

## NZX/ASX RELEASE

25 August 2020

# NZME LIMITED 2020 HALF YEAR FINANCIAL RESULTS

## Strong performance as NZME quickly navigates Covid-19 impacts

### 2020 Half Year Results Highlights:

- NZME reports 5% growth in 2020 Half Year Operating Earnings before Interest, Tax Depreciation and Amortisation ("EBITDA")<sup>1</sup> to \$28.9 million.
- 2020 Half Year Statutory Net Profit After Tax ("NPAT") of \$3.0 million, compared to Statutory NPAT of \$0.9 million in H1 2019.
- 2020 Half Year Operating NPAT<sup>1</sup> of \$6.8 million and Operating Earnings per Share ("EPS")<sup>1</sup> of 3.5 cents, an increase of 1.4 cents per share compared to the previous corresponding period<sup>2</sup>.
- NZME deemed an Essential Service during New Zealand's Covid-19 lockdown; keeping Kiwis in the know.
- Significant audience maintained at 3.2 million<sup>3</sup> representing 80% of the New Zealand population and over 2.4 million digital users per month<sup>3</sup>.
- More than 82,000 NZ Herald Premium digital subscribers, including more than 43,000 paid digital subscribers, generating revenue of \$2.4 million in H1 2020.
- OneRoof now has more residential for-sale listings in Auckland than any other digital real estate site and holds more than 83% of listings in New Zealand<sup>4</sup>, contributing \$1.4 million of digital classifieds revenue in H1 2020.
- Growth in revenue market share achieved across all key channels in H1 2020; to 39.7% in radio advertising<sup>5</sup>, 46.8% in print advertising<sup>6</sup> and 24.3% in digital display<sup>7</sup>.
- Radio revenue in growth year-on-year prior to the impact of Covid-19.
- Cost initiatives and reduced volumes delivered a significant decrease in Operating expenses<sup>1</sup> of 16% year-on-year.
- Operating results<sup>1</sup> include the government wage subsidy of \$8.6 million as other revenue.
- Net Debt reduced by \$19.5 million to \$55.2 million and leverage ratio reduced to 1.0 times Operating EBITDA<sup>1</sup>.

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<sup>1</sup> Operating results presented include the impact of NZ IFRS 16, however exclude exceptional items to allow for a like-for-like comparison between 2019 and 2020 half years. Please refer to pages 31-32 of the 2020 Half Year Results Presentation for a detailed reconciliation. Operating and statutory results include \$8.6 million of Covid-19 government wage subsidy received in H1 2020.

<sup>2</sup> Previous corresponding period refers to the 6 months ended 30 June 2019.

<sup>3</sup> Nielsen CMI Fused Q2 19 – Q1 20, June, People 10+. Digital: May 2020 AP10+.

<sup>4</sup> OneRoof's listings as a percentage of residential for-sale real estate listings on trademe.co.nz.

<sup>5</sup> PwC Radio advertising market benchmark report, 6 months to 30 June 2020 vs 6 months to 30 June 2019.

<sup>6</sup> PwC NPA quarterly performance comp. report, June 2020, 6 months to 30 June 2020 vs 6 months to 30 June 2019.

<sup>7</sup> IAB digital advertising revenue – General Display, IAB NZ Digital advertising revenue report, Q2 2020.

<b>Financial summary</b> \$million	<b>H1 2020</b>	<b>H1 2019</b>	<b>% Change</b>
Segment revenue	147.3	178.3	(17%)
Other revenue	10.5	2.8	277%
<b>Operating Revenue<sup>8</sup></b>	<b>157.8</b>	<b>181.1</b>	<b>(13%)</b>
Operating expenses <sup>8</sup>	(128.9)	(153.5)	(16%)
<b>Operating EBITDA<sup>8</sup></b>	<b>28.9</b>	<b>27.6</b>	<b>5%</b>
Operating NPAT <sup>8</sup>	6.8	4.1	66%
<b>Statutory Net Profit After Tax</b>	<b>3.0</b>	<b>0.9</b>	<b>217%</b>
Operating EBITDA <sup>8</sup> excluding IFRS 16	21.8	19.4	13%

## 2020 HALF YEAR FINANCIAL SUMMARY

NZME Limited (NZME) is pleased to announce its financial results for the half year ended 30 June 2020 (H1 2020) after withstanding and rebounding from the impacts of the Covid-19 pandemic.

NZME was deemed an essential service during New Zealand's Covid-19 lockdown, highlighting the reliance on the business by the government to communicate critical content, and by NZME's audience to keep them in the know during these times of unprecedented crisis.

However, NZME's key revenue streams were significantly impacted, with NZME's total advertising revenue down 47% in April and 39% in May, before recovering to 23% in June. Print circulation revenues were down 5% for the half year-on-year largely due to a 35% decrease in retail sales in the second quarter, partially offset by the first increase in print subscriber volumes from Q1 to Q2 since 2017 as demand for access to quality news at home increased. NZ Herald Premium digital subscriptions simultaneously grew, with more than 82,000 now accessing this content.

NZME reported total Operating Revenue<sup>8</sup> of \$157.8 million, down 13% on the comparable period. Segment revenue of \$147.3 million was down 17% on the comparable period largely due to the impacts of Covid-19. Other Revenue of \$10.5 million in H1 2020 includes an \$8.6 million wage subsidy received from the government.

NZME continued to make positive progress against each of its three strategic priorities in H1 2020. NZME's ability to lead the future of news and journalism was highlighted during this testing period. Of the 82,000 now accessing NZ Herald Premium content, more than 43,000 are paid digital subscribers, up from 25,000 in February 2020, with the remaining 39,000 accessing this content as part of their print bundle. This digital subscriber base delivered \$2.4 million of revenue in H1 2020. Growth has been supported by an upgrade to the NZ Herald

<sup>8</sup> Operating results presented include the impact of NZ IFRS 16, however exclude exceptional items to allow for a like-for-like comparison between 2019 and 2020 half years. Please refer to pages 31-32 of the 2020 Half Year Results Presentation for a detailed reconciliation. Operating and statutory results include \$8.6 million of Covid-19 government wage subsidy received in H1 2020.

App, providing enhanced personalisation, allowing offline reading and enabling in-App purchases of subscriptions.

NZME continued to deliver on its second strategic objective, with growth in radio revenue continuing until Covid-19 impacted at the end of the first quarter. In June, enhancements were made in radio brand optimisation, talent and content to support future growth in music listener market share. In terms of leading digital audio, iHeartRadio achieved 39% revenue growth in H1 2020, supported by strong growth in registered users and listening hours<sup>9</sup>.

OneRoof continues to focus on being New Zealand's leading real estate listing platform, now having more residential for-sale listings in Auckland than any other digital real estate site, and more than 83% of New Zealand's listings<sup>10</sup>. OneRoof generated \$1.4 million of revenue in H1 2020 despite a 29% decrease in property sales volumes in New Zealand due to Covid-19<sup>11</sup>.

In response to Covid-19, the business prioritised the implementation of appropriate measures to protect the health and safety of its people including access to support services and regular communications.

Combined with the ongoing focus on cost efficiencies, NZME implemented a number of cost initiatives in H1 2020 to mitigate the impact of Covid-19 on the business. These included the temporary suspension of some newspaper inserted magazines and community newspapers, the closure of Radio Sport and a wide scale workforce restructuring. Directors' fees and employee salaries were also reduced temporarily by 15-20% on a voluntary basis.

These initiatives led to a 16% reduction in Operating expenses<sup>12</sup> for the half year-on-year.

Operating EBITDA<sup>12</sup> grew 5% to \$28.9 million in H1 2020 supported by cost reduction initiatives and success against all three strategic priorities.

Operating NPAT<sup>12</sup> was \$6.8 million and Operating EPS<sup>12</sup> was 3.5 cents in H1 2020, an increase of 1.4 cents per share due to higher Operating EBITDA<sup>12</sup> and a comparably lower depreciation charge in the period.

Statutory NPAT was \$3.0 million, compared to \$0.9 million in H1 2019.

Capital expenditure was lower in H1 2020 at \$3.3 million, a decrease from \$4.5 million in the comparable period. Capital expenditure is expected to be significantly lower for the full year comparably.

Net debt was \$55.2 million for 30 June 2020, a significant \$19.5 million reduction from \$74.7 million as at 31 December 2019. Net debt to Operating EBITDA<sup>12</sup> decreased to 1.0 times for the half, demonstrating significant progress on capital management objectives.

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<sup>9</sup> iHeartMedia, Adobe Analytics, June 2020.

<sup>10</sup> OneRoof's listings as a percentage of residential for-sale real estate listings on trademe.co.nz.

<sup>11</sup> OneRoof / Valocity

<sup>12</sup> Operating results presented include the impact of NZ IFRS 16, however exclude exceptional items to allow for a like-for-like comparison between 2019 and 2020 half years. Please refer to pages 31-32 of the 2020 Half Year Results Presentation for a detailed reconciliation. Operating and statutory results include \$8.6 million of Covid-19 government wage subsidy received in H1 2020.

## AUDIENCE AND ENGAGEMENT

NZME's combined radio, print and digital audience of more than 3.2 million New Zealanders represents 80% of the New Zealand population<sup>13</sup>. NZME's significant radio audience has been maintained with 2.0 million<sup>14</sup> weekly listeners. Talk radio major market share grew 0.8% year-on-year to 14.8% due to the continued success of Newstalk ZB<sup>14</sup>.

Music radio major market share was down 0.9% to 25.0% in the same period<sup>15</sup> however several brand optimisation, talent and content changes have since been introduced to support future growth in music listener market share. iHeartRadio achieved significant improvement in engagement with 4.9 million average monthly listening hours in H1 2020, an increase of 34% year-on-year<sup>16</sup>.

NZME print readership continues to be strong with 1.2 million weekly print readers and a NZ Herald weekly brand audience of 1.6 million people<sup>13</sup>. NZME's digital platforms now reach 2.4 million digital users per month<sup>13</sup>, a testament to NZME's brand strength and quality of content.

OneRoof has grown to be a prominent national brand, now with a monthly unique web audience of 300,000<sup>17</sup>, with less than a quarter now referred from the NZ Herald site<sup>18</sup>. OneRoof now has more residential for-sale listings in Auckland than any other digital real estate site and has grown to more than 83% of New Zealand listings<sup>19</sup>.

New Zealand's reliance on NZME to be a trusted source of news was significantly highlighted during the Covid-19 lockdown. During Alert Level 4, 50% of New Zealanders relied on the daily paper for news, up from 43% on average<sup>20</sup>. Digital audiences reached an all-time peak, with 2.8 million digital users of NZME's platforms in the month of April<sup>21</sup>.

## CHANNEL PERFORMANCE

\$ million	H1 2020	H1 2019	% Change
Radio	43.7	53.5	(18%)
Print	75.3	96.6	(22%)
Digital	28.3	28.2	0%
<b>Total Segment Revenue</b>	<b>147.3</b>	<b>178.3</b>	<b>(17%)</b>

<sup>13</sup> Nielsen CMI Fused Q2 19 – Q1 20, June, People 15+. Digital: April, May 2020, AP 10+.

<sup>14</sup> GfK Radio Audience Measurement, Commercial Talk Radio Stations, Market Share, S1 2020, People 10+.

<sup>15</sup> GfK Radio Audience Measurement, Commercial Music Radio Stations, Market Share, S1 2020, People 25-54 y/o.

<sup>16</sup> Adswizz and StreamGuys, June 2020.

<sup>17</sup> Nielsen Online Ratings, June 2020.

