NINE ENTERTAINMENT CO. H1 FY19 RESULTS

21 February 2019: Nine Entertainment Co. (ASX: NEC) has released its H1 FY19 results for the six months to December 2018.

On a Statutory basis, Nine reported a Net Profit After Tax of $172m, down 1% on the previous corresponding period.

On a Pro Forma, Continuing Business and pre Specific Item basis, Nine reported Group EBITDA growth of 6% to $252m, on Revenue of $1,204m (-3%) and Net Profit After Tax and Minority Interests of $126m (+5%).

Highlights include:

- Strong FTA share and double digit cost reduction, offsetting weakness in the FTA market
- 39% growth in Digital & Publishing EBITDA underpinned by >50% growth in both Metro Media and 9Now
- Broadly flat contribution from Domain (ex Consumer Solutions businesses) in a cyclical housing market
- c1.5m active subscribers at Stan, growth of more than 60% over the 12 months, with Stan expected to move into profit from Q4

Hugh Marks, Chief Executive Officer of Nine Entertainment Co. said: “The merger with Fairfax has created Australia’s pre-eminent media company, with a diverse suite of assets that now reach more Australians each week than those of any other local media company.

This half year result is a testimony to the new Nine. With around 55% of our revenue coming from a stable base of broadcasting and 45% coming from businesses that are in strong long term growth markets. Meaning we’ve been able to grow EBITDA through a more demanding operating environment, at the same time investing for the future of our business.

Nine is now uniquely positioned through the combination of the operating strength of our traditional media assets as well as an increasing exposure to the continued transition of the market towards digital media assets.”

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Accounting impact of the merger with Fairfax

The implementation date of the merger was 7 December 2018. The Reported/Statutory results (Table 1) include the contribution from Fairfax Media and Stan from this date.

The Pro Forma results (Table 3) consolidate the results for the former Nine and Fairfax businesses for the full six months, including the consolidation of Stan, which is now wholly owned. Results include synergies realised since the transaction was completed. Interest costs associated with the transaction are also for the period from completion.

Pro-forma results are presented for Continuing Operations and exclude Australian Community Media and Printing (ACM), Stuff New Zealand and Events, which are separately classified as Discontinued operations, as they are being held for sale.

All divisional results (Table 4,5,6 & 7) are presented on a Pro Forma basis.

Table 1: Reported Results[1]

6 months to Dec $m	FY19	FY18	Variance	
			$m	%
Revenue[1,2]	**709.8**	**719.6**	**(9.8)**	**-1%**
Group EBITDA[1,2]	**177.8**	**181.3**	**(3.5)**	**-2%**
Net Profit after Tax[1,2]	**108.5**	**116.2**	**(7.7)**	**-7%**
Statutory Net (Loss)/Profit, continuing operations[2]	**171.3**	**174.1**	(2.8)	-2%
Discontinued businesses	**0.2**	**-**	+0.2	**nm**
Total Statutory Net Profit (incl. discontinued)	**171.6**	**174.1**	(2.5)	**-1%**
Basic Earnings per Share[1] (Cents)	**11.1**	**13.3**	(2.2)	**-17%**
Dividends per Share (Cents)	**5.0**	**5.0**	-	**-**

[1] Pre Specific Items, includes contribution from Fairfax assets, from 7 December
[2] Continuing businesses

On a reported basis, Revenue of $710m resulted in Group EBITDA of $178m. Net Profit after Tax, pre Specific Items, was $109m. Specific Items of $63m were reported for the half, the bulk of which related to completion of the merger with Fairfax. On an After Tax and Specific Item basis, and including the contribution from discontinued businesses, Nine reported a profit of $172m. Earnings per Share, pre Specific Items, was 11.1 cents, and a fully franked interim dividend of 5.0 cents was declared.

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Table 2: Specific Items, Statutory and continuing business basis

6 months to Dec, $m	H1 FY19
Restructuring & termination related costs	(29.6)
Acquisition related costs	(13.8)
Gain on property/asset sale	9.4
Gain on consolidation of Stan	93.0
Total Specific Items before tax	59.0
Tax impact of Specific Items	3.8
Net Specific Items after tax	62.8

Net Specific Items of $59m, pre-tax, were reported for the period. Of this, $43m related to the costs of the merger and associated and other restructure. This was more than offset by a $93m increase in the carrying value of Stan, which effectively represents the fair value of Nine's initial interest in Stan, at the date of acquisition of Fairfax, less its book value (as required under AASB3 Business Combinations). Other Specific Items included a $11m pre tax profit on the sale of the NBN site in Newcastle.

