



**SPARK NEW ZEALAND LTD**

**INVESTOR UPDATE**

**SESSION 2 OF 3**

**30 JUNE 2017**



# INTRO

**Simon Moutter**

Overview of changes in emphasis to elements of the business strategy

1

**Jason Paris**

The Spark HMB market game-plan to use our brands and partnerships to compete and win in a rapidly digitising world

**Jolie Hodson**

The Spark Digital market game-plan to compete and win by adding value and simplifying our offers in commoditised and disrupted business markets

**Ed Hyde**

The role of Ventures in growing new and reshaping existing markets

2

**Mark Beder**

Network investments to position Spark to win in the post-copper era of fibre, wireless and converged communications

**Dr Claire Barber**

Becoming one of the world's best companies for digital self-service and customer experience

**Joe McCollum**

Developing our people and culture

3

**David Chalmers**

Driving Spark's long term, sustainable revenue and EBITDA growth and shareholder value

**Simon Moutter**

Wrap up



**SPARK**

**CONNECT**

**MARK BEDER**

**COO SPARK CONNECT**



# Delivering the Spark of the future

## Wireless network leadership

Migrate 20% to 25% of copper broadband customers to wireless broadband

## Network resilience

Maintain 99.99% availability

## Technology evolution

PSTN shutdown in 5 to 7 years

## Maximising the value of our networks

Continuing to deliver lowest cost per GB by leveraging new technologies



**+30**NPS

Outstanding  
customer experience



Growing  
key segments



Holding  
market share



Top-decile culture



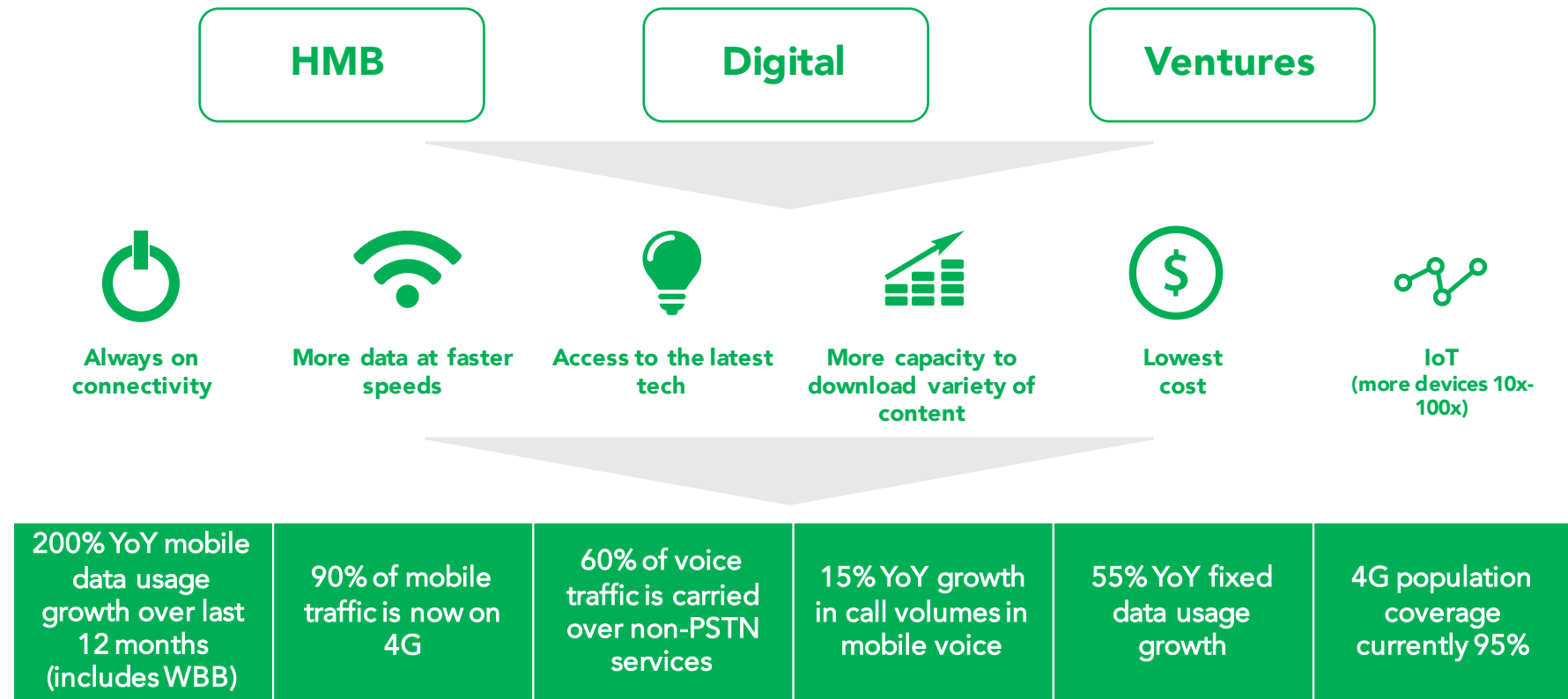
Lowest cost  
operator



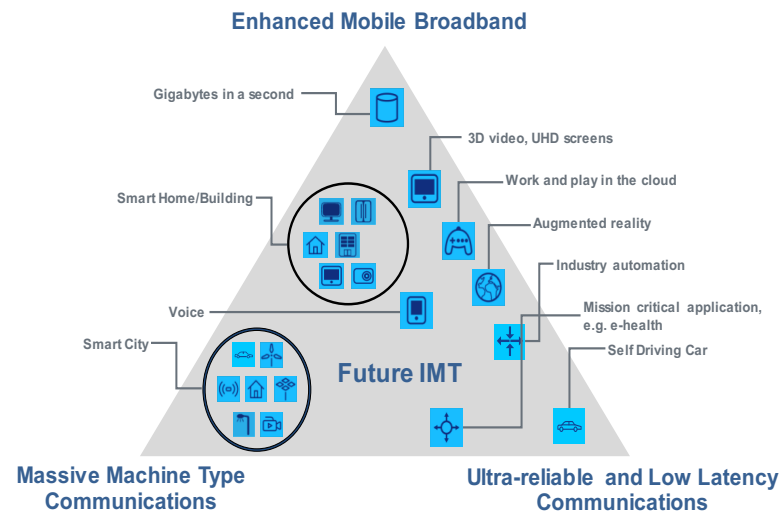
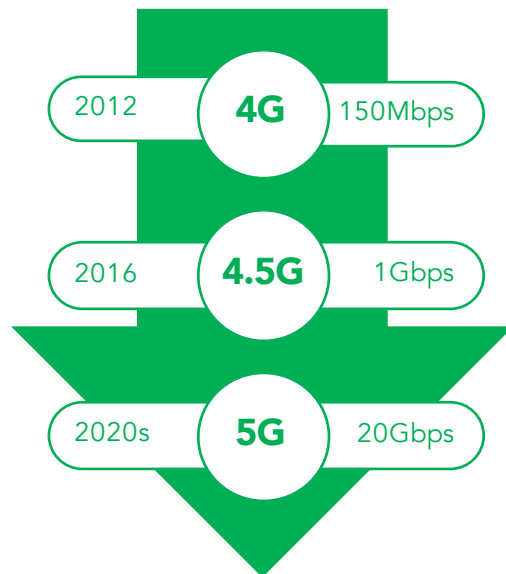
Top 10  
global telco ROI

