FAIRFAX MEDIA LIMITED
2014 RESULTS COMMENTARY

SYDNEY, 14 August, 2014: Fairfax Media Limited [ASX:FXJ] today delivered its 2014 financial results. Accompanying commentary from Chief Executive and Managing Director, Greg Hywood, and Chief Financial Officer, David Housego, is set out below.

Greg Hywood

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Good morning everyone.

Thank you for making the time to join me, and our Chief Financial Officer, David Housego, today.

Today's result shows that Fairfax has been able to deal with the enormous structural changes impacting the media and has reshaped the business for future growth.

We have stabilised earnings. We have completely remade a legacy-based, vertically-integrated traditional newspaper business into a genuinely multi-platform media company. We are now a leaner, more agile business.

Fairfax used to be just about advertising revenue, subscription and cover price income. Our business model has evolved to extending our media core into a broadly based services business – advertising and marketing services, property services and data services. This provides the basis for future investment focus and the development of new revenue streams, all driven by our fundamental capabilities as a leading news and media business.

We are in the position to use our balance sheet to build and invest in new business areas where our content gives us competitive strength – including education, travel, health and lifestyle.

We will remain disciplined. We will be pragmatic. We will be innovative. We will continue the transformation of this company.

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For the financial year 2014, Fairfax delivered an operating EBITDA for continuing businesses of $306.4 million, which was about 2% higher than a year ago.

In the second half we maintained the momentum shown in the first half, when we recorded the first year-on-year increase in EBITDA for continuing businesses since June 2010.

We've delivered a 79.6% increase in net profit year-on-year for continuing businesses.

We've grown earnings per share by almost 80% and we have doubled our full-year dividend.

Reducing our net debt by almost $1 billion over the last two years has played a big part in boosting the bottom line result. Fairfax is now in a net cash position.

Growth in full-year profit was achieved in an environment of continuing print revenue declines. Overall, revenue was down 3.7% on a like-for-like basis – less severe than we've

seen in the last two years, but still reflecting a continued structural shift away from print advertising. This was partially offset by digital revenue growth and new revenue streams.

The result shows that our efforts to make Fairfax more efficient, and to simplify our business, are delivering the outcomes we intended. Operating costs for the year were down 6.3% on a continuing business basis. Publishing costs were down 13.8%.

We continue to deliver against our Fairfax of the Future transformation objectives and targets. The program delivered an incremental EBITDA contribution of $120 million in FY14. We are on track to achieve targeted savings of $311 million in FY15. Consistent with our guidance, costs were delivered at $1.56 billion for the financial year.

To sum this up, this is the year that Fairfax's overall performance has stabilised – and I have to say we have been heartened by the performance of the business during this period.

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At a divisional level, a highlight of the result was the improvement in profitability recorded by our Metropolitan Media business which includes Domain, with EBITDA of $120.9 million up 41.3% on the previous corresponding period.

On a standalone basis, excluding Domain, the Metropolitan publishing division made almost $66 million in EBITDA, up 44.6% on a year ago.

By itself, the Domain Group delivered a solid performance, with digital advertising revenue growth of 40.5%.

New Zealand delivered EBITDA up 3.1% in local currency, which in Australian dollars is up 16.5%.

While Australian Community Media continued to experience revenue declines in the year, there was some moderation in the rate of decline in the second half. I will talk extensively about our plans for this business later this morning.

For the Group, trading in the first five weeks of FY15 saw revenues 1-2% below the prior year.

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Before we get into the detail of the divisional numbers, a quick update on the progress we're making with some of our revenue initiatives.

In early August, The Sydney Morning Herald and The Age had more than 140,000 paid digital subscribers, and an additional 111,000 eligible print subscribers who have signed up for digital access.

Our Marketing Services division now includes our Content Marketing and Events businesses – which are expanding and attracting significant interest from advertisers, clients and sponsors.

We're progressing with our Data strategy and we're having positive commercial discussions with a number of Australia's largest advertisers.

Domain continues with its aggressive expansion, benefiting from investment in additional sales and product capability and a number of strategic acquisitions.

Slide 8

As I said before, Metropolitan Media recorded a very strong result. This was despite advertising revenue remaining challenging. The division recorded an underlying revenue decline of 6.3%.

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On this slide you can see that Metro Print advertising revenue decreased 24% and Metro Digital advertising revenue increased 6%.

The full detail of our Metro Digital trends can be seen in Appendix 8 of this Investor Presentation. There was some impact on advertising revenue resulting from magazine closures and other product initiatives, with an overall positive impact on EBITDA.

Digital subscriptions were an important contributor to revenue, having launched at the beginning of the financial year.

In FY14, total revenue for digital subscriptions for The Sydney Morning Herald, The Age and The Australian Financial Review was $24 million, which was $19.2 million higher than the prior year.

The contribution of digital subscriptions together with our focus on profitable circulation saw underlying circulation revenue increase 11.4% for the year.

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Turning now to Domain.

Domain continued to accelerate its digital growth and manage declines in print.

