

Ten Network Holdings Limited



# FY 2011 Annual Results Presentation

Ten - Now Positioned to Compete

27 October 2011

Lachlan Murdoch – Interim CEO

Paul Anderson – Group CFO

- TEN has spent the last eight months getting its house in order: reducing the cost base, reshaping ONE and creating a competitive News strategy
- Benefits of getting house in order – minimal impact in FY 2011
- TEN's FY 2011 financial results are in line with expectations. A dividend of 5.25cps (fully franked) will be paid in November
- The fundamental changes to the business undertaken as a result of the Operational & Strategic Review have positioned TEN to better compete in FY 2012

# Financial results for FY2011



## Ten Network Holdings Ltd

| FY2011 Divisional Results      | 2011           | 2010         | Fav / (Unf)    |
|--------------------------------|----------------|--------------|----------------|
| <b>OPERATING REVENUE</b>       |                |              |                |
| Television                     | 851.8          | 833.4        | 2.2%           |
| Out of Home                    | 148.5          | 158.1        | (6.1%)         |
| <b>Total Operating Revenue</b> | <b>1,000.3</b> | <b>991.5</b> | <b>1.0%</b>    |
|                                |                |              |                |
| <b>EXPENSES<sup>1</sup></b>    |                |              |                |
| Television                     | 697.7          | 640.3        | (9.0%)         |
| Out of Home                    | 130.1          | 143.1        | 9.1%           |
| <b>Total Expenses</b>          | <b>827.8</b>   | <b>783.4</b> | <b>(5.7%)</b>  |
|                                |                |              |                |
| <b>EBITDA<sup>1</sup></b>      |                |              |                |
| Television                     | 154.1          | 193.1        | (20.2%)        |
| Out of Home <sup>2</sup>       | 18.4           | 15.0         | 22.7%          |
| <b>Total EBITDA</b>            | <b>172.5</b>   | <b>208.1</b> | <b>(17.1%)</b> |

<sup>1</sup> Before Non Recurring Items (NRI's) of \$85.4m

<sup>2</sup> Cash EBITDA of \$3.2m for FY 2011

# The company is now positioned to compete



## Financial Underperformance

**2007 – Feb 2011**

Inadequate focus on shareholder returns

Cost growth of +16% from FY09-FY11

News strategy inconsistent with TEN brand

Excellent programming of TEN successful launch of ELEVEN, ONE was underperforming

Sales team unable to pursue cross-platform opportunities

'No-growth' aspiration

## Refocus

**23 Feb – September 2011**

Operating & strategic review implemented:

- Costs
- News
- ONE

Sales restructure to focus on client needs

Leadership team rebuilding

## Outperform

**From September 2011**

Programming investment in excellence

Priority to maximise revenue

- Integrated sales
- 3-channel sales
- Partnership sales 'Ten Connect'

