

# **Postmedia Reports Third Quarter Results**

July 10, 2019 (TORONTO) – Postmedia Network Canada Corp. ("Postmedia" or the "Company") today released financial information for the three and nine months ended May 31, 2019.

#### **Highlights from the Quarter**

- Continued digital growth Tenth consecutive quarter of double digit digital advertising revenue growth – up 12.2%
- Business Transformation initiatives implemented in the quarter are expected to result in approximately \$2 million of net annualized cost savings – a 5.2% reduction in operating costs<sup>1</sup>
- Operating income before depreciation, amortization, impairment and restructuring was \$9.6 million in the quarter and excluding the Ontario Interactive Digital Media Tax Credit ("Tax Credit") in Fiscal 2018, represents a decrease of \$3.0 million
- Debt repayment in the quarter was \$10.5 million
- With this repayment, first-lien debt has been reduced by 58% by retiring \$130.2 million of the original \$225.0 million since October 2016 – bringing the total principal amount of first-lien notes outstanding to \$94.8 million

#### **Third Quarter Operating Results**

Revenue for the quarter was \$157.1 million as compared to \$171.0 million in the same period in the prior year, representing a decrease of \$14.0 million or 8.2%. The revenue decline was primarily due to decreases in print advertising revenue of \$13.8 million or 17.6% and print circulation revenue of \$3.4 million or 6.3%. Digital revenue increased by \$3.0 million or 10.1% in the quarter with digital advertising revenue up 12.2%.

"We are pleased to report our tenth consecutive quarter delivering double digit digital advertising revenue growth," said Andrew MacLeod, President and Chief Executive Officer, Postmedia. "The continued success of our strategy is the result of our talented teams who are pushing on all fronts – creating award-winning journalism, innovative products and client campaigns while pursuing all possible revenue streams and transformation initiatives.

"We will continue to be creative in order to preserve journalism in this country which struggles to transform itself on an uneven playing field. We face competition from virtually unregulated international digital giants and from government subsidized crown corporations that are chasing the same private sector revenue dollars that we are. While the temporary journalism tax credit will support journalism jobs, until these systemic structural issues are addressed, our industry's challenges will continue."

Excluding the impact of the Tax Credit in Fiscal 2018, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$11.0 million or 7.0% for the quarter, relative to the same period in the prior year. The decrease was as a result of lower newspaper circulation volumes as well as the implementation of various cost reduction initiatives.

Excluding the impact of the Tax Credit in Fiscal 2018, operating income before depreciation, amortization, impairment and restructuring of \$9.6 million in the quarter represents a decrease of \$3.0

<sup>&</sup>lt;sup>1</sup> Operating expenses excluding depreciation, amortization, impairment and restructuring as adjusted for the impact of a compensation expense recovery totaling \$2.9 million and \$19.9 million related to the Ontario Interactive Digital Media Tax Credit in third quarter and year to date of Fiscal 2018, respectively.

million or 23.6% relative to the same period in the prior year. The decrease is due to decreased print advertising and circulation revenues, partially offset by increased digital revenue and operating expense decreases.

Net loss in the quarter ended May 31, 2019 was \$7.7 million, as compared to \$15.5 million in the same period in the prior year. The change was primarily the result of an impairment charge in Q3 Fiscal 2018, a decrease in restructuring expenses and a gain on derivative financial instruments in Q3 Fiscal 2019, partially offset by the Tax Credit recovery in Q3 Fiscal 2018 and an increase in foreign exchange currency losses.

#### **Year-to-Date Operating Results**

Revenue for the nine months ended May 31, 2019 was \$474.0 million as compared to \$517.6 million in the same period in the prior year, representing a decrease of \$43.6 million or 8.4%. The revenue decline was primarily due to decreases in print advertising revenue of \$37.8 million or 15.8% and decreases in print circulation revenue of \$10.9 million or 6.5%. Digital revenue increased by \$6.3 million or 7.2% year to date with digital advertising revenue up 9.5%.

