

## ASX ANNOUNCEMENT

### Domain Holdings Australia Limited 2018 Full-Year Results Commentary

**Sydney, 13 August 2018:** Domain Holdings Australia Limited [ASX:DHG] (“**Domain**” or “**Company**”) today delivered its 2018 full-year financial results. Accompanying commentary from Executive Chairman Nick Falloon and Chief Financial Officer Rob Doyle is set out below.

#### **Nick Falloon – Executive Chairman:**

##### Slide 1

Good morning everyone.

Thanks for joining me and Chief Financial Officer Rob Doyle for Domain’s 2018 full-year results briefing.

##### Slide 2, Slide 3

The agenda on page three outlines the structure of today’s presentation.

First I will make some introductory remarks; then I will discuss the key operational drivers of today’s result. I will provide some comments on FY19 outlook. Rob will then take you through the details of Group Financials.

We will be happy to take your questions at the end of the presentation.

##### Slide 4

Domain has reported a pleasing result for the 2018 financial year in line with market expectations. The business is strongly positioned as an Australian real estate media and services platform with excellent growth prospects.

Pro forma EBITDA growth of 12.5% demonstrates the strength of Domain as a separately listed company. This performance is testament to the strength and unrelenting focus of the entire Domain team and their continued delivery of our strategy.

We are thrilled to welcome Jason Pellegrino as our new Managing Director and CEO. The Domain Board ran a comprehensive global search for the role, attracting a strong field of international and local candidates. After Jason joins in late August 2018, I will resume my role as Non-Executive Chairman.

Jason’s leadership acumen and track record for inspiring and driving performance at Google will be great for Domain and our many talented people as we enter our exciting next stage of growth.

# Domain

We welcome the proposed merger of Fairfax Media with Nine Entertainment Co, announced in July, which is subject to approvals. We only see considerable upside for Domain through the additional marketing and audience reach of the combined businesses.

## Slide 5

For the 2018 financial year, on a pro forma basis excluding significant items, Domain reported:

- Revenue growth of 11.5% to \$357.3 million;
- EBITDA growth of 12.5% to \$115.7 million;
- EBIT growth of 3.9% to \$89.5 million;
- Net profit growth of 7.7% to \$52.9 million;
- Earnings per share growth of 7.3% to 9.2 cents; and
- A dividend of 4 cents per share, 70% franked, bringing total dividends to 8 cents per share, 50% franked.

Later in the presentation Rob will take you through the detail of the statutory result and reconciliation to the pro forma result.

## Slide 6

Slide 6 shows the pro forma segment results:

Residential revenue increased 19.9%.

Media, Developers & Commercial revenue increased 11.2%.

Agent Services revenue increased 9.2%.

These categories delivered Core Digital revenue growth of 16.7% and Core Digital EBITDA growth of 18.9%.

Pleasingly, Core Digital EBITDA margins increased from 44.2% to 45.1%.

Transactions & Other revenue increased 74.5%, with EBITDA losses of \$2.7 million, reflecting investment in new businesses Domain Loan Finder and Domain Insure.

Print revenue declined 12.6% and Print EBITDA declined 3.4% which reflected an improved performance in H2 as a result of cost initiatives.

Group EBITDA margins increased from 32.1% to 32.4%.

## Slide 7

Domain's purpose is to inform, inspire and connect people throughout the property lifecycle.

This purpose is delivered through our five strategic pillars. Full-year achievements include:

- Continued expansion in relative market share to more than 95% of listings and more than 90% of agents – which is effective parity;

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- Continued strong growth in Domain app downloads to more than 6.5 million with a 12% uplift in app launches. 58% of Domain's app users do not use the competitor app<sup>1</sup>;
- 21% growth in residential mobile enquiries, 37% growth in core CRE enquiries, and 41% growth in developer enquiries from our large and premium audiences;
- 17% growth in core digital revenue underpinned by 24% growth in residential depth, and strong Commercial and Developer revenue; and
- The launch of Domain Loan Finder and Domain Insure, with a 75% increase in transactions revenue from existing and new businesses.

## Slide 8

We will speak in detail about Domain's five key revenue drivers.

## Slide 9

Residential is the largest contributor to Domain's revenue at 48% of total in FY18.

Residential revenue increased 19.9% to \$172.5 million.

This is a strong result from Residential in a mixed listings environment nationally.

Yield increases and higher depth product penetration supported a 24% increase in residential depth revenue, which was the key driver of the revenue growth. For the full year, depth contributed 82% of Residential revenue, with the remaining 18% from subscription.

## Slide 10

Domain provides consumers with a complete view of the market. There is virtually no difference in listings compared to our major competition.

## Slide 11

The charts on this page show total new market listings trends for the national market and our three established markets of Sydney, Melbourne and Canberra.