High-performing Leadership team

Winning culture

# Right-sizing the cost base



## Cost Strategy - Television

### Cost reduction decisions implemented

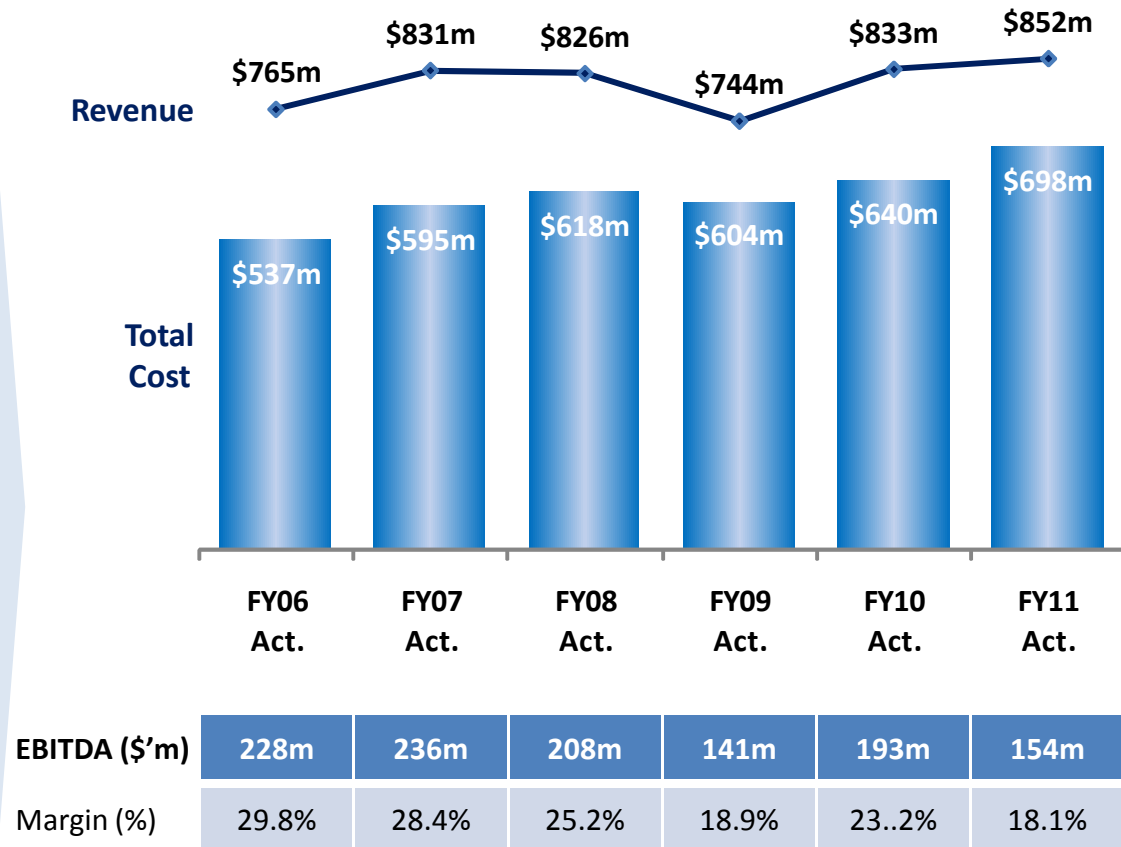
- Streamline back-of-house (IT, Engineering and Operations)
- Spend programming money where it has the biggest impact
- 12% reduction in staff headcount

### Re-invest savings in Programming and Sales

- Eliminating low-rating News programs and invest in Breakfast
- Ten's largest ever investment in Australian production
- Introduction of male skewed General Entertainment on ONE
- Creation of Ten Connect

### Ensure on-going cost discipline

- Establish commercial contract review process
- Re-state delegated authority policy
- Introduction of new Management Reporting framework, including weekly reporting
- FY2012 costs to be in line with FY2011