Notably, adjusted for the impact of the publications acquired and sold in the Company's first quarter of Fiscal 2018, revenue for the nine months ended May 31, 2019 decreased 7.4% relative to the same period in the prior year including decreases in print advertising revenue of 14.9%, print circulation revenue of 5.5% and an increase in digital revenue of 8.3% which includes an increase in digital advertising revenue of 10.9%.

Excluding the impact of the Tax Credit in Fiscal 2018, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$39.0 million or 8.2% for the nine months ended May 31, 2019, relative to the same period in the prior year. The decrease was as a result of lower newspaper circulation volumes as well as the implementation of various cost reduction initiatives.

Excluding the impact of the Tax Credit in Fiscal 2018, operating income before depreciation, amortization, impairment and restructuring of \$36.0 million in the nine months ended May 31, 2019 represents a decrease of \$4.6 million relative to the same period in the prior year. The decrease is due to decreases in print advertising and circulation revenues partially offset by an increase in digital revenue and operating expense decreases.

Net loss in the nine months ended May 31, 2019 was \$14.2 million, as compared to a net loss of \$11.0 million in the same period in the prior year. The change was primarily the result of the Tax Credit recovery as well as a gain on disposal of operations in Fiscal 2018 and an increase in foreign currency exchange losses, partially offset by an increase in gain on disposal of property and equipment and assets held-for-sale.

#### **Business Transformation Initiatives**

During the three months ended May 31, 2019, the Company implemented initiatives – including compensation expense reductions, real estate rationalization, production efficiencies and other transformation programs – which are expected to result in approximately \$2 million of net annualized cost savings.

The Company intends to continue to identify and undertake ongoing cost reduction initiatives in an effort to address revenue declination in the legacy print business.

#### **Debt Repayment**

During the three months ended May 31, 2019, the Company made a redemption of \$5.5 million first-lien notes related to the funds held in escrow from the sale of Infomart that were released in March 2019 and in May 2019 Company made a mandatory debt repayment of \$5.0 million, bringing the total principal amount of first-lien notes outstanding to \$94.8 million and the total repayments made, since October 2016, to \$130.2 million.

#### **CAAT Pension Plan**

On July 2, 2019, Postmedia announced that it had received approval from the members of its six defined benefit pension plans (the "Postmedia Plans") to merge the Postmedia Plans with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Plan") effective July 1, 2019 (the "Effective Date"). On the Effective Date, Postmedia became a participating employer under the CAAT Plan and all members of the Postmedia Plans, as well as members of Postmedia's defined contribution pension plan, began accruing benefits under the DBplus provisions of the CAAT Plan. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers.

The merger remains subject to approval from the Financial Services Regulatory Authority of Ontario ("FSRA") following the submission of a prescribed application requesting consent to the merger. The CAAT Plan will assume the defined benefit obligations of the Postmedia Plans accrued prior to July 1, 2019 contingent on the approval by FSRA of the transfer of the approximately \$500 million of plan assets.

#### **Additional Information**

Additional information, including financial statements and management's discussion and analysis can be found on the Company's website at <a href="www.postmedia.com/investors/financial-reports">www.postmedia.com/investors/financial-reports</a> or on SEDAR at <a href="www.sedar.com">www.sedar.com</a>.

Note: All dollar amounts are expressed in Canadian dollars unless otherwise specified.

#### **About Postmedia Network Canada Corp.**

Postmedia Network Canada Corp. (TSX:PNC.A, PNC.B) is the holding company that owns Postmedia Network Inc., a Canadian newsmedia company representing more than 140 brands across multiple print, online, and mobile platforms. Award-winning journalists and innovative product development teams bring engaging content to millions of people every week whenever and wherever they want it. This exceptional content, reach and scope offers advertisers and marketers compelling solutions to effectively reach target audiences. For more information, visit www.postmedia.com.

