

## ASX ANNOUNCEMENT

### Domain Holdings Australia Limited 2018 Half-Year Results Commentary

**Sydney, 19 February 2018:** Domain Holdings Australia Limited [ASX:DHG] ("**Domain**" or "**Company**") today delivered its 2018 half-year financial results. Accompanying commentary from Executive Chairman Nick Falloon, Chief Financial Officer Rob Doyle, and members of the executive management team, is set out below.

#### Nick Falloon – Executive Chairman

##### Slide 1

Good morning everyone.

Thanks for joining me and Chief Financial Officer Rob Doyle for Domain's 2018 half-year results presentation.

Over the last month, I have had the opportunity to work hand in hand with the management team and have seen first-hand the excellent work they are all doing.

I am pleased that several members of the Domain executive team are on the call with us this morning:

- Chief Operating Officer Graeme Plowman;
- Chief Editorial and Marketing Officer Melina Cruickshank;
- Chief Sales Officer Tom Ainsworth; and
- Chief Product and Customer Experience Officer Tony Blamey.

##### Slide 2, Slide 3

There are four parts to today's presentation.

First I will provide an overview and commentary on the result. I will invite executive management to offer insights and commentary on their areas of expertise.

I will then provide an update on current trading.

Rob will then take you through the details of Group Financials.

And finally, at the end of the presentation, we will be happy to take your questions.

##### Slide 4

Domain has today reported a pleasing first standalone result, with pro forma EBITDA growth of 8.7% and a strong underlying performance. It demonstrates the strength of Domain as a separately listed company and the ongoing success of its strategy.

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Having stepped in as Executive Chairman, I can attest to the bench strength of the entire Domain team and their passion, skill and commitment. The business is in great shape with strong underlying momentum.

The listing of Domain in November 2017 was a tremendous milestone. It was the culmination of the dedication, hard work and support of many – from Domain and Fairfax Media.

I'm pleased to say the global search is underway for a new CEO. We are searching for an individual who will take Domain through its next stage of growth. We expect the new leader to have execution discipline and relevant experience in driving a growth business and building a great culture. The calibre of the candidates that we are attracting is truly impressive, befitting Domain's position as a leading real estate media and technology business.

## Slide 5

For the first half, on a pro forma basis, Domain reported:

- Revenue growth of 12.5% to \$183.3 million;
- EBITDA growth of 8.7% to \$56.8 million;
- EBIT decline of 2.7% to \$43.6 million;
- Net profit decline of 8.1% to \$24.7 million;
- Earnings per share of 4.29 cents; and
- An interim dividend of 4 cents per share, 30% franked.

Rob will take you through the detail of the statutory result and reconciliation to the pro forma result later in the presentation.

As you would be aware from our disclosure in the Scheme booklet, Domain has proposed to acquire the outstanding 50% of shares in Review Property Pty Ltd. This acquisition is on track and expected to complete later this month.

## Slide 6

Turning to the detail of the pro forma segment results:

Residential revenue increased 19.3%.

Media, Developers & Commercial revenue increased 20.1%.

Agent Services revenue increased 11.3%.

These categories delivered Core Digital revenue growth of 18.5% and Core Digital EBITDA growth of 22.7%.

Pleasingly, Core Digital EBITDA margin increased from 42% to 43.4%.

Transactions & Other revenue increased 91.5%, with EBITDA losses of \$1.7 million, reflecting investment in new businesses Domain Loan Finder and Domain Insure.

Print revenue declined 11.6% and Print EBITDA declined 25.4%. This performance reflects ongoing structural decline in print.

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## Slide 7

Domain's purpose is to inform, inspire and connect people throughout the property lifecycle.

This purpose is delivered through our five strategic pillars. First-half achievements include:

- Continued expansion in relative market share to more than 95% of listings and more than 90% of agents;
- Continued strong growth in Domain app downloads to 6.1 million with an 18% uplift in app launches;
- 21% growth in residential mobile enquiries and 82% growth in CRE enquiries from our large premium audiences;
- 19% growth in core digital revenue underpinned by 24% growth in residential depth, and strong Commercial and Developer revenue; and
- The launch of Domain Loan Finder and Domain Insure, with a 91% increase in transactions revenue from existing and new businesses.

## Slide 8

These achievements are a credit to the strong and experienced management team in place at Domain – spanning all of our key revenue areas and operating functions.

This team is highly cohesive, well established, and has a breadth and depth of expertise in real estate, media and technology.

## Slide 9

Domain has five key revenue drivers. We will speak to each in detail.

## Slide 10

Residential is the largest contributor to Domain's revenue, at 47% of total in the first-half.

Residential revenue increased 19.3% to \$86.1 million.

Chief Sales Officer, Tom Ainsworth, will provide some commentary:

*This is a strong result from Residential, which during the first half continued to see a mixed environment for listings nationally, with strength in Sydney and Canberra and weakness in other markets resulting in total volumes down 2%. Yield increases and higher depth product penetration supported a 24% increase in residential depth revenue, which was the key driver of the revenue growth.*

## Slide 11

*We are delivering on our strategy to expand listing and agent coverage. This chart shows the significant progress Domain has made in Residential listings since January 2014 compared with our major competitor. In that time, Domain has*

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*benefited from significant investment to acquire access to all real estate agents and increase relative market share of listings from around 60% to near effective parity with the major competitor – and the gap continues to close.*

## Slide 12

*We spend an extraordinary amount of time pouring over the rich data provided to us by our Australian Property Monitors business. The charts on this page show total new market listings trends for the national market and our three established markets of Sydney, Melbourne and Canberra.*

*The dark blue line shows market listings for the current FY18 year; the green line shows the trends in the corresponding FY17 year; and the grey line shows FY16.*

*National trends in the first half have been mixed, with growth in Sydney off the weak base in FY17 which was affected by the prolonged Federal election campaign, rapid acceleration in housing prices, and historically high auction clearance rates. Canberra saw favourable trends; while Melbourne was weaker.*

## Slide 13

*In Domain's emerging markets – Brisbane and Perth were weaker; while Adelaide saw some growth.*

## Slide 14

*I mentioned earlier that Domain residential depth revenue increased 24%, and we still see considerable upside for depth penetration across the business.*

*To illustrate those opportunities, the chart on the right shows the absolute size of total market new listings for calendar year 2017. What is interesting about the chart is the large size of the Queensland market, relative to Domain's more established markets of NSW and Victoria.*

*The chart on the left highlights our residential depth product penetration by state. You will notice that Queensland remains very underpenetrated compared with Domain's more established markets.*

*We remain optimistic about the future outlook for depth growth over the longer term, reflecting upsell opportunities in new and existing depth tiers. We see room for improvement in Victoria. We are nearing completion of the Review Property transaction and expect benefits from the efforts I have led during the half to drive our sales team performance. We also have recently strengthened our ties with key customers having signed deals with a number of major agencies.*

*Early in the New Year, price increases were implemented in the 10% – 15% range for NSW and Victoria with more moderate increases in other States to help drive penetration.*

## Slide 15

One of the key planks of Domain's strategy is to grow premium audiences and quality leads.

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Chief Marketing and Editorial Officer, Melina Cruickshank, will provide some commentary on audience trends in the first half:

*Underpinning Domain's large and growing mobile audience is quality editorial content and a number of key marketing initiatives. Domain has established national brand presence through strategic and highly targeted marketing across key categories. We have leveraged the print and digital platforms of Fairfax; sponsorship of sports and popular TV show 'The Block'; highly creative outdoor campaigns; and social media.*

*The effectiveness of our marketing, our mobile-first strategy and the strength of our product, have combined to drive large mobile audiences and lead generation. We expect our new responsive site to further drive performance.*

*In the first half of FY18:*

- *Total app downloads increased 18% to more than 6 million, driven by Domain's successful marketing campaigns and high consumer app ratings.*
- *Total app launches increased 18% driven by high-quality consumer experience and product functionality.*
- *Domain app engagement remained at very strong levels of more than 50 minutes per person per month, reflecting a great consumer experience.*
- *Total residential mobile enquiries increased 21% to record levels, demonstrating the value Domain is delivering to agents and providing future yield opportunity. We saw particularly strong performance in Queensland. During the half, mobile generated 65% of all enquiries.*

## Slide 16

*Domain's editorial leads Australia's property conversation – and we amplify that conversation and listings in personalised and targeted ways to our 1.5 million social media followers.*

*Our editorial delivered 112 million page visits during calendar 2017, attracting a high-quality and highly-engaged audience of active property followers who drive enquiries to agents.*

## Slide 17

Domain's award-winning and highly-engaging product experience is proudly mobile-centric. The innovative strides we make are the result of constantly listening to our consumers to understand and respond to their evolving needs and wants.

Chief Product and Customer Experience Officer, Tony Blamey, will outline some recent product innovations.

*Mobile has long been at the centre of our user experience strategy. Our new responsive design enables vastly improved speed and a simpler, more intuitive and seamless experience across all devices. It also enables SEO benefits and drives*

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*significant efficiencies in design and speed to market. Recent innovations include an upgrade to the Domain 'Inspection Planner' to allow consumers to easily create a schedule of inspections; the launch of 'Seller Services' providing a one-stop-shop of services to vendors such as agent recommendations and free appraisals; 'Personalised Feed' which provides property recommendations, news, advice and market updates; and 'Listings Insights' which provides prospective buyers and vendors with deep insights on the neighbourhoods they're interested in.*

*Our products increasingly leverage data to provide personalised, relevant and actionable insights to consumers.*

## Slide 18

*Turning to Slide 18 – Our responsive design also extends to our Canberra real estate platform Allhomes – with the relaunch of our 'Browse Suburb' feature which is targeted at the majority of users who browse property rather than search.*

*Melina has highlighted Domain's leading position on social media, particularly Facebook. 'Social Boost' leverages this leading position by targeting passive and active consumers with relevant listings. This builds new revenue streams and drives new audiences from social platforms to Domain.*

*Domain's 'Depth tiers' have been extended to include a new silver depth listing tier, providing more choice to vendors around the design of marketing campaigns. We have also redesigned to provide greater distinction between standard and depth listings on mobile.*

*The launch of 'Domain Loan Finder' and 'Domain Insure' mark the extension of Domain into large markets of mortgage broking and insurance alongside expert partners.*

## Slide 19

Turning now to Media, Developers and Commercial.

This segment contributed 16% of Domain's total revenue and maintained strong momentum with a 20.1% uplift, supported by strong CRE and Developer growth.

## Slide 20

Tom Ainsworth will provide an overview of performance and market dynamics:

*Developers and Commercial achieved market share gains in the first half, reflecting strong underlying performance of the businesses.*

*The market dynamics varied across the three verticals.*

*Media operates in a challenging revenue environment which is delivering only modest digital display advertising growth, with Facebook and Google continuing to dominate.*

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*The developer market saw strong performance from house and land packages. However, the challenging regulatory environment for domestic and overseas buyers affected off-the-plan sales. Financing constraints negatively weighed on domestic investors. The strong performance of Domain's Developer business was especially pleasing amid this mixed backdrop. During the first half, Developer enquiries increased by 73%.*

*Our CRE business delivered continued strong growth reflecting gains in listings, audience and leads. The market backdrop for CRE was characterised by a tightening office leasing environment and positive yields being achieved in categories across all market sectors. Hotel and leisure showed emerging strength, while the traditional retail segment is facing disruption from e-commerce.*

## Slide 21

CRE is making great strides as illustrated by the charts on slide 21.

Over the past 18 months, listings have increased by more than 50%, supported by investment in product development and sales, as well as the benefits of our agent ownership model.

Along with the strong growth in listings, website visits are up 58% year-on-year, and leads have increased more than 82%.

## Slide 22

Tony Blamey will take you through some of the CRE product innovation:

*The audience for CRE differs to Residential in that it attracts industry professionals. Our product suite uses data and new technologies to innovate and serve this specialist market.*

*Recent examples of how we have improved the user experience include 'Building Profiles'; 'Augmented Reality'; 'Depth Listings Rebuild'; and 'Map Data Overlays'.*

*CRE is broadening its product offering and targeting additional segments through the launch of a business sales channel. This is building new adjacent revenue streams from segments such as businesses for sale and franchise opportunities.*

## Slide 23

In Agent Services, revenue increased a pleasing 11.3%. This was underpinned by subscriber growth, yield increases and bundling across the property cloud suite of MyDesktop, Homepass and Pricefinder.

## Slide 24

Tony Blamey will talk about the competitive strengths of our agent services and the investment being undertaken in product innovation.



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*MyDesktop is the leading real estate sales CRM business in Australia servicing approximately a third of agents representing in excess of \$100 billion of property transactions in 2017.*

*Homepass is the leading sales open-for-inspection tool. The Homepass application is used by thousands of agents to streamline the consumer experience at open homes.*

*Pricefinder has a solid position in property data, research and insights.*

*All three businesses delivered growth in subscribers as we continue to invest to enrich the end-user agent experience. This includes providing increased functionality to agents on the move, with the integration of Homepass-collected data into MyDesktop. We are also enabling agents to extend utilities connections offers to their customers through 'Homepass Connect'; and enhanced property data intelligence tools for agents via the new 'Pricefinder App'.*

## Slide 25

Turning to Transactions and Other.

Revenue increased 91.5% reflecting strong growth from Compare & Connect and early revenue from Domain Loan Finder which launched in July 2017.

## Slide 26

Chief Operating Officer Graeme Plowman will take you through the key businesses in our transactions portfolio:

*Domain has partnered with specialists to operate Domain Loan Finder, Domain Insure and Compare & Connect.*

*Home loans, insurance and utilities connections are very large markets adjacent to the core listings business, where we can leverage Domain's audience and trusted brand to grow transactions revenue.*

*Transactions revenue predominantly takes the form of commissions.*

*We invested in Compare & Connect in July 2016. During the first half FY18, the business delivered strong growth in connections volumes. We see the opportunity to expand margin over time with increased scale and further product integration with Domain.*

*Domain Loan Finder launched in July 2017 and is in investment phase, making a modest contribution to revenue in the first half.*

*Domain Insure launched in January of this year and is in investment phase. It will make a modest contribution to revenue in the second half.*



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## Slide 27

The key driver of the Print result was the ongoing structural decline, with some offset from cost initiatives.

## Slide 28

Graeme Plowman will provide some greater detail on Print:

*The 11.6% decline in revenue in the first half reflected ongoing structural shifts to digital, offset by the launch of the Domain glossy magazine format.*

*Cost initiatives delivered a 6% reduction in expenses year-on-year.*

*There are further cost opportunities in printing and distribution efficiencies.*

*Print continues to deliver strategic value by attracting high value and passive buyers from an aspirational and lifestyle audience, as well as promoting the Domain brand to consumers in key markets. Print also provides opportunities for bundling with premium digital products to enhance results.*

## Slide 29

Turning now to Current Trading and Outlook.

## Slide 30

Trading in the first seven weeks of FY18 H2 saw:

- Pro forma digital revenue growth of 21%.
- Pro forma total revenue growth of 11%.

For FY18, Domain's pro forma costs are expected to increase around 12% to 13% from FY17's pro forma costs of \$216 million.

I'll now hand over to Rob to take you through the details of the Group financials.



## **Rob Doyle – Chief Financial Officer**

## Slide 31

Thanks Nick – and thanks everyone for joining the call on what I know for everyone is a very busy day in the market. It was terrific to meet many of you during the separation process.

As Nick mentioned, we are pleased with the results for the first half, which demonstrate the continued momentum Domain is achieving.

## Slide 32

Slide 32 provides a reconciliation of the statutory 4D to Domain's pro forma trading performance excluding significant items. The statutory result is not representative of the underlying performance of the business. As Domain prepared for separation, different parts

of the business transitioned into the Domain Holdings Australia structure at various times between June and November 2017.

This table reconciles the statutory result to the more meaningful pro forma trading performance excluding significant items.

Pro forma represents a full six months of trading as if Domain were a separately listed entity for the entire reporting period.

Nick has already taken you through the pro forma operating performance of the Domain businesses and I will take you through the details of the items below EBITDA.

Pro forma depreciation and amortisation expense of \$13.2 million was in line with the full year guidance of \$26 million to \$29 million which was disclosed in the Scheme booklet. The increase from FY17 H1 reflected the investment in five new office premises across Australia and increased expenditure on product development which has a short amortisation period.

For FY18, we expect capex in the low \$20 million range.

Pro forma net finance costs of \$3.5 million reflected a full six month expense on net debt of \$139.4 million.

Pro forma tax expense of \$11.6 million reflects an underlying tax rate of 29%.

Net profit attributable to non-controlling interests of \$3.8 million reflects the share of profits or loss attributable to the agent ownership model and other consolidated, non-wholly owned entities.

### Slide 33

Slide 33 provides the same adjustments from statutory to pro forma for the FY17 first half.

### Slide 34

Slide 34 provides a reconciliation of statutory expenses to pro forma. Pro forma expenses excluding separation costs of \$120 million increased 14% year-on-year reflecting investment in staff, property and transaction businesses. This compares with the full year guidance of 13% we provided in the Scheme booklet.

We are on track to achieve the 13% guidance previously provided for the full year. We remain committed to investing in the growth of the business whilst ensuring that we continue to drive operational efficiency. As mentioned earlier, our print business has a number of cost savings initiatives underway which we expect to contribute in the second half.

The chart on the right provides a breakdown of Domain's cost structure by major category on a pro forma basis including separation costs. A large number of staff joined part way through FY17 and higher staff costs reflect the full run rate. Higher property repairs and maintenance cost reflects the expansion in Domain's property footprint undertaken in FY17.

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## Slide 35

Slide 35 provides an overview of significant items. These mainly relate to one-time separation costs including stamp duty and initial listing fees.

## Slide 36

At separation Domain Group entered into a \$250 million syndicated bank facility with a maturity of three to four years. At December 2017, \$165 million of this facility was drawn down.

## Slide 37

Slide 37 shows the statutory balance sheet of Domain Group as at December 2017. Key movements within the balance sheet from June 2017 reflect the Domain businesses moving from Fairfax into the Domain Holdings structure and the issue of shares relating to this transaction. The details of this transaction are outlined in more detail in Note 6 of the 4D.

Further financial information is contained in the Appendix of the presentation – including Statutory Cash Flow statement and Pro Forma Segment Results for FY17 and FY16.

I'll now hand back to Nick for closing remarks.



## **Nick Falloon – Executive Chairman**

## Slide 38

To briefly recap today's result.

## Slide 39

Domain is delivering with strong fundamentals underpinning future growth:

- The 22% growth in digital revenue in the half demonstrates continued strong performance of our listings and transactions businesses.
- The 18% increase in app downloads attests to the power of the Domain property app.
- The 21% increase in residential mobile enquiries proves the value and quality Domain delivers to agents and vendors.
- The 24% growth in residential depth revenue reflects Domain's increasing penetration of agents and listings.
- The 91% growth in transactions revenue is the result of investment to create a strong and expanding Domain property ecosystem.

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

## **Ends**

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