New Zealand's best wireless and fibre data networks underpinning growth in  
Spark HMB and Spark Digital

# Customer demand will continue to drive our network investments



# Wireless evolution will allow us to satisfy growing demand in an increasingly cost efficient way



Source: Bell Labs

➡ ~Peak 20Gbps throughput

➡ ~Air Interface 1ms Round Trip Time latency

➡ ~x100 connection (IoT)

NB: IMT stands for International Mobile Telecommunications

# Delivering New Zealand's best networks will enable...

	Wireless network leadership	Network resilience	Technology evolution	Value maximisation
<b>Activities</b>	<ul style="list-style-type: none"> <li>Capacity investments made proactively and optimised to stay ahead of customer demand</li> <li>This includes spectrum, carrier upgrades, cell site developments and new capabilities (4.5G, massive MIMO)</li> <li>Technology roadmap designed with a pathway aligned to 5G</li> </ul>	<ul style="list-style-type: none"> <li>Deliver fit for purpose network and technology services for our customers</li> <li>National grid like capability</li> <li>Capacity investments made proactively to exceed customer demands</li> <li>Investment to reduce reliance on legacy</li> <li>Greater use of carrier ethernet services</li> </ul>	<ul style="list-style-type: none"> <li>Continuous evolution of technology assets by prudently adopting new technologies and architectures</li> <li>Programme to consolidate voice platforms to a single IP switching platform to enable PSTN decommissioning</li> <li>Technology advances in optical routing</li> </ul>	<ul style="list-style-type: none"> <li>Maximise value in spectrum investment</li> <li>Continuously lower cost per GB by using new technologies</li> <li>Greater efficiency and new growth opportunities through strategic partnerships</li> <li>Optical transport continues to get faster and more efficient</li> </ul>
<b>KPIs</b>	<ul style="list-style-type: none"> <li>Increase 4G coverage to 98% of population</li> <li>30 locations on 4.5G</li> <li>Migrate 20-25% of copper broadband customers to wireless broadband</li> </ul>	<ul style="list-style-type: none"> <li>99.99% availability across our core wireless (voice and data) and fixed networks</li> </ul>	<ul style="list-style-type: none"> <li>Single voice platform and PSTN shutdown within 5 to 7 years</li> <li>Up to 70 exchanges migrated off PSTN by end of FY18</li> <li>First IP switch deployed in FY18</li> </ul>	<ul style="list-style-type: none"> <li>Continue to reduce cost per GB to accommodate substantial data growth</li> <li>Supplier consolidation</li> <li>General opex efficiencies through network simplification</li> </ul>

**NB:** MIMO stands for multiple-input and multiple-output

# Wireless will be central to our future

## Wireless network leadership

### Long term goals

- New Zealand's best wireless network
- New Zealand's lowest cost per GB
- Investing in the right technology path

### Achievements

- Optimised Single Radio Access Network (SRAN)
- Using a range of transport mechanisms including Carrier Ethernet Transport for wireless backhaul, to enable route diversity and network simplification for better disaster recovery
- First in Asia Pacific for a commercial 4.5G site providing 3-4 times the capacity of 4G

### Focus areas

- Building a resilient core architecture for greater failover capacity to manage exponential growth
- Major capacity upgrades underway to support wireless data growth and increased voice traffic
- Network Function Virtualisation for scale and ease of deployment efficiencies
- Preparing the pathway to 5G and ensuring we have sufficient spectrum to support the bandwidth it will require



# Network resilience and capacity

## Strengthening our network resilience

### Long term goals

- Continue to invest in our Optical Transport Network (OTN) backbone increasing diversity, reach and innovation to keep ahead of the demand curve

### Achievements

- National grid like capability with Spark's OTN spanning Whangarei to Invercargill
- Optical routing at all key fibre junctions
- Fit for purpose network and technology services for our customers
- Capacity investments made proactively to meet customer needs
- Third fibre route through centre of South Island after Kaikoura earthquake

### Focus areas

- Optical expansion into metro areas
- Continuously expanding, diversifying and improving our fibre network
- Content delivery augmentation and distribution closer to the customer
- Broadband diversity through implementation of network routers and content delivery platforms
- Reusing fibre in the ground by migrating from DWDM to OTN

# Transitioning from legacy to the future will radically simplify our business

Migration off exchange based PSTN to an IP future already commenced

## PSTN/CCN migration

### Long term goals

- Through the Converged Communications Network (CCN) we will move to IP voice switching and enable new services like Voice over WiFi, Voice over LTE, collaboration and video calling

### Achievements

- Decommissioning model established and scalable
- 20 exchanges migrated and decommissioned by end of FY17
- Underway with the build of IMS and future IP voice solution
- Industry consultation underway

### Focus areas

- Up to 50 additional exchanges to be migrated by end of FY18; all exchanges exited within 5-7 years
- Consolidation of PSTN, Mobile and IP voice platforms
- Cash savings realised from:
  - Power and footprint savings
  - Reduction in support and backhaul costs
  - Exiting legacy data networks
- Simplification of legacy product features
- Opportunity to reduce property portfolio

**NB:** IMS stands for IP Multimedia Subsystem

# Maximising the value of our networks

	The prize	How
PSTN retirement	<b>\$30m</b> per annum gross reduction in opex	<ul style="list-style-type: none"> <li>• Power and footprint savings</li> <li>• Reduced support and backhaul costs</li> <li>• 5 – 7 years</li> </ul>
Network Leadership	<b>lowest cost per GB</b>	<ul style="list-style-type: none"> <li>• Launched 4.5G</li> <li>• First in NZ to deploy 200G OTN</li> <li>• Massive MIMO deployment in FY18</li> </ul>
Optimising network investment	<b>11-12%</b> CAPEX to revenue	<ul style="list-style-type: none"> <li>• Maintaining investment in technology innovation within capital envelope to meet customer demand for new services</li> </ul>
Resilience	<b>99.99%</b> availability	<ul style="list-style-type: none"> <li>• National grid like capability in our network</li> </ul>

# Key risks are being actively managed

## Ageing PSTN and legacy data technology

- Actively migrating and decommissioning PSTN and legacy data

## Speed of technology innovation

- Not over-investing in single generation of technology
- More agile delivery model
- Track industry trends and adjust accordingly

## Explosion in data usage

- Embracing technology innovation and vendor partnerships for more efficient ways to carry data
- Ongoing aggressive capacity expansion programme including OTN, massive MIMO and 4.5G

## Increased customer expectation of mobile/wireless availability

- Building a 3-core architecture
- Increasing resilience in mobile backhaul
- Customer centric view of how they experience our network

New Zealand's best wireless and fibre data networks underpinning growth in Spark HMB and Spark Digital

**Wireless network leadership**

**Network resilience**

**Technology evolution**

**Maximising the value of our networks**



**SPARK**

**PLATFORMS**

**DR CLAIRE BARBER**

**CDO SPARK PLATFORMS**



# Delivering Spark of the future

Simplifying our journeys and products

New customer design approach

Experiences are our products of the future

Journey aligned catalogue and systems

Harnessing technology to deliver step change

Investing in new ways of working



**+30**NPS

Outstanding  
customer experience



Growing  
key segments



Holding  
market share



Top-decile culture



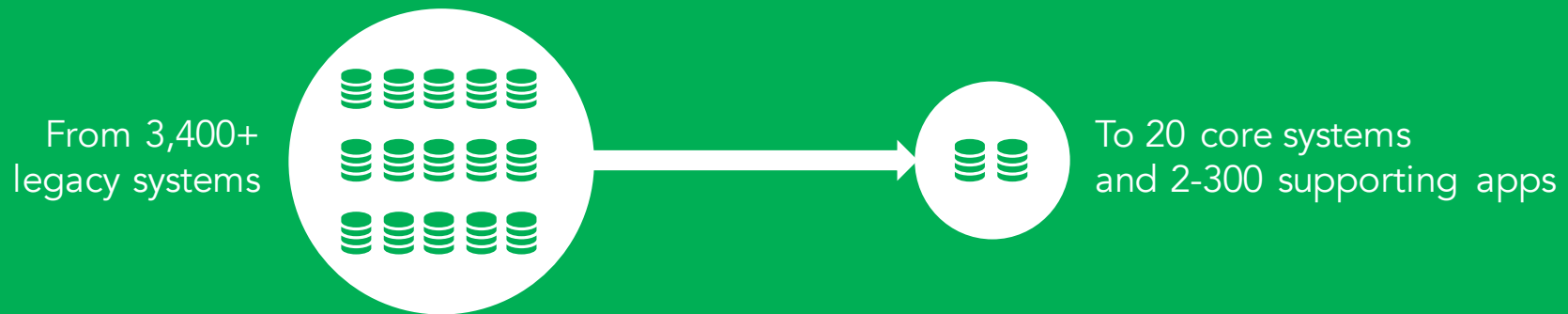
Lowest cost  
operator



Top 10  
global telco ROI

A different type of work for a different world

**Over the last 4 years we've done a lot of  
heavy lifting**



**Moving from a spaghetti of legacy systems to a  
simplified, future-fit service platform architecture**



# We're simplifying our products

Company wide focus on portfolio simplification



**A pathway to radically  
rethink customer  
experiences...**



**...backed by deep  
experience in customer  
and technology  
migration...**

**...delivering...**

**Simpler offers and products**

**Ease of choice for customers**

**Streamlined processes**

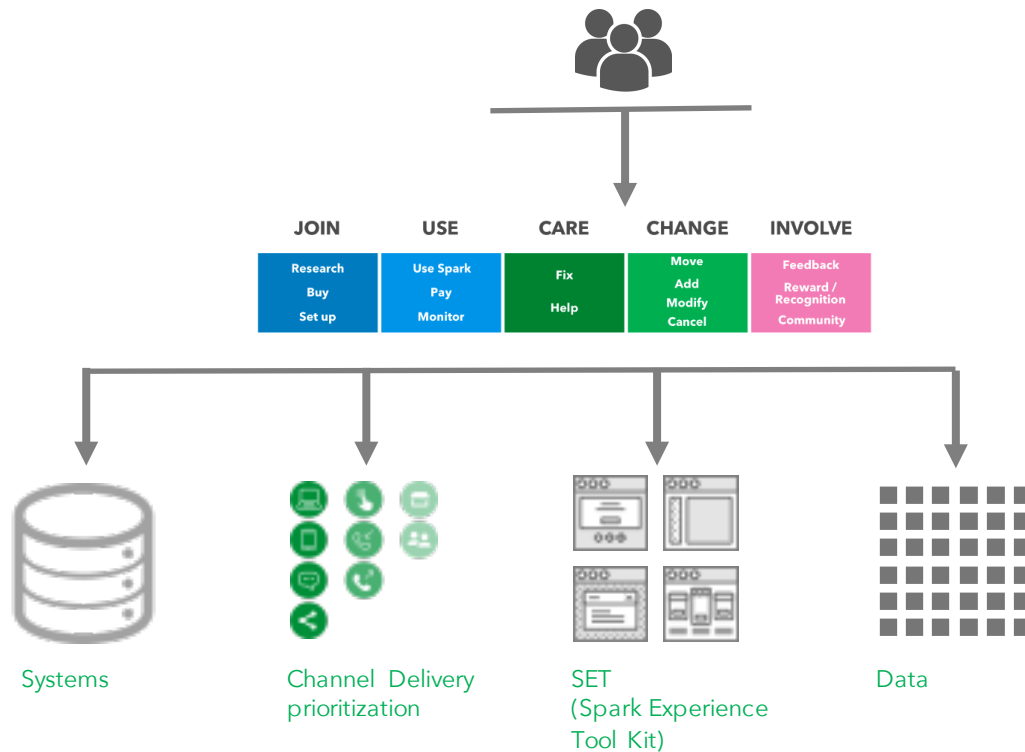
**Lower cost to train**

**Digitally enabled journeys**

As we simplify we are designing for the future

# Designing around the customer, not the tech

A Customer Experience Framework to deliver a blueprint for reusable, consistent design



Starting with the customer

Focused on the experiences

Bringing customer feedback in

Constant validation

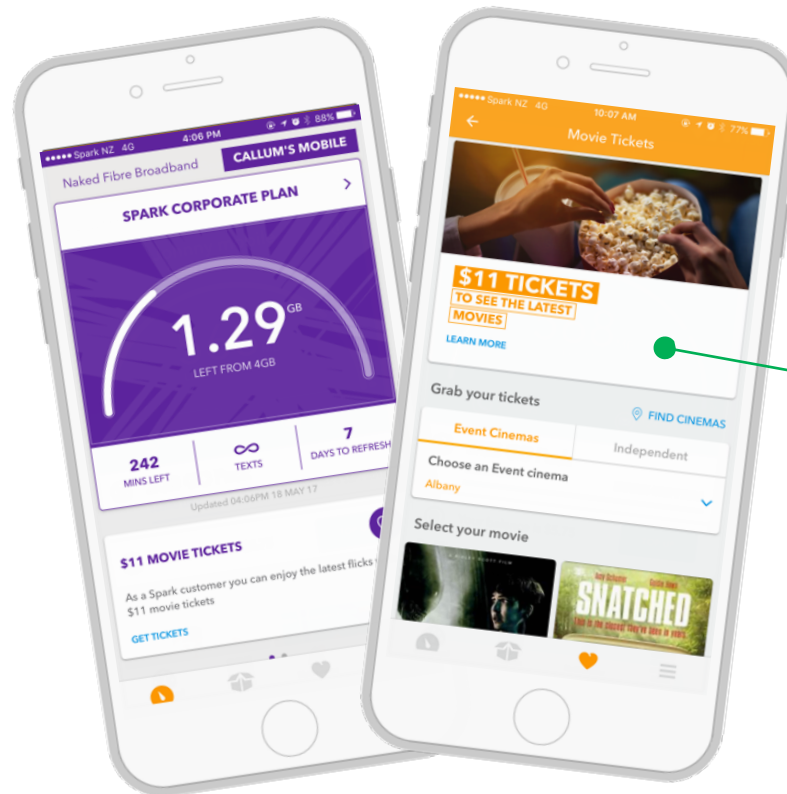
Continual improvement and enhancement

# Our new app was designed with customer involvement from the get-go

**1,200** in-flight ideas from customers

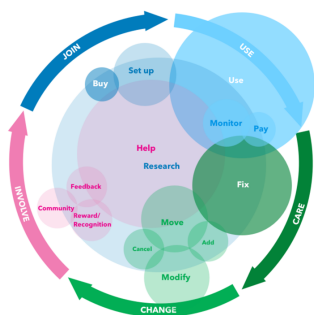
**.75m** downloads since launch

**24%** YoY increase in top-up revenue



Customer ideas like in-app movie ticket purchases implemented through ongoing agile development cycle

# Experiences are the “Product” of our future



Our **customers experience** Spark through **Journeys** which are delivered through **Channels** – where **Digital** is our primary focus

## Achievements

- CX (Customer Experience) Framework defined
- Spark Experience Toolkit developed, delivering reusable and repeatable CX/UX (User Experience) assets
- 2<sup>nd</sup> gen smartphone app designed with customer involvement, continuing to evolve through customer feedback
- XtraMail help content re-developed, ready for launch in July 2017

## Focus areas

- Digitisation programme taking a factory approach to systematically work through all customer journeys
- Simplification of propositions and products to support ease of choice and use and reduce complexity

# This approach works. Xtra Email Help

We took the  
worst of the  
worst

**-87** NPS



Redesigned and  
tested with customers  
achieving a **predictive**  
**NPS**

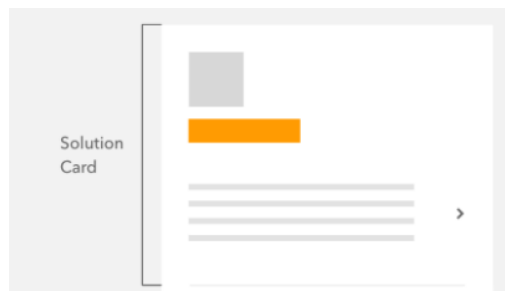
**+29**



Launching in August

# And we're just getting started: Spark Experience Toolkit (SET)

Design  
once



## Reusable patterns = speed

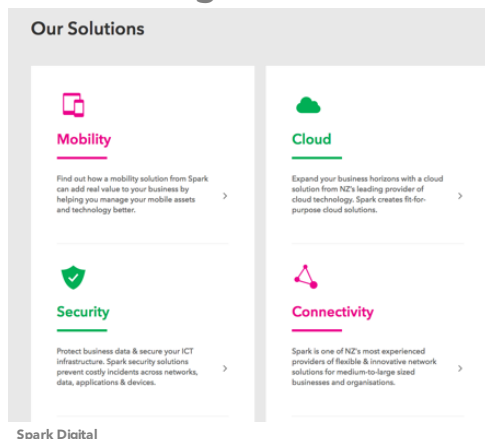
### Reducing :

- Call numbers and average handle time
- Cost to deliver by using patterns

### Improving :

- Time to market

Then use again



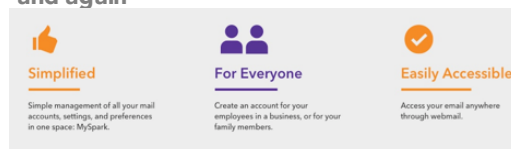
Spark Digital

and again



Help

and again



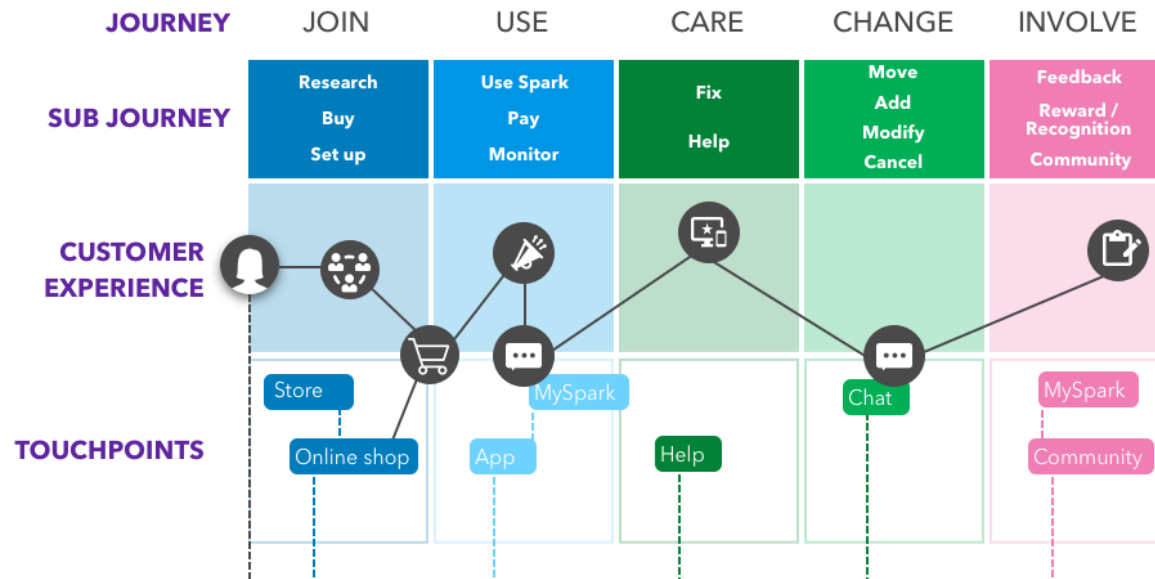
Xtra

and again

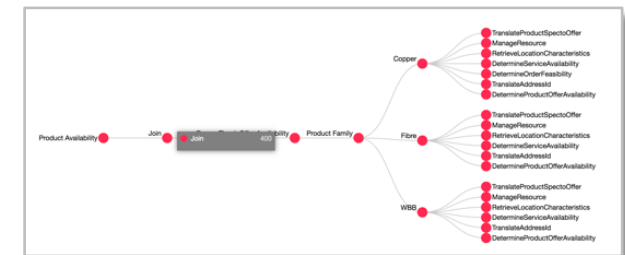
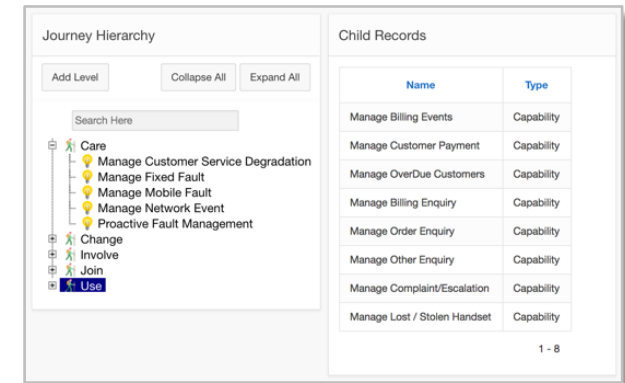


Spark Labs

# Journey aligned catalogue



**KPIs:** capex, cost to serve, NPS, channel mix, cost by channel and interaction type, transaction volumes and response times, completion rates, exception handling



# This approach works. Our fibre success.

An empowered, cross functional squad working on the customer journey end-to-end

▲ **20%** growth month on month

**We're handling a greater volume of fibre acquisitions...**



**..while delivering a better customer experience...**

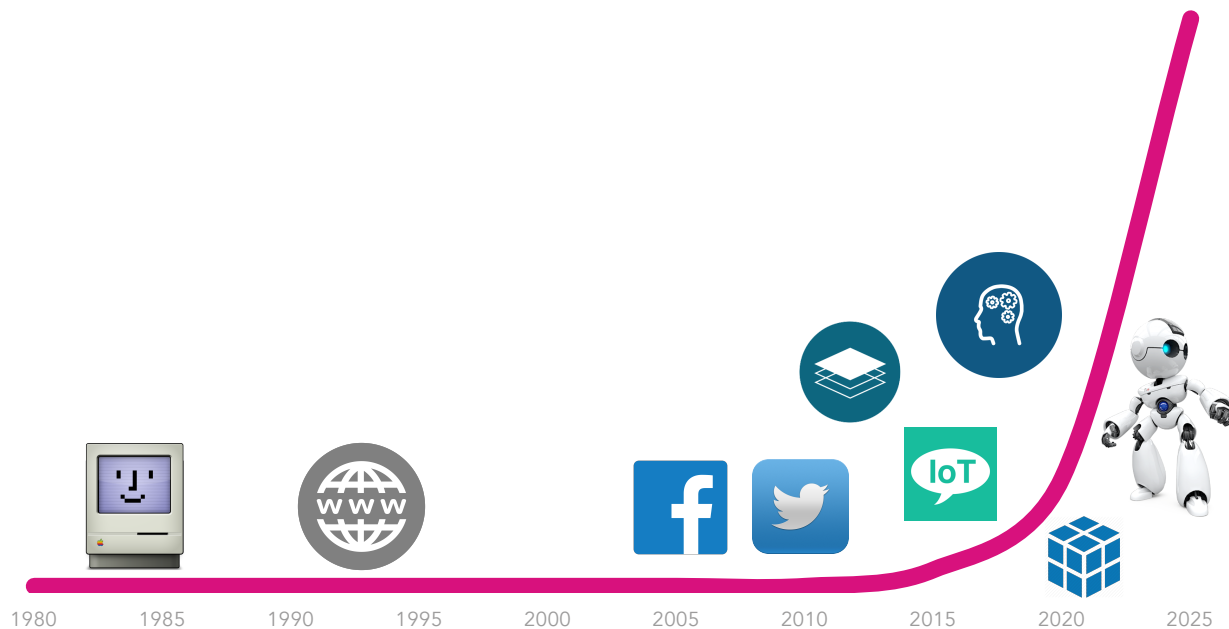


**...and calls per order are dramatically reducing**

Focusing on all parts of the customer experience leads to success



# As the technology curve accelerates exponentially, so too does our opportunity



It's going to be nothing like what we have seen before:

- **30x** uplift in next 3 years
- **2000x** uplift within 10 years

# We're embracing data, automation, robotics and A.I. to deliver a radical step change



Using design thinking and new technology to change the way we work, lower cost to serve and improve experiences

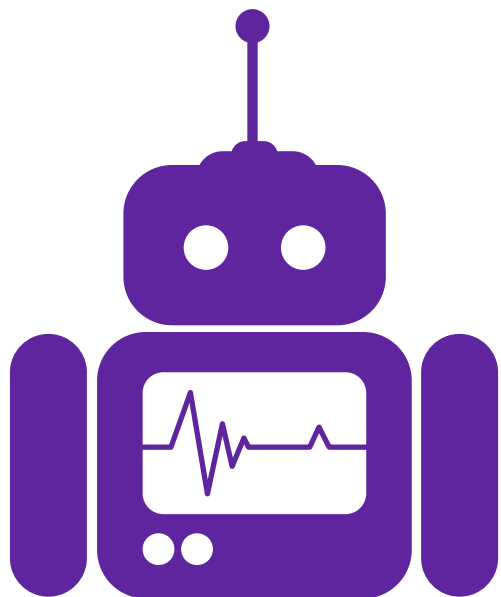
## Achievements

- First A.I. based proactive assurance experience developed, identifying customers with poor broadband performance and performing diagnosis
- Automation office established to drive A.I. and robotics transformation

## Focus areas

- Productionise platform to support data, automation and A.I.
- Personalisation engine and micro-segmentation.
- Machine learning and advanced robotics for network, infrastructure and applications.
- Proactive assurance phase II
- Journey automation
- Enterprise process automation

## This approach works. Tinkerbot.



A first edition **artificial intelligence robot** trained by our customer-facing engineers, **proactively** looking for customers experiencing poor broadband performance and **diagnosing** and **resolving** their issue

**40-60%**

Reduction in call  
handling time/work  
effort...



...and very satisfied  
customers and staff

# New ways of working for a different world

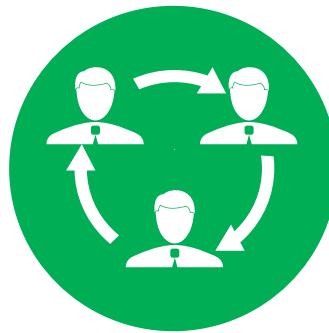
Creating a strong culture and engaged teams



**Human-  
centered  
design  
thinking**



**Agile**



**Empowered  
teams**

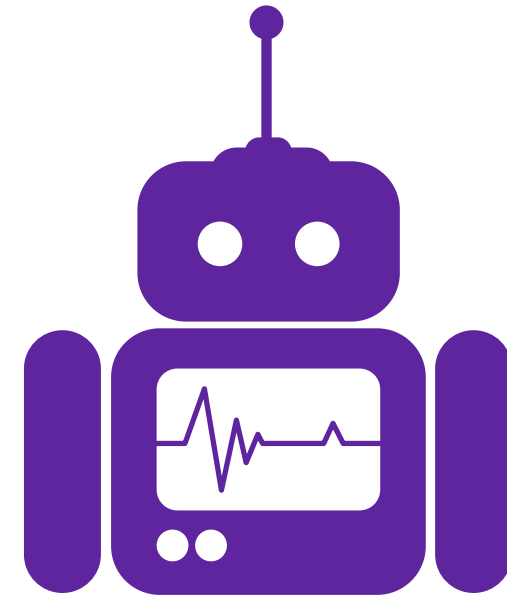


**Working on  
what matters**



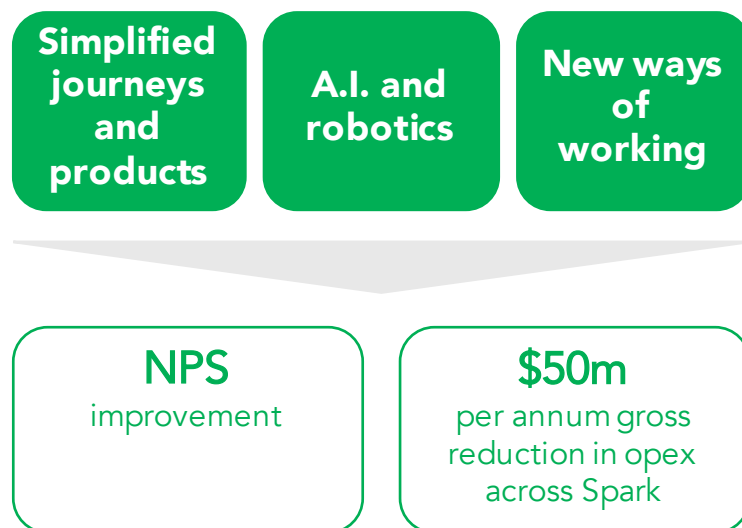
**Embedded  
customer  
insights**

**Empowering people to take real ownership... like creating their own induction and training...**



**...and helping develop the tools they use in their jobs every day**

# The size of the prize



- Greater transparency of journey investment and operational cost
- Lower support costs for reduced product sets and portfolios
- Operational cost savings through decommissioning and migration off legacy products
- Labour efficiencies through automation of high volume, low complexity tasks
- Improved customer experience through simplified and lower cost digital customer journeys

# Key risks are being actively managed

## Speed of technology change and availability of critical skills and capability

- Use open source technology where available and the right fit
- Leverage global partnerships

## Complexity of migration activity to deliver on product and portfolio simplification

- We have deep experience in large scale, complex migrations through the re-engineering programme
- Leverage 'bubble workforce' and experienced partners

## Transition to new ways of working

- Investment in KPI/metric driven feed-forward loops
- Investment in training and skills development
- Dedicated "wow" support



**PEOPLE**

**JOE McCOLLUM**

**GROUP HR DIRECTOR**

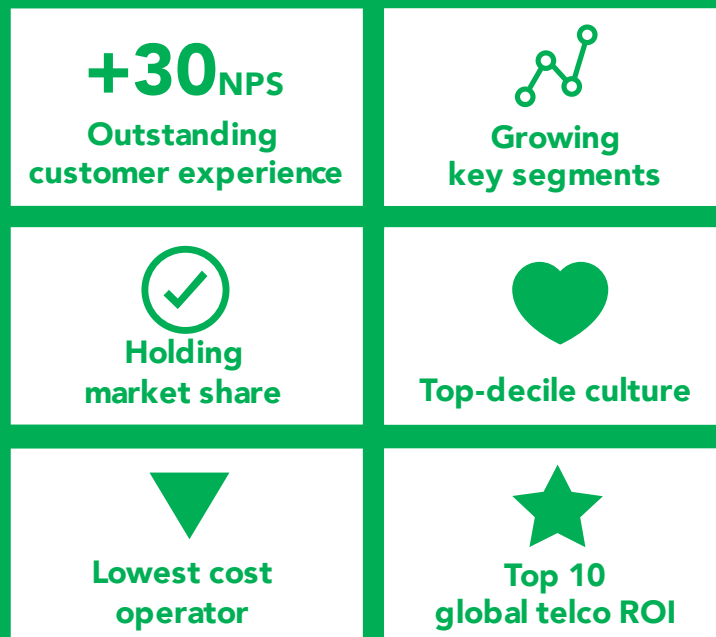




# Strategic shift from Telco to Digital Services launched in 2013 has driven positive change

- Business portfolio reset from International Telco to NZ Digital Services Company, through effective divestment, investment and acquisition
- Dominant old-world brand replaced by portfolio of vibrant new brands
- Slow defensive culture switched to customer-inspired, fast, winning culture
- Rebuilt outdated, complex network and IT systems to market-leading data network and service platforms
- Achieved market leadership in fixed telco, mobile/wireless and Platform IT services
- Returned to earnings growth after a decade of slow decline

