SEVEN WEST MEDIA

**FY19 Results Presentation Speakers' Notes**

**Slide 1**

**Opening slide (James Warburton)**

Good morning and welcome to the full year financial results for Seven West Media for 2019.

I am James Warburton the Managing Director and Chief Executive Officer of Seven West Media. Joining me on the call today is Warwick Lynch our Chief Financial Officer.

I am absolutely delighted to be here today, to be back in the media industry that I love and enjoy, and at a company where my previous 8 years were some of the most enjoyable and rewarding of my career.

I would like to thank the Seven West Media Board for the opportunity to lead the next phase of the Company's transformation.

I would also like to acknowledge the fantastic contribution Tim Worner made to the Company over his 26 years.

We will take questions at the end of the presentation.

Let's get started.

**Slide 2**

**Disclaimer (James Warburton)**

On page 2 is our disclaimer.

**Slide 3**

**Agenda (James Warburton)**

I've been back with the Company now for five days.

So, today's presentation will focus on the financial results themselves and I will give you some immediate observations and some areas of focus moving forward.

**Slide 4**

**Highlights (James Warburton)**

On slide 4 is an overview of the business' performance over the last year.

Underlying EBIT was down 7.5 per cent to $212 million.

We have reported $574 million of significant items net of tax, which predominantly reflects the impairment of the carrying value of our Television licences and Newspaper mastheads. This is a result of incorporating recent softer advertising conditions and external market forecasts into our impairment testing.

We have achieved cost savings of $38 million and group net debt has been cut to $564 million.

We generated $72 million of cash flow over the year and refinanced our debt facilities to 2021-2022.

I'll now hand you over to Warwick who will take you through the financials in more detail.

**Slide 5**

**Group Income Statement (Warwick Lynch)**

Thank you and good morning.

Slide 5 shows the income statement for the full year.

As a result of softer ad market conditions, we have adjusted the carrying value of our licences and mastheads. This has predominately driven the significant items outcome of $611 million before tax.

Total group revenue and other income of $1.56 billion decreased by 4 per cent for the year.

Group operating costs decreased by 3 per cent to $1.35 billion. During the year transformation initiatives delivered net cost reductions of $38 million.

The group delivered EBIT of $212.1 million, a decline of 10 per cent. The prior period included a 53rd week, which provided a $6 million benefit. On a like for like basis, EBIT was down 7.5 per cent.

Finance costs of $34.7 million decreased by 1.7 per cent on a comparable basis, noting that the FY18 financial results have been restated following the adoption of new accounting standard AASB 9 from 1 July.

Tax expense is $10.8 million, impacted by the significant items. The underlying tax rate on profit excluding significant items is 27.1 per cent and underlying tax expense of $48 million.

Underlying net profit after tax of $129.3 million was 7.9 per cent lower than the same period last year before adjusting for the additional week. On a like for like basis underlying net profit after tax declined by approximately 5 percent.

**Slide 6**

**Statutory results (Warwick Lynch)**

On slide 6 we have the statutory group financial results and a reconciliation from underlying EBIT.

Seven West Media reported a statutory after-tax loss of $444.4 million, and basic earnings per share loss of 29.5 cents.

Excluding significant items, earnings per share was 8.6 cents.

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

**Slide 7**

**Significant items (Warwick Lynch)**

Moving to slide 7, significant items for the year of $611.0 million before tax.

This amount was driven by the write down of the television licence, newspaper mastheads, goodwill and other intangibles of $478 million but also included redundancy and onerous contract provisions, fixed assets, loss on sale of investment and unamortised borrowing costs following the refinance of the debt facilities.

Onerous contracts provided were $21 million which relate to US content rights in FY24 and 25. An overview of timing of the onerous contracts by year, including new and existing provisions, is outlined in the graph.

Net of tax, these significant items totalled $573.7 million.

Moving to slide 8.

**Slide 8**

**Consolidated SWM Cash Flow and Net Debt (Warwick Lynch)**

SWM recorded operating cashflow of $151.5 million for the year.

The working capital outflow relates to: Olympic rights payments, investment in programming, a change in spectrum payment terms (now paid in advance) and onerous contracts provision.

Redundancy and employee payments were $15.3 million and relate to the transformation programs being implemented across our businesses.

Net tax payments of $15.2 million were lower than the prior year and reflect the timing and tax effect of sport rights contracts.

