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Spark announces first half results with new strategy delivering adjusted revenue and EBITDAI growth

- Growth in adjusted[1] revenue and EBITDAI[2] underpinned by strong performance in mobile and momentum in data centres and high-tech. On a reported basis revenue and EBITDAI declined as Spark cycled the significant net profit declared in FY23 following the TowerCo and Spark Sport transactions
- NPAT[3] decreased on an adjusted basis by 4.8% to $157 million
- H1 FY24 dividend of 13.5 cents per share declared, 100% imputed
- Reaffirmed FY24 EBITDAI, capital expenditure, and total dividend guidance

Spark New Zealand (Spark) today announced its H1 FY24 result, with adjusted revenue and EBITDAI growth against the backdrop of a challenging economic environment.

Spark Chair Justine Smyth said, “The first half of FY24 was characterised by high inflation and cost of living pressures, which flowed through to lower levels of consumer and business confidence. While Spark’s products are largely resilient to economic downturns, they are not immune, and we saw weaker demand in some areas of the business.

“Despite these challenges Spark continued to deliver top-line growth[1] and has made solid progress implementing its new three-year strategy, with cornerstone digital infrastructure investments in data centres and 5G Standalone progressing to plan. With the ongoing exponential growth in data, businesses digitisation and cloud adoption, and the rapid uptake of generative AI, demand for data centre capacity is accelerating, and Spark is well positioned to capture its share of this growing market.

“The Board is pleased to continue delivering returns to shareholders, with $305 million in TowerCo proceeds returned to date through our on-market share buy-back and a first half dividend of 13.5 cents per share declared, 100% imputed.”

H1 FY24 operating performance

Reported revenue declined 22% to $1,976 million, reported EBITDAI declined 49.1% to $530 million, and reported NPAT declined 81.8% to $157 million, as Spark cycled the significant revenue and net profit declared in FY23, following the TowerCo and Spark Sport transactions.

When adjusting for the one-off benefit in FY23, revenue increased 1.3% to $1,976 million, driven by ongoing strength in mobile, momentum in data centres and high-tech, continued stabilisation in broadband, and a return to growth in cloud.

When combined with strong cost control holding operating expenses broadly flat, adjusted EBITDAI grew 3.9% to $530 million. Adjusted NPAT decreased 4.8% to $157 million, due to a higher interest cost on debt and leases, with second half improvement expected in line with a stronger H2 EBITDAI[4].

[1] H1 FY23 EBITDAI is adjusted for the impact of the TowerCo gain on sale of $584 million included in revenue and the Spark Sport provision of $52 million included in operating expenses, which resulted in a net EBITDAI impact of $532 million. NPAT is further adjusted for tax effect of the net gain on sale of the TowerCo transaction and the Spark Sport provision totalling $168 million.
[2] 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
[3] Net Profit After Tax
[4] In line with FY24 guidance

Spark maintained its market leading position in mobile[5], with mobile service revenue increasing 6.3% to $510 million as the benefit of price increases flowed through and connection growth continued.

Broadband revenue remained broadly stable at $309 million, despite high levels of price competition in an inflationary environment.

In digital services, Spark stabilised its IT market performance, while driving new growth in data centres and high-tech solutions[6].

Interventions to improve IT product performance delivered 3.8% growth in cloud revenue, with increased private and public cloud workloads and the launch of a new hybrid cloud service, CloudIQ. Cloud gross margin grew 7.6% as the cost base was reset, with benefits to continue flowing through in the second half. Overall IT revenues held flat at $345 million, impacted by a slowdown in service management, primarily driven by lower public sector demand.

Spark's 10MW expansion of its Takanini data centre completed in August 2023, with revenue coming online during the half and driving a revenue increase of 38.5% to $18 million. Spark has a strategic ambition to establish three large-scale data centre campuses in Auckland, supported by a network of regional data centres across the country. In line with this objective, Spark has reached conditional agreement to purchase land within a new development on Auckland's North Shore, where it intends to develop an initial 10MW hyperscale data centre campus, with the option for further expansion.

High-tech revenues[7] grew 12.9% to $35 million, driven by significant growth in IoT connections. Digital health revenues reduced 8.7% to $42 million, as public sector activity remains subdued.

Commenting on the half-year results, Spark CEO Jolie Hodson said, "Mobile remains central to our growth, with service revenues up over 6% and Spark capturing 47% of total mobile connection growth in the half[8]. We have maintained broadband revenues and margin despite high levels of price competition in an inflationary environment, and now have 31% of our customer base on wireless. We have also returned cloud to growth through the successful launch of our new hybrid cloud proposition CloudIQ, with margin benefits flowing through from our cost base reset.

"In an inflationary environment we must remain focussed on disciplined cost control, and as we implement our new strategy we are creating a more efficient, low-cost operating model to ensure we can continue to invest in our growth ambitions.

"Our digital infrastructure investments into data centres and 5G Standalone are progressing at pace. These investments underpin ongoing strength in our core business and new high-tech commercialisation opportunities that will build our growth engines of the future.

"We completed a 10MW expansion at our Takanini data centre site and we are now planning to invest in a new hyperscale data centre campus on Auckland's North Shore, as demand for capacity continues to grow. High-tech revenues increased off the back of strong IoT connection growth, with our IoT networks now supporting over 1.8 million connections.

"I am particularly pleased that our business fundamentals remain healthy and growing – with customer satisfaction up five points, people engagement up three percentage points, and Spark maintaining its position in the Dow Jones Sustainability Australia Index. As always, I would like to recognise our Spark whānau for all their hard work and continued commitment to supporting our customers and our business ambitions."

FY24 guidance

Spark remains committed to delivering its FY24 guidance, subject to no material adverse change in operating outlook:

[5] Market share estimates sourced from IDC as at 31 December 2023
[6] H1 FY23 reported NPAT is restated for the final tax calculation on the sale of Connexa Limited as described in Note 2 of the Interim Financial Statements
[7] Excluding health
[8] Market share estimates sourced from IDC as at 31 December 2023

- **EBITDAI:** $1,215 million -$1,260 million
- **Capital expenditure:** ~$510-$530 million
- **Total dividend per share:** 27.5 cents per share, 100% imputed

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