

NZX/ASX RELEASE

22 February 2018

Solid earnings performance and 6.0 cent final dividend

NZME Limited results for the full year ended 31 December 2017

FY 2017 highlights

- FY 2017 Statutory NPAT of \$20.9 million compared to FY 2016 Statutory NPAT of \$74.5 million, impacted by demerger from HT&E Limited (formerly APN News & Media) and discontinued businesses.
- Trading NPAT¹ of \$26.7 million and Trading EPS¹ 13.6 cents, down 4% compared to Pro forma¹ FY 2016.
- Trading EBITDA¹ of \$66.2 million, down 2% compared to Pro forma¹ FY 2016.
- Trading Revenue¹ declined 4% compared to Pro forma¹ FY 2016.
- Fully imputed final dividend 6.0 cents declared, bringing full year dividends to 9.5 cents; supplementary dividend for qualifying non-resident shareholders.
- Audience reach up 2% year on year to over 3.2 million².
- Estimated market share gains in Print, Radio agency and Digital advertising³.
- Print advertising revenue trends improved in FY 2017.
- Radio revenue returned to growth in fourth quarter of FY 2017.
- Digital revenue growth of 18% in FY 2017.
- Costs reduced by a further 5% in FY2017.
- Improvements in leadership team engagement and talent developed across *Newstalk ZB*, *The Hits*, *Coast* and *ZM*.
- Applied for leave to appeal on Stuff Limited (formerly Fairfax New Zealand) merger.

Financial summary

\$m	FY17	FY16 Pro forma ¹	% Change
Trading Revenue ¹	387.7	404.7	(4%)
Other Income	3.7	4.0	(6%)
Costs	(325.3)	(341.5)	(5%)
Trading EBITDA¹	66.2	67.2	(2%)
Trading NPAT ¹	26.7	27.8	(4%)
Statutory NPAT	20.9	74.5	(72%)
Final Dividend (cps)	6.0	6.0	-

¹ All Trading and Pro forma measures are non-GAAP measures that are explained and reconciled in the NZME Full Year 2017 Results Presentation dated 22 February 2018.

² Nielsen CMI, November fused database: Q4 15 to Q3 17 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels.

³ PwC NPA Quarterly Performance Comparison Report Q4 2017. (3) SMI New Zealand Agency Advertising Expenditure Report December 2017. (4) IAB / PWC New Zealand Q3 2017 Interactive Advertising Spend Report; digital excluding classifieds, search and directories, and social media (NZ market only).

Full year summary

NZME Limited (NZME) today reports solid earnings performance from its integrated media and entertainment business, supported by continued Digital revenue growth, a slowing rate of decline in Print advertising revenue and an improvement in Radio revenue trends over the year. NZME's strong focus on cost control and business integration assisted earnings.

Trading Revenue⁴ declined 4%, consistent with the 4% decline seen in FY 2016. Trading EBITDA⁴ decreased 2% on Pro forma⁴ FY 2016, supported by a 5% reduction in costs as part of an ongoing focus on efficiency.

NZME's audience grew 2% year on year in FY 2017, reaching more than 3.2 million New Zealanders⁵. Print audience has been stable since 2015⁵, while Radio listenership and share has continued to grow since 2016⁶ and nzherald.co.nz unique audience grew 12% year on year in FY 2017⁷.

Net debt was \$90.2 million at 31 December 2017, down from \$95.9 million at 31 December 2016. The reduction in net debt was supported by healthy cash flows and modest capital expenditure in line with budget and occurred notwithstanding the payment of healthy dividends. Capital expenditure was \$15.0 million in FY 2017, compared to \$14.9 million in FY 2016. Gearing and liquidity ratios are sound and NZME retains undrawn bank facilities of \$60.0 million.

Trading NPAT⁴ of \$27.8 million and Trading EPS⁴ of 13.6 cents were both 4% lower than FY 2016. The fully imputed final dividend of 6.0 cents per share is scheduled for payment on 3 May 2018 and brings full year dividends to 9.5 cents per share, in line with the dividend policy of 60-80% of underlying NPAT. Once again, a supplementary dividend will be paid to qualifying non-resident shareholders.