Table 3: Pro Forma Results

6 months to Dec **$m**	**FY19**	**FY18**	**Variance**	
			$m	**%**
Revenue[1]	**1,203.5**	**1,246.6**	**-43.1**	**-3%**
Group EBITDA[1]	**251.6**	**238.0**	**+13.5**	**+6%**
Net Profit after Tax[1]	**140.2**	**138.9**	**+1.3**	**+1%**
Net Profit after Tax and minorities[1]	**126.1**	**119.9**	+6.1	+5%
Fully diluted Earnings per Share[1] (cents)	**7.4**	**7.0**	+0.4	**+5%**

[1] Pre Specific Items, continuing business basis

On a Pro Forma and Continuing Business basis, Revenue of $1,204m was down 3% on previous corresponding period, while Group EBITDA increased by 6% to $252m. Net Profit after Tax, was up 5% on the FY18 result to $126m. Earnings per Share was 7.4 cents, also up 5% on the previous corresponding period.

Table 4: Broadcast

6 mths to Dec, $m	FY19	FY18	Variance	
			$m	%
Revenue	**631.7**	**705.3**	**-73.6**	**-10%**
Costs	**(455.1)**	**(517.0)**	**+61.9**	**+12%**
EBITDA	**176.6**	**188.2**	**-11.6**	**-6%**
Margin	**28.0%**	26.7%		+1.3 pts

Nine's Broadcasting division, which comprises Nine Network as well as the consolidated results of Macquarie Media (of which Nine owns a 54.5% stake), reported EBITDA of $177m on revenues of $632m for the half.

Nine Network reported a revenue decline from $637m to $564m for the six months. One less week ($15m) and absence of Foxtel simulcast revenues ($9m) accounted for around one-third of this shortfall. In a more difficult FTA market (-5%[1] for the half), Nine held or grew share in each month other than in November-December when the cricket-related comparables impacted. Overall, Metro FTA share for the half was 39.3%[2].

For the six months to December, Nine attracted a #1 commercial network share of 36.7%[3] of the 25-54 demographic, notwithstanding the absence of cricket. For the primary channel, Nine's share of the 25-54s was 37.1%[3], around 3.4 share points ahead of its nearest competitor.

Reported costs improved by 13% or $62m for the six months. The considered move away from Cricket accounted for much of this change as Nine refocused its summer sport to tennis.

FTA EBITDA fell by 6% or $11m for the half, the bulk of which could be attributed to the extra week in H1 FY18. As such, the reduction in Nine's costs offset almost all of the impact of the softer overall Free To Air market. Nine's FTA margins were a post IPO high of 28.6%.

Macquarie Media (ASX: MRN) reported its H1 FY19 results on 15 February. Reported revenue was broadly flat at $68m - the Group's News Talk network continuing to outperform the overall radio market, with 4% revenue growth, offset by the short-term revenue impact of the launch of Macquarie Sports Radio. EBITDA, before Specific Items of $15.4m, was down around 5% on previous corresponding period.

[1] Source: Think TV, Metro Free To Air revenue, 6 months to December 2018
[2] Source: Think TV, Metro Free To Air revenue share, 6 months to December 2018
[3] Source: OzTam, 6pm-10.30pm, 6 months to December 2018

Table 5: Digital & Publishing

6 mths to Dec, $m	FY19	FY18	Variance	
			$m	%
Revenue	327.5	315.3	+12.2	+4%
Costs	(267.3)	(272.1)	+4.8	+2%
EBITDA	60.2	43.2	+17.0	+39%
Margin	18.4%	13.7%		+ 4.7 pts

Nine's Digital & Publishing division includes Metro Media and 9Now, as well as Nine's other Digital Publishing titles including Pedestrian, CarAdvice and nine.com.au. Together, Digital & Publishing reported revenue of $328m (of which less than half was derived from Print, and less than half that again from Print Advertising), and a combined EBITDA of $60m, up 39% for the half.

Metro Media reported overall revenue growth of 4% after three years of single digit declines. Continued strong readership of the Group's mast-heads drove 12% growth in digital revenues, and stabilising print revenues (both in terms of circulation and advertising). Metro Media's ongoing focus on costs resulted in a further decline of c$6m. EBITDA increased by 58% to $40m, the fifth consecutive half of EBITDA growth for the Metro Media business.

In a BVOD market which grew by 41% for the half to almost $60m, 9Now further increased its share to 47.5%, for revenue growth of more than 50%. Content such as *Love Island*, *The Block* and *Manifest* drove audiences throughout the half, with long form streams increasing by 66%. 9Now increased its EBITDA contribution from $10.7m to $16.4m, up 54%.

Other key components of Digital & Publishing together contributed revenue of $58m, and EBITDA of $4m with softer conditions in the broader digital display market impacting.

