FAIRFAX MEDIA LIMITED
2016 RESULTS COMMENTARY

SYDNEY, 10 August 2016: Fairfax Media Limited [ASX:FXJ] today delivered its 2016 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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This result is proof that the transformation of Fairfax Media over recent years has succeeded.

The stable top-line revenue and EBITDA delivered in today's result make it clear that we have reshaped this company into a high-value, broadly-based, digital rich business.

The flat top-line is despite an 11% decline in Group publishing revenue in the second half. This was 10% for the full year.

Non-print earnings, made up largely of digital earnings, now constitute more than 40% of this company's EBITDA. On current trends, next year this will be closer to 60%, reflecting the continued growth in digital earnings.

This result is not a one off – our transformation strategy has worked; our company is performing; and we continue to drive the business in line with market realities and to meet the modern needs of consumers.

We are delivering a higher quality of earnings from our more valuable segments – including Domain, digital publishing and Events.

We are stretching the conventional notion of what a media company is by creating additional revenue streams – on top of advertising and subscriptions – and building new businesses that leverage our inventory and large audience.

Our success can be seen in our powerhouse real estate media and services business Domain; our SVOD joint venture Stan; and our growing Life & Events portfolio.

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This strong, diversified portfolio underpinned Group revenue of $1.83 billion.

Our cost reduction efforts saw Group expenses down – even though we have been continuing to invest in our growth businesses.

Cost reduction in our publishing business was particularly evident in Australian Community Media (ACM), where the transformation program delivered a 12% reduction in full-year operating costs.

Group publishing costs were down 8% or $91 million.

EBITDA of $283 million was slightly below the prior period.

This result was driven by Domain's outstanding 40% increase in EBITDA, offset by persistent print advertising weakness and longer term investment in new growth businesses.

Net profit was $132.5 million; and earnings per share was 5.7 cents.

Later in the presentation, David will take you through the detail of the significant items.

We will pay a dividend of 2 cents per share, 70% franked, which brings total dividends for the year to 4 cents per share, a payout ratio of 70%.

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As you would be aware from our market announcement on August 1, Domain Group's operating results are shown as a separate reporting segment for the first time. Domain's results were previously included in the Australian Metro Media segment with additional disclosure.

For the full year, Domain delivered 33% growth in revenue and 40% increase in EBITDA.

Domain delivered strong double digit growth in the second half despite the dampening effect in June of the longest Federal election in modern history. Domain continued to deliver gains in market share.

The Australian Metro Media segment now includes *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review*, Digital Ventures and Life & Events.

Metro experienced a 5% decline in revenue and 45% decline in EBITDA, reflecting ongoing structural shifts in advertising spend and investment in growth areas, Digital Ventures and Events.

ACM revenue and EBITDA were down 10%. In the second half, EBITDA was up 1.9% reflecting the success of the transformation program.

New Zealand Media revenue was down 10% and EBITDA down 16% in Australian dollars, reflecting weaker advertising and investment in Stuff.co.nz.

Macquarie Media revenue lifted 28% and EBITDA increased 80%, so clearly the merger of FRN and MRN can be characterised as a success.

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Fairfax today operates as a leading network of information, marketplaces and entertainment brands, which interact and leverage each other across platforms.

The businesses and brands we operate and invest in, leverage partnerships and specialist expertise to drive performance. You can see this in Macquarie Media, HuffPost Australia, Stan, RSVP and Oasis, Drive, our Allure Media businesses, and Domain's investments.

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Our strong diversified portfolio of seven business groups provides powerful connections between advertisers and our quality, large-scale audiences.

These audiences have never been larger, more diverse, or hungrier for quality independent journalism, digital content and services, as well as real-life experiences.

We reach more than 13 million Australians across digital and print; more than 2.2 million Australian radio listeners; and around 3.5 million New Zealanders. There are also more than 2.2 million people interacting with us via around 50 events; and Stan reaches more than 500,000 active subscribers.

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

One single fact underlines the extraordinary transformation of the company in recent years.

