

NZX/ASX RELEASE

19 February 2019

NZME LIMITED FULL YEAR 2018 FINANCIAL RESULTS

Progress on strategy in a challenging market

Key features of the FY 2018 results:

- Trading Revenue¹ declined 2% from FY 2017 to \$378.4 million.
- Trading EBITDA¹ of \$54.7 million, down 17% compared to FY 2017.
- Incremental operating costs for new Digital Classifieds of \$6.1 million for the year.
- Excluding Digital Classifieds, Trading Costs¹ declined 1% and Trading EBITDA¹ declined 8% compared to FY 2017.
- Statutory NPAT declined 44% on FY 2017 to \$11.6 million.
- Trading NPAT¹ of \$18.9 million and Trading EPS¹ of 9.6 cents, compared to \$26.7 million and 13.6 cents respectively in FY 2017.
- To support growth investment and strengthen the balance sheet, no final dividend declared, as previously signalled to the market. Total FY 2018 dividends 2.0 cents per share, fully imputed.
- Audience of 3.3 million² represents 80% of the New Zealand population. NZ Herald daily brand audience greater than 1 million³.
- Weakened business confidence impacted advertising revenue in H2 2018, particularly in the Agency channel.
- Digital Classifieds growth – OneRoof listings and early stage revenue encouraging.
- Substantial progress towards launching digital subscriptions in Q2 2019.

Financial summary (\$m)	FY 2018	FY 2017	% Change
Trading Revenue ¹	378.4	387.7	(2%)
Other Income	4.1	3.7	9%
Costs	(327.7)	(325.3)	(1%)
Trading EBITDA ¹	54.7	66.2	(17%)
Trading NPAT ¹	18.9	26.7	(29%)
Statutory NPAT	11.6	20.9	(44%)
Total dividends (cps)	2.0	9.5	(79%)

¹ Trading measures are non-GAAP measures that are explained and reconciled in NZME Full Year 2018 Results Presentation dated 19 February 2019. Trading Revenue is presented on a consistent basis with 2017, and excludes the impact of NZ IFRS 15 adjustments. Trading EBITDA excludes exceptional items of \$9.2m.

² Nielsen CMI October Fused Q4 17 to Q3 18 (population 10+ years).

³ Nielsen CMI Q4 17 – Q3 18 AP 15+, represents a combination of Print readership and Digital audience.

FULL YEAR 2018 SUMMARY

NZME Limited (NZME) reported financial results for the full year ended 31 December 2018 that reflected a modest decline in revenue in a difficult market and further investment in developing its growth businesses.

Despite a challenging Agency advertising market NZME's overall revenue decline was 2%.

NZME has made significant progress on the revenue growth strategies of OneRoof and digital subscriptions, but the costs of these new businesses continue to impact profitability at the group level.

The decline in Trading Revenue¹ slowed to 2% in FY 2018, from 4% in FY 2017. Print revenue, benefiting from an extra publishing week in FY 2018 and a strong print travel sector, declined 4% and Radio and Experiential revenue declined 3% due to challenges in the Agency advertising market. These declines were not entirely offset by 6% growth in Digital revenue. All channels were affected by a 4% decline in New Zealand Agency advertising demand across the New Zealand market, in line with weak business confidence.

NZME's audience of 3.3 million New Zealanders² represents 80% of the New Zealand population. The NZ Herald daily brand audience exceeded 1 million³ and engagement on nzherald.co.nz, as measured by time spent per visit, improved across FY 2018⁴. NZME's Radio audience and revenue share was stable in a weaker Agency market. DRIVEN and YUDU continue to show potential and OneRoof enjoyed strong audience and listings growth.

Trading EBITDA¹ declined 17% on FY 2017. Total Trading costs¹ increased 1% compared to FY 2017, with efficiency improvements offset by additional costs associated with the additional publishing week in FY 2018, an increase in contractual property operating expenses and a \$6.1 million incremental investment in the Digital Classified businesses.

Statutory NPAT declined 44% on FY 2017 to \$11.6 million and Statutory EPS declined to 9.7 cents. Trading NPAT¹ of \$18.9 million and Trading EPS¹ of 9.6 cents were 29% lower than FY 2017.

Net debt was \$98.3 million at 31 December 2018, down \$7.8 million from \$106.1 million at 30 June 2018 and up \$8.1 million from \$90.2 million at 31 December 2017. Net cash flow was impacted by reduced Trading EBITDA¹, changes in working capital and the timing of FY 2017 tax payments. Capital expenditure was \$14.1 million in FY 2018, compared to \$15.1 million in FY 2017. Net debt to Trading EBITDA¹ was 1.8 times. NZME retains undrawn bank facilities of \$51.7 million.

In November 2018, NZME's debt was refinanced and the Company adopted a debt reduction target to support financial strength. Consequently, no final dividend was declared in respect of FY2018. Total dividends for FY2018 were 2.0 cents per share, fully imputed.

⁴ Nielsen Market Intelligence Domestic Traffic (1 Jan 18 – 31 Dec 18).

CHANNEL RESULTS

Revenue by channel \$m	FY 2018	FY 2017	% Change
Print	211.6	221.3	(4%)
Radio and Experiential	106.8	110.1	(3%)
Digital	60.0	56.3	6%
Total trading revenue	378.4	387.7	(2%)

Print

Print revenue was \$211.6 million in FY 2018, a decline of 4% from FY 2017. Print remains NZME's largest revenue segment, representing 56% of total NZME Trading Revenue¹, comprised of Print advertising revenue (30% of Trading Revenue¹), Print circulation revenue (22%) and other Print revenue sources (4%).

Print revenue in FY 2018 benefited from an additional publishing week, nonetheless, the underlying rate of decline in Print revenue continued to ease. Excluding the additional trading week Print revenue declined 5%.

Print advertising revenue of \$114.2 million was 6% lower than FY 2017, impacted by structural deterioration in print advertising. The Print Agency advertising market, which represents 30% of NZME's Print advertising revenue, suffered a double digit drop in Agency advertising spend during FY 2018. Despite these market pressures, there were encouraging segments in Print advertising, such as the travel category, assisted by the cruise ship industry.

The 6% decline in Print advertising revenue in FY 2018 was lower than the 9% and 10% declines seen in FY 2017 and FY 2016 respectively. The decline in Print advertising revenue against the previous corresponding period eased to 3% in the second half of 2018, from 9% in the first half, aided by improving trends in the final quarter of the year.

Circulation revenue declined 2% in FY 2018. After adjusting for additional trading days, circulation revenue declined approximately 4%. Circulation volume declined, however yields were maintained through cover price increases in July 2018.

Other Print revenue, relating to printing and distribution services provided to external parties, decreased 6% year-on-year due to lower third-party circulation volumes.

NZME experienced readership growth for its Print mastheads in FY 2018. *The New Zealand Herald* remains the most-read newspaper in the country⁵.

The New Zealand Herald's daily brand audience, which includes digital, remained above 1 million in FY 2018³, reflecting the strength of the *New Zealand Herald* brand and NZME's success in growing audience reach.

⁵ Nielsen CMI, NZ Herald AIR trend Q4 2017 – Q3 2018, AP15+.

Direct Print costs and contribution

To improve understanding of the contribution from the three business segments NZME has reported 'direct costs' and 'contribution' for each channel. Direct Print costs include printing and distribution costs, occupancy costs at the Ellerslie print plant and agency commission specifically related to Print products. Direct costs exclude integrated head office, content generation and sales costs.

Direct Print costs declined 4% in FY 2018 to \$72.9 million, reflecting lower volumes and the ongoing benefits from plant upgrades, offset to some extent by the additional publishing week in FY 2018. Print contribution, that is Print revenue less direct Print costs, was \$138.7 million in FY 2018, a decline of 5%.

Radio and Experiential

Radio and Experiential revenue of \$106.8 million in FY 2018 was 3% lower than FY 2017. Direct Radio advertising revenue showed positive trends in 2018, growing 2% in H2 2018.

However, Agency revenue declined 7% in FY 2018 due to weakness in Agency market demand, in line with weaker business confidence. The Agency channel represents an estimated 30% of Radio advertising revenue. NZME maintained its 39% share of the radio advertising market⁶.

NZME continued to focus in FY 2018 on having the best radio offer in the market to inform, entertain and attract listeners. This was supported by new talent and programming enhancements in 2018, including a new drive show on *ZM* and a new breakfast show on *Coast*, with benefits anticipated over the next 12 to 18 months.

Radio audience share was stable in FY 2018 at 35%⁷. NZME's leading brands maintained their strong presence, with *NewstalkZB* remaining the number one radio station in New Zealand.

In digital radio, iHeart Radio grew its registered users by 18% over the year to more than 831,000⁸ and total listening hours increased 16% year on year to 3.2 million⁹. Other Revenue (including iHeart and Events) was 7% higher in FY 2018 at \$6.9 million.

NZME remains focussed on its strong brands to deliver consistent radio revenue growth through: building audience across brands and digital platforms; and enhancing radio sales skills and execution.

Direct Radio costs and contribution

Direct Radio and Experiential costs increased 1% in FY 2018, to \$31.9 million. Radio and Experiential contribution was \$75.0 million in FY 2018, a decline of 5%.

⁶ PwC Radio Advertising Benchmark Report, Q3 18.

⁷ GfK Radio Audience Measurement, Commercial Stations. NZME & Partners in Major Markets Trended to T4/2018. Station Share %, AP 18-54.

⁸ iHeartMedia, 2017- 2018; Adobe Analytics, 2018.

⁹ AdsWizz and StreamGuys, 2017-2018.

Direct Radio and Experiential costs include: radio licence fees, transmission costs, iHeart licence fees, radio talent costs, and agency commission specifically related to Radio products, and exclude integrated head office, content generation and sales costs.

Digital and e-Commerce

Digital and e-Commerce revenue grew 6% in FY 2018 to \$60.0 million, with Digital revenue, including Digital Classified revenue, growing 9% to \$48.9 million and e-Commerce revenue of \$11.0 million, down 4%.

The growth rate of the digital advertising market slowed during FY 2018, impacted by a contraction in the overall Agency advertising market. The Agency channel represents approximately 50% of Digital advertising revenues. Digital Agency revenue grew 15% in H1 2018 and declined 7% in H2 2018, with 3% growth year on year. Direct Digital revenue grew 8% in FY 2018.

Industry display and mobile revenue growth, compared to the previous corresponding period, slowed from an estimated 10% in FY 2017 to 5% in FY 2018. NZME's display and mobile revenue growth, compared to the previous corresponding period, slowed from 19% in FY 2017 to 3% in FY 2018. Digital advertising demand and revenue trends improved late in the year.

The Digital market continues to evolve but retains highly attractive fundamentals and NZME expects the channel to remain a long-term driver of growth¹⁰.

Digital includes the three Digital Classified portals, OneRoof (real estate), DRIVEN (autos) and YUDU (jobs). DRIVEN and YUDU continue to show potential, but the priority remains on OneRoof, which has greater revenue opportunity in the near term.

OneRoof is New Zealand's newest real estate platform incorporating superior user experience and search functionality.

Since launch in March 2018, OneRoof has made significant progress on growing real estate listings and audience to support the generation of \$0.7 million in revenue in FY 2018, with \$0.5 million of this in Q4 2018.

By the end of FY 2018, four out of the five major New Zealand agency groups were on oneroof.co.nz and residential 'for sale' listings had grown to be approximately 66% of Trade Me's national residential 'for sale' listings and 87% Trade Me's Greater Auckland residential 'for sale' listings. OneRoof has also seen increasing listings engagement, saved property searches and enquiry rates.

OneRoof has enjoyed strong audience growth since launch, supported by listings and the integrated content and advertising strategy. Audience growth was given a significant boost in early December 2018 with the release of the OneRoof Quarterly Property Report. An estimated 40% of audience comes as referral from nzherald.co.nz, 40% direct to site or via organic search and around 50% of audience is mobile.

¹⁰ PwC Outlook NZ Entertainment Outlook 2018 – 2022.

In e-Commerce, GrabOne revenue of \$11.0 million in FY 2018 reflected stabilisation in the second half due to a higher degree of personalisation and targeted direct marketing.

Following an 8% revenue decline in H1 2018, e-Commerce revenue grew in H2 2018, to finish year just 4% lower than FY 2017. This represents a notable stabilisation in revenue compared to the 18% revenue decline experienced in FY 2017 and 16% decline in FY 2016, reflecting the change in the GrabOne business model over this time.

Direct Digital and e-Commerce costs

Direct Digital and e-Commerce costs include fulfilment costs, production costs, bank merchant fees related to GrabOne, agency commission specifically related to Digital products and costs associated with the Digital Classifieds.

Excluding incremental Digital Classified costs, Direct Digital and e-Commerce costs increased 24% in FY 2018 to \$10.3 million, reflecting growth in production and fulfilment costs.

Incremental Digital Classified costs were in line with expectations at \$6.1 million in FY 2018.

FINANCE AND CORPORATE

Costs

At the group level, total Trading costs¹ increased 1% in FY 2018 to \$327.7 million, which included incremental Digital Classified costs of \$6.1 million. Excluding incremental Digital Classified costs, underlying costs declined 1% in FY 2018. H2 costs were impacted by the additional publishing week in FY 2018 and an increase in contractual property operating expenses.

Exceptional items of \$9.2 million in FY 2018 included redundancy costs of \$5.3 million, the write-off of the \$2.2 million investment in Ratebroker due to underperformance in the Ratebroker business, and other one-off costs of \$1.7 million.

Cash flow and net debt

Cash flow from operations was \$46.9 million in FY 2018, compared to \$56.2 million in the prior year, impacted by reduced Trading EBITDA¹ and increased working capital.

Capital expenditure of \$14.1 million for FY 2018 was in line with expectations and down modestly on the prior year. In FY 2019, capex is expected to decline to around \$12 million due to the completion of a number of key technology integration projects.

Year-end net debt increased \$7.9 million from 31 December 2017, reflecting reduced operating cash flow, higher tax payments, exceptional items and dividend payments.

Tax paid was higher in FY 2018 due to the timing impact of FY 2017 tax payments. In FY 2019, tax payments are expected to be in line with accounting tax expense.

Capital management

Following the completion of the Board's capital review in November 2018, NZME announced a revised Capital Management Policy, which supports long-term strategic objectives and operational priorities to maximise shareholder value.

The near-term objective is to reduce gearing while maintaining investment in growth opportunities and continue paying dividends, when trading and investment conditions permit.

Net debt was \$98.3 million at 31 December 2018, compared to \$106.1 million at 30 June 2018 and \$90.2 million at 31 December 2017. The ratio of net debt to rolling 12-month Trading EBITDA¹ was 1.8 times at 31 December 2018.

NZME is targeting a net debt reduction of between \$10 million and \$15 million per annum, to bring the leverage ratio to within the target range of 1.0 to 1.5 times rolling 12-month Trading EBITDA¹.

Subject to achieving the annual debt reduction target, and having regard to NZME's capital requirements, operating performance, financial position and cash flow at the time, NZME intends to pay dividends of 30% to 50% of reported NPAT.

As part of the capital review, new bank facilities of \$150 million were established in November 2018 with expiry extended to 1 January 2022. Reflecting the intention to reduce gearing, the size of the new bank facility will be reduced progressively over its term, lowering facility costs over that time. NZME retains significant headroom under its existing facilities, with undrawn bank facilities as at 31 December 2018 of \$51.7 million.

Consistent with the revised policy the Board has elected not to declare a final dividend with respect to FY 2018. Total dividends for FY 2018 will therefore remain at the 2.0 cents per share, fully imputed, paid in October 2018 in relation to the first half of FY 2018.

Board

Barbara Chapman and Sussan Turner were appointed as Independent Directors during the year. The Board comprises five directors with a strong mix of experience and skills to support the development and implementation of strategy.

Industry consolidation

In October 2018, NZME resolved to not appeal the Court of Appeal's decision in relation to the proposed merger of NZME and Nine Entertainment Co. Holdings Limited's (previously Fairfax Media Limited) New Zealand subsidiary, Stuff Limited. This brings the merger process to a conclusion.

Industry consolidation has been a powerful trend in the media sector and is expected to continue. As has always been the case, NZME is actively seeking to take advantage of opportunities that may arise, where it supports strategic objectives and adds value for shareholders.

FY 2019 STRATEGIC PRIORITIES

NZME's long term strategy is based on a three-horizon model, focusing on: (1) optimising core businesses; (2) growing new revenue streams that leverage existing audience and customer relationships; and (3) re-imagining revenue models that address unmet customer needs.

In FY 2019, NZME intends to focus on horizon 2 – revenue growth – in three main areas:

1. Leading the future of news and journalism in New Zealand
2. Increasing radio capability and performance
3. Creating New Zealand's leading real estate platform

Leading the future of news and journalism in New Zealand

In line with the strategy to leverage audience reach and brand strength to grow new revenue streams, NZME intends to launch paid content on its digital mastheads in Q2 2019.

Audience willingness to pay for digital content has increased significantly in recent years. NZME will adopt the "freemium" model with day-to-day news and current affairs provided free of charge and in-depth analysis and opinion available on subscription. The technology partnership with Washington Post Arc has enabled NZME to tailor content and enhance the personalisation of the New Zealand Herald online experience.

In FY 2018, NZME invested in premium and in-depth journalism and utilised data to target content and lift user engagement. nzherald.co.nz now has more than 520,000 registered online users.

The strategy is to build technology, content and audience to deliver revenue. The current technology focus is on optimising user experience. The new platform will deliver access to the best content from four top global publishers and an unrivalled local team of premium journalists across business, politics, news, sport, lifestyle and entertainment.

nzherald.co.nz intends to maintain its 1.7 million strong current audience¹¹ with a model that ensures the majority of content remains free.

Increased premium content, and digital audience engagement will support NZME's target to deliver 10,000 digital subscribers within the first year. Digital subscriptions are also expected to improve print subscriber retention.

The FY 2019 net investment in digital subscriptions is expected to be \$1.2 million, including costs associated with global syndicated content, launch and ongoing marketing support. NZME expects paid subscriptions to make a positive contribution to EBITDA in the second year following launch.

¹¹ Nielsen Online Ratings, December 2018.

Increase radio capability and performance

The New Zealand Radio market is highly competitive. NZME is the second largest radio operator in New Zealand, with a weekly radio audience of 2.0 million¹². NZME also has the exclusive license for the iHeart Radio platform in New Zealand and is well positioned to take advantage of the growing digital radio market.

Improvements in NZME's radio audience share and sales execution offers a meaningful revenue opportunity in the medium term. In FY 2019, NZME will continue to enhance radio sales skills to support integrated selling. It will pursue digital audience and revenue growth through leveraging iHeart capability and will develop new shows to further build radio audience.

The success metrics of the strategy are to deliver growth in radio revenue, improve audience share in the key 18-54 demographic and continue to grow iHeart registered users and streaming hours.

Creating New Zealand's leading real estate platform

NZME sees a significant opportunity to capitalise on its existing real estate advertising presence to grow shareholder value by creating New Zealand's leading real estate platform. Real Estate is NZME's largest revenue vertical representing \$32.8 million in revenue (excluding OneRoof) in FY 2018.

OneRoof has made significant progress in the last 12 months including technology build, rapid listings and audience growth and, largely in the last quarter of FY 2018, initial revenue of \$0.7 million.

To further leverage NZME's strong real estate position, Real Estate products have now been co-branded OneRoof to facilitate integrated sales and content offerings.

In FY 2019, the focus is on securing further market listings and property categories, ongoing development of user features and tools to enhance listings engagement, and leading New Zealand's property market commentary and insights, to support continued revenue growth.

OUTLOOK

- Improving trends for Advertising bookings in Q1 2019. Bookings are tracking down 2%, compared with the 4% decline experienced in the same period in FY 2018. The Agency market remains challenged, however, trends are improving.
- The launch of digital subscriptions is on track for Q2 2019 with modest revenue expectations and estimated net investment of \$1.2m in FY 2019. OneRoof is expected to deliver further listings, audience and revenue growth in FY 2019.

¹² Gfk Radio Audience Measurement, Commercial stations, NZME and Partners, Cumulative Audience T4 2018.

- NZME is continuing its focus on cost reduction. Savings made in Q4 2018 will impact FY 2019. However, given the ongoing investment in Digital Classifieds and digital subscriptions, net cost reduction is likely to be modest.
- NZME will continue to enhance radio sales skills to support integrated selling and Radio revenue growth.
- In line with the Capital Management Policy announced in November 2018, NZME is targeting a reduction in debt of \$10m to \$15m in FY 2019.
- Industry consolidation is expected to continue to present opportunities for NZME.

All FY 2018 results materials can be found at:

www.nzx.com/markets/NZSX/securities/NZM/announcements

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Briefing Audio:

There will be an audio recording of the full year results briefing, to be held at 10:00 a.m. NZDT on Tuesday, 19 February 2019, including Q&A, made available later in the day at www.nzme.co.nz/investor-relations/presentations-webcasts

About NZME

NZME is a leading New Zealand media and entertainment business that reaches more than 3.3 million kiwis². Whether reading, listening or watching, our audience gets the content they want – where and when they want it. NZME offers advertisers a unique opportunity to access its growing audience via a fully integrated multi-platform presence. NZME is listed on the NZX Main Board (code NZM) with a foreign exempt listing on the ASX (code NZM).