



**TRANSCRIPT
CONFERENCE CALL 1H17 RESULTS**

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LUIS ENRÍQUEZ

Hello and thank you for participating in the conference call for Vocento's results for the first half of 2017.

The half was characterised by the negative performance of the advertising market, above all in the second quarter. According to i2p, the market contracted by 1% in the first half of the year, or by 2% if we exclude social networks.

Vocento's performance was basically in line with the market, down 2.5%. The online market grew by more than 8%, but again if we exclude advertising on social media, the increase was around 3%.

Separating our revenues by their source, as is our practise, local advertising held up better, with online+offline growth of 0.5%, while national advertising underperformed, with a decline of 5.8%. Combined with the impact of the new lease following the sale of the building in Juan Ignacio Luca de Tena street in Madrid, more or less one million euros, this led to a reduction in recurring EBITDA of around 10%. We are not changing our targets, as you can see in the presentation, which we set at the beginning of the year.

In this quarter we have completed our investment in the restructuring we disclosed in December 2016. A lot of this work was completed in 1Q and was fully wrapped up in 2Q. With this investment, we have not only aimed to deliver efficiency savings but also to change and vary the human resources of our group, basically to adapt to digital.

We have also finalised the renegotiation of our syndicated loan with the same banks, extending the maturity, cutting costs and also reducing the collateral required significantly. The refinancing was very satisfactory.

One of our main focuses was to divest an asset which has always been defined as non-core, but in which we continued to invest, with a management team led by Carlos Bosserman. In the Spanish audiovisual sector we have found the perfect partner, the Zebra company of José Velasco, who is one of the best known people in the sector. With the merger of Veralia Producción Audiovisual and Zebra, we have managed to deliver synergies as well as to create a new brand with high potential not only for generating synergies but also for reducing the volatility of the sector. It has also enabled us to sell the Veralia building, as we already announced, hence reducing our exposure to real estate when financial conditions are favourable, re-investing the proceeds in core assets or parallel businesses which generate higher returns for our groups.



One result of this strategy has been the acquisition of 100% of Foro de Debate, which for a long time has organised the Congreso Madrid Fusión, which is probably the largest gastronomical fair in the world. It is not an activity that is distant from us. Diario Vasco has for many years organised the Congreso Gastronomika, another leader of the food fair sector in Europe and in the world. Our group is experienced in this activity, and we expect to create synergies with this transaction, which will also provide us with greater opportunities for international expansion than any other assets in our portfolio. The possibilities we have to extend the Congress to other continents is very interesting, something that was not a strong point for us before. It also gives us the chance to expand outside traditional newspapers, although the business is closely related, and to reduce our exposure to conventional advertising. We believe that we have acquired a strong brand which will support our development in new business lines, where we will continue to expand when resources are available to us following real estate divestments.

Having given a general overview, I will now hand over to Joaquín Valencia, who will provide you with more detail about financial aspects.

JOAQUÍN VALENCIA

Many thanks Luis. I will quickly go over the presentation, firstly looking at advertising, although Luis has already given you some insight.

Firstly, the advertising market fell by 1%, despite the increase in GDP and growth in nominal private spending, which is up by around 4%.

Looking first at online, there has been a divergent performance between display advertising, which increased by just 3% in the first half, and other online advertising, up 15%, including social media and online video portals. Excluding this effect of social networks and video, the market was down 2%. Vocento's revenues performed broadly in line with the market, down 2.5%.

Both in offline and online, Vocento brands increased their market share. In terms of the national/local split, local advertising at Vocento, which represents 55% of our total advertising, was stable, while national advertising performed weekly, as did other media such as television.

In terms of our digital revenues, first I would like to highlight that one third of our advertising and e-commerce revenues are now digital. This is a result of increased digital advertising and the continued launch of new digital initiatives. In particular, Local Digital Kit, a project which we launched as a pilot early last year, was gradually extended to all our brands over the course of 1Q and 2Q and we now have around



600 clients. We now also have more than 12,000 subscribers to our paywall business models, ON+ at El Correo, El Diario Vasco and Diario Montañés.

Moving onto the regional press, first of all I would like to point out that much of the decrease in circulation revenues and other revenues such as promotions had no major impact at the EBITDA level. It is other variables which determine the EBITDA performance. The 1% growth in advertising revenues – 0.4 million euros – more than offset the decline by 0.3 million euros in the EBITDA of the print plants, as well as high marketing and commercial costs related with the launch of Local Digital Kit. The EBITDA margin at the regional press was practically unchanged.

At ABC, Luis has already pointed out the impact of the new lease on the building, which is about one million euros in 1H17. In pro forma terms, EBITDA would be 2.5 million euros, about the same as 2.8 million euros in 1H16.

The decrease in advertising, the result of weak national advertising, was partly offset by an increased margin on circulation revenues and by other items, such as personnel savings from the Efficiency Plan.

