NINE ENTERTAINMENT CO. FY15 FINAL RESULTS ANNOUNCEMENT

Nine Entertainment Co. (ASX: NEC) has reported the Company's final results for the 2015 financial year (FY15). Full year results were in line with the guidance given in early June.

Key metrics

$m	Actual FY15	Pro Forma FY14	Variance
Revenue	1,610.1	1,569.9	+2.6%
Group EBITDA	287.3	311.0	-7.6%
Net Profit after Tax[1]	140.1	144.2	-2.9%
Specific Items after Tax	(732.2)	(80.5)	nm
Operating Free Cash Flow	297.3	271.9	+9.4%
Earnings per Share[1] **(cents)**	15.0	16.4	-8.5%
Dividends per Share (cents)	9.2	4.2	>100%
Net Debt – as at June 30	524.3	537.5	-2.5%
Net Leverage (X)	1.8X	1.7X	+0.1X

[1] Pre Specific Items

- Improved Free-To-Air (FTA) share in a declining market:
  - Metro FTA revenue share of 38.9%, up 0.2 pts
  - Metro FTA advertising market down 1.5%
  - Regional FTA markets down 3.2%
- Slow start to the CY15 ratings year, but momentum improving in July and August
- Digital transition and evolution continuing with business refocussed
- Solid result for Nine Live, in line with FY14. Business divested post year end
- Specific Items, predominantly non-cash intangible asset impairments, reduce reported results
- Closing Net Debt of $524m (pre Nine Live cash proceeds)
- Final dividend of 5.0 cents per share, fully franked. Dividends for the year totalled 9.2 cents per share

David Gyngell, Chief Executive Officer of Nine Entertainment Co. said:

"In what has been a difficult Free-To-Air advertising market, our June quarter share performance was short of our expectations. However, we are pleased with our improving ratings performance trend over the first couple of months of FY16.

Our recently announced NRL rights agreement is transformational for Nine. Together with our expectation of improved affiliate terms, the expiry of loss making international programming commitments, and our industry leading debt free balance sheet, we are in a very strong position. We are optimistic about the prospects for Nine as we continue the ongoing integration of our television and digital businesses, focussed on monetising the distribution of our premium video content in an evolving world."

A glossary of capitalised terms used in this release is included in the appendix to this announcement. Further details of certain items including reconciliations to IFRS information are included in the Full Year Results Briefing Presentation of 27 August 2015.

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Key financials

Net Profit after Tax before Specific Items declined by 2.9% to $140m compared with the prior year Pro Forma result. Reported results in both the current and prior years were impacted by a number of one-off Specific Items, including asset impairment and provisioning, acquisitions, divestments and a recapitalisation of the Company's balance sheet. In the current year, the Company has recognised Specific Items totalling $732m (after tax), the key components of which are non-cash impairments of $792m (pre-tax), inventory provisioning of $57m (pre-tax) and a tax credit associated with the sale of Nine Live of $101m.

Compared with the FY14 Pro Forma results, Revenue increased by 3% to $1,610m while Group EBITDA declined 8% to $287m, in line with the guidance of $285m to $290m provided in June 2015.

Operating Free Cash Flow of $297m was up 9% on the prior corresponding period, a conversion rate of 103%, significantly in excess of the Company's medium term target of 80 - 90%.

The 5.0 cent per share final dividend, which brings the full year payout ratio to 61% of Earnings per Share (pre Specific Items), is up on the 4.2 cent final dividend of FY14. This dividend, which is fully franked, is payable on 19 October 2015.

Net Debt at 30 June 2015 declined $13m to $524m despite cash spend of approximately $62m under the Company's on-market share buy-back program and dividends totalling $79m paid during the year.

Divisional results are set out below.

Nine Network

$m	Actual FY15	Pro Forma FY14	Variance	
			$m	%
Revenue	1,207.9	1,221.2	-13.3	-1.1%
EBITDA	206.0	241.5	-35.5	-14.7%
Margin	17.1%	19.8%		-2.7 pts

Compared with FY14, Nine Network recorded an EBITDA decline of 15% to $206m on Revenue of $1,208m, which was down 1%.

The Metro FTA advertising market declined by 3%[1] in the December half, while the second half recorded growth of 0.2%[1] for a full year decline of 1.5%[1]. Regional markets recorded overall TV advertising revenue which was down 3.2%[1] on FY14 which exacerbated the overall market shortfall.

Nine Network's Metro FTA revenue share grew 0.2 share points to 38.9%[1] over the year with share softening slightly in the second half to 38.6%[1]. This weaker second half result reflects both programming timing (mainly the later start to The Voice), and some underlying loss of Q4 share given lower than expected ratings for a number of key programs in an intensely competitive environment.

Nine remained Australia's most watched television network in the key 25-54, 18-49 and 16-39 demographics[2] in FY15.

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Over the year, Nine Network's costs increased by $22m of which more than half was due to the broadcast of the Cricket World Cup. Excluding this impact, and adjusting for licence fees, underlying costs were up by 0.6%.

