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24 February 2022

Sky returns to revenue growth; investigating investment opportunities and with dividends expected to resume from FY22

Sky Network Television Limited (Sky) has delivered a solid performance for the six months to 31 December 2021 as revenue from core residential customers returns to growth, and execution accelerates across all areas of strategic focus.

Key points of today's announcement[1]

- Revenue growth of 4.1%, to $371.7 million (from $356.9 million) as Sky Box revenue continues to stabilise and Streaming[2] revenue grows (the latter up 34%)
- Net profit after tax of $28.3 million from $39.6 million
- On target to deliver total cost savings of $40 to $45 million in FY22[3], including $31 to $36 million in permanent savings, and with further permanent savings targeted from FY23
- Customer growth of 6%, to 983,561 as more New Zealanders choose Sky
- Game-changing new Sky Box on track for delivery into customer homes by mid-2022
- Actively investigating investment opportunities to accelerate business growth
- Return to paying dividends from FY22 following a return to sustainable free cash flows

Commenting on the half year performance, Chief Executive Sophie Moloney said: "This result confirms our view that FY22 marks a positive inflection point for Sky, with delivery of a solid return to revenue growth. Significant permanent cost savings have been identified and are on target to be delivered in FY22, and with more to come in FY23. Having significantly raised our guidance in December, it is clear that the business transformation is gaining traction, and I am pleased to report a strong financial performance against original FY22 expectations that is underpinned by delivering across all four focus areas of Customers, Content, People and Financial."

"Important for me as Chief Executive is that we are living up to the strategic challenge that we set ourselves in June last year to be a more efficient, adaptive and profitable business. Having put in place a highly skilled and experienced Executive Leadership Team with real ambition and passion for Sky, the momentum is tangible. Right across the business, we have entered the second half of this financial year with even more determination."

"As today's results show, rather than being a business in defensive mode, we now have a greater understanding of our existing and prospective customer base, an enhanced portfolio

[1] Comparisons to past results in this announcement are to the six months to 31 December 2020 unless otherwise stated.
[2] Streaming customer groups comprise Neon, Sky Sport Now, RugbyPass subscriptions and Retransmission.
[3] Compared to previous FY22 forecasts that included $5-$10m of targeted opex savings.

of rights, and a balance sheet which is able to embrace opportunity and growth, as well as to recommence distributing dividends to our investors."

Customers

Growth of 6% in customer numbers demonstrated further stabilisation in the Sky Box proposition and was coupled with significant growth of 23% in Streaming, including a 28% increase for Neon and an impressive 62% increase for Sky Sport Now.

Sophie Moloney commented: "It is pleasing to report a continuation in the growing numbers of customers choosing to join Sky. During the Covid-19 lockdowns, Sky offered a valued and crucial service with a strong line-up of sport and entertainment content across Sky Box and the Neon and Sky Sport Now streaming services. We saw a continuation in the positive trend of increased customer numbers, even with the reduced ability to complete Sky Box installations during the lockdowns. Annualised churn in Sky Box customers has continued to reduce to a new low of 9.1%, and there is a growing trend of customers entering into longer term subscriptions to Neon."

Sky Broadband continued to build on the successful launch period and is providing additional value to a growing number of Sky Box customers who report high levels of satisfaction with the service. We are on track to achieve the FY22 target attachment rate of between 3% and 5%. More recently the December launch of the Sky Rewards programme is providing a tangible way to recognise and reward loyal Sky Box customers and demonstrate the value Sky places on these valuable customer relationships.

Delivery of a new Sky Box experience to customer homes in mid-2022 remains on track, with staff and customer trials scheduled to begin soon. Feedback from over 6,000 customers through the validation process confirms a high level of appeal and growing excitement.

Content

Sky's data analytics capability continues to develop and is ensuring spending is tightly aligned with what matters to existing customers, as well as focused on recruiting new customers to drive incremental revenue growth.