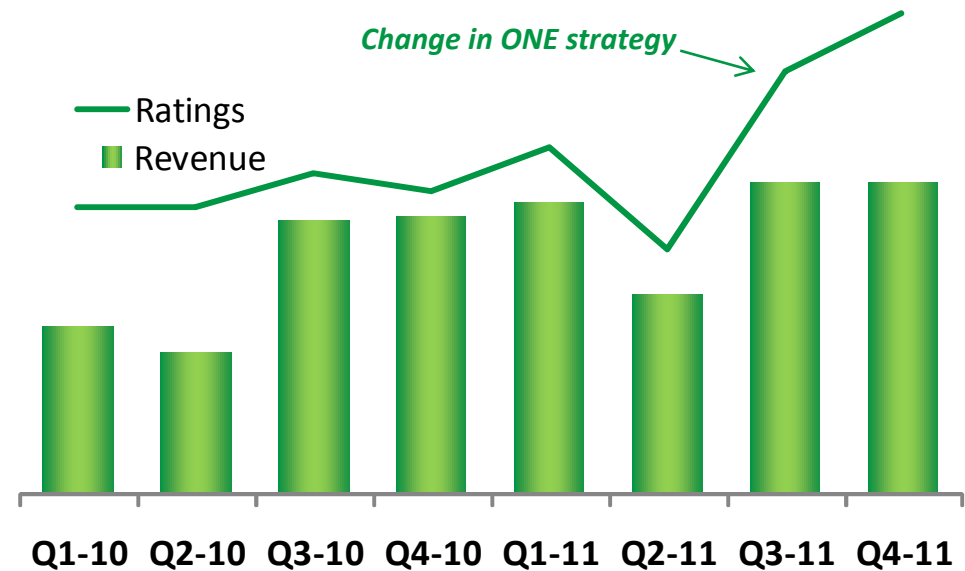
# Getting the ONE house in order



## ONE Strategy

- Change of ONE strategy in Q3-11
- Men 25-54
- Targeted 2.5%+ all people share – achieving 2.7% since 8<sup>th</sup> May
- Utilise existing library content
- Invest in shows such as RPM (Motor Racing) and Before the Game (NRL, AFL) to support clients
- Independent Sport Contract Assessment commissioned. Onerous contract provisions made in the FY 2011 accounts.

## ONE's Average Ratings & Average Gross Revenues



## News & Current Affairs Strategy

- Do News in a way that appeals to TEN's 18-49 demographic
- Focus resources on competing in the mornings and early evenings
- Appointment of Anthony Flannery as Head of News & Current Affairs to lead reinvigorated creative approach

## Changes to News & Current Affairs

- Increase in weekly hours
- Re-focus of resources to target higher rating and revenue generating day parts
- Redeployed resources from Negus, 6am bulletin, 9am bulletin and late night news to Breakfast

## News & Current Affairs Focus for FY 2012

- Breakfast – three hours from 2012
- 5pm News bulletins
- The Project – one hour from Nov 2011
- Sunday morning 'opinion shows'

# TEN's multi-platform strategy



18 – 49

Big entertaining productions & major franchises  
Major US & Australian initiatives and Event TV  
Long-term supply deals

**SAMPLE BRAND-DEFINING SHOWS**

- MasterChef Australia
- YTT (Young Talent Time)
- Offspring
- The Project
- Terra Nova
- Talkin' 'Bout Your Generation

**DIGITAL PORTFOLIO**

ten.com.au, Catch-up TV, apps



Distinctly Male, 25 – 54

Premium sport, premium HD factual, HD movies  
MON-FRI – GE CONTENT  
SAT-SUN – PREMIUM SPORT

**SAMPLE BRAND-DEFINING SHOWS**

- F1
- RPM / Before the Game
- An Idiot Abroad
- Sons of Anarchy
- Ice Road Truckers
- Cops

**DIGITAL PORTFOLIO**

onehd.com.au, apps



Distinctly Young, 13 – 29

Premium drama, premium comedy, premium animation  
Joint venture with CBS/long-term supply deals  
Themed nights and hostings to create consumer and client benefits

**SAMPLE BRAND-DEFINING SHOWS**

- Neighbours
- The Simpsons
- Dexter
- Supernatural
- So You Think You Can Dance
- Couchtime

**DIGITAL PORTFOLIO**

eleven.com.au, Catch-up TV, apps



Premium inventory in quality environments

- EYE Fly
- EYE Shop
- EYE Drive
- EYE Study

Fast growing media sector

Operations established in:  
Australia /New Zealand – leader in malls and airports  
USA – #1 mall media operator  
UK – 40% of UK flyer market  
Indonesia




**DIGITAL PORTFOLIO**

Digital display technology for indoor/outdoor

**TEN CONNECT - CROSS PLATFORM SALES & INTEGRATION**

# TEN's multi-channel strategy is now successful



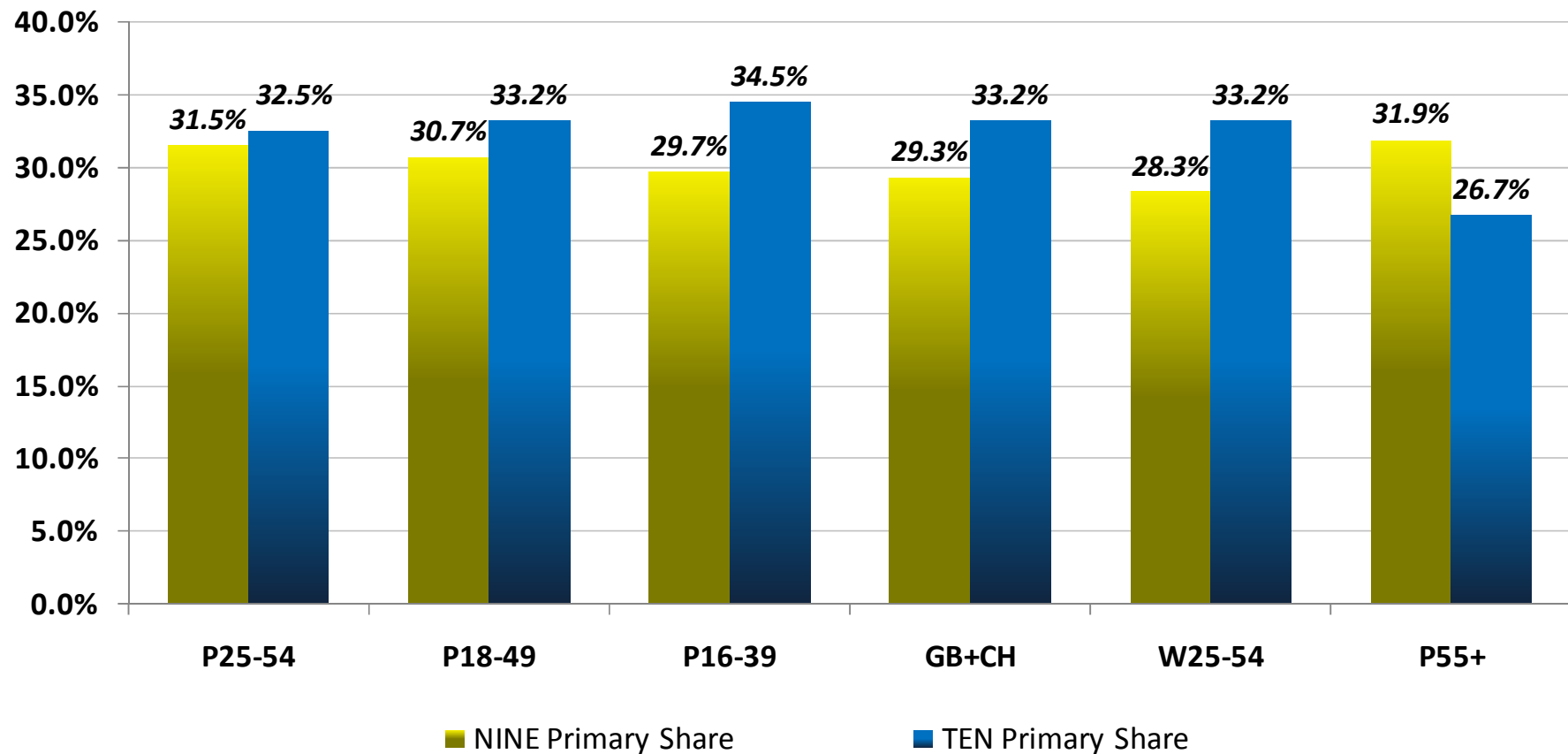
|   | CYTD10  | CYTD11  | Change |
|---|---------|---------|--------|
|    | 493,000 | 517,000 | +4.9%  |
|    | 552,000 | 522,000 | -5.4%  |
|  | 502,000 | 569,000 | +13.4% |

