Tiso Blackstar Group

Investor presentation

October 2018

Disclaimer

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Agenda

1. Financials
2. Capital Structure
3. Hirt & Carter Group
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Segmental trading results for the year ended 30 June 2018

	Prior year	Current year	Current year Growth
	30 June 17	30 June 18	30 June 18
	R'millions	R'millions	%
Revenue	**3 781.1**	**3 813.3**	**0.9%**
Hirt & Carter Group	1 733.5	1 911.3	10.3%
Media - Excluding Booksite and STS (2)	1 479.7	1 421.5	(3.9%)
Media - Booksite and STS	112.8	101.5	(10.0%)
Broadcast & Content	441.2	377.5	(14.4%)
Other	13.9	1.5	(89.2%)
EBITDA	**370.7**	**412.4**	**11.2%**
Hirt & Carter Group	253.8	281.0	10.7%
Media - Excluding Booksite and STS (2)	104.8	118.0	12.6%
Media - Booksite and STS	13.7	10.1	(26.3%)
Broadcast & Content	32.0	31.9	(0.3%)
Other	(33.6)	(28.6)	14.9%

0.9%
Revenue
growth in the current year

11.2%
EBITDA
growth in the current year

Normalised income statement for the year ended 30 June 2018

	2017			2018			Normalised
	R'millions Reported	Adjustments	R'millions Normalised	R'millions Reported	Adjustments	R'millions Normalised	% Change
Revenue	**3 781.1**		**3 781.1**	**3 813.3**		**3 813.3**	**0.9%** ↑
Gross profit	1 174.2		1 174.2	1 207.0		1 207.0	**2.8%** ↑
Operating expenditure	(916.3)		(916.3)	(900.8)		(900.8)	**1.7%** ↓
Depreciation, amortisation, impairment, straight line leases	(110.4)	30.3 [1]	(80.1)	(159.6)	67.4 [1]	(92.2)	**(15.2%)** ↑
Other income	69.8	(13.9) [2]	55.8	98.5	(30.0) [2]	68.4	**22.6%** ↑
Other (losses) / gains	42.7	(40.2) [3]	2.5	(11.4)	11.4 [3]	(0.0)	
Net profit	**260.1**		**236.2**	**233.6**		**282.3**	**19.5%** ↑
Net finance costs	(150.5)		(150.5)	(145.6)		(145.6)	**3.3%** ↓
Profit from associates (net of impairment)	(0.3)		(0.3)	9.2	4.4 [3]	13.5	
Net profit before tax	**109.3**		**85.4**	**97.2**		**150.3**	**76.0%** ↑
Taxation	(64.2)		(40.4)	(77.3)	20.3 [4]	(57.0)	
Profit from continuing operations	**45.0**		**45.0**	**20.0**		**93.3**	**107.5%** ↑
Non-controlling interest from continuing operation	4.6		4.6	11.5		11.5	
Profit from continuing operations for equity holders	40.5		40.4	8.4		81.8	
Earnings / (Loss) per share from continuing operations (cents)	**15.3**		**15.3**	**3.2**		**30.9**	**102.3%** ↑
Weighted average number of shares	265 279			265 062			
Normalised tax charge			47.3%			37.9%	

Commentary

- Strong operational performance from the core business
- Normalised growth in revenue (0,9%), EBITDA (11,2%) and operating profit (19,5%)
- Operation expenses reduction of 1,7%
- Finance cost reduction of 3,3%
- Normalised profit after tax of R81.8 million and normalised EPS of 30.9 cents per share

Adjustments

1) Reversal of amortisation of intangibles that arose on deemed acquisition and reversal of non-cash straight lining of leases
2) Reversal of non-cash and non-recurring changes in provisions
3) Reversal of non-recurring capital items including PPE disposals and intangible impairments
4) Estimated normalised tax charge after adjusting for non-deductible expenses and non-deductible interest

