



## **Sky Annual Meeting 2023** **Chairman's Address**

Good morning fellow shareholders. I am Philip Bowman, and it is my pleasure, as Chairman, to welcome you to Sky's Annual Meeting for 2023.

My remarks this morning will begin by commenting briefly on Sky's market announcement regarding receipt of a non-binding indicative offer to purchase all Sky shares. I will then touch on the highlights of another successful year in the life of your company, and on the local and global themes that are shaping our industry and market. Finally, I will provide an early indication of progress in fiscal 24 and look ahead to where we have set our sights for the future, before asking your Chief Executive, Sophie Moloney, to discuss the business in more detail.

As you know, we disclosed in mid-October that we had received a highly conditional expression of interest from a third party to acquire all shares in Sky via a non-binding indicative offer (referred to as an NBIO).

Given this offer was highly preliminary, incomplete and confidential, we only disclosed receipt of the NBIO at that time in response to growing speculation about why the share buyback programme, paused in the run-up to the announcement of the Annual Results, had not been restarted.

Yesterday we received an updated NBIO from this third party proposing a transaction at a value range which falls short of the Board's view of the fair intrinsic value of Sky, and based on recent unsolicited feedback, the view of a number of Sky's significant institutional shareholders.

The Board has advised the third party accordingly, and discussions with it are at an end.

The Board has resolved to restart the share buyback program on the same terms as were previously announced.

Let's now talk about the 2023 financial year.

While we entered the year aware of the potential challenges ahead as the country faced tougher economic times, we held confident in our ability to navigate a successful path through the uncertainty.

Equipped with strong leadership, a clear strategy, a strong focus on execution, and with an ungeared balance sheet, Sky delivered a solid financial and operational result for FY23.

Customer relationships continued to grow, whilst key Revenue, EBITDA and NPAT metrics, when adjusted for one off items, each delivered in-line within the guidance range provided to the Market.

While capex came in slightly above guidance, this reflected the timing of additional investment in the new Sky Box and Sky Pod as we begin to accelerate the rollout of these exciting new products.

We finished the period with a strong balance sheet position of \$56m in cash on hand and no debt. And this was after returning the substantial sum of \$91 million to shareholders by way of a \$70 million capital return and \$21 million paid out in fully imputed dividends. Additionally, \$4.5 million of capital was deployed through the initial phase of the share buyback programme we commenced earlier this year.

Sky's positive performance has allowed the Board to invest in the company's growth, while also paying a meaningful cash return for shareholders. The final dividend of 9 cents per share brought the total of fully imputed dividends for FY23 to 15 cents per share, reflecting a payout rate of 89% of adjusted free cash flow – at the top of the 60% to 90% range introduced at last year's AGM.

Whilst acknowledging Sky's share price had suffered for some time in the lead up to the 2020 capital raise the direction of travel has reversed since then. Total shareholder return was 24% in the 12 months leading up to the day before the NBIO announcement] (the 'undisturbed' price) and 45% in the 2 years leading up to that date. This compares to returns for the NZX50 of 4% over 12 months and minus 13% over 2 years. These results see your company ranked as the 6<sup>th</sup> and 2<sup>nd</sup> best performer in the S&P/NZX50 respectively over these periods.

While it is positive to see the Market slowly recognising Sky's significantly improved results and outlook, your Board remains adamant that the current share price falls a long way short of the company's intrinsic worth, noting that the undisturbed price of \$2.47 reflected enterprise value multiples of 0.4x FY23 revenue and 2.5x FY23 EBITDA.

So why is this the case? There are a number of factors that may be standing in the way of a fairer assessment of the value of Sky, and I will address some of them now.

Firstly, let's look at the local and global landscape.

There is no question **economic conditions are challenging**, with inflationary pressure impacting many New Zealand households. However, our own cost base is well positioned to avoid the worst impacts of inflation given the largely fixed nature of the programming rights cost line.

As many customers absorb rising household costs, the increasing value of our offering, including securing fan-favourite content such as the Premier League, Formula 1, and 5 recent sporting World Cups is appreciated, and keeping customers engaged.

Combining this with the 'always on' everyday relationship we have with our customers has meant that, despite implementing necessary price increases, sports penetration levels increased on Sky Box, and Sky Sport Now and Neon customer numbers grew. Essentially, we have demonstrated a high degree of resilience as New Zealanders prioritise spending more time at home.

Many **media businesses** – particularly those heavily reliant on funding from advertising, **are visibly under pressure**. While the advertising market has contracted in New Zealand, Sky's historical underperformance, combined with our unmatched content and significant reach across multiple platforms, means there is real opportunity for us to grow revenues in this space.

From a **local competition** standpoint, we've seen a significant shift in the landscape over the past 12 months, with the exit of Spark Sport demonstrating the challenges facing new entrants to the New Zealand sports streaming market. It has also highlighted the real economic value of sports rights in a market that lacks true scale.