Source: OzTAM | 5 City Metro | Consolidated Ratings | Network Totals | Total Average Audience | P18-49 | Weeks 7-42 | Zone 1

# TEN's primary channel superior to NINE's



Primary Channel Commercial FTA Share (2011 YTD): 19:00-22:30



Source: OzTAM | 5 City Metro | Consolidated Ratings | Primary Channel Station Share (TEN, NINE, SEVEN) Commercial FTA | 19:00 – 22:30 | Weeks 7-42

# TEN's investment in new Australian shows



## New Australian shows in 2012

- Young Talent Time
- Breakfast
- It's a Knockout
- Puberty Blues
- Bikie Wars
- Reef Doctors
- Underground: The Julian Assange Story

## Returning Australian shows in 2012

- MasterChef
- Offspring
- The Project
- Biggest Loser
- Bondi Vet & Bondi Rescue
- Neighbours
- Talkin' 'Bout Your Generation

TEN's largest ever  
investment in  
Australian production  
(50%+ of total  
programming budget)

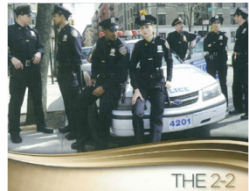
# TEN's US Studio deals are delivering the best shows in years



## CBS

**The 2.2:** From the studios of Robert De Niro

**A Gifted Man:** Timeslot winner for CBS



### Returning Series:

**NCIS: Series 9**      **Dr Phil & Judge Judy**

**The Good Wife: Series 3**      **Dexter: Series 5**

**Hawaii Five-O: Series 2**      **Nurse Jackie: Series 4**



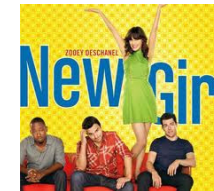
## FOX

**Terra Nova:** Highest launched US drama in Australia in 2011

**New Girl:** Highest rating Autumn sitcom debut in 10 years in the US

**Homeland:** Best cable launch since 2003

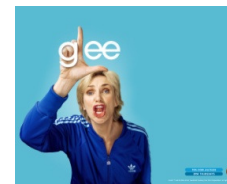
**Touch:** From the creators of "Heroes"



### Returning Series:

**Glee: Series 3**      **Sons of Anarchy Series 3**

**Modern Family: Series 3**      **Simpsons: Series 23**



## The Opportunity

- Weekday mornings (6am - 9am) represents a estimated \$100m revenue market for commercial FTA
- TEN currently generates revenues of \$3m per year between 6am – 9am

## Breakfast Proposition

- Opportunity for differentiated News product that fits the TEN brand
- Integration opportunities for clients
- Promotional opportunities for TEN's other shows
- Breakfast is a long term strategy which can deliver both short term and long term market share gains

- Out-of-home sector continues to show growth
- Divested non core Adval and exited Singapore operations in FY 2011
- FY 2011 results from continuing operations:
  - Revenues up +10.4%
  - EBITDA up +20.0%
- Cost review completed:
  - 10% reduction in headcount
  - Restructure of Sales teams & Head Office
- Key contract wins and renewals: Glebe Island Silo's | Melbourne Airport | Lend Lease Malls
- Integration of additional 60 Simon malls in the US in January 2011

# TEN is now well positioned to compete



Best programming in years

Sales team that has a licence to innovate

Clear brand proposition

Three channels working in tandem

Cross media sales platform

Commercial rigour and discipline

Revitalised management team



Ten will be a force to be reckoned with in the market in 2012

ter

**Group Chief Financial Officer**  
**Paul Anderson**

# Financial results – Key points



- **FY2011 Group EBITDA of \$172.5m**
  - Slightly above previous market guidance (15 August 2011) of \$171m
  