The FY 2016 Statutory Result is not considered reflective of the NZME business going forward due to the demerger from HT&E (formerly APN), divestments, tax payments, and the inclusion of the previous ownership interest in the Australian Radio business. Reconciliations of Statutory, and non-GAAP Trading and Pro forma measures are shown in the Full Year 2017 Results Presentation dated 22 February 2018.

Print

Pro forma⁴ Print revenue declined 7% to \$221.3 million in FY 2017, excluding the impact of business divestments. Print remains as NZME's largest revenue segment, representing 57% of total NZME FY 2017 Trading Revenue⁴, comprising of Print advertising revenue (31% of group Trading Revenue⁴), Print circulation revenue (21%) and other Print revenue (4%).

In FY 2017, the rate of decline in Print advertising revenue slowed to 9%, from 10% in Pro forma⁴ FY 2016. This was despite a challenging third quarter, impacted by reduced spending ahead of the NZ general election in September 2017 and a slowing property market. NZME's

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⁵ Nielsen CMI, November fused database: Q4 15 to Q3 17 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels.

⁶ GfK Radio Audience Measurement, Commercial Stations. NZME & Partners in Major Markets (top 13 markets), trended till T4/2017. Station Share %. Mon-Sun 12mn-12mn, 18-54.

⁷ Nielsen Online Ratings, Domestic Unique Audience, 2016-2017.

strong focus on realising the benefits of the integrated sales model supported growth in Print advertising market share to 42%, compared to an average of 40% in FY 2016⁸.

Circulation revenue declined 3% in FY 2017, largely due to retail volume pressures. This was partially offset by cover price increases across the majority of NZME's titles in the fourth quarter. Subscriber revenue was stable in FY 2017, with a subscriber volume decline of 4% offset by yield management.

Other Print revenue, relating to printing and distribution services provided to external parties, decreased 10% year on year, due to lower third party circulation volume.

The New Zealand Herald's average issue readership has remained stable since 2015 and the *Herald on Sunday* remains the most-read and highest-selling Sunday Newspaper in the country⁹. NZME's 5% decline in average net circulation volumes to the third quarter of 2017 outperformed the estimated market rate of decline of 7% over the same period⁹.

The *NZ Herald's* daily brand audience, which includes digital, passed one million readers for the first time in the third quarter 2017¹⁰, reflecting the strength of the *NZ Herald* brand and NZME's continued success in growing audience reach.

Radio and Experiential

Radio and Experiential revenue declined 4% to \$110.1 million in FY 2017, an improvement on the 6% decline in FY 2016 and contributing 28% of total NZME FY 2017 Trading Revenue¹¹. Positive audience growth was reflected in increased agency revenue over the year, outperforming the market in this segment.

Audience growth in the key 18 to 54 year old demographic also supported overall Radio revenue returning to growth in the fourth quarter year on year. NZME's share of this demographic in the top 13 major markets in New Zealand has increased 2.7% since 2016¹². Survey highlights included *Newstalk ZB* retained the highest station market share nationally, also winning a number of other key categories¹³; and *The Hits* with Sarah, Sam & Toni growing their audience in survey since launch in early 2017¹⁴.

The direct market has been slower to respond to audience improvements due to differences in buying behaviours, however, total Radio revenues returned to growth in the fourth quarter of 2017, supported by operational and content initiatives implemented during the year.

These initiatives 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, both in the second half. NZME's new CRM system and suite of sales tools will support the integrated sales model and enhance customer understanding. Further benefits from these initiatives, and recent audience growth, are expected to be realised in the current financial year.

⁸ PwC NPA Quarterly performance comparison report Q1 2016 – Q4 2017.

⁹ Nielsen CMI, NZ Herald AIR trend to Q3 17. AP15+. ABC Circulation Q4 16 - Q3 17.

¹⁰ Nielsen CMI Q4 2016 – Q3 2017. AP15+.

¹¹ All Trading and Pro forma measures are non-GAAP measures that are explained and reconciled in the NZME Full Year 2017 Results Presentation dated 22 February 2018.

¹² GfK Radio Audience Measurement, Commercial Stations. NZME & Partners in Major Markets (top 13 markets) Trended till T4/2017. Station Share %. Mon-Sun 12mn-12mn, 18-54.

¹³ GfK Radio Audience Measurement. Total NZ Survey, NZME & Partners. Trended till T4/2017. Cumulative Audience. Mon-Sun 12mn-12mn, All 10+.

