ASX RELEASE

Fairfax Media Limited
2018 Half-Year Results Commentary

Sydney, 21 February 2018: Fairfax Media Limited [ASX:FXJ] ("**Fairfax**" or "**Company**") today delivered its 2018 half-year financial results. Accompanying commentary from Chief Executive and Managing Director, Greg Hywood, and Chief Financial Officer, David Housego, is set out below.

Fairfax Media CEO & Managing Director, Greg Hywood:

Slide 1

Good morning everyone.

Thank you for making the time to join me and our Chief Financial Officer, David Housego, for our half-year 2018 results presentation.

Slide 2, Slide 3

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

Slide 4

This is a good result we are presenting to the market today. It shows the solid performances of our businesses – virtually across the board – and demonstrates the strength of the Fairfax Media portfolio.

Fairfax is strongly positioned due to the success of growth and transformation initiatives we have implemented over the past five years.

Domain's digital growth is continuing; Metro publishing has delivered increased earnings; the Radio business is showing the benefits of the merger; and Stan is going from strength to strength.

Our balance sheet is strong with a net cash position for Fairfax's 100%-owned entities.

We will take advantage of opportunities arising from media consolidation as and when it occurs.

Any decisions we take will be in the best interests of our shareholders.

Slide 5

For the half-year, the Fairfax Group delivered operating EBITDA of $146.9 million, an increase on the prior year.

This reflected the strong performance of Domain and Macquarie Media, and extremely good cost outcomes in Australian Metro Media.

Group revenue of $873 million was a modest 3% lower than the prior year.

Our ongoing cost and efficiency focus delivered a 4% reduction in expenses, notwithstanding continued investment in growth initiatives at Domain and Stuff.

Net profit of $76.3 million was down 10%, with earnings per share of 3.3 cents.

This result reflects the increase in minority interests associated with the separation of Domain from 22 November 2017 and the improved Macquarie Media results.

We will pay an interim dividend of 1.1 cents per share, 100% franked.

We note Domain declared a 4 cents per share dividend for the half.

Slide 6

Turning to an overview of the segment results:

Domain Group revenue increased 12.5% and EBITDA increased 2.2% to $58.6 million, which included some costs relating to the separation into the listed entity DHG.

A reconciliation to DHG's reported pro forma EBITDA of $56.8 million is contained later in the presentation.

Australian Metro Media EBITDA increased 8% reflecting the benefits of the ongoing reshaping of the business into a stronger, growth-focused and diversified publishing operation. Revenue declined 9% while expenses fell 11%.

Australian Community Media revenue declined 6% with EBITDA of $36 million down 16%.

Stuff (our renamed New Zealand Media segment) saw revenue decline 5% and EBITDA decline 24% in local currency, with the impact of some one-time charges

Macquarie Media's EBITDA increased a very creditable 23% on a 1% decline in revenue and 7% improvement in expenses.

Our initiatives to reduce Corporate overheads saw a 40% improvement to $13 million.

Trading in the first seven weeks of FY18 H2 saw revenues around 4% to 5% below last year.

Slide 7

Our proven three strategic priorities have been driving shareholder value – and they remain unchanged. We are committed to:

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

Slide 8

The Fairfax Media portfolio of businesses spans Domain, Publishing and Investments.

Almost exactly a year ago we started a process for Domain to become a standalone ASX-listed entity. We achieved that important strategic milestone in November 2017 and it has created significant shareholder value.

Our 60% stake in Domain remains a key strategic asset and its strong fundamentals underpin our great confidence.

Our Publishing businesses generate strong cash flows, benefit from cost control expertise, and continue to invest in revenue growth opportunities. We expect greater industry cooperation will deliver significant benefits.

Investments include our stakes in Stan and Macquarie Media – and as you can see in the results today – both are delivering strong performance and driving value.

Slide 9

Domain's first half result demonstrates its strong platform for growth. It is underpinned by a first-class management team, currently led by Executive Chairman Nick Falloon. Domain's strategy is well established and its implementation continues apace, building on the achievement of breadth and scale.

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

- 24% residential depth revenue growth;
- Strong Core Digital revenue growth from residential, developers and commercial;
- 21% increase in residential mobile enquiries.

Slide 10

Turning to the detail of Domain's financial performance:

Domain delivered 22% digital revenue growth. This was supported by residential depth revenue growing 24% and strong performance from developers, commercial and transactions.

Print revenue declined 12% reflecting the transition to a digital business.

Reported expenses increased 18% reflecting investment in the business and the impact of separation costs included for the first time. Underlying costs on DHG's reported pro forma basis increased 14% as a result of continued investment in staff, workspace and new transactions businesses, offset by a reduction in print expenses of 6%.

At the Associate line, the increased loss reflects investment in early-stage businesses Oneflare and Homepass.

The EBITDA increase of 2.2% to $58.6 million was achieved notwithstanding the impact of separation costs. Digital EBITDA increased 17%.

Slide 11

This slide provides detail on Domain's segment performance on a Fairfax reported basis.

Core Digital margins increased to 43.4% reflecting 20% growth in Core Digital EBITDA.

The increased investment in Transactions & Other was the result of the launch of Domain Loan Finder and Domain Insure.

Slide 12

This slide provides a reconciliation of the Fairfax-reported Domain result to the disclosure by DHG. The key difference relates to DHG's reporting on a pro forma basis for a full six months of separation costs in both FY17 H1 and FY18 H1. The Fairfax disclosure only includes separation costs actually incurred in FY18 H1.

Slide 13

Turning now to Group Publishing.

Our three publishing businesses are profitable and generating valuable cash flows. Each has benefited from an ongoing emphasis on digital publishing; a continuing focus on cost and efficiency; maximisation of print earnings; and development of new revenue opportunities.

Some highlights for the first half include:

- Metro's 8% EBITDA growth and margin improvement.
- 11% increase in digital subscription revenue.
- More than 283,000 paid digital subscribers up 20% since August.
- 11% improvement in publishing costs.
- ACM's delivery of a 7% cost improvement.
- Stuff's achievement of 33% digital revenue growth and delivery of 5% underlying cost improvement.

We are pleased with what the Group Publishing businesses are achieving.

Slide 14

Metro's impressive 11% decline in costs – largely from savings in staff, technology and print production – more than offset the decline in revenue of 9%. Publishing advertising revenue declined 15%.

Overall circulation revenue was modestly lower, benefiting from strong growth in paid digital subscriptions and increases in cover prices, offset by declines in print circulation volumes.

Net paid digital subscriptions for *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* recorded their strongest reported uplift in four years, increasing by almost 50,000 from August 2017. We are encouraged by positive trends in consumers' willingness to pay for trusted and quality content, as evidenced by strong trends in Australia and overseas markets. All three titles delivered growth, with the *Financial Review* delivering a particularly strong B2B uplift.

Other revenues declined 11% reflecting the sale of Tenderlink and some Events portfolio consolidation.

We have combined our Events business with the recently acquired Sports Media and Entertainment (SME 360) business and its management, led by Martin Jolly, to drive value across the combined portfolio.

Slide 15

Metros are in good shape – the best they've been in recent history. And there's more to come.

Initiatives to deliver rapid innovation across consumer products and advertising are well underway – and we haven't let up on driving cost efficiency.

Metro's strategy is delivering a step-change for consumers:

- New websites and apps have been launched to grow engagement and drive subscriptions and revenue. *The Age* launched last week, and in the next week *The Sydney Morning Herald* will go live;

- The publishing business now operates on an enhanced technology platform, having replaced complex legacy systems with new fit-for-purpose, agile, flexible and much lower cost solutions;

- Quality is not an issue. We make more than a $100 million annual investment in editorial – focused on our points of difference and areas of journalistic strength.

Metro's strategy is establishing foundations for advertising growth:

- We have entered into a world-first sales and technology partnership with Google to meet the growing demand for premium programmatic inventory. Our partnership provides us extensive access to Google's expertise while offering our advertising customers greater choice.

- We have implemented a new industry-aligned vertical sales structure to support better outcomes for advertisers. This structure enables us to drive deeper, more valuable partnerships with advertisers based on our rich data, audience expertise and insights.

- We are exploring other industry partnerships, including through the recently announced plans to create an anonymised digital identity cooperative with News Corp and Nine. That initiative aims to increase the value of publisher inventory.

Metro's strategy is maximising print earnings:

- We have progressed our recent positive discussions with News Corp Australia to seek industry-wide efficiencies in printing and distribution. We have had successful collaborations around shared trucking and printing titles for News in Queensland. Building on this collaboration we have jointly appointed advisers to pursue deeper strategic opportunities.

- Our ongoing commitment to print is underpinned by a level of advertiser and consumer support and we continue to focus on end-to-end efficiency while investing in new product to meet demand.

We are delivering the next-generation publishing model and we fully expect the Metro business to continue to prosper.

Slide 16

ACM's total revenue declined 9%, with stable contribution from agricultural-related advertising, offset by weakness in local and real estate revenue.

Digital revenue increased 20%.

Circulation revenue declines reflected lower retail volumes.

Other revenue increased 11%, benefiting from a strong performance from Fairfax Marketing Services which delivers full digital marketing solutions to regional clients.

ACM is well managed with operating costs improving by 7%, building on the 9% reduction in FY17. During the half, six community titles and one speciality magazine were closed, with positive EBITDA contribution to be reflected in the second half.

Slide 17

The New Zealand business saw total revenue decline around 5% in local currency terms.

Digital revenue growth of 33% was offset by lower print advertising. Digital revenue benefited from strong growth from Stuff Fibre and Neighbourly.

Digital and non-print revenue now represents 17% of Stuff's total revenue.

Reported operating expenses were 1% lower and reflect a one-off estimated $3.6 million provision for NZ Holidays Act recalculation that impacted many businesses across New Zealand. Excluding one-time items and investment in Stuff Fibre, underlying costs improved 5%.

EBITDA declined 24%, or 15% excluding the impact of the one-time items and investment in Stuff Fibre.

We have enormous confidence that Stuff is heading towards sustained growth as its digital business continues its strong momentum. We have acted decisively to bring this forward, and are announcing today a plan to exit around 35% of our NZ print publications through sale or closure. This will deliver additional EBITDA contribution over a full year and bring forward the time when increases in digital revenue will outweigh declines in print.

Slide 18

The recent renaming of the New Zealand business as Stuff recognises the tremendous power of the Stuff brand; the increasing role it plays in everyday Kiwi life; and its position as the centrepiece of a significant digital growth opportunity.

Stuff.co.nz is the country's leading local website, reaching a monthly audience of around two million. Over the past two years, Stuff has grown its audience by more than 38%. Stuff is leveraging its audience through the expansion into new categories such as ISP Stuff Fibre, health insurer Done, electricity provider energyclubnz, movie streaming service Stuff Pix, and more.

Local social networking platform Neighbourly has a large and growing membership base of more than 500,000, which is up 30% over the past year – representing a third of all New Zealand households. Neighbourly is profitable and we see a significant opportunity from its expansion into property listings, building on the 50% of total New Zealand residential listings it has already achieved.

Slide 19

Turning now to our Investments.

Some highlights include:

- Growth in the number of Stan active subscribers, at around 930,000.
- EBITDA increase of 23% at Macquarie Media.

Slide 20

Stan's strong active subscriber momentum continued and delivered a subscriber base of impressive scale.

This is a credit to Stan's increasing brand resonance as Australia's leading local SVOD platform, combined with the depth and breadth of its world-class content.

Stan's subscriber growth, combined with the first price increases since launch three years ago, underpinned 83% growth in subscription revenue.

The strength of the operating model is reflected in revenue growth far outpacing the increase in operating costs.

Slide 21

Stan's subscriber growth is fuelled by its compelling content, which includes exclusive rights to CBS's SHOWTIME content in Australia, a range of exclusive content rights to other studios, as well as original local productions.

Stan has an exceptionally strong line-up kick-starting calendar 2018, including *Romper Stomper* and new seasons of *Unreal, Billions*, *Better Call Saul* and *Younger*.

Slide 22

Macquarie Media's reported revenue was down 1%, and up 2% excluding disposals.

Expenses improved by 7% and include a reduction in ACMA fees.

EBITDA increased by 23% with the EBITDA margin expanding from 19% to 24%.

Slide 23

We have provided greater prominence to reporting of Corporate overheads, which reflects our strategic intention to both reduce overall costs and ensure appropriate allocation to respective portfolio businesses.

Our intention is to achieve an annualised run-rate of around $20 million in Corporate overheads for FY19.

Slide 24

First-half Corporate overheads reduced 40% reflecting the accelerated accounting treatment of lease incentives, transfer of costs to operating groups including Domain and Metro, and savings in underlying corporate costs.

Slide 25

Turning now to the current trading environment.

Slide 26

Trading in the first seven weeks of FY18 H2 saw revenues around 4% to 5% below last year.

Domain's digital revenue growth was 21% and total revenue growth was 11%.

Publishing trends were broadly consistent with FY18 H1.

For FY18, Domain's costs (on a Fairfax reported basis) are expected to increase around 17% to 18% from FY17's reported costs of $206 million. Domain's pro forma costs (on a DHG reported basis) are expected to increase around 12% to 13% from FY17's pro forma costs of $216 million.

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

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

Fairfax Media CFO, David Housego:

Slide 27

Thanks Greg.

Slide 28

Slide 28 provides a reconciliation of our statutory FY18 H1 result with the underlying trading performance for continuing businesses. Starting from the left hand side our statutory 4D numbers show a net profit of $38.5 million which includes total significant loss after tax of $37.8 million largely relating to restructuring and impairment charges. I will run through the detail later in the presentation.

Focusing on the trading performance excluding significant items, underlying EBITDA of $146.9 million was 1.3% higher than a year ago.

Below the EBITDA line, depreciation and amortisation expense of $27.1 million was higher than the prior year due to increased product investment at Domain and Stuff which has a short amortisation period. For the full year we expect depreciation and amortisation charges in the $55 million to $60 million range. This is ahead of prior guidance reflecting a higher mix of software and product development which has a shorter amortisation period. We have largely finished our property fitout.

Net interest expense of $4.6 million was in line with the prior year. We expect a similar expense in the second half.

The effective tax rate for the half year was 26% and reflected R&D benefits relating to our software and product investment. In the second half we expect a higher tax rate of 29%.

The 1.1 cent interim dividend will be 100% franked. We also note the dividend payment that Domain shareholders will receive for the half. When combined with the Fairfax dividend, on a cash basis it equates to 2.1 cents per Fairfax share.

Non-controlling interests of $8.4 million after tax increased versus the prior year by $2.8 million. We consolidate 100% of Macquarie Media which delivered a strong result for the half and the non-controlling interest reflects the 45.5% that we do not own.

The NCI also includes a step up in minority interests associated with the Domain Group reflecting the 40% minority ownership arising from the separation which was calculated from 22 November 2017. Additionally there were higher non-controlling interests associated with the Domain agent ownership model.

The detail of NCIs is outlined in Appendix 4 of the Investor presentation.

The FY18 second half will see the impact of minority interests associated with the Domain Group for a full six month period.

Slide 29

The detail of significant items is outlined on Slide 29.

For FY18 H1, impairments of intangibles, investments and PPE of $28.2 million after tax relate to print equipment, radio licences and investments. Restructuring and redundancy charges of $13 million after tax relate to the ongoing transformation underway across the publishing businesses as well as costs associated with the separation of Domain.

There was a gain on sale of Satellite Music Australia of $3.9 million pre-tax at Macquarie Media.

Slide 30

Slide 30 provides a summary of our cash flows for the half. Cash from operating activities reduced to $73 million, reflecting higher tax payments in the half.

Proceeds from asset sales of $10 million was largely due to the sale of Satellite Music Australia. The prior period included the sale of Tenderlink.

Investment in property, plant, equipment and software reduced to $35 million. The prior period included property fitouts at Domain and New Zealand. For the second half we expect capex of approximately $30 million.

Loans advanced of $18 million largely include our investment in Stan.

Across the Group, $56 million in dividends was paid to shareholders in the half.

We finished the half with net debt of $156 million. Excluding the debt which we consolidate from Domain and Macquarie Media, Fairfax is in a net cash position of $6.8 million.

Slide 31

Slide 31 summarises our funding position at December 2017. Total interest bearing liabilities were $249 million. Our debt ratios remain strong with EBITDA to net interest of almost 28 times.

Slide 32

Slide 32 shows our current facility maturity. Two new facilities were established for Fairfax and Domain Group prior to Domain separation.

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

Ends

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