Spark New Zealand H1 FY21 Results Summary

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Results overview

H1 FY21 snapshot

$1,796m

REVENUE[1]

(1.5%) decrease from H1 FY20

$502m

EBITDAI[2]

0.4% increase from H1 FY20

$148m

NPAT

(11.4%) decrease from H1 FY20

12.5c

H1 FY21 DIVIDEND

Total FY21 Dividend Guidance confirmed at 25.0cps[3]

$113m

FREE CASH FLOW[4]

126% increase from H1 FY20

$229m

CLOUD REVENUE[5]

4.6% increase from H1 FY20

(1) Operating revenues and other gains
(2) 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 Interim Financial Statements
(3) Subject to no adverse change in operating outlook
(4) The calculation of free cash flow is defined within the 'cash flows' worksheet of the H1 FY21 detailed financials
(5) Cloud, security & service management revenue

First half operating conditions

- New Zealand's economy recovering sooner than expected, however the recent Auckland lockdown demonstrates uncertainty remains.
- Early indications of lower billing and collection risk – however, Government stimulus may continue to mask the full extent of the impact.
- Decline in overall mobile market revenue[1] due to border closures and loss of roaming revenues.
- The broadband and prepaid markets were impacted as border closures resulted in approximately 44,000 fewer people migrating to New Zealand[2] in H1 FY21 vs. H1 FY20.
- Demand for collaboration tools to enable flexible working and business continuity with flexible cloud-based "as a service" offerings increasing, but at a slower rate due to economic uncertainty.
- Accelerated cost reduction programme to mitigate impacts of COVID-19.
- Supporting New Zealand's recovery by investing in critical 5G infrastructure, digital skills for small business, and bridging the digital divide for vulnerable communities.

[1] Market share estimates sourced from IDC
[2] Source: Statistics New Zealand

H1 FY21 Established Market Performance

WIRELESS		CLOUD
MOBILE	BROADBAND	CLOUD, SECURITY AND SERVICE MANEMENT
Mobile service revenue market share[1] at 40.4%, up 0.2pp from H1 FY20 driven by pay monthly connection growth of 68k YoY	23% of base on wireless – 165k customers, up from 156k at 30 June 2020	Cloud, security and service management revenue up 4.6% YoY
Mobile service revenue down 1.2% to $420m due to loss of $21m higher-margin outbound roaming revenue	Broadband market impacted – ~44k less people migrating to New Zealand in H1 FY21 vs. H1 FY20	Annuity revenue accounting for ~84% of cloud, security and service management revenues
Underlying performance remains strong – after stripping out the impact of the loss of roaming, mobile service revenue[2] up 3.8%	Aggressive competitor acquisition activity and execution challenges during COVID-19 disruption	Collaboration revenue up 4.2% YoY as COVID-19 increased demand for collaboration products in support of flexible working
Prepaid connections down in line with market, ARPU up 8.1% as customers shift to Endless plans[3]	Remain committed to target of ~30-40% of base on wireless by FY23 – 5G rollout growing addressable base and precision marketing improving acquisition	Strong revenue momentum in service management with completed transitions successfully converting into ongoing programmes of work

(1) Market share estimates sourced from IDC
(2) Adjusted to include $21m of outbound roaming revenue as a result of COVID-19. NOTE: inbound roaming is reported in mobile non-service revenue
(3) IDC market estimates show overall prepaid connection decline of ~9%. Spark prepaid connections down 134k YoY as a result of border closures and reduced immigration with ~44k fewer people migrating in H1 FY21 vs H1 FY20.

