



**TRANSCRIPTION  
CONFERENCE CALL 1Q17 RESULTS**

12 May 2017

**vocento**



## **LUIS ENRÍQUEZ**

Hello and thank you for participating in this conference call. As Javier said, we will hold it in Spanish, as with our conference call about our 2016 results. Should any one prefer to ask a question in English, we will be glad to answer accordingly.

The highlight of Vocento's first quarter results for 2017 is the return to overall advertising growth, of 0.9%, slightly below the growth of the market, which we estimate at around 2.2%, although in print advertising and online advertising we outperformed the market and increased our market share.

Print advertising in our local media returned to growth, which is a positive sign, although I should note that because of the different date of Easter this year, there has been a decrease in April, so that accumulated advertising at Vocento for the first four months of the year has been flat, and on our estimates the market has decreased.

In any case, in terms of advertising, recurring EBITDA and cash generation, all the targets that we set at the beginning of the year remain intact.

When it comes to circulation revenues and the decrease in sales, this figure has been impacted by the closure of some editions and by the termination of some special sales. These editions include La Verdad de Murcia in Alicante and the El Correo edition in La Rioja.

At ABC, the end of joint distribution sales with Ideal Gallego and Diario Mediterraneo had a total impact of about 10,000 copies per day. This was the last combined sale that was left at ABC, and took place in April last year, impacting our revenues from circulation. From April this year, the year-on-year comparison will exclude this effect.

Thanks to the closure of these unprofitable editions, we have maintained the EBITDA margin on circulation revenues. In other words, the termination of some circulation revenues has not affected recurrent EBITDA, which is mainly impacted by the margins at some of our print plants. We have been aware of this trend for some time and have implemented a series of measures over the last four years. Another impact on EBITDA came from the new lease, of half a million euros, following the sale of the ABC building in Madrid at the end of last year.

In total, the reduction in recurring EBITDA was about 600 thousand euros. Reported EBITDA was also impacted by the almost complete implementation of the Efficiency Plan, which we presented to you in our last conference call, with around 12 million euros in restructuring costs, in order to optimise corporate costs and the structures of our editorial teams, regional newspapers and other businesses. This restructuring will impact all levels of the company and all areas.



Cash generation continues to be positive and at the levels we expected. We are working to continue reducing debt, in line with our strategy in recent years.

I will now hand over to Joaquín Valencia, who will talk about some financial aspects in more detail.

### **JOAQUÍN VALENCIA**

Many thanks Luis. Looking first at the performance of the regional press and ABC, in 1Q17 the profitability of the regional newspapers in terms of comparable EBITDA margin is practically the same as in the previous year.

In absolute terms, there has been an increase in advertising, but not enough to completely offset the fall in sales from the print plants and other subsidiaries, with EBITDA decreasing to 7.2 million euros.

In terms of the margin on circulation revenues, the decrease occurred mainly at the start of the year, and as early as February we saw stability in the margin.

As Luis explained, at ABC, if we exclude the effect of the sale of the ABC building from EBITDA and the impact of the new lease, then ABC would have improved EBITDA by 0.2 million euros.

The decrease in advertising, which was due to weakness in national offline advertising, was more than offset by the increase in the margin on circulation revenues and other items, mainly because of personnel savings resulting from the Efficiency Plan.

I will now turn to the decrease in circulation. As Luis has explained, it is important to note that this is due mainly to the termination of unprofitable sales, such as combined sales with other publications, and also to a lower rate of promotions. If we exclude these effects, instead of decreases of around 19% we would be talking of a drop of around 7%. And, as Luis has also explained, as this effect is based on a quarterly comparison, over the course of the year this effect will be reduced and the decrease will stabilise at levels that are more comparable to the rest of the market. Finally, all of this has resulted in an improvement in the margin on circulation revenues.

For Vocento as a whole, and the total EBITDA of the company, firstly we can see that the key variables of the publishing business, which includes advertising revenues, the net margin on circulation and the margin on promotions, altogether improved by 0.2 million euros in the first quarter.



If in addition to this positive effect, we also include the improvement in the margin at Audiovisual, thanks to a better result from the film catalogue and personnel savings deriving from the Efficiency Plan, the increase in EBITDA would be around one million euros.

Where has there been a deterioration? As Luis explained, there has been a decrease in the profitability of the print plants. For example, we have closed a local print plant, Printolid, which had some contracts that we have lost and not yet recovered. There is also the effect of the new lease to consider, and greater expenses in digital investments. All of this led to a fall in EBITDA from 7.2 million euros to 6.6 million euros.

Finally, I know that many of you focus on the topline at Vocento. I just want to say that the decreases in circulation revenues, as we have explained, have resulted in a stable margin on circulation. Furthermore, declines in other revenues, which as you see in this chart include mainly sales of content at Audiovisual, radio, television and Verallia, have not impacted the margin. The fall in promotions, which we also see in this chart, had a very limited impact on profitability, of 0.2 million euros, and the fall in the print plant margin had a very limited impact. An apparently significant reduction in other revenues has a very limited relevance at the level of profitability.

Finally, turning to the reduction of financial debt and to cash generation, financial debt was stable compared to the end of 2016, despite cash outflows for extraordinary expenses, which we traditionally incur at the start of the year, such as compensation payments, with a total outflow of 8 million euros.

