CORUS ENTERTAINMENTS

Moderator: John Cassaday
October 25, 2012
12:00 pm CT

Operator: Ladies and gentlemen thank you for standing by. Welcome to the Corus Entertainments Q4 and Year-End Analyst and Investor conference 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 today, Thursday, October 25, 2012.

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

John Cassaday: Thank you, operator. Good afternoon everyone. I'm John Cassaday, and welcome to Corus Entertainment's Fiscal 2012 Fourth Quarter and Year-End Report and Analyst call, and again 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, www.CorusEnt.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 on SEDAR.

Now, we would like to introduce you to the Corus Entertainment team joining us on the call today. First of all, Tom Peddie, Executive Vice President and Chief Financial Officer. Also, Doug Murphy, Executive Vice President and President of our Television Division, and finally Chris Pandoff, Executive Vice President and President of our Radio Division.

Turing to Slide 3 of the PowerPoint presentation, consolidated revenues for the fourth quarter were down 2%, compared to prior year, due in large part to the impact of the Olympics. Revenues for the full year were $842.3 million, up 2% from a year ago.

We are very pleased with our performance for fiscal 2012. Given the uncertain economic environment, this was one of the most challenging years in our history. We faced a downturn in key children's advertising categories. As well, on the expense side, we saw an escalation in programming cost, resulting from new channel launches, and required spending under our conditions of license. Despite these challenges, Corus continued to grow in fiscal 2012 and made gains on virtually every front.

So, what did we accomplish? We delivered in revenue growth, earnings grown, net income growth, and record key - free cash flow up 15% for the fiscal year. We also increased our dividend by 10%, and along with share buybacks we returned $103 million to shareholders, up 53% versus the prior year.

Turning to Slide 4, we delivered very strong segment profit growth of 8% in the fourth quarter. We did not achieve our annual segment profit guidance, but we did grow EBITDA to $290 million, up 1% from the prior year. This shortfall was due primarily to the previous discussed - previously discussed challenges in the children's advertising market.

Turning to Slide 5 and a review of fiscal 2012 results from continuing operations, as mentioned earlier, we had record-breaking free cash flow of $155 million, which represents a 15% increase from the prior year. Our net income attributable to shareholders for the year was $148.7 million, up 10% compared to the prior year. On an adjusted basis, earnings per share, which excluded the impact of a $6.8 million non-cash tax expense, related to an increase in the Ontario long-term tax rate, were up 8%to $1.87 per share, compared to $173 per share in the prior year.

Once again, we did a great job in managing our costs in the quarter, and over the course of the entire year, achieving excellent margins in both our television and radio division. Consolidated segment profit margins were up almost 300 basis points for the quarter, with margins finishing the year at 40% and 30% for television and radio respectively.

We also delivered strong returns to our shareholders through a combination of share repurchases and dividend growth. We repurchased more than one million Class B Shares and increased our monthly dividend rate by 10% during the fiscal.

In our radio division, a softer ad market impacted total revenues and segment profit, which were down 2% and 3% respectively for the year. Most of the revenue decline was in the first quarter of the year with the remainder of the year stabilizing. With our stringent focus on cost controls, radio achieved modest segment profit growth of 1% in Q4, and an overall full-year margin of 30% for the second year in a row. This, as you will recall, was an important objective of ours for quite some time.

Even though television was operating in a challenging children's ad environment, the division increased revenues by 3% for the year. The outstanding performance of Beyblade contributed to the division's success. While segment profit was flat year-over-year, we were very pleased to see strong specialty advertising revenue and segment profit gains of 7% in the fourth quarter. The division achieved, as I mentioned before, outstanding operating margins of 40% for the year, which we really consider to be an excellent result.

Advertising growth in Q4 was fueled by our strong women's portfolio led by the W Network, which was buoyed by ratings as a result of its appealing slate of original program hits in back-to-back weekend movie programming blocks. Subscriber revenue for television was down less than 1% from prior year, primarily due to a modest decrease in Pay TV subscriptions of the prior year. We were, however, encouraged to see a lift in pay subscriptions in the fourth quarter, the first time in four years that we have seen an increase from Q3 to Q4 in the pay business.

The growth was due to a combination of factors; signs of traction from an aggressive retention and acquisition campaign; the strength of our first run movies and premium original content; and the successful deployment of an HD On Demand Offering. We would also highlight the availability of Movie Central and HBO in high definition as a new offering and a significant product improvement for our subscribers in Western Canada.

We are generating success by continuing to work with our distribution partners to deploy TV Everywhere offerings that reinforce the exceptional value proposition of Pay TV. A Movie Central app, which was recently launched as part of Shaw (goes) offering, is being well received. We are currently in discussions with other distribution partners to roll our more premium content. Enabling consumers to take advantage of new forms of non-linear distribution to access our content remains a key strategy to drive ongoing growth for the pay business.