#### **Forward-Looking Information**

This news release may include information that is "forward-looking information" under applicable Canadian securities laws. The Company has tried, where possible, to identify such information and statements by using words such as "believe," "expect," "intend," "estimate," "anticipate," "may," "will," "could," "would," "should" and similar expressions and derivations thereof in connection with any discussion of future events, trends or prospects or future operating or financial performance. Forward-looking statements in this news release include statements with respect to the implementation and results of the Company's transformation initiatives, journalism tax credit, the realization of anticipated cost savings, the identification and undertaking of ongoing cost savings initiatives and the pension plan merger. By their nature, forward-looking information and statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include, among others: competition from digital and other forms of media; the effect of economic conditions on advertising revenue; the ability of the Company to build out its

digital media and online businesses; the failure to maintain current print and online newspaper readership and circulation levels; the realization of anticipated cost savings; the possibility that FSRA does not approve the merger with the CAAT Plan; possible damage to the reputation of the Company's brands or trademarks; possible labour disruptions; possible environmental liabilities, litigation and pension plan obligations; fluctuations in foreign exchange rates and the prices of newsprint and other commodities. For a complete list of our risk factors please refer to the section entitled "Risk Factors" contained in our annual management's discussion and analysis for the years ended August 31, 2018 and 2017. Although the Company bases such information and statements on assumptions believed to be reasonable when made, they are not guarantees of future performance and actual results of operations, financial condition and liquidity, and developments in the industry in which the Company operates, may differ materially from any such information and statements in this press release. Given these risks and uncertainties, undue reliance should not be placed on any forward-looking information or forward-looking statements, which speak only as of the date of such information or statements. Other than as required by law, the Company does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.

#### For more information:

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## Postmedia Network Canada Corp. Consolidated Statements of Operations (UNAUDITED)

thousands of Canadian dollars, except per share amounts)	For the three months ended May 31,		For the nine months ended May 31,	
	2019	2018	2019	2018
Revenues				
Print advertising	64,756	78,580	201,943	239,776
Print circulation	51,384	54,816	155,540	166,441
Digital	32,902	29,890	93,834	87,551
Other	8,016	7,763	22,713	23,848
Total revenues	157,058	171,049	474,030	517,616
Expenses	•	ŕ	,	•
Compensation	59,181	63,525	174,513	179,236
Newsprint	9,132	9,880	27,754	29,738
Distribution	30,195	32,540	91,070	99,925
Production	19,940	21,895	59,294	62,895
Other operating	28,995	27,757	85,406	85,346
Operating income before depreciation, amortization, impairment and	9,615	15,452	35,993	60,476
restructuring				
Depreciation	3,853	5,490	13,140	16,016
Amortization	3,119	4,259	10,640	11,926
Impairment	-	9,400	6,600	9,400
Restructuring and other items	482	2,961	4,255	13,455
Operating income (loss)	2,161	(6,658)	1,358	9,679
Interest expense	6,608	6,343	20,827	20,696
Gain on disposal of operations	-	-	-	(4,676)
Net financing expense related to employee benefit plans	541	735	1,622	2,206
(Gain) loss on disposal of property and equipment and assets held-for-sale	(1)	46	(11,446)	(1,496)
(Gain) loss on derivative financial instruments	(1,436)	331	(10)	(204)
Foreign currency exchange losses	4,130	1,426	5,335	4,171
Loss before income taxes	(7,681)	(15,539)	(14,970)	(11,018)
Provision for income taxes	-	-	-	-
Net loss from continuing operations	(7,681)	(15,539)	(14,970)	(11,018)
Net earnings from discontinued operations, net of tax of nil		-	791	-
Net loss attributable to equity holders of the Company	(7,681)	(15,539)	(14,179)	(11,018)
Loss per share from continuing operations				
Basic	\$(0.08)	\$(0.17)	\$(0.16)	\$(0.12)
Diluted	\$(0.08)	\$(0.17)	\$(0.16)	\$(0.12)
Earnings per share attributable from discontinued operations				
Basic	\$ -	\$ -	\$0.01	\$ -
Diluted	\$ -	\$ -	\$0.01	\$ -
Loss per share attributable to equity holders of the Company		<b></b>	# ·= · =	
Basic	\$(0.08)	\$(0.17)	\$(0.15)	\$(0.12)
Diluted	\$(0.08)	\$(0.17)	\$(0.15)	\$(0.12)

