Domain

ASX ANNOUNCEMENT

Domain Holdings Australia Limited
2019 Half-Year Results Commentary

Sydney, 15 February 2019: Domain Holdings Australia Limited [ASX:DHG] ("**Domain**" or "**Company**") today delivered its 2019 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.

Thanks for joining me and CFO Rob Doyle for Domain's 2019 half-year results briefing.

Slide 2, Slide 3

The structure of today's presentation is outlined on slide 3.

I'll kick off with some introductory remarks, provide an overview of the key operational drivers of the result, and make some comments on the current trading environment. Rob will then take you through the Group Financials.

Rob and I will be happy to take your questions at the end of the presentation.

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In the context of current property market cyclicality, Domain delivered a solid performance in the half with growth in average revenue per listing. The result is in line with market expectations.

Our Residential business delivered increased sales of premium products, driving a 10% increase in premium (depth) revenue for the half. This strong support from agents and vendors is recognition of the immense value our products deliver. National depth penetration is at the highest level in the company's history and there's still plenty of room to grow.

Today's results are testament to Domain's strong fundamentals and competitive strength as a leading Australian property technology and services business. Domain has effective listings parity and record-level audiences. We reach 7.2 million Australians across all platforms. We have a large exclusive app audience, with app downloads up 13% year on year.

We are excited by the merger of Fairfax and Nine and the considerable marketing and audience boost it provides to our business.

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We are confident in Domain's long-term growth prospects and have a strategy in place to build on our solid foundation, scale and capability as we enter our next phase of growth.

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For the first half, excluding significant items, Domain reported:

- Revenue growth of 0.3% to $183.9 million;
- EBITDA of $52.7 million;
- EBIT of $38.4 million;
- Net profit of $21.1 million;
- Earnings per share of 3.64 cents; and
- A dividend of 2 cents per share, fully franked.

Later in the presentation, Rob will take you through the detail of the statutory result and significant items, which mostly relate to impairments of goodwill and some restructuring charges.

The accounting impact of the non-cash impairment limits dividend capacity for H1. Dividend capacity is expected to return to normal and support a higher fully-franked dividend in H2 of at least 4 cents per share (in-line with FY18 H2).

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Turning to the detail of the segment results:

Residential revenue increased 8.6%.

Media, Developers & Commercial revenue declined 10.1%.

Agent Services revenue increased 15.2%.

These categories delivered Core Digital revenue growth of 5.1% and stable Core Digital EBITDA of $55.9 million.

Consumer Solutions (formerly called Transactions) & Other revenue increased 33.9%, with an EBITDA loss of $4.3 million, reflecting investment in emerging businesses Domain Loan Finder and Domain Insure.

Print revenue declined 23.6% and Print EBITDA declined 9.6% with Print margins increasing from 24.4% to 28.8% as a result of cost management discipline.

Group EBITDA margin was 28.7%.

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Domain is extending its engagement with consumers beyond the typical six-month property buying and selling cycle. We deliver value to consumers at all points of the property dream, search, ownership and sale experience – inspiring confidence and helping Australians with all of life's property decisions.

For property seekers, Domain's mobile platforms are central to the search process and identifying suitable properties.

Domain's users are more informed than ever. This is supported by a depth of data and insights, including from our APM Pricefinder business. Features such as Inspection Planner and tools such as Homepass, assist in the property search process.

For property owners, Domain partners with industry leading experts to create seamless solutions. Domain Loan Finder helps Australians finance or refinance their property; Domain Insure helps protect valuable assets through insurance; Compare & Connect helps Australians access utility deals.

For property vendors, our powerful marketing platform supports agents to achieve the best sales results for their clients by leveraging our large and unique audience and suite of highly-engaging premium products.

Consumers are always dreaming about the next stage in their lifelong property journey. Domain's trusted editorial content constantly engages by educating, entertaining and informing. This engagement provides deep and rich insights, in turn helping Domain to deliver even greater value to consumers as they move through the typical 10-year property ownership lifecycle.

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Our strategy is building a customer-centric Australian property marketplace. We are doing this by supercharging our existing listings business and growing and extending our ability to deliver a broader range of solutions directly to consumers.

Domain has a solid marketplace foundation, leveraging supply and demand to drive yield.

