

## NZME AND FAIRFAX NZ MERGER

**SYDNEY and AUCKLAND, 7 September 2016:** NZME Limited (NZX:NZM, ASX:NZM) (“**NZME**”) and Fairfax Media Limited (ASX:FXJ) (“**Fairfax**”) announce the signing of a merger implementation agreement to effect the merger of NZME and Fairfax New Zealand Limited (“**Fairfax NZ**”).

Subject to fulfillment of the conditions under the agreement (including approval from the New Zealand Commerce Commission) (“**NZCC**”), the merger will be effected by a wholly owned subsidiary of NZME acquiring all of the shares in Fairfax NZ, in consideration for which NZME will pay NZ\$55 million in cash and issue NZME shares to Fairfax Corporation Pty Limited (“**Fairfax Australia**”), a wholly owned subsidiary of Fairfax, equal to a 41% shareholding in NZME. The consideration is subject to pre and post-merger completion adjustments as described below.

Fairfax NZ’s significant New Zealand audience reach is complementary to that of NZME with 72%<sup>1</sup> of the country engaging with its content each day across mobile and online platforms, metropolitan and local newspapers and magazines.

### Merger Highlights

The combined business will be a leading New Zealand media business, with an audience reach of approximately 3.7 million New Zealanders<sup>2</sup>, offering greater depth of news, sport and entertainment content across a diverse mix of channels including print, digital and radio.

The combined business is expected to create a number of opportunities to increase value for NZME shareholders as a result of:

- An increased number of brands allowing the provision of news, sport and entertainment content with greater national reach;
- Improved diversity of content (including more local content) to attract audiences across all platforms;
- Providing a more compelling proposition to advertisers as a result of this greater reach and enhanced content;
- Increasing the ability to compete in digital advertising with global competitors;
- Greater scale of operations enhancing the ability of NZME to execute on planned initiatives including further development and growth of digital revenue; and
- The opportunity to generate significant synergies across the combined business driving long term efficiencies and free cash flow generation.

Commenting on the merger, NZME CEO Michael Boggs said: “We are delighted to have progressed merger negotiations to this stage and to be in a position to shortly put this proposition to NZME shareholders. The merger will present opportunities for NZME to significantly enhance our integrated offerings to both our audience and our advertising clients.”

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<sup>1</sup> Source: Nielsen CMI Fused Q2 15 - Q1 16 June 16

<sup>2</sup> Source: Nielsen CMI Fused Q2 15 - Q1 16 June 16

Fairfax Media NZ Managing Director Simon Tong said: “The combination of NZME and Fairfax NZ brings together leading and complementary brands in news, sport and entertainment content across multiple channels. Both businesses have a tradition of innovation and a combined business allows us to continue to invest in quality New Zealand journalism – ensuring a strong future for storytelling by Kiwis, about us, and for us.”

### **Governance and Management**

Fairfax Australia will nominate two directors to the Board of NZME who will be appointed on completion of the merger. Prior to all conditions to the merger being satisfied, including NZCC approval, NZME and Fairfax NZ will continue to operate as independent businesses.

NZME Chairman, Sir John Anderson said: “The announcement today is the culmination of a period of substantial effort by both the NZME and Fairfax management teams. The next stage of this process is now focused on the completion of the merger, starting with putting the deal to a shareholder vote in October/November. The Directors are pleased to recommend the merger to shareholders with a Notice of Meeting and Explanatory Memorandum to be distributed to shareholders in October.”

### **Financial Impact of the Merger**

In the year to 30 June 2016, Fairfax generated revenue of \$350.3 million and EBITDA of \$60.2 million. Over the same period NZME generated revenue of \$415.9 million and EBITDA of \$75 million. On a combined basis, NZME and Fairfax generated total revenue in the year to 30 June 2016 of \$766.2 million and total EBITDA of \$135.2 million<sup>3</sup>.

NZME and Fairfax have undertaken a review of expected transaction synergies, and as a result of this review, expect that the combined business could generate significant synergies. It is expected that realisation of the synergies will require one-off costs to be incurred by the combined business.

In order to fund its obligations under the merger agreement, NZME expects to increase its bank facilities to \$250 million through a syndicated bank facility. While the merger implementation agreement is conditional upon finance, NZME has committed term sheets from its banking syndicate for the full \$250 million of facilities. The Board of NZME remains committed to a target leverage for the combined business on an ongoing basis being at or below 1.5x EBITDA and a dividend payout ratio of approximately 60-80% of underlying net profit after tax<sup>4</sup>.

### **Key Conditions of the Merger and Further Information for Shareholders**

The merger is subject to a number of conditions, being NZME shareholder approval, finance, approval from the NZCC, and consent from the New Zealand Overseas Investment Office. In addition, the merger implementation agreement contains a number of broadly standard reciprocal warranties, including as to title and capacity and the accuracy of the due diligence information provided. If any key warranties are or will be breached in a material respect prior to completion of the merger, a cancellation right arises.

With a final NZCC determination currently expected on or before 15 March 2017, the merger implementation agreement contains certain pre and post completion adjustments, which are designed to ensure that the merged entity's net debt does not exceed certain thresholds on completion. These adjustments could result in a greater or lower amount of cash or shares being paid to Fairfax depending on, amongst other factors, the level of debt in NZME and Fairfax NZ at Completion. Cancellation rights will arise if the adjustments are expected to result in the cash consideration falling below \$55 million or Fairfax Australia's shareholding percentage increasing above 45%.

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<sup>3</sup> Financials sourced from NZME H1 16 Results Presentation page 10 and Fairfax Media 2016 Full Year Results Presentation page 21, without reflecting any consolidation adjustments. Presentations available on the ASX and NZX.

<sup>4</sup> Calculated based on statutory net profit after tax adjusted for material one-off items, particularly those with a non-cash impact

Information relating to the merger is expected to be provided to shareholders in October with the shareholder vote expected in late October/early November.

– ENDS –

**For further information:**

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**About NZME**

NZME is one of New Zealand's leading media and entertainment businesses with its brands connecting with over 3 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 Main Board with a foreign exempt listing on the ASX.

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

**About Fairfax New Zealand**

Fairfax NZ is an integrated multi-media business with leading brands across multiple platforms, including [stuff.co.nz](http://stuff.co.nz) (New Zealand's number one local digital news brand<sup>6</sup>); a share of [neighbourly.co.nz](http://neighbourly.co.nz); more than 60 metro, Sunday, regional and community newspapers, lifestyle magazines; and a fast-growing events business. Fairfax Media is recognised for its digital innovation with its brands reaching more than 3.5 million New Zealanders every month<sup>7</sup>.

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

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<sup>5</sup> Nielsen CMI, fused database: February 2016 (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>6</sup> Nielsen Market Intelligence domestic traffic August 2016

<sup>7</sup> Nielsen CMI 10+ Q2 2015 – Q1 2016