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Debt

	2017 R'millions	2018 R'millions	% Change
Acquisition debt			
Debt at centre	442.6	167.4	(62.2%) ⬇
Debt in core business	663.8	833.5	25.6% ⬆
Total	**1 106.5**	**1 000.8**	**(9.5%)** ⬇
Cash (continuing operations)	**29.4**	**108.9**	**269.9%** ⬆
Cash at bank	122.6	394.5	
Overdrafts	(93.2)	(285.6)	
Net Debt	**1 077.0**	**891.9**	**(17.2%)** ⬇

Capex, depreciation and acquisitions

	2017 R'millions	2018 R'millions	% Change
Capex (net of disposals)	106.3	86.9	(18.3%) ⬇
Depreciation	80.1	92.2	15.2% ⬆
Bolt-on acquisitions - BBS (PY Triumph)	50.0	13.9	(72.2%) ⬇

Debt

- 9.5% acquisition debt reduction
- Cash improved by 269.9% to R108.9 million
- Net debt below R891.9 million, down 17.2%

Capex, depreciation and acquisitions

- Capex of R86.9 million
- Depreciation charge of R92.2 million
- Bolt-on acquisition of BBS for R13.9 million, strategic for H&C

269.9%
Cash
growth in the current year

17.2%
Net Debt
improved in the current year

Discontinued operations

	2017 R'millions	2018 R'millions
Loss from discontinued operation	**(60.5)**	**(295.6)**
Impairment and loss on sale of interests & assets	**(20.0)**	**(186.5)**
Loss after tax from trading	(40.5)	(109.2)
Non-cash expenses [1]	(45.8)	(45.8)
Profit / (Loss) before non-cash expenses	**5.3**	**(63.4)**

1. Depreciation, amortisation and straight lining of leases

	2017 R'millions	2018 R'millions
Carrying values	**1 500.0**	**1 401.1**
KTH – Opening balance	1 500.0	1 263.5
Robor (consolidated in the prior year)	-	137.6

	2017 R'millions	2018 R'millions
Guarantees	285.0	170.0
CSI	60.0	10.0
Robor	225.0	160.0

Commentary

- Largely due to an amount of R178.8m in respect of impairment of CSI's tangible assets & goodwill
- Extremely challenging trading conditions - worst in living memory resulting in heavy losses in both Robor and CSI

- 3.61% interest in KTH sold during the year for R197m
- Sale of 3.4% interest in Robor - now treated as an associate. Carried at TBG's share of TNAV

- Guarantees have been significantly reduced - by R115m (40%) against the prior year

40%
Guarantees
reduced in the current year

R197m
KTH value realised
in the current year

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- Consolidation of the Group sales teams into a cohesive unit represents the single biggest opportunity to grow the business with smart cross-selling unlocking opportunities with existing customers.
- The market remains tough and in some instances extremely competitive but opportunities exist for the Group across all divisions.
- The Strategic team has successfully collaborated with key retailers and manufacturers, enabling them to re-invent their stores, categories, and brands within the competitive retail landscape. Our strategic work has begun to generate income and continues to open new doors within these accounts, giving the HC Group increased exposure into the inner workings of their businesses.
- H&C Division core sales grew by 10% driven by growth from both Retailers and Manufacturers.
- Triumph Packaging grew sales by 11%, driven by a mix of core customer growth and cross selling opportunities from the rest of the Group.

Key Highlights

» Cross selling enables further value creation

» Highly competitive market conditions remain prevalent

» Strategic initiatives with key retailers and manufacturers unlocks growth opportunities

» Customer growth and cross selling provide the impetus for revenue growth

- Uniprint Forms sales declined by 10% as the prior year included both the IEC and Zambian election (combined value of R34m) which was only partially offset by the Lesotho election of R7m.
- Uniprint Labels experienced a tough year (sales down 4%). While volumes remained steady, pricing and margin pressure affected the business adversely, particularly in the petroleum sector. The liquidation of Honeydew Dairies affected annual turnover.
- Silo delivered a flat sales year, as Retailers pulled back on their e-commerce projects. This has had a short-term impact on the business and will not affect the long-term strategy.
- H&C Software earnings remained flat as new customers were bedded down and some projects were put on hold by clients.
- BBS delivered a strong year and grew sales by 25%.
- Key sales leadership in both Uniprint Forms, and Uniprint Labels is a priority to ensure a continued, sustainable push to grow the topline.

Key Highlights

» Sales decline at Uniprint Forms and Uniprint Labels

» Silo sales were affected by a pull back on e-commerce projects by retailers

» H&C software earnings remained flat

» BBS provided strong performance

Hirt & Carter Group – Strategic Review and Planning | Leveraging Strengths

CORE STRENGTHS
Profitable sales growth
Strong key customer relationships
Unique range of products and services
Strategic entanglement (protect our core)
Global and local research
Retail understanding
Entrepreneurial management team
Unique software
Silo – only image library in South Africa
Our people

OPPORTUNITIES	ACTION
Continue to grow our Retail footprint	– Focus on retailers that we do not have on board fully
Grow our Software Footprint locally	– Continue to grow our software base in South Africa
Expand our Software Footprint offshore	– Develop a plan to partner internationally to grow offshore capabilities
Utilise our software strengths to deliver platforms for customers who utilise our services	– Provide our DAM software as a brand management platform for customers who utilise our Packaging and Labels businesses
Integration of all business units in Durban into a single location	– Map out the efficiencies and cost savings and ensure we execute
Leverage our print / digital understanding through Hive Connect to offer new solutions to the market	– Deliver relevant solutions using Group resources to provide customers with a compelling value proposition
Begin sourcing raw materials from China	– Visit done, still to operationalise

Hirt & Carter Group – Strategic Review and Planning | Mitigating Risks

CHALLENGES	ACTION
Grow sales in Forms and Labels	– Attract the right sales leadership – Leverage off Group client relationships to cross-sell – Acquisitions in Labels to entrench scale – Longer term plan to move to fulfilment and contractual services
Move to Cornubia	– Ensure the well developed plan is executed and the relevant Management teams are focused on the transition to the new site
Pricing / Margin pressure	– Ensure we run efficient facilities to reduce cost and maintain our margins – Deliver new innovative products using our new technology which attract higher margins
Acquisition funding	– Ensure the core business delivers strong cashflow
Grow the talent pool	– Recruit the right talent where required
Staff retention with relocation	– Showcase the new facility and the opportunities it will deliver for our people – Offer a settling in allowance to mitigate effects of relocation
Access to skills	– Challenge especially in Durban – Plan in place to target the right people / skills

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- Economic conditions remained challenging, impacting reader revenue particularly, but growth initiatives in digital and eventing showed significant progress.
- Media delivered a solid performance, growing operating profit 18% in the year. The growth in profitability is particularly positive given the heavy losses posted by competitors.
- This performance was achieved on the back of better than expected advertising revenue and continued tight cost management.
- The launch of our first digital subscription product BusinessLive has proved a success, with digital subscriptions now representing almost 30% of the Business Media subscriber base. More paywall products will be launched in the new financial year.
- The continued growth in magazine and newspaper supplements and native advertising reflected the benefits of a dedicated team focused on content and revenue innovation.

Key Highlights

» Excellent performance relative to peers

» Quality content remains core differentiator with focused content teams enhancing revenue

» Reader revenue challenged by economy

» Digital subscriptions now core business with new product releases planned

- The closure of the Times newspaper at the end of 2017 resulted in significant cost reductions in printing and production.
- The challenge of increasing distribution costs remains the most pressing for the traditional business, with the Sowetan and Sunday World under particular cost pressure as a result. Management is highly focused on finding cost effective solutions to benefit our titles.
- The industry wide decline in advertising revenue has slowed, while a focus on various digital advertising streams such as Native Advertising, Multimedia and Programmatic helped more than offset the decline in traditional CPM advertising.
- The focus in the coming year will be on innovative growth opportunities, both organic or acquisitive, while obviously keeping tight control of costs in traditional products. The launch of an integrated editorial system allowing for seamless flow between print and digital will create a unique strength for our newsroom as well as create efficiencies in the production process.

Key Highlights

» Times closure yielded cost benefits

» Distribution costs a core focus

» Revenue decline is slowing

» Seamless integration of business units and innovation to drive growth

» Tight cost control in traditional products a continuing area of focus

Media Highlights

19.0% growth in Digital revenue (R8m), driven by income from the paywall and native and multimedia revenues.

59.0% increase in Events revenue (R10m), moving Events into profitability.

14.0% growth in Eastern Cape newspaper earnings.

15.0% growth in profitability by market leader Business Day, due to stabilisation of revenues and continued efficient cost management, while the Financial Mail garnered most of the awards at the prestigious Sanlam Financial Journalism Awards.

9.2% growth in Group digital audience, driven off the back of quality content, and puts Tiso Blackstar firmly in second place in the country's digital publishers.

Unique monthly users

- **1m** Business Live
- **4.4m** Times Live
- **2.2m** Sowetan Live
- **200k** Times Select

Other Media Highlights

- Magazines continue to perform well, both as standalone products and as newspaper-inserted supplements.
- The replacement of the Times newspaper with our new digital product, Times Select, has significantly reduced costs and had good market response so far.
- The new Times Select site has already delivered over 200,000 unique users a month.

Media – Strategic Review and Planning | Leveraging Strengths

CORE STRENGTHS
Market leading positions in newspapers
Powerful brands with a long history of quality and trust
Excellent positioning in business media market ✓ BD, FM, BusinessLive and BDTV
Strong digital development and product team
Maintaining profitability in a market where competitors are losing money and market share
Top editorial talent and voices which help set the national agenda against a backdrop of aggregation strategies of competitors
Skilled and multi-disciplinary management team

OPPORTUNITIES	ACTION
Grow digital reader revenue	– Implement TimesSelect paywall and Eastern Cape digital subscriptions modelled on BusinessLive success
Develop alternative revenues in Native advertising, Events and Supplements	– Consolidate Native advertising team, build on Events 2018 success and launch new supplements such as Active
Acquisition opportunities in Digital and Events	– Focus on acquisition targets related especially to business media to deepen strength in vertical
Take control of Distribution Network	– Develop capacity to own or control distribution network and reduce reliance on Allied JV structure
Grow digital audience exponentially	– Develop breaking news capacity through new systems, products and increased content output
Unique ability to deliver content and advertising across products and platforms	– Develop solution sales approach for Print, Digital, TV, Events and Radio. Consider radio expansion
Deepen efficiencies through introduction of new Cosmos / GN4 editorial system	– New system will remove need for duplicated editing effort, resulting in savings and free up talent for reporting
Leverage strong magazine team to grow revenues in current products and consider bolt-on acquisition opportunities	– Unique products such as Homeowner and Mims have multiple extension opportunities. Consider targeted acquisitions in relevant verticals

Media – Strategic Review and Planning | Mitigating Risks

CHALLENGES	ACTION
Continued weak economic activity undermines advertising and circulation	– Media highly leveraged to economic cycle, so any upturn will impact positively
Rising cost of distribution	– Focus on de-risking from legacy distribution structures such as Allied. Shift to industry consolidation and control of route to market
Industry-wide decline in traditional newspaper adspend	– Ensure number 1 position in mature markets to increase market share and ensure sustainability – Develop innovative revenues supported by traditional brands such as Events, Supplements, Magazines and TV assets
Shift to digital by consumers	– Develop both subscription and free-to-air products to cater to digital audience and build new revenue streams
Skills challenge with few experienced commercial media executives	– Retain key talent, develop skills base internally and invest in top talent
Reliance on government advertising in a continued fraught political environment and media's strong editorial independence positioning	– Market editorial independence and integrity as a core value that sustains democracy and remain engaged with all stakeholders
Topline growth challenged by all these factors	– Organic focus on revenue and costs but also acquisitive opportunities to complement existing products and diversify revenues

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Broadcast & Content Highlights

Empire Entertainment sign deal to represent MGM, invests directly in three local and international films – Inxeba (The Wound), Singeholic and Kings of Mulberry Street.

Gallo Music grows catalogue through acquisition and develops increasing frontline presence.

Radio Stations Vuma and Rise show good audience growth and reduce losses by 20%.

Blackstar TV channels grew EBITDA 19% despite tough advertising conditions.

Overall performance delivered a 17% rise in EBITDA in spite of a 9% fall in revenue amid strong cost management and margin improvement in Content businesses.

Broadcast & Content

- EBITDA for the combined Broadcast and Content was flat for the year. The division, whose revenues were impacted by tough economic and market conditions, made significant strategic progress in various areas.
- Films business Empire Entertainment was appointed to represent Metro-Goldwyn-Mayer (MGM) in addition to Warner Bros and 20th Century Fox. Its independent films unit remains a market leader, and showed strong growth in the rest of Africa off the back of increasing film attendance, especially in Nigeria.
- The business continues to diversify by investing directly in local films through Indigenous Film Distribution, including the internationally acclaimed Inxeba among others.
- Gallo Music continued to develop its frontline offering signing Nathi Mankayi, as well as acquiring new catalogue in the form of CoolSpot to complement its acquisition of Bula Music in 2014.

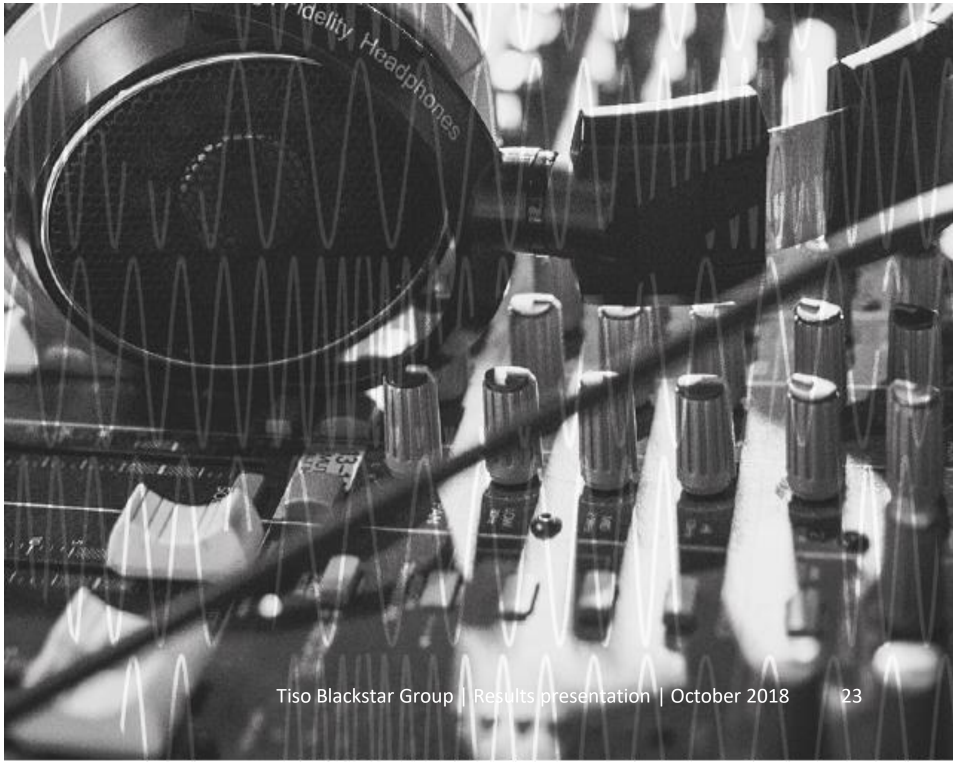
Key Highlights

» EBITDA growth despite adverse market conditions

» Empire Entertainment continues to entrench its market leading position in independent films

» Increased film attendance strengthens position in rest of Africa

» Diversification through local films spurs revenue and earnings growth



- The music industry remains in transition with the shift to digital, but Gallo is well positioned for the anticipated growth in revenues from subscription streaming services such as Spotify. Full year performance was impacted by the shift to consignment for physical products at Musica, but overall Gallo continues to trade profitably.
- TV channels business, Blackstar TV, was impacted by negative advertising trends in the industry, with revenue down 3% but EBITDA was 19% higher. Television Production business Ochre had a softer year due to limited new commissioning from free to air channels, although it is well positioned with a solid pipeline.
- Radio stations, Rise and Vuma, both continued to improve, growing revenues and reducing losses, Vuma has trebled its audience over the past year due to a new programming and music strategy, while Rise has shown solid growth. Vuma and Rise reduced losses by 21% and 22% respectively.

Key Highlights

» Gallo well positioned to extract value from the transition to digital

» TV channels business performed well in spite of negative advertising trends

» Radio stations continued to scale audience and exhibited solid growth, reducing losses

Radio Assets

	Prior years			Current	2016 Growth	2017 Growth	Current year Growth
	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-16	30-Jun-17	30-Jun-18
	R'millions	R'millions	R'millions	R'millions	%	%	%
Revenue							
Radio Assets	**10.7**	**11.3**	**14.8**	**19.6**	**6.07%**	**31.02%**	**32.17%**
Rise	4.3	5.8	8.1	11.2	33.68%	41.20%	37.53%
Vuma	6.4	5.6	6.7	8.4	-12.61%	20.48%	25.67%
Gross Profit							
Radio Assets	**8.8**	**8.4**	**11.1**	**15.4**	**-4.54%**	**31.97%**	**38.49%**
Rise	3.6	4.4	6.1	8.8	23.01%	39.64%	43.99%
Vuma	5.3	4.1	5	6.6	-23.08%	23.70%	31.82%
EBITDA (normalised)							
Radio Assets	**-25**	**-20.6**	**-17.4**	**-11**	**17.38%**	**15.91%**	**36.79%**
Rise	-12	-9.2	-7.6	-4.7	23.40%	17.60%	38.21%
Vuma	-13	-11.5	-9.8	-6.3	11.83%	14.57%	35.69%

32.17%
Radio Revenue
growth in the current year

38.49%
Radio Gross Profit
growth in the current year

36.79%
Radio EBITDA (normalised)
growth in the current year

Broadcast & Content – Strategic Review and Planning | Leveraging Strengths

CORE STRENGTHS

- Largest independent film distributor in Africa, and strong major studio representation in Warner, Fox and MGM
- Strong TV channels management ability and excellent infrastructure
- Largest independent music catalogue in Africa
- TV Production business Ochre well respected and positioned in quality drama market
- Encouraging radio audience growth at Vuma and Rise
- Quality and experienced divisional executives

OPPORTUNITIES	ACTION
Grow advertising reach across platforms and leverage off Events and brand extensions	– Greater reach across radio and TV would reduce print reliance and deliver significant opportunity to market group initiatives such as events
Develop TV business through organic and acquisitive growth	– Consider local DSTV channels for acquisition, develop news channel for DSTV if awarded, and build offerings for other potential broadcasters
Development of film business through owned content	– Continue selected investment in film slate focused on successful local genres and Africa / International co-productions
Growing VOD markets	– Development of content for VOD platforms remains early stage but offers a medium term growth opportunity
Grow music through catalogue acquisition and frontline development	– Identify catalogues for acquisition and position Gallo as Africa's major music catalogue
Increase radio revenues	– Leverage off strong audience growth, good programming to deliver revenue growth and achieve breakeven position
Maximise Airport advertising revenues	– Certainty from ACSA that sites available to 2020 allows for a longer sales cycle and increased utilisation. Consider other outdoor opportunities

