APG|SGA
Out of Home Media

Letter to Shareholders

www.apgsga.ch

Strong operational performance.
Consistent development of analog and digital portfolio.
Dividend/special dividend totaling CHF 20 per share.

In brief

- Group-wide sales revenues rose by 0.5% to CHF 302.1 million
- Operating margins at a high level:
  EBITDA margin: 23.9% (previous year 24.5%)
  EBIT margin: 19.5% (previous year 20.1%)
- Fall of 7.0% in net income to CHF 47.2 million
- Increase of 10.8% in free cash flow to CHF 41.6 million

Financial highlights

in 1 000 CHF	2018	2017	Change
Sales revenue	**302 110**	300 693	0.5%
– Switzerland	**287 232**	288 071	–0.3%
– International	**14 878**	12 622	17.9%
Operating income	**304 567**	304 777	–0.1%
EBITDA	**72 674**	74 770	–2.8%
– in % of operating income	**23.9%**	24.5%	
EBIT	**59 514**	61 330	–3.0%
– in % of operating income	**19.5%**	20.1%	
Net income	**47 176**	50 720	–7.0%
– in % of operating income	**15.5%**	16.6%	
Cash flow	**58 788**	60 204	–2.4%
Free cash flow	**41 623**	37 560	10.8%
Investments in property, plant, and equipment	**7 056**	10 963	–35.6%
– advertising plant	**5 224**	8 144	–35.9%
– other investments	**1 832**	2 819	–35.0%
Net income per share, in CHF	**15.74**	16.92	–7.0%

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

Dear Shareholder:

General business development

Overall, APG|SGA enjoyed a successful 2018 financial year in operational terms. Sales revenues rose slightly at the group level, thanks in particular to a gratifying second semester in Switzerland and highly positive development in Serbian activities. Another pleasing result was an increase in digital revenues of double-figure percentages in both markets. Profitability in operational business remained at a high level, thanks to a diverse range of measures. Competition has further intensified in the Swiss market. So it is all the more pleasing that the company managed to secure important city contracts in the last year. We also succeeded in further expanding our comprehensive contractual and product portfolio, particularly in the digital range.

APG|SGA Group

Sales revenues rose by 0.5% to CHF 302.1 million in the financial year 2018. Organic growth amounted to 0.2% in local currency terms, with currency factors having a positive impact of 0.3% on sales revenues. Although sales revenues fell by 0.3% in the Swiss domestic market, the international segment recorded a considerable rise of 17.9%.

Income from real estate remained at the previous year's level. Other income fell by 66.9% in the reporting year, a movement associated with the disposal of superfluous fixed assets.

Expenses for fees and commissions increased by 3.5% in the reporting year. Further process improvements brought personnel expenses down by 1.8% in the 2018 financial year. Operating and administrative costs fell by 5.5% compared with the previous year, a further substantial reduction that can be attributed to active cost management.

Despite higher expenses for fees and commissions, margins remained at a high level. The 2018 financial year saw an EBITDA margin of 23.9% (previous year: 24.5%) and an EBIT margin of 19.5% (previous year: 20.1%).

Net income for financial year 2018 amounted to CHF 47.2 million (previous year: CHF 50.7 million), representing a reduction of 7.0% on the previous year. This is primarily attributable to a drop in disposal of fixed assets of CHF 1.6 million and negative currency effects of CHF 2.4 million compared with the previous year. The company managed to avoid negative interests despite the difficult interest rate environment.

Cash flow

Cash flow amounted to CHF 58.8 million during the 2018 financial year, representing a fall of 2.4% on the previous year. Cash flow from operating activities amounted to CHF 49.4 million. Investment in fixed assets of CHF 7.0 million, purchase of intangible fixed assets of CHF 1.1 million, financial investments of CHF 0.4 million and income from the sale of fixed assets of CHF 0.8 million resulted in a free cash flow of CHF 41.6 million. This represents an increase of 10.8% on the previous year.

Balance sheet

By the end of the reporting year, the balance sheet total had fallen by 14.9% to CHF 201.7 million. This reduction is primarily attributable to the decrease in cash and cash equivalents. The net cash position stood at CHF 60.1 million at the end of the 2018 financial year, representing a fall of CHF 30.4 million from the 2017 year-end. This decrease is primarily attributable to the dividend payment. Intangible assets account for 11.4% of total assets.

Swiss market

Net sales revenues for Switzerland in the reporting period amounted to CHF 287.2 million, just 0.3% below the previous year. Although sales volume in the first half of 2018 was lower than the previous year's period at 1.6%, positive development in the second half of the year brought sales revenues almost up to the previous year's levels.

Competition in the Swiss advertising market is highly intense, with traditional media such as print, radio and TV under particular pressure. Suppliers are countering these developments with extensive sales promotion activities and discounts, further widening the gap between gross and net income. For the overall advertising market (display advertising, without search), Media Focus records a reduction in gross investment of 3.5% for 2018. However, experience shows that the decline in actually achieved net assets (which will be published by Stiftung Werbestatistik in May 2019) may prove significantly greater.

It is also apparent that for APG|SGA, it is not just the monthly revenues that remain volatile and characterized by short-term developments, the progression of media spend in individual sectors also differs from year to year due to specific market conditions. Investments in the wholesale/retail chains, internet mail order and banking sectors were significantly lower than the previous year in some areas, but higher in the telecommunications, insurance/health insurance and political advertising sectors.

The core strength of APG|SGA is its broad portfolio of services, which offers a comprehensive all-round solution, both in product diversity and national coverage of the advertising market. This not only results in a unique market position, it also enables diversification of revenue streams, with different segments once again developing at varying speeds this reporting year. Although revenues for some segments that offer services for highly specific special formats and advertising packages were sometimes lower than anticipated, the core business of APG|SGA, Allgemeine Plakatgesellschaft AG, exceeded the figures of the previous year. This was also due to dynamic development in digital products, which saw a significant growth in revenues.

Business developments for APG|SGA Interaction were similarly pleasing. In late February, APG|SGA Interaction launched "aymo", the most precise mobile targeting in Switzerland. This unique in-house technology allows customers to deliver location-specific mobile targeting advertising – usually in connection with outdoor advertising – and is now delivered on more than 17 Swiss mobile apps. By late 2018, about 200 advertisers had successfully carried out more than 300 campaigns. The "aymo" service is expanding further and serves as an ideal 'door opener' for local, national and international customers that wish to benefit from the comprehensive APG|SGA range, which covers all communication spaces in analog and digital outdoor advertising, including promotional space and mobile media.

Customers also appreciate APG|SGA's various (self-)service tools, and are making greater use of them. Posters are increasingly being processed through "PosterDirect". This planning and booking platform expanded substantially toward the end of the year, with more than 15,000 indoor public transport spaces now on offer. In addition, the tool now boasts various features for smart processing of trade advertising. APG|SGA's numerous contracts with both private and public property owners represent a key business pillar. They enable the company to offer the advertising market a range of optimal, high quality spaces, both analog and digital. The sustainable growth potential of outdoor advertising due to the rapidly changing media land-scape has inspired other companies to launch or expand activities in the Swiss outdoor market, which has resulted in correspondingly higher costs in the procurement market. Years of experience with thousands of data profiles and international connections enable us to achieve a particularly high degree of planning security and realistic assessment of potential. The associated discipline in tendering results not just in sound bids, but also the conclusion that it is better to refrain from participating in certain tenders that we regard as unsustainable from an operational and/or advertising market viewpoint.

Fortunately, APG|SGA once again managed to renew numerous contracts and secure a number of key future prospects through public tender processes in the 2018 financial year, despite intensified competition.

These include public tenders in the cities of Thun, Fribourg and Zug, in which APG|SGA secured concession rights for several years. In addition, concession contracts and agreements with various destinations, include-ing Crans Montana, Engadin St. Moritz and Leysin, were renewed.

A competitor lodged an appeal against the tender process, after APG|SGA was awarded the contract for all batches of analog and digital third-party advertising space and the exclusive marketing of outdoor and indoor advertising on trains in the tender for third-party advertising space on SBB sites. This brought a halt to the conclusion of contracts and implementation of concepts. In May 2018, the Federal Administrative Court handed down an interim decision on the case that allowed APG|SGA to resume conclusion of contracts with SBB effective January 1, 2019, and to continue its collaboration and the substantial planned expansion – particularly in digital offers.

APG|SGA continued to make targeted investments in its premium portfolio of digital advertising sites in the financial year 2018. In January 2018, for instance, APG|SGA successfully implemented Switzerland's largest "City ePanel" network in Basel. In Lugano and St. Gallen, new "Rail ePanels" and "Rail eBoards" went into operation and Bern station saw installation of the spectacular "Rail ePanel AdWalk", with two networks of 14 screens each. And APG|SGA launched Ticino's first "Shopping ePanels" in Centro Shopping Serfontana. In the area of digital public transport advertising, more than 70% of the 500 "TrafficMediaScreens" planned for BernMobil are now in operation.

