

The Full Story on Magazine Circulation Vitality



Recent press accounts focused on the decline in newsstand sales in the preliminary release of ABC Fas-Fax data for the first six months of 2009, yet newsstand is a small slice (about 12%) of the circulation pie.

A look at the big picture tells a very different—and more positive—story for magazines:

- **Subscriptions are up over the same period last year**
- **Newsstand sales increased in May through July compared to the first four months of the year**
- **Total circulation is stable (down only 1%) with subscription gains offsetting newsstand declines in a tough economy and despite an unusual disruption of distribution**
- **Circulation executives are capitalizing on new technology options to market subscriptions differently and more efficiently**
- **Magazine readership continues to grow**

Magazines have recognized the importance of adapting to changing retail conditions and are employing new distribution tactics, as evidenced in the recent uptick in newsstand sales. In addition, circulators are relying less on newsstand as a distribution channel, given fundamental changes in consumer shopping behavior.

Adapting To a Different Retail Environment

Newsstand sales for the first half of 2009 reflected the impact of multiple factors:

- The economic downturn, which reinforced longer-term trends in how consumers shop
- A one-time difficult, but necessary, change in how magazines are distributed

Understanding Consumer Shopping Shifts

Consumer shopping habits have been changing in recent years, and this pattern accelerated with the advent of the recession. Almost all retail products, including magazines, have been affected by three trends:

- Nielsen data show annual shopping trips per household across all outlets are down about 10% over a seven-year period
- Looking at shopping trips by retail channel, Nielsen data indicate a movement away from grocery shopping to supercenters, dollar and warehouse stores. Supermarkets remain the top outlet for magazine newsstand sales, so fewer visits to supermarkets may translate to fewer opportunities to buy magazines

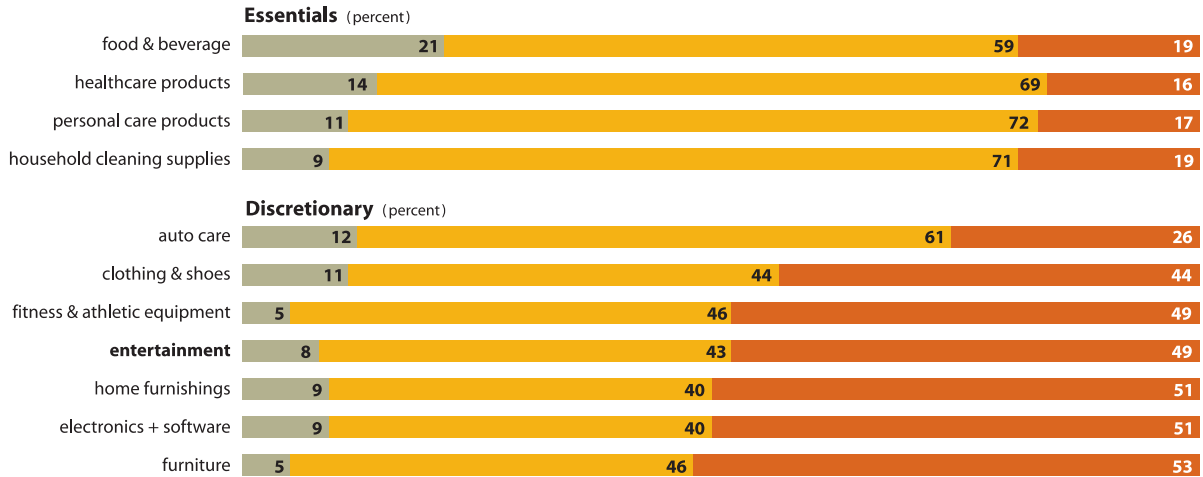


- Consumers have demonstrated a greater sensitivity to spending, especially for discretionary purchases. Information Resources, Inc. (IRI) shows spending decreased sharply for almost all discretionary purchase categories, including entertainment, which encompasses magazines

The Affordability Impact — Spending Changes

During the last 6 months have you changed the amount that you are spending on the following categories? (% of Shoppers – Spending Changes)

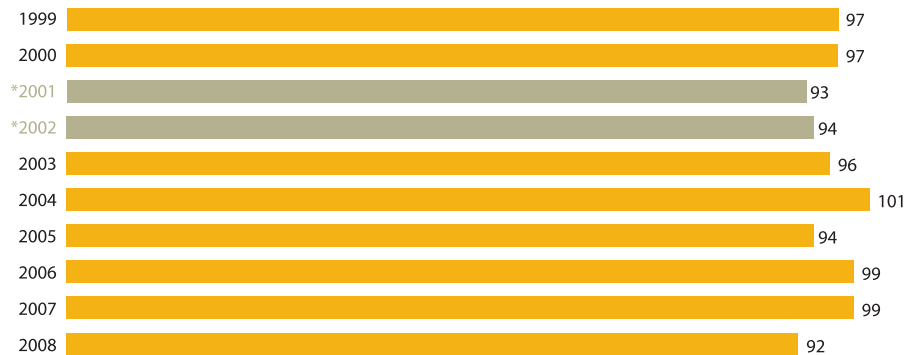
■ increased ■ same ■ decreased



Source: Information Resources, Inc., 2008

The decline in newsstand sales during an economic downturn has precedence. For example, data show that during the last recession there was also a significant drop-off in newsstand sales, which declined -7% between 2000 and 2001 and then -6% between 2001 and 2002. This period marked the only two-year consecutive decline of more than five percent in the last decade.

A 10-Year Trend in Newsstand Sales (Index vs. Previous Year)



* Indicates recession year

Source: Averages calculated by MPA from each year's ABC Publishers Statements 1999 – 2008. Comics, annuals and international editions not included.

Handling an Unusual Disruption

Another factor besides the sagging economy had a dampening effect on first half 2009 single copy sales. The closing of Anderson News, one of four national newsstand distributors, affected the ability of

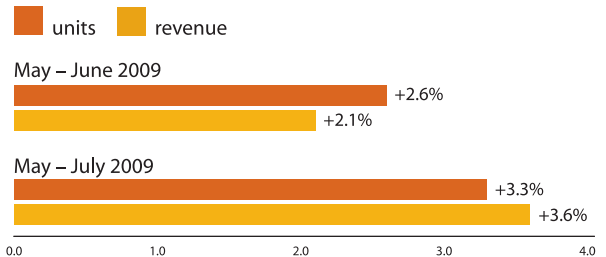
consumers to buy magazines at the newsstand. While magazine distribution may ultimately be stronger as a result, the immediate effect of the closing was a negative impact on newsstand sales for both weeklies (for a period of up to six weeks in late February and March) and monthlies (for one or two issues between February and April).

Moving Forward in Retail

Recent positive indicators may signal a shift in momentum for newsstand. Unit sales and revenue increased late in the first half. May and June newsstand sales rose, up 2.6% in units and 2.1% in revenue compared to the first four months of the year.

In addition, July benefited from the Michael Jackson special issues which accounted for \$55 million in extra newsstand revenue. If you add July to the May-June period, the picture looks even brighter with a 3.3% increase in units and 3.6% rise in revenue compared to the first four months.

Newsstand Sales 2009 (change vs. first 4 months)
May – June and May – July vs. January – April



Source: MagNet, 2009

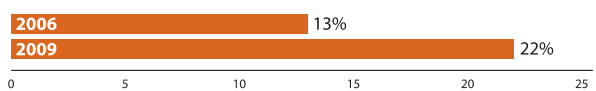
Despite the tough economy and changes to consumer shopping behavior, magazines are still a very important contributor at retail, as illustrated by the following facts:

- Magazines rank in the top ten percent of retail category revenue and generate more than \$4.5 billion annually
- Magazines produce more sales and profits than any other category at checkout
- Magazine profits per unit are higher than any other front-end category including candy, gum, snacks and carbonated beverages. In fact, magazines deliver 35.7% of total checkout profits
- Dollar for dollar, magazines yield more than double the average store true profit margin

Subscriptions Respond to New Technology

As with newsstand, magazine publishers are evolving their “go-to-market” practices for subscription sales. More than one in five subscriptions will be sold online in 2009—up almost 70% versus three years ago—while subscriptions from Amazon.com are forecast to increase 35% this year.

Subscriptions That Originated from the Internet
% of Total Subscriptions 2006 vs. 2009



Source: MPA Surveys of Member Companies

Technology provides magazines with new and efficient ways to encourage subscription growth. Search engine marketing represents a rapidly growing resource for new subscriptions. New subscription options that offer increased flexibility are emerging, such as Maghound, Coverleaf and Zinio.

