ASX RELEASE

Fairfax Media

Fairfax Media Limited
2018 Full-Year Results Commentary

Sydney, 15 August 2018: Fairfax Media Limited [ASX:FXJ] ("**Fairfax**" or "**Company**") today delivered its 2018 full-year financial results. Accompanying commentary from Chief Executive and Managing Director, Greg Hywood, and Chief Financial Officer, David Housego, is set out below.

Fairfax Media CEO & Managing Director, Greg Hywood:

Slide 1

Good morning everyone.

Thank you for making the time to join me and our CFO, David Housego, for our full-year 2018 results presentation.

Over the past seven years, we have taken the big decisions. We have built businesses such as Domain and Stan. We have maximised the growth drivers of our core assets. We have addressed legacy cost issues to give our business time to adjust to the structural change it confronted. We have hit our stride going for growth.

Fairfax is in good shape – and that's the reason Fairfax shareholders have the opportunity to benefit from a step-change in growth through the proposed combination of our company with Nine Entertainment Co.

We have long believed that media consolidation provided enormous potential to leverage increased scale of audiences and marketing inventory to grow our assets. Fairfax has consistently supported media deregulation because we saw the long-term benefits for shareholders.

This is an exciting new phase in our development. It puts the important work we do through our journalism on an even stronger and more sustainable footing for the future.

I want to acknowledge the support shareholders have provided Fairfax as we have transformed the company.

We are at this place because of the extraordinary efforts of our great people.

Slide 2, Slide 3

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

Slide 4

Today's result shows the strong position of the Fairfax Media portfolio. Each of our businesses has maintained a growth focus and delivered good cost outcomes which will underpin future performance.

Domain delivered strong digital growth despite some recent cyclicality in the property market.

Metro has achieved its second consecutive year of EBITDA growth – with print showing signs of stability and digital advertising growth in H2.

Our Radio business is lifting margin.

Stan has broken through the 1.1 million active subscriber mark.

Corporate overheads have been significantly reduced.

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

Slide 5

For the 2018 financial year, the Fairfax Group delivered operating EBITDA of $274.2 million, an increase on the prior year. This was driven by growth at Domain, Australian Metro Media, Macquarie Media and lower Corporate costs.

Group revenue of $1.684 billion was a modest 2.8% lower than the prior year.

Our ongoing cost and efficiency focus delivered a 3.6% reduction in expenses, notwithstanding continued investment in growth initiatives at Domain and Stuff.

Net profit of $124.9 million was 12% lower, with earnings per share of 5.4 cents.

This result takes account of the increase in minority interests associated with the separation of Domain from 22 November 2017.

We will pay a dividend of 1.8 cents per share, 50% franked, bringing total dividends to 2.9 cents per share, 68.95% franked.

Slide 6

Turning to an overview of the segment results:

Domain Group revenue increased 11.5% and EBITDA increased 3.9% to $117.6 million, which included costs relating to the separation into the listed entity DHG.

A reconciliation to DHG's reported pro forma EBITDA of $115.7 million is contained later in the presentation.

Australian Metro Media EBITDA was 8% higher, reflecting the early benefits of the Google programmatic ad sales partnership, some early signs of print stabilisation, other digital growth initiatives and ongoing cost discipline. Revenue declined 6% while expenses reduced 7.5%.

Australian Community Media delivered EBITDA of $57 million from revenue which was 6.5% lower.

In New Zealand, Stuff delivered EBITDA of $37.3 million from lower revenue, with the impact of some one-time charges.

Macquarie Media's EBITDA increased 3% with revenue flat due to the impact of disposals.

Corporate overheads saw a 51% improvement to $23.5 million.

Slide 7

These results are underpinned by the successful delivery of our multi-year strategy to create shareholder value by:

- Growing – 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.

We have turned a traditional media model, with a large fixed cost base, into a diversified and growth-focused contemporary portfolio of multimedia and digital assets with a flexible, lower cost base.

Slide 8

Fairfax's portfolio – spanning Domain, Publishing and Investments – connects with 70% of Australians and 90% of New Zealanders.

Slide 9

Across the portfolio, we have intensified our focus on growth and maintained cost efficiency measures.

Cost management discipline, business model innovation and strategic decision-making skills run through our veins.

Each of our businesses has strategies in place to leverage competitive strengths.

On this slide, you see the key milestones delivered and the drivers of growth momentum.

Domain is nearing its first year as a standalone ASX-listed entity. Later this month Jason Pellegrino starts as CEO and his mission is to take the business to its next stage of growth. Domain is in terrific shape. It has large audiences, increasing depth penetration, expanding geographic footprint and is broadening into the property ecosystem. We have great confidence in Domain's future.

Our Publishing businesses generate strong cash flows, benefit from cost control expertise, and continue to invest in revenue growth opportunities. Our printing agreements with News Corp herald a new era of greater industry cooperation.

Metro has strengthened its consumer offering and is building audience loyalty and driving subscriptions growth, with more to come as apps from the SMH and *The Age* are soon released. EBITDA momentum has been strengthened by second half growth in digital advertising – including the phased roll-out of our Google programmatic partnership – along with moderating print advertising, circulation declines and continued cost efficiency.

ACM is a well-managed, profitable, high cash-generating business. Its strong connections with rural and regional communities underpin the momentum it is achieving with B2B revenues and local news subscription initiatives.

Stuff is powered by its national digital audience strength. Its membership model is supporting expansion into e-commerce and transactions adjacencies.

Stan is delivering an impressive performance and Macquarie Media is robust and driving value.

Slide 10

Media consolidation provides for the creation of a powerful growth engine through the combination of audiences and marketing platforms.

Stan and Domain are great examples of the way existing assets can be leveraged to drive the growth of businesses.

The proposed merger of Fairfax and Nine brings together aligned strategies of using expanded audiences and marketing inventory to drive growth by:

- Achieving greater scale and relevance to advertisers;
- Increasing advertising market share;
- Strengthening Domain's brand and geographic footprint;
- Increasing Stan's flexibility and optionality for new strategic partnerships; and
- Maximising cross-promotion ratings benefits across Macquarie Media and Nine;

Other benefits include reducing corporate overheads, realising operating synergies and gaining even greater balance sheet strength which will enable further strategic optionality and flexibility.

The Fairfax Board believes that the proposed merger of Fairfax and Nine is the best path ahead for Fairfax shareholders. They will share in the upside of the combined businesses and benefit from the premium in the Nine offer.

Slide 11

Turning to Domain – a business with strong fundamentals and ongoing opportunities for growth.

Highlights for the year include residential depth revenue increasing 24%, benefiting from a 21% increase in residential mobile enquiries and higher penetration of Platinum products. This strong residential performance fuelled higher core digital revenue growth along with an increased contribution from developers & commercial.

Slide 12

Domain delivered 20% digital revenue growth, fuelled by core digital along with new transactions businesses.

Print revenue declined 13% reflecting the transition to a digital business somewhat offset by the launch of the Domain glossy magazine format.

Reported expenses increased 15.7% reflecting investment in the business and the impact of separation costs included for the first time. Underlying costs on DHG's reported pro forma basis

increased 11% as a result of continued investment in staff, workspace and new transactions businesses, offset by a reduction in print expenses of 15%.

The EBITDA increase of 3.9% to $117.6 million was achieved notwithstanding the impact of separation costs. Digital EBITDA increased 15%.

Slide 13

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

Core Digital margins were maintained at 45.1%.

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

Print margins increased from 24% to 26% as a result of the cost efficiencies.

Group EBITDA margins on a reported basis reduced from 35.3% to 32.9% due to the impact of the costs of separation in FY18.

Slide 14

This slide provides a reconciliation of the Fairfax-reported Domain result to the disclosure by DHG. The key difference relates to DHG's reporting on a pro forma basis for a full 12 months of separation costs in both FY17 and FY18. The Fairfax disclosure only includes separation costs actually incurred from the date of separation in November 2017.

On a like-for-like basis, as reported by DHG, Group EBITDA margins increased from 32.1% to 32.4%.

Slide 15

Turning now to Group Publishing.

Our three publishing businesses are emerging from a period of great change. Each is profitable, generating valuable cash flows, and positioned with distinct markets, products and strategy to leverage growth. What they have in common is an ongoing emphasis on digital publishing; continued focus on cost and efficiency; initiatives to maximise print earnings; and a focus on developing new revenue opportunities.

Metro highlights for the year include 8% EBITDA growth and margin improvement; 9% increase in digital subscription revenue; more than 313,000 paid digital subscribers; and 9% improvement in publishing costs.

ACM delivered a 6% cost improvement.

Stuff achieved 21% digital revenue growth with 6% adjusted cost improvement.

Slide 16

Metro is a remarkable transformation success story.

For the past seven years we have taken this business through radical change. We have reached the point where we can see a strong future for the business.

Product innovation has delivered a step-change for both consumers and advertisers. This has included new websites and apps to grow engagement and drive subscriptions and revenue. Our journalism is stronger than ever. We are investing heavily in quality editorial. It is a key competitive point of difference and at the heart of our premium brands and audiences.

A new advertising model underpins the business. As mentioned, we have entered into a world-first sales and technology partnership with Google that recognises the distinct value of our brands, audiences and advertising inventory, for programmatic buyers. The early benefits of this new arrangement are evident in the full-year result.

We are seeing signs of print revenue mitigation as a result of our introduction of a new industry-aligned vertical sales structure. This structure has enabled us to drive deeper, direct and more valuable partnerships with advertisers, leveraging our rich data, audience expertise and insights.

Cost efficiency is a core capability. The publishing business now operates on an enhanced technology platform, having replaced complex legacy systems with new fit-for-purpose, agile, flexible and much lower cost solutions.

The printing agreements we have entered into with News Corp deliver us greater cost variabilisation, reduced capital intensity, and further extend the cash-generating life of print.

There is further opportunity to extend this new phase of cost-out through greater industry efficiency measures.

Slide 17

This is the second consecutive year of EBITDA growth for Metro, up 8% for the year, with margins increasing from 9.4% to 10.8%.

Advertising revenue benefited from improved digital performance supported by the Google programmatic arrangement, as well as moderating print declines.

Circulation revenue declines moderated in H2, benefiting from strong growth in digital subscriptions with 9% growth in revenue for the year, and increases in cover prices.

Net paid digital subscriptions for *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* recorded growth year-on-year across all three mastheads. The *Financial Review* is having particular success in B2B.

Other revenues declined 5.2% reflecting the sale of Tenderlink in October 2016.

Metro expenses declined 7.5% for the year, with a 9% reduction in publishing costs largely from savings in staff, technology and print production.

Slide 18

ACM's continued strong cost discipline delivered a 6% reduction in expenses and underpinned the EBITDA margin of 16.3% for the year.

Total revenue declined 9%, with relatively stable contribution from Agricultural titles, benefiting from strong agricultural commodity prices and digital investment in the sector. This was offset by weakness in regional advertising and circulation, with some impact from the closure of several

unprofitable mastheads. Declines in local and real-estate print revenue contributed to the advertising revenue result. Circulation declines reflected lower retail volumes.

Regional Other revenue increased 7%, benefiting from the strong performance of Fairfax Marketing Services which delivers full digital marketing solutions to regional clients.

ACM will also benefit from the upside of the News Corp printing agreements from late FY19 H1.

Slide 19

The New Zealand business saw total revenue decline 7.5% in local currency terms.

Digital revenue growth of 21% was offset by lower print advertising. Digital revenue benefited from strong growth from Stuff Fibre and Neighbourly.

Digital and non-print revenue now represents 18% of Stuff's total revenue up from 4% in 2014.

Adjusted costs improved 6%, while underlying operating expenses were 4% lower reflecting a one-off provision, one-time items and investment in Stuff Fibre.

EBITDA declined 27%, or 21% on an adjusted basis.

Weighing on the EBITDA outcome is the impact of the sale or closure of around 35% of our NZ print publications representing less than 5% of revenue. Revenue impacts were felt from the time of the announcement of the decision in February, while cost benefits did not commence until after FY18 year-end.

We are resetting Stuff to take advantage of the strength of its digital platform. The pain of the restructuring efforts will prove worth it as the benefits start to flow in future years and bring forward the time when increases in digital revenue will outweigh declines in print.

Slide 20

The tremendous power of the Stuff brand, the growth momentum in the Neighbourly platform, and the increasingly pivotal role both play in everyday Kiwi life is evident in these three charts.

Stuff.co.nz is the country's leading local website, reaching a monthly audience of around two million. Over the past two years, Stuff has grown its audience by around 42%. The power of this audience and Stuff's valuable marketing inventory is being leveraged through expansion into new categories such as ISP Stuff Fibre, electricity provider energyclubnz, movie streaming service Stuff Pix, and more.

Local social networking platform Neighbourly, which is now wholly-owned, is profitable and has a large and growing membership base of more than 600,000, which is up 25% over the past year.

The de-duplicated membership base of Stuff and Neighbourly of 1.1 million provides significant digital growth opportunity.

As in Australia, we are believers in the benefits of media consolidation in the New Zealand environment. With the strength of its digital assets and audiences, profitable print and 90% population reach, Stuff is in the box seat to participate.

Slide 21

Turning now to our Investments.

Highlights include Stan exceeding 1.1 million active subscribers and Macquarie Media achieving an EBITDA margin of 24%.

Slide 22

Stan has achieved a subscriber base of impressive scale and is delivering strong active subscriber momentum. In the three month period to July, Stan delivered record quarterly gross and net subscriber additions.

The strong subscriber momentum and programming line-up has underpinned around 70% increase in Stan's total viewing and 25% uplift in average viewing per subscriber.

Stan's subscriber growth, combined with the first price increases since launch three years ago, underpinned 72% growth in subscription revenue to reach just under $100 million. The year to June finished with a revenue run-rate of around $120 million.

The strength of the operating model is reflected in revenue growth far outpacing the increase in operating costs, driving a 50% reduction in EBITDA losses between Q1 and Q4 FY18.

Stan is strongly positioned to continue its growth trajectory and in a changing landscape is well placed to benefit from strategic alignment with global studios and networks.

Slide 23

Stan's position as the leading Australian streaming brand and dominant local streaming platform is underpinned by its compelling subscription proposition. This includes its exclusive Australian output deals with SHOWTIME, Starz, MGM and a range of exclusive content rights with global studios, as well as investment in original local productions.

Stan kick-started FY19 with a strong and diverse line-up appealing to a range of demographics. This includes *Power*, *Who is America* and new seasons of *Younger* and *Better Call Saul*.

Slide 24

Macquarie Media's reported revenue was flat. Underlying revenue increased 4% excluding disposals and one-time items, underpinned by robust 9% growth from the primary stations. Macquarie Media's move to develop Macquarie Sports Network is aimed at improving its secondary market performance.

Expenses reduced 2%.

EBITDA increased by 3% with the EBITDA margin expanding from 23% to 23.8%.

H2 performance was impacted by the non-recurrence of ACMA licence fee relief and the launch of Macquarie Sports Network.

Slide 25

We now provide greater prominence in reporting of Corporate. This reflects our intention to both reduce overall costs and ensure appropriate allocation to respective portfolio businesses.

Highlights include a 51% improvement in Corporate overheads for the year; and targeting further improvements for FY19.

Slide 26

The reduction in Corporate overheads to $23.5 million reflected the accelerated accounting treatment of lease incentives, transfer of costs to operating groups including Domain and Metro, and savings in underlying corporate costs.

For FY19, we are targeting an annualised run-rate below $20 million in corporate overheads.

Slide 27

Turning now to the current trading environment and outlook.

Slide 28

- Trading in the first six weeks of FY19 H1 saw revenues around 5% below last year.
  - Domain, Metro Media publishing and Macquarie Media achieved year-on-year revenue growth;
  - Events revenue was impacted by timing changes in the events schedule;
  - Stuff revenue reflected the closure of loss-making publications;
  - Australian Community Media is seeing continuing softness in regional markets and the impact of drought conditions.
- Across the Fairfax Group we continue to implement cost savings measures.

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

Fairfax Media CFO, David Housego:

Slide 29

Thanks Greg.

Slide 30

Slide 30 provides a reconciliation of our statutory FY18 result with the underlying trading performance. Starting from the left hand side our statutory 4E numbers show a net loss of $63.8 million which includes total significant loss after tax of $188.7 million largely relating to impairment charges from Australian Community Media and Stuff as well as restructuring charges. I will run through the detail later in the presentation.

Focusing on the trading performance excluding significant items, underlying EBITDA of $274.2 million was 1.2% higher than a year ago.

Below the EBITDA line, depreciation and amortisation expense of $56.8 million was higher than the prior year due to increased product investment at Domain and Stuff which has a shorter amortisation period. For FY19 we expect D&A in the $60 million to $65 million range due to continued product investment across the business.

Net interest expense of $6.8 million reduced versus the prior year. We expect a further reduction in FY19.

The underlying effective tax rate for the year was around 30%. We expect a slight reduction in FY19.

The 1.8 cent dividend will be 50% franked.

Non-controlling interests of $23.5 million after tax increased versus the prior year reflecting the minority ownership arising from the separation of Domain in November 2017.

For FY19 we expect higher non-controlling interests due to the full year impact of the Domain separation.

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

Slide 31

The detail of significant items is outlined on Slide 31.

For FY18, impairments of intangibles, PPE and other assets of $162.3 million pre-tax due to CGU testing primarily relating to Australian Community Media, Stuff and a radio licence.

Impairments of investments and PPE of $61.3 million pre-tax largely relate to Domain investments and print equipment.

Restructuring and redundancy charges of $36 million pre-tax relate to the ongoing transformation underway across the publishing businesses as well as costs associated with the separation of Domain.

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

Slide 32

Slide 32 provides a summary of our cash flows for the year. Cash from operating activities reduced slightly to $182 million, reflecting higher tax payments.

Proceeds from asset sales of $14 million was largely due to the sale of Satellite Music Australia. The prior period included the sale of Tenderlink.

Investment in property, plant, equipment and software reduced to $70 million. The prior period included property fitouts at Domain and Stuff. For FY19 we expect capex of approximately $80 million, including around $10 million in one-off expenses for the relocation of our Sydney office.

Loans advanced of $30 million largely relate to our investment in Stan. For FY19 we expect a further investment of around $20 million.

Across the Group, $95 million in dividends was paid to shareholders.

We finished the year with net debt of $135.7 million. Excluding the debt which we consolidate from Domain and Macquarie Media, Fairfax is in a net cash position of $9.5 million.

Slide 33

Slide 33 summarises our funding position at June 2018. Total interest bearing liabilities were $259 million. Our debt ratios remain strong with EBITDA to net interest of more than 40 times.

Slide 34

Slide 34 shows our current facility maturity. Two new facilities were established for Fairfax and Domain Group prior to the Domain separation.

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

Ends

Contact:
Brad Hatch
Director of Communications
+61 2 9282 2168
bhatch@fairfaxmedia.com.au