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The future is digital for Nine Entertainment

Company/ASX Code	Nine Entertainment Co. Holdings Limited/NEC
AGM date	Thursday 11 November 2021
Time and location	10 am online only at https://agmlive.link/NEC21
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Don Adams assisted by Ben Ferry
Pre AGM Meeting?	Yes with Chair Peter Costello and Nola Hodgson, Head of Investor Relations

The individual (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Nine had a relatively quiet year in FY2021. The major developments were the appointment of a new CEO, Mike Sneesby, to replace Hugh Marks and continued and added emphasis on a digital strategy.

Item 1	**Financial Reports**
ASA Vote	No vote required

Financial performance

It was a good year for Nine Entertainment Co. Revenue was up by 8% and UPAT (before minorities and specific items) increased by 76%. The major changes of prior years – the Fairfax merger, new offices and the consolidation of the radio business – have settled into place. What continues to stand out, however, is the growth rates of the digital versus non-digital businesses.

Shareholder returns were excellent with a TSR of 116% and a dividend increase to 10.5 cents per share.

The table below shows revenue results by lines of business. Free to Air television, the largest business, had quite strong growth however there was an impact from COVID with low advertising sales in the back end of FY20. Nine continues to lead in ratings across all demographics with an overall share of 37.9% of commercial television audiences.

9Now is growing strongly since advertisers like the technology that allows them to target specific audiences. Live streams growth outpaced catch-up streams across the year. Radio revenue fell and this is largely due to COVID. Small and local businesses advertise on radio, and these were particularly hit by lockdowns.

Metro Media's (former Fairfax papers) revenue decline was primarily due to print with falls in both retail and advertising. Print subscriptions were flat, but digital subscriptions produced total subscription growth of 12%. Digital advertising was up 11%.

Stan grew 29%, partially assisted by COVID lockdowns and also by the introduction of Stan SPORT for an additional fee. Stan is producing some program material and earned, as a start, revenue of $0.5m from program sales. This content (Stan Originals) is expected to increase in future years, with increasing collaboration with international production houses. Learnings from the Stan platform are also being introduced in to the 9Now platform and improving usability and customer experience.

Business	FY2021 Revenue $m	% inc. vs FY2020	% of Total Revenue
Free to Air Television	1,045	10%	45%
9Now BVOD	107	46%	5%
Radio	91	(11)%	4%
Metro Media	402	(6)%	17%
Domain Group	287	7%	12%
Stan	312	29%	13%
Other	104		4%
Total	2,348	8%	100%

The key conclusion is that growth for NEC will be in digital distribution – 9Now, Stan, digital newspapers in Metro Media – and they have embraced this as a strategic imperative. As we note below, all executives participating in the FY 2022 LTI plan will have a digital transformation strategic objective.

NEC has recent agreements with Facebook and Google under which these networks will pay NEC for news and other content provided by Nine. This is expected to add $30-40m in revenue this year with little additional expense.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT ($m)	184.0	(573.9)	233.9	209.7	(203.4)
UPAT ($m)	277.5	157.7	187.1	156.7	123.6
Share price ($)	2.91	1.38	1.88	2.48	1.38
Dividend (cents)	10.5	7	10	10	9.5
TSR (%)	116%	(21%)	(20%)	87%	40%
EPS (cents)	15	8	13	18	14
CEO total remuneration, actual ($m)	0.870*	2.161	4.958	5.023	2.775

*Mr Sneesby was appointed CEO on 1 April 2021 and was paid CEO-level salary for only three months of FY2021. He was previously CEO of Stan and not classified as KMP, so this reported actual remuneration does not include his remuneration for the first nine months of FY2021.

Key Events

At the AGM in November 2020 shareholders approved higher levels of performance rights for Hugh Marks to align with his recently increased base remuneration. The next day he announced his resignation to much surprise. Nine conducted a search and eventually appointed Mike Sneesby, former CEO of Stan, as CEO on 1 April 2021. We have been told that there is strong management existing at Stan to maintain the momentum that the business has developed.

Nine Television entered an affiliation agreement with WIN Corporation in March 2021 replacing a previous agreement with Southern Cross Media Group. While WIN has a slightly larger reach than Southern Cross it is not expected that the revenue to Nine (50% of regional advertising revenue) will grow materially.

