

Tough advertising market offset by increased market share and growth in digital

Company/ASX Code	Nine Entertainment Co. Holdings Limited - NEC
AGM time and date	10:00am, Thursday 9 November 2023
Location	1 Denison St, North Sydney and online
Registry	Link Market Services Limited
Type of meeting	Hybrid
Monitor	Don Adams and Jennifer Owen
Pre-AGM Meeting	Yes, with Peter Costello, Chairman and Nola Hodgson, Head of Investor Relations

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	Non-Binding Resolution to adopt the Remuneration Report	For
3	Re-election of Mr Peter Costello as a Director	For
4	Election of Ms Mandy Pattinson as a Director	For
5	Grant of 2024 performance rights to the CEO	For

Summary of Issues and Voting Intentions for AGM

- Increased free-to-air advertising share in a shrinking market.
- Growth in digital subscriptions in major media and Stan.
- Voting for all resolutions

3. Matters Considered

Accounts and reports

Revenue in FY23 was flat at \$2.7bn, earnings before interest and tax (EBIT) was down 21%, and net profit after tax (NPAT) of \$194m was down 38% from FY22. The additional decline in NPAT was exacerbated by a write-down of radio assets of \$84.5m.

Advertising revenue fell across both broadcast and digital platforms. Nine's largest business, free-to-air television, mitigated the fall in the overall advertising market (down 9%) by increasing market share for a revenue fall of only 2% to \$1.2bn. Nine remained the market leader. We asked

Peter Costello whether this indicated that marketers were putting more of their advertising dollars into non-advertising promotion, but he had no clear answer. This is not unexpected since your monitor knows from experience that forecasting advertising spend across an economy is problematic and ultimately futile.

Stan did well with a revenue increase of 12% to \$428m and a 30% boost in earnings before interest, tax, depreciation, and amortisation (EBITDA) to \$37m. Stan is spending more on original programming and Stan Sport, but strong demand and price increases boosted the result. Nine has secured broadcasting rights for the next three Olympics through to the 2032 Brisbane games, and also the 2024 Paralympics.

Publishing revenue fell 3% to \$575m with a softer advertising market, but subscription revenue increased by 3% with a price increase in May 2023. The Chairman said that the price increases for both Stan and Publishing were accepted by the market. Digital now comprises more than 60% of revenue for Publishing.

Domain revenue fell 1% to \$346m and EBITDA fell 13% to \$109m. Revenue from the agent solutions business, Domain's attempt to generate an alternative to listing revenue, rose 86% to \$41m.

Summary

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	194.5	315.3	184.0	(575.0)	233.9
UPAT (\$m)	279.0	373.5	277.5	155.9	187.1
Share price (\$)	1.965	1.825	2.91	1.38	1.88
Dividend (cents)	11	14	10.5	7	10
Simple TSR (%)	15%	(33%)	116%	(21%)	(20%)
EPS (cents)	11	17	10	8	13
CEO total remuneration, actual (\$m)	2.699	3.177	0.870*	2.161	4.958

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

Governance and culture

The Board has an appropriate mixture of skills and experience. There is a majority of independent directors and all members of the Board as at 30 June 2023 held shares at least to the value of one year's fees.

Key events

The defamation case brought by Ben Roberts-Smith against *The Age* and *The Sydney Morning Herald* was decided in favour of Nine in June 2023. There is an appeal outstanding and Nine has yet to recover its costs.

The investigative reporting by Nick McKenzie and Chris Masters that led to the suit is highly regarded by Nine. We asked whether the case would limit investigative reporting in the future and Peter Costello said that it would not but that there will be a continuing focus on getting the facts right in such matters.

The journalists in the company are finding AI providers, such as ChatGPT, to be useful but Nine is concerned about the potential for AI to violate their copyrights. A similar concern in FY22 relating to online news providers was solved with contracts NEC established with Google and Facebook where these companies pay NEC for news. These contracts, which enabled Nine to recruit additional journalists, are continuing.

Key board or senior management changes

The long-standing director Nick Falloon retired from the Nine board but retains his position as Chair on the Domain board. On 1 August 2023 Nine announced the appointment of Mandy Pattinson as a director. She is standing for election at this AGM.

The CFO, Maria Phillips left the company on 4 August 2023. It was an unusual time for a CFO to leave since it is right in the middle of preparing the accounts for FY23. Peter Costello said that she departed on “amicable terms” for “personal reasons”. Ms Phillips received the cash portion of her short-term incentive (STI) (\$185k) and her vested LTI (\$451k), but no deferred STI.

Matt Stanton, the Chief Strategy Officer, has been appointed CFO and now holds the title of Chief Financial and Strategy Officer.

Sustainability/ESG

NEC does well in gender diversity with female participation as at 30 June 2023 at 50% for the Board, 45% for management and 45% overall. On the other hand, Nine doesn't have specific targets for ethnic and indigenous diversity. There is no Reconciliation Action Plan, for example.

Rather they have taken the approach of establishing staff groups called Nine Communities, each with a senior executive sponsor, under the headings Gender Equity, Cultural Diversity, Pride, All Abilities and First Nations. Interested staff may join these communities and rally around events such as World Pride Day, International Women's Day and Lunar New Year. The communities also advise Nine on policies and champion change within the organisation. For example, the First Nations community has instigated the launch in FY23 of cultural competency training modules available group wide.

NEC is engaged in developing accurate measurement of its carbon emissions in order to develop a road map towards net zero.

4. Rationale for Voting Intentions

Item 2: Non-Binding Resolution to adopt the Remuneration Report (For)

The NEC remuneration structure is described in more detail in the Appendix. It is a remuneration structure that is similar to the basic structure that we see in other ASX listed companies. We propose to vote proxies in favour of this motion even though we have several reservations.

The ASA believes that:

- a. The LTI vesting period should be more than three years.
- b. At least 50% of STI should be equity. NEC STI is paid 67% cash and only 33% equity.

- c. Relative TSR should vest 30% at 50th percentile up to 100% at 85th percentile. The Nine relative TSR measure vests 50% at the 50th percentile and 100% at the 75th percentile.
- d. Earnings per share (EPS) should be based on Net Profit after Specific Items. NEC uses growth in EPS before Specific Items.

Item 3: Re-election of Mr Peter Costello as a Director (For)

Mr Costello, former Treasurer of Australia, is so well known that it seems unnecessary to describe his qualifications. He joined the Board of NEC in 2013 and the Board is satisfied that, even with more than ten years' service he can continue to be classified as an independent director. He has been Chairman since March 2016. In our meetings we have found him to be across the issues we raise about Nine and he responds in an open and forthright manner.

Item 4: Election of Ms Mandy Pattinson as a Director (For)

Ms Pattinson joined the Board in August 2023 as an independent, non-executive director. She has more than 25 years' experience in the media and entertainment industries, and she brings skills in the media industry, content and strategy.

There is more extensive information about each of these candidates in the Notice of Meeting.

Item 5: Grant of 2024 performance rights to the CEO (For)

This is a routine motion that assists in the implementation of the LTI remuneration plan. Since Mr Sneesby is a director as well as CEO, ASX Listing Rules require that shareholders approve any issue of new shares to him. NEC does not intend to issue new shares but will rather use shares acquired on market, but this motion will give the Board flexibility when, and if, the performance rights vest three years from now.

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Appendix 1

Remuneration framework detail for CEO

CEO Remuneration 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. Note that NEC has no specific target level for long-term incentive (LTI).

Mr Sneesby's Fixed Remuneration for FY24 was increased by 7.1% from \$1.4m to \$1.5m. We asked Peter Costello whether this indicated that the Board was particularly pleased with his performance. He pointed out that Mr Sneesby had no increase in FY22 when other KMP received 3% increases and that the 7.1% was more of a catch up since the other KMP received a 4% increase for FY24. Nevertheless we gathered that Mr Sneesby is valued by the Board.

STI

STI is paid 50% based on an EBITDA target and 50% based on individual objectives relevant to their roles. For FY23 the EBITDA target was not achieved so there was a zero payout for that component. Mr Sneesby received a STI payout of 51% of fixed remuneration implying that his achievement of individual objectives was slightly above target. The company only advises the EBITDA target after the financial year is over and only describes the individual targets in broad terms.

LTI

LTI is based 40% on an EPS target, 40% on TSR relative to a group of comparable companies and 20% based on a strategic hurdle focused on digital transformation. After FY23 these targets from the FY21 plan were assessed and the EPS and TSR targets were met. We think that both these targets were relatively soft.

Mr Sneesby was assessed at meeting 95% of the strategic hurdle target, so in total 99% of the performance rights awarded to him in FY21 vested. Since he was only CEO for three months that year his actual benefit was only \$558k valued at the 1 August 2023 share price.