

NZME Limited

Investor Day Highlights—2023

JAMES LINDSAY

 James.Lindsay@forsythbarr.co.nz
 +64 9 368 0145

WILL TWISS

 will.twiss@forsythbarr.co.nz
 +64 9 368 0129

NZME Limited's (NZM) 2023 Investor Day offered refreshed insight into the company's strategies and performance. The presentation unveiled detail on: 1) NZM's commitment to digital transformation and audience engagement, 2) its strategy for managing the decline of its substantial print business, and 3) leveraging OneRoof as a key driver for future earnings. NZM also provided an update on its three-year strategic priorities and quantitative targets, set in 2020, with significant progress made in the Audio, Publishing, and OneRoof divisions. A new set of three strategic priorities were set for FY26: to be the number one in audio; to be New Zealand's leading news destination; and to be New Zealand's essential property platform. We make no changes to our FY23 EBITDA estimate of NZ\$57.2m (at the lower end of the new NZ\$57m to NZ\$59m management range) or to our blended spot valuation of NZ\$1.25 a share.

NZX Code	NZM	Financials: Dec/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.90	Rev (NZ\$m)	365.9	349.7	359.5	363.5	PE	7.7	9.6	8.5	8.0
Spot Valuation	NZ\$1.25	NPAT* (NZ\$m)	22.9	17.3	19.6	20.6	EV/EBIT	7.0	8.7	7.8	7.7
Risk rating	Medium	EPS* (NZc)	11.7	9.4	10.6	11.2	EV/EBITDA	4.0	4.7	4.3	4.2
Issued shares	183.9m	DPS (NZc)	9.0	9.0	9.0	9.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$166m	Imputation (%)	100	100	100	100	Cash div yld (%)	10.0	10.0	10.0	10.0
Avg daily turnover	58.9k (NZ\$60k)	*Based on normalised profits					Gross div yld (%)	13.9	13.9	13.9	13.9

Continued focus on digital transformation

NZM's 2023 Investor Day highlighted its ongoing commitment to digital growth. The focus was on enhancing user experience and engagement on its platforms, particularly the news and property segments which drive significant traffic and user interaction. Key FY26 targets include: 1) growing the digital Audio revenue share from 7% to 12%; 2) increasing digital NZ Herald subscriptions from ~123k to ~190k; 3) improving the digital Publishing advertising mix to 60% (from 48%); and 4) raising the digital proportion of OneRoof revenue from 53% to 78%.

The print business remains a substantial portion of NZM's Publishing segment

For the first time NZM split out the contribution of print and digital to the FY22 Publishing result. This highlighted the substantial EBITDA (NZ\$28.2m pre-IFRS16) contribution from the print business. While the ongoing importance and profitability of print were largely in line with our expectations, its significant earnings contribution underscores a potential risk, especially as the industry continues its digital shift. However, the NZM management team remains focussed on the print business and retaining circulation. NZM's FY26 target for print subscribers is >65k, in line with our estimate and representing a ~35k decline from ~90k at 1H23. This decline should be manageable if NZM can meet its digital subscriber target of ~190k by FY26. This digital growth is more optimistic than our estimate of ~168k subscribers in FY26, up from 123k at 1H23.

OneRoof is a crucial driver of earnings

The presentation detailed the significant opportunity to grow OneRoof's listings revenue. NZM has set a target of 15–25% EBITDA margin pre-IFRS16 in FY26, which aligns with our expectations of 19%. This will be helped by increasing listings upgrade rates: the percentage of listings which purchase OneRoof's most expensive listing package. NZM is targeting an increase in listing upgrades from 43% in 1H23 to 60% in Auckland, and from 17% in 1H23 to 40% in the rest of the country by FY26.

NZME Limited (NZM)