To ensure that we deliver on future growth opportunities, television continues to build on its strength on a preeminent brand steward in three strategic verticals; women, kids, and family. As part of that strategy, in the spring we expanded our family vertical with the successful launch of our new offering, ABC Spark. In the summer, TELETOON also introduced another highly desirable service, the Cartoon Network into the Canadian marketplace. On the international kids business front, our merchandising, distribution, and other businesses continued to grow up an impressive 21% for the year, driven, of course, by the phenomenal success of Beyblade.

Fiscal 2012 has demonstrated that television continues to benefit from its diversified portfolio of businesses. Our differentiated, but complimentary specialty television services, combined with our successful production, distribution, and merchandising portfolio and an expanding international kids business have positioned us well to leverage growth opportunities both domestically and internationally.

Finally, on the corporate development front we continued to make opportunistic investments. Along with our partner, NBC Universal, we increased our equity stake in the international kids' broadcaster, KidsCo. We acquired the remaining 50% of the Montreal-based digital content and animation software, Toon Boom, which this month was awarded a Prime Time Engineering Emmy for Innovative Engineering Developments that materially affect the television medium. And we invested in Fingerprint, an emerging leader in children's mobile apps.

In summary, despite a challenging global economy, we achieved year-over-year growth, maintained discipline cost controls to deliver strong margins and free cash flows, introduced new specialty television services, which complement our portfolio, and pursued new venture opportunities to further our growth objectives.

Now, we would like to provide you with some comments on our outlook for Q1.

Turing to Slide 6, it appears that 2013 will be another challenging year, given the current economic uncertainty. Generally, the advertising market is continuing to spend, but is making shorter-term commitments. In this environment we believe that we are positioned well to respond to the new challenges and the opportunities that lie ahead. We will continue to maintain a disciplined approach to managing our costs. Salaries, for example, have been frozen for our senior level employees, and all cost center budgets have been held flat to prior year. We do plan to make strategic investments in our leading brands, while maintaining excellent margins to drive growth in the coming year.

For radio, our Q1 revenues are pacing ahead of last year, led by growth in the West. We are also starting to see recovery in the Ontario market, and are forecasting revenue growth in the low single-digits for the radio division in the first quarter. Core retail businesses continue to be strong for radio. Categories that are tracking well in Q1 and leading the spending include automotive, telecom, entertainment, and professional services.

We are also seeing emerging business strength from the financial services category, including insurance, wealth management, and retail banking. From a ratings perspective many of our major markets are performing well. Toronto remains strong. In the west, Calgary has returned to a position of strength in its adult demos, and we are seeing ongoing growth in the Vancouver market.

Moving to television, in Q1 we expect our specialty services will continue to generate growth and anticipate low single-digit advertising increases, led by our women's portfolio. While we anticipate continued softness in kids advertising, we expect our co-view audience to be a business driver. Our women's portfolio with its uniquely defined channels will see continued upside in Q1 fueled by strong demand for the women's demographic. Ongoing ratings momentum on W Network and further audience gains for Cosmo TV and the Oprah Winfrey Network.

W will benefit from Canadian rating performers, including Undercover Boss Canada, Property Brothers, and Love It or List It. And from new series spinoffs in Q2, Love It or List Vancouver, Co-Hosted by Canada's Bachelorette, Jillian Harris, and the Property Brothers follows up Buying and Selling, in addition to our popular weekend movie blocks. We also anticipate growth from the Oprah Winfrey Network, which continues to gain traction. As Oprah said recently, “We have made the pivot.”

More Oprah hosted prime time programming has successfully boosted ratings with shows like Oprah’s Next Chapter, which features a series of exclusive interviews with high profile guests, including Lady Gaga, Kim Kardashian, Stephen Colbert, Usher, and Rhianna. This November, for the first time in two years, Oprah’s Favorite Things returns to television with a two-hour special event in which Oprah reveals her must haves for the holiday season.

Canadian viewers get the chance to win Oprah’s favorite things as part of a Watch and Win Sweepstake campaign. With more Oprah on the network more of the time, in addition to a roster of impressive guests, this channel is generating interest, excitement, and tune in.

In our pay business, we saw a subscriber lift in Q4, which is very encouraging, as traditionally we see slippage during the summer period. This is a promising sign of the services growth potential. Last month HBO programming received a total 24 Emmy Awards, a testament to the ongoing quality and impact of HBO’s original programming. This fall and winter we expect further gains in response to the launch of an exceptional line up of must see critically acclaimed original dramatic series, including new seasons of HBO’s provocative hit series, Girls, the highly anticipated return of Game of Thrones, and Season 2 of Aaron Sorkin’s, The Newsroom, among others.

In addition to this impressive programming lineup, a substantial acquisition and retention campaign launches this month in support of the rollout of a free preview of the service, and of our distribution partners TV Everywhere initiatives. Across all of our networks, we will deploy more on demand content as part of our ongoing efforts to drive revenue growth, providing customers with great content available on multiple formats.

In the kids and family vertical, we will continue to build our co-view audiences and expect ratings gains on YTV with new episodes of the hit series, iCarly, the Canadian rating driver, Zoned, Mr. Young, and Nelvana's Life With Boys, and the continued strength of our movie blocks aimed at family viewing.

In addition, YTV has announced a series of new one-to-on specials this fall and winter, built on the pop cultural appeal of live performances and one-on-one interviews featuring chart-topping musical acts like Katie Perry, and British boy band phenomena, One Direction. These specials have proven to be a huge success for our channel. This month's guests include Taylor Swift, Victoria Justice, and the Australian singing sensation, Cody Simpson.

ABC Spark also represents a critical part of our strategy to bolster our competitive position and accelerate growth. With access to outstanding and exclusive programming from ABC Family in the United States, the network is already delivering on ratings and advertising. We expect further growth as the service gains wider carriage and generates increased audiences in response to its winning lineup of hit series.

In fiscal 2013, one of our keys strategic focuses is developing other revenue streams to drive growth. We will work with our partners to deploy new products into the marketplace that enable customers, consumers rather to access our content whenever they are - wherever they are. Globally, the value of kids digital on demand content is growing exponentially, and as a leading and respected content creator in the kid's space it has become a critical support - source of revenue growth for our business.

In Q1, and throughout the year, we will be introducing more non-linear content into domestic and international markets. In our international merchandising, distribution, and production businesses, we expect revenues to continue to contribute to our kids' vertical, as our Nelvana Enterprises team establishes new partnerships and deals around the world. Earlier this month at Mitcom, an industry trade show, we announced the major content acquisition and representation deal with China' Ciwen Media Group.

This deal grants Ciwen distribution rights to over 1000 half hours of animated and live action Nelvana programming, as well as merchandise rights to a number of our properties, including Franklin. This is likely one of the largest kid's media deals for Western Properties ever concluded in China. Nelvana continues to excel in producing high quality content that is driving audiences both at home and abroad.

We're making excellent progress in placing our new slate of shows with Nelvana's programming prominent on all three major kid's broadcasters in the United States, as well as on leading kid broadcasters around the world. Among our recent deals is the slate of our CG animated breakthrough hit, Mike the Knight, to Discover Kid's Latin America, which is set to air it in Spanish and Portuguese in the coming months. On the merchandising front, a full global program for Mike the Knights from Mater Toy Partner, Fisher Price, will be underway in the spring.

In addition, we expect Beyblade will continue to be a strong performer for us. The brand is maturing, so revenues may not match the outstanding results achieved in fiscal '12. But Beyblade, which has sole a remarkable 150 million toys to-date worldwide, will continue to play a key role in our merchandising business. To support the brand, we have a number of initiatives in place, including a new Beyblade series, which launched this fall, and new Beywheelz toy line debuting in time for the holiday seasons. In the U.S. market, Beyblade toys are included in Walmart's, Toys"R"Us, and Targets top toys for the holiday lists.

For one of our classic brands, Babar, we are launching some exciting new initiatives with upscale retailers, including a program with luxury retailer Saks Fifth Avenue. A Babar boutique will be featured in their New York City flagship store, along with 21 other Saks locations across the country. The value of Nelvana, its deep library of content available in multiple languages and formats, coupled with our international partnership, KidsCo, represent a significant opportunity for us to leverage our digital content and exploit these assets to expand our kids' brands globally, and generate new revenue streams for the company.

In summary, we are well positioned for the year, and while there is limited visibility we are seeing signs of a returning advertising market going in to the holiday season. We expect to benefit this year from several Provincial Elections, and the absence of the Olympics. We will continue to pursue growth opportunities by optimizing the value of our established services, and we are excited about the potential of our newest entries, ABC Spark, and Cartoon network.

Domestically, we are posted for opportunistic investments and tuck-ins. Internationally, our broadcast, merchandise, and distribution business is ready to take advantage of the growing demand for media in the digital space, and we are also optimistic about those opportunities that lie ahead.

We hope that you have found the comments on our outlook helpful. Before we turn the call over to you for questions, we'd like to confirm with you that our Investor Day will take place on Thursday, November 29.

We will now take any questions that you may have, and operator, I'll turn the call back over to you.

Operator: Thank you. Ladies and gentlemen if you'd like to register for 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 registration, please pres the 1 followed by the 3. If you're using a speakerphone, please lift your handset before entering your request. Once again ladies and gentlemen to register for a question or a comment, please press the 1 followed by the 4 on your telephone.

Our first question comes from the line of Adam Shine from National Bank Financial. Please proceed.

