

# **TRANSCRIPT CONFERENCE CALL FOR 1H24 RESULTS**

30 JULY 2024

## **IÑAKI ARECHABAETA**

Good morning everyone and thank you very much for your presence at this first half results conference. To summarise these first six months, I think it is worth highlighting the positive EBITDA evolution in the second quarter, with growth over the second quarter of 2023. It is true that this has been favoured by some aspects such as the Easter holiday situation, or also by some actions implemented from the point of view of revenue, which has given us a certain profitability in this quarter. In terms of revenues for the first half of the year, what we can say is that, although these revenues are practically the same as last year's, we must recognise the drop in advertising in the press division, which we will talk more about later. On the positive side, it is worth highlighting the growth in digital and diversification revenues in particular.

EBITDA evolution by business. EBITDA was virtually flat, with our traditional brands performing below expectations, mainly due to the aforementioned drop in advertising. We should highlight the good margin on the sale of copies, while the diversification businesses are in line with our forecasts, with no major surprises, with the exception of Digital Services, which I will refer to later, and also with a certain deficit in our Real Estate Classifieds brand pisos.com. Finally, cash generation was stable in the second quarter. A dividend of €5.5m was paid to the company's shareholders in the second quarter.

We have prepared a table, number 2 of our presentation, in which we talk a little bit about and summarise how we see and what the diagnosis is by areas, as well as some lines of what our actions are going to be, which we have already implemented and of the coming months. There are things that are in line with the plan. Talking about our traditional business, the press, the margin of copy sales, is holding up very well. And digital subscriptions are also going according to plan. In terms of diversification, it is noteworthy how the motor, premium lead and gastronomy classifieds are evolving, and that radio is continuing in line with what we have planned. In terms of keeping an eye on things and seeing that we are experiencing some delays and some issues that are not as in line with our forecasts, we should talk about "Relevo". What we can conclude from the data it is showing is that it is an asset that we have created in practically 1.5 years, with great figures in terms of web and social media audiences (for example, more than 200M videos viewed on social media in June, which I think is a great success in such a short time) and as a brand that is still very young in the market, it is still lagging behind in monetisation. But what we have no doubt about is that we have created an asset that will give our company a lot of satisfaction in the future. We should also highlight delays in Real Estate Classifieds, or that we are behind what we had planned, fundamentally affected by the fall in operations in the mortgage market, and also by a certain concentration of large advertisers in some media, on some websites. And in Agencies, delays also in campaigns, and in principle what I would highlight here is that we have launched the project to unite all our brands under the same action, facing the market, and what we do hope is that the maturity period, which is slow in this type of project, as it normally attacks large advertisers, and which usually takes a period of maturity, will bring us success in the coming years, without any doubt.

In addition, I would also like to stress that this year we are absorbing a series of extraordinary costs closely related to staff in the first part of the year, in the first quarter, which logically weighs on our accounts in the first half of the year.

And then to highlight what has perhaps surprised us the most at the moment with respect to the objectives we had. On the one hand, press advertising, which has practically no growth online, it is flat, and this is clearly a market issue. And offline, in which we are suffering fundamentally from the point of view of the institutional calendar this year. We are working,

yes, on new events in new formats, in video, and then also highlighting the learning we have had in "Relevo" in RRSS in Branded Content to be able to extend it to the whole company, and that logically we hope to reap the benefits over the next few months.

And also to highlight something that has a much worse performance than we had planned, there is the issue of Digital Services, in which the delays in the collection of funds are impacting our business. They are causing customers who had customers to cancel their accounts, and therefore we are going to focus much more on products unrelated to the Digital Kit and subsidies in the future, so that we can improve the performance of everything related to Digital Services in the future.

All of this leads us to rethink certain issues, and to enter into a strategic reflection that is already underway. Especially focused on the press business, which is the one that is really suffering from the lack of growth in digital advertising. Working as always, and this group has always been particularly active in everything that has to do with efficiency. We are working on a savings plan, which has to do with all parts of the company, and on the other hand we are also already looking at alternatives that have to do with those parts of the diversification that are not in line with what we thought were basically Digital Services, and Real Estate Classifieds.

With all this scenario, what we wanted to do for our analysts, for our shareholders, and for our market, is to be transparent and talk about what the EBITDA target or EBITDA targets are for the full year, more or less. Remember that in the Q1 Call, when you asked me about what the target was, it was still early, we only had the first quarter of vision, and therefore at this moment, with all the things that are happening in the market, I think we have enough elements to be able to talk about a range of EBITDA target for this year, which is, as you can all see, quite far from last year's, and from what we had set as our target for this year. Within this, I would like to make a classification between what we consider to be cyclical effects, effects that have to do with things that have happened this year, and that do not have to be repeated in the future, and we are talking about an approximate effect of around €6M that have to do with a very complex institutional election calendar at the moment in Spain, with a very reduced institutional advertising, and on the other hand with extraordinary structural expenses that we have had this year. And, on the other hand, effects that may have, shall we say, a longer horizon, and that have to do firstly with the issue of digital advertising, digital advertising on which we had based our objective of double-digit growth for this year and which, compared to what we had forecast, we find ourselves with an effect of flat digital advertising in our segment, we are practically in the market. We are slightly ahead of the market in digital advertising, as we will see later on. But the reality is that we are facing, for various reasons, a digitally flat market, and this means that we have a significant deviation with respect to the objectives set. And on the other hand, everything to do with digital services, which in some way also has an impact on what could be the development of this area of diversification in the medium term. On this issue, I believe that many of the factors are market factors, and therefore what we wanted to say, not our performance, as you can see in the comparison with the market that we have presented, in the following slide, and consider that the cyclical factors, as I said, to repeat, are referred to this year, and on the other hand, the more complex effects and where we have to act quickly and strategically and more in the medium and long term, which have to do with advertising and digital services. Therefore, these factors and following the transparency that we always have to have with the market, an EBITDA target in a range of €27-31M, without cyclical factors, and an EBITDA target of €21-25M this year.

And now I will pass the floor to our Financial Director, Joaquín Valencia, who will continue with details of the figures that I have been presenting in some brief form.

## JOAQUÍN VALENCIA

Thank you very much Iñaki. As Iñaki explained, this Results Conference Call has two parts. One part is to explain how the six months have gone. And in particular how the second quarter went, which frankly we had a very decent second quarter, with quite good figures. If you look at this quarter in isolation, there are some trends that have led us to review our objectives. I am going to focus now mainly on the first six months.

The first part is a bit about how advertising has been doing. Advertising, if we look at the total market, in the whole market is growing at a level of 4.5%, but the segments where we are operating, the market is falling by 0.2%. Against that we are falling a little bit more, 1.6%. We are falling in the offline press as well as in the online press. The offline part of the press is really very much linked to institutional advertising. We are all more dependent on institutional advertising, elections, especially in the Basque Country, affect us more than other newspapers, and this is what mainly explains the difference in print, where we do not have the medium-term effect that Iñaki was talking about, which is more focused on digital advertising. Online advertising is worse than the market, but if we focus exclusively on the online press, we are somewhat better than the market. There the market is dropping 0.7%, so the market is not doing very well in these first six months.

One part of the business is doing well, as we saw earlier in the boxes that Iñaki gave us, parts that are doing well, parts that are doing less well, the part of the margin on sales of copies, and specifically the part of the digital margin, which is derived from digital subscriptions, where the business is doing really well, we are growing revenues by 20%. We are growing both on the subscriber side and on the revenue side. That part is a part that is "healthy" and is growing very solidly.

We continue to increase the weight of our diversification and digital in total revenues, also in line with the plan. Focusing a little bit by business. I am not going to talk much more about "Relevo". Iñaki has already commented a little bit. And then if there are any questions, we will answer them. We are convinced that "Relevo" is a fundamental asset for the group. It is an asset that is worth money. It is an asset that we have been realising and that is going to pay off in terms of metrics, both in terms of videos watched, market share, sports contracts, it is doing really well. We have already reduced the losses from €3.6M in 2023 to €2.7M this year. We will end up a little bit worse than planned in terms of loss reduction, but it's clearly an asset that's barely two years old, and we have to give it time to develop. And it is certainly an asset that has value for us.

