NINE ENTERTAINMENT CO. FY17 FINAL RESULTS

24 August 2017: Nine Entertainment Co. (ASX: NEC) has reported the Company's final results for the 2017 financial year (FY17). For the 12 months, the Company reported Revenue of $1,238m, Group EBITDA of $206m and Net Profit After Tax, pre Specific Items, of $124m. This is consistent with FY guidance issued in June and with the February guidance, ex licence fees.

Statutory results included Specific Items of -$327m after tax, the majority of which were announced with the H1 result. Net Loss After Tax, inclusive of Specific Items, was $203m.

Highlights for the period include:

- Significant ratings improvement - 25-54s Network share of 37.1%[1]
- Improving revenue share as the year progressed
- Continuing cost discipline across each division, with group-wide costs down 1% and Free To Air (FTA) costs down 2% (6% incl licence fees)
- Once-off licence fee relief ahead of Media Reform legislation
- Over 4 million registered users of 9Now and approaching 800,000 active subs at Stan
- 114% growth in long form streams resulting in 40% growth in revenue at 9Now – more to do
- 5.0 cent fully franked final dividend, for full year total of 9.5 cents

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

"The strategic work we did over the past 18 months to reshape our content offering has delivered outstanding results that will benefit our entire business in the mid-term. Our leadership position in key advertising demographics is continuing to strengthen as we progress through the calendar year. We are consistently growing advertising revenue share in FTA television, On Demand Television and Digital Publishing.

At the same time, our group-wide focus on costs continues to reap rewards. Overall and Free To Air costs were down a further 1% and 2% respectively (excluding the impact of the long-awaited licence fee relief). Including licence fee relief, our group wide costs were down 5%.

With a strengthening balance sheet, and significant operational momentum and leverage, Nine enters the new financial year in a much stronger position. Our focus on creativity and content has never been clearer. The options available for us to monetize our content have never been more diverse. The media world of the future is video-based and we are right at the forefront of it in Australia."

[2] Source: OzTam, 6am-midnight, ex Olympic weeks

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Key financials – Continuing Businesses

12 months to June $m	FY17	FY16	Variance	
			$m	%
Revenue	1,237.8	1,282.4	(44.6)	-3.5
Group EBITDA[1]	205.6	201.7	+3.9	+1.9
Net Profit after Tax[1]	123.6	120.3	+3.3	+2.7
Statutory Net (Loss)/Profit	(203.4)	324.8	nm	nm
Basic Earnings per Share[1] **(Cents)**	14.2	13.7	+0.5c	+3.6
Dividends per Share (Cents)	9.5	12.0	(2.5c)	-20.8
Net Debt – as at 30 Jun	224.5	177.6	+46.9	
Net Leverage (X)	1.1X	0.8X	+0.3X	

[1] Pre Specific Items FY16 Pro Forma excl Nine Live

Revenue declined by 3.5% while Group EBITDA increased by 2% to $206m, inclusive of the $33m benefit from the regulated removal of licence fees for the year. Net Profit after Tax was up 3% on the Pro Forma FY16 result. Earnings per Share was 14.2 cents.

Net Debt at 30 June 2017 was $225m. The increase of $47m on 31 December 2016 reflected the continued build of local content to replace underperforming US output deal content, the full year payment of FY16 licence fees and a short term debtors build, reflecting year-on-year growth in revenues in May and June 2017.

Specific Items

$m	H1 FY17	H2 FY17	FY 17
Warner onerous contract	(84.9)	(0.8)	(85.7)
Restructuring costs	(3.9)	(3.3)	(7.2)
Goodwill impairment	(260.0)	-	(260.0)
Withholding tax reversal	10.7	-	10.7
Derivative revaluation	-	(9.5)	(9.5)
Other	(0.4)	(3.5)	(3.9)
Total Specific Items before tax	(338.5)	(17.1)	(355.6)
Tax impact of Specific Items	26.6	1.9	28.5
Net Specific Items after tax	(311.9)	(15.2)	(327.1)

Second half Specific Items included a $9.5m cost associated with the revaluation of Nine's Pedestrian option, reflecting the stronger-than-expected performance of that business. The other key Specific Items were detailed with the H1 result – namely a $260m non-cash impairment in the goodwill of the Metro Free to Air television business as well as an $86m provision to exit the life of series obligations on a list of US dramas and comedies with Warner Bros..

Nine Network

12 mths to Jun, $m	FY17	FY16	Variance	
			$m	**%**
Revenue	1,080.4	1,130.0	(49.6)	-4.4
EBITDA	188.3	183.5	+4.8	+2.6
Margin	17.4%	16.2%		+1.2 pts

Nine Network reported a revenue decline of 4.4% for the year, reflecting a soft Free To Air market, and the impact of the Olympics. FTA EBITDA grew in the period by 2.6% with the benefit of lower costs, including the regulated removal of licence fees for FY17.

The total television market declined by 3.5%[1] across the year. The Metro FTA advertising market recorded a 3.7%[1] decline across the period, while the Regional FTA markets were down by 2.8%[1] on FY16.

