RCS MediaGroup

Business Plan 2016-2018

Milan, December 21st 2015



Agenda

Starting point and context

- Market trends
- RCS positioning

How to succeed in the near future: RCS Plan 2016-2018

- Objectives and key actions
- Financial projections



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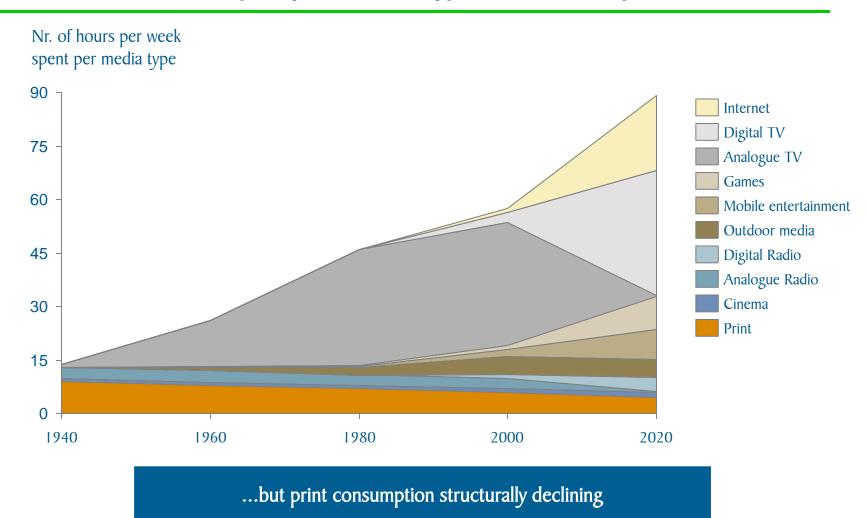
Editorial market: the basis for competition is significantly shifting

From	_	То
Print	Media	Print + Web + Mobile
Static Text + Photo	Content	Dynamic Text + Photo + Video + Social
National + Local	Content	Global + National + Hyperlocal
Mass, unsegmented audiences	Audience	Targeted and profiled audiences
Daily newspapers	Frequency	24/7 interaction
ATL	B2B Sales	ATL + BTL
Newsstand	B2C Sales	Newsstand + (Digital) Subscriptions



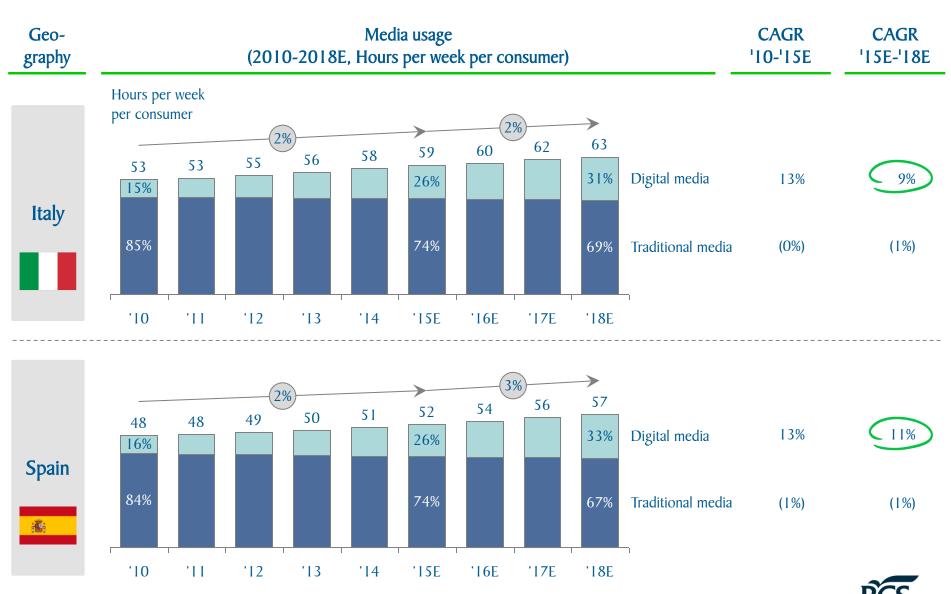
Overall media consumption is continuing to increase

Media consumption by different media types (number of hours per week)



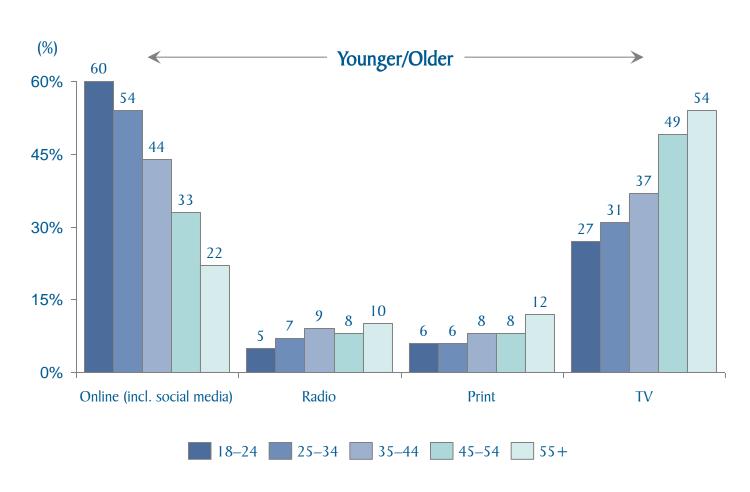


Increase in media consumption mainly driven by time spent online



This transition to the digital ecosystem as source of content is particularly evident for younger segments

Main source of news across age groups

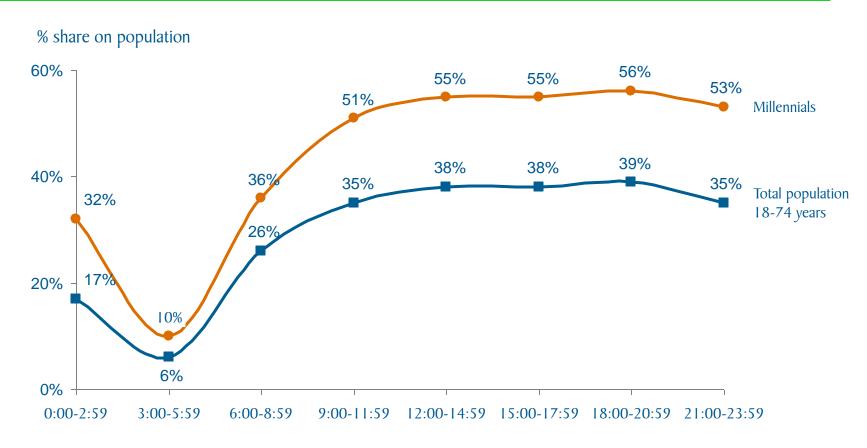




Audience is "always on" and demands a 24/7 interaction online, and this is even more evident for younger generations

