FAIRFAX MEDIA LIMITED
2017 HALF-YEAR RESULTS COMMENTARY

SYDNEY, 22 February 2017: Fairfax Media Limited [ASX:FXJ] today delivered its 2017 half-year financial results. Accompanying commentary from Chief Executive and Managing Director, Greg Hywood, and Chief Financial Officer, David Housego, is set out below.

Greg Hywood

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Good morning everyone.

Thank you for making the time to join me and our Chief Financial Officer, David Housego, on a very busy day for results in the market today.

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We'll run through the same agenda as usual, and we look forward to taking your questions at the end of the presentation.

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Before we turn to the detail of today's results, I want to address the announcement we made this morning regarding Domain.

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We are conducting a strategic review of the Domain Group in preparation for Domain's potential separation into a new Fairfax controlled ASX-listed entity.

The time is right for Domain to take this next step. It has achieved the scale in revenue, earnings and audience it needs to operate as a standalone listed entity.

Domain Group CEO Antony Catalano will continue to lead an exceptionally talented management team which is driving the strong performance of the business.

The separation of Domain would further reshape the Fairfax portfolio by adopting a more flexible corporate structure to maximise shareholder value.

The separation would provide:

- Direct valuation for Domain;
- Boards and management teams that will be better able to develop distinct strategies, manage capital structures and conduct investment decisions for their respective businesses; and
- The opportunity for Domain to attract new shareholders with different investment criteria.

Fairfax would continue to own a controlling majority of Domain (between 60% and 70%), while issuing shares in Domain to Fairfax shareholders at the time the separation is implemented. The current intention is that no new capital will be raised.

The decision to proceed with the Domain separation will be subject to a number of conditions. We will provide further updates on timing and structure.

At this stage, we anticipate that the separation would complete this calendar year.

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For the half, the Fairfax Group delivered net profit of $85 million up 6% on prior year. Earnings per share growth of 9% benefited from the share buy-back program.

Group Operating EBITDA of $145 million was achieved from revenue of $903 million.

Our cost reduction programs underpinned a 5% decline in operating expenses, notwithstanding continued investment in our growth businesses.

We will pay an interim dividend of 2 cents per share, 70% franked.

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For the half year, Domain delivered 6% growth in revenue.

EBITDA of $57 million reflected ongoing investment in the business.

Australian Metro Media experienced an 8% decline in revenue, an 8% reduction in operating expenses, a 12% decline in EBITDA.

Last week we announced the next decisive step for our Metro titles. It involves restructuring to secure the continued commercial success of our journalism, not for a year or two, but for the foreseeable future.

Australian Community Media revenue declined 12%. The reduction in operating expenses contained the EBITDA decline to 5%.

New Zealand Media revenue declined 8% and EBITDA was down 10% in local currency.

Macquarie Media revenue lifted 1% and EBITDA increased 11%.

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Across the Fairfax portfolio, our strategy remains focused on creating shareholder value by delivering on three priorities:

- Grow Domain;
- Transform Publishing;
- Create New Revenue Streams.

Our business groups have made significant progress in delivering on these strategies during the half.

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Turning to our first strategic priority: Grow Domain.

Some of the highlights for Domain Group in the half include:

- 12% depth revenue growth;
- strong digital media, developers & commercial revenue growth;
- 27% increase in average monthly mobile visits.

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To the detail of Domain's financial performance:

As we foreshadowed at the AGM, nationwide listings volumes were down around 7% in the half, with larger declines in our core markets of Sydney and Melbourne.

Domain still delivered 15% growth in digital revenue, supported by further depth penetration, yield increases and strong growth in Media, Developers & Commercial.

Domain is also seeing very pleasing growth coming out of utilities connections.

Print advertising was constrained by the listings environment, with revenue down 11%.

Operating expenses increased 19%, with digital expenses up 44% reflecting ongoing investment in product, sales, technology, marketing and acquisitions, as the business structures itself for medium to longer term growth.

Excluding one offs and costs associated with our early stage utilities connections businesses, digital expenses increased 27%.

Print expenses declined 11% as a result of the implementation of efficiencies across the Group.

The EBITDA decline of 13% reflects the impact of our strategic decision to continue to invest in Domain through the current listings cycle.

