Nine entertainment co.

# 2016

## Interim Results Briefing
## 25 February 2016

Hugh Marks CEO
Simon Kelly COO/CFO
Peter Wiltshire Chief Revenue Officer
Alex Parsons Chief Digital and Marketing Officer

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### Pro Forma Financial Information

The Company has set out in this presentation certain non-IFRS financial information, in addition to information regarding its IFRS statutory information.

The Company considers that this non-IFRS financial information is important to assist in evaluating the Company's performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendices of this presentation.

All dollar values are in Australian dollars (A$) unless otherwise stated.

## Key Financials

- Profit After Tax from Continuing businesses of $78.4m[1], down 1% on an earnings per share basis
- Double digit earnings growth in Digital
- Group costs down 5%[1]
- Strong cash flow and conversion
- Net cash on balance sheet
- 90% increase in interim dividend to 8 cents per share, fully franked
- Follow-up $150m buy-back announced

## Operational highlights

- #1 ratings share for the half across all key demographics, including All People
- Finalised NRL rights agreement through 2022
- Secured extension to affiliate deal on improved terms
- Well advanced in transformation of Digital business
- Launch of 9HD, 9Life and 9Now creating world class consumer options
- Stan performing ahead of business model
- Continuing focus on shareholder returns

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

[1] Pro Forma basis

# Solid result in challenging ad market

- Profit After Tax[2] of $80.0m, down from $88.8m
- Profit After Tax[1] from Continuing Businesses of $78.4m
- Operating results impacted by soft FTA advertising environment
- Lower costs across each of TV, Digital and Corporate
- Specific Items mainly relating to discontinued businesses, restructuring and non-cash impairment
- Operating Free Cash Flow[1] conversion of 87%
- Interim dividend of 8.0 cents per share, fully franked
- Net cash of $52m, despite buyback and dividends
- $38m of cash deployed to on-market share buy back during the half

| $m | H1 FY16 | H1 FY15 | Variance |
|---|---|---|---|
| Revenue[1] | 690.3 | 726.7 | -5.0% |
| Group EBITDA[1] | 127.9 | 135.0 | -5.3% |
| NPAT[1] (continuing businesses) | 78.4 | 83.5 | -6.1% |
| NPAT[2] (including Nine Live) | 80.0 | 88.8 | -9.9% |
| Statutory Net Profit | 320.8 | 91.0 | nm |
| Operating Free Cash Flow[1] | 110.9 | 100.7 | +10.1% |
| Operating Free Cash Flow Conversion[1] | 87% | 75% | +12 pts |
| Earnings per Share, before Specific Items – cents[1] | 8.8 | 8.9 | -1.1% |
| Dividend per Share - cents | 8.0 | 4.2 | +90.5% |
| **Reported, as at** | **31 Dec 2015** | **31 Dec 2014** | **Variance** |
| Net Cash / (Debt), $m | 52.5 | (490.5) | +$543m |
| Net Leverage | nm | 1.7X | nm |
| Interest Cover[2] | 43.1X | 12.2X | nm |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding. [1] Before Specific Items, Pro Forma, excluding Nine Live [2] Before Specific Items, includes Nine Live


# Specific Items

| $m | Reported H1 FY16 |
|---|---|
| **Inventory write-off** | **(12.1)** |
| **Non-cash impairment charge** | **(33.3)** |
| **Sale of Nine Live** | **410.2** |
| **Other** | **(9.4)** |
| **Total Specific Items** | **355.4** |
| **Tax impact of Specific Items** | **(114.6)** |
| **Net Specific Items** | **240.8** |

