



## **MARKET RELEASE**

**21 August 2019**

### **Spark New Zealand lifts earnings on the back of mobile, wireless, cloud services and focus on productivity**

- **Winning in mobile: share increases across service revenue and connections, driven by growth in higher-value Unlimited plans**
- **Accelerating transition to wireless, growing wireless broadband and wireless voice services**
- **Substantial investments in mobile capacity and networks to prepare for Rugby World Cup, 5G and growing customer demand**
- **Spark Sport launched in March 2019, preparations on track for successful delivery of Rugby World Cup**

Spark New Zealand has delivered profit growth, stronger operating margins and market share gains in its financial results for the year to 30 June 2019.

Spark Chair Justine Smyth said the continued improved performance was founded on a clear strategy with strong execution and greater customer focus. It means Spark is on track to deliver on key financial aspirations communicated in June 2017 as part of the Company's three-year strategy.

"We've grown our business in the highly competitive mobile and cloud services categories, held our broadband position, entered new markets like sports streaming, led on cost management and transformed our company culture. It's very pleasing to achieve these positive outcomes in a year during which we implemented and embedded massive organisational change with the move to Agile ways of working."

Operating revenues and other gains of \$3,533m were flat year-on-year, as growth markets (mobile, broadband, cloud and security) were offset by expected declines in legacy voice and managed data & networks products.

Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI) were \$1,090m, up 11.1% (\$109m) on reported prior year EBITDAI and towards the top end of guidance. When the prior year result is adjusted for implementation costs incurred in support of Spark's 'Quantum' business improvement programme, EBITDAI growth was 5.8%.

A continued focus on cost resulted in operating expenses being lower by 4.3% (\$109m), or 2.4% when adjusting the FY18 result to exclude \$49m of implementation costs



associated with the Quantum programme. The expenses reduction was driven largely by lower direct product costs (\$28m) and lower labour costs (\$38m).

Net investment income declined by \$33m, driven by an expected reduction in dividends from Spark's shareholding in Southern Cross Cables (\$15m, compared with \$50m previous year). Depreciation and amortisation were relatively stable year on year, while taxation expense increased by \$30m due to increased earnings and the impact of lower investment income.

Overall reported net earnings were \$409m, up 12.1% (\$44m), or 2.2% (\$9m) compared with the adjusted prior year performance.

Spark announced an H2 FY19 total dividend per share of 12.5c, which will be made up of an ordinary dividend of 11.0c and a special dividend of 1.5c, both 75% imputed. This brings the total FY19 dividend to 25c per share.

Chief Executive Jolie Hodson said a commitment to create a wireless future for New Zealanders was central to Spark's strategy. Spark maintained growth in mobile connections, revenue and average revenue per user (ARPU) over the year, driven by the addition of higher-value customer propositions such as the new shareable Unlimited plan. Spark significantly outperformed its mobile market competitors, securing over 60% of total FY19 market growth in service revenue and connections. "As customers use their mobile phones to do more, many of them are seeking larger data allowances and price certainty – which provides an opportunity for Spark to improve ARPU with the right products and plans," Ms Hodson commented.

She said Spark has led the transition to a wireless future with the number of customers on fixed wireless broadband and fixed wireless voice products growing by 36,000 over the year to 166,000. "These products are easy to set up and, in many cases, deliver a higher-quality experience for customers transferring from old copper lines, while lowering Spark's input costs. The future rollout of 5G will enable a step change in our fixed wireless broadband offering."

Ms Hodson said Spark is moving fast towards 5G with the November 2018 launch of its innovation lab and collaboration space in Auckland, extensive planning for the network build, and a partnership with Emirates Team New Zealand – which intends to use 5G services from mid-2020 to assist in its defence of the America's Cup.

"Spark is gearing up to launch 5G services as soon as relevant spectrum is available. We are pleased the Government signalled recently it is considering an early, temporary allocation of some spectrum within the 'C Band' earmarked for 5G – as this would



enable rapid delivery of 5G services while the details of the longer-term spectrum allocation process are sorted through.”

In the business sector, Spark’s strengths in digital and cloud services are helping companies transition their current legacy applications and infrastructure to operate effectively in a digital world. As more devices and environments become connected, helping businesses with cybersecurity is increasingly an area of opportunity for Spark.

Ms Hodson said the launch in March 2019 of Spark Sport – from a standing start less than a year prior – was a huge milestone. “We are now successfully changing the way New Zealanders engage with and view sports. In the five months since launch, the performance has rapidly improved and the streaming platform has successfully delivered about 800 sporting events and 12,000 hours of linear channels.

“Spark Sport is well on the way to successfully deliver the Rugby World Cup 2019, which kicks off in September 2019. The tournament represents an opportunity to make a step change in adoption of streaming by New Zealanders, as the importance and visibility of the event makes it the ideal catalyst.”

During FY19, Spark advanced its ongoing programme of simplification, digitisation and automation – with more than 100 ‘bots’ (automated digital processes) now performing a range of tasks, from running back-end checks and processes to serving customers on the front line and freeing up Spark people. High-quality self-service options were experiencing strong usage growth and reducing demand on traditional service channels such as customer care centres. Spark App usage increased by 18%, while voice interactions reduced by 34%.

Moving forward, Spark is focused on using technology to understand and anticipate the needs of New Zealanders, applying data-driven insights to every interaction and helping serve customers better, Ms Hodson said.

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