



1HFY19 Results Presentation Speakers' Notes (Subject to Delivery)

Slide 1

Opening slide (Tim Worner)

Welcome to Seven West Media's 2019 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;
- Therese Hegarty, who runs Seven Studios, and
- Gereurd Roberts, who runs Pacific

and joining us on the phone is Maryna Fewster, who runs 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 Group performance for the half year.

Warwick will then take you through the financial results in more detail. Then we'll review the performance of each of our businesses: Seven Studios, Pacific, Seven West Venture Investments, and Television, which includes our BVOD platform 7plus.

We'll then outline our outlook for the rest of the financial year before opening up for your questions.

Slide 4

1HFY18 Strategy Accomplishments (Tim Worner)

Moving to slide 4, and the key strategic accomplishments we've made since we last presented to you.

A quick reminder that our strategy is built on three pillars:

First, a focus on the core. Improving our ratings and revenue performance, while growing returns on our content investment.

Second, the ongoing transformation of our operating model. Driving efficiencies, delivering cost savings and improving profitability.

And third, growing new revenue streams, which is self-explanatory.

After a disappointing end to the 2017 ratings year, we committed to revitalising our broadcast schedule. We also launched 7plus. And the results were spectacular.

In 2018 we not only had the highest commercial share of viewing in history, we led all key demographics with our highest ever shares of each. Channel 7 was the number one channel, and 7mate was the number one multichannel.

In the half we are reporting today, we delivered significantly better performance— up 3 rating share points year on year.

This upswing in ratings was matched by revenue, and we secured the number one share of metro advertising in the calendar year – 39.2%.

Across the Jun-Dec half we took home a 38.4% share, a two percentage point year on year improvement.

We have upped the pace of our whole of company transformation. Today, we are announcing that we are raising our cost out target across the group from \$10-20m to now \$30-40m for the current financial year.

Our relentless work on costs has meant that even with the impact of the cricket we have been able to keep our first half costs flat year on year, with savings being skewed to the current, second, half of the year.

Over in WA, Maryna has accelerated the organisational change program, and we've appointed Anthony De Ceglie, a Walkley Award winner, to oversee the editorial direction of all our WA brands, and lead the transformation of our news floor. In particular, leveraging our seven-day newsroom to power the launch of digital subscriptions.

On new revenue streams, our BVOD platform 7plus, which we launched just over a year ago, had a phenomenal 2018, and secured a market-leading share of viewing in the Oct-Dec quarter.

The BVOD sector provides significant opportunity for revenue upside, as demonstrated by the 43% growth in the market for the half to \$61 million. We are forecasting 50% year over year growth for Seven's digital revenue. For the first time, we will report our full year digital profit at the results in August.

Seven Studios continues its upward trajectory, with revenue growing 20% over the half. Last month we announced the establishment of Seven Studios UK which is being led by Damon Pattison, a former Head of Development at BBC Studios.

And our investment portfolio continues its strong performance, with its value growing 10% year on year.

On the financial side, we saw a softer second quarter than expected in the TV ad market, but as I've just mentioned we were able to increase our share.

Our underlying EBIT for the half was \$147m, which is down 4% when you exclude the 53rd week in FY18.

Underlying net profit after tax was \$91.8m.

Our net debt is now \$590m. That's \$121m less than it was a year ago.

In October we refinanced this remaining debt through to 2021/22, with no change in covenants and a beneficial price outcome.

The dividend remains temporarily suspended as we focus on strengthening, and providing flexibility to, our balance sheet.

Onto Slide 5, where you can see the story of the 2018 ratings year in more detail.

Slide 5

2018 Strategy Broadcast Ratings (Tim Worner)

As you can see on this graph, which excludes the huge Commonwealth Games audiences, we were comfortably ahead of our rivals and our prior year performance for 11 of the 12 months. We saw a big upswing in the Oct-Dec quarter, thanks to our revitalised entertainment schedule plus the cricket.

As I mentioned earlier, the end result was a record-breaking commercial share in 2018, and our highest ever shares of every key demographic.

Moving to slide 6, and our cost-savings initiatives.

Slide 6:

Strategy Transformation (Tim Worner)

As you all know, driving operational efficiencies right across the group has become business as usual for us, and we are constantly seeking additional savings to those previously forecast.

Earlier I announced that we have raised our cost out target across the group. You may remember it was originally \$10-20m for the current financial year. We increased it to \$20-30m at the AGM and today we are increasing it further to \$30-40m in FY19.

Taking into account the AFL uplift and the spectrum charge, as well as costs associated with the cricket, we are now on track to deliver increased net group cost savings. That means our costs will be \$50-\$60 million lower than our FY17 costs.

