

Investor Newsletter

November 2022

Dear Shareholders

Welcome to our November newsletter.

Earlier this month Philip Bowman and I were pleased to have the opportunity to present at the 2022 Annual Meeting of Sky shareholders. This was a hybrid event providing shareholders with the option to attend online or in person – the first opportunity to meet face to face since 2019. Thank you to those of you who joined us.



This Annual Meeting marked almost two years since I began serving as your Chief Executive. It therefore seemed fitting to give a quick recap of the distance we've travelled before discussing Sky's competitive strengths and why I believe we are poised for future growth. My address is available [here](#) if you would like to read it.

One of my clear messages is that we recognise there is more to do. My team and I are focused on continuing to not only turnaround Sky but to transform it, all the while meeting customer needs and achieving the desired financial results. Looking ahead, this sees us with a firm focus on delivering on a number of priorities areas, including:

- the launch of the new Sky Box and Sky Pod (more on this on page 2)
- unlocking the significant opportunity in the high margin advertising space
- building out our capability in data to maximise this competitive edge; and
- ongoing delivery of cost control, in both programming and non-programming costs.

While there will no doubt be challenges ahead, our confidence levels remain high. This confidence

was behind the Board's decision to increase Sky's dividend pay-out ratio from 50% - 80% to 60% - 90% of Free Cash Flow¹, and raising Sky's FY23 dividend guidance to be between \$18 million to \$24 million. In addition, Philip took the opportunity to signal that the Board believes Sky's shares are significantly undervalued and the Board is therefore minded to consider initiating an on-market buy-back programme following the announcement of our interim results in February 2023, noting that the size of any programme would be determined by reference at that time to the prevailing share price, the cash position of the company, the economic outlook, and the liquidity of our shares in the market.

If you are interested in learning more, you will find a replay of the Annual Meeting webcast and copies of Philip's and my address on Sky's website [here](#).

As always, I welcome your feedback, and you can contact me at sophie@sky.co.nz

Ngā mihi nui (with warm regards),

Sophie Moloney
Chief Executive

1. Free Cash Flow is defined as net cash from operations, less payments for lease liability principal, less both replacement and growth capex, but excluding one off items such as material acquisitions or disposals of assets.



New Sky Box and Sky Pod update

The new Sky Box is the most transformative product we have offered our customers in many years. We're highly focused on delivering an excellent experience for them, and while we're close we need a little more time to get it right.

We're working on the finishing touches and have a number of our crew trialling the new Sky Box in their homes and putting it through its paces. We look forward to starting customer trials very soon, followed by a roll-out (to our most loyal customers in the first instance) in the new year.

As we have said from the outset though, this is not a forced migration, which means those customers who are happy with their current Sky Box can retain it.

One group of customers of special interest is our Vodafone TV (VTV) customers, given the looming closure of that service. To give ourselves – and our customers – a little more breathing room, we have advised those customers this week that we've agreed with Vodafone to keep the VTV platform open until the end of February 2023. The extension gives us

more time to finesse our innovative new Sky Box and the new Sky Pod, and gives VTV customers comfort that they can continue watching the content they love (including Sky and free-to-air channels) until they transition to a new Sky product.

We will continue to communicate directly with customers on the best options for them.





Recent content wins

World Rugby rights and RugbyPass sale

Last month we were excited to announce that we agreed a wide-ranging deal with World Rugby that secures exclusive rights to premium competitions for seven years - including every men's and every women's Rugby World Cup, the new WXV (international women's fifteens competition) and the HSBC World Rugby Sevens series.

Under the deal, World Rugby has acquired RugbyPass, and we have also agreed a joint approach to the production of exclusive programming, particularly in the women's game. With the amazing performance by the Black Ferns in the recent Women's Rugby World Cup, we're looking forward to continuing to help showcase and grow the game and to attract new fans.

ASB Classic returns to Sky in 2023

We're also pleased to confirm that Sky has secured the rights to the 2023 ASB Classic, New Zealand's premier tennis tournament. The rights include exclusive live coverage on Sky and Sky Sport Now, and daily highlights free-to-air on Prime.

Following a two-year hiatus due to Covid disruptions, the ASB Classic will be held from the 2nd to 14th January 2023 and has already announced a host of world class contenders. Sky and Prime customers are in for some brilliant entertainment with 2023 shaping up to be one of the tournament's best years yet.

Sky for Good

As mentioned in our annual report, our Sky for Good programme is about using our platform, our people, and our presence in the community – as well as meaningful and targeted financial contributions – to make a difference. Special Children's Christmas Parties are a great example of the way this programme can make a difference, and Sky has been pleased to sponsor this worthy cause for the past 18 years.

The parties take place across 6 different regions and each year involve nearly 10,000 kiwi children with special needs, or challenging life or health circumstances.

Over the coming weeks a number of Sky crew will be volunteering at the Hamilton and Auckland Special Children's Christmas Parties. As well as making a positive impact on the many children and their families, it's a really rewarding experience for our crew and awesome to be able to give back to the community.

Capital Return

Hot on the heels of Sky's return to paying dividends (with a final dividend for FY22 of 7.3 cents per share paid on 23rd September), shareholders will soon receive their share of the approximately \$70 million return of capital announced in our FY22 Results in August.

The return of capital by way of a Court approved scheme of arrangement (**Scheme**) has now met each of the conditions, including shareholder approval at Sky's 2022 Annual Shareholder Meeting (with 99.68% of the votes from shareholders entitled to vote and voting being cast in favour of the resolution), obtaining a binding ruling from the IRD, and most recently, receiving final orders from the High Court.

The decision to return capital to shareholders follows a significant turnaround in Sky's position over the past two years, and while there are still challenges to be navigated, Sky has a strong balance sheet and had a cash balance of \$139 million at the end of FY22, including proceeds from the sale of the Mt Wellington property. Sky also has strong and sustainable free cash flows and an undrawn banking facility of \$150 million.

The full range of methods available to return cash were considered, before deciding to adopt the Scheme, with the key considerations being that the Scheme:

- offered a fair and equitable outcome – treating all shareholders equally;
- allowed us to seek a ruling from the IRD to deliver the most efficient tax outcome for New Zealand based shareholders; and ²
- provided certainty of execution – with the payment expected to be in shareholders' accounts on 29th November.

The Scheme involves Sky's shareholders on the register at 7:00pm (NZ time) on 21st November 2022 (**Record Date**):

- having one share cancelled for every six shares held (together with all rights attaching to those shares). Fractions of a share will be rounded up or down to the nearest whole number (with 0.5 rounded up); and
- receiving a cash sum of NZ\$2.40 for each share cancelled.

Please be assured that the capital return does not change your percentage ownership interest in Sky. The shares have been cancelled on a pro rata basis, so immediately following the capital return you continue to own the same proportion of Sky (relative to other investors) and are entitled to receive the same proportional share of any future dividends.

Computershare will send new statements on 21st November and the funds will be deposited to shareholders' nominated bank accounts by direct credit on 29th November.

In order for Computershare to complete the process, Sky shares will be in a trading halt from Friday 18th November (before the market opens) and will resume trading by midday (NZT) on Tuesday 22nd November.

If you have not previously provided bank account details to Computershare or wish to check or update your details, you can do this through Computershare's online portal at: www.investorcentre.com/nz. If you need help at any stage, you can call Computershare on: +64 9 488 8777.

2. Similarly, we have also sought a ruling from the Australian Tax Office, although this is not a condition of the Scheme.