¹⁴ GfK Radio Audience Measurement, The Hits Auckland, trended till T4/2017. Cumulative Audience. Mon-Fri 6am-9am, 25-54.

Other Radio revenue, including *iHeartRadio* and NZME Events, grew 4% in FY 2017. This was supported by 35% growth in *iHeartRadio* registered users to more than 700,000, following the launch of a new App in January 2017. *iHeartRadio* now reaches more than 17% of NZ's "10 plus" (aged 10 years and over) population, experiencing 30% year on year growth in streams across all stations in 2017.

NZME's focus on leveraging its strong brands to grow audience and support consistent Radio revenue growth continues. In order to support continued Radio audience and revenue growth, a number of enhancements in coverage, talent and content are underway including:

- The expansion of the Radio footprint by way of a modest investment in new frequencies, which is expected to have an attractive payback as the frequencies are integrated with existing assets. In December 2017, *The Hits* was launched in the Coromandel on three separate frequencies, and *Coast* in Whangamata, providing access to an incremental population of 40,000.
- Optimisation of Radio frequency utilisation; in the Manawatu *Coast* added an FM frequency in addition to AM, with NZME now trialling an *iHeartRadio* focus for *Hauraki* in this region. In Hawkes Bay, *Coast* switched with *Hauraki* from AM to FM.
- Continued talent and content enhancement including a refresh of Newstalk ZB, with new talent such as TV and radio personality Simon Barnett, and extension of Sarah, Sam & Toni's *The Hits* successful Auckland breakfast show across the North Island.

Digital and e-Commerce

NZME achieved strong Digital revenue growth of 18% in FY 2017 to \$56.3 million, contributing 15% of total Trading Revenue¹⁵ and outperforming display revenue market growth of 10%¹⁶. The largest drivers of this growth were mobile, video and programmatic products, with native video streams growing 38% year on year¹⁷. This was assisted by the proprietary online video news product, *NZ Herald Focus*, regularly hitting more than 1.5 million views a week across all platforms, an increase of over 100% compared to the 2016 average¹⁸.

Digital audience and revenue growth was further enabled by the relaunch of *nzherald.co.nz* in June, utilising the Washington Post arc software, providing enhanced revenue opportunities through innovative new ad executions and increased premium inventory.

NZME has also leveraged the arc software suite to enhance content management by creating a user-centric experience to grow and engage audiences. This software enables alternate testing of content and functionality, implementation of registration and notification capability, and a new authoring tool for our journalists.

NZME's digital audience growth continues; with *nzherald.co.nz* monthly unique audience increasing 12% year on year¹⁹. The proportion of direct traffic also grew in line with browser growth in the fourth quarter, reducing reliance on social referrals and allowing for improved

¹⁵ All Trading and Pro forma measures are non-GAAP measures that are explained and reconciled in the NZME Full Year 2017 Results Presentation dated 22 February 2018.

¹⁶ IAB / PWC New Zealand Q3 2017 Interactive Advertising Spend Report; digital excluding classifieds, search and directories, and social media (NZ market only).

¹⁷ Brightcove Analytics January 2016 – December 2017. Native = viewed on an NZME platform.

¹⁸ Nielsen Market Intelligence, 2017 vs 2016.

¹⁹ Nielsen Online Ratings, Domestic Unique Audience, 2016 - 2017.

engagement and revenue opportunities. Relative growth in direct traffic reduces audience acquisition costs, enhances control over reader experience and maximises time spent engaged in NZME's products.

New product development remains a priority as evidenced by the launch of NZME's first multi-platform content series, including podcasts, "*Chasing Ghosts*" in October, reaching a new level of storytelling in the news segment. *NZ Herald* and *Newstalk ZB* flash briefings as well as *ZM's* custom Amazon Alexa skill were also made available at the launch of Alexa in New Zealand in early February 2018.

GrabOne (e-Commerce) revenue decline slowed from 20% in the first half of 2017, to 18% for the full year to \$11.4 million, assisted by the launch of the new *GrabOne* website and App in May. *GrabOne* traffic grew 9% in the fourth quarter year on year, reducing revenue decline and supported by improved deal relevancy targeting.