42% of FY16 Group EBITDA was generated by digital and non-print businesses; and we expect these earnings to continue to grow and the proportion to increase to between 55% and 60% of Group EBITDA in FY17.

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Throughout FY16 we have been creating shareholder value by delivering on our three strategic priorities:

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

Outlined on this slide, you can see that each of our business groups has specific ambitions that are aligned to and support our strategic goals.

I'll now take you through the progress of each of our business groups during the year.

Slide 11

Turning to our first strategic priority: Grow Domain.

Domain delivered an outstanding result with 50% growth in digital EBITDA.

Key drivers of this strong performance include our success in growing a high-quality national audience, with an 82% increase in average monthly visits for the year; and a strong foundation of national market penetration, having acquired more than 90% of agents and listings.

With a strong platform in place, Domain is positioning itself at the centre of the real estate ecosystem, with the acquisition of strategic stakes in several businesses.

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To the detail of Domain's financial performance:

Domain achieved a 27% increase in digital revenue, supported by depth revenue growth of 40%, which represents 76% of Domain.com.au's revenue base.

Domain's agent ownership model, together with new premium depth products like Dream Homes carried on the Fairfax mastheads and targeted distribution of listings on Facebook via Social Boost, is driving significant revenue growth in depth products.

Print revenue increased 46% reflecting the full consolidation of MMP from January 2015, somewhat offset by a decline in Metro print revenue of 10%.

Operating costs increased 25% reflecting continued investment in sales, product development and marketing, together with the impact of acquisitions.

Excluding one-off costs in the prior period, underlying digital costs increased 27%.

EBITDA increased 40%, with Digital EBITDA growth of 50%.

We are confident in the underlying strength of Domain and its ability to continue to benefit from improvements in yield, depth penetration, geographic expansion, and revenue diversification. We are already generating meaningful revenues from lead generation for home loans and expect this will grow.

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You can see here the impressive 66% growth in visits to Domain in the second-half, particularly driven by mobile. Mobile app downloads are now close to 5 million and since the beginning of 2016 we have delivered record app sessions almost every month including July. 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. We are also seeing strong social engagement with Domain platforms having more than 800,000 followers, the largest for a property portal in Australia and the second largest in the world. This provides a strong platform for monetisation through Social Boost listings.

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Domain has broadened its strategy beyond its historical focus on listings and media revenues to include all aspects of the real estate ecosystem.

In the past three years, we have invested more than $175 million in Domain.

Recent acquisitions include investments in open for inspection app Homepass, local trade services site Oneflare, and residential utilities comparison and connection site Compare & Connect. Domain has also invested in Beevo – a utilities connection service for businesses being promoted by our Commercial Real Estate business.

Further investment, including through acquisitions and partnerships, coupled with product innovation, will strengthen Domain's position in this ecosystem.

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Domain's market-leading product innovation is one of its key competitive advantages. Recent initiatives include Domain Check In, instant consumer notifications, Facebook Messenger bot and a beta version of Domain Chat.

Slide 16

Product development has also encompassed new listings products to support premium depth revenues including Dream Homes, Social Boost and Agency and Agent Profiles.

Initiatives like Dream Homes and Social Boost are bringing together the audience growth and strength of Domain, the Fairfax mastheads, and Facebook, to provide new listings opportunities and revenues for the business.

Slide 17

Turning to our second strategic priority: Transform Publishing.

We are continuing to manage the structural shift from print to digital. Evolving our business model means an intense focus on cost reduction, a stronger emphasis on digital publishing, product innovation and evolution, and building new revenue opportunities.

In the past 12 months we have made progress across each of our publishing businesses.

In Metro, digital subscription revenue increased 17%.

As at July 24, Metro had 209,000 paid digital subscribers across the SMH, *The Age* and *The Australian Financial Review*. Note the paid digital subscriber figure includes the *Financial Review* for the first time. All three titles delivered year-on-year growth.

Metro publishing costs decreased by 4%.

In ACM, the $60 million annualised cost reduction was achieved during the year, resulting in a 12% cost improvement and EBITDA growth in the second half.