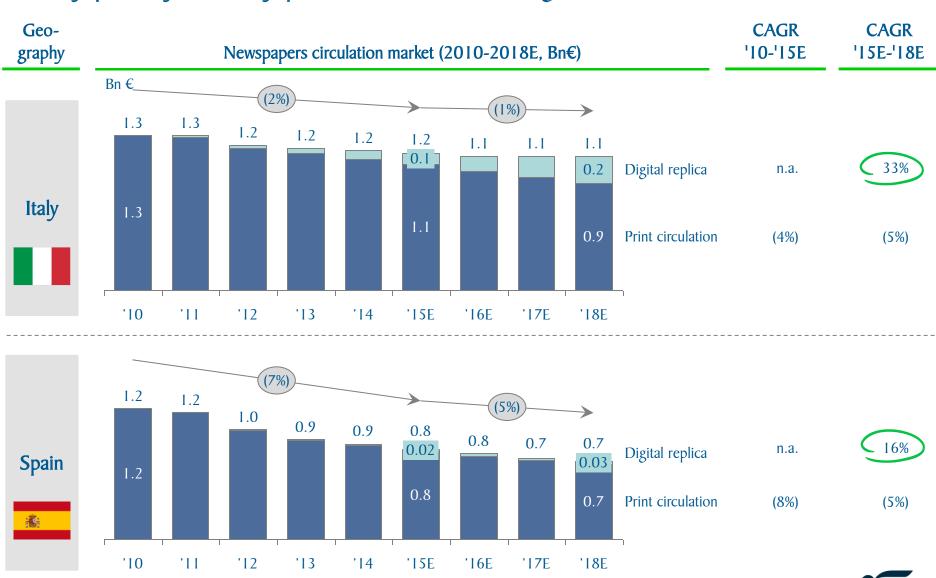
Access to internet in the average day by time band (% on population, Italy)



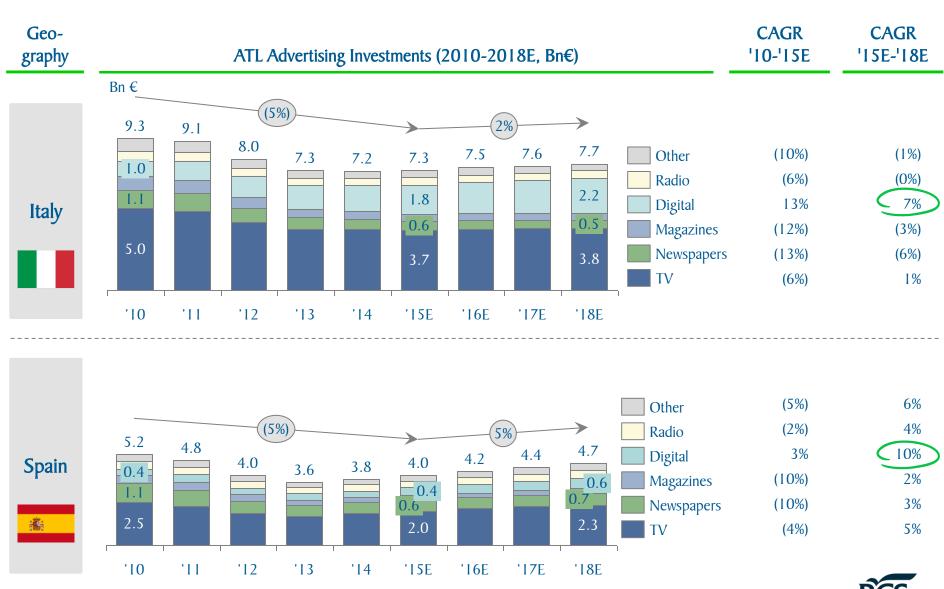




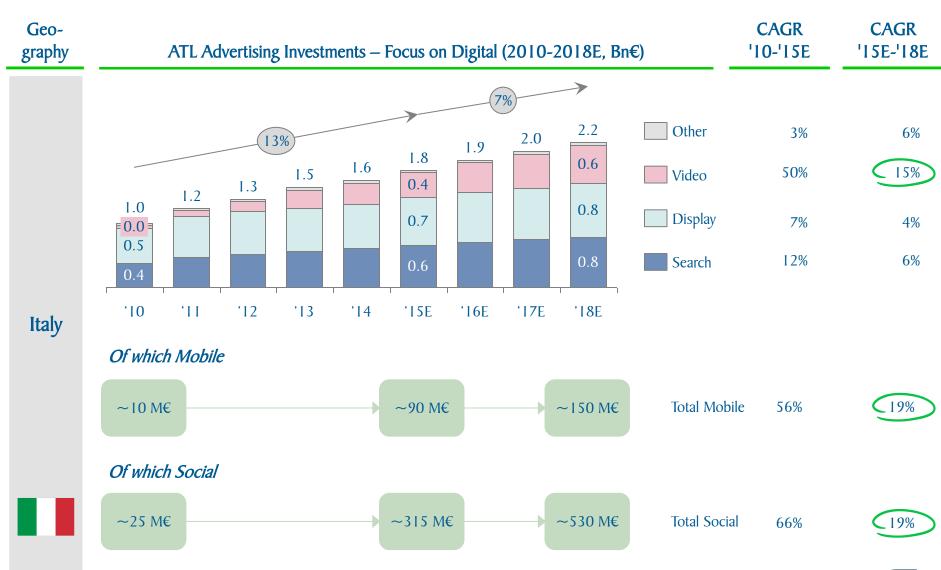
Structural decline in print translates into decreasing circulation; this decline is only partially offset by paid circulation from Digital editions



ATL budgets are shifting to Digital...



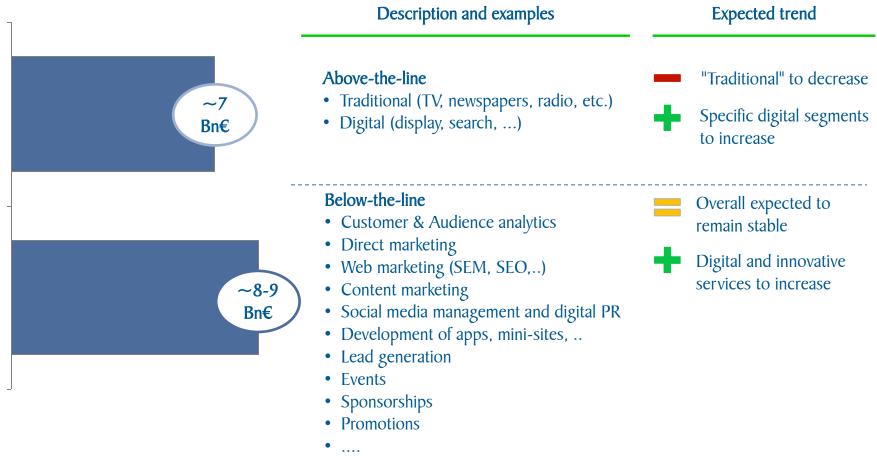
...and in Digital the focus is shifting from Display towards Video, Mobile and Social



