

**NZX/ASX RELEASE**

26 August 2016

**NZME reports stable earnings, dividend declared**

**NZME Limited half year results for the six months ended 30 June 2016**

**H1 2016 highlights**

- Statutory NPAT of \$60.8 million compared to \$21.9 million in H1 2015, impacted by tax and gain on sale of NZME’s interest in the Australian Radio business
- Trading EBITDA of \$32.5 million, slightly ahead of \$32.4 million in H1 2015 with cost savings of 9.4%
- Pro forma NPAT of \$10.4 million, 3.5 cents per share unimputed interim dividend declared
- Delivered 19.5% digital revenue growth
- Successfully listed on NZX Main Board and ASX on 27 June 2016
- Demerger from APN News & Media Limited completed on 29 June 2016
- Historical tax disputes with the IRD fully settled in August 2016
- Completed the integration of NZME’s regional print, digital and radio sales teams under singular General Managers to maximise cross-selling opportunities
- 13 regional co-locations completed, remaining two are planned for H2 2016
- Continued product optimisation, including the sale of the *Wairarapa Times Age* in June and *Whakatane News* in August 2016
- Launched CreateMe to maximise the integrated, multi-platform sales proposition, delivering revenue growth via video, branded content and Experiential products
- Innovation continues:
  - Developed *RestaurantHub.co.nz*, a JV restaurant booking portal
  - Launched *Driven*, a user generated online classifieds platform
  - Launched *NZ Herald Focus*, a digital news video brand
  - Developed a JV with *Chinese Herald* for a Chinese language version of *nzherald.co.nz*.

**Financial summary**

\$m	H1 16	H1 15	% Change
Revenue	197.8	214.9	(7.9%)
Costs	(165.3)	(182.5)	(9.4%)
Trading EBITDA	32.5	32.4	0.5%
Statutory NPAT	60.8	21.9	178.3%
Pro forma NPAT	10.4	-	-
Interim Dividend (cps)	3.5	-	-

Note: The NZME Trading Result includes the Educational Media business, which is not reported as part of the Statutory Accounts, however as a result of the demerger this business will be reported in the Statutory Accounts going forward. The NZME Trading Result excludes exceptional items, and also pro forma standalone costs of \$3.7m for H1 16 that were outlined in the Explanatory Memorandum for the Demerger of NZME by APN, as these costs were not incurred in H1 16. The Statutory Accounts for H1 16 include the Australian Radio Network, NZME’s remaining interest in which was sold on 24th June as part of the demerger, and a number of demerger related adjustments that are unrelated to the NZME business going forward. The NZME Pro forma Result excludes exceptional items, but includes pro forma standalone costs of \$3.7m for H1 16 as described. Pro forma interest expense has been calculated at NZME’s current interest rate payable of 4.0% p.a., net of H1 16 interest income of \$0.2m. Pro forma tax payable has been calculated indicatively utilising NZME’s current effective tax rate of 29%.

**Half year summary**

NZME Limited (NZME) today reports stable earnings from its integrated media and entertainment business. Trading EBITDA grew 0.5% compared to H1 2015 despite revenue headwinds, as a result of the ongoing cost benefits of transformation.

NZME's overall audience reach across its news, sport and entertainment brands has increased by 5.0% year on year to 3.2 million<sup>1</sup>. Growth in audience has resulted from both new product launches and brand redesigns, focussed on audience targeting and engagement.

NZME's stable performance has enabled a dividend of 3.5 cps to be scheduled for payment in October. This is in-line with the proposed dividend pay-out policy of 60-80% of underlying (Pro forma) NPAT per the Explanatory Memorandum for the Demerger of NZME by APN.

On 23 June 2016 NZME reached a binding heads of agreement with the IRD to settle all historical tax disputes. The settlement amount is \$33.9 million; being shared equally with APN with NZME's share of \$17.0 million paid in August and accrued in the 30 June 2016 current liabilities.

