Domain

ASX ANNOUNCEMENT

Domain Holdings Australia Limited 2020 Full-Year Results Commentary

Sydney, 20 August 2020: Domain Holdings Australia Limited [ASX:DHG] ("**Domain**" or "**Company**") today delivered its 2020 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. Thank you for joining me and CFO Rob Doyle for Domain's 2020 full-year results briefing. We're in very different circumstances to our half year call, and I hope you are all well, particularly everyone joining us from Victoria.

Slide 2,3

Slide 3 outlines the agenda for this morning's presentation. I'll begin with an overview of the result and how we've continued to deliver to our strategy despite the disruptions caused by COVID-19. I'll then provide some comments on the outlook, after which Rob will take you through the group financials. And at the end of our prepared remarks, we'll be happy to take your questions.

Slide 4

When we spoke to you at our half year results briefing, we were in the early stages of emerging from an unprecedented period of decline in property market listings. That improvement continued into March which saw a recovery in listings, and a significant expansion in yield underpin a strong performance from the business. Despite the challenges brought about by COVID-19 in the fourth quarter, Domain's key assets of large engaged audiences, effective listings parity and innovative solutions continued to deliver value to agents and consumers. In our Residential business, the number of paid depth contracts increased in all states, underpinning record depth penetration. The introduction of our flexible pricing model and continued implementation of targeted market-by-market strategies, supported a 6% increase in controllable yield with further gains from favourable market mix.

Slide 5

For FY20, on a like-for-like basis, Domain delivered:

- Revenue of $261.6 million down 9%
- Expenses of $177.2 million down 5%
- EBITDA of $84.4 million down 17%

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- EBIT of $43.3 million, down 29%

Full details of the like-for-like adjustments can be found in Appendix 2 of the investor presentation.

Net profit was $21.6 million and earnings per share were 3.7 cents.

This was a solid outcome given the circumstances.

In light of the continued uncertainty of the outlook, no dividend was declared.

Slide 6

Turning to the segment results on slide 6:

Residential revenue declined 7% on a reported basis and 4% like-for-like.

Media, Developers & Commercial revenue declined 9%

Agent Services revenue increased 1%

Together these categories delivered Core Digital revenue which declined 6% on a reported basis, and 5% like-for-like. Core Digital EBITDA declined 7%.

Consumer Solutions & Other revenue increased 83% and EBITDA losses reduced by 58% to $3.6 million.

Total Digital revenue declined 5% on a reported basis and 4% like-for like.

Print revenue declined 41% and EBITDA declined 56%.

Slide 7

Despite the challenging backdrop, FY20 was a year of significant achievement for Domain, with ongoing progress against our strategy. Additionally we continued to evolve our business model to deliver on our vision of building a customer-centric property marketplace.

I'll provide more detail in the next three slides.

Slide 8

Our three strategic pillars have been established to provide value to agents and consumers at every step of their property journeys.

Despite the challenges of COVID-19 we continued to make progress in delivering long-term growth in our core listings business through delivering:

- The successful implementation of a new flexible pricing model. This underpinned a 6% growth in controllable residential yield, with further benefits from market mix;
- A record number of depth contracts and growth in depth penetration;
- 23% growth in our organic traffic, an acceleration from the 18% growth achieved in the first half.

In consumer solutions we delivered:

- 83% revenue growth, supported by a strong performance from Domain Loan Finder where unconditional approvals and settlements defied the challenging listings backdrop;
- And a new agency model for Domain Insure following its successful proof of concept phase.

We continued our multi-year strategy to simplify and optimise our business, delivering:

- 5% reduction in like-for-like expenses, notwithstanding continued investment to grow the business;
- 24% reduction in marketing cost per lead, reflecting efficiency gains and record organic audiences. June 2020 delivered a 39% year-on-year gain in unique digital audience;
- The acquisition of Real Time Agent to deliver value to agents by streamlining offline property processes;
- And the sale of MyDesktop to focus on our goal of delivering valuable live data and insights solutions to all agents.