Capex is $40.6 million, including the Sydney building consolidation. Capex for the FY20 year is forecast to be in our normal $30-40 million range.

Net debt for year was $564 million, down 10 per cent compared to a year ago. Free cashflow generation during the period was $72.2 million. The group's leverage ratio is 2.3 times EBITDA and interest cover is 8.5 times.

We refinanced our debt facilities during the year, with the expiry of two tranches now out to December 2021 and December 2022 respectively.

We will continue to focus on improving the strength of our balance sheet and working down our debt in the year ahead.

**Slide 9**

**Divisional Performance (Warwick Lynch)**

Moving on, slide 9 provides an overview of performance for each of our businesses during the year.

Seven revenue, including Digital and Studios, decreased by 2.9 percent to $1.25 billion. A revenue share gain was offset by a soft advertising market, leading to a decline in broadcast revenue which outweighed revenue growth in Seven Studios and digital.

Costs decreased by 1.8 per cent to $1 billion, reflecting transformation initiatives.

Total Seven EBIT of $202.4 million was 6.3 per cent below the prior year which included an extra week. On a like for like basis, EBIT declined by 3.6 per cent.

Publishing revenue declined by 8.3 per cent to $315.2 million. WAN revenues decreased by 9 per cent to $185.8 million and Pacific revenue declined by 7.2 per cent to $129.4 million.

Total costs decreased by 7.3 percent to $280.1 million as management continues to deliver on transformation targets. WAN's costs declined by 8 per cent to $158.9 million and Pacific's costs reduced by 6.4 per cent to $121.2 million.

Publishing EBIT for the year was $23 million.

Now back to James, for the operational update.

**Slide 10**

**Operating Performance Seven Network (James Warburton)**

Thanks Warwick.

Moving to slide 10.

Seven Network has again proven to be Australia's favourite, delivering a 13th consecutive financial year of ratings leadership.

I was impressed with the tenacity of our sales team who worked tirelessly to grow Television revenue share to achieve a 38.8 per cent share. Also, they have built Seven's digital revenue to $40 million from a small base in only 18 months.

7NEWS is number 1.

Sunrise continues to dominate, and 7Sport's coverage remains second to none.

Our Summer of Cricket debuted with a total reach of over 16.1 million Australians.

At financial year's end, our AFL audiences were up 10 per cent on last year.

**Slide 11**

**Operating Performance Seven Digital (James Warburton)**

On slide 11 we have broken out our digital financials for the first time.

In June our owned and operated digital products recorded an all-time record unique audience of over 6.1 million Australians, having grown 27 per cent year on year.

Our EBIT for the year was $15.1 million, which represents 356 per cent growth over the $3.3 million from the prior year.

Consumption on 7plus grew by 72 per cent in FY19, helping us achieve a 35 per cent share of the BVOD market across the year.

7NEWS.com.au has had a fantastic start, debuting in the top five news publishers in Nielsen DCR only three months since launch, demonstrating the power of 7NEWS.

Next, we turn to Seven Studios on Slide 12.

**Slide 12**

**Operating Performance Seven Studios (James Warburton)**

Seven Studios is Australia’s largest producer of premium long-form content.

EBIT for FY19 grew 5.3 per cent to a new high of $59.1 million. This is the seventh consecutive year of EBIT growth and a large percentage of those earnings are underpinned by life of series contracts.

Seven Studios is capitalising on the global demand for content by doing licencing and co-production deals with Netflix, Twitter and Facebook.

Over the year we created more than 900 hours of scripted, factual, kids and reality programming, building our content library to over 9000 hours.

Moving to Slide 13 and Publishing.

**Slide 13**

**Operating Performance News & Lifestyle Publishing (James Warburton)**

Our publishing businesses are transforming but continue to face challenging conditions.

In June, thewest.com.au launched digital subscriptions, which as well as providing new revenue streams will give us valuable audience data and insights which we can use to further monetise its leading local journalism.

The print edition has undergone a renewal under new editorial leadership, resulting in a readership increase of 6 per cent over the year.

Pacific’s transformation program has resulted in costs coming down by $8.3 million, or 6 per cent, over the year.

Pacific’s digital revenue now represents around 30 per cent of total advertising revenue.

The transformation of both publishing businesses continues at pace and will reduce their cost bases with further initiatives underway in this financial year.

Next, on slide 14, we'll look at New Ventures.

