

Letter to Shareholders



Strong growth momentum in advertising revenues in Switzerland.
 Margin decline due to higher concession fees for strategic contracts.
 Further expansion of the digital service portfolio.
 New agile structures for digitalization, data and innovation.

In brief

- Advertising revenues in Switzerland rise by 5.4% to CHF 145.0 million.
- Currency-related decline of –2.8% in advertising revenues in Serbia
- EBITDA margin: 19.4% (prior-year period: 24.1%)
- EBIT margin: 16.0% (prior-year period: 19.5%)
- Drop in consolidated net income of 14.8%

Financial highlights

in CHF 1 000	1st half of 2019	1st half of 2018	Change
Advertising revenue	152 262	145 105	4.9%
– Switzerland	144 994	137 629	5.4%
– International	7 269	7 476	–2.8%
Operating income	153 127	146 606	4.4%
EBITDA	29 741	35 339	–15.8%
– in % of operating income	19.4%	24.1%	
EBIT	24 441	28 609	–14.6%
– in % of operating income	16.0%	19.5%	
Consolidated net income	19 386	22 746	–14.8%
– in % of operating income	12.7%	15.5%	
Cash flow¹	24 266	28 293	–14.2%
Free cash flow²	9 807	1 380	
Investments in property, plant, and equipment	2 738	2 159	26.8%
– advertising plant	2 168	1 333	62.6%
– other investments	570	826	–31.0%
Earnings per share, in CHF	6.46	7.59	–14.9%

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

EBIT: Earnings before interest and taxes

¹ Operating cash flow excluding changes in net current assets (see page 13 Consolidated statement of cash flows)

² Cash flow from operating activities (operating cash flow) CHFt 12 505 (previous year: 4 389) less cash flow from investing activities CHFt 2 698 (previous year: 3 009), (see page 13 Consolidated statement of cash flows)

Dear Shareholder:

General business development

At CHF 152.3 million, advertising revenues at Group level in the first half of 2019 were 4.9% higher than in the same period of the previous year. Growth of 5.4% was recorded in Switzerland.

This satisfying development is based on a slight increase in revenues on analog advertising panels, complemented by strong growth in digital advertising offers. Alma Quattro, the subsidiary in Serbia, posted low growth in local currencies, but this produced a currency-related decline in sales of 2.8% in CHF.

Despite the very pleasing growth in advertising revenues at Group level, consolidated net income fell by 14.8% to CHF 19.4 million. This is primarily due to the increased concession fees for large strategic contracts, which in the short and medium term may squeeze margins but are crucial for APG|SGA's longer-term competitive position as the leading out-of-home advertising company in Switzerland in both the analog and digital markets.

Due to the ongoing attractiveness and good outlook for the outdoor advertising market, competition in the Swiss market has become even tougher. This makes it all the more gratifying that APG|SGA was able to win further important tenders in the first half of 2019. We also succeeded in expanding the comprehensive contractual and product portfolio even further, particularly in the digital range.

APG|SGA Group

In the first half of 2019, the APG|SGA Group achieved advertising revenue totaling CHF 152.3 million, thus achieving sales growth of 4.9%. Real estate revenue was CHF 0.8 million, 3.5% above the previous year. Only CHF 26,000 was reported under other operating income for the first six months of the year under review, compared with CHF 0.7 million in the same period of the previous year. Gain from the sale of obsolete property, plant and equipment was recorded under other operating income. This resulted in a operating income of CHF 153.1 million in the first half of 2019, representing an increase of 4.4%.

Fees and commissions represented 50.9% of operating income in the first half-year of 2019, clearly exceeding the previous year's level of 45.7%. This increase is due to the tougher competitive situation in the procurement market. Personnel expenses were on a par with the previous year's period. Operating and administrative costs were 8.7% higher than the previous year's period. This increase is attributable to development costs for digital automated booking and processing platforms, and additional costs in the area of digitalization. Operating margins experienced a fall over the previous year's period due to higher concessions costs, amounting to 19.4% of EBITDA (previous year: 24.1%) and 16.0% of EBIT (previous year: 19.5%).

Consolidated net income for the first half-year of 2019 amounted to CHF 19.4 million, representing a fall of 14.8% on the previous year.

Cash flow

Cash flow for the first half-year of 2019 amounted to CHF 24.3 million (previous year: CHF 28.3 million). Cash flow from operating activities (operating cash flow) amounted to CHF 12.5 million (previous year: CHF 4.4 million). 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. Investment in fixed assets of CHF 2.7 million produced free cash flow of CHF 9.8 million.

