

## Transcription of Yellow Media's Quarterly Webcast – Third Quarter, November 3, 2011

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### Patrick

(00:01) Good afternoon ladies and gentlemen welcome to Yellow Media Inc's Q3 earnings conference call. Please be advised that this conference is being recorded. I will now turn things over to Mr. Marc Tellier, President and Chief Executive Officer. Please go ahead Mr. Tellier.

### Marc Tellier

(00:17) Thank you Patrick. Good afternoon everyone. Welcome to our third quarter investor call for Yellow Media. Joining me today is Ginette Maillé, our CFO. Before we get started we will remind you that forward looking statements are being made presented to save harbour provisions and all applicable **juries** legislation.

(00:37) This call is being recorded and on November 3<sup>rd</sup> and webcast and all the disclosure documents are available on our website at [ypg.com](http://ypg.com).

(00:44) The last few months have been difficult and although we recognise that these are challenges associated with our business transformation, our confidence in Yellow media's business and strategy remains unchanged. The last time we spoke, on September 28<sup>th</sup>, we announced some key decisions made by our board on our capital structure and our dividend policy, and since then clearly we have been focused on our business transformation while reinforcing our financial foundation. The board, the management team and all of our employees are focused on the execution of our 360 degrees solutions and the strengthening of our operations. We see that our 360 degrees value proposition is being well received by Canadian small and medium enterprises as they continue to be bombarded with overwhelming choices and fragmented offers when it comes to their digital needs. Early indication is that the value our consultative approach and our new broad product and solution sets are offering are being very well received.

(01:49) However, although our digital growth continues to be steady and strong, it is not currently sufficient to offset the continued pressure on our traditional print franchise. We will continue to endeavor to accelerate what we believe will help us succeed in our business transformation. Examples of this, key areas of focus, are the provisioning of new services for our customers. Said differently, we are

very focused on offering a better overall customer experience as part of 360, a renewed commitment to branding and promotion, new partnerships in traffic and distribution to augment leads and to improve our **product** to advertisers as well as improving our value propositions to consumers by enriching our content on both online and mobile properties. We hope that these initiatives will assist us in finding the tipping point between our digital growth and our current print erosion.

**(02:47)** As mentioned, our online revenue growth continues to be strong at 26%. We are seeing stability in our renewal rate and average revenue per advertiser. In addition, as we gain more traction with our 360 degree solution approach, and new products such as mobile placement and website, we remain confident that we will be able to migrate our business from traditional print media to a more integrated media and marketing solutions company. During the quarter, we continued to focus on improving user experience on our online and mobile properties. Our goal is to leverage our local content and add richer and deeper business content on merchants in order to increase engagement from Canadian online and mobile users. In order to grow and protect our user franchise we need to offer much more than phone numbers with the goal of helping consumers make smarter purchasing decisions. For example, we just re-launched our RedFlagDeals.com property and integrated deals into yp.ca search results.

**(03:52)** Our network of sites reaches over 9.4 million unique users representing over 37% of the Canadian online population and during the quarter a complete overhaul, a complete upgrade, of the foundation of yp.ca was done to improve the performance of the site. This enhancement along with improved search engine optimization resulted in a significant increase in traffic throughout September bringing our reach levels to a level not seen since March of 2010. On the mobile front, our applications have been downloaded more than three million times. Yellowpages.ca mobile business searches now represent over 30% of our overall digital search traffic. Since launching our mobile products last quarter we have sold approximately ten thousand mobile placement products, which is ahead of our expectations. These products are designed clearly to increase the visibility of our advertisers, allowing businesses to place themselves at the top of relevant mobile search lists where their services best fit the users' search criteria.

