



SOUTHERN CROSS AUSTereo
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ASX RELEASE

23 OCTOBER 2018

CHAIRMAN'S AND CEO'S ADDRESSES TO AGM

Southern Cross Media Group Limited (ASX:SXL) will hold its Annual General Meeting of shareholders today at 11:00am at Primus Hotel, Meeting Room 2, Mezzanine Level, 339 Pitt Street, Sydney NSW.

The addresses to be given by the Chairman and the Chief Executive Officer at today's AGM are attached.

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Southern Cross Austereo comprises Southern Cross Media Group Limited and its subsidiaries.

CHAIRMAN'S ADDRESS

Southern Cross Austereo's financial performance in the 2018 financial year fell short of our expectations. Despite this, the group has begun the new financial year in a strong financial position and with positive momentum that we are aiming will return the group to growth in the current financial year.

The group's revenue of \$653 million was 5% down on the prior year and EBITDA of \$154.7 million was 12.8% down on the prior year. These comparisons were affected by the group's disposal during 2017 of its former northern NSW television operations, a deferred tax credit of \$14.8 million recognised in 2017 and reinstatement in 2018 of spectrum licensing fees. On a like-for-like basis, group revenue was 0.6% up and EBITDA was relatively flat.

Shareholders will have seen that we recognised an impairment of \$104.7 million against our regional business unit. This was informed by independent forecasts of ongoing decline in regional television markets. Risks associated with this forecast decline have been mitigated by disposal of our northern NSW TV operations and negotiation of affiliation fees that are variable, as a percentage of revenue under the program supply agreements with the Nine and Seven networks.

Our metro radio performance was disappointing. Although the metro radio market grew by 4% over the year, our metro radio revenue was down 1.8% and EBITDA was down 4%. Major contributing factors were relatively poor ratings results in October through December 2017, and the general underperformance of 2DayFM -and its Breakfast show in particular - in our biggest market of Sydney. Survey results have improved in calendar 2018, which supported a rebound in performance in the final quarter of the financial year and into the new financial year. 2DayFM's ratings and resulting commercial performance continue to lag our expectations, and are the core focus of our content and sales teams.

It should be noted, however, that there were also significant successes in our metro radio operations, including the launch of new national Drive shows on both networks: *Carrie & Tommy* followed by *Hughesy & Kate* on the Hit network and *Kennedy Molloy* on Triple M. These shows have enjoyed both ratings and commercial success around the five metro markets, and on syndication to our regional networks. The emergence during the year of PodcastOne as Australia's leading commercial podcast network was also encouraging.

Another area of success was the performance of our radio and television businesses in regional markets. The reach of our regional operations and the focus on localism within each of our regional markets are key competencies that make us the preferred partner for audiences and advertisers in regional markets. Regional radio revenue grew by 4.5%, driven by a concerted effort to educate national advertisers about the value of investment in regional communities. National revenue for regional radio grew by 15.3%. Regional television revenue grew by 3.6% on a like-for-like basis. This growth reflected improved ratings from Nine programming (including the completed roll-out of Nine's local news services) and an effective premium sales strategy. It is notable that this growth came despite a contraction of 3.4% in regional television markets.

At a corporate level, the balance sheet strengthened with a further reduction by 5.3% in the group's net debt to \$304 million. Net financing costs of \$14.8 million were down 21% on the prior year. This was due, in part, to the group's successful refinancing of its syndicated debt facility through to 2021. The competitive terms of the new facility reflect the banking syndicate's confidence in the resilience of the group's operating cash generation, which was up 8.2 points on the prior year to 94.2%.

For these reasons also, the Board was pleased to maintain dividends of 7.75 cents per share, in line with the prior year.

Before closing, I want to acknowledge the outstanding outcome of this year's Give Me 5 for Kids campaign, which raised a record \$3.6 million. With the group meeting the administrative costs of the campaign, very close to 100% of these funds will be donated to local paediatric wards and children's health organisations throughout regional Australia.

After significant changes since 2015, the Board was stable throughout the year just ended. Leon Pasternak and I will be submitting for re-election at the AGM later this year. Leon has indicated that, if he is re-elected, this will be his last term as a director. The Board continues to value Leon's knowledge and insights gained from his 13 years on the Board and will conduct an orderly process to identify a successor. I encourage shareholders to support his re-election in the meantime.

In closing, I would like to thank all the Company's 2500 employees and contractors, led by Grant Blackley and his senior leadership team, for their efforts during the year. I also thank my fellow directors for their counsel and contribution during the year.

I will now invite Grant Blackley to say a few words.

Peter Bush
Chairman
23 October 2018

CEO'S ADDRESS

Southern Cross Austereo has a unique combination of assets: Australia's largest radio network united under the Hit and Triple M brands, strong partnerships in regional Australia with Australia's leading free-to-air television broadcasters, and a fast-growing premium podcasting network, all supported by highly engaged communities on our digital and social media channels. These assets provide valuable scale and ease of dealing for our advertising clients in brand-safe environments for their products and services.

Over the past three years, we have made substantial changes to strategic, financial, operational and organisational aspects of our business. On 1 July this year, we implemented a new national operating model under which our core business functions of operations, content, sales, finance and corporate affairs, and technology are now aligned nationwide. This will enable us to further improve and streamline processes, communication flows and decision-making.

Also on 1 July, we commenced full representation of Nine's local and national television sales in the northern New South Wales licence area. SCA now sells Nine's television product to local and national clients across the vast majority of regional Australia, providing for improved transparency and efficiency and opportunities for growth.

Most recently, on 26 September, we announced that we will outsource our television playout operation to NPC Media, a joint venture between the Nine and Seven Networks. NPC will provide SCA with playout services for an initial period of seven years, starting in 2020. Our extensive television footprint – broadcasting 105 television signals into regional Australia – means that SCA will be NPC's largest customer. The resulting consolidation of back office functions will enable us to reduce operational costs, and to streamline processes, promote collaboration and increase productivity.

Coupled with the strengthening of our balance sheet, these changes have positioned SCA for a return to growth in the current financial year.

Audio entertainment is at the core of our business. We operate Australia's largest commercial radio networks under the leading Hit and Triple M brands and Australia's leading commercial podcast network, PodcastOne. Consumption in Australia of radio – and audio more generally - continues to grow, and our audiences are listening in ever more diverse ways.

Our investment in developing and growing our digital radio business is now delivering an improving monetisation stream. The scale and simplicity of this "digital stack" strategy provides us with a sustainable competitive advantage. Digital radio is currently available in the mainland state capital cities, and will be extended to Canberra, Hobart and Darwin in 2019.

There is a well-established trend towards listening on mobile devices – phones and tablets – and our apps enable our audiences to enjoy live or catch-up radio and our original podcasts while they're on the go. Similarly, our apps and the commercial radio industry's RadioApp, will make it easy to find our content on in-car software platforms, which are becoming increasingly common in cars on the Australian market. The advent of smart speakers provides a further opportunity to grow and engage audio audiences. Our audio products, including bespoke news updates, are available on new voice-activated platforms (Google Home, Amazon Alexa, Apple HomePod, and Sonos).

Another trend is the growing consumer demand for personalised on-demand audio products. PodcastOne Australia now has over 40 podcasters on its books, each producing original content. By its first birthday in September 2018, PodcastOne Australia had 51 original Australian podcasts, along with 133 original US podcasts, and had recorded over 54 million downloads. This track record and

our unique sales proposition are attracting growing commercial interest from advertisers. Leveraging our storytelling and audio production expertise, we are also exploring opportunities to create branded podcasts with commercial partners. We invested a net \$2.5 million in PodcastOne in the 2018 financial year and expect that this net investment will reduce in the current year and then become profitable. We are also exploring other products to meet the demand for personalised on-demand audio experiences.

We will continue to promote the opportunities in regional Australia. Over 9 million Australians live and work in regional Australia, holding 36% of national buying power. Yet national advertisers invest only 9% of their budgets in regional communities. We have invested considerable resources over the past year to educate national advertisers about the value of investing in regional Australia, with case studies to demonstrate good rates of return on advertising investment. Our reach and localism in regional markets provide a compelling proposition for national advertisers and we achieved growth of 15.3% in national regional radio in fiscal 2018. We are confident that national advertisers will continue to lift their investment in regional Australia and that SCA will earn at least its proportional share of that increased investment.

Next, I'd like to update you on our trading performance for the first quarter and our outlook for the first half.

Group revenue for the September quarter was up 3.5% on the prior year. Radio markets remain positive, with strong growth in investment by national advertisers, reinforcing our strategy to educate national advertisers about regional investment.

Group expenses grew more slowly than revenue, demonstrating the benefits of recent cost saving initiatives, which are outweighing increases in revenue-related costs.

In the year ahead, we will continue our focus on optimising our core audio assets – maximising the value of all our audio brands. We will continue to take advantage of emerging technologies to improve the accessibility of our products and to increase the personalisation of content to our audiences.

In regional markets we will continue to educate national advertisers about the benefits of reaching these large audiences and leverage our national presence across Australia.

We will drive further efficiencies across our operational base, realising the benefits of technological investment in this area.

We will continue to invest in organic growth initiatives to deliver new and improved revenue streams – evidenced by our investments in PodcastOne and digital radio. We will make disciplined investment decisions and will not pursue ventures where there is not a clear and meaningful path to profitability. Our trial in mall media is a case in point where we could not validate the business model to a point where we believed it would generate sufficient earnings in the future and accordingly we terminated the trial so that it did not absorb more capital.

I can assure shareholders that we have a team of talented people dedicated to delivering our strategy. I thank all of our people and the Board for their support during the year and confirm our commitment to achieving positive outcomes for our audiences, clients and shareholders.

Grant Blackley
Chief Executive Officer
23 October 2018