FY17 H2 total expense growth is expected to moderate to around 13% year on year, reflecting the higher expense base already in place in the prior corresponding period.

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Domain is a real-estate media and services business spanning all aspects of the Australian property ecosystem. At the core of the business is large, highly-engaged audiences.

Domain's businesses span residential and commercial listings, property data and valuations, media and developers, agent CRM platforms, and transaction services.

Driving this business is a highly talented executive management team.

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Domain operates a national footprint, with 700 highly-engaged employees working in a vibrant, collaborative and creative culture fueling Domain's success.

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The Domain platform has significant opportunity to grow within its existing activities and through recent investment in transaction services.

Within the Residential business, there is opportunity for geographic expansion, further depth product penetration, and yield increases driven by audience growth.

Domain's Media advertising business is benefiting from enhanced content offerings underpinned by high-quality journalism. This has delivered two years of rapid audience growth and driven strong revenue performance.

Commercial Real Estate is performing strongly, with substantial growth in audience. In the first half: Listings sessions were up 134%; For Sale leads up 74%; and For Lease leads up 98%, year on year. We have a national agent ownership model in place and expect further upside, particularly in Victoria and Queensland.

The Agent Services business – incorporating Data, CRM and Open For Inspection management – has the potential to deliver further subscriber and yield growth; facilitating new transaction revenues in partnership with agents.

Transactions businesses are experiencing rapid growth in home loans and utilities connections. We have established a position in home improvement and trade services and see a number of opportunities across the property ecosystem.

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In the last six months, Domain achieved record monthly audience milestones including digital audience of 4.7 million, print audience of 2.6 million, and 46 million monthly visits.

Audience increases and high engagement are supporting media revenue growth in a tough market.

Mobile app downloads now exceed 5.3 million.

Commercial Real Estate delivered 36,000 average daily UBs, which have quadrupled over the past year. The significant audience gains underpinned our 28% digital revenue growth in the first half and delivered market share gains.

Domain has 1.1 million social media followers. In the real estate category on Facebook globally, Domain has the second highest following and the highest engagement. These audience numbers are generating significant leads to agents and driving the monetisation of this channel.

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These milestones are reflected in the audience growth momentum Domain has delivered in the six months to December. Total visits were up 13%, with total mobile visits increasing an impressive 27%, and total app visits up 23%.

This strong audience growth and engagement is underpinning pricing increases in listings and growth in our media business.

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Domain is delivering first to market mobile-led product innovation for consumers.

Its strong competitive position in mobile is generating 70% of leads.

These integrated, cloud-based offerings leverage data and provide easy-to-use product experiences.

Examples include school catchment zones, Home Price Guide, Facebook messenger bot and Domain's chat platform.

Home Price Guide had a record month in January of more than 1 million users.

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Domain's award-winning mobile innovation benefits the entire Domain ecosystem, allowing for the development of distinct products for agents.

This includes HomePass, which has achieved more than 1 million "check-ins" to open for inspectations since launch and facilitates 50,000 check-ins a week.

MyDesktop, Domain's market-leading customer relationship management platform, is supported by best in market mobile applications.

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Now to our publishing businesses.

Our three publishing businesses maintained an intense focus on cost reduction, a stronger emphasis on digital publishing, and made progress in building new revenue opportunities.

We are pleased with their continued profitability in the face of the largest structural change in the industry's history. This is a remarkable performance which few publishers globally have matched.

Metro digital subscription revenue of $22 million was up 22%. This was supported by a digital subscriber base of 226,000 across the SMH, *The Age* and *The Australian Financial Review*. All three titles delivered year-on-year growth, particularly the *Financial Review*.

Metro publishing costs improved 9%.

At ACM, costs improved by 12% which supported EBITDA margin expansion.

In New Zealand, digital revenue increased 21%, with operating costs reducing by 8%.

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To the detail of Metro's performance:

Metro publishing advertising revenue declined 16%, impacted by weakness in retail and motoring categories.

Overall circulation revenue increased 1%, benefiting from the strong growth in paid digital subscriptions. Declines in print circulation volumes were partially offset by cover price increases.

