

GREG HYWOOD MELBOURNE PRESS CLUB SPEECH 18 JULY 2014

CHECK AGAINST DELIVERY

Good afternoon everyone.

May I start my comments today acknowledging the tragedy and horror of the events overnight in the Ukraine and beyond. On behalf of everybody at Fairfax we would like to extend our condolences to the families and friends of all those affected in this dreadful situation.

I am sure they are in everyone's thoughts. And as news people we are watching the events as they unfold and thinking what an extraordinary day – in fact, all of you should be back at your keyboards and on the phones... instead of listening to me.

And one more observation – it is days like today that our audience – our communities – really value reliable independent media voices. It is days like today that media – on all platforms – will be the key source of information as we all try to grapple with the enormity of it all.

But to today's speech – a speech that I am looking forward to giving...

It would be hard not to be aware of the recent conga line of hysteria of not-particularly-varied books written about Fairfax – and while I don't want to dampen the spirits of the various publishers and authors – I have to say their deathly prose has been overtaken by time and our company's contemporary performance.

So how about a new book: 'Fairfax Media – Alive! How a 180 year old newspaper company weathered the storm and confounded them all.'

I am going to take you through the précis today.

While some people have been myopically focused on the old days – we have been unashamedly focused on our future – and we like what we see.

Focusing on that future – both in terms of delivering quality journalism and commercial strength – has seen us reshape, restructure and revitalise our company.

We've thought our way through the challenges the media faces – and shaped a new model to sustain quality journalism.

We have made tough decisions – and the nature of the constant change in our industry means they will never stop. We have created a new Fairfax that hasn't compromised what's at our core: high-quality, independent journalism we provide across print, digital and radio to the communities we serve.

While media companies have made a self-serving art form of interpreting the various industry measurement diagnostics, there are a couple of numbers that can't be challenged – Fairfax Media reaches 10.6 million Australians aged 14+ a month across our publishing mastheads.

The Sydney Morning Herald is indisputably the most read masthead in the country. The Age is not too far behind. Underlying that – our publishing earnings are solid; our share price is up 80% over the last year; and key parts of our business, notably Domain, are growing rapidly.

So in my précis of ‘Fairfax Media – Alive!’ I am going to demonstrate how our business model is well beyond theory – it is working.

Proof Point 1 – Quality journalism and investigative journalism is alive and well and is thriving at Fairfax.

People know my mantra – quality journalism is a public good.

Fairfax journalists ask the questions people don’t want asked and are not always popular in what they pursue – but we aren’t in it to win a popularity contest.

Great journalism makes communities stronger – more civil, more open, and more transparency makes our society the kind of place we all want to live in.

The Age here in Melbourne – reigning Newspaper of the Year – is true to that mission. In the last 12 months alone – five Walkley Awards; six Quills; Caroline Wilson winning Graham Perkin Journalist of the Year – The Age’s journalism is powerful.

The Age’s investigative journalists continue to set the national agenda. Their work led directly to the State Parliamentary inquiry into institutional child abuse, triggering the current Royal Commission.

Revelations about the CFMEU and other union corruption led directly to the Royal Commission into unions.

Adele Ferguson and Chris Vedelago’s revelations persuaded the Commonwealth Bank to lift their compensation to victims of bad financial advice to at least \$250 million. Their stories prompted the Senate inquiry into the industry.

Whether it’s The Age – or the iconic Neil Mitchell on 3AW – audiences flock to Fairfax.

Journalism is what makes our business tick.

Our ability to accumulate the huge audience we have is utterly dependent upon what we do ‘at scale’.

We don’t put five journalists into the field; we don’t put 10 journalists into the field; we put thousands of reporters into communities every day – in the major metropolitan cities and in 200 publications across regional and rural Australia.

Our reporters are now using all the instruments on hand to change journalism from a one-way flow into a broader community conversation. Social media enables us to create this national conversation, which can involve crowd-sourcing information, enabling our audience to become fully engaged in the delivery of news and information themselves.

This is our virtuous circle.

And while we would all love to have an open chequebook – we have to – and do – deliver our journalism within our new functional and sustainable commercial model.

Which brings me to **Proof Point 2 – We have adjusted to the new commercial reality.**

As we all know, disruptive digital forces have snuffed out the old model. The rise of pure play online classified operators; Google taking a big chunk of the display ad market into search; and the proliferation of smart devices has changed the media world forever.

The abrupt structural change that triggered the collapsing print advertising revenue is an ongoing reality around the world – including in Australia.

The data shows the UK and the US being hit as early as 2004 – and for a variety of reasons it only started really hammering Australia some years later. And none of us should kid ourselves that it has stopped yet.

Having seen the devastation offshore we knew there was no time to waste and began our – what some people saw as radical – and what we knew was necessary – reshaping of the business in 2010. And it was not a second too soon.

We were criticised at the time for being ‘too upfront and honest’ with our employees. Well, while I have never been happy about even one person losing their job – I will not apologise for giving people the fair and honest warning of what had to occur.

And our new model has never been about just cutting costs – although that has been crucial – it has also been about: (1) stabilising revenues; (2) building new adjacent revenues; and (3) building new businesses.

As part of the new Fairfax, news making has included stabilising our publishing business, reorganising our newsrooms to be genuinely ‘digital first’, significantly reducing costs, and outsourcing where appropriate.

We’ve dismantled the legacy-based, vertically-integrated structure, and become a leaner, more agile organisation – from editorial production, advertising, sales and contact centres.

Revenue used to be just advertising revenue and cover price income. It has now evolved into digital subscriptions, marketing services, property services and more.

We have been profoundly successful at increasing digital subscriptions.

Since introducing them for The Age and the SMH a year ago, we have signed up around 130,000 high-yielding digital subscribers, as at our last market update in May. In addition, 100,000 existing print subscribers have activated their digital access.

We run our business on a 24/7 digital-first basis, where the production of a physical newspaper is an important but just one part of the process.

And talking about our newspapers – and I am going to be explicit here – the metros are increasing their profitability – they provide strong cash flows. I have said repeatedly Fairfax is committed to producing profitable newspapers. They are more profitable now than when I first said that.

How have we done this? We have improved their profitability with smarter production methods, increased circulation yield, deliberately reducing our unprofitable production – and all while continuing to perform well in readership and revenue market share.

One example of the massive changes we have made is that we have got out of \$600 million of over-sized capital investment in Tullamarine and Chullora and replaced them with \$40 million of extra capital equipment at Ballarat and North Richmond.

Fairfax is not just newspapers of course. We have a national news, talk, sport radio network. We are investing for the future. We believe that shaping the conversation in our communities through news and talk is a better place to be than in music which is being massively disrupted by new streaming technologies.

So we are committed to radio. We are getting it right. It won't happen overnight. We are here for the long haul.

Before I get on to my next proof point, I would like to take a moment to talk about our people. Yes there has been change. Yes a lot of people have left Fairfax. But don't doubt that our strategy is directed at the core of what we do – our journalism. It's a little known fact that reporters have left Fairfax at half the rate of everyone else in the company.

The brunt of change has been borne by people in management and all the support services underpinning our journalism.

And it's not just an outward movement. As we have developed new areas in the company, more than 1,000 new people have joined Fairfax in the past year in a mix of replacement and new roles. And frankly, an influx of new people and some generational change has been good for Fairfax.

Young people are being given the opportunity to take on the responsibilities that were available to me and my generation when we started in the media.

I don't have to tell you all that journalism as a career is alive and well. Hundreds of talented, highly-qualified young people compete for the trainee journalist positions we continue to keep open at The Age, The Sydney Morning Herald and The Australian Financial Review and our other publications this year.

There's incredible energy, passion and desire to be part of what's happening.

Which brings me to **Proof Point 3 – We are creating new revenues.**

While we were transforming our old newspaper business into a multi-platform media organisation – we have also been growing new businesses which are heavily aligned to our core – property services, marketing services, data services and events.

This involves taking a 360-degree view of clients' needs. It's not only advertising, it's a full suite model that goes way beyond traditional marketing.

Look at the success of Domain. We said in May EBITDA growth year-on-year was 33%. We have just bought All Homes in Canberra which is the number one provider in that market. Earlier in the year we bought Property Data Solutions. I won't go into too much detail about our future plans around Domain – 'watch this space'.

Fairfax is in a strong position, not just to build its current businesses, but to invest for the future.

Which brings me to **Proof Point 4 – Balance sheet strength gives us optionality and flexibility.**

Fairfax not only has no debt, we have \$100 million in the bank. This gives us the capacity to invest in and if necessary borrow what we need to grow.

Education, travel, health, lifestyle are all areas where we can and will invest if it makes sense – leveraging our audience to build new businesses.

The point I am making is that our ability to successfully restructure and to invest in the future gives us the ability to underpin quality journalism into the future. Sure it is a different way than 10 years ago; it is certainly a different way than 20 years ago; but who said the only way to sustain journalism was through classified advertising. If those were the rules they've certainly gone now.

This is a contemporary business model underpinning our contemporary journalism.

In simple terms – our ongoing strength comes down to our ability to add value to our audience – and we know how to do it.

We have the trusted brands.

We are well placed for the future.

I am happy to take Q&A.

– ENDS –

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