Southern Cross Austereo FY19 Investor Presentation

22 August 2019

SCA

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FY19 Results

Grant Blackley

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EXECUTIVE SUMMARY

SCA has delivered a strong result in a challenging media environment

- ✓ Audio is a vibrant and growing sector - digital audio remains at the forefront of that growth
- ✓ SCA outperformed the market in both Audio and Television
- ✓ Strong cost discipline demonstrated across the year in FY19 – with additional outsourcing of back office services creating a platform for further efficiencies in FY20
- ✓ Recurring cash generation highlights SCA's quality asset base and earnings
- ✓ Balance Sheet vastly improved and debt at target levels

GROUP RESULTS SUMMARY

$ millions	FY19	FY18[1]	Var.
Revenue	661.0	657.8	**0.5%**
EBITDA	147.4	158.4	**(7.0%)**
Underlying EBITDA[2]	159.9	158.4	**0.9%**
Underlying NPAT[2]	76.2	73.9	**3.1%**
Net Debt	292.6	303.9	**(3.7%)**
Full Year Dividend (cps)	7.75	7.75	-

- Underlying Net Profit After Tax grows 3.1% to $76.2m
- Group revenue up 0.5%, with Audio segment growth offsetting weaker Television revenues
- Statutory EBITDA $147.4m impacted by non-recurring items – $9.2m non-cash charge relating to outsourcing of transmission services and $3.3m in restructure costs
- Net Debt reduced 3.7% or $11.3m
- Full year dividend maintained at 7.75 cps, fully franked

[1] Restatement for AASB 15 – Revenue from Contracts with Customers

[2] References to underlying numbers exclude the impact of Restructuring Costs and Significant Items. See Slide 9.

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HEADLINE ACHIEVEMENTS

Sales Performance

- Group revenue up 0.5% against a challenging media market.
- Audio revenues increase 2.4% - driven by a strong 9.2% increase in national revenues
- Television revenues outperformed the market - up 3.9% in Q4 (aided by the federal election)

Investment

- Digital audio opportunities expanding after introduction of Instream Advertising – aided by the exclusive representation of SoundCloud along with SCA's owned & operated inventory
- DAB – digital radio continues to grow and mature – more stations will drive incremental reach
- PodcastOne leading the premium original podcast market – acceleration in listening and monetisation on the rise

Financial Stability

- High quality earnings with free cash conversion of 91%
- Consistent, recurring cash generation from quality audio assets
- Net debt reduced to $293m – strengthening balance sheet and flexibility
- Full year, fully franked dividend maintained at 7.75 cents

FY19 FINANCIAL RESULTS

Nick McKechnie

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GROUP REPORTED STATUTORY RESULTS

$ millions	FY19	FY18[1]	Var.
Revenue	661.0	657.8	**0.5%**
Expenses	(513.6)	(499.4)	**2.9%**
EBITDA	**147.4**	**158.4**	**(7.0%)**
Underlying EBITDA[2]	**159.9**	**158.4**	**0.9%**
Underlying EBITDA Margin	*24.2%*	*24.1%*	
Depreciation & Amortisation	(30.6)	(30.7)	**(0.2%)**
Impairment of Intangibles	(226.9)	(104.7)	**nm**
EBIT	**(110.1)**	**23.0**	**nm**
Net Finance Costs	(19.3)	(20.5)	**(5.7%)**
PBT	**(129.4)**	**2.5**	**nm**
Tax	(30.0)	(33.3)	**(9.9%)**
Tax impact of Impairment	68.1	30.9	**nm**
NPAT	**(91.3)**	**0.1**	**nm**
Underlying NPAT[2]	**76.2**	**73.9**	**3.1%**

- Underlying NPAT up 3.1% to $76.2m
- Group revenues up 0.5% - led by Audio revenues up 2.4%
- Group expenses up 2.9% including impact of $12.5m of non-recurring charges. Underlying expenses flat at $501m
- Impairment of Television assets reported in H1 results – driven by separation of Regional unit into Audio and Television. Net NPAT impact of $158.8m (non-cash)
- Finance costs reduced by 5.7% or $1.2m
- New revenue standard (AASB15) applied to both FY19 and FY18. Revenue and EBITDA +$3.8m, Finance costs $(5.6)m

[1] Restatement for AASB 15 – Revenue from Contracts with Customers

[2] References to underlying numbers exclude the impact of Restructuring Costs and Significant Items. Refer slide 9.
nm = not meaningful

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GROUP UNDERLYING RESULTS

$ millions	FY19	FY18[1]	Var.
Reported EBITDA	147.4	158.4	(7.0%)
Significant Items	9.2	-	nm
Restructure Costs	3.3	-	nm
Underlying EBITDA	**159.9**	**158.4**	**0.9%**
Underlying EBITDA Margin	*24.2%*	*24.1%*	
Impairment of Intangibles	(226.9)	(104.7)	nm
Reverse Impairment of Intangibles	226.9	104.7	nm
Depreciation & Amortisation	(30.6)	(30.7)	(0.2%)
Underlying EBIT	**129.3**	**127.7**	**1.2%**
Net Finance Cost	(19.3)	(20.5)	(5.7%)
Underlying PBT	**110.0**	**107.2**	**2.5%**
Reported Tax	38.1	(2.4)	nm
Tax Impact on Impairment	(68.1)	(30.9)	nm
Tax Impact of Adjustments	(3.8)	-	nm
Underlying Tax	(33.8)	(33.3)	1.4%
Underlying NPAT	**76.2**	**73.9**	**3.1%**

- Transmission Services Agreement - $9.2m non-cash significant item relating to sale of assets upon outsourcing of transmission services
- Restructuring Charge - one-off restructuring charge of $3.3m relating to:
  - Workforce Planning Project
  - Outsourcing TV playout services to NPC
  - Centralisation of back-end functions
- FY18 and FY19 results impacted by impairment of television assets - all non-cash
- Underlying tax rate steady at 31%

