



## **FY16 Financial Results – Spark New Zealand**

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# FY16 Highlights



## **EBITDA growth of 2.5% demonstrates successful execution of growth strategy**

- #1 in Mobile market by revenue as our mobile growth leads the market
- #1 in Data underpinned by share of high value customers and network performance and cost superiority
- #1 in Cloud services, driven both by organic growth and targeted business acquisition
- Customer experience for fixed line products hasn't been good enough
- But making fast cycle improvements, on the back of successful completion of Re-engineering Programme; a 4 year, \$238m programme to upgrade key customer service IT systems
- Beta launched mass market Wireless Broadband offering. Now moving toward full market launch.
- Tight ongoing management of cashflow and capital will continue to drive sustained shareholder returns and EBITDA growth

# Results Scorecard



## Key Financials

	FY16	H2
Total Revenue Growth	(1.0%)	2.3%
EBITDA Growth	2.5%	1.0%
Ordinary Dividend per Share	22 cps	11.0 cps
Special Dividend per Share	3 cps	1.5 cps

## Product Revenue

	FY16	H2
Mobile Revenue Growth	11.3%	10.9%
Broadband Revenue Growth	5.4%	6.1%
IT Services Revenue Growth	11.1%	13.1%

## Market Share & Connections

<b>Mobile Share</b> <sup>(1) (2)</sup> <b>(Service Revenue)</b> <b>39%</b> +1%	<b>Mobile Customers</b> <b>2,293k</b> +5%	<b>Broadband Share</b> <sup>(1) (2)</sup> <b>(Connection)</b> <b>44%</b> -2%	<b>Broadband Customers</b> <sup>(3)</sup> <b>675k</b> -1%	<b>IT Services Share</b> <sup>(1) (2)</sup> <b>(Revenue)</b> <b>14%</b> slight increase
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(1) Market share estimate

(2) Percentage point estimate vs June 2015

(3) Includes Wireless Broadband connections

# Reported Financials



	FY16 \$M	FY15 \$M	CHANGE %
Revenues	3,497	3,531	(1.0%)
Operating expenses <sup>(1)</sup>	2,511	2,569	(2.3%)
<b>EBITDA</b>	<b>986</b>	<b>962</b>	<b>2.5%</b>
Depreciation & amortisation	446	453	(1.5%)
Net finance expenses	28	27	3.7%
<b>Net earnings before income tax</b>	<b>512</b>	<b>482</b>	<b>6.2%</b>
Income tax expense	142	107	32.7%
<b>Net earnings after income tax</b>	<b>370</b>	<b>375</b>	<b>(1.3%)</b>
CAPEX <sup>(2)</sup>	390	576	(32.3%)
Notional free cash flow <sup>(3)</sup>	596	386	54.4%

<sup>(1)</sup> Includes share of Joint Ventures

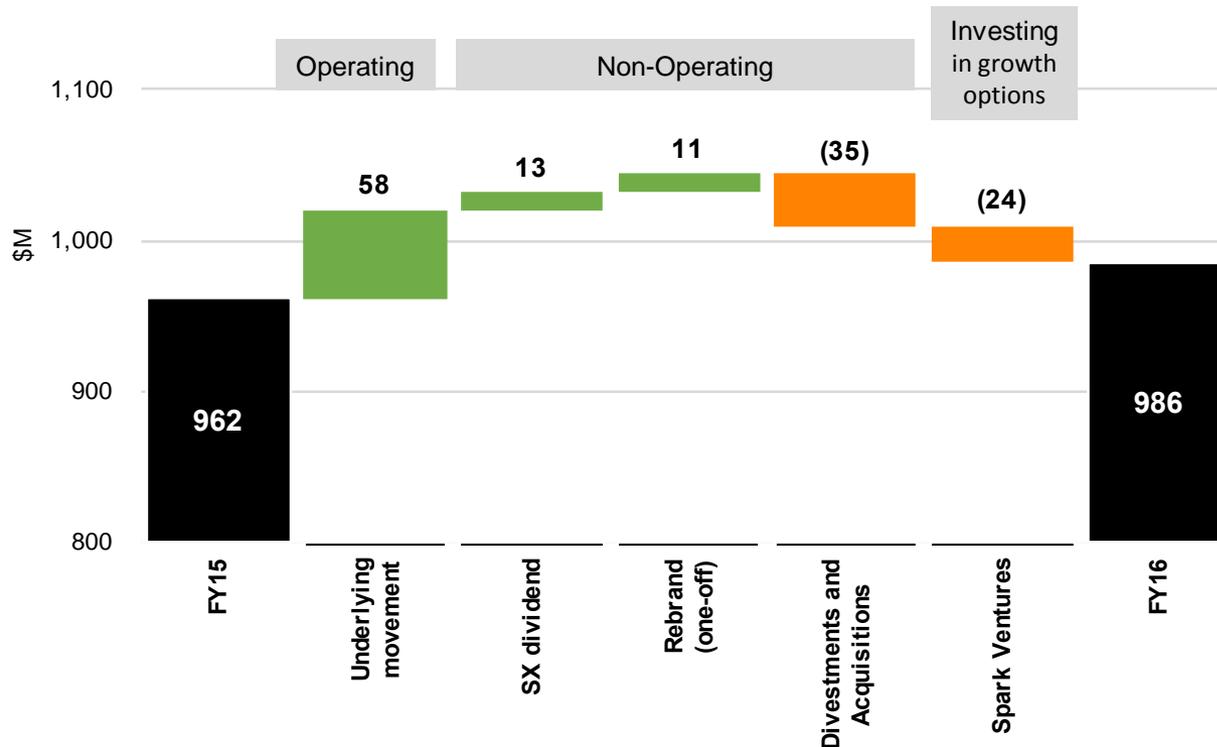
<sup>(2)</sup> Includes \$158m for mobile spectrum in FY15, \$9m in FY16

