

Quarterly Investment Insight – April 2022**Here, There & *Absolutely* Everywhere**

Operating one of Australia's largest radio broadcasters, **Here, There & Everywhere** ('**HT&E**') holds radio, outdoor and digital assets across Australia. Its metropolitan radio business, Australian Radio Network ('ARN'), showcases household names we all know from our morning commutes, like Kyle & Jackie O (KIIS 106.5), Jonesy & Amanda (WSFM) and Christian O'Connell (Gold 104.3). With a focus on driving further value from its metro based radio business, **HT&E** recently divested several non-core assets and completed a transformational acquisition of regional broadcaster, Grant Broadcasters. This has cemented **HT&E**'s national footprint, providing access to new markets via both digital and traditional platforms. Ultimately, the combined network creates a step-change in scale and capability, making **HT&E** extremely well positioned to compete with other national radio participants. Post this deal **HT&E** continues to operate a small Hong Kong outdoor advertising company, Cody, and maintains a 25% shareholding in communications platform operator, Soprano.



As the number 1 rated metro network in Australia, **HT&E**'s ARN business clocks weekly listeners of around 5.4m. Post-covid activity has seen the radio advertising market perform strongly, with the January 2022 metro market already up 5% over last year. **HT&E** is more than just a covid recovery play; the radio industry remains well placed to continue to garner a strong share of national advertising spend. Radio will always have a place in advertising as it provides

a form of call-to-action messaging which other mediums simply cannot – *'Are you on your drive home with nothing ready for family dinner? You need McDonalds. Right now'*. This form of advertising works particularly well in sectors like hospitality, retail and travel, all of which we expect to have strong activity levels as life returns to normal. We also expect

a boost in political advertising from the upcoming Federal Election. The Celeste process looks to assess an industry's ability to grow. Expanding industries allow sector participants the opportunity to grow, by maintaining share or by winning new business at the expense of their competitors. We think ARN post-deal will see significant revenue share wins and these will be very supportive of ongoing strong revenue growth.

Radio operations tend to be capital light, and as such, they provide steady strong cash flows. **HT&E** has a strong balance sheet, historically running a net cash position. This flexibility enabled the company to weather any short-term volatility while continuing to maintain a healthy dividend payout ratio that sits between 60 to 80%. As mentioned, more recently, **HT&E** had strengthened its balance sheet through several divestments, and the resolution of a long-standing ATO dispute in October 2021. It divested a 4.2% stake in oOh! Media for \$49m (\$31m profit) as well as a partial divestment of Luxury Escapes for \$14m. It was balance sheet conservatism, targeted non-core asset sales as well as the ATO settlement that allowed **HT&E** the opportunity to unlock the value in their core radio business by acquiring Grant Broadcasters for \$308m early this year.

HT&E took control of Grant Broadcasters in January 2022, with integration expected to complete by October 2022. Founded in 1942, the formerly family-owned Grant Broadcasters is a family-regional radio broadcaster which has expanded through both



organic growth and acquisitions. It is the leading provider of regional radio in Australia, spanning 26 markets via its network of 46 stations. The acquisition unlocks new growth markets and audiences for **HT&E**, providing access to the lucrative regional market through an existing high-quality operator. Regional Australia is a significant market for advertisers, with almost a quarter of a million people migrating to regional areas over the past year. Eight in ten of the Australia's fastest growing centres are in regional markets,

while regional audiences spend on average \$364 per year more on groceries than their metro counterparts. Regional radio also has potential audience reach of 36% of the population and this figure is growing – a trend only further accelerated by COVID.

So what does this mean for **HT&E**? The combined network creates a national footprint, with a total of 58 stations across 33 markets delivering digitally-enabled commercial solutions at the scale advertisers seek. In essence, **HT&E** will be able to provide advertisers with the ability to target audiences across the city and the country with a single spend. **HT&E** will be able to leverage radio talent with additional content in regional Australia while pollinating back strong regional talent. A bigger company with bigger opportunities is also expected to attract and retain high quality employees. We expect the 'heritage radio brands' and their reach will attract additional advertising revenues and this will unlock significant revenue synergies. These are expected to be \$7m in FY22, and some \$20m by FY24.

Regional radio markets have typically shown greater resilience in revenues than metro markets have, so joining the businesses should produce less volatility through an economic cycle. Regional radio also tends to



connect with audiences in a different way to metro. Regional has a big focus on live and local content around the communities which it serves. It will also provide **HT&E** the opportunity to roll out its digital offering in regional locations via the iHeartRadio platform, to build digital audio audiences. Importantly, the acquisition of Grants is EPS accretive and will deliver strong underlying cashflows to shareholders.

So why own great radio assets even if streaming and podcasts will eventually kill them? Demand for podcast consumption continues to grow rapidly, as well as demand for live radio streaming on digital platforms. **HT&E** provides digital radio streaming via the iHeartRadio platform and creates original content via its iHeart Podcast Network. It is the number 1 podcast publisher, with 4.75m monthly listeners. In FY21, **HT&E** grew digital revenues by more than 100% on the prior year. In March 2022, it launched the Edge – a youth-focused digital offering that targets the highly lucrative 15-to-29 year old

demographic (*think: Triple J*). **HT&E** is investing for the future of digital, with all digital revenues being re-invested via its Digital Audio Investment Program. This is key, as the importance of digital will only increase going forward. It is with this unique asset set: broadcast radio, digital broadcast and streaming, that **HT&E** is well placed to deliver the advertising message to their audiences, irrespective of how they consume their content. That is why the Grant deal was so valuable – it added the final piece of the national broadcast coverage.

There remains two non-core assets left inside **HT&E**, with the jewel in the non-core cupboard being a 25% stake in Soprano. Soprano is a communications platform used by enterprises to access various mediums such as email and SMS, and was originally acquired in 1999 to provide **HT&E** exposure to mobile commerce. Though less relevant now as **HT&E** shifts its focus to the underlying radio business, Soprano remains a high growth, highly valued company. In early 2021 **HT&E** received and accepted an offer for Soprano from Link Mobility Group for an implied exit price of \$139m. While this deal wasn't ultimately consummated it did highlight the latent value of the stake. **HT&E** management are keen to ensure that this value is realised in the short to medium term with the stake expected to end up being owned by a company that is likely to be able to better assist Soprano to achieve its global growth aspirations.

As a high-quality national radio broadcast, streaming and digital operator, **HT&E** looks likely to deliver a growing stream of earnings and cash flows. We continue to think that high quality businesses that have these characteristics will always be valued in a portfolio diversity context. We think these cash flows are undervalued by the market, not least the high dividend yield with accompanying franking credits. We expect that accessing consumers ears via radio, streaming or podcasts will always have a place in media advertising as call-to-action – with such diverse assets and a national presence we expect the **HT&E** to thrive in a post-covid environment and beyond.

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