



**MARKET RELEASE – WEDNESDAY, 24 AUGUST 2022**

## **Spark delivers strong full year performance and announces plans to increase FY23 dividend and return up to \$350 million to shareholders through on-market buy-back**

- Disciplined strategy execution delivering strong full year performance with revenue back in growth, EBITDAI<sup>1</sup> at the top end of guidance, and NPAT<sup>2</sup> in growth
- Spark outperformed the market in mobile service revenue growth<sup>3</sup>
- Total FY22 dividend of 25 cents per share, 100% imputed, and guiding to an FY23 total dividend of 27 cents per share, 100% imputed
- ~\$900 million in TowerCo proceeds to be used to maximise shareholder value, invest for growth, and maintain financial strength and flexibility

Spark New Zealand (Spark) today announced its FY22 results, with revenue, EBITDAI, and NPAT all in growth.

Spark Chair Justine Smyth said, “In a year marked by ongoing Covid-19 disruption and increasing economic volatility, Spark has delivered an incredibly strong result, returning to revenue growth and delivering earnings at the top end of guidance.

“Spark’s transition from its traditional telecommunications heritage to a more diversified and higher growth digital services provider continues at pace. As we look to FY23 we have confidence in Spark’s ability to grow free cash flow to ~\$460-\$500 million to fund our ordinary dividend. As a result, we are guiding to a total FY23 dividend of 27 cents, 100% imputed, funded through earnings and free cash flow growth. This is the first time the total dividend has increased since 2016 and reflects the confidence we have in Spark’s strategy and future growth potential.”

As announced in July, Spark has reached agreement to sell a 70% stake in its TowerCo business to the Ontario Teachers’ Pension Plan (OTPP). Spark expects net cash proceeds<sup>4</sup> of ~\$900 million at completion, which is conditional on Overseas Investment Office approval and anticipated to occur in the first half of FY23.

Justine continued, “Following completion of the TowerCo transaction up to \$350 million will be returned to shareholders, which we intend to deliver through an on-market share buy-back. This will be subject to market conditions at the time, and we may investigate alternative return options.

“A further \$350 million will be invested in future growth opportunities, such as digital infrastructure, scaling Spark Health and Spark IoT, and accelerating the commercialisation of emerging technology, such as digital identity and verifiable data through our subsidiary MATTR.

“The remaining funds will be used to offset debt headroom requirements resulting from the increased lease liability of our long-term agreement with TowerCo to secure access to existing and new towers.

“With strong market momentum and the ability to accelerate investment in future growth, Spark is well positioned to continue growing shareholder value in the years to come, as it helps its customers and Aotearoa to win big in a digital world.”

<sup>1</sup> Earnings before finance income and expense, income tax, depreciation, amortisation, and net investment income (EBITDAI) is a non-Generally Accepted Accounting Practice performance measure that is defined and reconciled to net earnings in Spark New Zealand’s Financial Statements

<sup>2</sup> Adjusted for the impact of cloud accounting standards change

<sup>3</sup> Market share estimates sourced from IDC

<sup>4</sup> After transaction costs

## FY22 operating highlights

Revenue<sup>5</sup> increased 3.5% to \$3,720 million, driven by an outperformance in mobile and wins in Spark Health. Mobile service revenue grew 5.5%, with Spark outperforming the market<sup>3</sup> as data-driven marketing supported a ~13% increase in customers on Endless plans, and pay-monthly, pre-paid, and business connections grew steadily.

Following a redesign of its broadband plans Spark stabilised its base at 704,000, in line with its strategy to maintain market leadership. While this drove a 4.6% revenue decline to \$639 million, continued wireless broadband connection growth of 16,000 helped to offset this impact through avoided input costs.

Cloud, security, and service management revenues grew modestly at 0.7% to \$446 million, impacted by Covid lockdowns, transformation project delays, supply chain disruption, and some execution challenges.

