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Sky reports growth in streaming services; tracking towards 1 million customers

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Key points:

- Sky achieving growth, with total subscribers increased to 795,000, including 74%[1] increase in streaming customer numbers
- Delivering strong progress across all strategic objectives
- Acquisitions of RugbyPass and Lightbox open door for further growth in New Zealand and offshore
- Revenues of $385m with reconfirmation of Full Year 2020 guidance range of $750m and $770m
- EBITDA[2] of $89.7m, with Full Year 2020 guidance confirmed at $170m-$190m
- NPAT of $11.9m
- Business repositioned to be a leading New Zealand multimedia organisation, transforming rapidly to meet current and future needs of customers
- On trajectory to achieve 1 million customers in 2021

Sky has today reported financial results for the six months ended 31 December 2019, delivering strong growth in streaming customer numbers of 74% and overall growth in the customer base to 795,000 from 750,000 a year ago. The Lightbox acquisition will continue the momentum.

Martin Stewart, Sky's Chief Executive said "We are pleased to have grown our customer numbers and to have made strong progress across all of our strategic objectives. Our ambition is to connect New Zealanders with the sport and entertainment content they love, in ways that work for them.

"Our new and enhanced streaming services are attracting new customers to Sky, and we are also firmly focused on super-serving our satellite customers. One of the pleasing outcomes is seeing the 25% growth in satellite customers who are also streaming our content on Sky Go, and we've had excellent feedback about new features like the ability to cast to big screens and download-to-go.

"The Lightbox acquisition and our investment in ground-breaking new digital services gives us confidence that we will continue our growth trajectory. We have reached 925,000 customers this month, an all-time high for Sky, and have now set our sights on reaching the 1 million mark."

Revenue of $384.8m is down 5% from $403m in the previous period, but with positive signs with satellite churn performance improving from 15% to closer to 13% as a result of initiatives to attract and retain customers.

"Slowing the decline in satellite customer numbers is an important achievement, as it shows that we can manage the transition to a streaming future while continuing to serve satellite customers well and earning their loyalty every day."

Operating costs, excluding depreciation, have increased 7% in the period to $295.1m, including some one-off expenditure and investments that open the door to future growth. Programming rights have increased as anticipated, as Sky continues to ensure it secures the rights that matter to New Zealand fans. Marketing spend has been boosted after a long period of under-investment.

"Today's results reflect a business in transformation. In the last year Sky has undergone significant change to reposition for growth in an increasingly competitive market. Many of the one-off costs we report today are a consequence of these changes, and we will continue to maintain the balance between careful control of costs and new investment to position Sky for future growth."

Investment for Growth

The investment in RugbyPass provides the opportunity to grow Sky's business beyond New Zealand's borders, with more than 30 million people engaging with RugbyPass content every month. Initiatives like the launch of the RugbyPass TV channel in a number of Asian markets on 31 January, timed to coincide with the Six Nations and start of the Super Rugby season, shows Sky leveraging its capabilities to expand the RugbyPass customer base. In this example, adding linear TV to the RugbyPass portfolio enables the business to expand its reach in certain markets and create a blended TV and digital experience for rugby fans.

The Lightbox acquisition, which was announced in December and completed on 31 January 2020, accelerates the shift to streaming and enables the development of a super-charged entertainment service combining the best of Neon and Lightbox content.

The development of Sky's new digital platform is progressing well, with details expected to be released in the next quarter.

Securing the rights that matter, and fuelling sport in New Zealand

The announcement in October of Sky's revolutionary broadcast deal for SANZAAR Rugby rights was a clear demonstration of the strategy to retain the rights that matter. Sky also extended its partnership with Netball New Zealand, the New Zealand Olympic Committee and IOC, and secured the rights to ICC Cricket and Cricket Australia.

"We have also invested strategically to grow and nurture New Zealand sport at all levels. The strength and sustainability of the sports sector is as vital to Sky as it is to the wellbeing of the communities in which we operate. Our investment in the Sky Sport Next programme helps to grow more than 50 sports across the country, and we are also supporting a number of teams such as the Sky Sport Breakers, Wellington Phoenix, Kiwi Ferns, Warriors Women, Tall Ferns and White Sox."

Outlook

Sky has confirmed the FY2020 guidance provided in November 2019. FY2020 revenue is expected to be within the guidance range of $750m - $770m, and EBIDTA is expected to be within the guidance range of $170m - $190m.

Capex is expected to remain within the target range of 7-9% of revenue. No dividend will be paid, consistent with the Company's strategy to reinvest in the business.

"We are pleased to report strong progress across all of our strategic objectives, and investors and customers can expect to see further progress in 2020. We have a clear focus on satisfying the needs of our customers and partners in order to achieve long-term value for our shareholders."

ENDS

[1] All percentage changes compare to the prior comparable period (six months to 31 December 2018) unless otherwise stated.

[2] EBITDA is a non-GAAP financial measure and is defined by the Company as Earnings before income tax, interest expense, depreciation, amortisation and impairment, unrealised gains and losses on currency and interest rate swaps. The directors and management believe that this measure provides useful information on the underlying performance of the Group. You should not consider this in isolation from, or as a substitute for, the information provided in the unaudited consolidated financial statements for the six months ended 31 December 2019, which are available at https://www.sky.co.nz/investor-relations/results-and-reports.

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