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Spark announces FY24 full-year results

- Reported and adjusted[1], Revenue[2], EBITDAI[3], and NPAT[4] declined
- Mobile service revenue surpassed $1 billion for the first time and IT products, data centres, and high-tech continued to grow
- Growth offset as economic conditions impacted IT services demand, competition intensified in business mobile, and lower consumer spending impacted mobile devices and accessories
- SPK-26 Operate Programme accelerated in H2, but could not adapt the cost base to changing demand quickly enough, with benefits to be largely realised in FY25
- On-market share buy-back concluded[5] and total FY24 dividend of 27.5 cents per share declared, 100% imputed

Spark New Zealand (Spark) today announced its FY24 results. Spark Chair Justine Smyth said, "It has been a challenging year for Spark and for many businesses across Aotearoa, with recessionary economic conditions creating a tough operating environment.

"Public sector spending cuts and deferred private sector investment had a significant impact on IT services revenues, while lower household and business spending impacted mobile devices and accessories sales, and intensified competitive pricing pressure, particularly in business mobile.

"We did see strong growth in many of our core markets such as mobile, where service revenue surpassed $1 billion for the first time, as well as cloud, data centres, and high-tech.

"This was not enough to offset subdued demand in other areas, and we could not adapt our cost base quickly enough as the market turned. As a result, EBITDAI declined to $1,163 million, NPAT declined to $316 million, and this had a flow through impact to lower free cash flow of $330 million.

"While we are disappointed to not achieve our FY24 ambitions, as we look to the year ahead our business fundamentals are strong, our underlying drivers of growth are enduring, and our continued focus on cost reduction will improve margins and support growth.

"Our data centre strategy is a significant mid-term growth opportunity. The reinstatement of our Dividend Reinvestment Plan[6] for the H2 FY24 dividend and a potential hybrid capital notes issuance will help fund our growth investments in the near term and we will also explore other equity funding options such as capital partnerships.

"The Board remains committed to maintaining financial strength and flexibility and our investment grade credit rating, and approved a total FY24 dividend of 27.5 cents per share, 100% imputed, for our shareholders."

FY24 operating performance

Spark's FY24 financial results are cycling the significant revenue and net profit declared in FY23 following the TowerCo and Spark Sport transactions. As such, both reported and adjusted year-on-year comparisons are provided – the latter of which strips out the impact of the one-off gain to provide a like-for-like performance comparison.

In FY24 Spark delivered revenues of $3,861million, a decline of 1.2% on an adjusted basis and 14% on a reported basis. This resulted in EBITDAI of $1,163 million, a decline of 2.5% on an adjusted basis and 32.5% on a reported basis.

Reported NPAT declined 72.2% to $316 million as a result of cycling the TowerCo and Spark Sport transactions, lower EBITDAI, higher finance expenses and depreciation, and a one-off $26 million non-cash tax adjustment relating to recent Government policy changes[7]. Adjusted NPAT, excluding one-off items in both years, declined 21% to $342 million.

Lower EBITDAI and higher interest, lease costs, and non-cash earnings impacted free cash flow, which reduced 32.5% to $330 million.

Spark maintained its leading position in the mobile market by service revenue and total connections[8], with service revenues surpassing $1 billion for the first time – increasing 3.1% to $1,010 million. This was driven by connection growth, price increases, and the stabilisation of roaming revenues in the consumer market and was partially offset by declines in the business market as price competition intensified.

Broadband revenue declined 2.1% to $613 million, as lower consumer spending increased price-driven competition, particularly amongst non-telco competitors.

In the digital services market, total IT revenue declined 1.6% to $692 million, driven by a 14.9% decline in IT services revenues as economic conditions impacted demand, and masking 3.5% growth in IT products revenues, driven by continued business migration to the cloud.

Data centres revenue grew 54.2% to $37 million, with Spark's Takanini campus expansion completed on time and on budget and new revenue streams coming online. High-tech revenue grew 21.5% to $79 million, with IoT revenues up 53.3% and over 2 million devices now connected to Spark's IoT networks.