The dark blue line shows market listings for the current FY18 year; the green line shows the trends in the corresponding FY17 year; and the grey line shows FY16.

National listings trends for the year were mixed.

Sydney delivered modest growth off a weak base in FY17. Canberra saw favourable trends, while Melbourne was weaker.

## Slide 12

In Domain's emerging markets – Brisbane and Perth were weaker; while Adelaide saw modest growth.

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<sup>1</sup> Domain app audience who do not use the realestate.com.au property app, iOS and Android average, App Annie, March 2018.

## Slide 13

Domain's residential depth revenue growth of 24% was supported by strong performance from our Platinum depth product.

The chart on slide 13 illustrates Domain's depth product penetration in markets where we see the greatest upside opportunity.

The green bar shows the penetration of our highest value Platinum tier. The stacked blue bar shows Gold and Silver tier depth product penetration.

Year-on-year improvements in Platinum depth penetration were achieved in all these markets.

There remains considerable upside opportunity for depth penetration in all markets, particularly in Victoria and Queensland. In Victoria we are undertaking targeted marketing investment and implementing sales improvement measures in key suburbs where we see the greatest upside opportunity for sales performance. Queensland is a large emerging opportunity market where we remain very underpenetrated compared with Domain's more established markets.

During the year we made pleasing progress in the Queensland market, with a noteworthy step-up in Platinum penetration.

## Slide 14

Domain continues to deliver on its strategy to grow premium audiences and drive quality enquiries to agents.

The power of Domain as a marketing platform is highlighted by the exclusive app audience it attracts. 58% of Domain's app audience does not use the major competitor app.

During the year, app downloads increased 17% to more than 6.5 million, driven by Domain's successful marketing campaigns and high consumer ratings.

Total app launches increased 12% driven by high quality consumer experience and product functionality.

Total mobile enquiries increased 21% to record levels, demonstrating the value Domain is delivering to agents and providing future yield opportunity. There was particularly strong performance in Queensland. Mobile generates the vast majority of enquiries at 67% of total in FY18.

## Slide 15

Domain's competitive position is underpinned by a strong and cost-effective marketing platform – spanning editorial, social and brand amplification initiatives. This attracts a large, high-quality and deeply-engaged audience of active property followers who drive enquiries to agents.

During the year, Domain attracted 117 million website visits to our journalism and content which leads the Australian property conversation.

# Domain

Our social media audience of 1.6 million across platforms allows the amplification of editorial and listings in personalised and targeted ways.

We are making smart investments in brand initiatives to drive business performance. This includes Domain recently becoming Platinum Partner of Cricket Australia's Men's Test Cricket, with exclusive presenting and naming rights to social, video and display advertising.

Cricket Australia attracts 3.3 million average monthly users on mobile and tablet, has 11 million social media followers, and 1 million average monthly users of its Live App.

Domain and Cricket Australia both have mobile, app and content at the centre of digital acquisition strategies. The Domain brand will benefit greatly from exposure to an exclusive TV and mobile screen audience of significant scale.

## Slide 16

Product innovation leadership has resulted in consistently high consumer ratings for Domain's app. We continue to make great strides in innovation and increasingly leverage data to provide personalisation, relevance and actionable insights. We are always listening to our consumers to understand and respond to their ever-changing needs.

Domain's responsive design enables vastly improved performance and a simpler, more intuitive experience across all devices. It also delivers significant efficiencies in design and speed to market for new products and enhancements.

Recent product innovations include Domain's 'Inspection Planner' to schedule inspections; 'Shortlist Together' to share a shortlist of properties; 'Points of Interest' to plot and assess travel times; and 'Interactive Floor Plan' which brings floor plans to life with photos.

## Slide 17

Other product innovation includes responsive design underpinning the faster mobile experience of Allhomes; a new rural-focused Domain vertical; and the launch of transactions businesses Domain Connections, Domain Loan Finder and Domain Insure.

## Slide 18

Turning now to Media, Developers and Commercial.

This segment contributed 15% of Domain's total revenue, with 11.2% revenue growth for the year.

H2 trends were softer overall, reflecting a more challenging environment than in the first half.

## Slide 19

Market dynamics varied across the three verticals.

Media operates in a challenging revenue environment for digital display advertising, constrained by the dominance of global giants Facebook and Google. Additionally, the strategic decision to support the growth of our new transactions business with digital media inventory weighed on revenue.

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During H2 we made the decision to streamline our digital media sales channels by shifting to a fully programmatic advertising offering. This best positions Domain to meet future client needs and allows our advertisers to leverage rich data and insights.

Developers and Commercial achieved market share gains in the year, reflecting strong underlying performance of the businesses amid a softening market in H2.

Developers delivered an impressive 41% increase in enquiries. The Developer market operated with a mixed backdrop which saw a strong House & Land market but more challenging environment for off-the-plan apartment sales. The expansion of the sales team is expected to drive market share gains on projects.

The Commercial business delivered continued strong growth reflecting market share gains in audience and enquiries. Core CRE enquiries increased 37%. Listings growth was constrained by strong rental yields and low interest rates in H2. The business will continue to support print as a key competitive differentiator and drive digital growth via depth volume and yield.

## Slide 20

We are making great strides in product innovation for the specialist commercial real estate market, using our data and new technologies to improve the user experience.

Recent innovations include the launch of the new CRE homepage; 'Building Profiles' with more than 1,000 buildings live; a new vertical focused on co-working; the inclusion of news in the CRE app; and introduction of a new agency search offering.

## Slide 21

In Agent Services, revenue increased 9.2%. This was underpinned by subscriber growth, yield increases and bundling across leading real estate CRM platform MyDesktop; open-for-inspection tool Homepass; and property data, research and insights business Pricfinder.

## Slide 22

The three businesses comprise Domain's property cloud suite which delivered growth in subscribers on the back of continued investment to enrich the end-user agent experience.

Recent product innovations include a redesigned MyDesktop user interface, the integration of Homepass and MyDesktop; and an enhanced Pricfinder app.

## Slide 23

Turning to Transactions and Other.

Revenue increased 74.5% reflecting strong growth from Compare & Connect, and early revenue from Domain Loan Finder (which launched in July 2017) and Domain Insure (which launched in January 2018).

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## Slide 24

Domain has partnered with specialists to operate Domain Loan Finder, Domain Insure and Compare & Connect – which together form our transactions business.

We have exited our early-stage investment in Beevo and reduced the carrying value of Oneflare to focus on our priority markets of home loans, insurance services and residential utilities connections. These large markets are adjacent to our core listings business and are strategically well placed to leverage Domain's core audience and trusted brand to significantly grow revenues, predominantly taking the form of commissions.

We are seeing encouraging early signs from the recently launched Domain Loan Finder and Domain Insure. Domain Loan Finder is seeing strong growth in all key metrics including visitors to platform, new account creation and conversion to loan application. Domain Insure is seeing encouraging conversion rates in its establishment phase. Both businesses made modest contributions to revenue in the second half.

Our Connections business is delivering strong growth in volumes and encouraging improvement in margins with additional upside from further integration into the Domain ecosystem.

## Slide 25

Print revenues declined 12.6% and comprised 22% of total revenue.

Implementation of cost initiatives supported a stable EBITDA outcome.

## Slide 26

The Print result reflected the ongoing structural shifts to digital, somewhat offset by the launch of the Domain glossy magazine format.

Cost initiatives contributed to a 15% reduction in expenses year-on-year, supporting EBITDA growth in H2.

There is a continued focus on cost efficiencies relating to print and distribution.

The rebranding of *The Weekly Review* to *Domain Review* aligns the magazine with the Domain brand and is expected to support core digital audience growth.

Print continues to deliver strategic value by attracting valuable and passive buyers from an aspirational and lifestyle audience, as well as promoting the Domain brand to consumers in key markets. Print also provides opportunities for bundling with premium digital products to enhance results.

## Slide 27

Turning now to FY19 outlook.

## Slide 28

- The first six weeks of FY19 H1 saw a subdued listings environment in Sydney in July against a high base of year-on-year comparison.

- FY19 digital revenue is expected to benefit from initiatives being undertaken to continue FY18's strong growth in depth penetration. There are early positive results from depth penetration sales improvement initiatives in Victoria.
- For FY19, Domain's pro forma underlying costs (excluding investment in new transactions businesses) are expected to increase mid-single digits. Pro forma total costs are expected to increase high-single digits.

Before Rob runs you through the Group financials, I wanted to note that, going forward, Domain's trading updates will be provided to the market in October/November at our Annual General Meeting and in May/June. The Domain Board has determined that this timing is more indicative of underlying performance because it captures a longer period of trading and better aligns with the seasonality of the property sales cycle.

Over to you, Rob.



## **Rob Doyle – Chief Financial Officer:**

### Slide 29

Thanks Nick – and thanks everyone for joining the call today.

As Nick mentioned, these are good results. The performance demonstrates the continued momentum Domain is achieving.

### Slide 30

Slide 30 provides a reconciliation of the statutory 4E to Domain's pro forma trading performance excluding significant items. As we highlighted with the first half results, the statutory result is not representative of the underlying performance of the business.

As Domain prepared for separation, different parts of the business transitioned into the Domain Holdings Australia structure at various times between June and November 2017.

This table reconciles the statutory result to the more meaningful pro forma trading performance excluding significant items.

Pro forma represents a full year of trading as if Domain were a separately listed entity for the entire reporting period.

Nick has already taken you through the pro forma operating performance of the Domain businesses and I will take you through the details of the items below EBITDA.

Pro forma depreciation and amortisation expense of \$26.2 million was in line with the full year guidance of \$26 million to \$29 million which was disclosed in the Scheme booklet. The increase from FY17 reflected the investment in five new office premises across Australia and increased expenditure on product development which has a short amortisation period.

For FY19 we expect depreciation and amortisation expense of around \$30 million. Pro forma net finance costs were \$7.6 million.



Pro forma tax expense of \$23.8 million reflects an underlying tax rate of 29%. In FY19 we expect a tax rate of around 30%.

Net profit attributable to non-controlling interests of \$5.3 million reflects the share of profits or loss attributable to the agent ownership models and other consolidated, non-wholly owned entities.

NCI was lower in H2 versus H1 reflecting the buyout of the interests associated with the Review Property agent ownership model which occurred in February, as well as some tax adjustments and other items. Further detail is contained in Appendix 2.

## Slide 31

Slide 31 provides the same adjustments from statutory to pro forma for the FY17 year.

## Slide 32

Slide 32 provides a reconciliation of statutory to pro forma expenses. Pro forma expenses of \$240.2 million increased 11% year-on-year as a result of investment in staff, property and transactions businesses. This is a better outcome than the 12-13% guidance provided with the half yearly result.

The improved cost outcome reflects the over-delivery of the print cost savings initiatives we discussed in February. We remain committed to investing in the growth of the business whilst ensuring that we continue to drive operational efficiency.

The chart on the right of the slide provides a breakdown of Domain's pro forma cost structure by major category. The proportion of total costs from Production & Distribution reduced from 22% to 20% reflecting the print savings initiatives mentioned previously. The proportion of total costs from the Other category increased from 12% to 13% largely due to costs associated with our emerging Transactions businesses.

## Slide 33

Slide 33 provides an overview of significant items. The impairment of intangibles and investments of \$29.6 million pre-tax reflects our exit from early stage investment Beevo, revaluation of our Oneflare investment, and the rebranding of *The Weekly Review* print titles to *Domain Review*.

Restructuring charges of \$6.4 million pre-tax relate to one-time separation costs including stamp duty and initial listing fees, and costs associated with the restructure of our Media business.

## Slide 34

Slide 34 provides a statutory cash flow for FY18 and FY17. Due to the timing of the separation, these statutory numbers do not appropriately represent the underlying cash flow generation of the business. For that reason we have included a split for H1 and H2 in FY18. The H2 numbers more appropriately reflect underlying cash flows, with a net cash inflow of \$36 million for the period.

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For FY18, capex of \$20 million was at the lower end of guidance. For FY19, we expect capex in the mid \$20 million range.

## Slide 35

Turning to slide 35.

At separation Domain Group entered into a \$250 million syndicated bank facility with a maturity of three to four years. As at June 2018 this facility was drawn down to \$188 million.

## Slide 36

Slide 36 shows the statutory balance sheet of Domain Group as at June 2018. Key movements within the balance sheet from June 2017 reflect the Domain businesses moving from Fairfax into the Domain Holdings structure and the issue of shares relating to this transaction. The details of this transaction are outlined in more detail in Note 6 of the 4E. Additionally, shares were issued following completion of the Review Property transaction in February.

Domain has a strong balance sheet finishing the FY18 year with net debt of \$126.5 million, a leverage ratio of 1.1x.

## Slide 37

Just finally, I wanted to underline our commitment to driving our depth penetration growth engine. This is the mission of everyone in our business. It involves disciplined investment and focusing on our core to accelerate performance. At the same time we are growing our ecosystem and maintaining an unrelenting focus on cost efficiency.

We are pleased with the performance of the business in FY18, in particular the expanding margins achieved in Core Digital and the overall business, notwithstanding our investment in new transactions businesses.

I'll now hand back to Nick for closing remarks



## **Nick Falloon – Executive Chairman:**

To briefly recap today's result.

## Slide 38

Domain is delivering with strong fundamentals underpinning future growth:

- The 20% growth in digital revenue for the year demonstrates continued strong performance of our listings and transactions businesses.
- The 17% increase in app downloads attests to the power of the Domain property app.
- The 21% increase in residential mobile enquiries proves the value and quality Domain delivers to agents and vendors.

# Domain

- The 24% growth in residential depth revenue reflects Domain's increasing penetration of agents and listings.
- The 75% growth in transactions revenue is the result of investment to create a strong and expanding Domain property ecosystem aligned with Domain's core.

I'll now hand back to the operator for Q&A.

## Ends

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