2020 ANNUAL GENERAL MEETING
Chairman's Address – Mr Peter Costello, AC
12 November 2020

2020 was an extremely difficult year for Australian business. The global economy went into reverse and Australia moved into recession for the first time in 30 years. The magnitude of the domestic downturn was sharp and steep as much of the economy was closed by Government in response to the pandemic. In the second half of the financial year, large parts of the Australian population were in lockdown. Media companies began shedding staff and closing publications. The ASX 200 index fell by over a third from peak-to-trough.

We will long remember the COVID-19 pandemic of 2020, its impact on our way of life, and the downturn in the economy it caused. This severe downturn dramatically affected advertising revenue. Whilst Nine has growing subscription businesses in Stan and Publishing, the majority of our revenue still comes from advertising through Free to Air television, broadcast video-on-demand and publishing. In 2020, our ratings and audiences were up across all our platforms, but overall advertising dollars were down as companies cut their advertising budgets in response to the downturn.

Given the circumstances, the outcome for the year with EBITDA pre-Specific Items and post AASB16 of close to $400 million, was a very pleasing result. It compares extremely well with our domestic competitors.

What this period has demonstrated is the benefit of diversity, the diversity we have been developing in our business over the past few years. Previous decisions to develop sources of revenue outside advertising have proven their worth in this economic downturn. We launched Stan when Subscription Video On-Demand did not exist in Australia. Our focus on reader revenue in Publishing has been successful and is gathering momentum. Our growing subscription-based business helped us, and together with advertising on platforms that are structurally in growth, we weathered the storm.

As a result, we are now exceptionally well-placed as we emerge from this period a stronger and more-focused company. We will continue to shift more of our business to a digital platform. At the same time, we have been improving the relative operating performance of our traditional media segments. Across almost all our operating platforms, we have gained audience and revenue share. And we have been able to bring forward years of planned cost reduction.

Underlying trends in the industry, which we anticipated and prepared for, continue to gather pace. Increased audiences in streaming and the migration to digital across both our Broadcast and Publishing businesses, stand us in good stead for the future. We are confident that Nine will continue to occupy a place at the forefront of the Australian media landscape as we move post-2020.

The challenges of the recent period also crystallised the need to deal with some long-term issues which were threatening our competitiveness. The first was sports rights. There has been a tendency in Australia to think that the value of sports rights will always, and invariably, increase. In fact, the challenges of the COVID environment showed that, in some circumstances, that value has declined. We were forced to address this co-operatively with the NRL during the year. We have realigned values in a way that is fair, both to the sport and the broadcaster.

The other great challenge in this industry is the market power of the global digital platforms, like Facebook and Google. They are not subject to the content rules that apply to Free to Air broadcasters in the Australian market. They make very little Australian content and contribute very little to Australian employment. Nonetheless, they are able to use the premium content we produce to attract audiences in the Australian market. We have consistently invested in premium content – in FY20 as much as $1 billion across our business. The large global companies use this content to generate revenue and build their platforms, but they do not pay for it at a rate that fairly shares the cost of making it or fairly shares the value they get from it. We cannot be expected to bear all the cost when it is being monetised by others. If we are not adequately compensated, simply, it will become uncommercial to make all the premium content we now make.

This outcome would not worry Facebook or Google since it would not affect their global businesses in any significant way. But it will affect Australian creators, Australian consumers, and Australian culture.

We know these companies have enormous market power and enjoy significant regulatory benefits including tax advantages that Australian companies do not. So we are pleased the Government has recognised this problem and supports moves to address it. In July 2020, the ACCC released its draft mandatory code designed to facilitate fair bargaining between Facebook, Google and media businesses, over the use of their news content. Of course, the final detail will be important, but we commend the ACCC on its work and the Government for its firm position on this issue – also supported by the Opposition. Local Australian production will benefit, but we believe the ultimate beneficiaries from this will be Australian consumers.

Across the year, we paid dividends of 7c per share, fully franked. This equates to a payout ratio of just over 80% of Net Profit after Tax, before Specific Items. We are committed to paying franked dividends to our shareholders and intend to maintain a payout ratio of 60-80% through the cycle.

I would like to acknowledge the tireless leadership and dedication of our whole team led by CEO, Hugh Marks. Over the past five years, Nine has transitioned from a Free to Air television network to a diversified, and increasingly digitized, content company without parallel in the local market. This transition will benefit our shareholders into the future. Hugh has a strong and stable team around him, who have helped to shape the Company to the business it is today.

We have also had comforting stability on our Board throughout the year. All our Directors have remained committed and focused and they continue to contribute in their individual ways. I want to thank them for their efforts. We have a broad diversity of skills and experience across the Board, which overall has been a great support to the management team throughout this testing period.

Through the crisis, and as we come out the other side, our focus on the business is unrelenting. Notwithstanding the unprecedented conditions, we have continued to improve the relative performance of the traditional businesses, we have contained costs, and we have delivered on our longer-term goal of diversifying our revenue streams with new and growing digital assets.

2020 ANNUAL GENERAL MEETING
Chief Executive Officer's Address – Mr Hugh Marks
12 November 2020

Let's first look at our FY20 result, which was complicated by accounting changes, the impact of the merger with Fairfax on the pcp and of course, it was also complicated by the impact of COVID 19 across all of our businesses. Notwithstanding, we were pleased with what we achieved across the year.

For the year to June 2020, Nine reported Group revenues of $2.2b, down 7% on pcp and Group EBITDA of $397m, which on a like-for-like basis, was down 16% on pcp. Group Net Profit after Tax, pre Specific items, was $141m for the year, which was down 16% on FY19, on a like-for-like basis. We reported a Specific Item cost of ~$700m pre-tax - the most significant component being the $591m impairment of intangibles, which included a goodwill write-down of around $300m relating to Nine's Free to Air business and as well as a $188m impairment relating to Domain intangibles.

On the screen, you will see the performance of the various parts of our business and the obvious benefits of our portfolio of assets. What you will see is that some businesses have thrived through the COVID period, particularly our subscription-based businesses, whilst others were negatively impacted by the short-term weakness in the ad market. And reflecting these different business dynamics, whilst we have cut significant costs from our business overall, we have continued to invest in those areas that are in structural growth. Specifically in Stan and 9Now, where revenue growth has continued throughout this period, and for which we see significant future potential.

Looking at the composition in a little more detail. Nine reported Broadcasting EBITDA of $197m. This includes the Nine Television business, 9Now and Nine Radio.

TV EBITDA of $138m reflected a COVID-affected Metro TV market which declined by 14% across the year. Nine's share of Metro revenues for the year was just shy of 40%, including a 20-year high in the second half of 41.4%. This reflected Nine's strong relative ratings performance, particularly main channel, prime time - where more than 70% of our FTA ad revenues are generated. FTA costs were 6% lower, reflecting the interrupted NRL season as well as Nine's broad focus on costs across the year.

Partially offsetting the decline in FTA, was the 36% EBITDA growth at 9Now. The Broadcast Video On Demand market grew strongly across the year, up 31%. Strong growth in users and engagement resulted in Nine attracting nearly half of those revenues. At almost $50m, 9Now is a key contributor to Group EBITDA.

The results from Nine Radio were disappointing, with the 78% decline in EBITDA highlighting the issues Macquarie was facing. What is pleasing however, is the clear growth in share we have seen over the past couple of months, as the restructuring we have implemented begins to impact.

Digital & Publishing includes the results of Metro Media as well as Nine Digital Publishing. Across the year, Nine reported 7% growth in Digital mast-head revenue – with growth across both subscription and advertising. This went part of the way to offsetting the decline in print with the very soft print ad market masking Nine's share growth.

Together with retail sales and our masthead events, what we refer to as Reader Revenue, this now accounts for almost 60c in every $1 of revenue. A creditable transition from a business which relied on advertising for 80% of its revenues ten years ago.

