

NZX/ASX RELEASE

23 August 2018

NZME Limited results for the half year ended 30 June 2018

H1 2018 highlights

- Trading Revenue¹ declined 3% compared to H1 2017 to \$185.7 million.
- Trading EBITDA¹ of \$23.2 million, down 18% compared to H1 2017.
- Operating costs for new Digital Classifieds of \$3.1 million for the half.
- Excluding Digital Classifieds, trading costs declined 2% and EBITDA declined 7% on H1 2017.
- Statutory NPAT declined 53% on H1 2017 to \$3.7 million.
- Trading NPAT¹ of \$5.5 million and Trading EPS¹ of 2.8 cents, compared to \$9.9 million and 5.0 cents respectively in H1 2017.
- Fully imputed half year dividend 2.0 cents, supplementary dividend for qualifying non-resident shareholders.
- Audience of 3.3 million² represents almost 80% of the population.
- Advertising revenue impacted by declining business confidence.
- Strong audience growth in Digital Classifieds – *OneRoof*, *DRIVEN* and *YUDU*.
- Continue to match or outperform market across all channels³.
- Digital revenue growth of 17% on H1 2017.
- On track to deliver paid content capability on nzherald.co.nz by end of H2.
- Stuff Limited merger appeal judgement expected in H2.

Financial summary

\$m	H1 2018	H1 2017	% Change
Trading Revenue ¹	185.7	191.0	(3%)
Costs	(162.5)	(162.8)	0%
Trading EBITDA¹	23.2	28.2	(18%)
Trading NPAT ¹	5.5	9.9	(44%)
Statutory NPAT	3.7	7.8	(53%)
Half Year Dividend (cps)	2.0	3.5	(43%)

¹ Trading measures are non-GAAP measures that are explained and reconciled in NZME Half Year 2018 Results Presentation dated 23 August 2018. Trading Revenue is presented on a consistent basis with 2017, and excludes the impact of NZ IFRS 15 adjustments. Trading EBITDA excludes exceptional items of \$2.5m.

² Nielsen CMI May Fused Q2 17 to Q1 18 (population 10+ years).

³ IAB / PWC New Zealand Q1 2018 Interactive Advertising Spend Report; digital excluding search and directories, and social media (NZ market only), SMI New Zealand Agency Advertising Expenditure Report June 2018.

Half year summary

NZME Limited (NZME) today reported financial results for the first half of 2018 that reflected modest declines in revenue in a difficult market and an increased rate of investment in new revenue streams that impacted costs and profitability.

Trading Revenue⁴ declined 3% compared to H1 2017 as ongoing pressure on print advertising revenues was not entirely offset by market share gains and strong digital revenue growth.

Trading EBITDA⁴ decreased 18% on H1 2017. Total Trading costs were stable on H1 2017 with \$3.4 million of efficiency improvements being partly offset by \$3.1 million of additional costs associated with the new Digital Classifieds – *OneRoof*, *YUDU* and *DRIVEN*. Excluding the additional costs for the Digital Classifieds, underlying costs declined 2% and underlying EBITDA declined 7%.

NZME's audience of 3.3 million New Zealanders⁵ represents almost 80% of the New Zealand population. The NZ Herald weekly brand audience grew 10%⁶ on H1 2017 and engagement on nzherald.co.nz, as measured by time spent per visit, grew 8.5%⁷. NZME's Radio audience is stable. The new Digital Classified portals enjoyed strong audience growth.⁵

Net debt was \$106.1 million at 30 June 2018, up from \$90.2 million at 31 December 2017 but little changed on 30 June 2017. Net cash flow was impacted by the timing of 2017 tax payments. Capital expenditure was \$7.1 million in H1 2018, compared to \$6.8 million in H1 2017. Gearing and liquidity ratios are sound and NZME retains undrawn bank facilities of \$41.2 million.

Statutory NPAT declined 53% on H1 2017 to \$3.7 million and Statutory EPS declined to 1.9 cents. Trading NPAT⁴ of \$5.5 million and Trading EPS⁴ of 2.8 cents were 44% lower than H1 2017.