Adam Shine: Thanks a lot. Good afternoon. Obviously we're going to get a lot more color, in terms of the outlook for '13 next month, but maybe John, or Doug even, can you talk to sort of the early trend in Other in Nelvana distribution merchandising, as it relates to a very, I guess, tough comp continuing into Q1, let alone Q2? I mean, should we assume, John, and maybe this might be incorrect, but similar sort of decline in the Q1 for the Other line? Maybe we can just start there.

John Cassaday: Well, it's very difficult to anticipate precisely were that's going to net out, because of course it's highly dependent on Beyblade. Some of you who monitor Hasbro's performance will note that they made a comment yesterday that they expect Beyblade to continue to perform well this year. In fact, they reported that they expect it to return to performs better than expectation. But, I think as we've indicated on a couple of occasions recently, we do expect there to be some falloff in that brand as it matures.

Doug Murphy: I'd just add to that that the other categories have got a lot of different businesses in there. There's some asset distribution from program licensed sales, there's home video, there's digital, there's publishing. So just to add, where we are seeing some nice year-over-year growth is in the digital video licensing opportunities. We just got back from the Mitcom market, as John alluded to in his opening comments, and the - there's great opportunity for us to monetize some big new players in that space and take advantage of our library of well-known brands in multiple languages.

Adam Shine: You know, I'll queue up again, but maybe do - one of the obvious questions on the call today is, you know as it relates to Astral lens, you know to a theoretical degree, if and when Bell extricates itself in the - you know the current appeals process. John, are there are any particular assets that obviously come to mind?

And, you know I guess just a s qualifier there, you know given the nature of how hard the CRTC came down on Bell, I think Nelligan sort of - the Shaw family ownership of both Corus and Shaw, is it ultimately really just TELETOON that might be most easily slotted into your mix and maybe you'd be precluded from, you know a family or even an actual paid TV acquisition? Or maybe you can just talk to your thoughts?

John Cassaday: Well, Adam, as you've suggested, Bell - you know Astral is locked up with Bell until some point in January. I think around January 15. So, I think as a result of that we would really not comment on any specific areas of interest. It’s their asset until such time as it’s not, and I’d just leave it that.

Adam Shine: Okay, thanks a lot.

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

Paul Steep: Great. Thanks. John, maybe to take the question in a different direction, rather than go just at the Astral situation, with free cash flowing continuing to build this year, where do you see the priorities lying as we head into 2013 for where you’re going to deploy free cash? And should we think more about M&A maybe on an international basis outside of the core traditional businesses?

John Cassaday: Well, we will, as a priority, continue to focus on our dividend and share buyback, but we will also, as I said in my opening remarks, be open to opportunistic areas that can enhance our business. Clearly, we keep - we continue to talk about the outstanding international growth opportunities we have in kids, and that’s an area that we continue to focus on. We think there is significant opportunity as new forms of content emerge for kids in different formats and applications. Fingerprint is just one example of the kind of thing that we think we can do to continue to grow that business.

Paul Steep: Okay...

John Cassaday: But, the primary focus will continue to be on expanding our dividend and on our share buybacks, but we feel we are in a good position financially to take advantage of other opportunities as they arise.

Paul Steep: Great. And I guess then the second from me, and then I'll pass the line, is just more to Doug or to you, John, on the HBO equivalent that you launched, or Shaw launched, any sort of details you can give us, in terms of, you know sort of rough customer adoption so far? And then, maybe for the November 29 day do we have any data around, you know how much of the - your day - your information or your content's been made available non-linear at this point domestically I think that'd be interesting.

Thanks.

John Cassaday: Certainly by the 29th we will have more color to provide for you. But as you all know, we've been very much advocates of the TV Everywhere approach. We believe that the single biggest thing that we can do, beyond continuing to provide outstanding content to your subscribers, is to make that content available to them in non-linear forms on multiple platforms. Once our subscriber has paid for that content we always have believed that making it available to them whenever they wanted, wherever they wanted was key to that value proposition.

So, we're thrilled that we're moving out on that front, and our expectation is that as we expand this offering with other distributions we just increased the stickiness of that content. And if we can reduce our churn and continue through great programming and acquisition events, such as we've been doing in the past, we're firm believers that we can continue to grow the pay business.

Doug Murphy: Okay and I'll just build on that. Paul, Doug here. We believe that pay is a growth business; we're delighted, and pleased to see that we grew Q4 over Q3, which I would suggest to those on the line as a pivotal point in time for the pay business. We've been very consistent in saying that we were lacking

HD (S FUD). That's now ruled out. We know we've got great content and continue to have shows that are breaking records, such as Boardwalk Empire, the new season, and others. And the acquisition and the retention campaigns employed, so far this year have been extremely successful.

So, when you look at sort of that triad of, you know great content, great acquisition campaigns, HD (S FUD), and TV Everywhere now being deployed aggressively, we think there's a good story coming out pay in the coming quarters.

Paul Steep: Great. Thanks, guys.

