QUARTERLY INVESTMENT COMMENTARY
31 MARCH 2025

CONTRARIUS AUSTRALIA EQUITY FUND

QUARTERLY INVESTMENT COMMENTARY

The Fund's Class A units returned (1.7)% for the quarter versus (2.9)% for the benchmark S&P/ASX300 Accumulation Index. As we have highlighted previously, our investment philosophy is not benchmark cognisant and our portfolios would normally vary materially from the benchmark S&P/ASX300 Index. The Fund's returns are therefore likely to deviate from those of the benchmark. Investors are reminded that given the long-term, contrarian, valuation-based investment philosophy, there will be times when the Fund will materially underperform its benchmark in the short-term in order to achieve its objective of long-term outperformance.

In this quarter's commentary we discuss Nine Entertainment Co. Holdings.

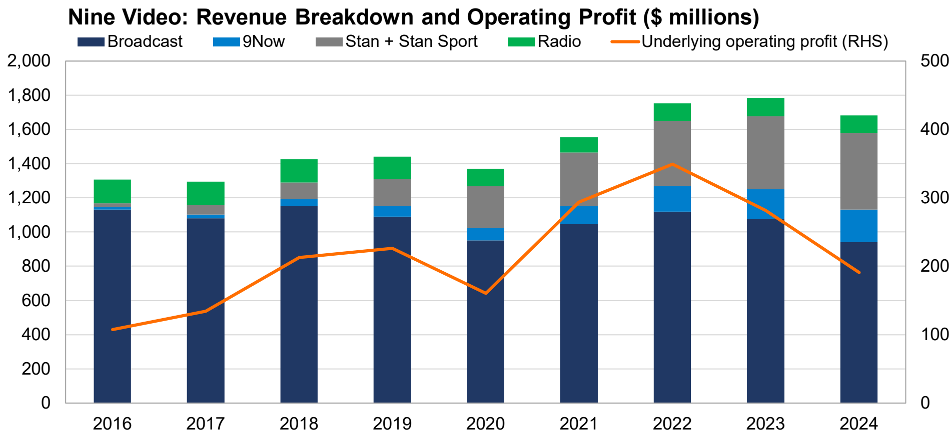
NINE ENTERTAINMENT

Nine Entertainment Co. Holdings ("Nine") is an Australian media company with three primary businesses: television/streaming, news publishing, and a 60% stake in Domain, Australia's second-largest property portal. Domain recently received an indicative buyout proposal from a large US-based property information company. At the indicative price of $4.43 per Domain share, Nine's stake in Domain is valued at $1.7 billion. If one deducts this from Nine's enterprise value (after adjusting for estimated taxes triggered by a potential sale), the remaining two businesses are being valued by the market at around $1.5 billion. We find this valuation highly appealing, and explain our thinking below.

Television/Streaming

Everyone remembers that video killed the radio star. Today, technological disruption is now having a profound impact on the industry of video consumption. Internet-connected televisions, on-demand streaming, social media, viewing via mobile devices, data-rich targeted advertisements—the list of innovation and change is long. Given this backdrop, we appraise Nine's television & streaming business ("Nine Video"). We like what we see.

Uniquely, Nine Video has the full package of video offerings in Australia. It owns a leading free-to-air broadcast network (9Network), ad-supported streaming service (9Now), subscription streaming service (Stan), and sports-focused streaming service (Stan Sport). Together with its relatively small radio business, Nine Video generated a combined $1.7 billion in revenue in 2024, and has a robust, albeit volatile, history of profitability.



Note: The above chart combines the relevant parts of Nine Entertainment and Fairfax Media until the merger of the two companies in December 2018.

Sources: Nine Entertainment, Fairfax Media, Contrarius Research.

In our view, each of these pieces brings something to the party:

- The broadcast network specialises in local content—including domestic news, sports, local reality television and game shows. In aggregate, this sort of content garners high viewership precisely because it is locally relevant. 9Network also benefits from Australia's anti-siphoning rules, a list of sporting events that must first be offered to free-to-air broadcasters.

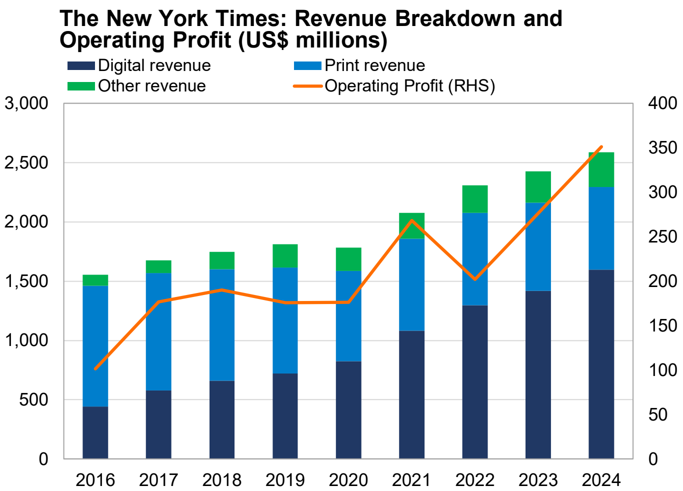
- 9Now extends this local-focused broadcast content into the world of streaming, allowing viewers to view on their own schedules, on a range of devices, while offering advertisers more targeted reach. In the latest season of Nine's hit reality show, *Married at First Sight*, 40% of the audience watched via 9Now, with the bulk from the key 16-39-year-old demographic. By episode 14, the season had registered audience growth of 23% over the prior year. In addition, 9Now is more than an extension of the broadcast network, it is also home to an expansive library of on-demand content and additional free ad-supported streaming channels.
- Stan has amassed over 2.3 million paying subscribers who contribute a steady monthly fee in exchange for access to high-quality international and local content on-demand. While exposed to the direct-to-consumer shift of the large US content houses, a feature of Stan has been high viewership for its own produced or co-produced content: 7 of the top-10 most viewed series on Stan in 2024 were Stan Originals.
- Stan Sports allows Nine to bid for and monetise sports rights more effectively. A great example is the rugby union rights. For around $40 million per annum, 9Network and 9Now get the right to broadcast Wallabies games, while Stan Sports streams the broader portfolio of matches and becomes the "Home of Rugby (Union)", meaning any fan of the sport is highly motivated to become a subscriber. This ability to spread rights across different formats likely gives Nine Video a leg up in future sports rights auctions. We wouldn't be surprised if Stan Sports' rights expand beyond its current stable of rugby union, UEFA soccer, and Grand Slam tennis in future years.

