market release

23 February 2021

VECTOR ANNOUNCES HALF YEAR GROWTH

- ***Group net profit after tax of $102.1 million, $21.6 million or 26.8% higher than the prior year.***
- ***Adjusted EBITDA of $273.8 million, up $9.3 million or 3.5% on last year.***
- ***Interim dividend 8.25c; imputation at 10.5%***
- ***AWS strategic alliance progresses advanced metering platform***
- ***Improvements in electricity network reliability as measured by SAIDI***
- ***Record capex investment in Auckland growth***
- ***EV smart charging trial hits half-way mark focusing on customer behaviours and preferences and resulting network impacts***

Vector Group (NZX: VCT) today announces a solid result for the first half of the 2021 financial year, with adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)[1] of $273.8 million, up $9.3 million or 3.5% on last year.

Vector Chair Jonathan Mason said, "Despite the uncertainties that have arisen due to COVID-19, the Group has delivered a pleasing start to the 2021 financial year. Group net profit after tax was $102.1 million, which was $21.6 million or 26.8% higher than the prior year.

"We are continuing to invest in innovative technologies and infrastructure that support our customers, with significant levels of activity underway within Vector which will transform the way we all think about and consume energy. Operationally, we are proud of the concerted efforts by the Vector team and our field service providers to improve our electricity network reliability (SAIDI) by 21%.

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[1] EBITDA and Adjusted EBITDA are non-GAAP measures which the directors and management believe provide useful information as they are used internally to evaluate performance of business units, to establish operational goals and to allocate resources. See page 22 of the interim financial statements for further details or click on this link to see Vector's policy.

“The Board has determined that shareholders will receive an interim dividend of 8.25 cents per share imputed at 10.5%[2].”

In February 2020, Vector announced a change to its policy of fully imputing dividends to partially imputing at 10.5%.

Group Chief Executive Simon Mackenzie said, “The first half of our financial year has produced a satisfying result, particularly as this is our first half year under the new Commerce Commission DPP3 regulatory settings which negatively impacted revenue. We continue to advance our Symphony strategy while continuing to focus on business resilience and delivery of our essential services during the pandemic.

“We are working closely with our partners to deliver advanced energy solutions, such as the development of a next-generation advanced meter platform to reduce the processing time for meter data as well as analytical solutions for retailer customers. These projects are being delivered as part of our strategic alliance with Amazon Web Services (AWS) which was announced in July 2020.

“Earlier this month, we reviewed the Climate Change Commission’s draft advice to government with great interest. We recognise the critical role we, and other electricity distribution businesses, have to play in the transformation of energy. For several years now, Vector has been actively investing in the new energy future, through our Symphony strategy, moving away from a centrally planned system to one that has the customer at the centre, with much more control over their energy use and solutions. Our focus is very much on how we enable decarbonisation for our customers and through new energy solutions and technologies.

“The electrification of transport is critical to accelerate if New Zealand is to achieve desired carbon reductions. We are now halfway through our EV smart charging trial, which launched in October 2019, where we are working with participants to trial technology and collect data

[2] Further information on imputation credits is available on our website under Industry Updates.

on their EV charging preferences and expectations. The trial will help us determine if optimising EV charging schedules without inconveniencing customers could potentially alleviate peak demands on the network, a key benefit of which could include avoiding the need to invest in expensive network infrastructure upgrades.

“With EV uptake expected to significantly increase, the information provided by this trial will help us continue to provide a reliable electricity supply to meet the greater demand. It will also assist us to manage this network demand through digital platforms, thereby potentially avoiding unnecessary additional capital investment in traditional network infrastructure that could lead to price increases for customers – including those who do not have EVs,” said Mr Mackenzie.

“We remain vigilant to the risk of COVID-19 in our business and communities, highlighted yet again by recent developments in Auckland and Melbourne. As an essential service, we have well developed pandemic protocols and are prepared to adapt quickly to any change in alert levels both in New Zealand and Australia. We are also talking to the New Zealand Government about early access to vaccinations for our essential workers, and others, who work in the community through all alert levels. We have robust and tested procedures in place to protect our essential workers but acknowledge that keeping safe is up to the whole community.

“As experienced by many other businesses, the global pandemic has affected our supply chains through shipping and offshore manufacturing delays, and we continue to work proactively to secure and increase stock levels.”

Total capital expenditure in the first six months was $260.7 million, up $20.7 million or 8.6% on the prior period. This reflects our continued investment in infrastructure to support network integrity, Auckland growth, increasing deployments of advanced meters, commencement of 4G modem upgrades across New Zealand’s advanced meter base, increasing stock levels to counteract risks associated with global production shortages linked to COVID-19. We continue to invest in cyber security working with our specialist global partners.

“I am also pleased to announce that we have appointed Peter Ryan into the role of Chief Operating Office Electricity, Gas and Fibre. Peter is a strong leader of network businesses with extensive experience in the telecommunications sector, most recently in executive roles at National Broadband Network in Australia, and prior to that in a variety of senior roles at Vodafone in Australia and the UK. Peter will join us in late March.”

Electricity

Mr Mackenzie said, “Ongoing strong focus and innovation from Vector and our field service providers has resulted in improved network performance over the half, despite the on-going challenges of weather, traffic congestion (which delays crews travelling to sites), and vegetation (including inadequate regulation to enable Vector to control vegetation that damages lines causing outages).

“Highlights in our electricity business for the half year include working with our field service providers to complete a significant network automation project, which was launched late in 2020. The new software will allow us to automate the way we track and manage our electricity assets, so we can better manage our maintenance programme with near real time information. This is already resulting in both cost and resource efficiencies.

“In Auckland, we continue our undergrounding projects in partnership with Entrust, our majority shareholder, with the significant Mt Albert initiative due to be completed around the middle of this year.”

In our regulated business, adjusted EBITDA for the six months to 31 December 2020 was up $6.7 million (3.5%) to $195.9 million against the prior six-month period. The increase in adjusted EBITDA has benefited from the retention of loss rental rebates (LRRs). As indicated at our full year results, LRRs were retained to help limit Auckland electricity customers price increases and compensate for volume reductions as a result of COVID-19.

Gas

In Gas Trading, after adjusting for the sale of the Kapuni gas processing plant and associated assets, adjusted EBITDA was down 1.4% at $14.6 million due largely to lower natural gas volumes and margins but offset by improved performance from the Ongas LPG business. The Kapuni sale transaction now appears within the interest line as interest income on the sale consideration.

Metering

In our metering segment, adjusted EBITDA was $83.1 million, up $7.0 million or 9.2% from a year earlier. Gains were mostly from the continued rollout of advanced meters, particularly in Australia. Overall, we are pleased with how well we are tracking in Australia, particularly given the COVID-19 challenges in Victoria and New South Wales.

“I would like to acknowledge the resilience shown by our Australian team as they respond to the on-going challenges of the pandemic,” said Mr Mackenzie.

E-Co Products Group, Vector Powersmart and Vector Fibre

Vector Fibre is well positioned to take advantage of the rapidly evolving telecommunications sector.

HRV has had a steady start to the year with strong customer interest and positive trading. The $1.6m wage subsidy was repaid in full in October 2020. This was claimed for HRV when it was unable to operate during alert level 4.

Vector Powersmart continues to be affected by COVID-19 issues which are impacting its access to work in the Pacific Islands. We are working with government agencies and our customers to find solutions.

FY21 Guidance

Based on this half year result, we expect FY21 adjusted EBITDA to be increased to the range of $500-520 million, up from previous guidance of $480-$500 million, provided there is no further impact of COVID-19 on economic activity, such as extended or frequent lockdowns.

ENDS

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About Vector

Vector is an innovative New Zealand energy company which runs a portfolio of businesses delivering energy and communication services to more than one million homes and commercial customers across Australasia and the Pacific. Vector is leading the country in creating a new energy future through its Symphony strategy which puts customers at the heart of the energy system. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust. For further information, visit www.vector.co.nz