The local state-owned broadcaster, TVNZ, is also facing uncertainty given the failed merger with RNZ, changes in leadership, and a likely change in mission under a new Government. We have long been of the view that local players in our small market have more to gain from working in partnership with each other, particularly where we can deliver great local sport and entertainment to New Zealanders in ways that work for them, and we will continue to advocate for this approach.

On the **global stage** the rush to streaming has resulted in a sea of over 9 billion dollars US in red ink in 2022 amongst the leading studios.

As a result, we are seeing a rapidly emerging trend towards 're-bundling'. This trend plays to Sky's existing strength as the leading content aggregator in this market and our model of offering customers a full suite of packages and viewing options across Sky Box, the Sky Pod, Streaming, Free to air and through our Commercial customers.

We have also demonstrated the ability to moderate programming costs through the recent Warner Bros. Discovery renewal on more favourable commercial terms, providing the same quality of content - including exclusive access to HBO content. Once Warner Bros. Discovery's strategy for the Max app and associated content are clearer for this market, we look forward to discussing options for continuing our longstanding partnership. Should the exclusivity terms change, this would be reflected in the pricing. Regardless of the shape of our ongoing partnership, the app would be available via the new Sky Box and Pod.

The landscape has changed markedly since the last rugby renewal was negotiated in 2019. At the time we faced fierce competition from Spark Sport and were in a 'must win' battle to secure these rights. We also had a \$100 million bond repayment looming and with little room to manoeuvre. Since then, we are in a very different position - we've strengthened Sky's balance sheet and secured, or renewed, a number, of key sporting properties through multi-year deals including the NRL, Premier League, Formula 1 and World Rugby.

Our strategy is also much clearer - we value what our customers value. We now have a more disciplined data driven approach to determining a price that makes sense for the content we can be certain customers (and potential customers) will love. As we have seen with the recent Rugby World Cup viewership, New Zealand remains a nation that loves great rugby! We have strong relationships with New Zealand Rugby at all levels, including some positive recent engagement with the new leadership of NZR Commercial, and we look forward to robust but constructive negotiations about the future shape of this important partnership.

In summary, the overall impact of changes in the external environment combined with initiatives taken by Management over the past two years have seen our company's position materially strengthened.

Taking all this into account, our FY24 Guidance reflects the Board's confidence in the Sky team's ability to grow revenue and control costs.

This confidence extends to the increased capex investment that we are making to accelerate the roll out of the new Sky Box and Sky Pod products. As I said at the time of the results announcement, this will lead to a steeper but shorter period of elevated capex investment as we share the new Sky experience with more New Zealanders.

Against this backdrop, the Board has resolved that free cash flows for the purposes of determining the FY24 dividend will exclude the additional capex associated with the accelerated Box and Pod rollout and the satellite mitigation capex that we noted at the August results.

Our Guidance points to a FY24 dividend of at least 15 cents per share, demonstrating the Board's confidence in continuing to provide an attractive return for shareholders while also investing in the future development of your company.

I am pleased to be able to report that at the end of the first quarter of FY24 we have seen an increase in the number of customer relationships, supported by an exceptional sporting calendar that included several world cup events. This has led to an increase in sports penetration and driven a positive impact on revenue – including a meaningful increase in advertising revenue as the new team recruited over the past nine months begins to capture this opportunity. As expected, there have however been some challenges due to a slowdown in the release of new content caused by the industry strikes in the US which have started to impact Entertainment and Neon customers. And whilst a resolution now feels imminent, the effects of these strikes will take some time to work through.

In all, following a very positive start to FY24, the end of the first quarter sees us firmly on track to deliver on Guidance provided with the full year announcement.

Looking ahead, the Board has approved and published the 3-year targets (through to FY26) developed by Management. Sophie will expand on these in her address but suffice it for me to say that the Board sees a clear path to deliver these targets – including doubling the FY23 dividend by FY26.

In closing, I wish to acknowledge my Board colleagues for their service to your company.

At a structural level we formed a new Content Rights Committee given the strategic importance to the company and the impact on customers, partners and investors alike. The mandate of this committee is to provide guidance, challenge, strategic input and counsel to Management regarding specific content investment decisions.

In March we welcomed Belinda Rowe to your Board. Belinda has brought highly relevant skills, especially in advertising, and a fresh perspective that has further improved the quality of board

discussions. You will have an opportunity to hear from Belinda later in the meeting as she seeks your support to confirm her appointment to the Board.

To my Board colleagues, thank you for your commitment of time, your constructive challenge to management, and above all your focus on generating value for shareholders.

My thanks too, on behalf of the Board, to Sophie and her leadership team for their determination to deliver the best viewing experience to customers, to improve service levels and to lead the business through a period of significant operational change whilst creating an environment where the wider Sky team is encouraged and equipped to do their best work.

And finally – a thank you to you, our investors, for your continued support of Sky.

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