

## MARKET ANNOUNCEMENT

11 June 2020

### **2020 Annual Shareholders' Meeting Presentation and Addresses**

AUCKLAND, 11 June 2020: NZME Limited (NZX: NZM, ASX: NZM) ("**NZME**") attaches the Chair of the Meeting and the CEO's addresses, and presentation which will be delivered at the Annual Shareholders' Meeting being held online today, commencing at 3:00pm (NZT).

ENDS

Authorised by the NZME Board

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## **CHAIR OF MEETING'S ADDRESS: CAROL CAMPBELL**

Shareholder value creation is an issue many businesses are facing, so NZME is not alone in this.

It has been disappointing to see significant shareholder value declines across the total New Zealand media market and in NZME's share price specifically.

Today, I will discuss with you several areas that we, as a board, are focussed on to build shareholder value.

### **Building Shareholder Value**

They are:

1. NZME participating in market consolidation;
2. Cost management and efficiency;
3. Building topline revenue performance and growth;
4. Prudent capital management and dividend policy;
5. Reviewing Board and management expertise;
6. Improving communications with our shareholders; and
7. Effectively managing the impacts of COVID-19 and Government support.

Let me talk to each of these individually.

### **PARTICIPATING IN MARKET CONSOLIDATION**

As we have stated: given the current economic conditions, there is significant value to be gained through market consolidation.

NZME is well placed to take advantage of market consolidation in a way that both protects New Zealanders' access to news and entertainment and grows shareholder value.

NZME plans to continue to explore options to work with Stuff, but in the meantime will complete vigorously with Stuff in the competitive market we operate in, as we have done for many years.

The main competitive threat to NZME are the search and social media giants including Facebook and Google. While NZME is pleased to see regulatory developments in Australia in this area, and is hopeful the NZ government will follow suit, it is no secret that the digital advertising market share of these global giants in NZ continues to increase.

As you will know, Bauer Media Group abruptly closed. NZME has moved quickly to take advantage of the opportunities this has created by rapidly introducing OneRoof Local print publications in key markets in Auckland, expanding NZME's real estate offering and bundles, across print and digital.

## **COST MANAGEMENT AND EFFICIENCY**

NZME's focus on cost management and efficiency across the business has been relentless through the years.

As already announced, NZME has made a number of reductions including the loss of more than 200 roles, representing 14% of NZME's workforce, temporary salary reductions of 15% for most of NZME's people and the 20% reductions for your Board and Chief Executive Officer.

Combining these with the further cost out initiatives that have been taken, accelerated the cost out trajectory.

## **BUILDING TOPLINE REVENUE PERFORMANCE AND GROWTH**

Turning now to revenue performance and growth.

NZME was demerged from APN Australia, now HT&E, in June 2016.

Since the demerger we have focussed on 3 key strategic priorities

1. Leading the future of news and journalism in New Zealand
2. Growing radio and leading digital audio and
3. Creating New Zealand's leading real estate platform

Michael will take you through these.

## **PRUDENT CAPITAL MANAGEMENT AND DIVIDEND POLICY**

At its demerger from APN, NZME was set-up with a debt position and dividend policy that was unsustainable over the medium term.

While the Board wishes to pay dividends on a regular basis, it needed to make a trade-off between the level of debt, the level of dividends and the ability to refinance into the future. As you know, this resulted in the cessation of dividends for now.

This has seen NZME's peak debt reduce from \$115million to \$75million at 31 December 2019. We are pleased to have reduced this further to \$62m at 31 May 2020.

As announced last week, NZME has agreed terms to extend its existing debt facilities to 1 July 2023. The new term of the bank facilities provides the Company with certainty of funding for the next three years.

As with the previous facilities, the new \$110m facilities will step down each year to a level of \$75m at 31 December 2022. This provides significant headroom over the net debt position of \$62m as at 31 May 2020 and aligns with the Board's focus on overall debt reduction.

While further debt reduction is required, the Board fully supports the return to paying dividends as soon as possible after 1 July 2021

The Board is keenly aware that many shareholders value dividends and have been disappointed with no distributions as we reduce debt.

NZME firmly believes that debt reduction must remain the first priority and that the policy has put NZME in a strong position to weather the COVID storm, as well as strengthened its ability to take advantage of inevitable market consolidation.

A number of other NZX listed corporates have raised discounted equity during the COVID-19 shutdown period. NZME has not been one of them and currently has no requirement to in the foreseeable future.

## **REVIEWING BOARD AND MANAGEMENT EXPERTISE;**

Looking now at your Board and management teams

### *Board*

The New Zealand media environment has been regarded as one of the most, if not the most, competitive in the world and NZME has performed well relative to its peers in the market.

I would like to acknowledge Barbara, David and Sussan for their ongoing diligence and expertise.

The Board has a balanced mix of experience and skills highly relevant to the NZME business and strategy.

With Peter Cullinane's resignation today the board will be meeting next week to discuss a new Chair for the Company.

An announcement regarding NZME's new Chairperson will be made after that.

### *Management*

During 2019 there were some changes to the Executive Team designed to ensure the NZME senior leadership retains the most appropriate mix of skills and experience and it remains responsive to effectively deliver on our strategic priorities.

At the end of 2019 we welcomed Wendy Palmer to the NZME executive as Chief Radio and Commercial Officer and appointed Paul Hancox as a member of the executive team as Chief Revenue Officer.

Both Paul and Wendy are incredibly experienced media executives with a deep and proven understanding of the commercial business strategies required to connect content and

audiences with commercial partners. Wendy's most recent executive experience as CEO of Mediaworks Radio, supports one of our key strategic priorities.

The Board would like to reiterate its confidence in NZME CEO Michael Boggs and the Executive Team. Michael has led the business through an incredibly challenging time, including the crisis phase of COVID-19.

## **IMPROVING COMMUNICATIONS WITH OUR SHAREHOLDERS**

Over the last year the market has changed in that there is now only one New Zealand analyst covering NZME and this limits the amount of communication and analysis on NZME's performance and valuation.

The Board acknowledges that shareholders are wanting more information and insight regarding the corporate strategy and future of NZME. The Board also recognises the importance of regular communication and engagement with shareholders. Given this, the Board and management have resolved to increase the detail and frequency of shareholder communications.

In addition, the Board values further engagement with shareholders to understand their perspectives on shareholder value creation.

## **EFFECTIVELY MANAGING THE IMPACTS OF COVID-19 AND GOVERNMENT SUPPORT**

The impacts of COVID-19 have been significant.

The executive team took swift action to protect profitability and shareholder value placing NZME in a relatively strong position as it moves out of the crisis phase into the rebuild phase.

It is ironic that while NZME was deemed an essential service, the revenue required to support delivering that essential service reduced significantly. Not only that, the number of New Zealanders turning to NZME to consume that essential service lifted to record levels.

NZME has received Government support through a wage subsidy of approximately \$9m received in April 2020 and a tranche one media support package.

A second tranche of support has been flagged by the Government, with the intention that it supports a sustainable media environment in New Zealand.

Government has signalled that it wants to ensure a strong commercial media sector and that it may provide further financial support.

The Government support and focus on NZ media players is welcomed.

We are confident with our focus in these seven areas, that we will increase shareholder value.

## **Our Purpose and Sustainability Commitment**

Supporting these seven areas of focus on shareholder value creation is NZME's Purpose of keeping Kiwis in the know and our Sustainability Commitment.

The worldwide COVID-19 pandemic brought home to me just how relevant NZME's Purpose is to our business, our people and our audiences.

In the face of such uncertainty and anxiety, our communities value information they can trust.

The responsibility our people have to keep Kiwis in the know will rarely be as important as it has been over the past couple of months.

This is reflected in the high levels of engagement we are seeing across NZME's brands.

nzherald.co.nz had almost three full months of more than 1 million visits a day, resulting in NZME getting up to 2.5 million a day at the peak of the crisis. NewstalkZB streams on iHeartRadio doubled during the lead up to the lock down period.

New Zealanders have needed all the information they get access to - and I'm proud of the way all of our teams across NZME have delivered on our purpose.

We are pleased with the work that has gone in to champion our Sustainability Commitment that focusses on our communities, our people and our environment.

An effective, sustainable and measurable commitment is now a key requirement for responsible, forward looking businesses and supports financial performance.

On behalf of myself and the board, I'd like to thank and congratulate Michael and his team for the bold and decisive leadership that is seeing us deliver on our strategy and excel through the crisis phase of Covid-19 and beyond.

I'll now hand over to Michael to discuss NZME's strategic priorities and performance.

## **CEO'S ADDRESS – MICHAEL BOGGS**

Thank you, Carol. And welcome to everyone joining us today

Before I discuss our progress against our three Strategic Priorities for 2020, I'll take you through an overview of our 2019 Annual Results.

### **NZME 2019 Annual Results**

I don't propose to go through all of the numbers on this slide but would observe that Operating Revenue of \$371.7 million reflects the strong momentum in our 3 strategic priorities.

I'd also like to point out that the 2018 year included an extra trading week. On a comparable basis, 2019 Operating EBITDA was down 5% on the full year, but in the second half it grew 4%. Contributing to this, was our continued focus on our cost base, resulting a reduction of 4% compared to the prior year.

Operating NPAT was up 4% on the prior year.

We have reported a statutory net loss after tax impacted by an impairment to intangible assets of \$175 million in the year. This impairment relates to intangible assets, which were the result of historic transactions which occurred prior to the demerger. This is an accounting charge only, with no impact on cash flows, and no impact on bank covenants.

As noted earlier our ongoing focus on capital management resulted in a \$23.6 million reduction in Net Debt to \$74.7 million.

## **Content Reach**

As reported in February, New Zealanders are engaging with our major brands across our print, radio and digital platforms.

Through 32 print publications, 8 radio networks, and multiple digital platforms, NZME reaches 3.3 million New Zealanders.

The New Zealand Herald is the powerhouse of our newspaper portfolio - read by 1.2 million Kiwis each week.

Radio has a host of brands dominating their target demographics – such as NewstalkZB and ZM – reaching 2 million listeners each week.

And, we have 2.6 million users engaging with our digital platforms every month.

## **Strategic Priorities**

Let's now turn to our Strategic Priorities.

Put simply, the results in terms of revenue, audience engagement and targets set and met - show our strategy is working.

We have made pleasing progress across all three strategic priorities, and believe a continued focus in these areas is the best approach to increasing shareholder value.

## **Leading the future of news and journalism in New Zealand**

In 2019 NZME took a market leading initiative and launched New Zealand Herald Premium. It has been lauded as the most ambitious move in media last year.

New Zealand Herald Premium now has 70,000 subscribers. This includes over 36,000 paid digital subscribers, up 70% in just four months, and 34,000 eligible print subscribers who have activated their digital subscription as part of their print bundle package.

NZ Herald Premium has proven that New Zealanders will pay for high quality content – we take heart in the fact that over 25% of our Premium subscribers are on annual subscriptions.

2020 will continue to see us focus on growing digital premium content and subscriptions and increasing digital advertising revenue.

One of the initiatives supporting this is the launch of the new Herald app. The new app has a focus on improving the user experience, by enhancing user options to personalise what they see and how they use it.

But importantly, with enhancements released in the last two weeks, the new app also allows users to subscribe to Premium directly from the app. And as all app users will now see Premium content on their mobile devices - they can see what they're missing.

We know from overseas experience that we can expect to see a further acceleration in subscription growth as a result of this app update.

We are also upweighting our focus on Premium business content. We know that business stories are a great driver of digital subscriptions - so we've directed some senior editorial attention to the NZ Herald Business Team.

We'll see more exclusive business stories, insightful analysis and opinion sitting in Premium, and again we expect this to drive new subscriptions.

Compared to the last available Australian publisher figures New Zealanders are still enamoured with print products. Our *NZ Herald* has a daily print circulation still larger than any of the quality Australian newspapers such as The Age, the Sydney Morning Herald, The Australian and the Australian Financial Review, notwithstanding New Zealand being one fifth of Australia's population.

However, as I noted above, in just 13 months, NZME has added over 36,000 paying digital subscribers and has a further 34,000 who are subscribed as part of their print subscription with NZME. We feel that the available headroom, given Australian examples, is still enormous for our iconic national digital brand the *New Zealand Herald*.

I would like to highlight the success of our New Zealand Herald teams at the 2020 New Zealand Voyager Media Awards announced last month.

The New Zealand Herald claimed the three biggest prizes – Newspaper of the Year, Website of the Year and Best News Website or App – along with many individual awards.

In addition, NZME has just been awarded the Best Global Media Brand in Asia/Pacific for the second year running.

As Carol has mentioned, ours is an incredibly competitive industry – and especially so in the world of news and information. This recognition is fiercely fought for, and justly deserved by our NZME team.