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Table 6: Domain (59.4%)

6 mths to Dec, $m	FY19	FY18	Variance	
			$m	%
Revenue	183.9	183.3	+0.6	-
Share of Profit/(Loss)	(0.3)	(0.7)	+0.4	+55%
Costs	(130.8)	(125.9)	-4.9	-4%
EBITDA	52.7	56.8	-4.1	-7%
Margin	28.7%	31.0%		-2.3 pts

For full details of the Domain result, refer company release 15 February 2019

Domain (ASX: DHG) recorded flat revenues in a cyclical operating environment, specifically in its key markets of Sydney and Melbourne. Notwithstanding, the Group made clear progress. Core digital revenues grew by 5%, with residential revenue up by 9%. Offsetting this ongoing digital growth, Print revenues fell by 24%, and now represent less than 20% of Domain Group revenues.

Costs rose by less than 4% on a reported basis, with the savings from print and other initiatives invested in continuing to develop the growth drivers of the business.

Reported EBITDA was down by 7% - most importantly, Core Digital EBITDA was stable. Underlying depth and yield improvements have offset market declines, and will result in strong leverage when the cycle returns to normal.

Table 7: Stan (100%)

6 mths to Dec, $m	FY19	FY18	Variance	
			$m	%
Revenue	65.2	43.4	+21.8	+50%
Costs	(87.0)	(73.3)	-13.7	-19%
EBITDA	(21.8)	(29.9)	+8.1	+27%

Stan recorded a very strong period for sign-ups, with active subscribers now of c1.5m. Stan's consistent roll-out of exclusives like *The Harry Quebert Affair* and *Who Is America?* and local content like *Bloom* complemented the addition of Disney from mid-December. Usage per subscriber continues to increase, with daily total hours streamed now exceeding 1m.

Revenue growth of 50%, and a cost increase of 19% again highlights the leverage of this business. The strong subscriber growth, coupled with the recently announced price increase means that Stan is expected to exit FY19 with a positive profit run-rate, and expectations of a net positive EBITDA contribution in FY20.

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Table 8: Assets held for sale – ACM, Stuff and Events

6 mths to Dec, $m	FY19	FY18	Variance	
			$m	%
Revenue	340.8	380.4	-39.6	-10%
Costs	(303.0)	(320.1)	+17.1	+5%
EBITDA	37.8	60.3	-22.5	-37%

ACM had a difficult half, with the Australia-wide drought affecting both agricultural and regional markets and publications. Revenue declined by 8%, and EBITDA dropped by 42% to $21m for the half. Stuff experienced similarly difficult advertising conditions in its core market of New Zealand, reporting an EBITDA decline of 23% to $15m.

Following implementation of the merger with Fairfax Media on 7 December 2018, Nine has completed its review of the breadth and scope of the combined group. In order to align with the Group's strategic objectives and future focus, Nine is exploring potential value maximising opportunities for its non-metropolitan media assets, namely Australian Community Media and Printing (ACM), Stuff New Zealand and Events.

To this end, Nine has appointed an advisor to manage the divestment processes, and has received initial indications of potential interest from a number of parties in relation to each business for sale.

Table 9: Balance sheet and Pro Forma cash flow

As at	31 Dec 2018	30 Jun 2018
Net Debt ($m) – wholly owned	228.3	213.0
Net Debt ($m) – Consolidated	370.2	358.0
Net Leverage - wholly owned basis (X)	0.6X	0.5X

Operating Cash Flow before Specific Items, Interest and Tax for the six months was $169m. This represented an EBITDA conversion of 91%. This is calculated before the cash impact of the Warner's provision ($33m) and other specific items ($6.3m).

As at 31 Dec 2018, Net Debt was $228m, on a wholly-owned basis. Key cash flow components during the half include $58m cash consideration, and $61m in acquisition and restructuring (incurred by both parties) in relation to the Fairfax merger. In addition, the minority interests in CarAdvice were acquired ($27m). The discontinued operations contributed c$20m in cashflows, net of restructuring costs.

Dividend

The Company will pay an interim dividend of 5.0 cents, fully franked. This equates to a total dividend paid of $85m, compared with Nine's dividend of $44m in H1 FY18. The dividend is payable on 18 April 2019.

Merger Update

In December 2018, the merger between Nine and Fairfax Media was implemented.

Since completion, the Group has been focused on integrating the operations of businesses and building on the foundations established by both companies separately. At the time of the initial merger announcement, Nine and Fairfax estimated total annualised cost synergies of at least $50m, with nearly half the saving sourced from corporate costs, around 30% from sales and the rest from Digital & Publishing.

Nine now estimates that total cost synergies available will be around $65m.

Current trading environment and outlook

The FTA market conditions of the first half have continued into the current quarter. However, Nine has increased its share and expects to grow year on year revenue in the quarter by approximately 3%. Nine believes that the FTA market should improve in the run up to, and post the Federal Election, currently expected in May, and that it will continue to record share growth. Full year FTA costs are now expected to be down by around 4%. On this basis, EBITDA from Broadcasting is expected to be broadly in line with Pro Forma FY18, excluding the impact of the extra week.

Digital and Publishing is expected to continue to grow through H2 FY19 and into FY20, driven both by top line growth and further cost efficiency gains in Metro Media and continuing strong growth at 9Now.

As Domain commented with their result last week, the short term outlook remains defined by growth in yield and lower listing volumes. Continued investment in growth initiatives is being supported by ongoing cost discipline.

On the back of the increased subscriber numbers, and the recent price increase, Stan expects to be profitable in Q4 FY19, and report a positive contribution to EBITDA in FY20.

The above performance by Nine's operating divisions will be supported by further delivery of merger synergies in H2FY19 and in FY20.

In terms of the FY19 result, Nine is expecting to report Pro Forma Group EBITDA on a continuing business basis of at least $420m, which equates to growth of at least 10% on the FY18 like-basis result of $385m. It is expected that positive momentum will continue at the Group level in FY20.

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APPENDIX 1

SUMMARY OF PRO FORMA RESULTS, CONTINUING BUSINESS BASIS

6 MONTHS TO DECEMBER, $m	FY19	FY18	Variance $m	Variance %
Television	563.5	636.6	*-73.1*	*-11%*
Radio	68.2	68.7	-0.5	-1%
Broadcast	**631.7**	**705.3**	*-73.6*	*-10%*
Metro Media	240.8	231.9	+8.9	+4%
9Digital	57.5	64.1	-6.6	-10%
9Now	29.1	19.3	+9.8	+51%
Digital & Publishing	**327.5**	**315.3**	**+12.2**	**+4%**
Stan	65.2	43.4	+21.8	+50%
Domain	183.9	183.3	+0.6	+0%
Corporate	9.1	8.9	+0.2	+2%
Inter segment revenue	(13.8)	(9.6)		
TOTAL GROUP REVENUE (FROM CONTINUING OPERATIONS)	**1,203.5**	**1,246.6**	**-43.1**	**-3%**
Television	161.1	171.9	*-10.8*	*-6%*
Radio	15.4	16.3	*-0.9*	*-5%*
Broadcast	**176.6**	**188.2**	*-11.7*	*-6%*
Metro Media	39.5	24.9	*+14.6*	*+58%*
9Digital	4.2	7.6	*-3.4*	*-44%*
9Now	16.4	10.7	*+5.8*	*+54%*
Digital & Publishing	**60.2**	**43.2**	**+17.0**	**+39%**
Stan	(21.8)	(29.9)	*+8.1*	+27%
Domain	52.7	58.6	*-5.9*	*-10%*
Corporate	(14.1)	(22.5)	*+8.4*	+37%
Associates	(2.0)	0.3	*-2.3*	*-677%*
TOTAL GROUP EBITDA (FROM CONTINUING OPERATIONS)	**251.6**	**238.0**	***+13.6***	***+6%***

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APPENDIX 2

GLOSSARY

- BVOD – Broadcast Video On Demand
- Continuing Business – excludes those assets held for sale, specifically Australian Community Media and Printing (ACM), Stuff New Zealand and Events
- EBITDA – earnings before interest, tax, depreciation and amortisation before Specific Items
- FTA – Free To Air
- Group EBITDA – EBITDA plus share of Associates' net profit
- H1 – 6 months to 31 December
- Metro – Sydney, Melbourne, Brisbane, Adelaide and Perth
- Net Debt (wholly owned) – Interest bearing loans and borrowings attributed to wholly owned entities less available cash
- Net Debt (combined Group) – Net Debt (wholly owned) plus Net Debt attributed to controlled, but not wholly owned entities (Domain and Macquarie Radio)
- Net Leverage (combined Group) – Net Debt (combined Group) divided by Group EBITDA (last 12 months)
- Net Leverage (wholly owned) – Net Debt (wholly owned) divided by wholly owned Group EBITDA plus dividends received (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 the Warners onerous provision
- Premium Revenue – includes branded content, product and brand integration, the use of IP, talent and social, primarily linked to key content franchises
- Pro Forma – consolidating the combined businesses of Nine and Fairfax, including Stan. Includes synergies actually delivered and interest costs from the period of completion
- 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 2.4 of the 30 December 2018 Statutory Accounts
- Statutory Accounts – audited or auditor reviewed, consolidated financial statements
- Statutory Net Profit/(Loss) – Net Profit/(Loss) for the period before other Comprehensive income/(Loss)
- 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 21 February 2019