FY18 Results Presentation Speakers' Notes

Slide 1

Opening slide – Tim Worner

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

I'm Tim Worner, the CEO of Seven West Media. As many of you know our company is running five business streams and they're all represented in the room today.

We have here:

- Kurt Burnette - Chief Revenue Officer;
- Clive Dickens - Chief Digital Officer;
- Therese Hegarty - who leads Seven Studios;
- Gereurd Roberts – who leads Pacific

On the phone is Maryna Fewster, new CEO of Seven West Media WA.

Of course, joining them is Warwick Lynch, our Chief Financial Officer. We will all be available to take questions at the end of the presentation.

Let's get started.

Slide 2

Disclaimer – Tim Worner

On page 2 is our disclaimer, normal for these presentations.

Slide 3

Agenda - Tim Worner

On slide 3 is the agenda for today.

I will run through our strategy and what our people have achieved by executing it over the year. We'll update you on our business performance and outlook, and our cost-out program.

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, WAN, Pacific and Seven West venture investments.

Slide 4

Strategic Accomplishments – Tim Worner

On slide 4, you'll see an overview of our accomplishments in each of our three strategic pillars.

The first of these is this renewed focus on the core.

As we detailed in our half year results in February, we were very unhappy with our broadcast ratings performance in the first half of this financial year, and committed to doing something about it.

The results have been truly extraordinary. After 20 weeks of the 2018 calendar ratings year – the half way mark – we had achieved a 41.6% commercial share.

That was the highest share of any network in history at that half-way mark.

And even if you take out the Commonwealth Games, as is standard practice, we would still have a record share.

Now, after 25 of the 40 weeks, we still have the highest commercial share in history at this point in the ratings year. We also have our own highest ever shares in all key demos. And we lead in those key demos.

This ratings momentum is occurring across the schedule, from Sunrise through to Seven News, to our entertainment line-up and of course, with our unrivalled sporting content.

A major strategic highlight this financial year has been capturing the cricket. For the first time, the two most popular forms of the game, the Big Bash and Test cricket, are together on the number one network. This is a pivotal move for our company. On top of the AFL, it locks in another 400 hours of premium sport, as the bedrock of our summer schedule. It now means the two most popular sports in the country are on Seven, all year round.

At the same time we are increasing our investment in our content creation and distribution business Seven Studios, Australia's largest producer of television programming.

Our digital products, digital audiences and digital revenues are rapidly growing and we are now investing in the next phase of our roadmap.

The concerted move to fully own and operate our direct to consumer digital products is working very well, outperforming the results when it was not under our control. The exercise of our put option on Yahoo7 will return the last remaining premium content to Seven, allowing us to fully integrate, better monetise and further grow.

The second of our strategic pillars is the transformation of our operating model.

This year we have exceeded our cost-out target, delivering more than $20 million of net cost savings including a 7% reduction in group headcount.

Our ongoing cost savings initiatives are ahead of target, and will deliver even further upside this coming financial year. However this is a process that never stops.

We continue to drive efficiencies by partnering with our peers where it makes sense. In February we announced the joint venture with NEC for all playout operations.

This combination will provide economies of scale by consolidating infrastructure. It creates an industry facilities provider available to other broadcasters, and there is already strong interest.

We will look for more such opportunities, with our mantra going forward being ‘collaborate on technology, compete on content.’

We are currently in the final preparations for the consolidation of our two largest Sydney offices. These teams will all soon work from Media City in Eveleigh. Having more of our people together under one roof will provide an increase in collaboration and therefore productivity. The savings will mean even more economic upside.

Our third strategic pillar is to grow new revenue streams, specifically through digital channels, through content production and through strategic investments.

Earlier this year we launched our new over-the-top, or OTT, platform 7plus. This has helped us grow Seven’s digital advertising revenue by over 100% in the financial year.

Our production division Seven Studios is delivering sustained earnings growth. Over the past year EBIT grew 8% to $56 million.

And the value of our early stage investment portfolio, which includes rapidly growing digital brands Airtasker, Society One and Health Engine, grew by 22% over the financial year.

Slide 5

Broadcast Ratings Dominance – Tim Worner

Those dominant ratings results are detailed on slide 5.

Over the first six months of the 2018 ratings year, we have significantly outperformed not just our competitors, but also our own performance last year.

As we just mentioned, but we think it’s worth restating, at this point in the ratings year we have the highest commercial share ever recorded by any network. We are number one in all key demos and in fact have our highest shares ever in every demo.

Slide 6

FY18 Performance and Outlook – Tim Worner

To slide 6 where you will see a summary of our performance over the year and the outlook.

We delivered underlying EBIT of $236 million, which is at the upper end of our $220-240 million guidance.

Group costs were down $21 million, and that is after the $40 million AFL uplift and spectrum charge.

Across the financial year we secured a 38% share of metro revenue, but that strong momentum in the second half meant we finished with a 40% share for that period.

We have reduced our net debt to less than $635 million, which is below our target of $650 million. Our leverage ratio is currently 2.3 times.

The Board has maintained the temporary suspension of our dividend. We see this as a prudent approach to capital management and we continue to improve our balance sheet flexibility for future opportunities.

Looking ahead, we are forecasting a range of 5-10% underlying Group EBIT growth across this financial year.

We are targeting between $10 and 20 million net group savings after factoring in the cricket.

We expect to reduce net debt in FY19 to below a 2x leverage ratio.

The FTA TV market looks set to continue to grow in FY19. We are seeing sustained increased spend across a number of sectors.

We are confident of delivering another year of ratings leadership, thanks to our revitalised schedule and our premium year-round sport offering, including the cricket for the first time.

It's our great pleasure to announce today the extension for a further five years of our affiliation agreement with our excellent partners at Prime Media Group.

Seven has always produced and broadcast content that has been clearly the most compatible with regional Australia.

The terms of this new agreement reflect that and the significant investment we have made in sports rights and other content.

SWM receives an upfront sign on payment and there will be a step up in revenue share in FY19, a year earlier than scheduled.

It will step up again in FY20.

The overall agreement achieves an effective revenue share at least equivalent to recent market benchmarks.

The launch of new digital products, the growing adoption of 7plus and improved monetisation of these assets is expected to drive digital revenue growth of over 50% in the year ahead.

Seven Studios is set to deliver a seventh consecutive year of EBIT growth driven strongly by what is a growing number of commissions.

Next, on slide 7, I will talk in more detail about our cost-out program.

Slide 7

Transformation – Tim Worner

We are more focused than ever on transforming our company. We are vigorously managing our costs, and we continue to seek greater operational efficiencies right across the group.

Over the past year we have reduced costs by $61 million, more than offsetting the AFL uplift and spectrum charge, and as we've said delivering a $21 million net reduction in costs.

Our cost-out initiatives are on track to deliver the efficiency savings of $125 million we committed to at the half year.

As outlined, in the year ahead, we are targeting $10-20 million net group cost savings, and again that is after the cost of the cricket.

Seven Network, Pacific and WAN, are all set to deliver year on year cost reductions. We continue to make these businesses more efficient through headcount savings and by outsourcing services where appropriate.

Now it's over to Warwick who will take you through the numbers in more detail.

Slide 9

Income Statement - Warwick Lynch

Thank you Tim and good morning.

On slide 9 we outline the group's consolidated income statement for the year.

Total group revenue before associates declined 3.4% for the financial year to $1.62 billion, which largely reflects revenue declines in our print operations including the rationalisation of titles. Our Television business revenue declined 0.7% in the period.

We are delivering on our cost initiatives, as is demonstrated with group operating costs down 2.2% to $1.39 billion. EBIT of $235.6 million was at the upper end of our guidance range.

I will note that FY18 has the benefit of a 53rd week, which is approximately $5 million in EBIT.

Finance costs of $35.6 million are favourable to the prior year by 8.4%, due to our ongoing focus on debt reduction.

Tax expense is $56.9 million, reflecting an underlying tax rate of 29.6%.

Underlying net profit after tax was $142.5 million.

Moving to slide 10.

Slide 10

Key Group Results – Warwick Lynch

Our basic earnings per share for the year was 8.9 cents.

As Tim explained earlier, the Board has determined to maintain the suspension of the dividend to increase balance sheet strength and flexibility.