Next to a challenging ATL market, there is a large market of BTL/ B2B marketing and communication solutions growing and increasingly digital

ATL vs. BTL market in Italy (Bn €, data and estimates)







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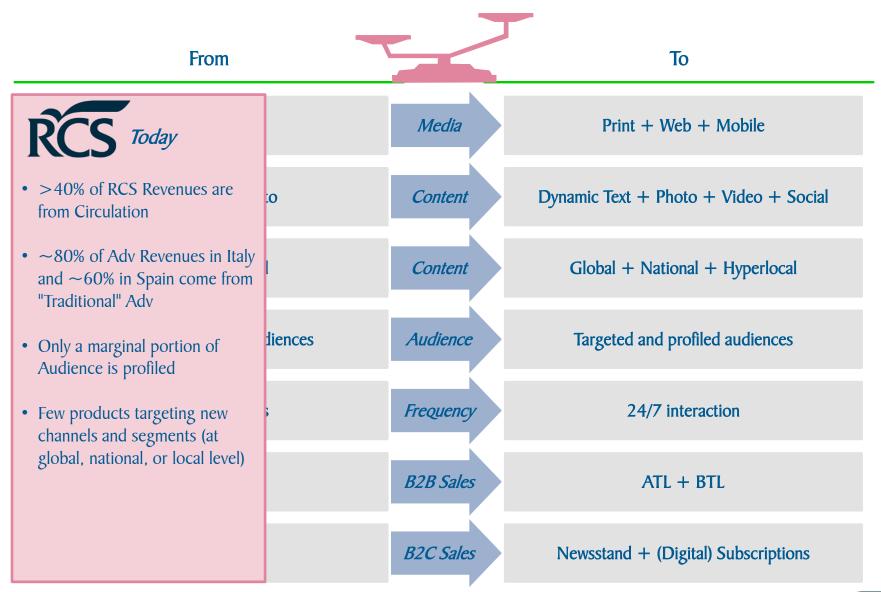
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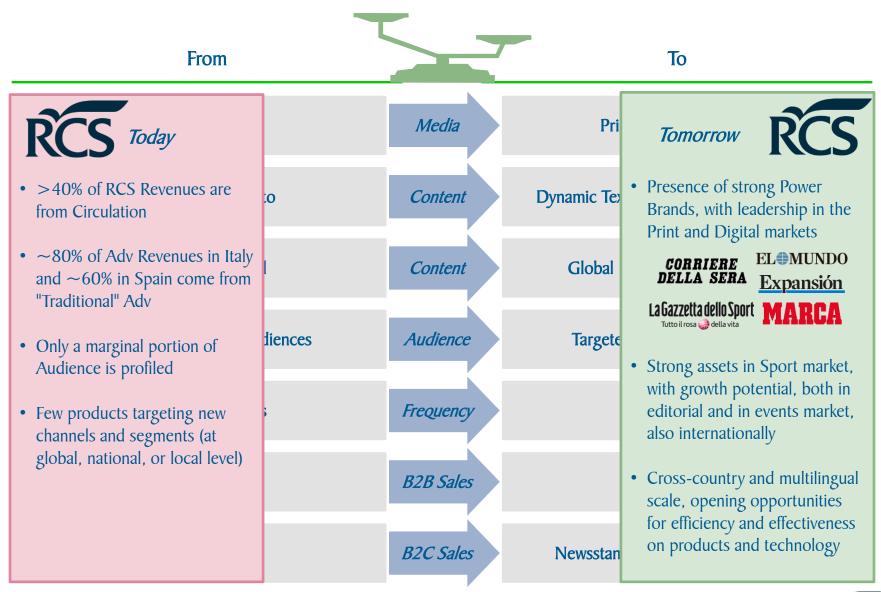


So far RCS still shifted towards the "wrong side" of the scale





RCS has the opportunity to build a future on the "right side" of the scale





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RCS Business Plan 2016-2018 is geared towards 3 objectives

Ensure sustainable economics going forward

2 Value RCS assets, managing the business transformation

3 Set strong foundations for **future growth**



To achieve these objectives, there are 8 fundamental actions to focus on



- Persistently reduce costs, protecting products' investments & quality
- 2 Stabilize revenues and margins of Print+Web+Mobile editorial products
- 3 Selectively **invest** in high-potential areas
- 4 Exploit scale to optimize technological platforms
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Action 1: Persistently reduce costs, protecting products' investments & quality

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Persistently reduce costs, protecting products' investments & quality, mainly through 3 initiatives



External costs

- Direct costs (Physical production, Publishing & Editing, Logistic services)
- Indirect costs (General services, Marketing & Sales services, IT & Telecom, Professional services)

В

Labor costs

- Right-sizing of corporate/ support functions also through integration of Italy & Spain
- Lean model on product costs (content creation, prepress, print, logistics)

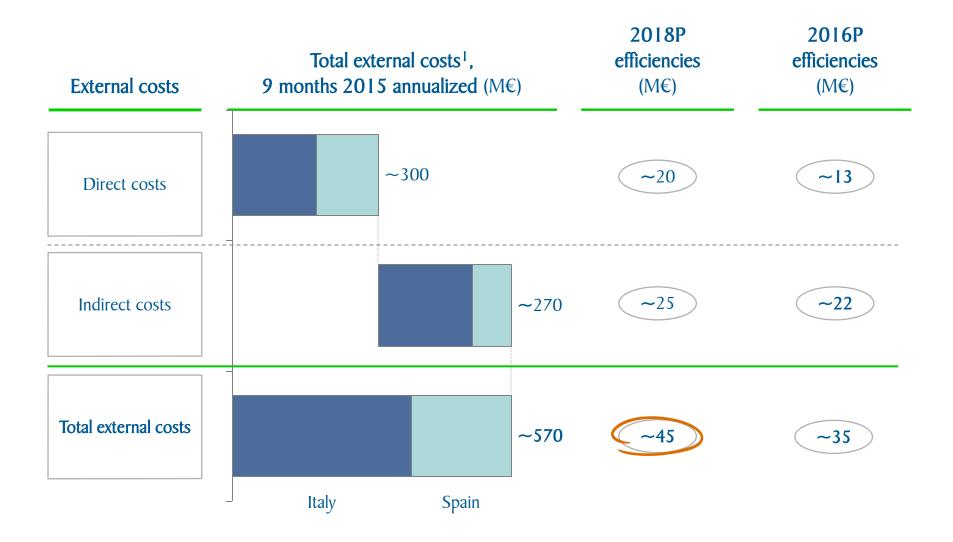


Print consolidation

• See Action 5 - Optimize the value chain by leading print industry consolidation process