# Postmedia Network Canada Corp. Consolidated Statements of Financial Position (UNAUDITED)

(In thousands of Canadian dollars)	As at May 31, 2019	As at August 31, 2018	
		(revised)	
Assets			
Current Assets			
Cash	13,046	26,037	
Restricted cash	13	5,711	
Accounts receivable	68,410	68,069	
Assets held-for-sale	24,475	6,827	
Inventory	4,032	6,219	
Prepaid expenses and other assets	10,917	9,561	
Total current assets	120,893	122,424	
Non-Current Assets			
Property and equipment	111,867	154,465	
Derivative financial instruments	2,489	2,479	
Intangible assets	64,596	73,895	
Total assets	299,845	353,263	
Liabilities and Equity Current Liabilities		42.020	
Accounts payable and accrued liabilities	57,472	62,833	
Provisions	8,967	18,666	
Deferred revenue	26,459	28,994	
Current portion of long-term debt	4,996	8,718	
Total current liabilities	97,894	119,211	
Non-Current Liabilities			
Long-term debt	242,714	264,022	
Employee benefit obligations and other liabilities	108,055	62,703	
Provisions	196	526	
Total liabilities	448,859	446,462	
Deficiency			
Capital stock	810,861	810,836	
Contributed surplus	14,540	13,589	
Deficit Deficit	(974,415)	(917,624)	
Total deficiency	(149,014)	(93,199)	
Total liabilities and deficiency	299,845	353,263	

### Postmedia Network Canada Corp. Consolidated Statements of Cash Flows (UNAUDITED)

(In thousands of Canadian dollars)	For the three months ended May 31,		For the nine months ended May 31,	
	2019	2018	2019	2018
Cash Generated (Utilized) by:				
Operating Activities				
Net loss attributable to equity holders of the Company	(7,681)	(15,539)	(14,179)	(11,018)
Items not affecting cash:	,	, , ,	, , ,	, , ,
Depreciation	3,853	5,490	13,140	16,016
Amortization	3,119	4,259	10,640	11,926
Impairment	-	9,400	6,600	9,400
Gain on disposal of operations	_	-	, -	(4,676)
(Gain) loss on derivative financial instruments	(1,436)	331	(10)	(204)
Non-cash interest	4,590	3,786	13,710	11,263
Gain (loss) on disposal of property and equipment and assets held-for-sale	(1)	46	(11,446)	(1,496)
Non-cash foreign currency exchange losses	4,169	1,466	5,405	4,272
Gain on sale of discontinued operations	-	-	(791)	
Share-based compensation plans expense	243	352	951	2,882
Net financing expense relating to employee benefit plans	541	735	1,622	2,206
Non-cash compensation expense of employee benefit plans	218	_	639	-
Employee benefit plan funding in excess of compensation expense	_	(1,452)	-	(5,252)
Net change in non-cash operating accounts	(6,047)	(7,646)	(22,328)	(34,705)
Cash flows from operating activities	1,568	1,228	3,953	614
Investing Activities  Net proceeds from the sale of property and equipment and assets held-for-sale	1	(45)	20,736	9,784
Purchases of property and equipment	(1,034)	(336)	(2,479)	(619)
Purchases of intangible assets	(1,150)	(167)	(1,341)	(596)
Cash flows from (used in) investing activities	(2,183)	(548)	16,916	8,569
Financing activities				
Repayment of long-term debt	(10,510)	(925)	(39,583)	(80,367)
Advances from (repayments of) senior secured asset-based revolving credit facility	(10,010)	(3,000)	-	9,000
Restricted cash	5,700	(2)	5,698	62,040
Issuance of shares	-	-	25	
Cash flow used in financing activities	(4,810)	(3,927)	(33,860)	(9,327)
Net change in cash for the period	(5.405)	(2.247)	(12.001)	(1.4.4)
Cash at beginning of period	(5,425) 18,471	(3,247) 13,951	(12,991) 26,037	(144) 10,848
Cash at end of period	13,046	10,704	13,046	10,704
Supplemental disclosure of operating cash flows				
Interest paid	4,310	5,533	10,200	14,436
Income taxes paid	-	-	-	