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Fairfax Media

Fairfax Media Limited
2018 Full-Year Results Announcement

Sydney, 15 August 2018: Fairfax Media Limited [ASX:FXJ] ("**Fairfax**" or "**Company**") today announced its results for the full-year to June 2018.

Statutory Results
- Revenue of $1,687.9 million, down 3.1% from the prior corresponding period.
- Net loss after tax of $63.8 million, compared with a net profit of $83.9 million in the prior corresponding period.
- Significant items after tax totalling $188.7 million loss.

Underlying Results (excluding significant items)
- EBITDA of $274.2 million up 1.2%.
- EBIT of $217.4 million down 5.6%.
- Net profit after tax of $124.9 million down 12.4%.
- Earnings per share of 5.4¢ down 12.4%.

Balance Sheet & Dividend
- Net debt of $135.7 million with Fairfax 100%-owned entities' net cash of $9.5 million.
- Dividend of 1.8¢ per share (50% franked), bringing total dividends to 2.9¢ per share (68.95% franked), a payout ratio of 54%.

Chief Executive and Managing Director Greg Hywood said: "Today's result shows the strong position of the Fairfax Media portfolio. Each of our businesses has maintained a growth focus and delivered good cost outcomes which will underpin future performance.

"Over the past seven years, we have taken the big decisions. We have built businesses such as Domain and Stan. We have maximised the growth drivers of our core assets. We have addressed legacy cost issues to give our business time to adjust to the structural change it confronted. We have hit our stride going for growth.

"Fairfax is in good shape – and that's the reason Fairfax shareholders have the opportunity to benefit from a step-change in growth through the proposed combination of our company with Nine Entertainment Co.

"We have long believed that media consolidation provided enormous potential to leverage increased scale of audiences and marketing inventory to grow our assets. Fairfax has consistently supported media deregulation because we saw the long-term benefits for shareholders.

"This is an exciting new phase in our development. It puts the important work we do through our journalism on an even stronger and more sustainable footing for the future.

"For the year, Domain delivered strong digital growth despite recent cyclicality in the property market. Metro has achieved its second consecutive year of EBITDA growth – with print showing signs of stability and digital advertising growth in H2. Our Radio business is lifting margin. Stan has broken through the 1.1 million active subscriber mark. Corporate overheads have been significantly reduced. Our balance sheet is strong with a net cash position for Fairfax's 100%-owned entities."

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Result Overview

Mr Hywood said: "For the 2018 financial year, the Fairfax Group delivered operating EBITDA of $274.2 million, an increase on the prior year. This was driven by growth at Domain, Australian Metro Media, Macquarie Media and lower Corporate costs.

"Group revenue of $1.684 billion was a modest 2.8% lower than the prior year.

"Our ongoing cost and efficiency focus delivered a 3.6% reduction in expenses, notwithstanding continued investment in growth initiatives at Domain and Stuff.

"Net profit of $124.9 million was 12.4% lower, with earnings per share of 5.4 cents. This result takes account of the increase in minority interests associated with the separation of Domain from 22 November 2017.

"We will pay a dividend of 1.8 cents per share, 50% franked, bringing total dividends to 2.9 cents per share, 68.95% franked."

Domain Group

Mr Hywood said: "Domain delivered 20% digital revenue growth. Residential depth revenue increased 24%, benefiting from a 21% increase in residential mobile enquiries and higher penetration of Platinum products. This strong residential performance fuelled higher core digital revenue growth along with an increased contribution from developers & commercial.

"Print revenue declined 13% reflecting the transition to a digital business somewhat offset by the launch of the Domain glossy magazine format.

"Reported expenses increased 15.7% reflecting investment in the business and the impact of separation costs included for the first time. Underlying costs on DHG's reported pro forma basis increased 11% as a result of continued investment in staff, workspace and new transactions businesses, offset by a reduction in print expenses of 15%.

"The EBITDA increase of 3.9% to $117.6 million was achieved notwithstanding the impact of separation costs. Digital EBITDA increased 15%. On a like-for-like basis, as reported by DHG, Group EBITDA margins increased from 32.1% to 32.4%.

"Later this month Jason Pellegrino starts as CEO and his mission is to take the business to its next stage of growth. Domain is in terrific shape. It has large audiences, increasing depth penetration, geographic expansion and is broadening into the property ecosystem. We have great confidence in Domain's future."

Group Publishing

Mr Hywood said: "Our three publishing businesses are emerging from a period of great change. Each is profitable, generating valuable cash flows, and positioned with distinct markets, products and strategy to leverage growth. What they have in common is an ongoing emphasis on digital publishing; continuing focus on cost and efficiency; initiatives to maximise print earnings; and a focus on developing new revenue opportunities.

"Our printing agreements with News Corp herald a new era of greater industry cooperation. The arrangement delivers us greater cost variabilisation, reduced capital intensity, and further extend the cash-generating life of print. As announced on 18 July 2018, we expect the combination of the new arrangements and the changes to Fairfax's printing network to result in an annualised full-year benefit of approximately $15 million. The financial benefits are expected to begin towards the end of FY19 H1."

Australian Metro Media

"Metro is a remarkable transformation success story," Mr Hywood said.

"For the past six years we have taken this business through radical change. We have reached the point where we can see a strong future for the business.

"This is the second consecutive year of EBITDA growth for Metro, up 8% for the year, with margins increasing from 9.4% to 10.8%.

"Advertising revenue benefited from improved H2 digital performance supported by the Google programmatic ad sales partnership, as well as moderating print declines.

"Circulation revenue declines moderated in H2, benefiting from strong growth in digital subscriptions with 9% growth in revenue for the year, and increases in cover prices. Net paid digital subscriptions for *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* recorded growth year-on-year across all three mastheads to 313,000. The *Financial Review* is having particular success in B2B.

"Metro expenses declined 7.5% for the year, with a 9% reduction in publishing costs largely from savings in staff, technology and print production."

Australian Community Media

"ACM's continued strong cost discipline delivered a 6% reduction in expenses and underpinned the EBITDA margin of 16.3% for the year," Mr Hywood said.

"Total revenue declined 9%, with relatively stable contribution from Agricultural titles, benefiting from strong agricultural commodity prices and digital investment in the sector. This was offset by weakness in regional advertising and circulation, with some impact from the closure of several unprofitable mastheads. Declines in local and real-estate print revenue contributed to the advertising revenue result. Circulation declines reflected lower retail volumes.

"Regional Other revenue increased 7%, benefiting from a strong performance from Fairfax Marketing Services which delivers full digital marketing solutions to regional clients.

"ACM is a well-managed, profitable, high cash-generating business. Its strong connections with rural and regional communities underpin the momentum it is achieving with B2B revenues and local news subscription initiatives."

Stuff

Mr Hywood said: "Stuff is powered by its national digital audience strength. Its membership model is supporting expansion into e-commerce and transactions adjacencies.

"The New Zealand business saw total revenue decline around 7.5% in local currency terms. Digital revenue growth of 21% was offset by lower print advertising. Digital revenue benefited from strong growth from Stuff Fibre and Neighbourly. Digital and non-print revenue now represents 18% of Stuff's total revenue.

"Adjusted costs improved 6%, while underlying operating expenses were 4% lower reflecting a one-off provision, one-time items and investment in Stuff Fibre.

"EBITDA declined 27%, or 21% on an adjusted basis. Weighing on the EBITDA outcome is the impact of the sale or closure of around 35% of our NZ print publications representing less than 5% of revenue. Revenue impacts were felt from the time of the announcement of the decision in February, while cost benefits did not commence until after FY18 year-end.

"We are resetting Stuff to take advantage of the strength of its digital platform. The pain of the restructuring efforts will prove worth it as the benefits start to flow in future years and bring forward the time when increases in digital revenue will outweigh declines in print."

Investments

"Stan is delivering an impressive performance and Macquarie Media is robust and driving value," Mr Hywood said.

Stan

Mr Hywood said: "Stan has achieved a subscriber base of impressive scale, with more than 1.1 million active subscribers, and is delivering strong active subscriber momentum. In the three month period to July, Stan delivered record quarterly gross and net subscriber additions.

"Stan's subscriber growth, combined with the first price increases since launch three years ago, underpinned 72% growth in subscription revenue to reach just under $100 million. The year to June finished with a revenue run-rate of around $120 million. The strength of the operating model is reflected in revenue growth far outpacing the increase in operating costs, driving a 50% reduction in EBITDA losses between Q1 and Q4 FY18.

"Stan is strongly positioned to continue its growth trajectory and in a changing landscape is well placed to benefit from strategic alignment with global studios and networks.

"Stan's position as the leading Australian streaming brand and dominant local streaming platform is underpinned by its compelling subscription proposition. This includes its exclusive Australian output deals with SHOWTIME, Starz, MGM and a range of exclusive content rights with global studios, as well as investment in original local productions.

"Stan kick-started FY19 with a strong and diverse line-up appealing to a range of demographics. This includes *Power*, *Who is America* and new seasons of *Unreal* and *Better Call Saul*."

Macquarie Media

Mr Hywood said: "Macquarie Media's reported revenue was flat. Underlying revenue increased 4% excluding disposals and one-time items, underpinned by robust 9% growth from the primary stations. Macquarie Media's move to develop Macquarie Sports Network is aimed at improving its secondary market performance.

"Expenses reduced 2%. EBITDA increased by 3% with the EBITDA margin expanding from 23% to 23.8%. H2 performance was impacted by the non-recurrence of ACMA licence fee relief and the launch of Macquarie Sports Network."

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Corporate

"Corporate overheads reduced 51% for the year, reflecting the accelerated accounting treatment of lease incentives, transfer of costs to operating groups including Domain and Metro, and savings in underlying corporate costs. For FY19, we are targeting further improvements, with an annualised run-rate below $20 million in corporate overheads."

Dividend

A dividend of 1.8¢ per share (50% franked) will be paid on 6 September 2018 to shareholders registered on 22 August 2018.

Current Trading Environment & Outlook

- Trading in the first six weeks of FY19 H1 saw revenues around 5% below last year.
  - Domain, Metro Media publishing and Macquarie Media achieved year-on-year revenue growth;
  - Events revenue was impacted by timing changes in the events schedule;
  - Stuff revenue reflected the closure of loss-making publications;
  - Australian Community Media is seeing continuing softness in regional markets and the impact of drought conditions.
- Across the Fairfax Group we continue to implement cost savings measures.

Investor Briefing

An investor briefing (webcast/teleconference) on these results will be held today at 10:30am (AEST).

Webcast:	Go to www.fairfaxmedia.com.au/investors/webcasts
Teleconference:	Please quote conference ID 844679# Toll Free 1800 558 698 or +612 9007 3187

Ends

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