Strategic Update: World Class Capabilities and Culture

Building the foundation to ignite revenue momentum as market conditions improve

SIMPLE, INTUITIVE CUSTOMER EXPERIENCES	• Simplification progressing at pace – over 100 legacy plans retired in the half • 18% YoY reduction in total customer care interactions driven by improving digital self-service • Launched NextGen Spark App with enhanced digital journey functionality • Some impacts to iNPS as a new frontline operating model was introduced, aimed at cross-skilling to deliver better customer experiences and improved productivity
DEEP CUSTOMER INSIGHTS	• Expansion of customer base in household view model leading to a 9% YoY improvement in marketing efficiency • Propensity models developed to better target plan and device offers to Skinny customers • Continued progress in cloud migration with 3 core systems migrated during the period
SMART, AUTOMATED NETWORK	• 5G launched in Auckland, Dunedin, Palmerston North, New Plymouth, Te Awamutu and now live testing in Christchurch • OTN2.0[1] commissioned to support automation, self-healing of the network and resilience • Infrastructure asset review to identify further opportunities to create value (see slide 8)
GROWTH MINDSETS	• Continuing to build Agile maturity across all parts of business • New ways of working policy introduced to support flexibility, adapt to COVID-19 impacts and grow engagement • Digital leadership development and talent management programmes delivered to significant portion of leadership population

[1] Optical Transport Network

Strategic Update: Future Markets

IoT[1]

- IoT connection growth: 65% YoY demonstrating strong demand for service offerings
- Growing awareness: *Connecting NZ to the things that matter* national advertising campaign launched
- Sector product development: water metering devices and platform launched
- Spark *My IoT* Platform: live and in trial with customers

Digital Health

- Tailored telco and IT services delivered: at a time of unprecedented demand in the health sector
- Digital Health Platform: significant progress towards launch
- Next Generation Health 5G Starter Fund: and 2021 Spark Health Innovation Programme launched

Sport

- Summer of Cricket: great customer feedback on production and viewing experience during first two tours (West Indies and Pakistan)
- High viewership: more than 3 million hours of cricket viewed to date
- Successful launch of Pay-Per-View boxing events: providing new revenue stream
- Leveraging Spark data capability: to increase the cross-sell of Spark Sport to existing customers

[1] Internet of Things

Opportunities to grow the value of Infrastructure assets

- Increased interest in quality infrastructure assets.
- Spark has a significant infrastructure asset portfolio.
- We continue to review investment and partnership opportunities that make commercial sense and maintain our competitive advantage.
- Our aim is to drive greater capital efficiency, increased resilience and better experiences for customers.
- We will provide an update at our full year results.

SPARK INFRASTRUCTURE ASSETS

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- 1,500 mobile sites
- 35 major network sites
- 18 Data Centres[(1)]
- Fibre: 1,200 km national fibre backhaul network
- Satellite station
- Ownership stake in 3 sub-sea cables
- Metro and regional data networks fibre/wireless

[(1)] Combination of Tier 2 and 3 facilities

FY21 indicators of success

Strategic Pillar	Focus Area	Measure	Target 30 June 2021	Status
World Class Capability	Customer Experience	Consumer and small business iNPS	8 point lift	Improvement needed[1]
	Data driven insights	80% of customer base[2] in household view[3] enabling	15% efficiency gain in marketing spend	On Track
	Wireless future	Progressive rollout of 5G	Live in 5-7 locations	On Track
	Mature Agile Leadership	Percentage of Agile squads at or above level 3.5	85%	On Track
Grow established markets	Wireless	Mobile service revenue growth	0-3%	Impacted by COVID-19
	Wireless	Wireless broadband connections	+40k	Improvement needed
	Cloud	Cloud, security and service management revenue growth	5-8%	On Track
Accelerate future markets	IoT	Growth in number of connected IoT devices	50%	Ahead
	Spark Sport	Successfully deliver season 1 of New Zealand cricket	Platform availability of 99.9%	On Track
Lowest Cost Provider	Deliver best cost	EBITDAI margin	31%	On Track
Build a sustainable future	Championing digital equity	Skinny Jump connections	+10k	Improvement needed
	Sustainable Spark	Set emissions reductions target aligned to New Zealand being carbon neutral by 2050[4]	By 30 June 2021	On Track

