

Another one bites the dust

Company/ASX Code	Nine Entertainment Co. Holdings Limited/NEC
AGM time and date	10am AEDT Thursday, 7 November 2024
Location	1 Denison St, North Sydney NSW
Registry	Link Market Services
Type of meeting	Hybrid https://meetings.linkgroup.com/NEC24
Monitor	Don Adams
Pre-AGM Meeting	Yes, with Catherine West (Chair) and Nola Hodgson (Investor Relations)

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Non Binding Resolution to adopt the Remuneration Report	For
2	Re-election of Ms Catherine West as a Director	For
3	Re-election of Mr Andrew Lancaster as a Director	For

2. Summary of Issues and Voting Intentions for AGM/EGM

- Nine continued to show a pattern of revenue trends which we have seen in past years with advertising revenues down 5% and subscription revenue up 4.3%.
- There have been several departures at the top levels of the company including the Chair and the Managing Director. See further comments under Culture on page 3.
- The Agenda for the AGM is short and we support the three resolutions being put to the meeting.

3. Matters Considered

Accounts and reports

NEC reported a 3% fall in revenue in FY24 to \$2.62bn. Advertising revenue across all businesses fell by 5% while subscription revenue increased by 4.3%, continuing a trend which we have seen in prior years. This has hurt their overall results since nearly half of NEC's revenue comes from free-to-air (FTA) advertising on the Nine network.

Nine is the leading television broadcaster in Australia and believes that their market share in FTA has been holding well, above 40%. The problem is not that there is a general decline in advertising spending in the economy but that advertisers are switching from mass-market advertising to targeted advertising using alternative digital channels such as YouTube and Facebook. This is borne out by the 8% increase in revenue for 9Now, NEC's 'catch up' online product where revenue grew by 8% to \$189m. 9Now offers more precise targeting for advertisers since it is a subscription service. Unfortunately, it is only about 15% of NEC Broadcasting business.

Stan continued to grow with revenue up 5% and EBITDA up by 24%. Publishing revenue fell by 3% with strong growth in digital subscriptions offset by falls in advertising and circulation. With the revival of the property markets Domain had a good year with revenue up 12% and EBITDA up by 36%.

Nine has secured rights to the Olympic and Paralympic Games through to Brisbane in 2032. The results for the Paris games in the first quarter of FY25 have not been reported in full but Nine have indicated strong growth in viewership and advertising in Q1 FY25 as well as a significant increase in Stan subscriptions, especially for Stan Sport.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	134.9	194.5	315.3	184.0	(575.0)
UPAT (\$m)	216.4	279.0	373.5	277.5	155.9
Share price (\$)	1.40	1.97	1.82	2.91	1.38
Dividend (cents)	8.5	11	14	10.5	7
TSR (%)	(24%)	15%	(33%)	116%	(21%)
EPS (cents)	7	11	17	10	8
CEO total remuneration, actual (\$m)	2.125	2.699	3.177	0.870*	2.161

*Mr Sneesby was appointed CEO on 1 April 2021 and was paid CEO-level salary for only three months of FY2021.

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

NEC has pursued cost-cutting measures in the face of revenue weakness and, as part of this, the CEO announced in June that there would be about 200 redundancies across the group but with a substantial number of journalists. In the event 85 journalists in the Publishing group took voluntary redundancy offers in August, including some of the more senior writers. At about the same time there was a strike by journalists over pay negotiations.

In part this followed from Facebook cancelling payments to NEC for news content, but there is more to the story. Nine can extract data on how much material journalists produce, and how

much is read by digital subscribers, and this has been used to not only identify where fewer journalists are needed but also to highlight areas where more journalists might be deployed. One example mentioned to us was stories about food.

We asked Nine about the impact of AI and they indicated that, while it was very useful in their business, they are moving to protect their websites from digital scraping by AI providers. One example they cited of the use of AI was that Stan Sport uses AI to automatically produce Mini-Match segments that show highlights after a major sporting event.

Culture

There were several significant departures from Nine this year.

The first was in March when the head of Nine News, Darren Wick, left the company following a staff complaint of bullying and harassment. Following this Nine engaged an independent consultant to examine workplace culture and make recommendations around how to fix the problems. The consultant reported that there were systemic problems of abuse of power, bullying, sexual harassment and inappropriate conduct both in the news division but also across the company. The report made 22 specific recommendations to correct these cultural issues, and the Board announced that they would adopt all the recommendations. The Board also released the report to staff and on the website at <https://www.nineforbrands.com.au/media-release/nine-entertainment-releases-culture-review-findings/>.

The second departure occurred in June when the Chair, Peter Costello, resigned. This followed an incident where he may have bumped a reporter at Canberra airport. He had been on the Board since 2013 and Chair since 2016, and we had questioned him about whether it was time for him to leave at our meeting in 2023, so it was in the air that maybe his time was up. The Board appointed Catherine West as Chair following Mr Costello's departure.

The third surprise was in September when it was announced that Mike Sneesby, Managing Director and CEO would be stepping down. No specific reasons were given but we were assured by the new Chair that it was not connected to the workplace culture inquiry. Matt Stanton, Chief Finance and Strategy Officer, was appointed acting CEO and the Board has initiated an international search for a new CEO. We were told that Mr Stanton is well qualified to do the job, that he is a candidate for the position and that other candidates would be measured against him. Graeme Cassells has been appointed acting CFO.