<sup>(3)</sup> Notional free cash flow = EBITDA less CAPEX

# EBITDA waterfall

Growing EBITDA founded on solid operational performance

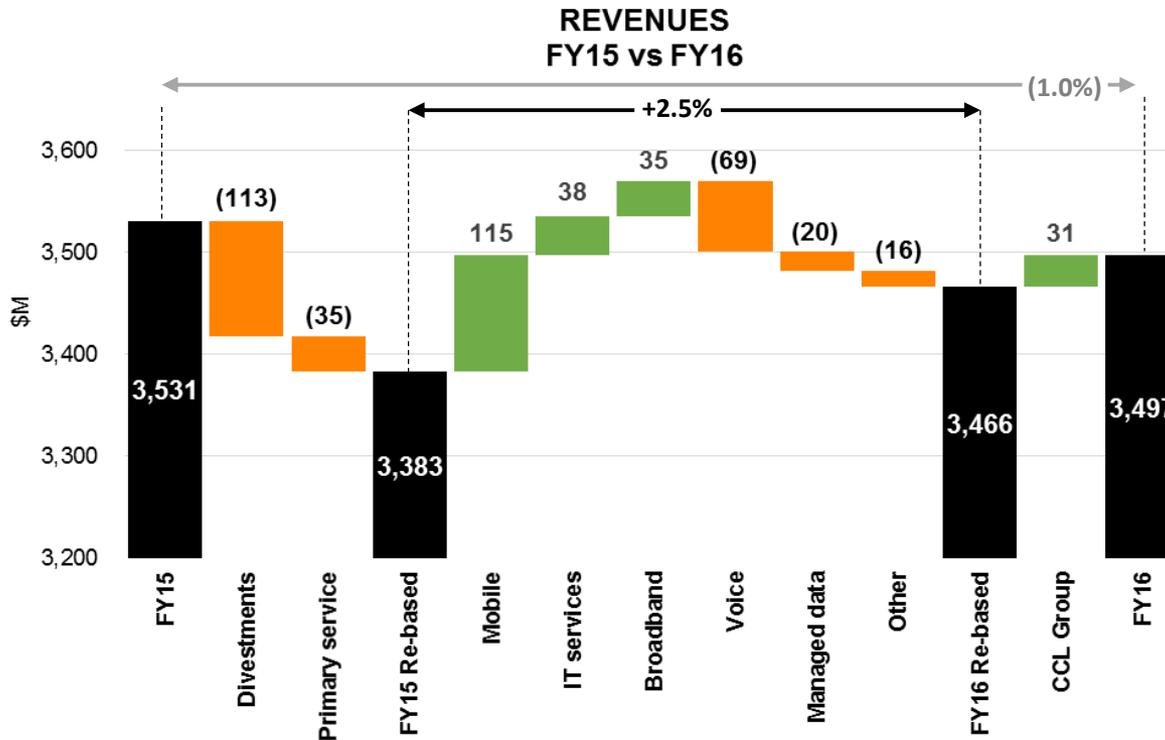
EBITDA  
FY15 vs FY16



- Operating EBITDA growth driven by Mobile and IT Services revenue and margin uplift
- Impact of higher Southern Cross (SX) dividend and rebrand costs more than offset by prior year divestments
- Ventures investments delivering clear portfolio benefits. Successes and failures have provided critical learnings.

