

VALASSIS COMMUNICATIONS #566835

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Chairperson: Alan Schultz

Second Quarter 2004 Earnings

Operator

Good morning, ladies and gentlemen, and welcome to the Valassis Communications Second Quarter 2004 Earnings conference call. At this time all participants are in a listen-only mode. Following today's presentation instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the star followed by the zero. As a reminder, this conference is being recorded.

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Operator: document released 4/18/04

with a 77% increase in revenue. Most importantly this segment crossed the

Through the first half of 2004 gross profit dollars were up 27% on virtually

15% to less than 10%.

Keep in mind that last year we focused primarily on revenue growth and achieved a 26.3% increase so the revenue comparisons this year are

right of refusal customers at the floor price which was in effect in May of 2001; hence our net price after ancillary product discounts, rebates, etc., will not go below \$6 for a full page and \$3.90 for a half page.

The reason I said this is a low risk opportunity is that we will defend our customers and market share and use whatever pricing is necessary to protect our share. For Valassis/News America shared accounts, we will price our share at whatever price is necessary to retain our share of the business. If the client wants us to take more than our previous year's share we will quote the

new floor price on that portion of the business

This strategy differs greatly from the price increase we attempted in June of 2001 where we were willing to walk away from business in order to

had \$164 million in cash meaning we generated roughly \$25 million in cash

from operations during the quarter without going into all the ins and outs.

From a financial perspective we also swapped \$50 million of the \$100 million issue of our 6-5/8th percent fixed rate debt due in 2009 to a floating

Now we'd like to entertain your questions. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press the star followed by the one on your pushbutton phone. If you would like to decline from the

rolling process please press the star followed by the two. You will hear

From a page standpoint, particularly on a pages sold basis, full price business, we saw high single digit growth in pages sold and then we had a slight increase in the number of direct response pages. That's how that looks

out.

From a pricing standpoint, right now we're looking at a 10% increase in our

way we measure our shares, we look at all the co-op volume when we

measure shares so we include our regular co-ops and our system co-ops in

long term classification and at this point in time we have no current desire or
we plan to should come across that dates being it back in

Flat revenue for our international and services as far as subsequent quarters
go, the answer to that is no. We expect that we're going to have revenue
growth in our international and services sector in the second half of this year.
In fact, some of the test programs that we're delivering that will

some test revenue will fall into the third and fourth quarters which should

improve the situation relative to

now. Obviously *News America's* not budging. Then on your existing accounts have there been any major account losses? The market has

say you're in line with guidance, and my assumption was in the past that you thought you'd get back to 50% and it sounds like you're going to be still in the 40s next year.

A. Schultz

From an existing account standpoint there really haven't been a lot of changes from a market share standpoint. From a historical standpoint the answer to your question is yes; historically the market share leader has chosen 1

A. Schultz

Thanks, Fred, appreciate that.

Operator

Our next question comes from Alexia Quadrani with Bear Stearns. Please go ahead with your question, ma'am.

questions here. Just wondering how your pricing is on contracts today compared on average to pricing on contracts signed last year. And I also

A. Schultz

Julia, we haven't really given any guidance in terms of what's going on on a day-to-day standpoint in terms of contract pricing so I can't really comment

J. Choy

With the current amount of shares that you're repurchasing?

A. Schultz

We've taken the approach that says that we want to be opportunistic from a share repurchase standpoint we want to try to buy as many shares as we

75% of our free cash flow on share repurchase if we elect to do that. We haven't elected to do that but I would describe our strategy as it relates to share repurchase as being very flexible, kind of dependent on market conditions.

J. Choy

Thank you.

Operator

Thank you. Our next question comes from Troy Mastin with William Blair and Company. Please go ahead with your question, sir.

T. Mastin

Good morning. Doing this for into the 2004 contracting season and with what

larger percentage of the business could go to the non-contracted company and I would assume that if this were to all come to fruition that it would be at those floor prices.

If you took all of those factors into consideration, Troy, that would be the way to look at it.

T. Mastin

Can you give an idea in a reasonable or maybe even a best case scenario when you might finally start to enjoy average FSI prices increasing?

A. Schultz

At this point in time we're going to continue to look for some type of concrete evidence in the marketplace. As I had mentioned earlier, we've seen our competitor make their intentions known relatively quickly and we're going to monitor that situation on a daily basis

T. Mastin

Onto the one-to-one business, is there any temporary benefit at this business as a result of competitors that have de-emphasized or shut down their operations that might not be recurring or would you characterize the growth in one-to-one as purely fundamental or maybe industry organic?

A. Schultz

Troy, you've got a little bit of everything going on here. There is no doubt

result of the circulation issues that have come up in a few newspapers? I know they might not be too relevant to your circulation but more specifically do you sense that advertisers are less interested in using the freestanding insert? Have you had any conversations along those lines despite the strong volume trends you've been seeing?

A. Schultz

The answer to that is no. We have not heard a lot of clients, in fact we have heard very little if any client discussion on the subject of what's going on at

these three newspapers, *The Sun Times*, *Long Island Newsday* and *Hoy*

I want to ensure you also that as this discussed before you're always looking at

in a high quality market list. We only provide newspapers with the number of

inserts that we're comfortable they can distribute and that will ultimately get into the hands of the consumer.

We also give the newspapers an order of distribution. An example would be we say first we want you to cover the paid home delivered circulation within the MSA, then we want you to cover paid home delivered circulation outside the MSA, then go into the paid box within the MSA, then out of the MSA.

what I mean is from what we've seen over the last two years we've seen Alcoa

we don't know for sure but we would assume at this point that their track record of the last two years would continue

M. Bacurin

I understand. Then as I understand the strategy you will not be pushing forward the new pricing floor on renewals with existing clients but only on

M. Bacurin

Assuming there has been some elasticity of demand with the lower pricing, are you concerned that if prices do move back up that the volumes you're

1.1

might actually decline with the higher price point such that you're left with

what the pricing actually was done with *News America* assuming they keep it, but at a higher price point? Is that how it works or what is the feedback you get?

A. Schultz We try to monitor the market in a number of different ways. We will use every means at our disposal to try to monitor the situation. What you just described is certainly one way to determine what's taking place in the marketplace but there are a number of different ways that we would monitor the market.

M. Bacurin Great. Thanks a lot.

Operator Our next question comes from Edward Atorino with Fulcrum. Please go ahead with your question.

E. Atorino My question's been basically answered about seven times so I won't try to go over it again. One other question, on the refinancing, what does that do to your interest expense going forward? I presume it takes it down a notch or two?

A. Schultz Ed, the first thing I want to do is to make sure that the market is clear about that.

E. Atorino Close enough.

A. Schultz I just want to make sure everybody's clear about that. With that said I'm going to let Bob give you the answer in terms of interest expense and the impact that the swap will have on an anticipated basis for the back half of 1994.

Operator

Our next question comes from Richard Diamond with Inwood Capital. Please go ahead with your question, sir.

R. Diamond

Hi, Al. What happens if *NewsCorp* decides to continue to be irrational in the co-op advertising business? The reason I mention this is that the price war has been irrational from the start. What's the downside case and how does that play out?

A. Schultz

When you consider the increased client demand for co-op FSI pages and you couple that with really no significant increase in date supply, we think we're at a point where we believe both FSI companies can achieve significant volume with their current market share positions.

Generally this type of supply/demand equation typically leads to increased pricing power and logic would suggest that this condition provides an opportunity to create a positive long term pricing trend. Our belief is that

pricing trend could lead to increased profitability.

Clearly as we assess the situation we think it makes sense. If it doesn't work, we will continue to look for creative ideas and opportunities to improve our

We believe today's market is very fluid and dynamic and this type of market presents opportunities but you've got to be constantly alert and you've got to quickly identify the opportunities and then of course you need to be agile enough to develop and execute a strategy in the marketplace. I think

The other part of it is some increased volume of activity

Once again it's mainly a timing issue. There's no real reason to

this is a snapshot in time, an opportunity in time for them to take advantage of lower prices and at some point in the future that window's going to close and that opportunity is no longer going to exist. Certainly every client I've talked to understands that.

J. Kostell

In terms of your comment about you'll see the response pretty quick, is pretty quick generally speaking defined in days, weeks, a month? What does the word pretty quick mean?

A. Schultz

I would think in this situation we're talking about weeks

L. Krugl

Thank you very much

Operator

Management, at this time we have no questions. Please continue with any further remarks or closing comments that you would like to make.

performance was strong and as a result of that strong performance in the first half, it's allowed us to tighten up our annual earnings guidance and we have updated our 2004 earnings per share range which was \$1.65 to \$1.85 to \$1.72