The fourth departure was in October when Victoria Buchan, head of communications and PR for NEC, was made redundant after Matt Stanton had been in his new position for a week.

These changes coupled with the cultural review report mean that the Chair and senior management have been handed major problems within the short period of time since they were appointed.

Diversity and culture

The consultant report mentioned above followed extensive surveys and interviews with Nine's staff. It showed that 52% of staff had experienced abuse of power or authority, 49% had experienced bullying, discrimination or harassment, and 24% had experienced sexual harassment. Women suffered more than men although both genders had been affected. The worst behaviour occurred in Broadcasting and Stan. The consultant noted that the level of sexual harassment reported for the Broadcasting division (30%) is a lot lower than the rate in the industry generally

(62%). Clearly none of this is acceptable and we hope for a strong response from Nine with consequences for the perpetrators. Staff have been wondering publicly why there have so far been no consequences, but the Board has directed management to provide a comprehensive action plan during November 2024.

At the end of FY24, Nine had a high level of gender diversity with women making up 53% of staff, 52% of management and 67% of the Board. With the departure of Mike Sneesby, the Board is now 80% female (4 out of 5). We expect that will change as new directors are appointed.

In FY23 Nine created “communities”, groups which staff may elect to join covering a number of aspects of diversity. These communities are Pride, Cultural Diversity, Gender Equity, All Abilities and First Nations. Under senior executive sponsors these communities “come together as a group to raise awareness and champion change.” With more than 500 participants Nine reports that the communities are effective at raising areas of concern. This bottom-up method of achieving inclusion differs from the usual top-down approach where the company adopts action plans targeted at diversity concerns. One of the recommendations of the consultant’s report on the poor culture at Nine is to establish such action plans for gender equality, reconciliation, disability inclusion and multicultural inclusion. They omitted LGBTQIA+ from the recommendation. It will be interesting to see how Nine deals with this.

Board

The Board appears to be broadly competent but there is no doubt that the loss of Mike Sneesby and Peter Costello has left them shorthanded. They are actively searching to fill these positions. Peter Costello apparently personally handled regulatory matters, and they are searching for a senior specialist, not necessarily a Board member, to fill that gap.

Sustainability

NEC in the nature of its business does not have major climate issues. In FY24 a study by an external specialist identified that only 2.4% of greenhouse gas emissions connected to Nine are Scope 1 and 2 with the rest being Scope 3 emissions in the supply chain. They are in the process of reviewing these results to determine where NEC might have an impact.

4. Rationale for Voting Intentions

Resolution 1. Non Binding Resolution to adopt the Remuneration Report (For)

Remuneration policy and structure is essentially the same as in prior years with the only changes in FY25 being modest (3% to 3.5%) increases in total fixed remuneration for key management personnel, excluding the CEO. ASA takes issue with some features of this policy, and these are described in the Appendix. We remind the company of these issues each year, but they are not significant enough to warrant a vote against the Remuneration Report.

Resolution 2. Re-election of Ms Catherine West as a Director (For)

Catherine West joined the Board in 2016 and was appointed Chair in June 2024 following the departure of Peter Costello. She has strong business and legal affairs experience in the media industry and some interesting experience on other boards. We find her to be communicative and with high ethical standards and will have no reservations in voting for her election.

Resolution 3. Re-election of Mr Andrew Lancaster as a Director (For)

Andrew Lancaster is CEO of WIN and Birketu, NEC's largest individual shareholder and therefore is not an independent director. He joined the Board in 2021 and has a strong broadcasting (TV and radio) background. We support his re-election.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY24	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.500	31%	1.500	29%
STI - Cash	1.005	21%	1.257	24%
STI - Equity	0.495	10%	0.619	12%
LTI	1.875	38%	1.875	35%
Total	4.875	100%	5.250	100%

The amounts in the table above are the 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.

The table above reflects the remuneration possibilities for Mike Sneesby in FY24. Matt Stanton, the Acting CEO, has had his TFR lifted to the same level as Mike Sneesby but with no increase in the opportunities for his STI and LTI. That means that his TFR has increased from \$830k to \$1,500k and his STI target is 50% of that at \$750k, the same as his LTI target. Sneesby's targets were STI at 100% and LTI at 125%. This is an interim measure for Matt Stanton since presumably the structure may change when a new CEO is appointed.

STI is awarded 50% on an EBITDA target and 50% on the Board's assessment of the achievement of individual objectives. The EBITDA target was not achieved in FY 24 resulting in no payout. Based on his individual achievement the CEO was awarded 22.5% of TFR for STI, \$226k in cash and \$111k in deferred equity. In contrast Matt Stanton in his previous role was received a full payout for the individual achievement part of his STI.

LTI is based on relative TSR (40%), EPS growth (40%) and digital objectives (20%). The first two targets were not met, but the Board determined that the digital objectives were met in full. That meant that the FY22 performance rights awards were vested at 20% at the end of FY24 with the remaining rights lapsing.

The ASA has the following issues with NEC's remuneration structure:

- a. The LTI vesting period should be more than three years.
- b. At least 50% of STI should be equity. NEC pay 67% in cash and 33% in equity.
- c. Relative TSR should pay 30% at 50th percentile up to 100% at 85th percentile.
- d. EPS should be based on Net Profit after Specific Items. NEC use UPAT for this measure.