The half year dividend of 2.0 cents per share reflects lower earnings available for distribution, partly due to investment in the Digital Classifieds. The fully imputed dividend is scheduled for payment on 26 October 2018, for shareholders on the register at 16 October 2018. A supplementary dividend will be paid to qualifying non-resident shareholders.

Print

Print revenue declined 6% to \$103.6 million in H1 2018 compared to H1 2017. Print remains NZME's largest revenue segment, representing 56% of total NZME Trading Revenue⁴, comprising of Print advertising revenue (30% of Trading Revenue⁴), Print circulation revenue (22%) and other Print revenue sources (4%).

Print advertising revenue declined by 8% in H1 2018, impacted by ongoing deterioration in print advertising markets and exacerbated by deteriorating business and consumer

⁴ Trading measures are non-GAAP measures that are explained and reconciled in NZME Half Year 2018 Results Presentation dated 23 August 2018. Trading Revenue is presented on a consistent basis with 2017, and excludes the impact of NZ IFRS 15 adjustments. Trading EBITDA excludes exceptional items of \$2.5m.

⁵ Nielsen Market Intelligence Domestic Traffic (1 Jan 18 – 30 June 18).

⁶ Nielsen CMI Q2 17 – Q1 18 AP15+.

⁷ Nielsen Market Intelligence Domestic Traffic (1 Jan 18 – 30 June 18).

confidence. Despite these challenges, NZME experienced encouraging growth in readership and audience for its print mastheads.

Circulation revenue declined 4% in H1 2018. Circulation volume declined 5% on H1 2017, compared to an estimated 8% decline in industry circulation. Improved yield through cover price increases has supported revenue in the face of declining circulation. Further price increases were implemented on 1 July 2018.

Other Print revenue, relating to printing and distribution services provided to external parties decreased 9% year on year, due to lower third party circulation volume.

The New Zealand Herald's average issue readership has been growing and the *Herald on Sunday* remains the most-read and highest-selling Sunday Newspaper in the country⁸.

The *NZ Herald's* daily brand audience, which includes digital, remained above 1 million in H1 2018⁹, reflecting the strength of the *NZ Herald* brand and NZME's success in growing audience reach.

Radio and Experiential

Radio and Experiential revenue of \$48.8 million in H1 2018 was 3% lower than in H1 2017, an improvement on the 6% decline in H1 2017. Direct revenue, which had been more challenging for NZME, showed positive trends in H1 2018. However, agency revenue growth slowed in H1 2018 due to weakness in the agency market, as a result of economic factors such as the decline in business and consumer confidence.

A number of initiatives implemented in the last 12 months supported the improvement in direct revenue, including completion of a nationwide sales team transformation, with all direct frontline staff now equipped to sell radio, and implementation of a new targeted incentive scheme.

NZME continues to work to ensure it has the best offer in the market to inform, entertain and attract. A number of talent enhancements in the first half of 2018 supported this objective, including a new drive show on ZM and a new breakfast show on Coast, with benefits anticipated over the next 12 to 18 months.

Audience in the 18 to 54 year old demographic declined in H1 2018 from the peak in mid-2017 but NZME's leading brands maintained their strong presence. Newstalk ZB remained the number one radio station in New Zealand.

In digital radio, iHeart Radio grew its registered users by 24% over the past year to more than 782,000¹⁰ and average monthly streams grew 159% year on year to 18.2 million¹¹.

The focus continues on NZME's strong brands to grow audience and support consistent radio revenue growth.

⁸ Nielsen CMI, NZ Herald AIR trend Q2 2017 – Q1 2018 AP15+

⁹ Nielsen CMI Q2 17 – Q1 18 AP15+.

¹⁰ iHeartMedia, 2017- 2018; Adobe Analytics, 2018.

¹¹ AdsWizz and StreamGuys, 2017-2018.

Digital and e-Commerce

Digital revenue growth remained strong with 17% growth on H1 2017 to \$23.9 million. Digital & e-Commerce revenue now represents 16% of Trading Revenue, up from 14% a year earlier and 12% in H1 2016. Digital revenue growth in H1 2018 offset approximately 70% of the decline in print advertising revenue.

NZME saw digital advertising revenue grow across all products and continues to outperform industry growth rates. Display and mobile revenue grew 20% in the March 2018 quarter compared to industry growth estimated at 13%¹².

