MACQUARIE AUSTRALIA CONFERENCE PRESENTATION COMMENTARY

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Good morning everyone.

This is our fourth year presenting at the Macquarie Australia conference. Once again, it's great to be here and be joined by so many of you.

Our CFO David Housego will join me for your questions at the end of the presentation.

The transformation we commenced in 2012 set us on a path to reshape our business and make meaningful permanent change. We have done that by restructuring and revitalising all aspects of our business. Unlike our local peers, we have been unrelenting with our mission to keep pace with the velocity of change revolutionising the media industry globally.

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Fairfax is a leading network of highly-valuable information brands, marketplaces and entertainment assets connecting with 70% of Australians and 90% of New Zealanders via digital, print, radio and events.

At the core of our valuable network are the trusted and quality environments we provide for our readers and our advertisers. These attributes of trust and quality are more important and relevant than ever in an environment of 'fake news' and risks to brand safety being played out at Youtube and others.

Fairfax's 186-year-old track record of independent, quality journalism and content sets it apart as the trusted voice and venue for consumers and advertisers.

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

- Growing by building on core strengths and maximising opportunities;
- Transforming through cost efficiency and business model innovation; and
- Creating value through strategic decision-making and portfolio management.

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This strategy is applied across our three business groups of Domain, Publishing and Investments.

Our diversified portfolio of media assets operate as six businesses. Each of these businesses have solid attributes, and objectives in place to maximise opportunities for future performance.

I will take you through the detail of the considerable opportunity of the Fairfax portfolio and how each business group is focused on driving value for shareholders.

As we announced in February, we have a strategic review underway to separate Domain into a new ASX-listed entity, of which we would retain a 60% to 70% shareholding.

Post Domain separation, what does Fairfax look like? Much the same, with a smaller yet more valuable holding in Domain, which remains a core and key strategic asset of Fairfax; along with the increasingly sustainable cash-generating Publishing businesses; and value-creating Investments.

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Let's take a detailed look at Domain.

Domain is a leading real estate media and services platform at the centre of the Australian property ecosystem.

Domain's value has grown considerably over the past five years, with its earnings almost tripling in size.

Domain's success is the result of a deliberate first-to-mobile strategy to capitalise on the migration of audiences to mobile – and catapult the business to within near reach of the major competitor.

First to market innovation has underpinned a superior user experience, which has driven near parity in mobile app downloads to our major competitor.

Domain's mobile advantage is critical to driving commercial outcomes with around 70% of leads now delivered from mobile platforms.

Our investment has driven momentum and created the scale of audience, customers and earnings that readies Domain to become a separate ASX-listed entity.

The size of audience that Domain has achieved is demonstrated by the impressive results seen on this slide: 4.1 million Australians via digital; 2 million Australians via print; 1.2 million via social media; and 5.3 million app downloads.

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We are maximising the value of Domain's core strength as a listings platform – as well as extending its reach and revenue through new complementary businesses.

In the first half of FY17, in the face of listings weakness, we continued to invest aggressively in staff, technology and marketing for the Domain platform. This reflected our view that the listings environment was constrained by cyclical factors and Domain needed to continue to capitalise on multiple long-term growth opportunities.

In the first four months of the second half, there have been improved listings trends, particularly in the key market of Sydney.

Any sustained cyclical improvement will build on the structural growth drivers Domain has in place. Accordingly, we are comfortable in our continuing investment in this business through the second half and beyond.

The Residential business has achieved high penetration of agents and listings, providing a platform for future growth from geographic expansion, increased depth product penetration and yield increases.

Domain's Media business is growing a high-quality audience attracted by compelling editorial content. This strengthening position is not yet fully reflected in revenue, with opportunity for further upside through yield management and increased product effectiveness.

Commercial Real Estate is strengthening its penetration of agents and listings through a national agent ownership model and revitalised digital and print products. Substantial audience momentum provides the opportunity for significant further growth in this category, particularly in Victoria and Queensland.

Domain's agent services and products are utilised by around a third of all real estate agents. This provides upside opportunity from subscriber and yield growth driven by a full service offering of data, customer relationship management and open-for-inspection tools.

There is also opportunity to grow new transactional revenues in partnership with agents.

The most recent investment has been in new complementary businesses and transactional services. These provide growth opportunities in the broader property ecosystem in areas including home loans, utilities connections and home improvement and trade services.

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This slide illustrates the way Domain leverages its core audience strength across a diverse range of products and services spanning all facets of Australian property, including the expansion into complementary businesses and transactional services.

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Domain's strong audience growth and engagement, particularly in mobile, is underpinning price increases for both Residential and Commercial listings and in Media & Developers.

Over the past two years, total mobile visits were up 133%; total app visits up 107%; and app downloads grew 60%.

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Examples of Domain's mobile-led product innovation include School Catchment Zones, Home Price Guide, Facebook Messenger Bot, and Domain's Chat Platform.

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Award-winning mobile innovation benefits the entire Domain ecosystem and supports the development of distinct products for agents.

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In February we announced a strategic review of the Domain Group in preparation for its potential separation into a new ASX-listed company in which Fairfax would retain 60% to 70% ownership.

This process is well underway, with the appointment of Grant Samuel to prepare an Independent Expert's Report, and discussions being conducted with the Australian Taxation Office.

We are working through operational elements to prepare for the separation, including consideration of Domain Board composition, commercial and transitional arrangements, and capital structure.

It is anticipated that Domain would have approximately $150 million of net debt following the separation.

We continue to expect the separation to complete this calendar year, subject to a number of conditions including satisfactory outcome of engagement with the Australian Taxation Office and a Fairfax Shareholder vote.

Further detail will be released in the Scheme Booklet once finalised.

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Turning to Publishing.

Our three publishing businesses have made considerable progress in transforming to more sustainable models.

Clearly we have made some tough decisions to make our publishing division sustainable. We don't back away from it – and are glad that we started getting it in order five years before most other media companies began to face the global and local industry realities.

We respect our staff for the passion they have for independent, high quality journalism. We share it – but we know what it takes to make our kind of journalism sustainable. Passion alone won't cut it.

This is not the first time we have had industrial opposition to what we are doing – we won't be dissuaded from making the right decisions – and we will get our digital and print editions out through this period.

It is self-evident that publishing was facing structural challenges and these could only be addressed by completely resetting existing models.

Over the past five years, we have reduced publishing costs by more than a net $400 million.

Publishing cash flows have been invested in creating new growth businesses, as well as substantially de-risking the transition to digitally-driven futures.

Through this entire transition our publishing businesses have remained profitable. And that's without the benefit of metro real estate classified advertising which we report as part of Domain.

Our publishing businesses have large-scale, high quality audiences at their core, and these audiences and data are instrumental in building our growth businesses. Standout examples of the success of this strategy are Domain and Stan, and there are early promising signs from our new car lead generation model in Drive and our New Zealand ISP, Stuff Fibre.

This slide illustrates the impressive publishing audiences across digital and print: 8.9 million Australians via Metro; 3.7 million Australians via Community; and 3.5 million New Zealanders.

The SMH, *The Age* and *The Australian Financial Review* have more than 226,000 digital subscribers and each title is delivering growth. The *Financial Review* in particular is delivering a strong performance.

In addition, we operate events across several categories which attract large-scale audiences and leverage our brands.

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Last year at this conference we set out how we were going to achieve our goal of creating a sustainable Metro publishing model with trusted brands, quality journalism and large-scale high-quality audiences at its core.

We took the approach of how you would create the modern SMH, Age and *Financial Review* from the ground up, while retaining their strong brands and audiences.

We are rebuilding the technology, processes and teams supporting publishing – all at a fraction of the cost of maintaining our legacy systems.

This allows us to fundamentally reset the publishing cost base and reposition our product suite to deliver better commercial and customer outcomes.

The result will be a cheaper and higher-quality digital publishing model, still with the core of quality journalism that we are committed to. Our print newspapers will operate separately and we believe will continue to provide a positive cash-flow contribution for some years yet.

Having considered all options, we determined that the best commercial decision, based on current advertising and subscription trends, was to continue to print our publications daily, while developing significantly enhanced digital propositions.

To fast-track the delivery of our new model, we have put in place new talent and capability to drive innovation and further develop revenue opportunities.

Chris Janz, who now has the role as Managing Director of Australian Metro Publishing, has been overseeing the creation of this next-generation publishing model.

That model is underpinned by a reset, reduced and simplified cost structure, and new, more competitive advertising platforms and subscription offerings.

In April we announced editorial changes to deliver approximately $30 million in annualised savings, with the majority of these savings expected in the 2018 financial year.

Further technology, back office and support function cost savings are still to come.

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Make no mistake, we believe this is the sustainable publishing model of the future.

We are developing a suite of new digital products to create deeper and more engaging experiences for our audiences, while sustaining a commercially successful print proposition.

A flatter, more efficient editorial structure is in place with more targeted commissioning of stories and a focus on areas of competitive advantage. Newsroom efficiencies are being achieved by focusing on quality stories that generate engagement, particularly from our most valuable audience. Average audience per story has increased by more than 30% in early trials of this approach.

New data-driven commercial solutions and advertising formats will accompany the launch of our new digital products to drive improved commercial results.

A new, simplified tech stack will be the backbone of the new publishing model and deliver a material reduction in technology and support costs and enable efficient editorial workflows.

Key to it all is people and culture. We are creating a lean, innovative and high performance team which has the skills, capabilities and tools needed for the future.

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That future is now.

You can see some of the major milestones in our publishing innovation, commencing in FY18 with a new product pilot in a smaller market.

That will be followed by the launch of new platforms for the SMH, *The Age*, *The Australian Financial Review* and Lifestyle mastheads, along with new apps for the SMH and *The Age*.

This development pipeline necessitates significant technology transition, which once complete, will allow for the retirement of legacy systems and cost rebasing.

We expect this cost-out program to underpin Metro Media earnings stability over the next two financial years.

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Turning to our Australian Community Media business. We are maintaining cost efficiency, while driving digital growth and exploring other opportunities.

At the core of this business is locally-driven journalism which achieves high penetration of local communities and strong audience engagement across regional and rural Australia.

Over the past 12 months we have seen ACM's digital audience lift by more than a third.

Audiences of scale with strong local sales representation provide the opportunity for the development of new targeted advertising and commercial solutions for clients.

Our national network of websites with growing audiences is being monetised through digital display advertising and the trial of digital subscription models. Early results of these trials in two small markets are encouraging.

Our leading agricultural mastheads supported a 4% increase in Agriculture advertising revenue in the first half, and we see further opportunity from this valuable sector of the economy.

In addition to the more than $60 million in annualised cost savings that the ACM business delivered in FY16, we are pursuing further simplification of our operating structure and increased efficiencies to maximise cash flows.

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Turning to our New Zealand business.

You would have seen the New Zealand Commerce Commission's decision yesterday to block the proposed merger of Fairfax New Zealand with NZME.

The regulator's failure to grasp the commercial and competitive realities of modern media is disappointing.

This decision does nothing to address the challenge of the global search and social giants, which produce no local journalism, employ very few New Zealanders, and pay minimal, if any, local taxes.

Our impression from the outset is the NZCC seemed to be fixed in its assumption that the relevant competitive marketplace was restricted to only traditional media. No amount of market data, comparable decisions or studies from similar markets overseas could move them from that.

We believe that the NZCC has failed New Zealand in blocking two local media companies from gaining the scale and resources necessary to aggressively compete now and into the future.

During the whole of the year-long NZCC process we continued developing our own standalone strategy.

Our strategy involves leveraging our trusted brands and independent journalism and content reaching 90% of New Zealanders. This is reflected in high levels of engagement and rich data and insights.

Stuff.co.nz is New Zealand's most visited local website and benefits from market-leading product innovation.

Ensuring the ongoing sustainability of the business will require continued diversification of the New Zealand digital revenue base, building on recent progress of monetising our audiences through new advertising products and businesses such as Stuff Fibre and Events.

In light of the NZCC decision, an even greater focus on cost efficiency will be necessary. Moving to the next stage of our New Zealand publishing model will involve reshaping how we deliver our journalism to local communities. Further publishing frequency changes and consolidation of titles is an inevitability.

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Turning now to the value we are creating through our Investments.

A standout performer is Australia's leading local SVOD platform Stan, which has more than 700,000 active subscribers.

Weatherzone – Australia's largest private weather services provider – is also delivering impressive audience.

ASX-listed radio company Macquarie Media, in which we have a 54.5% shareholding, delivers a national audience of 1.7 million listeners and has the number one stations in Sydney and Melbourne.

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Digital Ventures is focused on creating value through investment in high-growth digital opportunities and portfolio management. This includes investing via partnerships and joint ventures for increased capability and capacity, and realisation of value through strategic divestments, such as Stayz and Tenderlink.

A diversified digital publishing portfolio has local staff contributing Australian content and leveraging global content from leading digital-only media groups in the US, the centrepiece of which is our joint venture with *HuffPost*.

The business has diversified digital revenue streams in addition to advertising. This includes B2C subscriptions through Stan and RSVP/Oasis, and B2B subscriptions at Weatherzone.

In just two short years, Stan has delivered exceptional performance, and is on a clear path to profitability with cash flow breakeven expected in FY18.

This performance has benefited from the large audiences and marketing inventory of Fairfax and Nine as joint shareholders.

Underpinning the success of Stan are exclusive rights to CBS's SHOWTIME content in Australia; a range of rights from other studios; as well as original local productions.

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Stan's differentiated content offering is reflected in its impressive audience momentum.

Subscriber sign-up rates have accelerated and there has been improvement in conversion to paying subscribers and a reduction in churn.

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High-quality popular programming will continue to drive Stan's subscriber growth.

Later this month, SHOWTIME's *Twin Peaks* series return is set to be the biggest television event this year.

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The regular launch of must-watch programming through the course of the year, together with new features such as offline viewing, will continue to drive Stan's subscriber momentum.

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Macquarie Media delivers large-scale national audiences with unrivalled ratings performances from 2GB in Sydney and 3AW in Melbourne.

This ratings success is driven by high-profile talent and a depth of programming expertise.

The recently introduced Talking Lifestyle format is attracting new audiences and advertisers. This provides new revenue opportunities and cost benefits.

The merger of Fairfax Radio Network with Macquarie two years ago created a culture of cost efficiency.

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Earlier this morning we provided a trading update to the market, as is our usual practice at this conference.

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Overall Group revenues are 6% below last year for the first 17 weeks of FY17 H2. Revenue across our current reporting segments:

- Domain overall revenue is up 10% with its total digital business up 18%;
- Metro Media is down around 11%;
- Australian Community Media is down around 11%;
- New Zealand Media is down around 3% including currency impact;
- Macquarie Media is down around 7%.

Cost savings initiatives are ongoing across the Fairfax Group.

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In conclusion, we are confident in the strategies across our portfolio of Domain, Publishing and Investment assets:

- Domain is preparing to become a listed entity with upside opportunity;
- Our Publishing businesses are transitioning to sustainable models;
- Value is being created through Investments in growth businesses.

This is a business with a strong management team prepared to make all the necessary decisions to deliver shareholder value.

Thank you for your attention.

Our CFO David Housego will now join me for Q&A.

– ENDS –

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