Domain

ASX ANNOUNCEMENT

Domain Holdings Australia Limited 2019 Full-Year Results Commentary

Sydney, 16 August 2019: Domain Holdings Australia Limited [ASX:DHG] ("**Domain**" or "**Company**") today delivered its 2019 full-year financial results. Accompanying commentary from Chief Executive Officer and Managing Director Jason Pellegrino and Chief Financial Officer Rob Doyle is set out below.

Jason Pellegrino – Chief Executive Officer and Managing Director:

Slide 1

Good morning everyone.

Thanks for joining me and CFO Rob Doyle for Domain's 2019 full-year results briefing.

Slide 2, Slide 3

We'll run through our usual agenda. I'll start with an overview of how we're delivering on our group strategy and the key operational drivers of the result, followed by some comments on the current trading environment. Rob will then take you through the Group Financials after which we'll both be happy to take your questions.

Slide 4

For FY19 Domain delivered a solid performance in the context of the challenging year faced by the Australian property market. To put this into perspective, property sales as a percentage of Australia's dwelling stock are at their lowest point in more than 20 years.

Our Residential business delivered growth in the number of paid depth contracts with agents, supporting growth in depth revenue despite substantial declines in new market listings. National depth penetration is at the highest level in the company's history and we still see plenty of room to grow. We are leveraging our strong fundamentals and competitive strengths of effective listings parity and large, exclusive audiences to grow yield. Our strategy builds on these solid foundations. Domain is better placed than ever to deliver on our growth ambitions. This will be further supported as the market returns to a more positive listings environment.

Slide 5

During my first 12 months at Domain we have been focused on establishing and driving the strategy, which will support our next phase of growth.

Our vision is to build a customer-centric Australian property marketplace. Everyone in our business is working to inspire confidence for all of life's property decisions.

There is substantial headroom to step change our performance by using our data to build products and offerings that better meet the needs of buyers, vendors and agents.

Our business has been structured to deliver against three objectives:

1. **Grow the core listings business** – by providing solutions to our agent and corporate customers to help them grow their businesses.
2. **Grow new revenue in consumer solutions** – by partnering with specialist businesses to deliver direct to consumer services spanning home loans, insurance, utilities and more.
3. **Simplify and optimise our business** – by remaining disciplined in our cost management and rationalising our portfolio so we can redirect resources towards funding our next phase of growth.

Our relationship with Nine provides opportunity to expand Domain's reach and engagement through Nine's broadcast and digital assets, and we're excited by the early results of this partnership.

Slide 6

Highlights for the FY19 year in our core listings business include:

- 12% increase in residential yield in the context of significantly lower listings volumes;
- More than 30% underlying Commercial revenue growth and the strengthening of the business with the acquisition of CommercialView;
- An increased stake in Homepass, giving us control of the business and accelerating product development and integration;

In Consumer Solutions:

- Domain Loan Finder and Domain Insure revenue more than tripled; Domain Loan Finder delivered significant momentum in operating metrics; and Domain Insure has had a successful proof of concept phase;

Other highlights include:

- An improved cost outcome, with underlying expenses (which exclude Consumer Solutions) down 5%, notwithstanding continued investment in product - a better outcome than at the first half result;
- The introduction of a new organisational structure aligned to agents and corporates, and consumers;
- Portfolio rationalisation with the sale of Compare & Connect and *Star Weekly* to pursue higher margin models;
- Increasing data capability to build valuable user experiences and support a smarter internal decision making process on where to direct investment, product development and marketing spend.

Turning now to the detail of the result.

Domain

Slide 7

For FY19, excluding significant items, Domain reported:

- Revenue of $335.6 million;
- EBITDA of $98.0 million;
- EBIT of $65.9 million;
- Net profit of $37.4 million;
- Earnings per share of 6.43 cents; and
- A dividend of 4 cents per share, fully franked, bringing the dividend for the full year to 6 cents per share.

Rob will take you through the detail of the statutory result and significant items. These largely relate to the impairment of goodwill, which was announced in our first half results in February.

Slide 8

Turning to the detail of the segment results:

Residential revenue increased 0.5%.

Media, Developers & Commercial revenue declined 12.9%.

Agent Services revenue increased 15.1%.

These categories delivered Core Digital revenues which were slightly below last year, and Core Digital EBITDA of $108.7 million, down 5.2% year-on-year.

Consumer Solutions & Other revenue increased 10%, with an EBITDA loss of $7.2 million, reflecting investment in our emerging businesses Domain Loan Finder and Domain Insure.

Print revenue and Print EBITDA both declined around 30% with cost discipline mitigating some of the revenue impacts.

Group EBITDA margin was 29.2%.

Slide 9

I'll now speak in detail about Domain's five revenue categories.

Slide 10

Residential is the largest contributor to Domain's revenue at 52% of total in FY19.

Residential revenue increased 0.5% to around $173 million.

This is a solid result from Residential in the context of lower listings volumes in key markets, where auction volumes declined around 25% in Sydney and 28% in Melbourne. Nationally, Domain new listings declined around 12%, double the 6% decline we reported at the first half.

Despite the lower volumes in the market, we achieved national yield growth, with an increase in the number of agents on paid depth contracts in every state.

Slide 11

Domain's yield performance in the face of volume declines is underpinned by our powerful marketplaces model, which leverages supply, in the form of listings, and demand, in the form of audience. We have maximised supply with our listings at effective parity with our major competitor. Our demand is growing with a cross-platform audience of around 7 million, which is around 70% the size of our major competitor.

Together listings and audience are driving yield despite the lower listings volumes. Pleasingly, this yield growth is driven by a healthy even mix of depth uptake and price increases based on the value we deliver to agents and vendors. And we still see considerable room to grow.

Slide 12

We are using our data and market insights to implement distinct market by market strategies to drive growth across Residential. We have segmented markets into three categories of Established, Expanding and Emerging based on their competitive positions. This approach allows us to customise the levers of audience, agent coverage, pricing and product upsell at the local market level. We can consider at a granular level the immediate opportunity and cost of investment to deliver a step change in performance.

Slide 13

To illustrate the opportunities arising from these strategies, Slide 13 includes a recent case study from Queensland. Domain has undertaken a targeted multi-platform campaign which has included paid search, social media and Nine's broadcast and digital platforms.

Domain's website audiences in Queensland have increased to record levels in the six months to June 2019, assisted by strong growth in Nine's referral traffic. The quality of this audience is demonstrated by Domain's views per listing in Queensland lifting 26% to record levels. And despite the headwinds of lower property listings, Domain has delivered significant yield gains in Queensland. This demonstrates the opportunity for targeted and efficient marketing spend to drive the monetisation of our listings and audiences.

Slide 14

Our relationship with Nine provides further opportunities to expand Domain's audience reach and engagement. We've made significant progress since the merger of Fairfax Media with Nine was completed in December 2018.

Our initiatives to extend the Domain platform on Nine are promoting Domain's brands and reinforcing Domain's property expertise through Nine's broadcast and digital assets. These include property features and market updates on the *Today* Show, Nine News and *A Current Affair.* On Nine.com.au, homepage takeovers and a Dream Homes strap provide powerful digital integration opportunities.

Domain

Our plans to deepen Domain's brand and content integration with Nine include the launch of a new *Your Domain* TV show on September 7th. Our highly successful collaboration on *The Block* has seen Domain's property expertise even further integrated into the show.

The completion of a project to align Domain and Nine's data provides the opportunity to enhance the quality of our products and services by leveraging deep insights into audience behaviours. Together Domain and Nine have 11.3 million unique registered users.

Across Domain and Nine we see the opportunity to maximise commercial results by deepening partnerships to drive premium revenue and enhance advertiser solutions through cross-platform opportunities.

Slide 15

Turning to listings, the next two slides show total new market listings trends for the national market and capital cities.

The dark blue line shows market listings for FY19, against the last three years.

National listings trends were very weak in the second half, held back by the significantly lower volumes in Sydney and Melbourne which I mentioned earlier. Trends in Canberra were more stable.

Slide 16

In other capital cities Brisbane and Perth also experienced significant weakness in the second half with relative stability in Adelaide.

Slide 17

Turning now to Slide 17 and Domain's depth product penetration by market.

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

Domain delivered growth in both Platinum and other depth tiers, reaching record levels of penetration and supporting yield gains for the year. In NSW and Victoria, the depressed market environment in inner city Sydney and Melbourne has negatively impacted on mix, however the number of paid depth contracts with agents has increased in all states.

We remain confident about the considerable upside opportunity for depth penetration in the future.

Slide 18

There's been no letup in our efforts to deliver relevant, personalised and actionable products and we're increasingly leveraging Domain's data to deliver great consumer experiences. Domain was first to market with school zones a few years ago, and in an Australian property portal first, we have introduced Search by School Name. This solves the school-focused search problem for parents and provides a list of properties available within the specified school zone. Other developments include even greater integration of Domain Loan Finder with Domain's core listings. The increasing personalisation and timeliness of our products is reflected through enhanced notifications and auction results as well as new recommendations.

Slide 19

We have strengthened our core product offering for owners with an expansion in price estimate tools as well as improved accuracy. A new appraisal tool provides qualified vendor leads to agents. We've created a centralised hub of seller tools to support vendors throughout the selling process and launched a free property report with insights into individual properties.

Slide 20

Turning to Media, Developers & Commercial.

This category contributed 14% of Domain's total revenue, and declined around 13% for the year. This reflected a challenging market environment for Media and Developers, the adoption of a new operating model for Media, and a strong performance from our Commercial business.

Slide 21

As highlighted a year ago, we made the strategic decision to streamline digital media sales by transitioning to a programmatic advertising offering. While, as expected, this new model delivers lower revenue, it is also much lower cost and has delivered an improved margin.

The Developer market reflected significant weakness in NSW and Victoria. Financing constraints and other regulatory issues have shifted market demand from investors to owner-occupiers, and from large high rise developments to smaller boutique projects which require a lower level of marketing support. Market share gains were achieved in our emerging markets.

Commercial Real Estate's growth momentum continued, with underlying revenue growth of more than 30% benefiting from higher depth penetration and product innovation. The acquisition of CommercialView during the year further strengthens CRE's market position in Victoria.

Slide 22

Our commercial real estate performance is supported by our ongoing commitment to product innovation and investment.

Slide 23

Turning to Agent Services, which contributed 10% of total revenue.

Agent Services revenue increased 15% underpinned by yield growth and the consolidation of Homepass following the increase in Domain's ownership during the year. Excluding acquisitions, revenue increased by 10%.

Domain

Slide 24

Our Agent Services business has a long history of partnering with Agents to deliver rich data and unique insights through our trusted agent tools Pricefinder, Homepass and MyDesktop. Homepass' insights into the offline world are particularly valuable when combined with the online insights from our digital platforms. We continue to enrich the agent experience through ongoing investment in innovation.

Slide 25

For FY20, we are even more focused on how we can help agents prosper and build resilient, sustainable businesses. How we can help them find the next listing, win the listing, sell the listing efficiently and for the best possible price, and improve the performance and profitability of their agency and agents. And an important element is how we can help agents differentiate their brands and attract and retain talent within their own businesses.

Domain's unique and differentiated assets are a platform for us to help Agents with the tasks that matter to them. We don't want to stand between consumers and Agents with transactional leads models, which create a competitive and potentially combative relationship with Agents. We will instead focus on "always on" relationships that help Agents build healthy, resilient businesses by making better use of the data and relationships they already have. We have launched pilots which demonstrate the value Domain can deliver Agents through increased collaboration.

Slide 26

We are also excited about the launch of Domain's new agent portal, Domain for Agents, which leverages our rich data to create a single entry point for agents to access our valuable products and services. This initiative enriches the value agents can provide to their customers by providing a wide range of market, listing, vendor and enquiry insights.

Slide 27

Turning to Consumer Solutions & Other, which contributed 8% of total revenue.

Revenue increased 10%, a slower rate of growth than in FY18. Momentum slowed at Compare & Connect, which was responsible for the bulk of Consumer Solutions' revenue, with a further impact from our strategic decision to sell the business in Q4. Underlying revenue from Domain Loan Finder and Domain Insure, whilst still modest, more than tripled in size.

