ASX RELEASE

Fairfax Media Limited 2017 Results Commentary

Sydney, 16 August 2017: Fairfax Media Limited [ASX:FXJ] ("**Fairfax**" or "**Company**") today delivered its 2017 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:

<u>Slide 1</u>

Good morning everyone.

Thank you for joining me and our Chief Financial Officer, David Housego, for our full-year 2017 results presentation.

<u>Slide 2, Slide 3</u>

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

<u>Slide 4</u>

Today's result shows Fairfax is in great shape. We have delivered strong value for shareholders through growth and transformation initiatives. The strategy we commenced five years ago has successfully maximised cash flows of our publishing assets and with that built growth businesses in Domain and Stan.

The Company's underlying performance, combined with our strategic and valuable asset mix; and balance sheet strength – allows Fairfax to step into the future with great confidence.

Fairfax can act decisively and appropriately – always in the best interests of shareholders – to take advantage of any opportunities created by the potential changes in media ownership legislation, as well as any opportunities to work more productively as an industry.

As we enter FY18, our immediate focus is on the successful separation of Domain, an initiative we believe demonstrates the success of our strategy and will deliver our shareholders great value over time.

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For 2017, the Fairfax Group delivered net profit of $142.6 million, up 8%, with earnings per share growth of 8.8%.

Group Operating EBITDA of $271 million was achieved from revenue of $1.73 billion. This result was higher than the preliminary and unaudited range of $262 million to $266 million provided to the market in early July. This was due to a strong year-end from Metro.

Our ongoing cost reduction programs underpinned a 6% decline in Group operating expenses, notwithstanding continued investment in our growth businesses.

We will pay a dividend of 2 cents per share, fully franked.

David will go through the significant items later in the presentation.

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Turning to an overview of the segment results.

Domain delivered 8% growth in revenue. EBITDA of $113 million reflected ongoing investment in the business.

Australian Metro Media experienced a 9% decline in revenue, with EBITDA of $49 million up 26% reflecting transformation efforts.

Australian Community Media revenue declined 12%, with EBITDA of $73 million down 19%.

New Zealand Media revenue declined 7% and EBITDA of $56 million was down 8% in local currency.

Macquarie Media revenue was 1% lower and EBITDA of $31.5 million increased 26%.

Trading in the first six weeks of FY18 saw revenues around 4% below last year.

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Our strategy remains focused on creating shareholder value. We are:

- 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.

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This strategy is applied across our valuable portfolio of Domain, Publishing and Investments.

Our business groups have made significant progress in delivering on their strategies during the year.

As you are aware, we are in the process of separating Domain into a new ASX-listed entity, of which Fairfax will retain a majority shareholding.

Once the separation is complete, Domain will remain a core and key strategic asset along with the increasingly sustainable cash-generating publishing businesses, and value-creating investments.

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In discussing the detail of Domain's FY17 performance, I will provide an update on the progress we are making with the Domain separation and ASX listing, and some of the important component parts of the Scheme booklet, including the agent ownership model, which has been a matter of some recent discussion.

Fairfax Media plans to retain 60% of Domain, with 40% distributed to Fairfax shareholders. We consider this to be the appropriate level to achieve sufficient liquidity in the market to maximise value over time.

As previously flagged, Domain is expected to draw $150 million of net debt upon separation with proceeds to Fairfax as part of business transfers.

The transaction is conditional on shareholder approval and receipt of regulatory clearances (including ASIC, ASX and ATO) which are well progressed.

Nick Falloon will be Chairman of Domain. The Board recruitment process is underway.

In terms of timetable, the Scheme booklet including Independent Expert's Report is expected in late September, with a Domain roadshow in October. A shareholder vote will take place at an Extraordinary General Meeting expected to be held in early November.

Domain shares are expected to commence trading in mid to late November.

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Some of the highlights of Domain's result include:

- 19% depth revenue growth;
- Strong digital revenue from developers & commercial;
- 18% increase in leads from mobile.
- The first six weeks' of FY18 has seen Domain's digital revenue increase 26%.

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Domain has created a strong platform for revenue growth – and is well positioned for a standalone future.

Domain has a solid foundation of real estate agent customers and property listings and on these measures has achieved virtual parity with its major competitor.

Domain's differentiated consumer and agent customer experience is the result of aggressive investment to create a leading mobile platform, supplemented by high-quality editorial.

These first two strategies deliver audiences of scale and conversion to quality leads.

