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Sky delivers solid results and continues to execute on strategy despite tough market conditions

Sky New Zealand has today reported its results for the Financial Year to June 2024, with all key metrics delivered within the guidance ranges provided, including:

- Revenue of $766.7m, up 1.6% on FY23
- EBITDA of $153m, up 2.9% year on year
- NPAT of $49.2m, down 3.7% due to increased depreciation
- Customer relationships of 938,760
- Free cash flow of $23.7m, up 43.2% year on year
- Dividend of 19 cents per share (fully imputed), up 26.7%

Sky Chairman Philip Bowman commented: "We are pleased to present financial results that demonstrate solid performance and the resilience of Sky's strategy despite the significant challenges faced within the New Zealand economy."

"Notwithstanding the tough economic conditions affecting many consumer-facing businesses, Sophie and her leadership team have delivered a third consecutive year of revenue growth, and results within our Market guidance across all metrics."

"Focussed actions to maximise revenue opportunities and to control costs to deliver margin growth have strengthened free cash flow, while at the same time we have continued to invest in the business. These actions have enabled the Sky Board to increase shareholder income by delivering a 26.7% increase in the FY24 dividend to 19 cents per share (fully imputed), demonstrating we are on the path to our 3-year target of doubling the FY23 dividend."

Chief Executive Sophie Moloney said: "Today's results are particularly gratifying given the tough environment we are operating in. They are the result of a lot of hard work from the talented Sky team, and they reinforce the strength of the Sky strategy to maximise the value of our unrivalled content across multiple products."

"Our Sky Box business continues to provide enduring strength, as we also pursue higher growth options from newer products and revenue streams."

FY24 Financial Results: key points
Revenue was within the guidance range at $766.7m, with growth of $12.4m, an increase of 1.6% year on year.

While Sky Box revenue reduced 2% year on year, all other revenue lines were in growth and speak to the positive portfolio effect of Sky's business and increased revenue diversity achieved over recent years, including Streaming (up 7%), Broadband (up 40%), Commercial (up 2%), Advertising (up 13%[1]), and Other Revenue (up 9%).

Key successes include the outcomes achieved by Sky Sport Now (with H1 being a particular stand-out, thanks in large part to the Rugby World Cup 2023, and with strong revenue growth of 33%), and from the increased focus that has delivered growth in advertising revenue and increased market share in a challenged market.

Overall customer numbers were down year on year to 938,760. These overall numbers were impacted by events beyond Sky's control such as the lack of acquisition driving content supply for Neon due in part to the US writers' and actors' strikes, and the cost-of-living challenges for many New Zealanders. Also, Sky took the decision to slow down marketing of the new Sky Box in H1 in order to complete enhancements and refresh the go-to-market settings from March this year.

Sky's continued focus on costs held the increase in operating expenses to just 0.8% or $5m year on year. This includes the $8m impact of the cost of growth, with Sky delivering real, permanent savings as planned (including a significant reduction in costs stemming from the full year impact of FY23 transformational changes of $6m).

Sky's cost control efforts contributed to a creditable EBITDA result of $153.0m, an increase of $4.3m.

Pleasingly, even in a challenging year, the continued focus on growing revenue ahead of costs delivered another period of margin growth to 20%, moving closer to Sky's FY26 target of between 21% to 23%.

Net Profit After Tax of $49.2m was just below the mid-point of guidance, and slightly down year on year (as expected) due to higher depreciation costs associated with Sky's new products.

Capital expenditure increased to $82.9m to accelerate the rollout of new products to more customers. This is an important investment that brings customers into a new and richer experience through a digital interface that also brings future opportunity for Sky.

Delivery of FY24 priorities

Sophie commented: "The delivery of this solid financial result reflects our continued execution on our strategy, and was underpinned by our focus on our three key priorities for FY24:

- ***Lift employee engagement***: Making Sky a great place to work for our people, with a clear sense of purpose, and shared values and direction, is crucial to the success of our business. Our latest employee engagement results delivered a 12-percentage point increase over the past 12 months, which is a hugely significant shift with more emphasis to follow in FY25.

- ***Roll out the new Sky experience***: There has been a positive increase in the take-up of the new Sky experience available via the new Sky Box and Sky Pod, with 21% of the base now using these digital products. At year end, 88,000 customers were using the new Sky Boxes, and 11,000 the Sky Pods, with a total of over 112,000 new Sky Boxes and Sky Pods in active use in customer homes, including multi-room devices. A meaningful 12-point increase in the Net Promoter Score (NPS) for the new Sky Box when compared to the wider Box base provides additional evidence that the new Sky experience is delivering value for our customers.