**(05:00)** We are also very excited to have introduced in September *Yellow Pages Analytics*, a detailed reporting platform offering advertisers access to enhanced reporting providing them valuable insights on the performance of their YPG campaigns. This is a key component of our 360 degree solution as it demonstrates the return on investment we deliver to our advertisers. *Mediative*, which was launched a year ago, is now one of North America's largest integrated advertising and digital marketing companies, recently won best SEO firm in the country, and the team at *Mediative's* extensive experience in developing innovative and unique marketing solutions for national advertisers. They are now serving the marketing needs of some of the biggest brands in North America such as Walmart, Future Shop, Sears, and Disney among others. It is also one of Canada's leading ad display networks, managing the ad inventories of over 600 websites such as Best Buy, Martha Stewart, Sears, Future Shop and Toys r Us.

**(06:08)** Now over to Ginette to cover the results for the quarter.

**Ginette Maillé**

(06:09) Thank you Marc. So before we go over the financials we remind you that under IFRS, we have reclassified the results of the disposed business as its continued operations, and accordingly results of operations for the quarter excludes the results of the disposed business while the prior period income statement and cash flows have also been restated to reflect this change.

(06:33) So, for the quarter ended September 30<sup>th</sup> 2011, the company reported a net loss from continuing operations of \$2.8 billion as a result of a goodwill impairment charge of \$2.9 billion. This impairment charge is a non-cash item and does not affect the company's operations, its liquidity, its cash flow from operating activities, its bank credit agreement or its note indentures. Net earnings from continuing operations before the impairment charge was \$74.6 million compared to \$68.7 million for the same period in 2010. Adjusted earnings per share from continuing operations for the quarter were \$0.07 versus last year's \$0.19.

(07:21) Revenues decreased 9% from \$356 million to \$323 million. This results primarily from the continued pressure on print revenues as well as lower revenues associated with *Canpages* and our US operations. Online revenue for the third quarter of 2011 were \$87 million or about \$350 million on an annualised basis, representing growth of 26% versus last year. Annualised online revenues now represent more than 27% of total revenues compared to 20% last year.

(08:04) EBITDA for the quarter declined from \$193 million to \$166 million and EBITDA Margin for the quarter was 51.3% compared to 54.3% for the same quarter last year. The decrease is mainly attributable to print revenue pressure and higher costs associated with *Mediative*, as well as investment to support our 360 solution.

(08:32) On the capital structure and dividends front, during the quarter we repaid a total amount of \$500 million of our bank indebtedness reducing the committed size of our revolving term loans from \$750 million to \$250 million. The committed size of the non-revolving term loans remains unchanged at 250 million and as a result the new principal \$500 million unsecured credit facility will consist of a \$250 million revolving tranche and a \$250 million non-revolving tranche, each maturing on February 18, 2013.

(09:14) During the quarter we also repurchased \$238 million principal amount of MTNs resulting in total debt paydown for the quarter of approximately \$700 million. As of September 30, 2011, YPG had approximately \$1.8 billion of net debt including convertible debentures representing an average ratio of 2.5 times compared to 2.9 times last quarter and 2.6 times as of last year.

(09:49) At the end of the quarter total cash amounted to \$52 million, \$35 million of commercial paper remained outstanding and \$16 million was drawn on the \$250 million revolving tranche of the credit facility. As a result we had available liquidity of \$251 million providing sufficient liquidity to fund our operations.

(10:12) Our **detailed demand** of credit **facility** dated September 28<sup>th</sup> 2011, is available on **Cesar** but I will highlight some key terms and conditions. So financial **cogniance**, the first one is the maximum total average ration of 3.5 times and then a minimum coverage ratio of 3.5 times as well. The **general**

component of the facility will be paid down by \$25 million per quarter starting January 1, 2012 and the amended credit facility prevents the company from making early repayments to its upcoming debt obligations with the exception of a **basket** of \$125 million, which can be applied to repay the 2013 MTN bonds if we meet certain conditions.

(11:07) There are basically three conditions, the first one being maximum total average ratio of 3.25 times. At least \$75 million should be repaid on the non-revolving tranche and EBITDA for the last 12 months should be no less than the September 2011 projections. Finally, the company has agreed not to exercise its rights to redeem its preferred shares, Series 1, for cash.