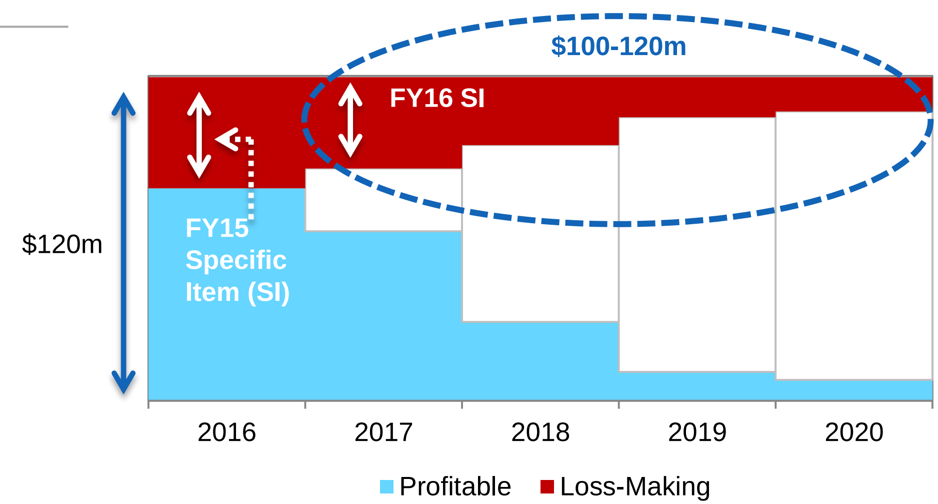
Relates to the provisioning for loss-making inventory under longer term international output deal

NBN reflecting regional market underperformance

Includes Daily Mail write-off and other restructuring costs

| Inventory write-off | H1 FY16 | Estimated FY16 |
|---|---|---|
| **Opening provision** | **41.7** | **41.7** |
| **Utilised** | **(22.3)** | **(43.0)** |
| **New** | **12.1** | **35.8** |
| **Closing provision** | **31.5** | **34.5** |

**Illustrative P&L profile of expiring international output deal**



# Divisionally – Digital outperforming

| Continuing businesses $m | | H1 FY16 | H1 FY15 | Variance |
|---|---|---|---|---|
| Revenue | Network | 610.7 | 645.5 | -5.4% |
| | Digital | 79.6 | 81.3 | -2.0% |
| Total Revenue | | 690.3 | 726.7 | -5.0% |
| EBITDA | Network | 120.5 | 131.8 | -8.6% |
| | Digital | 12.2 | 10.8 | +13.4% |
| | Corporate | (6.0) | (9.3) | -34.9% |
| EBITDA | | 126.6 | 133.3 | -5.0% |
| Share of Associates' NPAT | | 1.3 | 1.6 | -23.3% |
| Group EBITDA | | 127.9 | 134.9 | -5.2% |

Metro FTA market down 0.4%; regional market down 6.6%. Metro FTA share of 38.2%

Strong growth in video and search, offset by lower display revenues

Costs down 4.6%

Strong cost focus. Pcp benefitted from delayed Microsoft changes and HWW (sold in September 2014)

Reduced incentive payments and overall cost focus

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

# Focus on cash and capital management


| Continuing businesses | Pro Forma H1 FY16 | Pro Forma H1 FY15 | Variance |
|---|---|---|---|
| Operating Free Cash Flow, $m | 110.9 | 100.7 | +$10.2m |
| Operating Free Cash Flow Conversion | 87% | 75% | +12 pts |
| Capital Expenditure, $m | 20.2 | 11.4 | +$8.8m |

| As at | Reported 31 Dec 2015 | Reported 31 Dec 2014 | Variance |
|---|---|---|---|
| Net Cash/(Debt), $m | 52.5 | (490.5) | +$543.0m |

## Objectives

- Maintain an efficient, but conservative capital structure
- Retain balance sheet flexibility
- Operating Free Cash Flow Conversion of 80-90%
- 80-100% dividend payout ratio, fully franked

## Outcomes and Actions

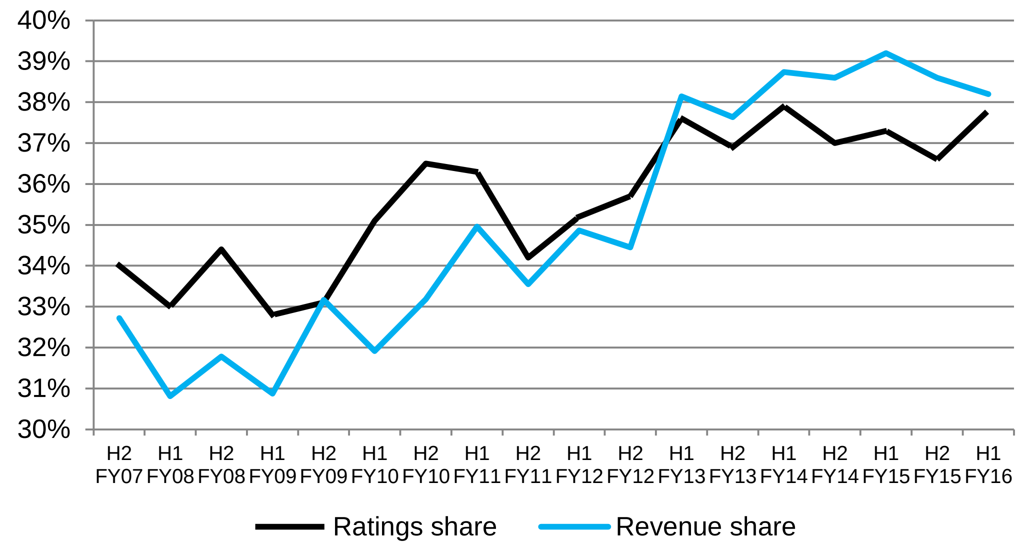
- Interim dividend of 8.0 cents per share, fully franked
- $100m of the initial on-market buy-back completed
- Second $150m on-market buy-back announced
- Willoughby land sale - $135m net proceeds to complete in October 2017
- Ongoing program of acquiring outstanding employee entitlements on-market to remove dilution impact

# Chief Revenue Officer
# Peter Wiltshire


# FTA – Embracing, and adapting to change

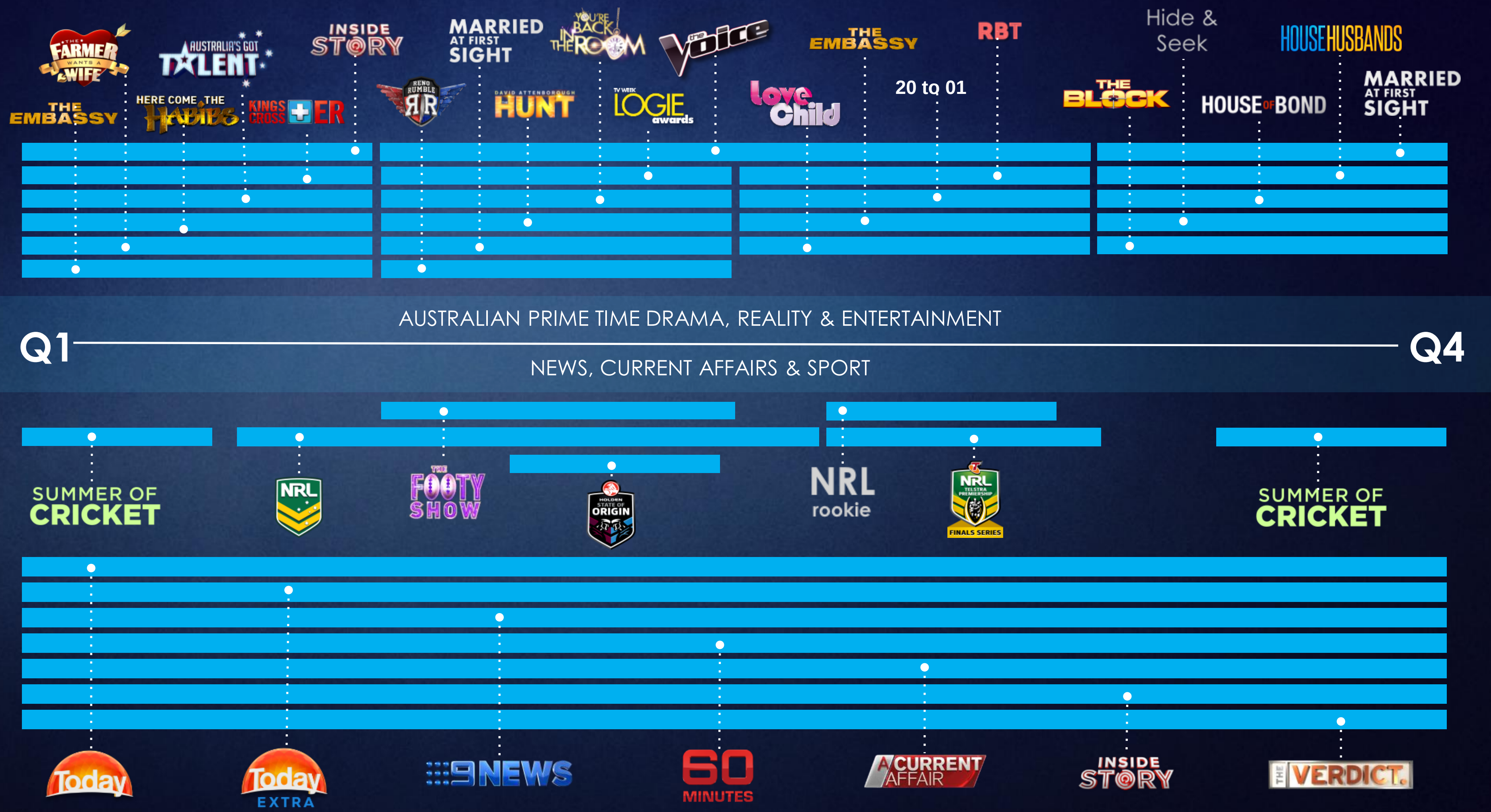

- FTA Metro ad market decline of 0.4%[1]
- FTA Regional ad market down 6.6%[1] across the six months
- Market leadership in all key advertising demographics[2]
  - #1 25-54
  - #1 16-39
  - #1 18-49
  - #1 All People
- FTA Metro advertising revenue share[1] of 38.2%
- Disappointing cricket season, with c1/3 of all days lost due to rain/short tests
- Longer term:
  - Agnostic approach to content platform
  - Innovation in audience measurement system
  - Ad sales integration complete
  - Trading automation development well progressed
  - Diversification of cross-platform content offering

**Nine's Metro Ratings[2] and Revenue[1] Share**




Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding. 1 Free TV data, 6 months to Dec 2015 2 OzTAM data. 6 months to Dec 2015, 6am-midnight,

# Calendar 2016 programming line-up

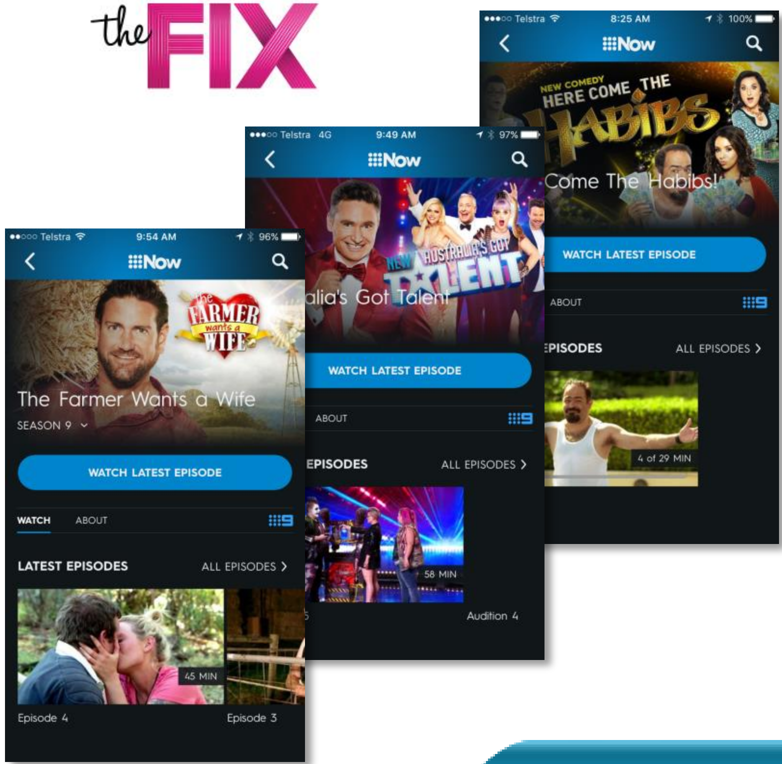


# *Chief Digital and Marketing Officer Alex Parsons*




## Strong operational performance from Digital

- Double digit earnings growth with strong margin improvement
- Australia's leading multi-medium new brand, 9News and an innovative News Alerts app
- The Fix, Coach and Honey #1 brands in their respective categories[1]
- Launched 9Now, a world class streaming and AVOD product, enabling all Australians to consume our content
- Launch of My9 data proposition supported by 9Now – almost 500k members in first four weeks
- 185m streams, or more than 1m streams each day for the half

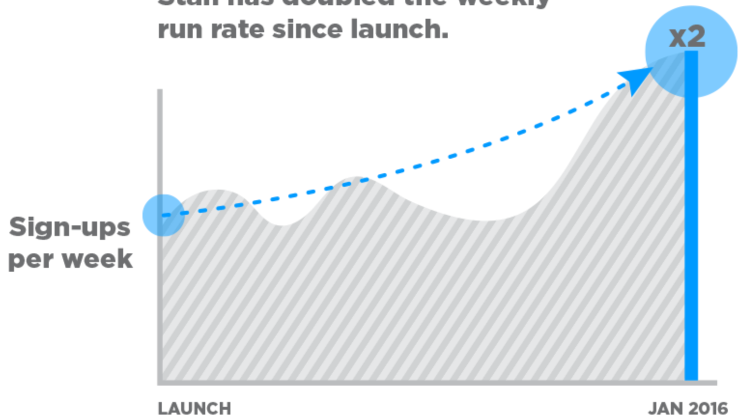



Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding. 1 Nielsen January 2016

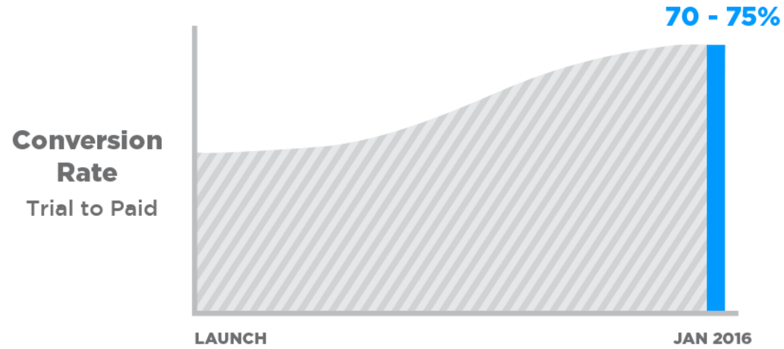
# Stan ahead of business plan

- Key milestones/achievements:
  - Signed up more than 700,000, approaching 400,000 active subs
  - Available on all major devices
- Leading line-up of first run, exclusive and original programming
- Highly differentiated content offering with long term exclusive rights to the world's best TV series and world class local productions
- Outlook:
  - Sign-up momentum continuing
  - Reach cash flow break-even during FY18

Stan has doubled the weekly run rate since launch.




Conversion rate has improved to a current level of 70 - 75%





Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

# Current trading and outlook

- Challenging Q3 market – very short and soft
- Metro FTA market expected to be flat to marginally down over FY16
- Regional markets expected to continue to under-perform, offset by enhanced affiliate agreement
- Competitive environment and timing of major events will impact on revenue share over H2
- Cost reduction initiatives in place to offset impact of weak revenue environment - FY16 FTA costs now expected to be down by c4%
- Strong content and cost performance from Digital with focus on increasing top line returns and monetising the newly launched 9Now

# Key strategic initiatives

## NEC Group core focus

- World class, New platforms
  - Streaming and AVOD service, 9Now
  - SVOD - Stan

- Broadening content
  - End of WB contract reducing inefficient content spend
  - Divert savings to higher performing local content
  - Focus on profitable content integration across TV and Digital
  - New channel – 9Life

- Grow other revenues
  - Own and control IP
  - Increase in-house production capabilities
  - Execute opportunities to monetise IP

- Maximising CPMs via
  - Technological change – automated trading
  - Utilisation of data creates targeting opportunities

- Ongoing cost focus
  - Both NEC specific and industry-wide opportunities

## Regulatory opportunities

- Potential for regulatory change to impact on licence fees
- Reach rule/affiliate returns

## Capital Management

- $100m of $150m buy-back completed
- Second $150m buy-back announced
- Payout ratio of 80 - 100%, fully franked
- Sale of Willoughby site to complete August 2017

## Corporate

- Assessment of any strategic/parallel investment opportunities

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

Nine entertainment co.


# Appendices


- Appendix 1: Adjustment for discontinued businesses
- Appendix 2: Divisionals
- Appendix 3: Cash flow
- Appendix 4: Cash flow reconciliation
- Appendix 5: Debt and leverage calculations
- Appendix 6: Glossary


# Appendix 1: Adjustment for discontinued businesses

| $m | Reported H1 FY16 | Less discontinued businesses | Pro Forma H1 FY16 | Reported H1 FY15 | Less discontinued businesses | Pro Forma H1 FY15 | Pro Forma Variance |
|---|---|---|---|---|---|---|---|
| Revenue | 747.4 | 57.1 | 690.3 | 829.2 | 102.5 | 726.7 | -5.0% |
| Group EBITDA | 135.5 | 7.7 | 127.9 | 171.0 | 36.0 | 135.0 | -5.3% |
| Net Interest[1] | (3.1) | (2.2) | (0.9) | (14.0) | (13.3) | (0.7) | +21.8% |
| NPAT, before Specific Items | 80.0 | 1.6 | 78.4 | 88.8 | 5.3 | 83.5 | -6.1% |
| Operating Free Cash Flow | 115.7 | 4.8 | 110.9 | 133.2 | 32.5 | 100.7 | +10.1% |
| Capital Expenditure and Purchased Ticketing Rights | (31.5) | (11.3) | (20.2) | (26.0) | (14.6) | (11.4) | +76.8% |
| Operating Free Cash Flow, after Capital Expenditure and Purchased Ticketing Rights | 84.2 | (6.5) | 90.7 | 107.2 | 17.9 | 89.3 | +1.6% |
| Net Cash | 52.5 | na | 52.5 | (490.5) | na | na | na |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding. [1] Pro Forma assumes new capital structure in place for full period

# Appendix 2: Divisionals

| $m | | H1 FY16 | H1 FY15 | Variance |
|---|---|---|---|---|
| **Revenue** | **Network** | **610.7** | **645.5** | **-5.4%** |
| | **Digital** | **79.6** | **81.3** | **-2.0%** |
| | **Live** | **57.1** | **102.5** | **-44.3%** |
| **Total Revenue** | | **747.4** | **829.2** | **-9.9%** |
| **Total Revenue, ex discontinued businesses** | | **690.3** | **726.7** | **-5.0%** |
| **EBITDA** | **Network** | **120.5** | **131.8** | **-8.6%** |
| | **Digital** | **12.2** | **10.8** | **+13.4%** |
| | **Corporate** | **(6.0)** | **(9.3)** | **-34.9%** |
| | **Live** | **7.7** | **36.0** | **-78.7%** |
| **EBITDA** | | **134.3** | **169.3** | **-20.7%** |
| **EBITDA, ex discontinued businesses** | | **126.6** | **133.3** | **-5.0%** |
| **Share of Associates' NPAT** | | **1.3** | **1.6** | **-23.3%** |
| **Group EBITDA** | | **135.5** | **171.0** | **-20.7%** |
| **Group EBITDA, ex discontinued businesses** | | **127.9** | **134.9** | **-5.2%** |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

# Appendix 3: Cash flow


| $m | Reported H1 FY16 | Less discontinued businesses | Pro Forma H1 FY16 | Reported H1 FY15 | Less discontinued businesses | Pro Forma H1 FY15 | Variance |
|---|---|---|---|---|---|---|---|
| **EBITDA** | **134.3** | **7.7** | **126.6** | **169.3** | **36.0** | **133.3** | **-6.7** |
| **Change in working capital** | **(20.1)** | **(2.9)** | **(17.2)** | **(37.5)** | **(3.6)** | **(33.9)** | **+16.7** |
| **Distributions from Associates** | **1.5** | **0.0** | **1.5** | **1.3** | **-** | **1.3** | **+0.2** |
| **Operating Free Cash Flow** | **115.7** | **4.8** | **110.9** | **133.2** | **32.5** | **100.7** | **-10.2** |
| **Capital Expenditure and Purchased Ticketing Rights** | **(31.5)** | **(11.3)** | **(20.2)** | **(26.0)** | **(14.6)** | **(11.4)** | **-8.8** |
| **Operating Free Cash Flow, after Capital Expenditure and Purchased Ticketing Rights** | **84.2** | **(6.5)** | **90.7** | **107.2** | **17.9** | **89.3** | **+1.4** |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

# Appendix 4: Cash flow reconciliation

| $m | Reported H1 FY16 | Adjust for Discontinued businesses | Pro Forma H1 FY16 | Reported H1 FY15 | Adjust for Discontinued businesses | Pro Forma H1 FY15 |
|---|---|---|---|---|---|---|
| Statutory cashflows from operating activities | 66.5 | 1.1 | 65.3 | 133.1 | 40.4 | 92.7 |
| Statutory interest received | (1.1) | (0.1) | (0.9) | (2.3) | (0.8) | (1.5) |
| Statutory interest and other costs of finance paid | 12.0 | - | 12.0 | 4.4 | - | 4.4 |
| Statutory income tax | 10.4 | - | 10.4 | 4.3 | - | 4.3 |
| Statutory Free Cash Flow | 87.7 | 1.0 | 86.8 | 139.5 | 39.6 | 99.9 |
| Cash held on trust | 3.8 | 3.8 | - | (7.1) | (7.1) | - |
| Specific Items and other adjustments | 1.9 | - | 1.9 | 0.8 | - | 0.8 |
| Cash impact of stock provisions | 22.3 | - | 22.3 | - | - | - |
| Operating Free Cash Flow | 115.7 | 4.8 | 110.9 | 133.2 | 32.5 | 100.7 |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

## Appendix 5: Debt and leverage calculations


| As at, $m | Actual 31 Dec 2015 | Actual 31 Dec 2014 | Actual Dec-Dec Variance |
|---|---|---|---|
| Interest bearing loans and borrowings | (0.1) | (585.0)[1] | -584.9 |
| Less: Cash and cash equivalents | 52.6 | 241.6 | -189.0 |
| Plus: Cash held on trust | - | (133.6) | -133.6 |
| Plus: Deferred payment related to Mi9 | - | (13.6) | -13.6 |
| Net Cash/(Debt) | 52.5 | (490.5) | +543.0 |
| Net Leverage | nm | 1.7X | nm |

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.

1 includes unamortised financing costs of $5.0m

# Appendix 6: Glossary


- Continuing Businesses – Excludes the operations of Nine Live
- Contra – Advertising time offered in lieu of cash payment
- Discontinued business – Nine Live
- 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
- H1 – six months to 31 December
- Interest Cover – Group EBITDA divided by net interest expense for the period
- 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)
- nm – not meaningful
- Net Profit after Tax (NPAT) – net profit after tax, before Specific Items
- Operating Free 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
- 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 assuming the new capital structure in place for the full period
- Purchased Ticketing Rights – the amount paid to venue owners or promoters to secure exclusive ticketing rights (relates to Nine Live only)
- 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 Net Profit – Net Profit for the period before other comprehensive loss
- Statutory Reported – extracted from the Statutory Accounts
- SVOD – Subscription Video On Demand

Refer to glossary in Appendix 4 for definitions of all capitalised terms. Totals may not add due to rounding.


HOUSE HUSBANDS
HERE COME THE HABIBS
AUSTRALIA'S GOT TALENT
CRICKET AUSTRALIA
RENO RUMBLE
NRL FOOTY FINALS
the BIG BANG theory
A CURRENT AFFAIR
ALL NEW INSIDE STORY
THE BLOCK
THE FOLLOWING
RBT
NEW SEASON loveChild
RENO RUMBLE
9NEWS NIGHTLY 6.00
the FARMER wants a WIFE
STATE OF ORIGIN
THE BLOCK
60 MINUTES
the Voice
Today EXTRA
SUMMER OF CRICKET
9HD
Gem
Go!
Life
Now
msn
9NEWS .com.au
LIFESTYLE
ninemsn COACH
Stan.
the FIX
homes
skype
ninemsn honey
YOUR FASHION AND BEAUTY CONFIDANT
ninemsn Pickle.
travel
homes
bing ads
ninemsn food
ninemsn
Outlook.com
skype
the FIX
ninemsn travel
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