# SOUTHERN CROSS AUSTEREO

## H1 FY15 INVESTOR PRESENTATION
## 25 FEBRUARY 2015

SOUTHERN CROSS AUSTEREO
*absolutely* engaging

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# RESULTS SUMMARY

- Results delivered in line with market guidance

| | | | |
|---|---|---|---|
| Revenue | $307.6m | (7.3%) | ↓ |
| EBITDA | $85.8m | (18.3%) | ↓ |
| NPAT | $34.7m | (24.4%) | ↓ |
| EPS | 4.9 cps | (24.6%) | ↓ |
| Net Debt | $573.1m | (2.5%) | ↓ |

- Declared interim fully franked dividend of 3.0 cents per share - DRP shortfall agreement for up to 100%, conserves cash

# HEADLINE ACHIEVEMENTS

**RHYS HOLLERAN**

# HEADLINE ACHIEVEMENTS

- Regional radio remains stable – 0.6% increase in revenue.
- Total costs down 2.2% whilst increasing investment in content.
- Re-signed key talent agreements – Triple M Hot Breakfast and Hamish & Andy.
- Net debt reduced by $14.8m to $573.1m.
- Finance costs reduced by $4.2m, ongoing benefit from January 2014 refinance.
- $75.2m cashflow from operations - 87.7% of EBITDA conversion.

# OPERATIONAL STRATEGY

**Regain Metro Share**

- Investment in developing and proven talent in Sydney and nationally
- Renewal of #1 FM Melbourne breakfast show for 3 years (Hot Breakfast)
- New shows launched in 2014 now in second year
  - Target audience up 9% across Melbourne, Brisbane, Adelaide & Perth[1]

**Leverage Digital**

- 17.3% year on year growth in digital revenues
- The radio industry creates the highest level of social media engagement in Australia and SCA has 70.5% share of this – digital revenue from social media up 347% year on year
- SCA leads the way in mobile first product strategy – 80% of interaction is via a mobile device

**Operational Efficiency**

- 2.2% reduction in operating expenses
- Roll out of single traffic and billing system nearing completion
- Renegotiation of communication agreements delivered $2.5m savings in H1 FY15

[1] Survey 8 2014 v. Survey 8 2013, Cume female 18 – 39 demo.

# METRO RADIO GROWTH STRATEGY

## $700M METRO RADIO AD MARKET

TODAY'S hit network

24% FEMALES 18 – 39[1]

36% MALES 25- 54[1]

TRIPLE M

**Complementary brand strategy targets optimum market share**

**Target**
Most listened to network in Australia
**Success**
- Implemented programming investment strategy
- **2.7m** listeners, **0.8m** in target demo [2]
- **1.5m** listeners with Dan & Maz in Drive [2]
- **#1** Breakfast & Drive shows in Melbourne, Brisbane & Perth (target demo) [2]

**Target**
Dominate target demographic with deep engagement
**Success**
- **#1** network for men around the country [2]
- **2.2m** listeners – 11% growth on PY [2]
- **8%** revenue growth
- Renewal of key talent
- **#1** Breakfast shows in all markets (target demo) [2]

[1] Landsberry & James AQX Competitive Spend & Oztam Measuring Audience (October 2014), [2] GFK Survey 8 2014

# CAPITAL MANAGEMENT STRATEGY

## Capital management initiatives targeting reduction in leverage to 2.5x

| Initiative | Outcome |
| --- | --- |
| Investment in talent to deliver ratings and revenue growth | • Dan & Maz breakfast show launched in Sydney<br>• Hamish & Andy national drive show from July 2015 |
| Increased cashflow from cost savings | • $11.6m reduction in operating expenses, capex and finance costs in H1 FY15<br>• $320m new interest rate swaps from April 2015 to January 2018 – forecast net finance costs reduce to around $39 million for full year FY15 and between $32 million and $34 million for FY16 |
| Cash conservation through underwritten DRP | • $21.2m in cash conserved in H1 FY15<br>• DRP with shortfall placement facility continues in H2 FY15 |
| Review of non-core assets | • $8.0m proceeds from property divestment expected H2 FY15<br>• Review of other freehold property assets |

