Sky New Zealand
PO Box 9059
Newmarket
Auckland 1149
New Zealand

10 Panorama Road
Mt Wellington
Auckland 1060
New Zealand

T. +64 9 579 9999

sky.co.nz

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Sky delivers solid result while investing in future growth

Sky Network Television Limited (Sky) delivered a solid result for the 2023 financial year, characterised by customer and revenue growth and a continuing strong focus on costs and margin improvement while investing for the future.

Revenue, EBITDA[1] and net profit after tax (adjusted for one-off items[2]) were all delivered in line with the guidance ranges provided, with capex slightly above as Sky invests in the new Sky Box and Sky Pod.

Key points of today's announcement:

- Customer relationships rose above 1 million to 1,015,125 (+2.5%).
- Revenue grew by 2.4% to $754.1m, driven by growth in customers and increased average revenue per user (ARPU) across Sky Box, Streaming, Commercial and Broadband products.
- Strategically important rights were secured.
- The expected lift in programming costs was contained to a reported net increase of $21.3m and with continued strong focus across all cost lines.
- Adjusted for one-off items, NPAT was up by +15.2%.
- A final dividend of 9 cents, with a total dividend of 15 cents or 89% of adjusted free cash flow.

Commenting on the results, Chief Executive Sophie Moloney said: "I am pleased to be sharing a solid set of results with you, following a year of significant transformation and the delivery of major initiatives at Sky. They demonstrate that we are continuing to deliver today while also investing in the areas that will see us benefit in future years. We have invested in new products and the content that customers value, and our organisational changes and outsourcing to specialist partners are transforming the way we operate."

"The launch of our new Sky experience was a key milestone, and after only three months of promotion we have around 35,000 new Sky Boxes and 13,000 Sky Pods in use in customer homes. This is pleasing progress, as is the positive feedback we have received from many customers enjoying the new experience. That said, we acknowledge that there were early teething problems with the rollout for some customers, and we have confidence that these are being rapidly addressed by the team. The benefits of the new Sky Box, particularly the enhanced content discovery and easy user interface, far outweigh these early issues, and we are accelerating the rollout of the new Sky experience in FY24 so that more customers – both existing and new – can take advantage of them."

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[1] EBITDA is a non-GAAP measure. Sky uses this measure when discussing financial performance as the Company believes it provides useful information on Sky's performance.

[2] FY23 Revenue, EBITDA and NPAT adjusted for the impact of Organisational changes announced 29 March 2023 and the sale of RugbyPass completed 10 October 2022 as these items were excluded from FY23 guidance. FY22 EBITDA and NPAT adjustments largely relate to the gain on sale of the Mt Wellington properties and a provision release for Holidays Act compliance.

"Our business has remained resilient against a backdrop of inflation and high interest rates impacting on household budgets, thanks to our strategy of meeting New Zealanders where they are, in ways that work for them. Our unrivalled content offer, our multi-platform approach across satellite, streaming and free-to-access (including the launch of our new free-to-air channel Sky Open), and our 100% coverage across the country, continues to be a key competitive advantage."

Customers

Sky's customer relationships grew by 2.5%, led once again by strong gains in Streaming, with Sky Sport Now up 37% to 150,000 customers and Neon up 8% to 318,000. The Sky Box customer base continued to stabilise, despite the delay in new product delivery, with losses slowed to 2.7%. Over 18,000 Vodafone TV customers migrated to their chosen Sky Product during the second half, with 17,000 choosing the full Sky experience via the Sky Box or Sky Pod and over 1,500 streaming subscriptions added. Broadband customers closed at 26,000, up 45% and with an attachment rate to Sky Box of 5%, while Commercial customer numbers were stable at over 6,500.

Content

Sky secured a number of strategically important and disciplined rights wins during the period, including a new rights agreement for Formula 1 and a long-term partnership with World Rugby, and the recently-announced renewal with Warner Bros. Discovery that was achieved on more favourable commercial terms.

Sophie commented: "Our rich data capability means we are building deeper insights into what our customers value, which in turn informs our investment decisions. These insights were invaluable in securing key targeted rights in FY23 and are already delivering against the customer acquisition and retention objectives we set. It also means we have a robust understanding of what we don't need to hold or where exclusivity is not required, giving us confidence about where we are prioritising our investment."

Financial

Revenue growth of 2.4% to $754.1 million was driven by strong increases in Streaming and Broadband, continued stabilisation of Sky Box and positive uplift in Commercial and Advertising revenues.

Streaming revenue growth of 10.6% to $103.2 million included an impressive 50% increase for Sky Sport Now and a very healthy 19% increase for Neon. It was also achieved despite a net $6.1 million impact from extending the availability of the VTV platform until 31 March 2023, masking like for like growth of 16%. Continued improvement in Sky Box saw a net revenue decline of 0.8% - a significant improvement from the 3.4% decline in FY22. Broadband revenue grew 123% and achieved a positive contribution in FY23, whilst Commercial revenue returned to pre-Covid levels, up 13%. Advertising delivered pleasing growth of 9% against market decline of 5%, an encouraging sign as we begin to lean into this opportunity.