Operator: Our next question comes from the line of Bob Beck from CIBC. Please proceed.

Bob Beck: Thanks. Good afternoon. I just have a follow-up on a couple of the comments/questions from before. First, on the merchandising side, John or Doug, can you give us a bit of an update again on whether variable versus fixed component is here? Just trying to gauge, you know? And I know the revenue side is tough to ballpark here, but you know can you give us a bit of a sense on the cost side just so we can sort of keep in front of this on the EBITDA flow through? I think at one point you talked about sort of 40% fixed, is that correct...

John Cassaday: (No)...

Bob Beck: ...and...

John Cassaday: Yeah, as rule of thumb, I think that's fair. I think we've - I've also said in the past that every deal is like a snowflake and they're all different in the margin...

Bob Beck: Yeah, that's right.

John Cassaday: ...model. And I'd reiterate that metaphor.

Bob Beck: Okay.

John Cassaday: So - but as a general rule of thumb, I think that's a reasonable assumption to use.

Bob Beck: And I don't mean to press you guys too much here, but you did kind of jump around Adam's questions as to whether this is up or down or likely (forward). I mean, is there any - granted, given it makes such a big difference on the quarter in these last couple of quarters, is there anything more you can do to give us sort of on directional? I mean, you know rather than - short of giving us actual guidance, which I'm not asking for.

John Cassaday: Generally speaking, our tendency would - and our plans is is it going to be a little bit down. Here's one where I think we're planning for the worst and hoping for the best.

Bob Beck: Okay.

John Cassaday: Ultimately, it just depends on what the consumer tick up is of Beyblade. And as Doug said, we've got lots of other arrows in our quiver. We're out there selling our digital content, our broadcast sales are good, our shows are performing well. One of the things that's really helping us internationally is our ability to actually do what we said we'd do. This is a highly fragmented environment that we're in for kids' producers, and the fact that Corus has the strength of its networks and the support of the Canadian subsidy system is really comforting to partners like Mattel, Hasbro, Spin Master, and broadcast partners around the world.

So, we're really uniquely positioned to take advantage of growth opportunities. But again, just to underscore the point, because Beyblade was such a big success, it has come to represent a significant part of it, and our expectations is, like all good things, this thing will come off the boil a little bit. But again, just want to reinforce that we are 100% behind it with new episodes of content. Our partners, Hasbro, are 100% behind it. Again, they've talked in their recent calls about this quote being an Evergreen property, and most recently they talked about the fact that it was exceeding expectations.

So Bob, we really don't know, but we certainly would not want to give you the impression that we're projecting the same kind of trajectory we had at this time last year, because we don't...

((Crosstalk))

Doug Murphy: And I'd just - basically I can build on that a little bit. We - what we can tell you is that vis-à-vis the average (unintelligible) action hit, and certainly in comparison to the first pass some years ago, our forecast is much more bullish than it would have been otherwise.

And the reason why is that because we've worked closely with Hasbro and our Japanese partners to create product innovation. We have in market now, a line called Beywheelz, for example, and we've built new animated episodic content in and around that line to sustain the property, both at broadcast and at retail. And we're continuing to have a lot of encouraging and exciting conversations with Hasbro about further product innovation that we can bring to this brand in the future.

So as John said, this is not going to be an up and a down kind of a thing, it's going to be a - much longer sustained than we have seen in the past, but last year was a phenomenal year. So, we're - obviously we're managing - are communicating to TheStreet accordingly.

Bob Beck: That's good commentary. Thank you for that. Just a follow-up - actually it's not a follow-up, it's a new question. I just saw something there about the Oprah Network Hearing Request. I guess the CRTC requested a hearing from the network. Is there anything to comment on on that? Is there anything at all?

John Cassaday: They have asked us to appear. We're hoping that we can resolve this with them prior to that. But as it relates to planning, we're extremely confident that there will be no impact to our ability to deliver Oprah to its audience across the country.

Thank you for the question though, because we are really excited about the momentum that now exists on Oprah. And Doug, maybe you can just give everyone a little bit of flavor for what's going on on that brand that we have so much hope for going forward?

Doug Murphy: Thank you, John. No, OWN, in its second year is doing phenomenally well. We are showing ratings growth, at least most recently as quarter-to-date, north of 40% in the ratings files. So, we've really got some traction here. And what's really encouraging, obviously is when Oprah's on the air, but some of the other new episodes that are without Oprah are driving audiences as well.

So, we always had the view that this network could be as big someday as W is today, and we think that we have momentum now to start achieving some of those results.

Bob Beck: That's great. Thanks very much. I'll leave it there for others.

Operator: Our next question comes from the line of David McFadden from Cormark Securities. Please proceed.

David McFadden: Yeah, a couple of questions. So first of all, just for Tom, what do you think the CapEx is going to be for 2013? I thought this year it was going to be around 15, but it looks - you know obviously it was a bit higher than that. Can you give us an update on that?

Tom Peddie: David, it's Tom. We've been pretty consistent that we think that our CapEx number will be in the 15 range for the next couple of years. And the - we had some additional expenses this year in Q4 that we hadn't really counted on, but I think the run rate would be in the 15.

David McFadden: Okay. So, given your level of free cash flow and where the dividend sits right now, I mean free cash flow's obviously grown a lot faster than your earnings, would you contemplate maybe moving the dividend up to something like 50% of free cash flow?

Tom Peddie: Well, we've been - our dividend payout has been in the 50% to 60% range. And as John said, you know our focus is on returning value to our shareholders. And as you know, we have a normal course issuer bid in place, and so what we need to do is to strike a balance between returning value in the form of share buybacks and dividends, and dividends are very important to our shareholders. We have yield in excess of 4%, so that - we'll assess that as we look at our other strategic alternatives.

David McFadden: Okay. And then just lastly on OWN, you said the ratings are up 40% recently, can you give us an idea of what the revenue and EBITDA growth was for that network in fiscal 2012?

Doug Murphy: David, it's Doug. I know you're a big fan of the network, so thanks for your viewership. We've always said that sort of - so audience leads revenues. So, at this point in time we don't break out that vertical P&L per se. I think you can look in (general letter) comments on the women's vertical and the growth we're expecting in the first quarter to sort of include the strong results of OWN.

David McFadden: Okay.

John Cassaday: The other thing we can say, just from a systemic point of view, if you look at what the sort of history of this has been, we were able to acquire a CLT, a service that was not delivering any value to viewers or advertisers. Essentially, rating were hash marks and we took that service and added significant value and spent significant amounts of money, in terms of Cancon and other to build that to the point that it was a legitimate ratings driver, and then added on top of that the Oprah content.

And I think that we've been rewarded every step of the way. We had obviously great increases in revenue on Viva over CLT, and we're also seeing the same kind of increases in Oprah over Viva, which again just proves the point Doug made is if you can satisfy Canadian viewers with great content it's going to - you're going to get rewarded with additional ad revenue.

David McFadden: Okay, that's it for me. Thanks.

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

Aravinda Galappatthige: Thanks very much for taking my questions. A couple from me. First of all on Nelvana, can you talk a little bit about the progress that you've made this year, in terms of building your digital sales at Nelvana? I know that you mentioned last year that you're growing at about 50%. The number was lower. I think it was about $3 million, but you're having good growth. I was wondering if you can provide us an update on that, as well as the traction that you're getting selling to the new OTT platforms.

John Cassaday: Thank you for the question. We expect significant growth this year. You know, I would say that growth trend should continue. It's an exciting time to have a library with the quality of the animation product that we have in the many versions of languages that we do have.

We set a specific objective in going to the market a few weeks back to have a whole target list of digital OTT players. These range from the usual larger suspects like, you know Netflix, Hulu, and the others, but it also got right down into regional opportunities from telcos and cable distributors, aggregators, U.K. version of Netflix, like LOVEFiLM. The list goes on and on and on. And it's come back with a substantial shopping list and a follow-up list that to me speaks to the - ongoing opportunities in this area.

So, I think that growth profile is probably a fair assumption to use, in terms of what will happen this year. And we have also just recently reorganized here, in terms of resources, to dedicate folks both domestically and internationally to take advantage of the opportunities in this space. So, we have identified it as a critical growth area for our Nelvana library, and expect to deliver ongoing growth in the results in the coming quarters.

Aravinda Galappatthige: Thanks for that. And then, with respect to pay TV I know that there's been a fair bit of speculation about HBO potentially going directly - direct to the consumer with their HBO Go product in the U.S. I know that you have them tied up until 2018, I just wanted to clarify, I mean is it fair to say that there's absolutely no route for them in Canada to sort of follow that path?

John Cassaday: Well, first of all, I'm not sure I agree with your assessment that they're looking to go direct to the consumer in the United States. I know they did that in a Scandinavian market where they didn't have a vested interest in maintaining the status quo from a distribution point of view. But, every remark we've ever seen from them is that they continue to be deeply committed to maintaining the current ecosystem and supporting their distribution partners by making that content available that people pay for available to them on multiple platforms, you know anywhere they want to see it.

So I personally, first of all, would take exception to this, you know change in thinking that you're talking, I just don't think that's the case. And as it relates to Canada, certainly we don't believe there is any thought whatsoever, or any opportunity within our agreement to do that. We have a great relationship with them and continue to be great brand stewards of both the HBO brand name itself and the content that they provide us. We're very proud of the relationship, and from everything we know they're extremely pleased with the relationship that they have with us.

Aravinda Galappatthige: Thanks, John. I'll leave it there.

Operator: Our next question comes from the line of (Mike Elkins) from TD Securities. Please proceed.