The impact on EBITDA in the first 6 months, we are facing an EBITDA of €4m in the first half, we are at an EBITDA of €145m. The negative effects are very much focused on the advertising part, ex "Relevo", on the press part which we are already doing worse, on the digital part and on the print part. And then there are also all the structural effects that we have been carrying over, especially from the first quarter. The effect of severance payments (we have almost €2.5m in structure), there are also one-off effects of various types of consultancies, which explains a little bit the €3m deviation in structure. The digital services part, as Iñaki has also explained, and he has given a colour on the subject, we have a solid growth in the gastronomy part, behaving well and according to the plan. The motoring part is going very well, we are very satisfied with the evolution in advertising and other revenues in the motoring part, and our agreement with Scout 24 is working very well. We are weaker on the flats side. We have already mentioned this and we need to look at ways of strengthening the business so

that it can do better. The agencies have already incorporated Rosàs, so, in terms of income, income is already growing due to the incorporation of a new agency in the perimeter, but EBITDA is very biased towards the second half of the year. We may be a little bit worse than our budget. But we are going to improve throughout the year. In the second half of the year we look better than in the first six months of the year, that's for sure. And then finally, digital services, as Iñaki has already mentioned, is a business that is closely linked to the Digital Kit, to the contribution of European funds, which has an effect on the delays, as well as the effect on working capital. This is clearly slowing down the business, it even has the effect of slowing down the development of future business, what is happening is that here we are going to be below the expected EBITDA, without a doubt, in the digital services part, and part of the reflection we are going to do is how to expand the business to other areas, because SMEs are a great business, but to other areas that are not so dependent on European funds and the digital Kit as they have been up to now. We have to open up the scope a little bit, to try to go towards other types of clients.

The income statement, just to give you a few hints about the effects that we have below EBITDA. We already mentioned below EBITDA and before EBIT, we already mentioned an inflow we had for the sale, an extra deferred payment, we had for the sale of Diario Vasco, €1.9M, then another effect to mention is that we have incorporated an impairment of €3.5M of goodwill of Federico Domenech, which is our main goodwill. We had goodwill of €32M, all our goodwill is always reviewed periodically, in June and December, to see if with the projections we have we recover our goodwill, to the extent that we have slightly lowered the projections in perpetuity of advertising, especially digital advertising, this affects the value of Federico Domenech and entails an impairment of €3.5M.

Another effect to mention is, in our accounts, a positive effect of €3.3M is incorporated due to the supreme court ruling for the unconstitutionality of the Royal Decree Law 3/2016. This is the famous Montoro Decree, which we have mentioned in a previous C. Call. There are 3 companies in the group that have been asking for a review of what they paid for this Decree Law, we have been given the right, we have collected €3.3M, €0.9M of which goes into financial income, and the rest goes into the corporate tax account. In the face of the forecast that this was going to be a little more, even almost €5M, it must be said that there is a new regulation that the government brought out, where what we collect is subject to taxation in 2024, which is what has led us to reduce the initial estimate of this €5M to the €3.3M that we have incorporated. They are already incorporated in the P&L for these purposes, and we have already collected €0.3M of this €3.3M. We are waiting for the courts to settle the debt.

Just out of curiosity, there are a lot of minorities in this P&L because the parts of the business that are doing very well, for example, classified as motor, we have a minority that has 50%. That's why we have a higher minority effect.

Finally, the cash generation part. Here, three comments. We ended up with a DFN ex IFRS, ex rents of €31.6M, that is a leverage also ex IFRS of €1.2M which compares to €1.03M in June last year. Cash generation is negative, we have -€9M in these six months, compared to -€6.7M last year, worse, mainly also because of the lower EBITDA and lower EBITDA commitment that we have had in these six months. We have several effects. There is an increase effect, it is not an increase in working capital, because working capital is flat in these six months. It is an increase in the balance of public administrations, of which €3M is the effect of the RDL that I just mentioned, and there is €3M which is a temporary effect because we paid VAT in January this year instead of December last year. We have paid more Capex in the first six months than we are going to pay in the second six months, so this effect will go down, and all in all we end up

with the debt, which I mentioned. The second half of the year, as I said, the second quarter is very decent, but we are already seeing some effects in digital advertising, in digital services and perhaps a little in flats, which are effects that are going to last a little longer and that we will have to take measures and we will have to address the reflection that Iñaki referred to.

And I think this would open up the Conference Call to questions.

## Q&A

### JUAN PEÑA RUIZ – GVC GAESCO

**J.P.:** Good morning, can you hear me?

**J.V.:** Yes, yes, we are here. **J.P.:** Thank you.

**J.P.:** Good morning everyone, I had a few questions. First of all, on the strategic review that you are doing, you talked a little bit about Digital Services, about broadening the focus a little bit, but with respect to Classifieds and Real Estate, I wanted to ask if you are even asking about a possible divestment. At the end of the day it is a business that requires a lot of volume, and at the end of the day number #3 is a little bit hanging there. Clarify a little bit if you have considered a possible disinvestment. And whether these kinds of decisions are waiting for the new CEO to be appointed, or whether they can be independent and the company can continue to make these kinds of decisions. That in the first place.

Secondly, to understand a little bit the deterioration of the advertising market, precisely, as you also mentioned in the results, the results of Q2 are positive. Digital revenues, digital advertising grew by 6%, in other words, the figures are recovering and positive. What have you seen that is so significant that leads you to think that H2 is going to be so extremely negative to revise the numbers for the year so much downwards?

And then the last two. One, if you see that this could put the dividend at risk? All this profit warning that has been issued.

And also the last one, do you expect the generation of Free Cash Flow to stabilise in the year, that we can reach at least a stable, slightly positive Free Cash Flow, or are we going to see a negative Free Cash Flow this year?

Nothing else, thank you very much.

**J.A.:** Well, thank you very much for the questions.

First of all, on the question of Classifieds and Real Estate, pisos.com, we are not at any time thinking about divestment at the moment. We are absolutely focused on strengthening this area of development, and strengthening pisos.com with some operation that we believe is possible, and when it is closed, we will logically comment on it to the market. In this regard, I believe that the Board of Directors is clear about this, and continues to support the strategic

development of this Group, regardless of who is CEO at any given time. Therefore, the commitment to Clasificados Inmobiliarios and pisos.com is clear at this time.

Regarding the question about the deterioration of the digital advertising market, I would just like to remind you that, in the first half of the year, despite these flat revenues, and despite the fact that advertising has not been in absolute figures so far away from the previous year, the reality is that the market for our traditional brands, in advertising, has fallen in the first half of the year by €2.5m compared to the previous year. Despite the fact that we have had a fairly good half year, and a first quarter and especially a second quarter, as we have said, the reality is that, within that, we are suffering in the advertising that has to do with our press market. And in that sense, I can tell you that this is going to be more evident in the second half of the year, in which we have a much higher advertising investment target than in the first half, as you always know, due to our seasonality. And what we have seen is that all our targets were for digital advertising growth close to double digit and the reality of the market has told us that we are flat. And that is our concern and our occupation at the moment, and that is why a very significant part of what is happening this year has to do with this advertising market.

Thirdly, I think that, with these figures, what does seem risky, although it is obviously the decision of the Board of Directors at the end of the year, is that with the EBITDA figures we are giving and with what is below, that there will be no dividend this year. But that is my opinion, and then logically it is up to the Board of Directors to take the appropriate decision.

And then, finally, speaking of what we do believe we are going to do and correct me or write down what you want, is that, in principle, with all these data, we will have a certain deterioration of cash flow in the year and what we are going to do is take the appropriate measures to reverse this as soon as possible and with a clear objective of the year 2025.

**J.V.:** This plan that we are working on, this strategic reflection, this cost savings plan, which is obviously going to include a part that is obviously going to be the company component. We cannot promise where we are going to be in terms of Free Cash Flow at the end of the year, but obviously the focus is also going to be on cash and cash generation. We have always said that one of the objectives of the group is cash generation, and that this group is a cash generator and that is part of the reflection and part of our objectives.

**J.P.:** Thank you very much.

**J.A.:** Thank you very much for your presence and your questions, and we look forward to the next Call with the results of the third quarter. Thank you all very much and happy holidays. I think we are at a time when people need a rest after such a complex semester. Thank you very much.