CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Organization	UNITED PARCEL SERVICE, INC.
Public Release Date	JULY 2015

VALUE LINE SELECT®

Dividend Income & Growth

Value Line®

MONTHLY STOCK SELECTION SERVICE

IN THIS ISSUE

A Note From the Editor

BY DAVID M. REIMER, EDITORIAL ANALYST

Investors remained cautious, as we went to press, with all three of the major U.S. stock market indexes, the Dow Jones Industrial Average (DJIA), Standard & Poor's 500 Index, and the NASDAQ, having lost some momentum and trading just below their respective all-time highs. As such, there continues to be a measure of concern that U.S. equities are fully valued. Since the beginning of this year, the number of issues listed on the New York Stock Exchange that are trading above their 30-week average prices has been declining, and the Dow's Utility and Transportation (most visibly, railroads and air carriers) indexes have been notably lagging the performance of industrials. The latter situation, according to the Dow Theory, suggests an imminent market pullback or even a correction. Consensus opinion among economists that the Federal Reserve is likely to raise short-term interest rates as soon as this September, given a firming business climate, has had the effect of limiting stock market gains as well. Also supporting caution in the broader market has been Greece's difficulty in renegotiating the terms of, and extending, its debt obligations with the International Monetary Fund and the European Central Bank. The uncertainty of a resolution has resulted in heightened volatility among European stocks. Furthermore, slower growth in China and worries about high stock market valuations in that country recently led to a sharp selloff there.

Notwithstanding all of these warranted concerns, we do believe there is reason for optimism, going forward. Importantly, business activity in the United States remains fairly healthy and Europe is making decent headway in its own recovery. Incremental share-price gains are a reasonable expectation for the domestic stock market through the end of this year. As global economic momentum picks up, the U.S. market's performance to 2018-2020 should improve. Rising interest rates surely would make the yields of Treasuries, municipal bonds, and corporate debt more attractive, presenting an alternative to dividend-paying stocks. Even so, those companies generating strong cash flow are in a good position to raise dividends, keeping their payouts at competitive levels.

The Global View

In the United States, companies are heading toward the release of their June-quarter operating results. A majority of analysts on Wall Street seem to be expecting another period of low-single-digit sales growth and an earnings decline in the mid-single-digits, on a year-over-year basis. Most visibly, a strong U.S. dollar has pressured exports. Stripping out the impact from struggling oil companies, though, sales trends should be somewhat better and bottom-line comparisons modestly positive. Recent figures on industrial production and manufacturing activity have been lackluster, but there are indications that the economy will be stronger in the back half of this year. Employment rolls are moving in the right direction, and demand for workers, especially those with advanced skills, is increasing. Wages are slowly on the rise, enabling consumers to contain their debt burdens and spend more; notably, lower gasoline prices have helped to shore-up household budgets, as has rising personal income. Borrowing restrictions seem to be relaxing. The housing market continues on the mend, while additional gains in consumer spending should lead to greater corporate investment and a sustaining business up-cycle.

Meanwhile, we look for the Fed to increase interest rates later this year. Those prospective hikes should be incremental and come at a gradual pace. This year, the dollar might not appreciate as fast as it did in 2014, but foreign imports will probably remain quite competitive, pressuring sales of U.S.-based multinationals. Companies heavily dependent on the domestic market appear to be in a comparatively better near-term position. As Europe's recovery gathers momentum, however, U.S. multinationals ought to benefit. Steady growth in emerging markets, including China, India, and Africa, would also be a plus. The Middle East, though, may continue to contribute a measure of uncertainty. All in all, we look for the global economy to expand modestly over the next three to five years.

Portfolio News

In the one-month period ending June 26th, our Featured Portfolio saw a challenging trading backdrop for conservative, large capitalization equities. Still, there were a few solid performers in the period. Diageo (NYSE: DEO) shares surged in early June on rumors, since proven unfounded, that the Brazilian private equity firm 3G Capital Partners was considering a buyout offer. Meantime, even after these price gains, shares of the alcoholic-beverage company retain an above-average yield of 3.1% and hold the potential for about 6% average annual dividend growth over the pull to 2018-2020. We continue to rate this high-quality equity a Buy for income-oriented investors. The stock price of telecom giant AT&T, Inc. (NYSE: T) advanced a decent 4.1% in the period. Investors are excited about the telco's efforts to diversify its business via the acquisitions of the Latin American wireless operators Iusacell and Nextel Mexico and the purchase of DirecTV. The latter deal will give AT&T a significant boost in the lucrative broadband television and online services markets. Top-quality AT&T shares are not now timely, but are a worthwhile holding for conservative income-oriented investors. We are maintaining our Hold recommendation on the stock. Elsewhere in the portfolio, Dow Chemical (NYSE: DOW) turned in another positive monthly performance, with its share price rising nearly 3%. Investors favor the stock, given progress in the company's deal to sell its Chlor-Alkali business to Olin Corp. and its efforts to focus on more-profitable refined downstream products. We are sustaining our Buy rating on this issue, which has a yield of 3.4% and long-term dividend growth potential of close to 10% a year. Within the portfolio, we have flagged Total S.A. (NYSE: TOT) and Southern Co. (NYSE: SO) for sale. A tough integrated petroleum market has hurt the performance of Total and, given the possibility of interest rate hikes, utility stocks, including Southern, are falling out of favor with the investment community.

There were two especially noteworthy performances among our Alternative stocks during the recent 30-day term. AbbVie (NYSE: ABBV) posted a 7.6% share-price advance. Investors are enthusiastic about the drug company's pending $21-billion-plus takeover of Pharmacyclics, which holds the prospect of further diversifying operations into the cancer treatment field. We are upgrading our recommendation on this equity from Hold to Buy. Also, shares of MetLife (NYSE: MET) gained close to 8% during this span. The insurer is positioning itself well for profitable growth in the global marketplace. We reiterate our Buy rating on MetLife. Investors might want to shed their holdings in Eversource Energy (NYSE: ES) and Energy Transfer Partners (NYSE: ETP). The share price of Eversource (formerly Northeast Utilities) would likely come under pressure as interest rates move higher. Since our initial recommendation, Eversource has generated a modest one-year total return (share-price appreciation plus dividend growth) of 4.1%. ETP is dealing with depressed energy prices and, though it has several promising development projects in the works, it will take some time for investors to benefit. This stock offers a very high yield, reflecting end-market risk, but has continued to underperform. *Those with taxable accounts should consider their holding period for capital gains/losses purposes, in combination with their risk preferences.* ■

Value Line Select®: Dividend Income & Growth Featured Stocks ††							
Name	Recent price	Our rec.	Curr. yld (%)	2014 tot. rtn.	YTD total return	Ann. rtn. since incep. (%)	Inception date
Agrium (AGU)	$104.35	Buy	3.3	5.2	11.9	16.6	6/6/2014
AT&T (T)	$36.12	Hold	5.3	-0.5	10.5	11.2	2/10/2012
Boeing (BA)	$142.48	Buy	2.7	—	-2.0	-14.0	5/8/2015
Chevron (CVX)	$98.60	Hold	4.3	-0.6	-10.3	-14.7	10/10/2014
Consolidated Edison (ED)	$58.10	Hold	4.5	24.0	-10.1	9.6	4/4/2014
Diageo (DEO)	$119.79	Buy	3.0†	—	4.1	10.9	2/6/2015
Dow Chemical (DOW)	$52.67	Buy	3.3	5.2	17.5	24.0	12/6/2013
General Mills (GIS)	$56.93	Hold	3.1	10.2	8.4	15.9	8/12/2011
Int'l Business Mach. (IBM)	$165.46	Buy	3.1	—	5.2	17.8	3/6/2015
J.M. Smucker (SJM)	$110.62	Hold*	2.3	-3.1	10.9	11.9	11/1/2014
Merck & Co. (MRK)	$58.49	Buy	3.1	-7.2	4.6	-3.6	9/5/2014
Microchip Tech (MCHP)	$48.42	Buy	2.9	3.2	9.0	16.0	9/6/2013
Nestlé (NSRGY)	$74.61	Hold	3.4†	2.4	5.4	7.7	3/8/2013
PepsiCo (PEP)	$94.91	Hold	3.0	17.3	1.8	11.6	4/5/2013
Scotts Miracle-Gro (SMG)	$60.88	Hold	3.3	15.6	-0.9	15.3	7/11/2014
3M (MMM)	$157.09	Buy	2.6	—	Nil	0.1	6/5/2015
Toronto-Dominion (TD)	$44.10	Buy	3.8†	—	1.7	7.7	4/3/2015
TransCanada (TRP)	$42.20	Hold	4.0†	11.4	-13.0	-2.3	3/7/2014
Waste Management (WM)	$47.03	Hold	3.3	17.9	-6.9	15.0	8/10/2012

*Recommendation changed
† Excludes nonresident tax
†† As of June 26, 2015

Value Line Select®: Dividend Income & Growth Alternative Stocks††							
Name	Current price	Our rec.	Curr. yld. (%)	2014 tot. rtn.	YTD total return	Ann. rtn. since incep. (%)	Inception date
A.J. Gallagher (AJG)	$48.17	Buy	3.1	2.6	3.9	8.3	10/11/2013
AbbVie (ABBV)	$70.46	Buy*	2.9	27.5	8.5	33.9	10/11/2013
ACE Ltd (ACE)	$103.47	Buy	2.6	—	-4.9	-30.6	5/8/2015
Aflac (AFL)	$63.69	Hold	2.5	1.1	8.8	6.9	9/5/2014
Analog Devices (ADI)	$65.80	Buy	2.4	—	21.2	64.5	2/6/2015
B&G Foods (BGS)	$29.06	Buy	4.7	-11.4	-1.7	-12.2	6/6/2014
BCE Inc. (BCE)	$44.02	Buy	4.7†	6.8	-1.3	4.5	4/4/2014
British Amer. Tobac. (BTI)	$112.06	Hold	4.5†	6.8	6.8	3.6	5/10/2013
Compass Minerals (CMP)	$83.99	Hold*	3.2	—	-6.4	-13.6	1/9/2015
Crown Castle Int'l (CCI)	$81.54	Buy	4.1	—	-4.0	-16.6	4/3/2015
Eaton (ETN)	$68.28	Buy	3.2†	—	1.0	21.1	3/6/2015
General Electric (GE)	$27.09	Buy	3.4	-6.8	9.1	15.9	6/8/2012
Genuine Parts (GPC)	$92.07	Buy	2.7	—	-2.1	31.2	5/8/2015
Invesco (IVZ)	$38.56	Buy	2.8	16.0	-1.1	11.1	3/7/2014
Kinder Morgan Inc. (KMI)	$38.96	Hold*	4.9	16.0	-5.8	13.5	10/10/2014
KKR & Co. (KKR)	$23.09	Buy	8.0	3.9	3.0	8.9	9/5/2014
Laclede Group (LG)	$51.87	Hold	3.5	12.3	-0.8	13.2	8/8/2014
Maxim Int. Prod. (MXIM)	$34.75	Buy	3.2	2.5	10.9	11.8	5/9/2014
MetLife (MET)	$57.37	Buy	2.6	—	12.9	71.4	4/3/2015
Omnicom Group (OMC)	$79.84	Buy	3.0	-1.1	-7.3	-14.4	12/5/2014
PACCAR (PCAR)	$64.82	Buy	3.1	—	2.0	39.6	6/5/2015
Paychex (PAYX)	$47.99	Buy	3.4	—	-0.9	21.6	6/5/2015
Qualcomm (QCOM)	$64.67	Hold*	3.0	1.7	-11.8	-6.3	12/6/2013
Sanofi (SNY)	$51.88	Buy	3.5†	—	12.9	48.0	3/6/2015
Siemens AG (SIEGY)	$106.18	Hold*	4.1†	-2.6	-16.4	-7.2	11/8/2013
Sonoco Products (SON)	$44.20	Buy	3.2	—	-2.1	-6.5	2/6/2015
Suburban Propane (SPH)	$39.63	Hold*	9.0	-4.4	-4.3	-14.9	12/5/2014
Taiwan Semicond. (TSM)	$22.90	Buy	2.2†	21.6	5.6	21.1	3/7/2014
TELUS Corp. (TU)	$34.92	Buy	4.1†	8.0	-1.1	4.9	3/8/2013
Verizon (VZ)	$47.62	Hold*	4.6	-0.5	4.2	11.3	7/1/2011

*Recommendation changed
† Excludes nonresident tax
†† As of June 26, 2015

This Month's Recommendation

United Parcel Service, Inc.

United Parcel Service (NYSE: UPS) is the largest package delivery operation in the world. It serves 1.6 million shipping companies and 8.2 million package receivers daily across 220 countries and territories. During 2014, this organization delivered an average of 18 million items per business day, totaling 4.6 billion for the year. In the United States, UPS is one of the biggest players in the less-than-truckload (LTL) industry, involving the transport of packages weighing 150 pounds or less. The company is also a provider of global supply chain management services. Customized logistics solutions help businesses to efficiently ship products to end-customers in an economical manner; such solutions are easily scalable as shippers expand. An advanced technology platform helps businesses to manage their inventories and supply chains, and supports their productivity. UPS reports operating results through three segments: U.S. Domestic Package, International Package, and Supply Chain & Freight.

UPS is situated within a highly competitive industry, vying for market share against local, regional, national, and international carriers and online service providers. Among the most visible of these competitors are the United States Postal Service (USPS), FedEx, OnTrac, Canada Post, DHL Express, Deutsche Post, Purolator, Royal Mail, Japan Post, India Post, and ParcelPool.com. Over its 100-plus-year history, UPS has created a vast network, adopted highly effective technology and procedures, built a broad service array, developed lasting customer relationships, established a recognized brand, and achieved a strong financial position, enabling it to compete well against industry peers. Since UPS went public in 1999, its stock has produced an average annual total return (share-price appreciation plus dividend income) of about 4%. Over that span, the share price has performed in line with the Dow Jones Industrial Average and outpaced the Standard & Poor's 500 Index and the NASDAQ. Though the company has lagged the Dow Jones Transportation Index, of which it is a component, we expect this to change. To 2018-2020, UPS shares offer better potential total returns than the average equity under our review. On a 12-month forward basis, the shares yield 3.0%, versus the *Value Line* median of 2.1%, and hold the prospect of 5%-6% average annual dividend growth. Market risk is limited, as reflected by the company's Financial

Dividend History & Projections

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Dividends Declared	$1.88	$2.08	$2.28	$2.48	$2.68	***$2.92***	***$3.00***	***$3.22***	***$3.44***	***$3.65***
Dividend Yield	2.9%	2.9%	3.0%	2.8%	2.7%	***3.0%***	***2.9%***	***2.8%***	***2.7%***	***2.5%***

Strength rating of A and the stock's Price Stability score of 95 (out of 100). For information on the company's direct share purchase and dividend reinvestment plans, go to www.ups.com.

Building a Global Network

In 1907, James E. Casey established the American Messenger Co. in Seattle. This business prevailed against heavy competition in its early years by ensuring courteous, reliable, low-cost service at any time of the day or night. Leading up to 1920, broader use of the telephone and automobile lessened demand for messenger services. Mr. Casey joined forces with Evert McCabe, forming Merchants Parcel Delivery. The enlarged company maintained its relevance by consolidating packages for delivery to specific neighborhoods; the use of motorcycles and Ford's *Model T* vehicles boosted operating efficiency. Brown became the organization's color of choice. UPS has actually trademarked the color brown, supporting the link with its "*What can Brown do for you?*" ad campaign. Also during this period, the carrier first developed a relationship with the USPS, which has come to represent a substantial portion of its business. A focus on serving retail stores helped to build sales within the home city. In 1919, market coverage moved beyond Seattle, and the United Parcel Service moniker was assumed. Over the course of the 1920s, UPS, via an acquisition, launched common carrier service, including daily pick-ups, acceptance of checks written to shippers, repeat deliveries, automatic returns, documentation, and weekly billing. The implementation of a conveyor-belt system at its Los Angeles facility enabled the company to extend its reach across the Pacific Coast.

Around 1930, UPS began to serve retail businesses on the East Coast. Through the 1930s and 1940s, the proliferation of automobiles reduced demand for delivery services. Management increased its attention on the common carrier

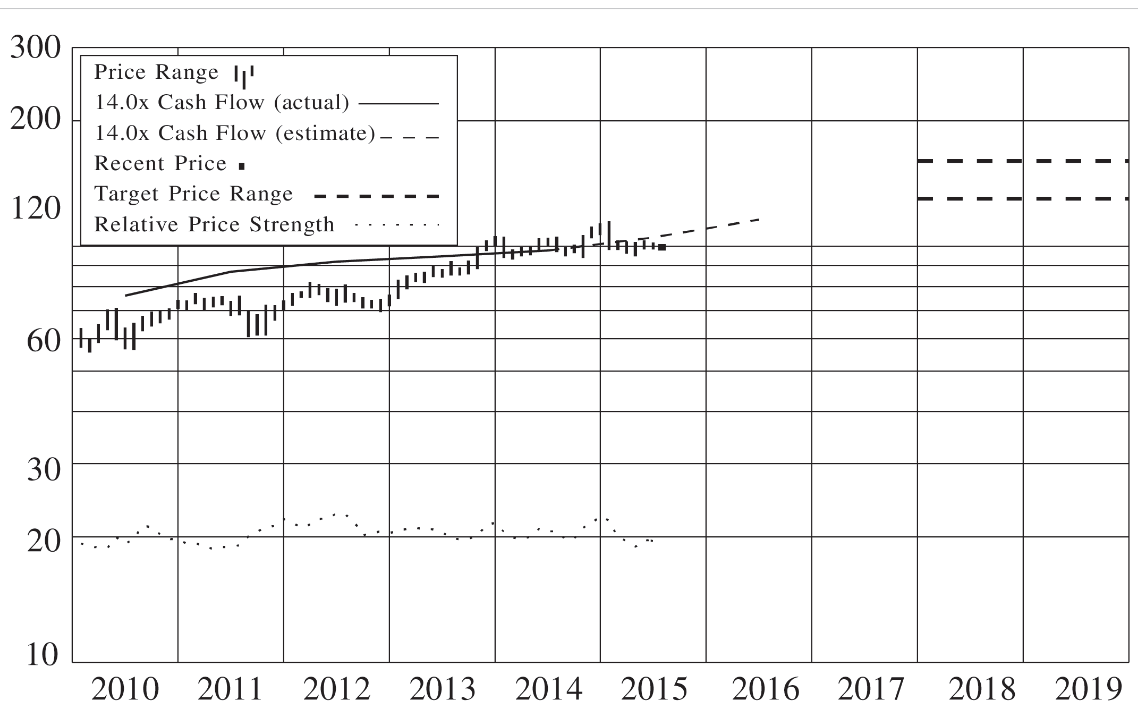
Value Line Ranks & Projections	
Timeliness™ (A)	3
Safety™ (B)	1
Recent Price	$99.35
2018-2020 Price Forecast	$130-$160
Footnotes are on page 24	
Company Data	
Industry	Air Transport
Exchange	NYSE
Ticker Symbol	UPS
Options	Yes
Financial Strength	A
Actual E.P.S. FY '14	$4.75
Actual E.P.S. FY '15	$5.20
Estimated E.P.S. FY '16	$5.80
Current P/E Ratio	19.1
Relative P/E (C)	0.98
Dividend Yield	3.0%
Actual Payout Ratio FY '14	54%
Shares Outstanding	901.25 million
Insider Holdings	Less than 1.0%
Institutional Holdings	12.0%
Market Cap	$89.5 billion (Large Cap)
Data As Of	June 26, 2015
Address	55 Glenlake Pkwy NE Atlanta, GA 30328
Telephone	404-828-6000
Website	www.ups.com

market, emphasizing the transport of packages between private and commercial customers, to keep the business growing. Starting in the 1950s, approvals were secured from the Interstate Commerce Commission and state authorities to serve new delivery routes. At that time, the company, in connection with major airlines, began to offer two-day air delivery service, called *UPS Blue Label Air,* between the East and West Coasts. By 1975, management had obtained federal permission to serve all of the 48 contiguous states. Deregulation of the domestic airline industry in the 1980s led to the company establishing UPS Airlines to ensure coverage of all 50 states for its overnight delivery offering. In 1985, air service was expanded to Europe. Management utilized COMPASS (Computerized Operations Monitoring, Planning and Scheduling System) technology to assure efficient, reliable service. By 1990, UPS had become a truly international carrier, serving the Americas, Europe, Africa, the Middle East, and the Pacific Rim.

Into the 1990s, the company adopted technologies to better manage its growing delivery volume. Handheld computers, called Delivery Information Acquisition Devices, allow UPS vehicle drivers to record and upload data to the corporate network, stay in contact with their managers, keep abreast of schedule changes, and avoid traffic congestion. Customized vehicles help to maintain delivery efficiency. UPSnet, a data communications network, backed by a dedicated satellite, facilitates deliveries around the world. Additionally, package tracking services, via ups.com, have become popular with customers. During the decade, UPS also began to broaden operations to include supply chain management solutions; small acquisitions helped to build the new operation. This led to the formation of UPS Logistics Group in 1995. That same year, the purchase of SonicAir allowed the carrier to offer same-day, next-flight-out, and

United Parcel Service, Inc. Price Chart

Share Prices	2010	2011	2012	2013	2014	2015
High	73.9	77.0	81.8	105.4	113.1	114.4
Low	55.8	60.7	69.6	75.0	93.2	94.9



guaranteed-8:00 a.m.-overnight services. The creation of UPS Capital launched a line of financial services. By going public in 1999, the company gained access to capital to fund internal and external expansion.

During the first decade of the new millennium, UPS Logistics Group evolved into a larger entity, called UPS Supply Chain Solutions, which helped customers to manage their freight, logistics, finances, and mail. Such offerings have been extended to markets in South America, Europe, and Asia. Early in that decade, UPS ventured into the retail sector by acquiring Mail Boxes Etc., a global franchisor of shipping, postal, and business service centers. Each of these centers is now identified as *The UPS Store.* Also, in the current decade, the company has enhanced its capabilities by expanding the Worldport delivery hub in Kentucky and the European hub in Germany; delved deeper into China's market; and acquired assets in the Latin America heavy freight (Menlo Worldwide Forwarding), North America ground freight (Overnite), and the U.K. and Poland delivery markets. Importantly, a new air hub in Taiwan, serving the lucrative intra-Asia, Asia-to-Europe, and Asia-to-U.S. corridors, has commenced operation. An increasing presence in Brazil and Mexico augurs well for long-term business. Also, the company recently bought i-parcel, LLC, an entity that lets organizations around the globe customize their e-commerce sites according to local preferences, and Belgium-based Kiala, a retail e-commerce operation that expands the carrier's access point network in Europe. Over its long history, UPS has acquired more than 40 companies.

Strategy

UPS is trying to position itself to benefit from positive market trends. The carrier actively lobbies for the creation and expansion of free trade agreements. Going forward, international trade likely will advance at a faster pace than U.S. and global gross domestic product (GDP) growth. As the world becomes more interconnected and dependent on trade, and customers build out their operations, UPS aims to secure additional business by leveraging its extensive service network and productivity enhancing technologies. Over the next ten years, developing nations will probably account for a greater portion of international GDP growth and trade. Management plans to invest in locations where customers are increasing their presence the most. In the past decade, the company has worked to become a meaningful player in the China, Poland, and Turkey markets and, ahead, intends to gain more relevance in the Middle East, Latin America, Africa, and Eastern Europe. Also noteworthy, in 2013, the International Package segment moved to enlarge its palletized shipping service (items weighting 150 pounds or more) across all markets under the *Worldwide Express Freight* offering. Furthermore, in that year, the segment expanded the availability of its *UPS Worldwide Expedited* service that provides two-to-five business day delivery.

Management sees a rising need for specific services, and will sustain efforts to tailor offerings for customers. Key market categories include manufacturing, retail, government, professional and consumer services, healthcare, and high technology. UPS strives to keep up with industry trends to help its customers strategize, improve logistics, and compete. In another positive trend, businesses are turning to the outsourcing of logistics. The carrier endeavors to become an integral part of a customer's supply chain by customizing transportation, freight forwarding (contracted shipping), warehousing, distribution, and post-sale services. Such services provide high degrees of visibility and control in execution, which result in improved customer confidence. Importantly, aiming to secure new business in the healthcare arena, UPS recently added several shipping locations in the United States and completed the acquisitions of Polar Speed

Distribution, a U.K.-based transporter of medicines and medical devices, and Poltraf, a logistics company in Poland serving pharmaceuticals and medical device producers. Also, an ongoing shift in the traditional retail business venue toward e-commerce is raising demand for residential deliveries. The carrier has developed tech solutions well suited to the online marketplace, spanning from *UPS SurePost,* a low-cost service offering, to *UPS My Choice,* a feature-rich solution. Notably, *UPS My Choice,* with real-time status alerts, gives customers the ability to direct the timing and location of each delivery; deliveries may also be directed to UPS access locations (e.g., *The UPS Store*) for extended-hour drop-off or pickup.

Technology augments UPS's strategy. Currently, the carrier is deploying mobile telematics data-collection technology beyond its domestic vehicle fleet to the international market. Telematics provide truck maintenance, fuel economy, emissions, performance, and driver safety data, thereby supporting productivity. Also, use of the ORION (On-Road Integrated Optimization & Navigation) system, which determines the best possible delivery routes, is becoming widespread in the network. NGSS (Next Generation Small Sort) is another technology that is speeding up and boosting the accuracy of package sorting. There are other technologies that benefit customers. UPS marketplace shipping allows sellers to use ups.com or *WorldShip* (a desktop application), which are integrated with eBay, Amazon, and PayPal, to execute and monitor deliveries. *UPS Quantum View* facilitates the management of shipping, tracking, volume planning, third-party costs, and delivery notification. *UPS Paperless* and *UPS TradeAbility* help customers to manage documentation and shipping. The *UPS Billing Center* can be used for billing and payment processing. *UPS Developer Kit* provides for the interface of UPS applications with customers' internal processes. In the business-to-consumer venue, aside from the UPS access point locations and *UPS My Choice* offering, the company has made available *Global Locater,* an online drop-off and pickup service. Lastly, *UPS Mobile* lends access to a broad range of UPS services via smartphones and other handheld devices.

Given that online retail sales are expected to double by 2020, last year management invested more than $1 billion in the U.S. Domestic Package segment to better handle increasing volume, especially during peak periods. The company was caught off guard leading up to Cyber Week (the retail buying period before the late-year holiday season) in 2013. In response, UPS improved ground and air delivery operations, added new vehicles and trailers, stepped-up facility automation, adopted enhanced process technologies, made staffing changes, and updated its website. These actions led to a smoother, though not optimal, holiday delivery season in 2014. The carrier is continuing its efforts to better plan for peak business periods. Low-yielding accounts are being deemphasized. New dimensional-weight billing (determined by the package/space relationship) is showing much promise for improved revenue/cost efficiency.

Operating Trends

In the five-year term ending in 2014, UPS posted average annual top-line growth of 4.1%, with the domestic, international, and supply chain segments turning in respective gains of 4.8%, 3.9%, and 2.0%. Adjusting for unusual items, the company's operating margin (before depreciation and amortization) remained healthy, keeping within 15.5% to 16.0% of sales; the net profit margin held firm in the upper-7% range. Noncash, pre-tax mark-to-market accounting charges, related to employee defined-benefit plans, were substantial in 2012 ($4.83 billion) and 2014 ($1.06 billion). Also, a one-time charge ($1.1 billion) for changes to the company's "Health & Welfare" plan, negotiated with the Teamsters union, was recorded in 2014. (UPS has 435,000 employees, 62% of whom are unionized.) Excluding these charges, from 2010 to 2014, UPS's bottom line advanced at a strong annual rate of 7.5%, and the return on total capital stayed in the low 20% range, which was a good measure higher than those of key competitors.

Last year, the U.S. economy expanded at a modest pace, and UPS reported good volume growth, supported by strong activity in the e-commerce and omni-channel (or multi-distribution channels) venues. The retail and business-to-consumer sectors were favorable standouts. In the international arena, business was hurt by moderate growth in Europe. Slower growth in China, a higher proportion of intra-regional trade, and industry overcapacity in certain trade lanes hurt the premium/low-cost service mix in Asia. During the year, management worked to boost operating flexibility, increase delivery capacity in the most promising areas, upgrade facilities, lift network yields, improve operating efficiency, contain costs, and implement technologies (e.g., ORION).

At U.S. Domestic Package (62% of the top line and 63% of operating income), revenues improved by 5.2% in 2014, with improved volume (most notably from *SurePost*) and higher shipping rates offsetting a less favorable business mix and reduced fuel surcharges (due to lower diesel costs). Greater demand for low-margined lightweight package deliveries, versus more profitable heavy package services, affected the revenue mix. This segment's operating margin (after depreciation and amortization) narrowed by 90 basis points, to 12.6%. Labor costs increased because of higher wages and benefits, stepped-up training, and growth in the workforce. Higher costs stemming from the use of contract carriers (e.g., rail operators) and severe weather also cut into margins. Efficiency gains partially made up for these negatives. (Margins strengthened in the first quarter of this year.) International Package (22%, 27%) revenue growth benefited from healthy volume (thanks to exports out of Europe and Asia), rate hikes, and elevated fuel charges (due to increased air volume), but was restrained by a weaker service mix and negative foreign currency exchange. Revenue advanced 4.5%. The operating margin widened by 20 basis points, to 14.7%, supported by better productivity. (Here, too, profitability improved in the 2015 March period.) Last year, Supply Chain & Freight (16%, 10%) reported a 5.1% revenue gain. Growth across the LTL, forwarding and logistics, freight, and other business lines (*The UPS Store,* UPS Capital, and UPS Customer Solutions) was generally consistent with that of the segment. The adjusted operating margin improved by 10 basis points, to 7.6%. (Investment in operations pressured margins in the initial 2015 quarter.) Cash from UPS operations tallied $5.7 billion in 2014, down from $7.3 billion in 2013. This decline was a result of the above-mentioned charges and higher pension contributions and settlements related to the carrier's post-retirement plan. We note that these charges also were largely responsible for a drop in shareholders' equity from $6.5 billion in 2013 to $2.2 billion in 2014. Notwithstanding the charges, there was sufficient free cash flow (after capital spending) to keep dividend hikes and stock buybacks on track.

This year, considering current business trends, we look for revenues to advance 3%, to $60 billion, and share net to rise 10%, to $5.20. Margins likely will improve, too. Both cash from operations and share equity ought to begin to recover. To 2018-2020, assuming steady growth in the global economy, we project that the top and bottom lines will progress at stronger rates. Cash flow should build, providing for dividend increases and share repurchases. UPS's return on total capital may well remain among the best in the industry. Investors stand to reap worthwhile and well-defined stock returns over the long run. ■

Income Statement Data (in millions, excluding per-share amounts)	2014	2015	2016	2017	2018	2019
Revenues	$58,232	*$60,000*	*$62,500*	*$65,500*	*$69,250*	*$73,500*
Operating Expenses	44,635	*45,600*	*47,188*	*49,125*	*51,591*	*54,390*
Gross Profit	$13,597	*$14,400*	*$15,313*	*$16,375*	*$17,659*	*$19,110*
Operating Expenses	4,538	*4,800*	*5,013*	*5,260*	*5,575*	*5,902*
Operating Income	$9,059	*$9,600*	*$10,300*	*$11,115*	*$12,084*	*$13,208*
Depreciation	1,923	*2,050*	*2,150*	*2,250*	*2,475*	*2,625*
Interest Expense	353	*355*	*355*	*350*	*350*	*350*
Other Income	22	*25*	*25*	*30*	*35*	*40*
Pre-Tax Income	$6,805	*$7,220*	*$7,820*	*$8,545*	*$9,294*	*$10,273*
Income Taxes	2,412	*2,563*	*2,776*	*3,017*	*3,272*	*3,596*
Effective Tax Rate	35.4%	*35.5%*	*35.5%*	*35.3%*	*35.2%*	*35.0%*
Minority Interest	—	—	—	—	—	—
Equity Income	—	—	—	—	—	—
Preferred Dividends	—	—	—	—	—	—
Net Income	$4,393	*$4,657*	*$5,044*	*$5,529*	*$6,023*	*$6,677*
Diluted Shares	*924.00	*895.00*	*870.00*	*850.00*	*825.00*	*800.00*
Diluted Earnings per Share	$4.75	*$5.20*	*$5.80*	*$6.50*	*$7.30*	*$8.35*

**Includes 201 million Class A shares held by employees and retirees and 705 million Class B shares traded publicly.*

Percentage Analysis	2014	2015	2016	2017	2018	2019
Gross Margin	23.3%	*24.0%*	*24.5%*	*25.0%*	*25.5%*	*26.0%*
Operating Margin	15.6%	*16.0%*	*16.5%*	*17.0%*	*17.5%*	*18.0%*
Pre-Tax Margin	11.7%	*12.0%*	*12.5%*	*13.0%*	*13.4%*	*14.0%*
Net Margin	7.5%	*7.8%*	*8.1%*	*8.4%*	*8.7%*	*9.1%*

All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are *Value Line* estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 24.

Average Annual Rates of Growth
(2014 to 2019)

Sales: *5.0%*

Gross Profit: *7.0%*

Operating Income: *8.0%*

Earnings per Share: *11.5%*

Flow of Funds Data (in millions)

	2014	2015	2016	2017	2018	2019
Cash Flow	$6,308	*$6,707*	*$7,194*	*$7,779*	*$8,498*	*$9,302*
Debt Financing	1,525	*1,600*	*1,000*	*1,000*	*1,000*	*1,000*
Pf'd. Equity Financing	—	—	—	—	—	—
Com. Equity Financing	274	*275*	*280*	*290*	*300*	*310*
Other	(2,023)	*2,913*	*2,901*	*2,581*	*2,128*	*1,637*
Total Funds In	$6,084	*$11,495*	*$11,375*	*$11,650*	*$11,926*	*$12,249*
Capital Spending	$2,328	*$3,000*	*$3,125*	*$3,275*	*$3,450*	*$3,650*
Other Investments	88	*100*	*100*	*125*	*125*	*150*
Dividends Paid	2,366	*2,600*	*2,650*	*2,750*	*2,850*	*2,950*
Debt Retired	1,694	*1,964*	*1,500*	*1,500*	*1,500*	*1,500*
Pf'd. Equity Retired	—	—	—	—	—	—
Com. Equity Retired	2,695	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*
Total Funds Out	$9,171	*$10,664*	*$10,375*	*$10,650*	*$10,925*	*$11,250*
Yearend Working Capital	$3,169	*$4,000*	*$5,000*	*$6,000*	*$7,000*	*$8,000*

Historical Balance Sheet Data (in millions)			
	2013	2014	3/31/15
Cash & Equivalents	$5,245	$3,283	$6,417
Receivables	6,502	6,661	5,724
Inventories	—	—	—
Other	1,640	1,864	1,774
Total Current Assets	$13,387	$11,808	$13,915
Net Property, Plant	17,961	18,281	17,901
Intangible Assets	2,965	3,031	2,984
Other	1,899	2,351	2,532
Total Assets	$36,212	$35,471	$37,332
Payables	$2,478	$2,754	$2,055
Debt Due	48	923	3,163
Taxes Payable	—	—	—
Other	4,605	4,962	5,392
Total Current Liabilities	$7,131	$8,639	$10,610
Long-Term Debt	10,824	9,864	9,941
Other Liabilities	11,783	14,827	14,952
Stockholders' Equity	6,474	2,141	1,829
Total	$36,212	$35,471	$37,332

Capitalization & Returns on Capital (In millions)						
	2014	2015	2016	2017	2018	2019
Long-Term Debt	$9,864.0	*$9,500*	*$9,000*	*$8,500*	*$8,000*	*$7,500*
Stockholders' Equity	$2,141.0	*$2,500*	*$3,500*	*$4,500*	*$5,500*	*$7,000*
Return on Total Capital	38.1%	*40.3%*	*41.8%*	*43.9%*	*45.9%*	*47.3%*
Return on Equity	NMF	*NMF*	*NMF*	*123%*	*110%*	*95.4%*

Quarterly Revenues (in millions)					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Yr.
2012	$13,136	$13,349	$13,071	$14,571	$54,127
2013	13,434	13,507	13,521	14,976	$55,438
2014	13,779	14,268	14,290	15,895	$58,232
2015	13,977	*14,500*	*14,750*	*16,773*	*$60,000*
2016	*14,500*	*15,100*	*15,400*	*17,500*	*$62,500*

Quarterly Revenue Growth					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Yr.
2013	2.3%	1.2%	3.4%	2.8%	2.4%
2014	2.6%	5.6%	5.7%	6.1%	5.0%
2015	1.4%	*1.6%*	*3.2%*	*5.5%*	*3.0%*
2016	*3.7%*	*4.1%*	*4.4%*	*4.3%*	*4.2%*

Quarterly EPS[D]					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Yr.
2012	1.00	1.15	1.06	1.32	$4.53
2013	1.08	1.13	1.16	1.24	$4.61
2014	0.98	1.21	1.32	1.24	$4.75
2015	1.12	*1.27*	*1.38*	*1.43*	*$5.20*
2016	*1.24*	*1.42*	*1.54*	*1.60*	*$5.80*

Quarterly EPS Growth					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Yr.
2013	8.0%	-1.7%	9.4%	-6.1%	1.8%
2014	-9.3%	7.1%	13.8%	Nil	3.0%
2015	14.3%	*5.0%*	*4.5%*	*15.3%*	*9.5%*
2016	*10.7%*	*11.8%*	*11.6%*	*11.9%*	*11.5%*

Quarterly Dividends Paid					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Yr.
2011	0.52	0.52	0.52	0.52	$2.08
2012	0.57	0.57	0.57	0.57	$2.28
2013	0.62	0.62	0.62	0.62	$2.48
2014	0.67	0.67	0.67	0.67	$2.68
2015	0.73	0.73			

Footnotes are on page 24

Other Notable Stock Selections

Owens & Minor, Inc.

Owens & Minor (NYSE: OMI) was first established as a drug wholesale business in 1882 by salesmen Otho O. Owens and G. Gilmer Minor. The company has expanded via internal and external means. Over the decades, under the Minor family's leadership, several acquisitions were completed. Most visibly, the purchase of Bodeker Drug in 1950 helped to increase scale in the wholesaling market and the buyout of A&J Hospital Supply in 1966 marked O&M's entry into the medical/surgical distribution arena. The A&J buyout was followed by the acquisition of Marks Surgical in 1971. That same year, the company's stock was publicly listed on the over-the-counter market. (O&M common shares began trading on the NYSE in 1988.) The Virginia-headquartered organization built out its coverage of the southern United States and, in time, became a national industry player. Importantly, in 1985, it secured a major contract with Voluntary Hospitals of America. In 1989, O&M, with the addition of National Healthcare, became the second-largest domestic distributor of medical/surgical supplies. The wholesale drug business was sold in 1992 and, in the following year, operations doubled in size through the purchase of distributor Stuart Medical. Other acquisitions in the early part of the new millennium included McKesson's acute care operation (2006), Burrows (2008), and Medical Action Industries (2014). Over its history, management focused on improving processes with technology; IBM and Perot Systems were key contributors to internal systems.

Currently, Owens & Minor's sales are progressing toward the $10-billion mark and net profits are nearing $135 million, on an annual basis. As these figures indicate, the business is narrow-margined, heavily dependent on volume. O&M's sizable presence in the U.S. market gives it a solid competitive position. Major competitors include Cardinal Health, Medline, United Parcel Service, FedEx, and DHL. The demographic of an aging domestic population augurs well for future sales and earnings. Also noteworthy, in recent years the business has expanded via the takeovers of Movianto Group (2012), a European logistics operation, and ArcRoyal (2014), a surgical kitting (instrument sets)

Value Line Ranks & Projections	
Timeliness[(A)]	3
Safety[(B)]	2
Recent Price	$34.44
2018-2020 Price Forecast	$40-$55

Footnotes are on page 24

Dividend History & Projections										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Dividends Declared	$0.71	$0.80	$0.88	$0.96	$1.00	*$1.01*	*$1.04*	*$1.08*	*$1.14*	*$1.20*
Dividend Yield	2.4%	2.6%	2.3%	2.8%	2.9%	*3.0%*	*2.9%*	*2.8%*	*2.7%*	*2.5%*

outfit based in Ireland. These two entities now represent the company's International segment. During the past ten years, per-share sales, earnings, and gross cash flow advanced at respective average annual rates of 7.0%, 4.7%, and 7.0%. Strong cash flow allowed the dividend to increase at a rate of 13.0%. To 2018-2020, favorable top- and bottom-line momentum should continue; we project better-than-average yearly percentage total returns (share-price appreciation and dividend income) in the 10%-to-low-teens range. The board of directors has authorized common buybacks to keep the stock float fairly steady at the low-60 million-share level. Good quality (Safety: 2) O&M shares yield 3.0% and offer 4%-5% annual dividend growth over the long term. The equity is a favorite among institutions, which hold 22.4% of outstanding shares; insiders have a combined interest of 1.3%, as of the March 2015 proxy statement. (For information on the company's dividend reinvestment plan, visit www.owens-minor.com.)

Business Transformation

During the past five years, Owens & Minor has transformed its business to ensure sustained growth and profitability over the long term. In an effort to capitalize on new market opportunities, management has positioned the company to (1) be less of a distributor and more of a logistics solutions entity, (2) broaden its focus beyond the domestic market to the international arena, (3) expand the array of products supplied from commodity-like medical/surgical items to a wider universe of brand-name clinical offerings, (4) penetrate deeper into the acute care market by providing additional point-of-care services, (5) meet the needs of product manufacturers in addition to traditional service provider customers, and (6) transition from a decentralized organization serving local customers into one that can better leverage its operating network by supporting multinational organizations. Today, O&M is a leading healthcare logistics company, connecting product manufacturers with care providers. On the manufacturing side, it serves pharmaceutical companies and makers of life-science/medical devices and supplies. Point-of-care customers include hospitals, integrated healthcare systems, group purchasing organizations, and the federal government. About 74% of the global healthcare spending market is covered by O&M's existing network, which includes 60 logistics centers in 15 countries. The company has over 4,400 domestic care provider accounts and more than 1,500 manufacturing customers. A unitized delivery system supports four million-plus annual surgical procedures. Management has positioned the business to serve a larger market with ample opportunities in the global buy-and-sell product, packaging, and fee-for-service categories. Key customers are Novation, MedAssets, Premier, and HealthTrust Purchasing Group. Covidien and Johnson & Johnson Health Care Systems are important product suppliers.

Both the manufacturing and care provider segments of the healthcare industry are consolidating due to competition, cost pressures, and new federal regulation. O&M is enhancing its ability to aggregate the shipment of various supplies and improving its distribution network. The company has prudently invested in automation, regional distribution centers, cold-chain supply systems, a singular information-technology platform, and strategic acquisitions to effectively compete in the marketplace. Among the services offered to manufacturers are warehousing, transportation, order-to-cash processing, value-added sourcing, kitting and packaging solutions, and regulatory compliance. Those marketed to care providers include pallet/bulk deliveries (under the *Dockpoint* brand), national Logic of Unit Measure (LUM) shipping to the local point of care (*Stockpoint*), specialized packaging for specific medical procedures

(*Carepoint*), value analysis, product sourcing, kitting and packaging, and strategic logistics. A unitized delivery system boosts O&M's appeal by enabling the supply of selected products to a unique customer stocking position or for a specific patient procedure. Under this system, manufacturers benefit from improved market access, product bundling, standard-of-care support, outsourcing, and enhanced inventory turnover. Point-of-service providers gain the ability to better track, control and reduce procedure costs; increase labor productivity; benefit from greater product availability; save on storage space; and improve inventory management.

The recent acquisitions of Medical Action and ArcRoyal have given the company increased scale in supplying custom procedure trays (CPTs) and minor procedure kits and trays. Medical Action develops, assembles, markets, and supplies these products, domestically, to acute care hospitals; physician, dental and veterinary offices; out-patient surgery centers; long-term care facilities; and laboratories. ArcRoyal offers a wide array of customized CPTs to manufacturers, distributors, and hospitals in the European market.

Owens & Minor has positioned itself well as an intermediary between manufacturers of medical products and care providers. A reinvigorated operating strategy, realigned organizational structure, and optimized network, supported by recent investments, make the company a strong competitor, with sought-after capabilities, in its market niche. Ahead, O&M stands to gain from new opportunities in the manufacturer segment and favorable demographic trends in the point-of-service sector. Sustained strong share-earnings growth appears likely over the long run.

Operating Performance Metrics

In 2014, O&M posted a year-over-year net sales gain of 3.0%, to $8.95 billion. Excluding the contributions from recent acquisitions, sales were up 2.6% at the Domestic segment (95% of the total) and 25.5% at the International segment. The core segment saw expansion of existing business and new accounts in the large healthcare provider category more than offset reduced receipts from small customers. Domestic was affected by conservative spending on the part of healthcare service consumers. International benefited from solid demand in the fee-for-service area (about two-thirds of segment revenues), increased contract signings in the buy/sell line, and positive foreign currency exchange. O&M's gross margin widened by a modest eight basis points, to 12.39%, last year, thanks to growth in the fee-for-service line at International and higher volume and recent acquisitions at Domestic. The positive influences made up for narrower margins on new and renewed domestic contracts. Selling, general and administrative expenses rose 30 basis points, to 9.82% of sales. Domestic recorded higher expenses related to employee compensation, warehouse activity, and minor legal issues. International realized increased outlays for salaries, deliveries, and the integration of a sizable U.K. customer into the account base. Acquisitions represented nearly 18% of the increase in SG&A. The company's operating margin (before depreciation and amortization) was 2.3% in 2014, versus 2.74% in 2013; excluding acquisition and restructuring charges and unusual items, the respective ratios were 2.66% and 2.88%.

Further down the profit-and-loss statement, depreciation and amortization increased significantly (by 12.9%) in 2014 because of more software placed in service and acquisitions. Interest expense also rose markedly (39%) mainly due to debt refinancing and modestly higher investment funding. The effective tax rate was greater, given an increased proportion of overseas business. For the year, O&M reported GAAP (generally accepted accounting principles) diluted share net of $1.06, compared to $1.76 in 2013. Adjusted for acquisitions and nonrecurring items, share net was $1.76 in 2014 and $1.90 in 2013. In the current year, management has guided that adjusted earnings will fully recover to $1.90-$1.95 a share, and we concur with this assessment. GAAP income will probably be somewhat lower, considering the impact of nonrecurring items. Sales may well improve by 2.75%, to $9.7 billion, this year.

Operations were off to a decent start in 2015. First-quarter sales advanced 6.0%, year over year, to $2.39 billion, and adjusted share net was $0.44, which was even with the prior-year figure. GAAP earnings came in at $0.30 a share, down from $0.41 in the same 2014 period. The negative comparison was due to restructuring charges. Excluding the contribution from acquisitions, sales increased 4.0%. O&M's Domestic segment was the key driver of growth from continuing operations. The trend of expanded existing-customer and new account business in the large healthcare provider category, offsetting soft small customer sales, persisted. Notably, in the healthcare industry, consumer service utilization improved. Domestic segment sales rose 6.3%, to $2.285 billion. Despite higher sales activity costs, the operating margin held steady at 2.1%, adjusting for a $5.3-million antitrust settlement gain recorded in the same 2014 quarter. A new regional distribution center in southern California augurs well for future logistics business.

The International segment suffered a sales decline of 1.8%, to $105.56 million, largely attributable to a significant foreign exchange headwind of $17 million. Before acquisitions and currency translation, sales were up 3.0%. Growth from ongoing operations should be somewhat slower this year, as a big multinational customer shifts its business from the buy/sell line to the fee-for-service category. The segment earned $400,000 in the initial 2015 quarter, versus a loss of $3.2 million one year ago. Consolidation of certain regional operations, closures of nonessential facilities, and an enhanced management reporting structure helped to turn a profit in the two recent quarters. The integration of ArcRoyal's packaging assets has gone well, and the company expects to better leverage expanded European operations at the bottom line, going forward. On a somewhat negative note, management, unable to secure a favorable business arrangement, had to terminate an agreement with a large U.K. customer. The related impact on results should be limited. In the latest reporting period, O&M's cash on the balance sheet increased more than $100 million, year over year, to $159.1 million, and cash generated from operations of $169 million was up by $76 million. Good working capital controls supported favorable cash generation. During the next few years, we look for operating cash flow to hold within the healthy $150 million-$175 million range.

The recent acquisitions and restructuring actions should lead to favorable results ahead. In 2016, we estimate earnings of $2.10-$2.15 a share, on sales of $10.0 billion. Over the next three to five years, we project annual per-share top-line gains in the low- to mid-single digits (excluding acquisitions), as both the bottom line and cash flow progress at low-double-digit rates. Management plans to keep capital spending relatively steady and likely will maintain the current balance in the capital structure. (The long-term debt-to-total capital ratio is now a very manageable 37%.) A significant amount of free cash flow will continue to go toward dividend hikes and incremental share buybacks to the benefit of stockholders. Currently, the board of directors is searching for a successor to President and CEO James L. Bierman who plans to retire in the near term. We don't expect any major changes to the company's promising strategy anytime soon. ■

Other Notable Stock Selections

Meredith Corp.

Publishing, media, and marketing services company Meredith Corp. (NYSE: MDP) was founded in 1902 by Edwin Thomas Meredith, who launched the *Successful Farming* magazine. Some 20 years later, Mr. Meredith built on his initial publishing success by introducing the *Fruit, Garden and Home* publication, which had a home and family orientation. In 1924, that magazine was renamed *Better Homes and Gardens (BH&G). BH&G* quickly became popular with women, and amassed considerable demand in the domestic market. A notable extension of this product was *The Better Homes and Gardens Cook Book,* first sold in 1930. One other early milestone for the company was its entry into television broadcasting in 1948. Over the years, while maintaining a focus on the female market, Meredith has evolved into a global media organization. Acquisitions, partnerships, and licensing agreements have been critical in broadening the company's market reach. Indeed, a partnership was recently inked with Martha Stewart Living Omnimedia to publish the *Martha Stewart Living* magazine. Management is now selectively expanding the traditional publication business and positioning operations to capitalize on the growing digital media market.

Meredith shares began trading publicly in 1946, and the company has paid a dividend since 1947. Though lagging the broader market for much of the past decade, the stock's price momentum has improved in recent years. To 2018-2020, we look for this equity to outperform the market. Prospects for solid revenue gains and better operating leverage at the bottom line support this premise. Cash flow should continue to exceed normal funding requirements for ongoing operations by a good margin. The stock yields 3.5%, and offers the potential for high-single-digit annual dividend growth over the long term. Market risk is about average, as reflected in the issue's Safety Rank of 3. (For information on the company's dividend reinvestment program, go to www.meredith.com.)

Value Line Ranks & Projections	
Timeliness(A)	3
Safety(B)	3
Recent Price	$53.22
2018-2020 Price Forecast	$60-$90

Footnotes are on page 24

Dividend History & Projections	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Dividends Declared	$0.91	$0.97	$1.40	$1.58	$1.66	*$1.78*	*$1.89*	*$2.06*	*$2.24*	*$2.40*
Dividend Yield	2.9%	2.9%	4.8%	4.4%	3.6%	*3.5%*	*3.5%*	*3.4%*	*3.3%*	*3.2%*

Company Overview

Iowa-based Meredith runs two segments: National Media and Local Media. National Media likely represented 65% (or $1 billion) of revenues in fiscal 2015 (ended June 30th) and 43% ($150 million) of EBITDA (earnings before interest, taxes, depreciation & amortization). (In fiscal 2014, National made up 73% of revenues and 50% of EBITDA.) This segment disseminates branded content in the form of print magazine, digital, and mobile media, and through licensing agreements, database activities, and business-to-business marketing. The focus is on selling home, family, and personal-lifestyle themed magazines to women. Among the 22 subscription magazines published are *Better Homes and Gardens, Parents, Family Circle, Allrecipes, EveryDay with Rachael Ray,* and *Family Fun*. Additionally, National Media markets 120 special interest publications, mostly under the *BH&G* line; examples are *American Patchwork & Quilting, Country Gardens,* and *Do It Yourself.* The company has more than 40 websites, 30 mobile-optimized websites, and 20 mobile applications, all with third-party advertising. *Allrecipes* is heavily represented in the digital format, and is accessible across 23 countries. Furthermore, National is involved in digital and customer relationship marketing and has a large marketable consumer database.

National Media has domestic coverage of 100 million women, divided into the youth, new nesters, young family, established family, and wealth categories. With regard to females, the segment is able to reach 60% of the millennial generation (born 1979-1995), 67% of generation Xers (1965-1978), and 73% of Baby Boomers (1946-1964). Magazine advertising revenues mostly stem from consumer product companies. Many of Meredith's magazines are sold in regional or demographic configurations, enabling advertisers to customize their messages. Advertisements take the form of run-of-press displays (within the published pages) or preprinted inserted pages. A marketing unit, Meredith 360°, provides clients and agencies access to all of the company's media platforms. Most magazines are sold by single copy; those found on newsstands (including supermarkets and other stores) are distributed via wholesalers. In the digital arena, the company's applications scored an impressive 31 million cumulative downloads in fiscal 2014. Digital traffic across all platforms averaged 51 million monthly visitors in the year. The segment reached 13 million people on Facebook, two million on Twitter, and another two million on Pinterest. In fiscal 2014, digital orders for print magazines increased by 18%. The company now receives about one-third of print orders online.

The National Media segment garners extra revenue from digital and customer relationship marketing, custom publishing projects, licensing agreements, ancillary products and services, and books. Meredith Xcelerated Marketing (MXM) provides extensive services to leading brands, such as *Kraft, Lowe's, Honda, Chrysler, Kia,* and *Allergan*. The unit specializes in placing content on mobile websites and social media, customer relationship management, and advanced market analytics. MXM has offices located in New York, Los Angeles, Washington D.C., and Dallas. A partnership with iris Nation Worldwide, called Meredith-iris Global Network, lends access to other global markets, most visibly Europe and the Asia-Pacific region. Meredith licenses trademarks with several retailers and manufacturers to improve the international availability of its brands. Two major licenses, both for *BH&G* items, are with the retailer Wal-Mart Stores and Realogy Corp., a North American residential real estate franchise. Publication titles are distributed to 70 countries, including Australia, China, Greece, Indonesia, Italy, Philippines, Russia, and Turkey. Meredith has licensed exclusive rights to its flagship *BH&G* offering and other brands to a book publisher that is responsible for design, printing, marketing, distribution, and inventory management; the company receives guaranteed minimum royalties based on net sales.

Meredith's Local Media segment runs 17 company-owned TV stations and operates one other station, all within the United States. Local has eight television stations affiliated with CBS, four with FOX, two with MyNetworkTV, one with NBC, and one with ABC; another is independent. Programming fees (recouped in retransmission fees charged to distributors) are paid to the major networks. The segment also develops related digital and mobile media and has a video creation department. Digital operations, concentrating on news, sports, and weather, are comprised of 12 websites, two mobile-optimized sites, and 27 applications. Revenues originate from local and national commercial advertising; seasonal political advertising; the retransmission of television signals by satellite systems, cable networks, and telecom companies; TV-station management fees; digital advertising on station websites and mobile sites; and advertiser payments for certain services. A third-party firm is responsible for national advertising sales, and each station markets commercial time on a local basis. Local newscasts help to generate 30%-40% of advertising revenue, thus the stations aggressively compete for viewer ratings. The segment offsets a portion of local and syndicated programming fees by producing some of its own news and entertainment content. Meredith Video Studios (MVS) develops and produces content for the television, online, custom, billboard, and other distribution venues. *The Better Show,* available to 80% of U.S. households, is the most successful daily lifestyle program created by MVS. Local Media competes for market share against other television stations, radio stations, cable-TV service providers, newspapers, and various websites.

Recent Operating Results

In fiscal 2014, given the effects of a mature publishing industry, Meredith's revenues, at $1.47 billion, were flat, and GAAP (generally accepted accounting principles) share net fell 8.8%, to $2.50, year over year. National Media posted a 2.7% revenue decline, comprised of a 1.6% increase in circulation receipts (31% of the segment total), a 6.4% drop-off in the advertising category (45%), and no change in other revenues (24%). Magazine advertising, hurt by weaker demand from the cosmetics, food and retail sectors, was off 7%. Online advertising realized a revenue decline of 1%. With regard to circulation revenues, higher subscriptions, supported by the expanded launch of the *Allrecipes* magazine and acquisitions of the *Parenting* and *Babytalk* publications, helped to offset lower newsstand business. Strong gains in licensing revenues, thanks to improved business with Wal-Mart, made up for softness at MXM. Operating expenses held steady, given reduced paper costs (due to lower volume and prices) and payroll and postage expenses, offset by increased circulation outlays associated with agents. National recorded a $20.8 million pretax restructuring charge, including the impairment of intangibles, severance pay, and asset write-downs. The charge was largely responsible for a 9.3% decline in EBITDA (before unallocated corporate expenses).

Last fiscal year, Local Media scored a 7.1% year-over-year top-line advance, as improvements in commercial advertising (72% of the segment total) and other revenues (27%) overcame a sharp decline in political advertising (1%). (Political advertising is subject to a biennial cycle, with revenues being higher during odd-numbered fiscal years.) Acquisitions provided much of the top-line commercial gain. With a view to key sectors, activity was healthy in automotive, telecommunications, and retail, while there was more of a drag from electronics, drug, and education. Online advertising revenues were up a very respectable 15%. Other revenues rose due to renegotiations of retransmission contracts (at higher fee levels) in the prior fiscal year. The segment's operating expenses jumped 15% in fiscal 2014 because of increases in programming fees paid to networks, acquisition outlays, labor costs, and restructuring charges. Local Media's EBITDA fell 4.5%, which was primarily a result of the revenue mix favoring low-margined commercial advertising, as opposed to more-profitable political business.

On a consolidated basis, Meredith's fiscal 2014 production, distribution & editorial costs held steady, as did selling, general and administrative expenses, notwithstanding higher restructuring charges. Depreciation and amortization expenses were up 32%, given restructuring activities, asset impairments, and acquisitions. Operating income slipped 12%, resulting in a 160 basis-point-contraction in the operating margin, to 12.7%. Lower net interest expense (due to more favorable rates) and taxes brought modest relief to the bottom line. (EBITDA was down 3.8% for the year.) Excluding the special items mentioned above, fiscal 2014 share net would have been $2.80, versus $2.91 in fiscal 2013, translating into a more modest decline compared to the GAAP-based performance. We note that there was sufficient cash flow to raise the declared annual dividend from $1.58 a share in fiscal 2013 to $1.68 a share in fiscal 2014.

At press time, it appeared that fiscal 2015 was a good year. (Full-year results will be reported on, or around, July 30th.) Through the first nine months, Meredith achieved an 8.4% year-over-year increase in revenues, to $1.17 billion, and GAAP share net improved by 29%, to $2.08. Excluding items related to asset integration and the realignment of certain businesses, share net gained 23%, to $2.36. Strong growth in advertising, internal expansion, and acquisitions supported results. National Media reported 2.8% lower revenues, but third-quarter receipts were 2.1% higher, extending a positive trend. The segment's EBITDA was off 5.4%; however, this measure is now showing signs of stability. The inclusion of Marthastewart.com and acquisitions of Shape.com, mywedding.com, and Selectable Media (a New York ad firm) gave a nice boost to digital advertising, as did growth at Allrecipes.com. Digital traffic stepped up to 70 million unique monthly visitors. Total advertising revenues strengthened due to recovering prescription drug, food, and retail business. Licensing operations benefited from more business with Wal-Mart. Also, MXM delivered higher profits. The addition of *Martha Stewart Living* magazine, launch of the *Parents Latina* publication, and enhanced *Shape* and *MORE* magazines should help to lift results, going forward. Revenues at Local Media advanced 39%, thanks to strong digital advertising business, growth in retransmission fees, and higher commercial advertising receipts, bolstered by the acquisitions of TV stations in Phoenix, St. Louis, the Mobile-Pensacola area, and Springfield, Mass. Expanded news content and the inclusion of additional networks in digital channels also lent support. Segment EBITDA was up more than 40% and the EBITDA margin was a healthy 39%. Likely ongoing acquisition activity and expanded programming augur well for the future.

For all of fiscal 2015, we estimate a 9% increase in Meredith's revenues, to $1.6 billion, and an 18% gain in adjusted share net, to $3.30. This fiscal year (a less politically active one), the company might well maintain earnings of $3.30 a share, on revenues of $1.65 billion. To 2018-2020, acquisitions, internal expansion, and stock buybacks will probably lift results. Digital media will become more important to the business. Rising cash flow ought to provide the means to fund selective expansion. The board of directors recently approved the company's 22nd consecutive dividend hike, and we believe that there are more to come. Meredith's long-term total-return potential appears worthwhile for income-oriented investors. ■

((A) The Timeliness Rank is Value Line's assessment of a stock's probable relative market performance in the 6-12 months ahead. It is computer generated, and uses input items including the company's multi-year price and earnings history, recent price and earnings momentum, and earnings surprises. All data are known and actual. Stocks ranked 1 (Highest) and 2 (Above Average) are deemed likely to outpace the year-ahead market.

(B) The Safety Rank is a measure of potential risk associated with individual common stocks. It is computed by averaging two other Value Line indexes—the Price Stability Index and the Financial Strength Rating. Safety Ranks range from 1 (Highest) to 5 (Lowest). Conservative investors may wish to purchase equities ranked 1 (Highest) or 2 (Above Average) for Safety.

(C) Relative P/E is the company's current P/E divided by the market P/E.

(D) Diluted earnings. Next earnings report due July 28th.

NOTES

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