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Sky delivers customer and revenue growth; Buyback programme announced

Sky Network Television Limited (Sky) has delivered a solid performance for the six months to 31 December 2022 through continued growth in customer relationships and revenue, and a sustained focus on cost control during a period of higher investment.

Key points of today's announcement (comparisons are against H1 2022 unless stated):

- Customer relationships reached 1,053,287 (+6%)
- Revenue grew to $378.6 million (+2%) and with every core revenue line growing vs. H2 FY22 (+4%)
- Continued to secure targeted content, including key rights for World Rugby and Formula 1
- On target to deliver further permanent cost savings of $35 million in the 2023 financial year
- EBITDA[1] of $73.7 million in-line with prior period when normalised for one-offs in H1 2022
- NPAT of $26.2 million, on track to deliver results in line with full year guidance
- Interim dividend of 6.0 cents per share (fully imputed), in-line with increased guidance
- Additional capital management through a share buyback programme of up to $15 million

Commenting on the first half year performance, Chief Executive Sophie Moloney said: "We are delivering on our strategy, and this result is further confirmation that Sky's positive momentum has continued from the inflection point we first reported on a year ago."

"The positive trend in customer growth has continued, we've secured all of the key content we targeted, particularly in sport, and all core revenue lines are delivering growth – notably this includes growth in Sky Box revenue between H2 FY22 and H1 FY23. Our firm focus to deliver on our strategy is showing up in these results despite the delays in delivering our new products, and we're now ready to aim even higher."

"Exceeding 1 million customers is an exciting achievement as more New Zealanders choose to join Sky. It's a strong signal that we're hitting the mark with a wider audience by delivering an exceptional range of the sport and entertainment they love, and I'm determined we remain a preferred choice for New Zealanders."

Noting the recent weather events in New Zealand, Sophie said: "We are very conscious that many of our customers and shareholders, along with some of our own team, are experiencing significant impacts from the disastrous cyclone and flooding events in the past three weeks. Our thoughts are with our fellow New Zealanders at this time, and we are taking a number of steps to provide support for our customers and crew."

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

Customers

Growth in customer relationships included strong momentum in Streaming with an impressive 68% increase for Sky Sport Now and 15% for Neon. This saw Sky's streaming business reach a new total of over half a million customers (506,375).

Broadband customer numbers more than doubled year on year to finish above 23,000 and achieved a 4.3% attachment to Sky Box. Commercial customer relationships - including licenced premises, clubs, hotels, motels and gyms - remained stable at close to 7,000.

While Sky Box customer relationships were down 5% year on year, this trend slowed in the most recent six months and with further evidence that the acquisition strategy reset has started to deliver the expected improvements. Despite some challenging delays (including supply chain disruption and difficulties in accessing additional specialised technical capabilities in a very tight labour market), the new Sky Box is now being shared with customers, focusing first on Vodafone TV (VTV) customers before going wider. Sophie commented: "We are excited to have reached this important milestone. I acknowledge the path to get to this point has not always been smooth, at the same time I'm proud of the way the team has pulled together to deliver for our customers, and I'm pleased we are now welcoming customers to this new experience."

Content

Sky's disciplined approach to securing content that customers value led to a number of important rights wins, particularly in sport. These included a multi-year partnership with World Rugby (including every men's and women's world cup until 2029) and the announcement in December that Formula 1 coverage was returning to Sky from 2023. Other key renewals included a multi-year deal with Australian Tennis and continuing relationships with Sky News, Roadshow Entertainment and StudioCanal.

Previously reported wins including the first of six seasons of the Premier League and extensive coverage of the men's FIFA World Cup, demonstrated the value of Sky's strengthened content to attract new customers, with these competitions particularly resonating on Sky Sport Now.

Sophie commented: "The strategic choices we have made across key sports content, and the vast array of entertainment options (from acclaimed series, familiar favourites, blockbuster movies, news and kids programming) firmly position Sky as New Zealand's leading aggregator. We have the biggest variety content bundle - all in one place - and we remain focused on maximising its value across our platforms."

Financial

Revenue grew to $378.6 million, up 2% on the prior period, and importantly Sky Box revenue, while down 1.9% year on year, reached a significant milestone – achieving half on half growth for the first time since 2014. Average monthly revenue for Sky Box subscribers rose 3% year on year to $81.09 and with 85% of customers paying over $50 per month.

