

# **CONFERENCE CALL TRANSCRIPT**

**16 NOVEMBER 2022**

## LUIS ENRÍQUEZ

Hello and welcome everyone to our 9M22 results presentation. The presentation has a lot of detail, and some parts speak for themselves, so I will talk more about what you would like to understand about our company and which is not covered by the presentation. So the structure will be different.

First, I will focus on the performance compared with 2021 and look at the different impacts on earnings since last year.

First, obviously, is the change to scope. Net has gone, Veralia has gone, and now we have Relevo, our investment for the medium term. There has also been a clear increase in costs. When it comes to energy and electricity costs, we have two printing plants, which are large and running at high capacity. Unlike with other companies, there is a direct impact on us. Plus there is the cost of raw materials. We are a regional newspaper group, with 11 newspapers. That means that we have a still high and profitable level of distribution in all our territories. This also makes us different from other companies. The raw material cost, basically paper, affects us more than others, not only at the EBITDA level but also in cash, in working capital. Firstly because the paper that we buy is more expensive and secondly because we have more supplies and more stock because of concerns about a shortage, especially in the first five months of the year. We cannot allow that to happen, so that is impacting our cashflows.

Let's move on to advertising. While local advertising is performing better than our forecasts for 2022, national digital advertising is doing worse. Together, we are more or less meeting our targets. For subscriptions, we have told you before about the changes and the centralisation of our team. Everything is going as it should be. It is a little early to start to see results, but we are seeing some signs. We will begin to know more in Q4 and in 2023. We can share more specific targets than the 250,000 we have set for 2026. In 2023 we will see growth of about 30%. I want to stress that for us the volume of subscriptions is not as important as the revenue we get from them. In the coming months we will start to see something similar to the newspaper circulation we had back in 2005, 2006 and 2007. We want to analyse the performance of revenues from subscription, which is a major priority for us.

Of the new businesses, we have seen a slight slowdown in the booking of contracts, we have 3000 new contracts under the government programme and we have processed 2600 of these. We are going faster than the programme. This is slowing down the impact on 2022 but we will see a similar performance in 2023 and 2024. We are winning more contracts than some of our main competitors in the SME digitalisation space and this will be reflected a little in Q4 this year and above all in 2023 and 2024. This will support our targets. Also next year will see the first course, 2023/2024, for the University we are opening with Icade, starting with Gastronomy graduates and then master's programmes. We will serve all the Gastro market. We will close the year in accordance with forecasts and we will budget in accordance with our Strategic Plan.

At Classifieds we are increasing market share, winning clients and improving revenues. This has not been transferred to the EBITDA line because it is impossible with the automotive sector still in recovery mode. For 2023 for Classifieds, including real estate and automotive, we are forecasting an increase of c.20% in EBITDA. In the Agencies, which is in line with our

forecasts, I would like to remind you that most EBITDA is generated in Q4. There have been no changes to the targets for 2022 or our estimates for 2023/2025 and the target for 2023.

I am trying to be quite specific about these increases and about our proposals, given the concerns that I have seen from analysts and in your questions about our earnings reports. Looking to the end of the year, we are maintaining our targets. Local advertising will continue to perform well, national digital advertising will be weak, but some negotiations are being concluded or have been concluded. The contribution from Red.es will appear in the national digital advertising line at year end. So this will offset some of the recent weak performance.

We have also renegotiated our contract with Iberdrola for 2022-2027. This will resolve the problem of the last quarter and the coming years that had been posed by the higher cost of energy and its impact on our Strategic Plan. There is no cause for concern as we will be within the range that we had forecast and the negotiation will allow us to offset the increase. We are also negotiating some revenue measures, mainly with digital intermediaries. We are implementing cost cuts mainly in the industrial area. All of this will have an impact in Q4 and will be accompanied by price rises in the regional media. Summarising, in Q4 we will achieve the targets that we set at the start of the year. It will not be easy, it has been a tough year, but we will achieve our targets.

For 2023, energy will no longer be a problem. Paper will continue to be expensive. We have been saying since the start of the year that paper will not return to the price levels of 2021 or 2018. It is not temporary but neither it is serious. The outlook for prices will be similar to 2022, without major reductions, that is clear.

Local advertising will continue to perform well, as part of our platform. National digital advertising is puzzling. Our feeling is that the overall national advertising market is undergoing restructuring. Not only at Vocento, but also at intermediaries and at our clients. We will have to see the results of this process.

Relevo is performing in line with our plan. It is starting to generate revenues and in 2022 will make a small contribution. In 2023 we expect EBITDA of €-6M, as we have said before. Relevo is performing much better than expected in terms of winning audiences on social media.

For 2023 and beyond, we are convinced that we will not see the corporate movements that for years have been pursued but not achieved. What we will see is negotiations with our main competitors to collaborate and produce economies of scale, beyond just WeMass. This is something we are working on for 2023. It does not depend on us, so I cannot offer more information, but we want to begin to find synergies, if not via corporate movements than by reaching agreements in certain parts of our core business with our main competitors.

Joaquín Valencia will now go into more detail about the presentation, especially about the P&L and cashflow. We will take your questions afterwards.

**JOAQUÍN VALENCIA**

Thanks Luis. This is the more boring part as we have to follow the presentation. I will go straight to EBITDA. One of the key points of the 9M has been costs. Another has been the changes to scope and the many impacts on cash that I will explain.

In our EBITDA the change to the perimeter has had the most significant impact. From the EBITDA of €21.7M which was the level reported for 2021, we remove Net and Veralia Distribución and include the investment in Relevo, and we arrive at €12.8M. To get to €10.1M there are a series of temporary effects, such as the cost of energy. The spike in the gas price has been a problem for the whole market. We have concluded a contract for next year with Iberdrola which will make this effect disappear. So we expect that the decrease in EBITDA in 2022 will not be repeated in 2023. There could even be an improvement in the cost of energy.

The cost of paper has also increased. Our priority has been to ensure supply in the year. There were supply problems at one time of the year. Obviously there has been an increase in the cost of paper in our purchasing and in our consumption, in the paper we use for production. As Luis said, part of this increase is not temporary and will remain high. But part of this, we are not sure how much, is also linked to the rise in the energy price, which has increased the cost of paper. We believe that a major part of the €4M difference will turn out to be temporary.

Elsewhere in EBITDA, the variations are similar to previous years. Luis has explained that the contribution from diversification will mainly come in the second half and in Q4. So we expect a positive variation of +0.5% to +0.8%. There will be a positive performance compared with last year at the EBITDA level, while in 9M we saw a negative variation of -0.6%. It is important to understand that some of these variations are structural and reflect the change to scope, while some are temporary.

Our revenue mix is performing very well. This year we are growing by 5.0-5.2%. We are continuing to pivot towards digital and diversification. We are at 40%, up from 35% last year. This migration is happening very quickly. In 2018 we were at 27% This means that our reliance on the traditional print business is decreasing.

I will not say any more about Relevo as Luis has covered it all. We are also making progress with monetization. Not only have we increased subscriber numbers (we are maintaining our target of 500,000 for the year end) according to our plan. We are also working on monetization and we are managing to monetize the engagement we are generating with our high-quality content. In Q422 we will generate c. €500,000 or a bit more. These revenues will come both from social media and from the website. So Relevo is going according to plan.

Let's look at the P&L and cash. In the 9M, we had a good topline performance, around 2%. We made no real estate sales like in 2021 so there is a difference in EBIT. There could be good news from real estate towards the end of this year or early next, we are working on divestments.

Obviously the financials are better, with less debt and lower financial expenses. There is a one-off lower down, a capital gain of 9.1M from the result of discontinued operations, which is the capital gains on the sale of Net and Veralia. This shows up as a capital gain in 2022 and in 2021 it is the pro forma result. The 2.3M is the result from operations, in 2022 it is the capital gain.

The other area is the performance of debt and cash. Debt, including IFRS 16, is up €9.2M in the 9M. There are three things at work here. Firstly is the dividend payment of €5.4M from Vocento. Then there is the increase in IFRS 16 debt of almost €3.0M (this is partly because of our management of costs, as we prefer to extend long-term leases a few years rather than have a CPI increase of 9%, so a little more debt but less costs for the coming years). Then there is much lower cashflow than we are used to. Let me explain this to you. Compared with 9M21, when we generated €20M of free cash flow, there were two major factors. One is the change to our perimeter, the exit of Net and Verolia Distribución, and the start of Relevo which is a cash outflow. This total effect is c. €3.5M. There is also the impact from inventories. This is connected to what we said before about price rises. Last year we lowered our level of stocks, from 30M tons to 19M tons, and we made purchases at stable prices. This year we have more tons, 1.5M tons and we have bought them at twice the price. This effect is only in inventories. In purchasing, paper purchases in 9M21 and 9M22 were about €11.7M. Combining the two impacts, there is a difference of €15M with last year. So it would be a stable year without this effect in our inventories. With stable inventories in terms of volume and price, cash flow would be up by €6.8 to €7.0M. Plus there is the perimeter effect. The other changes are the same as in previous years (capex, financials, dividends). But the inventory effect is unique and should disappear next year, as prices stay flat or fall, and there will be no need to restock.

These are the main points. We will now open the Conference Call to your questions.

### Q&A SESSION

#### FERNANDO CORDERO – BANCO SANTANDER

**F.C.:** Hello. I just have on question, about the 2023 outlook that Luis was discussing and in particular about the different performance between local and national advertising and the almost structural changes to the market for advertising in 2023. Can you shed some more light on this? What trends are you seeing?

**L.E.:** Thanks for your question, Fernando. Basically we are seeing people rethinking where they are spending their advertising in general. We have seen the 9M accounts for YouTube, and what is happening at Meta and double digit rises at social media. There is some increase in video, but mainly this is going to TikTok. Display, including programmatic, is suffering. Branded content is very solid. From our perspective, there is a limit to branded content. I think the advertising space in general is being reconfigured, I do not know if this is because of the performance of consumption or GDP or a decoupling with GDP. I do not think so. I believe it has more to do with a reshaping and repositioning of advertising spend. The last announcement we have seen (I am not sure if it is official), the last news we have, is the change at El Corte Inglés. There is a shift in the tectonic plates. Let's see how it ends, or where it ends and where it is going, if it ever ends.

I cannot clarify things for you more because it is not clear to us yet.

**F.C.:** And because these trends that you are describing are only taking place in online advertising, are you see a rethink from intermediaries about moving online advertising to offline, or not yet?

**L.E.:** We are seeing a move towards offline because we are a regional press company, so we see this more intensely. In the UK, Trinity is also seeing this. Suddenly print advertising is not falling. I do not think this movement is anything major. It is more a result of what I said just now. It is an unexpected movement. We do not think that it will change what has been happening up to now. We will have to see where it goes. I do not think that the solidity of print advertising is a major factor to consider, even though that would be good for us. That is what I believe.

**F.C.:** Many thanks Luis.

**L.E.:** Thank you.

## ENRIQUE YAGÜEZ – BESTINVER SECURITIES

**E.Y.:** Hello Luis and Joaquín, I have three questions.

The first is a follow-up to Fernando's question and the structural changes to advertising. With the stronger performance than you expected in regional and local advertising than in national, what is your outlook for next year, in terms of stability or decreases? I know that it is difficult, but what is your best estimate of how advertising could perform next year?

Secondly, you spoke about cost cuts and the industrial side and how you will meet your guidance. Are these measures temporary or permanent, and what sort of impact should we expect?

And finally, how much more detail can you go into about the deals you are analysing with your competitors? Thank you.

**L.E.:** Thanks Enrique. The scenario for advertising is one of growth, that is clear. It is still too early to set a range. But overall, bearing in mind the uncertainty that will continue next year, in national digital advertising, we are sure that there will be an increase in advertising. That is our expectation. On one side there is the uncertainty we have now. But the performance of the group continues to be good, beyond the support of local advertising. It is good elsewhere. There will be growth, we will have to see. In our sector we make forecasts quite late, to see how things are going. So I do not want to be precipitate.

Some of the cost cuts are permanent, others are responses to the emergency situation. Permanent measures include limits to some routes and some sub-local editions, some optimisations. We have made temporary cuts to teams and crews which will probably not be sustainable. Some of these are responses to problems that we will not have next year, such as energy. So we do not expect more problems in this area, or in paper where the situation was critical. Life will continue.

About the deals we will reach with third parties, this is all about finding ways to generate economies of scale. In other words, all publishers and especially the major publishers have redundancies in many areas that do not add value to the competitive market in which we operate. We are not going to share editorial teams of course. But there are many areas where we can share structures and which will make us stronger in the market, so synergies will not only be on the cost side but probably also on the revenue side. What I want to make clear is our intention to continue in this direction. It does not depend on us alone, so I cannot share anything more.

**E.Y.:** And I have one follow-up question. With these much wider-ranging agreements with other publishers, does M&A and consolidation make less sense in this new scenario?

**L.E.:** As a company we are not going to keep waiting for something that is not going to happen. While we wait and nothing happens, we are leaving opportunities behind, so we are going to do what we can, or at least make proposals.

**E.Y.:** Understood, many thanks.

## JUAN PEÑA – GVC GAESCO

**J.P.:**

Hello, I have three questions for you.

About your guidance for 2022, which you said you will have at the start of the year, are you talking about EBITDA of around €30M, which is the figure we have been using?

Secondly, about Gastronomy and the agreement with Icade. Will this contribute to EBITDA in 2023 or will it still be a drain? What are your estimates?

And the same about LDK. You talk about an estimated €7M of revenues, so how much will EBITDA be from LDK?

**L.E.:** Thanks for your questions Juan.

We were talking about on a constant perimeter, without the exits and entries, in the range of €30M or a bit more. How much more? Some of your colleagues are making this calculation. A bit more than 30.

In Gastronomy, this will be the University's first course. So in 2023 the University will not make a major contribution but it will not drain EBITDA, it will make a small contribution. It will depend also on the agreements we reach with some other institutions who are very interested in what we are doing. We work with some of the major advertisers in Spain and IBEX-35 companies and it is very hard to make revenue-generating proposals to them, they tend to find out themselves and tell you what they want to do, so it will depend a bit on this. But it will not make a negative contribution to EBITDA.

For LDK, we will start to see how revenues impact EBITDA, I do not know for now how specific I can be.

**J.V.:** The €7M revenues are what we have from SMEs and clients. The rate at which we can book these revenues depends on the Government granting subsidies to each specific SME. As this happens, we add this to EBITDA. A lot of this will happen in 2023 but we will book part of the €7M in 2024.

**L.E.:** To give you some idea, LDK is part of our diversified businesses. It will be an independent diversified business and with an important contribution to EBITDA.

**J.P.:** Many thanks.