Executive review of our performance

MultiChoice Group: **Steady earnings growth tempered by FIFA World Cup investment.**

MultiChoice Group (MCG or the group) grew its user base by 5% during the period ended 30 September 2022 (1H FY23). An ongoing focus on leveraging the group's local capabilities added 1.0m 90-day active subscribers to close the period on 22.1m subscribers, with the subscriber base split between 13.0m households (59%) in the Rest of Africa and 9.1m (41%) in South Africa. The Rest of Africa maintained its growth trajectory on the back of successful local content productions. In South Africa, growth rates recovered during the second half of the reporting period despite evidence of rising consumer pressure.

GROUP PERFORMANCE OVERVIEW

Revenue increased 7% (2% organic) to ZAR28.6bn, with the weaker South African Rand (ZAR) increasing the revenue contribution on translation of the Rest of Africa and Technology segments, which have a USD reporting currency. Subscription revenues amounted to ZAR23.8bn, up 8% year on year (YoY) (3% organic), driven mainly by the Rest of Africa that delivered a 27% increase (12% organic). Advertising revenues were up a solid 5% (2% organic) as growth trends normalised in a post COVID-19 environment. Irdeto's revenues were negatively affected by global supply constraints and declined 13%. This was more than offset by 19% growth in insurance premiums and higher "Other revenues", which included increased revenues from sub-licencing content.

The group's earnings and cash flows for the interim period were adversely impacted by an outsized investment in decoders ahead of the upcoming 2022 FIFA World Cup (FWC). This investment supports the anticipated subscriber growth opportunity around the FWC while at the same time mitigating the growing risk of supply chain disruptions from global silicon chip shortages. SuperSport will be the only platform where customers across the group's 50 markets can watch all 64 matches live and in a suitable time zone for African viewers. This working capital investment increased decoder subsidies and reduced group trading profit by ZAR0.7bn and free cash flow by ZAR0.8bn, primarily in the Rest of Africa.

Overall, group trading profit increased 2% to ZAR6.1bn (6% organic), benefiting from a further ZAR0.3bn reduction in organic losses in Rest of Africa (or a ZAR1.0bn improvement if the FWC decoder investment is excluded). The decoder investment shaved 3pp (percentage points) off the group's trading margin but is expected to unwind in the second half of the year. The group's established cost optimisation programme delivered a further ZAR0.6bn in cost savings and should exceed the full year target of R0.8bn. Operating leverage was positive (+1pp) on an organic basis and would have been +4pp better if normalised for the FWC investment.

Core headline earnings, the board's measure of sustainable business performance, increased 2% YoY to ZAR2.0bn. This was mainly attributable to the reduction in losses in the Rest of Africa and positive foreign exchange movements.

Consolidated free cash flow of ZAR1.8bn was down 44% compared to the prior period, adversely affected by the increased investment in working capital (decoders). Free cash flow also included ZAR0.3bn (1H FY22: ZAR0.4bn) in tax deposits in relation to the ongoing Nigerian tax audit.

As one of the largest taxpayers in Africa, the group paid direct cash taxes of ZAR1.9bn, marginally down from the prior period due to lower taxable profits reported in South Africa.

Net interest paid increased by ZAR108m to ZAR310m, driven by an additional ZAR82m as a result of the group's total debt rising to ZAR7.1bn (FY22: ZAR4bn).

The balance sheet remains strong with ZAR7.5bn in net assets. This includes ZAR7.0bn in cash and cash equivalents and when combined with ZAR1.3bn in available facilities, provide ZAR8.3bn in financial flexibility to fund the group's operations. This financial position is after ZAR4.0bn was utilised to settle the MCG and Phuthuma Nathi (PN) dividends in September and incorporates the increased working capital investment in 1H FY23 ahead of the FWC. Leverage remains low with a net debt: EBITDA ratio of 1.08:1 at the end of September.

OPERATIONAL PERFORMANCE REVIEW

General Entertainment

The group continued its strategy of differentiation through local content. It launched two more local channels in sub Saharan-Africa and produced 3 084 hours of local content, an increase of 15% YoY. This ongoing investment in local content accounted for 48% of total general entertainment spend and brought the total content library to more than 73 000 hours.

In Nigeria, the new season of *Big Brother Naija* delivered record viewership, as well as strong growth in advertising revenues. In South Africa, the group produced two co-productions (*Blood Psalms* and *Girl, Taken*) to critical acclaim, with another 7 co-productions in the pipeline. *Reyka*, an original co-production, was nominated for the coveted Drama Series prize at the International Emmy Awards 2022. Strong performances by popular shows such as *Mnakwethu* and *Chicago Fire*, as well as new shows such as *House of the Dragon* and *The Saturday Showdown* drove healthy viewership across the different packages.

The group has continued to rollout adaptations of popular telenovelas in different regions. This includes 1Magic's *The River* which has been successfully adapted as *Kina* in Kenya and *O Rio* in Angola.

SuperSport

SuperSport continued to build on its world class sports offering. Better scheduling and enhanced fan engagement resulted in improved viewership and ratings for the Premier Soccer League which started in August. The strategic investment in SA20 cricket (that is 30% owned by the group and which has already received USD170m in investment from Indian Premier League franchise owners), will see the launch of an exciting new cricket competition in January 2023. SuperSport Schools has grown rapidly, benefiting from the addition of more than 50 schools to the platform year-to-date and an almost three-fold increase in the number of hours of content compared to the previous six months. The SuperSport Schools platform has received more than 15m cumulative video views since its launch. Content renewals for the period included the new LIV golf tour, SA Netball and WWE, while the group also broadcast the Comrades Marathon for the first time in August this year.

South Africa Pay-Tv

The South African business enjoyed further growth in the mass market and reported positive subscriber growth for the Premium package, through more bundle offers, product aggregation benefits and a strong sport content line-up. The middle segment remained under pressure, as consumers in this segment are most impacted by elevated unemployment rates, consumer indebtedness, rising inflation and interest rates. Frequent load-shedding negatively impacted active subscriber numbers towards the end of September.

Revenue decreased 2% to ZAR17.4bn. This was mainly due to a weaker-than-normal Q1 when the impact of the end of the football season was exacerbated by an extremely challenging consumer climate. Since July, revenue run rates have improved and are now exceeding comparable prior periods on a monthly basis. Monthly average revenue per user (ARPU) declined 4% from ZAR273 to ZAR261, reflecting the ongoing shift to the mass market and the fact that subscriber growth was more weighted towards the latter part of the reporting period.

Generating additional revenue streams and driving value-added services continue to be a focus. Insurance customers grew by 272k to 2.6m during the first half which resulted in YoY revenue growth of 19%. DStv Internet gained further traction, while the addition of a variety of new rewards categories, most notably the free access to Disney+ for a three-month period post launch, drove incremental DStv Rewards customer growth.

Trading profit of ZAR6.0bn resulted in a trading margin of 34.5% but the seasonality of the cost base is likely to result in the full year margin being within the 28% to 30% target range.

On the product front, the group recently launched the DStv Streama, a device which allows for the streaming of DStv and other partner applications in a connected environment. To further enable growth of the group's online products, DStv Internet has made new fibre bundles available through wholesale partnerships. The exciting new DStv Glass panel, Sky's second Glass syndication globally, was announced with its launch expected towards the end of FY24.

Rest of Africa Pay-Tv

The Rest of Africa business, which grew its 90-day active subscriber base by 0.8m subscribers or 6% YoY, now reaches 13.0m households across the continent. Growth was underpinned by ongoing operational improvements, the popularity of local content such as *Big Brother Naija* and popular sporting codes such as European football and WWE. Official currencies remained fairly stable on a blended basis, and only impacted reported trading profit by ZAR0.1bn. However, the overall macroeconomic environment remains volatile.

Revenue of ZAR10.5bn represents a 28% increase (13% organic), benefiting from the translation of Rest of Africa USD revenues into ZAR. Subscription revenue grew 27% (12% organic) and contributed ZAR9.5bn. ARPU improved ZAR5 on an organic basis to ZAR123, supported by a stable subscriber mix and inflationary price increases. YoY major average currency movements against the USD were the Ghanaian Cedi (-47%), Angolan Kwanza (+34%) and the Zambian Kwacha (+17%).

Trading losses narrowed to ZAR0.3bn. This represents a 40% improvement relative to the prior period on a nominal basis (79% organic), as growth in subscription revenues was offset by the increased investment in decoders ahead of the FWC.

USD122m was extracted from Nigeria during 1H FY23, resulting in an in-country closing cash balance of USD115m (FY22: USD155m). As liquidity is generally only available at parallel rates rather than the official rate, and given that the group achieved an average extraction rate of NGN634:USD during the period, a foreign exchange loss of ZAR1.0bn was incurred on cash extraction from Nigeria. No cash extraction issues were encountered in any other markets.

Connected Video (OTT)

Connected Video users on the DStv app and Showmax continue to grow as broadband penetration improves and online consumption increases. The YoY growth rate for paying Showmax subscribers was a strong 50%, while the overall online user base increased by 13%. Showmax further localised its business by adding more local payment channels and partners, which enabled local billing in various markets. The local content line-up was particularly strong with titles like *Real Housewives of Lagos*, *Troukoors* season 2, *Uthando Lodumo* season 2, *Diiche and Steinheist*. The group continued to improve the stability of its applications. Showmax Pro (our standalone OTT sports product) enjoyed strong growth, supported by the broadcast of sport properties such as English Premier League, UEFA Champions League and the UEFA Europa League.

Technology (Irdeto)

The Technology segment continues to face shortages in silicon supply and disruptions in global supply chains. Irdeto's revenues were down 13% YoY (25% organic) to ZAR0.7bn. Despite top line pressure, the segment contributed ZAR0.4bn to group trading profit as strong cost containment resulted in healthy margins.

On a standalone basis (excluding intergroup eliminations), the Irdeto business generated total revenues of USD105m (ZAR1.7bn), representing reduction of 3% YoY. Trading profit on the same basis amounted to USD24m (ZAR0.4bn), up USD4m from 1H FY22.

During the current period, Irdeto continued to gain market share in the video entertainment sector, including deployments with a major European broadcaster and a leading media and entertainment company in South-East Asia. The business also continued to expand its deployment of connected vehicles with Hyundai and started providing its Keystone solution in large truck fleets and construction equipment rental companies. Denuvo, Irdeto's gaming security arm, launched protection for games developed for the Nintendo Switch platform and joined Amazon Web Services for Games to broaden the reach of its solutions to include smaller game studios around the globe. Irdeto also won numerous industry awards and has been recognised as the winner in the best cybersecurity company category of the 2022 Cybersecurity Excellence Awards.

Sports betting

KingMakers reported strong revenue growth of 62% YoY and delivered USD93m (ZAR1.5bn) in gross gaming revenues.

The business is growing rapidly in Nigeria and increasing its market share, whilst also strategically reviewing its expansion programme and identifying key expansion opportunities. Average active users grew 84% YoY, while the number of active agents increased 44%.

KingMakers reported a USD16m (ZAR0.3bn) loss after tax due to the impact of an ongoing investment in people and technology, as well as an increase in foreign exchange losses on extraction of cash from Nigeria.

Other disclosures

Nigeria tax audit

The group has two ongoing Nigerian tax matters, one involving MultiChoice Nigeria Limited and one involving MultiChoice Africa Holdings BV. On 16 February 2022, an agreement was reached with the Federal Inland Revenue Service (FIRS) that legal proceedings will be stayed and that an integrated tax audit will commence during March 2022 for both entities.

The audit process, which covers corporate income tax, value added tax and transfer pricing, while progressing has been slower than anticipated.

As part of the process, the group has made a further ZAR0.3bn in tax security deposits on a without-prejudice and good faith basis. The total deposit balance now amounts to ZAR1.0bn. These have been recorded as current receivables pending the outcome of the audit process.

Based on the latest facts and circumstances available, no tax provision has been made, nor has a contingent liability been disclosed in the interim results. The group maintains its position as a law-abiding corporate citizen and continues to engage constructively with FIRS to bring the audit to a fair conclusion.

Share transactions

The group transferred a further 4.3m treasury shares (with a value of ZAR0.5bn on the date of transfer) into the share trust, to fund awards for the current year under the group restricted stock unit (RSU) share plan.

Subsequent events

On 21 October 2022, the group (through Irdeto) acquired 12.1% of the equity (13.5% of the voting rights) of Bidstack Group PLC (Bidstack) for GBP5m (ZAR102m). Bidstack is an in-game advertising and video game monetisation platform that is listed on the London Stock Exchange.

Subsequent to 30 September 2022, the group utilised additional short-term banking facilities to the value of ZAR870m. The facilities attract interest at a market-related interest rate. The facilities were utilised for working capital purposes. The group will initially measure the drawdown at fair value and subsequently at amortised cost using the effective interest method.

There have been no further events that occurred after the reporting date 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. ESG targets have formally been included in long-term incentives for management (June 2022 onwards) to heighten the focus on sustainability and governance in the group. These objectives focus on external measures, internal gender equality and B-BBEE targets. Furthermore, targets have been included in areas where the group can use its platform to really make a difference on the African continent. This includes supporting the local broadcasting industry, development of women's and schools' sports and supporting global initiatives in Africa such as the recently launched Earthshot Prize.

The group continues to provide ongoing investment into the MultiChoice Innovation Fund to support local entrepreneurs and into the Sports Development Trust, which largely invests in sporting infrastructure in disadvantaged areas. ZAR81.2m (1H FY22: ZAR28.8m) was invested by the two trusts in the first half of this financial year.

Dividends

No dividend has been declared based on the interim results.

Outlook

In the second half of the financial year, a core focus will be the broadcasting of the FIFA World Cup from November to December and an ongoing push to produce more local content that resonates with our customers.

Following the recent launch of the Streama, as well as the introduction of bundles and competitive pricing, the group will be looking to grow its online offering and further scale its Showmax paying subscriber base. Cognisant of the ongoing economic challenges facing various markets, the group will remain focused on tight cost management, and it remains committed to deliver a positive trading profit result in the Rest of Africa segment in the current financial year.

It will continue to drive the adoption of additional value-added services, such as emergency medical and security services offered through the recently acquired Namola platform, while also driving increased traction in offering cybersecurity and connected transport solutions through Irdeto.

Directorate

No changes have been made to the directorate of the group during the interim period.

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 Tim Jacobs CA(SA).

The group operates in 50 countries, 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 (certain revenue, cost and trading profit metrics in constant currency, excluding the effects of changes in the composition of the group and excluding the impact of non-recurring and/or non-operational items from the group's sustainable operational performance, core headline earnings and free cash flow, together with certain measures used in the calculation of debt ratios, being net debt and EBITDA) 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 reasonable assurance report on non-IFRS measures is included on pages 29 and 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 2022 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

Imtiaz Patel
Chair

Calvo Mawela
Group CEO