[1] On a like-for-like basis, excluding RugbyPass revenue in the prior period

- ***Grow new revenue streams***: In year one of a multi-year roadmap for growth, Sky secured market share of 12.6% (up 2.7 percentage points on the previous year) and grew revenue by 13% in a market where TV advertising spend contracted 13.8% year on year. The success of our strategy is a recognition of the strength of Sky's highly engaging content, particularly for sport, with independent research confirming the high-attention value of Sky content that has strong appeal for advertising customers.

These three priorities will continue to be a focus in FY25, with a fourth priority added:

- ***Deepen content engagement***: This is an extension of our content strategy as we look to ensure that our disciplined approach to our content investments (by using our rich data to ensure we're getting the right content for our sport and entertainment customers, at the right price) encompasses driving the engagement with, and performance of, our content throughout the life of each deal.

"As we advised the market on Monday 19 August 2024, another major initiative in FY25 will be the successful migration of customers from our current Optus D2 satellite to an alternative satellite solution. Our agreement with Optus secures us continuity of satellite supply until 2031, and we are focused on ensuring a successful migration and smooth transition for customers in Q4 of FY25."

Capital management

Sky continues to have a strong focus on shareholder returns through dividends and share buybacks.

Sky is making solid progress towards its target to 'double the dividend' from FY23 to FY26, demonstrating the Board's ongoing confidence in Sky's ability to generate sustainable levels of free cash flow, economic conditions notwithstanding.

The initial share buyback concluded at the end of March 2024, with $14.2 million of a possible $15 million deployed.

Philip Bowman says: "The Board continues to believe the company is undervalued by the Market and as a result approved a further share buyback programme. This second programme for up to $15 million commenced on 1 April with close to half this sum deployed when the programme was paused for the FY24 year-end blackout on 31 May. Having announced our FY24 results, we intend to recommence the programme depending on market conditions."

In July 2024 Sky successfully completed a competitive process to restructure Sky's Banking Facility, at the same time electing to reduce the Facility limit to $100m from $150m. The new agreement runs to September 2027 and was concluded with the incumbent banks on more favourable and flexible terms, reflecting Sky's improving performance over successive financial years and the positive outlook for free cash flow generation.

"As the current period of elevated capital investment on the new Sky Box begins to ease during FY25 and returns to long-term levels during FY26, Sky should generate higher sustainable free cash to fund the growth in dividend to our previously communicated target level."

Outlook and guidance

"Whilst economic challenges are expected to continue in FY25, Sky is forecasting further revenue growth and delivery of additional cost reduction opportunities including transformation initiatives."

Sophie said: "A year ago we shared 3-year targets to highlight our areas of focus to deliver on strategy. We remain on track to deliver these targets, with the exception of the revenue target, largely due to the headwinds encountered in FY24. The slower-than-expected start means we need to reset this CAGR based target to give clarity on our revised expectations. This now sees us targeting revenue growth of 1-2% p.a. to FY26, with all other targets remaining unchanged, including our programming cost and capex targets set as a percentage of revenue."

Sky has released guidance for FY25 including:

- Revenue of $760m to $785m
- EBITDA of $150m to $170m
- NPAT of $40m to $55m
- Capex of $55m to $70m
- Dividend of at least 21 cents per share.

EBITDA, NPAT and Dividend guidance excludes one-off costs associated with transformation initiatives. NPAT guidance reflects the current Optus agreement and may be subject to change. Capex guidance excludes costs associated with the completion of satellite migration in FY25, currently estimated to be in the range of $10m to $15m, subject to further review as planning for migration by May 2025 continues[2]. Financial support from Optus to effectively off-set mitigation spend will flow through right-of-use costs on leases in FY25 and FY26.

Sophie concluded: "As we close out FY24 and head into FY25, we are already seeing some superb customer engagement, particularly around the Paris Olympics and as we start to receive exciting new content from our BBC partnership such as the critically-acclaimed *The Jetty,* and not forgetting the excellent access to many 24x7 news channels in this year of the US Elections. It is an encouraging start to the year ahead and we are looking forward to a positive year for our customers, our crew, our partners and our investors."

ENDS

Authorised by Kirstin Jones, Company Secretary

Sky will hold a webcast briefing at 10am NZT to discuss the Results. Details on how to participate are available here: Sky FY24 Results webcast details

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[2] Compared with the $4.5m spend in FY24, which was also excluded from Capex guidance