Sky confirmed a number of important content rights renewals during the period, including expanded, multi-year contracts with leading entertainment partners: WarnerMedia (the home of HBO, Warner Bros., CNN and Cartoon Network as well as HBO Max), Paramount and Roadshow movies.

On the sporting front, Sky agreed an exclusive host rights deal for FIFA Women's World Cup 2023 as well as important partnership agreements with the NBL (Basketball) and the A-League (Football) covering both men's and women's competitions. Renewals included Six Nations Rugby, FA Cup (football) and securing the rights to the All Blacks end of year Northern Tour.

This week's announcement of the acquisition of exclusive rights to the Premier League for the next six seasons brings additional strength to Sky's sport offer, both for existing Sky Sport customers who have previously needed to purchase a second service to watch Premier

League football, as well as new customers who will be attracted to the depth and breadth of the Sky Sport offering.

Financial

Revenue growth of 4.1% was driven by continued stabilisation of Sky Box revenues to $262.4 million including the first contribution from Sky Broadband attachments, and a significant increase of 34% in streaming revenue to $48.5 million.

Commercial revenues grew by 13% to reach $22.5 million, despite a longer stretch of Covid-19 restrictions than in the previous period, with Sky once again providing support for affected customers. Advertising revenue grew by 5% year on year to $23.5 million. Other revenue was almost double that of the prior period at $14.8 million, as a result of the on-sale of certain rights (including the Olympics sub-licence to TVNZ) and a number of other factors.

As anticipated, when compared to the first half of FY21, operating costs increased by 18% to $287.2 million, largely reflecting the full impact of the step-up in rights costs primarily as a result of increased payments for renewed content rights for our customers, as well as lower levels of savings from Covid-19 related negotiated equitable reductions. For the same reasons, NPAT of $28.3 million was down 29% year on year.

The business generated positive free cash of $39.7 million, an improvement of 201% against the prior year, while also continuing to reinvest for growth.

Sophie Moloney commented: "As we indicated in our December announcement of significant permanent and one-off savings targeted for FY22, we remain keenly focused on achieving a meaningful reset of our cost base, right across the business. I am pleased with the progress we have achieved to date and remain confident in our ability to deliver further permanent savings in FY23. Importantly, we plan to achieve these without compromising on customer experience or accessing additional revenue opportunities"

Capital Management

As indicated at the Annual Meeting in late October, the Board has undertaken a review of Sky's capital management strategy, taking into account the improved earnings outlook, investment needs and strategic opportunities.

Sky's Chair Philip Bowman commented: "In the past twelve months Sky has achieved an improved and sustainable performance across a number of metrics, including cash generation, in conjunction with increased medium-term certainty over the majority of our key content rights. Against this backdrop, the Board has resolved to adopt a formal dividend policy of distributing between 50% to 80% of Free Cash Flow[4] (excluding one off items). The Board expects to resume paying dividends commencing with a final dividend in September 2022, consistent with this dividend policy."

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[4] Free Cash Flow is defined by the Company as net cash from operating activities, less net cash used in investing activities less payments for lease liability principal.

"As a result of Sky's recent performance, and the sale of OSB, Sky had $73.9 million of cash on the balance sheet as of 31 December 2021. The sale of Sky's Mt Wellington properties, due to settle in March, is expected to provide a further net cash inflow of $55 million. Management and the Board continue to assess opportunities to invest capital to accelerate the growth of the business, generate new revenue streams, and deliver improved returns for shareholders. As a result, we intend to provide a further update on capital management to coincide with an investor day to be held in June 2022. Any decisions on capital structure, including details of any potential capital return, will be subject to market conditions and any other strategic opportunities that may arise."

Outlook

Sky remains on target to deliver full year results in line with the upgraded guidance advised on 7 December 2021 of Revenue of between $725 to $745 million, EBITDA of between $150 to $160 million and NPAT of between $40 to $48 million.

While there inevitably remains some uncertainty surrounding the potential disruption from the omicron variant of Covid-19, Sky is well placed to navigate any challenges, with a strengthened team, a strong balance sheet, and an evolving platform to drive future growth.

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Ends

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