Nine has acted to protect their staff from COVID. They offer on-site testing (PCR and rapid) and have made vaccinations mandatory for staff who enter their premises. Two subsidiaries (Pedestrian and Domain) received about $6m in Jobkeeper payments, but these have been repaid to the Commonwealth.

Governance

The Board is well structured. It has a majority of independent directors and a good coverage of skills. This year, for the first time, NEC published a board skills matrix.

The CEO of WIN, Andrew Lancaster, has been appointed to the NEC Board and is up for election at this AGM. WIN is the largest shareholder in NEC (15%) and has been pushing for a Board seat for some time. Now that they are an affiliate, and no longer a competitor, it was appropriate to make such an appointment. He replaces Patrick Allaway who has resigned.

NEC has strong targets for gender diversity (30% for directors, 40% for senior executives and management) and these are met. In other diversity measures they have 40% of staff born overseas, and they are particularly proud of indigenous representation in on-air talent. Pages 24 to 26 of the Annual Report describe their diversity policy and actions in some detail.

Due to the nature of their business sustainability and modern slavery are not key issues. Since 2019 with the consolidation of offices in the new, green building in North Sydney they have halved electricity consumption.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

The remuneration structure is described in the Appendix. The Remuneration Report is clear and comprehensive, but the policy does not meet ASA standards in two ways. First, we prefer that at least 50% of STI be deferred equity, NEC only defers 33%. Second, we prefer that the vesting period for LTI be longer than the three years that NEC uses. Nevertheless, we will vote to adopt the report since we have supported it in the past.

Item 3	**Re-election of Catherine West as a Director**
ASA Vote	**For**

Catherine West was appointed to the Board in May 2016 and is an independent director. She is Chair of the People & Remuneration Committee and of the Audit & Risk Management Committee.

Ms West has strong experience in business and legal affairs in the media industry. She sits on three other ASX boards and is involved with community affairs. The Notice of Meeting lists the skills that she brings to the Board from the Board Skills Matrix. This is good practice, and it makes it easy to support her election.

Item 4	**Election of Andrew Lancaster as a Director**
ASA Vote	**For**

Mr Lancaster joined the Board in April 2021 as CEO of WIN, as mentioned above. He is not an independent director since WIN is a large shareholder. The Notice of Meeting describes his skills and experience, including 27 years in the media sector. The NOM also lists his skills from the Board Skills Matrix. We support his election.

Item 5	**Approval of LTI grant to CEO/Managing Director Michael Sneesby**
ASA Vote	**For**

This motion is to award 261,038 performance rights to the new CEO for the FY2021 LTI plan. This award has a notional value of $437,500 which is one quarter of the LTI of $1,750,000 since he was CEO for only 25% of the year. Shareholder approval is required for this grant under ASX Listing Rules since Mr Sneesby is a director of NEC. The actual value that Mr Sneesby will receive for these rights will depend on the number vested in 2023 under the LTI plan and the price of NEC shares at that time. Vesting conditions are described in the Appendix.

We support this motion since it is a routine application of the remuneration policy.

Appendix 1
Remuneration framework detail

CEO rem. Framework FY 2022	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.400	31%	1.400	29%
STI - Cash	0.938	21%	1.173	24%
STI - Equity	0.462	10%	0.577	12%
LTI	1.750	38%	1.750	35%
Total	4.550	100%	4.900	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Mr Sneesby's remuneration has the same structure as Mr Marks, the previous CEO, however with a lower Fixed Remuneration. For the three months he was CEO in FY 2021 he received $345k in Fixed Remuneration and an STI award of 115% of base. He received no LTI since he held no performance rights which vested at the end of FY2021.

STI is at a target level of 100% of base for the CEO and 50% for the other KMP. It was awarded based 50% on an EBIT target and 50% on achieving individual objectives.In FY2022 the EBIT target will be changed to a target for EBITDA since the Board feels that provides a more direct measure.

67% of STI is paid in cash, with the rest being paid in equity deferred for one and two years equally. i.e., 16.5% each year.

The LTI opportunity is 125% of base for the CEO and 50% for the other KMP. The CEO's vesting in 2023 will depend 50% on relative TSR, 50% on compound growth in EPS and 25% on strategic digital transformation targets.

The Remuneration Report (page 52 of the Annual Report) is very clear, contains explanations of actual compensation, values performance rights at market value and generally meets ASA objectives except for the two features noted under Item 2 above.