1HFY18 Results Presentation Speakers' Notes

Slide 1

Opening slide – Tim Worner

Welcome to Seven West Media's 2018 half year financial results and thank you for joining us.

I'm Tim Worner, the CEO of Seven West Media.

Joining me here in the room today for the presentation are:

- Warwick Lynch - Chief Financial Officer,
- Kurt Burnette - Chief Revenue Officer;
- Clive Dickens - Chief Digital Officer; and
- Gereurd Roberts - CEO of Pacific

and joining us on the phone is John Driscoll, CEO of Seven West Media WA.

We will take questions at the end of the presentation.

Let's get started.

Slide 2

Disclaimer – Tim Worner

On page 2 is our disclaimer, which is customary for presentations of financial results.

Slide 3

Agenda - Tim Worner

On slide 3 is the agenda for today.

I will run through our year to date performance and outlook.

Warwick will then take you through the financial results in more detail before I review the performance of each of our businesses. Television, Seven Studios, The West, Pacific and Seven West venture investments.

Finally, we'll outline our outlook for the rest of the financial year and look at the key points of our strategy before opening up for your questions.

Slide 4

1HFY18 Performance and Outlook – Tim Worner

To slide 4 where you will see a summary of our performance over the half year and the outlook.

This half we delivered EBIT of $159.3 million, up 7.2% on the prior year underlying result.

Taking into account the cost of the 2016 Rio Olympics in the prior period, our operating expenses were down 13.8% year on year.

Underlying profit after tax increased by 5.1% to $100.7 million.

Our net debt reduced to $711 million, with leverage well within our lending covenants.

While we remain focused on growing EBIT and driving down costs – something I will talk more about next – the Board has decided to temporarily suspend our dividend.

This decision reflects a prudent approach to capital management and will give us balance sheet flexibility – something that is all-the-more important given the recent changes in media ownership rules.

Looking ahead, we maintain our guidance issued at the AGM of Group EBIT to be between $220 and $240 million for the full year.

The transformation within our company is accelerating as we reposition our core to be leaner and more agile. As a result, we have increased our cost out target from just over $100 million to more than $125 million to be realised across FY18 and FY19.

In FY18, we will deliver $40 million of cost savings, offsetting the AFL uplift and the spectrum charge, which will result in an overall small reduction in group operating costs.

In FY19, we are targeting an incremental $70 million in net reductions to group operating expenses, details of which I will cover in the next slide.

In terms of our capital position, we are targeting our net debt to reduce to $650 million by June 30.

The TV market returned to growth in the half, something I'm pleased to say has flowed through into the start of this year and we now expect market growth for the second half and the full financial year.

Seven Studios continues to perform well with double digit earnings growth powered by more program sales, while our 3rd party productions revenue was lower due to the timing of commissions.

As you know we've taken back control of our key digital assets and have been investing to build and scale new platforms. 7plus in particular has launched exceptionally well. We expect 7plus and all these assets to contribute $80 million in gross revenue in the full year.

Finally, we recently completed negotiations for a further 3-year affiliation arrangement with Southern Cross Austereo which secures us a 50% revenue share for Northern Territory and Tasmania. Our other long running affiliate agreement with Prime expires in FY19.

Next, on slide 5, I will talk in more detail about our cost-out program.

Slide 5:

Transformation – Tim Worner

We are under no illusion as to the pace of change happening in our industry, or what we have to do to match the speed of that change within our own company.

As we go through this transformation, we have a firm focus on vigorously managing our costs, seeking greater operational efficiencies right across the group.

As announced at the AGM in November, we have implemented a headcount reduction program in our television business targeting $25 million in savings to be finalised within the 2018 financial year. This initiative will continue as we right-size our business to market conditions. In addition, we announce today another big initiative. Our entire Sydney workforce – with the exception of the news and public affairs teams in their iconic Martin Place location – will be housed for the first time in one place. We are going to do this within our existing tenancy at Media City in Eveleigh.

This move will occur over the next 8 months and, together with outsourcing some activities which are not key to our competitive advantage, will result in $10 million of savings.

In the 2019 financial year we expect a further $50 million in savings from one time sports rights and another $5 million in international output deals; a sum that will grow in the future.

The West is also working hard on cost savings and has commenced the first stage of a new cost out program that will achieve a further $10 million in FY19.

Leading the transformation is Pacific, which has already reduced its annual operating costs by $25 million, with more savings to come. Important to note that's a business that this half has reduced its cost base by over 25%.

The net annual result of all this for group costs will be a small reduction for the full year after the step up in AFL rights fees, with an incremental $70 million in total savings to be gained in 2019, net of cost inflation.

I think you can probably sense that the dedication on cost control has permeated the company. We need to be fit for the rapidly changing media market and we're not stopping with just these announced programs.

Moving to slide 7, Warwick will take you through the financials in more detail.

Slide 7

Key Group Results - Warwick Lynch

Thank you, good morning.

So we're on slide 7 and the group financial results.

Seven West Media reported a statutory profit after tax for the first half of the year of $100.7 million. This is an increase of 5.2% on the prior year underlying result.

Our basic earnings per share for the half was 6.7 cents per share.

The Board has determined that it is prudent to temporarily suspend the dividend reflecting a focus on capital management and increasing balance sheet strength and flexibility.

Slide 8

Income Statement – Warwick Lynch

Slide 8 shows the income statement for the year and a reconciliation of EBIT to the statutory outcome.

Total group revenue before associates was down 10.6% to last half year, at $810.1 million.

Group operating costs declined by 13.8% to $652 million, delivering EBIT of $159.3 million, which is 7.2% better than the prior year.

Finance costs of $16.5 million are favourable to the prior year by 13.7%, due to lower borrowing costs.

Tax expense is $42.1 million, reflecting an underlying tax rate of 29.5%.

Net profit after tax of $100.7 million was 5.2% higher than the underlying result in the same period last year.

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Slide 9

Cash Flow – Warwick Lynch

SWM recorded operating cashflow of $103.6 million.

The working capital outflow primarily relates to investment in both local production and purchased programs with much of this expected to reverse in the second half of the year.

Redundancy payments were $8.8 million, and related to the transformation programs across all business units.

Net tax payments of $27.5 million were lower than prior year.

Capex is up 7.5% from the prior year at $12.8 million. Capex for the full year is forecast to be at the low end of our normal range of $30 -40 million.

Slide 10

Net Debt – Warwick Lynch

Turning to net debt on slide 10.

Net debt for the half year was $710.8 million, down by 2.1% since June 17. The group's leverage ratio is 2.3 times EBITDA and interest cover is 9.7 times.

Reflecting the focus on balance sheet flexibility and strength, total net debt is expected to fall to approximately $650 million by the end of the 2018 financial year.

Slide 11

Seven Divisional Performance – Warwick Lynch

Moving on, slide 11 covers the performance of Seven Television.

Seven experienced a softer first half in ratings with the impact of this evident in metro and regional advertising revenues (including broadcast and digital) which decreased by 9.6% to $586.7 million. The prior year comparative does include the revenues relating to the Rio Summer Olympic Games.

Costs, which also include the Rio Games impact in the prior period and the AFL rights uplift and the Rugby League World Cup in the current year period, declined by 14.1% to $477.4 million.

Seven Studios experienced a lumpy first half and revenue declined 24.1% to 38.1 million. However, the earnings grew by 11.8% as we continued to extract greater value from our investments in content, particularly higher margin finalised program sales.

TV EBIT grew by $4.4 million to $147.4 million, 3.1% higher than the prior year.

Slide 12

The West Divisional Performance – Warwick Lynch

The West's performance is outlined on slide 12.

The West has now fully integrated The Sunday Times and Perth Now and has achieved full payback on the investment in the first 12 months.

Due to continuing economic challenges in the state, local display advertising conditions are difficult, though there have been some recent signs of improvement.

Advertising revenue in The West was down 7.9% year on year.

However, circulation revenue increased by 11.4%, benefiting from the Sunday Times acquisition.

Cost control remains an ongoing focus as part of The West's transformation program. Now including The Sunday Times, costs were up 1.7% to $95.6 million but are currently subject to a wide ranging review which is targeting an annualised $10 million reduction.

EBIT declined over the half to $10.7 million.

Slide 13

Pacific Divisional Performance – Warwick Lynch

On slide 13, we show the financial performance of the Pacific business.

Although trends in print advertising markets and the impact of closed titles lowered revenue by 20.9% to $72.7 million, the rationalised portfolio and accelerated transformation plan delivered EBIT growth of 390% to $6.2 million.

Costs declined by 26.6%.

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Slide 14

Other Business and New Ventures – Warwick Lynch

Other business and new ventures is comprised of regional radio in WA, Red Live Events, our share of Yahoo7 profit and early stage investments.

EBIT prior to early stage investments was $3.5 million.

Including losses from early stage businesses, which were significantly lower than the prior period, EBIT is $2.7 million.

Now back to Tim, for the operating highlights of each of our business units, starting with Seven.

Slide 16

Seven – Tim Worner

Thanks Warwick.

Moving to slide 16.

11 years in a row we've finished on top at Seven – no question that's a good record but it has to be said 2017 wasn't our best win.

In fact, it was a tough year, our toughest in recent history.

We like to think we set the bar fairly high for ourselves and, at least in the second part of the ratings year we didn't reach those expectations.

We lost some audience share in the half, and the revenue decline followed accordingly.

We are very unhappy with this result and have taken appropriate steps, which I will get into shortly. We have intensified the focus on our core with ratings and revenue firmly in our sights. We have the new content in place for the 2018 calendar year to deliver a much stronger result.

Underpinning this, we have the biggest sport, news and drama in the country. The AFL, the breakout hit The Good Doctor and nearly 2 million Australians watching Seven News every night. In breakfast and morning television, we lead.

The prominent sports are growing on Seven:

- AFL audience on FTA grew 5 per cent in 2017 YoY
    - more women and more young men.
- Horse Racing on Seven also grew by 3 per cent YoY
    - again with a big lift in the female audience.

As we touched on earlier, we are accelerating the transformation of the cost base of our TV business – and the efficiency of our entire industry. We are working collaboratively with traditional competitors to drive consolidation and scale economies in operations where we don't compete. In TV, we expect to realise $60 million of net cost reduction in FY19, including a number of new initiatives to be announced this quarter.

Slide 17

CY18 Schedule – Tim Worner

Moving on to slide 17, we highlight our programming line up for 2018 which reinforces the breadth, depth and strength of our content offering.

This season could not have started better, with the biggest launch week ever. Seven secured a higher audience share than any other network in history, including a 42% share of people 25-54.

The Winters are attracting enormous audiences. We had a scheduling and multi platform strategy for them and it's worked. Last week we had as many viewers as Nine and Ten combined.

It is the perfect audience storm in which to launch Spartan this Sunday, which combined with MKR, The Good Doctor and AFL will lock in our Q1 leadership.

We will then make use of our next live sport launch pad, the Commonwealth Games, to cement our leadership in quarter two. We are expecting these home Games to shatter viewing records. The finals of MKR, Olivia, The Mentor, Interview with Andrew Denton, Back with the Ex and House Rules will all launch in the weeks following the Commonwealth Games.

We've invested in a number of new programs for the second half. Dance Boss, The First Wives Club and Take Me Out will join Little Big Shots, Instant Hotel and The Good Doctor plus two new stripped formats – one in the singing space and one in the makeover space – we will announce those in the coming weeks. Spectacular family entertainment shows will drive audience numbers for us across the back half.

Our new content deal with 21st Century Fox brings a mix of iconic and proven series. Shows like The Simpsons, M*A*S*H and How I Met Your Mother will add to the best of their new programming. I am confirming today that new Modern Family will be on Seven. This all adds up to a guaranteed boost in our demographic performance year on year.

7plus, which launched in December last year, will be home to all of this Fox content and more. This will build out to more than 10,000 hours of other content this year including exclusive original commissions.

Moving to slide 18.

Slide 18

Seven Digital – Tim Worner

As you know over the last two years we have progressively taken back control of our key 'direct to consumer' digital assets across our company.

We are now seeing the benefits of that strategy with digital advertising revenue at Seven on target to grow 200% YoY.

In the first half, Total Video views were up +58% to nearly 3 billion. Now with 7plus we expect that to grow faster.

We are also reshaping how we acquire and exploit our content. Broader streaming and stacking rights allow us to give viewers what they want and when they want it. That means we are now attracting greater total audiences.

In January, we had 47% share of the Broadcast Video On Demand market. Our summer of 7Tennis streaming grew 68% YoY and Olympic Winter Games is going to be bigger than the Tennis – all this on our own apps, which are delivering rapid growth in data from logged in users.

This market share and growth means we are - for the first time - building 'Addressable TV' at scale. Demand for targeted video advertisements is growing strongly and we are now able to meet it.

Slide 19

7plus Product Roadmap – Tim Worner

On slide 19, we've laid out the product roadmap for 7plus.

In addition to our own created programs, within a few months we will have over 10,000 hours of content from the world's biggest and best studios, including Fox, Disney and the BBC.

Slide 20

Seven Studios – Tim Worner

Moving to slide 20, and Seven Studios.

The timing of commissions meant the lower margin revenue from 3rd party productions was down in the period, however our high margin finished program sales increased by 16% in the period, resulting in EBIT up 11.8%.

As Australia's largest content producer with a growing global presence, we have developed more than 800 hours of premium content. There are 22 projects in development funded by global broadcasters with 55 programs that have moved into production.

In the US, our hit "My Lottery Dream Home" has consolidated its ratings success with further seasons ordered. Also announcing today, new territories producing local versions of My Kitchen Rules under license including the major markets of Germany, Israel and South Africa.

During the year we consolidated our NZ production and distribution capability with a strategic investment in that market.

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The West – Tim Worner

Moving onto The West, on slide 21

We have a new CEO and leadership team in place, who are implementing the next phase of transformation, restructuring operations, optimising the merged newsroom, and targeting ongoing, annualised cost reductions of more than $10 million.

The West is also working on a new digital subscription offering – to be launched within the 2018 calendar year.

While conditions in 2017 remained challenging driven by both structural and cyclical pressures, there are early signs of improvement in the WA economy. Despite these conditions, The West is outperforming the rest of the newspaper sector, with circulation holding steady.

The Sunday Times continues to perform well and has now generated 100% payback on its acquisition price within 12 months.

Moving on to slide 22 and Pacific.

Slide 22

Pacific – Tim Worner

As Warwick noted earlier, Pacific's focus on costs has delivered a 26% YoY saving, which in turn has led to a 390% increase in EBIT – a great result in a tough sector.

Print readership actually grew slightly over the half, with Better Homes & Gardens retaining its position as Australia's #1 magazine.

Gereurd and his team are forging ahead with their Pacific2020 transformation strategy, with a focus on building a total audience business, creating and distributing content in targeted verticals to scale audiences across every platform.

Their strategy is working, with monthly digital audiences up 28% YoY, and digital now representing 25% of total ad revenue. Pacific is now Australia's leading online lifestyle publisher.

Slide 23

Seven West Ventures – Tim Worner

Moving onto Seven West Ventures on slide 23

Our investments in early stage businesses continue to perform well with the value of our portfolio up 35% year over year. We've outlined some key highlights for some of our portfolio companies, including Airtasker's launch into the UK, the continued strong growth of Health Engine the #1 GP booking marketplace and SocietyOne the leading peer to peer lender.

All of these ventures have benefited from the power of Seven and its enormous audience reach. The team continues to identify early stage disruptive startups where we think we can use our audience to make a dramatic and rapid difference.

Slide 24

Outlook – Tim Worner

And finally, onto slide 24 and our strategic outlook.

We've touched on our financial and operational outlook earlier where we reiterated our AGM guidance for underlying EBIT to be between $220-240 million.

In terms of our strategic priorities:

One. Focusing on the core and delivering stronger ratings and revenue driven by our major events and new programming schedule.

Two. Transforming the business model to be leaner and more agile, maintaining our focus on cost reduction, delivering and then exceeding the cost savings we promised.

Three. Creating, owning and controlling more exceptional content and ensuring we are maximising the return on this investment with the most effective windowing strategy.

Four. Driving greater adoption of 7plus and delivering on the product roadmap rollout.

Five: Investing in adjacent verticals where we can leverage our audience and brands.

Thank you for your time and I open the presentation to your questions.