MARKET RELEASE

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Spark New Zealand delivers to guidance despite ongoing Covid-19 disruption, in first year of new strategy

- Top-line revenue decline driven by the loss of roaming revenues
- Strong underlying performance in mobile and cloud, security, and service management revenues
- Delivered FY21 EBITDAI[1] growth at the top end of the guidance range through disciplined cost management
- NPAT[2] decline driven by higher depreciation and amortisation costs and increase in tax expense
- Declared FY21 dividend of 25 cents per share, 100% imputed, supported by resilient free cash flow
- Accelerated 5G rollout and datacentre capacity expansion mark a significant investment into New Zealand's connectivity and resilience

Spark New Zealand (Spark) today announced that resilient revenues and disciplined cost reduction had delivered EBITDAI growth of 1% to $1,124 million, towards the top end of the guidance range.

The loss of $38 million in roaming revenues led to a revenue decline of 0.8% to $3,593 million, masking a strong underlying performance in mobile and cloud, security, and service management.

Mobile service revenue grew 0.5%, or 4.3% when adjusting for the impact of roaming, while mobile service revenue market share grew 1.1 percentage points to 41.5%. Cloud, security, and service management revenue grew 5.5%, as businesses continued to digitise.

The broadband market remained challenging, with continued competitive pressure and slower overall market growth leading to a revenue decline of 1.5%. Wireless broadband growth was below target, however momentum picked up in the final quarter with Spark finishing the year with connection growth of 19,000.

Spark New Zealand Chair Justine Smyth said: "The New Zealand economic recovery has been stronger than expected, but with recent travel bubble pauses, uncertainty remains. Closed international borders continue to impact Spark through the loss of roaming revenues, lower overall growth in some markets, and talent scarcity within the technology sector.

"In this context, we're pleased with the strong underlying growth we are experiencing in our core markets, and in Spark's ability to adapt at pace and execute disciplined cost management to deliver EBITDAI growth. This resilience in customer demand for our core services has supported free cash flow and enabled us to maintain the total FY21 dividend at 25 cents per share for our shareholders."

NPAT declined by $36 million, or 8.6%, primarily driven by higher depreciation and amortisation costs due to the shift to shorter asset lives and increased customer and commercial lease activity, as well as a $21 million increase in tax expense as Spark cycles the one-off decrease in FY20[3].

While the loss of roaming negatively impacted free cash flow, disciplined cost and capital management mitigated the majority of the impact, with Spark generating $433 million of free cash flow[4] for the year.

Spark announced an H2 FY21 dividend per share of 12.5 cents, bringing the total FY21 dividend to 25 cents per share, 100% imputed. Spark will continue to operate the Dividend Re-investment Plan for H2 FY21[5].

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[1] 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
[2] Prior year net earnings have been restated to reflect a reduction in net earnings of $7 million for the amortisation of reacquired rights that were previously regarded as indefinite life and therefore not amortised
[3] A one-off decrease in tax expense was recorded in FY20 for depreciation allowances being reintroduced for commercial building structures, plus a higher proportion of non-taxable gains
[4] Spark's free cash flow is defined as underlying free cash flow plus movements in working capital. This excludes dividends from Southern Cross; proceeds from asset sales; payments for business acquisitions; and payments for mobile spectrum
[5] Shares issued under the DRP will be issued at prevailing market price as determined around the time of issue.

CEO Jolie Hodson said Spark was already seeing progress against its strategy translate into improved customer experiences and growth in the market.

"We are simplifying our business to make it easier for our customers to interact with Spark. The number of customer journeys completed digitally increased 32%[6] during the year, and we retired 210, or 30%, of our legacy mobile and broadband plans.

"A key enabler of better customer experiences is having a deep understanding of what our customers need, and when they need it, and we finished FY21 with a robust data capability that is providing us with that insight – increasing our marketing efficiency by 16%."

Spark continued to invest in the infrastructure underpinning its products and services during the year, with 5G wireless broadband and mobile services launching in nine locations, rural connectivity expanding, and improved automation and resilience of the optical transport network.

With the first phase of the Company's infrastructure asset review complete, further significant infrastructure investments are planned for FY22.

Jolie continued: "We have a clear view of the infrastructure assets that are currently critical to our competitive advantage and resilience, and that we want to invest in – including the 'active[7]' components of our mobile network, multi-access edge compute[8], our critical network exchanges, and datacentre capacity.

"We have today announced an additional $35 million investment to accelerate our 5G rollout, bringing our total investment in mobile connectivity to $125 million in FY22 and supporting us to deliver 90% population coverage by the end of calendar year 2023, assuming the necessary spectrum is made available by the Government.

"We will be upgrading our Mayoral Drive exchange and intend to invest in approximately 10MW additional capacity at our Takanini datacentre – which will make it the largest in New Zealand once completed. We are in advanced negotiations to contract at least 60% of this capacity."

The infrastructure review also identified assets that can be shared, such as the 'passive[7]' components of Spark's mobile network and fibre. Spark is actively exploring shared ownership models; however, discussions are ongoing and there is no certainty that any transaction will proceed.

Spark continued to grow its position in future markets, with Spark Health supporting the digitisation of the healthcare sector and delivering cloud, telecommunications, and collaboration revenue growth of 10.6%. IoT connections grew to over 450,000, an increase of 83%, and Spark Sport delivered its first cricket season in partnership with NZ Cricket, with 99.9% platform availability and positive reception to the new production format.

Jolie pointed to the strength of Spark's people in delivering the results: "We have a talented and passionate team at Spark, and I am particularly proud of the progress we made building a high-performing and inclusive culture during the year. We have invested significantly in learning and development to build a culture of innovation and growth, we have grown engagement 10 points[9], and we have made solid progress towards our 40/40/20 gender target – with 42% of senior roles outside the Board and Leadership Squad now held by women.

"We continue to focus on how we can support the growth of the digital economy in New Zealand, which will be a critical enabler of productivity and progress in a 'Covid-normal' world. We are investing in critical infrastructure, working to build digital skills locally, including the digitisation of small businesses, helping to improve digital equity, and supporting the establishment of a digital trust framework."

[6] Across sales and plan changes
[7] Active assets include anything in the core network, as well as the radio equipment that creates the mobile network, including the antennas and their connection back to the core network. Passive assets include the physical towers that support the active equipment, including standalone lattice towers, rooftops, and lamppost towers.
[8] Multi-access edge compute reduces the physical distance from an end user to compute and networking service, reducing latency, and supporting new use cases that require real-time performance to work e.g. cloud gaming
[9] eNPS grew +10 from FY20 to 76

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