[1] Restatement for AASB 15 – Revenue from Contracts with Customers
nm = not meaningful

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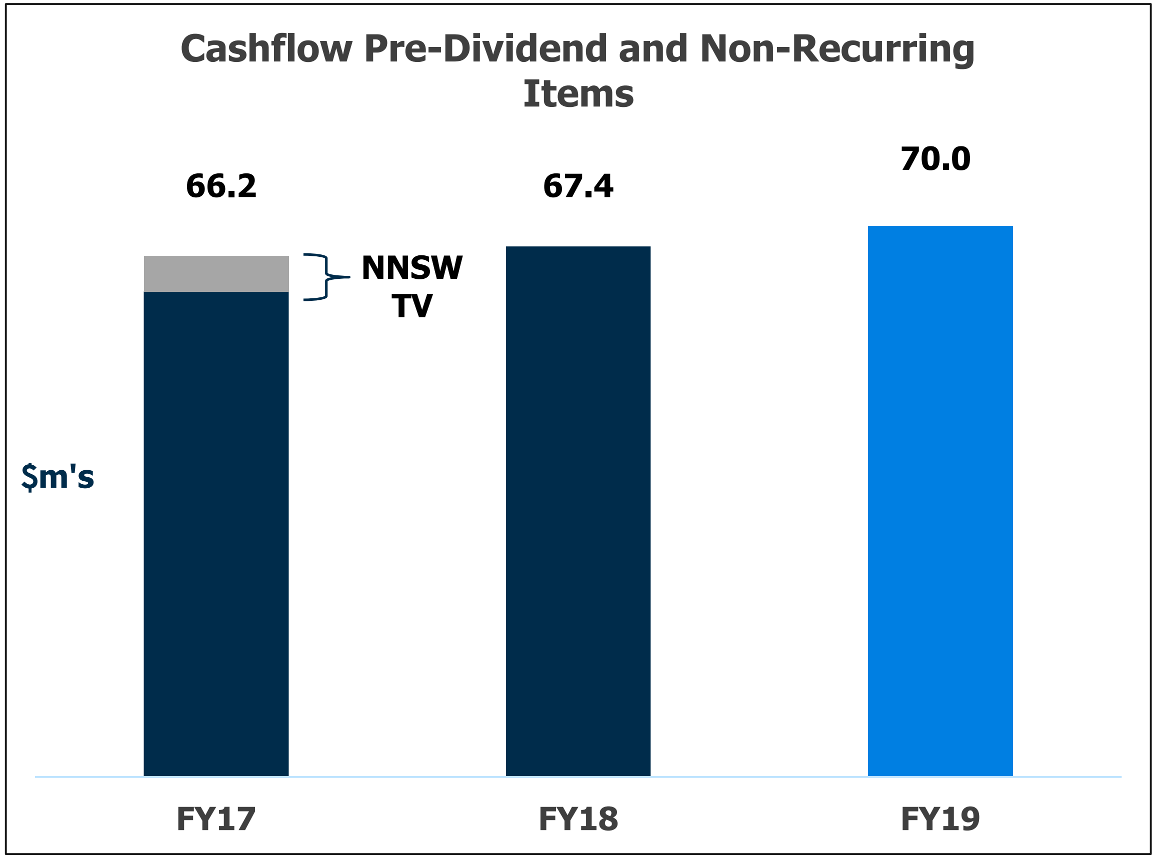
CASHFLOW

$ millions	FY19	FY18
Opening Cash	56.1	49.0
Cash from Operations	**144.9**	**144.1**
Tax Payment	(34.6)	(34.8)
Net Payments for Non-Current Assets	(27.2)	(23.8)
Net Financing Payments	(13.0)	(18.1)
Cash flow pre-dividend & non recurring items	**70.0**	**67.4**
Proceeds from Sale of Operations and Assets	0.9	11.1
Dividends to Security Holders	(59.6)	(59.6)
Debt Repayment	(35.0)	(11.8)
Closing Cash Balance	**32.4**	**56.1**
Underlying EBITDA	159.9	158.4
Operating Cash Conversion	**90.6%**	**91.0%**
Free Cashflow (Cash from Ops. - Capital Exp.)	117.7	120.3
Underlying EBIT	129.3	127.7
Free Cash Conversion	**91.0%**	**94.2%**