The largest drivers of this growth are mobile, video and programmatic products, with native video streams across all sites growing 6% year on year¹³ to more than 2 million views per week.

NZME has also leveraged the Washington Post ARC software suite to enhance content management by creating a user-centric experience to grow and engage audiences.

nzherald.co.nz attracted more than 3.8 million unique browsers per month¹⁴, up 13% on H1 2017 and up 5% on 2H 2017. Mobile audience comprised almost 75% of total audience, up from 60% last year¹⁴.

GrabOne, or e-Commerce, revenue declined 8% in H1 2018 on H1 2017, an improvement from a decline of 18% in FY17. GrabOne revenue is anticipated to stabilise, driven by improved traffic and deal relevancy targeting.

Investing for the future

Developing new revenue streams to offset structural decline in some advertising markets remains a priority. NZME's growth initiatives in H1 2018 were:

1. Development of Digital Classifieds portals, *OneRoof*, *DRIVEN* and *YUDU*; and
2. Progressing paid subscription capability on key digital mastheads

Digital Classifieds

NZME's three Digital Classifieds: *OneRoof*, *DRIVEN* and *YUDU*, launched in March 2018. A number of competitive advantages support these propositions, including:

- access to an audience of over 3.3 million New Zealanders¹⁵;
- leveraging NZME's core content capabilities across text, video and audio;
- utilising NZME's data insight and analytic capabilities; and
- taking advantage of cross-channel bundling opportunities.

¹² IAB / PWC New Zealand Q1 2018 Interactive Advertising Spend Report; digital excluding search and directories, and social media (NZ market only).

¹³ Brightcove Analytics 2017 - 2018. Native = viewed on an NZME platform.

¹⁴ Nielsen Market Intelligence Domestic Traffic 2017-2018.

¹⁵ Nielsen CMI Fused Q2 17 to Q1 18 (population 10+ years).

Each platform has been built with the aim of providing an innovative user experience unlike any other in the market. NZME is able capitalise on strong industry relationships, having been a key player in these markets through other channels.

Business as usual operating costs of \$3.1 million were incurred in H1 2018, mainly in the areas of people, marketing, data and technology licensing. Listings and audience growth has been highly encouraging in the early stages, confirming the value of NZME's unrivalled audience reach through its multi-platform operations.

Property portal *OneRoof* has achieved approximately 50% of the total market of 'for sale' listings, with three out of the top five major national real estate agencies on board and a fourth recently signed. *OneRoof* is targeting 75% of market listings by December 2018. Audience growth has been strong supported by co-branding with Herald Homes and a robust marketing campaign.

Motoring classified website *DRIVEN* was relaunched in March 2018 and will add unique tools for buyers and sellers in the second half. The site utilises video and native content, with the aim of becoming "the only place you need to go for everything motoring". *DRIVEN* currently has approximately 60% of all dealer listings in New Zealand. Audience growth has been strong supported by leveraging NZ Herald online audience with cross promotion.

Employment listing website *YUDU* was also launched in March 2018, achieving 33% of the total job market listings. *YUDU* is a hub of news, tips, advice, trends and insights, supported by our strong content capabilities, to equip job seekers for the age of job evolution and disruption. *YUDU* allows businesses to showcase their values, culture, and career opportunities via NZME's unique multi-platform media network. Strong audience growth has also been supported by leveraging the NZ Herald online audience.

Revenue from these businesses will be seen gradually over time and it will lag costs. While the medium-term opportunity for these platforms is appealing, the market is competitive and financial expectations in the initial phase of operation remain modest.

Monetising digital content through 'freemium' model

In line with the strategy to leverage our audience reach and brand strength to grow new revenue streams, NZME intends to deliver paid content capability on its digital mastheads in the second half of 2018.

Audience willingness to pay for digital content has increased significantly in recent years. NZME will adopt the "freemium" model with day-to-day news and current affairs provided free of charge and in-depth analysis and opinion available on subscription.

The partnership with Washington Post has enabled NZME to tailor content and enhance the personalisation of the Herald online experience. In H1 2018, NZME invested in premium and in-depth journalism and utilised data to target content and lift user engagement by 8.5% as measured by Average Site Duration.

