Domain

## ASX ANNOUNCEMENT

# Domain Holdings Australia Limited 2021 Half-Year Results Commentary

**Sydney, 16 February 2021:** Domain Holdings Australia Limited [ASX:DHG] ("**Domain**" or "**Company**") today delivered its 2021 half-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 2021 half year results briefing.

I'd like to start off today by acknowledging the Traditional Custodians of Country throughout Australia, and their connections to land, sea and community.

We pay our respects to their elders past and present, and extend that respect to all First Nations people today. For myself, I am on the land of the Gadigal people of the Eora Nation.

*Slide 2,3*

We'll run through our usual agenda, with an overview of the result, and the progress we're making with our Marketplace strategy. I'll provide some comments on the Outlook and then Rob will take you through the group financials. And at the end of our presentation we look forward to your questions.

I am excited to report the first year-on-year growth in market listings since I joined Domain two-and-a-half years ago.

Today's results demonstrate our ability to capitalise on the current opportunities, whilst purposefully investing for long term growth, squarely focused on the elements we can control. We are executing on the opportunity that lies in front of us. This is reflected in increased depth penetration, acceleration in our controllable yield, and 20% like-for-like Core Digital EBITDA growth in the first half result. At the same time, we are building for the future in a focused and disciplined way, as evidenced by the velocity of our Marketplace innovation pipeline, and the early contribution of these initiatives.

I am incredibly proud of our team at Domain. They delivered all this against a backdrop of two of the most challenging years the property market has experienced in decades.

It is encouraging to see we are now entering a supportive environment for property, with low interest rates and high levels of demand. Although we have seen a modest early recovery, property turnover remains well below historic mid cycle levels. Longer term there's an opportunity for stamp duty reform to provide a further step-change to transaction volumes.

I mentioned earlier our ability to execute on the current opportunities while investing to build a long-term sustainable and competitive business. There are three elements to our approach;

Firstly, we launched a new flexible pricing model that has allowed Domain to deliver growth in controllable yield through the worst of the listings downturn, while positioning the business to benefit strongly as listing volumes recover.

Secondly, we have been accelerating our evolution to a property Marketplace that can leverage our powerful platform and rich data, to provide an array of tailored solutions to agents and consumers.

Finally, we have been disciplined on expenses, restructuring our cost base to focus on the parts of the business that will be most effective in accelerating our long-term growth objectives. We have been strategic in our approach to costs. We have improved the quality of our cost base, and been purposeful in re-investing in product, tech and data. These are the areas that bring to life the opportunities available through our Marketplace model.

And throughout, we have maintained a strong balance sheet, with the flexibility to navigate the broad array of conditions we have experienced, while investing for the future.

The work we have done means that Domain is well placed to leverage the recent improvement in the property listings environment.

*Slide 5*

For the first half of FY21, on a like-for-like basis, Domain delivered:

- Revenue of $137.0 million down 5.5%
- Expenses of $82.5 million down 9.9%
- EBITDA of $54.5 million up 3.6%
- EBIT of $34.7 million, up 11.8%

Net profit was $19.4 million and Earnings per Share were 3.3 cents.

This was a pleasing result in the context of the volatile market conditions we experienced in the half, particularly the extended nature of Victoria's COVID-lockdown.

In light of the continued COVID-19 uncertainty, the Board has deferred consideration of a dividend until the full-year results.

*Slide 6*

Turning to the segment results on slide 6:

Residential revenue increased around 11% on a reported basis and 9% like-for-like.

Media, Developers & Commercial revenue declined 9%.

Agent Services revenue declined 4%.

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Together these categories delivered Core Digital revenue which increased 5% on a reported basis, and 3% like-for-like. Core Digital EBITDA increased 33%, and 20% like-for-like.

Consumer Solutions & Other revenue increased 13% and EBITDA losses increased to $2.7 million.

Total Digital revenue increased 6% on a reported basis and 3% like-for like.

Print revenue declined 65% and EBITDA was lower at $1 million.