(Mike Elkins): Yeah, hi. Good afternoon. I - so content...

John Cassaday: Hi.

(Mike Elkins): ...amortization was - it was somewhat encouraging this quarter. Can you just talk, maybe in general terms, about the market for content in general, and then maybe more specifically how you expect content costs to trend for Corus in 2013?

John Cassaday: Well, we're very, very focused on essentially controlling our content costs. When you think about content costs, of course you've got to think about it in really three separate buckets. The first is our kids' content, and that is by and large locked into long-term relationships with Cartoon Network and Nickelodeon. Cartoon Network for TELETOON and Nickelodeon for YTV and Treehouse. So, those deals are quite predictable in terms of the costing and pricing, if you would, on that part of our bucket.

The second piece is the women-oriented assets, and the programs that we buy there are, again largely aftermarket products, except for that which we produce domestically. But, we're essentially buying strip programming and formatic programming off the U.S., and not competing with CTV and Global and City for first run U.S. shows. So again, our costs are relatively controlled there.

And then, in the case of Movie Central and HBO, these are the subject of generally three to five, or in the case of HBO, longer-term deals with the studios. And inflation there has been manageable. We have had, as you're aware, some escalation in costs as a result of the impact of Netflix in that particular window, but we feel real good. As you point out, (Mike), we were able to control our costs nicely in the fourth quarter, and we expect that you'll see similar patterns in the rest of the year.

Having said that, we also know the programming's the engine that drives ratings, and if we see a great show that has the opportunity to really bump our ratings up on a particular network, we'll look at that. But, we do know that controlling this particular expense, which is one of our major expense items, second only to payroll, is a key element in our success.

Doug Murphy: I might just add to that. And (Mike), welcome by the way, it's Doug here, That we also apply the same diligence to the content amortization class on our Nelvana programming investment side of the equation. So, we have continually built our margin on the Nelvana Film asset sales over the years by being extremely diligent, in terms of managing our costs to our (unintelligible) in Toronto, but also through the increasingly effective and widespread use of co-production treaties with various other countries and partners around the world.

This is a model that has worked extremely well for Mike the Knight, for example. Originally it was a U.K./Canada co-pro with Hit, and that show is looking like it's going to be a long-term success for us, both on broadcast and with merchandise and Fisher Price. So, one of the mandates of the group in the last market was to go to Europe and come back with a list of preferred co-production partners in the ten major markets we operate I to look at finding new ways to both keep our costs down, but also find new IP to exploit in this global marketplace.

(Mike Elkins): That's very helpful. Thanks for the answers there. And just one more, similar to OWN, Nick in the States has spent a lot money on their content for this fall. I - have you seen a - you know a similar or, you know directionally similar trend on your Nick content in Canada?

John Cassaday: Which (unintelligible) did you refer to? (Unintelligible). Yeah, no, the trend's up. I mean, there's a lot of (pay press) about trends in Nick. And we are seeing and continuing to believe that Nickelodeon content will return to its stellar perch it had in the past. We work very closely with our partners down on Broadway. They are doubling their investment in the Nickelodeon branded content, and we are optimistic and beginning to see some signs of traction on the ratings. Certainly in YTV we've been seeing some nice growth on our afterschool business, and also in early evening, principally leveraging some of the strategies we've - we're working with on Nickelodeon.

(Mike Elkins): That's great. Thanks very much.

Operator: Ladies and gentlemen as a reminder to register for a question or a comment, please press the 1 followed by the 4 on your telephone.

Our next question comes from the line of Haran Posner from RBC Capital Markets. Please proceed.

Haran Posner: Yeah, thanks very much. Good afternoon. Maybe just stepping back on television margin, specifically with all the moving parts on both content and merchandising, I guess a question for John or Doug, when you look at your 40% EBITDA margin in TV in 2012, how comfortable are you that you can sustain that against next year?

John Cassaday: Well, again, welcome Haran. This 40% number is one that we're really proud of. We do expect that there will be continued program inflation. We've talked about that in the answer to a previous question. It depends entirely on our ability to generate ad growth.

And at this point in time we're, you know confident and optimistic that we can continue to grow our advertising base, but our ability to maintain that margin is 100% dependent on; A, a return to some solid kids ad growth, which we expect will happen, but we're still waiting to see, and continued growth on the women's side of our business. Also, I would add this continued momentum that we saw in Q4 on the pay business.

Doug Murphy: Haran, this is Doug. Just to comment a little further. I mean, one of the - we've been pretty consistent over the years saying that, you know we think that margin rate in TV has been around 35 and 40. We've over-delivered on that range now for three years in a row. One of the nice things about the television division is that it's a portfolio of businesses that we can go to different pockets to find revenues and earnings when needed.

