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7 May 2025

Heith Mackay-Cruise
Chairman
The Directors
Southern Cross Media Group Ltd

Via email:

Dear Heith,

Announcements by SXL

We refer to two of the announcements made yesterday by Southern Cross Media Group Ltd ("**SXL"** or "**the Company"**): "SCA Trading and Dividend Update" and "SCA Introduces new Executive Incentive Scheme for FY26".

Whilst the highlights make for good reading, we are concerned about the substance of the updates.

Revenues

We are pleased to learn that audio revenues grew by ~9% in the first four months of the calendar year and are ahead of previous guidance. However, the trading update fails to detail the impact on revenue from recent Federal election advertising. Due to the one-off nature of election advertising, we do not consider the revenue growth provides an accurate representation of the underlying business, nor is it representative of the sustainable future growth rate of the Company. We note that CEO John Kelly is quoted as saying the "*post-Federal election advertising market is short with limited visibility, which makes it difficult to forecast revenues in the lead up to 30 June and beyond.*"

Costs

The Company has forecast FY25 non-revenue related (NRR) costs to be ~$265 million, ostensibly the same as the guidance provided with the 1HFY25 result, where FY25 NRR was guided to be ***below*** $270 million.

We note that the FY24 comparative NRR cost base was $270 million and, according to the 1HFY25 result media release, "*non-revenue-related costs in our (1HFY25) continuing operations reduced by $5 million*". The cost forecast provided in yesterday's update implies that the costs in 2HFY25 will be flat compared with the prior corresponding period and the "*embedded cost discipline and effective cost management*" you refer to is a short-lived historical anomaly.

The focus on NRR alone also belies the fact that the Company bears other costs before shareholders will see any profits. We consider it reasonable that any updates or discussion of costs should make reference to all costs, not just NRR, otherwise shareholders do not receive a full and accurate account of the Company's current and future operating and financial performance.

Dividends

We are stunned that the Board has decided to resume payment of dividends, especially in light of the uncertain outlook provided with yesterday's trading update. The decision seems at odds with Mr Kelly's comments about the post-election advertising market.

When we met with management following the 1HFY25 result, we made clear our view that the continued suspension of dividends (in favour of paying down debt) was both prudent and something we supported.

Given the cyclicality of media businesses, we consider that prudent shareholders (and directors) would prefer to see far lower debt levels than those that persist in SXL today. We do not consider the decision to resume dividends at this stage to be a prudent decision given the CEO's own admissions regarding the difficulties in forecasting revenue growth and the lack of further reductions of the cost base.

We consider the decision to resume dividends to be a purely defensive move by the Board; read in the context of our discussions regarding the need for changes at Board level. This decision appears to be an attempt by the Board to placate shareholders. We are confident most shareholders will see this decision for what we consider it to be – an ill-advised and short-sighted attempt at "self-preservation".

New Incentive Scheme for FY26

We are disappointed that the Directors have proceeded with the incentive scheme that was canvassed with shareholders, including Sandon Capital. As we noted when you and Ms Marina Go presented the draft plan to us, we consider the share price targets to be unrealistic. A shareholder arguing that share price targets are too high may sound counterintuitive, yet this is our considered position.

Generally, long-term incentives must be hard to achieve, yet plausible. They must also avoid anchoring management, directors and shareholders to beguiling, yet unattainable targets. Targets that cannot be achieved will eventually lead to disillusionment for all stakeholders. Furthermore, anchoring at such levels becomes problematic as it encourages "roulette" style strategies, where poor decisions might be made to gamble a company's future just to reach those otherwise "unattainable" targets.

To illustrate the point, consider that SXL generated $499.4 million in revenues in FY24, which delivered $66.2 million in earnings before interest tax, depreciation and amortisation (**EBITDA**). At Monday's closing share price ($0.695), the enterprise value to EBITDA multiple of the Company is approximately 3.9 times. Assuming a constant multiple, debt levels are maintained and no further shares are issued, EBITDA would need to increase by more than 46% to $97 million to equate to a share price equivalent to the $1.20 per share threshold. If we assume average EBITDA margins of the past three years (14.2%, excluding Television) are sustained, revenues would need to grow to more than $680 million to generate this level of EBITDA. We fully support ambition; however we steadfastly reject delusion.

We believe the Board making these announcements yesterday is a thinly-veiled bid for short-term shareholder support – only strengthening our case for Board change.

Kind regards

Gabriel Radzyminski
Director