NINE ENTERTAINMENT CO. FY15 INTERIM RESULTS ANNOUNCEMENT

Nine Entertainment Co. (ASX: NEC) has reported the Company's interim results for the 2015 financial year (FY15).

Key takeaways from the result:

- Net Profit After Tax[1] of $88.8m consistent with the guidance given at the 2014 AGM
- Group EBITDA fell by 9.4% due primarily to weakness in the FTA advertising market
- Metro and Regional FTA advertising markets declined 3%[2]
- Nine Network Metro FTA revenue share improved from 38.7% to 39.2%[2]
- Maintenance of market leadership across all key advertiser demographics
- Solid result from Nine Live following record prior corresponding period
- Digital transition and evolution continuing following 100% acquisition of Mi9
- Operating Free Cash Flow Conversion of 78%
- Closing Net Debt of $491m and conservative Net Leverage of 1.7X
- Interim dividend of 4.2 cents per share, unfranked
- On-market share buy-back of up to $150m

David Gyngell, Chief Executive Officer of Nine Entertainment Co. said:

"In what has been a difficult advertising market, NEC has reported a solid result. We again improved our revenue share and maintained our ratings leadership in all key advertiser demographics. We are confident about our schedule for 2015, and see a clear path to our 40% revenue share target.

The ongoing integration of our leading television and digital businesses highlights the value of owning and controlling both forms of media, while our Nine Live business continues to provide unique marketing and expansion opportunities as the business evolves.

The decision to implement an on-market buy-back is a function of our sustained conservative leverage and strong underlying cash flows, and provides us with the ability to opportunistically acquire shares whilst retaining significant balance sheet flexibility to exploit opportunities which might arise.

We continue to look for ways to enhance our relative market positioning and shareholder value through innovation and acquisition. The recent launch of Stan is a great example."

[1] Actual and guidance are before a net after tax gain of $2.2m in relation to Specific Items
[2] Source: FreeTV

A glossary of capitalised terms used in this release is included in the appendix to this announcement. Further details of certain items including reconciliations to IFRS information are included in the Interim Results Briefing Presentation of 26 February 2015.

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Key financials

$m	H1 FY15	Pro Forma H1 FY14	Variance	
			$m	%
Revenue	829.2	845.6	-16.4	-1.9%
Group EBITDA	171.0	188.7	-17.7	-9.4%
Net Profit after Tax[1]	88.8	95.2	-6.4	-6.7%
Operating Free Cash Flow	133.2	178.0	-44.8	-25.2%
Dividends per Share (Cents)	4.2	-	na	na
	31 Dec 2014	**Pro Forma 30 Jun 2014**		
Net Debt	490.5	537.3	-46.8	-8.7%
Net Leverage (X)	1.7X	1.7X		-

[1] Before a net after tax gain of $2.2m in relation to Specific Items (Pro Forma H1 FY14 net loss of $57.5m)

Revenue declined by 2% and Group EBITDA fell by 9% to $171.0m, while Net Profit after Tax declined by $6.4m to $88.8m compared to the H1 FY14 Pro Forma. This was in line with the guidance given at the Company's AGM in November 2014 of first half Net Profit after Tax in the range of $85m-$90m.

Pro Forma Operating Free Cash Flow of $133m was down $45m on the particularly strong prior corresponding period representing a conversion rate of 78%. On a full year basis, the Company continues to expect Operating Free Cash Flow Conversion in the range of 80-90%.

The 4.2 cent per share interim dividend is unfranked, and payable on 17 April 2015. The final dividend for the year is expected to be fully franked and bring the full year payout ratio within the Company's stated target range of 50-60%.

Net Debt at 31 December 2014 of $491m was $47m lower than at 30 June 2014. Net Leverage of 1.7X (unchanged from 30 June 2014) provides the Company with significant financial capacity.