**SCA lenders are supportive of capital management strategy. Leverage covenant headroom raised to 3.75x through to December 2015 to provide incremental covenant headroom for 12 months to enable programming investment to take effect.**

# CAPITAL MANAGEMENT STRATEGY (CONT)

- Leverage ratio may increase further at June 2015, but still well within previous covenant of 3.5x. Additional headroom to 3.75x until December 2015 provides investors with increased certainty that leverage ratio covenant will not be breached.
- Leverage ratio expected to reduce to 2.5x between June 2016 and December 2016, even with limited improvement in operating results and no proceeds from disposal of assets.
- Progressively reducing debt, coupled with operational plans to increase earnings, considered most effective strategy towards achieving leverage targets.

# H1 FY15 FINANCIAL RESULTS

**NICK MCKECHNIE**

# GROUP REPORTED STATUTORY RESULTS

| $ millions | H1 FY15 | H1 FY14 | % Var. Fav/(unfav) |
|---|---|---|---|
| Revenue | 307.6 | 331.9 | (7.3%) |
| Expenses | (221.9) | (226.8) | 2.2% |
| Equity Accounted Profit | 0.1 | (0.1) | nm |
| **EBITDA** | **85.8** | **105.0** | **(18.3%)** |
| Depreciation & Amortisation | (13.6) | (13.7) | 0.7% |
| **EBIT** | **72.2** | **91.3** | **(20.9%)** |
| Net Finance Costs | (20.4) | (24.6) | 17.1% |
| **PBT** | **51.8** | **66.7** | **(22.3%)** |
| Tax | (17.1) | (20.8) | 17.8% |
| **NPAT** | **34.7** | **45.9** | **(24.4%)** |

Revenue and EBITDA in line with market guidance

# CASHFLOW

| $ millions | H1 FY15 |
| --- | --- |
| **Opening Cash** | **62.1** |
| Cash from Operations | 75.2 |
| Payments for Non - Current Assets | (12.5) |
| Net Financing Payments | (20.4) |
| Tax Payment | (27.5) |
| **Closing Cash Balance** | **76.9** |
| Reported EBITDA | 85.8 |
| **Operating Cash Conversion** | **87.7%** |

Includes $14.0m non-recurring payment to settle outstanding tax issue.

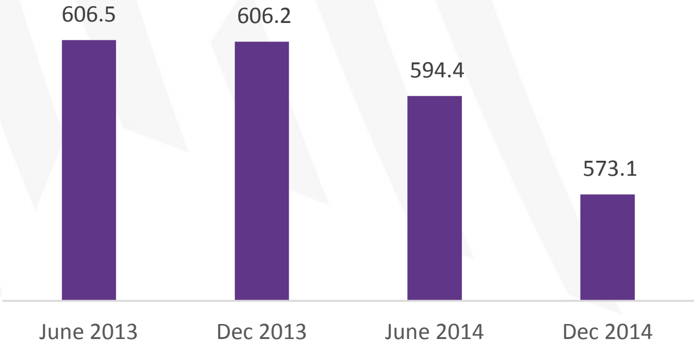
**Cashflow highlights and outlook**

- Refinancing benefits realised – net financing payments down 25.3% on H1 FY14.
- Underwritten DRP has delivered returns to shareholders whilst conserving $21.2m cash.
- Strong conversion of EBITDA to cash.