APG|SGA decided not to take part in a tender for a batch of advertising screens and interactive city maps in the city of Zurich. APG|SGA believes that unlike similar initiatives in other cities, the advertising opportunities of the tender do not meet the national and international standards required by the advertising market. In another tender for the city of Zurich for a total of 20 digital advertising spaces – also with limited advertising potential – a competitor offered considerably higher minimum guarantees, in excess of what APG|SGA considers acceptable.

In further legal proceedings concerning the award of the city of Geneva's poster concession to a competitor, the cantonal administrative court found against APG|SGA. APG|SGA regards the judgment as unreasonable and will contest it in the Federal Supreme Court.

International markets

Economic conditions in Serbia improved further during the reporting period. Our subsidiary there, Alma Quattro, enjoyed a highly successful 2018 financial year.

Sales revenues increased by 10.6% in local currency. Through a positive currency effect sales revenues increased in CHF by 17.9% compared with the previous year, to reach CHF 14.9 million. Margins increased significantly, thanks to economies of scale and structural optimization.

Digital advertising vehicles implemented in Belgrade city center in late 2017 contributed greatly to the strong growth in sales revenues. Further large-format advertising vehicles were installed in late 2018. The first few weeks of sales for this new installation were highly promising.

Alma Quattro enjoys an excellent position in the Serbian market. A robust service portfolio and long-term agreements provide the foundation for a successful future.

Organization

At the General Meeting on Thursday, May 24, 2018, all members of the Board of Directors were re-elected. Thus, the body continues to comprise Dr. Daniel Hofer (President), Robert Schmidli (Vice President), Xavier Le Clef, Stéphane Prigent and Markus Scheidegger. In operational management, the composition also remains unchanged.

Since the beginning of 2018, administrative activities have been centrally consolidated within the new "Operations" unit and carried out with the aid of newly developed IT solutions. This centralization and accompanying automation will free up front-line sales staff from administrative tasks, so they can focus more closely on integral customer support.

In view of further significant demands on the company resulting from advanced digitalization of our market environment, the Board of Directors has instructed the Executive Board to develop appropriate optimization measures and organizational changes to increase agility and further strengthen our competencies in the digital domain and the latest technology. These measures will be communicated and implemented starting mid-March.

Dividend

In recent years, the liquidity not required for ongoing operating business has been paid out to shareholders through a special dividend. The Board of Directors is of the opinion that this measure remains justifiable for the 2018 financial year as planned. Net cash reserves will then be at the level required for ongoing business activities.

The Board of Directors therefore proposes to the General Meeting that an ordinary dividend of CHF 10 and a special dividend of CHF 10 be paid for the 2018 financial year, amounting to a gross dividend of CHF 20.

The Board of Directors plans to propose a dividend payment of around CHF 11 per share for the next two financial years (2019 and 2020). This is subject to assessment of business performance and development of general conditions.

Outlook

The future prospects for outdoor advertising are pleasing both from a global perspective and for our markets in Switzerland and Serbia. In inter-media competition, worldwide forecasts see out-of-home advertising pulling ahead of other media forms and further improving its market position. Thanks to digitalization of advertising spaces and new planning, booking and format options, outdoor advertising is looking more modern and dynamic than ever.

We are the only provider with a comprehensive integrated portfolio of analog and digital products that covers all communication areas in every region, that is secure in the long term and supplemented by the promotional space business. With additional products from APG|SGA Interaction such as “aymo”, which provides an effective link between mobile advertising and out-of-home campaigns, we as a reliable partner of the advertising industry are able to offer effective one-stop targeted marketing along the entire out-of-home customer journey. With this further digital expansion, APG|SGA also anticipates that it will be able to maintain its strong position in the public moving image market.

We expect the next two to three years to be dominated by investments and an expansion of core competencies required for further digitalization of our service portfolio, which should result in attractive opportunities for APG|SGA. One of the key projects begins in 2019 with implementation of the new long-term and exclusive marketing contract with SBB for advertising space in all Swiss railway stations as well as rolling stock. The intense competition in the tender for the largest outdoor advertising contract in Switzerland, as well as other public submissions, has increased concession fees significantly. In addition, over the next two years we will establish a unique, innovative and primarily digital advertising site portfolio in Switzerland, which will require significant funding. We expect to see a significant, long-term increase in revenue following the marketing launch of this new portfolio.

