

Form 603
Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Southern Cross Media Group Limited (ASX: SXL) (**SXL**)

ACN/ARSN 116 024 536

1. Details of substantial holder (1)

Name Anchorage Capital Partners Pty Ltd (**ACP**)

ACN/ARSN (if applicable) 127 136 341

The holder became a substantial holder on 18/10/2023

2. Details of voting powers

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

Class of securities (4)	Number of securities	Person's votes (5)	Voting power (6)
Fully paid ordinary shares (ordinary shares)	35,505,074	35,505,074	14.8%

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

Holder of relevant interest	Nature of relevant interest (7)	Class and number of securities
ARN Media Limited (ACN 008 637 643) (ARN)	As described in the ASIC Form 603 "Notice of initial substantial holder" lodged by ARN (and other entities) with ASX on 22 June 2023.	35,505,074 ordinary shares

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

Holder of relevant interest	Registered holder of securities	Person entitled to be registered as holder (8)	Class and number of securities
ARN	Gulgong Pty. Limited (ACN 008 637 607) (Gulgong)	Gulgong	35,505,074 ordinary shares

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

Holder of relevant interest	Date of acquisition	Consideration (9)	Class and number of securities of securities
N/A	N/A	N/A	N/A

6. Associates

The reasons the persons listed in paragraph 3 above are associates of the substantial holder are as follows:

Name and ACN/ARSN (if applicable)	Nature of association
ARN	ACP and ARN are associates under subsection 12(2)(c) of the <i>Corporations Act 2001</i> (Cth), as they are acting in concert in relation to SXL and have today jointly submitted a non-binding indicative offer to acquire all of the ordinary shares in SXL by way of a scheme of arrangement, on the terms and conditions set out in the document attached and marked as Annexure "A" to this form. ACP does not hold a relevant interest in SXL ordinary shares, including the SXL ordinary shares in which ARN has a relevant interest in as referred to in section 4 above.

7. Addresses

The addresses of persons listed in this form are as follows:

Name	Address
ACP	Level 39, 259 George St, Sydney NSW 2000, Australia
ARN and Gulgong	3 Byfield Street, Macquarie Park NSW 2113, Australia

Signature

print name D B Dixon

capacity Director

sign here *DB Dixon*

date 18/10/2023

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Annexure "A"

This is Annexure "A" of 8 pages referred to in the Form 603 (Notice of Initial Substantial Holder) lodged by Anchorage Capital Partners Pty Ltd (ACN 127 136 341) in respect of Southern Cross Media Group Limited (ACN 116 024 536).

D B Dixon

Signature of D B Dixon

Position: Director

Date: 18/10/2023

For personal use only

18 October 2023

Mr. Rob Murray
Chairman and Independent Director
Southern Cross Media Group Limited
Level 2, 101 Moray Street
South Melbourne VIC 3205
Australia

NON-BINDING INDICATIVE PROPOSAL TO ACQUIRE SOUTHERN CROSS MEDIA GROUP LIMITED

Dear Mr. Murray,

ARN Media Limited (“**ARN**”) and Anchorage Capital Partners Pty Limited¹ (“**ACP**”, and together with ARN, the “**Consortium**”), are pleased to submit this non-binding indicative offer (the “**Indicative Proposal**”) to acquire 100% of the fully diluted share capital of Southern Cross Media Group Limited (“**SCA**” or “**the Company**”) for consideration comprised of 0.753 ARN ordinary shares and 29.6 cents cash per SCA share by way of a recommended scheme of arrangement as outlined in this letter (the “**Proposed Transaction**”).

We believe the Indicative Proposal represents a compelling opportunity for SCA shareholders and will provide them with a number of important benefits, including the opportunity to:

- Realise an attractive premium relative to the recent trading price of SCA shares;
- Through exchanging an interest in SCA for an ongoing shareholding in ARN, participate in the material value creation opportunity arising from the combination of certain of ARN and SCA audio assets as part of the Proposed Transaction including:
 - A focused metro radio network of 10 stations across Sydney, Melbourne, Brisbane, Adelaide and Perth, anchored by the KIIS and Triple M brands in each location and with differentiated, nationally and locally relevant talent;
 - A larger, growing and profitable regional radio footprint comprised of 88 stations up from 47 today, plus full ownership of ARN’s two existing stations in Canberra;²
 - The opportunity to benefit from cost and other efficiencies resulting from the combination of ARN’s retained and acquired radio stations; and
 - Enhanced future growth and an accelerated path to profitability in a more scaled digital audio platform;
- Receive significant cash in excess of the current trading value of SCA shares as part of the consideration received, providing near and certain value that should enable access to SCA’s franking credit balance for eligible SCA shareholders if the cash component of the Indicative Proposal Price is structured as a pre-completion fully franked special dividend;

¹ Funds managed by the ACP group will establish a new nominee entity for the purposes of the Proposed Transaction.

² ARN currently has a 50% interest in Mix 106.3 and 104.7 FM Canberra, with the remaining 50% in each station held by SCA.

- Benefit from enhanced scale and register diversity in capital markets as shareholders in ARN post-transaction, including through improved liquidity and index position; and
- Access a more flexible balance sheet relative to SCA with reduced pro forma leverage (less than 0.8x) at ARN post-transaction, which will support a continued ability to invest and grow.³

The Separation (as described in section 2 below) will be implemented on completion of the Proposed Transaction. We are confident that by structuring the Proposed Transaction and Separation in the manner set out in this letter, we are able to deliver transaction certainty to SCA, its shareholders, and other key stakeholders.

We would welcome the opportunity to engage with the Board of SCA on this Indicative Proposal, which has the full support of ARN's Board of Directors and the ACP Investment Committee. Our intention is to work efficiently and constructively with SCA to agree binding transaction documentation concurrently with completing due diligence over a six week period. The Consortium and our advisers are ready to commence work immediately and are confident that the Indicative Proposal provides a highly attractive outcome for the Company, its shareholders, and other key stakeholders.

1. Indicative Proposal

Based on publicly available information and the key assumptions and conditions set out below, the Consortium proposes to acquire 100% of SCA's issued shares for an implied consideration of A\$0.940 per ordinary share on a fully diluted basis ("**SCA Share**") (the "**Indicative Proposal Price**"), with consideration to be comprised of:

- 0.753 ARN ordinary shares ("**ARN Shares**") per fully diluted ordinary SCA Share (the "**ARN Exchange Ratio**"), which, based on the closing price of ARN Shares on the ASX on 17 October 2023, represents an indicative value of A\$0.644 per SCA Share (the "**Scrip Consideration**"); and⁴
- 29.6 cents in cash per SCA Share, less the cash amount of any dividends or distributions that are determined or otherwise become payable after the date of this letter (the "**Cash Consideration**").

Based on the proposed Scrip Consideration, SCA shareholders will own approximately 33% of ARN following the Proposed Transaction.⁵ The Consortium's objective is that the Scrip Consideration will qualify for capital gains tax rollover relief.

The Consortium is open to working with SCA to structure part of the cash component of the Indicative Proposal Price as a pre-completion fully franked special dividend, providing access to an additional value of 12.7 cents per SCA Share from franking credits for eligible existing SCA shareholders (the "**Franking Credits**").

We strongly believe that the Indicative Proposal Price represents a compelling opportunity for SCA shareholders to realise value for their SCA shares. Specifically, the Indicative Proposal Price implies a:

- 29% premium to the SCA closing share price on 17 October 2023 (46% including Franking Credits);⁶
- 28% premium to the SCA 30-day VWAP (45% including Franking Credits).⁷

We are also open to providing SCA shareholders with the flexibility of a "mix and match" option as it relates to the consideration they receive under the Indicative Proposal, where they are able to elect to receive maximum Cash Consideration or maximum Scrip Consideration subject to a scale-back mechanism that will cap the total

³ Pre and pro forma post-transaction net leverage as at 30 June 2023.

⁴ Based on ARN's closing share price of A\$0.855 per share on 17 October 2023.

⁵ Based on 307.7 million fully diluted ARN shares outstanding and 240.8 million fully diluted SCA shares outstanding at 17 October 2023.

⁶ Based on SCA's closing price of A\$0.730 per share on 17 October 2023.

⁷ Based on SCA's 30-day VWAP of A\$0.735 per share up to and including 17 October 2023.

aggregate Cash Consideration to be paid to SCA shareholders at A\$60.9 million, being the full amount of Cash Consideration proposed under the Indicative Offer.⁸ The Cash Consideration would be reduced by the amount of any dividends or distributions that are determined or otherwise become payable after the date of this letter, including any pre-completion special dividend by SCA as agreed between SCA and the Consortium.

ARN notes its acquisition of 35.5 million fully paid ordinary shares in SCA on 19 June 2023 at A\$1.08 per share, representing 14.8% of the issued capital of SCA. Based on the terms of this Indicative Proposal (being the combined ARN Exchange Ratio and Cash Consideration being offered per SCA share), the implied Indicative Proposal Price would have been equivalent to A\$1.08 per SCA share had it been made on 19 June 2023 based on the closing share prices of ARN and SCA respectively on that date.⁹

2. Structure of the Proposed Transaction and Separation

Proposed Transaction

Under our Indicative Proposal, the Proposed Transaction would proceed by way of a scheme of arrangement that is unanimously recommended by the SCA Board. This is expected to provide maximum transaction and timing certainty for SCA, its shareholders, and the Consortium.

Separation

As part of the implementation of the Proposed Transaction, it is intended for the combined radio and television stations currently owned by ARN and SCA to be allocated between ARN and ACP (or their respective related entities) through a series of concurrent transactions effected at completion of the Proposed Transaction (the "Separation"). As part of the Separation, ARN is expected to:

- Retain 5 of its existing metro radio stations plus acquire 5 of SCA's metro radio stations;
- Retain 37 of its existing regional radio stations plus acquire 51 of SCA's regional radio stations; and
- Move to 100% ownership in Mix 106.3 and 104.7 FM Canberra, up from 50% today.

ACP is expected to retain ultimate ownership of all existing SCA radio stations not being acquired by ARN, plus acquire 3 metro and 10 regional radio stations from ARN. ACP will also retain ultimate ownership of SCA's existing television business.

The Separation will be fully negotiated and documented prior to SCA and the Consortium entering into binding transaction documentation for the Proposed Transaction. It will be conditional on and is expected to complete on implementation of the Proposed Transaction, which will then result in two separate, independent, national media organisations operating on a stand-alone basis:

- ARN will remain ASX-listed, and is expected to operate a network of 10 metro and 88 regional radio stations, owning 100% of two stations in Canberra, plus its existing digital audio business; and
- ACP is expected to own and operate a separate network of 8 metro and 35 regional radio stations, plus SCA's existing television and digital audio businesses.

As it relates to ACMA and ACCC approvals, based on our analysis, the Separation that occurs at completion will, subject to the relevant approval, meet regulatory requirements and the Consortium is confident that through

⁸ Noting ineligible foreign shareholders and small shareholders who would receive less than a marketable parcel of ARN shares will only receive cash consideration for their SCA Shares.

⁹ Based on SCA's closing price of A\$0.760 and ARN's closing price of A\$1.040 on 19 June 2023.

engagement with the relevant regulators it will obtain the required approvals in an appropriate time frame and without significant delay.

ARN and ACP also intend to form an independently managed, separate and equally owned digital audio joint venture, comprised of substantially all of ARN and SCA's respective existing digital audio assets and operations ("**Digital Joint Venture**") as part of the Separation. The proposed Digital Joint Venture is expected to create an Australian digital audio business of greater scale, with enhanced future growth potential and an expected accelerated path to profitability, allowing ARN to compete more effectively with global digital platforms. SCA shareholders will be able to participate in upside from the proposed joint venture through their ongoing shareholding in ARN post-transaction. The Digital Joint Venture will not include any commercial radio or television broadcasting licences, or any other traditional media assets or businesses.

3. Overview of the Consortium

ARN and ACP have partnered together exclusively with respect to this Indicative Proposal and are pursuing the Proposed Transaction on a joint basis. At completion of the Proposed Transaction, ARN and ACP will be independent of each other and will compete with each other in metro and regional radio and more broadly.

ARN is one of Australia's leading broadcast and on-demand audio platforms, and is well-known to SCA. Strategically, ARN sees the Proposed Transaction as a unique opportunity to selectively augment its existing network of high quality metro radio stations while also creating a larger, growing regional radio footprint to provide an enhanced offering to listeners and advertisers across Australia.

ACP is a specialised private equity firm which focuses on investing in companies with strong market positions and significant potential. The majority of ACP's investment experience has been through the successful acquisition of businesses with diverse geographic footprints, integrated systems and services requiring separation. ACP has managed commitments of over A\$1 billion across multiple funds and co-investments.

The Australian media industry has been an area of focus for ACP for a number of years. In particular, ACP believes that the Australian metro and regional radio and regional television sectors possess attractive investment characteristics and strong business fundamentals. As part of its prior work on the Australian media sector, ACP has had a consistent interest in SCA.

4. Funding Sources

ACP intends to fund all cash consideration offered to SCA shareholders under the Indicative Proposal. ACP has access to multiple sources of capital, including from its investors (through both funds managed by ACP and co-investment), and third parties. ACP is currently investing from its recently raised Anchorage Capital Partners Fund IV which has undrawn and available commitments of over A\$300 million.

ARN intends to fund its portion of consideration under the Proposed Transaction through the issuance of ARN scrip to SCA shareholders.

Given our combined financial resources, the Consortium will not require a financing condition in the Scheme Implementation Deed ("**SID**").

5. Timeline and Due Diligence

The Consortium and its advisers intend to conduct due diligence that is typical for a transaction of this nature, including financial, accounting, tax, commercial, and legal due diligence. We confirm that we have the authority and decision making processes in place, and the necessary internal and external resources mobilised to commence due diligence immediately. We can promptly provide you with a summary of our defined-scope due diligence plan.

Given SCA shareholders will be issued shares in ARN as part of the Proposed Transaction, we acknowledge that SCA may request to conduct certain due diligence on ARN. We can mutually agree an appropriate scope and timeframe for any such review.

In order to advance this Indicative Proposal in an efficient manner, we are seeking a period of four weeks exclusivity to complete our due diligence (the “**Initial Exclusivity Period**”), which we request be provided as soon as possible following the signing of a non-disclosure agreement (“**NDA**”) and appropriate protocols to protect each of ARN and SCA’s competitively sensitive information to ensure regulatory compliance (“**Protocol**”). During the Initial Exclusivity Period, the Consortium’s exclusivity would be absolute (i.e. not subject to a fiduciary out). The Initial Exclusivity Period would then automatically be followed by a further two weeks of exclusivity (the “**Extension Period**”, and together with the Initial Exclusivity Period, the “**Exclusivity Period**”), which would be subject only to an exception permitting the SCA Board of Directors to engage with an unsolicited superior proposal that provided SCA with a higher value and at minimum, delivered the same level of certainty as outlined in this Indicative Proposal under a customary fiduciary out. We are in a position to share a draft NDA, Protocol and exclusivity deed promptly to help expedite this process.

During the Exclusivity Period, the Consortium would concurrently seek to finalise binding transaction documentation, including the SID with SCA, and settle the necessary legal documentation for both the Separation and relevant regulatory approvals. The Proposed Transaction would then be announced on or immediately following the execution of the SID by the end of the Exclusivity Period. Assuming due diligence commences substantively in late October, we expect to be in a position to execute a SID no later than early December 2023.

6. Key Assumptions and Conditions

The Indicative Proposal and the Indicative Proposal Price is based on our analysis of the publicly available information on SCA only. It assumes no change in SCA securities outstanding, no material changes in SCA cash and debt balances compared with the last publicly reported position, and that working capital is maintained at consistent levels. The Consortium has assumed that the 239.9 million ordinary shares and 0.9 million performance rights as at 30 June 2023 per the 2023 Annual Report lodged by SCA on 25 September 2023 represent the total issued capital of SCA outstanding at the date of this letter, and there will be no further shares (or other securities convertible or exchangeable into shares) issued or to be issued after this date, except in respect to the treatment of performance rights as agreed with the Consortium.

This Indicative Proposal is also subject to standard and customary conditions for a transaction of this nature, including:

- Satisfactory completion of due diligence (to be completed prior to entry into the SID);
- SCA carries on its business as a going concern and in the ordinary course consistent with the manner in which it has done so in the last 12 months;
- Final approval from the ACP investment committee and ARN Board of Directors (noting, however, that the Proposed Transaction will not be conditional on approval by ARN shareholders);
- Negotiation and execution of the SID on market standard terms and conditions (including but not limited to no material adverse change, no prescribed occurrences, all necessary regulatory approvals, standard exclusivity and deal protection measures including a break fee, no shop, no talk and notification and matching rights in the event of a competing proposal (subject to the usual fiduciary carve-outs) and other appropriate protections for the Consortium);
- The SCA Board unanimously recommending the Proposed Transaction to SCA shareholders and agreeing to vote in favour of it (in respect of all SCA Shares they hold or control) on the terms agreed in the SID, and in the absence of a superior proposal, and subject to an independent expert concluding and continuing to conclude that the Proposed Transaction is in the best interest of shareholders;

- All outstanding unvested shares and performance rights relating to management and employee incentive plans vesting (and either being exercised or cancelled) or lapsing, in accordance with terms acceptable to the Consortium; and
- Receipt of all necessary competition and regulatory conditions and approvals required for the Proposed Transaction and Separation.

As it relates to regulatory approvals, the Consortium will require ACMA, ACCC and FIRB approval (given the nature of SCA's business) for the Proposed Transaction and the Separation. The proposed SID and documentation to give effect to the Separation will be conditional on receipt of these regulatory approvals, which we expect to be received in advance of the scheme meeting of SCA shareholders to approve the Proposed Transaction.

As it relates to ACMA and ACCC approvals, based on our analysis, the Separation that occurs at completion will, subject to the relevant approval, meet regulatory requirements and the Consortium is confident that through engagement with the relevant regulators, it will obtain the required approvals in an appropriate time frame and without significant delay.

We would welcome the opportunity to further discuss the Separation with you, including how it delivers transaction certainty to SCA and its shareholders.

7. Consortium Advisers

The Consortium has assembled a team of external advisers to assist with our due diligence and transaction execution. These include Jefferies Australia as financial adviser, Gilbert + Tobin as legal adviser, and KPMG and PwC as accounting and tax advisers in relation to the Proposed Transaction.

8. Nature of Indicative Proposal

This letter (including the Indicative Proposal) is intended as an expression of our interest and is not intended to constitute, and does not constitute, a legal binding offer or proposal. This Indicative Proposal is preliminary, incomplete, and non-binding, and is not intended to be complete or exhaustive, nor does it constitute a commitment or binding obligation on the part of the Consortium to proceed with any transaction or take any action or an offer that is capable of acceptance. Any legally binding obligations will be subject to, amongst other things, completion of due diligence to our satisfaction, receipt of necessary regulatory approvals, the approval of the ARN Board of Directors and ACP Investment Committee, and the execution of mutually acceptable definitive transaction documentation.

This letter (including the Indicative Proposal) does not constitute a proposal to make a takeover bid for the purposes of section 631 of the Corporations Act 2001, nor does it constitute a commitment or undertaking to proceed with the Proposed Transaction.

9. Timing and Next Steps

We trust that this Indicative Proposal demonstrates the seriousness of the Consortium's interest in the Proposed Transaction, as well as its attractiveness to SCA shareholders. It is our desire to work constructively with you to develop this Indicative Proposal into a binding transaction within an expedited timeframe, for the benefit of all stakeholders.

If you have any questions in respect to our Indicative Proposal, please do not hesitate to contact us or our financial adviser. We would welcome the opportunity to finalise the NDA, Protocol and exclusivity deed and we have drafts available to send to you to advance our discussions.

We look forward to your response.

Yours sincerely

ARN Media Limited

Anchorage Capital Partners Pty Limited

Hamish McLennan

Beau Dixon

Authorised Representative

Authorised Representative

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