

Global Media Analysis **Research Report**

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Topic: Possible Content Supply Arrangement between Sky News Australia and Network Ten

Title: Will Sky News Content Help Revive Network Ten?

Summary

Being a very cost-efficient content producer, it will not be surprising if Sky News Australia enters into a mutually beneficial news programming supply arrangement with Network Ten, once some form of recapitalisation occurs at the currently beleaguered free-to-air commercial metropolitan television broadcaster.

Such a content supply agreement reportedly had been under discussion between the two media groups prior to the Ten Network's appointment of a voluntary administrator in mid-June 2017 and there appears to be potential for each organisation to realise considerable financial benefits from such an association.

In fiscal year 2015 (FY 2015), when Australia's three commercial metropolitan television networks spent an average \$120 million each on local news and current affairs programming, Sky News Australia was able to produce its quartet of 24-hour subscription television news channels for less than \$42 million.

Thus, it would not seem unreasonable to believe that tens of millions of dollars of benefits might flow to each organisation if Network Ten were to out-source a large portion of its local news production requirements to Sky in the near future.

Profile of Sky News Australia

Sky News Australia (Sky) is both the name of Australia's premier commercial 24-hour cable and satellite pay TV news channel and also the name often used, including in this report, to describe the larger business legally known as Australian News Channel Pty Ltd (ANC), the corporate entity which was formed over 20 years ago to own and/or operate a suite of subscription TV news channels which today comprise: Sky News Australia (also known as Sky News Live); Sky News Business Channel; Sky News Weather Channel; and Australian Public Affairs Channel (commonly referred to as A-PAC).

Since December 2016, Sky/ANC has been wholly owned by News Corporation (NWS). Prior to that time it was equally co-owned by NWS, together with commercial television broadcasters Nine Entertainment Group and Seven West Media.

In recent times Sky/ANC has been a steady but unspectacular financial performer, as shown in Chart One. In the year ending June 2016, the company's annual accounts reported total revenues of \$53.8 million, from which it generated operating profits of \$9.3 million, giving it a respectable 17.2% EBITDA margin.



However, what is arguably the most impressive feature of Sky/ANC's financial performance is that its operating costs, excluding depreciation and amortisation, totalled only \$44.5 million in FY 2016. In that year, the three largest components of its total operating costs were: employee benefits (55.5%); TV production costs (25.8%); and advertising and marketing expenses (6.4%), as shown in Chart Two.

Sky News Australia – Consistent Financial Performance

Chart One

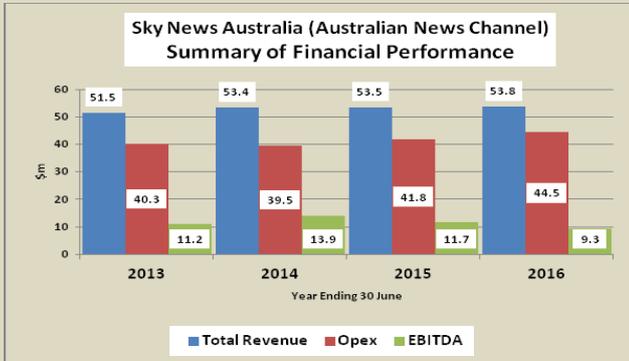
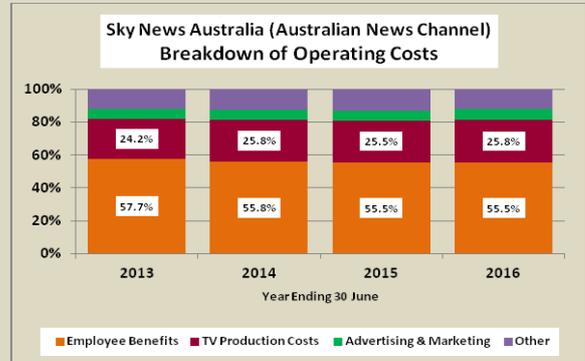


Chart Two



What makes Sky/ANC's operating cost structure so interesting is that it is little more than one-third of that of the average annual news and current affairs programming expenditure of each of the three free-to-air (FTA) commercial metropolitan television networks.

Australian Communications and Media Authority (ACMA) data shows that in FY 2015, the three FTA commercial metropolitan television networks spent a combined \$360 million on news and current affairs programming, or an average of \$120 million per network. That compares with Sky/ANC's total operating costs of only \$42 million during that same year, as shown in Chart Four.

Sky News Australia – A Profitable and Cost Efficient Producer of News Content

Chart Three

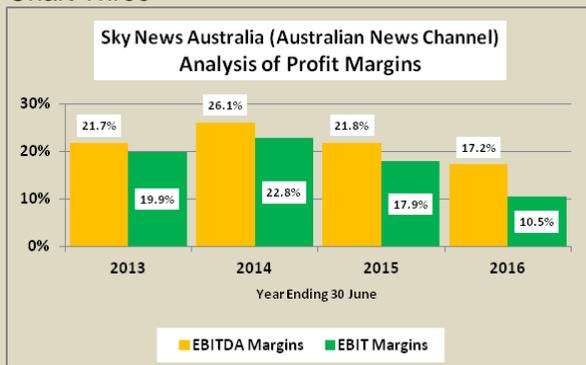
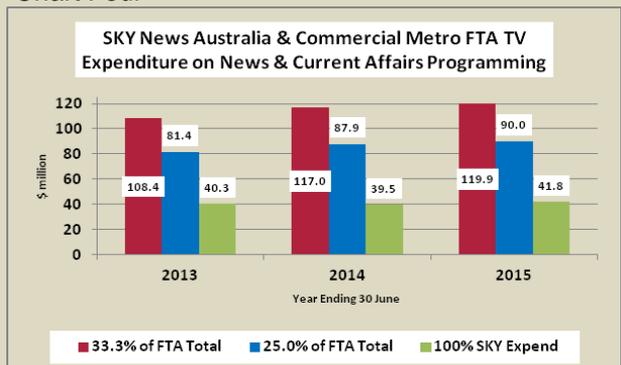


Chart Four



Of course, the above-mentioned cost comparison is not strictly like-for-like and therefore needs to be assessed with considerable caution. For example, programming classified as current affairs by ACMA and the commercial FTA TV metro networks, most probably includes some costly content of a type which is not currently produced by Sky/ANC.

Nevertheless, the size of the historical operating cost disparity between Sky/ANC and the commercial FTA TV metro networks suggest that there might well be considerable mutual financial benefits to be realised from a sensibly structured content supply arrangement between Sky/ANC and Network Ten in the near future.

Potential Benefits from a Sky News Australia and Network Ten Content Supply Deal

The financial benefits which could be realised from a content supply arrangement between Sky/ANC and Network Ten are impossible to quantify precisely without knowing the full details of such an arrangement.

However, indicative modelling suggests that, depending on the extent of the news out-sourcing, somewhere between \$15 million and \$25 million per annum in high margin incremental revenue could potentially flow to Sky/ANC and between \$10 million and \$20 million in cost savings could be realised by the Ten Network from a fair and equitably structured news content supply agreement between the two media groups.

Given its considerable news-gathering and production expertise and infrastructure, it is likely that Sky/ANC should be able to offer to Network Ten customised and high quality news content while incurring only moderate increases in its incremental costs and it could therefore deliver such services to Network Ten at an attractive, but still profitable, price.

Similarly, while Network Ten's annual news and current affairs programming budget is likely to be much lower than those of its two commercial competitors and therefore more probably in the vicinity of \$90 million per annum, or about 25% of the commercial metro TV total, nonetheless, a properly structured news supply arrangement could potentially shave between \$10 and \$20 million from annual operating costs with little or no reduction in audience ratings or advertising revenues.

Potential benefits of this magnitude should provide a significant incentive for each of the parties to re-commence discussions about such an out-sourcing arrangement once a satisfactory recapitalisation has occurred at the Ten Network.

Declaration of Interests and Disclosure of Shareholdings

The author of this report has a direct shareholding in Ten Network Holdings Limited.

Further Information

For further information pertaining to this research report, contact Bob Peters of Global Media Analysis at: bobpeters.gma@gmail.com

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