

Postmedia Reports Second Quarter Results

TORONTO--(BUSINESS WIRE)--April 5, 2023--Postmedia Network Canada Corp. (“Postmedia” or the “Company”) today released financial information for the three and six months ended February 28, 2023 which include the results of the daily and weekly newspapers, digital properties and parcel delivery business acquired from J. D. Irving, Limited on March 25, 2022 (the “BNI Acquisition”).

“Economic uncertainty persists and Postmedia, like countless other corporations, is aggressively managing our costs to reflect this challenging environment,” said Andrew MacLeod, President and Chief Executive Officer, Postmedia. “We are using this opportunity to proactively transform our business to architect a sustainable news media model for the future. In spite of the difficult environment, we continue to see positive early indications of growth and opportunities from digital subscriptions and parcel distribution.”

Second Quarter Operating Results

Revenue for the quarter was \$111.8 million as compared to \$102.5 million in the same period in the prior year, representing an increase of \$9.3 million (9.1%). The revenue increase was primarily due to increases in parcel services revenue of \$11.2 million and other revenue of \$2.9 million partially offset by decreases in advertising revenue of \$1.8 million (3.2%) and circulation revenue of \$2.9 million (7.2%). Excluding the impact of the BNI Acquisition, revenue for the three months ended February 28, 2023 was \$95.3 million, a decrease of \$7.2 million (7.0%) relative to the same period in the prior year. The revenue decline, excluding the impact of the BNI Acquisition, was primarily due to decreases in advertising revenue of \$5.7 million (10.1%) and circulation revenue of \$5.1 million (12.8%).

Total operating expenses excluding depreciation, amortization, impairment and restructuring increased \$7.2 million or 6.8% for the quarter ended February 28, 2023, relative to the same period in the prior year. Excluding the impact of the BNI Acquisition, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$10.7 million or 10.1%. The decrease, excluding the BNI Acquisition, was experienced across all expense categories.

Operating loss before depreciation, amortization, impairment and restructuring in the quarter was \$0.5 million, a decrease of \$2.2 million relative to the prior year. Excluding the impact of the BNI Acquisition, operating income before depreciation, amortization, impairment and restructuring in the quarter was \$0.8 million, as compared to operating loss before depreciation, amortization, impairment and restructuring of \$2.7 million relative to the prior year. Operating income before depreciation, amortization, impairment and restructuring, excluding the impact of the BNI Acquisition, is due to the decrease in operating expenses excluding depreciation, amortization, impairment and restructuring partially offset by the decrease in total revenues.

Net loss in the quarter ended February 28, 2023 was \$20.8 million, as compared to \$22.1 million in the same period in the prior year. The decrease in net loss was primarily the result of decreases in operating loss before depreciation, amortization, impairment and restructuring and impairment

expense, a gain on disposal of assets held-for-sale and other assets, and a gain on derivative financial instruments and financial assets at fair value through profit and loss, partially offset by increases in restructuring, amortization and interest expenses and foreign exchange losses.

Year-to-Date Operating Results

Revenue for the six months ended February 28, 2023 was \$236.0 million as compared to \$222.1 million in the same period in the prior year, an increase of \$15.4 million or 7.0%. The revenue increase was primarily due to increases in parcel services revenue of \$19.8 million and other revenue of \$6.7 million, partially offset by decreases in advertising revenue of \$5.9 million or 4.7% and circulation revenue of \$5.1 million or 6.3%. Excluding the impact of the BNI Acquisition, revenue for the six months ended February 28, 2023 was \$203.7 million, a decrease of \$16.8 million (7.6%) relative to the same period in the prior year. The revenue decline, excluding the impact of the BNI Acquisition, was primarily due to decreases in advertising revenue of \$14.9 million (11.9%) and circulation revenue of \$9.7 million (11.9%).

Total operating expenses excluding depreciation, amortization, impairment and restructuring increased \$20.4 million or 9.6% for the six months ended February 28, 2023, relative to the same period in the prior year. Excluding the impact of the BNI Acquisition, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$14.7 million or 7.0%. The decrease, excluding the BNI Acquisition, relates to compensation, distribution and production expenses partially offset by increases in newsprint and other operating expenses.

Operating income before depreciation, amortization, impairment and restructuring of \$4.3 million in the six months ended February 28, 2023 represents a decrease of \$4.9 million relative to the same period in the prior year. Excluding the impact of the BNI Acquisition, operating income before depreciation, amortization, impairment and restructuring was \$7.1 million, a decrease of \$2.1 million relative to the prior year. The decrease, excluding the impact of the BNI Acquisition, is due to the decrease in total revenues, partially offset by the decrease in operating expenses excluding depreciation, amortization, impairment and restructuring.

Net loss in the six months ended February 28, 2023 was \$36.7 million, as compared to a net loss of \$26.5 million in the same period in the prior year. The increase in net loss was primarily the result of a decrease in operating income before depreciation, amortization, impairment and restructuring, increases in depreciation, restructuring and interest expenses and foreign exchange losses, partially offset by a gain on disposal of assets held-for-sale and other assets, and a decrease in loss on derivative financial instruments and financial assets at fair value through profit and loss.