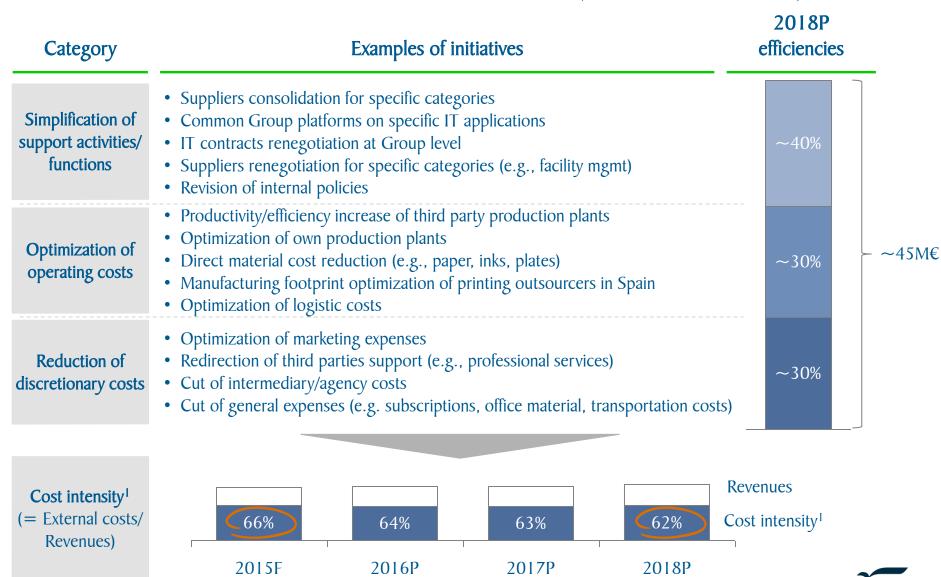


(A) External costs: identified initiatives to reduce external costs by ~45M€



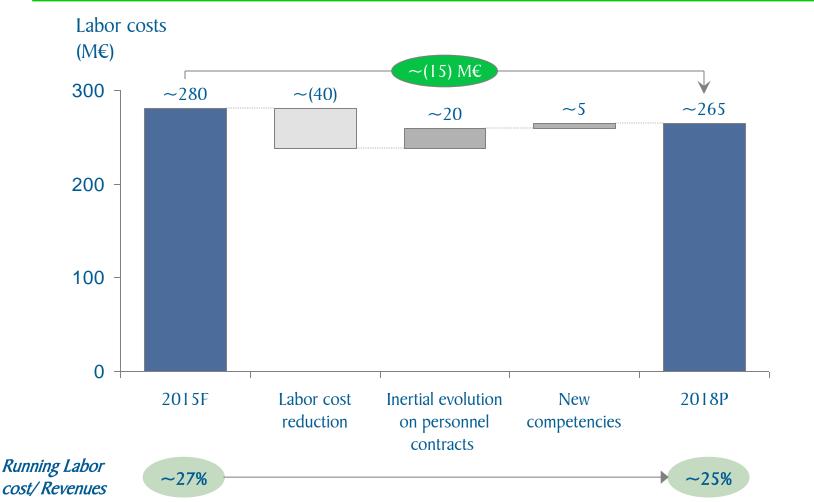


(A) External costs: key initiatives underpinning cost reduction so that external costs decrease to 62% of revenues in 2018P (vs. 66% in 2015F)



B <u>Labor costs</u>: identified initiatives to reduce running labor costs by ~15M€

Key Plan impacts on running labor cost (2015F - 2018P, M€)



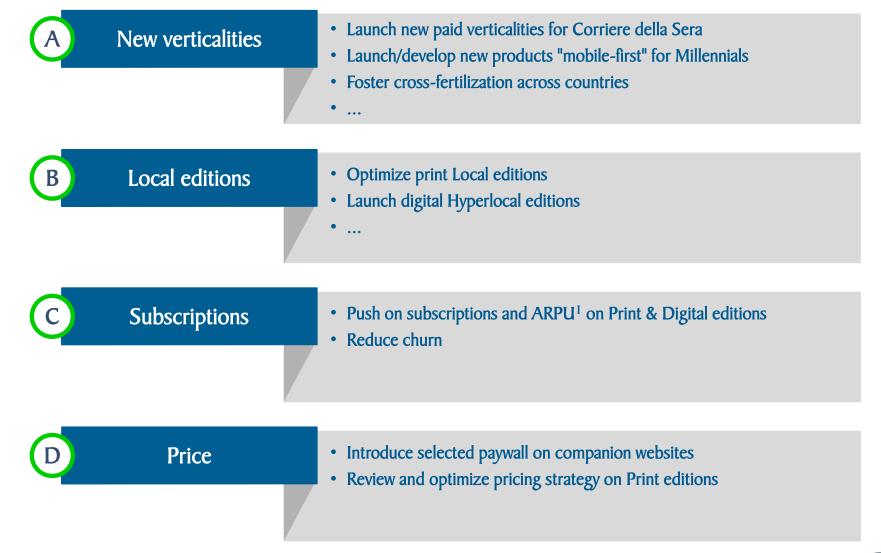


Action 2: Stabilize revenues and margins of Print+Web+Mobile editorial products

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Key initiatives to stabilize revenues and margins of editorial products





New verticalities: New paid products to target RCS audience - the example of Corriere della Sera with "La Lettura"

- Selected examples-

laLettura

Topic
Launch¹

Reading July 2015

Overview

- B2C product sold on top of Corriere since mid 2015
 - Free product since 2011
- Key success factors:
 - Higher quality
 - Discretionary purchase
 - Communication







Revenues 2016P (M€)

~2 - 2.5 M€

EBITDA-CapEx 2016P (M€)

~0.5 - 1 M€

EBITDA-CapEx/ Revenues 2016P (%)

~25 - 35%



(B) Local editions: Optimize local editions and launch a new hyperlocal digital platform

- Selected examples-

Optimization of existing local editions



Launch of a "hyperlocal" digital platform



Today 9 local editions for Corriere della Sera

- 7 newspapers: Veneto, Mezzogiorno, Campania, Puglia, Firenze, Bologna, Trentino Alto Adige
- 2 editions (i.e. with desks at Corriere): Bergamo, Brescia

Review and optimization of current operating model

Impact on EBITDA-CapEx 2018P (M€)

~5 M€

There is an opportunity to become a reference point on digital for local news

- A highly relevant service for local communities
- Need to focus on new, different, more engaging types of news

"Light" model, only via web & mobile

Content by bloggers and registered users

Coverage of 25-30 cities in Italy

Impact on EBITDA-CapEx 2018P (M€)

1 + M€



Subscriptions: Following the 2015 trend in the Spanish market, subscriptions projected to increase going forward

