

# What matters most

Results  
Presentation

For the six  
months ended  
31 December 2020

*sky*





# ▸ Agenda

CEO opening  
remarks

What  
matters most

Financial  
performance

Looking  
ahead

Questions

## ▶ CEO Update / Introduction

- Significant industry experience both in New Zealand and internationally at Sky UK, Sky News Arabia, Abu Dhabi Media and OSN.
- Joined Sky in 2018 on returning to New Zealand and prior to being appointed CEO was Sky's Chief Commercial Officer.



### **First 90 days**

- People, Partners and Operational focus
- Strategy review
- Clear direction and a relentless focus on execution

▶ **What matters most**



Our customers come first

Sky is a content business

- Our goal is to connect customers with the sport and entertainment they love, in ways that work for them
- Every decision we make should start by asking ourselves 'how does this make Sky better for our customers?'
- We're here for all New Zealanders
- We're listening, we have rich insights
- We're shifting gears to execute tangible initiatives that will add value for customers



# ▶ HY 2021 at a glance

Good but need to do better

## FINANCIAL

### REVENUE

\$ **356.9** m

↓ 7%

### OPERATING EXPENSES

\$ **242.8** m

↓ 18% (Includes one offs)

### EBITDA

\$ **116.3** m

↑ 30%

### NPAT

\$ **39.6** m

↑ 234%

## CUSTOMERS

### CUSTOMER RELATIONSHIPS

**+17%** YOY ↑

### TOTAL CUSTOMER RELATIONSHIPS

**926,530**

### SKY BOX CUSTOMERS

**566,497**

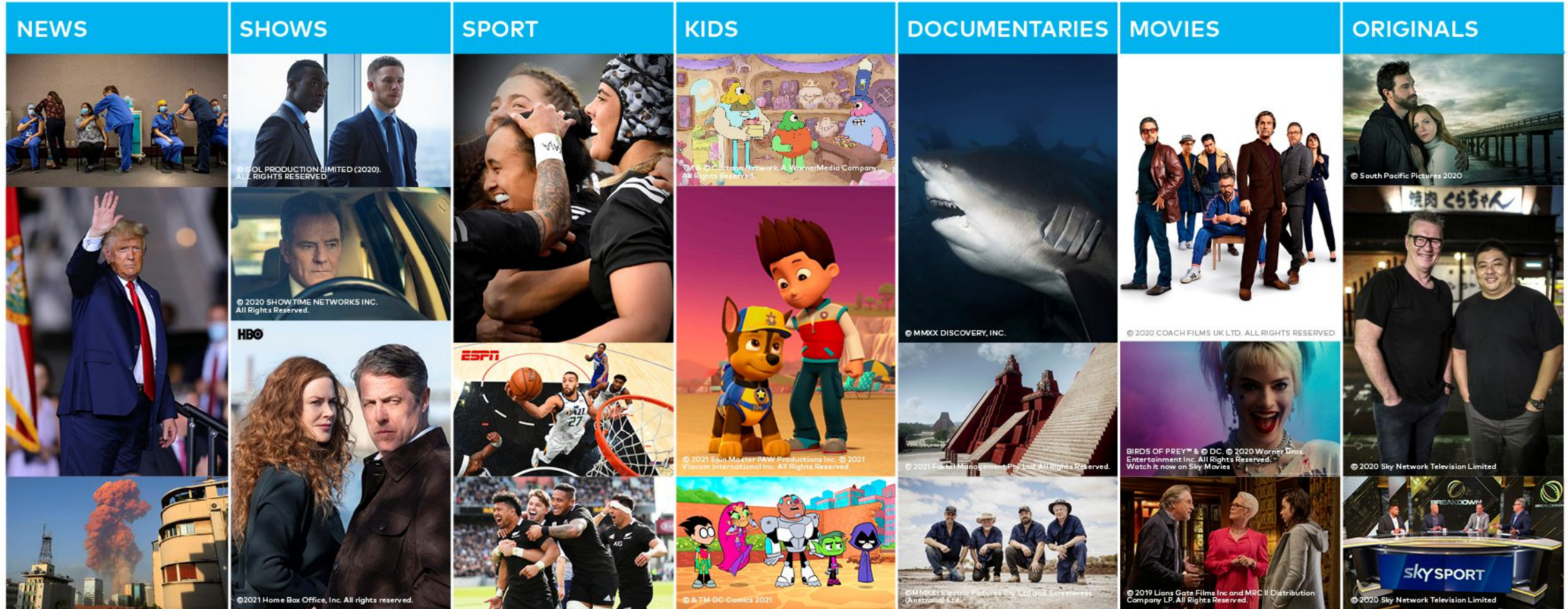
### GROWTH IN STREAMING CUSTOMERS

↑ **80%**



# ► Our Content

A one stop shop to entertain, inform and inspire Kiwis





## ► Our Partnerships

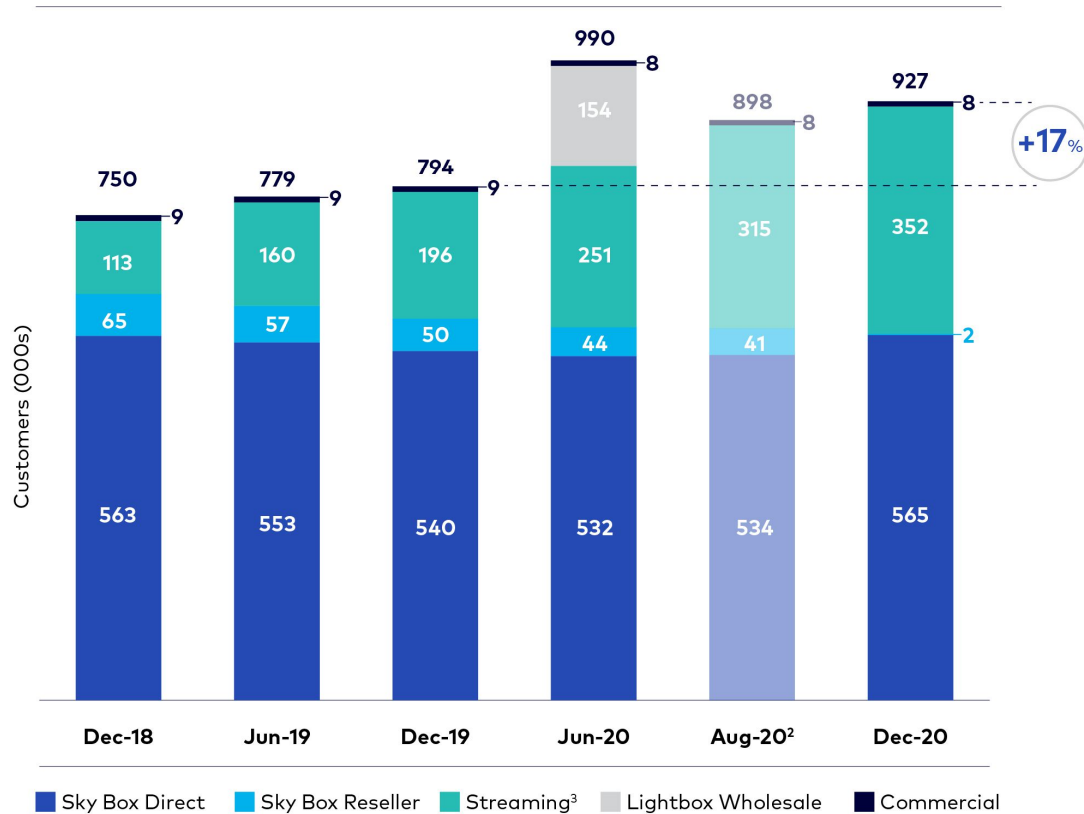
Securing the rights that matter to our customers and embracing co-exclusive content deals

