NINE ENTERTAINMENT CO. FY18 RESULTS

23 August 2018: Nine Entertainment Co. (ASX: NEC) has reported the Company's preliminary final results for the 2018 financial year (FY18). On a pre Specific Item basis, the Company reported Revenue of $1,318m (+6%), Group EBITDA of $257m (+25%) and Net Profit After Tax of $157m (+27%).

Statutory results included Specific Items of $53m after tax, primarily the profit on the sale of Nine's Willoughby site. Net Profit After Tax, inclusive of Specific Items, was $210m.

Highlights for the period include:

- Consistently improved ratings performance - 25-54s Network share of 38.2%[1]
- #1 revenue share for the 12 months of 38.6%[2], up 2.9 points on pcp
- Group-wide costs up 1%, ex the newly introduced spectrum charge and impact of the extra trading week
- More than doubling of profit at refocused Digital business (ex Bing)
- 90%-plus growth in long form streams resulting in c90% growth in revenue at 9Now
- 1.1m+ active subscribers at Stan currently, growth of c40% over the 12 months
- 5.0 cent final dividend, for full year total of 10.0 cents, fully franked
- Year end Net Debt of $121m resulting in Net Leverage of 0.5X

Hugh Marks, Chief Executive Officer of Nine Entertainment Co. said:

"The strong operating performance from last year continued across our entire suite of assets. Positive Free To Air TV ratings momentum combined with our focus on the 25-54 yr demographics is translating to improving revenue share. In Digital, 9Now is experiencing strong revenue growth and our digital publishing business has reported accelerating growth in premium revenues in line with our strategy. Stan has raced through the milestone of 1m subscribers and remains focused on the build of a longer term competitive and profitable local SVOD player.

The proposed merger with Fairfax will enhance our ability to continue to grow our business for the benefit of all shareholders. The increasing scale of the merged group will expand both our advertising reach and ability to offer innovative solutions, backed by data and Nine's Galaxy platform. The combined reach of the group's expanded media assets will enable an acceleration in the growth of the Domain business. While Nine's ability to invest in and expand what will be Australia's largest News platform, across television, radio, digital and print is also incredibly exciting."

[1] Source: OzTam, 6am-midnight, 1 July-30 June 2018, ex Commonwealth Games
[2] Source: ThinkTV, commercial revenue share, 12 months to June 2018

Key financials

12 months to June $m	FY18	FY17	Variance	
			$m	%
Revenue[1]	1,318.2	1,237.8	+80.4	+6.5
Group EBITDA[1]	257.2	205.6	+51.6	+25.1
Net Profit after Tax[1]	156.7	123.6	+33.1	+26.8
Statutory Net (Loss)/Profit	209.7	(203.4)	nm	Nm
Basic Earnings per Share[1] **(Cents)**	18.0	14.2	+3.8c	+26.8
Dividends per Share (Cents)	10.0	9.5	+0.5c	+5.3
Net Debt – as at 30 Jun	121.3	224.5	-103.2	
Net Leverage (X)	0.5X	1.1X	-0.6X	

[1] Pre Specific Items

Revenue increased by 6% while Group EBITDA increased by 25% to $257m notwithstanding both the negative impact of the first year of the new fixed spectrum charge of $11m and the loss of profitability of the Bing relationship of $14m. Net Profit after Tax, pre Specific Items, was up 27% on the FY17 result to $157m. Earnings per Share was 18.0 cents, also up 27% on the previous corresponding period.

Net Debt at 30 June 2018 was $121m, down from $224m 12 months earlier, which included the proceeds from the sale of the Group's Willoughby site.

Specific Items

12 months to June, $m	H1 FY18	H2 FY18	FY 18
Profit on disposal of properties	78.2	(1.3)	76.9
Restructuring costs	(3.2)	(2.6)	(5.8)
Derivative revaluation	(12.9)	(1.8)	(14.7)
Other	-	0.3	0.3
Total Specific Items before tax	62.1	(5.4)	56.7
Tax impact of Specific Items	(4.2)	0.4	(3.8)
Net Specific Items after tax	57.9	(5.0)	52.9

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Second half Specific Items included a $1.8m cost associated with the revaluation of Nine's Pedestrian and CarAdvice options, with the former subsequently exercised during the period. The other key Specific Items were detailed with the H1 result.

Nine Network

12 mths to June, $m	FY18	FY17	Variance	
			$m	**%**
Revenue	1,152.4	1,080.4	+72.0	+6.7
EBITDA	238.2	188.3	+49.9	+26.5
Margin	20.7%	17.4%		+3.3 pts

Nine Network reported revenue growth of 7% for the year, on an improved share of a stronger Free To Air (FTA) market. Reflecting this top line growth, FTA EBITDA increased by 27% for the year, despite the head-wind of the recently introduced annual spectrum charge, as well as some incremental content investment targeted at revenue growth in future years (eg Love Island Australia).

Metro FTA advertising recorded 2.5%[1] growth for the year, the first year of growth for this market in four years. This included growth in the six months to June (second half) of 3.8%.

During the period, Nine's ratings continued to improve. For the 12 months to June, Nine attracted a commercial network share of 38.2%[2] of the 25-54 demographic (up 1.9 points) and held a clear Number 1 share in all the key buying demographics[2]. For the primary channel, Nine's share of the 25-54s was 39.0%[2], similarly around 3.6 share points ahead of its nearest competitor.

Nine's improving depth of content and associated ratings performance is being reflected in revenue share. For the 12 months to June, Nine's metro FTA revenue share of 38.6%[1] was up 2.9 points on FY17. Notwithstanding the dilutionary impact of the Commonwealth Games and Winter Olympics on the second half, Nine was the number one metro FTA network in terms of revenue share for both the December half and the full financial year.

This improved ratings and revenue performance has been achieved against the backdrop of controlled costs.

Reported costs were up 2.5%, however, this included the annual spectrum charge for the first time as well as an extra week of trading, which together added c$16m to costs. Excluding this, costs were 1% higher, which included an incremental $6m of costs which related directly to the group's higher revenue.

[1] Source: Think TV, commercial revenue share, 12 months to June 2018
[2] Source: OzTam, 6am-midnight, 12 months to June 2018, ex Commonwealth Games

Nine Digital

12 mths to June, $m	FY18	FY17	Variance	
			$m	**%**
Revenue	165.8	154.7	+11.1	+7.2
EBITDA	34.1	28.9	+5.2	+18.0
Margin	20.6%	18.7%		+ 1.9 pts

For the 12 months to June, Nine Digital recorded a revenue increase of 7%, underpinned by long form video, particularly 9Now and an increasing contribution from both PedestrianTV and CarAdvice. This growth more than offset declining revenue in the traditional display category and the absence of contribution from Bing ($14m).

EBITDA growth of 18% reflected this revenue growth and changing mix to increasing premium, and high margin revenues. The digital business' ability to grow reported EBITDA in FY18 was significant given the negative impact of the absence of Bing (c$14m) as well as increased investment in the newer businesses of 9Honey and Future Women.

For the year, 9Now grew its registered user base to around 6.5m. Long form streams increased by 93% for the 12 months, and revenue was up 89% on the previous corresponding period to $41m. This compares favourably to BVOD market growth for the 12 months of 32%. The platform continues to evolve with additional content as well as enhanced experiences for the viewer and advertiser, and remains a key focus of Nine's future.

Stan

Stan recorded a seasonally strong period for sign-ups, with active subscribers now exceeding 1.1m. Revenue growth of 72%, and a cost increase of 23% again highlights the leverage of this business. Having reached the milestone of 1m subs, Stan is increasingly focused on further building its subscriber base, offering content providers a compelling route to market and solidifying Stan's long term competitive position.

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Balance sheet and cash flow

12 mths to June, $m	FY18	FY17	Variance	
			$m	%
Operating Cash Flow, Pre Specific Items, interest and Tax	242.6	109.2	+133.4	+122
As at	30 Jun 2018	31 Dec 2017	30 Jun 2017	
Net Debt ($m)	121.3	46.2	224.5	
Net Leverage (X)	0.5X	0.2X	1.1X	

Operating Cash Flow before Specific Items, Interest and Tax for the six months was $243m. This is calculated before the cash impact of the Warner's provision ($43m).

As at 30 June 2018, Net Debt was $121m. Key cash flow components during the year include the $125m proceeds from the sale of Nine's Willoughby site offset by a further $27m investment in Stan, a $39m earn-out payment relating to the acquisition of the Pedestrian minorities as well as timing and revenue-related working capital.

Dividend

The Company will pay a fully franked final dividend of 5.0 cents. The dividend is payable on 17 October 2018.

Current trading environment and outlook

For the September quarter, Nine's Metro TV revenues are currently trading around 1% ahead of same time last year, while core Digital advertising revenues are around 15% ahead.

Across FY19, the Metro FTA market is expected to show growth of around 1%. Nine's stronger ratings performance since the start of 2017 is expected to continue into CY19. With the absence of key events on other Networks, Nine is expecting to grow revenue share from FY18.

Reported FTA costs in FY19 are expected to be down by 2-3%, reflecting both Nine's change in summer sports, as well as the group's ongoing tight cost controls.

In Digital, continued growth in 9Now, with the benefit of the introduction of addressable advertising, and combined with recent sales momentum in Digital Publishing, is expected to underpin strong growth in EBITDA.

In terms of the FY19 result, based on market growth of 1%, Nine is expecting to report group EBITDA of between $280m and $300m.

Fairfax Merger Proposal

On 26 July 2018, Nine and Fairfax Media (ASX:FXJ) announced that they had entered into a Scheme Implementation Agreement under which the companies will merge to establish Nine as one of Australia's leading independent media companies. The proposed transaction will, subject to required approvals, be implemented by Nine acquiring all Fairfax shares under a Scheme of Arrangement. Further details will be announced with the Scheme documentation, expected to be released in early October.

Further information:

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APPENDIX

GLOSSARY

- BVOD – Broadcast Video On Demand
- Core Digital – ex Pedestrian and Car Advice
- EBITDA – earnings before interest, tax, depreciation and amortisation before Specific Items
- FTA – Free To Air
- FY - full year
- Group EBITDA – EBITDA plus share of Associates' net profit
- Metro – Sydney, Melbourne, Brisbane, Adelaide and Perth
- Net Cash/Debt – cash less interest bearing loans and borrowings
- Net Leverage – Net Debt divided by Group EBITDA (last 12 months)
- Net Profit after Tax (NPAT) – net profit after tax before Specific Items
- Network – Combination of Channels 9, 9Go!, 9Gem and 9Life
- Operating Cash flow - EBITDA adjusted for changes in working capital and other non-cash items plus dividends received from Associates. Excludes cash relating to the Specific Items and the cash impact of the Warners onerous provision
- Revenue – operating revenue excluding interest income and Specific Items, and after the elimination of inter-segment revenue
- Specific Items – amounts as set out in Note 1.4 of the 30 June 2018 Statutory Accounts
- Statutory Accounts – audited or auditor reviewed, consolidated financial statements
- Statutory Reported – extracted from the Statutory Accounts
- SVOD – Subscription Video On Demand

Further details of the Company's results are included in the
Final Results Briefing Presentation of 23 August 2018

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