Over the second half of this year NZME will introduce a "freemium" model for local premium content as well as global syndicated content. A key focus will be on enhancing user experience and offering subscription bundles for print and online content that provide value to customers.

Capital management

The company has a prudent and sustainable capital structure with net debt as at 30 June 2018 of \$106.1 million, stable on H1 2017. Operating cash flow was healthy during the half but the timing of tax payments impacted net cash flow and increased net debt from 31 December 2017.

The balance sheet remains strong with 12 month Trading EBITDA to interest cover of 14.5 times and net debt to 12 month Trading EBITDA of 1.7 times.

The fully imputed 2.0 cent per share half year dividend reflects lower available profits for distribution.

The Board has appointed an external adviser to provide advice on capital management and to assist us with refinancing these debt facilities. Part of that advice will involve reviewing our capital structure and dividend policy.

Stuff merger

On 7 February 2018, NZME and Fairfax announced their intention to appeal the High Court's adverse ruling on the Stuff Limited (previously Fairfax New Zealand)/NZME merger. The matter was heard in the Court of Appeal in H1 2018, with a judgment expected in the second half.

Board

Barbara Chapman and Sussan Turner were appointed as Independent Directors during the half, which has brought the immediate process of Board Renewal to a conclusion. The Board comprises five directors with a strong mix of experience and skills to support the development and implementation of strategy.

Outlook

In the first half of this year, advertising revenue declined 4% on the same period last year. Advertising bookings for Q3 are consistent with the H1 result, down 4% year on year. NZME continues to increase or maintain its share of the addressable NZ advertising market. Agency advertising spend remains challenged and softening economic conditions have the potential to weaken or delay advertising revenue in the second half of 2018.

The benefit of cost initiatives implemented in the first half of 2018 are expected to be reflected in the second half, although the rate of cost reduction is slowing and is not expected to be sufficient to offset softening advertising revenue in the underlying business. In addition, we will continue to invest in our Digital Classifieds to create future revenue and shareholder value. These businesses will incur ongoing business as usual costs.

Supported by revenue retention in the existing business, and the development of new revenue streams, NZME's goal remains to achieve overall revenue and EBITDA growth in the medium term.

However, full year EBITDA will reflect underlying business decline and investment in Digital Classifieds.

Strategy

NZME's strategy is based on a three horizon model, focusing on: (1) optimising core businesses; (2) growing new revenue streams that leverage existing audience and customer relationships; and (3) re-imagining revenue models that address unmet customer needs. NZME has six priority areas of focus for the current year to enhance shareholder value:

1. Grow audience and engagement through amplification of NZME's brands and increased focus on planned, unique, local and premium content, supported by technology implementation;
2. Return advertising revenue to growth by retaining print revenues, driving digital revenue growth and capitalising on radio coverage, content and talent enhancements;
3. Effective cost and capital management through improving and leveraging our fixed cost base; continued focus on balance sheet and shareholder returns;
4. Engage and develop our people through leadership and talent succession planning;
5. Grow new revenue streams through the development of *OneRoof*, *DRIVEN* and *YUDU* and improved data monetisation, developing a paid content proposition and identifying new business models; and
6. Progress the Stuff merger to further improve our efficiency and underwrite the competitiveness of New Zealand content generation and delivery.

NZME will continue to work hard in these areas and looks forward to updating shareholders on progress.

All H1 2018 results materials can be found at:

www.nzx.com/markets/NZSX/securities/NZM/announcements

ENDS

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Briefing Audio Recording:

There will be an audio recording of the full year results briefing, to be held at 10:00 a.m. NZT on Thursday, 23 August 2018, including Q&A, made available later in the day at www.nzme.co.nz/investor-relations/presentations-webcasts

About NZME

NZME is a leading New Zealand media and entertainment business that reaches more than 3.3 million kiwis¹⁶. Whether reading, listening or watching, our audience gets the content they want - where and when they want it. NZME offers advertisers a unique opportunity to access its growing audience via a fully integrated multi-platform presence. NZME is listed on the NZX Main Board (code NZM) with a foreign exempt listing on the ASX (code NZM).

¹⁶ Nielsen CMI Fused Q2 17 to Q1 18 (population 10+ years).