Letter to Shareholders

COVID-19 pandemic puts a temporary brake on business development. Comprehensive measures to secure liquidity and reduce costs. Focus on growth projects in the areas of digitalization, data, innovation. Financial situation sound.

In brief

– Advertising revenue: CHF 107.8 million –29.2% (Switzerland –28.6%, International –40.5%)
– EBITDA: CHF –0.2 million
– EBIT: CHF –5.1 million
– Consolidated net income: CHF –5.1 million
– Free cash flow: CHF 3.0 million

Financial highlights

in CHF 1 000	1st half of 2020	1st half of 2019	Change
Advertising revenue	**107 810**	152 262	–29.2%
– Switzerland	**103 484**	144 994	–28.6%
– International	**4 326**	7 269	–40.5%
Operating income	**110 297**	153 127	–28.0%
EBITDA	**–206**	29 741	–100.7%
– in % of operating income	**–0.2%**	19.4%	
EBIT	**–5 092**	24 441	–120.8%
– in % of operating income	**–4.6%**	16.0%	
Consolidated net income	**–5 066**	19 386	–126.1%
– in % of operating income	**–4.6%**	12.7%	
Cash flow from operating activities	**4 786**	12 505	–61.7%
Free cash flow[1]	**2 968**	9 807	–69.7%
Investments in property, plant, and equipment	**3 018**	2 738	10.2%
– advertising panel	**2 718**	2 168	25.4%
– other investments	**300**	570	–47.4%
Loss/Earnings per share, in CHF	**–1.69**	6.46	–126.2%

EBITDA: Earnings before interest, taxes, depreciation of property, plant, and equipment, and amortization of intangible assets
EBIT: Earnings before interest and taxes

[1] Cash flow from operating activities (operating cash flow) CHF 4 786 (previous year: 12 505) less cash flow from investing activities CHF 1 818 (previous year: 2 698), (see page 12 Consolidated statement of cash flows)

Dear Shareholder:

General business development

This year opened on a highly favorable note for APG|SGA. Both January and February brought evidence of substantial dynamism in revenue growth. The positive development of our growth projects inspired confidence as we looked ahead to the rest of the year.

In March, however, development of revenues and results was massively influenced from one day to the next as we felt the impact of the COVID-19 pandemic. This was caused by two factors beyond our control.

First, the business model for any outdoor advertising company depends on the reach that advertising panels achieve among the population. For APG|SGA, this primarily means analog and digital advertising spaces in public areas, such as railway stations and airports. Although the lockdown measures ordered by the Federal Council were certainly in the public interest, they led to a massive drop in passing traffic in these communication spaces from March. This took away a key foundation of our business activities, and as a consequence a large number of advertisers canceled their outdoor campaigns with immediate effect. The second factor was the closure of retail businesses during the lockdown period, ordered as part of the extraordinary measures. No longer able to sell to customers in store, many businesses halted their advertising campaigns. Poor economic prospects and cost saving measures on the side of our customers acted as further dampeners on advertising activities.

The resulting drop in revenue hit the company directly, and with great force, particularly in the second quarter. We see this pressure on the result; given the historic collapse in revenue, higher minimum guarantees and concession fees have had a correspondingly negative impact.

When the pandemic broke out, we immediately took numerous extensive and consistent measures to secure liquidity and reduce costs. We experienced a great deal of solidarity from shareholders, employees and contract partners, who all helped to support the company through this unprecedented crisis.

Despite the persistence of poor general conditions and limited visibility over the coming reporting period, the fundamental factors for both outdoor advertising and APG|SGA remain positive, as the start of the year demonstrates. Despite the strict overall cost-saving measures in place, we have continued our digital project developments and expanded our service portfolio. In the last few months, we have also entered into various marketing contracts. We are therefore confident that we have laid the groundwork for sustainable expansion of our competitive position.

APG|SGA Group

In the first half of 2020, the APG|SGA Group achieved advertising revenues totaling CHF 107.8 million, representing a reduction in sales of 29.2%. Real estate revenue was CHF 0.8 million, about the same level as the previous year. Income from the sale of obsolete tangible assets was recorded under other operating income, which amounted to CHF 1.7 million in the reporting period. This resulted in operating income for the first half of 2020 of CHF 110.3 million, representing a fall of 28.0%.

Fees and commissions represented 63.6% of operating income in the first half-year 2020, clearly exceeding the previous year's level of 50.9%. The main drivers of this increase were concession contracts with non-sales volume related fees, combined with a sharp reduction in revenue. This key figure is also influenced by tougher competitive conditions in the procurement market for strategic contracts.

Personnel expenses fell by 15.5% in the reporting period. A freeze on bonuses, a temporary reduction in management remuneration and compensation for short-term work contributed to this reduction. Operating and administrative costs were 2.4% lower than the previous year's period. Although the reduction in expenses for core business was in the two-figure percentage range, expenditure on growth projects in the digital service portfolio and for digital booking and processing platforms increased.

The massive drop in revenue, a direct consequence of the COVID-19 crisis, greatly influenced the operational result despite strict cost-saving measures. For the reporting period, this resulted in an EBITDA of CHF –0.2 million (previous year: CHF 29.7 million) and an EBIT of CHF –5.1 million (previous year: CHF 24.4 million).

APG|SGA reports as per Swiss GAAP ARR guidelines and has opted not to capitalize losses carried forward. This means that despite the negative ordinary result before income tax, tax income is minimal. The consolidated net income for the first half of 2020 amounted to CHF –5.1 million (previous year: CHF 19.4 million).

Cash flow

Operating cash flow for the first half-year 2020 amounted to CHF 4.8 million (previous year: CHF 12.5 million). As receivables from customers have decreased significantly, this drop of 61.7% was significantly lower than for consolidated net income.

Cash flow from operating activities is subject to seasonal fluctuations and is always significantly lower in the first half of the year than the second.

After deduction of cash flow from investment activities of CHF 1.8 million, this resulted in a free cash flow of CHF 3.0 million (previous year: CHF 9.8 million).

Balance sheet

The balance sheet total fell by CHF 16.7 million in the first half of 2020 to CHF 176.2 million.

Lower investment resulted in fixed assets falling by CHF 3.1 million to CHF 85.8 million. Intangible assets amounted to CHF 20.3 million, corresponding to 11.5% of total assets. Current assets fell by CHF 13.6 million, driven in particular by significantly lower trade accounts receivable. As at June 30, 2020, cash and cash equivalents stood at CHF 44.9 million.

Equity amounted to CHF 72.0 million, representing an equity ratio of 40.8%.

Swiss market

For the first half of 2020, advertising revenues for APG|SGA stood at CHF 103.5 million, 28.6% below the previous year. Almost every customer segment and category was affected equally by this drop, although – as expected – online and traditional retailers proved considerably more robust. Greater flexibility in booking and cancellation options meant that the drop in revenue was a little lower for digital products than for analog advertising options. Products in the communication spaces of railway stations, public transport, airports and the promotional space business were affected by an above-average rate of compensation claims due to reduced footfall. The months of March, April and May were particularly affected by this reduction in revenue, with the first signs of recovery becoming evident in late May and June.

To further this positive momentum, APG|SGA launched a major sales promotion campaign to support and boost its advertising activities as the first easing measures were introduced in early May. This “Welcome back out of home” package met with a considerable response, and numerous short-term campaigns were carried out.

Recent weeks have brought the first signs of recovery in the activities of agents and customers. APG|SGA has therefore progressively phased out short-time work in order to secure the operational conditions for active market development.

Throughout the first half of 2020, new high-performance digital branding zones in major SBB stations went into operation. The February launch of six exclusive branding zones with 77 “Rail ePanels” in Zurich’s main station was followed in June by seven branding zones with 39 new screens in Bern and Lucerne stations.

In early June, APG|SGA launched its programmatic advertising service in collaboration with the leading international platform VIOOH. Large cities and railway stations now have more than 500 screens available for programmatically planned and booked campaigns. This allows customers to manage their campaigns efficiently and much more flexibly and to profit from additional targeting opportunities.

