

**MARKET RELEASE****23 February 2022**

## Spark delivers strong first half performance and announces plans to establish Spark TowerCo

- Strong half year performance with revenue<sup>1</sup>, EBITDAI<sup>2</sup>, and NPAT all in growth
- Mobile a standout, with Spark the fastest growing provider by connections and revenue year-on-year<sup>3</sup>
- H1 FY22 dividend of 12.5 cents per share declared, 100% imputed
- Plans to establish Spark TowerCo to drive improved utilisation and capital efficiency of passive mobile assets, and create opportunities to introduce third-party capital

Spark New Zealand (Spark) today announced a strong H1 FY22 result, with revenue, EBITDAI, and NPAT all in growth.

Revenue increased 5.2% to \$1,890 million, driven by a standout performance in mobile. Spark was the fastest growing NZ mobile provider by connections and revenues year-on-year<sup>3</sup>, with mobile service revenue up 5%.

A successful launch of simplified broadband plans stabilised Spark's base at 702,000 connections. While broadband revenue fell 3.9% in a highly competitive market, gross margin was maintained as the benefits of wireless broadband (WBB) growth offset increased fibre costs.

Cloud, security, and service management revenues grew 3.2%, driven by demand for public cloud and growth in the health sector.

Spark's investment behind future markets continued to gain momentum. Spark IoT connections increased 31% to 623,000, supporting strong revenue growth; Spark Health won the first national contract for digital services under the newly established Health New Zealand and grew revenues 25%<sup>4</sup>; and Spark Sport grew revenues despite the sporting calendar being significantly impacted by Covid-19.

Growing revenues drove a 7.6% increase in EBITDAI to \$538 million. NPAT increased 21.8% to \$179 million, driven by EBITDAI growth, a reduction in finance expense and lease liability interest, and lower depreciation and amortisation.

Spark declared an H1 FY22 dividend per share of 12.5 cents, 100% imputed, supported by free cash flow of \$183 million.

Spark New Zealand Chair Justine Smyth said: "While we continued to experience ongoing disruption from Covid-19 during the half, Spark delivered strong revenue and profit growth, with a standout performance in mobile, a stabilisation in broadband, and continued business digitisation driving cloud adoption.

"We are pleased to see the strategic ambition Spark set back in 2020 coming to fruition, with future markets now making a significant contribution to revenue growth, and targeted investments in simple, digital customer experiences, data and artificial intelligence, and critical infrastructure differentiating Spark in the market.

"The Board and I are particularly pleased to see this growth driven by highly engaged people – with Spark achieving its highest employee engagement to date during the half.

"A number of infrastructure investments are progressing to plan and supporting future growth, and in the second half Spark intends to establish Spark TowerCo to improve the utilisation and capital efficiency of its passive mobile assets and open up opportunities to introduce third-party capital."

<sup>1</sup> Operating revenues and other gains

<sup>2</sup> 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 Financial Statements

<sup>3</sup> Market share estimates sourced from IDC

<sup>4</sup> Revenues grew 51% including procurement



Spark expects to be around the top half of its FY22 EBITDAI guidance range of \$1,130 million to \$1,160 million and confirmed total FY22 dividend guidance of 25.0 cents per share, 100% imputed<sup>5</sup>.

Reflecting on the half-year results and Spark's progress executing its three-year strategy, Spark CEO Jolie Hodson said: "Despite closed borders keeping roaming revenues suppressed, we delivered a market-leading mobile performance<sup>3</sup>, underpinned by precision marketing and increasing customer demand for data, with 48% growth in our Endless plans year-on-year.

"We have stabilised our broadband connection base with the launch of a simpler broadband line-up and maintained margins in a highly competitive market with continued growth in wireless. We are building on this momentum with further competitive wireless broadband offers launched in the second half.

"While we saw continued growth in cloud, security, and service management revenues, it was lower than where we want it to be, with the shift in portfolio mix towards public cloud continuing to put pressure on pricing. Our service management growth trajectory was also impacted by access to client sites due to Covid, however our second half pipeline remains strong.

"As we execute our three-year strategy, it is pleasing to see our focus on building core capabilities delivering differentiation in the market. Our customer experiences are increasingly digital, and our simplification programme is progressing to plan. Precision marketing is delivering a 16% uplift in conversion, we are accelerating our shift from legacy to modern technology, and we are building a world-class culture.

"We are on track to deliver our overall FY23 future market revenue aspirations, and while Spark Sport's contribution will be lower than expected, it is offset by the strong growth we are experiencing in health and IoT.

"As New Zealand's healthcare sector digitises, Spark Health goes from strength to strength, and with our digital health platform 'Kete Waioira' targeting customer onboarding by the end of FY22, we expect this to continue. Spark IoT is also poised to continue its strong revenue and connection growth as customers look to utilise the power of technology to drive efficiency and grow their business.

"None of these results would be possible without the mahi of our people, and we remain focussed on investing in their learning and development, their wellbeing, and creating a place where all our people feel they belong."

### **Spark TowerCo subsidiary announced**

During FY21 Spark conducted a review of its infrastructure portfolio, to focus effort and investment on its strategically important assets. Since that time Spark has announced an accelerated 5G rollout, delivering 90% population coverage by the end of 2023<sup>6</sup>, a material upgrade of its Mayoral Drive Exchange to support multi-access edge compute capability, and a significant increase in capacity at its Takanini Datacentre – with up to 8MW now contracted and construction of a new data hall underway.

Today Spark announced plans to establish Spark TowerCo as a subsidiary company, to improve the performance, utilisation, and capital efficiency of its passive mobile assets – spanning ~1,500 mobile sites<sup>7</sup>.

Hodson continued: "We can see globally that shared ownership models are an effective way of improving returns from infrastructure assets that are not critical to competitive advantage. In mobile, our active assets are what drives our competitiveness – including our core network and radio equipment. These assets leverage our spectrum holdings, provide differentiated customer experiences, and support our wireless aspirations.

"Our passive mobile assets, on the other hand, are the physical towers that support this active equipment. By separating these assets into a subsidiary model, we can improve utilisation through coverage expansion, future service innovation, and increased tenancy, while delivering efficiencies in build, maintenance, technology, and lease costs as we expand mobile coverage across Aotearoa."

<sup>5</sup> Subject to no adverse change in operating outlook

<sup>6</sup> Assuming spectrum is made available by the New Zealand Government

<sup>7</sup> Approximately 250 sites relate to outbound co-location on third party owned infrastructure (e.g., Rural Broadband Initiative (RBI) 1 sites)



Spark intends to commence a process in the second half of FY22 to explore the introduction of third-party capital into Spark TowerCo, however there is no certainty that a transaction will proceed.

“Should we choose to introduce third-party capital we will retain a shareholding and remain a key anchor tenant, with appropriate agreements in place on arms-length terms for operations and services. There will be no change for our customers, and we will continue to invest in modernising our mobile network and improving coverage for Aotearoa.”

Spark will provide more information on Spark TowerCo in the second half of FY22.

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