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Sky delivers strong first half result, increases interim dividend

Sky Network Television Limited (Sky) announces another period of growth, delivering increases in all key metrics through a strong focus on execution.

Key results[1]:

- +3.7% growth in Revenue to $392.7 million, driven by strong growth in Sky Sport Now, Advertising and Broadband
- +11.1% growth in EBITDA[2] to $81.7 million
- +10.5% growth in NPAT to $29.0 million
- Increased Interim dividend of 7 cents per share, 100% imputed (from 6 cents per share, +16.7%)
- Full Year dividend guidance increased to at least 17.5 cents per share (from at least 15 cents per share, +16.7%)
- New share buyback programme for up to $15 million to be launched following the expiry of the current programme

Chief Executive Sophie Moloney said: "Sky has delivered a strong first half performance that demonstrates Management's ability to execute on strategy to drive revenue and margin growth. The successful delivery of key initiatives such as the uplift in our advertising capability, the revitalised free-to-air channel Sky Open, and the launch of the Sky Pod, are all examples of this strategic execution.

"I'm particularly proud of the way we are evolving as a team. With greater clarity of purpose and stronger engagement, the investments we've made in our people are also showing through in what we're achieving as a business."

Chairman Philip Bowman commented: "Sky's consistent performance over a sustained period has been achieved off the back of a clear strategic plan and a great deal of hard work. It is pleasing to see the determined execution delivering benefits for our customers, employees and partners, as well as investors with an increase in the first half dividend."

Sophie added: "We delivered an exceptional array of content for sports fans with major events such as the ICC Cricket World Cup, Netball World Cup, Women's FIFA World Cup, and of course the Men's Rugby World Cup adding to the regular calendar of events and season-long competitions – including the Warriors' phenomenal run to the NRL finals."

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[1] Comparative financials have been restated as outlined in note 14 of the Interim Financial Statements.

[2] EBITDA is a non-GAAP measure. Sky uses this measure when discussing financial performance as the Company believes it provides useful information on Sky's performance.

“This contributed to record customer and revenue results for Sky Sport Now and saw more Sky Box and Sky Pod customers adding a sports package, with increased viewership across both services. Sky’s unrivalled sports offering was also enjoyed by many more New Zealanders at pubs, clubs, gyms, hotels and motels, and also through our free-to-air channel, Sky Open, which shared a number of these sporting moments throughout the country.”

Sky’s entertainment streaming service Neon faced challenges as a result of protracted industry (writers’ and actors’) strikes in the US. This delayed the delivery of new titles to support subscriber acquisitions and win-backs, adversely impacting customer numbers.

Sky Box and Sky Pod customers were significantly less impacted by content delays given the broader array of entertainment content, and news services, available as part of their subscription. While customer numbers and revenue did soften, we were pleased with the improvement in the level of disconnections and a consistent year-on-year churn that demonstrates the resilience of our offering during tougher economic times.

“We made the deliberate choice to slow the rollout of the new Sky Box to resolve some final teething issues. At the same time, we improved the service experience and began delivering on a programme of product enhancements. While the take up has been slower than we planned, we are already seeing much higher subscriber satisfaction levels. With 58 thousand new Sky Boxes now in use, feedback from customers is providing confidence the changes are resonating. We are now actively in market with a new Sky Box campaign that includes changes to the customer proposition to encourage take-up.”

“The decision to invest in advertising capability has already delivered returns. Innovative new formats to support advertisers have increased the value derived from our existing content investment. The impact was a 12% lift in revenue through a period where revenue for the sector fell by 16%. At the same time, the team developed new advertising capabilities in the digital space that were successfully launched in January.”

“While the advertising market is experiencing headwinds, our long-term confidence in pursuing this strategic growth initiative is increasing.”

Many Sky Business customers are benefitting from rising tourist numbers. Revenue grew, and the introduction of a premium product for accommodation providers and the launch of Sky Pod are providing new opportunities.

Sky Broadband continues to grow customers and delivered revenue growth of 45% whilst increasing margins.

As well as benefitting from the strong performance of Sky Sport Now, Advertising and Broadband, revenue growth of 3.7% included price increases that lifted average monthly customer revenues across every subscription product. The value of Sky’s content continues to support appropriate increases, with a further rise to sports pricing coming into effect early in the second half.

Operating expenses rose 1.5%, largely due to variable costs from the growth in Broadband, Advertising and Sky Sport Now. Programming cost increases were kept to within $2m year on year, as known rights increases were largely offset, and with the savings targeted from FY23 initiatives achieved.

Sophie added: “As a result, Sky delivered 11.1% growth in EBITDA and 10.5% in Net Profit after Tax. Our track record of strong cash performance continued, with $71.5 million generated from operations enabling investment in new products and a higher return for shareholders. Sky’s balance sheet remains strong, with cash on hand at 31 December of $47.4 million and a $150m undrawn bank facility.

"Capex investment is tracking in line with guidance as we invest at scale in new Sky Boxes and Pods, while at the same time we're capturing efficiencies in development projects and through optimising self-install options that will begin to reduce capex intensity during FY25."

Capital Management

Philip commented: "Sky's strong financial position and cash generation continues to provide scope for additional capital management action. We retain our conviction that Sky's shares are undervalued relative to its financial performance and have therefore resolved to initiate a new on-market buyback program immediately following the expiry of the current one. The Board has approved a new buyback program of up to $15 million."

Outlook

Sophie commented: "The execution momentum of the first six months is continuing, with the successful launch in January of Advertising on Neon already generating new digital revenues, and the launch of 'live start' Friday Night Footy and Super Rugby Saturday on Sky Open supporting our linear ad sales plans."

We remain on track to deliver FY24 EBITDA of $150 million to $165 million and NPAT of $45 million to $55 million, in line with the full year guidance provided to the Market on 23 August 2023.

Sky has provided an update to FY24 Revenue guidance, which is now expected to be between $765 million to $780 million (from $765 million to $795 million), due to Neon impacts and increased economic headwinds.

Notwithstanding the near-term revenue pressures, the Board's confidence in Sky's cash generation has driven a 16.7% increase in FY24 dividend guidance to be at least 17.5 cents per share (up from at least 15 cents per share).

ENDS

Authorised by Kirstin Jones, Company Secretary

Sky will hold a webcast briefing at 10:00am (NZDT) to discuss the results. Details on how to participate are available here: https://www.nzx.com/announcements/425050

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