# Revenue waterfall

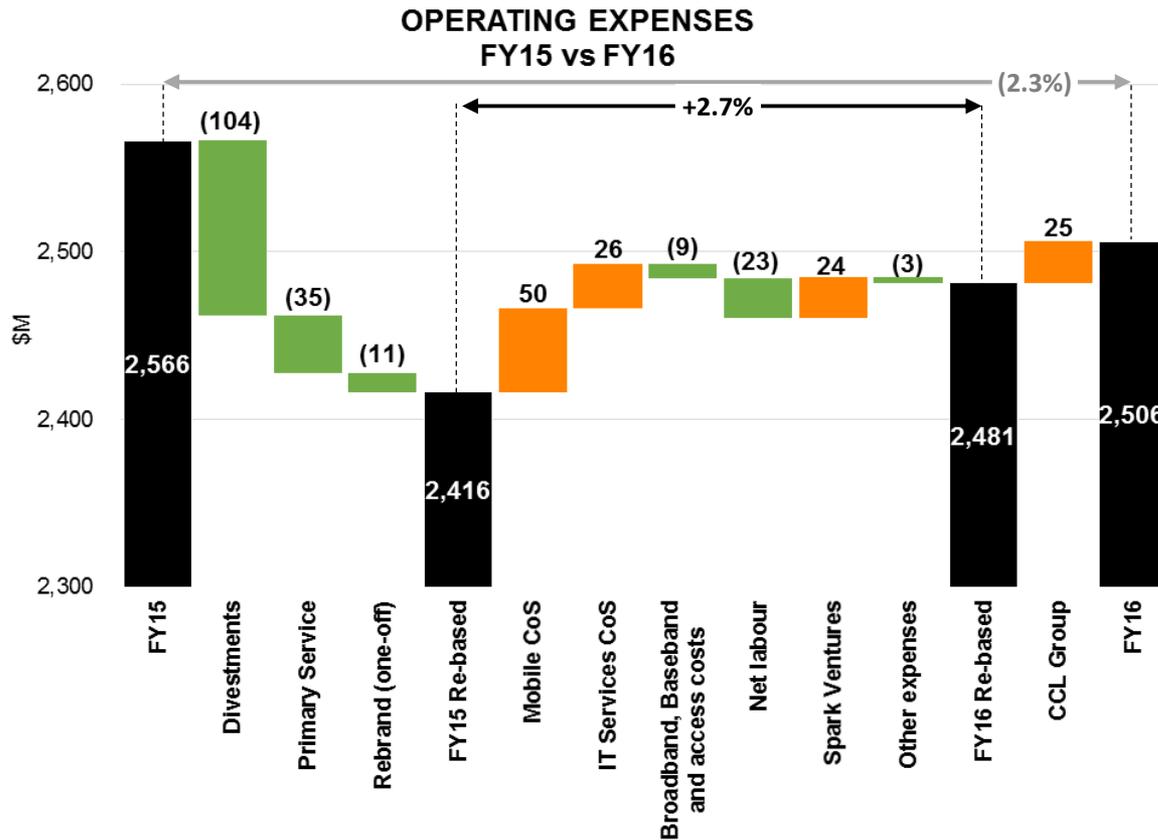
Re-based revenue growth driven by strong Mobile, IT Services and Broadband performance



- Re-based revenue growth of \$83m or 2.5%
- Strong Mobile revenue growth through upsell and value inclusions increasing customer preference
- Growth in IT Services as market transitions to Cloud services
- Broadband revenue growth underpinned by proactive upsell and price increases (pass through of regulated price increase)
- Overall decline in legacy voice and managed data revenues continues in line with recent trends

# Operating Expenses waterfall

Re-based cost growth in support of Mobile, IT Services and Ventures revenues



- Mobile Cost of Sales (CoS) increases in line with customer demand for higher end devices
- IT Services CoS more than offset by associated revenue growth, reflecting changing mix and improved margin
- Higher net input costs from regulated price increase offset through utilisation of own network and more efficient network design
- Higher back-end network costs partially offset by further operational labour efficiencies

