that we didn't want to be too highly leveraged.

So right now we're in the situation, as you say, where we're generating lots of free cash and we have our leverage quite low, which gives us the capability of doing some tuck in acquisitions, et cetera. So I don't see our leverage going up to that particular level unless we do something.

With respect to the use of the free cash flow, as you noted, we have renewed our normal course issuer bid. We just did that last month. So clearly that gives us an opportunity to as part of our total shareholder return strategy to buy back our shares. Your third point was...

John Cassaday: We also talked about dividend and we are committed to continue to look at our dividend on an annual basis. And we will also, as you suggest, look at doing something about those high-yield notes that, you know, are redeemable in February and that could also potentially use up some cash.

Thomas Peddie: Yeah. And I guess, Adam, just to John's point on the bonds, we, you know, that's something that, you know, we started to look at now. But as John said, the first call date is February, and as you know, we can call those at 103.

Adam Shine: Okay. Thank you very much.

Operator: Our next question comes from the line of Aravinda Galappatthige from Canaccord Genuity. Please go ahead.

Aravinda Galappatthige: Good morning. Sorry, good afternoon. Thanks very much for taking my questions. I'll start off with a question on programming costs. You know, given the - I guess, the flattish sub growth that we're seeing this year, you know, is it reasonable to expect that next year you'll see far less program cost inflation?

I mean I know that it was relatively low in Q3 but the first half this year was in the high single digit. Would that be much lower in 2013 on that basis or are there other moving parts that will keep that inflation number higher?

John Cassaday: It will be lower next year. It will be mid-single digits.

Aravinda Galappatthige: Okay. Thanks for that. And then I just wanted to break down a little bit if possible the specialty advertising decline. I mean I'm just trying to get an idea of what the composition is. Is it simply a case of the women's segment being - call it flat or slightly lower and kids declining very sharp to maybe high double digits? Or is it - did the Women's group actually grow overall?

John Cassaday: The former characterizes it. The women's business was essentially flat. The kids business was declining. And within the women's business there was some significant growth. The challenging comparable was the Oprah Winfrey number versus the very strong charter advertising launch last year. So overall we were quite delighted with our Women's results in the quarter.

Aravinda Galappatthige: Okay. And just moving on to the cost side (unintelligible). I know you talked about it a bit but and you had indicated in the MD&A that programming costs were up 2% and G&A up two but you still cut overall costs by 3%.

I was wondering was there any declines in the cost relating to Nelvana? Sort of I know that the numbers move around a bit because of royalties, et cetera. Did those costs come down and did that sort of helped you out there as well?

John Cassaday: Well, just checking on that, Aravinda. I don't know the answer to that off the top of my head. Tom, have you got anything? Or if not, we could get back to you on that.

Aravinda Galappatthige: Okay.

Thomas Peddie: I guess -- Aravinda, it's Tom. I mean, it's really on the production and distribution side our costs were down. And as you know, that's dependent upon how much stuff we produce and how much we sell.

Aravinda Galappatthige: Okay. Got it. Thanks. And just a couple of housekeeping questions. G&A for the full year, I think you talked about 28 million. Is that sort of where you're looking at still or would that number change a bit?

Thomas Peddie: As we said in the - it's Tom. As we said in the previous call, it really depends on our stock-based compensation. And so we've talked about a number that's probably between the 27 million and 29 million range. So your number of 28 million would be right in the middle.

Aravinda Galappatthige: Okay. Thanks. And then lastly, you know, your tax rate was lower in Q3. When we think about sort the modeling for future quarters, also sort of going into 2013, I mean, should we be thinking mid-20s or is there - should, you know, is there something to keep it lower than that?

Thomas Peddie: We would suggest you use the rate of 27%. Now in Q4 that excludes the impact of the Ontario tax rate challenge that we had identified. As you saw in the MD&A, we identified a non-cash hit of about $6 million on the long-term rate. But from a modeling point of view, I would be inclined to use 27.

Aravinda Galappatthige: So just one last question before I go. Nelvana it seems that revenues grew 8%. Did the merchandising number grow as well or was it driven entirely by distribution?

Douglas Murphy: It's Doug here. It was distribution drove the growth.

Aravinda Galappatthige: Okay.

Douglas Murphy: We're a little bit down year-over-year on merchandise.

Aravinda Galappatthige: Okay. Got it. Thanks a lot. That's all I had.

Operator: Ladies and gentlemen, as a reminder, to ask a question, press 1 followed by the 4 on your telephone. Our next question comes from Scott Cuthbertson from TD Securities. Please go ahead.