*Slide 7*

Our evolution to a Marketplace model is all about making our solutions work better together. We are maximising the opportunities that already exist within our key assets, and the depth of our long-standing and trusted relationships. By creating a cohesive ecosystem of services, we can support agents and consumers at more points of their property journeys, and fulfil Domain's purpose to inspire confidence for all of life's property decisions.

*Slide 8*

This slide highlights the progress we are making against our Marketplace strategy.

In our Core listings business we achieved:

- 9% growth in controllable residential yield with record depth penetration;
- 20% like-for-like growth in Core Digital EBITDA;
- A 57% increase in app launches reflecting our highly engaged audience.

In Agent solutions we delivered:

- Around 30% growth in the number of Real Time Agent subscribers between June and December 2020;
- The launch of MarketNow, our joint venture for flexible payment solutions;
- And the scaling up of our newly launched Early Access product.

In Consumer Solutions, we achieved:

- 28% revenue growth and 50% increase in new accounts at Domain Home Loans;
- Improving conversion rates at Domain Insure.

In Property Data Solutions we accelerated investment in data initiatives to support unique products and insights, expanded beta testing of Lead Miner, and launched a real time demand forecaster for properties, to add value to owners and agents. This expanded testing of Lead Miner is producing some impressive improvements in conversion rates.

*Slide 9*

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

*Slide 10*

Residential revenue increased 10.6% year-on-year and 8.5% on a like-for-like basis on modestly higher overall listing volumes. Domain delivered a 9% increase in controllable yield, supporting Residential depth revenue growth of 10.5% on a like-for-like basis. This good performance benefited from a strong finish to the half, and a bounce-back in Melbourne following lockdown. Residential subscription revenue declined marginally.

*Slide 11*

Domain's strong controllable yield performance is underpinned by our powerful core listings business, with effective listings parity, and large, growing and highly engaged audiences.

*Slide 12*

The chart on the left-hand side of Slide 12 illustrates the unprecedented volatility the market has experienced since the beginning of FY19. As mentioned, Domain's 9% increase in controllable yield in the first half is an acceleration from FY20, despite including a substantial period of lockdown in Melbourne, which is obviously a large market for us.

*Slide 13*

I've spoken previously of the market segmentation we have been implementing to drive these impressive yield outcomes. Customising our levers at the local market level, has supported solid growth outcomes in revenue per listing across all three segments. The volume environment was uneven, with strength in inner city Sydney, weakness in Victoria, and a mixed performance in the other states.

Audience growth was pleasing across all segments, with the exception of Victoria during the lockdown period, and we have seen a strong rebound following the easing of restrictions.

Across all states we increased the number of depth contracts with agents.

The drivers of our yield performance varied, with price stronger than depth in our highly penetrated established markets, an even mix of price and depth in expanding markets, and stronger depth than price growth in our less penetrated emerging markets.

*Slide 14*

Turning now to a detailed view of Domain's depth performance on Slide 14.

In the first half, Domain delivered year-on-year growth in depth penetration in every state to reach a new record. This is a significant achievement in the context of the very challenging circumstances in Victoria for much of the period. The acceleration in Platinum penetration in New South Wales is particularly notable.

*Slide 15*

Even more encouraging is the accelerating momentum we've achieved in Depth penetration between the first and second quarters. As you'd expect, Q1 was particularly challenging in Victoria as the state was in lockdown for the entire period. However it's pleasing to see that after the lockdown ended, we saw a significant bounce-back in Q2, with 13% year-on-year growth compared with the 13% year-on-year decline in Q1. This performance has supported an acceleration of the national growth rate from 6% in Q1 to 9% in Q2.

*Slide 16*

Turning to Domain's audience performance. I've spoken previously about our focus on driving higher quality, and more engaged audiences with targeted marketing spend. We continued to deliver strong year-on-year growth in first half quality audience metrics, with a 23% increase in unique digital audience. As mentioned previously, app launches grew by an extraordinary 57%, indicative of very high levels of audience engagement. We also saw continued strong growth in listing views and leads, highlighting the increasing value we are delivering to consumers and agents.