Slide 9

In responding to COVID-19, we implemented Project Zipline to allow us to continue to deliver on our strategy while “ziplining” over difficult circumstances.

I am very proud of how teams right across the business responded with a broad array of appropriate solutions. The safety of our people, our customers and the broader community was central to our response. However, we also recognised the necessity of an immediate reduction in cash burn to prepare for an uncertain outlook, and ensure the long-term financial sustainability of Domain.

For our agent customers, many of whom are small businesses, we introduced a range of support packages at a cost of around $5 million to revenue.

For our people, we were mindful of the impact that staff redundancies, stand-downs or pay cuts would have on personal lives, business productivity and the pace of Domain’s business model evolution. Our voluntary programme with the options of reduced working hours, or reduced cash salary in exchange for share rights, was overwhelmingly supported by our staff. Together with benefits provided by the Federal Government’s Jobkeeper scheme, this enabled us to preserve jobs and maintain business momentum. Other measures adopted to preserve cash flow included a pause on print during Q4, and focused and efficient marketing spend.

To strengthen our balance sheet, we reached agreement with our banking group to extend Domain’s banking facilities and waive covenants for June and December 2020.

For consumers and agents, our product teams delivered creative solutions to new social distancing requirements in impressively short timeframes. Importantly, these initiatives are also providing long-term value by contributing to the evolution of our business model.

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Slide 10

Our vision for Domain is to evolve from an online classifieds portal to build a customer-centric property marketplace that delivers to our purpose - to inspire confidence for all of life's property decisions.

In FY20 we continued to progress towards our vision, despite the challenges that have come from COVID-19. In many ways the current environment has accelerated digital take-up by agents and consumers, and Domain is well placed to respond. In the COVID-affected environment, Real Time Agent's innovative solutions have benefited from significant take-up by agents across the country. At Domain Loan Finder, our digital model has been uniquely placed to support consumers in light of social distancing restrictions.

RTA and Domain Loan Finder are compelling examples of Domain's ability to extend our relationships with agents and consumers, from one-off transactions to servicing the entire property lifecycle.

Slide 11

Turning now to the detail of the result and Domain's five revenue categories.

Slide 12

Residential revenue declined by 6.7% year-on-year and 4% on a like-for-like basis. The decline in Residential depth revenue of 1% like-for-like was a solid performance in the context of the 11% reduction in total market residential listings. Domain delivered a 6% increase in controllable yield, with a further positive contribution from favourable market mix. Residential subscription revenue declined 15% like-for-like as a result of the customer support initiatives provided during the fourth quarter.

Slide 13

Domain's powerful core listings marketplace underpins our ability to drive these yield gains despite the lower listings environment. We have maximised supply with effective listings parity, and seen growing consumer demand as evidenced by the strength of our listings views which delivered strong gains post the initial COVID-19 impacts.

Slide 14

The chart on the left-hand side of Slide 14 provides a quarterly view of Domain's depth revenue since the beginning of FY19. It illustrates the unprecedented volatility the market has experienced over the past two years. The green bar shows like-for-like revenue performance, with the grey bar showing reported revenue performance. The line shows new national market listing trends. The chart highlights Domain's success in delivering yield gains in the face of large volume declines.

I mentioned earlier the yield benefit which Domain achieved from market mix in addition to the yield gains we delivered from controllable factors. That market mix is illustrated in the chart on the right which shows new listings performance for the first and second halves of FY20 on a national and capital city basis. While all markets saw significant declines in the first half, the

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higher value Sydney and Melbourne markets have outperformed in the second. This reflects the very depressed base of comparison from the second half of FY19.

Slide 15

The implementation of distinct market by market strategies has been key to Domain's ability to drive yield growth. We have increasingly been able to customise levers at a local market level. As you can see on this slide, in FY20 all market segments delivered higher revenue per listing. The volume environment was uneven, with the outperformance in our established markets reflecting the better second half performance in Sydney and Melbourne I referred to earlier. We delivered record audiences across all our market segments, with higher percentage gains in our expanding and emerging segments.

In all of our markets, we increased the number of depth contracts with agents.

The introduction of our new pricing model in January took our yield levers to a new level, supporting price driven yield in our established markets and depth driven yield in our emerging markets.

Slide 16

The performance of Domain's depth penetration is outlined on Slide 16. For FY20, Domain delivered year-on-year growth in depth penetration in every state, reaching a new record. We saw increased Platinum penetration in every state, bar South Australia, where growth in gold and silver tiers was strong. This performance is particularly pleasing in the context of the very challenging environment we navigated over the course of the year.

Slide 17

Turning now to Domain's audience. We continue to make progress in driving higher quality traffic with targeted and efficient marketing spend. For FY20 we delivered strong year-on-year growth in quality audience metrics, with a 14% increase in unique digital audience, 43% increase in app launches in the second half, 29% increase in listing views, and 41% increase in leads.

Our organic audience traffic to Domain grew strongly, increasing 23% year-on-year, an acceleration from the first half. And these trends, combined with targeted marketing, resulted in a 24% reduction in marketing cost per lead, also an improvement on the first half.

Domain finished the year with a unique digital audience of 6.6 million in June, a 39% year-on-year increase, with access to an audience of nearly 8 million including Allhomes and Print. Year-on-year app launches in June 2020 increased an incredible 81%.

Slide 18

Domain benefits from the strength of our partnership with Nine which expands reach and engagement, while increasing Top of Mind awareness and brand recognition. The Domain Research House continues to integrate with Nine, with property insights and expertise on display in news and current affairs segments on television and radio. Domain Loan Finder's strong performance was underpinned by a successful integrated marketing campaign across

Nine's broadcast TV, BVOD, digital and radio assets. And we look forward to the return of the next season of *The Block* this weekend.

Slide 19

The flexibility and agility of our product teams have never been more on display than in the past few months. They responded to the sudden and severe impact of COVID-19 on agents and consumers, with rapid and coherent solutions to overcome restrictions on property related activity. And despite the distractions of the environment, they continued the rollout of new products, with a new agent showcase for vendors, the next iteration of our innovative School search product, the launch of a new product focused on the retirement market, and the addition of property and market research to Allhomes' listings.

Slide 20

Turning to Media, Developers & Commercial.

Revenue declined 8.6% as the environment impacted the performance of all three verticals.

Slide 21

Media continued to see the impact of its new operating model during the first quarter. Broad weakness in the advertising market was exacerbated by COVID-19 in H2, with reduced spending in key advertising categories. Despite lower revenue, the new operating model is delivering an improved margin.

In the Developer market, lower investor demand and COVID-19 impacts on immigration, resulted in the deferral of high-rise apartment projects. Stronger activity in smaller boutique projects was not sufficient to provide an offset, due to lower required levels of marketing support.

CRE's strong first half performance was disrupted in H2 by COVID-19 impacts. Industrial and office outperformed retail and hotel sectors. CRE's new flexible value-based pricing model supported growth in yield and market share, and increased depth penetration in the first half.

Slide 22

Domain's commitment to product optimisation is reflected in CRE's products which delivered record audiences in FY20, despite the challenge of the environment.

Slide 23

In Agent Services, revenue increased 0.6% adjusted for the sale of MyDesktop. A strong first half was offset by the impact of agent support measures in the second half.

Slide 24

Pricefinder delivered a solid performance for the year, underpinned by non-agent subscriptions. Revenue at both Pricefinder and Homepass was impacted in the second half by agent support packages. Real Time Agent contributed from the time of its acquisition in November 2019.