**Slide 14**

**Operating Performance Other Business New Ventures (James Warburton)**

Our investments in growth stage digital businesses continue to perform well and are scaling rapidly, with the value of the portfolio growing 24 per cent over the year to $95 million.

We continue to evaluate and identify disruptive growth businesses where we can make a rapid difference by leveraging the power of Seven and its enormous reach.

**Slide 15**

**Power of the Network (James Warburton)**

Moving to Slide 15, I'd now like to make some initial observations about the business.

First and foremost, when you look at the markets we operate in, the strength of the offering is undeniable.

And it was this reach and breadth of Seven West Media's assets that was the major attraction for me in taking the job.

Over 1.5 billion dollars of revenue.

Platforms that reach 18.6 million Australians every month.

A television network that has been number one for 13 consecutive financial years.

Market leading News and Breakfast shows.

World class entertainment brands.

Year-round coverage of Australia's number one summer and winter sports as well as the best horse racing coverage in the country.

And we can't wait for the Tokyo Olympics in 2020 with just a 1-hour time zone differential. It will be the most-watched Olympics in history with over 35 streams.

Our job is to redefine how we go to market to be the most relevant and exciting offer to advertisers, superior and unmistakeable.

Our industry and Seven West Media needs to be less inward focussed and more determined and progressive to fight hard for our unfair share. It's my job to shout it from the rooftops.

There has been much written about our ratings over the past few days. Don't get me wrong, our focus is to improve them, but for the avoidance of doubt, after leading at the half, our current year to date commercial viewing share is 38.8 per cent, just 0.3 of a share point behind Nine and 17 share points in front of Ten.

Those are the numbers we have to build on, underpinned by our solid foundations in news, public affairs, AFL and a truly amazing summer of cricket ahead. It is a formidable platform to be building from, particularly with an Olympics on the horizon.

Onto Slide 16, I would like to address our immediate focus and key objectives, as I see them.

**Slide 16**

**Focus and Objectives (James Warburton)**

FY19 was a tough slog in the economy and advertising markets, and there is no doubt that Seven West Media had lost some momentum.

We have incredibly strong assets, we now need to speed up the rate of transformation as well as return some entrepreneurial thinking and market leadership back into our agenda.

I see three areas of focus –

1. **Content Led Growth**.

First and foremost, we need to simplify our organisation to be a content led company focussed on growth.

We need to revitalise our entertainment programming, creating momentum to engage heartland Australia and enrich the demographic mix, we have some tired formats and we are skewing too old in some areas.

But we have solid foundations with our news, public affairs and sport from which to rebuild.

Seven was the best at creating, executing and launching formats in the past and we need to work hard to wrestle back the momentum.

By doing this we will be the most relevant and exciting offer to advertisers.

We need to look to distribute our content widely on more platforms and look to explore meaningful streaming partnerships in the SVOD space.

2. **Transformation.**

Our second pillar is Transformation and we will run our business with some more entrepreneurial thinking, some hunger for possible deals and run it less as a traditional media business.

We will sharpen our focus on being a high-performance audience and sales led organisation.

We will redefine our working practices, becoming more efficient and effective to look for savings which do not impact on ratings.

Whilst we have a responsibility to run our cost base as efficiently as possible, we can't cost cut our way to success.

3. **Capital Structure and Balance Sheet.**

Thirdly, we need to consider our capital structure and balance sheet and focus on working down our debt.

We will be a hunter and explore M&A opportunities in both traditional media and non-traditional adjacencies that are positive for our shareholders.

**Slide 17**

**Trading Update (James Warburton)**

Finally, on slide 17 is our trading update.

In FY20, we expect EBIT to be in the range of $190 million to $200 million including the impact of AASB16, but I will provide you a further update at our AGM in November.

We will maintain cost discipline across the group and deliver operating savings where prudent.

We expect the TV metro ad market to decline by low single digits and the BVOD market to grow more than 25 per cent.

We are targeting growth in ratings and revenue share both in broadcast and BVOD.

Seven Studios will deliver an eighth consecutive year of growth.

And we will have an ongoing focus on improving the balance sheet and working down our debt.

As with any organisation change and improvement will take time.

We have acted to implement significant focus for the business and we will be striving to improve the performance as quickly as possible to grow value for shareholders.

That concludes the presentation.

Thank you for your time and we are now happy to take your questions.