# Spark Home, Mobile & Business



## Continuation of EBITDA growth supported by strong Mobile performance

	FY16 \$M	CHANGE %	H2 FY16 \$M	CHANGE %
Revenues	1,984	6.8%	1,003	6.7%
Mobile	927	14.9%	466	12.0%
Broadband	647	6.2%	327	6.5%
Voice	347	(10.8%)	176	(7.4%)
IT Services & Other	63	19.2%	34	25.9%
Costs	1,206	9.0%	605	12.9%
EBITDA	778	3.6%	398	(1.5%)

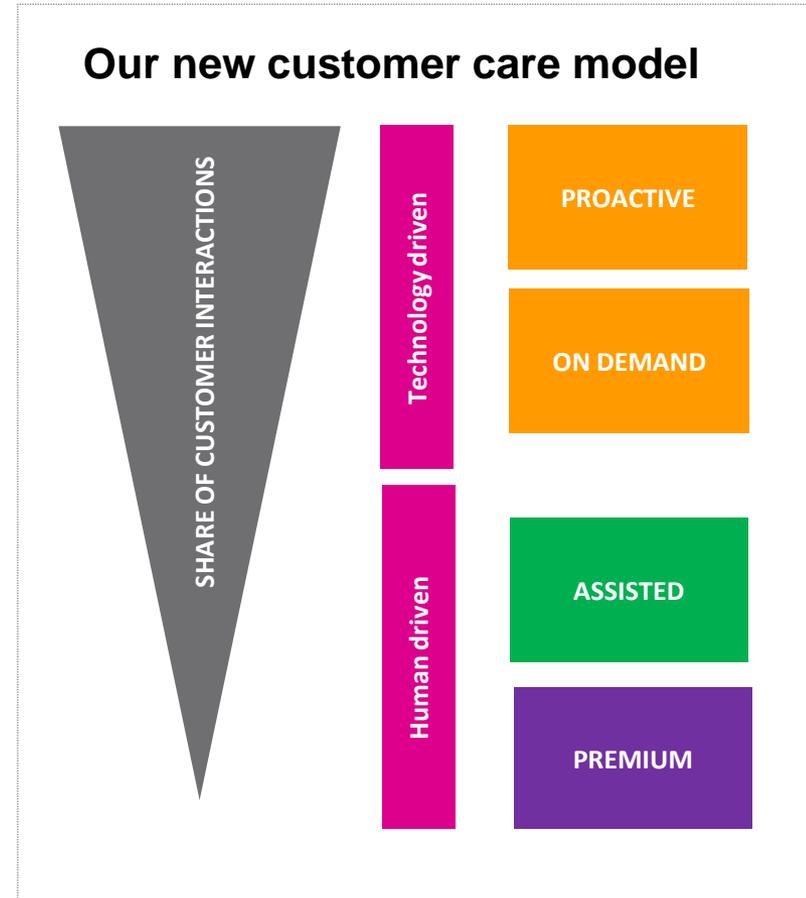
- Excellent growth in Mobile revenues up 14.9% including service revenues up 10.5% in the year. Driven by open term plans, strong product offerings and increased usage
- Broadband revenues increased with focus on high value customers and increasing market share of UFB orders
- Launch of Wireless Broadband will provide further growth and cost reduction in the future
- Cost increase is driven by staff increase in contact centres to improve customer experience
- Investment in new ventures also driving cost increase

# Customer service is our top priority



## Call centre service issues dominated by copper and UFB provisioning and faults but actions are underway to solve

- Have already seen improvements through:
  - 300 FTE increase in contact centre teams
  - Doubling Live Chat team and making it 24/7
  - Upgrades to our Website and App services
  - Improvements to our phone system so customers can book a “call back” at a time that suits them
- With longer term improvements to be delivered through:
  - Frictionless products
  - Tools to pro-actively identify faults
  - Greater self-service ability via Spark App and Website
- This will turn up for customers as:
  - Fewer reasons to contact us about service and less effort if they do; and
  - More convenient ways to interact with Spark via digital channels



## Market leading Platform IT performance driving margin and EBITDA growth

	FY16 \$M	CHANGE %	H2 FY16 \$M	CHANGE %
<b>Revenues</b>	<b>1,215</b>	<b>0.0%</b>	<b>614</b>	<b>3.5%</b>
<b>Traditional IT Services</b>	<b>188</b>	<b>(4.6%)</b>	<b>96</b>	<b>(4.0%)</b>
<b>Platform IT Services</b>	<b>187</b>	<b>26.4%</b>	<b>100</b>	<b>25.0%</b>
<b>Voice</b>	<b>197</b>	<b>(8.4%)</b>	<b>98</b>	<b>(4.9%)</b>
<b>Data<sup>1</sup></b>	<b>175</b>	<b>(5.4%)</b>	<b>87</b>	<b>1.2%</b>
<b>Mobile</b>	<b>192</b>	<b>(4.0%)</b>	<b>97</b>	<b>4.3%</b>
<b>Procurement &amp; Other</b>	<b>276</b>	<b>4.2%</b>	<b>136</b>	<b>5.4%</b>
<b>Costs</b>	<b>805</b>	<b>(2.5%)</b>	<b>396</b>	<b>0.5%</b>
<b>EBITDA</b>	<b>410</b>	<b>5.4%</b>	<b>218</b>	<b>9.5%</b>

- EBITDA in growth through focus on high quality deal flow and greater operational effectiveness
- Strategy to provide hosted digital platforms vindicated through customer wins
- Growth in Platform IT and Cloud significantly faster than market
- Slowing rates of decline in legacy voice and data
- Improving Mobile performance in H2
- Significant product development has created a future platform for customers to buy telecommunications “as a service”
- Cost down due to improvement in operational delivery model

# Strategy continues unchanged



## Ambition

At Spark, our ambition is to be a winning business, inspired by customers to unleash the potential in all New Zealanders

## Goals

To be New Zealand's:

- Benchmark for amazing customer experiences
- No 1 provider of mobility, data and cloud solutions
- Market leader in digital life and business services
- Best run and most efficient business

## Strategic Programmes

Customer Inspired

Spark Brands

Spark Talent

Win Key Markets

Digital First

## Foundation

New Zealand's best data network and digital services capability

# Market structure rapidly evolving

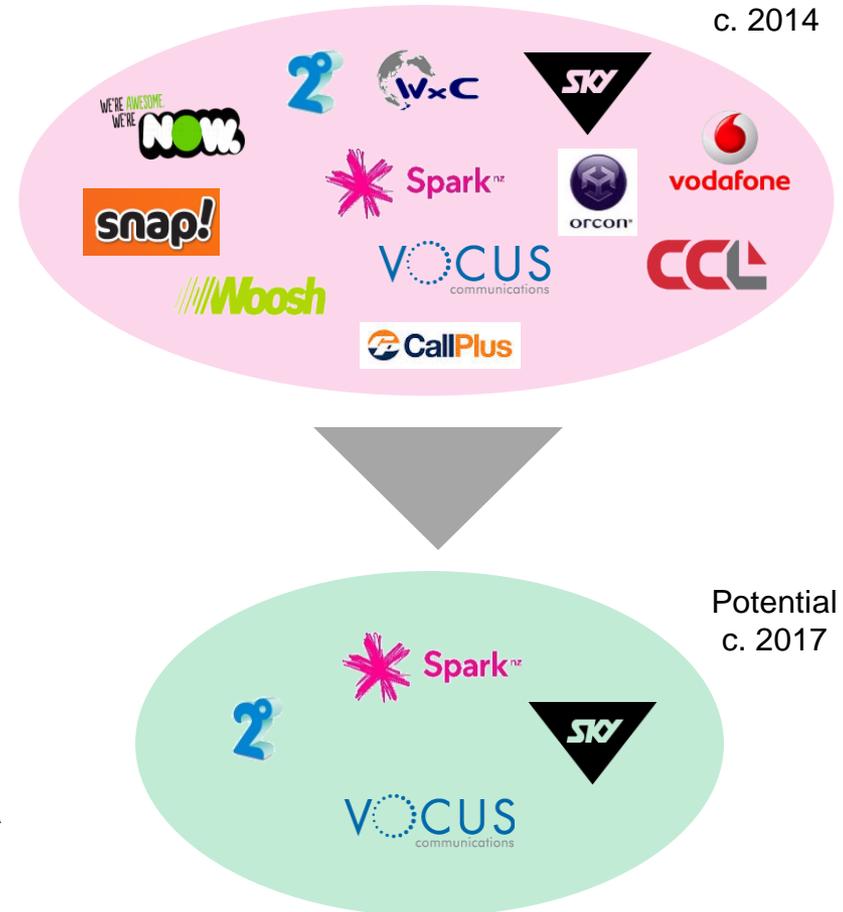


## Consolidation continues at pace, with regulatory framework improving

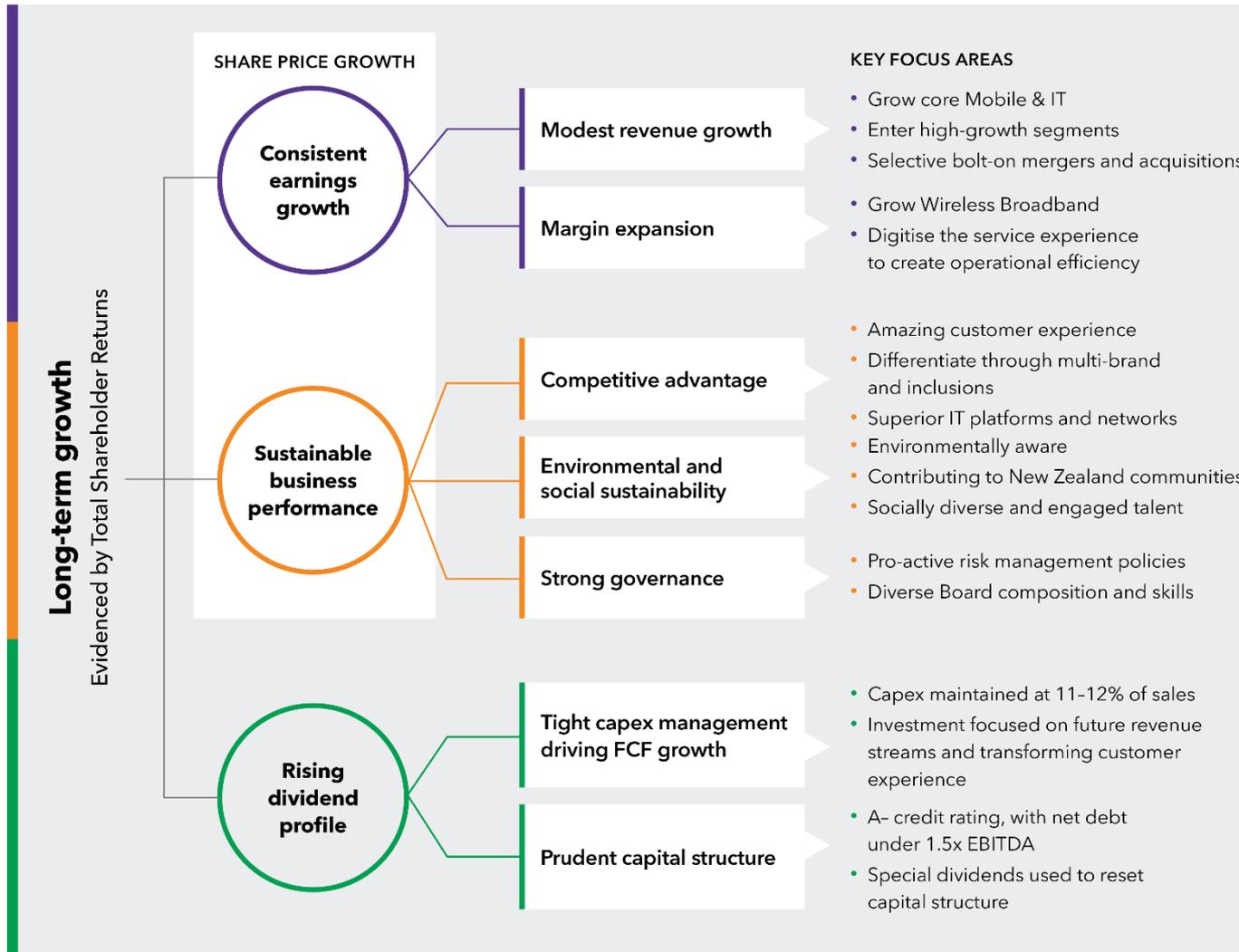
- Increasing trend to create full-service offerings, including media
- Pressure on Broadband margins continues to drive consolidation of subscale brands
- Improving regulatory environment supports more stable market structure
- Trading multiples for Cloud/Data Centre businesses now well ahead of those paid for Revera and CCL

Our market strategy is to:

- Deliver amazing customer experiences
- Differentiate through inclusions and multiple brands
- Invest in superior networks and an open media platform to compete with potential Sky/Vodafone offering



# Focused on sustainable long-term growth



# Revenue growth in core segments



## Primary goals

- **Grow the market whilst holding our share**
- **Deliver ARPU growth through upsell and value inclusions**

## *Mobile*

- Spark is now #1 by revenue share
- Multiple brands and digital services inclusions creating differentiation
- Investment in spectrum and Single Radio Access Network (SRAN) lowering cost per GB
- 4.5G trials in beta launch phase; a stepping stone to faster, more efficient and higher capacity Mobile data services
- Moving aggressively to digital sales channels to improve customer experience