(1) The iNPS score has been rebased to include an even larger sample of customer interaction feedback
(2) Spark and Skinny consumer and Spark SME customer base
(3) Household view is an insights platform that allows us to better anticipate the needs of New Zealand households to deliver more targeted, relevant and personalised services
(4) As part of commitment to Climate Leaders Coalition

Financials

Financial summary

Disciplined cost management delivering stable EBITDAI despite ongoing impacts of COVID-19

($28m)
(1.5%)

Revenue movement
vs. H1 FY20

$30m
2.3%

Opex movement
vs. H1 FY20

$2m
0.4%

EBITDAI movement
vs. H1 FY20

($19m)
(11.4%)

NPAT movement
vs. H1 FY20

$63m
126%

Free cash flow movement
vs. H1 FY20

12.5cps
-%

H1 FY21 Dividend
vs. H1 FY20

Top line revenue of $1,796m, $28m or 1.5% down on prior year due to:

- Mobile service revenue decline due to loss of high-margin roaming revenue; and
- Higher rate of voice revenue decline due to non-recurring provision to refund historical wire maintenance charges.

Operating expenses down $30m, or 2.3% YoY, with $68m of gross cost-out benefits offsetting revenue decline.

Reported EBITDAI of $502m, 0.4% up on prior year despite impacts of COVID-19 as a result of strong cost management.

NPAT down $19m, or 11.4% YoY, primarily driven by a $29m increase in depreciation and amortisation expense as a result of:

- The shift to shorter asset lives and increased right of use asset depreciation due to FY20 customer related lease activity and retail property leases.
- D&A expected to increase over the near term as a result of shorter asset lives and spectrum renewals and purchases before reducing to align with capital investment in the longer term.

Free cash flow of $113m, up $63m YoY, due to tight management of working capital resulting in higher cash conversation rate of 102%.

Net debt of $1,400m, up $51m YoY. Reported net debt to EBITDAI ratio within Spark's internal threshold of 1.4x.

H1 FY21 dividend per share of 12.5cps to be 100% imputed. Total FY21 dividend guidance[1] confirmed at 25.0cps as a result of strong free cashflow. Dividend Reinvestment Plan (DRP) retained with 2% discount.