- New and renewed multi-year deals signed for content that our customers enjoy
- Attractive partner, enabling content providers to access a significant customer base of 926,530
- Constructive and long-standing partnerships of up to 30 years
- Content discussions continue to focus on appropriately valuing content and rationalising where that makes sense, based on our rich data and insights (including from 24,000 Sky Nation customer panel and 35% connected boxes)
- Comfortable with co-exclusive content. Recent negotiations involving co-exclusivity confirm the value of partnering with Sky in the NZ market while also providing opportunities for Sky to reduce costs
- Continuing to work with partners, including Vodafone via Vodafone TV and Spark via our Neon and Sky Sport Now distribution deals, with the objective to deliver our content as widely as possible

# ► Our Customers

17% growth in customer numbers since December 2019

SKY CUSTOMERS



- Sky Box customer numbers continue to stabilise, reducing by 4.0% in the 12 months to December 2020 compared to 6.1% in the prior period
- Migration of reseller customers almost complete, successfully converting almost 90%
- 80% YoY increase in streaming customers through the acquisition of Lightbox and organic growth
- 16% growth in Neon customers since the merger of the Neon and Lightbox platforms
- At Lightbox acquisition<sup>1</sup> there were approximately 130k Spark customers using Lightbox and recognised by the wholesale arrangement with Spark. By June 2020 this number had grown to 154k. After merging Lightbox and Neon, we converted over 1/3rd of hard bundled Lightbox customers to paying Neon customers

<sup>1</sup> Lightbox acquisition completed 31 Jan 2020.

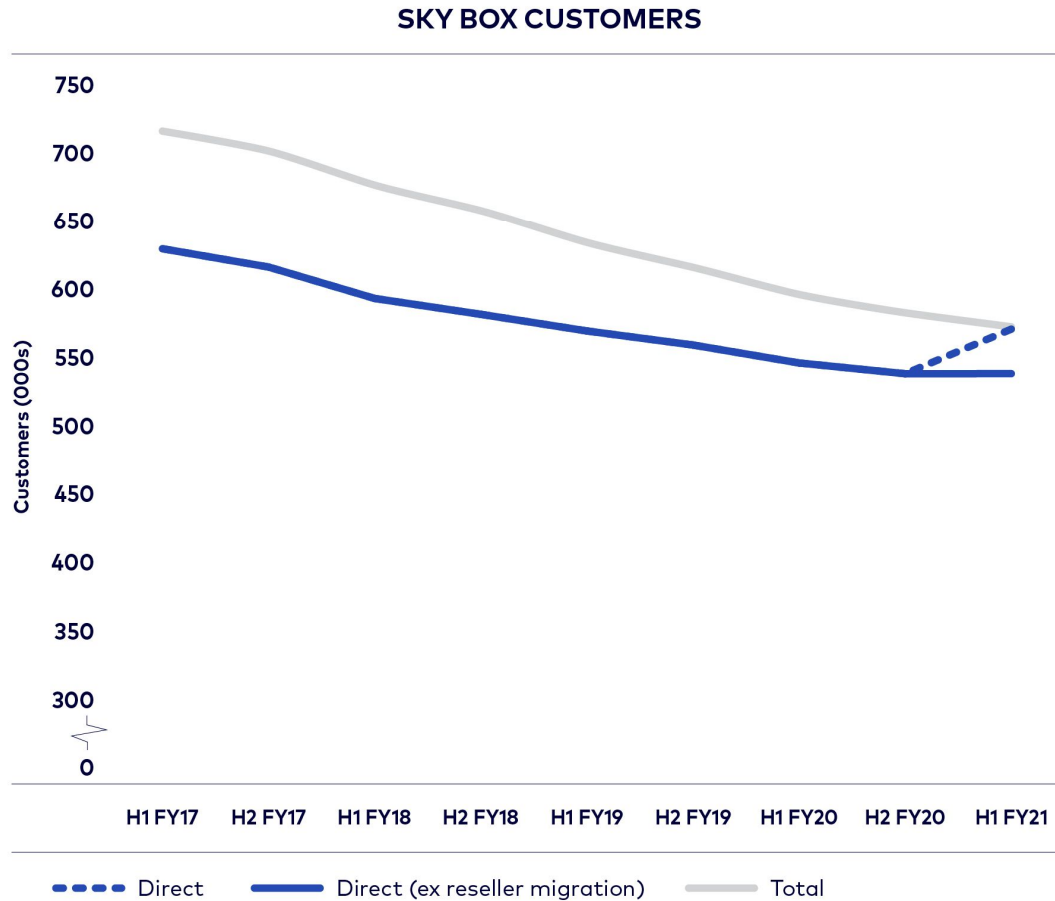
<sup>2</sup> At 31 August 2020, paying streaming customer numbers had reduced to 315k, reflecting the move in the Spark commercial terms from wholesale to direct carrier billing.

<sup>3</sup> Streaming customer groups comprise Neon, Lightbox, Sky Sport Now, RugbyPass and Vodafone retransmission customers, but do not include free trials.



# ► Sky Box Customers

We are reaching a stable customer base

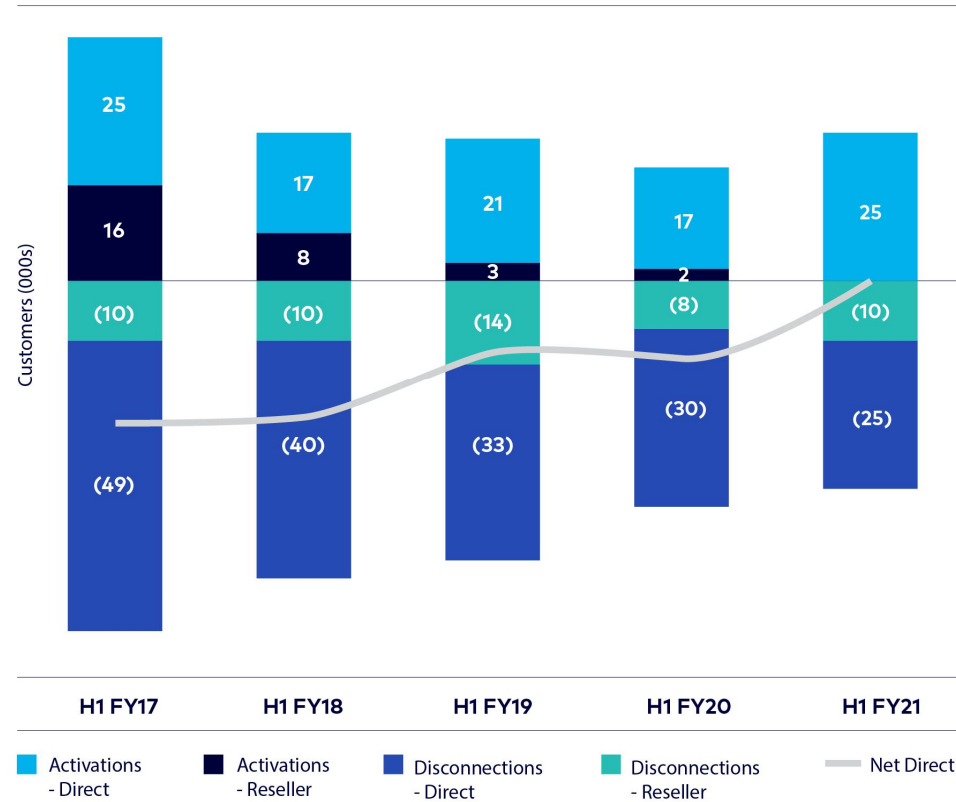


- Sky's significant Sky Box customer base is the strong core of our business, accounting for 76% of revenue and representing 1/3rd of NZ households
- Customer numbers are stabilising, with net growth in direct customers in H1 FY21 (excluding the migrated reseller customers)
- This reflects our strong presence in key loyal customer segments as well as the new capability we have built and continue to build in customer value management

