Transcript

Station:	**CONFERENCE UNIT**	Date:	**22/02/2017**
Program:	**MARKET ANNOUNCEMENT**	Time:	**08:30 AM**
Compere:		Summary ID:	
Item:	**ISENTIA FY17 H1 RESULTS CONFERENCE CALL.**		

Audience:	Male 16+	Female 16+	All people

UNIDENTIFIED SPEAKER: Thank you for standing by and welcome to the Isentia FY17 H1 results conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone key pad.

I would now like to hand the conference over to Mr John Croll, CEO. Please go ahead.

JOHN CROLL: Good morning and thank you for joining us for the presentation of Isentia's FY17 first half results. With me on the call is Nimesh Shah, Isentia's CFO.

I would also like to thank you for joining us at short notice. In finalising the first half results, we have reviewed the full FY17 outlook and determined that our previous expectations for full year earnings would not be met. Therefore we could not wait until the originally scheduled time for our results announcement.

While I am disappointed, importantly we have a number of initiatives underway across both segments to improve execution and grow the business.

The agenda for today's call is as follows: I will provide a summary of the FY17 first half results followed by an overview of the business unit performance and the changes to our expectations from the previous guidance. I will then outline the progress we have made against our key strategic initiatives, and the contribution we expect these initiatives to provide to the business in FY18. Nimesh will provide you with a deeper analysis of the first half financial performance and to conclude I will give an update to our FY17 guidance. And of course at the end of the presentation Nimesh and I will be happy to take any questions you might have.

Turning to the overview of the FY17 first half result. Revenue of 79.6 million reflected total group revenue growth of 5 per cent in FY17 H1 and growth from our SaaS and VAS businesses of 7 per cent. In Australia and New Zealand, SaaS and VAS revenue growth was 5 per cent. In Asia, SaaS and VAS revenue growth was strong at 15 per cent, and 20 per cent on a constant currency basis.

As previously flagged to the market, Content Marketing trading was difficult with an 11 per cent decline in revenue. Group EBITDA was 20.5 million, below the 23.5 million we recorded a year ago. In ANZ, the SaaS/VAS EBITDA margin decreased from 45 to 43 per cent. The Asia SaaS/VAS EBITDA margin increased from

22 per cent to 24 per cent. And content marketing delivered an EBITDA loss of 2 million as previously indicated at the Isentia AGM. EBITDA to cash flow conversion increased to 104 per cent. Our balance sheet remains strong with a gearing ratio of 1.17 times. The interim dividend of 3.1 cents is 100 per cent franked.

In our ANZ SaaS/VAS business, VAS growth was strong and in line with our expectations, increasing 15 per cent supported by the high demand for our Insights products and the continued cross selling opportunities from our large client base. The marginal decline in ANZ SaaS/VAS EBITDA in the first half reflected a more challenging than expected environment for SaaS revenue in November and December. A more competitive pricing environment across this period had an effect on client renewals.

The larger than trend price increases we instituted earlier in the year to cover higher copyright expenses was difficult to hold. We have significant product improvements that will be shipped to clients in the second half and beyond, however this product innovation cycle was out of alignment with price increases in the first half.

I'll discuss later the details of the product releases we will be delivering to our clients in the coming months and the support we expect they will provide to our revenue growth expectations for FY18.

However, our previous expectations for SaaS revenue growth in H2 will not be achieved because of this loss of revenue momentum. We do expect a second half benefit from operational efficiencies from initiatives already implemented.

Our Asia SaaS/VAS business delivered excellent revenue growth in the first half despite the negative impact from currency. We have achieved significant contract wins including a large increase in a key government contract. Our Korean market entry was profitable in the second quarter and overall the Asia business is performing to plan.

The strategic rationale for the King Content acquisition remains sound. However, the execution has been challenging. We have undertaken a number of initiatives to improve the performance of the business including: the recent appointment of Matthew Stanton as CEO of King Content; the implementation of a new organisational structure; and the integration of the Content Marketing and Isentia sales teams.

While the sales pipeline for Content Marketing is developing, the lead times to conversion are longer than we expected. Consequently, our previous guidance for EBITDA breakeven for FY17 will not be achieved.

Matt, together with the Isentia Executive Team, is developing a revised operating model to ensure a sustainable recovery for the business.

During the first half we made significant progress against each of the three strategic initiatives in our 2020 Strategy.

Looking first at how we are optimising our platforms for growth: our data as a service or DaaS platform is a cloud based, single data warehouse. It merges all existing databases and API connections from third party data and increases the speed, scalability and content sources for our clients. It is the technology infrastructure that is enabling our world leading products such as Storyview. We have delivered phase two of the project on time with integrated social listening and enhanced real-time alerting. Our search algorithms and technology are delivering highly relevant results for our clients in near real-time.

Our cross selling initiatives are driving increased product penetration to our clients with particularly encouraging results for our Insights products. We have recently appointed an experienced media intelligence leader to be the global director of strategic partnerships to support this initiative. Our investment in cross-selling resources is supporting promising new revenue opportunities.

We have a number of projects implemented to improve the operational efficiency across the business. Our content hubs are reducing our production costs. At the same time our DaaS platform is supporting improved efficiency through technology and both these projects are expected to contribute in FY17 H2.

Our strategic initiative is to continue to enhance our product offering and I'll provide greater detail on progress achieved in the following slides. And our third strategic initiative is to invest in high growth markets in Asia through acquisitions and client growth.

Our investment in the skills and capabilities of our Asian management team is supporting large wins in government and corporate clients in a number of countries, as well as pan-regional clients. Asian acquisitions undertaken late in FY16 provided market entry into South Korea, and are supporting market share improvements in a number of other countries.

During the first half we extended our Asian media database capabilities with the platform and technology acquisition of China Newswire. The success of our bolt-ons, in strengthening our market positioning in Asia, means that it remains a key part of our strategy for the region.

Our media intelligence app was delivered to the market in November 2016. The app has been designed for our clients to receive notifications, and access relevant and influential news on their mobile device. The tools and functionality are built for sharing and reporting to senior executives. App downloads have been strong and we expect this product to assist in client renewals.

Mediaportal Recharge is a new version of our Mediaportal platform which is the most widely used corporate communications, media intelligence platform across Asia Pacific. Over the past 12 months we have completely redesigned the platform to leverage new technologies hosted in the cloud. The new platform is faster, scalable and has a number of new features to provide a superior client experience. The new platform was shipped to clients yesterday and we expect it to support revenue growth in FY18 in ANZ and Asia, and through the pricing of client contracts, reducing of churn and supporting client wins In ANZ and Asia.

Mediaportal Storyview is the first SaaS platform to integrate social and mainstream monitoring and show the most influential stories in near real time. It is being developed to create a differentiated offering with a consolidated story view and provide clients with the intelligence and advice to drive informed business decisions. Storyview is on time to be shipped in the fourth fiscal quarter and will be bundled in for all Mediaportal clients. It is expected to support revenue growth in FY18 in both ANZ and Asia.

I'll now hand over to Nimesh to provide further details on the result.

NIMESH SHAH: Thanks John and good morning everyone.

Slide 10 provides a summary of the FY17 first half result. Group revenue growth was 5 per cent, with 7 per cent growth for our SaaS and VAS businesses. On a constant currency basis revenue growth was 8 per cent. Expense growth was 13 per cent which included a 2.5 million step-up in copyright expenses. EBITDA of

$20.5 million declined 13 per cent reflecting the loss from Content Marketing of $2 million.

Slide 11 provides greater detail on the drivers of revenue growth. The 7 per cent growth in SaaS and VAS revenue was underpinned by 17 per cent growth in VAS and 4 per cent growth in SaaS. Content marketing which makes up 9 per cent of group revenue declined 11 per cent.

Slide 12 provides detail on the performance of SaaS and VAS in ANZ. Total revenue growth of 5 per cent was underpinned by 15 per cent growth in VAS which benefited from the strong performance of Insights. Growing demand for our daily reports and Facebook Topic data saw Insights penetration increase from 9.3 per cent to 11.6 per cent year on year. SaaS revenue growth of 3 per cent reflected the FY16 price increase inclusive of higher copyright fees. Fixed price contracts now comprise 83 per cent of SaaS revenue.

ARPC of 34,400 increased 5 per cent year on year and reflects a 3-year CAGR growth rate of 11 per cent. Client churn was 6 per cent of client numbers and 2 per cent of client revenue with impact in November and December. EBITDA was $23.7 million which was 1 per cent below last year.

