Edited Transcript SIAS-SPH Dialogue, Aug 26, 2021

Date: September 1, 2021

Earlier in May this year, Singapore Press Holdings (SPH) proposed to restructure its Media Business by transferring it to a company limited by guarantee (CLG).

On 26th August 2021, SIAS organised a virtual dialogue session with SPH for shareholders to understand more on the media restructuring proposal and to raise their questions to the senior management; Mr Ng Yat Chung, CEO and Mr Chua Hwee Song.

View a summarised transcript of the event here.

David Gerald, President, SIAS

Let me start with a few questions from SIAS because ever since the announcement, there have been a number of people sending in emails asking questions. So let us look at those collated into three questions. The first question: Instead of transferring the media business to a CLG, has the SPH Board considered other options, e.g. privatising or selling the business, and compensating SPH shareholders, such as through a negotiated share buy back? Over to you Mr Ng, or Mr Chua.

Ng Yat Chung, CEO, Singapore Press Holdings

Thank you Mr Gerald. That is a fair question. Let me say upfront that this was not an easy proposal for the company or the Board to recommend to shareholders. And we did not come to this option without exhausting various other options, many of which you have highlighted. Shareholders will know that the NPPA, the Newspaper and Printing Presses Act, regulates the media business and the buyer of the business. In other words, in terms of restrictions over shareholders, and other respects, all will be subject to the regulators' approval.

The purpose of the NPPA is something that has been stated publicly before, to ensure that the local Media Business remains in the hands of a trusted institution with a long-term stake and interest in Singapore. Because of that, whoever owns the Media Business needs to be approved by the regulator.

No one can own more than 5% of the shares of the company without the regulator's approval, and whoever owns this will have to be committed to continue investing in the business to ensure that the local newspapers continue to provide fair, trusted, and reliable journalism that Singapore needs, particularly with the rise of fake news in this age. This is an obligation any new owner will face. The Media Business has to be in Singapore hands, and whoever buys it needs to be subject to all these conditions and to continue investing in it. And whoever takes it over, will be subject to something we cannot change, which is a continuous secular decline, in particular the print advertisement revenue.

Our business circulation and digital revenue have gone up, but it is not able to offset the decline in revenue of the print advertisement business. Which is why we have come to accept the fact that we have to continue investing in digital capabilities as well as in journalistic capabilities. We have reduced costs as much as we can without affecting core capabilities or impairing the quality of journalism in the businesses. Print advertisement revenue will continue to decline, and therefore we came to the conclusion that the business should no longer be in a commercial, listed company where shareholders expect a fair return. The best way is to structure it as a non-profit entity where any surpluses that might be made in future will not be distributed to shareholders but kept within the business. This is how we came to identify the solution for a sustainable future for the Media Business, a solution that is also acceptable to the regulators.

David Gerald, President, SIAS

So you take out the Media Business, which is bleeding, to the CLG, and they will then be eligible because they are not governed by government restrictions, to go for grants, donations, and whatever way they can raise funds which you cannot.

Ng Yat Chung, CEO, Singapore Press Holdings

Yes, the CLG has options that we do not have as a listed company. Government has indicated its willingness to provide funding to the CLG. In coming up with this solution, the expectation (by the CLG) is that SPH must also do its fair share because the government is relieving the company of its (future) responsibility of funding the Media Business. There is a requirement and expectation that SPH will have to do its part to support the CLG at least in the initial period immediately after the demerger of the Media Business. That is why the proposal includes an initial cash injection and SPH shares and some SPH REIT units to give the CLG enough capital to last for a couple of years. They would also receive some small amount of dividends from the shares and units received. By which time, they will be able to sort out their long-term financing arrangements with the Government. It was difficult to arrive at the formula, but this was part of the discussions we had with the regulator.

I want to emphasise that all options require approval from the regulator and in deciding on this option, the company and the Board considered many options, and this is the option agreed with the regulator. What is the alternative for the shareholders? If they do not approve this restructuring, we will continue to bear increasing losses. What we are contributing in this transaction, is equivalent to a few years' worth of expected losses. The reality is that print advertising is declining more than 10% in a year and the trend does not show signs of reversing.

David Gerald, President, SIAS

Mr Ng, whilst shareholders appreciate the Board's decision to do this, because you don't want a bleeding business to be impacting on shareholder value, there is still some unhappiness among shareholders. And therefore, let me pose this question: What is the rationale, they ask, for the decision to inject S$356.8 million of SPH assets (SPH Reit units, property, leases and cash) to the new CLG? Have other options been endorsed or explored to capitalise the CLG? How do SPH shareholders stand to benefit from this decision? Shareholders feel that the CLG will have support grants from government as well as other means of raising funds. Some very distinguished and capable people have come forward to help with the CLG, like Patrick Daniel (CLG interim CEO) and Khaw Boon Wan (CLG chairman). Hence, shareholders are asking, “Won’t the CLG be able to raise funds? Must we give out of our own pocket?”

Ng Yat Chung, CEO, Singapore Press Holdings

Yes, I think this is a fair question. In discussions with the CLG and regulator, there was an expectation that SPH has to do its share to support the Media Business. Because if we do not, the losses will be incurred anyway. On our books, the value of the Media Business is about S$250 million. Part of the SPH Contribution to the CLG is about S$80 million in cash and S$30 million in a combination of shares and units. The shares and units will give the CLG dividend income and potential capital upside.

The SPH Contribution can be seen as about S$110 million in cash plus the assets that are integral to the business. If we do not transfer those assets, we have no alternative use for them anyway and the government may take back those assets. If we continue operating the business, at some point the value of the business will be impaired, given the continuing losses. Therefore, this will eat into the S$250 million value of the Media Business. With this drag on the business, SPH share price will also suffer.

What we are doing is taking a one-time hit, to remove a business that we expect to be loss-making over the next couple of years. By removing the uncertainty around this business, people can then look at the growth prospects of the company. This is why this arrangement is beneficial for the shareholders. This is also why even though this was a difficult decision, the management recommends it. Evercore, the Financial Adviser to the Board of Directors, having looked at it, agrees that it is in the overall interests of the company to do this; the Board is recommending this to our shareholders.

David Gerald, President, SIAS

A follow up question is, “Was there any consideration of co-funding for the establishment of the independent media entity? For example, many schools get one for one or even two for one dollar matching for the school building correspondingly. Even donating to a charity, a company gets 2.5 times tax deduction. Many ask why wasn't the tax rebate option considered?

Ng Yat Chung, CEO, Singapore Press Holdings

I understand, and I appreciate those comments. This is something that is attractive if we are a charity, but we are not. Our shareholders need to understand that when we talk about schools, all these are recognised charities and therefore they come under the Charities Act.

The CLG is not a charity and not every business qualifies as a charity. If you look at all the charities governed by the Charities Act, they deal with welfare, poverty alleviation, education, sports, religious activities and so on. Under the current set-up, the Media Business would not qualify under the Charities Act. Even if it becomes a charity eventually, there is still a need to find funding in order to obtain the tax exemption.

I am not in the position to comment on what kind of funding the CLG will get. Rather than looking at the SPH Contribution to the CLG, I would urge the shareholders to focus on the opportunities ahead. There is room to grow the rest of the non-Media Business, where we have a good portfolio.

David Gerald, President, SIAS

If after restructuring, shareholders vote to demerge the Media Business successfully, SPH's profitability will improve by a high margin. Why then should shareholders hand over a profitable business to Keppel?

Ng Yat Chung, CEO, Singapore Press Holdings

Let me explain how we arrived at this conclusion. Management knows that we have a good portfolio of non-edia businesses that we are prepared to take forward ourselves. However, we must recognise that once the Media Business is carved out, the restrictions from the NPPA will be lifted. There will be 3 options that the Board will have to confront:

Firstly, status quo with the management growing the non-Media business. The second option is the partial sale and monetisation of selected assets. In the days after we announced the proposed restructuring of the Media Business, we started getting reverse enquiries to buy selected assets and interest from other parties to become major shareholders. The third option is to entertain a privatisation offer for the entire SPH. This is possible as we have an attractive portfolio.

The question is with all these interests, there will be a lot of disruption. Therefore, the way to do it was to run a proper process and to get the best value for the shareholders and put the best offer on the table for shareholders. The best way to get value is through a competitive process.

David Gerald, President, SIAS

Shareholders see this as a brilliant move by Keppel. They will become much bigger than SPH when SPH joins them. For SPH shareholders, their sentiments are: "I have been with SPH for 30 years, I want to be with SPH because SPH is going to be profitable. SPH's bleeding business is gone and I would like Mr Ng Yat Chung to head this and make this grow."

Ng Yat Chung, CEO, Singapore Press Holdings

I think this is for shareholders to decide subsequently.

David Gerald, President, SIAS

Yes, but now they are asking.

Ng Yat Chung, CEO, Singapore Press Holdings

We will come to that question. There will be an opportunity for shareholders to consider this. But I want to make some clarifications. SPH is not being handed over to Keppel. No, we went through a rigorous process overseen by a Board Steering Committee in consultation with our Financial Advisor and lawyers to conduct an independent and disciplined review of submitted proposals. We went through more than 20 proposals from parties with the means and the money to be able to make a bid. The process was designed and conducted in order to allow various interested parties to put their best foot forward and pay up if they are truly interested.

It is the outcome of a process; it turned out that Keppel made the best offer. Is it possible that a better offer can emerge? Possible. But we cannot even consider this if the shareholders do not approve the spin-off of the Media Business. The NPPA will not be lifted and we will have to continue subsidising the newspaper business.

David Gerald, President, SIAS

SPH is known as Singapore Press Holdings, once the press leaves SPH, it is Singapore Property Holdings.

Ng Yat Chung, CEO, Singapore Press Holdings

If the privatisation succeeds, we will find a new name for the company. We smile, but this is not something we take lightly. We stand ready to move forward on our own.

David Gerald, President, SIAS

I appreciate the fact that you have been concerned about shareholder value. But shareholders have many views and it’s important to therefore, as you were correctly saying, important to field these questions, and to be ready to give the correct answer to them so that they can make an informed decision.

Ng Yat Chung, CEO, Singapore Press Holdings

Whatever decision the shareholders make, I will respect the decision. My job here, and my colleagues’ job, is to provide the information shareholders need to make the decision that is right for them. Of course, if you ask us, we think the right decision is to support the resolution, to spin off the Media Business.

David Gerald, President, SIAS

We fully understand you. The next question: “Thank you SIAS and SPH for organising this. CFO mentioned that this is the first ever loss in SPH’s Media Business history, which could be due to the pandemic. I am sure many restaurant businesses are also loss-making, but you do not see them closing down. Why can’t SPH reorganise the Media Business (which you have explained earlier how difficult it is) within the current set-up, especially considering SPH has a monopoly. Thanks.”

Ng Yat Chung, CEO, Singapore Press Holdings

I think that is a great question. I refer to the presentation slides which shows the trend for the media revenue. The issue is the advertising revenue. The pandemic, as the person who asked the question, is a one-off event. But it exacerbates what has been a long-term secular trend - the decline of print. Those of you who have been long-time newspapers subscribers will know that not too many years ago (5, 6 years ago) on a Saturday, the newspaper when it came to your door, would be about half an inch thick, and much of it would have been the classified advertisements. The classified advertisements were bringing in the bulk of the money. That is no longer a business that will go back to where it was before. Habits have changed. I still read the print paper every day; I think Mr David Gerald reads the papers every day but my daughter does not. Many people in their thirties or forties do not read the newspapers anymore. And because of this trend, it is not something that we envisage can be reversed. We could reorganise to reduce costs, and in fact we have, and I think those of you will remember we faced a lot of criticism for reducing a lot of the costs.

Apart from removing costs, we also reinvested on the digital side. In order to improve and expand the reach of the Media Business, we need to further invest in digital capabilities which are expensive. But there are only so much costs we can take out without affecting core capabilities at the newspaper which is our responsibility to maintain for the good of Singapore. Whoever takes over the business will have the same challenge. That is why we came to the option of having a not-for-profit entity with the possibility of government funding. That is the way to sustain it.

David Gerald, President, SIAS

So Mr Ng, a loyalty question. People who have been loyal to SPH. They generally come to me to say the privatisation is to unlock and maximise shareholder value. For many shareholders who have paid for and held the shares for decades, they harbour the hope that SPH's share price and dividend will improve over time after the restructuring. Many are hopeful that SPH's diversified businesses in student accommodation, aged care, data centres, and property in particular, will do well after the Media Business is hived off. However, with the privatisation of SPH by Keppel after the media restructuring, it is a totally different matter. Loyal shareholders of SPH will have to contend with writing off their losses given that the payout is $2.099 per share. How can you justify this to retail shareholders, Mr Ng?

Ng Yat Chung, CEO, Singapore Press Holdings

I think that is a fair question. We stand ready to grow the business, but it will take time. It is going to take time because as far as the property business goes, we are still a small business compared to some of the other big players.

Before the announcement of the strategic review, we were trading at around S$1.50. Right now, the offer on the table is S$2.099, so there is a premium that we are putting on the table. Now you can take up this privatisation offer or not, but at least there is something for you to consider.

But I emphasise, it takes time to grow the business. We need to highlight that as we continue to grow our business, we will be subject to potential disruptions, from people who want to put in a partial bid, people who want to cherry pick the assets. We anticipate this will happen because we are receiving reverse enquiries. Whether people will offer good value, we don't know and the only way to know is to go in and test the market.

David Gerald, President, SIAS

Only time will tell.

Ng Yat Chung, CEO, Singapore Press Holdings

Time will tell. We have approached everyone who has the means; if you say you are interested, give me your best bid. Through this process, it happens that it ends up with Keppel. Is there a better offer out there? Possible, but then we will see whether we are approached or not.

David Gerald, President, SIAS

Yes, it is to do the best for the stakeholders. Why don't you take a sip of water while I turn to Mr Chua Hwee Song. Shareholders are asking, "how was capitalisation of the CLG determined? Why is part of it SPH REIT units?"

Chua Hwee Song, Chief Financial Officer, Singapore Press Holdings

Based on the discussion about how much working capital the CLG would need, the thinking was that the Media Business should enjoy some of the upside in the value of SPH shares.

For SPH REIT, it is a recognition that the non-media businesses of SPH were all built up from the retained earnings generated by the Media Business. So in a symbolic way, they are being passed some SPH REIT units. From there too, the CLG can also derive some dividend and distribution from the SPH shares and REIT units to continue funding the expected losses from the Media Business.

David Gerald, President, SIAS

I am getting the impression shareholders are saying, "Cut off the bleeding business and it becomes the CLG; they can raise funds through advertisements, various sources of income, but Mr Ng, can you and your management continue making money, slowly though your other businesses." You have attempted to reply but they are still asking this. "We will vote for getting rid of the bleeding business but we would like you to continue with your vision for SPH with the other businesses to make money?"

Ng Yat Chung, CEO, Singapore Press Holdings Limited

That is an option on the table. At the end of the day, if the shareholders do not accept the privatisation offer, then we stand ready to continue. We have a brand, a strategy and we have proven that we have been able to, through a fairly short period of time, grow an attractive portfolio of business.

David Gerald, President, SIAS

But you have to consider who is the offeror, how big it is and how it enhances shareholder value.

Ng Yat Chung, CEO, Singapore Press Holdings Limited

Correct. This was one of the most important things that the Board considered. Everyone has their own opinion what the assets are worth. But with the privatisation offer, someone is paying a control premium for the whole business. This offer is available to everyone, not only offered to whoever puts in the bid first while the rest do not get the benefits. The Board is very concerned about making sure to get maximum value for all of the shareholders, big and small.

This offer came through a competitive process with more than 20 parties with the means to provide us with an offer. However, we did not receive any all-cash offer. This structure is basically part cash, part REIT units. There are some advantages in having these REIT units for many of our shareholders who look for yield. If you own SPH REIT units and KREIT units, you will know that both of them have a strong track record of a 4-5% distribution yield consistently.

The REIT unit prices are generally very stable. By holding on to that, you get the steady distributions over time. For those people who are looking for an offer that continues to generate distributions, I think it is not a bad option to put on the table. Is this the best possible conceivable option? It is the best option on the table right now. This is the debate that we can have and it is our duty to present the offer to shareholders and we have a chance to talk more about this once we get the Media Business out of the way.

What is important for the shareholders here today, is that the demerger of the Media Business to the CLG makes sense. It is a difficult deal and Hwee Song has indicated that the process was difficult. I will tell you it was not easy for me to put the recommendation together for the Board. But in the larger scheme of things, this is the option that the regulator can agree upon and the Financial Adviser also believes it is in the overall interests of the shareholders to accept this offer.

David Gerald, President, SIAS

Why does Resolution 1 need >50% approval and Resolution 2 need 75% approval? Why not both >50% approval? Can you please explain.

Ng Yat Chung, CEO, Singapore Press Holdings Limited

These are regulatory rules. The demerger is a disposal of a substantial business and the regulatory requirement is >50%. For resolution 2, because the NPPA rules are written in our constitution, we need to amend that. But any change to the company constitution requires, by regulations, 75% vote. It is a regulatory requirement. I am a little bit more concerned if we demerged the Media Business and we still have the NPPA provision with the management shares structures still in the company constitution.

Some shareholders might think that this is the way to block Keppel's offer but if you block Keppel's offer, you block all other offers. We will be stuck with the NPPA. Even if the government decides not to enforce the restrictions, the company will still have management shareholders. So, separate this resolution 2 from the privatisation offer.

I appeal to shareholders, if you agree spinning off the Media Business makes sense, and if we agree to explore the future together on our own or as part of another entity, we need to change the constitution.

David Gerald, President, SIAS

Very long-term shareholders who are in their 70s, some even 80s, are waiting to unlock value. Can SPH please renegotiate the deal with Keppel?

Ng Yat Chung, CEO, Singapore Press Holdings Limited

Well we can ask Keppel. The answer is they have already put their best offer forward. We will never know.

David Gerald, President, SIAS

I think the shareholders will appreciate your effort to enhance shareholder value and to improve the business. They will also appreciate that there is a very good offer on the table by a very big company which is expanding. Anyway, they have to exercise their vote and make an informed decision.

Ng Yat Chung, CEO, Singapore Press Holdings Limited

Yes, this is an engagement session and our job is to provide as much information as possible. This is a difficult deal that we are putting forward; it is complex and unusual. All the questions are fair. So it is our job to provide shareholders with the information so that they can make the right decision for themselves.

David Gerald, President, SIAS

Any concluding remarks Mr Ng?

Ng Yat Chung, CEO, Singapore Press Holdings Limited

We have come to this way of demerging the Media Business after exhausting a number of options. Given the requirements for us as a company to share some of the burden of the business, we have come up with this structure. It is a one-time hit, a painful one, but still this allows us to move forth from here.

We also have the Keppel offer which is still a significant premium from where we are today. Definitely a huge premium from S$1.50 in March when we announced the strategic review.

But we are not here to talk about the privatisation offer, we are here to explain why it is in shareholders' best interests and the company's best financial interests to demerge based on the proposal that we have.

Therefore, I would ask for shareholders' support to vote in favour of both propositions. The demerger as well as the change in constitution so that we can become a normal company. It may be a difficult decision but if you look at where the share price is and where the market is going, it is the right decision financially in terms of shareholder value. We can then decide on our future together afterwards. If you do not do this, we are back to square one.

David Gerald, President, SIAS

So your final call is vote for the delinking of the Media Business and amend the constitution. After that we can have a separate debate on Keppel's offer and we can then consider that. Thank you very much on behalf of the shareholders and SIAS, Mr Ng and Mr Chua.