After the low of the September quarter, Nine's ratings and revenue share have improved consistently, particularly on the increasingly important primary channel. Of particular note, was Nine's significantly stronger start to calendar 2017, underpinned by *Married at First Sight*, in what has historically been a weaker period for the Network. Ex the Olympic weeks, Nine attracted a commercial network share of 37.1%[2] of the 25-54 demographic and a Number 1 share in all of the key buying demographics for the financial year.[2]

Nine's commitment to premium local content, and a willingness to trial new formats like *Australian Ninja Warrior, Travel Guides, Hamish & Andy* and *This Time Next Year* has resulted in a markedly more consistent and improved performance across the calendar year to date. Albeit with some lag, this improved ratings performance has translated to increased revenue share momentum. After reaching a nadir in the first Olympic-affected quarter, revenue share for the year was a creditable 35.7%[1], with positive momentum prevailing into FY18.

This improved ratings and revenue performance has been achieved against the backdrop of reducing costs. Reported costs again declined in FY17, this time by 6%, or an incremental 2% ex licence fees. This compares with the -1.5% cost guidance given at the AGM in November 2016. On a cumulative basis, and excluding the impact of licence fees, overall FTA costs were down 7% across the two years.

[1] Source: KPMG data
[2] Source: OzTam, 6am-midnight, ex Olympic weeks

Nine Digital

12 mths to Jun, $m	FY17	FY16	Variance	
			$m	**%**
Revenue	154.7	149.9	+4.8	+3.2
EBITDA	28.9	26.0	+2.9	+11.2
Margin	18.7%	17.3%		+1.4 pts

In FY17, Digital recorded a revenue increase of 3%. Digital delivered revenue growth in the second half, underpinned by long form video, particularly from 9Now and an increasing contribution from CarAdvice and Pedestrian TV. This growth more than offset declining revenue in the traditional display category.

EBITDA growth of 11% reflected the ongoing impact of Nine's cost drive, as well as the Group's strategy of focusing on high margin and, primarily, owned and operated (O&O) revenues.

Over the past 12 months, Nine Digital has cemented leading market positions across a range of targeted consumer facing verticals, with investments in 9Now, nine.com.au, 9News, Honey and CarAdvice. Supporting our strengthened content position, the recent restructuring of the sales team is beginning to deliver positive sales momentum and will remain a focus in the year ahead.

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Balance sheet and cash flow

12 mths to Jun, $m	FY17	FY16	Variance $m	Variance %
Operating Cash Flow, Pre Specific Items, interest and Tax[1]	117.8	157.4	(39.6)	-25.2
As at	**30 Jun 2017**	**31 Dec 2016**	**30 Jun 2016**	
Net Debt ($m)	224.5	177.5	177.6	
Net Leverage (X)	1.1X	0.9X	0.8X	

[1] FY16 Pro Forma, excl Nine Live

Operating Cash Flow before Specific Items, Interest and Tax for the year was $118m. This is calculated before the cash impact of the Warner's provision ($48m). It also includes the cash impact of ACMA licence fees paid in H2 FY17, but relating to the FY16 year ($34.8m). The shift to local content has resulted in a marked build in underlying working capital over the past 18 months, with the current level being more reflective of future requirements.

As at 30 Jun 2017, Net Debt was $225m. Key cash flow components during the year include the $117m proceeds from the sale of Nine's investment in Southern Cross, tax paid on the Nine Live sale of $28m, further investment in Stan, the acquisition of CarAdvice and the Warner issues described above. Debt is expected to begin unwinding in FY18, supplemented by the receipt of the Willoughby sale proceeds in H1.

Dividend

The Company will pay a fully franked final dividend of 5.0 cents. The dividend is payable on 19 October 2017. The full year dividend of 9.5 cents equates to a payout of 82% of NPAT, pre the licence fee impact, the cash savings of which will not flow until mid FY18.

In FY18, the Company expects to pay similar dividends at c9.5 cents per share, relatively evenly distributed between the interim and final payments. Over time, dividend payments are expected to migrate towards a payout ratio of 50-70% of NPAT pre-specific items.

Current trading environment and outlook

Based on current trading, TV revenues are trending to 15%-plus growth for the September quarter, against the Olympic-impacted previous corresponding period, while Digital revenues are pacing around 8% ahead for the same period.

The Metro Free To Air market is expected to decline by 1-2% for FY18, with regionals showing similar trends. Nine's markedly stronger ratings performance over the past 12 months is expected to continue across much of the full calendar year. Nine's Metro FTA revenue share in FY18 is expected to be at least 37.5%.

In FY18, FTA reported costs are expected to be broadly flat, exclusive of the impact of the proposed introduction of spectrum fees. The Group remains committed to its previous stated program of delivering further cost efficiencies in Free-to-Air in the coming years.

In Digital, growth in AVOD, and more specifically revenue growth at 9Now, combined with recent sales momentum in Digital Publishing and the flow-on effect of ongoing cost initiatives, is expected to largely offset the loss of Microsoft revenues as joint venture related exit arrangements expire.

For FY18, the current range of published analyst forecasts for Group EBITDA is $186m to $207m, with a mean of $198m. At this stage, subject to market conditions, and assuming licence and spectrum fee related legislation (currently before the Federal Senate) is passed in its current form, Nine expects to report FY18 Group EBITDA towards the upper end of the current analyst range.

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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/Debt – cash/debt 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 stock provisions and the NRL prepayment
- 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 2017 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

Full Year Results Briefing Presentation of 24 August 2017