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Sky confirms FY20 results, enters new year in strong financial position

Sky Network Television Limited (SKT) delivered results for the twelve months ended 30 June 2020 (excluding non-cash impairment of goodwill) that were in line with guidance, with revenue towards the upper end of the guidance range. The results reflect strong performance through the year, sound navigation of COVID-19 challenges, and provide a positive start to FY21.

Key points:

- Revenue of \$747.6m with 35% increase in streaming revenue
- Reported loss after tax of \$156.8m including non-cash impairment of goodwill of \$177.5m
- Operating profit before impairment of \$44.9m
- Net cash from operating and investing activities of \$82.7m
- Outlook¹ provided for FY21 of Revenue in the range of \$660m - \$700m; EBITDA of \$125m - \$140m; NPAT of \$10m - \$20m, reflecting improved trading conditions driven by the faster than expected return of sport
- Strong financial position to navigate any further COVID-19 uncertainty and deliver on strategy in FY21 and beyond

The 2020 financial year began well for Sky with a new leadership team, refreshed strategy and the signing of key sports rights providing clear direction and renewed purpose. In particular, the decision to accelerate our focus on streaming while improving our service to satellite customers saw Sky continue to achieve subscriber growth, both organically and through acquisitions that have created further positive momentum across the business.

The onset of the COVID-19 pandemic during the second half of the year saw Sky swiftly adapt its business operations to deal with the immediate and ongoing implications of gathering and border restrictions. These actions ensured the business was well positioned to operate as an essential service as we worked to minimise the impact on customers, staff and Sky's financial performance, while also strengthening our funding position for the longer term.

As such, the reported results (before non-cash write-down of goodwill) for the financial year are in line with our expectations after confronting the impacts of COVID-19. They include revenue of \$747.6 million, at the upper end of FY20 guidance provided on 21 May 2020 (being revenue in the range of \$730m - \$750m).

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

As noted in the investor presentation released on 21 May 2020, Sky has continued to review the assumptions underlying the carrying value of goodwill during the balance of the reporting period. The Board is required to assess the fair value of intangible assets at each reporting period and has decided to recognise a further \$177.5 million impairment of goodwill. The Board's decision reflects the ongoing uncertainty of the impacts of COVID-19 on Sky, supported by an independent valuation undertaken subsequent to its 21 May 2020 disclosure, and with reference to the current market share price.

COVID-19 response

We were pleased with the strong engagement and viewership levels recorded for our satellite and streaming services during the lockdown period when access to news, shows, documentaries, movies, e-sports and archive sport content was able to keep customers informed and entertained.

Proactive steps taken by Sky to minimise customer 'spin-down' from sport packages during the COVID-19 lockdown proved very effective. Complimentary upgrades were well received by customers, with only 8% of sport satellite customers downgrading their packages as a result. The return of premium live sport starting in May 2020 demonstrated the importance of sport to New Zealanders as the majority who downgraded sport packages renewed their subscriptions in the final five weeks of FY20. Sky Sport Now delivered double digit growth in May and June.

Commercial customers were heavily impacted by COVID-19 restrictions and in recognition of the long-term relationships held with many of these customers, Sky successfully supported them with a range of discounts and payment holidays. A relaxing of gathering and domestic travel restrictions, and the faster than anticipated return of sport, saw a return to normal billing for licensed customers from July. We moved quickly to further support commercial customers in the Auckland region impacted in August by Level 3 restrictions.

We continue to work constructively with key sport partners, and negotiations around COVID-impacted sports payments for the 2020 sports calendar have been completed satisfactorily. The details are commercial and confidential and reflect the faster return of live sport to our screens and devices. This was in the best interests of all parties and greatly appreciated by sports fans.

Continued progress in delivering on refreshed strategy

Sky continued to **grow customer numbers**, achieving a record year end total of 990,000, down slightly from a lockdown peak of 1 million announced in May but ahead of expectations. This included an impressive increase of 153% in streaming customers to 404,000² by year end, including customers acquired through the Lightbox and RugbyPass acquisitions, up from 160,000 in the previous year.

Throughout FY20 we maintained our **focus on streaming while super-serving our satellite customers**. We successfully launched Sky Sport Now in August 2019 with 12 dedicated HD streamed sport channels and in February 2020 we completed the acquisition of Lightbox, strengthening Sky's position as the leading local provider of paid entertainment streaming

² Streaming customers include Lightbox bundled wholesale subscribers. These subscribers account for approximately 52% of total entertainment streaming customers as at 30 June 2020.

services. The successful launch of our new Neon platform on 7 July 2020 combines the best of both Lightbox and Neon products into one compelling offering with enhanced features and an extensive range of high-quality content delivered at a competitive price point.

At the same time, new initiatives saw a meaningful rise in satellite customer retention rates, as net customer loss reduced to 5.5% from 6.4% in the previous year, and we achieved net growth in the final month of the year. Our Sky Go companion app is highly valued by our satellite customers to deliver a complementary streaming option for viewing their content on the go, and we plan to launch our enhanced Sky Go product in the second half of FY21. In addition, the recently announced confirmation of a new satellite agreement with Optus further demonstrates our commitment to this important and loyal customer base whilst also delivering increased functionality, flexibility and overall reduced cost.

Sky's acquisition of RugbyPass in August 2019 **expanded our reach into the global rugby market** and opened up new avenues for future growth. While the current uncertainty surrounding the availability of international rugby has slowed progress in our RugbyPass streaming business, we have been delighted to be able to work in partnership with SANZAAR and NZ Rugby to bring Super Rugby Aotearoa to a global audience in 60 countries. Continuing strong demand across all RugbyPass platforms indicates ongoing audience appetite, with over 3 million unique views and over 16 million hits on social media during April 2020, up 54% and 60% respectively on the prior year. Our immediate focus has been to quickly pivot to a lower cost model to capture opportunities, and whilst uncertainty remains, we continue to see potential for future growth.

Looking to FY21, Sky announced its intention to **enter the broadband market**. We see more and more customers watching content over broadband on the device of their choice, and it makes sense for us to ensure that our customers can view their great content over a broadband service that is built for entertainment and delivers the same high quality experience that our satellite customers receive. It also enables us to deepen our customer relationships and offer customers even more value from their Sky bundle. A number of Sky staff are already using Sky's broadband service and it will be extended to a trial group of customers before Christmas, followed by a full launch in 2021.

Organisational changes complete; continuing focus on costs

Changes to work practices necessitated through the Level 3 and 4 lockdowns were handled well by the Sky team, which quickly moved to working from home arrangements. The transition provided an opportunity to accelerate a number of transformation initiatives such as digitising a range of support services that will deliver ongoing efficiencies. Our transition to a modern, customer-led multi-media business has involved reorienting our focus and becoming a leaner, more responsive and collaborative organisation. The major changes are now completed and have involved a reduction in staff numbers of 18% over the past year with new structures now embedded and delivering ongoing net annual cost savings of approximately \$10 million from FY21.

Our sharp focus on costs will remain a strong theme for our business in FY21 as we lock in the gains made during FY20 and continue to innovate and transition to a lighter capital model. The sale of OSB in early FY21 is further evidence of management's focus on allocating capital efficiently with this decision alone leading to a reduction in future capital investment of around \$50 million over the next few years. The faster-than-expected return of sport is likely to have an

impact on operating expenses, however the second half of FY20 has demonstrated Sky's ability to flex our cost profile in line with revenue.

Outlook

At the time of the capital raise, Sky provided a view on FY21 performance which was based on expectations regarding the gradual return of live sport in the first half of FY21 before a full return in H2 FY21. The faster return of sport than envisaged in this scenario will lead to higher revenues and commensurate increases in programming and production costs as signalled at the time.

Whilst there is continuing uncertainty and we remain cautious, based on management's current assumptions regarding the sporting calendar, Sky expects to deliver results for the year ending 30 June 2021 as follows:

\$m	FY21 scenario	Revised FY21 Outlook ³
Revenue	610 – 640	660 – 700
EBITDA	100 – 130	125 – 140
NPAT	5 – 15	10 – 20
CAPEX	40 – 50	45 – 55

The prudent steps taken in the renegotiation of our banking facilities and strengthening the balance sheet through raising capital see us entering FY21 in a strong financial position, however we recognise that the ongoing uncertainty caused by the COVID-19 situation is likely to remain for some time.

The Board has therefore determined that no final dividend will be payable for the FY20 period. The Board currently intends to reinvest available free cash flow during FY21 and will re-evaluate the commencement of dividends following the completion of that period.

The Board and Executive team are confident in Sky's ability to navigate the ongoing impact of COVID-19 and to deliver on the refreshed growth strategy.

ENDS

Sky will host a webcast and conference call briefing to discuss the results at 10.00am NZST on Thursday 10 September 2020. Details on how to participate are as follows:

- Live via video webcast (please note registration is required beforehand):
https://globalmeet.webcasts.com/starthere.jsp?ei=1352190&tp_key=b5faa4164a
- Live via teleconference (for audio only and those who would like to ask questions):
Please join the event conference 5-10 minutes prior to the start time using the Participant Passcode **778845**.

Have the conference call you:

With 'click to join', there is no need to dial-in. Simply click the link below and enter your information to be connected. Note: the link becomes active 15 minutes prior to the scheduled start time.

³ Subject to no adverse change in operating conditions, including future economic impacts flowing from COVID-19.

<https://events.globalmeet.com/Public/ClickToJoin/ZW5jPUU2SFI4S2hvSUNDZWIDMU9Hb1VNWE5zaHI1NW5jVGVodEtGUTJOWFZJNjQvd0pnbkdwcFRwdz09>

Or to dial in:

'Click to join' is the easiest way to join the conference. As an alternative, you can join by dialling one of the access numbers below.

Participant Passcode: 778845

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New Zealand	Tollfree/Freephone	0800 423 972
New Zealand , Auckland	Local	+64 (0)9 9133 624
Singapore	Tollfree/Freephone	800 186 5106
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Authorised for release by the Board of Sky Network Television Limited.

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