Spark nz

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Spark delivers H1 FY23 results

- Reported revenue[1], EBITDAI[2], and NPAT all in growth, driven by one-off proceeds from the strategic divestment of a majority stake in Spark's TowerCo business
- Up to $350 million to be returned to shareholders through an on-market share buy-back and an additional ~$90-$110 million to be invested in digital infrastructure and emerging technologies in the second half
- While adjusted revenue increased as a result of a standout performance in mobile, higher product costs and intensifying competition in broadband and cloud contributed to margin pressure in the half, with adjusted EBITDAI and NPAT declining
- H1 FY23 dividend of 13.5 cents per share declared, 100% imputed

Spark New Zealand Limited (**Spark**) today announced its results for the first half of FY23, with reported revenue, EBITDAI, and NPAT all in growth, driven by a one-off benefit from the strategic divestment of a majority stake in Spark's TowerCo business, which delivered proceeds of $911 million and a net gain on sale of $584 million.

During the half Spark also announced its decision to exit the sports streaming market through a content partnership agreement with TVNZ, resulting in a one-off provision of $52 million.

The resulting net gain of the tower transaction and sport exit was $532 million, driving a 34.1% increase in reported revenue to $2,534 million, a 93.7% increase in reported EBITDAI to $1,042 million, and an increase in reported NPAT to $837 million.

Spark declared an H1 FY23 dividend per share of 13.5 cents, 100% imputed.

Spark New Zealand Chair Justine Smyth said: "Since the conclusion of the half we have been reminded once again of the urgency of our climate change response. The significant weather events we have experienced have destroyed homes, impacted livelihoods, and most sadly of all, taken lives. While Spark's network infrastructure was not significantly damaged, due to widespread power outages and fibre cuts we did see services impacted in the worst affected regions. We have been focused on supporting our customers and working alongside our industry peers to restore services with urgency.

"Looking to the future, we must work closely across sectors to set clear adaptation plans and determine the best way to direct co-investment by Government and the private sector into the infrastructure we will need as we face into a more volatile climate."

Commenting on the TowerCo proceeds, Smyth reconfirmed Spark's dual approach of delivering returns to shareholders and investing in future growth.

"We know that in these uncertain times, and in a high inflationary environment, our shareholders are looking for reliable and consistent returns. With that in mind, we are pleased to confirm that our on-market share buy-back will commence following our Investor Strategy Briefing[3] on April 5, and will return up to $350 million of the TowerCo proceeds to shareholders.

"We have also allocated $350 million of these proceeds to invest back into growth, with a focus on digital infrastructure, data centres, and emerging technologies, with ~$90-$110 million of this allocation to be used in FY23."

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[1] Operating revenues and other gains
[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
[3] Subject to market conditions

When adjusting for the one-off benefit from the TowerCo transaction, Spark's adjusted revenue increased 3.2% to $1,950 million, driven largely by a standout performance in mobile. Mobile service revenue increased 8.8% to $480 million, benefiting from the increasing demand for data from customers, the return of roaming revenues, and data-driven marketing delivering customers personalised offers and boosting conversion to higher value plans.

While core products and services remained resilient, higher product costs and intensifying competition in broadband and cloud contributed to margin pressure in the half, with adjusted EBITDAI down 5.2% to $510 million. Adjusted NPAT declined 7.8% to $165 million, driven by lower EBITDAI and higher finance expense.

Broadband revenue fell 3.4% to $313 million as Spark's FY22 price refresh rolled through. Margins were also squeezed through inflationary input cost increases that occurred during the half. Spark implemented price increases in response and expects to see the benefits of that change in the second half. Despite these challenges, Spark maintained its broadband base and is on track to meet its FY23 target of 30% of its base on wireless, reaching approximately 29% in the half.

Cloud, security, and service management revenues decreased 4.5% to $214 million as the mix-shift towards public cloud continued, resulting in repricing of private cloud and impacting margins. Managed services revenue was also impacted by lower project activity.

In future markets, Spark IoT reached a milestone of one million connected devices during the half, with connections up 39% to 1.2 million and revenue up 21% year-on-year. Spark Health maintained revenues, with digital transformation opportunities expected to grow as public sector health reforms progress.

During the half Spark also progressed a series of digital infrastructure investments and partnerships that will support future growth and efficiency gains. Spark's investment in an expansion of its Takanini data centre progressed to plan and is expected to complete in the second half. A new joint venture was established – Hourua – which was awarded the contract to provide priority cellular services to the Public Safety Network, used by frontline emergency responders.

Finally, the independent mobile towers business that was formed following the TowerCo transaction, Connexa, announced it had reached an agreement with Macquarie Asset Management and Aware Super to acquire 2degrees' passive mobile telecommunications tower assets. The transaction is expected to deliver greater operational efficiencies, better network economics, and faster deployment of new digital infrastructure.

Spark CEO Jolie Hodson said: "We want to acknowledge the tragic loss of life and devastation communities across the North Island are experiencing as a result of Cyclone Gabrielle.

"We know how critical our services are for people during an emergency and our absolute priority has been on urgently restoring connectivity and supporting our customers.

"As we now emerge from the immediate response, we will turn our focus to the bigger discussions we must have as a country on the level of resilience we will need all our infrastructure to have in the future. Investment in resilient and adaptive infrastructure has been a strategic focus for Spark for many years and this will not change."

Reflecting on the half year results Jolie said the strong growth experienced in mobile was contrasted by challenging broadband and cloud markets. "Like all businesses in Aotearoa Spark has been navigating uncertain and inflationary economic conditions.

"We continued to see exceptional growth in our largest category of mobile, with the ongoing return of roaming revenues, the increasing demand for data from our customers, and our use of data insights to offer our customers products and services based on their specific needs.

"The highly competitive nature of the broadband market was exacerbated by inflationary input cost increases, and while we have passed these through in several areas, we don't expect to see the benefits of those changes until the second half.

"We have also been mindful to ensure we are leveraging our multi-brand portfolio to offer products across the price spectrum, so that New Zealanders can access a plan regardless of their budget. Ongoing growth in wireless broadband supports our ability to do this, and we were pleased to reach 29% of our base on wireless during the half.

"In cloud we saw an ongoing mix-shift towards public cloud, which has impacted private cloud revenue and margins, while the uncertain economic environment has contributed to lower managed service project activity. We are focused on accelerating simplification across our business portfolio and maximising our competitiveness in hybrid cloud, which is showing strong demand as customers seek diversification and a transition path to public cloud services."

Spark remains committed to meeting its FY23 guidance of $1,185-$1,225 million[4], and expects to be lower in the range. Total FY23 dividend guidance of 27.0cps, 100% imputed[5], was also confirmed. Total growth capex for FY23 is now expected to be ~$145-165 million – an increase of ~$90-110 million, to be funded from TowerCo proceeds. As a result, FY23 Capital Expenditure Guidance is updated from ~$410 million to ~$520 million.

Spark will release details of its next three-year strategy covering the period FY24-FY26 at an Investor Strategy Briefing on 5 April 2023.

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About Spark

As New Zealand's largest telecommunications and digital services company, Spark's purpose is 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

[4] Excluding the net gain of $534 million for the sale of TowerCo and provision for Spark Sport. EBITDAI guidance subject to no adverse change in operating outlook
[5] Subject to no adverse change in operating outlook