

SPHR Earnings Call Transcript

Date: 2025-11-04

Quarter: 3

Operator: Good morning, and thank you for standing by. Welcome to the Sphere Entertainment Co. Third Quarter 2025 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Ari Danes, Investor Relations. Please go ahead.

Ari Danes: Thank you. Good morning, and welcome to Sphere Entertainment's Fiscal 2025 Third Quarter Earnings Conference Call. Today's call will begin with our Executive Chairman and CEO, Jim Dolan, who will provide an update on the business. Robert Langer, our Executive Vice President, Chief Financial Officer and Treasurer, will then review our financial results for the period. After our prepared remarks, we will open up the call for questions. If you do not have a copy of today's earnings release, it is available in the Investors section of our corporate website. Please take note of the following: today's discussion may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Please refer to the company's filings with the SEC for a discussion of risks and uncertainties. The company disclaims any obligation to update any forward-looking statements that may be discussed during this call. On Pages 5 and 6 of today's earnings release, we provide consolidated statements of operations and a reconciliation of operating income to adjusted operating income, or AOI, a non-GAAP financial measure. And with that, I'll now turn the call over to Jim.

James Dolan: Thank you, Ari, and good morning, everyone. For today's call, I'd like to focus on two important areas to the Sphere business model, the technology that powers Sphere and the opportunities it creates for our company, and our progress in expanding the Sphere venue footprint around the world. Behind virtually every aspect of what we do is the proprietary technology we have developed. This is reflected in what audiences experience at Sphere in Las Vegas to the work taking place at Sphere Studios in Burbank. We own key technology component providers to Sphere and have a portfolio of over 60 patents in the U.S., spanning across Sphere, venue design, audio delivery, video capture and display, 4D technologies and more. We have also continued to secure international patents to protect our innovations around the world. And we are not standing still as we continue to invest in technology and content to extend our leadership position. The use of these technologies is also not limited to Sphere venues. For example, this year, we introduced our advanced audio system, Sphere Immersive Sound at Radio City Music Hall, transforming the audio experience in nearly a 100-year-old venue. And we're now exploring additional commercial opportunities for Sphere Immersive Sound as well as other aspects of our technology portfolio. In terms of original content, the Wizard of Oz in Sphere utilizes the advanced technologies like generative AI in ways that haven't been done before. As we look ahead, we intend to use these AI tools in partnership with Google for additional Sphere Experience projects. We are also actively pursuing opportunities to utilize these AI tools for content on other distribution platforms. We expect to have more to share in the months ahead. Turning to our venue expansion plans. In Abu Dhabi, we are nearing completion of the preconstruction phase with the Department of Culture and Tourism. We also have discussions with a significant number of domestic and international markets as well as potential financing partners. These discussions span across small, medium and large-scale Spheres. Our designs include seating capacities of

approximately 3,000, 6,000 and 18,000. And behind each venue design is an economic model that we believe will generate an attractive return on investment. We look forward to updating you on our progress. And with that, I will now turn the call over to Robert, who will take you through our financial results.

