NINE ENTERTAINMENT CO. FY17 INTERIM RESULTS

23 February 2017: Nine Entertainment Co. (ASX: NEC) has reported the Company's interim results for the 2017 financial year (FY17). For the six months, the Company reported Revenue of $659m, Group EBITDA of $120m and Net Profit After Tax, pre Specific Items, of $75m.

Statutory results included Specific Items of $312m after tax, primarily a $260m non-cash impairment of goodwill and the $85m (pre-tax) settlement to exit key elements of the output deal with Warner Bros, announced in August 2016. Net Loss After Tax, inclusive of Specific Items, was $237m.

Highlights for the period include:

- Dominant ratings performance post Olympics
- Vastly improved ratings performance for the start of season 2017
- Continuing cost discipline across each division, with group-wide costs down 4%
- Growth in affiliate revenue
- 71% growth in registered users and 74% growth in catch up streams at 9Now across 6 months
- Strong subscriber additions at Stan, especially over summer
- 4.5 cent fully franked interim dividend

Nine also disposed of its interest in Southern Cross Media (SXL) during the period for a pre-tax gain of $29m. The gain on sale is reported in "other comprehensive income", as opposed to the Profit and Loss for the period.

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

"Over the past year, we have made significant progress in rebuilding our Free To Air business. Nine Network won all prime-time key demographics post the Olympics in 2016[1]. And for the important start to season 2017, Nine's audiences are up 13%[2] and commercial audience share up 3.9 pts[3].

Our on-demand businesses are growing strongly. Our AVOD platform, 9Now has more than 2.9m registered users, providing a growing first person database that enables our advertisers to target audiences and will ultimately deliver Nine higher yielding revenue. Our SVOD Joint Venture Stan, is clearly the leading domestic player in a growing space with more than 700,000 active subscribers and heading towards positive cash flow during FY18.

Our group-wide focus on costs has continued to reap rewards, with both overall and Free To Air costs down 4%.

We are very pleased with the progress we have made in the past six months and have delivered on our commitment to compete more effectively in Free To Air television at the start of the 2017 ratings year. Our unique and complementary mix of television and digital assets continues to meet the changing needs of our audiences, providing an important and diverse foundation for Nine's growth. And the hard work we continue to do on costs means we are highly leveraged to benefit from the flow-on effect of our audience gains on revenue share."

[1] Source: OzTAM, Network, 6-10.30pm,survey weeks 2016, post Olympics [2] Source: OzTAM, primary channel, 6-10.30pm, 25-54s, Wks 5-7 2017 Exc Sun Wk5 (Aus Open Mens Final) vs Wks 6-8 2016 Exc Sun Wk6 (Aus Open Mens Final) [3]. Source: OzTAM, network, 6-10.30pm, 25-54s, Wks 5-7 2017 Exc Sun Wk5 (Aus Open Mens Final) vs Wks 6-8 2016 Exc Sun Wk6 (Aus Open Mens Final)

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Key financials – Continuing Businesses

6 months to December $m	H1 FY17	H1 FY16[2]	Variance	
			$m	%
Revenue	659.2	690.3	(31.1)	-4.5
Group EBITDA[1]	119.7	127.9	(8.2)	-6.4
Net Profit after Tax[1]	75.0	78.4	(3.4)	-4.3
Statutory Net Profit	(236.9)	320.8	nm	nm
Basic Earnings per Share[1] (Cents)	8.6	8.8	(0.2)	-2.3
Dividends per Share (Cents)	4.5	8.0	(3.5)	-43.8
Net Debt – as at 31 Dec	177.5	(52.5)	+230.0	
Net Leverage (X)	0.9X	na		

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

Revenue declined by 4.5% while Group EBITDA fell by 6% to $120m. Net Profit after Tax declined by 4% to $75m compared to the Pro Forma H1 FY16 result. Earnings per Share was down 2%.

Net Debt at 31 December 2016 was $178m, unchanged from 30 June 2016.

Specific Items

Six months to December, $m	$m
Warner onerous contract	(84.9)
Restructuring costs	(3.9)
Goodwill impairment	(260.0)
Withholding tax reversal	10.7
Other	(0.4)
Total Specific Items before tax	(338.5)
Tax impact of Specific Items	26.6
Net Specific Items after tax	(311.9)

Nine reported a $260m non-cash impairment in the goodwill of its Metro Free to Air television business during the period. This is an accounting-led adjustment, driven primarily by the sustained discrepancy between previous book value and the current market value of NEC.

As announced with the FY16 result, the Group has provisioned $85m to exit its life of series obligations on a list of US dramas and comedies with Warner Bros.. Concluding this component of the output deal gives Nine certainty in relation to this obligation and increased flexibility in relation to future content spend. The associated cash payment will be made over FY18 and FY19.

Nine Network

6 mths to Dec, $m	H1 FY17	H1 FY16	Variance	
			$m	**%**
Revenue	578.2	610.7	(32.5)	-5.3
EBITDA	109.4	120.5	(11.1)	-9.2
Margin	18.9%	19.7%		-0.8 pts

Nine Network reported a revenue decline of 5% for the period, reflecting a lower revenue share in a soft Free To Air market - both of which were negatively impacted by the Olympics. As a consequence, FTA EBITDA fell by 9% to $109m.

The total television market recorded a 2.7%[1] decline across the six months. The Metro FTA advertising market recorded a 4.5%[1] decline across the half, despite the Olympics. The Regional FTA markets performed better, with advertising revenue down by 0.4%[1] on H1 FY16.

Nine's Metro FTA revenue share for the half of 35% reflected both the impact of the Rio Olympics and the Network's poor early 2016 ratings performance. Post the Olympics however, Nine's ratings performance markedly improved with a 6% increase in commercial share of the targeted 25-54 demographic, to 38.4%[2] and a Number 1 share in all of the key demographics for the period.[2]

Into 2017, this improved momentum has continued. The season launched with *Married At First Sight*, which has underpinned 13% growth in 25-54 audiences[3] for Nine on same period last year. The Network's increased commitment to premium local content, specifically new reality/entertainment formats like *Australian Ninja Warrior, Travel Guides, Hamish & Andy* and *This Time Next Year* coupled with more hours of locally produced dramas including *Doctor-Doctor, Love Child* and *House of Bond,* is expected to lead to a markedly more consistent and improved performance across the calendar year.

During the half, Nine continued to focus on its cost base. Following on from the declines reported in FY16, Nine Network's reported costs decreased by a further $21m (4%) for the half - on track to achieve its stated full year target of 1.5% reduction year on year despite contracted increases in sports rights.

[1] Source: KPMG data
[2] Source: OzTam, 6-10.30pm, ratings weeks, Network basis
[3] Source: OzTam, 6-10.30pm, primary channel, since new schedule launch, Wks 5-7 2017 Exc Sun Wk5 (Aus Open Mens Final) vs Wks 6-8 2016 Exc Sun Wk6 (Aus Open Mens Final)

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Nine Digital

6 mths to Dec, $m	FY17	FY16	Variance	
			$m	%
Revenue	78.3	79.6	(1.3)	-1.6
EBITDA	13.8	12.2	+1.6	+13.3
Margin	17.6%	15.3%		+2.3 pts

Digital recorded a 13% increase in EBITDA in the period, on a revenue decline of 2%. Growth was recorded across all O&O revenue lines – the traditional segment of display as well as video and live streaming. There was a decline in partnership revenue primarily due to the discontinuation of the joint venture with Daily Mail in early 2016.

EBITDA growth of 13% reflected the ongoing impact of Nine's cost drive, as well as the Group's strategy of focusing on high margin, and primarily O&O revenues.

During the half, Nine Digital consolidated its recent launches of 9Now and nine.com.au, and continued its roll-out of innovative consumer facing content, with 9Honey and the acquisition of CarAdvice. The primary focus now moves to the monetization of these premium verticals.

Balance sheet and cash flow – Continuing businesses

6 mths to Dec, $m	FY17	FY16	Variance	
			$m	%
Operating Cash Flow, Pre Specific Items, interest and Tax	96.4	110.9	(14.5)	-13.1
As at	**31 Dec 2016**	**30 Jun 2016**		
Net Debt ($m)	177.5	177.6	(0.1)	
Net Leverage (X)	0.9X	0.8X		

Operating Cash Flow before Specific Items, Interest and Tax for the year was $96.4m. This is calculated before the non-recurring impact of the NRL contract prepayment of $50m and the cash impact of the Warner's provision ($29m).

As at 31 Dec 2016, Net Debt was $178m. Key cash flow components 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 NRL/Warner issues described above. Debt is expected to begin unwinding in FY18 with the reversal of the previous NRL prepayment, receipt of the Willoughby sale proceeds as well as the timing impact as programming inventory is utilized.

Dividend

The Company will pay a fully franked interim dividend of 4.5 cents. The dividend is payable on 19 April 2017.

As highlighted at the FY16 result, the Company maintains its dividend payout policy of 80-100% of Net Profit after Tax, pre Specific Items and expects the FY17 dividend to be at the lower end of this range, and relatively evenly weighted.

Current trading environment and outlook

After a weaker-than-expected December half, the Metro Free To Air market is expected to be down low single digits for FY17. Q3 market revenues are likely to be only marginally down with some early signs of a more positive market. Regional markets are expected to slightly outperform their Metro peers.

Nine has recorded a markedly improved start to ratings season 2017, and this strength is expected to continue across much of the full calendar year. This should begin translating to revenues in Q4 FY17 and give Nine positive momentum into FY18.

In FY17, FTA reported costs are expected to be down 1.5%, as stated at the AGM in November. The Group is also progressing plans to achieve further efficiencies, with an additional $50m reduction in costs targeted by FY19.

Digital expects to further progress recent initiatives in 9Now, 9Honey and Car Advice, with the second half focus turning to more effective monetization.

The Group notes that the current range of published analysts' forecasts of Group EBITDA is $158m to $187m, with an average of $175m. Subject to short-term market conditions, the Group expects EBITDA to be within this 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 (relating to Specific Items) plus dividends received from Associates. Also excludes the cash impact relating to the Specific Item stock provision and 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 31 December 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 are included in the

Full Year Results Briefing Presentation of 23 February 2017