



# CONFERENCE CALL TRANSCRIPTION

29 JULY 2019



**LUIS ENRÍQUEZ**

Good morning and many thanks for attending this conference call on our 2Q19 results. We saw in this quarter the continuation of the trends of the first quarter, with some differences in timing but generally in the same line as before. Our performance was completely in line with the guidance that we set at the Investor Day last March.

Advertising continues to evolve according to our expectations. In the quarter there were two elections and the timing of Easter this year meant that the year-on-year growth was slower, but the numbers are fully in line with the Investor Day guidance.

National digital advertising remains strong, based on the foundations that we have highlighted on many occasions. Non-conventional advertising is also growing strongly thanks to the events segment. In the regional press, the acquisition of Innevento and the Donosti Cup have supported this trend. As we develop new sources of advertising revenues and respond to the new market structure of advertising, we are working on other developments in this area which we could disclose in 3Q. Local advertising performed less strongly because of a slowdown in the publication of notices and announcements, which is a temporary event. As expected, ON+ is also having an impact on our inventory and on video advertising, premium advertising and programmatic advertising sales. Apart from this, which we fully expected, advertising is performing well.

Circulation revenues are also in line with our expectations and budgets. Margins continue to decline from last year, as we expected, but are better than we forecast. It is not easy to expand margins but before the end of the year we will be able to implement further efficiency measures to address our fixed costs, especially the costs of distribution and printing.

With margins in line with our targets, cash generation has reached the second highest level of the last six years. Here I would like to remind you that last year, as we said in our conference call, the extremely positive variation in working capital was an extraordinary event and not to be repeated.

Finally, we can now announce that a total of seven regional titles have implemented the ON+ subscription model. ON+ has yet to demonstrate its full power. We expect a change in trend when the deterioration of the advertising inventory is offset by the positive impact on the P&L of subscription revenues. We already have c.25,000 subscribers with three newspapers having only just started the service. This level is compatible with our forecast of a positive impact from 2Q-3Q 2020. Nevertheless, because we have had to close some of our inventory there has been a negative impact on local advertising revenues.

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I have already spoken about diversification. In Classifieds, advertising is performing in line with the expectations of our Investors' Day, supported by the acquisition of AutoScout24, and with margins expanding as we forecast.

Joaquín will now go into more detail about the financials and then at the end of the call we will answer any questions that you may have.

## **JOAQUÍN VALENCIA**

Many thanks Luis. I will now briefly review the business performance.

In the regional press, as Luis said there have been a number of impacts on profitability. Firstly, there are two effects which we believe to be temporary. As expected, the implementation of ON+ has resulted in lower inventory levels, so digital advertising at newspapers with ON+ is growing by less than at ABC for example. In addition, there has been a 9% decrease in public notices and announcements in 1H, which is much steeper than the usual decline we have seen in recent years.

There has also been a negative impact on the circulation margin, which we have expected to decrease, as a result of the price of paper. Of a total 1.5 million euros negative impact, 0.4 million euros is related to paper purchases.

Other factors I would like to highlight include the positive effect from the restructuring of our workforce and a negative impact from higher commercial costs. In short, various negative effects, all having an impact on the regional press.

Moving away from the numbers, as Luis commented we are now implementing the strategy we discussed at the Investor Day. We are launching ON+ in our regional newspapers, with seven of the 11 now implementing this service. We are also looking for new sources of local diversification, new revenues which will offset the decline of the traditional business.

In this context, Diario Vasco has acquired 50.2% of Donosti Eventos with the option to buy an additional 10% in 2024. The main event organised by Donosti Eventos is the Donosti Cup, a major youth football tournament and the largest in southern Europe. The tournament has existed for 27 years, and in July more than 10,000 people from 33 countries participated. We believe this is a very important event that we could help grow in the future.

Furthermore, we have won two relatively small outdoor advertising competitions, in Irun and Pamplona, with our technology and financial partners.

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In July, we acquired 100% of Innevento, which is one of northern Spain's leading event organisation companies. This will complement the range of services offered by El Correo in this segment, where as you know we are growing rapidly.

At ABC, there has been a very positive performance, as Luis mentioned. There was strong growth in advertising, especially online advertising. Furthermore, the circulation margin is expanding, with cost savings and price improvements. With the margin increasing, ABC has managed to almost double its EBITDA. Excluding the impact of IFRS16, comparable EBITDA has increased by almost 30% at ABC. There was a one-off effect from changes to the conditions charged by Tesa to ABC. We implemented this in December 2018 and the results will be seen in our quarterly earnings until the end of this year, when the year-on-year comparison will no longer be affected. Overall at ABC the performance has been very positive, especially in terms of cash generation.

Moving to Classifieds, there has also been a very positive performance, with Real Estate and Automotive contributing equally: an 8% increase in Real Estate and 7% in Automotive. In total, with constant scope we are seeing a rise in advertising of just over 8%, with EBITDA up by almost one third. We are implementing the merger of Autocasión and AutoScout24 now, in the summer months, so the real integration synergies will only start materialising next year. All of this is before the synergies. As we explained at the Investor Day, this business area is increasingly important. It now contributes more than 10% to Vocento's total EBITDA, excluding the corporate centre.

In total, group EBITDA reached 21 million euros. In the press, as a result of the factors we have been discussing, there was a small decline in comparable EBITDA, with a good performance in Classifieds. There was a decrease at Audiovisual, with Content going to 0.4 million euros from 0.7 million euros, and a drop of 0.2 million euros at DTT.

The contribution of new businesses was negative but this is mainly because of timing, as the gastronomy events will take place in the second half of the year, e.g. Gastronomika in San Sebastián and Madridfusión Bogotá, so at the end of the year there will be a significant increase in the total EBITDA of Gastronomy.

Finally, let's take a look at cash generation and debt. We have total debt of 50.3 million euros, including the impact of IFRS16. Excluding this impact, debt would be 38 million euros compared with 43 million in December, including a dividend payment of 4 million euros. Cash generation remains very strong, in line and even better than recent quarters. We have generated almost 15 million euros of ordinary cash flow. Working capital continue to be positive. Last year there was an extraordinary effect of 3.4 million euros and this year we are investing more in stocks of paper, while last year we were reducing stock until almost May, so working capital has not performed as well as last year. Even so, we continue to generate positive cashflows. We are in a very comfortable position, even including IFRS16, with debt just over 1x EBITDA.

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Cash generation was at its second highest level of the last six years, in line with everything that we have been saying.

Just two notes about the P&L. We reported a net loss of 1 million euros compared with a profit of 0.3 million euros last year. There are many things going on here, including the impact of IFRS16, one million euros in restructuring payments across the business, and an effect from the timing of tax payments, which was more positive this year.

In short, we remain comfortable in terms of the outlook for the end of the year and the bottom line for the year.

And with that we will open the call to your questions.

## Q&A SESSION

### JAMES MCKENZIE- FIDENTIIS

Good morning Joaquín. I wanted to go into a little more detail about advertising revenues at Classifieds. The organic performance was below the performance of Group advertising revenues, 8% vs. 15%. I have two questions: 1) should we expect an acceleration in Classifieds in 2H, or will we have to wait for the synergies in 2020; and 2) what is driving the 15% growth rate? What are the drivers of the digital growth?

**L.E.:** Thanks James. Classifieds is performing more or less in line with our estimates, with the focus on the integration of AutoScout24. The advertising segment is more limited than the general market, than national digital advertising. There is not much room for branded content or programmatic advertising here. In 2H and in 2020 we will begin to see organic growth rates that reflect the strength of Classifieds, not at the levels of national advertising that conventional media are currently enjoying, but in line with the expectations of the Investor Day and of the time when we announced the integration.

**J.MK.:** How are the three areas performing?

**L.E.:** The websites?

**J.MK.:** Yes.

**J.V.:** In advertising, 12.1% in automotive in 1H, slightly above 8% in real estate, with a slight fall at Infoempleo. As we said at Investor Day, we are studying what action to take with Infoempleo. In Classifieds we have a very clear strategy. Now the focus is on integration, which will result in higher growth rates. On the other hand, there is no

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programmatic advertising in this segment and no branded content, so the 32% rate we are seeing at abc.es is a long way away.

**L.E.:** Underlying all this is the fact that we are now in a position to fight for leadership of the automotive segment, which is extremely important. This is one of the factors that will support us in the coming months and years. As Joaquín said, and as we have explained, we do not expect growth in the employment sector as we are not developing this area, which is in the hands of other players and where we cannot achieve much. Our focus is on real estate and automotive.

**J.MK.:** Okay. And to achieve 15% organic growth, is it abc.es which is driving this rate of growth for the group?

**L.E.:** It is national digital advertising, based above all on ABC, which is performing very well in terms of inventory as the presentation shows, with more registered users. This means that with our focus on data we are better able to serve our programmatic advertising customers in terms of information about users, etc. We have discussed this on previous occasions. The same thing will happen at the regional press, although the inventory is smaller. Nevertheless, we are also having some success with our use of the regional inventory. ON+, with its user registration and understanding of users, is improving the quality of the inventory. We are using our inventories very successfully.

**J.MK.:** And in terms of national advertising, the comparison gets harder from now on, doesn't it?

**L.E.:** A little more difficult, but not too much, nothing radical. It is not like 2018, when the revenue performance improved over the course of the year. It is true that the second half of last year was much better, especially the last three months, so our performance this year will not be outstanding, but it will still be good, just without the major differences over the course of the year that we experienced in 2018.

**J.MK.:** And could you say when we will be able to see the first effects in programmatic advertising?

**L.E.:** For a full year, in 2020. Currently we are not even selling ON+.

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

## **IVON LEAL- BBVA**

Hello and good morning everybody. I have one small question. Could you give us some more detail about the update to online subscriptions, especially in those

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publications where you have more of a data record, so that we can understand how you are rolling out this process and how it is going?

**L.E.:** Thanks Ivón. The four most important titles where we first launched were El Correo, Diario Vasco, Diario Montañés and Ideal. These were the regions where we have less competition and have more dominance, so there was less risk of substitution.

There are two stages. A launch stage, where you look for registrations and implement a trial period that varies by region but is between one and two months. Always with control of the payment medium used by the subscriber. Then you move to a paid environment. Initially this was set as follows: 10 free articles and then payment for the 11th and above. And normally there was no restricted premium content on the home page which was only for paid subscribers. Two years after the launch at El Correo we tightened the conditions, so that there are only 5 articles available per month and there are 3 or 4 in-house articles by our journalists that only paid subscribers can access, regardless of the number of free clicks you may have available. This is complemented with a series of newsletters that we have been developing and with access to our app, which we updated and launched at the end of last year. Plus there are meetings with our journalists. To sum up, we are very focused on this and on delivering more value, including using clubs, discounts on hotel reservations, and so on. What we have been looking for is ways to the reader identify with the journalists from the newspaper, to give them access to them and ways to contact them. The result has been almost 50% of adds, in the first campaign, with a really minimum level of churn.

In the other newspapers we launched with a different model, although still with net adds. First comes registration, then payment. Some of our newspapers such as El Norte de Castilla and La Rioja have a more limited market but perform well in proportional terms, while at others, such as Sur in Málaga, there has been an outstanding success, coming in at about the same level as our major papers in the north of Spain.

In general, some newspapers are performing better than others, but basically they are in line. Subscriber numbers are performing as we expected. I hope that answers your question. Do you need any other details?

**I.L.:** And in 2020, this should help to stem the decline in circulation revenues?

**L.E.:** Well this is part of what we are looking for. In the digital area we want to create a virtuous circle based on having a direct link to the reader, as has always been the case in this sector. The aim is to have a direct connection to the reader, so readers can see that the content prepared by our journalists deserves payments, and then we can build the same sort of relationship that we have with conventional subscribers. At the same time, thanks to the level of data we have about registered users and our understanding of our subscribers, we can provide much more information, control and

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quality to our advertisers about our paying subscribers. We can make better use of advertising inventory and charge more, as we are seeing in the advertising market now.

This is exactly what is happening at the New York Times. If you look at the NYT numbers, as their subscriber base increases there has been an incredible increase in digital advertising. The two aspects go hand in hand. It is a way of recovering the traditional relationship with readers, leading not only to direct revenues from subscription but also from advertising.

I.L.: Okay. Thanks Luis.