Audience and leads have underpinned strong growth in depth product, media and developers, and the expansion of our commercial real estate business. Early-stage acceleration has been provided by Domain's agent ownership model.

Domain's strong overall position has assisted in the growth of our agent services platforms.

We are further building on Domain's core offering through expansion into complementary transactions businesses. This includes areas such as utilities connections, home improvement services and home loans and insurance, to capture a greater share of revenue associated with the property ecosystem.

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Domain's products help consumers through every stage of their property journey.

At the consumer's 'dreaming' stage, high-quality editorial content across all Domain platforms excites and inspires.

At the 'searching' stage, the Domain app is central to identifying suitable properties and APM provides the key data that drives Home Price Guide.

At the 'buying' stage, Homepass powers the open for inspection experience, and the recently launched Domain Loan Finder makes the mortgage selection and application process quick and easy.

At the 'settlement' stage, Domain's planned insurance offering will have consumers covered; and Compare & Connect provides a hassle free way to find the best deals in electricity, gas, water, telephone, internet and pay TV services and get connected.

'Post move-in', Oneflare is there to help with trades services, such as plumbers and electricians, to handle everything from odd jobs to full renovations.

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Turning to the detail of Domain's financial performance.

Domain delivered 19% growth in digital revenue notwithstanding a difficult listings environment in the first half. Further depth penetration, yield increases, strong growth in Developers & Commercial, together with acquisitions, were key revenue drivers.

The transition to a digital business weighed on print revenue which declined 13% for the year.

Operating expenses increased 17% for the year, and 9% excluding the impact of acquisitions and one offs.

Digital expenses increased 34% and 19% excluding costs associated with our early-stage utilities connections businesses and one-offs. This reflected continued investment in staff, technology and product. Print expenses declined 6% which reflects the implementation of efficiencies, partially offset by investment in Domain's new magazine format.

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

For the year, the EBITDA decline of 6% reflects our strategic decision to continue to invest in Domain through the constrained listings cycle in H1. As the listings cycle improved, H2 digital EBITDA increased 20%. For FY17, digital represented more than 82% of Domain's EBITDA, which we expect to continue to increase.

For FY18, Domain's costs are expected to increase approximately 13% from FY17's $206 million, which is 10% like for like excluding acquisitions.

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As you see on this table, we have provided additional disclosure on the drivers of Domain's 19% digital revenue growth. We have divided revenue into Core Digital (consisting of Residential; Media, Developers & Commercial; and Agent Services), as well as Transactions & Other. We continue to report Print separately; and have broken out Corporate overheads.

Residential revenue increased 11%, underpinned by higher depth product penetration, price increases in Sydney and Melbourne, and stable subscription revenue, somewhat offset by H1 listings weakness.

Media, Developers and Commercial revenue increased 23%.

Agent Services revenue, which includes MyDesktop and APM Pricefinder, increased 9%.

These three core businesses delivered revenue of $218 million, an increase of 13%. EBITDA excluding Corporate expenses was $98 million, an EBITDA margin of 45%.

Domain's emerging early-stage transactions & other businesses, which include Beevo and Compare & Connect, delivered revenue of $14 million and an EBITDA loss of $1 million excluding Corporate expenses.

Print delivered revenue of $88 million and EBTDA before Corporate expenses of $21.2 million.

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Domain is Australia's number one property app; with the highest engagement as reflected by time on app; and has received numerous awards for its leading mobile innovation.

Driving Domain's performance is its deliberate first-to-mobile strategy which is capitalising on the migration of audiences to mobile.

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Domain's app leadership underpins its large, mobile-driven audience, and fuels the majority of leads delivered to agents.

The four metrics on this slide provide rich insight into Domain's mobile-driven performance.

19% growth in total app downloads reflects the success of Domain's marketing campaigns and high consumer ratings.

20% growth in mobile visits (a combination of m-site visits and app launches) reflects the high-quality consumer experience and functionality of the Domain mobile platform.

An impressive 82% increase in monthly time on app reflects the quality of Domain's audience engagement and is a key driver of leads growth.

18% growth in app leads reflects the significant value Domain is delivering to agents and is a driver of yield opportunity.

To reiterate – mobile is generating the majority of leads and growing and is clearly Domain's key competitive advantage.

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The next two slides illustrate the total market environment for new listings.

The National graph highlights the challenging market environment experienced in the first half of FY17, where volumes were materially lower than in the previous two years, with a recovery in the second half to more normal historic levels.

Graphs for Sydney, Melbourne and Canberra – which are key markets for Domain – show a strong performance in Sydney in the second half after a very weak first half, and more modest performances in Melbourne and Canberra.

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Brisbane, Adelaide and Perth – which are emerging markets for Domain – all experienced weak performance in the first half, and saw improvements to more normal historic levels in the second half.

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As most of you would know, we have in place an agent ownership model supporting revenue acceleration through Domain premium plus listings.

We detailed the economics, structure and benefits of the model at the Investor Briefing on Domain we held in March 2015. Today I will provide some additional detail on the financials; and reiterate how the model benefits all property stakeholders.

For property vendors, the agent ownership model encourages greater competition and drives product development, which benefits property vendors and consumers alike. Agents also benefit from the greater competition between property portals and consistent pricing in their area, with an opportunity to share in the value they create in the real estate marketing process.

For Domain Group, the model deepens our genuine relationship with real estate agents, who remain central to the property marketing and selling process.

The model accelerates revenues to Domain, and importantly provides funds for investment in product development and marketing, further reinforcing our competitive position.

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The agent ownership model has separate structures in place for Residential and Commercial real estate.

In the Residential digital model, Domain and agents have a 50:50 interest in several state-based entities. The State Co's receive 50% of only the Premium Plus revenues of participating agencies, plus an appropriate allocation of costs such as sales, marketing and product development.

All other depth products, subscription, agent services and transactions revenues are not subject to the model and remain 100% Domain's.

Given Domain retains 50% of the State Co's, the economic result is that Domain retains 75 per cent of all Premium Plus depth product revenues.

The model provides participating agents an opportunity to earn dividends from shares in the state-based Co's, which are allocated over an approximately three-year period based on each agency's relative contribution of Premium Plus listings spend.

Domain has no contractual participant buy-out obligations and retains full optionality to evolve its arrangements over time as and when it makes strategic and economic sense to do so.

In the Commercial model, participating agents receive a 30% share of print and digital earnings.

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Of the $113 million EBITDA which Domain reported for FY17, the agent ownership model share for print is $2 million and $8 million for digital.

This represents an agent proportionate share of 9% of Domain's FY17 EBITDA.

You would all be aware that this model is accounted for as a non-controlling interest in Fairfax's P&L. The table on this page provides a bridge between the $7 million NCI attributable to the agent ownership model and EBITDA.

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Turning now to Group Publishing.

Our three publishing businesses are modern, cost efficient and sustainable across digital and print.

In the context of the global structural change impacting upon the media industry, the fact that our publications remain profitable and sustainable is an outstanding achievement.

Some highlights for the year:

- Metro's 26% EBITDA growth and margin improvement.
- Metro's digital subscription revenue increased 21%, with around 236,000 paid digital subscribers across *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review*. All three titles delivered year-on-year growth.
- Metro publishing costs improved 12% supporting a solid uplift in full-year margin.
- Australian Community Media delivered a 9% cost improvement.
- In New Zealand, digital revenue increased 29%; operating costs reduced by 6%; supporting a stable margin outcome.

Slide 23

Metro's total revenue was down 9%. Publishing advertising revenue declined 17%.

Overall circulation revenue was stable, benefiting from the strong growth in paid digital subscriptions. Declines in print circulation volumes were partially offset by cover price increases.

Other revenue declined 9% reflecting the sale of Tenderlink and lower growth from Events. After three years of rapid expansion, our Events business is focused on consolidating its diversified portfolio and optimising for profitability.

The 12% reduction in Metro publishing costs for the year reflected an acceleration in cost out in the second half. The 14% cost improvement in H2 was partly attributable to early benefits from the Australian Metro Publishing restructure announced in April.

Slide 24

Along with a flatter, more efficient operating structure, the centrepiece of Metro's next-generation publishing model is cutting-edge product and technology development.

We will have in market this calendar year a suite of new digital products which will deliver deeper and more engaging experiences, while sustaining a successful print proposition.

New digital products will be launched for the SMH and *The Age*; shortly followed by the *Financial Review* and lifestyle mastheads, along with new apps for the SMH and *The Age*.

We are focusing editorial on distinctive content to strengthen our audience and subscriber proposition.

The new products will drive engagement, subscriber value and better outcomes for advertisers through new data-driven commercial solutions and advertising formats.

The introduction of the new tech platform will allow for the retirement of legacy systems and cost rebasing.

Slide 25

ACM's total revenue declined 11%. The 12% decline in advertising revenue reflected 2% growth in agriculture-related advertising, offset by weakness in national and classifieds advertising. Excluding the impact of closures and frequency changes, advertising revenue reduced 10%.