Robert Langer: Thank you, Jim, and good morning, everyone. For the September quarter, we generated total company revenues of \$262.5 million and adjusted operating income of \$36.4 million. Our Sphere segment generated revenues of \$174.1 million, an increase of 37% against the prior-year period. This growth was mainly driven by higher revenues from the Sphere Experience and reflects approximately 1 month impact from the Wizard of Oz at Sphere, which launched on August 28 and has seen strong demand since its opening. As a result, in mid-October, the production passed 1 million tickets sold and achieved over \$130 million in ticket sales already. In addition to higher revenues from the Sphere Experience this past quarter, we also saw revenue growth from concert residencies and Exosphere advertising and sponsorship and our efforts to bring the world's second Sphere to Abu Dhabi. Overall, revenue growth was only partially offset by the absence of a marquee sporting event and a corporate event held in the prior year quarter as well as other revenue decreases. Third quarter adjusted operating income for our Sphere segment was \$17.1 million as compared to an adjusted operating loss of \$26.3 million in the prior-year quarter. This reflected the increase in revenues as well as lower SG&A; expenses, partially offset by higher direct operating expenses. The increase in direct operating expenses includes higher expenses associated with the Sphere Experience, mainly due to the impact of the Wizard of Oz at Sphere. It also reflects the increase in the number of concerts held at Sphere compared to the prior-year quarter, which was partly offset by lower other event-related expenses. SG&A; expenses for the September quarter were \$92.7 million, a decrease of \$12.3 million year-over-year. This includes the impact of the company's focus on driving cost efficiencies this year. Turning to MSG Networks. The segment generated \$88.4 million in revenues and \$19.3 million in AOI in the September quarter. This compares to \$100.8 million in revenues and \$16.1 million in AOI in the prior-year period. These results reflect an approximately 13.5% decrease in subscribers as well as the impact of recent amendments to MSG Networks' media rights agreements with MSG Sports and certain other professional teams. Turning to our balance sheet. As of September 30, our Sphere business had net debt of approximately \$205 million. This reflected approximately \$329 million of unrestricted cash and cash equivalents, \$259 million in convertible debt and a \$275 million credit facility related to Sphere in Las Vegas. In addition, as of September 30, MSG Networks had net debt of approximately \$144 million. This included \$200 million outstanding on the MSG Network term loan, which, as a reminder, is debt that is recourse only to MSG Networks. Following the end of the quarter, MSG Networks repaid an additional \$31 million on the term loan using cash on hand at MSG Networks, bringing the current principal outstanding to approximately \$169 million. During the quarter, we repurchased \$50 million or approximately 1.1 million shares of our Class A common stock. Following these repurchases, we now have approximately \$300 million remaining under our current buyback authorization. And with that, we'll now open the call for questions.

Operator: [Operator Instructions] Your first question comes from the line of Brandon Ross with LightShed Partners.

Brandon Ross: Jim, I want to let you enjoy the Oz success you're having, I guess, especially this quarter, but I wanted to ask you about the original content program beyond Oz. And to that end, what have you learned from Oz's success? And do you expect it to influence the original content program going forward from here? I know Edge or From the Edge is next, but afterwards, are you going to lean more into known movie IP like you did with Oz?

James Dolan: Okay. Well, let's see. What have we learned? The first thing is we learned is there's no place like home. But look, the Wizard of Oz really is the first piece of content that unlocks the medium itself. The -- and I think probably one of the things we learned content-wise from Wizard is that the 4D effects actually are even more important to the content than what we originally thought. We obviously thought the screen and the sound was going to be important, but 4D has turned out to be even more important with our customer base. But look, there's still a lot more to go in terms of exploring the medium. And From the Edge should do that, should help us delve further into it, primarily because it's a completely different way than Wizard of approaching the medium. Wizard is a remake of a 1939

classic, From the Edge -- and there were no -- with Wizard, we just basically took that content, and you know what we did with it. The -- but the content already existed and the -- and so all of the work was primarily done in editing studios, AI, et cetera. The -- with From the Edge, we now get into a live capture and we start to use our Big Sky system, right, to create these environments and experiences. And that's a completely different way of creating content than what we did at Wizard of Oz. So we're -- I'm anxious to see how it does. That -- having said that, after From the Edge, I mean, I think we'll probably look to see what else we can do to push the medium, right, to create even more experience for our customers because that's clearly what they're interested in.

Brandon Ross: Great. And then in the prepared -- you started off talking about the value of your technology, and I was hoping you could give us a little more, what tech in the portfolio beyond audio do you think has third-party value? What are the use cases? And over time, do you expect licensing this technology is going to be a real meaningful contributor to revenue and more importantly, AOI?

James Dolan: It serves multi purposes. So -- and your question sort of has two parts to it. But in terms of the platforms, right? Remember, if you -- in my comments, I talked about taking the technology and migrating it to other platforms. One of the things that we did with Wizard of Oz was we worked very closely with Google, but we did set up a process and a pipeline to handle AI. And over the 2 years that it took us to make Wizard of Oz, we got pretty good at it. We got pretty good at things like not only just using the AI, but transferring the data from place to place, being able to work on it, that whole infrastructure. So when Wizard of Oz finished, the -- we were sitting with this already built infrastructure that processes AI quite well. And so we're now exploring how to utilize that infrastructure beyond the Sphere. And we'll have -- as I said in my comments, we'll have more to say about it this next quarter. But that is a technological advance that Sphere Studios has that I think that we're going to be able to monetize. And I think we'll have some interesting announcements over the next 3 months on that. Other technologies beyond -- I mean, Sphere Immersive Sound, I have to tell you, I don't want to wax-on this too much, but I know that we did a full orchestra test yesterday in -- at Radio City. Don't underestimate that the -- what a great sound experience will mean for a venue. That the -- I mean, all you got to do is go to any big stadium and listen to the announcers or try and go to a concert at a big stadium and you know that the sound is muddled, changing that dynamic in the live experience is significant. And I do think that we're going to be able to monetize it maybe even to the level where it gets to the home. But I'm excited about what's going to happen at Radio City. And I'm excited to see whether our customer base recognizes the improvement in the quality and sees it as a real feature that makes our content even more attractive.

Operator: Your next question comes from the line of David Karnovsky with JPMorgan.

David Karnovsky: Jim, with Wizard of Oz, I wanted to see how you're thinking about optimizing revenue from here in terms of price, show count or adding sections? And then maybe as a follow-up to a prior question, assuming Oz demand remains strong through 2026, when would be the right time to launch From the Edge, which I believe you've announced for the next calendar year?

James Dolan: So we're -- From the Edge, first off is not finished yet. So it's got a ways to go. I expect that it will be ready by the end of the summer. But that doesn't mean that we'll launch it at the end of the summer. It can -- it will stay fresh. And we plan on basically running Wizard of Oz until we see the demand to start to fall off. That could be a lot longer than a year. In addition, the -- we're planning a -- what would you call it? We're going to Wizard of Oz 2.0, right, an enhanced version that we will launch on the anniversary of the premiere. And this is likely going to include some new features to the film such as we might just take you for a ride on a witch's broom during the show, and how much more life that will breathe into Wizard of Oz? I'm not really sure, but I think it might be pretty good. I always tell my team, Cirque du Soleil's O has been running for 30 years in Las Vegas. It's basically the same show. So I mean what's the lifespan of Wizard of Oz? It wouldn't surprise me if we were we were showing Wizard of Oz 10 years from now. But the other thing that right now, we're creating for one venue and what's great is that we can monetize that content just with the one venue. But we want to build more venues, and we are building more venues, and that will help us take things like content costs and overhead costs, right, and spread them out against more revenue streams and should make the company much more profitable.

Operator: Your next question comes from the line of Stephen Laszczyk with Goldman Sachs.

Stephen Laszczyk: Jim, maybe just following up on that last point there, you've had this incredibly successful debut of Wizard of Oz over the last few months, and it certainly seems to be surpassing Postcard in a lot of ways. I would just be curious, as you look ahead into 2026, to get your thoughts on what you think the trajectory of Oz could look like from a business and performance perspective? To what extent you think this momentum that we're seeing in adding show count and some of the higher sell-through that we've seen over the last couple of months can continue into the next 12 months? Or perhaps a framework you're thinking about as it compares to Postcard as you look out into '26 and try to gauge how meaningful and successful this piece of content can be?

James Dolan: Well, Postcards was what we call the first pancake. And so it wasn't perfect. The -- it did an okay job of showcasing the medium to start off with. Wizard of Oz took it to the next level. How long can it go for? I think it can go a long time. The -- I don't -- I mean, in terms of demand on the marketplace, Las Vegas is a great market. I'd love to clone that market. With over 40 million visitors every year, right, there's a lot to be [plucked]. And I think one of the reasons that O was as successful as it was is because it stands up with that 40 million people coming in. Pretty much everybody over the years has seen O, who's gone to Vegas. I think Wizard of Oz can perform the same way. But I'm hoping that we -- I mean, that's one of the beauties of the Sphere, I mean, when you look at that shows like, O, there was a huge capital investment in the beginning and they're just -- and they're running it out. I think they did a refresh here and there, but it's basically the same show. We can change the show, right? We can do Wizard of Oz right at 1:00 in the afternoon, right? And From the Edge at 5:00 in the afternoon, the -- and we can add more, et cetera. So the idea of keeping the Sphere filled and in demand, I mean, I think that with the way we've designed the technology, et cetera, we can keep the Sphere going to keep it filled for a long time to come.

Operator: Your next question comes from the line of Peter Supino with Wolfe Research.

Logan Angress: This is Logan Angress on for Peter. Jim, you mentioned in an interview that you hope to have a small Sphere announcement by the end of the year. I'm curious if you can share any insight into expectations for that venue? And specifically, is the expectation that it will be capital free? Or do you expect to be a minority investor in that venue or in venues to come?

James Dolan: Well, let's see. The -- do we expect to be capital free? We have a model that where we are capital free and I think that is a preferred model. Would we invest? Well, look, I think it's a really good investment, the economic models that we've built around all of the different versions of Sphere have really good ROIs. So I mean as we have free cash to invest, et cetera, that is something that the -- you probably -- I would think we'll do some things. Plus, I mean, it does show a level of confidence, right, that the company has in the project when you, say, take 10% of the equity right? It also helps the lending model, et cetera. So I think we're flexible in that way. And I think that kind of answers your question. You want to know when we're going to announce something and where. Well, that's what announcements are for.

Logan Angress: Got it. And then a quick follow-up. You mentioned you're in conversations with a bunch of different potential partners. I'm curious how, if at all, the success of Wizard of Oz has changed those conversations with those potential franchisees?

James Dolan: I think Wizard of Oz opened up the floodgates, at least from the -- from our phone ringing, although people's phones don't actually ring anymore, e-mails and text that the -- we're hearing from all over the world, domestically, internationally, right? The -- I mean, what we're doing in Abu Dhabi is really kind of interesting that the -- we're not going to reveal exactly the location, but I will tell you that they have taken Sphere and put it into a much larger plan for the entire marketplace that they have and Sphere is like the diamond sitting in the top of the ring. And so it has that kind of impact on urban development, et cetera. And so when you look around the world, you look at who's developing their marketplaces, who is developing their urban infrastructures, et cetera, particularly when it comes to entertainment, et cetera, Sphere just fits so nicely into all of those plans. And I think what the Wizard of Oz did was woke people up to that fact. And so that's why we're seeing so much interest.

Operator: Your next question comes from the line of Ryan Sigdahl with Craig-Hallum.

Ryan Sigdahl: Jim, you mentioned in an interview with New York Post in late August. The Sphere had booked up until September 2027 with a residency pipeline. So it implies that pipeline continues to build

extremely well with lots of kind of artists that want to play there. But realizing there's a healthy competition with -- or I guess, for the Sphere space. But my question is, ultimately, do you expect more concerts in 2026 versus 2025? And then how do you think about the upper limit for the number of concerts per year within the Sphere?

James Dolan: It's interesting you asked that question because we just had a discussion about this yesterday about what the optimum combination is on a day in the Sphere. What we came out with is the best combination is a concert like the Eagles or Zac Brown or whatever in the evening with at least two to three shows of like the Wizard of Oz, right, in the afternoon, that generates the most amount of cash flow, et cetera, in a day. Honestly, the problem that we're having, and it's what my old manager used to call first-class problem, right, is that the -- we're trying to find more opportunity to put more into the Sphere. So I mean, I do think that, that concerts and those kinds of things are important to the Sphere. I mean, particularly if you're coming to Las Vegas to see a concert at the Sphere and then at the same time, the next day, you get up and, in the afternoon, you go see the Wizard of Oz, et cetera, it's -- that's a pretty good formula. But we're having -- we're nothing has slowed down in terms of artists who want to play at the Sphere. In fact, that's one of the things that we're juggling is how do we get all these artists in. I've definitely got a lot more demand than I do capacity at this point.

Operator: Your last question comes from the line of Peter Henderson with Bank of America.

Peter Henderson: So just two, if I may, one on Sphere, one on MSG Networks. First on Sphere, regarding the Exosphere and sponsorship, I was just wondering if you can give us an update on the go-to-market approach, the forward demand outlook and progress in establishing a recurring book of business? And then on MSG Networks, just wondering if you have any updated thoughts around possibility for strategic acquisition?

James Dolan: Okay. I'm actually going to give that first one -- you ready, Jen? You take that first. Okay.

Jennifer Koester: I think the excitement and the interest that Jim was talking about coming from our live residencies and Wizard of Oz isn't just kind of opening the floodgates when we think about additional Spheres and expanding our physical footprint, we're seeing a lot of renewed interest and incremental interest when it comes to advertising and sponsorships with the Sphere. We've talked about it. This has been a year of transition for us, right? We've adjusted our go-to-market strategy. We brought in our sales team in-house as of September, that sales team is largely in place. And we're seeing positive results already. This past quarter, we had double-digit percentage increase when it comes to our sponsorship and Exosphere sales. And I think we've got a strong start to next year already. Part of our go-to-market strategy adjustment was to really lean into tentpole events. And if I look at what we're seeing ahead for CES, we've got strong growth year-over-year for that conference, and it is part of our key strategy to lean in the conferences that are in town. We're also leaning into the creation of these multiyear sponsorships. And we've recently announced a few of those with Lenovo and Zoox, and we will be announcing a few more in the coming months. So I think we continue to build a really solid base when it comes to Exosphere advertising and sponsorships. And I think during the next calendar year is a high barrier of growth for us.

James Dolan: And the second part of the question, what was the second?

Jennifer Koester: Networks.

James Dolan: Networks. Before I get to that, Jen, by the end of the day tomorrow, how many tickets do you think we'll have sold to the Wizard of Oz?

Jennifer Koester: 1.2 million.

James Dolan: 1.2 million. So it's not slowing down.

Jennifer Koester: Not at all.

James Dolan: As far as networks goes, the -- we were able to put -- to pay down some of the debt again. So that was -- that was good. They -- look, regional sports is a very powerful product. The problem in that business is that because of the shift from linear over to streaming, right? The monetization of that product, right, has taken a real hit. And it's still figuring out its way. But the good news is that the product itself hasn't lost any luster with the marketplace. I mean, the opening game for the Knicks, I think, had over 50,000 streams with the -- and if you value those streams at \$10 a stream, that's \$0.5 million for one game. You add that to the linear revenue, et cetera. And it's -- the point is, I guess, is that the business is still finding itself, but it's still got a very strong product. And strategically,

the -- what I'd like to see is I'd like to see the marketplace come together with all of its teams to have a single seamless offering to the consumers in the New York market for all of the teams, obviously, other than football because that's all national. But every other team. Having said that, we're not there yet. We are partners with the Yankees, and we have the Nets and we added them in. And so we're getting there. But I think -- in terms of the business, that's probably the future of the business. That's the way to make the business really strong. But it's got quite a ways to go. And what M&A; and machinations happen between now and getting to that product, it would only be a guess on my part.

Operator: That concludes our Q&A; session. I will now turn the call back over to Ari Danes for closing remarks.

Ari Danes: Thank you all for joining us. We look forward to speaking with you on our next earnings call. Have a good day.

Operator: Ladies and gentlemen, thank you all for joining, and you may now disconnect. Everyone, have a great day.