# ► Sky Box Customers

Improvement in direct activations and lower churn

SKY BOX CUSTOMER ACTIVATIONS/DISCONNECTIONS



- Significant improvement in direct customer activations (+50%) and disconnections (-16%) to stabilise the base
- Acquisition growth supported by broadening sales channels
- Seeing more interest from consumer groups not previously as highly represented, including budget conscious, middle/regional NZ
- Market research data<sup>1</sup> indicating 1/3rd of New Zealand households are open to being a Sky customer, and are not currently subscribed

<sup>1</sup> Source: Sky commissioned survey of New Zealand households carried out by International research specialist fiftyfive5, September 2020



# ► Sky Box Customers

## Positive retention trends continue

SKY BOX CUSTOMER CHURN



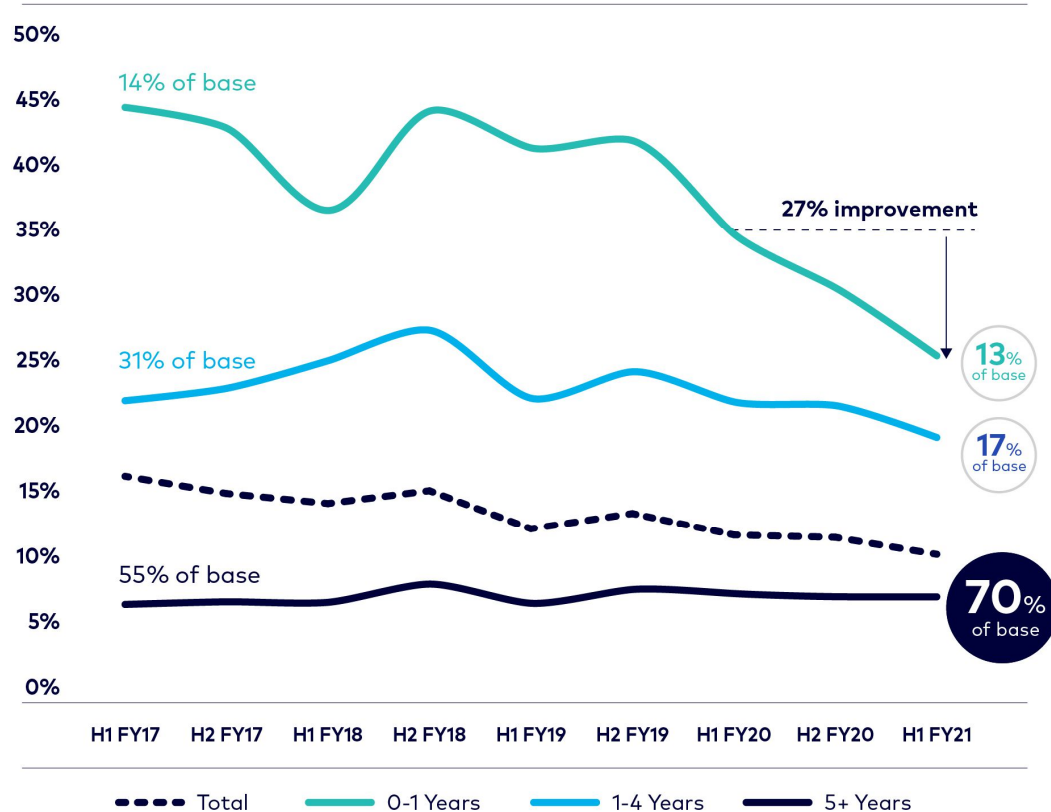
- Direct annualised churn improved to 9.5% from 11.0%, with total churn (including reseller customers) improved to 12.4% from 12.8%
- Following long term successful reseller partnership with Vodafone, agreement to migrate customers to a direct Sky relationship. This is expected to benefit customer experience and further improve overall churn levels
- Sky Broadband positioned to add further value for fibre-ready Sky Box customers, with feedback from Sky Nation<sup>1</sup> panelist and local/offshore examples suggesting a meaningful long-term impact on retention

<sup>1</sup> Sky Nation panel consists of approximately 24,000 Sky customers

# ► Sky Box Customers

Significant proportion of customers with long tenure and low churn rates

SKY BOX CUSTOMER CHURN BY TENURE (DIRECT CUSTOMERS)

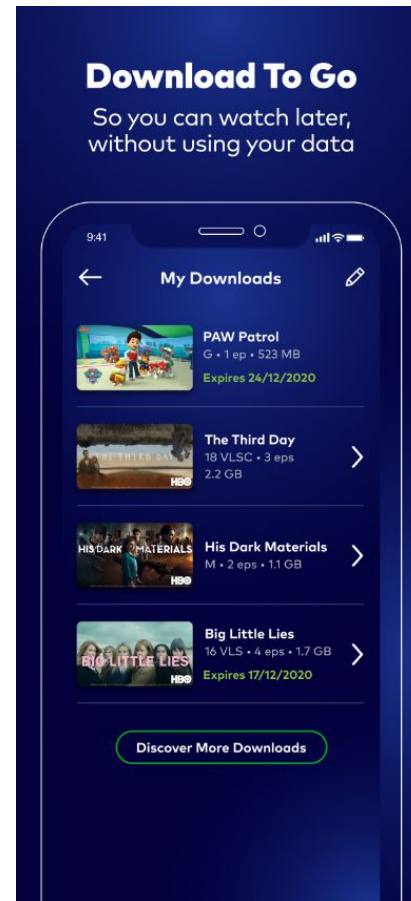
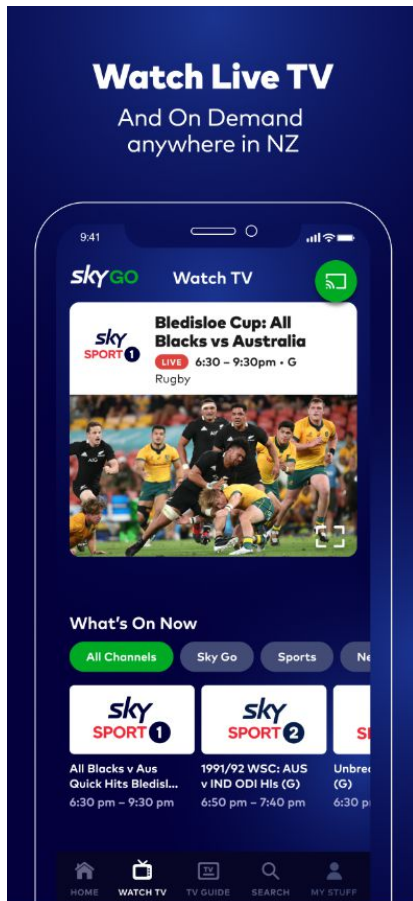


- Strong core of loyal Sky Box customers. 70% have been with Sky for over 5 years and with low churn rates of 6%
- Significant improvement (27%) YoY in churn rates for new customers (0-1 year tenure)
- Customers under contract increased YoY to 11% from 4%, with average contract terms increasing to 14.6 months from 12.1 months



# ► Sky Box Customers

## Sky Go adding value for Sky Box customers



- New Sky Go companion app rolling out this month following customer-led development and feedback, including 1,000 Sky Nation customers involved in the beta trail. The new Sky Go delivers:
  - enhanced content discovery features
  - 30% increase in available content
- Provides additional value for Sky Box customers. Strong evidence Sky Go is valued, with 8% lower churn in the first year of joining compared to non-users
- The move to Sky's digital platform enabled a rapid development process and allows greater ongoing flexibility

## ▶ Sky Box Customers

Sky Broadband on track and positioned to add value



- Customer trial phase delivering valuable feedback to strengthen the offer and providing strong validation for launch
- On track to begin targeted selling in the coming weeks with initial focus on fibre-ready Sky Box customers to deliver additional value
- Substantial focus on service and user experience supported by Sky's NZ-based Broadband team
- Latest Wi-Fi tech with fully integrated Wi-Fi 6 router and mesh devices. Allows customers to take full advantage of high speed fibre internet throughout their home



# ▶ What's coming up?

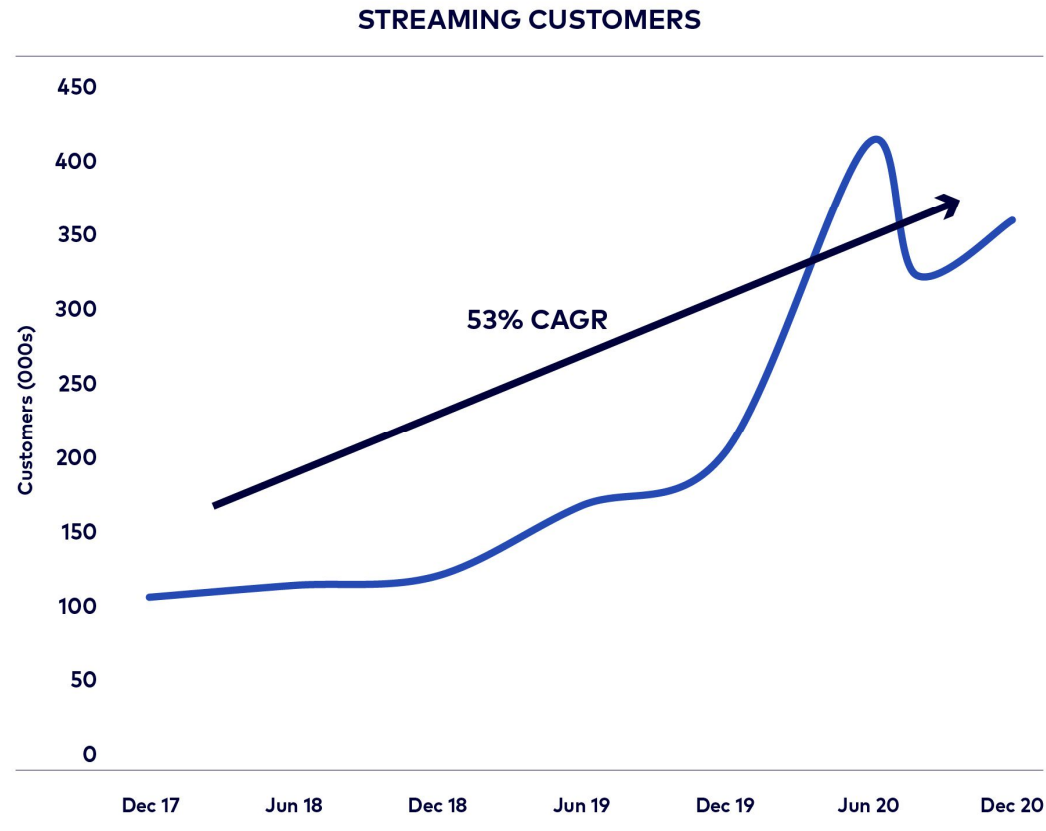
## New Sky Box to evolve the Sky experience



- We have commissioned in-depth consumer research to help us design the new Sky Box
- Rich insights will drive design and user experience decisions
- Opens opportunities to significantly enhance the experience for those customers who want it, and increase appeal to wider market
- Strengthens positioning as the preferred pay TV content aggregator in the New Zealand market

# ▶ Streaming Customers

Continued growth of new customers to Sky



- Continued growth (80% YoY) in streaming, including 16% since the merger of the Neon and Lightbox platforms
- Churn rates have significantly improved since we merged the Neon and Lightbox platforms, providing a combined content offering and a better customer experience
- New Sky Sport Now pricing & packaging and introduction of 7-day free trial has supported impressive customer growth in the period
- This growth is not compromising our Sky Box customer base:
  - 96% of new Sky Sport Now customers in the period didn't have a Sky Box subscription in the previous 90 days
  - Over 4,000 customers who lapsed from Sky Box more than 1 year earlier rejoined as Sky Sport Now customers
  - 97% of new Neon customers in the period didn't have a Sky Box subscription in the previous 90 days



# ▶ Commercial Customers

Extends Sky's reach to venues throughout NZ

From the Karikari Peninsula in the north to Stewart Island in the south, and in the Chatham Islands



**Licensed premises** including pubs, clubs, restaurants

- High penetration amongst pubs and chartered clubs with room for growth in restaurants, cafés and sports clubs
- Implemented a value-based pricing model with a fairer and more appropriate tiered structure recognising the value of Sky's content to a commercial customer's business

**Accommodation** including hotels and motels

- Sky available in 55,000 rooms nationwide, representing 88% share of the market
- Currently impacted by COVID-19 but with future growth potential from 2,000+ new rooms under construction and properties undertaking incentivised service upgrades

**Corporate** including retail, gyms, aged care facilities

- Predominantly sport, news and music focused content delivery to individual premises through to country-wide chains

# Financial Performance



# ► Financial Performance

## H1 FY21 vs H1 FY20

\$m	H1 FY21	H1 FY20	vs	%
<b>Revenue</b>	<b>356.9</b>	<b>384.8</b>	<b>(28.0)</b>	<b>(7.3%)</b>
Other Income	2.2		2.2	
Operating Expenses	242.8	295.1	52.3	17.7%
<b>EBITDA</b>	<b>116.3</b>	<b>89.7</b>	<b>26.6</b>	<b>29.6%</b>
Depreciation & Amortisation	55.1	61.3	6.3	10.2%
EBIT	61.2	28.4	32.8	115.7%
Interest	4.7	8.8	4.1	46.7%
Profit/(Loss) before tax	56.5	19.6	36.9	188.6%
Tax	16.9	7.7	(9.2)	(119.6%)
<b>Net Profit/(Loss) after tax</b>	<b>39.6</b>	<b>11.9</b>	<b>27.7</b>	<b>233.5%</b>

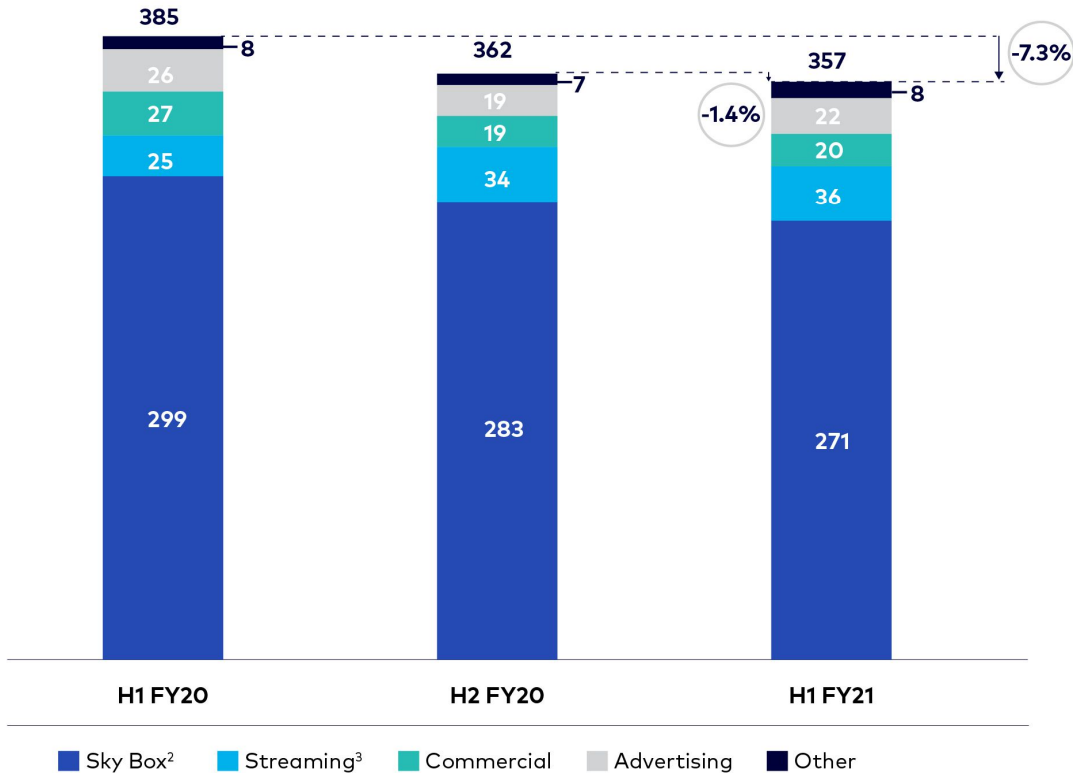
- Further slow-down of revenue decline (3% in H1 FY21 vs 5% in H1 FY20) after removing the direct impact of COVID-19 and a 'one month free' reseller migration offer<sup>1</sup>
- Other income of \$2.2m relates to one-off non-cash accounting adjustments, primarily related to RugbyPass
- Underlying reduction in operating expenses of \$44m (after excluding one-offs) includes the impact of equitable reductions in content rights and lower production costs due to COVID-19, and permanent savings in the underlying cost base

<sup>1</sup> One off impacts in H1 FY21 include direct impact of COVID-19 on commercial, advertising & subscription revenues, and a one-month free offer on migration of reseller customers to mitigate change in billing cycles

# ► Revenue

## Further stabilisation of Sky Box and continued growth in streaming

TOTAL REVENUE<sup>1</sup> (\$m)



- Revenue decline of 7%, but after removing the direct impact of COVID-19 and reseller migration offer, a 3% decline vs 5% in prior period
- Majority of direct COVID-19 impact was on Advertising and Commercial revenues of \$10m, impacted by border closures, Auckland restrictions in August and reduction in live sport
- 45% increase in Streaming revenue through organic growth and acquisitions
- Compared with H2 FY20 (when the COVID-19 outbreak occurred) revenue is down by only 1.4%, which reflects a 4% decline in Sky Box offset by growth in Streaming and a partial recovery in Commercial and Advertising

<sup>1</sup> Revenue does not include Other Income which was \$1.0m in H2 FY20 and \$2.2m in H1 FY21

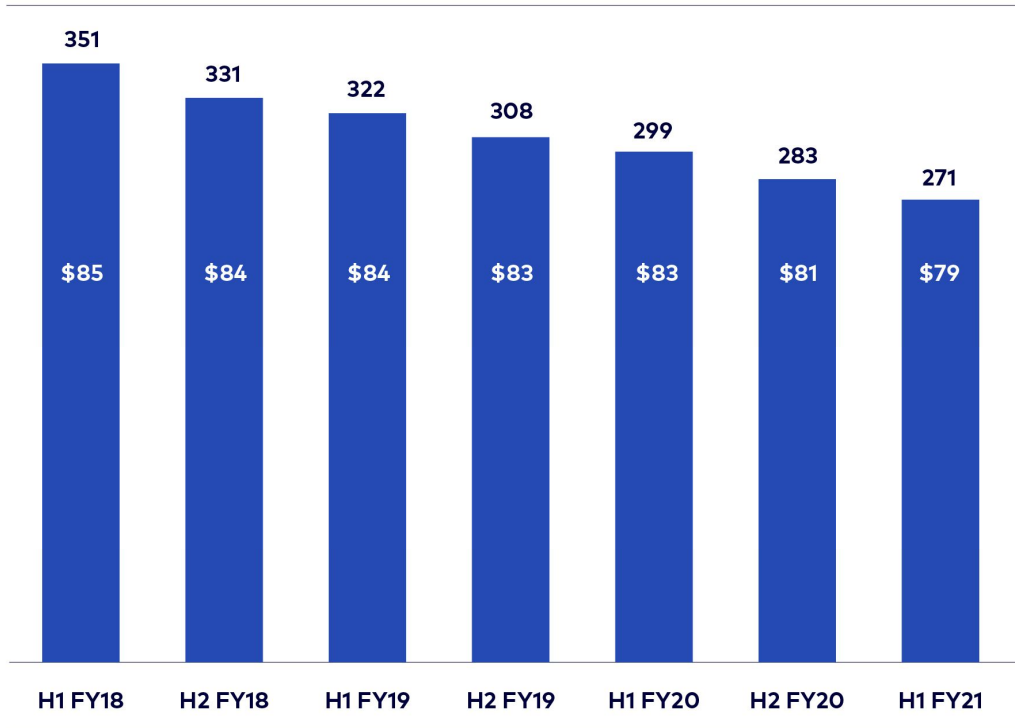
<sup>2</sup> Sky Box revenue includes direct and Vodafone reseller subscriptions

<sup>3</sup> Streaming revenue includes Neon, Lightbox, Sky Sport Now, RugbyPass and retransmission revenues

## ► Sky Box Revenue

While the customer base continues to stabilise, revenue and ARPU was impacted by structural and one-off items

SKY BOX REVENUE<sup>1</sup> (\$m) & ARPU<sup>2</sup>



- Sky Box revenue decline of 9% compared to 7% in prior period, reflecting customer loss in H2 FY20 (which has since stabilised in H1 FY21), reseller customer churn prior to November migration, and lower ARPUs
- Lower ARPUs in H1 FY21 driven by ~\$2.50 impact of structural and one-off items, including:
  - Migrated reseller revenue previously being recorded gross, with wholesale commissions recognised in operating expenses
  - Full period effect of package downgrades following COVID-19 impacts on content availability
  - ‘First month free’ offered for reseller migration customers
  - Fewer Pay-Per-View sport events
- There has been no price increase since April 2019

<sup>1</sup> FY18 Sky Box revenue is adjusted for the adoption of NZ IFRS 15.

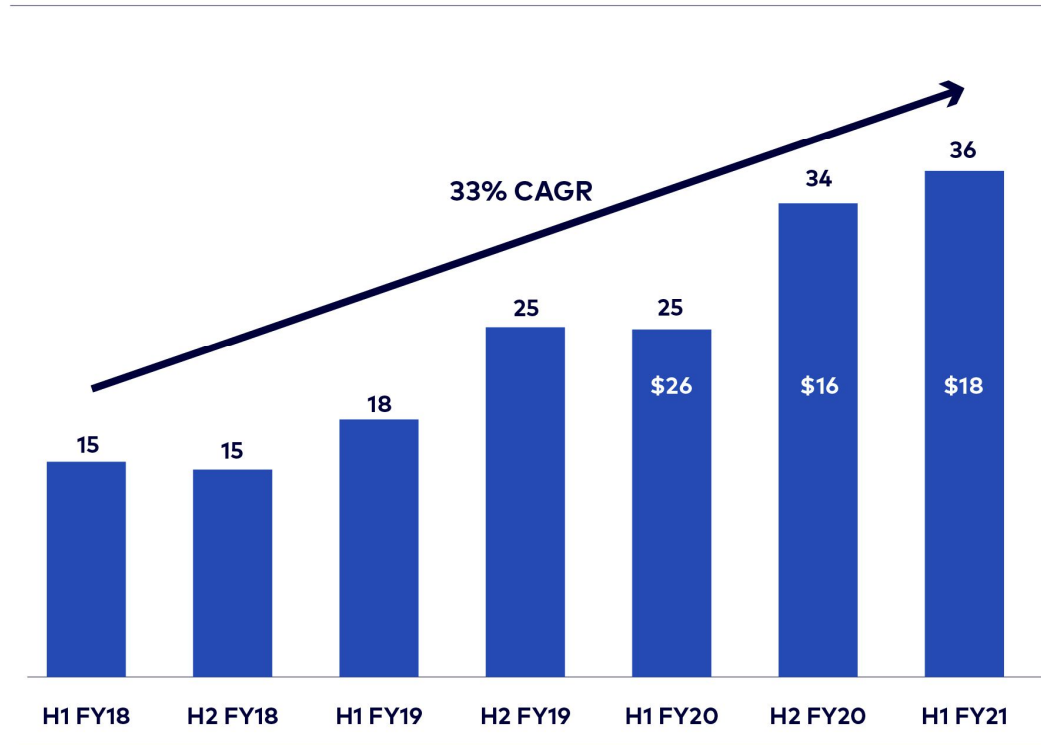
<sup>2</sup> Sky Box subscription ARPU is the monthly average revenue for residential customers including Vodafone, reseller customers, calculated as the average for the six month period.



# ▶ Streaming Revenue

Further increase in streaming revenue through organic and acquisition growth

STREAMING REVENUE (\$m) & ARPU<sup>1</sup>



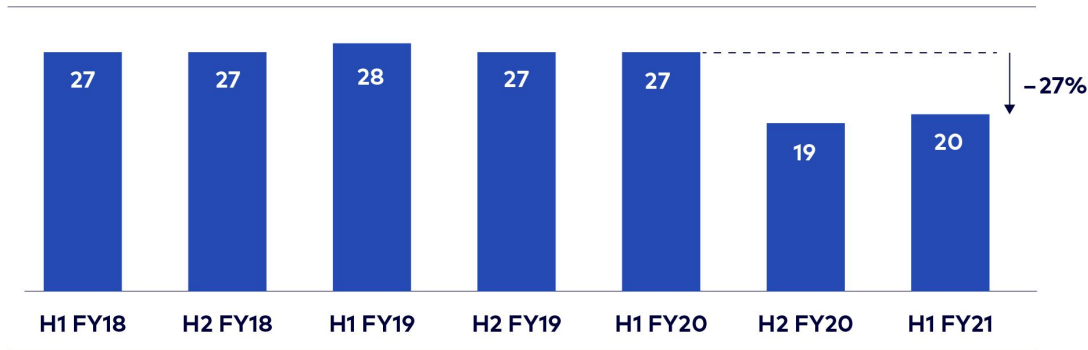
- Streaming revenue increased 45%, compared to 35% in the prior period. Revenue doubled over the past two years with compound average growth of 33% since H1 FY18
- Significant growth in Neon customers following Lightbox acquisition on 31 January 2020 and further growth following the merger of Lightbox and Neon, lowered average ARPU
- 16% improvement in average ARPU between H2 FY20 and H1 FY21 reflects a greater proportion of Neon direct customers vs wholesale, and growth in higher ARPU Sky Sport Now customers following the return of key live sports

<sup>1</sup> Streaming subscription ARPU is the blended rate across Neon, Lightbox, Sky Sport Now, RugbyPass and retransmission, calculated as the average for the six month period.

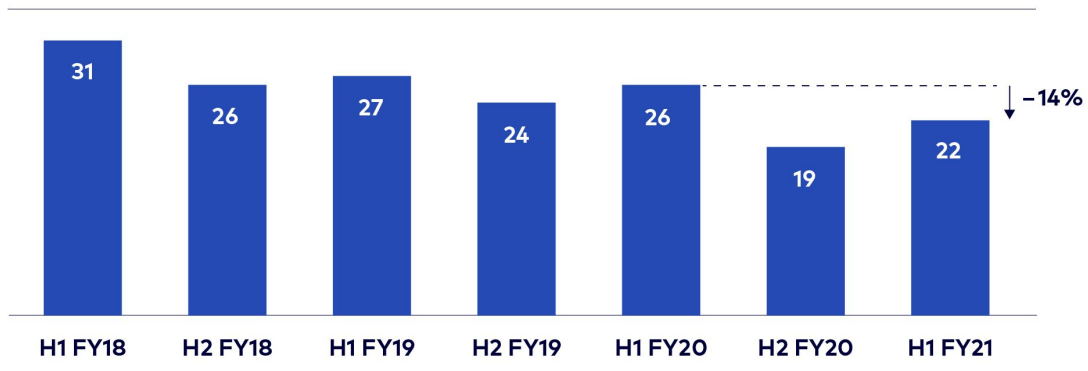
# ▶ Commercial and Advertising revenues

Impacted by COVID-19 but showing recovery

COMMERCIAL REVENUE (\$m)



ADVERTISING REVENUE (\$m)