The Statutory Result is not reflective of the NZME business going forward, due to the impact of the demerger, tax payments, and the inclusion of the previous ownership interest in the Australian Radio business.

NZME net debt as at 30 June 2016 was \$97.8 million and capital expenditure was \$6.3 million for the half year. The business retains a sound liquidity position with undrawn bank facilities of \$48.0 million.

## **Print**

Excluding the impact of the closure of the unprofitable Pacific Magazines licenced business in September 2015, total Print revenues were down 8.1% year on year from \$128.5 million in H1 2015 to \$118.1 million in H1 2016.

Print advertising revenue was impacted by a tough agency market, however the year on year trend improved in the second quarter following a slower than expected start to the year. Print advertising revenue comprised 33.1% of H1 2016 NZME revenue.

Print circulation revenues have remained stable year on year with subscriber revenues growing 1.2%, driven by subscriber yield growth of 5.2% more than offsetting the impact of year on year lower volume. Subscriber acquisition has however improved since H2 15, with the *NZ Herald* and *Herald on Sunday* subscriber base growing by over 1,100 subscribers in H1 2016.

Other print revenues grew 6.6% year on year from \$8.1 million to \$8.7 million as distribution services provided to Fairfax NZ were expanded.

NZME is continuing to look at opportunities to optimise its Print product portfolio. In June 2016 NZME completed the sale of the *Wairarapa Times-Age* and *Wairarapa Midweek*, and the *Whakatane News* sale was recently completed in August 2016.

The opportunities created by NZME's integration across Print, Radio and Digital is reflected in the launch of *The Country*, a single rural brand; merging Print, Radio and Digital assets to become the hub for all NZME rural content, improving cross-selling opportunities.

## **Radio and Experiential**

Radio and Experiential revenues of \$55.8 million contributed 28.2% of H1 2016 NZME revenue. This was a revenue decline of 6.1% from H1 2015 to H1 2016. A return to growth in agency revenues following changes to the agency sales model over the past twelve months, and continued direct growth in Auckland helped to offset this decline. A sales restructure has now been completed and direct Radio revenues across the metro markets are indicating an improved trend.

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<sup>1</sup> Source: Nielsen CMI, fused database: Last twelve months Q2 14 – Q1 16 (most recent release) (based on population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels

*Newstalk ZB* continues to dominate NZ Radio with the largest share, at 11.3%, of any commercial radio station in the market. NZME grew its market share by 2 percentage points in key household shopper age demographics (18-34 year olds and 25-44 year olds)<sup>2</sup> during H1 2016, a key target audience for the company.

During the half year, NZME entered into exclusive commercial partnerships with *WTV* and *Humm FM*. *WTV* is one of the leading local Asian media companies in New Zealand with three Radio stations, two Freeview channels and ten pay TV channels. *Humm FM* is an Auckland based Indian station that targets 18-39 year olds, serving the local Indian community.

NZME extended the geographic spread of its *Mix* Radio brand with successful launches in Wellington, Whangarei and Nelson during H1 2016.

Other Radio revenues, including *iHeart* Radio and NZME Events grew year on year, to \$2.2 million in H1 2016. *iHeart* revenue growth was driven by growth in the number of concerts which included Temper Trap, Cold War Kids, 5th Harmony and Shihad in H1 2016. Event revenue growth has been achieved through the acquisition of Peacock Events, a regional lifestyle events business.

### **Digital and e-Commerce**

Digital is a key area of growth for NZME. Digital revenue grew 19.5% year on year in H1 2016, driven by audience growth and the creation of new advertising units through product innovation and development. Total programmatic revenue grew 58% year on year in H1 2016 driven by the performance of *KPEX*, a joint venture trading desk for Digital advertising, between four New Zealand media businesses (NZME, Fairfax, Mediaworks and TVNZ). *nzherald.co.nz* audience reach grew 27.6% year on year for the 12 months to Q1 2016, with a unique monthly audience of over 1.7 million<sup>3</sup>.