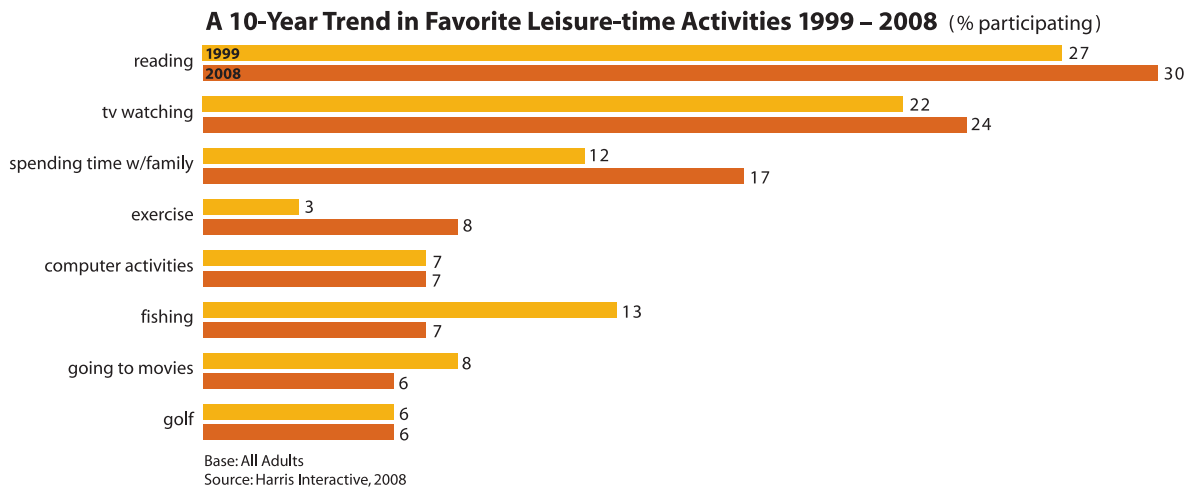
The efficiency of the online channel offers several benefits:

- Magazines are able to sell subscriptions at a lower cost relative to other channels (e.g., agents and direct mail) without sacrificing profitability
- Online sources are not cannibalizing current subscription channels
- From the consumer perspective, online channels make the renewal process easier and quicker to navigate

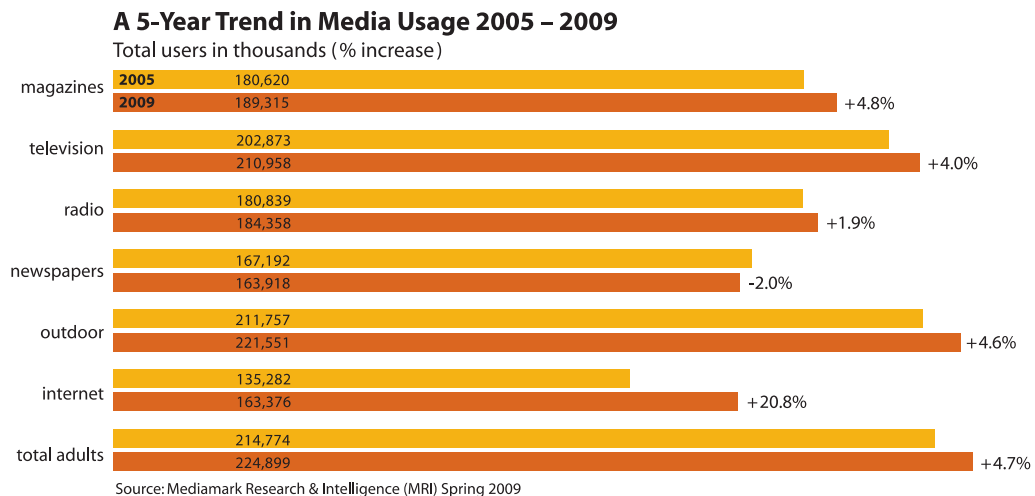
Magazine Readership Continues to Grow

Two statistics on readership bode well for the future of magazine circulation:

- Reading remains the number one leisure activity for American adults



- Magazines are the only medium besides the internet to see total audience increases exceed the growth rate of the total U.S. adult population



Conclusion and Next Steps

Given ongoing changes in consumer shopping behavior and the increased opportunities that emerge with new technology, magazine circulation will continue to evolve as magazine executives shift their strategies to reach consumers. Looking forward, several factors hold promise for magazine circulation:

- E-Readers such as Kindle and Sony E-Reader are gaining fans, plus new products, such as Plastic Logic, iRex and First Paper, are slated for introduction in the next six months
- Applications for mobile phones, netbooks and other portable devices are growing
- Publishers are continuing to explore different business models, ranging from testing various price levels for subscriptions and newsstand copies to examining which rate base levels yield the greatest profits

Looking at the big picture will provide the best insights into the facts about magazine circulation.

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