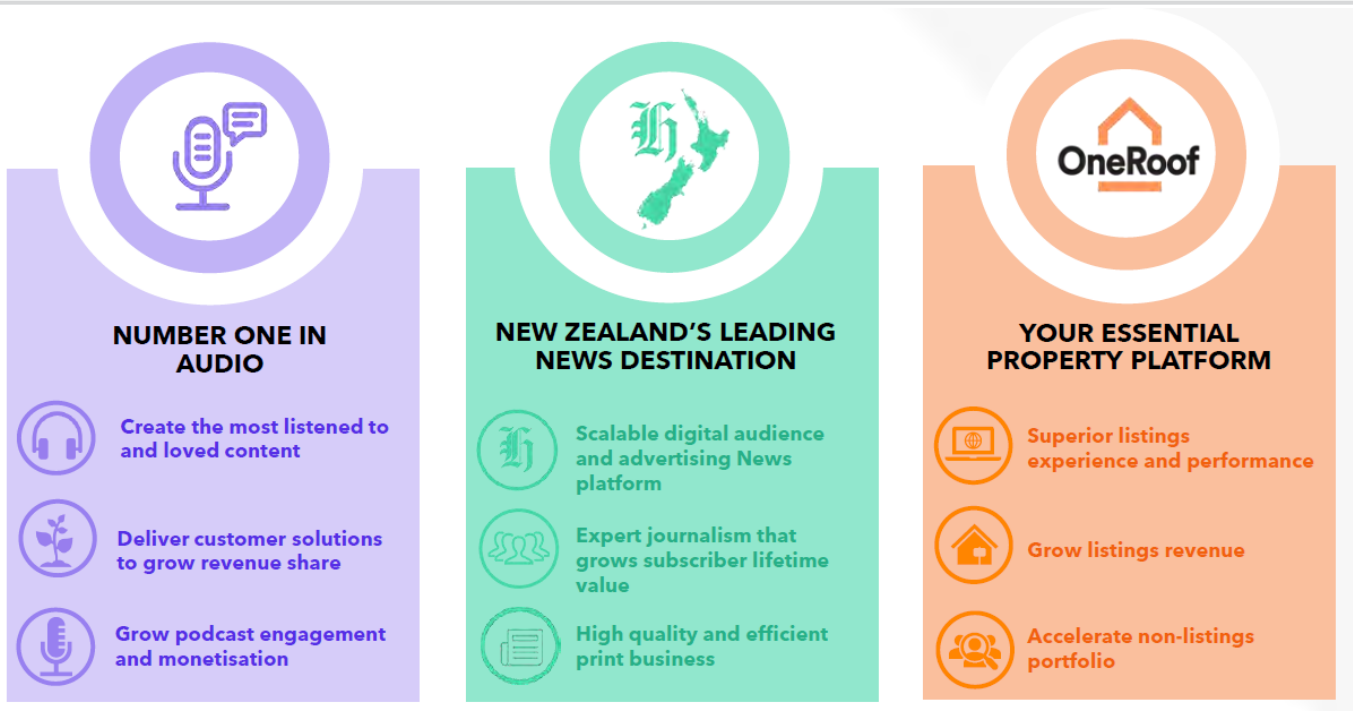
Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 15 Nov 2023					0.90	Peers comparable					1.18
52 week high / low					1.21 / 0.83	DCF					1.32
Market capitalisation (NZ\$m)					165.5	n/a					n/a
Carbon and ESG (CESG)**						Key WACC assumptions					
CESG rating					n/a	Risk free rate					5.25%
CESG score					n/a	Equity beta					1.16
Sector average CESG score					n/a	WACC					10.2%
NZ average CESG score					n/a	Terminal growth					1.5%
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Revenue	2021A	2022A	2023E	2024E	2025E	EV/Sales (x)	2021A	2022A	2023E	2024E	2025E
Normalised EBITDA	365.6	365.9	349.7	359.5	363.5	EV/EBITDA (x)	0.8	0.7	0.8	0.7	0.7
Depreciation and amortisation	66.0	64.7	57.2	61.0	62.4	EV/EBIT (x)	4.2	4.0	4.7	4.3	4.2
Normalised EBIT	(26.3)	(27.4)	(26.5)	(27.4)	(28.4)	PE (x)	7.6	7.0	8.7	7.8	7.7
Net interest	39.7	37.3	30.7	33.6	34.0	Price/NTA (x)	4.9	7.7	9.6	8.5	8.0
Associate income	(7.3)	(5.7)	(6.5)	(6.3)	(5.2)	Free cash flow yield (%)	64.8	n/a	n/a	n/a	n/a
Tax	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	Adj. free cash flow yield (%)	22.0	9.0	11.7	11.9	12.8
Minority interests	(7.8)	(8.6)	(6.7)	(7.6)	(8.0)	Net dividend yield (%)	22.0	9.0	11.7	11.9	12.8
Normalised NPAT	0	0	0	0	0	Gross dividend yield (%)	8.9	10.0	10.0	10.0	10.0
Abnormals/other	24.2	22.9	17.3	19.6	20.6	Capital Structure	12.3	13.9	13.9	13.9	13.9
Reported NPAT	10.3	(0.3)	0	0	0	Interest cover EBIT (x)	5.1	6.6	4.7	5.3	6.5
Normalised EPS (cps)	34.4	22.7	17.3	19.6	20.6	Interest cover EBITDA (x)	9.1	11.4	8.7	9.7	12.0
DPS (cps)	18.5	11.7	9.4	10.6	11.2	Net debt/ND+E (%)	-10.6	12.6	10.7	8.4	5.0
	8.0	9.0	9.0	9.0	9.0	Net debt/EBITDA (x)	n/a	0.3	0.3	0.2	0.1
Growth Rates						Key Ratios					
Revenue (%)	2021A	2022A	2023E	2024E	2025E	Return on assets (%)	2021A	2022A	2023E	2024E	2025E
EBITDA (%)	9.1	0.1	-4.4	2.8	1.1	Return on equity (%)	11.8	12.1	10.1	11.6	12.5
EBIT (%)	8.4	-2.0	-11.6	6.7	2.2	Return on funds employed (%)	17.1	18.8	14.1	15.6	15.9
Normalised NPAT (%)	35.6	1.0	-17.8	9.6	1.1	EBITDA margin (%)	9.0	8.7	6.6	8.1	9.3
Normalised EPS (%)	35.6	-5.1	-24.7	13.3	5.4	EBIT margin (%)	18.1	17.7	16.4	17.0	17.2
Ordinary DPS (%)	>100	-36.4	-20.0	13.3	5.4	Capex to sales (%)	10.1	10.2	8.7	9.3	9.3
	n/a	12.5	0.0	0.0	0.0	Capex to depreciation (%)	1.3	2.9	3.1	3.3	3.4
						Imputation (%)	-24	-53	-57	-63	-69
						Pay-out ratio (%)	100	100	100	100	100
							43	77	96	85	80
Cash Flow (NZ\$m)						Operating Performance					
EBITDA	2021A	2022A	2023E	2024E	2025E	Audio	2021A	2022A	2023E	2024E	2025E
Working capital change	66.0	64.7	57.2	61.0	62.4	External customers revenue	106.6	113.5	112.4	119.5	120.9
Interest & tax paid	8.2	(8.6)	(1.2)	(2.4)	(1.3)	Operating EBITDA	20.9	22.8	22.6	25.2	25.0
Other	(14.5)	(18.2)	(13.3)	(13.9)	(13.2)	Operating EBITDA margin	20%	20%	20%	21%	21%
Operating cash flow	(7.9)	(0.4)	0	0	0	Publishing					
Capital expenditure	51.8	37.5	42.7	44.7	47.8	External customers revenue	211.6	216.8	213.2	212.4	211.8
(Acquisitions)/divestments	(4.7)	(10.7)	(10.9)	(11.7)	(12.4)	Operating EBITDA	45.4	47.4	39.9	38.7	38.8
Other	17.5	(3.6)	0	0	0	Operating EBITDA margin	21%	22%	19%	18%	18%
Funding available/(required)	(11.4)	(11.3)	(12.5)	(13.3)	(14.1)	OneRoof					
Dividends paid	53.3	11.9	19.3	19.7	21.3	External customers revenue	21.5	22.9	22.9	26.0	29.3
Equity raised/(returned)	(5.9)	(25.4)	(16.6)	(16.6)	(16.6)	Operating EBITDA	2.1	-1.4	0.4	2.7	4.1
(Increase)/decrease in net debt	0	(17.6)	0	0	0	Operating EBITDA margin	10%	-6%	2%	10%	14%
	47.4	(31.0)	2.8	3.1	4.7						
Balance Sheet (NZ\$m)											
Working capital	2021A	2022A	2023E	2024E	2025E						
Fixed assets	(6.7)	1.9	3.2	5.6	6.9						
Intangibles	27.0	23.1	19.1	15.7	12.8						
Right of use asset	138.2	141.5	141.3	140.6	139.0						
Other assets	67.5	63.7	53.8	44.0	34.2						
Total funds employed	19.1	17.9	17.9	17.9	17.9						
Net debt/(cash)	245.1	248.1	235.3	223.8	210.9						
Lease liability	(13.5)	17.5	14.7	11.6	6.9						
Other liabilities	96.8	91.2	80.3	68.7	56.3						
Shareholder's funds	16.0	13.3	13.3	13.3	13.3						
Minority interests	145.9	127.0	127.8	131.0	135.2						
Total funding sources	(0.1)	(0.8)	(0.8)	(0.8)	(0.8)						
	245.1	248.1	235.3	223.8	210.9						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Appendix

