



**TRANSCRIPTION
CONFERENCE CALL FOR 9M17 RESULTS**

7 November 2017

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**LUIS ENRÍQUEZ**

Hello and many thanks for participating in this conference call on Vocento's results for 3Q17.

In the third quarter we have seen some slight indications of improvement, although our opinion about the advertising market remains the same as it has been all year, and even since the fourth quarter of last year, which is that conventional advertising is more or less flat despite increasing incomes. This seems to be a structural trend: in other words we could be witnessing a change in paradigm in the relationship between the growth of private consumption, spending and advertising.

While it is true that in the quarter Vocento reported a 1% growth in advertising across all media, it should be noted that this was supported by the special events and campaigns to celebrate our 15th anniversary. What has surprised us over the course of the year is the low rate of growth for online advertising, as well as the almost double-digit decrease in print advertising. The good news for us is the resistance of the regional press, which managed combined offline/online growth of 2% in the first nine months.

In terms of circulation revenues, we are witnessing a slowdown in the rate of decline compared to last year, quarter after quarter. As we have said throughout this year, and even before, this is a result of our efforts to eliminate unprofitable circulation, especially in the first quarter of the year. We are now close to the percentages of circulation decrease that could be normal or secular, and in line with the decrease of the market.

Thanks to these effects, in the first nine months of the year, and for the last five years, we have been able to maintain or increase the margins on circulation revenues, despite the fall in circulation and the rise in cover prices. The reduction of marginal costs is helping us to control expenses and maintain margins, which is essential in our market.

The reduction of other costs by around 5% has enabled us to reduce EBITDA by only around €2,000,000 since last year. This figure is almost entirely the result of the impact of the lease for our building in Calle Juan Ignacio Luca de Tena, after its sale in December last year. This sale has had an impact on the perimeter in terms of the EBITDA comparison, but it has also decreased financial expenses and has given us resources to invest in what continues to be our focus – the diversification of the group into other businesses which can strengthen our company and steer it towards the future.

As well as the sale of the building, financial expenses were also reduced following the restructuring we announced at the beginning of the year.



In terms of ordinary cash flows, we are generating around €17 million, which is similar to what we have been seeing in previous years and which is around the €15 to €20 million annual cash generation capability of our group in normal conditions. So we are still in the range that we have been setting for our business.

I will now hand over to Joaquín Valencia, who will provide you with some more detail about the financials, before we open the Q&A session.

Many thanks.

JOAQUÍN VALENCIA

Thank you Luis. So let's move on to look more closely at some of the information that Luis mentioned in the introduction. As he said, the advertising market has been flat in the first nine months, despite the favourable macro conditions and despite nominal household consumption growing at around 5%. Furthermore, if we exclude social media advertising, which is increasing by 13%, or more than double the rate of conventional Internet advertising, the market would have dropped by 1% in the first nine months. This is the market in which we find ourselves.

In this context, where is Vocento? In the first nine months, we slightly underperformed the market, with a decline of 1.5% compared with a flat market. But if we look at the third quarter standalone, as Luis said, then in 3Q we outperformed the market, growing by 1% while the market, for all media, increased by 0.7%.

In terms of the performance of each vehicle, we can see that both in the offline press and in the online market, Vocento brands have continued to increase their market share, thanks to the resistance of the local press and local advertising, plus new digital initiatives such as Local Digital Kit.

When it comes to the type of advertiser, at Vocento local advertising represents slightly more than half of the total and has been stable, in contrast to our national advertising, which has performed more or less in line with the overall national market.

The favourable performance of digital advertising, combined with the contribution of digital initiatives, means that one-third of our advertising and e-commerce revenues are now digital. Of the digital initiatives, I would like to highlight Local Digital Kit, which is our digital consulting solution for SMEs, and which has been steadily rolled out this year across our regional titles. It currently has a customer base of around 670 SMEs. Our ON+ subscription businesses for premium digital subscribers now have more than 13,000 subscribers across El Correo, El Diario Vasco and El Diario Montañés.

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Moving on to the Regional press and ABC, I would like to start with two figures. The highlight of the EBITDA performance of the Regional titles has been the 2% increase in advertising revenues, or 1.3 million euros. This positive impact was offset by the increase in commercial costs, associated with the launch of Local Digital Kit, and also by reduced levels of activity at the print plants and a slight decline in the margin on circulation revenues.

In terms of profitability and the EBITDA margin, Regional improved from last year, posting a 12.5% EBITDA margin.

At ABC, the decrease in advertising, because of the weakness of online national advertising, was fully offset by an improvement in the margin on circulation revenues and by savings in personnel expenses as a result of the Efficiency Plan. However, EBITDA was impacted by the new cost of the lease for the ABC headquarters, as Luis has already mentioned. Without this effect, in pro forma terms EBITDA at ABC would have been 2.7 million euros, in line with the 2.6 million euros of the same period last year.

At ABC, it is worth pausing to talk about the circulation decline. The effects of the ending of unprofitable circulation, such as joint sales with other publications, and of a slower rate of promotions, have become less relevant over the course of the year, as we forecast on our 1Q17 conference call. We have gone from a decrease of 14% in 1Q to a decline of 5% in 3Q, which as Luis said is a more normalised level.

In total, Vocento reported consolidated EBITDA of 26.8 million euros for 9M, down 2 million euros from 9M16. Of this decrease, 1.5 million euros was the result of the lease at ABC. Of the remaining 0.5 million euros, these were the result of lower advertising revenues, a lower margin at the print plants, and higher costs at marketing and Others, basically offsetting the improvement in the margin on circulation, the increase in profitability at audiovisual, and the net savings in personnel expenses which resulted from the Efficiency Plan. In terms of the 3Q, reflecting what we mentioned before about advertising, there was a 4.6% improvement in comparable EBITDA compared 3Q16.

Moving on to debt and cashflow, financial debt was cut by 4.5 million euros in 9M17, thanks to ordinary cashflow of 17.5 million euros. Our debt is now 61.7 million euros, which is a reasonable level.

In the cash generation of 9M17, a highlight has been the control over working capital and capex and also, as Luis mentioned, the positive performance of financial expenses, following the reduction in debt and the renegotiation of the terms for the syndicated loan at the beginning of the year. This had a positive impact which will continue in the future.



Looking at extraordinary items, I would like to highlight the compensation payments, the deconsolidation of Veralia Contenidos, and in the Others section the acquisition of MadridFusión that we have already discussed. In total, we ended up with comparable Net Financial Debt of 1.2x comparable last-12-months EBITDA, compared with 1.3x at the beginning of the year.

I will wrap up by discussing our investments in diversification and by putting our philosophy and strategy into focus. These investments aim to establish businesses that firstly contribute revenue growth and profits, or which are very close to breakeven, secondly which are in some form connected to our existing brands and skills, and thirdly which increase the stability of our P&L and reduce our exposure to circulation and to conventional, traditional advertising.

At the same time, we aim to maintain our financial discipline and to dedicate to these investments only the resources that we obtain from our ordinary cashflow and from divestments of real estate such as the ABC building and the Veralia Contenidos building. We have made a series of investments in the last 12 months, partly by acquisition and partly by media for equity, including 20% of Gelt (an application for online discount coupons), Shows on Demand (we acquired via media for equity 50% of this digital platform for organising concerts), and thirdly 100% of Madridfusión, possibly the leading food fair in Spain and maybe even in Europe. We will continue to apply this philosophy in future investments in diversification.

And with that we will now open the Q&A session.

QUESTION & ANSWER SESSION

IÑIGO EGUSQUIZA – KEPLER CHEVREUX

Hello Luis, Joaquín and Javier. Thank you for the short introduction. I have three questions to ask.

Firstly, could you comment about the guidance you made at the beginning of 2017: the percentages for revenues and the contribution of online, and also for comparable EBITDA. After the publication of 9M17, are you able to make any comments about this?

The second question is if you can provide any more commentary about trading conditions in October, I understand that not a lot has changed. I believe that the television broadcasters talked about a decrease in October, but I don't know if you

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have any information about October-November and how the year might end. Because in December we will also have elections in Catalonia, which I expect will not help the market.

And the third question is about consolidation. You mentioned that we are seeing a slowdown in online national revenues. This seems to be a major change for the sector and it could lead the various players to consider some form of transaction, I don't know whether this would include Unedisa assets or take place on the regional press side. Could you make any comment about this?

Many thanks.

L.E.: Thank you Iñigo. To answer your first question about guidance, what we said is that the weight of digital revenues would increase compared to non-digital, and this will happen. We also said that we would generate positive cashflow, and this will also happen. Thirdly, we said recurring EBITDA would increase. This will depend on the last three months of the year, and it could very well happen, depending on the performance in these last two months, including advertising and other factors.

Concerning October, we believe, and we have been saying this all year, is that what is happening to the advertising market is not temporary but is structural. October is no different, and we expect that November and December will be the same. So, we are reducing our structures to the right size for this trend, as we have been saying for a year now, which is not temporary but which is secular. It may or may not have a particular impact in any given month for various reasons, but this will not prevent us from acknowledging what is happening to the advertising market overall.

Turning to consolidation, which is connected to your previous question, we continue to say what we have been saying for some time, as you have heard both from me and the Chairman. It is necessary, we need critical mass, critical mass in volume to compete with the large online players and also to become major players in advertising in general, and not just online. Also of course we need consolidation to manage costs. We are very aware of this, but we need counterparts. What we are already doing is to pursue agreements that provide us with these benefits, although not M&A. We agree on the need to reach agreements with other major publishing groups, in order to find better ways to manage operating expenses, to jointly manage advertising and to aggregate volumes. We are working on all this and we hope to be able to give you news about this before long.

L.E.: Many thanks.

JAMES MCKENZIE – FIDENTIIS

Hello, good morning.

In the third quarter, advertising in the Regional Press increased by almost 5%, which is a more optimistic note. I would like to know how this happened and what the outlook is for 4Q.

L.E.: Thanks James. We are also maintaining our outlook for the year here. The performance you are seeing in the Regional Press is based on the resistance of local advertising, which is very important to the Regional Press, much so than to ABC although it is also important to ABC in Seville, Madrid, Toledo and other strong editions. But it is clearly more important to the Regional Press. And local advertising, both online and offline, with online supported by some of our digital initiatives such as Local Digital Kit and others, is outperforming, but with an increased resistance at offline advertising. This has also been helped by the events to mark our 15th anniversary, but this was the case for all the media vehicles in our group. So yes, it is more optimistic, as you said, as our regional advertising appears to be holding up well, compared with the storm that is affecting our conventional national advertising.

J.MK.: Also, Joaquín, you said that there had been an impact on margins in 9M17 because of the investment in Local Digital Kit. Will this now be reversed, as a result of operational gearing?

J.V.: Yes, so far what we have seen has mainly been investment in development and in rolling it out to the different media. This has impacted our expenses, and in the coming months this should be offset.

J.MK.: And, to be a bit more specific, looking again at the revenues, up 2% in 9M17, is that sustainable for the year?

J.V.: Yes, I think that in principle it should be for 2017.

L.E.: We expect it to be sustainable, with the reservation that market uncertainty is high, but we think it is doable.

J.MK.: And looking at 2018, do you think, with the environment as it is now, that it will be doable to maintain comparable EBITDA again? This year you will be almost there, based on what you have been saying.

L.E.: We need a bit more time and a little more visibility on the three most important months of the year. I would need some more margin to say this, but it is in our targets and we work hard to achieve it. To be able say this with some security, we still have work to do.

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

L.E.: Thanks everyone.