Spark's future markets of Spark IoT and Spark Health made a material contribution to overall revenue growth. Spark IoT revenue increased 22% as connections climbed 75% to 832,000, while Spark Health revenue increased 46%, supported by new national contract wins.

Top line momentum and cost discipline drove a 2.8% increase in EBITDAI to \$1,150 million, at the top end of the guidance range. NPAT increased 7.6% to \$410 million, driven by EBITDAI growth, with net financing, depreciation and amortisation, and tax stable.

Free cash flow was lower than aspiration at \$296 million, impacted by advanced purchasing of inventory and capital expenditure items to mitigate supply chain disruption risks and the related impact on working capital. Spark remains confident in achieving its FY23 free cash flow aspiration of ~\$460-\$500 million.

Commenting on the results Spark CEO Jolie Hodson said, "We have returned to revenue growth with a market-leading result in mobile and our growth markets of IoT and digital health accelerating. We stabilised our broadband base and are on track to deliver our FY23 target of ~30% of our customers on wireless, reaching ~28% by the end of the financial year.

"With one year to run in our three-year strategy, we are on track to deliver our FY23 ambitions. We are a simpler and more digital organisation, with 102 legacy mobile and broadband plans retired and digital journeys<sup>6</sup> increasing by 23%. Our data and AI-driven marketing capability continues to mature, and we can now better predict the needs of ~90% of Spark customer households, increasing conversion by 19%.

"As we deliver these simpler, more digital, and data-driven customer experiences, we are improving engagement – with our customer interaction net promoter score (iNPS) up 9 points from FY21.

"We are on track to deliver the substantial investments we are making in the digital infrastructure that underpins Aotearoa's digital economy and our growth. At the end of FY22 5G was live in 21 locations across the country and our Takanini data centre expansion is over 85% contracted and on track for completion in 2023.

"These results wouldn't have been possible without the hard work of our Spark whānau, and the investments we are making in building a high-performance, inclusive culture. We maintained high levels of engagement despite Covid-19 disruptions, with our employee net promoter score (eNPS) at +70, and we were pleased to see female representation increase from 42% to 47% in our senior leadership roles. We also made significant progress closing our median gender pay gap, which reduced from 28% to 24%.

"We have continued to mature our sustainability practices, establishing an emissions reduction and energy efficiency programme to drive action against our science-based target, and growing our not-for-profit broadband service Skinny Jump by ~33% during the year – supporting 23,323 households that would otherwise be excluded from the digital world."

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<sup>5</sup> Operating revenues and other gains

<sup>6</sup> For sales and service

## FY23 guidance and outlook

Spark provided the following guidance for FY23, subject to no adverse change in operating outlook:

- **EBITDAI:** \$1,185-\$1,225 million (excluding any gain on sale for the TowerCo transaction)
- **Capital expenditure (excluding spectrum):** ~\$410 million
- **Total dividend per share:** 27.0 cents per share, 100% imputed

Jolie finished, “It’s been a big year, and we were really happy to close it out with Spark ranking #2 against international peers for total shareholder returns, with a compound annual growth rate of ~12% for three years<sup>7</sup>.

“We are now in the final year of our three-year strategy, and firmly focussed on delivering what we said we would for our shareholders. We are well placed to adapt to an inflationary environment, with resilient products and services positioned well in the market. With the ability to invest in growth, and the investments we are making in our capabilities today, we are excited about the potential tomorrow will bring, for Aotearoa, our customers, and for Spark.”

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### About Spark

As New Zealand's largest telecommunications and digital services company, Spark's purpose is to help all of New Zealand win big in a digital world. Spark provides mobile, broadband, and digital services to millions of New Zealanders and thousands of New Zealand businesses.

[www.sparknz.co.nz](http://www.sparknz.co.nz)

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<sup>7</sup> 1 July 2019 to 30 June 2022, see investor presentation appendix for detail on the peer group