NINE ENTERTAINMENT CO. FY18 INTERIM RESULTS

22 February 2018: Nine Entertainment Co. (ASX: NEC) has reported the Company's interim results for the 2018 financial year (FY18). For the six months, on a pre Specific Item basis, the Company reported Revenue of $720m (+9%), Group EBITDA of $181m (+51%) and Net Profit After Tax of $116m (+55%).

Statutory results included favourable Specific Items of $58m after tax, primarily the profit on the sale of Nine's Willoughby site. Net Profit After Tax, inclusive of Specific Items, was $174m.

Highlights for the period include:

- Consistently improved ratings performance - 25-54s Network share of 39.5%[1]
- #1 revenue share for the half of 40.0%[2], up 5 points on pcp
- #1 revenue share for the calendar year of 38.3%, up 3 points
- Group-wide costs flat as efficiency focus continues
- 80% growth in long form streams resulting in 86% growth in revenue at 9Now
- 6% growth in revenues at refocused Digital Publishing business
- Around 930,000 active subscribers at Stan, growth of 33%
- 5.0 cent fully franked interim dividend
- Net Debt of $46m resulting in Net Leverage of 0.2X

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

"This was a strong half for Nine, across our entire business. 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 strong growth in premium revenues in line with our future strategy. Finally, Stan is now approaching break-even and looking to further consolidate on its leading local position in this market.

We are the only Australian media business with this unique set of video-based assets, combining the enduring strength of Free To Air TV with high growth businesses in each of BVOD, SVOD and Digital Publishing. Nine's strong cash flow and relatively ungeared balance sheet gives us the confidence to continue to prudently invest in our future across these four businesses.

Nine's strengths lie in premium content and therein is the opportunity. To harness the growth in viewing across different platforms and distribution models, and optimise the total return on our content spend. We will continue to invest in our future – there is much work still to do but as can be seen from these results, the benefit to our shareholders is becoming increasingly clear."

[1] Source: OzTam, 6am-midnight, 1 July-31 December 2017
[2] Source: ThinkTV, commercial revenue share, 6 months to December 2017

Key financials

6 months to December $m	H1 FY18	H1 FY17	Variance	
			$m	%
Revenue	719.6	659.2	+60.4	+9
Group EBITDA[1]	181.3	119.7	+61.6	+51
Net Profit after Tax[1]	116.2	75.0	+41.2	+55
Statutory Net (Loss)/Profit	174.1	(236.9)	nm	nm
Basic Earnings per Share[1] **(Cents)**	13.3	8.6	+4.7c	+55
Dividends per Share (Cents)	5.0	4.5	+0.5c	+11
Net Debt – as at 31 Dec	46.2	177.5	-131.3	
Net Leverage (X)	0.2X	0.9X	-0.7X	

[1] Pre Specific Items

Revenue increased by 9% while Group EBITDA increased by 51% to $181m. EBITDA growth of 51% included the $17m benefit from the removal of the ACMA licence fee, and replacement with the fixed spectrum charge. Adjusting for this impact, underlying Group EBITDA growth was 37%. Reported Net Profit after Tax was up 55% on the H1FY17 result to $116m. Earnings per Share was 13.3 cents, also up 55% on the previous corresponding period.

Net Debt at 31 December 2017 was $46m ($177m at 30 June 2017), and included the final proceeds from the sale of the Group's Willoughby site.

Nine Network

6 mths to Dec, $m	H1 FY18	H1 FY17	Variance	
			$m	%
Revenue	636.2	578.2	+58.0	+10.0
EBITDA	171.9	109.4	+62.5	+57.2
Margin	27.1%	18.9%		+8.2 pts

Nine Network reported revenue growth of 10% for the half, on a markedly improved share of a slightly stronger market. Reflecting this top line growth, FTA EBITDA increased by 57% for the half, with the additional benefit of lower costs.

Metro FTA advertising recorded 1.4%[1] growth across the period, the first period of growth for this market in five halves. The total television market, including regionals, subscription television and BVOD declined by 0.7% to $2.17b[1].

During the period, Nine's ratings continued to improve. For the six months to December, Nine attracted a commercial network share of 39.5%[2] of the 25-54 demographic (up 3.6 points) and a Number 1 share in all the key buying demographics[2] as well as All People. For the primary channel, Nine's share of the 25-54s was 40.7%[2], almost 7 points ahead of its nearest competitor and a clear Number 1 share across all key demographics.

For ratings season 2017, Nine Network won all the key buying demographics, and recorded growth of around 2-3 points on season 2016. Highlights in the second half included the breakout performance of *Australian Ninja Warrior*, and the enduring dominance of *The Block*.

