Spark nz

**MARKET RELEASE**

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# Spark New Zealand FY18 results show strong performance in growth areas while transforming business for the future

- **Strong performance in key growth areas – especially in mobile and in cloud, security and service management**
- **Substantial progress in digitisation and simplification programme drives improved customer satisfaction and lowers cost-to-serve**
- **Acceleration of business performance improvement programme brings $49m in costs of change**
- **Became one of the first large companies in Australasia to transition to Agile model at scale**
- **Southern Cross dividends expected to significantly decline in FY19**

Spark New Zealand's financial results for the year to 30 June 2018 show the business continued to deliver against key financial and operational targets, while undertaking one of the biggest change programmes in the company's history as it transitioned to an Agile way of working.

Speaking about the results, Spark Chair Justine Smyth said: "In June last year, Spark set out a three-year vision of how the business would maintain growth in a highly competitive environment. Underpinning this vision were three strategic focus areas: an increased emphasis on wireless; leveraging multi brands; and being the lowest cost operator through simplification, digitisation and automation.

"Spark delivered against these focus areas, while simultaneously making the bold decision to transition the company to an Agile way of working – and this flowed through to its financial results."

Spark reported year-on-year revenue growth of $35m, or 1.0%, taking revenue to $3,649m; driven by substantial revenue growth totalling $132m across mobile (up 6.9%) and cloud, security and service management (up 15.1%). This growth was partially offset by continuing declines in legacy voice, managed data and networks revenues; down, in total, $100m.

Southern Cross dividends also declined by $11m to $50m during FY18. The company expects dividends received from Southern Cross to decline significantly further during FY19 to between $10m and $20m, as the level of pre-purchased capacity from large customers decreases. Spark has anticipated the decrease in Southern Cross dividends for some time, with opportunities for the pre-sale of capacity for use by customers in future years declining as the remaining life of the existing Southern Cross cable network reduces.

As indicated to the market in May, Spark chose to accelerate its Quantum business improvement programme in H2 FY18, incurring costs of change within the FY18 financial year to realise benefits sooner than previously envisaged.

“This decision was based on our increasing confidence that the business could improve customer experience and operate under a lower cost structure in an Agile model,” Ms Smyth said.

The acceleration meant additional implementation costs of $24m were brought forward into FY18 earnings, which added to the $25m cost of change Spark had already planned for, bringing total costs of change for FY18 to $49m. As a result of this, overall reported EBITDA for FY18 declined by $27m, or 2.7%, to $989m.

Excluding change costs, adjusted EBITDA for FY18 was $1,038m, an increase of $22m, or 2.2%.

Spark announced an H2 FY18 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.

Managing Director Simon Moutter said Spark’s success in growth areas continued to offset decline in legacy areas of the business.

“We saw a continued growth story in cloud, security and service management products during FY18, with both revenues and margins improving over the year. Our business customers increasingly recognise the benefits and flexibility offered by “as a service” cloud products, and we have launched new security products to capture growth in that market.

“We’re also very pleased to see our strategic emphasis on wireless technologies flow through to further growth in mobile market share, revenue and margins – with Spark the only New Zealand mobile operator to achieve this over the period. Our mobile revenue growth is now fully offsetting traditional voice revenue decline.

“The Upgrade New Zealand programme reached a crucial tipping point in June, with more than 50% of our customers now on either fibre or wireless broadband. We now have 116,000 customers on our wireless broadband product. While this is a little behind the targets we set last year, it’s helping to drive a 6.7% uplift in broadband gross margin – in a market where margins are very challenged. Our focus is now shifting to the retention of existing wireless broadband connections and the migration of copper voice connections to our wireless voice alternative.”

Mr Moutter said the company made substantial progress on its programme of simplification, automation and digitisation over the year. Improvements to digital self-service channels and the introduction of artificial intelligence, through chatbots and other automation tools, reduced customer service voice calls by almost a quarter year-on-year. Spark also rolled out 40 different “bots” to automate high-volume and sometimes very complex business processes and tasks.

“Customer satisfaction measures improved over the financial year, with net promoter scores (NPS) improving for both the Spark and Skinny brands,” said Mr Moutter. “We achieved this off the back of our new and improved digital channels, as well as better performance in our more traditional channels.”

Spark’s multi brand strategy continued to help the company win customers across different market segments – particularly price-sensitive markets. Low-cost brands Skinny and Bigpipe drove the majority of Spark’s FY18 total broadband customer growth of 13,000 net new connections. Skinny’s dual commitment to low prices and high customer satisfaction also drove continued growth in mobile, with innovations like its Data Binge product proving very successful.

During FY18, Spark moved further into the rapidly evolving media landscape, introducing new features and services for Lightbox – including a pay-as-you-go movie service, separate kids’ area and a premium subscription option – and making a big move into the sports content market. Spark has secured broadcast rights to several World Rugby tournaments - including Rugby World Cup 2019, and to Premier League football from the 2019 season, with more content announcements to come.

“We see sports content as crucial to our media strategy,” said Mr Moutter. “However, we are also disciplined when it comes to our investments in this area and are only looking to secure content that can give us a commercial return. We believe we’ve achieved that with the high-quality content we’ve secured to date.”

Mr Moutter said Spark began the transition to Agile towards the end of the financial year with the "engine room" of the business – which encompasses core functions such as network, IT, product development and marketing.

"These parts of the business have been completely reorganised into small, multifunctional teams, working on single customer propositions – and seeing these through from end-to-end. We also began applying Agile methodologies across the rest of the business to varying degrees depending on the nature of the business operation.

"We are one of the first large companies in Australasia to make the move to Agile at scale in such a short space of time. Our move has attracted a lot of interest from other companies – here and overseas – who are grappling with the same issues of uncertainty and technological and market disruption.

"We're proud of what we've achieved, firmly positioning ourselves for future success. Furthermore, we have delivered this change while maintaining financial and operational momentum and ensuring our business performance is to plan.

"In the coming year, we are focussed on capturing the advantages the Agile way of working will deliver for us: highly engaged and productive people; a total focus on what matters for customers; and the ability to deliver new products and services – and improve existing ones - faster than ever before."

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