

October 13th 2021

Sky Television Limited (SKT)

The company will hold its Annual Shareholders Meeting at **10.00am Thursday 28 October 2021**.

Due to the possibility of Covid restrictions it will be a virtual meeting.

You can join the meeting at

<https://apps.online.computershare.com/MeetingsShareholderWeb/FindMeeting?Country=NZ>

Company Overview

Sky's primary activity is to operate as a distributor of media content services. The company was founded 31 years ago. It offers pay for view TV and in March 2021 launched Sky Broadband. It has 554,690 Sky Box customers its main offering. Streaming services, NEON and Sky Sport NOW grew 57% during the year to over 390k customers. Its key partnerships include SANZAAR/NZR, NRL/NZRL, Warner HBO, ESPN, NBC Universal, Foxtel, Disney+, ViacomCBS and Sony.

Current Strategy

The company describes its strategy under four pillars

1. Nurturing and growing Sky Box and streaming customers.
2. Being the preferred partner for key rightsholders, content creators and distributors.
3. Growing existing and new revenue streams, whilst reducing operating costs.
4. Creating a culture and environment where Sky crew are empowered to deliver their best.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	A	Not disclosed if Directors are required to own shares.
Executive Remuneration	A	See comments below
Golden parachutes/handshakes	R	See comments below
Director Independence	G	All Directors are Independent.
Board Composition	A	See comments below.
Director Tenure	G	See comments below.
ASM Format	G	Virtual meeting due to uncertainty around Covid.
Company Sec independence	G	Generally good disclosure although not disclosed if receives a profit-based incentive.

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits or share options are available for Directors.

Executive Remuneration: SKT's current CEO is paid in the form of fixed remuneration and a short-term incentive (STI). NZSA encourages fulsome disclosure in relation to any STI incentive payments, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

In SKT's case, the only disclosure is that "*The Board is extremely cognisant of the requirement to ensure that any STI is aligned to shareholder interests.*" The company does disclose the on-target STI rate at 40% of base salary.

The company does not disclose any long-term incentive (LTI) scheme, but does state the CEO can receive share entitlements. There is no disclosure as to the basis of any such entitlements. **There's no LTI.**

NZSA prefers a weighting towards long-term incentive rewards, based on total shareholder return, with STI comprising <33% of at-risk pay. We would also prefer disclosure of any potential LTI or share entitlement applicable to the new CEO.

Golden Parachutes/Handshakes: We note that the company paid a total of \$1.453m to departing CEO, Martin Stewart. NZSA does not support the payment of any termination benefits.

Additionally, Mr. Stewart received 800,000 shares, only 200,000 of which had vested under his incentive scheme. While the other 600,000 shares had been awarded, they had not yet vested; the company chose to vest these shares on his departure, at a valuation of \$1.93 (the original value at grant date, as required by accounting standards). Somewhat positively, we note that the actual value of these shares at Mr. Stewart's departure date was far less than the stated value in the annual report.

Mr. Stewart's employment details as disclosed in the 2019 annual report stated that "*Mr Stewart is also entitled to 800,000 shares in Sky, in instalments of 200,000 on each of the first four anniversaries*

of commencement of his employment, with the shares vesting if Sky exercises its no fault termination right or if there is a change of control and Mr Stewart is no longer Chief Executive.”

All figures pre-date the recent share consolidation.

As public announcements had stated that Mr. Stewart had left Sky TV due to personal reasons related to a desire to return to the UK, NZSA questions why these 600,000 shares were vested on his departure.

Board Composition: Generally good disclosure. We note that the company does not participate in the IoD’s “Future Directors Programme”. While we recognise the disruptive dynamic currently faced by Sky TV, NZSA feels that the company would provide an effective experience for emerging directors.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession. We note that Sky TV have a range of appointment dates between 2013-2020, reducing the risk of knowledge loss for investors and ensuring that the company can manage director succession effectively within appropriate timelines. We also note that all directors have served less than 9 years.

NZSA appreciates clear signals from companies in relation to succession, in order to ensure long-term governance sustainability.

ASM Format: While NZSA prefers ‘hybrid’ ASM’s (ie, physical and virtual) as a way of promoting shareholder engagement while maximising participation, we understand the company’s approach in planning a virtual-only meeting given the current Covid-19 restrictions across New Zealand.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Generally good disclosure.
Audit rotation	A	See comments below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There was no dividend paid
Capital Raise process	n/a	There was no capital raising

Sky Television's share price rose from \$1.39 to \$1.62 (as of August 25th) over the last 12 months – a 17% return. This compares favourably with the NZX 50 which increased by 9% in the same period. The Performance Factor for SKT is 1.85.

Metric	2021	2020	Change
Revenue ²	\$724.8m	\$747.6m	-3%
NPAT	\$47.5m	-\$156.8m	n/a
EPS ¹	\$0.27	-\$0.90	n/a
PE Ratio	6	n/a	
Current Ratio	0.91	0.77	19%
Debt Equity	0.66	1.24	-47%
Operating CF	\$152.4m	\$196.8m	-23%
NTA Per Share ¹	\$0.60	\$0.30	116%
Equity Per Share ¹	\$2.40	\$2.10	13%

¹ per share figures based off actual shares at balance date (not weighted average). Based on bottom-line NPAT.

² Includes other income

Sky had what they would describe as a 'transformational year' in 2021. Revenues were down 3% to \$724.8m, but NPAT was up significantly to \$47.5m, delivering EPS of \$0.27. This places SKT on a PE of 6 which is very low and indicates the market is uncertain about future growth prospects and sustainable cashflows from operations.

Cashflows from operations were down 23% to \$152.4m and on a cents per share basis deliver \$0.087 per share. The large disparity between operating cashflows and Net Profit is made up of depreciation which comes in at \$108m.

NTA per share increased from \$0.30 to \$0.60 but is still a large discount to their share price. Interestingly, equity per share is \$2.40 (also a 30-cent increase) and this is a large premium to SP. The large difference between Equity per share and NTA per share is due to the \$255m of goodwill and \$55m of intangibles that SKY have listed as assets.

SKY have started delivering broadband services and are enhancing their online and streaming offerings.

The company offered guidance for FY 22 at the results presentation and expects revenues to be between \$715 and \$745m however NPAT to be significantly less than FY 21 with guidance of \$17.5-

\$27.5 provided. The disparity is explained due to the removal of one-off benefits in FY21 and also increased up front programming costs in FY 22 related to rugby and other sports and the start-up costs associated with SKY Broadband.

Resolutions

1. That the Board is authorised to fix the auditor’s remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Geraldine McBride as an Independent Director.

Geraldine McBride was appointed to the Board in September 2013. She is described in the Notice of meeting as a “Digital and AI technology thought leader with a global career that spans 30 years”. She has had senior executive roles in IBM, Dell, and SAP. Her most recent roles were President & CEO of SAP North America and SAP Asia Pacific Japan. She is a Director of Fisher and Paykel Healthcare Corporation. She is also CEO & Director of MyWave. AI (My Wave Holdings Limited), a market leading Enterprise AI technology company focused on Intelligent Personalisation that puts the customer at the centre of business.

If she is re-elected, she will have served 11 years at the end of that term. Pleasingly, we note the context provided in the Notice of Meeting: *“As set out in the Annual Report, further renewal of the Board is ongoing, Geraldine will continue to support the Chairman and the Board with her skills, her knowledge of the Company, and the application of digital technologies during the process of recruiting and inducting a new director with relevant experience in the rapidly evolving media sector.”*

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To amend the Constitution as described in the explanatory notes in the Notice of Meeting.

A link to the amended Constitution is included in the Notice of Meeting. The amendment is around Board meeting resolutions. We have read the Notice of Meeting and the amended Constitution.



Many Investors, One Voice

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Tuesday 26 October 2021**.

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA