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Sky announces an equity raise of NZ\$157m to strengthen the balance sheet and provides a trading and strategy update

Sky Network Television Limited (NZX/ASX: SKT) is conducting an equity raising of approximately NZ\$157m to help ensure it is well capitalised to withstand the impacts of COVID-19 and positioned to execute on future growth opportunities once conditions improve.

Sky Chief Executive Martin Stewart commented: “We were making considerable progress on our strategy prior to COVID-19, with strong growth in streaming and customer engagement.

“We have moved swiftly to address the effects of COVID-19 on the business and to position Sky to withstand further impacts. We are excited about the return of live sport under Alert Level 2. While we recognise it will be a gradual return and international competitions are uncertain, it will be great to offer live sport to our customers again.

Today’s moves involve decisive action to strengthen the balance sheet, and to provide funding to help navigate near term headwinds and deliver on the next phase of Sky’s refreshed growth strategy.”

Capital raise – key points:

- Launch of an NZ\$157m equity raising, at an offer price of NZ\$0.12 per share, comprising: a fully underwritten NZ\$9m institutional placement and fully underwritten NZ\$148m pro-rata non-renounceable accelerated entitlement offer, at a ratio of 2.83 for 1.
- In conjunction with the equity raising, Sky has secured ongoing support from its banking syndicate, with a number of facility amendments, including maintaining the facility at \$200m and extending the term by one year to 31 July 2023, with enhanced covenant flexibility.
- Proceeds of the capital raise will initially be applied to pay down debt, and pro-forma 30 April 2020 net debt (including the \$100m bond maturing in March 2021) will reduce from \$159m to \$10m whilst net debt/EBITDA will reduce from 0.8x to 0.1x.¹
- The Board currently intends to reinvest available free cash flow during FY20 and FY21, and will re-evaluate the commencement of dividend payments in FY22.

Trading update and response to COVID-19

Until the onset of COVID-19 Sky made considerable progress in implementing planned growth and strategic initiatives, and showed strong growth in entertainment streaming customers both organically and through the Lightbox acquisition and improvements in streaming revenue. Sky experienced quarter on quarter revenue growth between the 2nd and 3rd quarters of FY20, and was on

¹ Net debt includes underwritten proceeds of NZ\$148m (net of transaction costs) and calculated using LTM EBITDA to 30 April 2020, including May–June 2019 adjusted for the impacts of IFRS16 and one off accounting items have been excluded, including redundancy costs, strategic consultancy costs and content write-offs.

track to deliver EBITDA and Revenue in line with the guidance provided in November 2019, but that guidance was subsequently withdrawn as the impact of COVID-19 became apparent.

As the COVID-19 situation began to unfold, Sky's focus turned to safeguarding the health and wellbeing of staff, ensuring that Sky could continue to deliver excellent services to entertain and inform customers and that the business was well prepared for a period of heightened disruption. Sky believes that it operated effectively and efficiently as an essential service under Level 4 and 3 restrictions, and continues to do so under Level 2, with increased levels of viewership and positive engagement with customers.

Customer numbers have continued to grow, rising to over 1 million at 30 April, 2020 including those acquired with the Lightbox acquisition, with continued growth demonstrating the strength and breadth of Sky's content offering during a period when live sport was not available. Sky Sport customers have responded positively to a range of complimentary entertainment upgrade offers during this time.

Sky has taken decisive action on costs, with significant reductions to operating expenses and deferral of non-essential capital projects. Sky's strategic focus to preserve capital will remain during the COVID-19 disruption period, and Sky expects that its cost saving initiatives will result in savings of \$80-\$95m in FY21.

Discussions with key sports rights holders are continuing. For some sports contracts Sky has a reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content delivered, but negotiations also have a view to support the future health of Sky's key sports partnerships.

Sky currently expects FY20 EBITDA of \$155–175m and NPAT of \$20–25m, prior to any non-cash adjustments and excluding any potential impairments. This information, including relevant assumptions and risks relating thereto, is included in the presentation which accompanies this announcement.

Sky Strategy update

Sky believes that its strategy to transform to a modern, digital, consumer-led, multi-media business remains solid, with the recent momentum in customer numbers providing encouraging support for the strategic direction.

Sky CEO, Martin Stewart said: "Our goal is to connect our customers with the sport and entertainment content they love, in ways that work for them. We aim to delight our customers across all platforms and devices, and we're innovating in the digital space to meet current and future customer needs.

It is pleasing to see how well the Sky team has pivoted to deliver excellent services under COVID-19 conditions, and we have made gains in areas like digital customer care and automation of processes that we plan to embed in the post-COVID-19 world."

The refreshed strategy optimises the existing business and provides new opportunities for growth, with four strategic pillars:

1. Strengthen our significant core **satellite** business
2. Grow our entertainment and sports **streaming** business, using digital innovation to improve the customer experience and move to a lower cost model
3. Grow customer relationships with **broadband offers**, differentiated on quality, service and price
4. Develop and grow an **international rugby content business** and become the online destination for fans globally, through RugbyPass.

Further information regarding Sky's refreshed strategy is available in the presentation that accompanies this announcement.

Equity raising details

The equity raising comprises an underwritten NZ\$9m institutional placement and underwritten NZ\$148m pro-rata accelerated entitlement offer, at a ratio of 2.83 for 1.² The Placement and Entitlement Offer will raise approximately NZ\$157m, with the issue of approximately 1,310m new ordinary shares (**New Shares**) representing 300% of existing shares on issue.

The Placement and Entitlement Offer will be conducted at an application price of NZ\$0.12 per share (or A\$0.11 per share) (**Application Price**), representing a:

- 30.4% discount to TERP³; and
- 63.6% discount to the last closing price of NZ\$0.33 per share on 20 May 2020.

Placement details

The Placement to institutional investors will raise NZ\$9m at the Application Price of NZ\$0.12 per share (or A\$0.11 per share). The Placement comprises the issue of 76m shares to certain eligible, sophisticated, professional and certain other institutional investors located in New Zealand, Australia and selected international jurisdictions. The Placement represents 4% of Sky's ordinary shares on issue following the Entitlement Offer.

The Placement is within Sky's existing capacity under NZX Listing Rule 4.5 and ASX Listing Rule 7.1 (following the NZX Class Waiver and Ruling granted 19 March 2020 and class waiver by ASX granted 31 March 2020 and as amended on 23 April 2020) and accordingly no shareholder approval is required to issue the New Shares.

Settlement of the Placement is scheduled to take place on Friday 29 May on ASX and Tuesday 2 June on NZX, with commencement of trading of new shares on the NZX and ASX on Tuesday 2 June.

Entitlement Offer details

The fully underwritten 2.83 for 1 Entitlement Offer will raise approximately NZ\$148m at an Application Price of NZ\$0.12 per share (or A\$0.11 per share). The Entitlement Offer will be conducted in two parts, a component to certain eligible institutional shareholders and investors (**Institutional Entitlement Offer**) and a retail component (**Retail Entitlement Offer**). The Entitlement Offer is non-renounceable, and entitlements will not be tradeable or otherwise transferrable.

Eligible shareholders under the Institutional Entitlement Offer include sophisticated, professional and certain other institutional shareholders located in Australia, New Zealand and select international jurisdictions as at the Record Date of 7.00pm (NZST) or 5.00pm (AEST), on Monday 25 May 2020 (**Eligible Institutional Shareholders**). The Institutional Entitlement Offer will be conducted from 10.00am (NZST) to 8.00am (AEST), on Thursday 21 May 2020 to 2.00pm (NZST) to 12.00pm (AEST), on Friday 22 May 2020.

² The Underwriting Agreement contains termination events, representations, warranties and indemnities that are customary for a transaction of this nature.

³ TERP is the Theoretical Ex-Rights Price at which Sky ordinary shares would trade immediately after the ex-rights date for the Entitlement Offer. TERP is calculated with reference to Sky's closing share price of NZ\$0.33 on 20 May 2020 and includes all new shares issued under the equity raising. TERP is a theoretical calculation only and the actual price at which Sky ordinary shares will trade immediately after the ex-rights date for the Entitlement Offer will depend on many factors and may not be equal to TERP.