[1] Subject to no adverse change in operating outlook

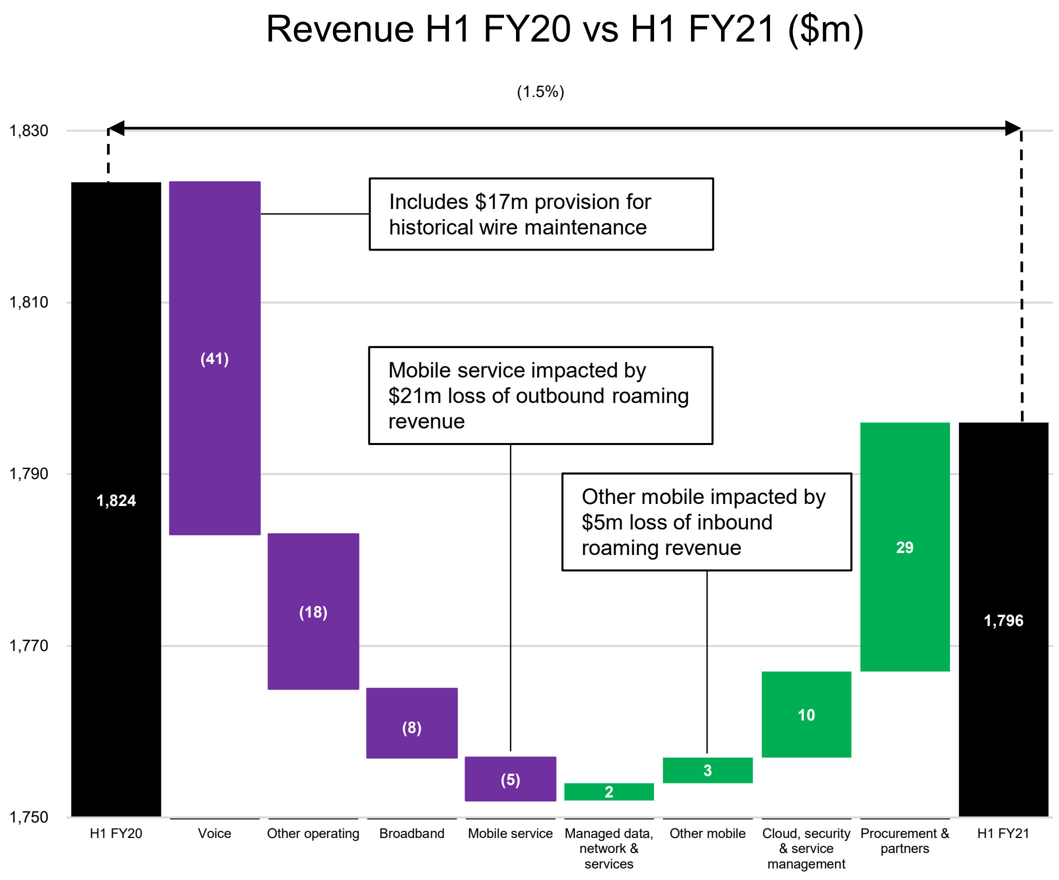
Financials

	H1 FY20 $m	H1 FY21 $m	CHANGE
Operating revenues and other gains	1,824	1,796	(1.5%)
Operating expenses	(1,324)	(1,294)	(2.3%)
EBITDAI	**500**	**502**	**0.4%**
Finance income	18	17	(5.6%)
Finance expense	(46)	(43)	(6.5%)
Depreciation and amortisation	(234)	(263)	(12.4%)
Net investment income	(1)	-	100%
Net earnings before tax expense	**237**	**213**	**(10.1%)**
Tax expense	(70)	(65)	(7.1%)
Net earnings after tax expense	**167**	**148**	**(11.4%)**
Capital expenditure	247	192	(22.3%)
Free cash flow[1]	50	113	126%
EBITDAI margin	27.4%	28.0%	0.6pp
Effective tax rate	29.5%	30.5%	1.0pp
Capital expenditure to operating revenues	13.5%	10.7%	(2.8pp)
Earnings per Share	9.1	8.0	(12.1%)
Total Dividend per Share	12.5c	12.5c	-

[1] The calculation of free cash flow is defined within the 'cash flows' worksheet of the H1 FY21 detailed financials

Revenue

H1 FY21 revenue down 1.5% due to COVID-19 impacts and one-off provision



H1 FY21 revenue impacts include:

- Higher voice revenue decline of 20.6% due to non-recurring provision of $17m to refund historical wire maintenance charges (underlying decline of 12.1% in line with previous trends);
- Other operating revenue decline includes timing of Spark Sport revenue with summer of cricket commencing in late November;
- Broadband revenues impacted by lower overall market growth[2] and aggressive competitor activity;
- Mobile service revenue decline of $5m or 1.2%. Loss of ~$26m high margin mobile roaming revenue due to ongoing travel restrictions and border closures as a result of COVID-19. Strong underlying growth of $16m or 3.8% when adjusted for loss of roaming revenue[1]; and
- Cloud, security and service management up $10m or 4.6% driven by higher annuity revenues and growth in Leaven, highlighting the benefits of business transformation service management offerings particularly in a COVID-19 context.

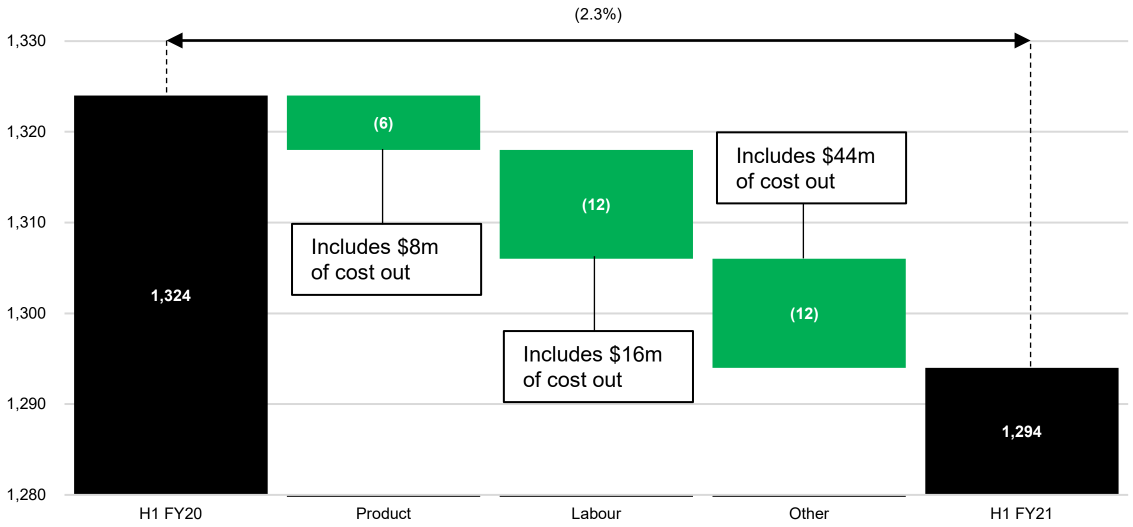
FY21 revenue likely to be broadly flat reflective of the economic environment and ongoing impacts of COVID-19.

[1] Adjusted to include $21m of outbound roaming revenue as a result of COVID-19. NOTE: inbound roaming is reported in mobile non-service revenue
[2] Market share estimates sourced from IDC

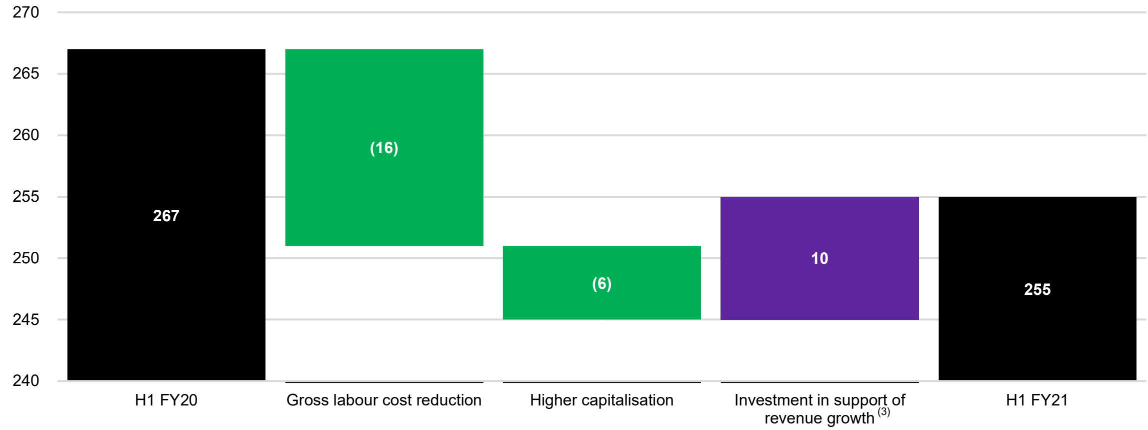
Operating expenses

Operating expenses down 2.3% with targeted cost out programme offsetting revenue impacts

Expenses H1 FY20 vs H1 FY21 ($m)



Net Labour H1 FY20 vs H1 FY21 ($m)



- $68m of gross cost-out delivered in H1 across product, other operating expenses and labour.
- Reduction in product costs due to lower Spark Sport[1] costs and divestment of Lightbox, offset by procurement related cost of sales.
- Decline in other operating expenses driven by:
  - Lower bad debts as Government stimulus supports the economy;
  - Decline in travel expenses; and
  - Reduction in marketing spend due to precision marketing efficiencies.
- Decrease in net labour costs of $12m or 4.5% YoY due to:
  - Divestment of CCL networks business[2];
  - Legacy business resources reducing in line with ongoing transition to digital journeys and expanded self service options; and
  - Increased capitalisation of labour.

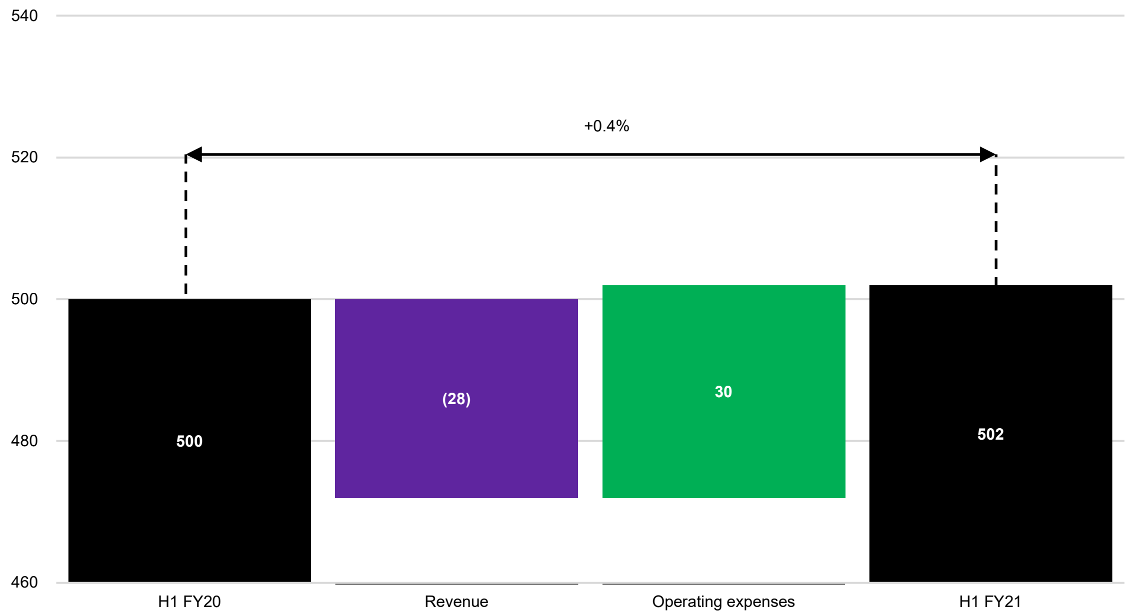
Robust cost out programme to offset impacts of COVID-19 continues into H2 targeting reductions in excess of FY20.

[1] Full cost of RWC 2019 was expensed during H1 FY20. H1 FY21 cricket only launched in late November
[2] Divestment of CCL Network completed in January 2020
[3] Investment in support of growth includes increases in labour in support of cloud, security and service management revenue growth, Leaven, Digital Health and service operations

EBITDAI

Maintained EBITDAI through strong operational and cost disciplines despite impacts of COVID-19

EBITDAI H1 FY20 vs H1 FY21 ($m)



- EBITDAI maintained through early intervention around cost during COVID-19 lockdowns and then capitalising on improving market conditions to ignite revenue momentum.
- H1 FY21 COVID-19 impacts of ~$27m, strong underlying EBITDAI momentum.
- EBITDAI margin of 28% - on track for FY21 aspiration of 31%.

- Impact of COVID-19 in FY21 expected to be less material at ~$50m, vs. original estimate of $75m. This will be partially offset by non-recurring cumulative wire maintenance provision of $17m.
- H2 FY21 EBITDAI expected to benefit from stable revenues and continuation of cost-out programme.

Capital investment

$55m reduction in spend on prior year, consistent with targeted reduction in full-year capital envelope from ~$370m to ~$350m excluding spectrum investment of $50m

Capital expenditure ($m)	H1 FY20	H1 FY21
Mobile network	92	58
IT systems	73	66
Core sustain and resiliency	50	34
Cloud(1)	16	9
Converged Communications Network (CCN)	11	15
International cable construction and capacity(2)	0	1
Other(3)	5	9
Total capital expenditure	**247**	**192**
Total capital expenditure to operating revenue	13.5%	10.7%

(1) Reduction in Cloud spend due to divestment of CCL networks business and shift towards leasing construct
(2) International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable
(3) Increase in other investments due to new retail store fit outs including new flagship store in the Commercial Bay precinct

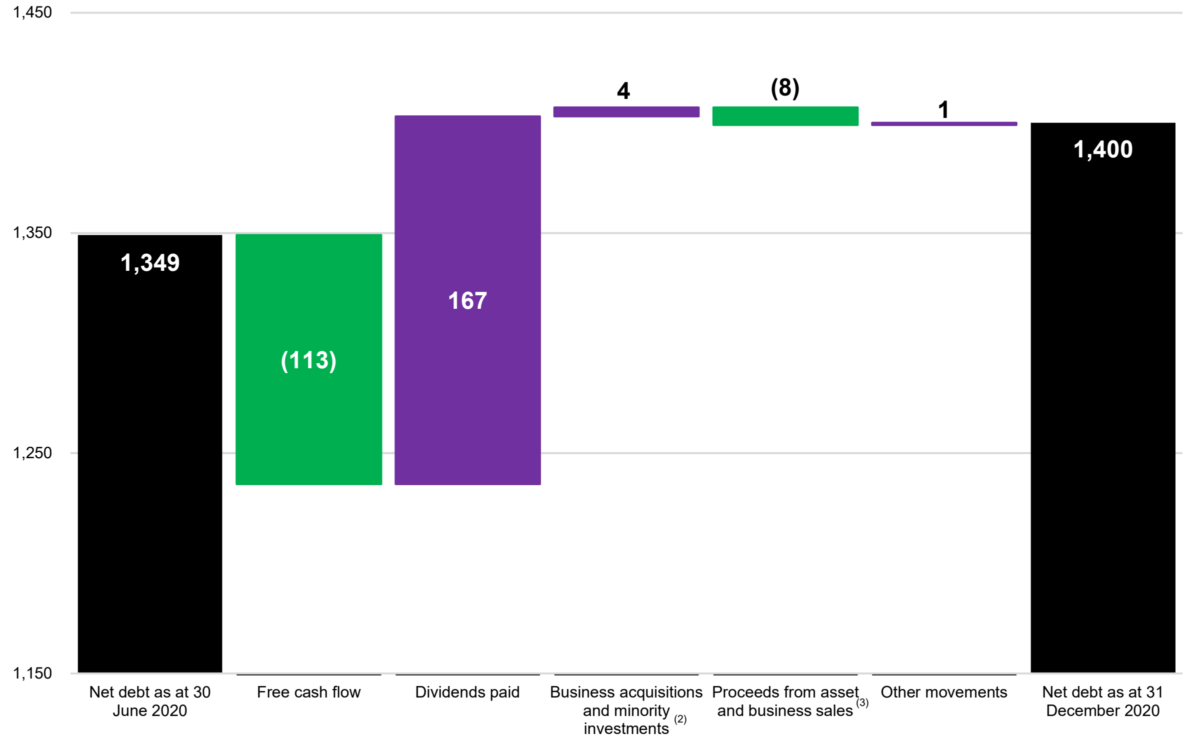
- Strong focus on more actively managing phasing of capital expenditure over the financial year, with 55% spent in H1 FY21, versus 66% in H1 FY20.
- Mobile and core network investment was high in H1 FY20 in support of heavy network investment in the lead up to the Rugby World Cup.
- Ongoing investment in mobile network in support of increased capacity and 5G rollout.
- Reduction in IT system investment in line with expectations.
- Investment in Converged Communications Network (CCN) continues, with the South Island resiliency initiative added to scope in H1 FY21.