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Nine Network

$m	H1 FY15	Pro Forma H1 FY14	Variance	
			$m	%
Revenue	645.5	649.6	-4.1	-0.6%
EBITDA	131.8	149.2	-17.4	-11.7%
Margin	20.4%	23.0%		- 2.6 pts

Nine Network reported a revenue decline of 0.6% for the period, a combination of the weak advertising market (down 3%) offset by improved share. EBITDA declined $17m reflecting softer revenues and costs weighted to the first half.

The Metro FTA advertising market continued the weaker trend of the June quarter, declining 3%[1] during the December half. The underlying trend reflected a modestly improving environment with the December quarter decline of just 1%, a solid recovery from the 5% decline in the first quarter. Regional markets were also soft with FTA advertising revenue down by 3%[1] on H1 FY14.

Nine Network's Metro FTA revenue share of 39.2%[1] over the half was up 0.5 percentage points on the prior corresponding period and continues a six year trend of positive share growth.

Nine remained Australia's most watched television network in the 2014 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.

Over the half, Nine Network's costs increased by $13.7m (2.9%), due primarily to key programming schedule changes when compared to the prior year including the impact of the earlier start to the International Cricket season.

[1] Source: Free TV data

[2] Source: OzTam, 6am-midnight, survey weeks, 1 January 2014 to 31 December 2014

Nine Live

$m	H1 FY15	H1 FY14	Variance	
			$m	%
Revenue	102.5	134.6	-32.1	-23.9%
EBITDA	36.0	40.1	-4.1	-10.2%
Margin	35.1%	29.8%		+5.3 pts

After a record H1 FY14, Nine Live reported an EBITDA decline of 10% to $36m on revenue which declined 24% on the prior corresponding period. Notwithstanding this softer start to the year, Nine Live expects to report EBITDA growth for the full FY15 year.

Ticketek Australia, which accounted for more than half of Nine Live's revenues, experienced lower ticket sales volumes for the half, partially offset by an increase in average revenue per ticket. The results were impacted by a softer line-up of touring artists and some weakness in ticket sales particularly in the first quarter when consumer sentiment was soft.

Allphones Arena reported a 4% decline in EBITDA for the half, after a particularly strong prior year, with total attendances down by c25%. A lower number of concerts during the period accounted for much of the decline.

The Nine Touring and Events business had a relatively quiet half which accounted for much of the overall Nine Live revenue decline. An improved line-up in H2 FY15, including the One Direction Stadium series, as well as Ricky Martin and The Veronicas, along with improving consumer sentiment is expected to underpin the full year result. The softer half from the Nine Touring and Events business, which operates at a markedly lower margin than the core ticketing business, was the main contributor to the improved overall Nine Live margin of 35.2%.

Nine Digital

$m	Underlying[1] Actual H1 FY15	Underlying[1] Actual H1 FY14	Underlying[1] Variance		Pro Forma[2] H1 FY14	Pro Forma[2] Variance
			$m	%		
Revenue	81.3	79.4	+1.9	+2.4%	61.4	+32.4%
EBITDA	10.8	13.7	-2.9	-21.2%	7.8	+38.5 %
Margin	13.3%	17.3%		- 4.0 pts	12.7%	+0.6 pts

[1] Underlying results reflect 100% of the revenue and earnings of Nine Digital in the respective periods

[2] Pro Forma results represent the expected baseline results of Nine Digital following changes in business operations effective during the 2014 calendar year, as reported in the prior year

Nine's Digital business recorded a 21% decline in EBITDA on an Underlying basis, but a 39% increase on the H1 FY14 Pro Forma result. On an Underlying basis, revenue losses from changes following the unwinding of the Microsoft relationship have been offset by a 15% lift in search revenues, a 33% increase in video revenues and higher third party display advertising revenues. The change in the mix of revenues – in particular a greater predominance of lower margin third party revenues – was the key driver of the decline in the overall EBITDA margin to 13.3%.

The business continued to benefit from Microsoft default traffic through to the end of the first quarter. The Underlying result for the half is not therefore fully representative of the go-forward full year run-rate baseline earnings. Prior to the benefit of new revenue and cost initiatives, the full year baseline run-rate (excluding the benefit of default traffic) remains in line with the Pro Forma $15.6m EBITBA previously guided.

The business remains focused on building new revenue streams such as Daily Mail Australia, cost management and the continued integration of Nine Digital into the broader NEC Group.

Balance sheet and cash flow

	H1 FY15	Pro Forma H1 FY14	Variance $m	Variance %
Operating Free Cash Flow ($m)	133.2	178.0	-44.8	-25.2%
Operating Free Cash Flow Conversion (%)	78%	94%		-16 pts
	31 Dec 2014	**30 Jun 2014**		
Net Debt ($m)	490.5	537.3	-46.8	-8.7%
Net Leverage (X)	1.7X	1.7X		-
Interest Cover (X)	12.2X	5.7X		+114%

Operating Free Cash Flow was down $45m on a particularly strong H1 FY14, with the current period impacted by year-on-year timing differences relating to local sporting rights and international content deals and advance payments for the Cricket World Cup, the impact of which will reverse in the second half. As a result, Operating Free Cash Flow Conversion declined 16 percentage points to 78%. On a full year basis, the Company continues to expect 80-90% Operating Free Cash Flow Conversion.

As at 31 December 2014, Net Debt of $491m represented conservative Net Leverage of 1.7X. With modest gearing, $235m of undrawn debt at period end and a c4 year average remaining tenure on its facilities, the Company retains significant financial flexibility. Following the June 2014 refinancing, the Company's net interest expense was reduced by over 50% to $14m, with Interest Cover for the half a healthy 12.2X.

Dividend

The Company will pay an unfranked interim dividend of 4.2 cents. The final dividend is expected to be fully franked and bring the full year payout ratio within the Company's stated target range of 50-60%.

On-market share buy-back

Given its sustained conservative leverage of 1.7X and its strong underlying cash flows, the Company has announced an on-market share buy-back of up to $150m to be completed over a 12 month period. This buy-back will enable the Company to enhance shareholder value through opportunistically acquiring shares. The Company does not consider that this buy-back will inhibit its strategic and financial flexibility. Net Leverage is expected to remain below c2.0X throughout the buy-back period.

Current trading environment and outlook

The state of the FTA advertising market and the Company's revenue share remain the most significant drivers of results. The Metro FTA advertising market has been difficult since April 2014, however the market has been on a progressively improving trend over the last half which looks set to continue into the current quarter. In this regard, Nine is on track to deliver 8-9% Metro FTA revenue growth this quarter, reflecting a combination of share gains and market growth. Visibility of the June quarter is limited, however given the soft prior corresponding period, expectations for market growth remain positive.

The Company re-affirms its previous guidance of full year EBITDA at least in line with the $311m reported last year and growth in Net Profit after Tax of approximately 10%.

Sydney, Australia
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APPENDIX

GLOSSARY

- 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
- Interest Cover – Group EBITDA divided by net interest expense for the period
- IPO - Initial Public Offering
- Metro – Sydney, Melbourne, Brisbane, Adelaide and Perth
- 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
- Operating Free Cash Flow Conversion – Operating Free Cash Flow divided by Group EBITDA
- Pro Forma – adjusted on a basis consistent with that reported in the prior period to reflect the impact of acquisitions, divestments and/or other transactions as if these had been effective for the whole reporting period, before Specific Items and after adjusting for standalone listed company costs
- Prospectus – as lodged with ASIC on 4 November 2013
- 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 Note 3(d) of the H1 FY15 Statutory Accounts
- Statutory Accounts – audited or auditor reviewed, consolidated financial statements
- Statutory Reported – extracted from the Statutory Accounts
- SVOD – Subscription Video On Demand
- Underlying – 100% of the earnings of Mi9 in the respective periods

Further details of the Company's results including reconciliations to IFRS information are included in the Interim Results Briefing Presentation of 26 February 2015.

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