NINE ENTERTAINMENT CO. FY16 INTERIM RESULTS

25 February 2016: Nine Entertainment Co. (ASX: NEC) has reported the Company's interim results for the six months to 31 December, 2015. On a Continuing Business basis, the Company reported revenue of $690m, EBITDA of $127.9m and Net Profit After Tax of $78.4m.

Highlights for the half include:

- #1 Metro market ratings across all key demographics and All People
- Clear cost focus across each division, with group costs down 5%
- Double digit EBITDA growth from a refocused digital business
- SVOD joint venture Stan, running ahead of business plan
- Strong operating cash flow and best in sector balance sheet
- 8 cent fully franked interim dividend, up 90%
- Second on-market buy-back program of up to $150m

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

"I am pleased to report a solid result in what has been a challenging advertising market. Competition from both within and outside the sector kept pressure on our revenues. However, our stringent cost focus has resulted in a group-wide cost decline of 5% for the period, mitigating much of the revenue impact.

We are excited about the opportunities we have as a business – to be able to invest in more and better performing local content as our international spend reduces; through enhanced content integration between our television and digital businesses; and a growing one-to-one consumer relationship delivered by our new streaming and AVOD platform, 9Now. We are also very pleased with the first year's performance of Stan.

Our focus on shareholder returns remains paramount as evidenced by the marked increase in our dividend, as well as the announcement of a second buy-back program. We remain un-geared, with strong cash flows and a great deal of flexibility to move if compelling opportunities present themselves."

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Key financials – Continuing Businesses

$m	H1 FY16	H1 FY15	Variance	
			$m	%
Revenue	690.3	726.7	-36.4	-5.0
Group EBITDA[2]	127.9	135.0	-7.1	-5.3
Net Profit after Tax[1,2]	78.4	83.5	-5.1	-6.1
Earnings per Share[1,2] (Cents)	8.8	8.9	-0.1	-1.1
Dividends per Share (Cents)	8.0	4.2	+3.8c	+90.5
Operating Free Cash Flow[1,2]	110.9	100.7	+10.2	+10.1
Net Cash (Debt) – as at 31 December	52.5	(490.5)	+543.0	nm
Net Leverage (X)	na	1.7X	nm	nm

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

On a Continuing Business basis, Revenue declined by 5% and Group EBITDA fell by 5% to $127.9m. Net Profit after Tax declined by 6% to $78.4m compared to the Pro Forma H1 FY15 result. Earnings per share was down 1% on a lower share count due to the on-market buy-back.

Operating Free Cash Flow of $111m was up $10m on the prior corresponding period representing a conversion rate of 87%.

The 8.0 cent per share interim dividend is fully franked, and equates to a payout of 91% of Net Profit after Tax of Continuing Businesses, pre Specific Items.

Net Cash at 31 December 2015 of $52m, compared with Net Debt of $524m at 30 June and $490m at 31 December 2014, primarily reflecting the sale of the Nine Live business which completed in July.

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Nine Network

$m	H1 FY16	H1 FY15	Variance	
			$m	**%**
Revenue	610.7	645.5	-34.8	-5.4
EBITDA	120.5	131.8	-11.3	-8.6
Margin	19.7%	20.4%		- 0.7 pts

Nine Network reported a revenue decline of 5.4% for the period, in difficult market conditions. Reported costs declined by 4.6%, mitigating much of the revenue decline. As a result, FTA EBITDA fell by 8.6% to $120.5m.

The Metro FTA advertising market remained challenging, declining 0.4%[1] during the December half. Regional FTA markets continued to markedly underperform with advertising revenue down by 6.6%[1] on H1 FY15.

In an increasingly competitive market, Nine Network's Metro FTA revenue share declined by 1.0 percentage point to 38.2%, after seven years of consistent growth.

Nine remained Australia's most watched television network in the 2015 ratings year in the key 25-54, 18-49 and 16-39 age demographics[2]. In the six months to December, Nine again recorded clear market leadership across these core demographics, and, for the first time in many years, also won All People ratings[3].