Significant items of net $7.6 million relate to the adjustment in investment carrying value and restructuring provision, partly offset by the profitable sale of the tennis.

Now, on to slide 11.

Slide 11

Cash Flow – Warwick Lynch

The group recorded operating cashflow of $227.9 million.

Working capital outflow of $29 million for the year benefited from a $35 million inflow in the second half related to content rights.

Redundancy and employee payments were $13.3 million and relate to the transformation programs being implemented across all business units.

Net tax payments of $43.4 million were lower than the prior year.

Capex was $28.8 million, which is below our typical $30 - 40 million range.

Slide 12

Net Debt – Warwick Lynch

Turning to net debt on slide 12.

Net debt for the year was $634.5 million, down by 12.6% since June 2017 and better than our target of $650 million. The group's leverage ratio is 2.3 times EBITDA and interest cover is 8.1 times.

We are forecasting our leverage ratio to fall below 2 times by June 2019.

Slide 13

Seven Divisional Performance – Warwick Lynch

Moving on to slide 13 which covers the performance of Seven Television.

The metro TV market grew 2.5% this financial year, however we were impacted by a softer ratings performance in the first half. We recovered strongly in the second half, growing revenue 10%. Revenue for the full financial year declined 0.7%.

Costs, which includes a combined $40 million uplift from the AFL and spectrum charge, increased by $18 million to $1.05 billion.

Seven Studios includes both high margin finished program and format sales and lower margin 3rd party productions. We saw strong growth in program and format sales, but the timing of certain 3rd party productions were delayed to FY19. As a result, revenue declined 8% to $89.6 million however EBIT grew by 8% to $56 million.

Overall television EBIT declined to $216 million.

Slide 14

WAN's Divisional Performance – Warwick Lynch

WAN's performance is outlined on slide 14.

Local advertising conditions remain difficult, though there was a second half trend improvement.

In the full year, advertising revenue was down 9.6% year on year.

Circulation revenue increased by 2.3%, benefiting from a cover price increase, targeted promotional activities and The Sunday Times acquisition.

Including The Sunday Times, costs were down 4.4% to $183 million. Cost control, as for all our operating businesses, is integral to the WANs transformation and we are targeting $10 million of savings in FY19.

EBIT declined to $21.1 million.

Slide 15

Pacific Other Business and New Ventures Performance – Warwick Lynch

On slide 15, we show the financial performance of the Pacific business and profit growth year on year.

Pacific has been through significant transformation over the last 18 months. The business has rationalised its portfolio of titles and completely restructured its work processes. The successful execution of this strategy delivered $9.6 million in EBIT, an increase of 175% on the prior year and the highest since the 2015 financial year.

Although print trends improved in the second half, revenue declined by 17%, impacted by closed and sold titles. Pacific's transformation reduced costs by $32.2 million, down 21%, to $129.9 million.

Other business and new ventures is comprised of regional radio in WA, Red Live Events and equity accounted investments.

Revenue of $14.2 million was offset by costs of $9.9 million. EBIT was $4.3 million.

EBIT growth related to improvement in equity accounted investments.

Now, back to Tim, for the operating highlights.

Slide 17

Seven – Tim Worner

Thanks Warwick.

Moving to slide 17.

As I briefly mentioned in the opening summary, the metro TV advertising market has now grown for two consecutive halves, resulting in 2.5 per cent growth for the financial year with the second half up 3.8% and up even more when you include Broadcast Video On Demand.

After that weak first half of ratings, we recovered strongly in the second half securing the number one network position, number one channel and number one multichannel in the 2018 financial year and the lead revenue share for January – June half of 39.91%.

As I mentioned earlier, our ratings performance this calendar year has been outstanding, breaking a number of records. We have won 23 of the 25 weeks completed. We expect this momentum to deliver year on year growth through the months ahead. And important to note that growth is coming from east coast markets, especially Sydney and Brisbane.

Having AFL and cricket locked in allows us to establish long term deals with our advertising partners.

As announced today, we have locked in a new 5 year affiliation agreement with Prime, commencing at the start of this financial year with a further step up in FY20. This along with our recent Southern Cross renewal marks a material uplift on our regional affiliation agreements, which is at least equivalent to market benchmarks for recent deals.

Slide 18

Programming – Tim Worner

Slide18. This is our much stronger second half schedule. This line up shows why we are confident of big year on year audience share growth in the run to Christmas. And it’s why we will again be Australia’s most watched television network- a twelfth consecutive year of ratings leadership.

Slide 19

Sport – Tim Worner

Moving on to slide 19 and that historic six year deal that sees Australia’s only true national sport on Seven right through to 2024.

With the AFL contracted until 2022, this means we have the number one summer and winter sports, and the ratings certainty that guarantees, for years to come.

The very profitable sale of the FY19 tennis rights, frees us to throw all of our weight behind cricket.

The cricket deal gives us all the Australian Test matches, the majority of the BBL and WBBL games including all the finals, as well as the Women’s One Day Internationals and T20s.

All together we’ve acquired over 400 hours of premium sport – massively more effective than what was basically two weeks of tennis – at a vastly cheaper per hour cost.

We aim to create new viewing habits. We have worked with Cricket Australia to make Thursday, Friday and Sunday the key nights for the Big Bash and it will start at 7, the lead in being the hour of audience power that is Seven News.

This will be the first time that a single FTA network has carried both the BBL and Tests, meaning we can cross-promote and monetise the two most popular forms of cricket in a way never before possible.

We will use our entire schedule across all our channels to drive new audiences to cricket, strengthening our ratings position in rugby league markets. And we will deliver a huge benefit for advertisers in the critical retail lead in period to Christmas and the equally lucrative back to school period in January.

We will also secure premium revenue in daytime and other off-peak periods.

And we’re particularly excited by what we’re calling ‘mega-days’. Those are days where we have Test cricket starting out of Sunrise, leading into Seven News at 6 and then rolling straight into BBL for the evening. There are 13 of them in all.

It all starts on September 29, when we broadcast our first match, the Women’s International against New Zealand, after it has been heavily cross promoted to the 3.5 million people who will be watching that day’s AFL Grand Final.

Moving to slide 20.

Slide 20

Seven Digital – Tim Worner

Over the last two years we have progressively taken control of our digital content from Yahoo7.

This enabled us to launch 7plus, which now has a library of over 6000 episodes from the world's largest studios, including exclusive originals.

We've rapidly scaled our 7plus audience to a monthly average of 2.6 million. And they're watching a lot more content –150% increase in consumption under our control, versus Yahoo7.

The Broadcast Video on Demand market continues to grow really fast, up 32% year on year to $93 million and accelerating to just over 40 per cent growth in the second half.

Since January this year, we are pleased to say we've captured over 42% commercial revenue share of that BVOD market.

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 rather than just traditional catch-up rights.

OTT has also enabled us to deliver targeted advertising and in October last year we were the first network to launch addressable TV at scale during the Rugby League World Cup.

Since then we've delivered addressable campaigns to hundreds of clients, augmenting our own first party data from active logged in and verified users, with premium second and third party data from T.E.G and Quantium.

Early next year we will take control of our short form Seven News and Sport content. We will launch dedicated new products in 2019, and expect to see further upside in digital audience and digital revenue.

Slide 21

Seven Studios – Tim Worner

On slide 21, and Seven Studios.

This division now represents almost a quarter of the group's earnings with a large percentage of those earnings underpinned by life of series contracts.

This business has grown at a compound annual growth rate of 12% since 2012 and is on track for its seventh consecutive year of growth. This year, earnings were up 8% delivering over $56 million in EBIT.

Over the past twelve months Seven Studios has produced over 1000 hours of content across all genres. We have bases in Sydney, Los Angeles, London and Auckland. Our content has sold into 190 territories. We are capitalising on the exponential growth in demand for content.

Israel and Georgia became the latest of a long line of countries to commission local versions of My Kitchen Rules.

We have signed a co-production deal with Netflix on an original Seven Studios format, and they have also acquired a further package of Seven Studios content for their global platform.

During the year we consolidated our NZ production and distribution capability with a strategic investment in the Auckland based production company Great Southern Television. In the last week they have announced a mini series on Jonah Lomu, the first true superstar of global rugby, as well as a new 10 part medical series based on an original format.

Slide 22

WAN – Tim Worner

Moving onto WAN, on slide 22

The West Australian, The Sunday Times and our digital sites, thewest.com.au and perthnow.com.au reach over three-quarters of the WA population.

We're encouraged to see some signs of improvement in the local market, although that is yet to flow through to advertising, particularly retailers.

In addition, the recently implemented sales structure is delivering an improvement on trend with the rate of revenue decline halving in the second half. This improvement has continued right through August.

We expect the FY19 EBIT trend to improve, supported by the business' cost out target of at least $10 million in FY19.

The Sunday Times and PerthNow continue to exceed expectations. Our focus on creating high-quality digital content is paying off, with a 51% growth in digital audiences year on year.

SWM WA is forging ahead with its own business transformation, restructuring operations, optimising the merged newsroom, and delivering ongoing, annualised cost reductions.

Moving on to slide 23 and Pacific.

Slide 23

Pacific – Tim Worner

As Warwick noted earlier, Pacific's focus on costs has resulted in a $32.2 million reduction, which in turn has led to a 175% increase in EBIT to $9.6 million – it's highest level since FY15. Pacific are now targeting further reductions in the year ahead.

Gereurd and his team continue to deliver on their own 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 an improved print circulation and advertising trend in the second half, and further strong growth in its digital audiences, which are up 39 per cent year on year.

It is the same story with digital revenue, which is up 31% year on year across Pacific's brand sites. Digital now represents almost a third of all advertising revenue.

Pacific has again affirmed its position as Australia's best performing publisher with a 26% market share from just 12 titles. Better Homes & Gardens retained its position as Australia's #1 magazine.

Slide 24

Seven West Ventures – Tim Worner

Moving onto Seven West Ventures on slide 24.

Our investments in early stage businesses continue to perform well.

On the slide you can see some of the key highlights for some of our portfolio companies, including Airtasker's launch into the UK, the continued strong growth of Health Engine, the #1 consumer health site in Australia, and SocietyOne, the leading peer to peer lender.

All of these ventures have benefited from the power of Seven West Media and its enormous audience reach.

The team continues to evaluate and identify early stage disruptive startups where we think we can use our audience to make a dramatic and rapid difference. There are a number of new opportunities in the pipeline.

All together the value of our portfolio grew 22% year on year.

Slide 25

Outlook – Tim Worner

And finally, onto slide 25 and our strategic outlook.

Looking at the year ahead, we're forecasting underlying EBIT to grow between 5-10%.

In terms of our strategic priorities:

We remain focused on the core and delivering even stronger ratings and revenue. Delivering greater experience for our customers – both consumers and advertisers.

You should expect to see an outstanding spring and summer of 7Sport, and as I mentioned earlier we're bullish about the audiences we will attract.

We think a ratings share of between 40-50% is achievable over summer.

We're encouraged by the response from advertisers, which confirms our belief that the market is coming to understand the power of all that cricket on one network.

We will continue the transformation of our business model to be leaner and more agile, maintaining our focus on cost reduction, delivering at the very least the cost savings we've promised.

Our investment in creating, owning and controlling more exceptional content will continue to be paramount. We will squeeze a greater ROI through smarter windowing. We will add content to 7plus.

We will market that content aggressively with the very achievable aim of being a clear leader in the BVOD market.

To drive greater monetisation across 7plus and other digital assets we will further leverage our data, insights and technology to lift yield across all screens.

We'll continue to invest in adjacent verticals where we can leverage our audiences and brands to create value.

You've heard our gearing target. We will end the year with strength and flexibility in our balance sheet.

There's been a lot of work undertaken at every level of the company to set ourselves up for the coming year. Our momentum is growing and our people are aligned. It's not been easy, and we'd like to thank our teams of people across Australia for their efforts. It's their work that allows us to be confident in our outlook and our return to earnings growth.

We will continue to use our clear learnings and the understanding we've gained from the last 7 years since the creation of Seven West Media as a multiplatform media organisation. We know what works as much as what doesn't. And that has helped us define a positive path for the future for the benefit of our customers and our shareholders.

Thank you for your time and we'll now open up for your questions.