Consequently, APG|SGA expects that operating margins will fall below present values during this development phase, at least temporarily, until the launch of the overall portfolio is complete. But the Board of Directors and the Executive Board are convinced that this transformation process will ensure that the company's market position and long-term revenue prospects, which are of central importance, are maintained at an attractive level.

Consequently, we evaluate the mid and long-term prospects for business development at APG|SGA as positive, despite the uncertainty associated with the development phase and ongoing margin pressure in operational business.

We are convinced that we can offer the greatest value to cities, municipalities, railways, airport operators, transport organizations and private property owners – now and in the future. We have more than 550 specialists in Switzerland and Serbia who bring a huge amount of enthusiasm, skill and reliability to the dynamic and innovative yet sustainable development of APG|SGA and out-of-home media.

The Board of Directors and the management would like to take this opportunity to thank all employees for their great commitment and for this pleasing result. And we thank you, dear shareholder, for your interest and trust.

Dr. Daniel Hofer
Chairman of the Board

Markus Ehrle
Chief Executive Officer

Consolidated balance sheet

Assets

in 1 000 CHF	31.12.2018	31.12.2017
Buildings and land	**33 873**	35 119
Advertising plant	**21 492**	23 328
Other property, plant, and equipment	**4 482**	5 281
Property, plant, and equipment	**59 847**	63 728
Deferred tax assets	**1 581**	1 507
Investments in joint ventures	**130**	210
Other financial investments	**7 575**	7 156
Financial investments	**9 286**	8 873
Goodwill	**5 997**	7 649
Contractual advertising rights	**16 932**	15 884
Intangible fixed assets	**22 929**	23 533
Non-current assets	**92 062**	96 134
Inventories	**2 379**	2 465
Trade accounts receivable	**38 603**	38 186
Other accounts receivable	**2 078**	4 152
Deferred expenses and accrued income	**6 456**	5 692
Cash and cash equivalents	**60 128**	90 490
Current assets	**109 644**	140 985
Total	**201 706**	237 119

Shareholders' equity and liabilities

in 1 000 CHF	31.12.2018	31.12.2017
Share capital	**7 800**	7 800
Capital reserves, premiums	**13 449**	13 746
Treasury shares	**–748**	–2 337
Translation differences	**–1 461**	–758
Retained earnings	**77 171**	101 865
Shareholders' equity	**96 211**	120 316
Provisions	**7 614**	10 760
Deferred tax liabilities	**4 919**	5 550
Non-current liabilities	**12 533**	16 310
Trade accounts payable	**12 369**	15 654
Taxes payable	**4 247**	4 905
Other accounts payable	**24 584**	22 492
Accrued liabilities and deferred income	**49 016**	56 376
Provisions	**2 746**	1 066
Current liabilities	**92 962**	100 493
Liabilities	**105 495**	116 803
Total	**201 706**	237 119

Consolidated income statement

in 1 000 CHF	2018	2017	Change
Advertising revenue	**302 110**	300 693	0.5%
Real estate revenue	**1 652**	1 650	0.1%
Other operating income	**805**	2 434	–66.9%
Operating income	**304 567**	304 777	–0.1%
Fees and commissions	**–139 363**	–134 587	3.5%
Personnel expenses	**–61 352**	–62 446	–1.8%
Operating and administrative costs	**–31 178**	–32 974	–5.5%
Operating result before depreciation and amortization (EBITDA)	**72 674**	74 770	–2.8%
Depreciation of tangible assets	**–10 750**	–11 018	–2.4%
Amortization of intangible assets	**–758**	–770	–1.6%
Amortization of goodwill	**–1 652**	–1 652	
Operating result (EBIT)	**59 514**	61 330	–3.0%
Financial result	**–393**	1 966	
Result from joint ventures	**–74**	–90	
Ordinary result before income tax	**59 047**	63 206	–6.6%
Income tax	**–11 871**	–12 486	–4.9%
Consolidated net income	**47 176**	50 720	–7.0%
Basic and diluted earnings per share, in CHF	**15.74**	16.92	–7.0%