# Revenue growth in core segments (cont.)



## *Broadband*

- Share in value segments remains challenged by price competition
- Aim to hold revenue share through upsell to fibre and unlimited, differentiated by inclusions e.g. Lightbox, Morepork
- Opportunity to grow share in sub \$60 segments using Wireless Broadband

## *Managed data*

- Competing hard on price for commoditised WAN services
- Seeking growth in under-represented segments
- Creating standardised low cost offerings using fibre inputs



# Revenues in high growth segments



## Powering up our leading assets and capability for competitive advantage

### *Platform IT (Revera, CCL & Appserv)*

- Cloud penetration low but growing quickly as customers understand the benefits
- 18 data centres totalling ~10 MW, creating significantly more scale and capability than the competition
- Multiple new customer wins, with strong pipeline, expected to maintain current growth rates

### *Big Data (Qrious and Internet of Things)*

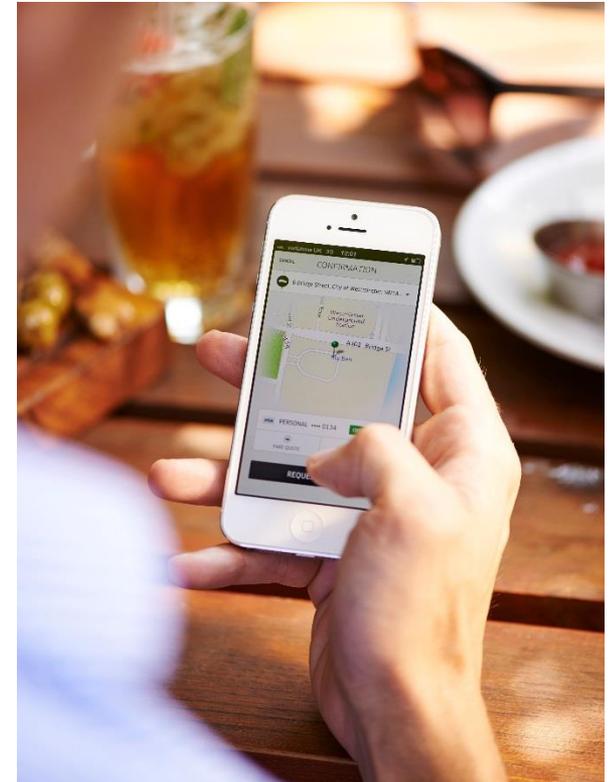
- Focused on growth in industry verticals, for example tourism, transport and retail
- Several proof of concepts underway in Internet of Things, for example the Connected Farm concept



# Margin expansion through cost reduction



- Re-engineered IT stack enables increased automation and more online self service for customers
- Wireless Broadband substitution of fixed Broadband
  - Beta launch phase completed, now moving to scale up
  - Over 12k connections today, targeting at least 50k connections by 30 June 2017
  - Opportunities in both rural and urban, entry level Broadband, and customers seeking resilience
- Moving to RFP for “owned” fibre in CBDs of larger cities
- Longer term network investment in virtualisation will lower cost per GB and create the opportunity to carry more data at even higher data rates



# Differentiation via inclusions and multi-brand strategy



## Inclusion of digital services into core offerings a key differentiator

- Spotify Premium included on selected Pre-Paid Packs and all Pay-Monthly plans \$59.99 and above
- Nationwide WiFi included with all Mobile and Broadband plans
- Lightbox included for all Spark Broadband customers

Media strategy evolving to build scale on an open platform

- Lightbox surpassed 150k total customers, accelerating towards next milestone of 200k

Multiple brands able to target different market segments e.g. Skinny, Bigpipe, NOW

Spark Ventures 2.0 will create future sources of differentiation

- Established Ventures have been moved to the core
- Investing for growth via Qrious and Internet of Things
- Have failed with Lightbox Sport and Semble Payments
- Resetting focus for next series of innovations



# Sustainable business performance



## Board working to deliver sustainable long-term value creation for shareholders

- Disclosures expanded in response to global investor feedback
- Board renewal continuing with a focus on ensuring an excellent mix of skills, experience and gender
- Leadership Team renewal underway, with most new appointments from internal talent pool, plus leadership development programmes created to grow talent
- Following recent appointments will soon be at 25% of senior roles female, aiming for 50% female or non-NZ European
- Sustainable business practices will provide a long-term competitive advantage
  - 11% decrease in annual greenhouse gas emissions during FY16
  - Aspiring to reduce emissions by a further 25% by 2025



