Fairfax Media

FAIRFAX MEDIA LIMITED
2015 RESULTS COMMENTARY

SYDNEY, 13 August 2015: Fairfax Media Limited [ASX:FXJ] today delivered its 2015 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.

Slide 2, Slide 3

Slide 4

The result today shows top-line growth for continuing businesses for a full year for the first time in eight years.

Through organic growth initiatives and acquisitions in areas such as Domain and Events we are moving to a position where the growth in our digital revenue offsets the decline in print.

EBITDA is marginally lower, reflecting the operational investment that we put into our growth businesses Domain and Events; EBIT is higher; net profit is marginally lower due to a higher tax expense.

We consider this to be a robust result.

We are pursuing our strategy to grow, transform and invest to drive long-term performance.

Let's get into the detail.

Slide 5

Our group trading performance for continuing operations saw revenue grow 0.3%, a key driver of which was the 45% increase in Domain Group revenue.

As we foreshadowed a year ago, we are investing in our growth businesses and ventures – which include Domain, Life Media & Events, as well as Stan. There was $39 million in additional growth-related operating expenses introduced in FY15, which together with the cost impact of acquisitions, lifted Group operating expenses by 0.5%.

Excluding the investment in these new opportunities, the impact of acquisitions and some one-time costs, Group expenses were down around 4%.

Fairfax has reported EBITDA of $287 million, which is 3.4% lower. As I've said, absent the investment in our growth businesses, EBITDA performance would have been stronger.

Lower depreciation and amortisation expenses contributed to EBIT of $223 million, up 8.1%.

Net profit for continuing businesses fell marginally to $143 million, largely due to a higher tax expense.

We will pay a final dividend of 2 cents per share, 50% franked, which brings total dividends for the year to 4 cents per share, a payout ratio of 66.6%.

As previously announced – as part of the company's ongoing capital management strategy – an on-market buyback of up to about 5% of issued capital commenced in March. To date, around 37 million shares have been repurchased and it is our intention to shortly resume the buyback.

Slide 6

At a divisional level, profitability improved in our Metropolitan Media division during the year, with EBITDA up 30%.

Metropolitan Media revenues were up 3.3%, which includes the acquisitions of MMP and Allhomes, as well as strong organic growth in the Domain business. Underlying print advertising revenue declined 11% in H2, consistent with the trend in H1.

On a standalone basis, excluding Domain, EBITDA for the Metropolitan publishing division increased 52%, reflecting the benefit of transformation efforts over the past four years.

The Domain Group businesses delivered strong revenue performance, with digital advertising revenue growth of 36.4%. Domain.com.au saw revenue growth of 30%.

There was moderation in the rate of revenue decline in our Australian Community Media business, with revenue down 8.1% to $539 million.

The transformation of our rural and regional newspapers and websites is progressing well, with the full run-rate of $60 million of cost benefits to be achieved by the end of FY16.

Earnings are slightly down in New Zealand but we are seeing exciting opportunities emerge in that market as digital revenues grow on the back of the increasing dominance of Stuff.co.nz as the major news site in New Zealand.

NZ total revenue was down by 5.2% like-for-like in local currency terms. During the year, the business has seen strong digital revenue growth as it has ramped up its investment in Stuff.

The Radio business, a 54.5% shareholding in the ASX-listed Macquarie Radio Network, made a stable EBITDA contribution of $13.9 million.

Across the Fairfax Group, early FY16 H1 revenue run rate is 2% to 3% above the prior corresponding period. For the same period, Domain.com.au revenue is up 53%.

Slide 7

Before we take a deep-dive into the divisional numbers, let's recap on some highlights from the past year.

Domain Group continued to gain momentum, with digital EBITDA up 57% in the second half, compared with 17.5% growth in the first half.

During the year, the number of agent subscribers grew by 20%; listings up 16%; and total average monthly visits to Domain sites increased 30%.

Domain is aggressively expanding its national footprint, assisted by the roll-out of the agent ownership model. That model was pioneered in the Victorian market in the MMP business, which is now 100% Fairfax-owned.

In less than 18 months, we have invested more than $150 million in Domain through the acquisitions of MMP, Allhomes and Property Data Solutions.

In late March, we completed the merger of Fairfax Radio and Macquarie Radio Network.

This was a compelling transaction for both Fairfax and MRN. It provides both cost and revenue synergies from enhanced network and sales opportunities that will create a more efficient and effective network for News, Talk and Sports radio along with music stations.

The sale of our Perth station 96FM was also a compelling transaction, resulting in cash proceeds of $78 million.

Momentum continues to build in our Events business. We have created one of the largest events businesses in the country in just two years, with revenue up 41% year-on-year, reflecting strong organic growth, new event launches and the impact of acquisitions.

Our partnership with global digital news leader, The Huffington Post, will see the launch of a local edition, HuffPost Australia, on August 19, having received strong commercial support from advertisers.

Slide 8

Our Subscription Video-On-Demand (SVOD) joint venture, Stan, launched on Australia Day. Consumer interest to date has exceeded expectations, with well over 300,000 gross sign-ups as at August 3. The service is well on track to have 300,000 to 400,000 active subscribers by December this year, as previously flagged.

Stan is highly attractive in terms of value and content. The $10 a month service provides subscribers with access to the largest – repeat largest – content library of TV shows and movies in Australia.

Consumer response to the SMH/Age and Stan bundling offers has been very strong.

I've already spoken about the buyback – as I said, we expect it to resume shortly.

We have a strong balance sheet with net cash of $64 million at year end, which provides us with considerable flexibility to continue to invest – both in our existing businesses and via acquisition – as we continue the transformation of the company.

And, after year end, we sold the Tullamarine print site for $16 million and sold the Chullora print site for $45 million.

Slide 9

Turning now to Metropolitan Media, which also includes our Domain, Digital Ventures and Life Media & Events businesses.

Overall revenue increased 3.3%, notwithstanding the impact of the sale of Stayz and merger of RSVP with Oasis Active.

Contributing to this result is the consolidation of MMP following the move to full ownership; the very strong underlying momentum in Domain and Events; and growth in digital subscription revenue.

Following the closure of Tullamarine and Chullora print sites in 2014, our Metropolitan Media business is serviced by a flexible and fully utilised printing operation.

The re-scaling of our printing operations for efficiency – and the adoption of new ways of delivering our journalism and content – has helped sustain our publishing profitability.

Metro publishing costs were down 7% in FY15 and 28% over the last three years.

Overall costs in the division increased 0.3% reflecting the consolidation of MMP costs and the ongoing operational investment in Domain.

Adjusted EBITDA for the Metro division increased almost 30% as a result of the revenue uplift and cost control in Metropolitan publishing.

Slide 10

Looking at the Metro revenues in more detail – you can see that print advertising revenue only declined 0.5%, reflecting the acquisition of MMP. Excluding MMP, print advertising revenue was 11% lower, in line with the first-half trend.

Digital advertising increased 22.6% supported by strong gains at Domain and higher online display advertising.

Print circulation revenue declined modestly.

Digital subscription revenue increased 36% in the year.

In our February results, we disclosed 158,000 paid digital subscribers for the SMH and The Age. That number was overstated due to an isolated reporting issue and we restate the February number to be around 152,000.

As at 2 August, the SMH and The Age had around 159,000 paid digital subscribers.

Events revenue increased 41%.

The full detail of our Metro Digital trends can be seen in Appendix 8 of this Investor Presentation.

Slide 11

Turning now to the powerful momentum we're achieving at Domain.

We held an Investor Briefing on Domain in March and I'll take you through a number of slides to update you on the significant progress that the business is making.

Our substantial investment in Domain – across acquisitions, sales and product development – is fuelling revenue acceleration, with full-year growth of 45%.

Domain's digital revenue increased 36% for the year, with Domain.com.au up 30%.

Premium depth revenue remained very strong with 47% year-on-year growth and now represents 69% of Domain.com.au's revenue base.

Print advertising growth of 69% benefited from the consolidation of MMP's stable of glossy real estate-focused magazines in Victoria. MMP is a strong performer in the group with underlying EBITDA growing 50% on a full-year basis.

Despite significant investment in the aggressive expansion of Domain and the impact of some one-time costs, EBITDA grew 46%. Digital EBITDA grew 37% and 42% excluding one-off items.

Slide 12

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

We have seen a 20% increase in the number of agent subscribers.

The number of listings has increased 16% to more than 350,000.

We have delivered major product improvements during the year. Our enhanced depth product portfolio is supporting revenue growth; our school catchment zones data is proving highly popular with consumers; and the recently soft-launched Domain HomePriceGuide will empower consumers with quality data and insights.

The national roll-out of our agent ownership model continues to gain traction and is supporting our aggressive footprint expansion.

We are in the early stages of implementing the agent ownership model in Commercial Real Estate and are making pleasing progress.

These enhancements and innovations – coupled with our leading mobile strategy, high quality journalism and content, and our strengthening social media presence – are turbocharging the number of visitors to Domain.

I'll run through Domain's audience metrics in more detail shortly.

Slide 13

I mentioned that our total listings had increased 16% in the last 12 months and this chart shows you the extent to which we are closing the gap to full market penetration.

That puts our listings market penetration at 85% compared with 68% a year ago.

Maximising our listings is a key strategic driver in improving the consumer experience and provides a greater opportunity for upsell in depth products. We are close to full listings penetration in most metro markets, particularly Sydney and Melbourne.

We have sales campaigns underway in regional Victoria and regional Queensland to drive full agent and listings market penetration.

Slide 14

Turning now to audience metrics on Domain.

The size and performance of our main and mobile sites can be seen in these charts.

Over the past 12 months we have seen significant growth in our average daily unique browsers on our main and mobile sites. In June 2015, we reached the highest audience on record, with growth of 82% compared to a year ago.

Downloads of Domain's highly-rated mobile app have increased 34% in 12 months to 3.8 million, with acceleration during the second half.

Slide 15

In the six months to June 2015, Domain experienced a 30% increase in average monthly visits across all platforms (main sites, mobile sites and apps).

Mobile sites and apps experienced growth of 32%, supported by the increased number of app downloads and enhanced mobile product experience. Mobile is proving highly effective in delivering leads to agents.

Average monthly visits to our main sites increased 29% due to investment in marketing, our content strategy and the deep integration with Fairfax mastheads.

While Domain's content is a compelling drawcard, it is worth emphasising that 82% of visits to Domain in June related to property listings, driven in large part by mobile apps which don't carry content. Visits to property listings increased 30% on the prior year.

The true size of Domain's audiences can only fully be appreciated by taking into account mobile apps, together with main and mobile sites.

The substantial uplift in our mobile app downloads is driving growth in visits.

We all know that the desktop environment is being disrupted and consumers are moving to mobile. That is the core of our strategy. We have invested in this. 66% of our leads to agents come via mobile. It is our strength. It is the future.

Slide 16

We're closing the unique audience gap to our main competitor – and growing audience faster – having narrowed the gap across desktop and mobile sites from 46% to 33% in 12 months.

We finished the year with Domain and Allhomes main and mobile sites attracting a unique audience of 2.5 million, which was 45% higher than a year ago.

In June, Domain had an audience of 1 million people who did not visit its competitor's main or mobile site.

Slide 17

Digital Ventures encompasses three core components:

- Digital news – which includes investments in the local versions of news sites from three of the top five digital-only media groups in the US, the centerpiece of which is The Huffington Post, coupled with alliances under our Allure Media business with Gawker Media sites and Business Insider;

- Subscription Video-On-Demand joint venture Stan – which I discussed earlier; and

- A range of transactional businesses and early stage investments – which includes Tenderlink, Weatherzone, RSVP/Oasis Active, Healthshare and Adzuna, for example.

During the year we invested $20 million in the Digital Ventures portfolio, excluding Stan. Most recently, Weatherzone announced its expansion into South Africa through an investment in the country's leading commercial weather services company, AfricaWeather.

The revenue decline reported in Digital Ventures was due to the sale of Stayz and changed accounting for RSVP.

Allure Media is delivering strong revenue and EBITDA growth and undertaking strategic expansion with the launch of new sites.

RSVP and Oasis Active has seen an improvement in EBITDA through cost transformation and synergies.

Slide 18

In our Australian Community Media business, revenue declined 7.8%, with revenue from advertising down 9.1% for the full year, consistent with first half trends.

Declines in employment and automotive were contributing factors, along with weaker supermarket-related advertising in the second half. Print real estate advertising experienced an improving trend while local advertising was relatively stable.

Adjusted EBITDA of around $101 million was 33.7% lower than a year ago.

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

The transformation of ACM has been confronting but necessary. We believe it will secure the future of journalism in the communities that we serve by streamlining the management while maintaining strong local editorial and sales resources.

In the markets where change has occurred, we are seeing a positive consumer response to our refreshed and revitalised digital and print products.

Slide 19

Our New Zealand business saw advertising revenue down 6% for the year in local currency terms.

Macroeconomic challenges weighed on the broader economy, particularly in the last quarter.