Slide 28

We continue to see significant potential for revenue growth and diversification in our emerging Consumer Solutions business across home loans, insurance and utilities connections. We are focused on large markets that are adjacent to our core listings business and strategically well placed to leverage Domain's core audience and trusted brand.

Domain Loan Finder's home loan broking service, in partnership with Lendi, has a solid foundation and is growing rapidly.

Domain

Domain Insure provides insurance services for home, contents and landlord. Domain Insure does not assume claims risk, which remains with the underwriter. We are pleased with the progress made during the proof of concept phase. The business is now entering its next stage of development, moving from a white label offering to an agency model.

In the utilities connections vertical, we made the strategic decision to sell Compare & Connect to focus on developing a higher margin model. We see lead generation as the right model to leverage our strong relationships and engagement with major energy companies.

Slide 29

Domain Loan Finder is revolutionising the home loan industry - establishing a unique way for consumers to find the finance they need while they search for a home.

The Domain Loan Finder business model has always been, and remains, focused on consumer needs during the home loan process. We provide consumers with live pricing across more than 35 lenders and a pathway to online approval. The integration of Domain Loan Finder into Domain’s property search experience provides a seamless property purchase journey. Our understanding of consumer needs is fuelled by the digitally led engagement we have throughout the property search cycle. And consumers value our unbiased, personalised advice which is based on a broad menu of around 1,600 products. As you can see, our offer is resonating with consumers, with exceptionally high customer ratings, and strong momentum in approvals and settlements.

Slide 30

Print revenues declined around 30% and comprised 16% of total revenue.

This result was affected by market cyclicality, with some offsets from disciplined cost management.

Slide 31

Print revenue declines reflected the continued shift to digital, exacerbated by cyclical market conditions. Print is particularly exposed to high-value auction and developer markets in Sydney and Melbourne, which were especially impacted by the market downturn. Markets that experienced a lesser property downturn demonstrated lower rates of print decline. Ongoing cost initiatives and lower print volume contributed to a 29% reduction in expenses year-on-year.

The sale of the *Star Weekly* titles at the end of FY19 reflects our focus on higher margin models across all our businesses. Adjusted for the impact of this divestment, print margins increased year-on-year, a significant achievement in the context of the market environment. Valuable passive audiences and a platform to build agent’s profile and brand underpin the strategic value of our print products to agents.

Slide 32

Turning now to current trading environment and outlook.

Slide 33

In line with broadly reported market indicators, Domain's proprietary datasets have also shown some encouraging signs of buyer activity in the first weeks of FY20, including increased attendance at open for inspections and increased home loan application volumes. However, listings volumes remained weak in a seasonally low listings period, with national market new listings declining ~20% in July 2019, with Sydney and Melbourne new listings down 26% and 27% respectively.

For FY20, Domain will remain disciplined in managing its cost base to take account of the trading environment, while continuing to invest in growth initiatives.

Over to you, Rob.

Rob Doyle – Chief Financial Officer:

Slide 34

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

Slide 35

Slide 35 provides a reconciliation of the statutory 4E to Domain's trading performance excluding significant items. I'll run through the detail of the significant items shortly.

Jason has already taken you through the operating performance of the Domain businesses, so I will focus on the items below EBITDA.

Depreciation and amortisation expense of $32.1 million was slightly ahead of the full-year guidance of around $30 million, largely due to the impact of the acquisitions of Homepass and CommercialView. The increase from FY18 also reflected the investment in product development which has a short amortisation period.

For FY20, depreciation and amortisation expense is expected to be modestly higher before the impact of AASB 16, which I will discuss in more detail later.

Net finance costs of $8.5 million were slightly ahead of last year, largely due to the impact of deferred payments from the Review Property transaction.

Tax expense of $17.7 million reflects an effective tax rate of around 31% and for FY20 we expect a similar rate.

Net profit attributable to non-controlling interests (NCI) of $2.4 million reflects the share of profits or loss attributable to the agent ownership models and other consolidated, non-wholly owned entities.

NCI was lower versus FY18 reflecting the buyout of the interests associated with the Review Property agent ownership model in February 2018, lower profits from print entities and higher losses in non-wholly owned Consumer Solutions businesses. Further detail is contained in Appendix 1.

Slide 36

Slide 36 provides the adjustments from statutory to pro forma results for FY18.

Slide 37

Slide 37 provides a reconciliation of statutory to trading expenses (which exclude significant items).

Total expenses (excluding significant items) declined 1% to $237.3 million as reductions in print costs offset growth-focused investment in staff and related costs, technology and Consumer Solutions businesses. This compares with the guidance provided in May 2019 of a low single digit cost increase for the full year. The improved cost outcome reflects the impact of the disposal of Compare & Connect and other efficiency measures.

We remain committed to investing in the growth of the business while continuing to drive operational efficiency.

The charts on the right of the slide provide a breakdown of Domain's cost structure by major category. The proportion of total costs from Production & Distribution reduced from 20% to 15%, reflecting print cost savings initiatives and lower print volumes. The proportion of total costs from Promotion was stable at 17% reflecting our commitment to invest in our brand and audience, while remaining focused on efficiency in our spend. The Other category increased from 13% to 15% largely due to costs associated with our growing Consumer Solutions businesses.

Looking forward to FY20, I wanted to talk through the expected impact on our cost structure from the new accounting standard for leases AASB 16. Around $8m of the costs under the Property, Repairs and Maintenance category will move to depreciation and interest and therefore its percentage share of operating costs is expected to reduce significantly. Due to the calculation of present value, there will be a negative non-cash impact from the new standard on net profit in FY20 of up to $3 million, with an offsetting positive impact in later years.

In FY20 we also expect the Other category to reduce its percentage share of operating costs due to the divestment of Compare & Connect. The impact of the sale of Compare & Connect as well as *Star Weekly* is outlined in the Appendices of the investor presentation.

Slide 38

Slide 38 provides an overview of significant items. As reported in the first half result there was an impairment charge of $178.8 million recognised due to the lower listings environment. The charge is non-cash in nature and there is no impact on banking covenants.

Restructuring charges of $2.9 million pre-tax largely relate to the implementation of the new organisational structure.

The accelerated depreciation charge of $2.5 million relates to assets associated with the sublease of a portion of our Sydney office premises.

Gains on contingent consideration payable and sale of controlled entities of $7.7 million largely relate to the sale of Compare & Connect and *Star Weekly* and the Review Property tranche 2 earnout.

Slide 39

Slide 39 provides the cash flow for the current and prior years.

FY19 cash from trading of $103.4 million compares with EBITDA of $98.0 million. The FY18 comparable numbers are not representative of underlying cash flows due to the timing of the separation from Fairfax Media in November 2017.

Investment in PPE and software was $22.8 million. For FY20, we expect capex in the mid-to-high $20 million range.

The net cash outflow of $11.5 million for the year included the repayment of borrowings of $25 million.

Slide 40

Turning to slide 40.

At separation Domain Group entered into a $250 million syndicated bank facility with a maturity of three to four years. As at June 2019 this facility was drawn down to $163 million, reflecting the $25 million repayment of drawn debt. The earliest tranches become current in November 2019 and we have commenced the refinancing process.

Slide 41

Slide 41 shows the balance sheet of Domain Group as at June 2019. Key movements within the balance sheet from June 2018 reflect the impairment of intangible assets and repayment of bank debt I discussed earlier.

Domain has a strong balance sheet finishing the year with net debt of $113.2 million, a leverage ratio of 1.2x. With that I will hand back to Jason for some closing remarks.

Jason Pellegrino, Chief Executive Officer

Slide 42

In a challenging market environment Domain has shown progress against all three pillars of our strategy.

- The core listings business has offset listings volume declines with a strong yield performance.
- We are seeing good results from the differentiated products and services we are delivering to agents to help them thrive;
- Domain Loan Finder is building momentum; and

- Operating costs reduced in FY19, and for FY20 we will maintain our track record of cost discipline while continuing to invest for future growth.

Domain is better placed than ever to deliver on our growth ambitions, as the market returns to a more positive listings environment.

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

Ends

Media: Kate Carragher, +61 400 482 382, kate.carragher@domain.com.au
Investors: Jolanta Masojada, +61 417 261 367, jolanta.masojada@domain.com.au