NZME's native video streams grew 36.7% year on year in Q2 2016<sup>4</sup> as a result of launching new initiatives and expanding and improving video content for existing brands. New video initiatives include *NZ Herald Focus*, a video news brand that produces a number of unique daily video segments for *The New Zealand Herald*. *NZ Herald Focus* adds to NZME's existing video portfolio. NZME also launched *WatchMe* late last year; a unique video on demand platform producing "Kiwi" short-form comedy series utilising influential talent.

E-Commerce revenue, relating mostly to *GrabOne*, decreased 20.8% in H1 2016 with revenues remaining under pressure as the business continues to evolve from a traditional daily deals site.

New e-Commerce initiatives include *driven.co.nz*, a user generated classifieds and auto listing site on the *Driven* Digital platform launched in H1 2016, which now has over 27,000 listings. NZME also developed a joint venture to launch an online restaurant booking and table management platform *RestaurantHub.co.nz*.

### **Fairfax merger update**

As noted in the combined NZME and Fairfax Media Limited announcement dated 22 August 2016, Fairfax New Zealand Limited ("Fairfax") and NZME have received, and agreed to, a request from the New Zealand Commerce Commission ("NZCC") to extend the date for the NZCC's decision on the proposed merger of the two businesses.

The NZCC is seeking to provide a draft determination on the proposed merger in November, with a final determination targeted for before 15 March 2017. The extension is part of the

<sup>2</sup> Source: Gfk New Zealand Commercial Major Markets Survey 1 and 2 2016 Station Share (%) Mon-Sun 12mn-12mn

<sup>3</sup> Source: Nielsen CMI, fused database: Last twelve months Q2 14 – Q1 16 (most recent release) (based on population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels

<sup>4</sup> Brightcove analytics, January 2015 - June 2016

NZCC's usual process and allows for the steps set out in the NZCC Authorisation Guidelines to be completed in a timely way.

As set out in their recent cross-submission, NZME and Fairfax do not believe anything in the public submissions filed by interested parties undermines the key arguments made in the original application which support a clearance or authorisation being granted in respect of their application.

## **Outlook**

Against a sector backdrop of revenue pressures, NZME continues to deliver on its strategic imperatives; growing audience engagement, optimising integration opportunities, and diversifying revenue. The NZME Executive Team has developed the following priorities for H2 2016 to support these strategies:

1. Growing our audience reach
2. Continuing focus on retaining print revenues
3. Returning radio to growth
4. Growing digital and new revenue streams
5. Continuing focus on cost out and capital management
6. Developing our people and retaining our talent
7. Continuing to progress the proposed merger with Fairfax NZ

The company has a prudent and sustainable capital structure and have declared an interim dividend as forecast. NZME has an extremely talented pool of people who continue to innovate and to generate premium content for New Zealanders.

## **ENDS**

### **For further information:**

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### **About NZME**

New Zealand Media and Entertainment (NZME Limited) has unified through bringing its Print, Radio, and Digital assets under one overarching banner. NZME is one of New Zealand's leading media and entertainment businesses with its brands connecting with 3.2 million kiwis<sup>5</sup>. Whether reading, listening, watching or engaging with NZME brands, they can get the content they want - where and when they want it. NZME is listed on the NZX with a foreign exempt listing on the ASX.

[www.nzme.co.nz](http://www.nzme.co.nz)

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<sup>5</sup> Source: Nielsen CMI, fused database: Last twelve months Q1 16 (most recent release) (based on population 10 years +). Based on unduplicated weekly reach of NZME newspapers, radio stations, and monthly domestic unique audience of NZME's digital channels

**APPENDIX ONE: EXPLANATION OF NON-GAAP FINANCIAL INFORMATION, NZME H1 2016 TRADING RECONCILIATION TO STATUTORY ACCOUNTS**

NZME monitors its profitability using the non-GAAP financial measures of EBIT and EBITDA. EBITDA is a non-GAAP measure and is NZME's earnings before interest, tax, depreciation and amortisation. NZME's Pro forma NPAT is based on Statutory NPAT and is adjusted for material one-off items, particularly those with a non cash impact. Management and the Board monitor Trading EBITDA and Pro forma NPAT as key indicators of company performance and believe they provide a better comparable measure of NZME's operating performance. In addition, Pro forma NPAT provides the basis for the NZME dividend policy.

