Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

NEC is good in parts

Company/ASX Code	Nine Entertainment Co. Holdings Limited NEC
AGM date	Thursday 12 November, 2020
Time and location	10:00 am AEDT, virtual meeting at **https://agmlive.link/NEC20**
Registry	Link Market Services Limited
Webcast	Yes, only online
Poll or show of hands	Poll on all items
Monitor	Don Adams assisted by Ian Anderson
Pre AGM Meeting?	Yes, with Chair Peter Costello and Nola Hodgson, Head of Investor Relations

NOTE: ASA WILL BE ATTENDING THE VIRTUAL MEETING VOTING THE PROXIES WE RECEIVE AND ASKING QUESTIONS, AS NORMAL

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

	Financial Reports
ASA Vote	No vote required

Revenue

In FY2020 each of NEC's businesses continued the trend shown in FY2019, some growing revenue strongly and some showing continuing declines.

Free-to-air television revenue (the largest business) fell by 14% to $952 million following a 5% fall in FY2019. Nine Radio (the former Macquarie Media of which NEC obtained 100% control in FY2020) saw advertising revenue fall by 22% (3% fall in FY2019).

In Metro Media (the former Fairfax papers) print subscriptions were down by 1% and print advertising down by 19%. Digital subscriptions, on the other hand, were up by 9% and digital advertising up by 4%.

The star performers were 9Now, the advertising-funded streaming service, up 32% following a 51% increase in the previous year. Stan, the subscription-funded streaming service, grew impressively, up 54% last year after 62% in FY2019.

The pattern is clear, digital businesses are NEC's growth opportunities. The one exception to this rule was Domain (the digital real estate business 59% owned by NEC) where revenue fell 20% in FY2020 following a 6% fall in FY2019. Domain's business is in the housing market, it is a mature player and listings have fallen over the last two years.

Strategy

So where does NEC go from here? In the last two years they have acquired Fairfax, disposed of the regional papers, and taken full ownership of Macquarie Media. The revenue trends clearly show that the future is digital and, as we discuss below in the Remuneration Report, the CEO Hugh Marks has been offered a special additional LTI component based on achievement of NEC's "digital transformation objectives" over the period 2020 to 2022.

Another strategy is securing sporting rights. NEC is reported to be offering Rugby Australia a rights package that will cover free-to-air on Nine, advertising supported streaming on 9Now, and subscription streaming on Stan thus tying together broadcast and digital offerings.

NEC is well on the way to achieving synergy from the Fairfax ($50m) and Macquarie Media ($9m) mergers. We are told that there have been no cuts to the journalism staff of Nine and Metro Media. Rather, savings have been achieved by merging the sales functions, in IT systems and in overheads.

Another interesting issue is between Australian news media companies and the social networks such as Google and Facebook. The media want a share of advertising revenue of the social networks on the grounds that their content is used to attract consumers. The Australian government is supporting the news media case with the prospect of legislation should negotiations fail.

COVID-19 pandemic

Clearly NEC's businesses have been affected to some extent by the economic slowdown caused by the pandemic, but not to the extent that they receive any government subsidies such as Jobkeeper. NEC did receive a reduction of $10 million in spectrum charges.

NEC negotiated new and expanded debt facilities to ensure liquidity during the crisis. Also, no short-term incentives (STI) for FY2020 were paid to KMP and other management on the NEC STI plan.

NEC followed the usual rules of hand hygiene and social distancing. A large proportion of employees have been working from home. On-air journalists were divided into teams to avoid cross infection.

NEC's staff in Sydney are moving in stages into a new office building in North Sydney. There are separate newsrooms for Nine News and Metro Media, but they are connected by internal staircases to encourage cross pollination of ideas and stories.

Governance

NEC's Board is well structured. All directors are independent except the CEO, Hugh Marks.

NEC publishes a separate Governance Statement. This shows that they are close to meeting gender diversity targets at 43% women on the Board, 38.5% in the Senior Executives and 44.6% in the total workforce. The Board Skills Matrix shows that the directors have strength in the skills needed for a media business.

The Audit & Risk Management Committee continues to review the risk management framework. The committee uses an external party to act as an internal auditor with a work program agreed with the Committee annually.

Profit

As the table shows, Net Profit after Tax was down substantially to a loss of $575 million. Underlying Profit after Tax is before Specific Items and discontinued operations. There were large impairment charges of $311 million for the Nine Network licences and $188 million for Goodwill in Domain.

All businesses were profitable, but it is worth noting that, for the first time, Stan had positive EBIT of $18 million.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	(575)	233.9	209.7	(203.4)	324.8
UPAT ($m)	155.9	187.1	156.7	123.6	118.6
Share price ($)	1.38	1.88	2.48	1.38	1.05
Dividend (cents)	7	10	10	9.5	12
TSR (%)	(21%)	(20%)	87%	40%	(25%)
EPS (cents)	8	13	18	14	13.5
CEO total remuneration, actual ($m)	2.161	4.958	5.023	2.775	1.14 (part year)

For 2020, the CEO's total actual remuneration was **24 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Resolution 1	**Non-binding Resolution to adopt the Remuneration Report**
ASA Vote	**For**

The remuneration for the CEO has an STI target of 100% of base (50% for other KMP) and the same amounts for LTI.

STI is based 60% on an EBITDA target and 40% on individual objectives. ASA does not object to individual objectives per se, but we prefer that they be set as quantitative measures. This seems to be the approach taken by NEC, but the objectives are not disclosed.

In FY2020 no STI was awarded to anyone as a cost saving measure for the pandemic. Generally STI is awarded as 67% cash and 33% deferred shares. Also, exceeding the performance target can increase STI to 150% of base.

LTI is awarded as share rights that can vest in three years subject to achieving goals for relative TSR and CAGR of EPS.

In FY2020 the base for the CEO was increased from $1.4 million to $1.55 million. An additional LTI of 25% of base was awarded to the CEO if he achieves targets based on NEC's digital strategy.

ASA has two problems with the remuneration report but will vote to adopt it. We prefer that:

1. The vesting term for LTI should exceed three years;
2. At least 50% of STI should be deferred equity.

CEO rem. Framework for FY2020	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.550	31%	1.550	27%
STI - Cash	1.038	21%	1.557	27%
STI - Equity	0.512	10%	0.767	13%
LTI	1.938	38%	1.938	33%
Total	5.038	100%	5.813	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.

Resolution 2	**Re-election of Mr Peter Costello as a Director**
ASA Vote	**For**

There is little need for us to explain why we support the re-election of Mr Costello since his background is well known. He was a barrister, Treasurer of the Commonwealth of Australia, Chair of the Future Fund and is now an active corporate adviser. Our meetings with him have been cordial and informative. He was appointed to the Board in 2013 and became Chairman in 2016. He holds 301,786 shares in NEC.

Resolution 3	Grant of additional 2020 performance rights to CEO
ASA Vote	Against

Resolutions like this are normally easy to consider since they simply reflect the Remuneration Report. This one is more difficult and after some thought we will vote against it. The problem is that it relates to the period 1 July 2019 to 30 June 2022 and should, in the normal course of events, been considered at last year's AGM. It provides additional LTI benefits related to an increase in Mr Marks' salary and the additional LTI for digital achievement, backdated to 1 July 2019. The shareholders are being asked to approve this grant halfway through the period to which the LTI relates and we have concluded that is a step too far.

Resolution 4	Grant of 2021 performance rights to CEO
ASA Vote	For

This motion approves the current year (2021) grant of LTI performance rights to Mr Marks. It consists of rights valued at $775,000 for each of the relative TSR and EPS growth targets, and again an additional $387,500 for achievement of certain digital goals. The rights will vest in 2023 to the extent that these objectives are achieved. They amount to 125% of Mr Marks base remuneration for 2021.

Item 5	Variation of constitution
ASA Vote	For

This is a special resolution that requires 75% or more of votes cast to be passed. It facilitates remote participation by shareholders, by enabling them to vote directly rather than appoint a proxy. The ASA would hope that, after the pandemic, AGMs became hybrid with shareholders having the opportunity to attend in person. We do not support fully virtual meetings in the long term.