Acquisition of Brunswick News Inc.

On February 17, 2022 the Company entered into a purchase agreement with J. D. Irving, Limited to purchase all of the issued and outstanding shares of Brunswick News Inc. (“BNI”). The acquisition closed on March 25, 2022 and includes BNI’s daily and weekly newspapers, digital properties and parcel delivery business. The purchase price consisted of cash consideration of

\$7.5 million and share consideration of 4,282,920 Class NC variable voting shares with a fair value of \$7.6 million.

Debt Repayment and Refinancing

During the three months ended February 28, 2023, the Company amended the senior secured asset-based revolving credit facility (“ABL Facility”) to increase both the availability to the maximum amount of \$30.0 million and the interest rate on amounts drawn to the bankers acceptance rate plus 8.0% and extended the maturity date to October 1, 2026. In addition, the Company entered into a \$5.0 million Unsecured Revolving Promissory Note with the lender of the ABL Facility at similar terms.

During the three months ended February 28, 2023, the Company redeemed \$21.1 million of first-lien debt with the proceeds of asset sales. After this redemption, the Company has \$26.0 million of first-lien debt outstanding of the original \$225.0 million that was issued in October 2016.

Business Transformation Initiatives

During the three and six months ended February 28, 2023, the Company implemented cost reduction and transformation initiatives related to compensation expense reductions, real estate rationalization, production efficiencies and other programs, which are expected to result in approximately \$22 million and \$40 million of net annualized cost savings, respectively.

As previously stated, in F23 the Company intends to focus on key growth areas of Digital Advertising, Digital Subscriptions and Parcel Services. Transformation initiatives for the year ahead include a combination of streamlining resources, product mix rationalization, outsourcing where possible and real estate divesture.

Additional Information

Additional information, including financial statements and management’s discussion and analysis can be found on the Company’s website at **www.postmedia.com** or on SEDAR at **www.sedar.com**.

Note: All dollar amounts are expressed in Canadian dollars unless otherwise specified.

About Postmedia Network Canada Corp.

Postmedia Network Canada Corp. (TSX:PNC.A, PNC.B) is the holding company that owns Postmedia Network Inc., a Canadian newsmedia company representing more than 130 brands across multiple print, online, and mobile platforms. Award-winning journalists and innovative product development teams bring engaging content to millions of people every week whenever and wherever they want it. This exceptional content, reach and scope offers advertisers and marketers compelling solutions to effectively reach target audiences. For more information, visit www.postmedia.com.

Forward-Looking Information

This news release may include information that is “forward-looking information” under applicable Canadian securities laws. The Company has tried, where possible, to identify such information and statements by using words such as “believe,” “expect,” “intend,” “estimate,” “anticipate,” “may,” “will,” “could,” “would,” “should” and similar expressions and derivations thereof in connection with any discussion of future events, trends or prospects or future operating or financial performance. Forward-looking statements in this news release include statements with respect to the implementation and results of the Company’s transformation initiatives, continued benefits of historical results into future periods, the realization of anticipated cost savings and the identification and undertaking of ongoing cost savings initiatives. By their nature, forward-looking information and statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include, among others: competition from digital and other forms of media; the effect of economic conditions on advertising revenue; the ability of the Company to build out its digital media and online businesses; the failure to maintain current print and online newspaper readership and circulation levels; the realization of anticipated cost savings; possible damage to the reputation of the Company’s brands or trademarks; possible labour disruptions; possible environmental liabilities, litigation and pension plan obligations; fluctuations in foreign exchange rates and the prices of newsprint and other commodities.

For a complete list of our risk factors please refer to the section entitled “Risk Factors” contained in our annual management’s discussion and analysis for the years ended August 31, 2022 and 2021. Although the Company bases such information and statements on assumptions believed to be reasonable when made, they are not guarantees of future performance and actual results of operations, financial condition and liquidity, and developments in the industry in which the Company operates, may differ materially from any such information and statements in this press release. Given these risks and uncertainties, undue reliance should not be placed on any forward-looking information or forward-looking statements, which speak only as of the date of such information or statements. Other than as required by law, the Company does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.

Postmedia Network Canada Corp.
Consolidated Statements of Operations
(UNAUDITED)

(In thousands of Canadian dollars, except per share amounts)	For the three months ended February 28,		For the six months ended February 28,	
	2023	2022	2023	2022
Revenues				
Advertising	54,483	56,295	119,756	125,673
Circulation	36,988	39,879	76,638	81,780
Parcel services	11,762	589	20,958	1,143
Other	8,592	5,720	18,649	11,957
Total revenues	111,825	102,483	236,001	220,553