In Asia SaaS/VAS revenue increased 15 per cent and 20 per cent on a constant currency basis. The strong underlying growth was driven by stable churn, an increase in VAS client numbers and higher ARPC. Our successful market entry into Korea saw profitability achieved in Q2 with a promising pipeline of new clients.

Average revenue per client increased 13 per cent year on year to $17,100 with a three-year CAGR growth of 14 per cent. VAS Average Revenue Per Client increased 8 per cent to $35,500 benefiting from an increase in multi-regional clients. EBITDA of $3.9 million increased 24 per cent year on year and 29 per cent on a constant currency basis, lifting the margin to 24 per cent.

Turning to Content Marketing, revenue declined 11 per cent reflecting the loss of a number of clients. While the sales pipeline is developing in all markets, the lead time to conversion is longer than expected. Matthew Stanton commenced as CEO of King Content on 7th February and we have undertaken other actions to improve the business including a new organisational structure and integration of sales teams with Isentia. The total expected consideration for the King Content acquisition is $34.2 million which is lower than the original expected consideration due to the structure of the earn out agreement.

In the first half operating expenses increased 13 per cent on a reported basis and 10 per cent excluding Content Marketing. Excluding the impact of the step-up of the copyright agreement with Australian publishers, operating expenses increased 5 per cent. This was achieved notwithstanding increased investment in the transition to cloud technology and continued investment in R&D roles to deliver our world leading SaaS platforms.

Turning to the profit and loss overview on Slide 16 and items below the EBITDA line. The increased amortisation of acquired intangibles reflects the impact of acquisitions. The effective tax rate of 24 per cent is in line with expectations. The non-recurring item net of tax of $10.3m mainly relates to a writeback of the King Content earn out provision. Excluding non-recurring items underlying NPATA was $12.4 million.

The summary of operating cash flow is on slide 17. Operating cash flow conversion of 104 per cent in the first half improved from 80 per cent in the first half of FY16 and 92 per cent in the first half of FY15. The improvement in net working capital reflects reduced debtor days and higher prepaid revenues. Capital expenditure at 6 per cent of sales reflects continued investment in our 2020 Strategy and technology platforms. The interim dividend of 3.1 cents per share is a 50 per cent payout of underlying NPATA.

Finally, turning to the balance sheet and capital structure on Slide 18. Our leverage ratio of 1.17x is comfortably within our facility covenant of 3.25x providing balance sheet flexibility. We finished the half with gross debt of $65 million, below our facility commitment of $75 million. Including cash and cash equivalents, net debt is $56.4 million. The reduction in contingent consideration on the balance sheet reflects the reversal of the King Content earn-out provision, with the remaining contingent consideration mainly relating to Asian acquisitions.

So thanks for your attention. And now I'll hand back to John to talk through the outlook for FY17.

JOHN CROLL: Turning to our outlook for FY17 on slide 20: as a result of the factors discussed earlier we have updated our FY17 guidance. For ANZ and Asia SaaS and VAS including head office we expect: revenue growth in the mid to high single digit range; EBITDA growth in the low single digit range supported by continued strong growth in Asia and operational efficiencies in ANZ in FY17 H2; FY17 H2 EBITDA to be double digit growth versus FY17 H1; for Content marketing we expect a full year EBITDA loss of $3 million.

Nimesh and I are now happy to take any questions so I'll hand back to the operator to run a Q&A.

UNIDENTIFIED SPEAKER: Thank you if you wish to ask a question please press the star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star two. If you are on a speaker phone, please pick up the handset to ask your question.

UNIDENTIFIED SPEAKER: Your first question comes from Jennifer Kruk with Macquarie Group. Please go ahead.

QUESTION: Morning John and Nimesh. Just a couple of questions. Firstly, can you just talk in a bit of detail around the competitive environment you're seeing in ANZ, what level of client churn you're assumed, and your guidance in terms of revenue percentage and how to get comfortable that churn won't get worse from this point?

JOHN CROLL: So I'll talk about the competitive environment, Jen, and then Nimesh can give you the numbers. So really what happens through the second half of the year is that our key competitor hadn't signed a new copyright agreement, so it was on a different pricing basis for their copyright. That now has been signed, so we're on a level playing field again. What we did see was that as we pushed our price on our clients to actually cover that copyright agreement from May, June last year, and it really changed around late in the half, around the November, December time that I think clients then had a number of invoices in front of them, and we haven't actually put a new product into the marketplace at that time, so we were sort of in a situation where our products were out of step with our price increase. So they were the sort of- that's the thematic of the first half, that the client renewal or the churn stepped up in November, December, and we did see it in January as well, so that's why we sort of pushed back on that.

So the confidence piece I think comes from- so the new Mediaportal. So the app came out in November, and that's been uploaded by our client base, and we're getting really good feedback that that's a very important part of what they want in the product offering. We've got Mediaportal Recharge now, that's out in the market and it's a fantastic product. The speed of the product, the usability of the product, and the way that it brings all the content together for the client is vastly improved from our old Mediaportal. And then we've got Storyview coming out later in the year. So Account Directors are now on a level playing field. We've put some more resources into new client sales, and we've got some great products in the marketplace. I'd like to think we're in a much better competitive position now to have the second half performance and reduce that churn.

NIMESH SHAH: And Jen, in terms of guidance on churn, so previously we had one per cent of revenue. Under guidance, we moved to two per cent of revenue.

QUESTION: Okay, thanks. And just on that, just on the competitive environment focused [indistinct] question, what you can see in the market, I mean has your major competitor actually put up their prices or have they absorbed the copyright costs, which might be a little bit easier for them given they're not a public company?

JOHN CROLL: Yeah, I think they're absorbing some of it, Jen, to tell you the truth. Yeah, it is- they're being fairly aggressive on price, so it was difficult without the new products in marketplace to … justify it on price, and we didn't really want to fight on price. We wanted to fight on the services that we have. But we are being more aggressive in the marketplace, and we have now some fantastic products to back ourselves up on.

QUESTION: Okay, thanks, and just one last question. Can you just talk a little around your margin expectations for ANZ and Asia, given the difference between the revenue and EBITDA guidance? And then just talk a little bit more as well within that about the operational efficiencies you're looking at putting through in ANZ?

NIMESH SHAH:	Okay Jen, so for ANZ we had in the first half a 43 per cent margin, as you will see. We expect that to, on the back of operation efficiencies and the higher price increase in the second half, to increase that to around 46, 47 per cent for ANZ. And for Asia, in Asia we've seen these half and half increases in margins. This is on the back of continued increase in client numbers, revenue, so that half and half quarter will continue into the second half in Asia. In terms of operation efficiencies, the operational efficiencies in ANZ, they're already- all those initiatives were done in quarter two, and we've seen the benefit coming in the full second half, and one of the key ones is relocating roles from higher pay jurisdictions to lower pay jurisdictions. We're seeing a number of savings- a large number of savings coming through in the second half.
JOHN CROLL:	And the DaaS platform is rolled out to its stage two now, so that gives us efficiencies in the way that we bring both online and social content onto the platform. So those things are baked in, as Nimesh says. We can see them, they're real, and they're implemented.
QUESTION:	Thanks guys. Thanks very much.
JOHN CROLL:	Thanks Jen.
NIMESH SHAH:	Thanks Jen.
UNIDENTIFIED SPEAKER:	Your next question comes from Shaun Weick at CSLA.

QUESTION:	Hey guys, just one question from me. I'm just looking to get a bit more clarity on what makes you comfortable that that double digit sequential growth in EBITDA can be delivered, given obviously there's a fairly strong competitive environment out there.
JOHN CROLL:	Yeah, so I think there was a little bit in that previous question. So I think we are in a situation now that the product sets that we have are vastly superior to what we had, and we think they're by far the best in the market, and that comes from both a technology background, from the things that we've done on the DaaS background, so on the platform, but also on the way that we've designed the new Mediaportal. So we have a much stronger offering in the business, and we've tested that with clients multiple times, and with a great response. So we feel strongly about how good the product [indistinct] is. We've got the strength of the Asian business growing continually well, and as we said just in the presentation part, we've had a number of large contracts signed in Asia that actually will provide that second half basis for growth, and the efficiency of the business is actually we can see it in the business, it's real, so we get some margin improvement. And I think if you look at our first half, second half performance years going back, I think the year before, Australia New Zealand had a sort of two per cent increase in its margin from first half to second half, and Asia's had that continual improvement half on half, so that's where we get the confidence on that piece.

QUESTION: Okay, and just on the King Content side, you've called out unit conversions taking longer than expected. Is there any specific drivers behind that?

JOHN CROLL: No, I think … I think what we saw in the pipeline was some very promising- and the pipeline developing, but it is taking longer for people to make their minds up around both the strategy part of the org- of the delivery. So we're looking very much around getting a platform in, getting strategy in, and then moving to content, and I think we looked at the pipeline and looked at the times that we'd go in other businesses and look at the historic part of it, the historic pipeline and conversion rate, but it's just been slow. So I wouldn't say it's any problem.

In fact … the funny thing about this business, it's really just the execution around the deal. It's not the execution that we're doing for our clients or the people in the business. It's a very strong business underneath that. So to me, I want to take away from- the strength of the business is there. There were some decisions made around sales teams that sort of held us back on that development in the pipeline. Now we've got a good pipeline developing, and I just think it is a timing thing to get the momentum, and [indistinct] underway for the Australian business. And we obviously knew that was going to be a problem. We hoped for some better wins up in North America, but they're just taking longer to come through.

QUESTION: Okay, thanks.

JOHN CROLL: Thanks.

UNIDENTIFIED SPEAKER: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Tim Plumbe at UBS Investment Bank.

QUESTION: Hi guys. Just a couple of questions on my side if possible. John, can you maybe talk about the effective price increase that you've seen coming through in the first half? You guys put through a headline 10 per cent price increase following the copyright. What's that come through at an effective rate, and what are you expecting in terms of pricing increases to come through once you do launch the new product in Q4?

JOHN CROLL: So the prospective price was that two per cent, Tim. So we couldn't hold on to- some clients did take the whole lot, but overall the whole piece was two per cent, and it was just difficult with competitors in the market who haven't signed that agreement yet. So that was where price was in the first half. In the second half, we're working on the same assumption. That's what's in the forecast. And so a two per cent. And really what we're doing there is- I don't want to give the whole game away, but we're actually bundling in products, and then Storyview will be more of an FY18. So clients will get a look at Storyview for a month or two, and then we'll be pricing it in. But every client will be moving on to Storyview. So that will be an FY18 story, but we'll get that sort of two per cent in the second half. And look, I'm very- really, really pleased with the product development [indistinct] team, the team that has [indistinct] put together from the cloud technology and new technologies. We're really very pleased with the product development team, so we're confident about getting that momentum back in the marketplace and holding the clients.

QUESTION: Okay, great. And just in terms of the social buzz product. If I'm not mistaken, that's the core difference or one of the core differences between the new platform that's going to be introduced fourth quarter, in that that'll be rolled in. The penetration has reduced over the half, in terms of clients that used to have it deciding they no longer want it, and that 12.5 per cent on lower customer numbers. Could you talk a little bit about that product and what you're seeing and the feedback that you're getting from customers?

JOHN CROLL: Yeah, so I'm not surprised by the decline in the penetration for the social product, and I think really and largely it's common things like that which said we had to get Storyview into the marketplace that has what we think is a really competitive product in the Social piece. So we were sitting on a relatively old social listening tool for that half, so that's why there's the decline there. The new product, it sort of- we're defining that the client shouldn't worry about what platform their influential content is actually published broadcast on, it should- we will be covering social, online, broadcast, print, every public content source for our clients. And what we've got in Storyview is an algorithm that's sitting in the back end of our systems that looks at every piece of content that comes in, no isentia

matter the platform, and picks out the most influential sources of content and puts it altogether.

So going forward it's not a discussion around are you monitoring print, monitoring all broadcast or social or online; it's what's the most influential content. Now, we'll be the only media intelligence company that has that platform and we're the only media intelligence company that has the depth of that content to actually make the algorithm and the influential service work.

So it's been tested with clients, multiple clients across both government and corporate and they're very excited by how the product has developed. And they have given us some really good feedback and we've tweaked the product because of that feedback. The most important thing is to make sure it's simple enough that people can understand it because it's quite complex what's happening in the background.

So I'm very, very confident about the product.

UNIDENTIFIED SPEAKER: Great. Thanks guys.

JOHN CROLL: Thanks.

UNIDENTIFIED SPEAKER: And no further questions at this time. I'll now hand back to Mr Croll for closing remarks.

JOHN CROLL: Thanks everyone again for being on the call. We know it's at short notice. I think we've got a real strength in our SaaS and VAS businesses and we're working extremely hard and we're very focused on improving the content marketing business. So thanks very much for being on the call.

UNIDENTIFIED SPEAKER: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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