Broadcast & Content – Strategic Review and Planning | Mitigating Risks

CHALLENGES	ACTION
Topline impact of continued weak economic activity	– Cost focus and development of content pipeline in TV, Film and Music
Films business pressured by declining theatrical attendances, shift in TV viewing patterns to VOD	– Content genre focus shift to targeted films, investment in owned films and growth in other African markets
Music market remains in transition in shift from physical to digital downloads to streaming	– Develop catalogue reach through improved marketing and targeted acquisitions – Improve frontline offering – Tighten cost management as higher margin digital revenues grow
TV channels business subject to weak advertising market trends	– Highly leveraged to economic cycle, so any upturn will impact positively
TV production business reliance on TV commissioning in a weak economy	– Continued focus on quality pipeline, development of owned product and international co-productions
Loss-making Radio assets	– Grow audience and continue revenue growth initiatives to maintain significant positive trend
Airport advertising presence set to end 2020	– Grow advertising presence prior to end of contract, although ACSA appears unsure of a way forward in 2020. Consider other outdoor opportunities

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Ghana

- Multimedia Ghana (32,3% owned) has in the past 18 months shown significant improvement after a period of macro-economic instability and investment in its TV platform.
- A stronger, more stable economy and a turnaround to profitability in TV helped deliver strong 2017 results. The first half of 2018 has been lagging due to a softer performance from the more mature radio business. But both TV and Radio are profitable and Multi remains the largest radio and TV broadcaster in the country.
- No dividends were earned during the period.

Kenya

- Kenyan business Radio Africa (49% owned) has underperformed in the past two years, driven by weakness in the radio market, investment in TV, and politically driven economic instability.
- Although the long term view remains positive for the company, market volatility and continued economic instability are likely to hamper performance in the short to medium term.
- The company relies on radio for its profitability, it continues to command significant shore of voice but a highly competitive and soft advertising market has put pressure on revenue.
- No dividends were earned during the year.

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TBG – Strategic Review and Planning | Leveraging Strengths

CORE STRENGTHS	OPPORTUNITIES	ACTION
Entrepreneurial management and culture with industry understanding	**Enhance flexibility to allow quick adaption to changing market dynamics**	– Implement mechanisms across all business to constantly monitor operating and strategic dynamics
Market leading businesses in undervalued sectors	**Capability to grow earnings and cash flow in challenging environments provides a competitive advantage and market share opportunities as industry players suffer / cut-back**	– Continue to budget and incentivise growth despite challenging operating environment – resist overly conservative approach to avoid market share / revenue loss
Diversified media business attracting marketing revenue across platforms and regions, capturing above and below the line spend	**Further revenue mining and investment in existing platforms and potential to acquire / develop additional or bolt-on platforms to expand the revenue pool**	– Actively involved in looking at new opportunities to bolt-on investments or large strategic acquisitions / restructure
Client and audience focused with established content production capabilities yielding economies of scale without quality loss	**Our DNA is to exceed our client expectations and inform and entertain our audiences which can be monetised across multiple platforms**	– Knowledge retention is a core operational strategy with further compounding and integration of existing content, skills and knowledge

TBG – Strategic Review and Planning | Mitigating Risks

CHALLENGES	ACTION
Investment case and performance has been confused by non-core investments	– Asset sales progress on KTH, CSI and Robor – Discontinued operations accounting cleans up financial statements – Careful stewardship of non-core businesses and value realisation through the sale process
Debt and no dividend	– Non-core disposals will lower debt considerably – Focus on cash generation and debt reduction or cash producing acquisitions – Plan to return to dividend payments once HO debt is extinguished
Portfolio earnings mix	– Diversify revenue streams through strategic acquisitions – Drive operational plans within the businesses to diversify regionally and across platforms – Seek higher yield and cash conversion through selective focus on revenue streams
Challenging economy and environment	– Manage costs so business is lean and seek consolidation where possible – Manage cash flow through improved terms adjustments with suppliers – Leverage strong brands to gain market share while competitors struggle

Thank you