Prioritised allocation of capex combined with long-term investments in mobile spectrum of $50m resulting in greater overall investment in FY21 versus FY20.

Net debt

Total net debt of $1,400m, up $51m YoY. Net debt to EBITDAI ratio within Spark's internal threshold of 1.4x

Movement in net debt during FY21 ($m)



- Reported net debt to EBITDAI ratio of 1.35x[1] consistent with S&P A- credit rating.
- Net debt expected to reduce during H2 FY21 due to:
  - Seasonal weighting of EBITDAI towards H2;
  - Planned reduction in capital investment, with H2 spend lower than H1;
  - Ongoing working capital improvements; and
  - Strong DRP[4] participation.

Spectrum renewal payments for 1800MHz and 2100MHz paid for in January 2021 now expected to be funded by free cash flow

[1] Spark's internal capital management policy is to ensure that on a long-run basis reported net debt to EBITDAI does not exceed 1.4x; which Spark estimates is approximately equivalent to S&P's 1.7x adjusted net debt to EBITDA threshold. Spark's internal threshold of 1.4x excludes S&P's adjustments in relation to IFRS16, and captive finance operations
[2] Business acquisitions and minority investments include Rural Connectivity Group and joint venture equity contributions
[3] Proceeds from strategic Lightbox divestment
[4] Dividend Reinvestment Plan remains in place for H1 FY21 dividend. Shares issued under the Dividend Reinvestment Plan will be issued at a 2% discount to the prevailing market price as determined around the time of issue

Free cash flow

Free cash flow of $113m, up $63m YoY, due to active management of working capital and higher cash conversation rate of 102%

H1 FY21 free cash flow growth driven by:

$113m	$502m	$192m	$42m
FREE CASH FLOW[1]	EBITDAI	CAPEX	WORKING CAPITAL
126% increase from H1 FY20	0.4% increase from H1 FY20	22.3% decrease from H1 FY20	Improvement in working capital from H1 FY20

FY21 free cash flow aspiration of $420m-$460m sufficient to fund shareholder distributions of 25.0cps[2] after taking into account impact of dividend reinvestment plan[3].

H2 FY21 free cashflow driven by:

1. EBITDAI Seasonality
   ~55% of EBITDAI delivered in H2
2. Phasing of capital expenditure
   ~55% of FY21 capex already incurred
3. Ongoing improvement in working capital
4. Timing of tax payments
   2 out of 3 annual income tax payments paid in H1

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Guidance[1]

	FY20 Actual	Previous FY21 Guidance	FY21 Spectrum Renewals[2]	Change to FY21 Guidance
EBITDAI	$1,113m	$1,090m to $1,130m	-	$1,100m to $1,130m
Capital expenditure	$374m	~$350m	$50m	-
Dividend per share	Ordinary 25.0cps H1 FY20 (75% imputed) H2 FY20 (100% imputed)	Ordinary 23-25cps (100% imputed)	-	Ordinary 25.0cps[3] (100% imputed)

(1) Subject to no adverse change in operating outlook
(2) 1800MHz and 2100MHz spectrum renewals paid in January 2021
(3) Dividend Reinvestment Plan remains in place for H1 FY21 dividend. Shares issued under the Dividend Reinvestment Plan will be issued at a 2% discount to the prevailing market price as determined around the time of issue

SAVE THE DATE

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Managed Services Presentation

Wednesday 24 March 2021
10.00am

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