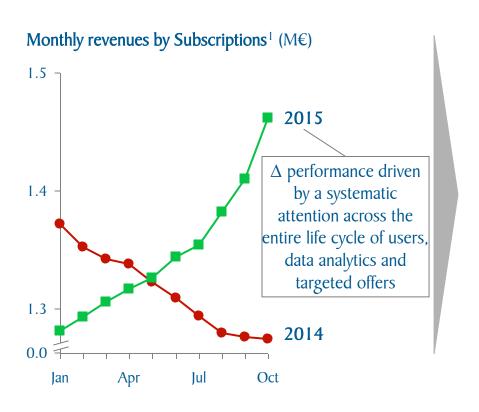
- Selected examples-

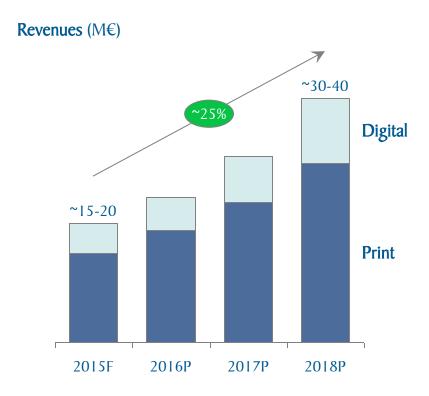
Recent trends in Subscriptions



Subscriptions: Business Plan projections









Price: Introduce a Membership mechanism on companion websites to increase revenues, build loyalty and profile audience

- Selected examples-

Set up of a "metered Paywall" on Corriere della Sera





New streams of predictable revenue

 By converting readers to customers RCS can transition closer to a subscription-based model

Build loyalty with the audience

 The Membership mechanism enables RCS to build a stronger relationship with loyal readers

Monetization through profiling

 Readers that get to the Membership will need to register, driving a source of high quality profiling data Impact on
EBITDA-CapEx
2018P
(M€)

~4 M€



Action 3: Selectively invest in high-potential areas

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Selectively invest in high-potential areas



- Push Sport events and formats, building on our "Iconic" properties, Professional events, Mass events
- Develop "systems" of events

- B International audience
- Expand in Spanish-speaking markets, with a Marca-branded digital product
- Leverage content from RCS power brands in Sport

Data-centric transformation

- Leverage Data to improve current revenue streams and create new ones
- Focus on 4 areas: Online Adv, Subscriptions for Print and Digital, B2B Marketing Services, Product improvements/ new product development



International Sport events and formats: The current portfolio of Sport events, managed by RCS Sport and Last Lap

Formats owned Formats owned and Client events by others, **Advisory** organized by RCS1 (RCS agency services) organized by RCS THE COLOR RUN . %² of 2015F **Sport Events** ~45% ~30% ~20% (~75 M€)

- Our "iconic" properties in cycling and running
- Key to enhance their value to bring them up to international best practices, ensuring the right focus and effort
- Built competence and experience, also internationally
- Key to focus on events that ensure coherence with key systems and enable synergies
- Relevant focus of Last Lap events organization activities in Spain
- Key to dedicate effort when functional to development of other business and priorities
- Today activities focused on FIP and Lega Serie B
- Key to maintain in portfolio when functional to development of events business and priorities



Revenues

A <u>International Sport events and formats</u>: 3 key areas of opportunities for RCS, to be assessed with a "bifocal approach" in terms of timing and resources

Phase I Short term, with current set-up

Phase 2
Medium term, potentially with a partner

"Iconic" properties:
enhance the value to
international best
practices

- **Giro D'Italia** enhance its value as a global brand.
- Iconic "classic" cycling and running races fully exploit value, raise brand awareness

Professional events: build, develop and grow "systems" of events

- Develop "systems" of events at international level
- Build up on current properties by RCS

Mass events:
develop new formats and
"systems" of events

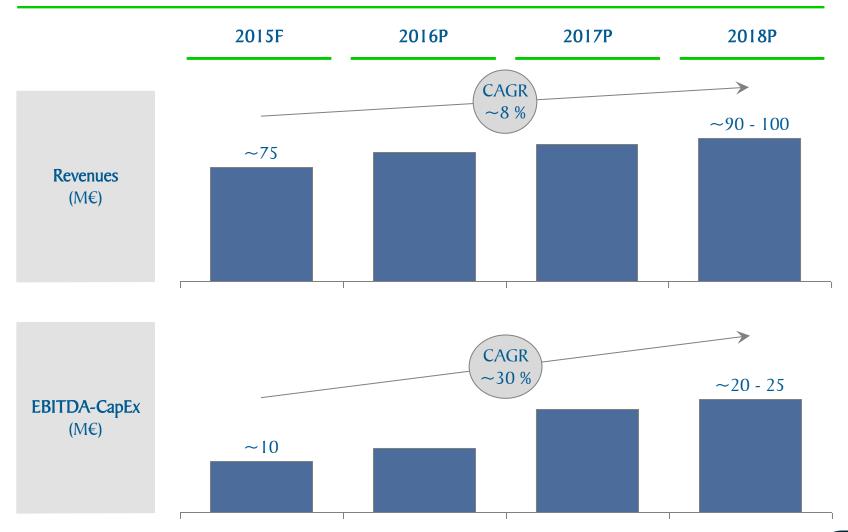
- **Growing market** where Italy can command a superior value
- Build up on current properties by RCS + invest in new formats development

- RCS with a stronger competitive positioning
- Further step-change in scale achievable at international level, potentially joining forces with a partner
- Examples of **partnership areas** (illustrative):
 - Strategic investments in high potential events
 - Further development of own, new formats, building up/ acquiring key capabilities
 - Creation of global circuits of professional events



(A) International Sport events and formats: Summary of the Plan

Economic impact of the International Sport events and formats initiative

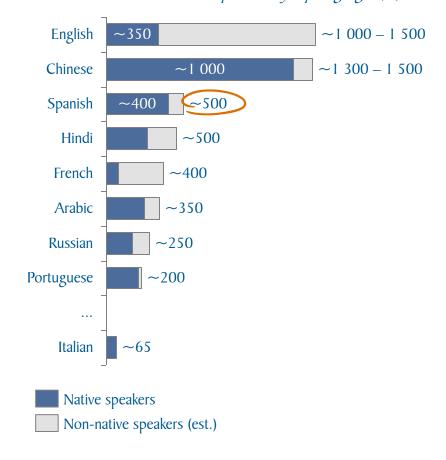




B International audience: The Spanish speaking market represents a sizeable opportunity for RCS international expansion

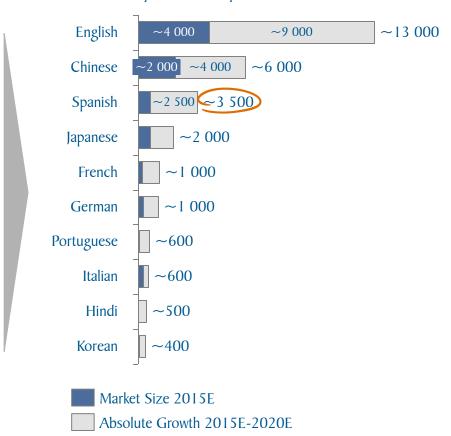
~500 M people speak Spanish worldwide...

Number of Native and Non-native speakers¹ by top languages (M)



...translating into a large "Spanish-speaking" business







B International audience: The attractiveness of RCS brands to Spanish speaking audiences comes from these important assets







Value of Marca brand and Marca+Gazzetta contents to Spanish speaking audiences

Recognized power of Marca brand to international audience

World class reference sites covering Spanish
La Liga and Italian Serie A
(Marca and Gazzetta)

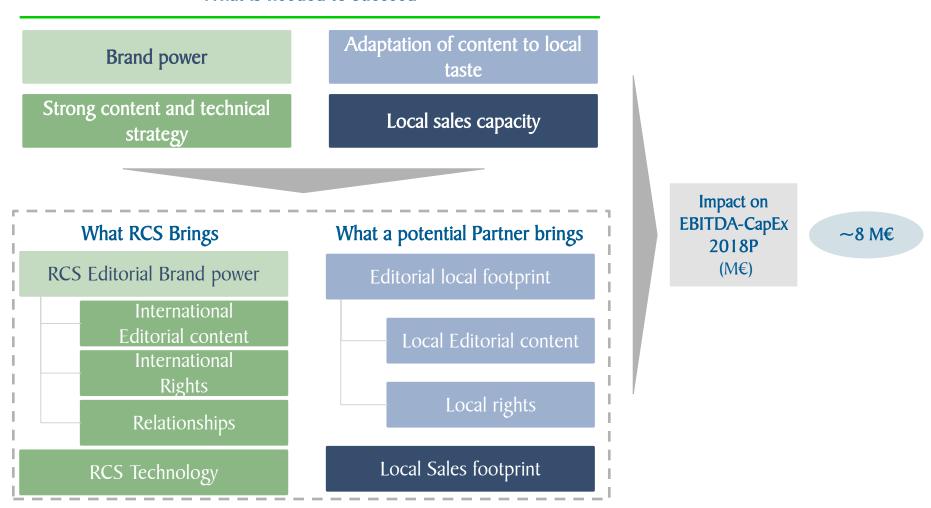
Direct information from stars playing in La Liga and Serie A

Attractiveness to fans in Latin countries where many players come from



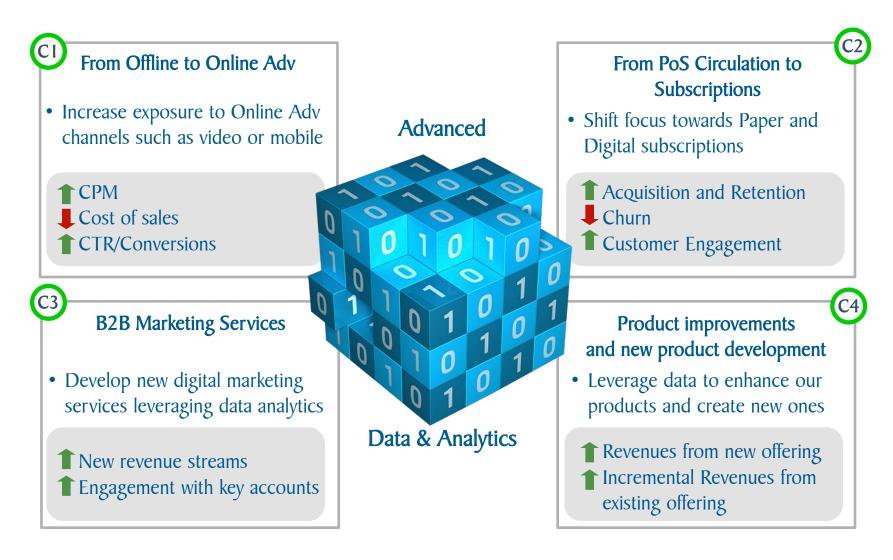
(B) <u>International audience</u>: RCS has competitive advantage in Spanish speaking countries; a local support/partner would complement RCS strengths

What is needed to succeed



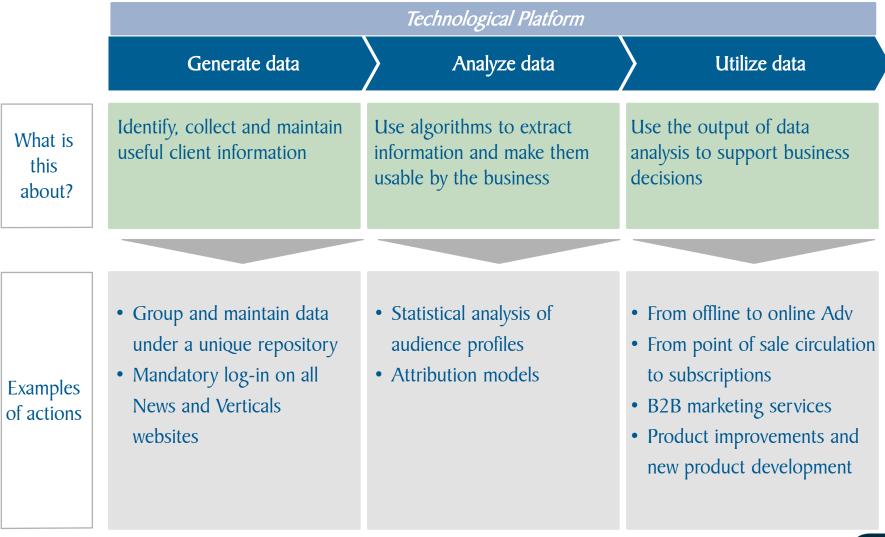


© <u>Data-centric transformation</u>: 4 clear opportunities to put a transformation in practice





© <u>Data-centric transformation</u>: Build around new capabilities to generate, analyze and utilize data





Action 4: Exploit scale to optimize technological platforms

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Exploit scale to optimize technological platforms



Enable business

- Digital contents
- Digital advertising
- Users' profiling
- Customer experience management

- B Rationalize costs/investments
- Standardize platforms across businesses/ countries
- Renegotiate jointly existing contracts

Exploit revenue synergies

Develop revenue/ operating synergies



The current architecture, based on different standards per country, does not fully exploit potential synergies

		Italy		Spain
Infrastructure		Datacenter Platform A	' '	Datacenter Platform B
		Server Farm Platform A		
Enterprise Platform		Common Enterprise Platform		
Content Management System		CMS Platform A		CMS Platform B
CRM & eCommerce		CRM Platform A		CRM Platform B
		Customer Care Platform A		Customer Care Platform B
		Campaign Platform A		Campaign Platform B
		eCommerce Platform A		eCommerce Platform B
SFA & Advertising		SFA [†] Platform A		SFA [†] Platform B
		Digital Inventory Platform A		Digital Inventory Platform B
		Adserver Platform A		Adserver Platform B
		Common Business Intelligence Platform		
Analytics		Common Web Analytics Platform		
		Advanced Analytics Platform A		Advanced Analytics Platform B
Data		Customer DB Platform A		Customer DB Platform B
		DMP ² Platform A		DMP ² Platform B
		Big Data Platform A		Big Data Platform B
Digital Channels		Architecture A		Architecture B
	7	Development mostly outsourced		Development mostly in house



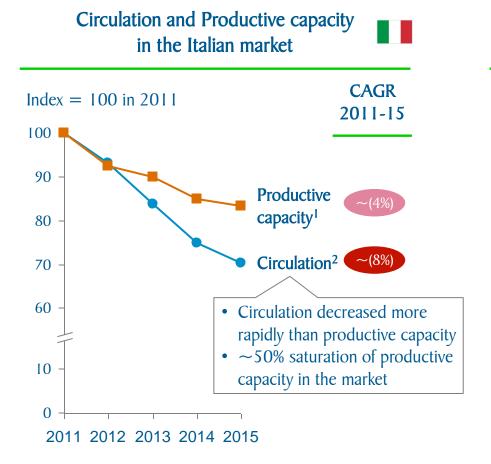
Action 5: Optimize the value chain by leading the print industry consolidation process

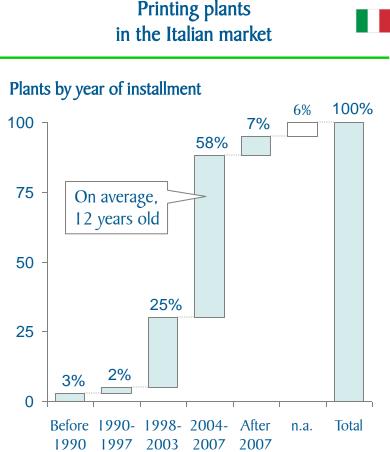


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There is excess of capacity in the Italian market, with outdated plants requiring investments







Two options to optimize RCS printing cost in Italy

Options

Overview

EBITDA impact for RCS 2018P (M€)

CapEx for RCS (M€)

Option in the Plan's projections

Saturation

- EoY 2016: Increase saturation in RCS plants
 - E.g. print also for other newspapers
 - E.g. additional efficiencies in printing machines

~1 M€

No additional investments

System consolidation

- Promote consolidation with other editors/parties, with process potentially led by:
 - RCS Group/other editorial group
 - Specialized third party printer(s)

Higher savings (TBD)

n.a.

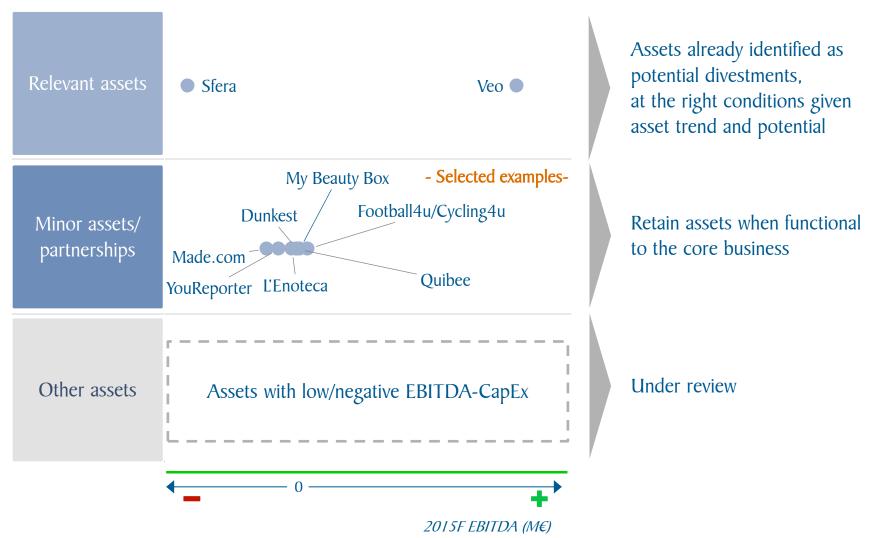


Action 6: Dismiss non-core/ low value assets

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Three categories of assets included in RCS portfolio review





Action 7: Simplify the organization, focusing on capabilities, accountability & execution

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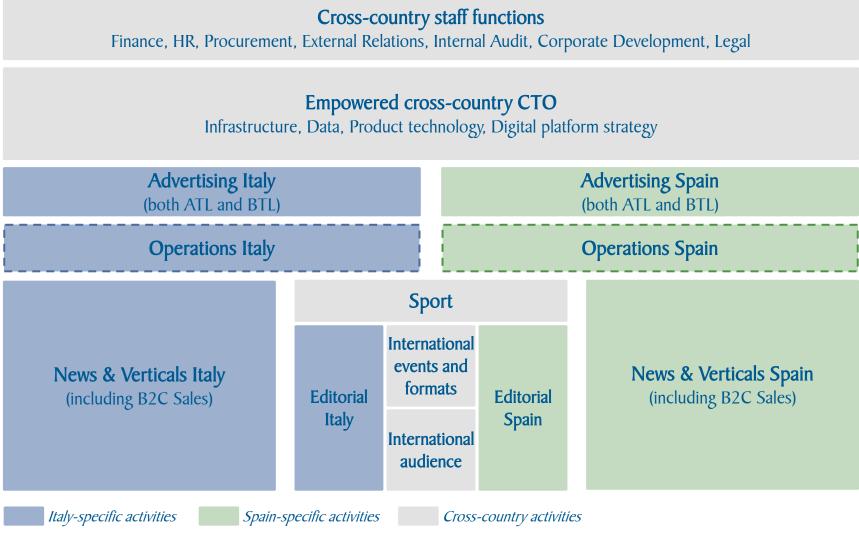
The new organizational setup has been designed to ensure accountability of key decisions and execution of the overall Plan

Guiding principles

- I. Focus senior management and teams on Business Plan's key actions
- II. Facilitate synergies on Sport across Italy & Spain, on both revenues and costs
- III. Focus on execution of planned discontinuities
- IV. Facilitate cost-synergies across Italy & Spain
- Ensure transformation enablers (platforms, capabilities mix), also nurturing young talents already present in RCS Group organization



A new organizational set-up for RCS Group to be implemented by January 2016



Notes:

Action 8: Continuously monitor the Plan's execution via shared KPIs in order to swiftly adapt to a changing environment



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Action 8: Continuously monitor the Plan's execution via shared KPIs in order to swiftly adapt to a changing environment

Key principles

The Plan will be continuously internally monitored with a set of KPIs, providing:

Transparency

On actions performed and results achieved

Accountability

With KPIs consistent to Plan's objectives

Timeliness

To react promptly to changing conditions

Examples (illustrative)



- Persistently reduce costs, protecting products' investments & quality
- External costs (direct & indirect)
- Labor costs
- Stabilize revenues and margins of Print+Web+ Mobile editorial products
- EBITDA-CapEx per product
- Key milestones (e.g. products' launch)
- Selectively invest in highpotential areas
- EBITDA-CapEx per product
- % of audience profiled





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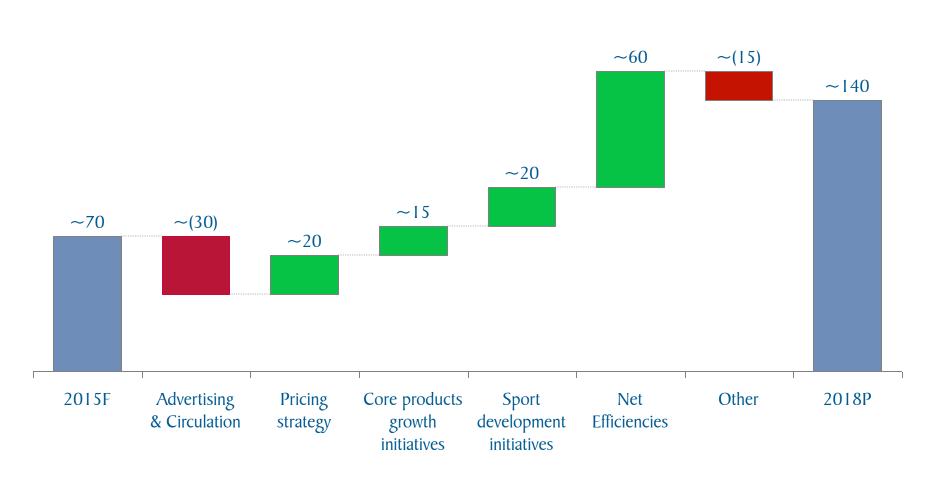
Business Plan 2016-2018: projected economics to ensure a sustainable financial structure

	Plan Target	Year 1 (2016P)
Revenues	+1.5% (CAGR 2015F - 2018P)	Flat
Net Efficiencies	~60 M€ (2018P vs. 2015F)	~40 - 45 M€
EBITDA % excl. Non Recurring	~13% (2018P)	~10%
Net Result	Solidly positive	Slightly positive
Net Cash Flow	3 years cumulative 95-100 M€	Break even
Debt Ratio	~2x	~4x



EBITDA Variance 2015F - 2018P

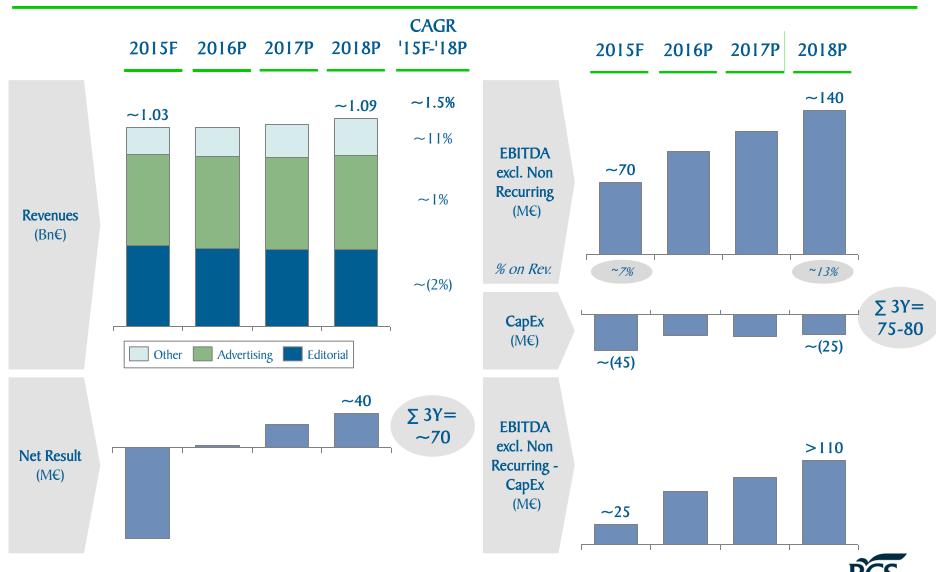
Variance of EBITDA excl. Non Recurring items (2015F - 2018P, M€)



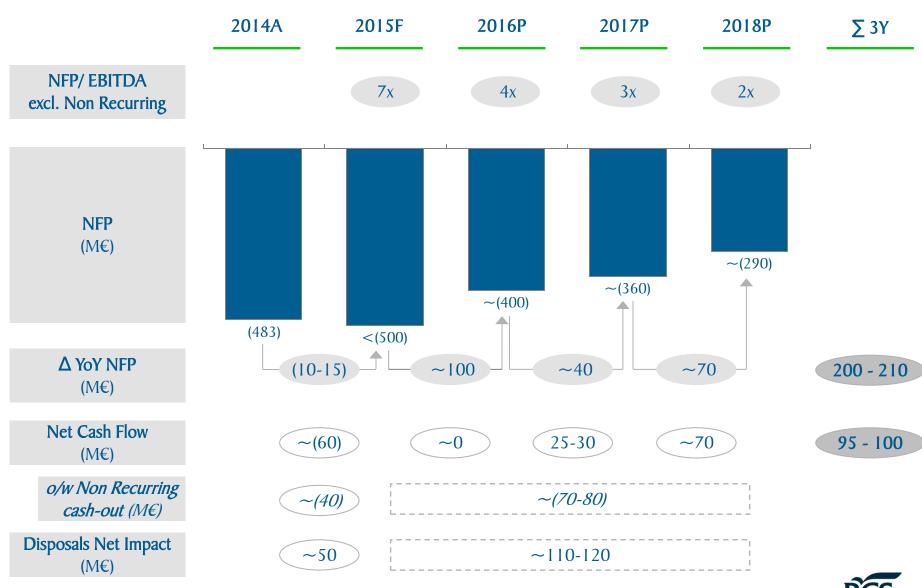


KPIs Business Plan 2016-2018

P&L key highlights (current perimeter)



Net Financial Position: evolution 2015F - 2018P





RCS MediaGroup

Business Plan 2016-2018

Q&A session

Milan, December 21st 2015



Disclaimer

This presentation contains management preliminary estimates and forward-looking statements, including information related to RCS MediaGroup projected financial performance and the expected development of the publishing industry, in particular in the newspaper, magazine, book and new media segments. These statements are based on estimates and assumptions made by management of the company and are believed to be reasonable, as of this date, though by their nature future estimates are uncertain and subject to variations due to possible changes in the market. Actual results or experience could differ materially from the information contained herein.

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