We've been saying for some time now that this dedication to cost control has permeated the company. This slide is proof of that.

Moving to slide 8, Warwick will take you through the financials in more detail.

Slide 8

Key Group Results (Warwick Lynch)

Thank you and good morning.

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

Total group revenue and other income of \$798 million was down just 1.5%.

Group operating costs were flat at \$652.1 million with our full year savings skewed to the second half. All of our businesses will deliver savings in the year.

The group delivered EBIT of \$146.8 million, a decline of 7.9%. The prior period included a 27th week, with an average weekly EBIT of \$6 million. Therefore, on a like for like basis, EBIT is down 4%.

Finance costs of \$18 million were consistent with the prior year, noting that the FY18 financial results have been restated following the adoption of new accounting standard AASB 9 from 1 July.

Significant items before tax were \$8.6 million and relate to capitalised refinancing costs written off following the debt facility refinance. This includes \$2.8 million of previously unamortised cash refinancing costs and a \$5.8 million gain capitalised as a result of adopting AASB 9 at 1 July.

Tax expense is \$34.4 million, reflecting an underlying tax rate of 28.7%.

Underlying net profit after tax of \$91.8 million was 7.8% lower than the same period last year, that's down 3.6% on a like for like basis.

Slide 9

Key Group Results (Warwick Lynch)

On slide 9 we have the group financial results.

Seven West Media reported a statutory profit after tax for the first half of the year of \$85.8 million, a 13.9% decrease on the prior year result.

Our basic earnings per share for the half was 5.7 cents per share and 6.1 cents per share excluding significant items.

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

Moving to slide 10.

Slide 10

Consolidated SWM Cash Flow (Warwick Lynch)

SWM recorded operating cashflow of \$84.8 million for the half year.

The working capital outflow primarily relates to our investment in programming for 2019 as well as a change in spectrum payment terms, now paid in advance.

Redundancy and employee payments were \$12.6 million and relate to the transformation programs being implemented across all businesses.

Net tax payments of \$4.3 million were lower than the prior year and reflect the timing of tax effect of sport rights contracts.

Capex is \$15.5 million, including the Sydney building consolidation. Capex for the full year is once again forecast to be in our normal \$30-40 million range.

Slide 11

Consolidated SWM Net Debt (Warwick Lynch)

Turning to net debt on slide 11.

Net debt for the half year was \$589 million, down 6% since June 2018 and \$121 million lower than a year ago. The group's leverage ratio is 2.3 times EBITDA and interest cover is 7.1 times.

We are targeting the group's leverage ratio to reduce below 2 times by the end of the 2019 financial year.

Slide 12

Divisional Performance Seven (Warwick Lynch)

Moving on, slide 12 covers the performance of Seven Television, including Seven Studios and 7plus.

A softer second quarter advertising market was offset by revenue share gains driven by strong ratings that resulted in broadly flat TV revenue of \$582.8 million.

Costs, which now includes part of the rights and production of our first season of the cricket, grew by 2% to \$486.8 million. Costs will be lower for the full financial year with savings skewed to the second half.

Seven Studios experienced strong revenue growth in the first half thanks to increased demand for third party productions and finished program sales from global SVODs. As a result, revenue grew 20% to \$45.7 million.

Total television EBIT of \$141.7 million was 3.9% below the prior year which included an extra week. On a like for like basis, EBIT was in line with the prior year.

Slide 13

Divisional Performance WAN (Warwick Lynch)

Our performance in the West is outlined on slide 13.

The rate of decline in advertising revenue slowed, down 11.6% to \$52.8 million with national metro advertising delivering year on year growth. Circulation was down 5.6% to \$28.7 million. Again, an extra week in the prior period is included in the decline.

WANs refreshed leadership team continues to deliver on its transformation targets. Year over year costs were down 9% to \$86.6 million.

EBIT for the half was \$9 million.

Slide 14

Divisional Performance Pacific, Other Business & New Ventures (Warwick Lynch)

On slide 14, we show the financial performance of Pacific, Other Business and New Ventures

Pacific's continued focus on print performance improved the year over year trend in both circulation and advertising. Revenue in the period was \$66.1 million, while costs were down by 6.7%. EBIT was \$4 million.

Other business and new ventures is comprised of regional radio in WA, Red Live Events, as well as our share of equity accounted and early stage investments. EBIT, excluding a one-off event, was flat year over year.

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 and Seven's performance across 2018, which was by any standard, an extraordinary year.

The statistics are remarkable –

- Seven Network was number one for a 12th consecutive year, with a record-breaking commercial share
- We were number one in total people and number one in all the key demographics
- In fact, we had our highest ever shares of those key demos
- We were the number one destination for men under 40, and had our highest ever share of the elusive 16-39 age group
- We were also the number one destination for women, including all key female demographics
- We secured a 38.4% share of metro advertising revenue in that Jul – Dec half, up from 36.4% in the same period the year before.

In October we launched 7food, a new channel that sits perfectly in our core content and advertiser vertical.

We're also seeing a step up in revenue from the Prime deal we struck last year, with further upside coming in FY20.

To slide 17.

Slide 17

Seven Digital (Tim Worner)

The BVOD market continues to grow aggressively. When we last spoke to you in August, we expected 25-30% growth. It's been much stronger than that. We now expect it to grow 35-40% for the year.

This presents a material opportunity to us particularly since BVOD advertising delivers a significant revenue premium compared to broadcast.

Having launched 7plus at the beginning of 2018, we achieved the number one share of commercial free to air BVOD viewing in the Oct-Dec quarter.

We've had some very strong individual shows but the sustained growth and success is down to building a broad and deep library of premium content.

In fact, one quarter of our on-demand viewing came from that deep catalogue. This means that we provide year-round audience engagement and, unlike our commercial free to air competitors, our success is not dependent on a handful of shows.

Slide 18

Programming Schedule (Tim Worner)

On Slide 18 you can see an overview of our schedule through the year.

With Seven now the home of Cricket and the AFL, we have premium sport on every weekend of the year. And our racing coverage is second to none, as seen this past week with our coverage of Winx's incredible performance in the Group 2 Apollo Stakes where she stretched her winning streak to 30. And Winx's historic last run ever will be live and free on Seven.

Then our big multi night franchises – proven tent-pole programming running in every quarter. MKR, House Rules, Australia's Got Talent, Bride & Prejudice and then more MKR.

These are brands that Australia knows and loves, and that provide the sponsorship, integration and advertising opportunities our advertisers want - on broadcast and on BVOD.

I will talk about sport in greater detail shortly. But first, on slide 19, 7NEWS.

Slide 19

7NEWS (Tim Worner)

The importance of live news to our programming schedule cannot be underestimated.

Every week Sunrise reaches more than 2.7 million Australians and the 6pm 7NEWS bulletin reaches 4.3m. 7NEWS is, on the overwhelming majority of days each year, the number one show on television.

And it provides a huge and very valuable audience driver to our primetime schedule.

Each week, we deliver more than 60 hours of live news programming, now with an additional nightly bulletin, The Latest. In the last year we have grown our commercial TV viewing share in every market, particularly across the east coast, as you can see in the chart.

On our cricket megadays it is a crucial lynchpin between Test and BBL coverage.

Next month we will extend this leadership in news into the online space, with the launch of 7NEWS.com.au which will help grow both our digital and broadcast audiences, as well as our social reach and engagement.

Moving to slide 20 and Seven Sport.

Slide 20

Seven Sport (Tim Worner)

The biggest story of the year was, of course, the shake up in the summer sports rights, with us securing the Tests and Big Bash Cricket.

Our broadcast coverage and our commentary team have been excellent and they have injected great energy into the coverage.

The effect on our viewing over summer has been profound with a five percentage point year on year increase in our ratings. In fact, we are the only network to grow share across total people and the key demographics over summer.

On 39 days we've had commercial audience shares over 40% - more than any network has ever achieved over summer.

And all of this with a limited time to prepare after only having secured the rights in April. Imagine what we can do for ratings and revenue with a proper run-up to the next season.

Together with the AFL, we now have the number one summer and winter sports, and the guaranteed ratings they deliver, for years to come. We have worked with the codes to align our schedules to ensure we have premium sport on every weekend of the year, through to 2022.

On to slide 21.

Slide 21

Seven Studios (Tim Worner)

Seven Studios continues to perform strongly and we remain on track to deliver a seventh consecutive year of EBIT growth.

We recently announced the establishment of Seven Studios UK. This strengthens our existing presence in the UK and our global presence with production hubs in Los Angeles, Auckland, Sydney and Melbourne.

As Australia's largest producer of long form premium content, we developed more than 1,000 hours of television in 2018 across all genres, with 14 new original titles commissioned in the year and more than 20 hit series returning or in production.

We are capitalising on the strong global demand for content by streaming services through both finished program sales from our catalogue and co-production agreements including Zumbo's Just Desserts. Our catalogue includes Instant Hotel, Back With The Ex and Yummy Mummies, which have all debuted globally on Netflix to widespread acclaim.

But it has to be said that the standout has come from Great Southern, our New Zealand production business. The Casketeers, a fantastic show about a funeral business, has Netflix audiences going crazy, trying to work out if it's real or a spoof.

Slim in the UK is currently in the early stages of a very significant international big-budget drama co-production. 7Beyond in LA is now enjoying its 8th season of hit program My Lottery Dream Home.

Moving onto The West, on slide 22.

Slide 22

The West (Tim Worner)

As I mentioned earlier, our new executive and editorial leaders are accelerating transformation across the business.

They're focused on

- One, delivering on our cost-out program, which is tracking above the \$10m target we initially set ourselves. We expect further efficiencies to be achieved next year
- Two, driving advertising revenue from the re-aligned sales structure. This has already delivered YoY growth in national advertising
- And three, creating the very best content, be it print, video or digital, all with an eye towards launching a digital subscription product this year.

While the overall ad market remains soft, we are seeing an improvement in the mining sector which we expect to flow through to the local economy and ad markets in the next financial year.

Moving on to slide 23

Slide 23

Pacific (Tim Worner)

Pacific remains Australia's best performing publisher, securing more than a quarter of all readership with just 12 titles. We lead in in every category where we compete: Real Life, Women's Fashion, Home & Lifestyle, Men's Lifestyle and Teen. And BHG remains the most read magazine in the country.

As Warwick mentioned, we have significantly improved all print trends across the period. New Idea's sales have actually grown YOY for the first time in several years.

On a like for like basis, the rate of revenue decline across Pacific has reduced by almost half.

Pacific's transformation strategy continues to be their focus. That is, building a scaled audience business in targeted categories, creating and distributing content across all platforms for our leading brands.

As a result, we are seeing growth in every meaningful digital metric.

Pacific's online audience increased 31% YoY, and it remains one of Australia's fastest-growing digital networks. Digital revenue also continues to grow and now represents nearly a third of all advertising revenue.

At the same time Pacific's cost reduction program is ongoing, with expenses down by \$4.4m or 6.7% compared to the prior year. There will be further reductions in this current half.

Slide 24

Seven West Ventures (Tim Worner)

Moving onto Seven West Ventures on slide 24. Key investments in our portfolio continue to grow strongly with the value up 10% year on year, based on the last funding rounds.

Airtasker's UK launch is tracking ahead of expectations and growth continues to be strong. Health Engine has grown its audience by more than 80% year over year and launched its new prescription request telehealth product. Finally, Society One has crossed the \$590 million mark in customer loans funded.

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

The team continues to evaluate and identify early stage disruptors where we think we can use our massive audience and trusted brand to make a dramatic and rapid difference.

Finally, onto the last slide and our strategic outlook.

Slide 25

Outlook (Tim Worner)

With premium sport content now running in every week of the year, we are confident of achieving the biggest share of metro advertising in this second half of the financial year.

Across the full financial year, we are now targeting underlying Group EBIT growth of between zero and five per cent, despite the expectation of softer ad market conditions continuing throughout the third quarter.

As I flagged earlier, we have increased our cost-out target, and will deliver between 30 and 40 million dollars of net group savings in this financial year.

In terms of our capital position, we are targeting our leverage ratio to decrease below two times.

While we are seeing an improving trend in the metro TV market in the second half, we now expect a low single digit decline across the financial year.

At the same time we will achieve digital revenue growth of at least 50% off the back of 7plus' strong performance.

Seven Studios continues to perform well, and will deliver a seventh consecutive year of EBIT growth.

Before we move to questions,

When we talk about the transformation of Seven West Media, it's natural to turn your mind to cost out and operating efficiencies.

And that is a critical part of our focus, no doubt. But it is important that you understand the magnitude of the strategic transformation that has been achieved.

First – the growth of our IP and content ownership, which is vital to the future of our company, irrespective of how the TV ad market evolves. Seven Studios now represents around a quarter of our earnings and will think we can do a lot more in this space.

Second – the rapid evolution of SWM from a traditional media business to an integrated multi-platform offering with advancing capabilities in data analytics, addressable and automated advertising.

Following the launch of 7NEWS.com.au next month, we will finally own and operate all our assets, and will be firmly in control of our future.

All this has been no small feat, both technically and culturally, and while already material, we expect digital to represent a much larger percentage of our earnings within the next few years.

Lastly our focus on diversification, where we've leveraged our assets to grow new businesses. These are going from strength to strength and will realise meaningful value for shareholders in the medium-term.

And that concludes our presentation. We are now happy to take your questions.