Scott Cuthbertson: Yeah. Thanks very much. Just a couple of ones left. Just wondered can you give us a bit of color on the upfront market? I mean you've talked about the - being in the game of confidence and all that but how are the upfronts and what can we sort of learn from that about the comment going forward?

John Cassaday: We do not conduct an upfront market for our kids business. And on the balance of our business, we have made the conscious decision to put less of our inventory upfront this year than we have in the past.

We continue to do upfront deals with all of our major customers but our focus was on rate and on the effective utilization of our inventory and a fundamental belief that this coming year will be a better year to be in the spot market than last year was at this time.

So we feel really comfortable about the position we're in. Importantly Scott, we feel real comfortable about the position of our brands from a rating point of view. We've seen nice improvement in our W Ratings. We got a, you know, a hot new show on Cosmo that we thinks going to keep that growing.

No question Oprah Winfrey Network's getting better every month and we're starting to see some nice signs of rating improvement there. So net-net we feel pretty comfortable going into the fall with an expectation that an improved economy and our superior rating performance will serve us well.

Douglas Murphy: I would just add that both YTV and W are top five networks women 18 to 49 and firmly in that grouping. So it gives us a lot of confidence that as we continue to grow our audiences, we'll be able to leverage that into revenue growth and that inform the decision to back off the mix of deal and increase our scatter business.

Scott Cuthbertson: Can you give us any indication about, you know, how much is sold upfront versus the spot?

Douglas Murphy: I don't - we typically would not reveal that kind of information. That's very competitive.

Scott Cuthbertson: Okay. And just on Oprah. I mean it's been a - it's been a - an interesting story. Certainly, a couple of challenges. It's good to hear that there is some momentum. John alluded to the fact that there's more sort of Oprah-centric content. But can you just give us a bit more color on the dynamics and how that's unfolding and then, you know, how you think that that's going to hopefully do better next year?

Douglas Murphy: Sure. It's Doug, Scott. I'll take that one. We're seeing fantastic growth year-over-year on the order of, you know, 20% plus in terms of audience delivery. That's being driven by - obviously there's a lot more Oprah on the network these days with her Next Chapter, Lifeclass, Masterclass and so the more Oprah, the more audience. That's pretty intuitive but we're pleased to see that occurring.

I'd also just acknowledge the good work of our original programming team. Some of the shows that we've commissioned for the OWN network through our Canadian expenditures are performing very well. Mystery Diagnosis and Double You Know and specifics have been driving audiences there.

So it's a good blend of taking advantage of the new programming coming out of our partnership with OWN in the U.S., layering in our Canadian spend to incrementally drive ratings. And we continue to take advantage of the social media opportunities. Oprah is kind of leading, you know, a leading influence in power online. She's got more than seven million Facebook followers and six million Twitter followers.

So every time that there's a new to broadcast Oprah show, we're day and date with the U.S. marketplace so that we can sort of dine out on the work that they do on social media to drive audience back to the network.

Scott Cuthbertson: So the general mood and attitude I guess is improving in kind...

Douglas Murphy: Yes.

Scott Cuthbertson: ...amongst the advertisers with respect to that property. Okay. Great. And as well, Doug, on the Pay Television front, I mean there was, you know, some talk about improving the platform and the marginal utility, if I may, of pay Television by working with your VDU partners. How is that progressing and what's the timing on that initiative?

Douglas Murphy: We are - as we speak, we are rolling out our HD on demand from Movie Central and HBO across Western markets. So that's in motion now and will be and is being marketed aggressively for those districts that have HD on demand and we expect to be fully distributed by the fall.

Scott Cuthbertson: Now is there any sort of expense in the short term to reap the benefits later that we should be thinking about for the - for like Q1?

Douglas Murphy: No.

Scott Cuthbertson: Okay. Great. And then just a last one - just a small one, Tom. Just buried in the G&A, I guess there was a bit of a Corus Quay rebate. Just wondered if that's - if you could sort of quantify that for us and if there's anything else that hit any milestones going forward or anything like that?

Thomas Peddie: It was an adjustment that we had as a new tenant coming in. We, you know, we took possession - our occupancy of the building in 2010 and it was an adjustment on the actual operating costs. So it was a one-time item that we were able to capture the benefit of and it was six figures.

Scott Cuthbertson: Okay. Great. Thanks very much.

Operator: There are no further questions at this time. Mr. Cassaday, I'll turn the call back to you for closing remarks.

John Cassaday: Well thank you operator. Once again, everyone who joined the today thanks for your continued interest in Corus. We appreciate it and we look forward to talking to you in the weeks to come. And as we always say, if there are any follow-up questions, please feel free to give us a call directly. 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.

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