NZME's reconciliation between Trading and Statutory EBIT and EBITDA is presented below. The measures are not defined by NZ GAAP, IFRS, or any other body of accounting standards, and therefore NZME's calculation of these measures may differ from the similarly titled measures presented by other companies. These measures are intended to supplement the NZ GAAP measures presented in NZME's financial information. They should not be considered in isolation and are not a substitute for NZ GAAP measures.

<b>\$m</b>	<b>NZME Trading Result</b>	<b>Acquired &amp; non-trading items</b>	<b>Statutory Accounts</b>
Revenue	197.8	(1.2)	196.6
Costs	(165.3)	(12.2)	(165.6)
<b>EBITDA</b>	<b>32.5</b>	<b>(13.4)</b>	<b>31.0</b>
Depreciation and amortisation	(12.1)	(0.1)	(12.2)
<b>EBIT</b>	<b>20.4</b>	<b>(13.5)</b>	<b>18.8</b>
Exceptional items	(3.0)	(11.7)	(14.7)
<b>EBIT after exceptionals</b>	<b>17.4</b>	<b>(13.3)</b>	<b>4.1</b>
Net interest expense			(6.8)
<b>NPBT</b>			<b>(2.8)</b>
Tax			(61.5)
Profit from discontinued operations			125.1
<b>Statutory NPAT</b>			<b>60.8</b>

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The Statutory Accounts for H1 2016 include the Australian Radio Network, NZME's remaining interest in which was sold on 24th June as part of the demerger, and a number of demerger related adjustments that are unrelated to the NZME business going forward.

The NZME Pro forma Result excludes exceptional items, but includes these pro forma standalone costs of \$3.7 million for H1 2016. Pro forma interest expense has been calculated at NZME's current interest rate payable of 4.0% p.a., net of H1 16 interest income of \$0.2 million. Pro forma tax payable has been calculated indicatively utilising NZME's current effective tax rate of 29%.

Tax of \$61.5 million comprises a \$17.0 million cash payment (being NZME's share of the \$33.9 million total being shared equally with APN) to fully settle historical tax disputes with the IRD, a release of historical losses utilising deferred tax assets and a release of other deferred tax balances related to the demerged business. Profit from discontinued operations relates to the disposal of the Australian Radio Network as part of the demerger from APN in June 2016.

**APPENDIX TWO: NZME REVENUES BY SEGMENT**

<b>\$m</b>	<b>H1 16</b>	<b>H1 15</b>	<b>% Change</b>
<b>Print</b>			
Advertising Revenue	65.5	75.8	(13.6%)
Circulation Revenue	43.9	44.6	(1.4%)
Other Revenue	8.7	8.1	6.6%
Magazines Revenue	-	4.1	(100.0%)
<b>Total Print Revenue</b>	<b>118.1</b>	<b>132.6</b>	<b>(10.9%)</b>
<b>Radio &amp; Experiential</b>			
Radio & Experiential Revenue	53.6	57.6	(6.9%)
Other Revenue (incl. iHeart and Events)	2.2	1.9	17.2%
<b>Total Radio &amp; Experiential Revenue</b>	<b>55.8</b>	<b>59.5</b>	<b>(6.1%)</b>
<b>Digital &amp; e-Commerce</b>			
Digital Revenue	17.1	14.3	19.5%
GrabOne Revenue	6.8	8.6	(20.8%)
<b>Total Digital &amp; e-Commerce Revenue</b>	<b>23.9</b>	<b>22.9</b>	<b>4.4%</b>
<b>TOTAL NZME REVENUE</b>	<b>197.8</b>	<b>214.9</b>	<b>(7.9%)</b>