



## **MARKET RELEASE**

**20 February 2019**

### **Spark New Zealand H1 FY19 results show increased efficiency and Agile benefits driving performance in challenging market**

- **Customer experience benefits and resultant cost savings from digitisation and automation initiatives underpin solid EBITDAI<sup>1</sup> performance, despite a slight revenue decline due to expected impact of accelerated decline in legacy products and moderated revenue growth in core products.**
- **Transition to Agile operating model is complete across the business; already delivering benefits and allowing Spark to deliver products and services and consistent experience customers expect, on a much lower cost base.**
- **Mobile margins strong as market shifts to focus on profitability, customer value and innovation.**
- **NPAT down on prior period due to decision by Southern Cross shareholders to withhold paying a dividend pending potential investment in the Southern Cross Next cable.**
- **Spark Sport platform build on track, with beta version to launch in early March; pricing of \$19.99 per month announced today.**

Spark New Zealand's financial results for the half year to 31 December 2018 show the combined focus on efficiency and innovation across core products and services is delivering for the business.

Spark Chair Justine Smyth said Spark's programme of simplification, digitisation and automation initiatives, and disciplined cost management more generally, meant the business continued to deliver EBITDAI growth, despite competition remaining intense and declines in legacy areas of the business continuing.

"Our transformation to a lower cost base, our improved and increasingly digitised customer experience, and the benefits already flowing from our Agile operating model have set Spark up with an enduring competitive advantage," Ms Smyth says.

"We were particularly pleased to see evidence of this improved digital customer experience come through strongly over the half year. The number of voice calls into our

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<sup>1</sup> Earnings before finance expense and income, net investment income, income tax, depreciation and amortisation



customer care teams was down 30% year-on-year, while the number of live chats handled by virtual assistants increased eightfold in the same period. At the same time, customers reported higher levels of satisfaction with the experience they had when coming to us for help – as measured by ‘interaction net promoter score’ or iNPS.”

Spark reported revenue of \$1,754m for the half, down \$7m year-on-year, as revenue from growth products was negated by declines in legacy voice and managed data. In the half, Spark saw the revenue impact of an accelerated decline in wholesale voice connections that occurred in the previous financial year, and a slight moderation in revenue growth for mobile and for cloud, security and service management.

Reported EBITDAI was up \$33m, or 7.2%, on the prior year to \$489m (or up 4.3% on an adjusted basis)<sup>2</sup>. Improved margins in mobile, broadband, and cloud, security and service management, and benefits from Spark’s digitisation and automation initiatives underpinned this growth. EBITDAI was impacted by a \$5m fair value adjustment to Spark’s investment in a global IoT start-up.

Although reported EBITDAI was up, reported net profit after tax (NPAT) was down 5.6% to \$153m (or down 10.5% on an adjusted basis)<sup>2</sup>. This was due to a \$28m decline in Southern Cross dividend (no dividend was declared in H1 FY19) and associated increase in Spark’s effective income tax rate. Southern Cross shareholders decided to withhold a dividend for H1 FY19 to fund the potential construction of the Southern Cross Next cable – an excellent investment which will create value for our shareholders. If Southern Cross dividends continue to be withheld for the remainder of FY19, then FY19 earnings per share - and associated guidance - will reduce by approximately 1c. A further market update will be provided in the event that Southern Cross dividends are withheld for the remainder of FY19.

Managing Director Simon Moutter said he was pleased to see the big calls Spark had made in the previous financial year to reduce costs were now flowing through to a strong EBITDAI result. He also noted the mobile market shift to a focus on innovation and customer value, rather than chasing low value casual rate prepaid connections – was resulting in stronger margins.

“Over the half, we saw customers continue to choose higher-value plans, with the number of customers on our unlimited mobile plan doubling over the period. This trend was also visible in the more price-sensitive end of the market, with a 16.1% increase in Skinny customers adopting a recurring top-up plan,” said Mr Moutter.

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<sup>2</sup>Adjusted to exclude Quantum implementation costs incurred in H1 FY18 (\$13m pre-tax and \$9m after tax)



Cloud, security and service management revenue grew by \$16m or 8.9% year on year, driven by good demand and volume growth, but offset somewhat by more competitive intensity from local and global providers.

Broadband revenues returned to growth, up 3.9% in a challenged market.

“We are seeing a more positive story emerging in broadband resulting from some conscious decisions. We made a change to copper pricing, to better reflect the higher costs of providing this service to customers versus newer technologies like fibre and wireless broadband. We also chose to introduce a new “Unplan” broadband service, which emphasises value in the core offer rather than needing to be propped up with substantial acquisition and retention incentives. Wireless broadband grew by a further 13,000 connections over the half year and continues to deliver annualised reductions in access costs. These decisions have helped to put broadband margins back on a path to a more sustainable level,” said Mr Moutter

Voice revenue declined 14.7%, a slightly higher decline than in the previous period. This reflected the expected impact of an accelerated wholesale connection decline in the previous financial year, and a higher decline in calling volumes (down 18%).

Spark also saw wireless voice connection growth of 4,000 to a total of 18,000 connections.

“Wireless voice offers customers a high-quality product at a lower price. We are now in the throes of progressively shutting down the legacy public switched telephone network (PSTN) and want to keep ahead of this change by helping customers move from the old to the new technology, well ahead of any withdrawal of access to the copper network”.

“We intend to further accelerate wireless voice connections by year-end and are working through how we can better explain the benefits to customers who may feel a bit wary of new technology,” said Mr Moutter.

Mr Moutter said that over the half, Spark began to see concrete benefits from the Agile ways of working now embedded across the entire business.

“Agile is already delivering for our customers. Agile methods ensure our people have a crystal-clear view of what customers value and can totally focus on their part of delivering that. The empowerment framework removes the barriers that might have held things up in the past.



“As a result, Spark has improved the speed with which we can bring new products and services to market, ensuring these are aligned with customers’ high expectations and our customer experience continues to improve – all while operating on a much lower cost base.”

Looking to the future, Mr Moutter said Spark sees the deployment of 5G technology as a crucial enabler of Spark’s future growth and vital for New Zealand to keep up with the rest of the world.

“5G will be a big driver of future innovation – not only for our industry but also for New Zealand’s economy. We are still working towards launching the network by July 2020 at the latest.”

Today Spark also announced pricing for its new Spark Sport platform, which will launch in early March in beta. Spark Sport subscriptions – excluding Rugby World Cup 2019 - will be \$19.99 per month, with a one-month free trial available at launch.

“We’re excited to bring this fantastic service to New Zealanders next month. We have a capable Spark Sport team in place and the platform build is on plan. The service will be live in time for the first Formula One race, the Australian Grand Prix. As we appreciate that the launch of Spark Sport is relatively close to the start of the Formula One season, the Australian Grand Prix will be simulcast on Spark Sport and TVNZ.

“During the beta phase we will welcome feedback from users, and we’ll continue to develop the platform and roll out new functionality in the weeks and months after launch.

“We are well on track with our planning for the Rugby World Cup in September. Pricing and plans for the tournament will be announced and put on sale in Q4 FY2019. We will time the RWC2019 pricing announcement for when the Spark Sport platform is fully launched, as we expect many New Zealanders will want to sign up early,” said Mr Moutter.

Spark announced an H1 FY19 total dividend per share of 12.5c, which will be made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c.

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