There is substantial headroom to supercharge our performance by using our data to build products and offerings that better meet the needs of buyers, vendors and agents.

We have structured our business with three objectives:

1. **Grow the core listings business** – by working with our agent and corporate customers to help them grow their businesses.
2. **Grow new revenue streams in consumer solutions** – by partnering with specialist businesses to deliver services spanning home loans, insurance, utilities and more.
3. **Simplify and optimise our business** – we are undertaking a forensic review of our cost base and being disciplined in our cost management, in order to redirect resources and investment towards funding our next phase of growth.

Highlights for the half include:

- More than 10% Residential depth revenue growth;
- 20% Commercial revenue growth and the acquisition of Commercial View to further strengthen that business;
- 34% growth in Consumer Solutions revenue. Domain Loan Finder applications increased 56% and Domain Insure quote-to-sale conversion increased 95%;

- Underlying expenses (which exclude Consumer Solutions) reduced 1.6%, notwithstanding continued investment in product and marketing - a better outcome than previously flagged;
- We increased our stake in Homepass, giving us control of the business and accelerating product development and integration;
- We introduced a new organisational structure aligned to our core listings business and Consumer Solutions.

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We will speak in detail about Domain's five key revenue drivers.

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Residential is the largest contributor to Domain's revenue at 51% of total in the half.

Residential revenue increased 8.6% to around $94 million.

This is a solid result from Residential in the context of lower listings volumes in key markets, where auction volumes declined 20% in Sydney and 19% in Melbourne. Nationally, Domain new listings declined low-to-mid single digits.

Despite lower volumes in the market, yield growth has been achieved in every State. We are selling more premium products to more agents, who recognise the value we are delivering. We have seen progress in several suburbs in Victoria, achieving substantial uplifts in yield through increased depth listing penetration. Across the Residential business, increased revenue per new listing supported the 10% increase in depth revenue.

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The strength of our marketplace model is shown on this slide.

Supply has been maximised and we have effective listings parity with our major competitor.

Demand is growing with a cross-platform audience of 7.2 million Australians. Our digital audience is 72% of our major competitor.

We see further opportunity to expand our audience by leveraging Nine's audience strength, particularly in our emerging markets. Nine has a monthly national broadcast reach of around 19 million. Nine brings a digital audience of close to 9 million, of which more than half does not presently use Domain.

Listings and audience are driving higher yield, with Domain's depth penetration at record levels and there's still considerable room to grow.

We will take a closer look at these three drivers: listings, audience and yield.

Slide 12

Turning to listings, the next two slides show total new market listings trends for the national market and capital cities.

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The dark blue line shows market listings for FY19, against the last three years.

National listings trends for the year varied, with growth in Canberra and weakness in Sydney. Melbourne's modest decline masks substantial variation by suburb, with weakness in our core inner suburban markets, and growth in outer suburbs. As I mentioned earlier, auction volumes were down 19% in Melbourne.

Slide 13

In Domain's emerging markets, modest listings growth was seen in Brisbane, Adelaide and Perth.

Slide 14

Turning to audience. We are continuing to invest in marketing to build brand and engage and grow a larger national audience.

Our major sponsorship of *The Block* on Nine delivered Domain brand exposure to a national TV audience of 14 million with the show #1 in its timeslot for all key demographics.

As Platinum Partner of Cricket Australia's Men's Domestic Test Cricket, the Domain brand reached a broadcast audience of 10.4 million nationally.

We are continuing to make smart brand investments to drive business performance. This includes working closely with Nine to access its valuable national reach.

Slide 15

Turning now to yield. The chart on slide 15 illustrates Domain's depth product penetration by market and the drivers of the Residential depth revenue growth of 10% in the first half.

The green bar shows the penetration of our highest value Platinum tier. The stacked blue bar shows Gold and Silver tiers.

Year-on-year improvements in Platinum depth penetration were achieved in all key markets, with particular progress in Victoria and our emerging markets of Queensland and South Australia.

There remains considerable upside opportunity for depth penetration in all markets.

Targeted marketing investment and sales improvement measures in key suburbs have started to deliver results in Victoria.

Slide 16

Product innovation is at the heart of our great consumer experiences. Our highly-rated app brings property to life in personalised, highly relevant and actionable ways.

The design of Domain's new homepage has been optimised for speed and is meeting the ever-changing needs of consumers through improved search, streamlined filtering, and a powerful recommendation engine.

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Other product innovation includes map search improvements; use of machine learning to suggest new listings; and enhanced inspection and auction planner functionality.

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Domain's Healthy Suburbs study was leveraged to enrich the product experience.

Domain Loan Finder is providing more personalised services and making the loan application process as seamless as possible.

Allhomes is leveraging Domain product innovation through its app and new ways for agents to build their brands and connect with customers.

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Turning to Media, Developers & Commercial.

This segment contributed 14% of Domain's total revenue, with 10.1% decline in the first half.

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Performance varied across the three businesses.

As we highlighted in August, we made the strategic decision to streamline digital media sales by transitioning to a programmatic advertising offering. As expected, this had a significant impact on revenue growth in this segment. The new model is lower revenue but much lower cost, providing increased margin. H1 reflects early results of this strategy.

The Developer market operated with a mixed backdrop, with particular weakness in high-rise developments in NSW which experienced significant declines in new projects. There was some resilience in town houses and House & Land. Financing constraints and other regulatory issues weighed on the market environment and property investment.

We are focused on improving marketing efficiency for Developer clients using data and insights and delivering multi-platform solutions, while expanding geographically into emerging markets, particularly Queensland.

The Commercial business delivered 20% growth in revenue supported by strong positions in listings, audience and leads. As with the Residential business, we see considerable opportunity to drive depth penetration. The recent acquisition of Commercial View provides the opportunity to further strengthen the business in Victoria.

Slide 20

Our commercial real estate products are also benefiting from product innovation and investment. Recent enhancements include new listings pages which better surface important content; map search and search filtering improvements streamlining the user experience; and a new depth product tier called 'Platinum Extend', which increases marketing reach into surrounding suburbs and off platform.

Slide 21

Turning to Agent Services, which contributed 9% of total revenue.

Revenue increased 15.2%, driven by yield increases and consolidation of Homepass, which is now 68.5%-owned.

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MyDesktop, Homepass and Pricefinder each have solid subscriber bases of agents attracted to the valuable CRM, open-for-inspection, and property data offerings.

We continue to invest across this property cloud suite to enrich the agent and consumer experience through product innovation. The increased ownership of Homepass allows us to seamlessly link our digital platform to real-world property experiences.

Slide 23

Turning to Consumer Solutions & Other.

Revenue increased 33.9% reflecting strong growth from Compare & Connect, and early revenue from Domain Loan Finder (which launched in July 2017) and Domain Insure (which launched in January 2018).

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Domain partners with specialists to operate Domain Loan Finder, Domain Insure and Compare & Connect – which together form our Consumer Solutions businesses.

We are particularly pleased with the strong growth in Domain Loan Finder applications and conversion of quote-to-sale at Domain Insure. While Compare & Connect is delivering strong revenue growth, we see opportunity for further margin improvement.

Commercial model expansion via Consumer Solutions provides significant opportunity for future revenue growth and diversification. We are concentrating on large markets adjacent to our core listings business that are strategically well placed to leverage Domain's core audience and trusted brand.

We welcome the final report of the Royal Commission into Financial Services putting the spotlight on better outcomes for consumers. While there are a number of factors still to play out relating to the report's recommendations, we see low-cost disruptive digital-centric models such as ours being well placed to grow market share in the face of regulatory change. The Domain Loan Finder business model has always been, and will remain, focused on providing greater transparency, certainty and choice to consumers searching for a home loan.

Slide 25

Print revenues declined around 24% and comprised 18% of total revenue.

This result was affected by market cyclicality, somewhat offset by disciplined cost management which improved margin and contained the EBITDA decline at 10%.

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Slide 26

Print results continue to reflect the structural shift to digital, exacerbated by market cyclicality in Sydney and Melbourne. Markets that demonstrated stronger cyclical outcomes, including Allhomes in Canberra and our Commercial Real Estate business, delivered revenue growth in Print.

Expenses declined 28% as a result of ongoing cost initiatives and lower print volume.

Print continues to deliver strategic value to agents by attracting valuable and passive buyers, building agent profile and brand, as well as promoting the Domain brand in key markets. Print is also bundled with our premium digital products to enhance results and deliver a differentiated product, accessing unique and high-value audiences.

Slide 27

Turning now to current trading environment and outlook.

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The first six weeks of FY19 H2 saw continued growth in yield and lower listings volumes in a seasonally low listings period. The late timing of Easter reduces current visibility into the Autumn selling season.

Continued investment in growth initiatives (including product development, marketing, and driving sales performance) is being supported by ongoing cost discipline.

For FY19, Domain's underlying costs (excluding investment in new Consumer Solutions businesses) are expected to be slightly down against proforma FY18. Total costs are expected to increase mid-single digit against proforma FY18.

Over to you, Rob.

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Rob Doyle – Chief Financial Officer:

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

As Jason mentioned, this is a solid result in the context of the cyclical market environment.

Slide 30

Slide 30 provides a reconciliation of the statutory 4D to Domain's trading performance excluding significant items. I'll run through the detail of the significant items shortly.

Jason has already taken you through the operating performance of the Domain businesses, so I will focus on the items below EBITDA.

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Depreciation and amortisation expense of $14.4 million is in line with the full year guidance of around $30 million. The increase from FY18 H1 reflected the investment in product development which has a short amortisation period.

Net finance costs were $4.7 million and we expect a similar amount in the second half.

Tax expense of $10.3 million reflects an underlying tax rate of 31%.

Net profit attributable to non-controlling interests of $2.2 million reflects the share of profits or loss attributable to the agent ownership models and other consolidated, non-wholly owned entities.

NCI was lower in the half versus FY18 H1 reflecting the buyout of the interests associated with the Review Property agent ownership model in February 2018, and higher losses in non-wholly owned consumer solutions businesses. Further detail is contained in Appendix 2.

Slide 31

Slide 31 provides the adjustments from statutory to pro forma results for the FY18 first half.

Slide 32

Slide 32 provides a reconciliation of statutory to trading expenses (which exclude significant items).

Total expenses (excluding significant items) increased 4% to $130.8 million as a result of growth-focused investment in staff and related costs, technology, marketing and Consumer Solutions businesses. This compares with the guidance provided in October 2018 of a mid-to-high single digit cost increase for the full year. The improved cost outcome reflects the impact of the restructuring of the business undertaken in early December. As Jason outlined in the trading outlook, we now expect total expenses to increase mid-single digit for FY19.

We remain committed to investing in the growth of the business while continuing to drive operational efficiency.

The charts on the right of the slide provide a breakdown of Domain's underlying cost structure by major category. The proportion of total costs from Production & Distribution reduced from 22% to 15% reflecting print cost savings initiatives and lower print volumes. The proportion of total costs from Promotion increased from 18% to 19% reflecting our commitment to invest in our brand and audience. The Other category increased from 13% to 16% largely due to costs associated with our growing Consumer Solutions businesses and staff related costs.

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Slide 33 provides an overview of significant items. The accounting standard AASB 136 required assessment of carrying values as a result of the lower FY19 H1 listings environment, particularly in Sydney and Melbourne. These lower near-term growth assumptions resulted in a non-cash impairment charge of $178.8 million being recognised. Medium-term and long-term growth assumptions remain unchanged. The charge is non-cash in nature and there is no impact on banking covenants.

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Restructuring charges of $1.6 million pre-tax largely relate to the implementation of the new organisational structure.

Gains on contingent consideration payable and sale of investments of $2.5 million largely relate to the Review Property tranche 2 earnout.

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Slide 34 provides the cash flow for the current and comparable half-year.

FY19 H1 cash from trading of $58 million compares with EBITDA of $52.7 million. The FY18 H1 comparable numbers are not representative of underlying cash flows due to the timing of the separation in November 2017.

Investment in PPE and software was $11.3 million. For FY19, we expect capex in the low-to-mid $20 million range.

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Turning to slide 35.

At separation Domain Group entered into a $250 million syndicated bank facility with a maturity of three to four years. As at December 2018 this facility was drawn down to $188 million, unchanged from June.

Slide 36

Slide 36 shows the balance sheet of Domain Group as at December 2018. Key movements within the balance sheet from June 2018 reflect the impairment of intangible assets I discussed earlier.

Domain has a strong balance sheet finishing the half with net debt of $121.1 million, a leverage ratio of 1.1x.

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

Ends

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