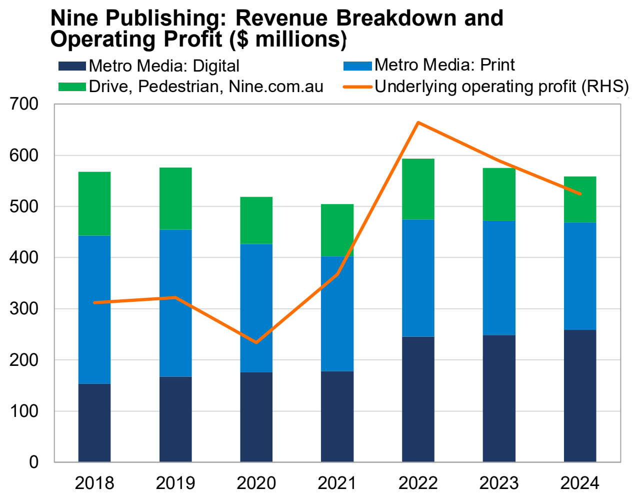
The wave of disruption brought by technological change also carries with it opportunities. Nine is utilising data generated from its video platforms to make smarter content choices, serve up more personalised content suggestions, and offer better targeted advertisements with more accurate measurement of returns. At the same time, Nine is undergoing a significant cost cutting exercise aimed at simplifying and streamlining the company. A change in culture is also underway after a string of cultural issues led to a number of key management departures.

Nine Video has faced a weak two years in the notoriously cyclical television advertising market, and this has weighed on profitability. Recent half-year results pointed to some green shoots: total television (9Network and 9Now) advertising revenues for the first quarter of 2025 were expected to rise by a high single-digit percentage. Key competitor, Seven West Media, also noted early signs of a potential turn in the television advertising market.

News Publishing

Nine's publishing division generated around $560 million of revenue in 2024, second only to News Corp's Australian subsidiary. The key trend in news publishing is the ongoing shift from print to digital consumption of news. We've seen this play out abroad at companies such as *The New York Times* and the Dow Jones division of News Corp, home of *The Wall Street Journal*. It takes time for digital growth to exceed print declines, but the resulting turn in profitability and the change in sentiment can be swift.





Sources: The New York Times Company, Nine Entertainment, Contrarius Research.

A crucial ingredient is a clear brand and a clear proposition to target customers. We think Nine Publishing's three key mastheads are well positioned in that regard. *The Sydney Morning Herald* and *The Age* offer news and opinions on events affecting Sydneysiders and Melburnians, respectively, while *The Australian Financial Review* covers Finance and Economics.

Interestingly, Nine is already far more advanced in this digital shift than many may realise. It has over 500,000 active digital subscribers and 62% of revenues are already digital in nature. With a growing subscriber count and rising prices, this shift is expected to continue for the foreseeable future. In the latest half-year results, digital subscription revenues grew by 15%.

To be clear, we are not suggesting that Nine Publishing is on equal footing with *The New York Times* or *The Wall Street Journal*, which both outgrew their home town a long time ago. However, we think of these as models for a successful shift from print to digital in news publishing, a well-trodden path which Nine is now following.

In the past year, Nine Publishing has faced a weak advertising market and the decision by Meta to withdraw from its news content agreements with local publishers. We don't see either of these headwinds persisting. Meanwhile, news publishers with deep archives (*The Sydney Morning Herald* was founded in 1831, 23 years before *The Age*) may be surprising beneficiaries of the generative AI revolution, as evidenced by News Corp's deal with OpenAI.

Summary

We like each of Nine's businesses in their own right, but believe that by leveraging technology, Nine has a unique opportunity to take advantage of efficiencies between the two to ultimately enhance profitability. As an example of this, during the Australian Open, a tennis Grand Slam broadcast by Nine, the publishing business identified over 300,000 of its readers who were interested in tennis based on their reading history but who had not yet viewed any tennis on 9Now. Targeted advertisements sent to this subset resulted in nearly 60,000 first-time log-ins, which contributed 13% of the audience increase compared to the prior year.

In the 2024 financial year, Nine Video and Nine Publishing generated a combined $2.2 billion in revenue and $260 million in underlying operating profit. In our view, these earnings are cyclically depressed and we expect them to grow over the investment horizon. Adjusting for the sale of Domain, we are able to buy these quality assets at less than 7x depressed earnings. We believe that Nine offers a compelling investment opportunity for long-term, contrarian investors.

CONCLUSION

At the end of March, the Fund is overweight selected Consumer Discretionary and Communication Services shares. The Fund's portfolio composition is extremely different to the current composition of the S&P/ASX 300 Index. We believe that valuation disparity within the market creates meaningful opportunities for contrarian investors like ourselves.

Past performance is not indicative of future performance. The Fund's unit prices fluctuate and are not guaranteed. When making an investment in the Fund, an investor's capital is at risk.

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