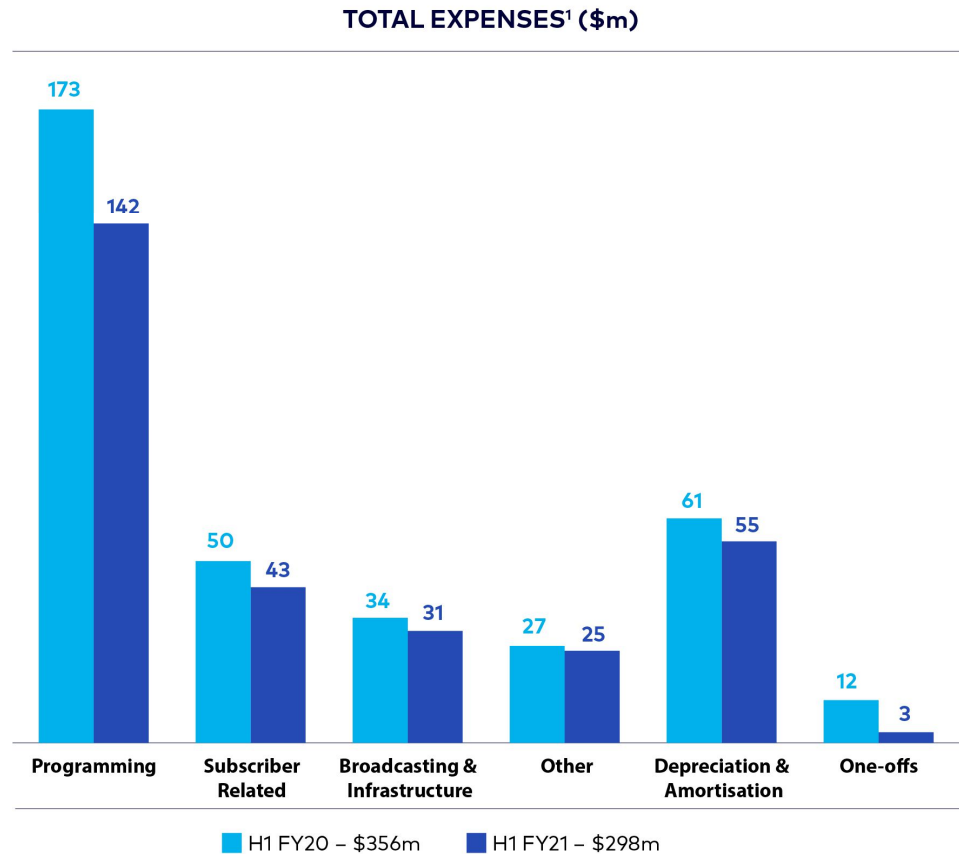


- Commercial revenue impacted by border and gathering restrictions, with H1 FY21 revenue down \$7.5m (27%) compared to prior year
- Proactive support provided on a case-by-case basis through discounts and payments holidays
- Return to normal billing for licensed premise customers from 1 August
- Accommodation sector discounts (excluding MIQ facilities) remain whilst border closures are in effect, but were halved in November
- Advertising revenue down \$3.7m (14%) compared to prior year due to business uncertainty surrounding COVID-19 and the reduction in live sport
- Television spend for the NZ market<sup>1</sup> was down ~12.7% YoY. Although Sky's sport content was significantly impacted, overall market share only reduced to 9.1% from 9.6%

<sup>1</sup> Source: Quarterly Performance Comparison Report from PWC

## ► Total Expenses

Down \$50m (excluding one-offs) due to COVID-19 impacted content schedule and permanent cost savings



- Operating expenses (excluding Depreciation & Amortisation) decreased by \$52m (18%) on prior period; decrease was \$44m (15%) after excluding one-offs in each period
- Significant reduction of \$31m in Programming costs includes:
  - Equitable reductions in content rights and lower production costs due to COVID-19 cancelled and postponed events
  - Savings from not renewing domestic cricket rights
  - Permanent reduction in RugbyPass costs
- Subscriber related, Broadcast & Infrastructure and Other reductions of \$12m primarily relate to headcount savings from FY20 restructuring activities and other cost efficiency programmes
- One-off costs in the period relate to the mutually agreed exit of the former CEO. H1 FY20 one-offs included \$7m of redundancies, \$2m Satellite reservation fee and \$2.5m consultancy costs
- Ongoing reductions in depreciation consistent with our transition to a capital-light model

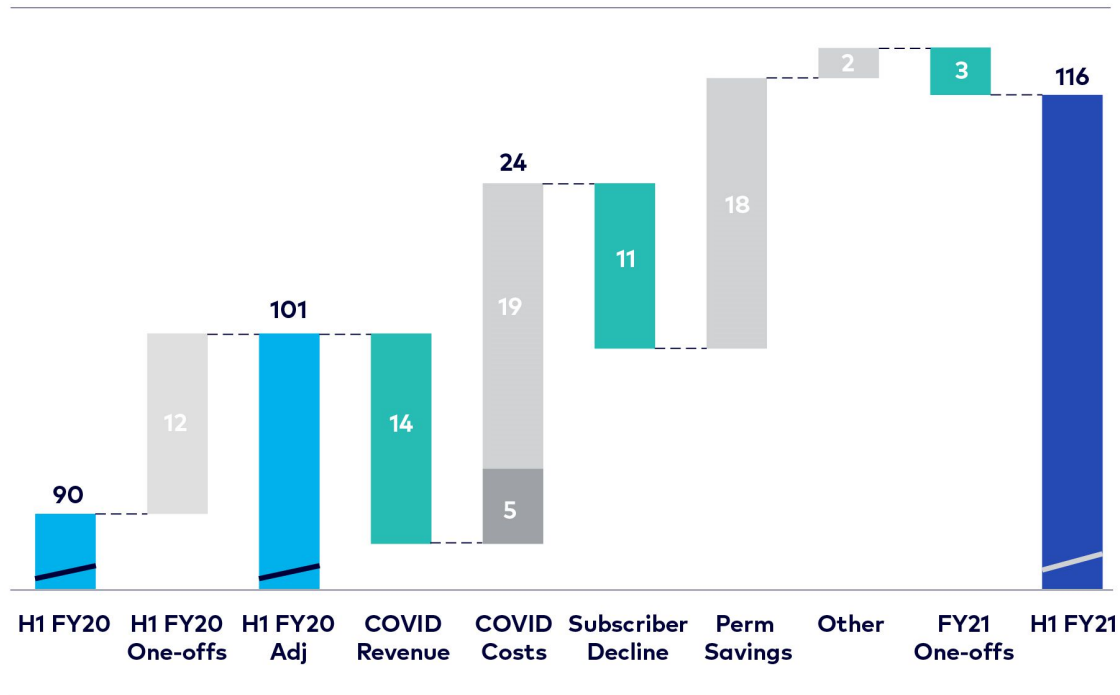
<sup>1</sup> Total expenses is made up of Operating expenses plus Depreciation & Amortisation



## ▶ EBITDA Bridge

Strong cost control during COVID-19 period together with permanent savings

EBITDA MOVEMENTS H1 FY20 TO H1 FY21 (\$m)

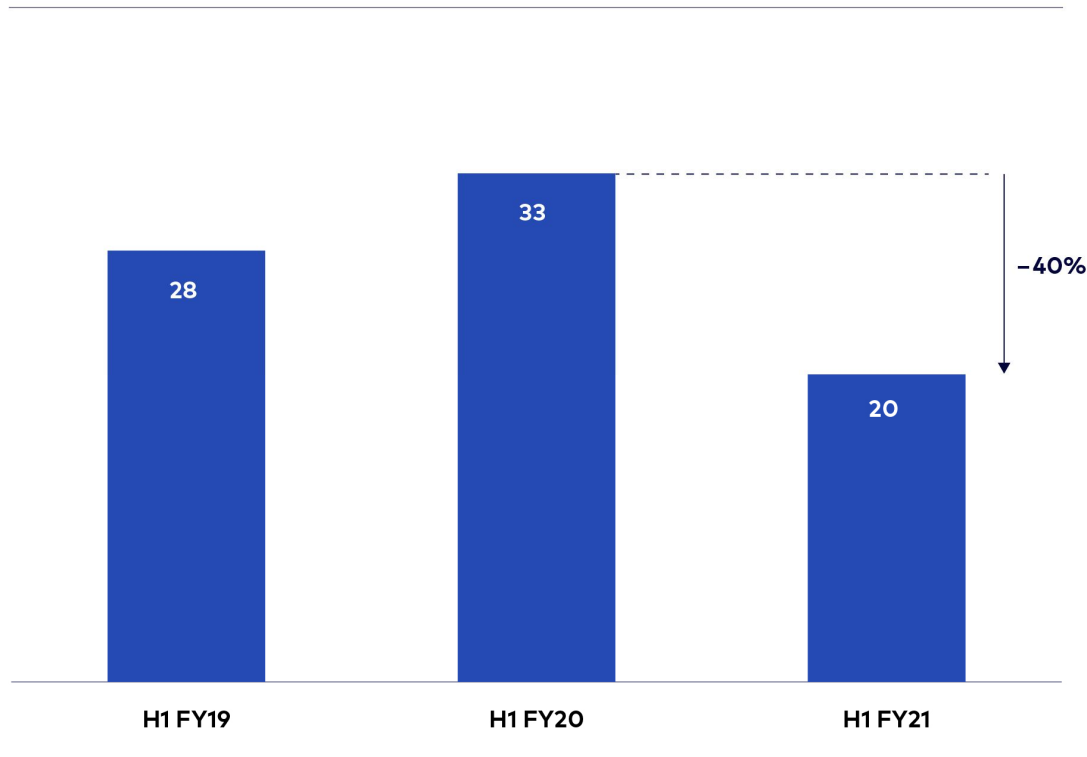


- The COVID-19 impact on revenue of \$14m was outweighed by reductions in sports rights costs (\$19m) and production & promotional costs for events cancelled or postponed (\$5m)
- COVID-19 impact on commercial and advertising sector continued from FY20, whilst impact on Sky Box revenue was tempered by the early return of key sports content
- FY21 one-offs also include the reseller migration credit and \$2.2m of other income from non-cash accounting adjustments primarily related to RugbyPass
- Underlying subscription revenue decline of \$11m (3%) vs a 5% decline in H1 FY20
- Permanent cost savings of \$18m include benefit of restructuring in FY20, non-renewal of domestic cricket and permanent savings from RugbyPass, discontinued Sky Sport News & Sky Watch magazine, reduced reseller commissions with the move to direct relationship with Sky

# ▶ Capital Expenditure

Transition to a lighter capital model continues

CAPITAL EXPENDITURE (\$m)

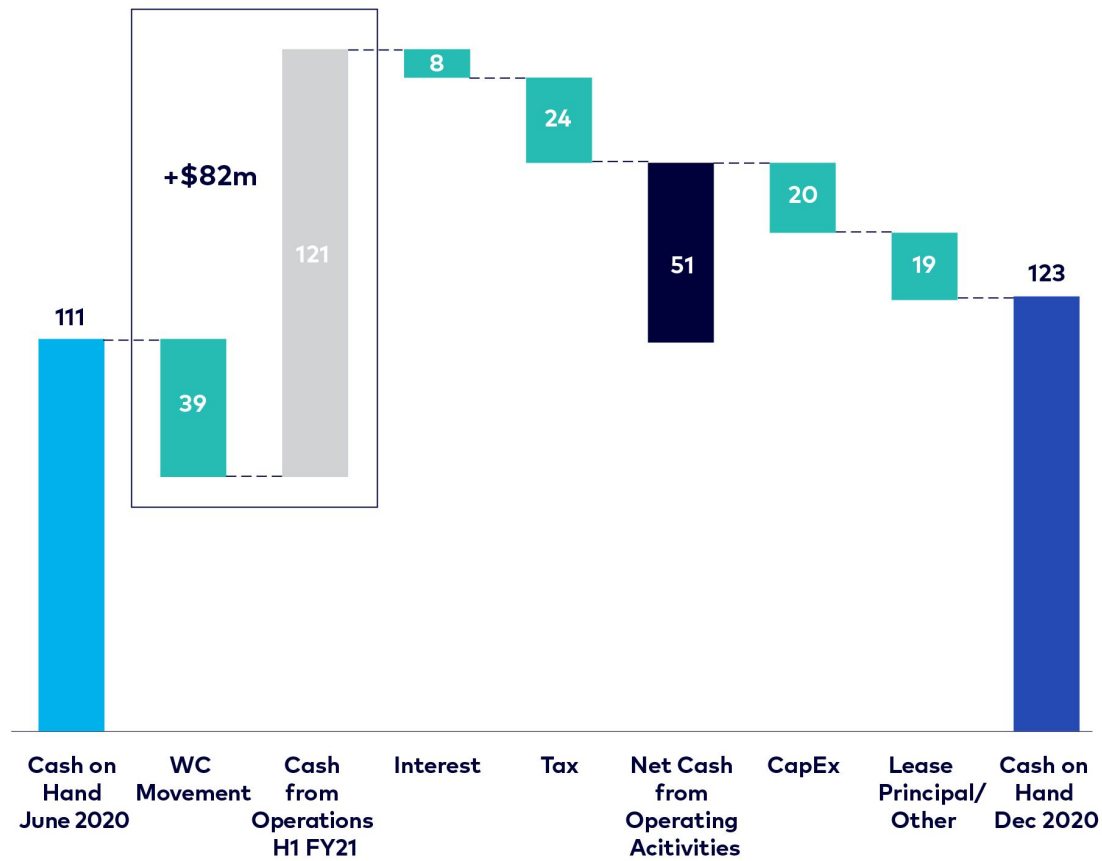


- H1 FY21 capex of \$20m was 5.6% of revenue, down from 8.6% in H1 FY20. We continue to target capex spend within our long-term range of 7%- 9% of revenue
- Satellite installation capex increased due to higher acquisition volumes
- H1 FY20 included \$5m investment to enhance broadcasting capabilities (such as HD expansion) and \$5m for additional enhancements to our streaming platforms which included the launch of Sky Sport Now in August 2019
- Reduction in capex spend resulting from pending sale of OSB to NEP. The sale reduces future capex requirements related to technology upgrades estimated at \$50m over the next 5 years
- Expect higher H2 FY21 spend in line with guidance

# Free Cash Flow

\$121m of cash generated from operations

CASH FLOW (\$m)



- Strong cash generated from operations in the period of \$121m
- This is after adjusting for working capital, which increased by \$39m in the period as we had inflated cash and payables balances at June 2020 (due to ongoing sport equitable reduction negotiations at that time) returned to normal levels during the period
- Sufficient funds on hand (including undrawn \$200m borrowing facility) at H1 FY21 to repay bond in March 2021



# Looking Ahead

## ▶ H2 FY21 Outlook

- Sky remains focused on further stabilising Sky Box customer numbers, whilst at the same time continuing our growth in Neon and Sky Sport Now customers
- We also expect to see a continued recovery in Commercial revenues
- Ongoing sharp focus on unlocking further permanent savings as we absorb costs associated with programming rights increases and a more fulsome calendar of sports
- In H2 we will:
  - Release the new Sky Go companion app
  - Deliver Sky Broadband as a value-add service
  - Commission a new set top box to meet needs of customers
  - Strengthen and deepen our customer relationships through improved customer insights and responding to customer feedback

## ► FY21 Outlook

\$m	FY21 Outlook <sup>1</sup>
Revenue	695 – 715
EBITDA	170 – 182.5
NPAT	37.5 – 45
Capex	45 - 55

- Sky reaffirms the revised guidance issued to the market on 3 February 2021
- FY21 full year includes one-off impacts of \$3.6m for the RugbyPass earnout settlement, and the sale of OSB assets to NEP and commencement of the NEP services agreement
- H2 FY21 expenses will include one-off costs associated with the launch of broadband, and accelerated depreciation on legacy assets as we migrate to Sky's new digital platform
- Sky remains in a strong financial position, including cash on hand of \$123m and undrawn debt facilities available to repay the \$100m bonds in March 2021
- The Board currently intends to reinvest available free cash flow during the remainder of FY21, and will re-evaluate the commencement of dividends after that
- Investor Day planned for Q4

<sup>1</sup> Subject to no adverse change in operating conditions, including future economic impacts flowing from COVID-19.



# Questions

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