HD **Interim 2014 APN News & Media Ltd Earnings Presentation - Final**

WC 3,538 words

PD 19 August 2014

SN CQ FD Disclosure

SC FNDW

LA English

LP

Presentation

MICHAEL MILLER, CEO, APN NEWS & MEDIA: Good morning. Thank you for joining us for APN's half year results presentation this morning. You're listening to Michael Miller and I'm joined this morning by Jeff Howard, APN's CFO.

TD

This morning I'm going to commence by taking you through the high level results and then cover a review of each of our businesses before hanging over to Jeff to talk through the financials in a bit more detail. I'll then wrap up with a brief trading update before taking any questions.

The first half reflects above market performances in several of APN's businesses in what has been a relatively weak advertising environment. As a Group, statutory net profit after tax or net profit attributable to shareholders was up 77% over last year. This is largely due to the positive performance of both ARN and TRN and the acquisition of both these businesses in February.

Revenues from continuing operations of AUD406 million were up 3% on last year, and EBITDA from continuing operations and before exceptional items was up 1% to AUD71 million. The EBITDA growth is attributable to the good performance in radio, with The Radio Network in New Zealand revenues up 6% and an especially strong second quarter at the Australian Radio Network.

This performance has come from an increase in audience and audience share following our investments in launching Sydney station KIIS 1065 and in marketing the Classic Hits Pure Gold network. Adshel also experienced a noticeable increase in bookings in June as it completed phase one of the deployment of its Sydney trains assets.

Publishing has benefitted from resilient local sales and a buoyant real estate market, which has helped to moderate revenue declines, and in Hong Kong where we recently bought the remaining 50% of our Outdoor Assets from Clear Channel, revenue growth was 12%.

The considerable investment we've made in our radio and Outdoor Assets will continue to drive APN's growth, while the year-on-year performance of our publishing businesses is encouraging and will benefit from a further AUD20 million in cost savings this year.

As we have announced separately today, we have secured a new debt facility of AUD630 million through a syndicate of local and international banks, which Jeff will talk about in more detail later.

This refinance will give APN greater flexibility to capitalise on market opportunities in what we consider to be a changing media landscape, as well as a platform to continue the positive momentum we have seen across the business.

This slide includes a table of our first half performance compared to that of the first half of last year. Consistent with our focus on strengthening the balance sheet, the Board has decided not to pay an interim dividend for the half year.

I'll now take you through our New Zealand businesses. Today we have included commentary on the combined New Zealand business for the first time. As a key part of APN's overall strategy, we have been developing closer collaboration and integration between all APN businesses, with New Zealand leading the way.

In May of this year, Jane Hastings was appointed to the newly-created role of CEO of APN New Zealand. Jane is responsible for APN's New Zealand print, radio, and digital assets. Since her appointment, Jane has announced an integrated **Group** management structure which shares responsibility for the combined businesses. This structure will enable combined client offerings.

A number of new initiatives to drive growth have already been introduced. The most important of these is the introduction of Collaborative Media Solutions, or CMS, an integrated sales solutions team which offers clients advertising packages bundling all or a combination of our print, radio, digital, and outdoor channels, including bespoke options such as user-generated content and specially-created iHeartRadio stations.

Access to a large combined audience base is resonating well with our New Zealand clients and agencies.

We have recently formed content marking initiative Brand Insight to offer clients branded content solutions across NZM, TRN, and GrabOne platforms, and this week launched the integrated fashion **transaction** vertical, shopviva. Shopviva combines the popular Viva magazine brand with the GrabOne digital platform. This positive momentum bodes well for the future of our changing New Zealand business.

The result for New Zealand Media, or NZM, was fair, given the subdued market. As we have seen across the industry, agency advertising expenditure has contracted both in print and online. According to SMI data, the total agency advertising market was down 7% for the first half.

On a like-for-like basis, which excludes assets we **sold** during the period, NZM revenues were down 6% on the prior year. Local retail advertising is improving, down just 3% on the prior year, and circulation revenues have been moderating, down just 2%, both on a like-for-like basis.

Circulation revenues were assisted by our subscriber yield management project across our metropolitan and regional newspapers. The New Zealand Media business connects with over 2.1 **million** consumers every week via print, desktop, and mobile.

On a standalone basis, the New Zealand Herald is the country's leading newspaper, with a brand audience of over 1.9 **million** people every month. Encouragingly, the New Zealand Herald's digital audience has increased by 34% to 1.3 **million** compared to June of last year.

During the half, we completed the **sale** of New Zealand magazines and reached a printing agreement with Fairfax under which APN has commenced receiving revenues for printing a number of its titles at our state of the art facility at Ellerslie, South Auckland.

Other initiatives planned for the second half include the launch of True **Commercial**, a new digital real **estate** offering, and a new digital trading platform.

Onto slide 7. TRN has had a good result, continuing the momentum seen in 2013 with revenues up 6%, in line with a strong radio market, and has maintained its market share. Direct revenue was up 9%, offset again by softer agency revenue growth.

EBITDA grew by 2% as further investment has been made in content and marketing. New talent-backed breakfast shows were introduced on ZM and the rebranded station The Hits, previously Classic Hits, as part of the business focus on growing audience in key markets.

Digital audiences across the network grew by 71%, with ZM now the number one online radio brand.

iHeartRadio continues to grow in popularity, with over 210,000 registered users in New Zealand, party driven by exclusive live events by international and local artists. These will continue to be a feature in the second half of the year.

TRN will continue to focus on growing its audience base and will be introducing a number of initiatives to further expand its digital presence and revenues.

GrabOne had a disappointing result, with revenues down 3% with an EBITDA of AUD1.8 **million**, down 16% in local currency terms. This is primarily due to the faster than anticipated transition from desktop to mobile devices, which affects **purchase** and conversion rates.

It was also impacted by lower email open rates, an ongoing global trend, although GrabOne's open rate is well above industry average of 13%. As a result, GrabOne is changing its approach through differentiated content, marketing, and mobile functionality that will entice customers to its platform.

Encouragingly, in what has been an increasingly competitive e-commerce environment, commission rates and order values were up for the half, and a more user friendly mobile experience has helped drive the number of app downloads by 53%.

Through the launch of Free Coupons, GrabOne has expanded its merchant base and discounted product offering from both New Zealand and international retailers.

Looking to the second half, further initiatives will be introduced to improve the GrabOne customer experience and increase **purchase** frequency, such as the launch of Facevalue, which enables customers to still use the **purchase** value of GrabOne vouchers after they have expired.

Now turning to our Australian businesses. A huge amount of work has gone into ARN over the past three years, which has delivered a very positive outcome. In a radio market that has grown just 1%, Kieran Davis and the team have delivered revenue growth of 8% and increased market share by 2 percentage points.

ARN has been the number one FM network in Australia for all four surveys in 2014, with number one positions in all four metropolitan markets. This is the result of backing the right talent and developing content that resonates with our target audiences.

In particular, the launch of KIIS 1065 in Sydney and rebranding of the Classic Hits Pure **Gold** Network in Sydney and Melbourne have been successful. The second quarter was particularly rewarding, with improved ratings starting to translate into revenue gains. This trend will continue through the second half.

As in New Zealand, iHeartRadio's ongoing growth in registered users has been supported by exclusive live acts, and across both markets we are close to the 500,000 registered users mark, having launched less than one year ago.

In the second half we will continue to invest in ARN, with a particular focus on the key Sydney and Melbourne radio markets to drive further revenue growth.

Australian Regional Media, or ARM, showed resilience in what was an industry wide softer agency market, which was down 1% as per SMI data. The rate of decline in both revenues and EBITDA moderated considerably when compared to last year, and was a strong improvement on the first half of 2013. This was due to resilient local markets, which benefitted from strong real **estate** demand.

ARM's weekly aggregate audience increased by 8% to 1.4 **million** people. Print readership has remained steady, while digital audiences have grown significantly to its mobile platforms and the launch of new products.

Digital revenues are up 34% as the business moves towards an integrated print and digital model to leverage ARM's aggregate audience, a key competitive advantage. ARM has refocused a number of its local titles and consolidated its classifieds brands under the Finda banner across print and digital.