In the first half-year 2020, APG|SGA was able to further optimize its contract portfolio and create sound conditions for further growth through various tender procedures. APG|SGA and BLS are renewing their partnership and further expanding their collaboration. PostAuto awarded our company the contract to market advertising spaces on and in some 1,600 vehicles. This represents the lion’s share of the PostAuto inventory – in both revenue and number of advertising panels – and continues the longstanding collaboration between APG|SGA and Switzerland’s largest public transport bus company, and underlines its leading market position in transport advertising. APG|SGA also renewed its successful partnership with transport operator TPF for the management of numerous advertising spaces in attractive locations in the city of Fribourg.

International markets

APG|SGA's international operations in the form of Serbian subsidiary Alma Quattro d.o.o. contributed 4.0% to group revenues in the reporting period.

Although the first months of the year saw a revenue increase over the previous year, Serbia witnessed a similarly sharp drop in revenues in April due to the COVID-19 lockdown. Since June, there has been a slow return of revenues.

Advertising revenues declined at a rate of 37.1% in local currency in the first half of 2020. The weakening of the Serbian dinar resulted in a reduction of 40.5% in Swiss francs.

Although Alma Quattro has a long-term exclusive contract with the capital Belgrade, early 2020 saw a competitor awarded the concession to operate more than 250 digital advertising panels in the city. In our view, this award violates the exclusivity clause of the contract with Alma Quattro. Legal proceedings to contest this award are currently underway. There have also been a number of attempts at the diplomatic level to protect investments and ensure fair proceedings and legal certainty.

Organization

At the APG|SGA AG General Meeting on May 14, 2020, Dr. Maya Bundt and Jolanda Grob were elected to the Board of Directors. All members up for reelection were confirmed for a further year. The Board of Directors comprises: Dr. Daniel Hofer (Chairman), Dr. Maya Bundt, Xavier Le Clef, Jolanda Grob, Stéphane Prigent, Robert Schmidli (Vice-Chairman) and Markus Scheidegger. Robert Schmidli, Markus Scheidegger and Jolanda Grob were elected to the Board of Directors' Remuneration Committee.

Outlook

The gradual easing of restrictive measures since May has shown how much people enjoy being “out of home” again. People are increasingly getting about on foot, by bicycle, on public transport or in cars, to the office, to school, or just shopping and enjoying their leisure time. This is good news for awareness of APG|SGA advertising space and is leading to increased advertiser requests and bookings. These positive indicators aside, the general conditions with respect to both the course of the COVID-19 pandemic and the economy remain difficult to assess. A reliable forecast of business development in the second half of the year is thus not feasible.

The Board of Directors and the Executive Board feel strongly that APG|SGA is very robust overall and will emerge from this crisis stronger due to its proven business model. The convincing fundamental factors that speak in favor of out of home media remain unchanged. The generally strong dynamic of the outdoor advertising market will continue after the crisis in Switzerland has come to an end. We are therefore convinced that the medium and long-term market and earnings prospects in the operational business for APG|SGA, which plays a key role in both the analog and digital out of home media market in Switzerland, remain positive.

APG|SGA would like to take this opportunity to thank its employees, all of whom have responded with great commitment, flexibility, discipline and confidence to the extraordinary situation and measures such as short-time work, working from home and compliance with distancing and hygiene rules.

On behalf of the Board of Directors and the Executive Board, we would also like to thank our shareholders, market partners, advertising customers and concession issuers for their support and trust in our company in these challenging times.

Dr. Daniel Hofer
Chairman of the Board

Markus Ehrle
Chief Executive Officer

Consolidated balance sheet

Assets

in CHF 1 000	30.06.2020	31.12.2019
Buildings and land	**31 729**	32 576
Advertising panel	**22 490**	22 381
Other property, plant, and equipment	**3 447**	4 074
Property, plant, and equipment	**57 666**	59 031
Deferred tax assets	**1 367**	1 351
Other financial investments	**6 532**	7 400
Financial investments	**7 899**	8 751
Goodwill	**5 473**	5 648
Contractual advertising rights	**14 799**	15 515
Intangible fixed assets	**20 272**	21 163
Non-current assets	**85 837**	88 945
Inventories	**4 159**	3 865
Trade accounts receivable	**24 864**	44 331
Other accounts receivable	**11 183**	7 415
Deferred expenses and accrued income	**5 219**	6 547
Cash and cash equivalents	**44 936**	41 762
Current assets	**90 361**	103 920
Total	**176 198**	192 865

Shareholders’ equity and liabilities

in CHF 1 000	30.06.2020	31.12.2019
Share capital	**7 800**	7 800
Capital reserves, premiums	**12 942**	13 246
Treasury shares	**–313**	–853
Translation differences	**–2 454**	–2 098
Retained earnings	**53 982**	59 048
Shareholders’ equity	**71 957**	77 143
Financial liabilities	**322**	350
Provisions	**7 320**	7 979
Deferred tax liabilities	**3 008**	3 302
Non-current liabilities	**10 650**	11 631
Trade accounts payable	**5 136**	7 989
Taxes payable	**2 998**	7 265
Other accounts payable	**34 624**	29 995
Accrued liabilities and deferred income	**49 902**	56 454
Provisions	**931**	2 388
Current liabilities	**93 591**	104 091
Liabilities	**104 241**	115 722
Total	**176 198**	192 865

Consolidated income statement

in CHF 1 000	1st half of 2020	1st half of 2019	Change
Advertising revenue	**107 810**	152 262	–29.2%
Real estate revenue	**826**	839	–1.5%
Other operating income	**1 661**	26	
Operating income	**110 297**	153 127	–28.0%
Fees and commissions	**–70 153**	–77 953	–10.0%
Personnel expenses	**–25 834**	–30 566	–15.5%
Operating and administrative costs	**–14 516**	–14 867	–2.4%
Operating result before depreciation and amortization (EBITDA)	**–206**	29 741	–100.7%
Depreciation of tangible assets	**–4 246**	–4 644	–8.6%
Amortization of intangible assets	**–465**	–481	–3.3%
Amortization of goodwill	**–175**	–175	
Operating result (EBIT)	**–5 092**	24 441	–120.8%
Financial result	**–85**	–2	
Result from joint ventures		–130	
Ordinary result before income tax	**–5 177**	24 309	–121.3%
Income tax	**111**	–4 923	
Consolidated net income	**–5 066**	19 386	–126.1%
Basic and diluted loss/earnings per share, in CHF	**–1.69**	6.46	–126.2%

Consolidated statement of changes in equity

in CHF 1 000	Share capital	Capital reserves premiums	Treasury shares	Translation differences	Retained earnings	shareholders' equity
as at January 1, 2019	7 800	13 449	–748	–1 461	77 171	**96 211**
Consolidated net income					19 386	**19 386**
Translation differences				–253		**–253**
Distributions					–59 955	**–59 955**
Purchase of treasury shares			–342			**–342**
Sale of treasury shares		–215	911			**696**
Equity transaction costs		–4				**–4**
as at June 30, 2019	7 800	13 230	–179	–1 714	36 602	**55 739**
as at January 1, 2020	7 800	13 246	–853	–2 098	59 048	**77 143**
Consolidated net income					–5 066	**–5 066**
Translation differences				–356		**–356**
Purchase of treasury shares			–370			**–370**
Sale of treasury shares		–300	910			**610**
Equity transaction costs		–4				**–4**
as at June 30, 2020	7 800	12 942	–313	–2 454	53 982	**71 957**