The positive revenue trend included impressive growth of 48% for Sky Sport Now and 19% for Neon. While total Streaming revenue grew by 7%, this would be 22% if adjusted for the net impact of funding the extensions to the VTV service. Broadband revenue more than doubled year-on-year and pleasingly, both Commercial and Advertising revenues returned to pre-Covid levels with increases of 18% and 12% respectively.

Price increases advised in January for the Sky Box sports pack and Sky Sport Now will take effect from 1 March.

Expenses increased overall with the expected rise in programming partly offset by savings across this and other cost lines. The increase in programming reflected the step up in renewed rights, acquisition of Premier League rights and increased production costs following the return of New Zealand teams (the Warriors, Phoenix and Breakers) to home soil post-Covid.

Set against this, the annualised impact of FY 2022 savings and the next phase of cost savings are on target to deliver approximately $35 million in cost reductions identified at the time of Sky's full year results in August 2022.

As signalled through guidance, capex rose to $40.2 million in anticipation of the launch of the new Sky Box and Sky Pod (compared to $18.5 million in the prior period). EBITDA of $73.7 million was down, although would have been in-line if normalised for one-offs in the prior period. Net profit after tax was $26.2 million.

The Board has approved an interim dividend of six cents per share (fully imputed), consistent with Sky's policy of distributing between 60% and 90% of annual free cash flow and paying approximately 40% of the anticipated annual dividend as an interim distribution.

Capital Management

Sky returned approximately $70 million to shareholders through a Court Approved Scheme in November 2022 having also returned to paying a dividend, with an initial dividend of $12.8 million (7.3 cents per share, fully imputed) in September 2022.

Sky's Chair, Philip Bowman commented: "Sky's balance sheet remains strong, with $56.6 million in cash on hand as of 31 December 2022 and an undrawn banking facility of $150 million. In addition to these factors, Sky has a positive outlook for future cash generation from a significantly strengthened business."

"As I outlined in my address to the Annual Meeting, the Board believes Sky's shares are considerably under-priced, despite the significantly improved outlook for the business and the Board's decisive moves on capital management. At the close of business on 21 February 2023, Sky shares traded at $2.56 equivalent to a multiple of 2.0 times EBITDA and 6.5 times earnings per share.

After careful consideration, the Board intends to commence an on-market buyback programme (the Buyback) for up to $15 million and up to a maximum of 8,734,416 shares (approximately 6% of Sky's current shares on issue)."

The Company intends to initiate this Buyback next month as will be communicated to the market ahead of the Buyback commencing. Assuming the full capacity is deployed, at the 21 February 2023 share price of $2.56 the Buyback would deliver a 3.3% uplift in Earnings Per Share.

Operational update

As announced to the market on 21 February 2023, Sky has started consultation with employees on a proposal for organisational changes in its technology, customer care, and content operations teams.

Sophie commented: "Our focus is to deliver excellent experiences for our customers, grow new revenue streams, carefully manage our costs, and maximise the value of our exceptional range of content. To continue to consistently achieve these things, we need better access to the right technology, capacity and capability, and we need to do this in a cost-effective way."

If adopted in full, the proposal would result in some of Sky's work in content operations, customer care and technology being outsourced to experienced international providers and could mean up to 170 roles would be impacted in these areas.

If the proposed changes are implemented in full, Sky anticipates generating multi-million dollar permanent savings within two years. The full extent of any financial savings will not be known with any certainty until the conclusion of the consultation period and once final selection decisions are made.

Sky is providing support to its employees and expects to complete consultation and consider employee feedback in the next three weeks. "Listening to our teams' feedback and supporting them through this process is our priority and we will provide further updates after consultation is complete."

Outlook

Sky remains on target to deliver full year results in line with the guidance[2] provided at the time of the full year results announcement, providing a narrowed Guidance Range of Revenue of between $750 to $760 million, EBITDA of between $150 to $160 million, NPAT of between $55 to $60 million, Capex of between $65 to $75 million and Annual Dividends of between $20 to $23 million.

Sophie commented: "We have made significant progress over the past two years so that the Sky of today is in a strong position and we will continue to aim higher as this work continues into the second half."

ENDS

Authorised by Kirstin Jones, Company Secretary

Sky will hold a webcast briefing at 10:30am (NZDT) to discuss the results. Details on how to participate are available here: https://www.nzx.com/announcements/405703

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[2] Subject to the impact of the current consultation process, no adverse change in operating conditions, including future economic headwinds, and the impacts of significant climatic events. Excludes RugbyPass contribution.