# You've seen where we intend to go



# Requiring a world-class ~~market-led~~ company

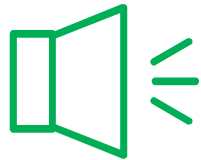
people



Listen/  
engage



**Engage**



Respond



**Adapt/agile**



Measure  
response



**Performance**



Make it  
more efficient



**"Owners  
mindset"**



Repeat/renew...  
but faster



**Rejuvenate**

**In such a fast-changing world, you must give employees a voice**

**+24**

eNPS

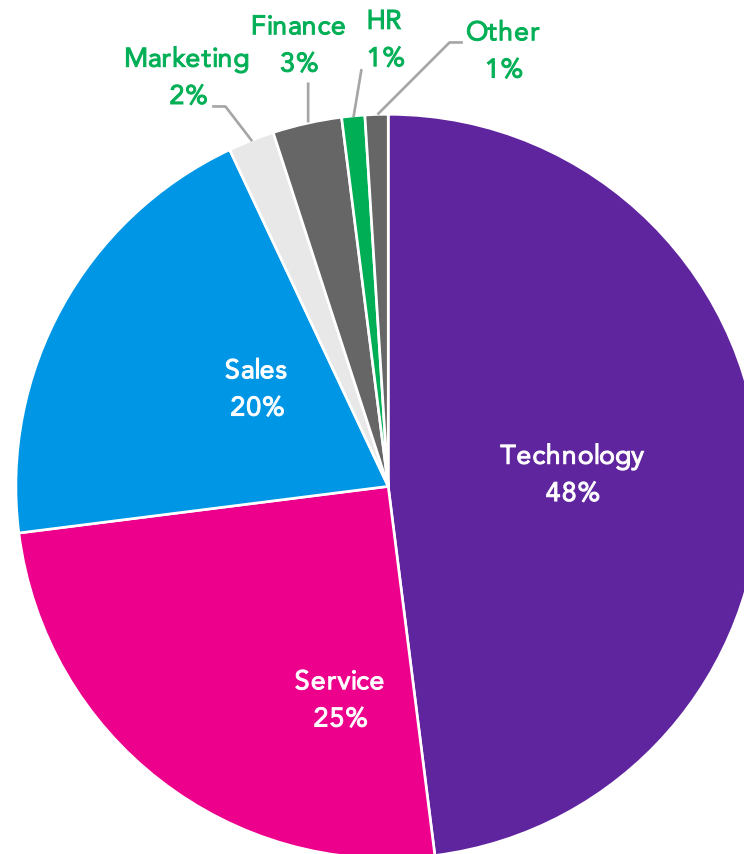
**91%**

1-1s

**70%**

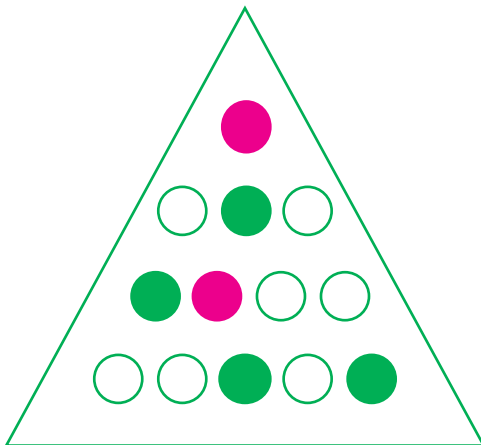
1-1 effectiveness

# Our mix of employees is tech biased

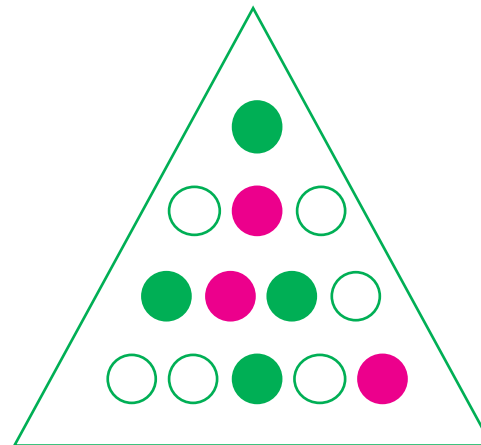


# We are divided into teams who are mostly good but some need to improve

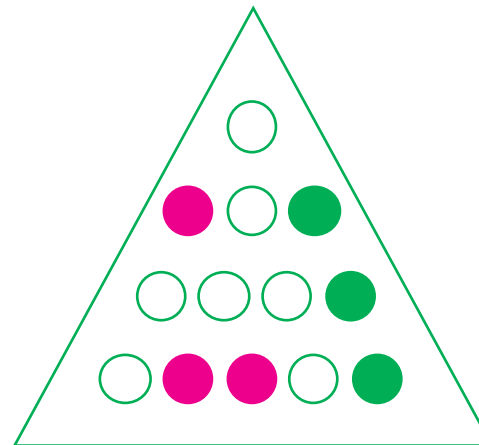
HMB



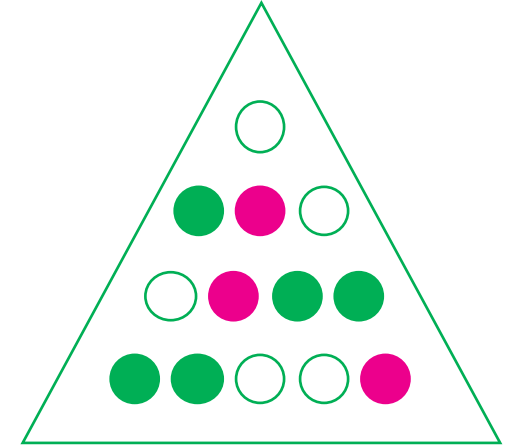
Digital



Platforms

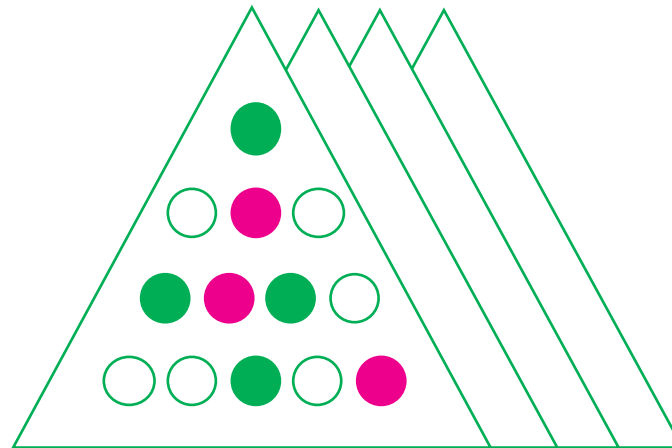


Connect

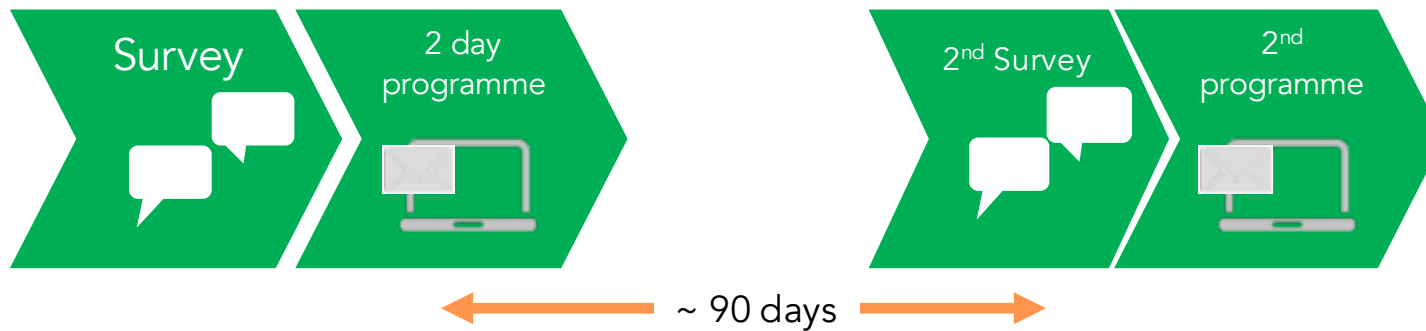


# We take leadership of teams seriously

## 1. Team Leadership

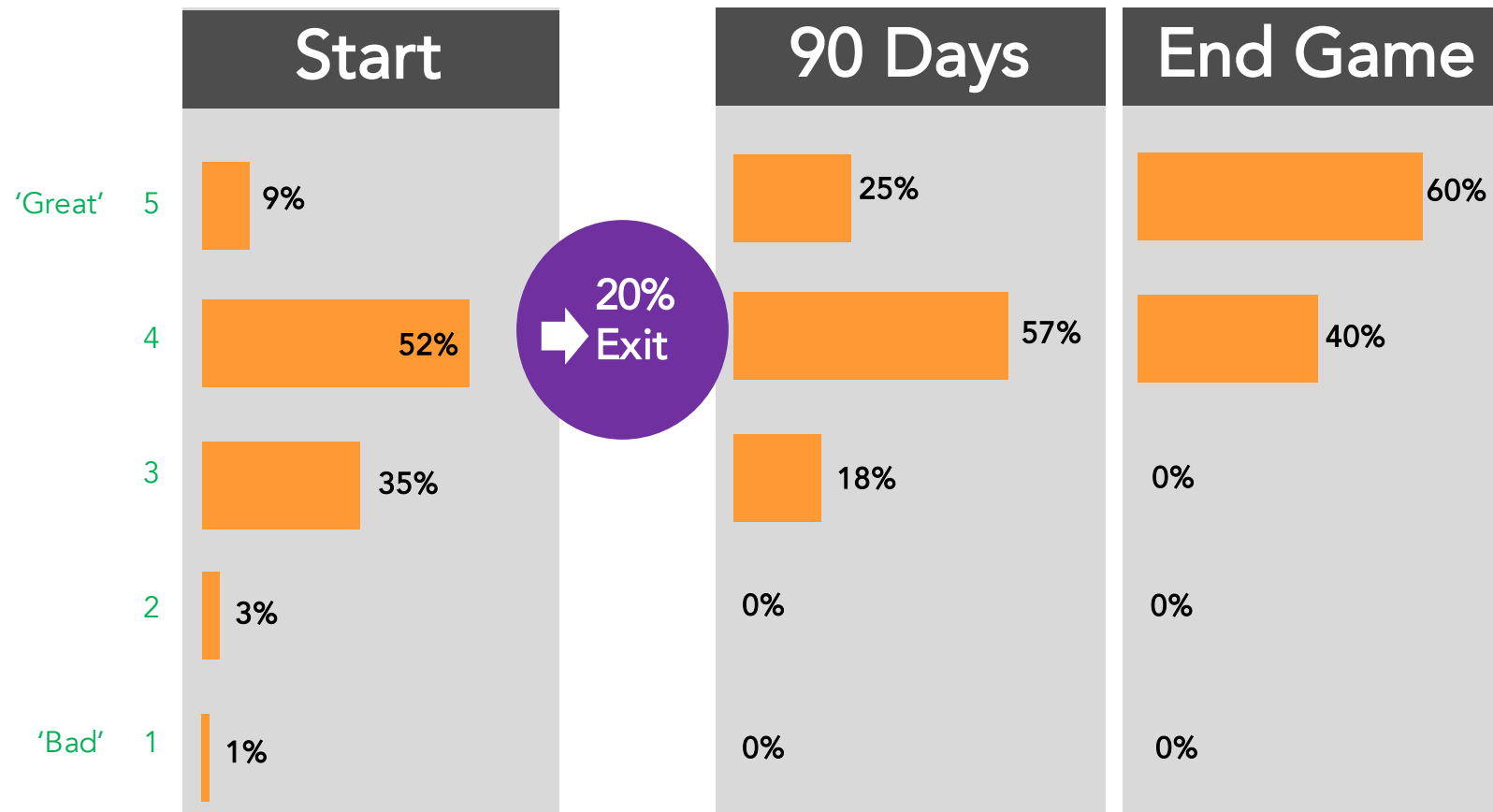


# 700 leaders through our programme





## ...not all have made it



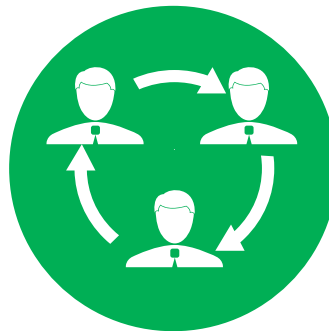
# We need to embrace new ways of working



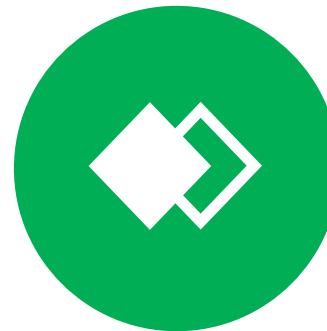
**Human-centered  
design thinking**



**Agile**



**Empowered  
teams**

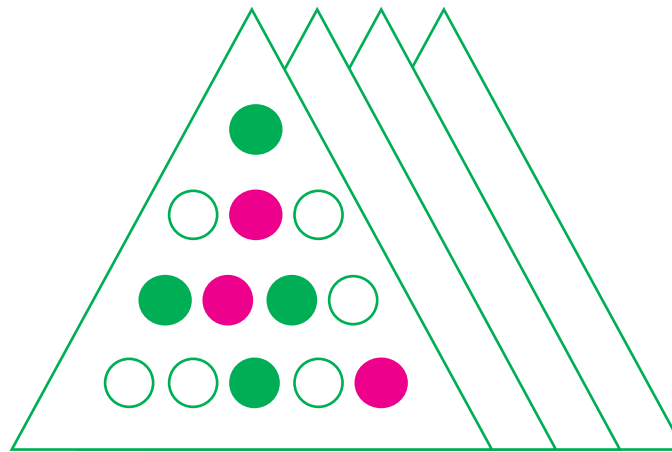


**Working on  
what matters**



**Embedded  
customer  
insights**

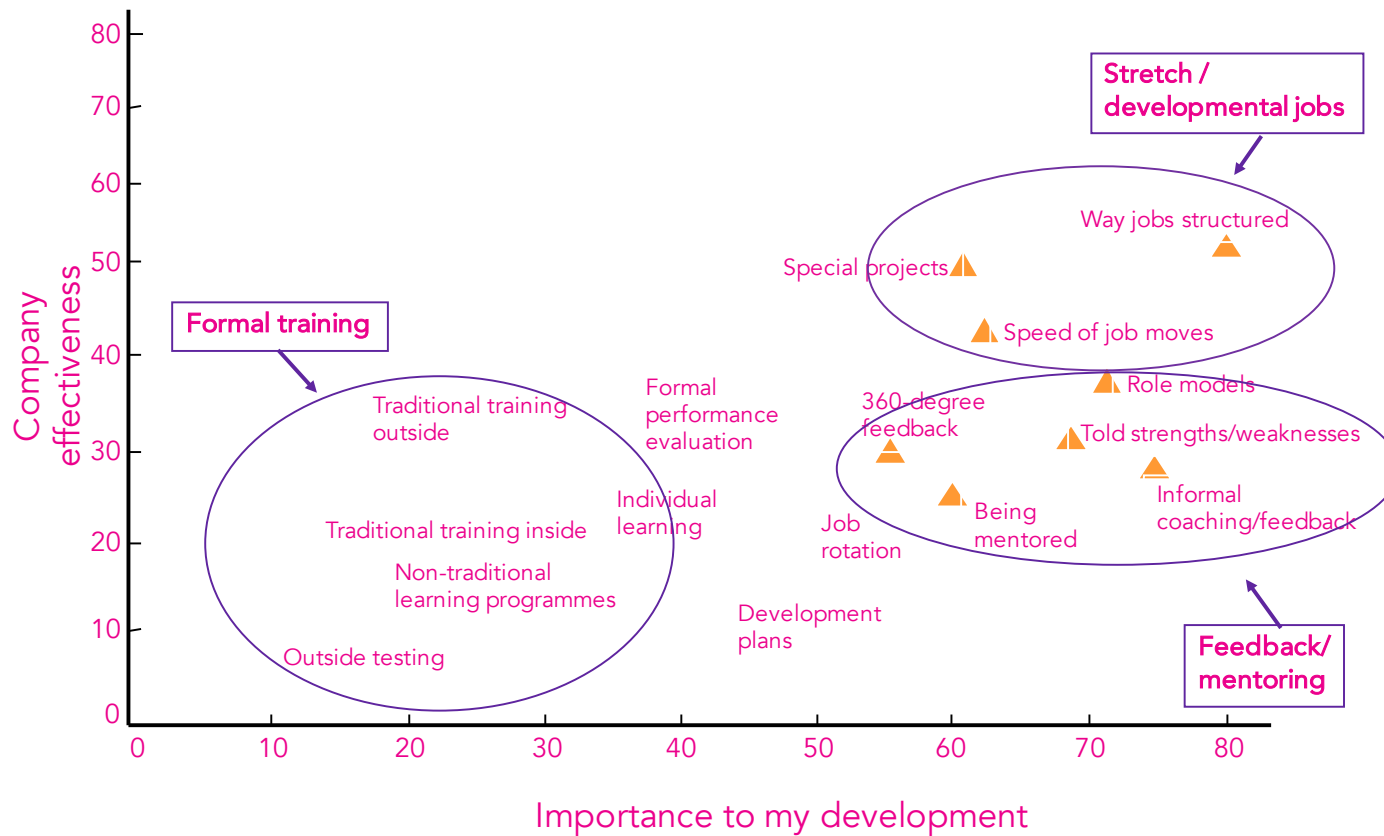
# What does this mean for the future?



Design thinking  
Agile  
Skills building

# Bulk of development is 'on the job'

(1,200 executives)



# There are 3 approaches to development: and we back growth

Even spread of \$  
per head

Remedial  
(invest to improve under-  
performance)

Growth  
(invest to accelerate top  
performers)

**Invest in your best people**

## Where are we on the journey?

OK



to Good



*aspiring* to be World Class

Significant upgrade of leaders

- Strong performance cadence
- Instilled an 'owners' mindset

2000 fewer people than before we started

- Broader roles, better productivity

More diverse group of capable people in bigger roles (earlier)

# Development and succession pipeline

Constantly lifting our Leadership game and raising the bar:

- Management / leadership development for “grown ups”
- Highly orchestrated

Seamless Leadership Team changes from within:

- and next level down

Big focus on accelerating careers of younger / more diverse, high-potential leaders.

Continue to roll Agile further though the company

Aiming for Top 10 “constructive” style culture

# Valuing the business

“Book value”

Intangible assets

Leadership drives intangible assets - as a “predictor” of value:

- Superior quality of leadership
- World class people standards
- Results oriented, performance culture



## Disclaimer

This announcement may include forward-looking statements regarding future events and the future financial performance of Spark New Zealand. Such forward-looking statements are based on the beliefs of and assumptions made by management along with information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'plan', 'may', 'could', 'ambition', 'aspiration' and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark New Zealand's control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this announcement.

Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Spark New Zealand's anticipated growth strategies, Spark New Zealand's future results of operations and financial condition, economic conditions and the regulatory environment in New Zealand, competition in the markets in which Spark New Zealand operates, risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Spark New Zealand's financial condition in particular and risks detailed in Spark New Zealand's filings with NZX and ASX. Except as required by law or the listing rules of the stock exchanges on which Spark New Zealand is listed, Spark New Zealand undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.