Domain's online revenue grew 40.5%, driving digital EBITDA growth of 47% as margins expanded.

Cost control across the print and digital operations contributed to a 38.8% increase in Domain's EBITDA to $57.6 million.

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Domain's online revenue (excluding Australian Property Monitors, Commercial Real Estate, Property Data Solutions and Commerce Australia) was 33% higher than the prior year.

Premium depth products continue to drive growth in Domain's business, up 61% year-on-year, and now contribute 63% of digital revenue. Market-leading mobile apps continue to be a source of differentiation, with the majority of all digital visits to Domain now coming from mobile devices.

Domain continues to increase its penetration across Australia and is seeing impressive growth in the number of sales leads it generates for real estate agents, up 43% in the key market of Sydney and up 32% nationally.

Domain had more than 8,550 agent subscribers at the end of the financial year, which was 12% higher than the prior year, representing approximately 80% market penetration.

Domain continued its national expansion strategy with the acquisition of Property Data Solutions (PDS) for approximately $30 million in December 2013. PDS provides property

data research to more than 5,000 subscribers with the majority being real estate businesses. The acquisition of Canberra's leading real estate listings business Allhomes was announced in July.

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On this slide you can see Domain's relative market share of audience versus the national market leader. In the two largest real estate markets, Domain has leading market share in Sydney and has a strong number two position in Melbourne. Domain is focusing on growing in these markets, but is also expanding its national audience.

Domain has the highest consumer ratings for real estate apps for iPhone, iPad and Android. Domain's tablet app has an audience share of 65% nationally, with the number of property app downloads up 43% year-on-year.

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Our Digital Ventures group remained focused on managing our digital portfolio for value by building, growing and investing in digital businesses including via international and local partnerships.

There were a number of strategic divestments during the financial year, including the sale of Stayz in December 2013 for approximately $220 million and the sale of InvestSMART in August 2013 for $7 million.

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Digital Ventures now comprises a portfolio of seven high-potential digital businesses and investments.

Investments during the year included a minority interest in Sydney-based digital health services company Healthshare, and a joint venture with leading international job search engine Adzuna to provide a new platform for recruiters and job seekers in Australia.

The merger of RSVP and Oasis Active, announced in June 2014, brings together two of Australia's largest online dating services businesses. Fairfax holds a 58% interest in the merged entity.

Slide 15

Australian Community Media, which includes our more than 150 regional and agricultural mastheads and NSW community titles, continued to experience revenue declines in the year, with some moderation in the rate of the decline in the second half.

Advertising revenue in the segment was down 16.1% or 12.2% on an underlying basis. Drought in the Eastern states, a downturn in the resources sector and lower federal national government and national brand advertising expenditure were contributing factors. Underlying EBITDA was down 15.4%.

Costs were tightly managed across the business with a range of initiatives implemented to respond to the market environment. That cost focus will be enhanced with the implementation of a new model for ACM that I will discuss now.

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You may recall that in February I said that we would come back to you with an update on the review we were undertaking of ACM.

Today we have announced a flatter management structure for this business and an operating model based upon local editorial and sales focus, underpinned by a more centralised services model.

The changes bolster the long-term viability of our newspapers and websites.

We expect to deliver annualised savings of at least $40 million by 2016. There is a one-off cost of $40 million in FY15 involved in achieving these savings.

The new model is not about closing mastheads or leaving markets. There may be some limited consolidation of papers where there is significant overlap of readership or where it makes business sense.

The priority of our ACM business is to maintain strong local editorial and sales capability, but share all services that can be effectively centralised.

Make no mistake, this is a major restructure of this business, which we believe will stabilise earnings in this division.

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This new model is about reducing duplication and costs, delivering our journalism in the most effective ways possible and responding to changes in audience habits.

Drawing upon the successful restructuring of our other publishing businesses, the new ACM structure involves greater use of shared services for support functions such as finance, IT, circulation and distribution and human resources.

While we develop detailed plans for each market, each of our mastheads continues with business as usual.

Slide 18

Turning to our New Zealand business, underlying revenues were down 3.4% in local currency terms on the previous corresponding period. In Australian dollars, underlying revenue is up 6.7%.

Changes to the business structure and marketing practices have contributed to the improved trend in second half profitability, with EBITDA up 3.1% for the year in New Zealand dollars (or 16.5% in Australian dollars), notwithstanding some investment in growth initiatives.

The New Zealand print advertising market is not experiencing the same rate of decline seen in the Australian market. Advertising revenue received some benefit from the strong agricultural sector, stabilisation of property advertising and strong auto and local government spending. However, we saw weakness in a number of categories including retail and employment.

Slide 19

Our Radio business experienced a decline in revenue of 6% for the year which was disappointing.

We are absolutely focused on improving our position.

We have strengthened our line-ups. Our offering has been refreshed at five of the seven stations. Sales teams have been restructured to have a national focus resulting in new sales leadership in Brisbane, Sydney and Melbourne. Melbourne's 3AW and 96fm in Perth continue to have strong ratings and audience share.

Slide 21

Turning to the current trading environment. Trading in the first five weeks of the 2015 financial year saw revenues 1-2% below last year. We have seen a moderation in the rate of decline in print advertising.

I will now hand over to David Housego to take you through the financial results in more detail.

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David Housego

Thanks Greg.

Good morning everyone.

As Greg said, today’s result is pleasing. It’s a testament to the organisation’s ability to stabilise and transform amid enormous structural change. The business is now in a position to grow.

Let’s jump straight in to the detail of the result.

Slide 23

Slide 23 reconciles our reported 4E result to trading excluding significant items and trading on a continuing business basis.

We recorded an after tax profit for significant items of $66.7 million, which reflected the profit on sale of Stayz in the first-half result, somewhat offset by impairment of investments of around $17 million and restructuring and redundancy charges of around $17 million. The full detail is contained in Appendix 6.

Greg has talked you through our revenue and expense trends, but there are some items below the EBITDA line to mention briefly.

In FY14 our depreciation expense fell slightly from $97 million to $92 million. In FY15 we look for a material decline mainly due to the closure of Chullora and Tullamarine printing plants as well as some of our large IT projects now being fully amortised. As a result we’re looking for depreciation in the $70 million to $75 million range.

Our net interest expense saw a material reduction in FY14. Contributing to this was the substantial reduction in our debt levels over the past two years. In addition there was a $10

million profit associated with the close-out of interest rate swaps included in our first-half result.

We expect FY15 net interest to be in-line with the underlying expense of $20 million recorded in FY14.

Our tax expense for the second half and full year was below the statutory rate due to a refund on prior years' research and development investment. Our expectation for our tax rate in FY15 is slightly below the full statutory rate.

Slide 24

Turning now to Slide 24.

Greg has already talked you through the detail of the segment results, but I wanted to add some commentary about our expectations for FY15.

Within the Australian Metro Media division we expect the benefits of the Chullora and Tullamarine closures to assist in relieving some of the ongoing pressures arising from the print advertising environment. We have had some benefit from this included in the FY14 results with some additional benefit to come in FY15.

Our Events business, included as part of Australian Metro Media, is undertaking geographic expansion via new and existing categories, and the impact of this investment will be seen during the year. We remain excited about the potential of this business and are happy to put additional capital into this area.

Domain, which is reported within Australian Metro Media, is investing in the growth of its platform. We have been hiring sales and marketing staff and continuing our product development.

Digital Ventures, which also sits within the Australian Metro Media division, has seen substantial divestments with the sale of Stayz and the formation of a joint venture between RSVP and Oasis Active.

Under the new arrangements, the RSVP joint venture will be accounted for on an equity basis, and the strategy of the business will be to reinvest profits to further develop the existing Oasis platforms in Latin America. We are also investing in Weatherzone and Allure, two of our smaller businesses. As a consequence of these investments and divestments, we can expect Digital Ventures profits to be materially lower in FY15.

Greg has talked in detail about our plans for the restructure of the Australian Community Media group. I just wanted to emphasise that this is a process that will be implemented over the next 12 to 18 months. We do not expect the material cost benefits to come through until FY16. We expect to take a one-time charge of approximately $40 million in relation to this project in FY15.

Our corporate expenses in FY14 at the EBIT line were virtually unchanged. You can see the detail of corporate expenses in Appendix 4 of this presentation. Looking forward to FY15 we will be continuing to invest in business systems and process improvement.

Slide 25

Turning to slide 25, our successful multi-year Fairfax of the Future transformation program is on track to achieve our target of $311 million in annualised savings in FY15.

The net cost to deliver Fairfax of the Future is expected to be around $290 million. This is a combination of cash redundancy payments for the people who have left the business, capex and opex. This amount is also net of expected proceeds from the sale of legacy print sites and surplus property.

Slide 26

During FY14 we had capital investment of $72 million which included the upgrades to our regional plants. Looking forward to FY15 we're expecting capex of around $60 million which includes significant investment in our systems and product development.

We recently announced an agreement with APN in New Zealand which involves APN providing printing services at its Ellerslie facility in Auckland for several of our New Zealand newspapers. A major benefit arising from the agreement will be the avoidance of around NZ$20 million in capital investment by Fairfax.

We continue to look for sensible synergy opportunities across the industry.

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Slide 27 highlights that our net debt position has decreased by close to $1 billion – from $914 million to net cash of $68 million over the past two years. As I mentioned previously, our net interest expense of $10 million for FY14 benefited from a one-time profit associated with the close-out of interest rate swaps.

We also made redundancy and restructure payments of $86 million in FY14. Looking to FY15 we expect to be booking around $40 million, as discussed previously.

Slide 28

Slide 28 shows you our current facility maturity post balance date after a USPP repayment of $125 million on 10 July 2014. We have drawn down around $260 million of our $433 million facilities. Standard & Poor's recently reviewed our BB+ credit rating which was increased from negative to stable outlook.

Thanks for your attention and we'll now open up for questions.

– ENDS –

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