Balance sheet

The balance sheet total fell by CHF 44.9 million in the first half of 2019 to reach CHF 156.8 million.

Fixed assets decreased by CHF 2.9 million to CHF 89.2 million due to lower investment. Intangible assets amounted to CHF 22.1 million, equaling 14.1% of the balance sheet total.

Current assets fell by CHF 42.0 million, mainly due to the dividend distribution. As at June 30, 2019, cash and cash equivalents amounted to CHF 10.3 million.

Equity amounted to CHF 55.7 million, representing an equity ratio of 35.6%.

Swiss market

Advertising revenues for Switzerland in the first half of 2019 amounted to CHF 145 million, 5.4% a head of the previous year. The sales performance achieved by APG|SGA for the first half of the year thus exceeds the corresponding key figures in the overall advertising market for traditional media. The advertising revenues for digital advertising panels have developed particularly positively.

Activities in the first half of 2019 focused on expanding the digital inventory. Thus, the range of services on offer at SBB's sites is being gradually expanded. In addition, in February new ePanels were put into operation at the very best locations in the cities of Zurich, Lugano and Chur. APG|SGA therefore has a unique national digital out-of-home network with well over 500 large screens, which is being constantly expanded.

"aymo", the mobile advertising range, is the most accurate mobile targeting in Switzerland and is based on a direct data connection to high quality and high reach mobile apps. The "aymo" portfolio, which was extended by an additional replay target solution in April, optimally complements the comprehensive, cross-communication APG|SGA range of analog and digital outdoor advertising, including promotion spaces, for local, national and international customers.

In the first half-year of 2019, APG|SGA was able to further optimize its contract portfolio through various tender procedures and creates good conditions for additional growth.

An important milestone and extremely pleasing was the successful Flughafen Zürich AG tender, where APG|SGA was able to prevail against several competitors based on qualitative and quantitative criteria. As of January 1, 2020, APG|SGA will be the exclusive marketing partner for all analog and digital advertising spaces at Zurich airport with all branding zones and special formats, and for the megaposters in the multi-story garages. Together with its partner JCDecaux, it will go on developing the attractive range of high quality and innovative products.

Other contracts won included Sihltal Zürich Uetliberg Bahn SZU – which includes attractive possibilities for digitalization – and various lots tendered by the canton of Zurich.

In a call for tender issued by the city of Bern for an analog poster concession, the contract was awarded to two competitors based on financial criteria. However, APG|SGA will continue to offer the widest range of road areas locally with its private property assortment from January 1, 2020. With our complementary analog and digital services at the railway station and on and in BernMobil vehicles, APG|SGA still remains number one, both in the federal capital and the entire conurbation.

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, as well as its related service and software solutions. For example, in February 2019, APG|SGA successfully launched “myapg”, a comprehensive digital customer portal through which advertisers can access all their data at any time and track their campaigns.

International markets

APG|SGA is operationally active in Serbia., which accounts for 4.8% of Group sales.

After several years of a strong economic recovery, economic growth in Serbia slowed in the first half of 2019. This was also felt at the local company Alma Quattro d.o.o.

Advertising revenues in local currency increased slightly by 0.5% year on year. However, owing to the weakening of the Serbian dinar, there was a 2.8% decline in CHF compared with the exceptionally strong prior-year period. The slight decline in sales was mainly in the capital Belgrade. In the country's second largest city, Novi Sad, with which we signed a long-term contract last year, very pleasing sales growth was achieved in the reporting period.

The first half of 2019 was marked by the market entry into the digital large-poster format. Seven new 12 m² digital billboards of the latest generation were installed in the best locations in the city of Belgrade. These new digital advertising panels were extremely well received.

Organization

At the General Meeting on Thursday, May 16, 2019, all members of the Board of Directors were re-elected. This means the body continues to comprise Dr. Daniel Hofer (President), Robert Schmidli (Vice President), Xavier Le Clef, Stéphane Prigent and Markus Scheidegger.

APG|SGA modified its corporate structure with effect from June 1, 2019 in light of the changing demands on the company resulting from the widespread digitalization of the market environment.

The employees and activities of the APG|SGA segment brands were integrated into the core business during the implementation of the “One Brand” strategy. Meanwhile, various organizational and personnel measures are being taken to set new standards in the market for digitalization, innovation and data.