Other revenue declined 3% reflecting the sale of Tenderlink and more moderate growth from the Events business as it consolidates its portfolio.

As mentioned previously, Metro publishing costs were down 9%. We expect to maintain a similar run-rate in the second half.

Last week we announced a new management structure for the Metro publishing business, with the appointment of Chris Janz as Managing Director of Australian Metro Publishing. Chris joined Fairfax in August last year and is overseeing the impressive product and technology development work that will be the centrepiece of Metro's next generation publishing model.

This involves an even greater primacy of our digital publishing focus, delivering unrivalled news and information products to our customers, and sustaining a commercially successful print proposition.

While we have considered many options, the model we have developed involves continuing to print our publications daily for some years yet. This is the best commercial outcome for shareholders based on current advertising and subscription trends.

Allen Williams has become Managing Director, Publishing Transition. He will continue overseeing cost transformation and remains responsible for Australian Community Media and Printing & Distribution.

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ACM's total revenue declined 10%. The 4% growth in agriculture-related advertising partially offset weakness in classified advertising.

Circulation revenue declined, reflecting lower retail volumes.

The benefits of the ACM transformation program saw operating costs down 12%, underpinning an EBITDA margin improvement for the half.

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Our NZ business saw total revenue down 9% in local currency terms. Excluding magazine disposals, revenue was down 6%.

Weakness in print advertising revenue was partially offset by strong digital growth of 21% and significant expansion in the contribution of Events.

Circulation revenue declined 8% with volume declines offsetting improvements in yield.

Cost management continued, with an 8% reduction in operating costs, notwithstanding a continued investment in digital and events.

We expect the NZ Commerce Commission to make its determination on the proposed merger of Fairfax NZ with NZME by mid-March.

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Create New Revenue Streams is our third strategic priority.

Some highlights from the half include:

- Stan's active subscriber base reaching more than 700,000;

- A focus on profitability in Events after three years of rapid expansion; and
- An 11% increase in EBITDA at Macquarie Media.

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Results from our Digital Ventures portfolio reflect the sale of Tenderlink in October 2016.

EBITDA reflected solid results from Weatherzone and improved net profit contribution from RSVP/Oasis, which is included at the Associate line.

The gain on sale of Tenderlink of $6.1 million is included in our significant items. This gain, together with dividends received from the business, delivered a 2.4 times return on our original investment.

In just two short years, Stan has delivered exceptional performance. It is the leading local market SVOD service. The business is on a clear path to profitability and expects to reach cashflow breakeven during FY18.

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At our Investor Briefing on Stan held in October, CEO Mike Sneesby outlined his expectations for improving momentum in subscriber sign-ups based on an outstanding programming line-up. That performance has been exceeded and culminated in January delivering Stan's biggest ever month in subscriber sign-ups.

As at 13 February, Stan has more than 700,000 active subscribers.

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Stan's audience momentum reflects its differentiated content offering. The business has exclusive rights to SHOWTIME in Australia, a range of rights from other studios, as well as original local productions.

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The regular launch of high-quality popular programming through the course of the year will continue to drive Stan's subscriber momentum. This includes SHOWTIME's *Twin Peaks* series return, which is set to be the biggest television event this year.

Another key subscription driver will be Stan's offline viewing feature, launching from March, which makes thousands of hours of TV series and movies available for download.

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Macquarie Media delivered 1% revenue growth for the half, in line with broader radio market trends. Revenue momentum improved over the course of the six months, with growth of 3% in the second quarter, compared with the decline of 1% in the first quarter.

Cost and operational synergies underpinned an improvement in EBITDA margin from 17% to 19%.

The business is implementing programming and sales changes which are expected to drive performance in the second half.

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Turning now to the current trading environment.

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Trading in the first two weeks of February saw revenues around 6% below last year.

Trading in January saw revenues around 10% below last year in a slower than usual start across the media industry.

New real estate listings have seen some early signs of improvement in February following the weak FY17 H1 performance.

Across the Fairfax Group we continue to implement cost savings measures.

David will now take you through the financial results in more detail.

David Housego

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Thanks Greg, and good morning everyone.

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Turning to slide 31, the table provides a reconciliation of our FY17 first half result starting from the left hand side with our statutory 4D numbers. Adjustments show trading performance excluding significant items. There was no difference between our trading performance excluding significant items and continuing businesses because there were no material disposals or closures during the half.

The total significant item after tax was a $1 million loss largely reflecting the gain on sale of Tenderlink offset by redundancy and restructuring charges. I will run through the detail in a moment.

EBITDA of $145 million was 9.9% lower than a year ago notwithstanding continued investment into the business.

Turning to items below the EBITDA line, depreciation and amortisation expense of $18 million was significantly below the prior corresponding period reflecting the write-down of assets in the FY16 result. Looking forward to the full year we expect depreciation and amortisation to be at the lower end of the $40 million to $50 million range we provided previously.

Net interest expense for the half of $4.6 million was below the prior period due to prepayment of our US PP facilities. We expect second half net interest to be in line with the first half. We will be repaying the balance of our US PP facility in July.

Our effective tax rate was 26%. This was below the statutory rate reflecting the lower New Zealand tax rate and the receipt of R&D credits. For the second half, we expect the tax rate to be in line with prior years.

Our 2 cent interim dividend will be 70% franked.

Non-controlling interests of $5.6 million after tax was in line with the prior year. We consolidate 100% of Macquarie Media and the non-controlling interest reflects the 45.5% that we do not own.

NCIs also reflect minority interests associated with the Domain Group, including MMP entities and the Domain agent ownership model. Other is mainly due to start up losses at 51% owned Stuff Fibre.

Looking forward to the second half we expect a step-up in NCIs given the stronger growth expected from Macquarie Media and a larger impact from the Domain agent ownership model.

The detail of NCIs is outlined in Appendix 5 of the Investor presentation.

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The detail of significant items is outlined on Slide 32.

Restructuring and redundancy charges of $11 million related to the transformation underway across our three publishing businesses. These charges were offset by the gain on sale of Tenderlink mentioned earlier.

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Slide 33 provides a summary of our cash flows for the half.

Proceeds from asset sales predominantly reflected the sale of Tenderlink.

Our cash tax payments reduced to $20 million from $35 million in the prior period.

Investment in property, plant and equipment and software of $53 million related to property fitouts and product development at Domain and New Zealand Media. For the full year we continue to expect capex to be at a similar level to the $95 million we invested in FY16.

Restructure and redundancy payments of $20 million were in relation to the transformation of our publishing businesses.

Loans advanced of $20 million include our investment in Stan.

During the half we paid $54 million in dividends to shareholders.

We finished the half with net debt of $112 million.

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Slide 34 summarises our funding position at December 2016. Total interest bearing liabilities increased to $244 million from $179 million at June 2016.

Our cash and cash equivalents increased to $118 million from $81 million at June.

Net debt to EBITDA has increased to 0.4x from 0.3x in June 2016. EBITDA to Net interest has increased from 25x in June 2016 to 31x in December 2016.

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Slide 35 shows our current facility maturity. The A$82 million US PP 2007 series payment is due in July 2017.

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In anticipation of a number of questions on the Domain transaction, I will briefly set out some further details.

As Greg mentioned, we expect to retain a 60% to 70% shareholding in Domain. In coming to this position, considerations included maintaining a large exposure to Domain's strong long-term growth; the ability to continue to consolidate Domain earnings; while at the same time providing a sufficient free float so that Domain would be considered for index inclusion.

Bearing in mind the strong state of Fairfax's balance sheet, the current intention is that no new capital will be raised.

Post separation, Domain will incur a number of costs and adjustments not currently reflected in its segment financials. These are expected to be approximately $8 million to $10 million per annum, consisting of:

- An incremental $4 million Board, listing and other costs associated with Domain becoming a standalone entity;

- $4 million to $6 million reflecting transfer of corporate costs currently borne by Fairfax but attributable to Domain, and commercial agreements with Fairfax for certain services.

The decision to proceed with the Domain separation will be subject to a number of conditions including satisfactory outcome of engagement with the Australian Taxation Office and a Fairfax shareholder vote.

We have commenced discussions with the ATO.

We will provide further updates on timing and structure.

At this stage, we anticipate that the separation would complete this calendar year.

Thanks for your attention and I'll now hand back to the operator for Q&A

– ENDS –

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