We will also be rebranding its **residential property** sections, realestate.com.au, under an agreement with the REA **Group**. This will provide our real **estate** agency partners and our audience with access to the best local and national real **estate** information and opportunities through ARM's print and digital products, as well as the largest national online audience of Australia's leading **residential property** website.

In the second half, ARM will continue to drive local revenues by developing its offering, including the launch of programmatic trading of mobile and video inventory and offering digital marketing services to SME clients.

Now to outdoor businesses, Adshel and **Hong Kong** Outdoor. Adshel's revenue for the first half increased by 1% when adjusted for the **sale** of Adshel Infrastructure and Town & **Park** in December of last year.

Australian revenue was flat, also in part due to poor agency spend, although digital revenues grew significantly as a result of the early stages of the Sydney Trains contract rollout.

This also led to a weaker EBITDA performance, due to rent payments commencing a number of months ahead of the deployment of the new digital inventory. EBITDA was also affected by disappointing sales team performance in New South Wales. We have strengthened the senior team with key appointments, including Clear Channel's former international sales director, David Roddick, as Chief Revenue Officer.

In addition to the continued Sydney Trains rollout, the second half will see development projects, the launch of new out of home technology trials, and further advancement of Adshel's programmatic sales program.

Our **Hong Kong** Outdoor business performed well, with revenue growth of 12%, an 86% uplift in EBITDA. This was on the back of strong growth in large format billboards, billboard contract wins in late 2013 and early this year, and lower rental secured for our key Buzplay contract.

As we announced in July, we have acquired the remaining 50% of **Hong Kong** Outdoor, consisting of businesses Buspak and Cody, for AUD14 **million** from Clear Channel. Buspak is launching 30 new signature buses in the second half, which will provide clients with customised internal and external offerings, which will further drive revenue growth in an otherwise softening market.

That concludes the overview of APN's businesses. I'd now like to hand you over to Jeff to take you through the financials.

JEFF HOWARD, CFO, APN NEWS & MEDIA: Thanks, Michael. While it's been a busy six months, there's a little less to take you through than in February. Like February, we have presented segment results on a continuing basis and included the usual reconciliations to help everyone understand the results.

Michael has taken us through the divisional results in some detail, so I won't talk to them again. The slide on page 16 summarises the results and reconciles them to the **Group** result.

Regular participants will notice a couple of changes this time around. iNC Network is now integrated into our divisions and is driving digital and performance marketing outcomes in radio, Adshel, and publishing. Consequently, it has been integrated into ARN from the beginning of 2014.

Hong Kong still shows as 50% owned as it was at 30 June. The remaining 50% was acquired in July, as Michael has just mentioned. Soprano is not a new investment. We've owned it since 2001, but only from this half have we been able to record our **equity** accounted share of income following the 2013 reversal of previous impairments.

On page 17, we reconcile between segment and statutory results. Exceptional items have been shown separately, and the results of discontinued **operations** shown as one line. Discontinued **operations** in the first half only include brandsExclusive for the first six weeks of this year.

Turning to exceptional items on page 18. We have significantly less to talk about than in previous years. Compared to last year's roughly AUD17 **million** in redundancy costs and asset write downs, we have incurred AUD6.5 **million** so far in 2014.

The gains on disposal predominantly relate to the New Zealand magazines business, and note that the fair values of BEX and APN Outdoor are adjusted at December 31 last year, based on known **transaction** outcomes, so there are not any gains or losses related to these **transactions** in the half but for the impact of net capital gain on both sales.

Cash flow is outlined on slide 19. Cash flow is presented on an after discontinued **operations** basis. There are some large items in the cash flow for the **equity** raising and **acquisition** of radio, and the net debt drawn of AUD60 **million** to fund the balance is effectively in the net cash outflow total.

The decline in operating cash flow was mainly impacted by a reversal of previous working capital timing differences, driven by the strong performance of radio leading into the end of the half year. Interest paid increased driven by the net debt drawn to fund the radio **acquisition**.

We continue to keep a tight rein on cash flows, however as outlined by Michael, we have been selectively investing in high potential growth opportunities. CapEx and restructuring payments of AUD14 **million** continue the run rate from 2013.

Asset disposal proceeds were approximately AUD6 **million** and relate to the **sale** of magazines in New Zealand, which were received in March. Cash dividends from Adshel are down in the first half, given the one off major investment, as we've outlined.

Net operating cash flow in the half was therefore roughly AUD20 **million**, slightly lower than 2013 after payments to minority. As Michael has outlined, we are investing for growth. We continue to expect our operating cash flow to be within the AUD60 **million** to AUD70 **million** forecast range for the full year, with the final outcome dependent on H2 market conditions.

Turning to net debt on page 20. Net debt increased during the half to fund the balance of the radio **acquisition**, as I mentioned. This was outlined in our February radio **acquisition** presentation. This is offset by the AUD20 **million** of cash generated in the half, and again, debt is only held at the **Group** level and Adshel remains debt free.

For the first time we have shown our debt covenants. These are based on the levels set in the new facility that we've announced today. We have substantial headroom to the covenant levels that will apply going forward.

We're very pleased with the outcome of the refinancing, and as always very grateful for the support of our domestic and international banks. While the new facility is a secured facility, covenants give us more flexibility than previously and the cost of the refinancing will be lower than current arrangements.

We will be redeeming the New Zealand bond as part of the refinancing. The new facility will mature in January 2018.

You will note in the appendices that we've got the usual EBITDA to EBIT reconciliation for those of you that want the D&A numbers, as well as FX rates and effective tax rates for the first half.

MICHAEL MILLER: Thanks, Jeff. Before we wrap up and take questions, I'd like to give you a trading update. Advertising markets do remain short and volatile, and agency revenues have been soft early in the second half.

Publishing revenue trends are largely consistent with the first six months, while radio and outdoor are tracking in line with the run rate seen towards the end of the first half. **Group** EBITDA is slightly ahead of where we were for the same period last year.

With that, I'll hand over to our moderator for any questions.

Questions and Answers

OPERATOR: (Operator Instructions) The first question today comes from Roger Colman from CCZ Equities. Please go ahead.

ROGER COLMAN, ANALYST, CCZ STATTON EQUITIES: Good morning gentlemen. I've just got a query on the cost reductions in New Zealand and Australian newspapers of AUD5 **million** and AUD6 **million**, or AUD6 **million** and AUD5 **million** respectively. Given the Fairfax deal, is that a revenue or a cost reduction input into Ellerslie, and are you still on track for AUD20 **million** including second half for the full year in both markets' imprint?

JEFF HOWARD: Roger, it's Jeff. The Fairfax deal for us is a revenue and cost impact and we are still on track to achieve the AUD20 **million** publishing savings for the full year.

ROGER COLMAN: Could you give us some idea of the June quarter's ARN percentage recovery or percentage increase over PCP June quarter, some idea how far is she going up?

MICHAEL MILLER: We haven't broken it out, Roger, but as indicated, the revenues are up 8% for the half and we didn't see some of those gains until the second survey came out. It has continued to fluctuate as the markets continue to fluctuate, but the 8% figure for the half is what we're reporting on today.

ROGER COLMAN: Okay, thank you very much, gentlemen.

OPERATOR: Thank you. At this time we're showing no further questions.

MICHAEL MILLER: If there are no further questions -- none are coming through?

OPERATOR: I do apologise. At this stage we are showing no further questions.

MICHAEL MILLER: Thank you. Thank you for your attendance this morning. I think for many of you we are seeing you in the next few days, so we look forward to giving you your updates and taking any questions you may have.

THE APPLICABLE **COMPANY**'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

CO prvnew : APN News & Media Ltd

IN i475 : Printing/Publishing | i4751 : Newspaper Publishing | imed : Media/Entertainment | ipubl : Publishing

NS c151 : Earnings | ntra : Transcripts | c15 : Performance | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter

RE usa : United States | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania | austr : Australia | namz : North America | nswals : New South Wales

PUB CQ-Roll Call, Inc.

AN Document FNDW000020140822ea8j0005l

