NINE ENTERTAINMENT CO. FY16 FINAL RESULTS

25 August 2016: Nine Entertainment Co. (ASX: NEC) has reported the Company's final results for the 2016 financial year (FY16). On a Pro Forma basis, the Company reported Revenue of $1,282m, Group EBITDA of $202m and Net Profit After Tax of $120m.

On a statutory basis, inclusive of Nine Live, the Company reported Revenue of $1,339m, EBITDA of $209m and Net Profit After Tax of $122m. Statutory Net Profit after Specific Items was $325m, inclusive of the profit on sale of Nine Live.

Highlights for the year include:

- Launch of state-of-the-art streaming and catch-up service, 9Now and fourth channel, 9Life
- Increased cost discipline across each division, with group cost performance ahead of guidance
- Stan JV established as the leading domestic SVOD player
- Double digit EBITDA growth from a refocused digital business
- Video streams up 14% to more than 392m, ranked #1 Australian publisher[1]
- Completion of new landmark affiliate deal with Southern Cross Media
- 4.0 cent fully franked final dividend, for a FY16 total of 12.0 cents, up 30% year-on-year

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

"The ratings and revenue performance of our core Free-to-Air business was disappointing in the first six months of calendar 2016, due to a combination of the challenging ad market and poor programming outcomes. However, we are taking positive steps to regain momentum in our ratings and revenue, with a well advanced content plan for 2017 incorporating 50% more premium local television content.

I am also pleased with the considerable progress we have made in repositioning the Group - we are becoming a diversified and flexible television and digital media business.

Our 100%-owned digital business has been refocused and now, branded as nine.com.au, provides a market leading platform for the future. Our SVOD Joint Venture Stan is clearly the leading domestic player in a growing space with more than 500,000 active subscribers after less than 18 months. We have built a state-of-the-art AVOD platform, 9Now, which has more than 1.6m registered users, providing a growing first person database enabling our advertisers to target audiences and delivering us higher yielding revenue.

Our group-wide cost disciplines have resulted in a Group costs decline which was ahead of expectations for the period. As we continue to invest in and broaden the base of our business, we will maintain a strong discipline on costs – optimizing our programming spend towards premium content where our greatest return is, increasing the flexibility of our commitments, whilst ensuring we remain leveraged to an expected recovery in share and overall market.

The combination of our Free to Air, SVOD, AVOD and other digital assets is unique in this market, providing a strong and diversified platform for us to meet the changing needs of our audience and customers in the future."

[1] Source: Nielsen, June 2016

Key financials – Continuing Businesses

Year to June, $m	FY16	FY15	Variance	
			$m	%
Revenue	1,282.4	1,371.4	-89.0	-6.5
Group EBITDA[2]	201.7	217.2	-15.5	-7.1
Net Profit after Tax[1,2]	120.3	129.5	-9.2	-7.1
Earnings per Share[1,2] **(Cents)**	13.7	13.8	-0.1	-0.7
Dividends per Share (Cents)	12.0	9.2	+2.8	+30.4
Net Debt – as at 30 June	177.6	524.3	-346.7	
Net Leverage (X)	0.9X	1.8X		

[1] Pro Forma for post Nine Live capital structure
[2] Pre Specific Items

On a Continuing Business basis, Revenue declined by 6.5% while Group EBITDA fell by 7.1% to $201.7m. Net Profit after Tax declined by 7.1% to $120.3m compared to the Pro Forma FY15 result. Earnings per Share was down 0.7% on a lower share count due to the on-market buy-back.

The 4.0 cent per share final dividend is fully franked, and brings the full year dividend to 12.0 cents equating to a payout of 86% of Net Profit after Tax (incl. discontinued businesses), pre Specific Items.

Net Debt at 30 June 2016 was $177.6m, down from $524.3m at 30 June 2015, largely reflecting the proceeds from the sale of Nine Live, net of dividends and share buy-backs totaling $164m and investments in Southern Cross Media ($89m) and Stan ($37m).

Nine Network

Year to June, $m	FY16	FY15	Variance	
			$m	%
Revenue	1,130.0	1,215.0	-85.0	-7.0
EBITDA	183.5	206.0	-22.5	-10.9
Margin	16.2%	17.0%		-0.8 pts

Nine Network reported a revenue decline of 7.0% for the period, reflecting a lower revenue share of a soft Free To Air market. Inclusive of the licence fee reduction, which added c$11m, FTA EBITDA fell by 10.9% to $183.5m.

The Metro FTA advertising market recorded a 2%[1] decline across the year, reaching its nadir in the March quarter with a c7% decline. The June quarter drop was more modest, resulting in a June half result of -3.9%[1]. The Regional FTA markets again underperformed with advertising revenue down by 6.2%[1] on FY15.

In an increasingly competitive market, Nine Network's Metro FTA revenue share declined by 1.9 percentage points to 37.0% for FY16 - the March quarter marking the low. Revenue trends have improved from the March quarter notwithstanding the distortion of the Federal Election and the lead up to the Olympic Games.

The early 2016 ratings outcome was largely the result of fewer hours of premium Australian content, coupled with challenges in a number of Nine's prime-time shows. To address this issue, the Nine Network has increased its commitment to local premium content, on an hourly basis, by around 50% for CY17. New content includes locally produced dramas *Doctor-Doctor* and *House of Bond,* as well as reality/entertainment formats including *Australian Ninja Warrior, Hamish & Andy* and *This Time Next Year.*

Despite these ratings challenges, Nine remained Australia's most watched television Network for the full year, in the key 25-54, 18-49 and 16-39 age demographics [2] which provides us with a platform from which to improve our performance.

Over the year, Nine Network's reported costs decreased by $62m (6.2%). Inclusive of the total Warners' costs, the onerous component of which is now treated as a Specific Item, TV costs were down by 2.2%. This reduction was delivered despite a contracted $25m increase in sports rights costs and one off costs including legal fees which were around $7m higher (associated with a series of litigations, and including 60 Minutes) and the costs associated with the launch of the new 9HD and 9Life channels.

[1] Source: Free TV data
[2] Source: OzTam, 6am-midnight, survey weeks, 1 July 2015 to 30 June 2016

Nine Digital

Year to June, $m	FY16	FY15	Variance	
			$m	%
Revenue	149.9	156.4	-6.5	-4.2
EBITDA	26.0	21.9	+4.1	+18.7
Margin	17.3%	14.0%		+3.3 pts

Digital recorded a 19% increase in EBITDA in the period, as the focus on more profitable revenue streams and firm cost management delivered margin improvement. Adjusted for the impact of the loss of Microsoft default traffic and the sale of HWW, revenues were flat year on year.

Display ad revenue across the year was impacted by disruption from the TV-Digital sales integration implemented in CY15, which resulted in a loss of market share. Clear steps have been taken to address this with senior digital sales appointments announced in recent weeks.

Significant progress was made during the year to expand and strengthen the capabilities and reach of the Nine Digital business. This includes the launch of 9Now, Nine's world class streaming and AVOD product, the associated data asset, My9, and the relaunch of Nine's flagship Digital site, nine.com.au.

Across the year, Nine Digital actively increased its reach via targeted and innovative new content including across key lifestyle categories through the launch of 9Elsewhere, 9Kitchen and 9Homes.

Balance sheet and cash flow – Continuing businesses

Year to June, $m	FY16	FY15	Variance $m	Variance %
Operating Free Cash Flow	157.4	237.5	-80.1	-33.7
Operating Free Cash Flow Conversion (%)	78%	109%		-31 pts
As at	**30 Jun 2016**	**30 Jun 2015**		
Net Debt ($m)	177.6	524.3	-346.7	
Net Leverage (X)	0.9X	1.8X		

Operating Free Cash Flow for the year was $157.4m. Operating Free Cash Flow Conversion of 78% largely reflects increased investment in local content and the cash timing of the recent licence fee reduction.

As at 30 June 2016, Net Debt was $177.6m. During the year, $164m was returned to shareholders through dividends and the share buy-back program, $89m was invested in Southern Cross Media and a further $37m in Stan.

Dividend

The Company will pay a fully franked final dividend of 4.0 cents, for a full year total of 12.0 cents, up from 9.2 cents in the prior corresponding period. This equates to an 86% payout of Net Profit after Tax (incl. discontinued businesses), pre Specific Items, consistent with Company guidance of an 80-100% payout ratio. The dividend is payable on 19 October 2016.

In FY17, the Company expects to pay a dividend at the lower end of the targeted 80-100% payout range. Given cash flow timings, the dividend is likely to be more equally balanced between the interim and final than has historically been the case.

Warner Bros. – Settlement of life of series obligations

The Company announces that it has entered into a non-binding heads of agreement with Warner Bros, in relation to its life of series obligations. Under previous arrangements, Nine was obliged to purchase a list of the US drama and comedies as they became available, for as long as new series were being released and irrespective of how they performed in the Australian market. To the extent that such content was loss-making, Nine impaired this content as it became available. For FY16, Specific Items included a $46m charge to this effect.

Nine entertainment co.

Nine announces today that it has reached in-principle agreement with Warner Bros to exit this arrangement, with formal contracts to be signed in the coming weeks. This agreement will require a further provision of $86m to be booked in the first half of FY17, the majority of which will be payable over FY18 and FY19. The agreement crystalises what would otherwise be a recurring liability, giving Nine certainty in relation to the obligation and increased flexibility in relation to future content spend.

Current trading environment and outlook

The Company expects the FY17 Metro FTA market to be flat-to-down marginally over the full year. Regional markets are expected to continue to underperform their Metro peers, although the recently re-negotiated affiliate agreement with Southern Cross is expected to increase share and provide an offset for Nine. Initial results from the landmark affiliate deal with Southern Cross have been very positive for revenue share. The relationship also enables Nine to operate as a truly national network providing both operational and advertising opportunities previously unavailable.

Historically, the broadcasting of the 16 days of an Olympics adds approximately 1.5 points of ratings share across the year for the host network, which is expected to impact Nine's share for FY17. Looking beyond the short term impact of the Olympics, the significant increase in local, premium content will greatly enhance Nine's competitiveness in CY17, and is expected to provide momentum into FY18.

The Company remains committed to disciplined cost management in the context of a business that is focused on remodeling and investing in its future. Primarily, the focus is on investing in more premium local content across both Free To Air TV and Digital where the returns are greatest for our business.

In FY17, FTA reported costs are expected to be flat on FY16, notwithstanding the investments outlined above.

From a Digital perspective, the Company expects to report growth in both Revenue and EBITDA as the monetisation of recent investment and upgrade programs flow through. Investment has also been made in Nine's Digital sales capability after under-investment over recent years.

During FY16, NEC has made substantial progress repositioning its business to respond to the changing behaviour of audiences, and the ways in which they are now consuming video content. The combination of a re-focused Free to Air network, a state of the art streaming service (9Now), Australia's leading SVOD service (Stan), and a broadening digital content offering, is unique in the Australian market and further positions the Group to capitalise on the opportunities ahead.

Further information:

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APPENDIX

GLOSSARY

- AVOD – Advertising Video on Demand
- Continuing Business – excludes Nine Live
- EBITDA – earnings before interest, tax, depreciation and amortisation, from continuing businesses 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 – cash less interest bearing loans and borrowings
- Net Debt – debt per the balance sheet less available cash [plus deferred purchase consideration on the acquisition of controlled entities net of related mark-to-market hedge instruments (FY15 only)
- 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 Free Cash Flow – EBITDA adjusted for changes in working capital and other non-cash items (not relating to Specific Items) plus dividends received from Associates. Excludes the cash impact relating to the Specific Item stock provision
- Operating Free Cash Flow Conversion – Operating Free Cash Flow divided by Group EBITDA
- Pro Forma – adjusted to reflect the impact of the sale of Nine Live, as if this had been effective for the whole reporting period
- Revenue – operating revenue from continuing businesses, excluding interest income and Specific Items, and after the elimination of inter-segment revenue
- Specific Items – amounts as set out in Notes 3(iv), 3(v) and 6(a)(i) of the 30 June 2016 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 including reconciliations to IFRS information are included in the Full Year Results Briefing Presentation of 25 August 2016