Expenses				
Compensation	40,777	43,171	84,855	83,438
Newsprint	4,321	4,191	9,647	8,457
Distribution	33,085	22,951	66,304	46,401
Production	14,169	15,331	30,448	35,254
Other operating	20,003	19,522	40,447	37,796
Operating income (loss) before depreciation, amortization, impairment and restructuring	(530)	(2,683)	4,300	9,207
Depreciation	4,220	3,022	6,884	5,679
Amortization	2,483	2,337	4,618	4,527
Impairment	-	3,600	-	3,600
Restructuring	4,444	300	6,059	1,000
Operating loss	(11,677)	(11,942)	(13,261)	(5,599)
Interest expense	8,625	7,998	16,942	15,528
Net financing expense related to employee benefit plans	350	235	699	469
(Gain) loss on disposal of property and equipment, assets held-for-sale, right of use assets and other assets	(1,609)	763	(3,136)	763
(Gain) loss on derivative financial instruments and financial assets at fair value through profit and loss	(55)	2,623	386	2,887
Foreign currency exchange losses (gains)	1,793	(1,451)	8,535	1,286
Loss before income taxes	(20,781)	(22,110)	(36,687)	(26,532)
Provision for income taxes	-	-	-	-
Net loss attributable to equity holders of the Company	(20,781)	(22,110)	(36,687)	(26,532)

Loss per share attributable to equity holders of the Company				
Basic	\$(0.21)	\$(0.24)	\$(0.37)	\$(0.28)
Diluted	\$(0.21)	\$(0.24)	\$(0.37)	\$(0.28)

Postmedia Network Canada Corp.
Consolidated Statements of Financial Position
(UNAUDITED)

(In thousands of Canadian dollars)		As at February 28, 2023	As at August 31, 2022
Assets			
Current Assets			
Cash		12,947	12,061
Restricted cash		-	730
Trade and other receivables		54,899	49,118
Assets held-for-sale		-	17,727
Inventory		4,840	4,950
Prepaid expenses and other assets		6,966	8,275
Total current assets		79,652	92,861
Non-Current Assets			
Property and equipment		59,967	66,747

Right of use assets	28,243	30,095
Derivative financial instruments and other assets	3,356	3,742
Intangible assets	16,898	17,930
Total assets	188,116	211,375

Liabilities and Deficiency

Current Liabilities

Accounts payable and accrued liabilities	40,693	39,440
Provisions	6,607	3,766
Deferred revenue	19,364	21,262
Current portion of lease obligations	8,266	8,312
Current portion of long-term debt	27,000	13,000
Total current liabilities	101,930	85,780

Non-Current Liabilities

Long-term debt	261,127	260,909
Employee benefit obligations and other liabilities	36,446	38,169
Lease obligations	25,913	27,749
Total liabilities	425,416	412,607

Deficiency

Capital stock	820,131	820,131
Contributed surplus	18,504	17,973
Deficit	(1,075,935)	(1,039,336)
Total deficiency	(237,300)	(201,232)

Total liabilities and deficiency	188,116	211,375
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Postmedia Network Canada Corp. Consolidated Statements of Cash Flows (UNAUDITED)

(In thousands of Canadian dollars)	For the three months ended February 28,		For the six months ended February 28,	
	2023	2022	2023	2022

Cash Generated (Utilized) by:

Operating Activities

Net loss attributable to equity holders of the Company	(20,781)	(22,110)	(36,687)	(26,532)
Items not affecting cash:				
Depreciation	4,220	3,022	6,884	5,679
Amortization	2,483	2,337	4,618	4,527
Impairment	-	3,600	-	3,600
(Gain) loss on derivative financial instruments and financial assets at fair value				
through profit and loss	(55)	2,623	386	2,887
Non-cash interest	6,527	5,565	12,937	10,966
(Gain) loss on disposal of property and equipment, assets held-for- sale, right of use assets and other assets	(1,609)	763	(3,136)	763
Non-cash foreign currency exchange losses (gains)	1,815	(1,470)	8,540	1,281
Share-based compensation plans	236	33	531	6

Net financing expense relating to employee benefit plans	350	235	699	469
Employee benefit plan funding in excess of compensation expense	(1,011)	(1,284)	(1,886)	(2,405)
Net change in non-cash operating accounts	6,171	(1,992)	(2,813)	(15,312)
Cash flows used in operating activities	(1,654)	(8,678)	(9,927)	(14,071)

Investing Activities

Net proceeds from the sale of assets held-for-sale and other assets	16,310	570	20,866	570
Purchases of property and equipment	(29)	(156)	(107)	(769)
Purchases of intangible assets	(163)	(114)	(165)	(273)
Cash flows from (used in) investing activities	16,118	300	20,594	(472)

Financing activities

Repayment of long-term debt	(21,060)	-	(21,060)	(2,396)
Restricted cash	5,286	(583)	730	(583)
Advances from senior secured asset-based revolving credit facility	7,000	-	14,000	-
Lease payments	(1,860)	(2,464)	(3,451)	(3,894)
Cash flow used in financing activities	(10,634)	(3,047)	(9,781)	(6,873)

Net change in cash for the period	3,830	(11,425)	886	(21,416)
Cash at beginning of period	9,117	52,005	12,061	61,996
Cash at end of period	12,947	40,580	12,947	40,580

Supplemental disclosure of operating cash flows

Interest paid	1,401	1,122	4,112	4,673
Income taxes paid	-	-	-	-

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