The Retail Entitlement Offer will be offered to certain eligible retail shareholders with registered addresses in New Zealand and Australia at the Record Date of 7.00pm (NZST) or 5.00pm (AEST), on Monday 25 May 2020 (**Eligible Retail Shareholders**). The Retail Entitlement Offer will open on Wednesday 27 May 2020, and close at 7.00pm (NZST) or 5.00pm (AEST) on Tuesday 9 June 2020 (unless extended). Provided they have taken up their full entitlement, eligible retail shareholders may also apply for additional New Shares not taken up by other retail shareholders up to a maximum of 20% above their pro-rata entitlement.

The Offer Document for the Retail Entitlement Offer, containing full details of the Entitlement Offer, is attached to this announcement and will be sent to Eligible Retail Shareholders on Wednesday 27 May 2020.

The Entitlement Offer is being made pursuant to a waiver by NZX granted on 21 May 2020 and class waivers by ASX granted on 31 March 2020 and as amended on 23 April 2020.

The rights will not be listed on NZX or ASX and there will be no shortfall bookbuild for those entitlements not taken up. Those shareholders who do not exercise their entitlements, or who are ineligible to do so, will receive no value for those entitlements not exercised, and their shareholding will be diluted. Retail shareholders are strongly encouraged to complete applications online via www.shareoffer.co.nz/sky given the likelihood of delays with the postal system at this time. Those that do apply for shares by postal applications are strongly encouraged to mail their applications as early as possible during the offer period.

The Board of Sky supports the Entitlement Offer, and the Directors intend to take up their direct entitlements, to the extent that they are eligible to participate in the Entitlement Offer.

Indicative timetable⁴

Event	Date
Announcement of equity raising and trading halt pre market open	Thursday, 21 May
Institutional Entitlement Offer and Placement opens	Thursday, 21 May
Institutional Entitlement Offer and Placement closes	Friday, 22 May
Trading halt lifted and shares recommence trading on NZX and ASX on an 'ex-entitlement' basis	Monday, 25 May
Record date for the Entitlement Offer	Monday, 25 May
Retail Entitlement Offer opens	Wednesday, 27 May
Offer Document despatched to Eligible Retail Shareholders	Wednesday, 27 May
ASX settlement	Friday, 29 May
NZX settlement, NZX and ASX allotment and commencement of trading of New Shares issued under the Institutional Entitlement Offer and Placement	Tuesday, 2 June
Retail Entitlement Offer closes	Tuesday, 9 June

⁴ This timetable is indicative only and may change without notice at Sky's discretion or subject to the requirements of the NZX Listing Rules. Sky has the ability at its discretion to make changes including to extend the closing date for the Retail Entitlement Offer, to withdraw the Entitlement Offer at any time prior to the issue of the New Shares and/or to accept late applications either generally or in specific areas.

Announcement of results of Retail Entitlement Offer	Friday, 12 June
ASX settlement	Monday, 15 June
NZX settlement, NZX and ASX allotment and commencement of trading of New Shares issued under the Retail Entitlement Offer on NZX	Tuesday, 16 June
Commencement of trading of New Shares issued under the Retail Entitlement Offer on ASX	Wednesday, 17 June

Additional information

Additional information regarding the equity raising is contained in the presentation which accompanies this announcement. The presentation contains important information including key risks and foreign selling restrictions with respect to the equity raising.

Nothing contained in this announcement constitutes investment, legal, tax or other advice. Investors should seek appropriate professional advice before making any investment decision.

Forsyth Barr Limited and Goldman Sachs New Zealand Limited are acting as joint lead managers for the equity raising. The equity raising is fully underwritten by Forsyth Barr Group Limited and Goldman Sachs New Zealand Limited.

For any questions in respect of the Retail Entitlement Offer, please call the Sky Offer Information Line on 0800 650 034 (within New Zealand) or +61 03 9415 5000 (within Australia) between 8.30am and 5pm Monday to Friday during the Retail Entitlement Offer Period. For other questions, investors should consult their broker, solicitor, accountant, financial adviser or other professional adviser.

ENDS

Authorised for release by the Board of Sky Network Television Limited.

For further information, please contact:

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Sky will host a conference call to discuss the trading and strategy update at 10.00am NZST on Thursday 21 May 2020. Participants can register for the conference call by navigating to <https://s1.c-conf.com/diamondpass/10007174-invite.html> and will receive dial in details upon registration.

Important Notices and Disclaimer

Not for distribution or release in the United States

This announcement has been prepared for publication in New Zealand and Australia, and may not be distributed or released in the United States. This announcement does not constitute an offer to sell, or the solicitation of an offer to buy, securities in the United States. Any securities described in this announcement have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “US Securities Act”) or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold, directly or indirectly, in the United States or to any person acting for the account or benefit of any person in the United States, except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable securities laws of any state or other jurisdiction of the United States.

Forward-looking statements

This announcement contains certain forward-looking statements about Sky and the environment in which Sky operates, such as indications of, and guidance on, future earnings and financial position and performance. Forward-looking information is inherently uncertain and subject to contingencies, known and unknown risks and uncertainties and other factors, many of which are outside of Sky’s control, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. A number of important factors could cause actual results or performance to differ materially from the forward-looking statements. No assurance can be given that actual outcomes or performance will not materially differ from the forward-looking statements. The forward-looking statements are based on information available to Sky as at the date of this announcement. Except as required by law or regulation (including the Listing Rules), Sky undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.

In particular, this announcement includes financial outlook information for FY20 (the “financial outlook information”). The financial outlook information has been prepared by Sky based on an assessment of current economic and operating conditions, including in relation to the impact of the COVID-19 pandemic on Sky’s business, and various assumptions regarding future factors, events and actions, including in relation to economic conditions, subscriber numbers, advertising revenue, the return to live sport and the level of restrictions on movement and gatherings, and costs associated with sport programming rights. The financial outlook information is subject to a number of risks, including the risks set out in the presentation which accompanies this announcement. Investors should be aware that the timing of actual events, including in relation to the return of live sport, the reduction of restrictions on movement and gatherings, and the level of costs associated with sport programming rights, and the magnitude of their impact might differ from that assumed in preparing the financial outlook information, which may have a material negative effect on Sky’s actual financial performance, financial position and cash flows in FY20 and FY21. In addition, the assumptions upon which the financial outlook information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside Sky’s control and are not reliably predictable. Accordingly, neither Sky nor any other person can give investors assurance that the outcomes discussed in the financial outlook information will be achieved.

Investors are strongly cautioned not to place undue reliance on forward-looking statements, including Sky’s FY20 revised guidance, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

All dollar values are in New Zealand dollars (“\$” or “NZ\$”) unless stated otherwise.

Sky’s financial information has been prepared in accordance with Generally Accepted Accounting Practice. It complies with the New Zealand Equivalents to International Financial Reporting Standards

(NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. Sky's financial statements also comply with International Financial Reporting Standards (IFRS).

Non-GAAP financial information

Certain financial measures included in this announcement are non-GAAP / non-IFRS financial measures, including within the meaning of Regulation G under the U.S. Securities Exchange Act of 1934, as amended. Sky has used the non-GAAP financial measure EBITDA when discussing financial performance, as the directors and management believe that this measure provides useful information on the underlying performance of Sky and its subsidiaries. EBITDA is defined by Sky as earnings before income tax, interest expense, depreciation, amortisation and impairment, unrealised gains and losses on currency and interest rate swaps. Investors should note that such non-GAAP / non-IFRS financial measures are not recognised under NZ IFRS or IFRS, do not have standardised meanings prescribed by NZ IFRS or IFRS, and should not be construed as an alternative to other financial measures determined in accordance with NZ IFRS or IFRS. The non-GAAP / non-IFRS financial information is not audited, and caution should be exercised as other companies may calculate these measures differently.

Pro Forma Financial Information

This announcement includes certain pro forma financial information to reflect the impact of the equity raising. The pro forma historical financial information provided in this announcement is for illustrative purposes only and is not represented as being indicative of Sky's or anyone else's, view's on its future financial position and/or performance. The pro forma historical financial information has been prepared by Sky in accordance with the measurement and recognition requirements, but not disclosure requirements, prescribed by NZ IFRS. In addition, the pro forma financial information in this announcement does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission.