FAIRFAX MEDIA LIMITED
FY16 H1 RESULTS COMMENTARY

SYDNEY, 19 February 2016: Fairfax Media Limited [ASX:FXJ] today delivered its 2016 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

Slide 1

Good morning everyone.

Thank you for making the time to join me and our Chief Financial Officer, David Housego, 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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Today's solid results are a testament to the unrelenting efforts by everyone in the company to drive the performance of the business.

Our strategy of confronting the change occurring in the media industry head on underpins this result.

Slide 5

Our diversified portfolio of businesses delivered a pleasing 2.8% increase in Group revenue to $958 million for continuing operations.

Our strategy to accelerate our growth businesses through operational investment and acquisitions lifted Group expenses by 3.2%.

This included investment in Domain Group, expansion of our Life Media & Events portfolio, and the merger of our radio assets to form the enlarged Macquarie Media.

Our continued focus on cost reduction and efficiency in our publishing businesses drove Group publishing costs down by 6% – that's $38 million.

Domain's outstanding 74% increase in EBITDA (up 46% excluding the impact of one-off costs in the prior period) contributed to an improved Group operating EBITDA of $161 million, up 2% on last year.

The Domain businesses saw digital advertising revenue growth of 37%, and Domain.com.au revenue grew by 38%, an acceleration from 30% in FY15.

Net profit of $79.8 million is down 2.2%, with earnings per share of 3.4 cents.

We will pay an interim dividend of 2 cents per share, 50% franked, a payout ratio of 59%.

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The revenues we generate across the Fairfax Media Network are increasingly from our digital and experiential businesses.

Our network of leading brands provides powerful connections between advertisers and large, diversified high quality audiences of almost 11 million Australians across digital and print; more than 2.3 million Australian radio listeners; and around 3 million New Zealanders. There are also more than 2.5 million people interacting with us via 50 events we make happen across Australia and New Zealand.

I say this at every results announcement and once again it's true – our audiences have never been larger, more diverse, or hungrier for quality independent journalism, digital content and services, as well as real-life experiences.

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The core of our business serves our information, marketplaces and entertainment assets which interact with and leverage each other – regardless of platform.

As you know, our strategy sees us leveraging audiences across our extensive network through advertising, subscriptions, marketing services, and new businesses which we build or buy.

Having built flexibility and optionality into the business, we are able to pivot to meet opportunities and build new businesses. Increasingly we bring specialists into the company to drive these assets. Stan, Drive, HuffPost Australia and our Allure Media businesses are examples of how we have partnered to secure future growth.

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Profitability continued to improve in Australian Metro Media, with revenue growth of around 10% and EBITDA growth of around 15%.

As I mentioned at the outset, strong organic growth in the Domain business, together with the impact of the acquisition of MMP, lifted Domain's revenues by 63% and drove EBITDA higher by 74%.

The Australian Metro Media publishing business declined, reflecting ongoing structural shifts in advertising spend.

Australian Community Media revenue was down 9% to $257 million, with EBITDA down 20% to $45 million.

Digital revenue in our New Zealand business increased 43%, reflecting the strength of Stuff.co.nz as the country's major news site. NZ total revenue was down 7% in local currency amidst a difficult print advertising environment.

The Radio business, a majority shareholding in Macquarie Media, made a solid EBITDA contribution of $12 million.

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As you know, our strategy is to 'grow, transform and invest' to drive long-term performance. I will now take you through the significant progress achieved in the half.

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Some highlights of our strategy to grow include:

- The significant operational progress of Domain, with a 99% increase in total average monthly visits since FY15 H1 and 88% national listings penetration. We will continue to invest in Domain in the second half and beyond. We have great confidence in this remarkable business.

- Life Media and Events revenues grew by 16% with the benefit of operational investment and acquisitions. The formation of a joint venture between Drive and 112, owners of themotorreport, leverages a differentiated strategy to drive lead generation for new cars. We have new car dealers signed up in every State. Acquisition activity included Openair Cinemas and fitness membership business Bodypass.

- At Macquarie Media, the realisation of cost efficiencies underpinned its performance.

Slide 11

Some highlights of our strategy to transform include:

- An encouraging 20% growth in Group digital revenue.

- In Australian Metro Media publishing, digital subscription revenue increased by 14%. We realised $61 million of cash through the sale of Chullora and Tullamarine print sites. Costs were down by 4% or $10 million in the half.

- Australian Community Media business made good progress implementing its digital-first publishing model. Costs were down by 9% or $18 million in the half.

- In New Zealand, digital revenue increased 43% driven by Stuff.co.nz's continued momentum. Costs were down almost 7% or $11 million in NZ currency.

- Across the Group, over the last four years we have reduced publishing costs in excess of 26% or $400 million on an annualised basis. In Metro publishing costs are down 34%. And yet, as I pointed out earlier, our network has never been stronger and our audiences have never been larger.

Slide 12

Some highlights of our strategy to invest include:

- The value being created in our Digital Ventures portfolio.

- Our investment in Stan puts us at the heart of a new era of entertainment. Stan has cemented its position as Australia's leading local subscription video-on-demand provider. Fairfax and Nine are wielding the power of their deep marketing inventory behind this business, driving strong growth. We are confident Stan will deliver long-term value for shareholders. The recent exclusive multi-year deal with CBS's SHOWTIME makes Stan the official home of SHOWTIME in Australia and underpins confidence in this business. Make no mistake, this was a game changer. The Stan deal was part of SHOWTIME's global distribution strategy and recognises Stan's strong competitive position in this emerging market. Only a year old, Stan has established itself and met its business targets, with more than 700,000 households signing up to the service. It is approaching 400,000 active subscribers. Stan has rolled out applications on every major streaming device.

- We are also seeing strong revenue momentum across our Digital Ventures portfolio of digital publishing assets, which delivered around 50% revenue growth in the first half.

- Weatherzone delivered 45% B2C revenue growth, benefiting from its strong market position with 2.2 million app users and 2.6 million desktop users.

- Allure Media launched several new digital properties.

- We launched HuffPost Australia – our local partnership with the global digital news leader. It has received healthy support from advertisers since launching in August 2015 and gained significant audience.

- Our balance sheet is in great shape with $6.2 million of net cash following the completion of our $112 million share buy-back.

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Let's look at the Segment results in more detail.

Slide 14

As I have said, our Metropolitan Media segment – which includes our Domain, Digital Ventures and Life Media & Events businesses – grew revenue almost 10%.

Contributing to this result is the very strong momentum in Domain, consolidation of MMP following the move to full ownership, growth in digital subscription revenue, and higher revenues from Digital Ventures.

Consistent with recent trends, Metro publishing experienced a decline in print advertising.

We have made it clear many times that we are managing a structural shift in publishing from print to digital. We continue to adapt our business model to this reality, which involves an intense focus on cost reduction and the creation of new revenue opportunities. We have managed this well over recent years and have absolute confidence we will continue to manage it in the future.

This will inevitably mean an even stronger emphasis on digital publishing. We are ready to meet this significant opportunity as consumer preferences demand.

For the half, Metro publishing costs were down 4%, bringing the reduction in our cost base to 34% over the last four financial years. FY15 saw the full-year benefit of the closure of Tullamarine and Chullora print sites. Cost initiatives are ongoing.

Overall costs in the segment increased almost 8% reflecting the consolidation of MMP costs and the ongoing operational investment in Domain.

EBITDA for the Metro division increased almost 15%.

Slide 15

Looking at the metro revenues in more detail – you can see that print advertising revenue increased 10%, reflecting the acquisition of MMP. Excluding MMP, print advertising was 14% lower.

Digital advertising increased almost 23%, supported by the strong gains at Domain and Digital Ventures.

Print circulation revenue declined modestly, while digital subscription revenue increased by 14%.

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Domain delivered a standout performance, with total digital revenue growth of 37%.

Premium depth revenue remained very strong with 57% year-on-year growth and now represents 75% of Domain.com.au's revenue base.

Print advertising growth of 148% benefited from the full consolidation of MMP, acquired in January 2015.

Our investment in sales capability, product development and acquisitions is driving our impressive overall revenue growth of 63% year-on-year.

Operating costs increased 47% reflecting our investment in the aggressive expansion of Domain together with the impact of acquisitions. Excluding one-off costs in the prior period, underlying digital costs were up by 30%.

EBITDA grew 74%, with Digital EBITDA growth of 98%. Adjusting for the impact of one-off costs, EBITDA grew 46% and Digital EBITDA grew 45%.

We continue to make good progress with the national roll-out of Domain's agent ownership model, which is driving significant revenue growth in depth products.

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The success of Domain's strategy is evident in the metrics and the innovation delivered across the business.

Domain has 11,000 agent subscribers, which is up 14%.

This chart shows you the progress we have made in closing the listings gap to our main competitor. Domain's online listings have increased 6% to more than 360,000, with market penetration lifting eight percentage points to 88%. That means effective parity in our key markets.

Slide 18

Product innovation, marketing investment, high quality journalism and content, and our leading social media presence are powering growth in the number of visitors to Domain.

In November 2015, Domain recorded its highest average daily UBs on record. For the six months, average daily UBs have doubled. Each month Domain reaches 3.3 million people across all digital platforms.

Slide 19

Product innovation is one of Domain's key competitive advantages. Recent initiatives, such as the HomePriceGuide, the new and improved iPad app, and a very successful marketing campaign, have delivered a 36% increase in mobile app downloads in the half to 4.4 million.

Slide 20

The impressive 149% increase in visits to mobile sites and apps has driven the step change in total visits to Domain, which are up 99% since FY15 H1. This represents significant engagement from a high quality audience for our agent and media clients. Mobile is proving highly effective for listings and delivering leads to agents.

Slide 21

Over the course of 2015, Domain has narrowed the gap in visits versus its main competitor.

Domain's visits grew from 18.1 million in January 2015 to 39.9 million in November 2015, almost halving the gap in just 10 months.

Slide 22

As I highlighted earlier, our Digital Ventures portfolio achieved pleasing momentum, with total revenue up 22% and EBITDA up almost 80%, notwithstanding continued investment.

EBITDA margins expanded from 18% to 26%.

As mentioned, Allure Media and Weatherzone delivered strong revenue growth. The associate contribution benefited from an improvement at RSVP/Oasis Active.

Slide 23

In our Australian Community Media business, total revenue declined 11%, with revenue from advertising down 12% in the half. Difficult conditions prevail in regional and agricultural markets.

Supermarket-related print retail advertising was particularly weak, partially offset by an increase in real-estate advertising.

Progress of ACM's transformation program can be seen in the 9% cost reduction delivered for the half. Closure of some loss-making titles has had some negative impact on revenue.
EBITDA of around $45 million was 20% lower.

The team has done an outstanding job delivering a new model which will underpin the future sustainability of the business.

As previously indicated, the $60 million run-rate of cost benefits of the ACM transformation are on track to be delivered by the end of FY16.

Slide 24

Our New Zealand business saw advertising revenue down 9% in local currency terms.

Supermarket, retail and employment advertising categories were all particularly weak, with some offset from a strong performance from real-estate and health.

Digital revenue growth of 43% reflected the continued strong momentum at Stuff.co.nz. Our New Zealand team is building a broadly-based membership model and will be leveraging opportunities arising from the substantial audience base.

The cost decline of 7% reflects strong expense management in publishing whilst continuing to invest in the digital business.

EBITDA declined 12% to NZ$30 million.

Slide 25

Stuff.co.nz continues to be the number one domestic website in New Zealand, increasing its unique audience 5% year-on-year.

Slide 26

Macquarie Media's pleasing performance is the result of the merger between Fairfax Radio Network and MRN in March 2015.

The corresponding period in FY15 H1 includes Fairfax Radio Network, along with 96FM which was divested in January 2015.

Cost and operational synergies have been implemented.

As Macquarie Media indicated earlier this week, it expects FY16 EBITDA will be in the range of $20 million to $25 million.

Slide 27

Turning now to the current trading environment.

Slide 28

Trading in the first seven weeks of FY16 H2 saw revenues 1% to 2% below last year, a solid performance in the context of continued weak print trends.

In the same period, Domain.com.au continued to perform strongly with organic revenue growth of 25%.

Our focus in the second half is on continuing Domain's strong growth, driving our emerging businesses, and delivering on our cost reduction programs.

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

Slide 29

David Housego

Thanks Greg, and good morning everyone.

Just to reiterate some of Greg's remarks about today's results.

We're very pleased with the environment we've created for Domain – and the momentum it is achieving.

Our publishing business is clearly facing headwinds on print advertising, but we are responding through our ongoing transformation. We have already done a lot on cost – and this remains a priority in the second half.

Slide 30

I'll begin with the income statement on Slide 30 which shows a reconciliation of our statutory FY16 first half result to trading performance excluding significant items, and then trading for continuing businesses.

In the FY16 first half there is no difference between our trading performance excluding significant items and trading performance for continuing businesses because there were no material disposals or closures during the half.

In the prior year we had closure costs for the Chullora and Tullamarine printing plants and earnings from 96FM which was disposed in January 2015. These items are excluded from trading for continuing businesses in the FY15 first half.

The total significant items after tax of $52.4 million included two key items:

- Impairment charges of $32.5 million after tax which consist of charges across a range of investments, publishing assets and land and buildings; and
- Restructuring and redundancy charges of $19.9 million after tax.

All of these significant items relate to the transformation underway in our publishing businesses.

The detail of these items is outlined in Appendix 6 of the Investor Presentation.

The associate contribution of $2.7 million was an increase from the $0.7 million reported a year ago, notwithstanding the impact of the acquisition of MMP which moved MMP's contribution from associate profits into consolidated EBITDA. The associate result a year ago was affected by the inclusion of our initial investment in Stan of $2.4 million.

On a continuing business basis, EBITDA of $161 million was 2% higher.

Turning to items below the EBITDA line – depreciation and amortisation expense was in line with the prior year. For the full year we previously guided to a D&A charge of around $75 million. At this stage it looks as though the full year number will be in the $70 million to $75 million range.

Net interest expense for the half was $7 million, with the reduction from a year ago reflecting the repayment of our Syndicated Facility of $125 million in October 2015. This was somewhat offset by the cash expended on our share buyback program which amounted to $74 million in the first half, a total of around $112 million in calendar 2015. As we previously guided, we expect full year net interest expense of $11 million.

Our tax rate for continuing businesses was around 29%, in line with last year. The difference to the full statutory rate reflected R&D credits and the lower New Zealand company tax rate. For the full year we expect a similar rate to the first half.

The interim dividend is franked to 50% and any final dividend is also expected to be 50% franked.

Non-controlling interest of $5.6 million after tax was a significant increase from $0.4 million in the prior year. We now consolidate 100% of Macquarie Media with the non-controlling interest reflecting the 45.5% of Macquarie Media which we do not own.

Following the acquisition of the remaining 50% of MMP Holdings we now consolidate that business. Non-controlling interests also reflect minority interests associated with the Domain Group, primarily some MMP entities for this reporting period. As the Domain agent ownership model has only recently been established, minority interests (excluding MMP entities) are minimal at December 2015. The detail of non-controlling interests is outlined in Appendix 5 of the Investor Presentation.

Slide 31

Turning to Slide 31, Greg has already talked through the detail of the segment results, but I wanted to add some additional colour.

In the second half of this financial year, revenue comparisons for the Group include Allhomes, acquired in October 2014, as well as MMP from February 2015 and Macquarie Media from April 2015. Neither MMP nor Macquarie Media were in the base in the first half last year.

At Domain, which is part of the Australian Metro Media segment, reported digital costs increased 4% in the half. There were a number of one-off costs in the prior period. Excluding these one-off items, underlying digital costs increased 30%. Looking forward to the second half, we expect digital costs to increase around 20% on a reported basis compared to the second half last year.

The creation of the joint venture for Drive to enter the lead generation market for new cars will impact the reporting of revenue within the Australian Metro Media segment in the second half. Drive's digital revenue will move into the joint venture and this will reduce our online display advertising revenues as Drive's contribution will be reported as associate profits.

The transformation program underway in our Australian Community Media business is on track to deliver an annualised cost benefit of $60 million by the end of FY16.

In the first half, ACM's operating costs improved by $18 million and we expect a similar reduction in the second half.

Corporate and Other overheads reduced slightly from the prior year which included our $2.4 million initial investment in Stan as mentioned earlier.

Subsequent to this initial investment, further funding for Stan will be accounted for as a loan and there will be no recognition on our profit and loss until the business achieves profitability and repays outstanding loans. The full detail of corporate expense can be found in Appendix 4.

Slide 32

Slide 32 gives you a summary of our cash flows for the year.

Proceeds from asset sales predominantly reflected the divestment of Chullora and Tullamarine printing sites.

Our cash tax payments increased to $35 million from $17 million in the prior period.

During the half we invested $19 million in acquired businesses and ventures. These included OpenAir Cinemas, HomePass, BodyPass, The Huffington Post, as well as local social media network Nabo, which is a joint venture with Westpac's Reinventure Group and Seven West Media.

Investment in property, plant and equipment and software related to property fitouts, relocations and the Petone plant upgrade in New Zealand. As indicated in the FY15 Investor Presentation, we expect full year capex in the vicinity of $90 million. This is an elevated level reflecting the transformation initiatives across the company and the relocation of a number of our businesses to new premises.

Restructure and redundancy payments of $35 million were in relation to our publishing businesses I mentioned earlier.

We spent $74 million in the half on our share buyback and at December 2015 our balance sheet had net cash of around $6 million.

Slide 33

Slide 33 summarises our funding position at December 2015. Total interest bearing liabilities reduced to $164 million following the repayment of our Syndicated Facility of $125 million. As a consequence of this repayment, our cash and cash equivalents reduced to $160 million.

Slide 34

Slide 34 shows our current facility maturity. A repayment of $28.2 million of our USPP debt was made in January 2016 and is not reflected in the facility maturity shown here. We now have one remaining tranche of the USPP debt of $82.1 million due in July 2017.

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

– ENDS –

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