We highlight key slides from NZM's 2023 Investor Day below.

Figure 1. NZM's three new strategic priorities



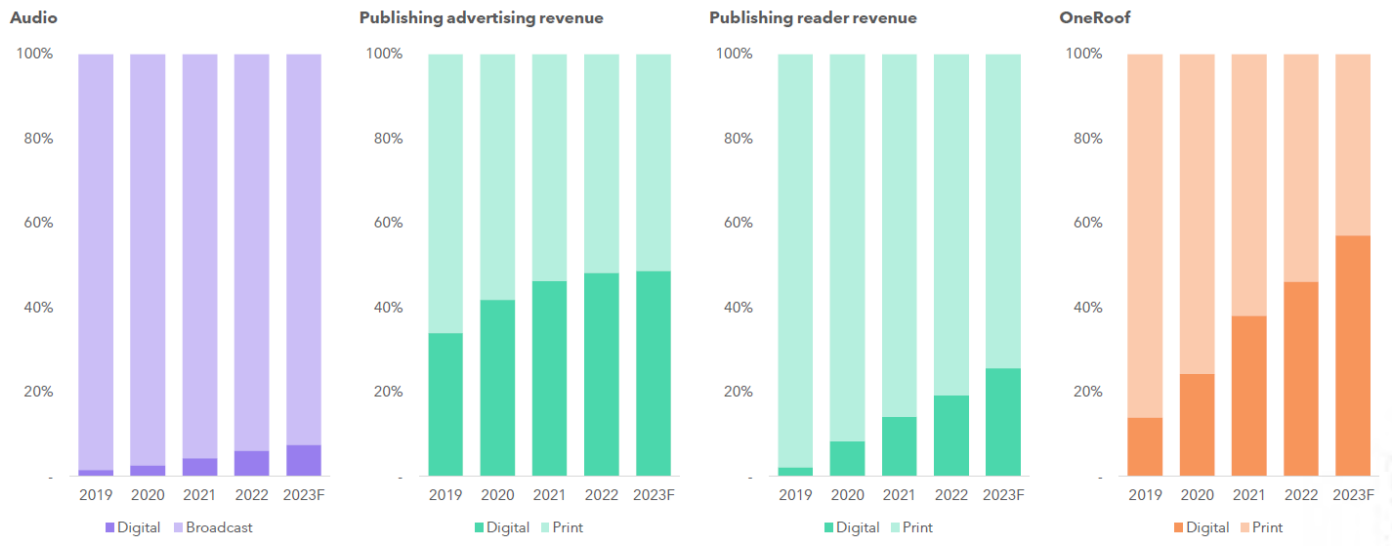
Source: Company

Figure 2. NZM's digital strategy continues to produce growth



Source: Company

Figure 3. NZM's digital progress across the divisions



Source: Company

Figure 4. NZM's Audio scorecard 2020 to 2023

Metric	2023 Target set in 2020	2020 Achievement	2021 Achievement	2022 Achievement	H1 2023 Achievement	Tracking
NZME share of total audience	> 1% share point growth per annum	35.6% ¹	37.4% ¹	37.7% ¹	38.1% ¹	●
Radio Revenue Share	> 1% share point growth per annum	40.4% ²	40.9% ²	41.4% ²	42.4% ²	●
Digital audio revenue as a % of total audio revenue	5%	2.4%	3.4%	5.1%	7.0%	●
EBITDA³ Margin Target (pre NZ IFRS16)	15 - 17%	14% ⁴	12%	13%	12%	●






Source: Company

Figure 5. NZM's Publishing scorecard 2020 to 2023

Metric	2023 Target set in 2020	2020 Achievement	2021 Achievement	2022 Achievement	H1 2023 Achievement	Tracking
Subscription Volume Target	More than 210,000 by 2023 year-end	169,000	191,000	209,000 ¹	218,000 ¹	●
Subscription Volume Mix	Digital Only > Print	32% / 68%	43% / 57%	54% / 46%	56% / 44%	●
% Households Subscribing	> 12% by year-end	9% ²	10% ²	11% ²	11% ²	●
Advertising Revenue Mix	> 45% Digital	42% Digital	46% Digital	48% Digital	48% Digital	●
EBITDA³ Margin Target (pre NZ IFRS16)	18-19% ⁵	19% ⁴	18%	18%	11%	●

