Australian Shareholders' Association

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NEC is firing on nearly all cylinders - DRAFT

Company/ASX Code	Nine Entertainment Co. Holdings Limited / NEC
AGM date	Thursday 10 November 2022
Time and location	10am AEDT, 1 Denison Street, North Sydney
Registry	Link Market Services Limited
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Don Adams assisted by Gary Barton
Pre AGM Meeting?	Yes, with chair Peter Costello and investor relations Nola Hodgson

An individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

Financial year 2022 (FY22) was a good year for Nine Entertainment Co (Nine). Net profit after tax was up by 71% to $315.3m on revenue of $2.70bn, up 15%. They have moved into their new office building, the CEO Mike Sneesby completed his first full year, and the Fairfax acquisition appears to have settled down well. Generally, the company is being run well although we have some issues with remuneration policy.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Ms Samantha Lewis as a director	For
3	Re-election of Ms Mickie Rosen as a director	For
4	Grant of 2023 performance rights to CEO	For

Governance and culture

The board of Nine is well structured with an appropriate mix of skills and experience. The board skills matrix shows good coverage

Nick Falloon, the chair of Domain, resigned from the board after the end of FY22 and a search is underway for a new director. Nine's practice is for the whole board to be involved in such a search. We asked Mr Costello what qualities they would look for in a new director and he said that it would be essential for them to have strong media experience.

There is a policy that directors own shares in Nine to a value that exceeds one year's base fees within five years of appointment. Nearly all directors meet this requirement; Samantha Lewis is a little short.

Diversity policy is focussed on gender diversity and Nine meets nearly all its targets except for Senior Executives where the percentage of females was 38% against a minimum target of 40%.

Nine do have a broad statement about diversity by race, disability, age, religion, sexual orientation, and cultural background but apparently there are no firm targets. Mr Costello told us that the overall objective is for the staff, including on-air talent, to be broadly representative of the Australian population.

Financial performance

Nine showed healthy gains in revenue and profit in FY22, but the share price fell substantially, much further than the overall decline in the stock market.

The largest division at Nine is Broadcasting with FY22 revenue $1.37bn, up 10%. The largest part is free-to-air advertising (FTA) revenue of $1.12bn. Faster growth was seen in the advertising supported streaming service 9Now with revenue of $151m, up 41%, and EBITDA growth of 37%. Radio had revenue of $102.4m, up from the previous year but the same as the year before that.

Metro Media, the newspapers acquired from Fairfax, had revenue of $474.9m, up 18%, and EBITDA of $154.9m, up 57%. Print subscriptions and retail sales fell by 6% but this was more than made up by double-digit growth in digital subscription revenue as well as the first year of revenue from the digital platforms such as Facebook and Google. There are reports of Facebook cutting back on news content, but Nine is confident in its current contract with them.

It is worth noting that Nine has been increasing the number of journalists in Metro Media including recruiting cadet journalists for the first time in several years. In the past we have been told that they see journalism talent as a major asset and this growth supports this view.

Stan, the streaming video service, had revenue of $381m, up 22% but EBITDA fell by 28% to $28.5m. This was due to increased investment in live sports content as well as the growth in original programming. There was a report that Nine were considering selling off a portion of Stan but we are advised that there is nothing imminent. They could be open to a joint venture with a participant that brings something to the table.

Domain Holdings, 60% owned by Nine, had a 24% increase in revenue to $357m and a 21% increase in EBITDA to $122m. Domain acquired two companies during the year, Insight Data Solutions and Realbase. The price paid constituted cash payments in total of $229m but there are agreements for possibly large contingent payments in the future. Domain funded this from internal resources and a $180m share rights issue. Nine took up $131m of the issue raising its ownership of Domain slightly above 60%.

In August 2022 Nine announced the intention to buy back on market up to 10% of its shares. At a share price of $2.00 this would be a cash outlay of $340m. As of the date of writing this report they have spent less than $20m. Mr Costello advised that the board felt that a more leveraged capital structure would be appropriate.

Sustainability

By the nature of its operations Nine has very little in terms of climate and modern slavery risk. They have a nice graph in the Annual Report showing a marked drop in emissions in FY22 which is mainly due to the new offices in North Sydney. They intend to work on setting a firm target for emissions reduction during the next twelve months.

The modern slavery statement is routine.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	315.3	184.0	(575.0)	233.9	209.7
UPAT ($m)	373.5	277.5	155.9	187.1	156.7
Share price ($)	1.82	2.91	1.38	1.88	2.48
Dividend (cents)	14	10.5	7	10	10
TSR (%)	(33%)	116%	(21%)	(20%)	87%
EPS (cents)	17	10	8	13	18
CEO total remuneration, actual ($m)	3.177	0.870*	2.161	4.958	5.023

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

Re-election of directors

The two directors standing for re-election at this meeting are Samantha Lewis and Mickie Rosen. There are good summaries of their background and experience in the Notice of Meeting where, in addition to the usual biographic information there is a list of the particular skills they bring to the board.

Samantha Lewis joined the board in March 2017, and she has a strong background in corporate finance. We will raise the issue of her compliance with the minimum shareholding requirement at the AGM.

Mickie Rosen joined the Fairfax board in March 2017 and came to the reconstituted Nine board in December 2018 when the Fairfax / Nine merger occurred. She has a strong background in media, digital content and consumer businesses.

We intend to vote proxies for the re-election of both directors.

Adoption of Remuneration Report and approval of equity grants to CEO

There is a more detailed description of remuneration policy in the Appendix.

The remuneration report and policy is clearly presented and generally is structured along the standard lines. The ASA has the following two objections to the structure:

1. We prefer that long term incentive (LTI) vest over a period of four to five years. At Nine it vests after three years.
2. The ASA policy is that at most 50% of short-term incentive (STI) be paid in cash with at least 50% paid in deferred equity. Nine pay 67% of STI in cash.

We have made these objections clear to the company annually for the last few years.

In FY22 the board made some changes to compensation levels after an external review. Directors' fees increased by 10%. Nine has only two key management personnel in addition to the CEO Mike Sneesby. They are the CFO Maria Phillips whose base pay increased by 2.85% to $720k and the Chief Sales Officer Michael Stephenson whose base pay increased by 10% to $924k. There was no increase for the CEO since his is a relatively new appointment.

We intend to vote proxies in favour of the remuneration report despite our reservations. We will also vote proxies for the equity grant since this follows from the structure of the LTI remuneration.

Appendix 1
Remuneration framework detail

The table below shows the structure of remuneration for the CEO and it applies to both FY22 and FY23.

CEO rem. Framework for FY23	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 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.

STI awards depend on two factors – an EBITDA target for 50% and individual objectives for the other 50%. EBITDA in FY22 was well over target and so the CEO was paid 125% for this portion of his STI. The individual objectives were achieved at 115% level, above target but not maximum performance. This meant that his STI was 120% of base, or $1.68m, paid as $1.12m cash and $0.55m equity deferred half for one year and the other half for two years.

There is no target outcome set for the LTI payment. LTI awards are based on three factors – relative TSR performance (40%), earnings per share growth (EPSG) (40%) and digital transformation (20%). If relative TSR is at the 75th percentile, then 100% of that part of the performance rights will vest. At the 50th percentile, 50% will vest. Targets are not disclosed for EPSG and digital transformation.

Mr Sneesby did not have any LTI to vest in FY22 due to his short tenure in the job, but he had been awarded performance rights to the value of $440k maturing June 2023 and to the value of $1,750k maturing June 2024 at the AGM last year. The final resolution at this year's meeting will award him another $1,750k in performance rights maturing in 2025. Since the share price has fallen the number of rights will be greater than that awarded last year.

The LTI awarded in 2019 to the KMP other than the CEO paid zero for the TSR component and 100% for the EPSG. The threshold EPSG was 2% p.a. and for the maximum it was 5% p.a. These did not strike us as challenging targets and we mentioned this to Mr Costello.