(01:34) As disclosed on September 28, 2011, our Board of Directors has eliminated future dividends on its common shares. This decision is in compliance with the amendments that the Company has agreed to make to its principal credit agreement and will improve its financial profile and capital position. We are focused on strengthening our capital structure and ensuring financial flexibility. At this time our view is that excess liquidity should be applied to pay down our senior debt obligations and reinvest in our business to activate our transformation.

(12:12) Now here is Marc with his rap-up.

**Marc Tellier**

(12:13) Thank you Ginette.

(12:14) Clearly we continue to focus on creating an industry leading digital media company for our shareholders, employees and all other stakeholders. Our industry is undergoing a major transformation and although it represents a great opportunity, it does not come without challenges and this will not happen overnight. Our goal continues to move forward effectively and responsibly to create greater value. Our confidence in Yellow Media's business fundamentals and strategy remains unchanged and we believe that a 360 degree solution is the right approach and will be the primary driver to our future success. It is our intent to keep you regularly informed of the progress we are making in the execution of our business transformation and we thank you for joining us today and your continued interest in the company. And on that note, Patrick, we will open up for questions.

**Patrick**

(13:02) Thank you.

(13:03) We will now take questions from the telephone line. If you have a question and are using a speaker phone please lift the handset before making a selection. If you have a question please press \*1 on your telephone keypad. At anytime you may cancel the question with the pound sign. Please press \*1 at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience. (13:25)

(13:32) The first question is from **Scott Gutsbergson** from TD Securities. Please go ahead.

**Scot**

(13:37) Thanks very much. Good afternoon. Ginette, I just wondered, you mentioned some of the highlights of the new deal and one of the things was the repayment of debt obligations had a couple of different rules attached to it and one of the things in there was the \_\_\_\_\_ the September 2011 projections. Can you share what those projections are with us?

**Ginette**

(14:06) No, unfortunately I will not be sharing the projections but this is something that we have agreed with the banks and we are confident that we will be in a position to meet what we have shared with them.

**Scott**

(14:20) Ok. Just another bigger picture question, maybe for Marc. Just wondered, on the timing of the impact of 360 solutions, it seems to, given your revenue recognitions is a bit of a **lag** and stuff, but you have been selling it for some time and I just wondered how much of the impact was **self-incusory**?

**Marc**

(14:45) Well, I just, for the benefit of the call participants Scot, I mean we trained 360 at the tail-end of last year coming in early into this year. So by the time we had all of our sales professionals and it's 360 at YPG but it's a similar strategy at Canpages, we call it **Canpages 1**, we had all our people trained by about mid way the first quarter this year. Early indications are very positive if we look, for example, at what percentage of our customers are buying three product categories or more. We've placed our products into eight categories. So a category would be print, online, mobile, **SEM**, SEO, website, and so on. In our face-to-face channels we have more than doubled the penetration of customers this year buying three products or more to a little more than 10% of the customers that we serve via the face-to-face channels, so that's interesting. We also see that the average revenue per advertiser of those customers that we define as 360 customers, again three products or more, are seeing a **ARPA**, a meaningfully higher than the overall **ARPA** so an additional growth of about 9%. And the customers that are renewing and the customers that are new acquisitions, we're seeing an **ARPA** almost twice as high as the **ARPA** we were seeing before.

(16:35) We're also seeing, and honestly this isn't going to come as a big surprise given the fact we are defining 360 as three products or more, I mean, these average, the revenue generating as the number of products per customer are going up. And more specifically, on customers that are purchasing websites from us. We sold approximately 8,000 websites, round number. Of the customers that have purchased

websites we've seen the growth rate meaningfully higher and we're also seeing that about 87% or so of the customers that have purchased websites have kept a print product and I guess that might surprise some people in terms of print is still very much an integral part of the solution even for those **buying the more, broader digital set**. But I think it's also interesting because it wasn't that long ago that on these calls that we were having questions around how many customers do we have that are online only customers in terms of but don't have print but purchase other products from us and we are seeing great momentum in terms of penetrating the customer base that's not buying print. So we think that's very encouraging as well. It's still early days.