As of April 1, 2019, Daniel Strobel, previously the Executive Board member responsible for the Advertising Market division, assumed overall responsibility for the comprehensive digitalization and innovative refinement of the advertising range at Swiss railway stations. He is focusing fully on this strategic task and stepped

down from the Executive Board. Andy Bürki, who joined APG|SGA on April 1, 2019, succeeds him as head of the Advertising Market division and a member of the Executive Board.

In the new structures, in which quick decision-making processes, customer centricity and proximity to a total of 17 locations remain paramount, a new corporate division has been created in the shape of Marketing & Innovation. This will drive the digital transformation process forward and act as a hub within APG|SGA in order to manage proposal design, media research and product management, build up e-commerce and programmatic platforms, and systematically drive innovation and new business. The Mobile Advertising business area is also being driven forward in this area. Beat Holenstein, previously responsible for the Partner & Product Management division, took over as head of the Marketing & Innovation division on June 1, 2019.

Christian Gotter has been in charge of the expanded Partner & Operations division since June 1, 2019. In the future, this will include integrated support for the partner market (cities, transport operators, airports, mountain destinations, shopping centers, private landowners, etc.) and all areas of logistics and operations. Beat Hermann, CFO of the Group, will continue to head the Finance division, which also includes IT, infrastructure, investments, international business and new data analytics. The Human Resources department, under the leadership of Marcel Seiler, has not been represented on the Executive Board since June 1, 2019 and reports directly to the CEO.

Outlook

Digitalization in all its facets continues to have a strong impact on our industry and our company. Outdoor advertising can already be seen as a winner in this trend, as the media becomes more fragmented and smaller in scale. However, out-of-home media is further strengthening its role as one of the remaining mass media. Outdoor advertising achieves visibility and attention, and cannot be zapped away or bypassed by advertising blockers. The urbanization and mobility of our society is also creating new reach potential.

As described in detail in the Annual Report 2018, APG|SGA will therefore invest considerable resources and funds in expanding and developing innovation, technology, data collection and analytics, as well as the specialists and talent needed in connection with the restructuring that took place on June 1, along with increasing digitalization.

This expansion and the digitalization of the product portfolio will give APG|SGA attractive opportunities and a promising outlook in the future, despite the continuing pressure on margins. One of the key projects is the ongoing implementation of the new long-term and exclusive marketing contract with SBB for advertising space in all Swiss railway stations and rolling stock. Thanks to this and other digital projects, APG|SGA will be able to further expand its strong market position in the public moving image market.

in addition, APG|SGA will also have the opportunities arising from the successful Zurich airport tender from 2020. Preparatory and development work for the successful development and marketing of the prestigious analog, digital and innovative advertising spaces at Zurich airport has already begun.

APG|SGA will also continue to optimize its comprehensive analog product range. We are also 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 such as “aymo”, which effectively combines mobile advertising with out-of-home campaigns, we as a reliable partner of the commercial advertising industry and cultural and charitable institutions are able to offer effective one-stop targeted group marketing along the entire out-of-home customer journey.

Due to expansion projects, structural changes and initiatives described above, and the continuing competitive and margin pressure, APG|SGA expects its results to fall temporarily below the current performance. However, the Board of Directors and the Executive Board are in no doubt that the medium and long-term market and earnings prospects in the operating business are good for APG|SGA.

We have more than 550 specialists in Switzerland and Serbia who bring a huge amount of enthusiasm, cost consciousness and environmental awareness, skill and reliability to the dynamic and innovative yet sustainable development of APG|SGA and out-of-home media. We therefore offer cities, municipalities, railways, airport operators, transport operators and private landowners and the general public a great deal of added value.

The Board of Directors and the Executive Board would like to take this opportunity to thank all market partners for a good working relationship, and you, our shareholders, for your interest and confidence.



Dr. Daniel Hofer
Chairman of the Board



Markus Ehrle
Chief Executive Officer

Consolidated balance sheet

Assets

in CHF 1 000	30.06.2019	31.12.2018
Buildings and land	33 064	33 873
Advertising plant	20 795	21 492
Other property, plant, and equipment	4 021	4 482
Property, plant, and equipment	57 880	59 847
Deferred tax assets	1 688	1 581
Investments in joint ventures		130
Other financial investments	7 485	7 575
Financial investments	9 173	9 286
Goodwill	5 822	5 997
Contractual advertising rights	16 281	16 932
Intangible fixed assets	22 103	22 929
Non-current assets	89 156	92 062
Inventories	3 370	2 379
Trade accounts receivable	38 557	38 603
Other accounts receivable	4 099	2 078
Deferred expenses and accrued income	11 295	6 456
Cash and cash equivalents	10 331	60 128
Current assets	67 652	109 644
Total	156 808	201 706

Shareholders' equity and liabilities

in CHF 1 000	30.06.2019	31.12.2018
Share capital	7 800	7 800
Capital reserves, premiums	13 230	13 449
Treasury shares	-179	-748
Translation differences	-1 714	-1 461
Retained earnings	36 602	77 171
Shareholders' equity	55 739	96 211
Provisions	7 526	7 614
Deferred tax liabilities	4 663	4 919
Non-current liabilities	12 189	12 533
Trade accounts payable	13 046	12 369
Taxes payable	4 388	4 247
Other accounts payable	24 064	24 584
Accrued liabilities and deferred income	44 782	49 016
Provisions	2 600	2 746
Current liabilities	88 880	92 962
Liabilities	101 069	105 495
Total	156 808	201 706

Consolidated income statement

in CHF 1 000	1st half of 2019	1st half of 2018	Change
Advertising revenue	152 262	145 105	4.9%
Real estate revenue	839	811	3.5%
Other operating income	26	690	-96.2%
Operating income	153 127	146 606	4.4%
Fees and commissions	-77 953	-67 002	16.3%
Personnel expenses	-30 566	-30 593	-0.1%
Operating and administrative costs	-14 867	-13 672	8.7%
Operating result before depreciation and amortization (EBITDA)	29 741	35 339	-15.8%
Depreciation of tangible assets	-4 644	-5 535	-16.1%
Amortization of intangible assets	-481	-369	30.3%
Amortization of goodwill	-175	-826	-78.9%
Operating result (EBIT)	24 441	28 609	-14.6%
Financial result	-2	-98	
Result from joint ventures	-130	-41	
Ordinary result before income tax	24 309	28 470	-14.6%
Income tax	-4 923	-5 724	-14.0%
Consolidated net income	19 386	22 746	-14.8%
Basic and diluted earnings per share, in CHF	6.46	7.59	-14.9%

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, 2018	7 800	13 746	-2 337	-758	101 865	120 316
Consolidated net income					22 746	22 746
Translation differences				-169		-169
Distributions					-71 870	-71 870
Purchase of treasury shares			-183			-183
Sale of treasury shares		-59	776			717
Equity transaction costs		-1				-1
as at June 30, 2018	7 800	13 686	-1 744	-927	52 741	71 556
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

Consolidated statement of cash flows

in CHF 1 000	1st half of 2019	1st half of 2018
Consolidated net income	19 386	22 746
Depreciation and amortization	5 300	6 730
Changes in provisions	-187	-222
Changes in deferred taxes	-358	-387
Financial result with no cash impact	20	106
Gain from sale of non-current assets	-25	-721
Result from joint ventures	130	41
Cash flow	24 266	28 293
Change in inventories	-995	-273
Change in accounts receivable	-2 027	277
Change in deferred expenses and accrued income	-4 821	-4 453
Change in accounts payable and taxes payable	305	-11 531
Change in accrued liabilities and deferred income	-4 223	-7 924
Cash flow from operating activities	12 505	4 389
Capital expenditures in property, plant, and equipment	-2 738	-2 159
Capital expenditures in intangible assets	-24	-1 437
Capital expenditures in other financial investments		-139
Sale of property, plant, and equipment	30	726
Sale of financial investments	34	
Net cash used in investing activities	-2 698	-3 009
Purchase of treasury shares	-342	-183
Sale of treasury shares	692	710
Dividends to APG SGA SA shareholders	-59 956	-71 870
Net cash used in financing activities	-59 606	-71 343
Currency translation effect on cash and cash equivalents	2	-15
Change in cash and cash equivalents	-49 797	-69 978
Cash and cash equivalents as at January 1	60 128	90 490
Cash and cash equivalents as at June 30	10 331	20 512

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, 2019. 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 2019, 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 2017 was also not changed.

Change in shareholders' equity

On May 16, 2019, the General Meeting passed a resolution to distribute a gross dividend of CHF 20.00 per share for financial year 2018. The dividend was paid on all outstanding shares.

Events after the closing date

These financial statements were approved by the Board of Directors on July 23, 2019.

Agenda

Financial media and analysts conference

Thursday, February 27, 2020, Zurich

Publication of the annual report

Thursday, April 9, 2020

General Meeting

Thursday, May 14, 2020, Geneva

Announcement of semi-annual results

Thursday, July 30, 2020

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Explanation of financial terms

Cash flow

Funds from operational business activities, without changes to net current assets

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 consolidated net income

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



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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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