Slide 25

RTA's product suite is providing valuable solutions in the COVID-19 environment, including online auctions and private treaty contracts. RTA is benefiting from significant growth in its platform as it drives take-up by agents, and broadens its geographic footprint. There is considerable value in combining RTA's creative solutions with the scale and strength of Domain's national platform.

Slide 26

We deliver innovative product solutions to agents which contribute to their success. I've mentioned already the wide array of COVID-19 support packages we made available, along with new products from RTA and Homepass. We continue to trial Lead Miner to explore ways in which we can collaborate with agents to help them make better use of their own data and relationships. And we've continued to enhance Domain for Agents with the most relevant data insights, news and advice, to support our agents to foster meaningful, ongoing relationships as a local market expert.

Slide 27

Consumer Solutions & Other revenue increased 83%, adjusted for the sale of Compare & Connect. Domain Loan Finder continued to deliver strong underlying momentum.

Slide 28

As I mentioned earlier, Domain Loan Finder's digital model has been uniquely placed to support consumers during the COVID crisis, and is accelerating our evolution to a property marketplace. During COVID there has been soaring demand for refinancing, and Domain Loan Finder responded with a timely marketing campaign and attractive solutions. This has underpinned a surge in new account creation in the third and fourth quarters. While the market for new home loans has been more challenging, Domain Loan Finder continues to deliver strong growth in unconditional approvals and settlements.

Slide 29

The efforts of our product teams in supporting the business are illustrated on Slide 29. You can see here examples from our expansion into refinancing, as well as further integration of Domain Loan Finder and Domain Insure into the Domain for Owners experience.

Slide 30

Print revenues, adjusted for the sale of *Star Weekly,* declined around 41%.

Slide 31

The weak market for auctions and developers in the first half was further impacted by a COVID-driven pause on print in the second half.

Notwithstanding the environment and the significant revenue impact of the print pause, profitability was maintained through continued cost reduction initiatives. COVID has accelerated the ongoing structural decline of Print across the country, while remaining a sustainable proposition in premium markets where Domain's print assets are located. Print continues to deliver high value, aspirational audiences, and unmatched branding opportunities for agents.

Slide 32

Turning now to the current trading environment and outlook.

Slide 33

July 2020 trading reflects strong year-on-year listings growth in Sydney and Melbourne with greater than usual market activity in a seasonally low period, and against historically weak comparatives. Domain has continued to deliver solid gains in controllable yield from pricing and depth, with further benefits from favourable market mix.

Notwithstanding the strong July trading, the outlook for the broader market remains uncertain. FY21 H1 will be subject to the health and economic consequences of COVID-19, and in particular, the return of more typical seasonality patterns for the Spring selling season. Melbourne's performance will reflect the duration of the COVID-related lockdown.

For FY21, Domain will remain disciplined in managing its cost base to take account of the trading environment, while continuing to invest in growth initiatives.

I'll now hand over to Rob to run through the financials.

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 and disposals. I'll run through the significant items later in the presentation.

I will focus on the items below EBITDA, given Jason has already outlined the operating performance of the Domain businesses.

Depreciation and amortisation expense of $41.2 million increased significantly from $30.0 million in FY19. Factors contributing to the uplift were the impact of AASB 16 of around $8 million, timing of capex, and the impact of the acquisitions of Real Time Agent, Homepass and CommercialView. For FY21, depreciation and amortisation expense is expected to be slightly above FY20's level.

Net finance costs of $6.8 million reduced from last year, largely due to lower average debt and lower interest rates.

Tax expense of $12 million reflects an effective tax rate of around 33% and we expect a similar rate for FY21.

Net profit attributable to non-controlling interests (NCI) of $2.9 million reflects the share of profits or loss attributable to the agent ownership models and other consolidated, non-wholly owned entities.

NCI increased versus FY19 as a result of higher profits in CRE and Residential agent ownership models, lower losses in non-wholly owned Consumer Solutions businesses, offset by lower contribution from print entities. Further detail is contained in Appendix 1.

Slide 36

Slide 36 provides the reconciliation of statutory to trading performance for the FY19 year.

Slide 37

Slide 37 provides the detail of Domain's cost structure.

On a reported basis, total expenses (excluding significant items and disposals) declined 10.4% to $177.2 million. Like-for-like expenses reduced 5%, excluding the impact of AASB 16 and Jobkeeper. The details of these adjustments are contained in Appendix 2.

This cost outcome reflects our multi-year efforts to drive cost discipline and efficiencies while at the same time continuing to invest to support the future growth of the business.

Staff costs reduced 3%, with the benefits of cost saving strategies and the Jobkeeper subsidy, partially offset by investment in our Consumer Solutions businesses. Production and Distribution costs reduced 22% largely due to the reduction in Print costs, and a pause on print in the fourth quarter.

Promotion costs were lower, reflecting reduced marketing spend at Consumer Solutions. At Domain Loan Finder, increased integration with Domain has resulted in greater efficiency in lead generation. The targeted strategy which Jason discussed earlier, has benefited organic traffic growth and reduced marketing cost per lead across the business.

Software and Communications expenses were stable, benefiting from increased scale of procurement with Nine, offset by ongoing investment in technology.

Property repairs and maintenance reduced significantly due to the impact of the adoption of the new standard for leases, AASB 16.

Other costs were lower due to ongoing management of discretionary spend.

For FY21 we will remain disciplined in managing our cost base to take account of the trading environment, while continuing to invest in growth initiatives.

Slide 38

Slide 38 provides an overview of significant items.

A goodwill impairment charge of $256.1 million reflects the impact of COVID-19 on the operating environment. The charge is non-cash in nature and there is no impact on banking covenants or our view of the long-term growth prospects for the business.

Restructuring charges of $5.0 million largely relate to the organisational restructure and implementation of the new pricing model.

Gains on contingent consideration payable, and sale of controlled entities of $11.0 million, largely relate to the settlement of the Review Property and Commercial View earnouts.

Slide 39

Turning to cash flow on Slide 39.

FY20 cash from trading was $109.1 million.

The reduced cash tax payments versus the prior year reflect timing differences.

Investment in PPE and software was $20.6 million, a reduction from FY19 due to the impact of Jobkeeper and Project Zipline on developer costs. A similar level of capex is expected for FY21.

Net investment in businesses of around $14.8 million largely relates to the acquisition of Real Time Agent, offset by the sale of MyDesktop.

Lease payments of $8.8 million reflect the adoption of AASB 16. In FY19, lease payments were included in cash from trading.

The net cash inflow of $16.2 million contributed to a year end cash balance of $65.5 million.

Slide 40

Slide 40 reflects the successful refinancing of Domain's $225 million debt facility in November 2019, followed by an additional $80 million facility established as part of our COVID-19 response. The new facility was accompanied by a waiver of Domain's financial covenants for June and December 2020. As at June, the facility was drawn to $173 million, slightly up from $163 million at December 2019.

Slide 41

Slide 41 shows the balance sheet of Domain Group at June 2020.

Key movements within the balance sheet reflect the impairment of intangible assets within non-current assets, and the adoption of AASB 16 in both assets and liabilities.

Domain has a strong balance sheet finishing the year with net debt of $105.8 million, a reduction from $147.9 million at December 2019. This represents a leverage ratio of 1.3x which has improved from 1.6x as at December 2019.

With that I will hand back to Jason for some closing remarks.

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Jason Pellegrino, Chief Executive Officer

Thank you, Rob.

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During FY20, the resilience of our business and our people was tested like never before.

Domain's values have never been more powerfully on display than in the response of our people to these challenges.

Domain's ability to continue to execute on our strategy, respond to COVID-19, and progress the evolution of our business model, highlight the strength of the business and the people who work in it. Notwithstanding the considerable uncertainties that lie ahead, we look forward to another year of inspiring confidence for all of life's property decisions.

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

Ends

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