# Capex allocation centred on delivering value



## **Tightly managed capex, together with modest EBITDA growth will maintain healthy free cash flow**

- Capex to be maintained at sustainable 11-12% of revenues, equating to approx. \$400m p.a.
- Mobile capex focused on meeting data growth requirements, expanding 4G coverage and moving to 4.5G with further SRAN deployments
- Targeted investment in core infrastructure exemplified by TGA Cable and fibre build
- Envelope allows for investment in strategic programmes which are prioritised based on returns

# Stable capital structure and dividends growing



## Principles

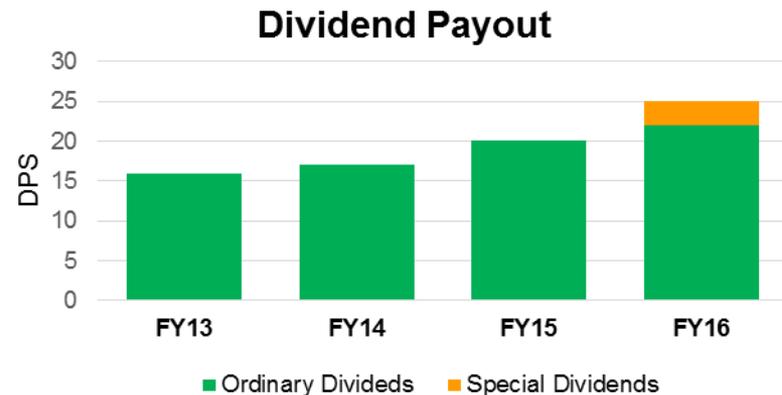
- Remain committed to conservative capital structure and S&P single 'A Band' Credit Rating
- Preferred method of shareholder distribution is to sustainably grow ordinary dividends over time in line with earnings growth
- Special dividends used as appropriate to reset capital structure

## FY16 Dividend

- H2 FY16 dividend 11 cps, fully imputed
- Special dividend of 1.5 cps, fully imputed
- DRP remains suspended

## FY17 Dividend <sup>(1)</sup>

- Anticipate FY17 ordinary dividend of 22 cps and special dividend of 3 cps
- Anticipate ordinary dividend to be fully imputed. Special dividend anticipated to be at least 75% imputed



(1) Guidance subject to no adverse change in operating outlook

# FY17 Indicators of Success



Desired Outcome	Proposed Measures	Target 30 June 2017
<b>Restore call centre service levels to world class</b>	Answer Time	90% in 180 seconds
	First call resolution	75%
	Market NPS	5 point lift
<b>Advance toward amazing customer experiences through digital sales and service</b>	Reduction in call volumes	7.5% reduction
	Launch a new, more feature rich Spark App	Q3 FY17
	Introduce pro-active faults management for mass market	Q3 FY17
	Adopt and scale dev-ops model	Adopt H1 FY17; Scale H2 FY17
	Average daily log-ins to Spark App	20% increase
	Proportion of Skinny sales via Digital Channels	10%
<b>Expand margins and improve service experience through reduced reliance on third party access</b>	Drive uptake of Wireless Broadband	50,000 connections
	Implement 'owned' CBD fibre model	AKL and WLG CBDs 'owned'
	Expand coverage of 4G	95% population
<b>Maintain revenue growth momentum to deliver long-term sustainable growth</b>	Market share of UFB orders	45%
	Mobile total revenue growth	5%
	Platform IT revenue growth	20%
	Proportion of BB and Mobile customers using inclusions	20%
	Enter adjacent high-growth market	Significant entry into one additional market

# FY17 Guidance<sup>(1)</sup>



	<b>FY16 Actuals</b>	<b>FY17 Guidance</b>
<b>Total Revenues</b>	3,497	0-3% growth
<b>Reported EBITDA <sup>(2)</sup></b>	986	0-2% growth
<b>Capex</b>	\$390m	~\$400m
<b>EPS</b>	20c	21c
<b>DPS</b>	Ordinary Div 22 cps +Special Div 3 cps fully imputed	Ordinary Div 22 cps fully imputed +Special Div 3 cps at least 75% imputed

(1) Guidance subject to no adverse change in operating outlook

(2) EBITDA guidance is relative to FY16 reported EBITDA and excludes potential net gains on sale for Mayoral Drive Carpark estimated at \$17m-\$19m. The transaction remains subject to resource consent and is currently expected to complete by 31 March 2017.



# Disclaimer

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These forward-looking statements may be identified by words such as “guidance”, ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘will’, ‘plan’, ‘may’, ‘could’, ‘ambition’ 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.

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