In New Zealand, digital audience momentum was strong, with an 11% increase in Stuff's audience and 36% growth in digital revenue. Operating costs reduced 8% notwithstanding further investment in digital product.

Slide 18

The radical overhaul of the publishing businesses has included reducing costs and increasing efficiency; focusing on digital development; and boosting the capability of our people.

We are well on the way to sustainable publishing futures for each of these businesses.

In Metro, as I spoke in detail about publicly in May, we are developing a new model with enhanced digital and targeted and differentiated print propositions. We have substantially reduced the risks associated with Metro through the removal of $400 million of annualised structural costs over the past four years.

The publishing innovation taking place in Metro is as sophisticated as anything happening anywhere else in the world and will underpin its future. The public and market response to our plan has been positive as it reflects the realities of consumer demand and is leading the future of publishing in this country.

In ACM, we are focused on digital and maintaining cost efficiency, while we undertake a review of the business to develop initiatives and identify further opportunities.

In New Zealand, we have put this business in a stronger position. It is fast-tracking digital product development and monetisation, optimising print, while pursuing a merger with NZME.

Slide 19

To the detail of Metro's performance:

Metro publishing's advertising revenue declined 15%, impacted by weakness in retail, communications and finance categories.

This was somewhat offset by strong advertising revenue growth of 36% from Digital Ventures.

Overall circulation revenue was modestly lower, benefiting from strong growth in paid digital subscriptions of 17% to $38 million. Declines in print circulation volumes were offset by improvements in print yield including from the contribution of bundled digital subscriptions.

We have decided to change our reporting of audited digital sales via the AMAA because we consider it to be an incomplete measure of our digital subscriptions business. Our digital subscriber growth is the result of new products, including our site licenses, which are currently unable to be counted in the AMAA numbers. Growth through new digital products which cannot be counted, and the ongoing structural decline in legacy print subscribers who have digital access included in their subscription, makes it appear that our paid digital subscriber numbers are declining, when in fact they are growing across all three of our mastheads. So from the next release from the AMAA, you will see 'zero' digital sales reported. We will continue to provide audited print circulation data to the AMAA.

An accurate picture of our paid digital subscribers for Metro mastheads, and associated revenue, is provided in the data we regularly disclose to the market in our financial reporting. That is, the 209,000 paid digital subscribers we have across the SMH, *The Age* and the *Financial Review*.

Events revenue growth of 33% underpinned the 14% increase in Other revenue.

On a reported basis, operating costs were flat, reflecting investment in Digital Ventures and Events.

As previously mentioned, Metro publishing costs declined 4%.

We see a sustainable Metro business in the future. As announced earlier this year, we are building out a new high quality digital experience for our consumers.

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ACM's total revenue declined 11%, held back by a 12% decline in advertising revenue, which continued to be affected by weakness in supermarket-related spend. There was some offset from print real estate.

Excluding transformation impact of closing unprofitable publications, underlying advertising revenues were down 9%.

Circulation revenues declined, reflecting lower retail volumes.

As previously mentioned, as a result of the successful achievement of the transformation program, operating costs declined 12% for the year, underpinning a pleasing improvement in second-half EBITDA.

For the full-year, EBITDA declined 10% to around $90 million.

Difficult conditions continue in regional and agricultural markets. We are undertaking a review of ACM to develop initiatives and identify opportunities.

Slide 21

Our New Zealand business saw advertising revenue down 11% in local currency terms.

Digital revenue growth of 36% outpaced the broader market, while print advertising was impacted by retail, entertainment and employment advertising declines, somewhat offset by strong performance in real estate and House & Home.

Circulation revenue declined 6% with stable subscription revenue offset by continued pressure on retail sales.

The cost decline of 8% reflects a 10% decline in publishing expenses, offset by continued investment in the digital business.

EBITDA declined 14% to NZ$60 million.

The proposed merger with NZME, announced in May, is currently being considered by the NZ Commerce Commission – and the merger process is proceeding in accordance with our expectations.

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Stuff continues to be the number one domestic website in New Zealand, increasing its unique audience 11% year-on-year to 2 million.