Like-for-like costs declined by $20m, of which $17m related to Production and Distribution, while investment in editorial actually continued to increase at the margin. In total, Metro Media reported EBITDA of $88m.

Stan has had another breakout year. With continued substantial growth in all key indicators. Active subscribers of more than 2.2m and 20%-plus growth in viewing per subscriber highlighting increased subscriber engagement. And all of these stats were achieved notwithstanding the increasingly competitive environment.

Stan's leverage to subscriber growth is again evident with revenue growth of 54% - well in excess of costs, which grew by 19%. This led to a significant improvement in operating performance, with an EBITDA delta of more than $50m.

After a stronger start to calendar 2020, the challenges relating to COVID-19 heavily impacted on the property market and Domain through the fourth quarter. Notwithstanding an overall listing market that was down in the double-digits, Domain benefitted from its newly introduced pricing model, increased depth penetration and ongoing cost focus.

Across the year, profit from our digital businesses – so that's 9Now, 9Digital and Stan as well as the Digital components of Metro Media and Domain, contributed almost HALF of total Group EBITDA, which equates to growth in total Digital EBITDA of 40% or around $47m. And that's in a period when Domain, one of our core Digital assets, has encountered significant market-related head-winds, with EBITDA declining by $19m. Ex Domain, Nine's wholly-owned digital assets together almost doubled in EBITDA across the year to $112m.

This is a clear vindication of the strategy we laid out around 4 years ago, to build a digital media business of the future, investing in Stan and 9Now, as well as 9Galaxy, and that we furthered with the merger with Fairfax late in 2018. We are well placed to accelerate this strategy as we move through the next horizon.

So that's FY20 – a tough year but one that has forced us to double down on the long-term transformation of Nine. We had strong operating cash flows and we finished the year with wholly owned leverage of less than 1X, giving us plenty of liquidity head-room.

Moving now to current trading and although it is only three months since we last updated you on trading conditions, the underlying ad market has markedly improved since our August update.

At the August result, we commented that we expected Q1 FTA revenue to be down around 15%, an estimate which proved broadly correct.

However, since the end of September, the FTA advertising market and Nine's share of that market, have both improved significantly, and with the added benefit of major event timing (State of Origin and NRL Finals), Nine's December quarter is now expected to show growth in Metro FTA advertising revenue of around 15%.

Meaning that we now expect Nine's:

- Metro TV ad revenues in the December half to be broadly flat on the prior period, and
- 9Now revenues in the December half to be up around 25% on the prior period.

First half FTA costs will be down in the double digits. We do expect second half FTA costs to increase on last year's as a result of the return of the NRL, which was absent through the second half of FY20, as well as some reinvestment in content to support the continued recovery of advertising markets. Overall, we are expecting full year Free To Air costs to be down around 4% on FY20, prior to any revenue-related costs.

As Domain disclosed at their AGM earlier this week, trading for the first four months of FY21 has improved on late FY20, despite the lockdown in Melbourne. Digital revenue for the period to 31 October is up by around 4%, with total revenue down 7%. For the first half, costs are expected to be down by 12%, albeit much of this decline due to JobKeeper and the Group's temporary salary reduction in return for shares program.

The trends for Nine's other businesses, cited at the FY20 result, remain.

As a result, at this stage, Nine's first half EBITDA, before Specific Items, is currently expected to be up by around 30%, compared to $251m on a post AASB 16, pre Specific Items basis for continuing businesses, in the previous corresponding period.

We are certainly trading more positively than we would have anticipated just three months ago and are very pleased with the operating performance and trends in each of our business units. Despite this, given our limited visibility on the second half advertising market, we do not believe we are in a position to provide guidance on earnings for the full year. We expect to be in a better position to address this at our half year results in February.

Much has been achieved at Nine over the past 5 years. In short, we have launched two market-leading and profitable Video On Demand platforms, with the technology and partnerships to ensure we can monetise them, and we have completed the largest media merger of our times, and the associated structural and cultural integration. Our focus now is on optimizing the performance of our unique suite of assets, primarily through the accelerated migration to digital audiences, and the utilization of our data assets, whilst continuing to invest in future growth opportunities.

What we have now should not be under-estimated. Our television business spans both free – through the Nine Network and broadcast video on demand through 9Now; and subscription through Stan. Not only does this mean that we have multiple routes to video audiences, but it also enables us to think differently about the content we pursue. We can now focus on making content decisions for the benefit of all of our television platforms, and optimizing the value of that audience to the most desirable platform. A significant shift in how we assess our content investments. This enables Nine to benefit from both continued growth in television consumption as well as the shifts in viewer behavior.

Our recent foray into Rugby Union is perhaps the best example of the latter. Through its relationship with Nine, Rugby Union has secured television coverage for all of its matches - providing Rugby Australia with important Free To Air coverage of a range of its key games and increasing the profile of Rugby Union in Australia. Of course, as the broadcaster, Nine will also support the game through the news and other content, using the strength of all of our assets to promote the sport. This is effectively a `service' that only Free To Air can provide. For Nine, it means we can address a valuable and passionate sports audience through Stan's entry into the sports subscription market, providing us unique optionality as the content market continues to evolve over the next decade, an option we could not have pursued a couple of years ago. We expect Stan Sport to be a valuable addition to our broader television business as we continue to evolve into the future.

This also helps to explain our enthusiasm for our classified or marketplace business, with Domain and Drive. Not only are we believers in the segment, but we are believers in the value of the unique relationship between these businesses and the Nine Network.

The other arm of our business is Publishing, primarily our Metro Media business, which is becoming increasingly digital and is not far from the tipping point where digital will outweigh print. Already reader-based revenue, which is pretty much everything ex advertising, accounts for 60% of the total and is eminently more defensible, and stable.

Resolution of Nine's relationship with the global digital platforms is a key part of this equation. We are grateful that the ACCC and Government have finally recognised the significant imbalances that have formed over the years between the publishers and the digital platforms, and were prepared to take action. We are feeling increasingly positive about the potential outcome and encourage the Government to continue to act decisively and proactively to deliver the much-needed reform in a timely manner.

Our opportunities in the short term are primarily operational – optimization of the unique suite of assets we have pulled together and exploitation of our strong market positions.

We have made much progress already, but there is more to do. Firstly, we aim to reduce the cost base of our legacy Broadcast and Publishing assets by around $230m, ensuring they are fit for purpose. We now have a detailed blue-print to reach this target by 2024. Already, we have initiatives in place that will deliver around 80% of this cost out target;

Secondly, through growth in our digital assets, we aim to source at least 60% of our Group EBITDA from digital sources - Stan, 9Now, as well as the digital components of Domain and Publishing. With the recovery in Free to Air markets occurring more quickly and steeply than we previously expected, it is possible this will retrace somewhat in the current year from the near 50% we reported in FY20. However, this longer term goal remains intact;

Thirdly, we expect more than 35% of Group revenues will come from subscription - Stan, and parts of Domain and Publishing, thereby reducing our exposure to advertising markets;

And finally, we are targeting around 30% of Group revenues from VOD. So that's SVOD through Stan, already a $1.5b market, and BVOD through 9Now, which at this stage is a relatively small subset of the broader $1.2b digital video market.

Nine is in a unique, and incredibly exciting position. We own leading assets across linear television, digital, print and radio. Platforms, data and technology that can enable us to distribute messages to mass audiences as well as to small but highly valuable, addressable audiences. We have the systems to ensure seamless and efficient delivery for advertisers and we have the balance sheet to invest in the content that works for Australians. Moreover, in my mind, we have the best team in the business to deliver long term profit growth for all of our shareholders.

This announcement was authorised for lodgment by the Company Secretary of NEC.

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