### **Growing radio and leading digital audio**

I'm pleased with the results that our radio teams delivered in 2019.

The 5% radio revenue growth in the second half of 2019 contributing to full year growth of 2% is very encouraging. Radio advertising revenues grew to be larger than the print advertising revenues – the first time that this has been the case.

As Carol mentioned, we welcomed Wendy Palmer to the NZME executive as Chief Radio and Commercial Officer and appointed Paul Hancox as a member of the Executive team as Chief Revenue Officer.

The combined approach of improving sales capability and technology, with on-air talent acquisitions to build audience engagement, helped drive growth across the year – including



growth in radio revenue and growth in radio audience market share –we have seen further revenue share growth in 2020.

Our tactical plans to grow our revenue at the expense of our competitors, saw us in February announce the re-organisation of some of our hosting line-ups on two of our major radio brands.

The moves are part of a strategic review of our radio networks - ensuring we are delivering the best content for our audiences and providing the best opportunities for our commercial partners to connect with those audiences. We have further tactics from this strategy for completion this month.

We have also seen growth in iHeartRadio – with increased registered users, now over 1 million, and increased average monthly listening hours resulting in a 40% increase in revenue from iHeartRadio, now making up approximately 2% of total radio revenue.

We also recorded significant news focused audience growth in iHeartRadio during the COVID-19 crisis, with NewstalkZB iHeartRadio audience doubling at points during the lock down. This has supported the further 21% increase in average monthly listening hours that we have seen so far in 2020.

### **Creating New Zealand’s leading real estate platform**

We continued to make significant progress with OneRoof and have a strong focus for 2020.

Along with the rest of New Zealand, we are keenly observing the New Zealand property market for signs of COVID-19 impact.

I’m pleased to share with you that OneRoof now has all of New Zealand’s leading real estate companies listing on the platform.

–In addition, OneRoof can now proudly claim to have more “for sale” listings in Auckland than any other property portal.

Both of these milestones have been key goals for this year.

OneRoof delivered revenue of \$2.8 million in 2019 – up from \$0.7 million in 2018. 2019 saw higher incremental direct costs for OneRoof compared to 2018, with 2019 representing a full year of costs.

Our focus in 2020 is to continue to improve audience engagement through growth in listings and content; to increase revenue from agents; and to grow overall OneRoof revenue and contribution.

Over 70% of OneRoof’s revenues in 2020 have been generated from vendor listing upgrades and as Carol mentioned earlier, we have launched a number of OneRoof Local print publications in Auckland to fill a gap left in the market by the Bauer exit.

At the recent International News Media Association awards, OneRoof was awarded second place globally for the best idea to acquire or retain advertising clients.

## **Trading Update**

As I reflect on a tumultuous past few months, I'll comment that 2020 started with strong momentum, driven by continued growth in radio, OneRoof, and premium subscriptions.

As we have reported, COVID-19 had a significant impact on advertising revenue. April 2020 advertising revenues were around 47% lower than April 2019 and May 2020 was 39% lower than last year.

We have seen increased advertiser activity over the last two weeks and anticipate June 2020 advertising revenues will be around 30% lower than 2019.

Costs, including the temporary salary reductions, are currently tracking 25% below 2019 levels for quarter two of this year and significant cost reductions on last year will continue. In addition, we have received a \$9 million Government wage subsidy.

It's impossible to predict with any accuracy the impact of the pandemic on NZME's full year financial performance.

However we do expect first half 2020 operating EBITDA including the wage subsidy, to be higher than that achieved in the first half of 2019.

## **Closing comments from the CEO**

I'd like to comment about the culture and the spirit, of NZME during the COVID-19 crisis.

Jobs were lost, pay cuts were taken, roles and functions were disrupted, at the same time as people were grappling with uncertainty and worried about their ability to keep themselves and their families safe and well.

While all this was going on, our people had an essential job to do - to keep Kiwis in the know.

In addition, the salary reductions of 15% taken by nearly all NZME employees right across the country demonstrates the passion and dedication that they have for your company.

I was humbled by the graciousness and understanding of those that had to leave us recently during the crisis.

As noted, we have a passionate team at NZME, with 92% of employees providing feedback in the staff engagement survey last year and this has seen overall employee engagement increase year on year.

I'm incredibly proud, as I hope we all are, of the people in our business who have delivered for their communities and for New Zealand.