I will now pause to discuss the circulation figures at ABC. You should not that part of the fall in circulation revenues reflects the ending of unprofitable circulation, such as the ending of combined sales with other publications in 2016, and also a slower pace of promotions. As we anticipated with our 1Q results, there has been an improvement over the course of the year in circulation, going from -14% in 1Q to almost half of that decline in 1H. The decrease in circulation, excluding these impacts, was 7%. Including the effect of the cover price increase at ABC, the decrease in sales was 2.5%. You should take these factors into account when analysing the real decrease in ABC circulation. Another effect from the fall in circulation savings has been an even greater increase in savings, and as a result the margin on circulation at ABC has increased.

Moving to the comparable EBITDA of Vocento, the impact of the decrease in advertising has been more than offset by the positive performance of the circulation margin and by the margin at audiovisual, thanks to the performance of Content, and also by cost savings resulting from the efficiency plan.

The decrease is partly the result, as Luis explained, of the lease of the ABC building, as well as a lower margin at the print plants, following the closure of some plants, and by increased commercial costs in new digital initiatives such as Local Digital Kit, which we mentioned before.

Finally, moving to net financial debt and cash flow, our net financial debt improved by 7 million euros in 1H17, thanks to strong ordinary cash generation of 14 million euros.



This performance was supported by working capital, control over capex, and the reduction of financial expenses. Luis has already mentioned that renegotiation of the syndicated loan, with basically a longer maturity, lower costs and fewer guarantees, so we are satisfied with the new terms.

In terms of non-ordinary impacts, these include compensation payments of 9 million euros and the effect of the deconsolidation of Veralia Contenidos, which in 1H17 was 3.5 million euros. The total effect in the full year will be 5.8 million euros, with the extra two million euros coming in the second half. With the reduction of financial debt, the net financial debt/EBITDA ratio has fallen to 1.2x, a comfortable level for us.

And with that, I would like to open this Conference Call to your questions.

Q&A Session

IVON LEAL – BBVA

Hello, good morning.

I have a couple of questions.

Looking to the long term, at what level do you think circulation revenues will stabilise? Do you expect them to stabilise at about 10 or 20% below the current level?

And could you comment about how subscriptions are performing? At El Correo you were making a major bet last year on minimising free content and driving online subscriptions. Can you make any comments about this?

L.E.: Thanks, Ivon. Circulation revenues should have an asymptotic performance, but it is very difficult to make any medium term forecasts. However, we are continuously focused on them. It is a very qualitative business area, with very high quality readerships, so we are focused on maintaining margins and on evolving our prices in accordance with this high quality readership that we reach.

What do we have on our side? Firstly, the performance of circulation in regional territories is much more resistant than in national territories. We have seen this for some time now, and we are highly concerned by circulation, especially by ABC nationwide but also in the regions where it is a deeply rooted newspaper, for example Madrid,



Castilla La Mancha and Andalusia. We are not neglecting the other regions, but we have seen in the Canary Islands and the Balearics, and in other regions of distribution, that they are covered by regional newspapers. What leverage do we have in these regions? The possibility of reducing distribution nodes with all their fixed costs, while maintaining margins. Anyway, ceteris paribus, with the same distribution structure we think that we have some room for improvement in the margin, mainly because in Spain there is still significant excess production capacity, which is currently being adjusted, and this will lead to further marginal savings. In short, I cannot fully answer your question about the medium term, but we do expect an asymptotic performance and a flattening out, as we still think the newspapers are a viable source of information, especially in the regions and also in Madrid, which could be seen as a regional territory.

For online subscriptions, we have a payment system at El Correo, Diario Vasco and at Diario Montañés. There are more than 12,000 subscribers with logged traffic, user recognition and finally payment, and this is providing us with very good information that is helping us to understand the performance of our readers. It is not for the time being a business line that offsets declines in other areas, but we think that is a medium term move that we have to make. Understanding our users, and the understanding that our users have that the information provided by El Correo in Álava and in Vizcaya, or El Diario Vasco in Guipúzcoa or El Diario Montañés in Cantabria, is very high quality content that deserves payment, is a medium term strategy. By the way, prestigious newspapers around the world are all making the same move. It is true that not so much in Spain, but that does not concern us so much.

LL: Luis, is the gross margin you receive when someone moves from physical subscription to online subscription similar?

LE: No, but it is when someone moves from physical subscription to subscription on Kiosko y Más. For example, subscription to El Correo On+ is included in the print subscription. All our print subscribers, and all Kiosko y Más subscribers, receive it. They are not included in the 12,000 number that Joaquín mentioned previously. This is over and above that number. We see it as a complementary service. It is one thing to have access to the website, to immediate information and video, information that you can consult as and when you like, and another thing to use the newspaper. We think that they are complementary: it is not a question of substitution. The prices are also very different and the costs are completely different.

LL: OK. And finally, any visibility about advertising in the fourth quarter?

LE: Very little. What we are seeing in July is similar to 2Q. July and August are months of less critical mass, so they are not such a concern, but the outlook for the last quarter and last four months is uncertain.

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L.L.: Perfect, many thanks.

L.E.: Thank you.

IÑIGO EGUSQUIZA – KEPLER CHEVREUX

Hello, good morning Luis, Joaquín and Javier, I have four questions.

The first is about advertising, a follow-up to Ivon's question. Luis said that visibility is very low, but yesterday another company which published results gave a more optimistic message about the second half. As experts in advertising and in the regional market, what do you think is going on? Because 2Q was quite weak, and I don't know if that was something temporary or it will continue in the same way. Could you give us your opinion?

The second is about guidance. I understand that your guidance is to maintain comparable EBITDA growth for the year. We saw a slight decline in the first half, so are you sticking to this guidance? Can you explain how you will maintain EBITDA and improve it in the second half? Is an improvement in advertising expected to contribute? Does this guidance include the lease at ABC?

My third question is about the acquisition you disclosed yesterday of Madrid Fusión. Can you give us some more detail? You spoke about how much you are paying, and how you could generate synergies and significantly reduce the multiple. Can you explain where you will find these synergies, in revenues and costs? The price of 6.5 million euros seems at first glance a little high.

And finally, consolidation. It seems we are not talking so much about it as before. Do you expect more small transactions such as Madrid Fusión and the deal in 1Q? Is consolidation now less interesting? What is your view of consolidation, which I think is necessary in the Spanish media sector?

Many thanks.

L.E.: Thanks Iñigo. We will answer your questions, and if in our answers there is anything that needs clearing up, just interrupt us and ask again.

In advertising, we did notice yesterday that another company has a better forecast. To be honest, it is not that our outlook is bad, it is that we do not have a lot of visibility, in an advertising market that is changing a lot. Our assessment of the market is



changing as the market changes. The divergence between the conventional advertising market and growth in income started in the last quarter of last year. It is probably too early to draw any major conclusion about this, but I think that all conventional media companies should begin to prepare themselves for a changed environment in the medium term. I am not confident that what is happening is entirely a temporary effect, although it is partly temporary, so we have to begin to prepare for a change in conditions in the coming years and a change in the rules of the game for conventional advertising. Content production and the development of ideas for major customers will play a major part, as will content distribution on social media. There will be changes to their messages and to the communication of these messages.

We are firmly attached to the high quality audience that we reach, and we think that brands understand this. Our job is to understand our readers, register them and offer their profiles to our clients. But something is changing, and we cannot say that the change in 1H is just a temporary effect.

Moving to EBITDA, I remembered when you were asking your question that for example we had no institutional advertising in the first half. Almost zero, so in a normal year like this one, with a functioning government, this is unusual and our expectation is for a normalisation in the second half. That is one of the possibilities for improvement. We are also not far enough from our targets to have to reconsider them. The performance we need to improve comparable EBITDA in the year is perfectly achievable in normal conditions. We think that something very serious would have to happen in the second half for us to fall short, so we are maintaining the target. You know that on other occasions when we have had to reduce a target, such as advertising growth last year, we have done it. So we believe that despite what I said in my first comment, we have realistic options for improvement and we will see how we do.

Joaquín will answer the question about Madrid Fusión.

J.V.: I have a couple of comments, Iñigo. First, the company that has been organising the Madrid Fusión event since 2003 also brings with it other things. It is a very profitable company, it is a very well known brand, it generates a very high level of cash with a very high cash conversion ratio, and it has practically no capex, so that nearly all its EBITDA becomes free cash flow, and it is also a business that is difficult to replicate, with a high barrier to entry. This explains the multiple, and then there are the synergies that will be high in this business.

There are some listed international peers, such as UBM and ITE Group, which specialize in much larger international events but which are in a similar business, and they trade at very high EBITDA multiples of between 13x and 17x. For businesses which generate



so much cash, which are so profitable and solid, a high multiple is justified. In addition we think we will generate a high level of synergies. The current shareholders have been doing what they are doing for many years now and we believe that we can create more opportunities for the company, both in the current business, such as creating an international version of the fair, which together with our own event, Gastronomika in San Sebastián, are the two main food fairs in Europe, and also in adjacent businesses, such as specialist food fairs. So there is a lot of additional business that we can create. As we explained before, the gastronomy business area is not new for Vocento. We have a lot of food and drink publications and we organise Gastronomika in San Sebastián. All of this means that if we include synergies in the multiple in the presentation, it falls from 11x to 6x in a three-year period. We believe that these synergies will be quick to materialise. The multiple looks high, but we think that the business and the synergies justify it.

L.E.: And finally, to answer the fourth question, we have not stopped, and we are doing what we have to do, as we have said before. We will divest from real estate when it makes financial sense for us, to make investments in businesses which will strengthen and diversify us. This does not mean that we are pursuing an alternative to consolidation in the sector, which as we have said many times, myself on conference calls and the Chairman at the shareholder meeting, that we believe is necessary. Of course, this may not be consolidation in itself but also agreements between publishers as a minimum, but this does not mean that we are leaving consolidation to one side. It is just that consolidation does not depend only on us but also on the other parties.

L.E.: OK, many thanks for your answers.

L.E.: Thank you.

Many thanks to you all, and enjoy your summer.