Over the half, Nine Network's costs decreased by $23.5m (4.6%). This reduction was delivered despite a $17m increase in sports costs, due mainly to the broadcast of the Rugby World Cup and UK Ashes series, as well as 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 January 2015 to 31 December 2015
[3] Source: OzTam, 6am-midnight, survey weeks, 1 July 2015 to 31 December 2015

Nine Digital

$m	H1 FY16	H1 FY15	Variance $m	Variance %
Revenue	79.6	81.3	-1.7	-2.1
EBITDA	12.2	10.8	+1.4	+13.0
Margin	15.3%	13.3%		+2.0 pts

Nine's digital revenues declined by 2.1% in H1 FY16, as the group refocused its sales efforts towards more profitable revenue streams. Digital recorded a 13% increase in EBITDA in the period, despite a challenging comparative which included the benefit of one quarter of Microsoft default revenues as well as a contribution from the HWW business which was sold in September 2014. This focus on more profitable revenue streams, as well as firm cost control, underwrote the margin improvement.

During the half, the increasingly integrated Nine Digital business focused on the launch of 9Now, Nine's world class streaming and AVOD product that launched in late January. This is consistent with the strategic focus of both monetising the Company's content across all distribution channels and improving the mix of owned and operated platforms.

Balance sheet and cash flow – Continuing businesses

	H1 FY16	H1 FY15	Variance $m	Variance %
Operating Free Cash Flow ($m)	110.9	100.7	+10.2	+10.1
Operating Free Cash Flow Conversion (%)	87%	75%		+12 pts
As at	**31 Dec 2015**	**31 Dec 2014**		
Net Cash ($m)	52.5	(490.5)	+543.0	nm
Net Leverage (X)	nm	1.7X		nm

Operating Free Cash Flow was up $10m. Operating Free Cash Flow Conversion was a healthy 87%, consistent with the medium term target of 80-90%.

As at 31 December 2015, and reflecting the receipt of the Nine Live proceeds, Net Cash was $52m. During the half, dividends of $45m were paid and $38m was spent on the share buy-back program.

Dividend

The Company will pay a fully franked interim dividend of 8.0 cents, up from 4.2 cents in the prior corresponding period. This equates to a 91% payout of Earnings per Share from Continuing Businesses, pre Specific Items, consistent with Company guidance of an 80-100% payout ratio. The dividend is payable on 19 April 2016.

On-market share buy-back

The Company has bought back c$100m of the $150m buy-back announced this time last year. With this program to expire at the end of March, and consistent with the approval granted by shareholders at the November 2015 AGM, the Company has announced a follow-up buy-back plan of a further $150m, or 12% of issued capital. This buy-back will enable the Company to continue to enhance shareholder value through opportunistically acquiring shares. The Company does not consider that this buy-back will inhibit its strategic and financial flexibility in any way.

Current trading environment and outlook

The FTA market remains very challenging. After a 0.4% decline in the market in the December half and a soft opening to the second half, the Company now expects the FY16 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 WIN will offset over the second half.

As previously flagged, the increasingly competitive environment, as well as a number of specific one-off events, will impact on Nine's FY16 Metro FTA share which is expected to be around 38%.

Recognising these challenging operating conditions, the Company has implemented a number of cost reduction initiatives, aimed at mitigating the impact of a soft revenue environment. Previous guidance was for a FTA cost increase of c1-2%[1]. After adjusting for costs recognised as Specific Items, this equated to a decline in FTA reported costs of c2.5%. FY16 FTA reported costs are now expected to be down by c4% for the year.

The positive momentum which drove the first half Digital result is expected to continue with 9Now starting to contribute as the period progresses.

Sydney, Australia
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[1] Flat non-programming and +2% programming costs

APPENDIX

GLOSSARY

- 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, from continuing businesses before Specific Items
- H1 – six months to 31 December
- Metro – Sydney, Melbourne, Brisbane, Adelaide and Perth
- Net Cash – Cash less interest bearing loans and borrowings
- Net Debt – gross 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
- Net Leverage – Net Debt divided by Group EBITDA (last 12 months)
- Net Profit after Tax (NPAT) – net profit after tax, from continuing businesses, before Specific Items
- 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 cash relating to the Specific Item stock provision
- Operating Free Cash Flow Conversion – Operating Free Cash Flow divided by Group EBITDA
- 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 31 December 2015 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 Interim Results Briefing Presentation of 25 February 2016