Digital revenue growth of 38% for the year and 52% in the second half reflected the strong momentum at Stuff and continued investment in product development and marketing.

Cost control contributed to improved EBITDA performance in the second half, with a 5% decline compared with the 12% decline for the full year.

Transformation is happening across the editorial and sales teams as they are being equipped with the right training and technology to take advantage of our multi-platform strength and significant digital progress.

The transformation of our newsrooms in New Zealand has seen the number of stories we are publishing across digital platforms increase from 400 to 1500 a day.

Slide 20

Stuff is setting an impressive pace of growth, increasing its unique audience 23% year on year to become the number four digital brand in the country, ahead of YouTube and just shy of TradeMe.

Audience figures for July 2015 show Stuff has overtaken TradeMe to sit behind global giants Google and Facebook. That makes Stuff the number one local digital brand in the country.

Slide 21

Our Radio asset benefited from the reverse takeover with MRN.

Cost synergies commenced in FY15. The business is on track to achieve targeted $10 million to $15 million in annualised benefits in FY16.

MRN is well positioned to derive revenue synergies from the establishment of a genuine national network with the number one stations in Sydney and Melbourne.

As MRN indicated this week, it expects FY16 EBITDA will be in the range between $20 million and $25 million.

Slides 22, Slide 23

Now to the current trading environment.

Trading in the first five weeks of FY16 H1 saw revenues 2% to 3% above last year.

In the same period, Domain.com.au revenue was up 53%.

In FY16 we expect Domain.com.au costs to increase at a similar rate to FY15 (which was about 30%) as we continue investment in growing Domain's digital footprint.

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

Slide 24

David Housego

Thanks Greg, and good morning everyone.

Before we get into the detail of the result, I thought it would be useful to provide an overview of the impact that the closure of our metro printing plants at Chullora and Tullamarine has had on our reported results. This major initiative is reflected in our financials as follows:

Firstly, our trading performance for continuing businesses excludes a $3 million cost impact to complete the closure of Chullora and Tullamarine. This is consistent with the result reported in the first half.

Secondly, our Metro Media publishing business delivered a 7% reduction in operating expenses which included operational efficiency benefits that arose from moving into our smaller regional plants.

Thirdly, the depreciation expense reduced $18 million due to the metro plant closures.

Fourthly, there was a change in the allocation of external printing profits between our Metro Media and ACM segments. As the businesses now operate out of shared sites, the allocation of external printing profits is based on the printing volumes of each business. As a result, the printing contribution to the Metro Media segment increased by $13 million while the printing contribution to the ACM segment reduced by around $18 million. The detail of the Printing contribution can be found in Appendix 3.

Finally, the balance sheet now includes the Tullamarine and Chullora plants as assets held for sale. As Greg mentioned, after year end we sold the Tullamarine site for $16 million and sold Chullora site for $45 million.

Slide 25

Turning now to Slide 25, the table provides a reconciliation of our FY15 result starting from the left hand side with our statutory 4E numbers, with adjustments to show trading performance excluding significant items, and then trading for continuing businesses. The items excluded from continuing operations are the Chullora and Tullamarine plants and Perth radio station 96FM which was sold in January 2015. The continuing business adjustments to FY14 results were Stayz which was sold in November 2013.

The total significant item after tax of $61 million included three items:

- Restructuring and redundancy charges of $47 million net of tax largely relate to the restructuring of our ACM Media business, which we flagged at the time of our FY14 result;

- Total writedowns of $29 million after tax included impairment of investments, print assets and finance systems; and

- A gain of $14 million primarily reflects the sale of 96FM and the fair value uplift on our original MMP investment.

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

The EBITDA adjustment from trading performance excluding significant items to trading performance from continuing businesses of $2 million reflects the closure of Chullora and Tullamarine in the first half and seven months of trading for 96FM.

On a continuing business basis, EBITDA of $287 million was down from $298 million in FY14, largely reflecting the $42 million expenses and investment in the business which Greg outlined earlier.

Turning to items below the EBITDA line, you'll notice that depreciation and amortisation expense declined significantly from $92 million to $65 million. There were two key drivers of this reduction. Firstly, depreciation declined following the closure of our metro plants. Secondly, some software came to the end of its depreciable life and we are moving to more cloud-based software solutions. A proportion of this is therefore included in our operating expenses rather than depreciation.

Looking forward to FY16, we expect depreciation expense to increase by around $10 million reflecting the capex we plan to undertake in property relocations, product investment and investment in IT.

EBIT for continuing operations of $223 million increased 8.1% from $206 million a year ago, reflecting the depreciation benefit.

Net interest expense for the year increased to $16 million from $10 million a year ago. You may remember that our FY14 result included a one-time $10 million benefit associated with the close-out of interest rate swaps.

Looking forward to FY16 we expect net interest to be around $11 million. We repaid USPP debt of $125 million in July 2014 and intend to repay a further $125 million on our drawn Syndicated Facility in October 2015.

Our tax rate for continuing businesses was around 28% reflecting continued R&D credits as well as the lower NZ tax rate. The rate this year was higher than last year due to timing of R&D claims.

For FY16 we expect a tax rate in line with the FY15 rate. As Greg mentioned our final dividend is partly franked at 50%, and we expect any FY16 dividends to be partly franked.

Non-controlling interests of $4.6 million increased from $700,000 a year ago, reflecting minority interests associated with Macquarie Radio Network and MMP. The detail of this expense is outlined in Appendix 5 of the presentation.

For FY16 we expect minority interests to increase due to the consolidation of MRN and MMP for a full year.

Net profit of $143 million and EPS of 6.0 cents per share for continuing businesses compared with $149 million and 6.3 cents per share last year.

For FY15 our average weighted number of shares was 2.37 billion compared with 2.352 billion a year earlier.

In January 2015 around 68.5 million Fairfax shares were issued to the founding shareholders of MMPH reflecting the equity component of the transaction.

Following the announcement of our share buyback at the time of our interim result, we bought back just over 37 million shares during the second half.

Slide 26

Turning to Slide 26, Greg has already talked through the detail of the segment results, but I wanted to add some additional colour.

Domain, which is reported within the Metropolitan Media division, saw Domain.com.au costs increase about 30% in FY15 and we expect a similar rate of increase in FY16 as we continue investment in growing Domain's digital footprint.

Following the acquisition of the remaining 50% of MMP, we consolidated the business from January 2015 having previously equity accounted it. On the Domain slide, you can see the associate contribution of $3.1 million reflecting MMP's contribution in H1 prior to the acquisition of the remaining 50%.

The other major transaction was the Fairfax Radio Network merger with Macquarie Radio Network and, as a consequence, there was a substantial change in the reporting of our radio division in H2. The sale of 96FM, which completed at the end of January, was included in our H2 segment results for one month.

Following the merger with Macquarie Radio at the end of March, we consolidated the combined business for the fourth quarter. Given our ownership of 54.5% of MRN, there was an increase in the non-controlling interests.

Corporate EBITDA was in line with a year ago. This included our $3.1 million share of start-up contribution for Stan, our Subscription Video-On-Demand (SVOD) joint venture with Nine Entertainment Co.

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 Appendix 4.

Slide 27

Slide 27 gives you a summary of our cash flows for the year.

Proceeds from asset sales of $98 million reflected the divestment of 96FM and some property sales across the group.

We spent $75 million on investments which included the acquisition of Allhomes, a number of investments in our Digital Ventures portfolio, and investments in our Events business and in Stan. We received cash proceeds from MRN of around $18 million taking our net investment to $57 million.

Investment in property plant and equipment was $62 million, related to the Petone print site upgrade in Wellington and systems investment.

Restructure and redundancy payments were $36 million.

During the half we spent $38 million of our share buyback.

For FY16 we expect an increase in our capital expenditure to around $90 million related to product and systems investment, property relocations including MRN and NZ print plant upgrades.

As mentioned, we expect depreciation and amortisation expense to increase by around $10 million reflecting a full year of the fit-outs, the investment in systems and the Petone upgrade.

Slide 28

Slide 28 summarises our funding position at June 2015.

Our net cash position increased to $64 million from $37 million at H1 reflecting the asset sales undertaken in H2.

Our total interest bearing liability increased in the second half from $245 million at December to $283 million at June due to the consolidation of MRN.

Compared with a year ago our interest bearing liabilities reduced and cash balance reduced as $137 million was repaid on our USPP notes.

Our balance sheet remains strong which supported our decision at the first half to undertake an on-market share buyback.

Slide 29

Slide 29 shows our current facility maturity.

Following repayment of the USPP notes at the beginning of the financial year we have minimal short term maturities and considerable headroom on our current facilities.

As mentioned, we plan to repay $125 million on our Syndicated Facility in October 2015.

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

– ENDS –

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