Our external business environment

We operate in dynamic industries in markets that are often unpredictable. This requires us to anticipate and adapt to shifting circumstances in a way that allows us to pursue our longer-term strategic objectives without compromising on short-term delivery and consistent execution over the medium term.

Short-term operating challenges worsened in FY24

The regional operating environment deteriorated meaningfully through the course of FY24, with local currency shocks, elevated inflation and interest rates, weak growth and unique localised challenges in key markets like South Africa and Nigeria severely constraining consumer and business activity.

We refer to calendar years rather than our financial years below to align with how leading macro-economic statistics are generally reported in the market.

- **Global headwinds:** despite pockets of optimism e.g., AI development, the US economy, the Japanese stock market, and Argentinian politics, the economic and geopolitical environment remains fraught. Conflict in the Middle East added to the Ukrainian conflict and tension between the West and China. Although inflation appears to have peaked in developed markets, it remains above central bank targets, preventing interest rate cuts. Global food inflation moderated slightly from the low- to mid-teens range in 2022 to the high- to mid-single digit range in 2023. Global trade is weak and government debt is high.
- **Commodities:** commodity prices were generally lower in USD terms in 2023 given fairly stable supply dynamics, a strong USD and muted economic growth. Oil prices averaged USD83 per barrel in 2023, down from USD100 per barrel in 2022, with local currency weakness against the USD being the key driver of energy cost inflation in our markets.
- **Infrastructure and services:** reliable and affordable power remains a challenge in key markets like South Africa (persistent loadshedding plus high electricity tariff inflation), Nigeria (removal of fuel subsidies impacts generator costs) and Zambia (drought impacts hydropower). Economic activity in South Africa is further suffering from metro and municipal failings, water infrastructure challenges and shortages, and rail and port logistical bottlenecks.
- **People:** skilled emigration remains a concern for large economies like South Africa and, increasingly, Nigeria, given the negative impact on the tax base, skilled labour and entrepreneurial base, and middle- and upper-class customer bases in those markets. South Africa's unemployment rate ended the fourth quarter of 2023 at 32.1% (41.1% under the expanded definition), with youth unemployment at 44.3% (15–34 years of age).
- **Regulators and tax authorities:** regulators and tax authorities continue cooperating and communicating more closely across the continent, while also pushing ever growing costs of compliance down onto corporates given growing levels of scrutiny, *ad hoc* assessment, and persistent intervention. Growing fiscal deficits and other pressure points for governments have prompted a more combative stance towards corporates, regardless of good historic standing.
- **Real GDP growth:** the World Bank estimates that real growth in gross domestic product (GDP) in sub-Saharan Africa has slowed from 4.4% in 2021 (post-COVID recovery) to 3.7% in 2022 and 2.9% in 2023[(1)]. It expects growth in the region to recovery into 2024 (3.8%) and 2025 (4.1%) but is the only emerging and developing region that is expected to have lost ground against advanced economics on a GDP per capita basis over the period from 2010 to 2025.
- **Inflation rates:** while certain of our markets like South Africa and Kenya saw inflation easing into 2023, certain other markets like Nigeria, Ghana, Zambia and Angola saw an acceleration on already high levels of inflation. Food and fuel inflation have been particular pain points for consumer discretionary spend, exaggerated by imported inflation from weak local currencies and policy choices such as the removal of the fuel subsidy in Nigeria and Angola.
- **Interest rates:** following the sharp step-change in global interest rates in 2022, 2023 was more moderate by comparison. The US Federal Funds rate increased by 100bps to 5.5% vs an increase of 425bps in 2022 the Bank of England +175bps to 5.25% in 2023 vs +325bps in 2022; and the European Central Bank +200bps to 4.5% in 2023 vs +250bps in 2022. Key African markets pushed through higher rate hikes of 100-400bps to manage inflation and currency pressures with the South African Reserve Bank hiking by 125bps YoY to 8.25% and the Central Bank of Nigeria hiking by 225bps YoY to 18.75%.
- **Currencies:** we saw currency weakness against the USD across our markets, aside from Mozambique and Uganda, with average exchange rates across 2023 losing between 4% and 35% of their value year on year.

	Real GDP growth[(1)]		Inflation rate[(2)]		Central bank interest rate[(3)]		Exchange rate versus USD[(4)]	
	2022	2023	2022	2023	2022	2023	2022	2023
South Africa	1.9%	**0.7%**	7.2%	**5.1%**	7.00%	**8.25%**	(9%)	**(11%)**
Nigeria	3.1%	**2.9%**	21.3%	**28.9%**	16.50%	**18.75%**	(4%)	**(34%)**
Kenya	5.5%	**5.0%**	9.1%	**6.6%**	8.75%	**12.50%**	(7%)	**(16%)**
Zambia	3.0%	**2.7%**	9.9%	**13.1%**	9.00%	**11.00%**	16%	**(17%)**

(1) *GDP data from the World Bank Global Economic Prospects Report (January 2024).*
(2) *Inflation data represents the inflation rates in December of a given year, extracted from the Trading Economics website.*
(3) *Benchmark interest rate shown in December of a given year, extracted from the Trading Economics website.*
(4) *Exchange rates represent the average of the month-end rates for the calendar year per our group's accounting system.*

Our external business environment continued

Medium to longer-term opportunities improved in FY24

Sub-Saharan Africa (SSA) represents a compelling medium- to long-term opportunity. Population growth, notably working age, urbanisation and electrification rates, and disposable income and consumption growth support a massive middle class and addressable market further underpinned by:

- **Venture capital (VC) investment:** although 2023 deal volumes and value fell from 2021–2022 highs on the back of a global VC funding winter (due to rising interest rates, renewed focus on due diligence, and a soft macro environment), they were still well ahead of 2020, which is supportive of the long-term opportunity on the continent. Partech estimates that 437 equity deals were concluded worth USD2.3bn, down 32% and 54%, respectively, YoY but still 32% and 60% up on 2020, respectively. This aligns with our capital allocation decisions to invest behind key new verticals such as streaming, sports betting and fintech.
- **Connectivity:** the GSM Association forecasts rapid uptake of mobile connectivity in SSA, which will support the uptake of our streaming, sports betting and fintech businesses to drive scale and operating leverage into those nascent platforms:
  - Unique mobile subscribers to grow from 489m in 2022 to 692m in 2030
  - Mobile internet penetration to rise from 25% in 2022 to 32% in 2030
  - Smartphone penetration to rise from 51% in 2022 to 88% in 2030
  - 4G plus 5G penetration to rise from 22% in 2022 to 66% in 2030
- **Mobile money:** the GSM Association also estimates that there were 234m monthly active mobile money accounts in SSA in 2022 (+12% YoY), supported by 10m registered agents (+32% YoY) and driving USD912bn in transaction value through the course of 2023 (+12% YoY). Mobile money will be a critical enabler for all of the Group's business lines, supporting the ability for customer to pay for our services directly, while also supporting economic growth and financial inclusion and broadening the addressable market on the continent.
- **Pay-TV:** Digital TV Research forecasts that traditional linear pay-TV subscriptions in SSA will grow by 12m subscribers between 2023 and 2029, growth of 28% or a 4% CAGR. Around 60% of the current market and subscriber adds will come from the satellite market, with the remainder from the DTT market. We continue to see scope to grow our linear base and pay-TV penetration over time, once the macro-economic and consumer environment has stabilised.
- **Streaming:** Digital TV Research forecasts that SVOD subscriptions in SSA will grow by 9m subscriptions between 2023 and 2029 (from 7m to 16m), growth of 129% or a 15% CAGR. The percentages of TV households taking at least one SVOD service will rise from 4.7% to 7.1% over the forecast period, with South Africa and Nigeria the two largest markets, representing over 9m or close to 60% of the total market. The Group has step-changed its ambitions in streaming with the rebranding and relaunch of both DStv Stream and Showmax during FY24 and the group has ambitions to grow beyond market expectations of the addressable streaming opportunity.
- **Interactive entertainment:** H2 Gambling Capital forecasts that the online gaming and betting market in SSA will grow from around USD4bn in 2023 to over USD8bn in 2027, a CAGR of 20%, well ahead of the 7% growth rate in the land-based betting market over the same period. Online gaming is expected to grow more quickly off a lower base, growing from around a quarter of the online market to around one third. The Group continues to support and collaborate with KingMakers on driving the business in its existing markets, notably with the launch of SuperSportBet in South Africa during FY24, while planning for new market launches in due course.

Competitive dynamics remained in FY24

The same macro-economic challenges that are weighing on our business are impacting competitor subscriber growth, advertising revenues and translated local currency revenues too. Nonetheless, our industry remains dynamic in terms of shifts in the technology, consumer and competition landscapes.

- We estimate that several markets have crossed mobile broadband affordability thresholds which supports video services and non-video entertainment (social media and gaming), and is therefore a competitor to our traditional linear services and supportive of the our streaming initiatives.
- StarTimes is our largest linear competitor across sub-Saharan Africa, while we also compete with strong regional operators e.g., ZAP (Angola), Azam (Tanzania) and Zuku (Kenya).
- Free-to-air, notably in news and local content, remains a strong competitor for viewership and advertising revenue in many markets, including South Africa, Kenya, Ghana and Ethiopia.
- Competition from global and local OTT players has increased in recent years through:
  - Advertising video on demand (AVOD) players, often linked to social networks, such as YouTube and TikTok, and free ad-supported streaming television (FAST) services such as rlaxxTV
  - Global SVOD services such as Netflix and local SVOD services like ViuSasa in Kenya
  - Traditional studios, networks or media companies going direct to consumer with SVOD, AVOD/FAST or hybrid services, e.g., Disney with Disney+
  - Non-video businesses deploying value-added services to drive user engagement in their ecosystems, such as Amazon (Prime Video) and Apple (Apple TV+)
  - Transactional video on demand such as the iTunes and the Google Play stores
  - Linear broadcasters or FTA operators introducing complementary OTT services e.g., StarTimes ON by StarTimes, eVOD by e.tv and SABC+ by the SABC
- However, competitive pressures from global players are not uniformly ramping up:
  - Global streamers are increasing prices, moderating content investment, revisiting content licensing, introducing ad-supported tiers, limiting password sharing, pursuing consolidation and scaling back in marginal markets to achieve sustainable profitability.
  - Prime Video is reducing staffing and local content production in the Middle East, North Africa and sub-Saharan Africa, while Disney is merging its Indian operations with Reliance to reduce risk and support profitability.
  - Operators such as Warner Bros Discovery and Paramount have indicated that they will be selective about in which markets they launch D2C services and in which markets they partner or license content.

What these major trends mean in the context of our markets

We have identified the evolving video entertainment landscape as a material matter. We see the ability to adapt appropriately to changing needs as a key strategic requirement. It is important to adopt a measured approach to change that is suitable in the context of our markets.

Refer to page 57 of our material matters section, which presents risks and opportunities for our business.