**(18:00)** To your question, you know, it's going to take a while given how the revenues flow through the PNL in order for this to be really flow through. The transformation, let's not kid ourselves, I mean this is a broad industry transformation. We've been historically, reasonably proud of our results. That said, this isn't a quarter to quarter story, this will take several quarters but all of the early the indications are quite favourable.

**Scott**

**(18:29)** That's great \_\_\_\_\_ Marc and thanks for that. Just to be clear, you're saying the ARPA of 360 customers taking 3 or more products is about 9% higher for those renewing and the new ones it's about double? That's what you said?

**Marc**

**(18:41)** Yes

**Scott**

**(18:43)** Ok. And just a thing that I'm kinda stuck on a little bit is, I watch **our EBITDA** and I watch digital penetration, and I watch number of customers and **our EBITDA** seems to be kinda stubbornly stuck and so I gotta think that it's still as you said really easy days on the 360. I just wondered, I guess we're looking at about a year's lag before you really see it hit the PNL. I'm trying to identify which quarter will really show us, you know for a full quarter the impact of this. Can you help me with that?

**Marc**

**(19:15)** Well part of the reason you're not seeing it more today in terms of the indicators you underscored, I won't repeat them, is we have discontinued our Directory Plus product in order to replace it with a higher value product a placement product specifically on [yp.ca](http://yp.ca) or to the extent that people want to purchase a placement product now on mobile since we launched that in July. So what we are currently seeing is as we're revisiting the installed base of Directory Plus customers there is an offset to

the positive growth coming from 360. So I think once we've had a chance to have a full cycle going through those D+ customers I think you're going to start seeing those metrics improve Scott.

**Scott**

(20:11) So again can you help me with what quarter will that be? Next quarter or are we looking at another several quarters or when do you think you'll be mostly through that process?

**Marc**

(20:21) I'm more so on the back path of next year but I guess one of the things, you know, I want to recognize is very encouraging data to date. The feedback is very positive from the advertisers but I'm not going to paint myself into a corner in terms of picking a particular quarter. But adding to your question specifically, you're right. Some of the indicators you underscored will be lead indicators to our business transformation. Unfortunately as a result of our digital product portfolio where we're introducing a bunch of new products but we're phasing out an old product that's phasing out. We finished training the sales force, let's call it the end of Q1, it was a little earlier than that but let's round it to the end of Q1, so by the time we get to Q2, Q3 I think some of those effects won't be netted out or partially netted out so I think you'll start seeing some improvements.

**Scott**

(21:18) Ok thanks, that's great. Ginette, just one quick one. Just, you know, you made some changes to the way you report and there's a bunch of things going on. Can you give me the **MTN EBITDA** on the same basis you reported the Q3 numbers?

**Ginette**

(21:36) You know what we will do, instead of looking in our documents we will call you back and give you that information.

**Scott**

(21:46) That's good. Thank you very much.

**Patrick**

(21:50) Thank you. The next question is from **Chris Reeve** from Bank of America, Milland, Merril Lynch. Please go ahead.

**Chris**

(21:56) Good afternoon. Just a few quick questions. In the press release, I think you stated that the publication of the Canpages directory title some of them were delayed until Q4, and I was wondering if you can share with us what would the revenue impact of that be on Q3 and do you expect to make them back in Q4?

**Ginette**

(22:17) Yes. Some **books** were shifted from Q2 into Q3, and some others from Q3 into Q4 so the net effect in our third quarterly results is approximately \$2 million on revenue.

**Chris**

(22:30) \$2 million. Ok. And my second question is on unique visitors, was down over 10% over the year and I know in the past you have mentioned is that part of that you have more searches then through smart phones. And so the first question I want to confirm that is part of the reason your uniques are down, and secondly if you can maybe outline for us all the reasons that are causing your unique visitors to be down?

**Marc**

(22:58) Well if I start with the mobile aspect, I mean, mobile is now 30% of our overall traffic. So that's very, very encouraging in terms of business **lookups**. We are seeing an improvement in unique visitors recorded over a quarter. So that's also encouraging. I mean, as you know, last year some of the major search engine around us at this time they went through some changes in some algorithms, which created a drop in SEO traffic. We have now not only recaptured that drop but improved our SEO performance so saw some great improvements in September and the trend is actually quite positive. So between a positive trend in our SEO traffic, between maintaining our organic traffic it means mobile traffic that is growing. We are very encouraged by the trends in UVs and you probably the only other variable is in Q3 of September 2010 were stimulating traffic. We were very, very active in our advertising efforts. And rightly or wrongly, unfortunately given what we've been living for the last few months we haven't been quite as active with our media spend and you'll see us picking up the pace actually in about 10 days or so in terms of being more prevalent on media which should also help stimulate because every time we've amped up our media spend a little bit we have seen a direct correlation to increase in unique visitors.

**Chris**

(24:56) Ok. Yes that's helpful. My final question is just a bigger picture question on your **EBITDA** margin. I think that the challenges you're facing that are causing the margin pressure, I think it's very clear among

investors. I guess the bigger debate is longer term, you know, where that margin can trend. Can you help us, may be share with us your thoughts, where'd you think, where margins will ultimately settle in?

**Ginette**

(25:24) Well I believe that this is information that was released in our Q2 results. And what we're saying is that what we see by 2014, we see it close to 50%.

**Chris**

(25:37) Ok, so that's still your view then?

**Ginette**

(25:39) Yes it is still our view.

**Chris**

(25:40) Ok. Great. Thanks very much.

**Marc**

(25:43) Thanks Chris

**Chris**

(25:44) Thank you.

**Patrick**

(25:46) Thank you. The next question is from Aravanda Galappatthige from Cannacord Genuity, Please go ahead.

**Aravanda**

(25:54) Thanks very much. Thanks for taking my call. Couple of questions for Marc or Ginette, can you please help me understand the cash taxes? I know you've published some numbers in the supplementary form but it seems that you've increased the cash taxes payable in 2011 from \$40 million to \$50 million. Can you please just explain where that, where the increase came from?

**Ginette**

(26:17) Actually, I will talk to you about cash taxes. It did increase and if you go back to the income trust structure, there were no taxes that were payable. So basically in 2011 there is no cash taxes that are currently being paid for operations. It's all related to prior years' assessment and this is where the \$90 million comes from. In 2012, we are projecting \$250 million. This is basically the payment for the 2011 operations taxable income and it is also the installments that will have to be made based on the 2011 payments. So the 2012 year will be a double dip basically paying for the prior year and installments of the current year.

**Aravanda**

(27:12) Ok. So, I mean, the \$250 million that you have for 2012, it looks like the same number that you've been having since Q1, is that actually adjusted for the trade of sale?

**Ginette**

(27:24) No, no, yeah it's adjusted.

**Aravanda**

(27:27) Ok.

**Ginette**

(27:27) If there's no change.

**Aravanda**

(27:29) Ok. Thank you. And then just a follow-up. Looking at the headline numbers, it looks like, instead of back out the online growths it looks like the print decline sort of accelerated in Q3 over what we have been seeing in the past. Is there any kind of colour you can give us on where you can find some stability in that print decline rate?

**Ginette**

(27:57) So if you look at the Q3 results, if you exclude the revenues that are generated by the service agreements with Zip Local in the US, what we see in Q3 is a decline of 15% and rightfully so last quarter was 13%. So there is some additional pressure. We will probably experience some more, very limited. I don't that believe we will end at -15% based on what we see here, but it will go down by a couple of points, and then it should really stabilize.

**Aravanda**

(28:36) Ok. And then lastly relating to your bank facility, obviously there were some changes made during the quarter, but the term, the expiry date sort of remained as it is. Is there anything you can tell us about a potential extension of that facility beyond February 2013?

**Ginette**

(28:52) Actually, the credit facility was simply amended so in a year from now we will go back and negotiate with the bank to renew the facility effective February of 2013.

**Aravanda**

(29:08) Ok thanks. I'll leave it to others. Thank you very much.

**Marc**

(29:10) Thank you.

**Patrick**

(29:12) Thank you. The next question is from Collin Moore from Credit Suisse. Please go ahead.

**Collin**

(29:18) Great. Thanks and good afternoon. I guess my question is building a little bit on Chris' with respect to margins but more specifically focusing on some of the drivers of the operating expenses. So it's clear we're seeing a bit of acceleration on the revenue pressure side and we did see somewhat of a decline on cost of sales, although not necessarily commiserate with the revenue decline and may be flat actually give or take maybe some inputs. Could you maybe just help frame how you are looking at operating expenses if you're taking the approach maybe now of pulling some additional costs out or do you still see yourself as investing for future revenue growth?

**Marc**

(30:02) Ok, Ginette and I can tag team that one. She'll give you more specifics. In terms of the future, I mean, clearly I going to send you a little bit of a mixed message here. Obviously we need to invest in our business transformation, you can't cut yourself, cut your way to growth, and as a result we have identified very specific areas of focus in terms of making sure that we continue to adequately fund

whether it be a provisioning of new services like I underscored in my prepared remake, making sure the fulfillment experience is a good one for customers that are embracing 360, whether it be making sure we continue to invest in augmenting the amount of leads we deliver to our customers and we can do that in various ways by enriching our content which is going to be our principal focus so that users, more users come to the site, they come back more often and so on. Another way is to buy traffic and, or to invest in better search optimization techniques and so on, as well as branding and promotion. So we will invest.

(31:21) That said, in this environment we are also very, very focused that finding areas where we can find efficiencies in the business. A lot of those efficiencies we're finding in the business is what's funding these additional investments relative to fuelling our transformation and on the specifics, Ginette can give you some colour in terms of what we're seeing on the expense items.

### **Ginette**

(31:49) Ok. Yes and maybe if I may just add we do have a Meditative decision that is generating more and more revenues. It is really a business that is growing. The business model of that industry is very different and the costs associated to those revenues are higher than what we are used to seeing in our core business. So that also has an impact on the EBITDA and margin as a percentage.

### **Collin**

(32:27) Great. So, and maybe just a second question. Given some of the declines in print advertisers that's having a follow through effect on the online advertisers, and you mentioned as well you're in a bit of a transition of products, could you just talk about how you feel about your online acquisition trends to the extent of successfully bringing people on without print products or maintaining those transitions advertisers from print to online?

### **Marc**

(33:00) Sure. In terms of acquiring new customers, what we're seeing is an improvement of our acquisition efforts. Probably not enough to our liking yet clearly but we've been a lot more efficient with our Search Engine marketing campaign so attracting people to our offerings that are looking for media solutions or advertising solutions online. So, visitors, small businesses doing research, we've been a lot more effective at getting those leads and converting those leads so that a sales person can call on them and we're seeing some modest improvements in terms of the acquisition of customers.

(33:51) When it goes to online only I don't have the number in front of me but I'll make a note to make sure to report it on the next quarterly call out as we have in the past and I'd be happy to share it. But we are seeing a meaningful improvement to customers that are buying online only products. I guess an interesting statistic, the way to look at it is on a customer count only, the customers that are staying with us 80% of our customers are actually maintaining our growing **net spend**. And we're seeing 20% of our customers decreasing their **spend**. Most of our customers that are decreasing their **spend** continue to maintain a print presence, typically nowhere as near as meaningful as it was in the past and part of our

challenge is we've had great early success with our websites, search engine marketing, search engine optimization solutions, and if you picture a bell curve we've done a really good job for targeting the centre of the bell curve but as you move to the right going towards larger or more sophisticated or you customers spending more online, where we're struggling now is our product **swept** suite within 360 isn't giving us enough flexibility at the high end if you will, at the larger spend advertisers.

