Avusa interims: disappointing results, tough times

Avusa has announced its unaudited condensed consolidated financial results for the six months ended 30 September 2011. Despite the disappointing first-half results, it says its financial position remains strong, with further bottom-line initiatives planned for the second half.

Revenue for the six months to 30 September 2011 grew 23% over the prior period. Excluding the recently acquired Retail Solutions business unit, revenue contracted by 4% or R101 million, affecting profitability. The decline, while largely a result of adverse trading conditions in the current global economic slowdown, also reflects the benefit of R36 million of 2010 Soccer World Cup revenue in the prior year.

Media highlights

The media business unit includes the group's interests in newspapers, magazines, out-of-home advertising and the digital businesses of I-Net Bridge, Interactive Junction Holdings (formerly Career Junction) and Amorphous.

The protracted economic slowdown affected the performance of this business unit, depressing both advertising and circulation revenues. With the banking, investment and insurance sector under severe pressure, there were steep cuts in advertising spend from this sector. Telecommunications companies also curtailed their marketing activities, while recruitment advertising remained stagnant in an economy that continues to shed jobs. Growth in the share of retailer advertising was insufficient to offset the decline in the three other main ad spend categories.

Newspaper circulations remained under pressure, with most titles recording decreases. In this environment, it was pleasing that *The Times* continued to grow its circulation. The *Sunday Times* increased core circulation but recorded a marginal decline in total sales.

To ensure continued profitability in this challenging environment, we have initiated a process extensively restructuring our newspaper and magazine operations. The half-year numbers include once-off retrenchment costs of R6m.

While our digital businesses were also affected by the economy, the primary reason for their muted contribution was investment in new-generation products. During the review period, I-Net Bridge successfully launched its I-Graph Version 3 product, while Interactive Junction Holdings launched Auto Junction and Property Junction to complete its suite of classified offerings alongside the successful Career Junction.

Retail Solutions

The Retail Solutions business unit comprises Hirt & Carter and Uniprint. The retail solutions market, with key industry sectors under financial pressure, remained extremely competitive and price sensitive. Accordingly, there was a strong focus on material content, improved efficiencies and tight cost controls. The strong rand assisted in keeping imported material costs down, but hurt competitiveness in the business unit's African export markets. Software, systems, innovation and differentiation remain vital to the business's strategy and success.

Uniprint benefited from supplying print material for South Africa's local elections in May and for the Zambian general elections in September.

Books

The Books business unit consists of book retail (Exclusive Books, Van Schaik Bookstore and Exclusives.co.za), book and map publishing (Random House Struik, Struik Christian Media, New Holland Publishers and Map Studio), digital mapping (MapIT) and book logistics (Booksite Afrika and Mega Digital).

The sale of two commercial properties acquired in terms of purchase options on lease terminations generated a profit of R28 million.

Exclusive Books was affected by the depressed economic environment and resultant impact on disposable income, resulting in lower demand for leisure books and a behavioural shift, with consumers `buying down'. Trading during the period was also hampered by refurbishment of two Exclusive Books stores and construction work in four shopping malls housing Exclusive Books shops.

In line with international trends, online and digital sales continue to grow. Academic book sales through Van Schaik Bookstore flourished as the business benefits from growing student numbers at tertiary education institutions and increased levels of government funding made available to students.

Despite soft trading conditions, the South African book publishing businesses traded ahead of the prior year because of strong publishing programmes. The offshore publishing businesses struggled in extremely tough book markets, which are still trying to recover from major chains being liquidated or entering administration in the prior year. Map Studio's paper-based mapping remained under pressure as mapping increasingly shifts towards digital applications.

MapIT, the digital mapping business, has been affected by declining navigational revenues, the largest of its income streams, as a result of downward data pricing pressures, the negative impact of the strong rand on euro-denominated earnings and lower volumes of personal navigation devices sold into the market. The business also lost a major navigation customer following alignment with the customer's international parent.

Despite lower volumes, the book logistics business performed well, driven by good performance at Mega Digital, our digital book-printing business. The business unit has embarked on a number of cost-saving and revenue/margin-enhancing initiatives, which are expected to have a positive impact by year end. Cost-saving initiatives include a significant cut-back of our UK business at the end of October 2011, a targeted response to marginal and unprofitable Exclusive Books stores, a review of staffing at store level and across back-office functions and specific measures to cut major expense items. Revenue/margin-enhancing initiatives include widening the non-book product range with emphasis on natural extensions, negotiating with suppliers to improve purchase terms and implementation of a co-operative advertising model to monetise in-store promotion space.

Entertainment

The Entertainment business unit comprises Nu Metro (Films, Cinemas, Home Entertainment and Popcorn Cinema Advertising), Gallo Music, Entertainment Logistics Services (ELS), Compact Disc Technologies (CDT), Associated Musical Distributors (AMD), Media Guide and Collage Litho.

The business unit faced multiple challenges in the first six months of the year. Retail-facing businesses, Home Entertainment and Gallo Music, tackled weak content, format change, price deflation and constrained consumer disposable income, with knock-on effects at the manufacturing arm, CDT, and logistics businesses, AMD and ELS, due to reduced volumes and average unit revenues.

Strong content, particularly over the June/July holiday period, supported trading at Nu Metro Films, Nu Metro Cinemas and Popcorn Cinema Advertising. The release of a higher volume of 3D films boosted average cinema ticket prices.

Collage Litho's good performance was enhanced by the internalisation of group spend. A continued concentration on cost control resulted in business unit overheads being well contained. This business unit will begin a remodelling exercise to address costs and restructure the business to manage potential format declines better and continued price deflation pressures.

Outlook

Economic conditions during the first half of the year were uncertain and challenging and remain so. Mindful of the current economic environment, Avusa is in the process of implementing a number of initiatives to improve the performance of the group. In addition to the pursuit of growth in the Media and Retail Solutions business units, efficiency improvements including restructurings have been initiated group-wide to enhance margins and contain costs.

Full results.