Circulation revenue declined, reflecting lower retail volumes.

Other revenue growth of 12% benefited from a strong performance from Fairfax Marketing Services which provides digital commercial solutions for small to medium-sized businesses. Together with improved digital advertising, ACM's total digital revenue delivered double-digit growth.

The cost improvement of 9% reflected the achievement of the remaining transformation benefits and continued cost savings initiatives. This underpins ACM's considerable cash flows which we will continue to optimise.

Slide 26

In New Zealand, total revenue was down 7% in local currency terms.

Digital revenue growth of 29% was offset by lower print advertising due to weakness in retail, motors and leisure categories.

Circulation revenue declined 5% for the year with stabilisation in the second half reflecting improvements in yield.

Ongoing cost management delivered a 6% reduction in operating costs, notwithstanding further investment in digital, underpinning stable margins in the second half.

We are appealing the New Zealand Commerce Commission's decision to block the proposed merger of Fairfax New Zealand with NZME. This will be heard before NZ's High Court in October.

During the whole of the year-long NZCC process, Fairfax NZ continued to develop a standalone strategy to develop new revenue streams, recognising the ongoing structural challenges of print. Notwithstanding the outcome of the appeal process, our New Zealand business has the tremendous digital growth platform of Stuff at its core and has commenced the rationalisation of regional titles including via frequency changes.

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Stuff has an audience of 2.1 million, which has increased 11% over the past year.

This impressive audience position is further bolstered by social platform Neighbourly's 810,000 monthly audience. Neighbourly has a membership base of 470,000, which is up 55% over the past year, and supported the achievement of the platform's profitability in the second half.

Stuff and Neighbourly are benefiting from market-leading product innovation and provide a platform to monetise audiences through new advertising products and businesses, such as internet service provider Stuff Fibre and programmatic advertising exchange KPEX.

Slide 28

Turning now to our investments.

Some highlights include:

- Growth in the number of Stan active subscribers, approaching 800,000.
- EBITDA increase of 26% at Macquarie Media.

Slide 29

Results from our Digital Ventures portfolio reflect the sale of Tenderlink in October 2016.

Excluding Tenderlink, revenue increased 4% and EBITDA increased 8%, reflecting a challenging digital advertising market.

Weatherzone delivered 14% revenue growth in B2B.

RSVP/Oasis, which is included at the Associate line, delivered a creditable result in a competitive market environment.

DV has achieved what it set out to do. It has implemented value creation strategies across a diversified portfolio of digital businesses. This has included successfully investing via joint ventures to build new businesses such as Stan, *HuffPost* and the merger of RSVP with Oasis; and realising significant value through strategic divestments such as Stayz and Tenderlink.

We have considered how best to support the ongoing management of the DV businesses and have decided to incorporate digital publishing and other assets as part of Metro, with Stan to remain as a standalone investment.

DV's financials are already included in the Metro Media segment. From February, we will no longer break out DV on a separate slide.

Slide 30

Stan – Australia's biggest deal in entertainment – is going from strength to strength.

In the 2.5 years it has been operating, Stan has established a strong value proposition in the market as Australia's leading local SVOD service.

Continued strong subscriber momentum underpinned an impressive 150% uplift in subscription revenue in FY17, far exceeding the increase in operating costs.

Stan has introduced a number of levers to drive revenue growth with the adoption of a tiered pricing structure. This has involved a price increase for standard tier subscription, and the introduction of three different price propositions ranging from $10 to $15 a month. Churn has been limited, with Stan delivering positive net sub additions every week through the phased price increases.

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Underpinning the growth in Stan's active subscribers is the depth and breadth of world-class content it provides. This includes exclusive rights to CBS's SHOWTIME content in Australia, a range of rights to other studios, as well as original local productions.

Stan's next phase of growth is underpinned by its exceptionally strong line up for FY18, which includes five new Stan Originals.

Slide 32

Macquarie Media revenue was down 1%, which was broadly consistent with the market.

2CH was sold in January.

Cost and operational synergies, together with licence fee relief in H2, delivered 26% uplift in EBITDA and improved EBITDA margin from 18% to 23%.

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Turning now to the current trading environment.

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Trading in the first six weeks of FY18 saw revenues around 4% below last year.

- Domain's digital revenue growth was 26% and total revenue growth was 16%.
    - Year-on-year comparisons are affected by the unusually weak listings environment in July 2016 due to the Federal election.

    - FY18 revenue trends are expected to be more in line with FY17 H2 (i.e. digital revenue up 22%; print revenue decline 14%).

- Publishing trends were broadly consistent with FY17 H2.

For FY18, Domain's costs are expected to increase approximately 13% from FY17's $206 million (10% like for like excluding acquisitions).

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:

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Thanks Greg. Before I get into the detail of the result I wanted to make a few comments about the impact of Domain's separation on its financials for FY18.

As we indicated in February, Domain will incur a number of costs and adjustments not currently reflected in its segment financials. These are expected to amount to $8 million to $10 million annually, consisting of Board, listing and other costs associated with Domain becoming a standalone entity; the transfer of corporate costs currently borne by Fairfax but attributable to Domain; and commercial agreements with Fairfax for certain services.

Domain's FY18 depreciation and amortisation expense is expected to amount to $26 million to $29 million. This includes the accelerated investment over the past two to three years in five new offices across Australia. FY18 capex is expected to be around $20 million and largely relates to product development.

As Greg indicated, Domain is expected to draw $150 million in net debt with the proceeds to go to Fairfax. Domain's tax rate is expected to be at the normal corporate rate. Domain's P&L will also reflect the NCI for agent ownership model minorities as currently shown in Fairfax's P&L.

Slide 36

Turning to slide 36, the table provides a reconciliation of our statutory FY17 result with the underlying result. Starting from the left hand side our statutory 4E numbers show a net profit of $80.2 million which includes total significant items after tax of $59 million largely reflecting the gain on sale of Tenderlink offset by impairments of $29 million and redundancy and restructuring charges of $33 million. I will run through the detail later in the presentation.

Focussing on the trading performance excluding significant items, underlying EBITDA of $271 million was 4% lower than a year ago.

Below the EBITDA line, depreciation and amortisation expense of $41 million was significantly below the prior year reflecting the write-down of assets in the FY16 result. Looking forward to FY18, we expect depreciation and amortisation to be at similar levels to FY17.

Net interest expense of $9.8 million was below the prior year due to prepayment of our US PP facilities. In FY18 we expect net interest expense to reduce further reflecting the final payment of our US PP facility in July 2017.

The effective tax rate for the year was 29%. For FY18, we expect the tax rate to remain at a similar level.

The 2 cent dividend will be 100% franked.

Non-controlling interests of $13.6 million after tax increased versus the prior year by $3.2 million. We consolidate 100% of Macquarie Media and the non-controlling interest reflects the 45.5% that we do not own. The NCI also reflects minority interests associated with the Domain Group of $7 million, including MMP entities and the Domain agent ownership model which Greg discussed in detail earlier in the presentation.

The detail of NCIs is outlined in Appendix 5 of the Investor presentation.

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The detail of significant items is outlined on Slide 37.

FY16 significant items have been restated due to a change in the accounting treatment of the deferred tax liability. This change in accounting policy affects a number of companies including Fairfax and is detailed in Note 1D of the 2017 Financial Statements.

For FY17, impairments of intangibles, investments and PPE of $28.9 million after tax largely relate to our publishing businesses. Restructuring and redundancy charges of $32.8 million after tax also relate to the transformation initiatives underway across the publishing businesses.

These charges were slightly offset by gains on sale, the majority being from the sale of Tenderlink.

Slide 38

Slide 38 provides a summary of our cash flows for the year. Cash from operating activities increased to $193 million from $128 million, reflecting lower restructure and redundancy charges and lower tax payments.

Proceeds from asset sales predominantly reflected the sale of Tenderlink.

Investment in property, plant, equipment and software of $107 million related to property fitouts largely at Domain and product development at Domain, New Zealand Media and Metro Publishing. This figure was somewhat ahead of our $95 million guidance due to accelerated spend on the new metro product suite. For FY18 we expect capex to reduce to around $65 million.

Loans advanced of $36 million include our investment in Stan which has reached a total of $93 million.

During the year we paid $104 million in dividends to shareholders.

We finished the year with net debt of $118 million.

Slide 39

Slide 39 summarises our funding position at June 2017. Total interest bearing liabilities increased to $239 million from $179 million at June 2016.

Our cash and cash equivalents increased to $113 million from $81 million in the prior year.

Net debt to EBITDA increased slightly to 0.4 times from 0.3 times a year earlier. EBITDA to Net interest increased to 28 times from 26 times in June 2016.

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Slide 40 shows our current facility maturity. The remaining A$82 million US PP 2007 was repaid in July 2017. Following the conclusion of the USPP programme, we no longer require a Standard & Poor's rating.

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

Ends

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