Our app metrics have continued to strengthen in the second half. App launches have accelerated to 67% year-on-year growth in January, and app downloads have reached a new five-year high. Listing views and leads also reached new highs in January, an extraordinary outcome in a typically lower seasonal period.

Our marketing programs, and focus towards quality audiences, is driving considerable efficiencies in marketing spend. As highlighted on the slide, our cost per enquiry reduced 40% year-on-year, an excellent outcome. In November, Domain had a unique digital audience of 7.1 million. Including Allhomes and Print we access a broad audience of more than 8 million, with our relationship with Nine providing exposure to an audience of more than 17 million.

*Slide 17*

Our product teams deliver to Domain's purpose by providing great consumer experiences at every stage of the property journey. New residential products rolled out in the past six months include Suggested suburbs, a new app experience for our unique School Search feature, an appraisal for owners to assist in choosing an agent, and a relaunched portal for software developers. We also launched our valuable Early Access product which I'll discuss in more detail later.

*Slide 18*

Turning to Media, Developers & Commercial.

Revenue declined 8.7% with a mixed performance across the three verticals.

*Slide 19*

Media delivered strong year-on-year growth, benefiting from quality audiences and content, and our focus on niche and premium advertisers. The business is maintaining improved margins, reflecting the new operating model.

The Developer market continues to see a shift from large multi-storey apartment projects to smaller boutique developments, and a shift from investor to owner-occupier projects. There was meaningful variation in activity on a state-by-state basis, with a solid performance from

New South Wales, a strong performance from the ACT, and a decline in Victoria during lockdown. Excluding Victoria, the business delivered modest year-on-year growth.

The Commercial Real Estate market remained disrupted by COVID-19 through the half, particularly on the East Coast, with the weakest performance across the three verticals. There was some improvement in performance towards the end of the half, and encouragingly the new pricing model supported an increase in revenue per lease listing for the period.

*Slide 20*

Despite the challenging environment for CRE, our valuable product solutions supported growth in audiences which reached a new record in the half.

*Slide 21*

In Agent Services, revenue declined 3.7% adjusted for the sale of MyDesktop.

*Slide 22*

Pricefinder and Homepass were both impacted by COVID-19 lockdowns, with improving momentum late in the half. Real Time Agent benefited from a full half year contribution and strong underlying growth.

*Slide 23*

As highlighted on this slide, RTA's creative agent solutions have seen accelerating take-up when combined with the power and scale of Domain's national platform. There has been significant geographic expansion as RTA has expanded beyond its Victorian roots. Additionally there has been substantial expansion in RTA's product suite, with the addition of private treaty to auction contracts, and the rollout of new Concierge and Vendor Paid Advertising products. The embedding of these products into the Agent workflow supports low levels of churn.

*Slide 24*

This slide outlines some examples of how the Marketplace strategy is delivering a higher velocity of innovative solutions, to help Agents grow their businesses.

Our Lead Miner beta product helps agents capture more listings from their own databases, and spend less time on routine admin tasks. As you can see from the quote on the page, this is already providing significant value.

The launch of MarketNow, our strategic joint venture with Limepay, is providing flexible payment solutions to encourage new listings and assist vendors in managing their cashflows.

Early Access is embedded in the RTA workflow, allowing agents to start marketing a property as soon as the vendor authority is signed. This product benefits all three sides of the market, allowing agents to access high quality price feedback, vendors to achieve the best possible sales outcome, and providing buyers with early access to the properties of interest to them.

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*Slide 25*

On this slide you can see examples of these three products. Additional solutions in development in the first half include COVID-safe check-ins through Homepass, and the launch of database insights to assist agents in their prospecting.

*Slide 26*

Consumer Solutions & Other increased revenue 13%, with the slowdown in overall momentum impacted by a shift to a new higher margin utilities model. Revenue growth at Domain Home Loans increased 28%.

*Slide 27*

Domain Home Loans' key metrics are outlined on Slide 27. New account creation has remained very strong, with a 50% uplift in the first half. We have been implementing measures to improve conversion, with integration into the app, and increased investment in the broker network. Domain Home Loans continues to achieve very positive customer reviews, and I'm incredibly proud that the business was the 2021 winner of Product Review's home loan category. This is a significant achievement, and testament to our customer-centric, innovative approach to this category.

*Slide 28*

Here you can see the valuable Marketplace solutions for consumers that our product teams have delivered. As mentioned, Domain Home Loans has been integrated into the app, and the launch of a mortgage monitor allows consumers to receive alerts on attractive refinance opportunities. We've continued to enhance the Domain Insure experience, and have launched a 'next steps' for serious buyers following a property inspection.

*Slide 29*

Print revenues declined around 65%.

*Slide 30*

Print revenues were significantly affected by the pause on print undertaken during COVID-19 lockdowns, with a greater than 60% decline in print editions during the half. Cost reduction initiatives, together with print volume declines supported a 58% year-on-year decline in expenses, and the maintenance of EBITDA profitability.

While COVID-19 has accelerated the shift from print to digital, Domain's high value audience of around 1.5 million, in premium markets, underpins the sustainability of our magazines.

*Slide 31*

Turning now to the current trading environment and outlook.

Domain

*Slide 32*

Trading in January 2021 reflects an encouraging start to the calendar year. We continue to see the atypical seasonal patterns which were a feature of FY21 H1, particularly evident in the early listings strength in Melbourne.

We will maintain our disciplined investment approach while improving the quality of our cost base, to accelerate our Marketplace strategy.

For FY21, total costs (adjusted for divestments) are expected to increase in the mid-to-high single digit range from the FY20 base of $177.2 million. The second half of FY21 will reflect the absence of contributions from the Federal Government's Jobkeeper scheme, and Domain's Project Zipline employee program, both of which benefited the second half of FY20 and the first half of FY21.

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

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**Rob Doyle – Chief Financial Officer:**

*Slide 33*

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

*Slide 34*

Slide 34 provides a reconciliation of the statutory 4D 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, as Jason has already outlined the operating performance of the Domain businesses.

Depreciation and amortisation expense of $19.8 million decreased from $21.1 million in FY20 H1. Factors contributing to the decline include lower depreciation relating to leases, and lower capex due to Zipline and JobKeeper.

For FY21 H2, depreciation and amortisation expense is expected to be similar to the first half.

Net finance cost of $3.5 million was in line with last year.

Tax expense of $10 million is an effective tax rate of around 32% and we expect a similar rate in the second half.

Net profit attributable to non-controlling interests (NCI) of $1.7 million reflects the share of profits or loss attributable to the agent ownership models, and other consolidated, non-wholly owned entities.

NCI was slightly higher than FY20 H1 as a result of increased profits in Domain Residential agent ownership models, offset by higher losses in non-wholly owned Consumer Solutions businesses. Further detail is contained in Appendix 1.

*Slide 35*

Slide 35 provides the reconciliation of statutory to trading performance for the FY20 first half.

*Slide 36*

Before we turn to the detail, I wanted to expand on Jason's earlier comments on our multi-year efforts to restructure and improve the quality of our cost base. The results are illustrated on this slide.

Over the past two years, our disciplined cost focus and divestment of underperforming businesses, has underpinned a 30% decline in operating costs.

These efforts have supported a significant uplift in EBITDA margin, even in an environment of declining revenues.

At the same time our focus on investing in the areas of product, tech and data that will accelerate our Marketplace strategy, has substantially improved the quality of our cost base. Over the past two years product, tech and data costs have more than doubled as a proportion of the total cost base, lifting from 6% to 13%.

This focus on quality has supported a significant uplift in employee engagement, despite the significant overall reductions in cost. For a people based business like ours, this is a very meaningful outcome.

*Slide 37*

Slide 37 provides the detail of Domain's cost structure, and a reconciliation of statutory to trading expenses, like-for-like and ongoing expenses.

Statutory expenses declined 18.7% to $83.9 million.

Trading expenses, which exclude significant items and disposals, declined 14.5% to $82.5 million. Adjustments for acquisitions and Jobkeeper saw like-for-like expenses down 9.9% to $87.0 million as Jason mentioned earlier.

Given the impact of Domain's COVID-response Zipline program, we have provided a further reconciliation to ongoing expenses which include acquisitions. Adjusted for these items, ongoing expenses declined 5.5% to $91.2 million.

Turning now to the drivers of our trading costs.

Staff costs declined 5%, benefiting from the Jobkeeper subsidy and Zipline program. Excluding these two items, ongoing staff costs increased 16% as we accelerated our investment in product and technology, and incentives were higher as a result of the improved performance.

Production and Distribution costs reduced 34%, largely due to the reduction in Print costs resulting from the pause on print.

Promotion costs were lower, reflecting the ending of our Cricket Australia sponsorship and a more focused and targeted spend. As Jason outlined earlier, our focus on high quality audiences has significantly reduced our marketing cost per enquiry.

Software and Communications expenses reduced 14% due to continued efficiencies.

Other costs increased 25% largely as a result of higher market-wide increases in insurance premiums.

Looking forward to the second half of FY21, we expect overall costs to increase year-on-year and versus the first half. This reflects the absence of Jobkeeper and Zipline benefits, a reversal of a portion of COVID-driven cost savings, and the acceleration of investment in product, tech and data I mentioned earlier.

*Slide 38*

Slide 38 provides an overview of significant items.

Restructuring charges of $1.4 million largely relate to the implementation of new finance and billing systems.

Gains on contingent consideration, and sale of controlled entities of $1.4 million, largely relate to the sale of MyDesktop and the acquisition of Real Time Agent.

*Slide 39*

Turning to cash flow on Slide 39.

FY21 H1 cash from trading was $35.4 million, lower than the prior period. The timing of receipts from customers reflects the unseasonably strong revenue performance leading up to the end of the calendar year. In addition, there was an unwinding of deferred payments which took effect during the COVID crisis.

Income tax payments of $20.7 million reduced as a result of lower tax expense during FY20, reflecting the decline in profit before tax.

Investment in PPE and software was $10.3 million, slightly below FY20 H1 due to the impact of Jobkeeper and Project Zipline on developer costs. We expect some increase in the second half as a result of the acceleration in R&D and tech investment I've just spoken about. For the full year we expect capex in the low to mid $20 million range.

There were no investments in the first half, with the $19.7 million undertaken a year ago relating to the acquisition of Real Time Agent.

Dividends paid reduced substantially versus the prior period reflecting the absence of an FY20 full year dividend.

Lease payments of $4.3 million were in line with last year.

The net cash outflow of $5 million resulted in a year end cash balance of $60.5 million.

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*Slide 40*

Slide 40 provides an overview of Domain's debt facilities. As at December 2020, the $305 million facility was drawn down to $173 million, unchanged from June 2020.

*Slide 41*

Slide 41 shows the balance sheet of Domain Group as at December 2020. Domain has a strong balance sheet, ending the half with net debt of $111.5 million, a modest increase on $105.8 million at June 2020. This represents a leverage ratio of 1.2x which has improved from 1.3x as at June 2020.

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

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### Jason Pellegrino, Chief Executive Officer

Thank you, Rob.

*Slide 42*

The efforts of the Domain team during the past two challenging years are demonstrated in the results we have reported today. We are delivering on the fruits of that labour, with a successful and flexible pricing model, quality engaged audiences and a strong pipeline of Marketplace solutions. We have a high quality cost base, with the capacity to invest for the future in areas that can accelerate our growth. Domain is well placed to benefit from any further improvement in the market environment.

With that, I'll hand back to the operator for Q&A.

## Ends

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