Consolidated statement of changes in equity

in 1 000 CHF	Share Capital	Capital reserves, premiums	Treasury shares	Translation differences	Retained earnings	Shareholders' equity
as at January 1, 2017	7 800	13 711	–377	–2 474	123 106	**141 766**
Consolidated net income					50 720	**50 720**
Translation differences				1 716		**1 716**
Distributions					–71 961	**–71 961**
Purchase of treasury shares			–2 722			**–2 722**
Sale of treasury shares		58	762			**820**
Equity transaction costs		–23				**–23**
as at December 31, 2017	7 800	13 746	–2 337	–758	101 865	**120 316**
Consolidated net income					47 176	**47 176**
Translation differences				–703		**–703**
Distributions					–71 870	**–71 870**
Purchase of treasury shares			–750			**–750**
Sale of treasury shares		–289	2 339			**2 050**
Equity transaction costs		–8				**–8**
as at December 31, 2018	7 800	13 449	–748	–1 461	77 171	**96 211**

Consolidated statement of cash flows

in 1 000 CHF	2018	2017
Consolidated net income	**47 176**	50 720
Depreciation and amortization	**13 160**	13 440
Changes in provisions	**−384**	−402
Changes in deferred taxes	**−690**	−679
Financial result with no cash impact	**257**	−1 137
Gain from sale of non-current assets	**−805**	−1 828
Result from joint ventures	**74**	90
Cash flow	**58 788**	60 204
Change in inventories	**75**	−143
Change in accounts receivable	**1 392**	3 912
Change in deferred expenses and accrued income	**−770**	1 034
Change in accounts payable and taxes payable	**−1 814**	−11 952
Change in accrued liabilities and deferred income	**−8 309**	−5 252
Cash flow from operating activities	**49 362**	47 803
Capital expenditures in property, plant, and equipment	**−7 056**	−10 963
Capital expenditures in intangible assets	**−1 061**	−1 070
Capital expenditures in investments in subsidiaries		−284
Capital expenditures in other financial investments	**−432**	−3 508
Sale of property, plant, and equipment	**810**	2 755
Sale of intangible assets		2 827
Net cash used in investing activities	**−7 739**	−10 243
Purchase of treasury shares	**−750**	−2 722
Sale of treasury shares	**715**	800
Repayment of non-current financial liabilities		−189
Dividends to APG SGA SA shareholders	**−71 870**	−71 961
Net cash used in financing activities	**−71 905**	−74 072
Currency translation effect on cash and cash equivalents	**−80**	185
Change in cash and cash equivalents	**−30 362**	−36 327
Cash and cash equivalents as at January 1	**90 490**	126 817
Cash and cash equivalents as at December 31	**60 128**	90 490

Notes to the consolidated financial statements

Reporting principles of APG|SGA SA

This report comprises the audited annual financial statements for the reporting period ended on December 31, 2018. Since the beginning of 2013, the consolidated financial statements have been prepared in accordance with Swiss GAAP ARR (Accounting and Reporting Recommendations).

The preparation of the consolidated annual financial statements requires management estimates and assumptions that influence reported assets, liabilities, contingent liabilities and contingent assets as at the closing date, as well as income and expenses for the reporting period. The actual results may differ from these estimates.

Changes in the scope of consolidation and minority interests

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

In the previous year, the scope of consolidation compared with the prior-year period was changed due to the full consolidation of TAQ Belgrad for the first time, effective April 12, 2017. TAQ Belgrad is a joint venture in which our Serbian subsidiary Alma Quattro holds a 50% stake. This investment is recognized in the consolidated statements according to the equity method.

Events after the closing date

These financial statements were approved by the Board of Directors on February 22, 2019.

Explanation of financial terms

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

EBIT
Earnings before interest and taxes

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

Net current assets
Trade accounts receivable plus inventories minus trade accounts payable

Net debt
Debt-serviced borrowed capital minus interest-bearing current assets (cash and cash equivalents, marketable securities)

Payout ratio
Payout in % of net income

Agenda

Financial media and analysts conference
Wednesday, February 27, 2019, Zurich

Publication of the annual report
Tuesday, April 16, 2019

General Meeting
Thursday, May 16, 2019, Geneva

Announcement of semi-annual results
Friday, July 26, 2019

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

APG|SGA
Out of Home Media

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APG|SGA SA is Switzerland's leading Out of Home media company. Listed on the SIX Swiss Exchange, APG|SGA covers all aspects of Out of Home advertising: on the street, at the airport, in shopping centers and railway stations, in mountain regions and on public transport – from poster campaigns with the widest coverage, large poster spaces, special advertising formats and promotions to state of the art digital advertising media and mobile advertising. When communicating with customers, authorities and the advertising industry, APG|SGA represents sustainability, innovation and expertise.

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