**(35:40)** So that is going to be an area of focus for us. But for the masses if you will, which you know is kind of at the centre of that bell curve, was where we first focused on 360 we're seeing great success. As I said, 80% of our customers are growing or renewing. Clearly the **net** effect of the 20% decreasing, the net effect is negative let's recognize the obvious. We think we've clearly identified as to why, as they're not backing out of completely but as they're reducing their spend on print we're not successful enough yet in terms of supplementing that spend by new digital products and part of the reason is for the higher end solution, for example if you want an inventory management system for your website or if you want a catalogue service or a payment service, we're working on broadening our product portfolio to do that.

**(36:47)** While I was talking **Ann Safie** pulled out the online advertising only customers and we're up to about 12,000 customers buying online products only from us approximately versus about 5,000 at this time last year. So I think we find that encouraging as well.

**Collin**

**(37:06)** Thanks for the colour.

**Marc**

**(37:08)** Thank you. **(37:09)**

**Patrick**

**(37:11)** Thank you. The next question is from **Ballshet** from Scotia Capital. Please go ahead.

**Ballshet**

**(37:15)** Great. Marc, maybe you can talk a little about how the selling looked in the Q4 and into 2012 just in terms of what that print deceleration looks like and I guess sorta tied to that if Ginette could remind us when that Zip agreement, support agreement basically rolls off?

**Marc**

**(37:32)** In terms of print trends I'll answer your question very specifically but in terms of print trends I guess where we're encouraged we're seeing a couple of phenomenon. One we're seeing a broader industry phenomenon where in other jurisdictions, granted other jurisdictions have seen more severe

print declines than ours and have seen print declines much earlier, much sooner than we have, I think we were potentially a little more successful in pushing out those print declines, we're seeing the rate of erosion has started to slow down not accelerate. As Ginette alluded to, we are going to see, we expect to see our rate of erosion on print accelerate, call it a couple hundred **bases** points or so in the coming quarters. But we are starting to see some encouraging signs that that's going to flatten out in the quarters to come.

(38:36) Unfortunately I'm not in a position yet to say where, when we will see that rate of erosion improve though, seeing less erosion. But from a macro perspective we're seeing that in other jurisdictions so I think we're pretty much near or at the peak of the print erosion. If we look at our lines specifically, I mean clearly we are disappointed with the print performance. I mean, that's not surprising when you look at the growth of mobile and if you look at the continued growth in online that's coming from somewhere. And we are seeing less print searches than we were seeing before but those print searches are in some key headings and in some markets translating to improved **calls** for the advertisers because we are seeing less competition in the headings and as a result of less competition in the heading, and this is a well documented fact by a number of industry pundits, in this market and in others we are seeing an improved **calls** for the advertiser, which speaks to why in some jurisdictions they have seen a slowing of the rate of decrease because the advertisers that stay in the category are seeing that better return on investment as a result of less competition in the heading. So there are less **calls** but there are fewer advertisers putting up those calls so the number of call spaces per advertiser is actually improved. We are encouraged by that as well. (40:24)

### **Ballshet**

(40:27) The expiry is it local, with the Zip agreement? When (40:31)

### **Marc**

(40:33) I'm not sure, we'll have to get back to you in terms of when that expires. I can't remember off the top of my head. (40:41)

### **Ballshet**

(40:42) Ok. Ok. Fair enough. A couple of other quick ones here. I guess an outlook for what the **count box** might be into 2012 what we should start to think about there. And I guess on the cost side, I don't know if you're seeing any impact, one of your key suppliers on the printing side has closed a number of plants, if there is any impact we should think about there and more specifically in broader cost actions you're going to want to have to do. (41:05)