- **Restructure charges of \$85.4m included at FY 2011**
  - One off in nature
  - Market guidance (15 August 2011) of \$46.1m
  - Additional \$39.3m costs relate to onerous sports contracts
  
- Accounting policy change – program rights
  
- **Dividend**
  - Paying fully franked final dividend for full FY2011 of 5.25cps

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| Depreciation  | 24.1         | 27.7         |                    |
| Amortisation  | 1.5          | 1.5          |                    |
| <b>EBIT</b>   | <b>146.9</b> | <b>178.9</b> | <b>(17.9%)</b>     |
| Net Interest Expense  | 33.5         | 37.4         |                    |
| <b>PROFIT BEFORE TAX &amp; NRI</b>                                    | <b>113.4</b> | <b>141.5</b> | <b>(19.8%)</b>     |
| Non Recurring Items   | (85.4)       | -            |                    |
| <b>PROFIT BEFORE TAX</b>  | <b>27.9</b>  | <b>141.5</b> |                    |
| Tax Expense - Normal  | (35.8)       | (44.6)       |                    |
| <i>Prima facie tax rate</i>   | 31.6%        | 31.5%        |                    |
| Tax effect of NRI's   | 25.5         | 53.2         |                    |
| <b>PROFIT AFTER TAX</b>   | <b>17.7</b>  | <b>150.0</b> |                    |
| Non-controlling interest  | 3.5          | -            |                    |
| <b>NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS</b>                   | <b>14.2</b>  | <b>150.0</b> |                    |
| <b><i>Underlying Net Profit After Tax Attributable to Members</i></b> | <b>74.1</b>  | <b>96.9</b>  | <b>(23.5%)</b>     |

# Non recurring restructure costs – FY 2011



- Total FY 2011 non recurring restructure costs of \$85.4m comprises:
  - \$55.7m onerous sports contracts
  - \$29.7m other restructure charges (primarily relates to redundancy charge)

## Onerous Sports Contracts

- A Strategic & Operational Review of ONE commenced in February 2011
- The Review included commissioning an Independent Sport Contract Assessment
- Mitigation strategies to minimise future losses included discussions with rights holders and other broadcasters
- Provision for onerous contracts of \$55.7m recommended to the Board

- **Operating cash flows of \$96.5m a decrease of 8.7% on FY2010**
  
- **Capital expenditure guidance**
  - FY 2011 capital expenditure of \$34.2m
  - FY 2012 capital expenditure of \$24.9m
  
- **Finance costs of \$36.5m includes \$3.0m of non-cash cost**
  - Non cash cost mainly related to the unwinding of the onerous contracts provision
  - Bank interest and treasury costs per cash flow of \$33.5m
  
- **Eye Corp**
  - Onerous contracts provision of \$31.5m at August 2011 (August 2010 -\$46.9m)
  - Actual cash EBITDA of \$3.2m for FY2011

# Strong financial foundation



- **Net Debt of \$415.9m at August 2011** (Aug 2010: \$357m)
  - Drawn Debt of \$435m offset by Cash of \$19.1m
  
- **Total debt facilities of \$710m**
  
- **\$350m Three Year Syndicated Facility**
  - Due February 2014
  - Syndicate Banks : Westpac / ANZ / NAB / CBA and JP Morgan
  - *Debt Service Ratio* (Drawn Debt is less than 4.0 times EBITDA)
  - *Interest Cover Ratio* (EBITDA exceeds 3.0 times Net Interest Expense)
  
- **Complements existing Private Placement (fully drawn) funding**
  - \$125m USD (\$210m AUD) US Private Placement due March 2013
  - \$150m AUD US Private Placement due December 2015
  
- **Debt Interest Cost of 6.7% pa (all-in cost)**
  
- **Covenant performance:**
  - Debt Service Ratio: Aug 2011 at 2.52 times
  - Interest Cover Ratio: Aug 2011 at 5.92 times

# Questions