MULTICHOICE GROUP DELIVERS SOLID RESULTS, POSTING GOOD GROWTH IN TRADING PROFIT AND CORE HEADLINE EARNINGS

Johannesburg, 11 November 2019: The MultiChoice Group (MCG) today announced its results for the six-months ended 30 September 2019 (1H FY20). The Group continues to drive subscriber growth and added 1.2m 90-day active subscribers, representing 7% growth year-on-year (YoY). This took the overall subscriber base to 18.9m households, split between 8.2m households in South Africa (SA) and 10.7m households in the Rest of Africa (RoA).

Revenue was up 4% to R25.7bn, despite tough comparisons (specific one-off events boosted the prior reporting period) and a strategic decision not to increase Premium prices in SA. A R700m (R1.2bn organic) reduction in losses in RoA underpinned MCG's trading profit improvement, which rose 22% to R4.8bn.

Core headline earnings, the board's measure of sustainable business performance, was up 24% on the prior period at R1.9bn, despite the 5% additional share allocation in MultiChoice South Africa (MCSA) gifted to Phuthuma Nathi (PN) shareholders in March 2019. Excluding this once-off change, core headline earnings would have grown 37% YoY on a like-for-like basis.

"We are pleased with our solid financial performance and our ability to navigate a very challenging economic climate," says Calvo Mawela, Chief Executive Officer. "The Group's cost saving objectives for FY20 remain on track with R700m in costs eliminated from the base during 1H FY20, mainly as a result of the continued shift in spend towards more cost-effective local content, innovation in customer care, contract renegotiations, hardware savings and the introduction of platform efficiencies."

The Group continued its strategic focus on investment into local content, increasing the number of hours produced by 12% YoY. As a result, the total local content hours in the library now exceeds 54,000 hours. Local content highlights over the past six months included the launch of the first co-production, Trackers, and the locally produced, The River, being nominated for an International Emmy Award. MCG also won an International Drama award at Seoul for The Herd. The final votes cast in the latest season of Big Brother NAIJA increased to a record 240m, and the ratings for Survivor South Africa rose by 36% in relation to the previous season. SuperSport continued to broadcast popular sporting events such as the Africa Cup of Nations, the Cricket World Cup and the Rugby World Cup.

FINANCIAL REVIEW

The Group achieved its target of generating positive operating leverage by delivering revenue growth of 4% (3% organic) and containing costs at the same level as the prior period (-3% organic). This strong performance was largely as a result of the early implementation of cost saving initiatives to ensure maximum benefits through the financial year.

Capital expenditure (capex) of R0.3bn was in line with the prior period and the cash conversion ratio (EBITDA-capex/EBITDA) remained positive at 96%. As one of the largest taxpayers in Africa, MCG paid direct cash taxes of R1.9bn.

Consolidated free cash flow of R2.4bn was up 32% compared to the prior period due to an improvement in the trading result from the RoA and a lower investment in set-top boxes.

The Group's balance sheet remains strong with R9.9bn in net assets. This includes R6.9bn of cash and cash equivalents, after settling the R1.5bn dividend to PN, and utilising R0.8bn for share buybacks. "We are also on track to deliver on our R2.5bn dividend commitment for FY20," says Mawela.

The Group remains fully dedicated to broad-based black economic empowerment (B-BBEE) and transformation. In line with its prior commitment, MCG's offer to PN shareholders to exchange up to 20% of their PN shares for MCG shares closed on 28 October. It resulted in PN shareholders in both entities (PN1 and PN2) exchanging a total of 3 840 344 shares for a total of 3 675 210 MCG shares. Following the implementation of the share exchange, MCG's effective stake in MCSA has increased from 75% to 76.4%, with PN owning the rest.

SEGMENTAL REVIEW

South Africa

The SA business delivered solid results, reporting subscriber growth of 7% YoY or 0.6m subscribers on a 90-day active basis. Revenue growth of 2% (2% organic) to R17.0bn was muted as healthy subscriber growth in the mass market was negated due to no price increase being implemented on the Premium bouquet, which was well-received and resulted in the stabilisation of the base at 2019 year-end levels. Trading profit was slightly down from the prior period at R5.2bn, predominantly due to the cost impact of broadcasting three major sport events in the reporting period and once-off restructuring costs in the customer care division. Despite these costs, the trading margin remained relatively stable at 30%. The business remains focused on growth, retention and efficiencies to support margins.

Connected Video users on both the DStv Now and Showmax platforms continue to grow as online consumption increases. Further improvements have been made to the user interface and the content slate, including simulcasts with pay-TV, investment in additional original local content and the procurement of content for the connected video platforms. The Group also started trialling sport on Showmax to better understand appetite for this offering and to give connected video subscribers a taste of the SuperSport experience.

Rest of Africa

The RoA business grew the 90-day active subscriber base by 7% YoY or 0.7m subscribers. Growth was affected by non-recurring sport events in the prior year and some country-specific issues. These include current hyperinflationary economic environment in Zimbabwe, which has caused significant pressure on consumers due to the lack of US dollar liquidity, as well as severe electricity shortages in countries like Zambia as a result of the ongoing drought, which has impacted the demand for services like pay-TV.

RoA revenue of R7.8bn grew 5% YoY (3% organic), with subscription revenue contributing R7.1bn, up 8% YoY (6% organic). Material currency depreciation in the Angolan kwanza (34%) and the Zambian kwacha (24%) affected the segment's financial results. Nonetheless, trading losses reduced 47% (73% organic) or R0.7bn (R1.2bn organic) to R0.8bn. Some portion (R0.6bn) of this organic improvement was due to non-recurring investment in decoder subsidies and content in the prior period. The remaining R0.6bn improvement was due to subscription revenue growth, supported by a cost base which was well controlled at prior year levels.

Whilst a challenging macro-economic environment might dampen short-term growth, the Group remains focused on capitalising on the huge market opportunity that remains in the RoA. It expanded points of presence in under-served locations and introduced a sales automation tool to optimise sales performance. Investment in local content continues to grow and the Group recently launched a localised version of Showmax in Nigeria, and a mobile-only Showmax offering in Kenya and Nigeria. The RoA business remains focused on driving scale and managing costs to return the business to profitability in the medium term.

Technology segment

The Technology segment, Irdeto, delivered strong results. It contributed R0.9bn to Group revenues, an increase of 32% YoY (24% organic), underpinned by new customer wins in India and the USA. The revenue growth, combined with tight cost controls and a favorable product mix, resulted in a four-fold increase in trading profit to R0.5bn.

To diversify its reliance on traditional broadcasting revenues, Irdeto continues to invest in connected industries, a market that is showing great promise. New services include security solutions for internet video, online gaming and the Internet of Things - especially connected vehicles. These new revenue streams currently represent more than 30% of the Technology segment's revenues and are expected to grow and contribute more meaningfully to Group revenues in future.

PROSPECTS

In the second half of FY20, subject to a stable regulatory environment, the Group will continue to scale its video entertainment services across the continent, mainly in the middle and mass markets. "We remain focused on ramping up our investment in local content and expanding our OTT offering," Mawela explains. "Seasonality normally has a bigger impact on our second-half performance, both in terms of customer growth and costs, and will largely determine our full-year performance. Combined with the risks associated with a weak macro- and consumer environment that appear to be deteriorating, we are cautious about expectations for the rest of the year. Despite these challenges, we remain committed to delivering solid financials and margin expansion going forward."

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ABOUT MULTICHOICE GROUP

MCG is Africa's leading multi-channel digital satellite and pay television destination, offering its 18.9m customers access to a world of entertainment, anywhere, anytime. MCG includes MultiChoice South Africa, MultiChoice Africa, Showmax Africa, and Irdeto.

MCG has been in operation for the past 30 years and through its flagship product brand, DStv, the company delivers the latest and most compelling local and international content to millions of households across Africa. The company's ongoing commitment to innovation and technology advancement resulted in the creation of its iconic high definition PVR decoder, the DStv Explora – which won the Product of the Year for 2015 and has now launched the improved HD6 PVR decoder.

Through its corporate social investment, MCG actively participates in social transformation, ongoing investment in local content, job creation and skills development - which in turn strengthens the television and broadcasting industry and contributes to the South African economy.

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