Source: Company

Figure 6. NZM's OneRoof scorecard 2020 to 2023

Metric	2023 Target set in 2020	2020 Achievement	2021 Achievement	2022 Achievement	H1 2023 Achievement	Tracking
Residential Listings	96% of listings (100% of non-private)	89% ¹	91% ¹	89% ¹	90% ¹	
Audience	Reduce gap to #1	459k, gap to #1 of 250k ²	497k, gap to #1 of 396k ²	564k, gap to #1 of 152k ²	518k, gap to #1 of 139k ²	
Listings Upgrade %⁵	50% of Auckland residential listing 22% of regional residential listings	17.6% Auckland 3.9% Regional	23.5% Auckland 5.4% Regional	38.4% Auckland 14.8% Regional	42.6% Auckland 16.8% Regional	
Revenue	Digital > Print	24% / 76%	38% / 62%	46% / 54%	53% / 47%	
EBITDA³ Margin Target <i>(pre NZ IFRS16)</i>	15 - 25%	8%⁴	7%	(9%)	(17%)	

Source: Company

Appendices

REA Group – 1Q24 update

1Q24 update

REA Group Ltd (REA), an Australian peer of NZM, released a solid 1Q24 result on 10 November 2023. REA reported a +12% year-on-year increase in revenue to A\$341m, and a +13% increase in EBITDA (excluding associates) to A\$198m. This robust financial performance reflects yield growth across its Residential and Commercial businesses and more stable market conditions. Notably, the Australian Residential business saw a +12% increase in revenue, driven by a +13% average national price rise, increased penetration of Premiere+ products, and a positive geographical mix impact from high-yielding Sydney and Melbourne markets. National residential listings in Australia increased by +1% during the quarter, with Sydney listings rising +16% and Melbourne up +14%.

Figure 7. REA – Quarterly residential listings and project commencement changes

Residential Buy listings change	1Q23	2Q23	3Q23	4Q23	1Q24
National	5%	-21%	-12%	-18%	1%
Sydney	5%	-34%	-20%	-17%	16%
Melbourne	12%	-31%	-18%	-16%	14%
Project commencement change	14%	-17%	-22%	-41%	-18%

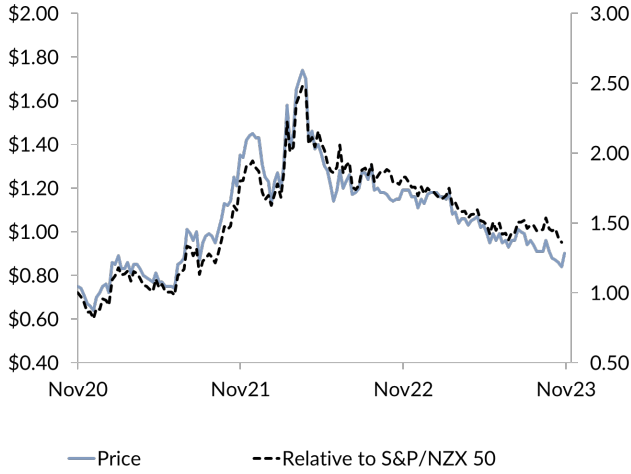
Source: Company, Forsyth Barr analysis

REA's website realestate.com.au maintains a dominant position in Australia's online property market, attracting on average 10.4m visitors each month, with over half of these users (53%) exclusively using realestate.com.au, indicating a strong user preference for the platform. REA states the site has superior user engagement metrics, with visitors spending on average 3.1 times longer on realestate.com.au compared with its closest competitor (Domain). In recent data the platform has seen a notable increase in user activity, with a +16% rise in active members, and a +41% year-on-year increase in the number of unique properties tracked by owners, now reaching 3m. Furthermore, realestate.com.au has experienced an +11% year-on-year increase in monthly buyer enquiries, averaging 2.2m.

Outlook

Looking at the outlook, REA anticipates continued growth in residential buy yield and targets full-year positive operating jaws with low to mid-teens group operating cost growth for FY24. The company noted, 'Australia's largest residential property markets, Sydney and Melbourne, have experienced a stronger than typical winter and this strength has continued into spring'. The stabilisation of interest rates, albeit with a recent rise, has been a key factor in building market confidence. On the platform and its development the company stated that, 'we remain focused on delivering new features across our product suite. We will continue to enhance the depth and quality of engagement on our platforms with more personalised consumer experiences. Together these initiatives will drive significant value for our customers and audience, underpinning future growth'.

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
Repertoire Partners LP	19.9%
Spheria Asset Management	13.4%
Osmium Partners LLC	9.3%
Pinnacle Investment Management	5.2%
Nomura Holdings Inc	5.0%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

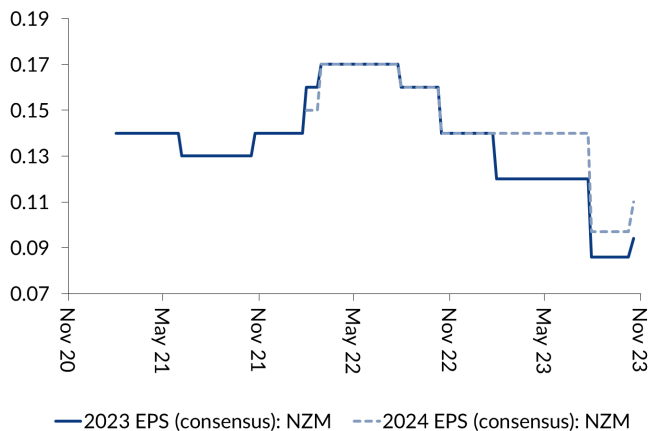
Figure 10. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2023E	PE 2024E	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBIT 2023E	EV/EBIT 2024E	Cash Yld 2024E
(metrics re-weighted to reflect NZM's balance date - December)										
NZME	NZM NZ	NZ\$0.90	NZ\$166	9.6x	8.5x	4.7x	4.3x	8.7x	7.8x	10.0%
Nine Entertainment Co Holdin	NEC AU	A\$1.92	A\$3,114	15.5x	13.1x	7.9x	6.9x	11.5x	9.7x	5.6%
Seven West Media	SWM AU	A\$0.27	A\$419	3.4x	3.8x	3.0x	3.7x	4.2x	4.5x	4.6%
New York Times Co-A	NYT US	US\$43.58	US\$7,165	29.2x	27.3x	17.1x	15.6x	21.5x	18.1x	0.9%
Reach Plc	RCH LN	£0.74	£236	3.3x	3.3x	2.4x	2.3x	2.8x	2.8x	10.0%
Gannett Co Inc	GCI US	US\$1.94	US\$289	12.1x	>50x	5.2x	5.7x	12.1x	13.1x	0.0%
Arn Media	A1N AU	A\$0.84	A\$257	7.9x	7.6x	4.8x	4.6x	6.5x	6.2x	9.8%
Southern Cross Media Group L	SXL AU	A\$0.93	A\$222	11.2x	9.7x	6.2x	5.8x	10.1x	9.1x	7.7%
Sirius Xm Holdings Inc	SIRI US	US\$4.63	US\$17,774	14.9x	14.2x	10.0x	9.8x	13.8x	13.4x	2.4%
Cumulus Media Inc-CI A	CMLS US	US\$4.85	US\$82	<0x	<0x	9.1x	6.6x	29.0x	13.5x	n/a
Domain Holdings Australia Lt	DHG AU	A\$3.57	A\$2,255	64.4x	38.3x	21.1x	16.7x	33.1x	24.1x	1.8%
Rea Group	REA AU	A\$156.22	A\$20,639	51.3x	40.9x	29.5x	24.6x	34.6x	28.3x	1.4%
Compco Average:				21.3x	17.6x	10.6x	9.3x	16.3x	13.0x	4.4%
NZM Relative:				-55%	-52%	-56%	-54%	-46%	-40%	126%

EV = Mkt cap+net debt+lease liabilities+min interests-investments

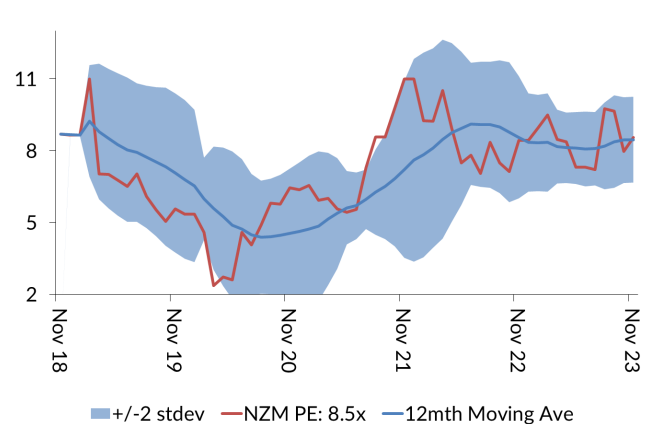
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZM) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 12. One year forward PE (x)



Source: Forsyth Barr analysis

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