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Sky releases half year financial results, with an emphasis on underlying results and dividend

Sky Network Television Limited (Sky) has today released Interim Results that reflect the challenging impact of the satellite migration project and prolonged economic headwinds. The results also include a number of one-off items (largely non-cash or expected to be cash neutral) that mask a more positive underlying result, noting that Sky's dividend is protected from one-offs.

Key points:

- Migration to a new satellite on an accelerated timeframe has been the main priority in the period and remains the main priority into H2. This has necessitated delaying planned projects, including some revenue-generating initiatives. Key migration milestones have been achieved, and Sky remains focused on delivering a successful migration this Financial Year, although this is still not without risk.
- Programming costs are heavily weighted towards the first half. This situation reverses in H2 2025, and Sky expects costs to be broadly flat year on year by the end of FY25.
- Reflecting the confidence of the Board and Management in Sky's financial outlook, Sky's Board has declared an Interim Dividend of 8.5 cents per share (fully imputed). Dividend guidance is unchanged at no less than 21 cents per share. Sky remains confident of progress towards the targeted dividend level of 30 cents per share in FY26.
- Consistent with previous advice regarding revenue softness, and given the weak economy and the necessary focus on satellite migration, Sky has provided updated guidance which narrows and slightly lowers the previously published FY25 ranges of Revenue, EBITDA and NPAT.
- Sky's underlying strategy and business model remain sound, with positive trends evident.

Chief Executive Sophie Moloney said: "This has been a difficult half year, due to both the interruptions flowing from Project Migrate and the ongoing economic pressures facing businesses and consumers. While there are some one-off factors impacting our results, the fundamentals of our strategy and progress against our priorities remain a cause for optimism."

"We are seeing positive signs in our revenue growth engines of Streaming, Advertising and Broadband. It is also very pleasing to report that over 30% of Sky Box customers have now upgraded to the new Sky Box, with all the advantages that brings for the customer experience. This now includes the game-changer of automatic failover to IP if there is a satellite signal interruption, including from rain fade."

"In an exciting development for Sky's cricket fans, we are delighted to announce a new partnership with New Zealand Cricket for all international matches played by the BLACKCAPS and WHITE FERNS in New Zealand, for six years from the 2026-27 cricket season."

“Discussions concerning the renewal of New Zealand Rugby and SANZAAR rights are ongoing, whilst noting that the appointment of the new NZR Board has impacted negotiation timelines. The financial terms of any renewal must make economic sense for our customers and our shareholders.”

Financial performance

Sky’s first half result includes several one-off items that mask a more positive underlying performance of the business. They include satellite migration (largely cash neutral by FY26), accelerated content amortisation and lease modification (both non-cash), and organisational transformation. It is therefore appropriate to discuss the underlying numbers when assessing Sky’s first half performance against H1 FY24.

Revenue at $385 million is 2% lower against a particularly strong comparator. While churn levels of Sky Box customers have reduced compared with H2 FY24, some softness in Sky Box revenues has continued into H1 FY25, with a partial revenue offset from growth in Streaming, Broadband, and Advertising (which delivered 6% growth YOY), and a solid contribution from Commercial.

Underlying Expenses (excluding the impact of one-off items) were heavily weighted to the first half at $325.6 million (Reported $347.9m), due to the timing of events such as the Paris Olympics. This situation will reverse in the second half, and Sky expects to report close to previous run-rates for the full year.

These reductions are readily achievable given the level of known commitments, and with no shortage of quality content already in the pipeline for the second half. This content includes the return of Super Rugby Pacific, the NRL and the ICC Champions Trophy, along with The White Lotus on Max, available across our platforms.

On an Underlying basis, EBITDA was $60.7 million (Reported $43.2m) with Net Profit After Tax of $10.9 million (Reported -$1.7m), largely reflecting the weighting of costs to the first half.

Free Cash Flow was $7.5 million, slightly ahead of last year.

Sophie Moloney commented: “At a high level, while the first half revenue miss is inconsistent with our strategic plan, driving improved margins through returning to a growth footing and continuing to manage the cost base remains firmly in focus.”

“On the revenue side, our full year forecast is largely impacted by the ongoing weak economic environment, coupled with the in-year impacts of Project Migrate. The latter has directly impacted revenue-generating activities planned for FY25 as resources were necessarily diverted. With migration on track for completion this FY our focus will return to delivering these opportunities in FY26.”

“Critically, on the cost front, this year is a turning point for Sky as we move from a previous pattern of high cost, low-to-no-margin historic rights deals, to a lower programming spend to revenue ratio during FY26. This in turn creates the flexibility to invest in ways that further enhance customer experience based on analysis of our rich data sets which increasingly allow us to identify opportunities for audience growth.”

Project Migrate

Sky’s update on 14 February provides information on the progress of the new satellite. Although no satellite transition is risk free, testing is underway and recent achievement of key milestones gives

Management confidence that the successful migration of hundreds of thousands of Sky Box customers to the new satellite should be completed in early April.

As outlined in the Chief Executive's letter accompanying the Results today, there have been impacts to some customers due to an unexpected reduction in signal strength resulting from the inclination of the current D2 satellite, coupled with scheduling difficulties with some technician visits. While technical fixes in recent weeks have improved the signal strength across the country and greatly reduced the level of demand on customer service areas, the disruption and frustration for around 5% of Sky Box customers is unacceptable. The Sky team, supported by business partners, is working hard to remedy these shortcomings.

While Sky will not have certainty regarding the final financial impact of the satellite migration project until the successful transition is achieved, Management continues to believe that the programme will be largely cash neutral by the end of FY26 thanks to support from Optus.

Capital Management

The current share buyback remains in place with $7.8 million remaining to deploy. As previously indicated, this was paused throughout H1 given the ongoing rights negotiations with NZR, and the buyback remains suspended at this time.

The Board maintains its view that Sky's shares remain under-valued, and once the satellite migration and negotiations with NZR have been concluded, further capital management initiatives, including the option to introduce a prudent amount of leverage to the balance sheet, will be considered by the Board.

Sky remains in a healthy fiscal position, with a strong balance sheet, including a $100m undrawn bank facility, and proven ability to generate free cash.

The Board remains confident in the longer-term trajectory of the business and its ability to deliver sustainable free cash flow, which is reflected in an increased interim dividend of 8.5 cents per share, fully imputed. This represents a year-on-year increase of 21.4%.

Outlook

Sky's multi-product, multi-platform strategy remains a key competitive advantage, providing customers with choice in the way they engage with Sky's unrivalled content. At the same time, notwithstanding the costs to serve, Sky's substantial, high value customer base is compelling for content partners and advertisers.

Against the focus of resources on the successful delivery of Project Migrate in H2, and with economic conditions expected to remain challenging in the near term, Sky has reviewed its full year 2025 guidance for Revenue, EBITDA and NPAT, and narrowed and slightly lowered the ranges[1]. Midpoints are now reset to the lower end of previous guidance.

- Revenue guidance is between $755 to $765 million
- EBITDA guidance is between $145m to $152.5 million
- NPAT guidance is between $35 to $42.5 million.

[1] Subject to no adverse change in operating conditions, including future economic headwinds. Guidance excludes one-offs associated with satellite migration, accelerated amortisation and transformation initiatives.

Sky's guidance for full year dividends has been held to at least 21 cents per share (fully imputed), and Sky remains confident of progress towards the targeted level of 30 cents per share by FY26.

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