Carefully considered pricing increases were made during the period, reflecting the increased value of content delivered and contributing to higher average revenue per user across Sky's products.

Operating costs were held to an increase of $15 million as cost management initiatives totalling $33 million (including $13 million of programming savings) largely offset expected cost increases.

The expected step up in programming costs largely stemmed from previously-announced content wins and renewals, including the NRL which was secured in 2021 but came into effect from 1 January 2023, and new rights for Premier League and Formula 1. It also reflected increased production costs following the return of home games for New Zealand teams post Covid, including the Warriors, Phoenix and Breakers.

Increased spending associated with the cost of growth in Sky Broadband and Streaming products was $13 million, which in turn delivered a revenue and margin benefit. And one-off costs of the organisational change announced in March 2023 are expected to deliver an additional $6 million of annualised savings from FY24.

Capex of $77.4 million was slightly above the guidance range and with growth-focused capex at 61% of the total, as Sky invested in Sky Box and Sky Pod inventory in readiness for delivery to customers.

Underlying EBITDA adjusted for one-offs grew by 1.8% to $156.4 million, and above the midpoint of guidance. NPAT, while down at a reported level, grew by 15.2% to $56.7 million when adjusted on the same basis.

Capital Management and dividends

Chairman Philip Bowman said: “Sky’s Board has continued to adopt a disciplined capital management strategy that places a high value on returning surplus capital: including the $70 million return completed in November 2022, the initiation of a share buy back of up to $15 million in March 2023, and delivering appropriate returns to shareholders by way of ongoing dividends.”

“The Board has declared a final FY23 dividend of 9 cents that, when added to the 6 cent interim dividend paid in March 2023, brings the total dividend for FY23 to 15 cents per share, representing a payout of 89% of free cash flow adjusted for one-off items.”

Outlook and Guidance

Sophie added: “While we remain conscious of economic pressure on households, Sky is expecting continued growth in customers and revenues – including through new revenue streams - and will maintain the strong focus on costs.”

“The 2024 financial year will see a strong focus on the three priority areas of: Employee engagement, new revenue streams (including the opportunity in advertising), and bringing the new Sky experience to more New Zealanders.”

In this regard, FY24 will see Sky accelerate its investment in the rollout of the new Sky experience to customer homes, supported by a strong investment case that includes the increased ability to demonstrate value in a customer’s subscription through superior content discovery, and a significantly lower cost to serve. This will lead to a steeper but shorter period of elevated capex over FY24 and FY25 before returning to the long run target range in FY26.

Sky has released guidance for FY24 including Revenue of $765 to $795 million, EBITDA of $150 to $165 million, NPAT of $45 to $55 million, and Capex of $75 to $90 million[3].

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[3] Excludes one-off satellite mitigation capex. Sky issued a separate announcement on 24 August 2023 regarding a variation to the Optus agreement that provides Sky with security of supply over satellite capacity through to the end of the current term in November 2031.

In determining the approach for FY24 dividend guidance the Board has confirmed its intention to exclude one-off capital expenditure associated with satellite mitigation and the accelerated portion of investment in the new Sky Box and Sky Pod rollout when determining adjusted free cash flow available for FY24 dividends (in accordance with Sky's policy to pay out between 60% to 90% of free cash flow, excluding one-offs). On this basis, Sky has provided FY24 dividend guidance of at least 15 cents per share.

"This approach reflects the Board's confidence in future cash flow generation and the strength of Sky's balance sheet which has the capacity to fund both significant capital investment as well as maintain dividends to shareholders."

Sophie said: "While there are clear economic headwinds in the current financial year, we are looking with confidence to FY24 and beyond, and positioning the business to capture the opportunities that are firmly within our sights. We are determined to execute on our strategy, and have the team and plan in place to deliver. With this in mind, we have updated and refined our three-year targets to the end of FY26:

- Revenue growth (CAGR) of +3-4% p.a.
- EBITDA margin of 21-23%
- Programming as a percentage of revenue of 47-49%
- Capex returned to 7-9% of revenue
- Employee Engagement (NPS) +14pts
- Customer NPS +19pts
- Double the FY23 dividend.

ENDS

Authorised by Kirstin Jones, Company Secretary

Sky will hold a webcast briefing at 10:00am (NZT) to discuss the results. Details on how to participate are available here: https://www.nzx.com/announcements/415420

Investor queries to:

Andrew Hirst
Interim Chief Financial Officer
Andrew.Hirst@sky.co.nz

Media queries to:

Chris Major
Chief Corporate Affairs Officer
Chris.Major@sky.co.nz