Consolidated statement of cash flows

in CHF 1 000	1st half of 2020	1st half of 2019
Consolidated net income	**–5 066**	19 386
Depreciation and amortization	**4 886**	5 300
Changes in provisions	**–704**	–187
Changes in deferred taxes	**–305**	–358
Financial result with no cash impact	**46**	20
Gain from sale of non-current assets	**–1 661**	–25
Result from joint ventures		130
Change in inventories	**–300**	–995
Change in accounts receivable	**15 555**	–2 027
Change in deferred expenses and accrued income	**1 295**	–4 821
Change in accounts payable and taxes payable	**–2 432**	305
Change in accrued liabilities and deferred income	**–6 528**	–4 223
Cash flow from operating activities	**4 786**	12 505
Capital expenditures in property, plant, and equipment	**–3 018**	–2 738
Capital expenditures in intangible assets	**–1 324**	–24
Sale of property, plant, and equipment	**1 711**	30
Sale of financial investments	**813**	34
Net cash used in investing activities	**–1 818**	–2 698
Purchase of treasury shares	**–370**	–342
Sale of treasury shares	**606**	692
Discharge of non-current financial liabilities	**–22**	
Dividends to APG SGA SA shareholders		–59 956
Net cash used in financing activities	**214**	–59 606
Currency translation effect on cash and cash equivalents	**–8**	2
Change in cash and cash equivalents	**3 174**	–49 797
Cash and cash equivalents as at January 1	**41 762**	60 128
Cash and cash equivalents as at June 30	**44 936**	10 331

Notes to the consolidated financial statements

Reporting principles of APG|SGA SA

This interim financial report includes the unaudited semi-annual financial statements for the reporting period ended on June 30, 2020. The consolidated semi-annual financial statements were prepared in compliance with interim financial statement requirements as per Swiss GAAP ARR 31 *Complementary Recommendation for Listed Companies*, which permits condensed reporting and disclosures in comparison to the annual financial statements, and with the listing rules of the SIX Swiss Exchange.

APG|SGA does not report any segment earnings in its financial reports, because its direct competitors in Switzerland and in Serbia also do not publish any segment earnings. Disclosing them would put APG|SGA at a significant competitive disadvantage due to the low level of diversification abroad.

The preparation of the consolidated financial statements requires that management makes estimates and assumptions that influence the disclosed assets, liabilities, contingent assets and liabilities on the closing date as well as income and expenditure for the reporting period. The actual results may deviate from these estimates.

Our business is influenced by seasonal effects.

Changes in the scope of consolidation and minority interests

In the first half of 2020, the scope of consolidation compared with the prior-year period was not changed.

In the first half of the previous year, the scope of consolidation compared with the same period in 2018 was also not changed.

Change in shareholders’ equity

In light of the current COVID-19 crisis, the General Meeting on May 14, 2020 resolved that no dividend will be distributed for the financial year 2019.

Agenda

Announcement of annual results 2020 and publication of the annual report
Monday, March 15, 2021

Financial media and analysts conference
Monday, March 15, 2021, Zurich

General Meeting
Wednesday, April 28, 2021, Geneva

Announcement of semi-annual results 2021
Thursday, July 29, 2021

Contacts

Markus Ehrle, Chief Executive Officer
T +41 58 220 71 73

Beat Hermann, Chief Financial Officer
T +41 58 220 77 47

Explanation of financial terms

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation of property, plant and equipment, and amortization of intangible assets

Equity ratio
Shareholders’ equity in % of balance sheet total

Free cash flow
Cash flow from operations minus cash flow from investments

This letter to shareholders is available
in German, French and English.
The German version is legally binding.

APG|SGA
Out of Home Media

www.apgsga.ch
APG|SGA AG
Carrefour de Rive 1
CH-1207 Genève
investors@apgsga.ch

APG|SGA AG is Switzerland's leading Out of Home media company. Listed on the SIX Swiss Exchange, APG|SGA covers all aspects of outdoor advertising: on streets and squares, in railway stations, at airports, in shopping centers, in the mountains as well as in and on means of transport – from poster campaigns with the widest coverage and large formats to state-of-the-art digital advertising spaces, special advertising formats, promotions and mobile advertising. When communicating with customers, the authorities and the advertising industry, APG|SGA represents sustainability and innovation, aiming to inspire people with the very best communication solutions in public spaces.

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