Commenting on the results, Spark CEO Jolie Hodson said, "It has been a tough year, and while our FY24 performance was below our ambition, our business fundamentals remain strong, and we are focussed on returning to earnings growth in FY25.

"Our leadership in the growing mobile market will support future top-line growth as demand for data continues to grow, customer experience remains strong, and annual price reviews enable us to realise the value of the significant investments we make into our mobile network every year.

"The New Zealand data centre market is predicted to grow from ~90MW today to ~500MW[9] by 2030, driven by the acceleration of Generative AI and ongoing business migration to the cloud. With Spark's development pipeline now sitting at 118MW[10], and three strategic Auckland locations primed for investment, we are well positioned to capture a significant share of this growth and maintain our competitive position in the market.

"We must also continue to adapt as our markets change. Our SPK-26 Operate Programme will deliver further cost reductions across the business in FY25, as we leverage new efficiencies enabled by AI and transform our Enterprise and Government division by integrating our subsidiaries into Spark to remove duplication, simplify our product portfolio and processes, and deliver better customer experiences more efficiently.

"It is never easy to make changes that impact our people, and we do not do so lightly. However, to compete and better serve our customers we must make the difficult but necessary decisions to ensure our cost base is sustainable. We will continue to provide our teams with support to transition through any changes.

"As we move through this period, we do so with solid foundations – customer satisfaction is up 7 points, employee engagement remains strong, and we have maintained top quartile sustainability benchmarking against our peers locally and globally.

"We have also continued to make significant investments into the digital infrastructure that underpins New Zealand's economy, supports businesses both big and small to grow, and unlocks new commercialisation opportunities for Spark. In FY24 we invested over $350 million into our highly secure and resilient network and digital infrastructure, delivering a 28% increase in mobile network capacity and underpinning growth in data centres, IoT, and high-tech."

FY25 guidance

Spark provided the following guidance for FY25, subject to no adverse change in operating outlook:

- **EBITDAI:** $1,165 - $1,220 million
- **Capital expenditure:** ~$460 - $480 million
- **Total dividend per share:** 27.5 cents per share, 75% imputed

#ENDS

Footnotes:

[1] FY24 reported revenue, EBITDAI, and NPAT adjusted for the impact of the FY23 TowerCo gain on sale and Spark Sport provision and FY24 reported NPAT adjusted for the impact on the tax expense arising from the change in Government policy on zero-rating of tax depreciation on buildings.

[2] Operating revenues and other gains.

[3] Earnings before finance income and expense, income tax, depreciation, amortisation, and net investment income (EBITDAI) and capital expenditure (Capex) are non-Generally Accepted Accounting Principles (non-GAAP) performance measures that are defined in note 2.5 of Spark's Annual Report.

[4] Net profit after tax.

[5] On 22 August 2024, the Board resolved to withdraw the on-market share buy-back, bringing the buy-back to a conclusion.

[6] Shares issued under the Dividend Reinvestment Plan will be issued at a 3% discount to the prevailing market price as determined around the time of issue.

[7] Relating to recent Government policy changes to the zero-rating of tax depreciation on buildings.

[8] Market share estimates sourced from IDC as at 30 June 2024.

[9] Based on Spark's assessment of market information available from research reports, announced developments, land transactions, and other publicly available information.

[10] In August, Spark entered into a conditional agreement to purchase land at Takanini, which would add 48MW to the site. This increased the total development pipeline from 70MW at the end of FY24 to 118MW at the time of publishing.

Authorised by:

Chante Mueller
Head of Investor Relations & Insurance

For more information contact

For media queries please contact:
Althea Lovell
Corporate Relations Lead Partner
(64) 21 222 2992
althea.lovell@spark.co.nz

For investor queries please contact:
Chante Mueller
Head of Investor Relations & Insurance
(64) 27 469 3062
chante.mueller@spark.co.nz

About Spark

Spark is New Zealand's largest telecommunications and digital services company, with a purpose to help all of New Zealand win big in a digital world. Spark provides mobile, broadband, and digital services to millions of New Zealanders and thousands of New Zealand businesses.
www.sparknz.co.nz