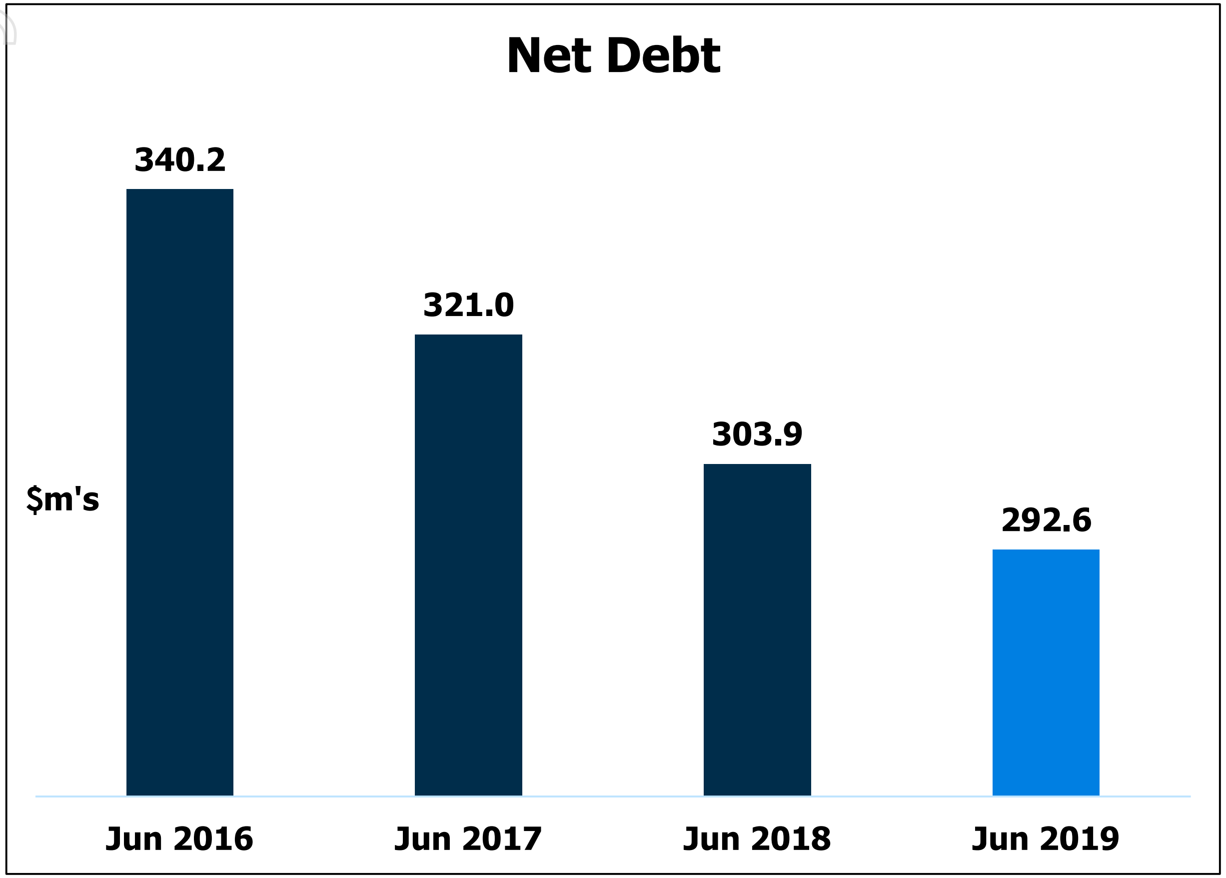
- Quality of Result - consistently high delivery of operating cashflow with free cash conversion of 91%
- FY19 cash capex of $27m will reduce in FY20 & FY21
- Investment cycle favours lower capex moving forward:
  - ✓ Refresh of major properties over last 3 years is complete – with smaller projects planned over next 2-3 years
  - ✓ Outsourcing of playout and transmission services will reduce technical equipment upgrade and replacement costs
- Working capital improved – debtor days reduced from 60 days to 56 days
- Cash financing payments in line with reduced debt financing costs

CONSISTENT CASHFLOW GENERATION



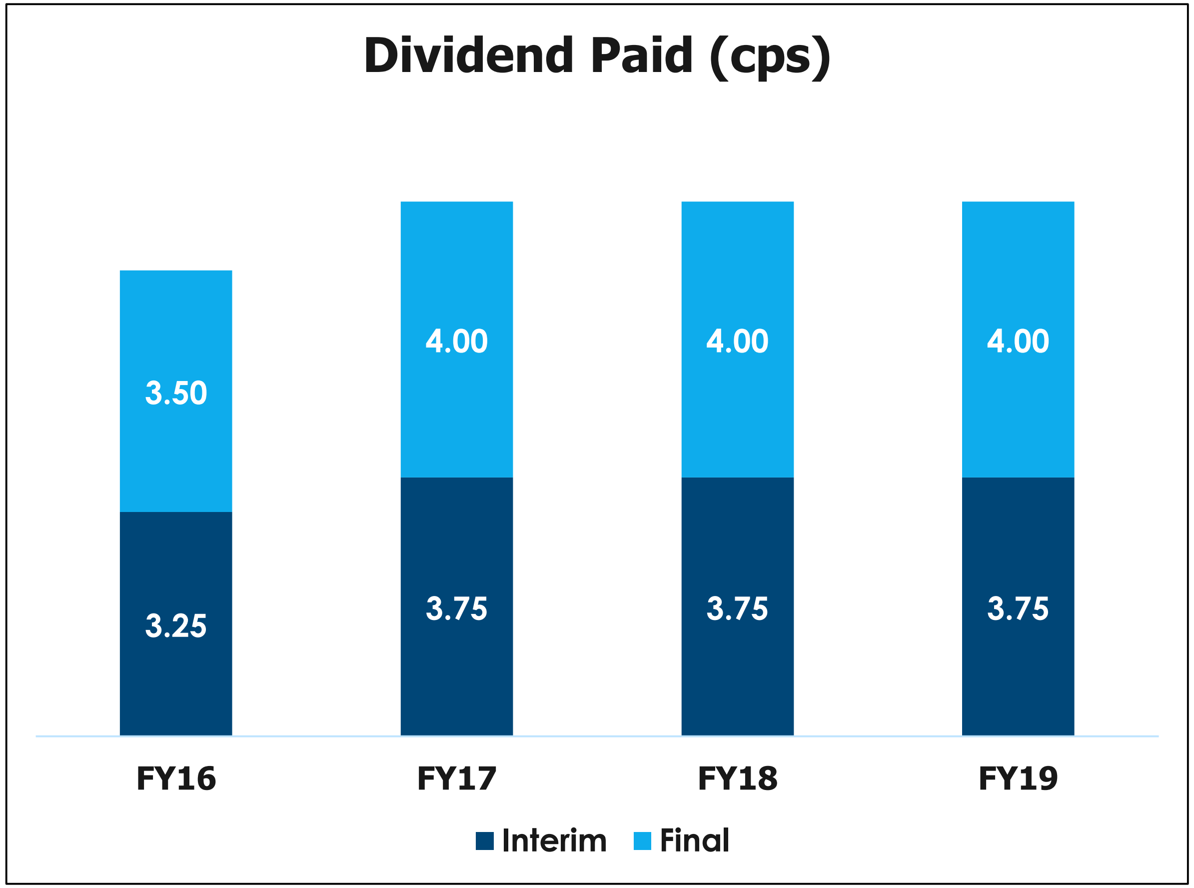
- Strong cashflow generation maintained while transforming the business of SCA
- Audio earnings over last three years have increased from ~75% to 86% of EBITDA (pre-corporate costs)
- Core Audio earnings (FM & Digital Radio) have improved – at same time investment afforded to grow new audio opportunities – namely podcasting and digital audio
- Sale of NNSW TV assets in May 2017 – adverse impact of ~$4.5m free cashflow fully recovered in FY18 and FY19 by growth from expanding core audio business

STRONG BALANCE SHEET



- Net debt further reduced by $11.3m to $292.6m through use of free cashflow
- Credit Metrics:
  - Leverage Ratio 1.76x - within company target range of 1.5x to 2.0x
  - Interest Cover Ratio 13.0x
- Balance Sheet strength continues to improve - allowing for flexibility and opportunity for future growth

DIVIDEND MAINTAINED



- Full Year dividend maintained at 7.75 cents per share, fully franked
- Dividend payout policy range unchanged at 65% - 85% of NPAT
- Strong cash generation supports stable shareholder returns

OPERATIONAL REVIEW

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OPERATIONAL REVIEW

$ millions	FY19[1]	FY18[2]	Var.
Audio Revenue	453.4	442.7	2.4%
Television Revenue	206.5	213.4	(3.2%)
Corporate Revenue	1.1	1.7	(33.1%)
Total Revenue	**661.0**	**657.8**	**0.5%**
Audio Expenses	(300.7)	(295.0)	1.9%
Television Expenses	(172.8)	(180.1)	(4.0%)
Corporate Expenses	(27.6)	(24.3)	13.7%
Underlying Expenses	**(501.1)**	**(499.4)**	**0.4%**
Audio EBITDA	152.7	147.7	3.4%
Television EBITDA	33.7	33.3	1.2%
Corporate EBITDA	(26.5)	(22.6)	(17.1%)
Total Underlying EBITDA	**159.9**	**158.4**	**0.9%**
Significant Items[3]	(9.2)	-	nm
Restructuring Costs	(3.3)	-	nm
Statutory EBITDA	**147.4**	**158.4**	**(7.0%)**

[1] All numbers exclude the impact of Restructuring Costs and Significant Items except where stated.
[2] Restatement for AASB 15 – Revenue from Contracts with Customers.
[3] Significant Items refers to non-cash charge relating to outsourcing of transmission services.
nm = not meaningful

- Underlying EBITDA up 0.9% to $159.9m
- Group revenues up 0.5% to $661m
- Audio segment delivered EBITDA growth of 3.4%, assisted by 2.4% growth in revenues with underlying expense growth of 1.9%
- Television revenues contracted by 3.2% but outperformed the market. Underlying expenses reduced by 4.0% or $7.3m reflecting benefits of variable cost base
- Corporate expenses increased due to deployment of new software tools to aid workflows, together with increases in insurance premiums

AUDIO - OVERVIEW

$ millions	FY19[1]	FY18[2]	Var.
Total Revenue	**453.4**	**442.7**	**2.4%**
Broadcast & Production	(25.6)	(23.1)	**10.8%**
Employee	(155.3)	(156.5)	**(0.8%)**
Selling, General & Admin	(119.8)	(115.3)	**3.9%**
Total Expenses	**(300.7)**	**(295.0)**	**1.9%**
Underlying EBITDA	**152.7**	**147.7**	**3.4%**
Underlying EBITDA Margin	*33.7%*	*33.4%*	
Significant Items[3]	(2.4)	0.0	**nm**
Restructure Costs	(1.7)	0.0	**nm**
Statutory EBITDA	**148.6**	**147.7**	**0.6%**

- Underlying EBITDA improved 3.4% from $147.7m to $152.7m
- Underlying EBITDA margins improved to 33.7%
- Employee costs reduced year-on-year led by positive outcomes from the Workforce Planning Project – delivering improved operating efficiencies. Partly offset by contractual salary inflation
- Audio revenues increased 2.4% driven by substantial growth from national advertisers of 9.2%
- Broadcast and production costs increased due to DAB radio transmission costs

[1] All numbers exclude the impact of Restructuring Costs and Significant Items except where stated.
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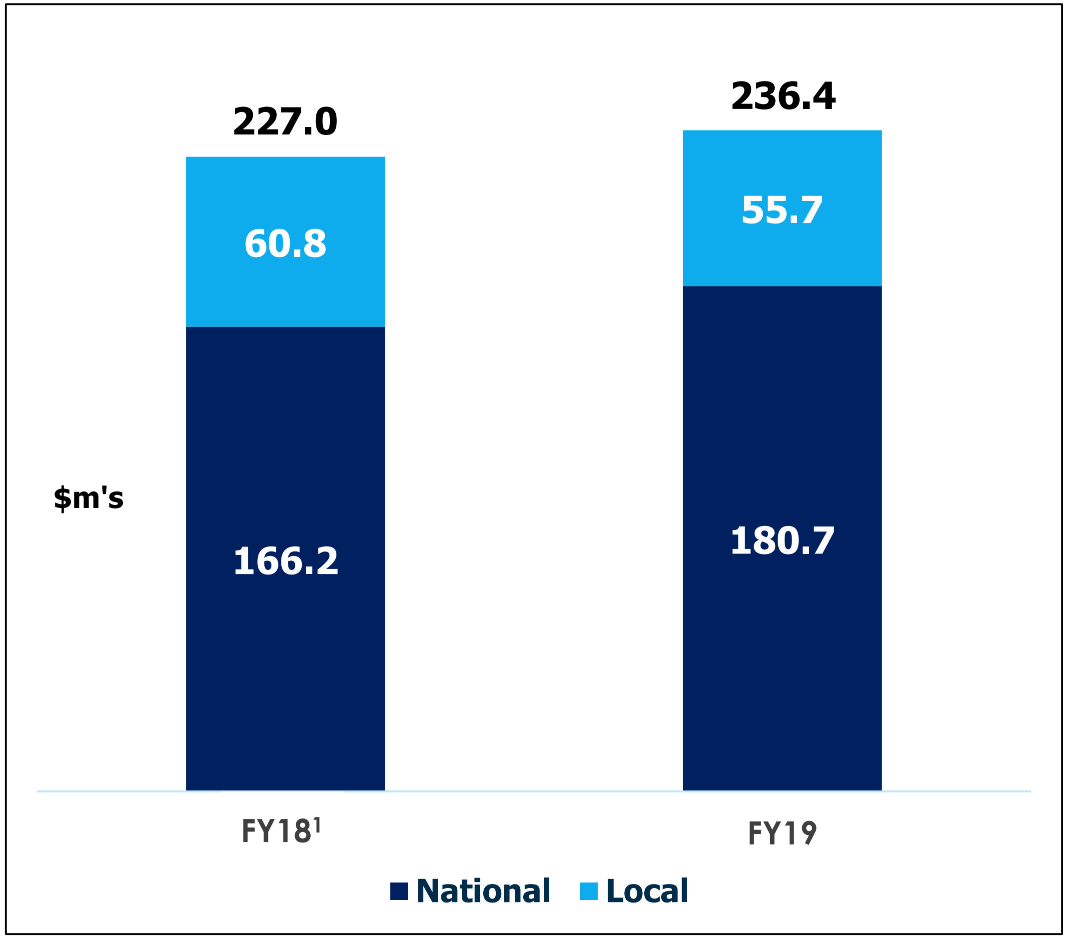
[3] Significant Items refers to non-cash charge relating to outsourcing of transmission services.
nm = not meaningful

AUDIO – METRO ADVERTISING REVENUES



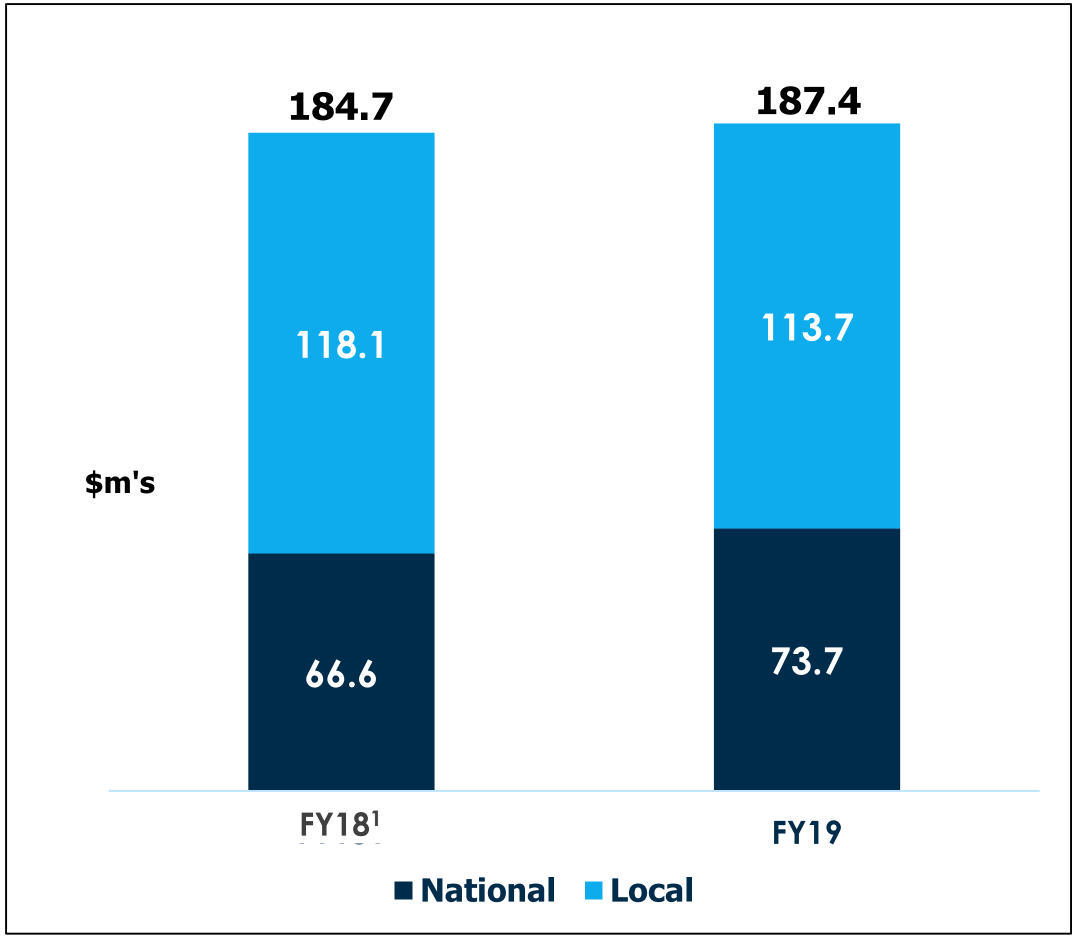
- SCA achieves stronger revenue share in every quarter – after posting metro revenue growth of 4.2% or $9.4m. The broader radio market for FY19 was back 0.5%

- National revenue growth was up 8.8% or $14.5m led by improving FM performances coupled with the effective monetisation of our new digital radio audiences i.e. – the "digital stack" FM+DAB

- Local advertisers were adversely impacted by a culmination of events – including but not limited to state and federal elections, the royal commission credit squeeze and the contraction in the housing and auto markets

[1] Restatement for AASB 15 – Revenue from Contracts with Customers

AUDIO – REGIONAL ADVERTISING REVENUES



- Regional radio revenue grew 1.5% or $2.7m – driven by a substantial increase in national revenues
- National advertiser investment in regional radio was up 10.6% or $7.1m
- The industry trade marketing campaign "Boomtown" is driving knowledge and appreciation of regional communities and audiences – resulting in stronger enquiry and investment

[1] Restatement to include revenue from Canberra JV previously included in Corporate segment

AUDIO – PODCASTING

CONTENT	YOY GROWTH
Australian Creators	+44%
Episodes Produced	+82%
Audience Growth	+260%
MONETISATION	**YOY GROWTH**
# Advertisers	+300%
Revenue	+260%

- Investment in PodcastOne Australia will pay dividends. Expected to be cashflow breakeven during H2 FY20 – after FY19 net investment of $1.6m
- Leading premium original podcast company – employing 65 unique Australian creators – producing over 2,500 episodes per annum – driving ever increasing audience consumption
- Premium group of sponsors including Amazon, Coca-Cola, Coles, Telstra, Netflix & the Federal Government
- Audiences and revenues up 260% on prior period

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AUDIO - PREMIUM PODCASTERS P1A AUSTRALIA

- PodcastOne network built on growing premium original content
- Content focussed on key genres with strong audience and commercial appeal including:
  - Business
  - Comedy
  - Health and Fitness
  - Kids and Family
  - Sports
  - True Crime

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'SMART AUDIO' IS EXPANDING RAPIDLY

2.5 million Australians have a smart speaker in their home

- 23% USA smart speaker adoption (2019)
- 13% Australia (2019)
- 8% Canada (2018)

- 'Smart Audio' is growing through mobile and speaker adoption
- Audio listening through voice enabled devices accelerating and becoming meaningful
- SCA will continue to lead and develop new and appealing on-demand audio products - to grow the market and improve SCA's reach and capacity to monetise these growing audiences

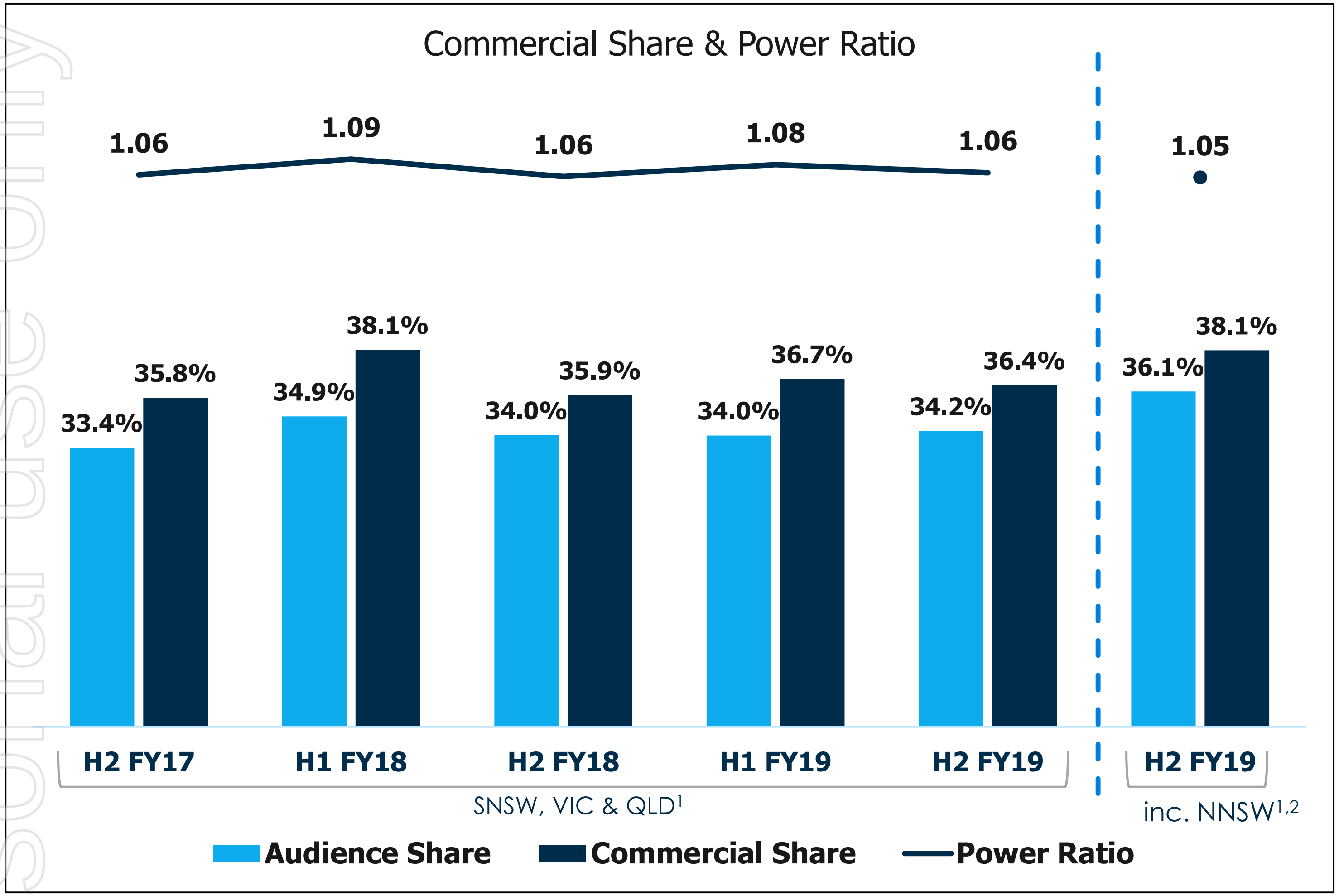
TELEVISION - OVERVIEW

$ millions	FY19[1]	FY18[2]	Var.
Total Revenue	**206.5**	**213.4**	**(3.2%)**
Broadcast & Production	(98.0)	(103.2)	**(5.0%)**
Employee	(31.0)	(31.0)	**(0.0%)**
Selling, General & Admin	(43.8)	(45.9)	**(4.4%)**
Underlying Expenses	**(172.8)**	**(180.1)**	**(4.0%)**
Underlying EBITDA	**33.7**	**33.3**	**1.2%**
Underlying EBITDA Margin	*16.3%*	*15.6%*	
Significant Items[3]	(6.9)	-	**nm**
Restructure Costs	(1.6)	-	**nm**
Statutory EBITDA	**25.2**	**33.3**	**(24.4%)**

[1] All numbers exclude the impact of Restructuring Costs and Significant Items except where stated.
[2] Restatement for AASB 15 – Revenue from Contracts with Customers.
[3] Significant Items refers to non-cash charge relating to outsourcing of transmission services.
[4] Source: KPMG 3-agg market (VIC, SNSW, Qld)
nm = not meaningful

- Underlying EBITDA of $33.7m was up 1.2% on FY18
- Underlying EBITDA margins improved to 16.3%
- Television revenues reduced 3.2% against a backdrop of the regional television market back 5.3%[4]
- Underlying expenses were down 4.0%, reflecting benefits of a variable cost base with reduced program supply fees

TELEVISION – POWER RATIO

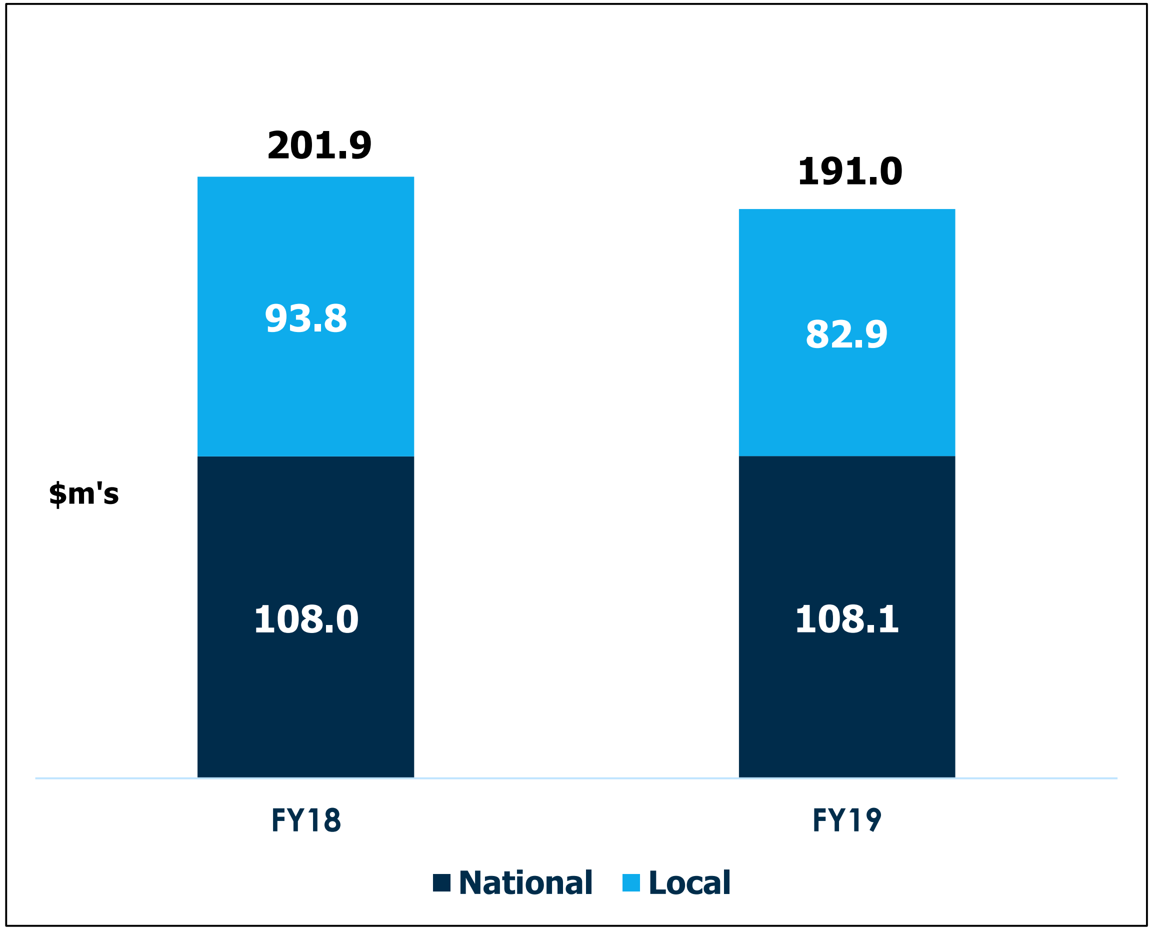


- SCA delivered a power ratio of 1.05 for the 4-agg markets, delivering a consistent premium and monetising the growth in Nine's ratings over time
- Sales representation for both national and local sales in Nine-owned NNSW license area (NBN) has enabled SCA to provide a holistic TV solution across the East Coast

[1] KPMG Market Share Report – Regional Queensland, SNSW, NNSW & Regional Victoria

[2] Effective 1 July 2018 SCA and Nine entered into a local sales representation agreement for the NNSW Television licence area