And so, it's very hard for us to kind of forecast where we're going to end up. Certain businesses, for example, I was speaking earlier to the opportunities that we see in the digital video business. If we're licensing a big bucket of, you know older content, that's going to be, you know a 70%, 80% margin. Some licensing opportunities we have are, you know 70%, 80% margin. And yet we have other businesses in our publishing side, which is you know considerably lower.
So it's a noisy number, but you know generally speaking our goal is to stay, you know within that range I described.

Haran Posner: Okay, that's very helpful color. Maybe just one follow-up on OWN, and specifically the upcoming hearing, I guess what I'm curious, John, is whether - do you - are you guys seeing - you're not seeing a risk that OWN loses its Category A designation, or are you saying that even if it did lose it that you're still comfortable with the carriage deals that you have?

John Cassaday: I'm saying the latter. It may not lose its Category A, but we have again been on record as saying that we think that this genre exclusivity of the past is not necessary anymore, that broadcasters should have more freedom to manage their schedules and adjust their brands to meet the needs of our viewers.

So bottom line is, we think the Oprah Winfrey brand name is incredibly valuable to our distribution partners, incredibly important to our viewers. If anyone underestimates the impact and influence of Oprah, that would be a serious mistake. This is a powerful brand, a powerful proponent of that brand and with Oprah herself, and whether it's Category A or Category B, quite frankly we are indifferent.

Haran Posner: Okay, thanks for that, John. And then, maybe one last one for me, with respect to the local programming improvement fund phase out, for your conventional television channels, I don't expect this to be much of an impact, but wondering if you could quantify that nevertheless.

John Cassaday: It is an impact. We have stations in Oshawa, Peterborough, Kingston, and we have been the beneficiary of that fund. It will be winding down over the last three years. We have taken steps to reduce our costs in those stations to mitigate the impact of that reduction in the local programming fund. And it's unfortunate that we lost it because it was contributing substantially to our ability to delivery outstanding services to those communities. We'll continue to try to do that, but we'll be adjusting our costs accordingly.

And unfortunately, that did result in the layoff of some very loyal and talented people at our stations recently.

Haran Posner: Thanks very much.

Operator: Our next question comes from the line of Colin Moore from Credit Suisse. Please proceed.

Colin Moore: Great, thanks. Thought I might just swing over to radio for a bit, and specifically the Toronto market. I think the CRTC recently issued a license to a new station with an Indi's team, perhaps going after that 18 to 34 category. Just wondering if you think the market's big enough? Obviously, CFNI - CFNY is going after that same market, but has a much stronger brand, just curious any thoughts on there? And maybe more broadly, if you could flush out, it sounds like you're seeing some improvement in Ontario, just out of Toronto and the trends are looking?

Thank you.

Chris Pandoff: Sure. It's Chris. In terms of the new license, no doubt more competition ultimately does a couple things. It brings new money to the medium because they'll have people out selling it for smaller advertisers that would otherwise not be able to afford 102.1 The Edge. And with that, if they're targeting a specific audience they'll actually increase the tuning for 18 to 34, particularly among those people interested in emerging artists.

So, we think that the market at 236 or 237 million is big enough to support that station. The one thing I would add is that their signal is somewhat limited.

The 3-millevolt contour really is bounded by Highway 401, 427, and the Parkway.

In terms of Ontario, you know we've been on the receiving end of some really strong ratings in some of our midsize markets, sort of propping up the overall position, with regard to our revenues in Ontario. Toronto's had a really good run in the ratings in the spring. We're off to a good start in the first four weeks of (PPN) this fall, and the market, in September in particular, was really strong for us.

So, you know the combination of the regional markets and Toronto seems to be showing signs of growth for us; although, the only thing I would say to that is it's hard to project out just how strong it's going to be for the first quarter, beyond maybe the first 1/3 of the year.

Colin Moore: Great. Thank you.

Operator: There are no further questions at this time. I will now turn the call back to Mr. Cassaday. Please go ahead.

John Cassaday: Thank you, operator. Thank you for your continued interest in Corus. Again, just to reinforce the positive aspects of our year, really think it's important and notable the return to specialty ad growth in the fourth quarter. I think there were many people wondering whether in fact we were running out of steam on specialty advertising. I think that we proved in the fourth quarter that there's still potential there. I think our ability to maintain our margins in the environment that we were in last year is one that has to be looked at in a very positive life - light.

And then finally, again we know many of Corus's shareholders are with us now, largely because of our dividend and our yield, and their belief that we can sustain it. And I think the free cash flow growth and the level of free cash flow that we generated should provide a comfort to all of our listeners on this call today, in terms of our ability to continue to deliver excellent yields for those that have invested in our company.

So, we thank you very much for your interest and your questions today, and we look forward to seeing you all at our Investor Day in late November.

Bye for now.

Operator: Ladies and gentlemen that does conclude the conference call for today. We'd like to thank you for your participation and ask that you please disconnect your lines.

Thank you have a great day, everyone.

END