[1] Source: Free TV
[2] Source: OzTam, 6am-midnight,1 July 2014 to 30 June 2015, ratings weeks only

Nine Digital

$m	Actual FY15	Pro Forma[1] FY14	Variance	
			$m	%
Revenue	163.4	122.7	+40.7	+33.2%
EBITDA	21.9	15.6	+6.3	+40.4%
Margin	13.4%	12.7%		+0.7 pts

[1] Pro Forma results represent the expected baseline results of Nine Digital following changes in business operations effective during the 2014 calendar year.

Nine Digital recorded 33% revenue growth against the FY14 Pro Forma results, driven by double digit growth in both search and video revenues, offset by lower display advertising revenue reflecting the continued fragmentation of the online display market.

The FY15 results include one quarter of the benefit of Microsoft default traffic which is estimated to have contributed c$4.7m to the result, which will not recur in future years following the termination of these arrangements.

The improved operating margin reflects strong cost focus, partially offset by the evolving change in sales mix to lower margin third party inventory.

Nine Live (sold 31 July 2015)

$m	Actual FY15	Actual FY14	Variance	
			$m	%
Revenue	238.7	226.0	+12.7	+5.6%
EBITDA	70.1	68.0	+2.1	+3.1%
Margin	29.4%	30.1%		-0.7 pts

Nine Live reported EBITDA growth of 3% to $70m on Revenue of $239m, up 6% on the prior year. The sale of Nine Live was completed on 31 July. The business is expected to contribute approximately $8m to FY16 Group EBITDA.

Balance sheet and cash flow

	Actual FY15	Pro Forma FY14	Variance $m	Variance %
Operating Free Cash Flow ($m)	297.3	271.9	+25.4	+9.4%
Operating Free Cash Flow Conversion (%)	103%	87%		+16 pts
	Actual 30 June 2015	**Actual 30 June 2014**		
Net Debt ($m)	524.3	537.5	-13.2	
Net Leverage (X)	1.8X	1.7X	+0.1X	

Operating Free Cash Flow increased by $25m over the year, despite the decline in EBITDA. Operating Free Cash Flow Conversion improved 16 percentage points to 103%. This outcome reflects the Company's ongoing focus on working capital management, boosted by favourable timing differences in programming payments, which are expected to reverse over FY16. Over the medium term Operating Free Cash Flow Conversion is expected to average 80 - 90% (prior to any cash impact of Specific Items).

As at 30 June 2015, Net Debt of $524m represented Net Leverage of 1.8X. Following the receipt of the cash proceeds on the Nine Live sale, Pro Forma Net Cash at 30 June 2015 was approximately $115m.

Dividend

The Company will pay a final dividend of 5.0 cents per share, fully franked, on 19 October 2015. Future dividends are expected to be determined on the basis of an 80 - 100% payout ratio of Net Profit after Tax pre Specific Items, and to be fully franked.

Current trading environment and outlook

The Metro FTA advertising market has recorded growth in July which is expected to continue through August, but the market remains very short and monthly outcomes are volatile. Over the year, the market is expected to grow modestly. Regional markets are expected to continue to underperform Metro markets.

Nine's ratings performance has improved markedly since the beginning of July, which is expected to underpin revenue share over the half. However, it is likely that full year share will be marginally down on that of FY15, given the intensely competitive market, coupled with the timing of certain major events.

Nine remains focussed on its operating cost base, and improving its programming efficiencies. In FY16, television programming costs are expected to increase by 2% (prior to the benefit of FY15 inventory provisioning releases). Virtually all of this increase relates to higher contracted NRL and Cricket costs. Non-programming costs are expected to be flat.

The Digital business is expected to record modest growth despite the transition away from default traffic which benefitted the FY15 result for a period.

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Sydney, Australia
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APPENDIX

GLOSSARY

- EBITDA – earnings before interest, tax, depreciation and amortisation, before Specific Items
- FTA – free-to-air
- Group EBITDA – EBITDA plus share of Associates' net profit
- Metro – Sydney, Melbourne, Brisbane, Adelaide and Perth
- Net Debt – gross debt per the balance sheet net of mark-to-market on debt hedge instruments less available cash plus deferred purchase consideration on the acquisition of controlled entities
- Net Leverage – Net Debt divided by Group EBITDA
- NRL – National Rugby League
- 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
- Operating Free Cash Flow Conversion – Operating Free Cash Flow divided by Group EBITDA
- Pro Forma – adjusted to reflect the impact of acquisitions, divestments and/or other transactions as if these had been effective for the whole reporting period
- Revenue – operating revenue, excluding interest income, Specific Items, and inter-segment revenue
- Specific Items – amounts as set out in Notes 3(iv) and 5(a)of the FY15 Statutory Accounts
- Statutory Accounts – audited consolidated financial statements
- Statutory Reported – extracted from the Statutory Accounts

Further details of the Company's results are included in the Full Year Results Briefing Presentation of 27 August 2015.