

Tuesday February 18, 2020

Seven West Media releases interim financial results for half year ended 28 December 2019

Summary

- Advertising market conditions challenging with metro FTA TV -7.0% in the half versus a total advertising market decline of -8.5%
- #1 metro TV revenue share, up 0.4% pts to 38.8% share in 1H20 (38.4% incl. BVOD)
- Group revenue declined 3.2% driven by weaker advertising markets
- Underlying Group EBIT of \$119.7m, down 20.8% YoY
- Digital EBIT growth of 205% compared to 1H19
- Significant items of \$165.6m before tax, relating to impairments and onerous contracts
- Net debt of \$541.5m representing 2.4x net debt to EBITDA (including proceeds from Redwave divestment)

Overview

Seven West Media Limited (ASX:SWM) reports a statutory loss after income tax of \$67.0 million on total revenue of \$773.3 million. Underlying net profit after tax was \$69.3 million, down 22.5 per cent on the previous year. EBITDA of \$136.6 million and EBIT of \$119.7 million were down 20.1 per cent and 20.8 per cent respectively versus the prior corresponding period.

Seven West Media's strategy to transform the group into an agile, content led organisation continues at pace, but in the face of a difficult operating environment with challenging advertising market conditions.

Seven West Media Managing Director and Chief Executive James Warburton said:

“Over the last six months, we have executed on a number of major strategic initiatives, including the investment in our new content strategy for our primetime entertainment schedule which commences in April; a major re-organization and cost out plan delivering \$45 million of gross savings; the divestment of Redwave; and proposed sale of Pacific Magazines.”

“The ACCC's decision on Pacific Magazines is due in April 2020. We continue to work with the ACCC to address their concerns. While management were disappointed that certain stakeholders blocked the Prime Media merger, we have secured a strategic stake of 14.9%. Working down debt remains a key priority with a number of initiatives underway.”

In Television, the Seven Network was the number one free to air network by revenue share, increasing its share 0.4% pts to 38.8% in 1H20.

7NEWS increased its leadership position as Australia's most watched news service in 2019, growing viewing share in every market. Seven's coverage of the most watched Winter and Summer sports in AFL and Cricket continues to be strong, with the AFL audience for the 2019 season increasing by 3 per cent and Test cricket up 12.5%. We are already in discussions with Cricket Australia to review the Big Bash season and product moving forward.

Seven's content led growth strategy will invigorate its entertainment schedule in Q4 of FY20, bringing several well established, and new and exciting franchises to prime time viewing.

Seven's digital offerings continue to rapidly scale, with revenue growth of 58 per cent and EBIT growth of 205 percent in 1H20 compared to the prior corresponding period. In the 2019 calendar year, BVOD consumption on 7plus grew 33 per cent. Revenue growth in the BVOD market accelerated in the July to December period, increasing 42 per cent year on year.

The West launched its paywall in the period which is tracking ahead of expectations, delivered \$7 million of cost savings and completed the integration of Community News Group. Trends in Pacific Magazines remained consistent with prior periods.

The value of Seven West Ventures portfolio grew 27 per cent to \$103 million year on year.

Results

The group delivered revenue of \$772.4 million (excluding share of associates), down 3.2 per cent on the prior period, driven by ongoing weakness in the broader advertising market.

Excluding significant items, total Group costs (including depreciation and amortisation) for the 6 months to 28 December 2019 increased 0.9 per cent to \$653.6 million, with cost savings in The West and Pacific being offset by cost growth attributable to one-off events, investment in Seven Digital, third party productions and the consolidation of 7Beyond and Community News Group.

Excluding the consolidation of 7Beyond, Seven's costs were broadly flat, with The West and Pacific recording cost reductions of 11.0 per cent and 9.0 per cent respectively.

Significant items of \$165.5m before tax related to the impairment of the television license, onerous provisions and impairment of assets against content and other items.

Financial Year Results	Half Year Ended 28 Dec 2019	Half Year Ended 29 Dec 2018
Total Revenue*	\$773.3m	\$798.9m
EBITDA	\$136.6m	\$171.0m
EBIT	\$119.7m	\$151.2m
Underlying NPAT	\$69.3m	\$89.4m
Underlying EPS	4.6 cents	6.0 cents
Final Dividend per Ordinary Share	-	-
Profit (loss) before tax (including significant items)	(\$67.4m)	\$116.8m
Profit (loss) after tax (including significant items)	(\$67.0m)	\$83.4m
Basic EPS	(4.4 cents)	5.6 cents
Diluted EPS	(4.4 cents)	5.6 cents

Reconciliation to statutory results:

Profit before significant items, net finance costs and tax	\$119.7m	\$151.2m
Net finance costs	\$21.5m	\$25.8m
Profit before tax excluding significant items	\$98.2m	\$125.4m
Significant Items	\$165.6m	\$8.6m
Profit/(loss) before income tax	(\$67.4m)	\$116.8m

* Revenue includes share of equity accounted investees and other income

** Prior year figures have been restated for AASB 16 Leases standard

Outlook and priorities

FY20 Trading update and strategic priorities:

- Trading conditions have remained consistent with the first half
- Subject to market conditions and improved ratings, Underlying EBIT expected to be between \$165m to \$175m
- Expect BVOD market to grow over 30% in FY20
- New cost-out program targeting a further \$20m for execution in 2H20 for benefit in FY21
- Closure on Pacific sale
- Strategic reviews of undervalued/surplus assets following inbound enquiries

Seven West Media Managing Director and Chief Executive James Warburton said:

“We will continue to be creative and apply entrepreneurial thinking. My mandate is to dramatically change the business which means transformative M&A opportunities are very much on the agenda.

I believe we have the team, the platform and the strategy to transform and grow this business to increase shareholder value.”

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About Seven West Media

Seven West Media (ASX: SWM) is one of Australia's most prominent media companies, with a market leading presence in content production across broadcast television, publishing and digital.

The company comprises of some of Australia's most renowned media businesses, including the Seven Network and its affiliate channels 7TWO, 7mate, 7flix and BVOD offering 7plus, as well as, The West Australian and The Sunday Times and production powerhouse Seven Studios. Home to iconic brands such as MKR, House Rules, Home and Away, Better Homes and Gardens, Australia's leading news and breakfast programs 7NEWS and Sunrise, Seven West Media is also the broadcast partner of the AFL, Cricket Australia and the Olympics.