### **Marc**

(41:06) Well, if we look at the printing specifically, well the \_\_\_\_\_ is an easy one, you all can assume \$50 million from a modeling perspective for 2012. If we look at printing we have seen no impact in our supply chain as a result of closing of certain plant facilities. We continue to have a great relationship with our printers. Clearly there are some actions we are taking in terms of reducing our manufacturing costs. We're looking at, for example, reducing some of those front of book pages, those pages that are more descriptive in nature but aren't linked to product find or business lookups. So there is opportunities for us to reduce our manufacturing expense as a result of looking at the usage and the product and really focusing the product on lead generation to businesses and cutting out some of those ancillary services. So that is a big focus for us going forward. (42:20)

(42:21) Obviously, in this environment we're more focused than ever on size of copy runs. So making sure as much as we want our books to be available to anyone who might want one, we have to make sure that in this environment we don't find ourselves with a print run where we've overprinted, where we've overestimated secondary distribution. So for example, primary distribution is when we do, take Ottawa for example, January issue we **did a January drop of** books for Ottawa. Historically we could have kept a reserve of books for people requesting and moving throughout the year. We've seen the demand for that decline over the years and we're going to make sure we optimize our print runs as a result. SO I think manufacturing, generally speaking, is a cost saving element in moving forward and we don't anticipate any supplier issues and to the contrary we continue to have a great relationship, a great working relationship, great dialogue and we're very pleased with the past relationship. (43:31)

### **Ballshet**

(43:32) Ok. The last one on my end would just be if you could just give us your **organic** online revenue growth, we could just throw that in as we go on the call. Thanks. (43:41)

### **Marc**

(43:42) Thanks

### **Ginette**

(43:43) On the directory side the online organic growth is at approximately 25%. (43:49)

### **Ballshet**

(43:50) Thank you.

### **Patrick**

(43:52) Thank you. The next call is from Kim Cassy from **Biedmont** (43:58)

**Tim**

(43:59) Thanks. Can you tell us what cash taxes were for the quarter, cash taxes paid?

**Ginette**

(44:05) Well actually this is an amount that has been disclosed in cash flow statements.

**Tim**

(44:08) Well you changed the format of the cash flow statement.

**Ginette**

(44:12) For the quarter? Ah yes, you are right, I apologise for this. Under the FIRS we are only releasing the YTD information. We'll come back to you and give you the quarterly amount.

**Tim**

(44:23) Secondly, I don't understand a comment you made that you think that print erosion is peaking given that by the numbers you put out it has accelerating to the year end. The erosion in Canada started later than other jurisdictions, why should we expect print erosion to peak now? Why wouldn't it run for a little while longer?

**Marc**

(44:51) If I misspoke or misguided, we are clearly expecting print decline to further accelerate at the margin Tim but we are not expecting a huge acceleration and we are starting to see some stabilization in terms of that level of erosion. (45:10)

**Tim**

(45:12) Ok. Thanks.

**Marc**

(45:15) Anyone with a last question Patrick?

**Patrick**

(45:18) Thank you. The final question will be from Laura T\_\_ from Sunrise Financial. Please go ahead.

**Laura**

(45:24) Yes, just a quick on the bank covenant. The leverage, the total debt figure, does that include the preferred and convertible shares in there?

**Ginette**

(45:38) It does include the convertible.

**Laura**

(45:42) Ok, but not the preferred?

**Ginette**

(45:45) Not the preferred.

**Laura**

(45:46) Ok. Thank you.

**Marc**

(45:48) Alright, well thank you everyone. I mean clearly we are focused on our transformation, we remain optimistic with regards to our strategy and our plan, we feel that the early indications from our customers on our value proposition is very encouraging, good momentum. But all that to say that our focus and our energy are on delivering a plan right now and clearly it's not going to happen overnight but we do continue to focus on creating an industry leading digital media company for all of our stakeholders and we thank you for your interest today. Thank you.

**Patrick**

(46:28) Thank you the conference has now ended. Please disconnect your lines at this time. Thank you for your participation.