We generated 11 million euros of ordinary operating cashflows, supported by a very good performance of working capital in the first quarter. As we explained in the last conference call, the increased activity at Content in the fourth quarter increased the working capital commitment, and this effect was reversed in the first quarter, with a very strong performance in terms of cash generation.

Reflecting the evolution of our debt, our leverage ratios remained at the same level as in December 2016, despite this occurrence in the first quarter.

And with that, I think we can now open this Conference Call to any questions you may have.

## Q&A SESSION

JAMES MCKENZIE – FIDENTIIS

# vocento

Hello, I have two questions about the online business.

Firstly, according to my calculations, there has been a small acceleration in digital revenues. This has been accompanied by a decrease at Classifieds, according to my calculations. My first question is, which businesses are contributing most this quarter?

Secondly, looking just at Classifieds, last year there was a lot of growth and operational gearing, which resulted in growth of sales and of EBITDA, and this quarter EBITDA is down despite the growth in sales. What trend do you expect for the year? And why has EBITDA fallen in the first quarter? Thank you.

**J.V.:** Thank you James. Basically, the growth in digital revenues is even across all areas. We are growing in digital at ABC, at regional and at Classifieds also. It is hard to say which is growing most. The performance is positive at all of them.

**J.M.:** Right, and according to my estimates based on your numbers, there was a slowdown in the third and fourth quarters and there now seems to be a rebound. Is that the right trend?

**L.E.:** Yes, as we said on the last call, the last quarter of last year was especially weak, not only because of online advertising but because of a lack of campaigns in general. The beginning of 2017 has not been extraordinary, but it has recovered the usual trend.

**J.M.:** Ok, perfect.

**J.V.:** In terms of operational gearing, I refer back to my attempt to connect the topline performance with the EBITDA performance. If you look at the different revenue lines separately, the fall in circulation sales has not hit the margin, which we have been able to maintain. The fall in other revenues, the main items of which are Audiovisual and promotions, had a very limited impact.

**J.M.:** Just to make clear Joaquín, I was asking about Classifieds only.

**L.E.:** At Classifieds, the reduction in EBITDA was due to the start of an additional marketing plan, as part of the turnaround plan at Classifieds that started in 2011. We believe that we have the foundations of where we want to be and now qw want to grow the business and increase scale, especially at pisos.com. It is a reflection of the investment in marketing.

**J.M.:** And what do you forecast for the rest of the year?



**L.E.:** The outlook for the rest of the year is to return to increasing margins at Classifieds, probably at around the same level as previous years. In the current year, the increase in marketing expenses will be reflected in margins, but this will be diluted over the course of the year, and we expect that an increase in revenues will return margins back to the levels of previous years.

**J.M.:** Great, many thanks.

#### **FERNANDO CORDERO – BANCO SANTANDER**

Hello, thanks for taking my question. It is quite straightforward, as I would like your view about the development of the sector, in particular comments from Luis about what you have discussed in previous quarters: the need for consolidation in the sector. Now that 2016 is over, do you still see the same need for consolidation at the start of 2017? And in terms of third parties who might need this consolidation, do you think this process is now easier than six months ago?

**L.E.:** I am not sure if it is easier than six months ago, but of course I do not have any control over players who are not Vocento. What I can say is that our attitude is the same as what I said at the last conference call, and what the Chairman of Vocento said at the shareholder meeting. The context is leading us inexorably towards consolidation in the sector, and we will see how it plays out. The will is still there. The attitude has not changed. I do not know if the possibilities are better than six months ago. The market is leading us in that direction, and we are also in a market where total advertising in the months to April has decreased. I imagine that other groups will be thinking the same as us.

**F.C.:** Very clear, thanks Luis.

#### **IÑIGO EGUSQUIZA – KEPLER CHEVREUX**

Hello, good morning Luis, Joaquín, Javier. I have two questions. First, about advertising. You said that January-April was flat, with a decrease in April because of Easter. Could you comment about the trend in May so far, now that we are practically halfway through the month?

Secondly, could you give us more detail about the acquisition of 50% of Shows on Demand? I know it is a small investment, but what is the company and are you putting in cash or is it "media for equity"?



**L.E.:** Thank you Iñigo. For May we still do not have visibility, I can't tell you after a period of 12 days and a series of public holidays. I can't add much to what I said about the performance to April, which is that so far it has not been a great year for advertising, as we expected and as we forecast last year. So far it has gone in line with our expectations.

Joaquín will give you more details about the media for equity investment.

**J.V.:** Thank you for the question Iñigo. Basically it is in line with our strategy of making small digital investments that diversify our business, while still being closely connected to our current operations and our geographies. It is a small company which we are investing in via a capital increase which is part cash and part media for equity. The company is a crowdfunding platform for organizing events, above all concerts. It fits very well with our geographical presence and our regional influence. It will create demand in a specific location, in a town or city, to organise an event, for example a concert, matching the supply to the demand. And then the concert will take place in that location. There are profitable opportunities linked to this, such as advertising and sponsorship. It is a relatively small investment and there is also a degree of confidentiality about what we can disclose.

**I.E.:** Okay, many thanks.

## **JOAQUÍN VALENCIA**

Many thanks to all of you for participating in our conference call.