TELEVISION – ADVERTISING REVENUES



- National revenues flat year on year – assisted by federal election spending and national trade marketing campaign – ‘Boomtown’

- Local market spending soft in Q4 due to federal election and general economic uncertainty

TELEVISION - PROGRESSIVE TRANSFORMATION

Progressive actions over last 3 years to improve Television asset – with more valuable content, enhanced sales capability and simplified business processes

Affiliation Change	Rebranding	Sale of Towers	Sale of NNSW Licence to WIN Television / New National & Local Sales representation with Nine in NNSW	TV Playout Outsource	Transmission Services Outsource
July 2016	July 2016/Feb 2018	April 2017	May 2017/July 2018	October 2018	August 2019

Nine

Southern Cross

Nine

TASMANIA

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STRATEGIC FOCUS – "FRONT OF HOUSE"

"Front of House"

Audio Content Creation

Sales Monetisation

INVESTMENT FOCUS

"Back of House"

Playout
TV: 105 channels (NPC)
Radio: 154 playout streams (SCA)

Distribution
Telstra DVN network
(+ Satellite)

Transmission
541 Services
Broadcast Australia

ASSET INTENSIVE – OUTSOURCED TO SPECIALIST PROVIDERS

Outsourcing of TV playout and all transmission services

Features
- Long term contracts with specialist providers
- Operations and capital replacement risk transferred to operator
- Defined service levels

Benefits
- Economies of scale (maintenance and procurement)
- Avoidance of capex refresh cycle
- Cashflow benefits
- Simplified operating environment
- FY20 financial impact set out on slide 32

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CORPORATE

$ millions	FY19	FY18	Var.
Total Revenue	**1.1**	**1.7**	**(33.1%)**
Total Expenses	**(27.6)**	**(24.3)**	**13.7%**
EBITDA	**(26.5)**	**(22.6)**	**(17.1%)**

- Corporate has been simplified with earnings from Radio and Television joint ventures moved to Audio and Television segments
- Overhead increases include increased software licencing costs from rollout of enhanced content and sales systems, and insurance market premium increases

OUTLOOK

Grant Blackley

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KEY PRIORITIES - THE YEAR AHEAD

Audio

- Maximise the value of SCA brands - focus on growing audience and reach
- PodcastOne Australia - achieve cashflow breakeven during the year
- Accelerate development in 'smart audio' experiences for audiences

Television

- Leverage success of Boomtown - grow national investment into regional markets
- Successfully transition to new outsourced back-office arrangements
- Seize opportunity to monetise premium events - Australian Tennis

Business Transformation

- Continued investment and development of sustainable new audio revenue streams
- Business will commit ~$5m opex and capex to grow and develop new audio products
- Maintain disciplined investment criteria in assessing new opportunities to grow asset base

Operational Excellence

- Maintain consistent cashflow generation, supporting strong dividend yield
- Focus on cost discipline and continued investment in systems and workflows
- Further reduce debt while optimising shareholder value

TRADING UPDATE

Trading Update

- Advertising markets remain challenging in July & August – expectation back mid-single digits
- Forward pacing indicates stabilising market for September and return to growth in October
- Podcasting and digital audio continuing to grow strongly year on year
- Group expenses tracking below FY19 – supported by lower revenue related costs

APPENDIX

FINANCIAL OUTLOOK – IMPACT OF KEY CONTRACTS AND NEW ACCOUNTING STANDARDS

Introduction of AASB16 Leases, together with outsourcing contracts for playout and transmission services will impact reported results in FY20 in the income statement. Estimated changes are:

	AASB16 (Leases)	Back office outsourcing	
	Operating leases brought on-balance sheet. All adjustments are non-cash	Transition to agreements with NPC and BA	
EBITDA increase/(decrease)	$15m	$(4.5)m $(1.5)m	(Capex to Opex – Service Fee) (one-off restructuring)
Depreciation decrease/(increase)	$(13)m	$8m	(legacy assets sold or decommissioned)
Financing Costs increase	$(6)m	-	
Tax credit/(charge)	$1m	$(0.5)m	
NPAT (loss)/profit	$(3)m	$1.5m	
Capex	-	$5.0m	(reduced capex)

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RESTATEMENT OF FY18 RESULTS

	FY18 Reported CGUs				ATN Adjustment	FY18 Restated Results
	Metro	Regional	Corporate	Total		
Revenue	242.7	393.0	18.3	**654.0**	3.8	**657.8**
Expenses	(185.0)	(278.3)	(36.1)	**(499.4)**	-	**(499.4)**
EBITDA	57.7	114.7	(17.8)	**154.7**	3.8	**158.5**

Audio						
	Reported Metro Audio	Regional Audio	Total Reported Audio	Net Reallocations	ATN Adjustment	Restated FY18 Audio Results
Revenue	242.7	180.2	**422.9**	16.0	3.8	**442.7**
Expenses	(185.0)	(96.2)	**(281.1)**	(13.8)	-	**(295.0)**
EBITDA	57.7	84.0	**141.7**	2.2	3.8	**147.7**

Television				
	Regional Television	Net Reallocations	TV JV Earnings	Restated FY18 TV Results
Revenue	**212.9**	0.6	-	213.4
Expenses	**(182.2)**	0.9	1.2	(180.1)
EBITDA	**30.7**	1.5	1.2	33.3

Corporate					
	Reported Corporate	Reallocations to TV	Television JV Earnings	Reallocations to Audio	Restated FY18 Corporate Results
Revenue	**18.3**	(0.6)	-	(16.0)	**1.7**
Expenses	**(36.1)**	(0.9)	(1.2)	13.8	**(24.3)**
EBITDA	**(17.8)**	(1.5)	(1.2)	(2.2)	**(22.6)**

Key Movements:

- Corporate to Audio – Earnings from 50% share in Canberra FM
- Corporate to TV – Earnings from 50% share in TV JV's

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