<sup>18</sup> Google Analytics (July 2020).

<sup>19</sup> OneRoof's listings as a percentage of active residential for-sale real estate listings on trademe.co.nz.

<sup>20</sup> Nielsen CMI Q2 2019 – Q1 2020 compared to Q2 2020 dip (26 Apr – 17 Apr)

<sup>21</sup> Nielsen CMI Fused Q2 19 – Q1 20, April, People 10+.

## Radio Performance

\$million	H1 2020	H1 2019	% Change
<b>Total Radio revenue</b>	<b>43.7</b>	<b>53.5</b>	<b>(18%)</b>
Direct radio costs	(14.6)	(17.7)	(17%)
<b>Radio contribution</b>	<b>29.1</b>	<b>35.8</b>	<b>(19%)</b>

Growth in NZME's radio revenue continued up until Covid-19 began to impact revenues. Radio revenue for the first half was \$43.7 million, down 18% year-on-year. NZME achieved growth in radio revenue market share to 39.7% in H1 2020<sup>21</sup>, up from 39.3% in the comparable period as the total radio advertising revenue market declined 19.5%<sup>22</sup> year-on-year.

iHeartRadio grew its registered users by 12% year-on-year to 1,021,000 registered users<sup>23</sup> and average monthly listening hours grew 34% year-on-year to 4.9 million hours<sup>24</sup>. iHeartRadio continues to achieve growth in revenue from advertising and podcasts, increasing 39% year-on-year and contributing 2% of total radio revenue.

Direct radio costs include radio licence fees, transmission costs, iHeartRadio licence fees, radio talent costs and agency commission specifically related to radio products. Direct costs exclude integrated head office, content generation and sales costs. Direct radio costs decreased 17% in H1 2020 to \$14.6 million. Radio contribution was \$29.1 million, a decrease of 19% from \$35.8 million in H1 2019.

## Print Performance

\$million	H1 2020	H1 2019	% Change
Print advertising revenue	35.3	51.1	(31%)
Circulation revenue	36.5	38.5	(5%)
Other print revenue	3.6	7.0	(49%)
<b>Total Print revenue</b>	<b>75.3</b>	<b>96.6</b>	<b>(22%)</b>
Direct print costs	(25.8)	(33.5)	(23%)
<b>Print contribution</b>	<b>49.6</b>	<b>63.1</b>	<b>(21%)</b>

Print revenue, including print advertising and circulation revenue, was \$75.3 million in H1 2020 representing a decline of 22% from H1 2019. Print advertising revenue of \$35.3 million decreased 31%, largely due to Covid-19 impacts. However, NZME achieved market share growth to 46.8% as the total print advertising market experienced slightly greater decline<sup>25</sup>.

Print circulation revenue declined 5% to \$36.5 million due to an 8% decrease in volume partially offset by a 3% increase in yield. Retail subscriber volumes were particularly impacted by Covid-19 lockdown, decreasing 25% year-on-year in H1 2020. Due to an increase in demand

<sup>22</sup> PwC Radio advertising market benchmark report, 6 months to 30 June 2020 vs 6 months to 30 June 2019.

<sup>23</sup> iHeartMedia, Adobe Analytics, June 2020.

<sup>24</sup> AdsWizz and StreamGuys, June 2020.

<sup>25</sup> PwC NPA quarterly performance comp. report, June 2020, 6 months to 30 June 2020 vs 6 months to 30 June 2019.

for quality news from home, subscriber volumes increased from Q1 to Q2 for the first time since 2017, down 4% for the half overall.

Other print revenue, relating to printing and distribution services provided to external parties, decreased 49% or \$3.4 million to \$3.6 million, primarily due to Stuff removing several publications previously printed by NZME. Combined with reduced volumes, the annual impact on third-party print revenue is expected to be approximately \$5.0 million, however this will be substantially offset by print expense reductions.

Direct print costs include printing and distribution costs, occupancy costs at the Ellerslie print plant and agency commission specifically related to print products. Direct print costs declined 23% in H1 2020 to \$25.8 million, largely reflecting the temporary suspension of some newspaper inserted magazines and community newspapers due to Covid-19. Print contribution declined 21% to \$49.6 million in H1 2020.

### Digital Performance

\$million	H1 2020	H1 2019	% Change
Advertising revenue	20.2	22.0	(8%)
Subscription revenue	2.4	0.2	-
Classified revenue	1.7	1.4	16%
GrabOne revenue	4.0	4.6	(12%)
<b>Total Digital revenue</b>	<b>28.3</b>	<b>28.2</b>	<b>0%</b>
Direct digital costs <sup>26</sup>	(9.3)	(9.0)	3%
<b>Digital contribution</b>	<b>19.0</b>	<b>19.2</b>	<b>(1%)</b>

NZME digital revenue held flat for H1 2020 at \$28.3 million after achieving growth of 7% in the first quarter as growth in digital subscriptions and classifieds revenue offset the impacts of Covid-19 on advertising revenue.

Digital advertising was impacted by a decline in the total digital agency advertising market of 15.4% in H1 2020<sup>27</sup>. However, NZME achieved growth in total digital display market share to 24.3% compared to 22.8% in H1 2019<sup>28</sup>, as advertisers increasingly turned to NZME to connect with their target audiences.

The decline in digital advertising revenue was offset by \$2.4 million of new digital subscription revenue from the NZ Herald Premium digital subscription base. Subscriber numbers continue to grow after the launch in April 2019, now with more than 43,000 paid digital subscribers and more than 82,000 in total including activated print subscriptions. The upgrade of the NZ Herald App to enhance personalisation, allow offline reading and in-App purchasing of Premium digital subscription access has helped to drive this significant growth.

<sup>26</sup> H1 2019 previously reported direct digital costs include reclassifications.

<sup>27</sup> Standard Media Index (SMI) NZ Data Release, June 2020.

<sup>28</sup> IAB digital advertising revenue – General Display, IAB NZ Digital advertising revenue report, Q2 2020.

OneRoof continues to grow in listings, audience and revenue. The platform now has 83% of New Zealand's residential for-sale real estate listings<sup>29</sup>. OneRoof generated \$1.4 million of revenue in H1 2020 of which approximately 75% now relates to listings upgrades.

GrabOne revenue decreased 12% in H1 2020 to \$4.0 million. However, the platform has quickly recovered from the impacts of Covid-19 and is now delivering year-on-year growth.

Direct digital costs include fulfilment costs, production costs, merchant fees related to GrabOne, and agency commission related to digital products. Direct digital costs, including digital classified costs, increased 3% in 2020 to \$9.3 million due to growth in certain revenue streams. Digital contribution declined 1% to \$19.0 million.

## **FINANCE AND CORPORATE**

### **Costs**

On 14 April 2020, NZME provided a market update on initiatives swiftly implemented to mitigate the impacts of Covid-19 on the business. These included several cost saving initiatives including the temporary suspension of some newspaper inserted magazines and community newspapers, the closure of Radio Sport, a wide scale workforce restructuring, temporary voluntary salary reductions for employees and a reduction in overall discretionary spend.

Combined with the ongoing focus on cost containment, these initiatives resulted in a 16% decrease in Operating expenses<sup>30</sup> to \$128.9 million in H1 2020. The majority of the savings were in people and contributors, down \$8.2 million or 11%, and print and distribution, down \$7.1 million or 24%.

Costs were down \$24.6 million for the first half, with approximately \$7.0 million relating to permanent cost reductions and the balance relating to variable or short-term savings. The annualised permanent reduction in cost base is expected to be \$20.0 million per annum.

Exceptional items were \$7.2 million in H1 2020 including redundancy costs of \$7.0 million relating to workforce restructuring and one-off project costs and other exceptional items of \$0.2 million.

### **Cash flow and capital management**

NZME is pleased to report strong cash flows and progress in capital management objectives of reducing debt and gearing while maintaining investment in growth opportunities.

Cash inflow from operations was \$27.7 million in H1 2020, compared to \$18.3 million in H1 2019. This increase was due to strong Operating EBITDA<sup>28</sup> and a reduction in both working capital and capital expenditure.

Tax paid was lower in H1 2020 at \$1.2 million, compared to \$2.0 million in H1 2019.

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<sup>29</sup> OneRoof's listings as a percentage of residential for-sale listings on trademe.co.nz.

<sup>30</sup> Operating results presented include the impact of NZ IFRS 16, however exclude exceptional items to allow for a like-for-like comparison between 2019 and 2020 half years. Please refer to pages 31-32 of the 2020 Half Year Results Presentation for a detailed reconciliation. Operating and statutory results include \$8.6 million of Covid-19 government wage subsidy received in H1 2020.

Capital expenditure was contained at \$3.3 million in H1 2020 and is expected to be approximately \$7.0 million for FY 2020.

Lease liability principal repayments reduced to \$4.8 million in H1 2020 compared to \$5.7 million in the comparable period due to transmission cost relief received from the government and rent concessions.

Net debt reduced by \$19.5 million in 6 months to \$55.2 million as at 30 June 2020, including \$80.5 million of drawn borrowings (December 2019: \$89.5 million) and \$25.0 million of cash and cash equivalents (December 2019: \$14.4 million). The ratio of net debt to rolling 12-month Operating EBITDA<sup>31</sup> was 1.0 times at 30 June 2020, a reduction from 1.5 times as at 31 December 2019.

In June 2020 an extension of debt facilities, due to expire in January 2022, to 1 July 2023 was agreed and includes additional covenant headroom over the term of the facility. The terms of these facilities limit dividend payments until after 30 June 2021.

## **OUTLOOK**

NZME has seen a stronger than anticipated recovery from Covid-19. However, the business remains cautious regarding the future economic environment.

NZME's total advertising revenue is expected to be down 16% year-on-year in Q3 2020. Cost containment remains a focus.

Based on current expectations of recovery, NZME expects to deliver a FY 2020 Operating EBITDA of \$60 - \$63 million, inclusive of IFRS 16.

Based on continued improvement in economic conditions, Covid-19 recovery, improved revenue trends and permanent cost reductions, NZME would expect profit growth in 2021.

Based on this outlook and NZME's capital requirements, the Board expects to be able to consider a dividend payment when facility terms permit, which is after 30 June 2021.

NZME looks forward to providing investors with further updates on strategic priorities at an Investor Day in Q4.

The full set of 2020 Half Year Results materials can be found at:  
[www.nzx.com/markets/NZSX/securities/NZM/announcements](http://www.nzx.com/markets/NZSX/securities/NZM/announcements)

## **ENDS**

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<sup>31</sup> Operating results presented include the impact of NZ IFRS 16, however exclude exceptional items to allow for a like-for-like comparison between 2019 and 2020 half years. Please refer to pages 31-32 of the 2020 Half Year Results Presentation for a detailed reconciliation. Operating and statutory results include \$8.6 million of Covid-19 government wage subsidy received in H1 2020.

**Briefing Audio:**

NZME will host a webcast for investors and analysts, hosted by Michael Boggs (Chief Executive Officer) and David Mackrell (Chief Financial Officer) commencing at 10.00am NZT today, Tuesday 25 August 2020 to discuss the 2020 Half Year Results.

Please [CLICK HERE](#) to register for and access the webcast.

Once registered, you will be able to join the webcast either online or by telephone. Please note only participants online will be able to ask questions. If your computer does not have a microphone, you can use the Zoom app on your smart phone or join the audio with a phone call. Enter the webcast online, then choose "Join by Phone" when prompted about audio and enter the supplied Webinar ID when dialing.

A recording of the webcast will be available on NZME's website one hour after the call at: <https://www.nzme.co.nz/investor-relations/webcasts/>

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