There are 700,000 Neighbourly and Stuff members across all platforms, with 28% growth in Neighbourly members in H2 versus H1.

Audience monetisation is being pursued through new adjacent businesses, including Events which saw revenue growth of 30% year-on-year, as well as the launch of internet service provider Stuff Fibre earlier this week.

Slide 23

Turning to our third strategic priority: Create New Revenue Streams.

We are creating value by investing and partnering for growth in Macquarie Media, HuffPost Australia and SVOD service Stan.

When Stan launched 18 months ago, there was no established SVOD category. Now SVOD is in millions of Australian homes, many of which have subscribed to more than one service.

Stan has established itself as the local market leader in the booming SVOD category and is more than meeting its business targets. Stan is on a clear path to profitability and expects to reach cashflow breakeven during FY18. Additional capital investment is well justified.

During the year Stan gained market share. As at the end of June, Stan had more than 1.1 million gross sign-ups and more than 500,000 active subscribers.

Underpinning Stan's strong market position is its world-class international content, including its exclusive multi-year deal with CBS's SHOWTIME, supplemented by local original productions including *No Activity* and *Wolf Creek*. *Wolf Creek* was recently sold into international markets, enabling Stan to accelerate its funding for more original productions.

In Life & Events, a highlight for the year was the 33% Events revenue growth with the benefit of operational investment and the acquisition of OpenAir Cinemas. During the year, we formed a joint venture between Drive and 112, owners of themotorreport, with a differentiated strategy in place to drive lead generation for new cars. We are also pursuing further opportunities to monetise our brand strength in food and travel categories.

At Macquarie Media, the realisation of cost efficiencies delivered EBITDA at the high end of the targeted range of $25 million.

Slide 24

Looking at the detail of the result for Digital Ventures – the portfolio achieved pleasing momentum with total revenue up 21% and EBITDA up 55%, notwithstanding continued investment.

EBITDA margins expanded from 19% to 24%.

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

Slide 25

Macquarie Media's performance is excellent and reflects the successful merger between Fairfax Radio Network and MRN in March 2015.

The corresponding period in FY15 includes nine months of FRN, including six months of 96FM which was divested in January 2015, and three months of the combined Macquarie Media.

Cost and operational synergies underpinned the 28% growth in revenue and 80% increase in EBITDA, with margins expanding from 13% to 18%.

We are confident that the benefits of the merger will continue to underpin future performance.

Slide 26

Turning now to the current trading environment.

Slide 27

Trading in the first five weeks of FY17 saw revenues 8% to 9% below last year:

- Publishing trends were consistent with FY16 H2.
- New real estate listings in higher value markets in Sydney and Melbourne in July were unusually weak:
    - Domain continues to deliver strong audience growth and yield improvements, with digital revenue growth of 10% in the first five weeks of FY17;
    - The comparative period of July 2015 saw very strong new listings growth (when Domain's digital revenue increased 53%);
    - July 2016 new listings volumes were impacted by the dampening effect of the longest Federal election campaign in modern history, with new listings volumes down 25% in Sydney and 11% in Melbourne;
    - The fundamentals of the real estate market are strong and there are already signs of listings volume improvement as we move beyond the election. Domain is continuing to achieve strong yield growth despite the listings softness.

Across the Fairfax Group, as in prior years, we continue to implement cost savings measures to maintain earnings stability.

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

David Housego

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Thanks Greg; and good morning everyone.

Slide 29

Turning to slide 29, the table provides a reconciliation of our FY16 result starting from the left hand side with our statutory 4E numbers, with adjustments to 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 year. In FY15, we had closure costs for Chullora and Tullamarine and the earnings contribution of 96FM both of which are excluded from continuing businesses in that period.

The total significant item was $1.026 billion after tax and I will run through that in detail in a moment.

On a continuing business basis, EBITDA of $283 million was 1.4% lower than a year ago notwithstanding continued investment.

Turning to items below the EBITDA line, depreciation and amortisation expense of $70 million was at the lower end of the guidance we provided with the half-year result. Looking forward to FY17 we expect depreciation and amortisation to be in the $40 million to $50 million range.

Net interest expense for the year of $11 million was in line with our previous guidance. Looking forward to FY17 we expect net interest to be slightly lower.

Our tax rate for continuing businesses before significant items was 29% in line with the guidance provided at the half year. The difference to the full statutory rate reflected R&D credits and the lower New Zealand tax rate. For FY17 we expect a similar tax rate.

Our dividend was 70% franked. Notwithstanding the impact of the impairment, we have sufficient profits to be carried to profit reserves to facilitate the payment of a franked dividend. We look for a similar level of franking for any interim dividend paid in FY17.

Non-controlling interests of $10.4 million after tax increased from $4.6 million a year ago. We consolidate 100% of Macquarie Media and the non-controlling interest reflected the 45.5% that we do not own.

Non-controlling interests also reflect minority interests associated with the Domain Group, primarily some MMP entities for the full year. Minority interests associated with the Domain agent ownership model were minimal.

Looking forward to FY17 we expect non-controlling interests to increase given the continued growth expected from Macquarie Media and a larger impact from the Domain agent ownership model.

The detail of non-controlling interests is outlined in Appendix 5 of the Investor presentation.

Slide 30

The detail of significant items is outlined on Slide 30 and was largely announced to the market on August 1.

The $989.1 million pre-tax impairment charge against intangible assets, plant and equipment and other assets relate to the three publishing businesses, the majority to Australian Metro Media and Australian Community Media.

The impairments are non-cash and have no impact on banking covenants and reflect the market realities which the publishing businesses are facing. The accounting standards which require the impairment of publishing assets do not allow Fairfax to recognise in its accounts the considerable value which Domain has created over the past four years.

The $60.7 million pre-tax impairment charge consists of charges against a range of investments, publishing assets and land and buildings.

Restructuring and redundancy charges of $62.7 million pre-tax related to transformation underway across our three publishing businesses. We have provided additional disclosure on the details of the significant items in the annual report, including the trigger for the formation of the Domain Group as a separate reporting segment.

Slide 31

Slide 31 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 $51 million from $19 million in the prior year.

During the year we invested a total of $46 million in acquisitions and investments. Domain's investments of $31 million included Oneflare, Homepass and Beevo. Other acquisitions and investments of $15 million include HuffPost Australia, OpenAir Cinemas, Nabo and Roller.

Investment in property, plant and equipment and software of $95 million related to property fitouts, relocations and the Petone plant upgrade in New Zealand. For FY17 we now expect a similar level of capex as we increase our investment in a number of properties and increase investment in our digital product.

Restructure and redundancy payments of $63 million increased from $36 million and were in relation to the transformation of our publishing businesses.

Loans advanced of $35 million include our investment in Stan. The strong momentum achieved by Stan and the SVOD industry overall has enhanced our confidence in the business and its ability to continue to grow. As Greg mentioned previously, the business is on target to reach cashflow breakeven during the course of FY18. We expect to invest a total of up to $80 million in the business which will include strategic content investment. The longer-term returns on our investment will be significant.

During the year we spent $74 million to complete our total $112 million on-market share buyback and paid $101 million in dividends to shareholders.

We finished the year with net debt of $88.7 million including consolidation of Macquarie Media debt.

Slide 32

Slide 32 summarises our funding position at June 2016. Total interest bearing liabilities reduced to $179 million from $283 million a year earlier following the early repayment of $153 million of USPP debt.

As a consequence of this early repayment and the cash outflows referred to earlier, our cash and cash equivalents reduced to $81 million

Slide 33

Slide 33 shows our current facility maturity.

Slide 34

In conclusion – the final slide shows where our cashflow has been applied over the last five years. We can see the shift from 2012 when the single focus was to de-leverage the company through to 2016 where we have achieved a good balance between investment in growth areas, in particular Domain, use of additional cash in continuing to transform our publishing cost base, and importantly substantial returns to shareholders through the buyback and dividends.

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

– ENDS –

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