Developing new revenue streams has been a priority, with NZME's three digital classifieds platforms; *DRIVEN*, *YUDU* and *OneRoof*, all due to launch in the first quarter of 2018. A number of NZME's competitive advantages support these propositions, including:

- access to a growing audience of over 3.2 million New Zealanders²⁰;
- leveraging core content capabilities across text, video and audio;
- utilising data insight and analytic capabilities; and
- taking advantage of cross-platform bundling opportunities.

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

Capital management

The company has a prudent and sustainable capital structure with net debt as at 31 December 2017 of \$90.2 million, down from \$95.9 million at 31 December 2016.

The fully imputed 6.0 cent per share final dividend brings full year dividends to 9.5 cents per share, in line with the dividend policy of 60-80% of underlying NPAT.

Stuff merger update

Completing the merger with Stuff remains a priority to further improve efficiency and competitiveness of New Zealand content generation and delivery in an increasingly fragmented market.

On 7 February 2018, NZME and Fairfax announced their intention to appeal the High Court's adverse ruling on the Stuff Limited (formerly Fairfax New Zealand)/NZME merger. Subject to a final decision on the scope of appeal, it is expected that the matter will be heard in the Court of Appeal in Q2 2018, with a judgment expected in the second half. There is a further right of appeal to the Supreme Court with leave on points of general public interest. The transaction remains subject to finance and shareholder approval.

NZME and Fairfax continue to believe the New Zealand Commerce Commission was wrong in fact and wrong in law to decline clearance or authorisation for the merger. The questions on

²⁰ Nielsen CMI, November 2017 fused database: Q4 16 to Q3 17 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels.

appeal are focused on the issue of plurality. Based on the High Court's findings, the net quantified benefits of the transaction to the New Zealand economy have been calculated at between \$133 million and \$209 million²¹.

NZME continues to share the costs of the legal process with Fairfax, including the cost of appealing the High Court's decision, which is estimated to be less than half a million dollars (excluding GST). The Board sees this investment as appropriate given the significant potential benefits of the transaction.

NZME believes the transaction would be positive for New Zealand, its employees and shareholders due to enhancing the competitiveness of locally produced content for our news, sport and entertainment offerings.

Board

Sir John Anderson retired as Chairman and from the Board of NZME on 8 December 2017. Sir John made an invaluable contribution to NZME, including leading the Board through the demerger of NZME from HT&E Limited (formerly APN News & Media) and listing in June 2016.

At the same time as Sir John's retirement, Independent Director Peter Cullinane was appointed as Chair and David Gibson appointed as Independent Director. Mr Cullinane has a background in global advertising and marketing and has been a valued member of the NZME Board since listing. David Gibson has strong experience in strategy and finance with over 20 years' in investment banking, including as Co-Head of Investment Banking in New Zealand for Deutsche Bank and Deutsche Craigs.

A Board renewal process has been underway to ensure NZME continues to have strong governance and the appropriate resources and skills to support its growth strategy. Mr Gibson was appointed as a result of that process, which continues in 2018.

Outlook

Traditional advertising markets have continued to face headwinds in FY 2017, with a similar climate expected in FY 2018.

While operational efficiency remains a focus, the rate of improvement in cost-out is slowing, consistent with FY 2017, and therefore EBITDA is likely to continue to be pressured in the near term. As previously outlined, NZME is reinvesting in growth initiatives such as *DRIVEN*, *YUDU* and *OneRoof*, with revenue benefits from these expected to be realised over the medium term.

NZME's aims to deliver revenue and EBITDA growth in the medium term, supported by revenue retention in the existing business and newly established revenue streams.

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 to address unmet customer needs. NZME has six key priorities for the current year to enhance shareholder value:

²¹ Calculation of net quantified benefits implementing the High Court's findings in para 27 of the Affidavit of James Michael Mellsoy, 5 February 2018, High Court Proceeding CIV-2017-485-445.

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 reducing and leveraging our fixed cost base; with a continued focus on balance sheet strength and delivering shareholder returns;
4. Engage and develop our people through leadership and talent succession planning;
5. Grow new revenue streams through the launch of *DRIVEN*, *YUDU* and *OneRoof*, 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 its progress.

All FY 2017 results materials can be found at:
www.nzx.com/markets/NZSX/securities/NZM/announcements

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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, 22 February 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 3.2 million kiwis²². 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).

www.nzme.co.nz

²² Nielsen CMI, November fused database: Q4 16 to Q3 17 (population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels.