MultiChoice Group: Interim results reflect strong cash flow and steady margin.

Interim results for MultiChoice Group (MCG or the group) reflect an ongoing expansion of its ecosystem. The group added 1.0m 90-day active subscribers to close the period ended 30 September 2021 (1H FY22) on 21.1m subscribers, an increase of 5% year on year (YoY). The business in the Rest of Africa (RoA) experienced accelerated growth primarily on the back of major sporting events and successful local content productions, while growth rates in South Africa were subdued by rising consumer pressure and tough comparables given the boost in the prior year numbers triggered by strict lockdown restrictions at the time. The 90-day subscriber base is split between 12.2m households (58%) in the Rest of Africa and 8.9m (42%) in South Africa.

Revenue increased 3% (10% organic) to ZAR26.8bn, with the stronger South African Rand (ZAR) reducing the revenue contribution on translation of the Rest of Africa and Technology segments. Subscription revenues amounted to ZAR22.1bn, representing solid 7% organic growth. Advertising revenues, which were impacted by COVID-19 in the prior period, rebounded strongly, growing 77% YoY (84% organic). This outperformance was driven by the return of live sport, sales linked to a strong local content line-up and the success of new digital advertising strategies. Commercial subscription revenues, which increased 50% YoY (57% organic) are also recovering as lockdown restrictions continue to be eased.

Group trading profit increased 5% to ZAR6.0bn (6% organic), benefitting from 7% growth in South Africa with Rest of Africa losses remaining largely in line with the prior period. Trading profit margins were supported by the advertising revenue recovery and continued cost control but were negatively impacted by a 17% (27% organic) increase in content costs, mainly due to the deferral of content costs from FY21. This included major sporting events such as Euro 2020, the British and Irish Lions Rugby Tour and the Tokyo Olympics, while other drivers included the group's continued ramp-up in local content investment and non-recurring content refunds received in the prior period.

The group's established cost optimisation programme delivered a further ZAR0.5bn in cost savings during the period. Major contributors were renegotiated contracts for sports rights and international general entertainment content (as part of the continued strategic shift to local content). Operating leverage was positive on a nominal basis, however, marginally negative organically due to the sharp content cost increase which was not fully covered by revenue growth. Due to the anomalies in the prior period cost and revenue base caused by COVID-19, a more representative operating leverage outcome is expected to be reflected in the full year results.

The group continued its strategy of differentiation through local content and stepped up its investment by producing 2 692 additional hours. This represented 41% YoY growth, and was supported by less disruption from the third wave of COVID-19 versus the initial lockdowns in the prior period. As a result, the total local content library is now approaching 66 000 hours and local content represented 45% of total general entertainment content spend. During 1H FY22, the group expanded its local content offering with five major channel launches across sub-Saharan Africa. In Nigeria, *Big Brother Naija* delivered record viewership and advertising revenues, and has become one of Nigeria's most loved reality brands. In South Africa, the group's second major co-production *Reyka*, was broadcast to critical acclaim during Sunday night prime time. Four further co-productions with global content producers *(Recipes for Love and Murder, Crime and Justice season 2, Pulse* and *The Fix)* are in production to add to the five that were concluded in the prior year.

Core headline earnings, the board's measure of sustainable business performance, was down 26% on the prior period at ZAR2.0bn. This reduction in earnings was attributable to higher realised foreign exchange losses caused by the stronger ZAR relative to the hedged rates of the group's forward exchange contracts in the South African business during this period. As the group takes out these contracts up to three years in advance, and given the volatility of the ZAR, the hedging strategy can result in either profits or losses being recognised in a given year. However, the approach has proven to be effective in protecting the group against currency fluctuations over time.

Consolidated free cash flow of ZAR3.2bn was up a strong 54% compared to the prior period, underpinned by focused working capital management and reduced capital expenditure. The lower capital expenditure was primarily due to the non-recurrence of an enterprise resource planning (ERP) system upgrade in Irdeto and a stronger ZAR which benefitted foreign currency capital investment. Free cash flow also included a ZAR0.4bn tax security deposit made in relation to the ongoing Nigerian tax dispute.

As part of the group's periodic asset review process, and in line with the group's conservative accounting policies, a loss on the derecognition of information technology assets amounting to ZAR0.3bn was recognised in the current period.

As one of the largest taxpayers in Africa, the group paid direct cash taxes of ZAR1.9bn, slightly lower than the prior period as a lower third top-up tax payment was required in South Africa.

Net interest paid decreased by ZAR50m to ZAR202m, driven by lower USD interest on transponder leases due to the stronger ZAR. This was despite increased interest of ZAR35m on the working capital term loan raised in September 2020.

The strength of the balance sheet remains a core focus in supporting new investment opportunities and the funding requirements for RoA. Notwithstanding liquidity constraints in Nigeria, the group has continued to extract cash throughout the period. Some ZAR8.4bn in net assets, including ZAR7.3bn in cash and cash equivalents, combined with ZAR4.4bn in available facilities, provide ZAR11.7bn in financial flexibility to fund the group's operations. This strong financial position is after ZAR4.0bn was utilised to settle the MCG and Phuthuma Nathi dividends in September.

Cash holdings of ZAR3.1bn (FY21: ZAR2.5bn) held in Nigeria, Angola and Zimbabwe remain exposed to weaker currencies.

Segmental review

South Africa

The South African business faced a challenging consumer climate in the current period, with growth rates impacted by rising unemployment levels and a short disruption caused by the tragic July riots in KwaZulu-Natal and Johannesburg. Furthermore, YoY comparisons are distorted as the prior period benefitted from strict lockdown conditions which saw consumers prioritise video entertainment services. This resulted in muted 2% subscriber growth or 0.2m subscribers on a 90-day active basis.

Revenue increased 8% to ZAR17.8bn on the back of a strong recovery in advertising revenue (ZAR0.7bn) and a 2% increase in subscription revenues, supported by subscriber growth in the mass market, and the uplift from annual price increases. The return of live sport, especially Springbok rugby, improved Premium trends versus the prior period. Monthly average revenue per user (ARPU) declined 2% from ZAR278 to ZAR273, less than previous periods, underpinned by the improved Premium trend, annual price increases and a partial recovery in commercial subscription revenues.

Trading profit increased 7% to ZAR6.2bn, maintaining the first half trading margin at 35%. This higher profitability can be attributed to the boost in advertising revenues and the group's cost optimisation programme, and was despite the costing of major sporting events such as Euro 2020, the British and Irish Lions rugby tour and the Tokyo Olympics in the current period.

SuperSport continued to deliver world class productions with a bumper calendar of major sporting events in the first half. Record viewership was achieved for Euro 2020, the British and Irish Lions and the Tokyo Olympics. The British and Irish Lions tour to South Africa saw SuperSport act as host broadcaster and the Tokyo Olympics brought every medal event to subscribers' homes on linear and over-the-top (OTT) platforms. SuperPicks, the group's first product collaboration with KingMakers (previously BetKing), was launched in Nigeria at the start of the 2021/2022 English Premier League season and has achieved impressive user growth on a weekly basis. Content renewals for the period included the European football championships, Serie A, the FA Cup and the new United Rugby Championship, which has been positively received since starting in August 2021.

Connected Video users on the DStv app and Showmax continue to grow as online consumption increases. Paying Showmax subscribers were up 42%, with overall online users increasing 33% from the prior period, representing a 3% gain in share of the African OTT market since December 2020. Showmax further localised its business by adding local payment channels and enabling local billing in various markets. Local content was stronger than ever with titles like *DevilsDorp, Big Brother Naija* and *Temptation Island* driving significant viewership and international interest. Showmax Pro continues to improve its customer experience and included the live broadcast of every medal event from the Tokyo Olympics, the Euro 2020, and every game from the English Premier League.

On the product front, DStv Internet was launched, a plug-and-play fixed wireless LTE solution, which will enable broader access to the group's online platforms into the future.

Rest of Africa

The Rest of Africa business grew its 90-day active subscriber base by 0.8m subscribers, or 7% YoY, with the closing base now at 12.2m. The popularity of local content such as *Big Brother Naija* and major sporting events contributed to another round of robust subscriber growth. Currencies were more stable than the prior period and impacted reported results by ZAR0.1bn, but the overall macroeconomic environment remains volatile. Liquidity challenges continued in Nigeria, with the group extracting cash at every opportunity through its banking partners, largely at the parallel rate. Despite this aggressive cash extraction approach, cash balances in Nigeria remain elevated at ZAR2.8bn, slightly higher than the ZAR2.3bn reported at 31 March 2021.

While revenue of ZAR8.2bn reflects a strong 16% increase organically, it is 5% lower YoY due to the translation of local Rest of Africa revenues at a stronger ZAR. Subscription revenue grew 15% organically and contributed ZAR7.5bn. ARPU improved by ZAR9 on an organic basis, supported by a stable subscriber mix and inflationary price increases. Currency depreciation was less severe than the previous period, with major average currency movements against the USD being the Angolan Kwanza (-9%), the Zambian Kwacha (-6%), the Mozambiquan Metical (+11%) and the Nigerian Naira (-6%).

Trading losses amounted to ZAR0.4bn, an improvement of 6% against the prior period on an organic basis as strong growth in subscription revenues was offset by an increase in content costs due to a normalised sporting schedule, increased local content investment and non-recurring content refunds received in the prior period.

Technology segment

The Technology segment, Irdeto, delivered a solid performance despite the global silicon chip shortage and COVID-19 disruptions in markets like India, which impacted reported revenues. The segment contributed ZAR0.8bn in revenues, down 16% YoY (+1% organic), impacted by the translation impact of a stronger ZAR. Despite reduced revenues, the segment contributed ZAR0.3bn to group trading profit, with margins strong at 37%.

During the current period, Irdeto continued to gain market share by winning two Tier 1 customers in the video entertainment sector. Irdeto won new business with Sky New Zealand, a leading telecom and media operator in Australasia. Beyond video, Irdeto grew its Device Security business, continued to expand its deployment of connected vehicles with Hyundai, and started new projects like providing Keystone to large truck fleets. Irdeto's Trusted Home product was rolled out in South Africa as part of the DStv Internet launch, offering customers enhanced home network security, parental controls and Wi-Fi management solutions. Irdeto was also recognised with numerous industry awards, including Best Cybersecurity Product or Service at the International Cyber Security Awards.

KingMakers

Transaction update

On 10 June 2021, the board approved the formal offer for MCG to increase its equity investment in Blue Lake Ventures Limited (BetKing rebranded as KingMakers) from 20% to 49% for a consideration of USD281.5m (approximately ZAR4.0bn), subject to certain substantive conditions being met. At 30 September 2021 all substantive conditions were met, apart from regulatory clearance in Nigeria, which was obtained on 29 October 2021. Therefore, the increased shareholding has not been reflected in the 1H FY22 financials and has been disclosed as a subsequent event.

1H FY22 performance

KingMakers delivered USD57m (ZAR0.8bn) in revenues, representing robust 78% growth versus the prior period. Profit after tax remained at break-even as the business continues to grow its management team, agent network and presence across the continent.

Nigeria tax dispute

The group is currently involved in an ongoing tax dispute with the Nigerian Federal Inland Revenue Service (FIRS) and has paid amounts of ZAR0.3bn relating to MultiChoice Nigeria and ZAR0.1bn relating to MultiChoice Africa Holdings BV on account in the current period. As these payments are expected to be utilised against future indirect tax obligations within the next 12 months, they have been recorded as current receivables on the condensed consolidated interim statement of financial position.

MultiChoice Africa Holdings BV (MAH) received a Ruling handed down by the Tax Appeal Tribunal (TAT), striking out an appeal against an assessment raised by FIRS. MAH respectfully disagrees with the Ruling which was based on a technicality rather than the merits of the case. Therefore, the group will be lodging an appeal at the Federal High Court against the ruling. This tax appeal is a separate and distinct matter from the appeal launched by MultiChoice Nigeria (MCN), in which the TAT found in MCN's favour, allowing it to proceed with that appeal.

Based on the latest facts and circumstances available, no provision has been made, or contingent liability disclosed, in the interim results.

The group maintains its position as a law abiding corporate citizen and continues to engage constructively with FIRS in an attempt to resolve this matter.

Share transactions

In order to preserve cash reserves, the group transferred a further 3.8m treasury shares (with a value of ZAR0.4bn on the date of transfer), to fund awards for the current year under the group restricted stock unit (RSU) share plan (this transfer was between two group companies). The buy-back programme implemented in FY20 has now realised ZAR105m in cash savings for the group calculated as the difference between the average share buy-back price and the spot price at the time of transferring the shares into the share trust.

Subsequent events

KingMakers

On 29 October 2021, the final substantive condition (regulatory clearance) associated with the increased investment in KingMakers was met and the transaction became effective. This triggered the following:

- Sale of shares on loan account to the KingMakers share scheme;
- A USD100m subscription for shares into the business;
- A USD181.5m partial buy out of minority shareholders; and
- The payment of the contingent consideration of USD31m relating to the acquisition of the first 20% in KingMakers.

At the conclusion of the above transaction the group now owns 49.23% in KingMakers. KingMakers will continue to be equity accounted after considering shareholder and board representation rights (including de facto control) available to MCG.

USD300m of the transaction was economically hedged at an all-in rate of 14.56, with the remainder settled out of USD cash reserves. The total ZAR cash outflow therefore amounted to ZAR4.6bn.

The above was primarily funded by a ZAR4bn term loan concluded in November 2021. The loan has a five-year term and bears interest at three-month Johannesburg Interbank Agreed Rate (JIBAR) +1.35%.

AURA investment

As part of the strategy to expand it ecosystem, the group led a ZAR62m series A funding round into Zendascape Proprietary Limited trading as AURA during October 2021. This took the form of a ZAR31m equity investment for a 12.5% stake in AURA.

AURA is a marketplace business that enables anyone to access the closest vetted private and public security and medical response unit to their location – anywhere, anytime – using a connected device. AURA is already the leading marketplace of its kind in South Africa, with over 200 000 active users on its platform. The company expanded to East Africa and the UK earlier this year and this equity funding will contribute to further expansion into the future.

Other

There have been no other events that occurred after the reporting date, including events associated with COVID-19, that could have a material impact on the condensed consolidated interim financial statements.

Corporate social responsibility

As a level 1 B-BBEE rated business, the group continued to play its role as a responsible corporate citizen in the current period. This includes ongoing investment into the MultiChoice Innovation Fund and the African broadcasting industry as well as initiatives to drive increased employment equity and gender equality across the group's employee base. The group also invested in taking South African local businesses to the world at the Dubai Expo and once again supported South African job creation through the Youth Employment Service partnership.

In recognition of the group's continued contribution to support the communities that it operates in, MCG was one of only two South African companies to be named on the 2021 Change the World list, compiled by Fortune magazine.

Dividends

No dividend has been declared based on the interim results.

Outlook

In the second half of the financial year, the group will look to continue expanding its ecosystem and further scale its video entertainment services across the continent. It will focus on delivering its festive season growth targets for both traditional linear broadcasting and streaming services. Local content remains critical to the strategy, and the group will be increasing its investment in local content in line with its target of 45% of total general entertainment spend.

We are cognisant of ongoing consumer pressure as many economies are in the midst of the economic recovery following COVID-19. This macroeconomic volatility in our markets, along with rising regulatory and tax pressure, will require careful navigation through the remainder of the financial year.

Directorate

Mr SJZ Pacak retired as an independent non-executive director with effect from 1 April 2021.

Mr JH du Preez was appointed as an independent non-executive director with effect from 1 April 2021.

Mr JA Mabuza, the group's lead independent director, sadly passed away on 16 June 2021. The group continues to miss his invaluable insights and experience and he remains a lasting part of the MultiChoice story.

Mr JJ Volkwyn was appointed as the group's lead independent director and remuneration committee chair with effect from 1 July 2021.

No other changes have been made to the directorate of the group.

Preparation of the condensed consolidated interim financial statements

The preparation of the condensed consolidated interim financial statements was supervised by the group's chief financial officer, Mr TN Jacobs CA(SA).

The group operates in numerous markets across Africa and internationally, resulting in significant exposure to foreign exchange volatility. This can have a notable impact on reported revenue and trading profit metrics, particularly in the Rest of Africa where revenues are earned in local currencies while the cost base is largely USD denominated.

Where relevant in this report, amounts and percentages have been adjusted for the effects of foreign currency and acquisitions and disposals to better reflect underlying trends. These adjustments (non-International Financial Reporting Standards (IFRS) performance measures) are quoted in brackets as organic, after the equivalent metrics reported under IFRS. A reconciliation of non-IFRS performance measures (core headline earnings and free cash flow) to the equivalent IFRS metrics is provided in note 12 of these condensed consolidated interim financial statements. These non-IFRS performance measures constitute pro forma financial information in terms of the JSE Limited Listings Requirements.

The group's external auditor has not reviewed or reported on forecasts included in these condensed consolidated interim financial statements. The review report of the group's external auditor is included on page 24 and the assurance report on non-IFRS measures is included on pages 29 to 30. The auditor's report does not necessarily report on all the information contained in these condensed consolidated interim financial statements. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information, including the 31 March 2021 consolidated annual financial statements, available on the group's website at www.investors.multichoice.com/interim-results and at its registered office.

On behalf of the board

Mr MI Patel	**Mr C Mawela**
Non-executive chair	*Chief executive officer*