# DEBT FACILITIES

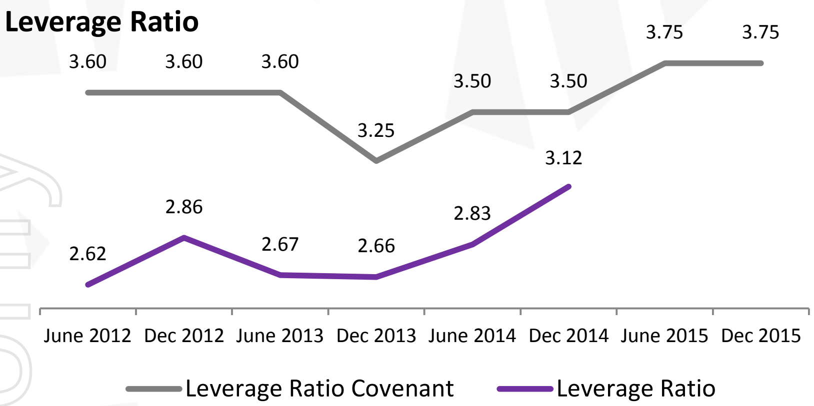
| $ millions | December 2014 | June 2014 |
|---|---|---|
| **Drawn Debt** | **650.0** | 650.0 |
| Less Cash | (76.9) | (55.6) |
| **Net Debt (Borrowing Group)** | **573.1** | 594.4 |
| Net Debt (Group) | 573.1 | 587.9 |

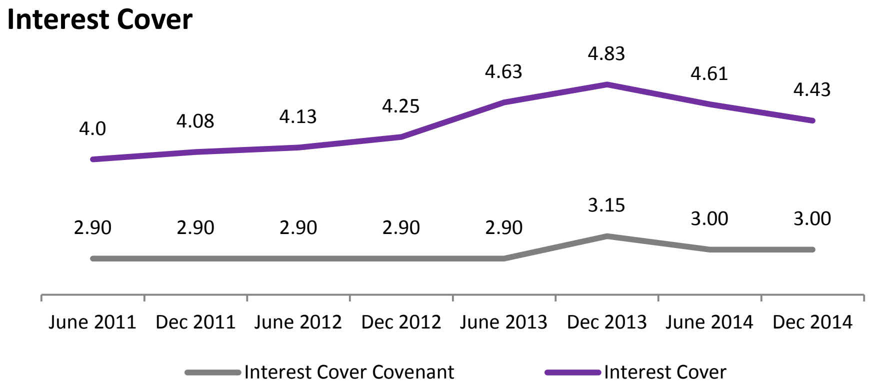
**Borrowing Group Net Debt (m's)**




- $14.8m reduction in net debt ($21.3m borrowing group).
- Cancellation of $50m undrawn revolving facility (original maturity January 2016).
- No short term refinancing requirements – drawn facility matures January 2019.
- Reduced financing costs and capital management initiatives will deliver continuing reductions in net debt in H2 FY15;
  - Underwritten DRP saves $22.0m
  - Lower tax payments
  - Expected $8.0m in proceeds from property divestment

# COVENANTS




- Increase in leverage ratio covenant to 3.75x (until December 2015) provides further headroom.
- Demonstrated support from lenders for talent investment strategy and capital management plan.
- New interest rate swaps from April 2015 to January 2018 – improving debt serviceability. $11.9m in annualised cash interest savings will increase interest cover further in FY16.
- Further reduction in net debt will positively impact leverage ratio:
  - On current borrowing group earnings, a $30m reduction equates to 16 basis points of leverage.

# OPERATIONAL REVIEW

NICK MCKECHNIE

# OPERATIONAL REVIEW

| $ millions | H1 FY15 | H1 FY14 | % Variance Fav/(Unfav) |
|---|---|---|---|
| Regional Revenue | 182.6 | 188.5 | (3.1%) |
| Metro Revenue | 113.2 | 130.4 | (13.2%) |
| Corporate Revenue | 11.8 | 13.0 | (9.2%) |
| **Total Revenue** | **307.6** | **331.9** | **(7.3%)** |
| Regional Expenses | (123.7) | (126.4) | 2.1% |
| Metro Expenses | (83.0) | (86.9) | 4.5% |
| Corporate Expenses | (15.1) | (13.6) | (11.0%) |
| **Total Expenses** | **(221.8)** | **(226.9)** | **2.3%** |
| Regional EBITDA | 58.9 | 62.1 | (5.2%) |
| Metro EBITDA | 30.2 | 43.5 | (30.6%) |
| Corporate EBITDA | (3.3) | (0.6) | nm |
| **Total EBITDA** | **85.8** | **105.0** | **(18.3%)** |

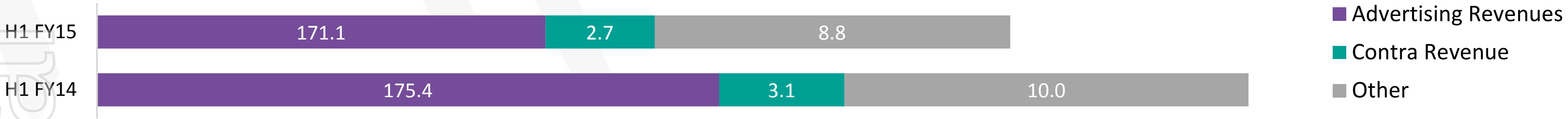
# REGIONAL

| $ millions | H1 FY15 | H1 FY14 | % Variance FAV/(UNFAV.) |
|---|---|---|---|
| TV | 102.4 | 108.8 | (5.9%) |
| Radio | 80.2 | 79.7 | 0.6% |
| **Total Revenue** | **182.6** | **188.5** | **(3.1%)** |
| Broadcast & Production | (43.1) | (43.0) | (0.2%) |
| Employee | (32.8) | (33.3) | 1.5% |
| Selling, General & Admin | (47.8) | (50.1) | 4.6% |
| **Total Expenses** | **(123.7)** | **(126.4)** | **2.1%** |
| **EBITDA** | **58.9** | **62.1** | **(5.2%)** |
| *EBITDA Margin* | *32.3%* | *33.0%* | |

**TV:** Local sales continue to provide growth, National sales remain challenged by ratings. **Radio:** Remains stable with good growth from National sales.

Cost control remains a key focus whilst we increase our investment in content.

Revenue Breakdown



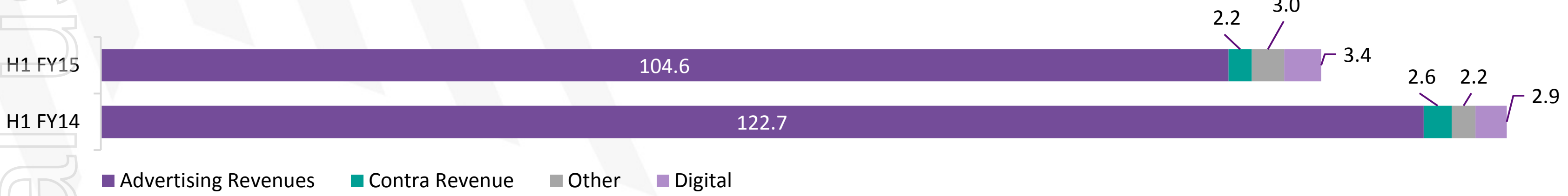
# METRO

| $ millions | H1 FY15 | H1 FY14 | % Variance FAV/(UNFAV.) |
|---|---|---|---|
| **Total Revenue** | **113.2** | **130.4** | **(13.2%)** |
| Broadcast & Production | (9.4) | (10.5) | 10.5% |
| Employee | (35.5) | (36.5) | 2.7% |
| Selling, General & Admin | (38.1) | (39.9) | 4.5% |
| **Total Expenses** | **(83.0)** | **(86.9)** | **4.5%** |
| **EBITDA** | **30.2** | **43.5** | **(30.6%)** |
| *EBITDA Margin* | *26.7%* | *33.4%* | |

Challenges in Sydney have impacted revenues across the Today's Hit Network, whilst Triple M continues to grow.
Digital revenues continue to grow at 17+%

Cost base supporting content led recovery.

## Revenue Breakdown

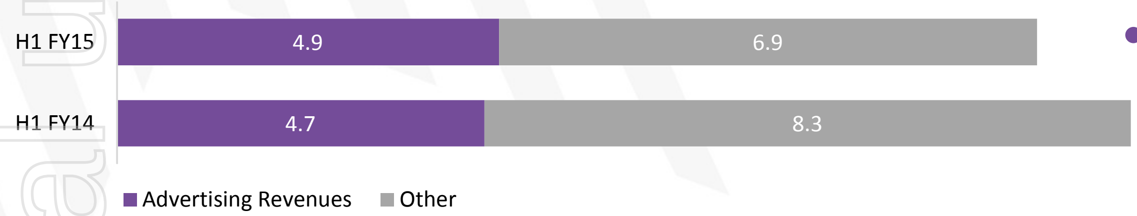


# CORPORATE

| $ millions | H1 FY15 | H1 FY14 | % Variance FAV/(UNFAV.) |
|---|---|---|---|
| **Total Revenue** | **11.8** | **13.0** | **(9.2%)** |
| Broadcast & Production | (1.4) | (1.1) | (27.3%) |
| Employee | (16.0) | (17.0) | 5.9% |
| Selling, General & Admin | 2.3 | 4.5 | (48.9%) |
| **Total Expenses** | **(15.1)** | **(13.6)** | **(11.0%)** |
| **EBITDA** | **(3.2)** | **(0.6)** | **nm** |

Selling, General and Admin is net of cost recovery charge to Metro and Regional, increase relates to revenue related lower cost recovery.

**Revenue Breakdown**



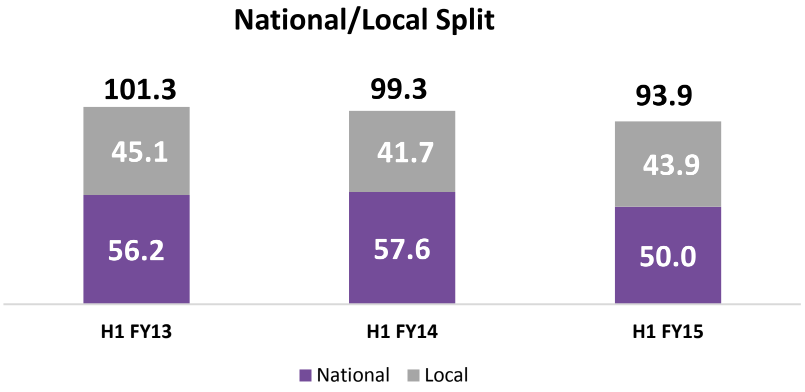

Advertising revenues relate to Canberra JV (50% owned with ARN).

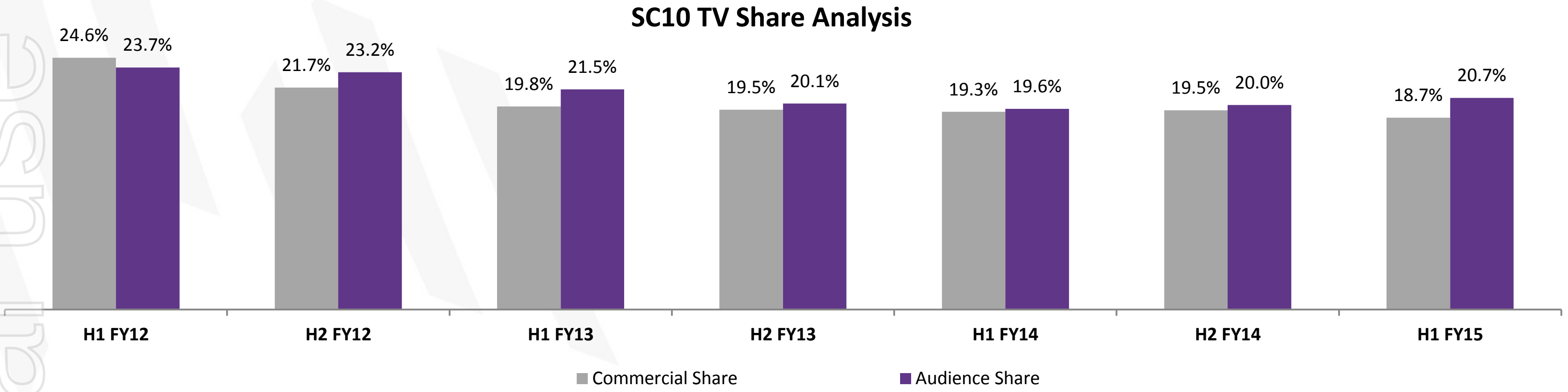
# KEY REVENUE ANALYSIS

NICK MCKECHNIE

# REGIONAL TV ADVERTISING REVENUES

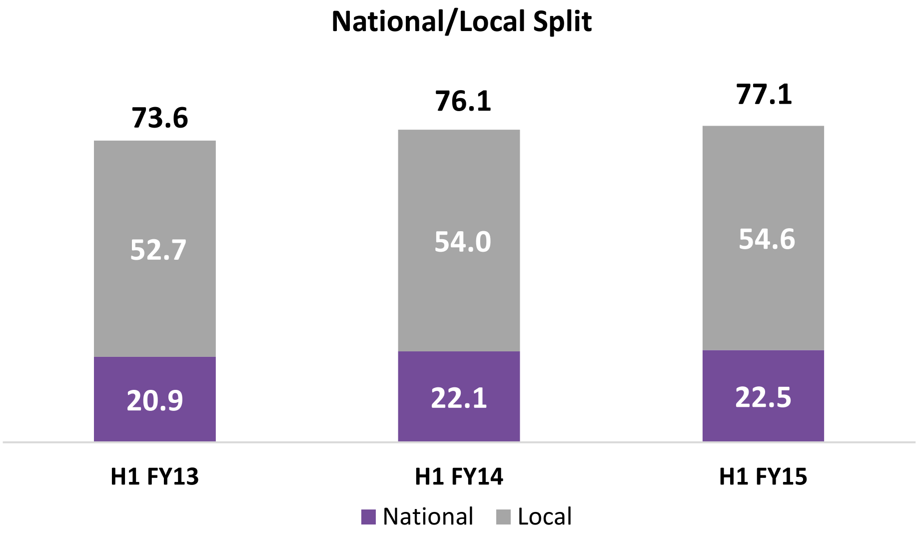
- TV markets have declined 5.0% whilst TV revenues are back 5.4%.
- Local TV revenues remain the standout – up 5.3% with power ratio of 1.1.
- Improving CH10 ratings are a positive, but lag effect of translating to commercial share.



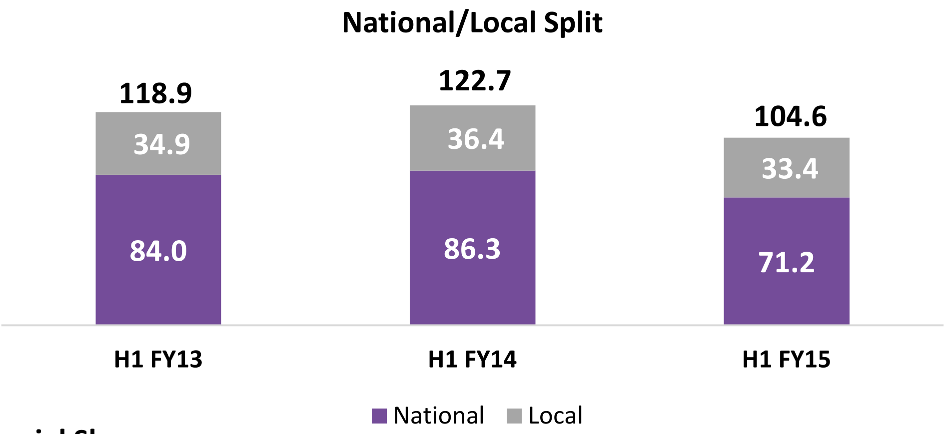
# REGIONAL RADIO ADVERTISING REVENUES

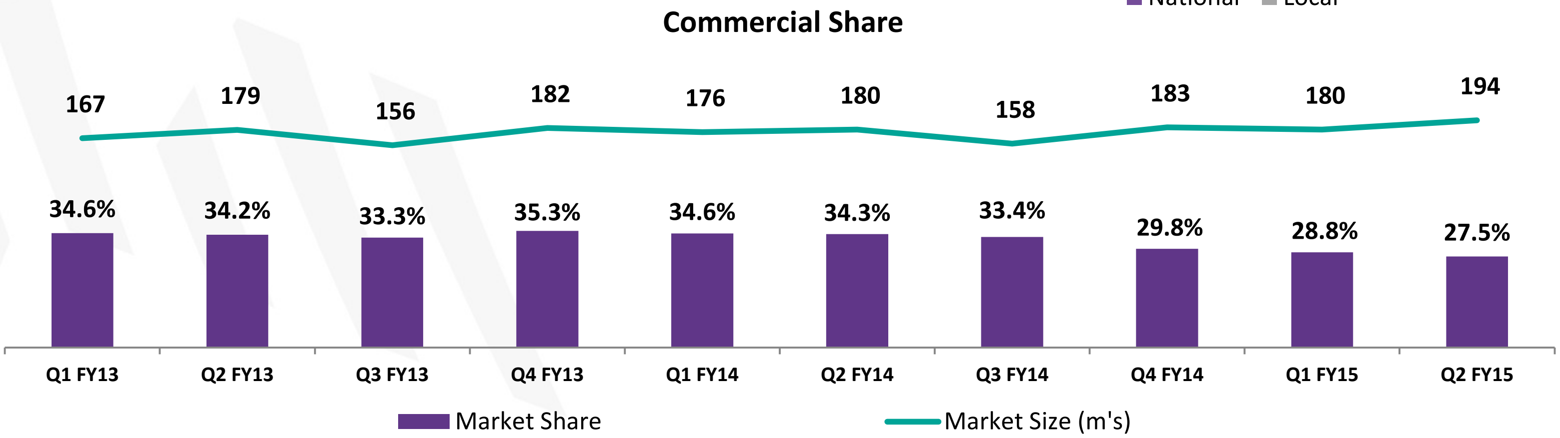
- Embedded market position continues to drive growth in regional radio revenues.
- A broad, diverse revenue base has led to consistent performance;
    - 71% of revenues are local, a traditionally less volatile revenue stream.
    - Diversified revenue base: 93% of our stations account for 76% of total regional radio revenues.



# METRO RADIO ADVERTISING REVENUES

- Continued growth on the Triple M Network with revenues up 8%, partially offsetting declines on Today's Hit Network, back 33%.
- Excluding Hit 104.1 2Day in Sydney, revenues across the network are back 3.4%, whilst the market was up 5%.



# OUTLOOK & SUMMARY

RHYS HOLLERAN

# H2 FY15 OUTLOOK

**REGIONAL**

- Q3 trading conditions are steady with the some strong results out of the Queensland election and continuation of positive momentum with Big Bash League.
- Revenue growth expected in Q3.

**METRO RADIO**

- Q3 trading conditions consistent with H1 FY15 – January share of 27.9%.
- Hit 104.1 2Day FM's breakfast show with Dan and Maz clearly differentiates us the from the pack but will take time to grow.
- The market reaction to the return of The Hamish & Andy drive show in H1 FY16, has been very encouraging.

While we remain very upbeat about programming changes of Today's Hit Network and Channel 10, these changes are still relatively new and will take time.  We therefore remain cautious in our outlook for H2 FY15.

# SUMMARY

- Commitment to investing in talent and regeneration of Today's Hit Network whilst steadily growing Triple M.
- Capital management strategy designed to deliver reduced gearing metrics
  - Strong support of lenders for strategy with increase in covenant headroom during regeneration period.
  - Further reductions in finance costs will underpin increasing debt serviceability and contribute to reducing net debt.
- Growth in digital product suite will continue.
  - New Head of Digital and Innovation appointed.
- Continued cost control with use of technology enablers to drive efficiencies.

# THANK YOU

## QUESTIONS & ANSWERS

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