This improved ratings performance has begun to translate to revenue share. For the six months to December, Nine's metro FTA revenue share was a 13-year high of 40.0%[1], which brought the CY17 total to 38.3%, up 3 points on CY16. Nine was the number one metro FTA network in terms of calendar year revenue share for the first time since 2005.

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

Reported costs were down 1%. However, this included half of the annual $11.3m spectrum charge recently introduced by the Government, compared with H1 FY17 which included six months of the previous licence fee structure. This resulted in a net saving of c$17m. Offsetting, were around $6m in higher revenue-related operating costs, reflecting the Group's stronger operating performance.

[1] Source: Think TV, commercial revenue share, 6 months to December 2017
[2] Source: OzTam, 6am-midnight

Nine Digital

6 mths to Dec, $m	H1 FY18	H1 FY17	Variance	
			$m	%
Revenue	83.4	78.3	+5.1	+6.5
EBITDA	18.3	13.8	+4.5	+32.6
Margin	21.9%	17.6%		+ 4.3 pts

For the 6 months to December 2017, Nine Digital recorded a revenue increase of 7%, underpinned by long form video, particularly from 9Now and an increasing contribution from PedestrianTV and CarAdvice. This growth more than offset declining revenue in the traditional display category and the absence of contribution from Bing.

EBITDA growth of 33% reflected this revenue growth and changing mix to increasing premium, and high margin revenues. Across the board, costs were well controlled.

For the six months, 9Now grew its registered user base to around 5m. Long form streams increased by 80% for the six months, and revenue was up 86% on the previous corresponding period to $18m. 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 around 930,000. Revenue growth of 83%, and a cost increase of 29% reflects the leverage of this business.

Balance sheet and cash flow

6 mths to Dec, $m	H1 FY18	H1 FY17	Variance	
			$m	%
Operating Cash Flow, Pre Specific Items, interest and Tax	180.7	96.4	+84.3	+87
As at	31 Dec 2017	30 Jun 2017	31 Dec 2016	
Net Debt ($m)	46.2	224.5	177.5	
Net Leverage (X)	0.2X	1.1X	0.9X	

Operating Cash Flow before Specific Items, Interest and Tax for the six months was $181m. This is calculated before the cash impact of the Warner's provision ($33m). It includes the remaining $39m benefit from the 2013 prepayment of the previous NRL rights contract.

As at 31 December 2017, Net Debt was $46m. Key cash flow components during the year include the $125m proceeds from the sale of Nine's Willoughby site, a $17m further investment in Stan, timing and revenue-related working capital issues as well the cash items mentioned above.

Dividend

The Company will pay a fully franked interim dividend of 5.0 cents. The dividend is payable on 18 April 2018.

In FY18, the Company expects to pay a dividend of c10.0 cents per share. 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

The market continues to trade strongly. Nine's Metro TV revenues are trading around 7% ahead of same time last year, while core Digital advertising revenues are around 15% ahead.

Across FY18, the Metro FTA market is expected to show growth of c1-2%. Nine's markedly stronger ratings performance over the past 12 months is expected to continue through 2018. Although revenue share for Nine is expected to grow year-on-year in the second half, the existence of major events on a competing network will limit this potential. Nine is expecting to achieve a Metro FTA revenue share of at least 38.5% for the full 2018 financial year.

In FY18, underlying FTA costs are expected to be flat, exclusive of the impact of the proposed introduction of spectrum fees, and costs linked to revenue expansion. The Group remains committed to delivering further cost efficiencies in Free-to-Air in the coming years.

In Digital, growth in AVOD, combined with recent sales momentum in Digital Publishing will more than offset the loss of revenue and EBITDA from the previous Bing search relationship.

In terms of the FY18 result, Nine expects Group EBITDA to fall between the average of $237m and the top of the range of $261m of the analysts' current estimates.

Looking forward to FY19, there will be continued positive momentum in the business based on the foundations established during FY17 and FY18. There remains the potential for further revenue share gains at Nine's FTA business as new content matures and with the absence of competing one-off events. Moreover, the competitive cost environment for content remains fairly benign. 9Now will continue to grow via improved user experience and monetisation, and the further roll-out of 9Galaxy will assist in improving ad inventory optimisation. The key Digital Publishing properties will continue to grow across both 9Now and Digital Publishing. Stan will pass through break-even and whilst not reflected in NEC's results, is becoming an increasingly significant value driver for the Group.

Further information:

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APPENDIX

GLOSSARY

- BVOD – Broadcast Video On Demand
- 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/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
- 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 3(iv) of the 31 December 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
Interim Results Briefing Presentation of 22 February 2018