

Spark New Zealand

Business Strategy Update

20 October 2015



Agenda

13:00	Strategy update – Simon Moutter
13:25	Three year aspiration – Jolie Hodson
13:40	Q&A
14:00	Spark Digital – Tim Miles
14:20	Spark Connect – David Havercroft
14:40	Q&A
15:00	Break
15:20	Spark Home, Mobile & Business – Jason Paris
15:40	Spark Ventures – Rod Snodgrass
16:00	Digital First Programme – Rod Snodgrass
16:10	Q&A
16:30	Concluding comments – Simon Moutter & Mark Verbiest
17:00	Drinks and product demonstrations
18:30	End

Strategy Update

Managing Director
Simon Moutter



At our last Investor Day in May 2013, we shared our strategy for transforming the business

Our aspiration

We will be a growing New Zealand company, winning by customers choosing us to connect them at the speed of life!

#1 in mobile

#1 in data

#1 in effortless service & cost



Four clear strategic priorities

1. Revolutionise Customer Experiences
2. Simplify the Business
3. Win Key Markets
4. Win the Future

Strategic shift

FROM a traditional fixed and mobile infrastructure company ...

TO a future-oriented, competitive provider of **communication, entertainment and IT services** delivered over our networks and the Cloud

Everything's easier @MYTELECOM

Discover the new @MYTELECOM on the top of every Day Telecom



- **Phase 1** now completed: Stabilised revenue / margin and reduced costs
- **Phase 2** now progressing: Drive market revenue / margin growth with continuing improvement in unit costs

Spark NZ today is very different from the Telecom NZ of two years ago



Traditional fixed and mobile telco infrastructure focus and mind-set

Customer oriented digital services provider with retailer's mind-set

Defending legacy product revenue, building bespoke IT with low margins

Emphasis on growth in data, mobile and ICT platform services

Low customer satisfaction and declining market shares

Stable and growing market shares through superior customer focus

Declining Telecom brand and static Gen-i brand

Fast rising and preferred Spark core brand with multiple highly preferred specialty brands

High cost driven by complex platforms, products, offerings and processes

Simplified platforms and products run at materially lower cost

Multiple geographic markets

NZ markets only

Slow, conservative and defensive culture





Fast moving, winning culture built upon an owners mind-set

Spark NZ's delivery capability is now proven

Track-record demonstrates Spark NZ can and will continue to deliver on its promises

We said we would...

We delivered...

- **1 Revolutionise customer experiences**
Simple, effortless experiences better than competitors
- **2 Simplify the business**
Radically simplify business to reduce cost and complexity
- **3 Win key markets**
Win mobile and data markets, optimise value of voice
- **4 Win future markets**
Earn new revenues by investing in Cloud, digital services and ventures

- ✓ Online chat available 24/7
 - ✓ Online portal for Spark Digital mobile
 - ✓ Mobile app launched
 - ✓ Skinny #1 in customer service
 - ✓ Step-change in fibre service underway
 - ✓ Call volume reduced by 800k
-
- ✓ Turnaround programme completed
 - ✓ Re-engineering programme advanced
 - ✓ Non-core businesses divested
-
- ✓ Very successful Spark re-brand executed
 - ✓ Mobile revenue share growth achieved
 - ✓ Voice decline slowed
-
- ✓ Data centres and as-a-service capability built
 - ✓ Cloud revenue & margins growing
 - ✓ Six new ventures built and running

Risks exist but these are being tightly managed

Commentators' views focus mainly on downside risks with underweighted recognition of systemically improved market and operational capability and upside opportunities

Commentators views

Spark NZ perspective



“Broadband share loss and price decline will continue”

- Market pricing is now close to cost (all Retail Service Providers “RSPs” are resellers)
- Focus on high-value segments is much more important than low-end connection share for the next couple of years at least
- Upsell to faster and bigger GB plans is dominating and succeeding
- Value-add strategy creating differentiation (e.g. Lightbox & Morepork)



“Mobile demand cannot be monetised”

- Market competitive, but forecast is stable⁽¹⁾ as all players need ROI
- Focus shifts from growing connections to growing value
- Holding price is driving upsell opportunities on demand for data



“Few remaining opportunities for cost reduction”

- Near-term opportunities available in service delivery efficiencies
- Re-engineering nearing completion with consequent benefits to come
- Long-term software-based core technology developments on roadmap



“Spark won’t succeed in digital services or IT”

- It’s early days in digital services but the opportunities look significant
- We are creating options and gaining valuable experience
- Cloud IT is a great fit, demand is very strong and we are good at it



“Spark is still heavily reliant on legacy fixed data and voice products”

- Declines in Voice Only continue but now only ~\$600m of revenues
- Data and broadband is a growth business with plenty of demand
- Mobile, broadband, data and IT services now 72% of revenues

We see opportunities in an attractive fast growing market

Demand for connectivity and data increasing



Broadband
usage



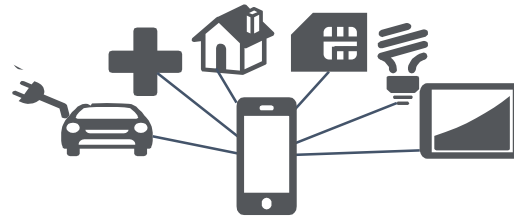
OTT
video



Mobile
data

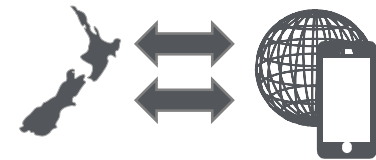
- 70% CAGR in global **mobile data**¹
- 38% CAGR in global **mobile video** usage¹
- Almost **6 million** mobile connections in NZ
- **Video** makes up **72%** of Spark fixed network traffic at daily peak times

Moving from connecting people to things



- NZ a fast follower of global trends – Machine to Machine (M2M) and Internet of Things (IoT) emerging in NZ
- Number of connected devices expected to **increase to 50 billion worldwide by 2020**
- NZers expected to have **10 connected devices each** by 2020, all reliant on anywhere-anytime connectivity and digital services capability

Playing a vital role in New Zealand's economy

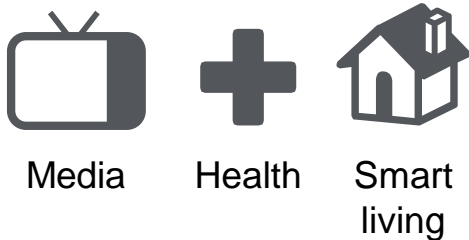


- Spark NZ's services and infrastructure are vital to connecting New Zealanders:
 - Personal devices and communication
 - International and national data connectivity
 - Cloud services and data centres
 - Critical technology enabler for many industries

(1) Source: McKinsey global research

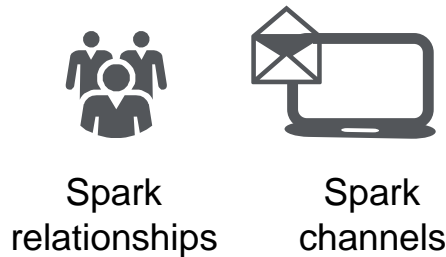
We see opportunities in an attractive fast growing market (ctd)

Disruption across multiple industries



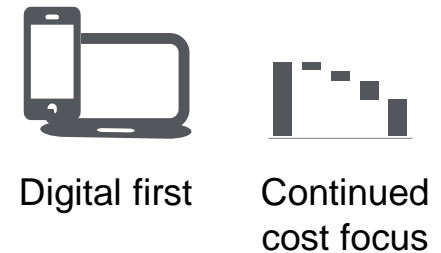
- Technology disrupting markets, including: media, health, home security
- Disruption provides opportunities – Spark NZ's capabilities support disruptive entry in adjacent markets

Scale creates opportunities



- Expansive customer relationships and distribution channel advantages create opportunities to grow new products in new and adjacent markets
- Scale and depth of information assets provides opportunities to better understand and market to customers

Cost & efficiency opportunities remain



- Proven ability to reduce cost on an ongoing basis
- Digital First programme underway to digitise sales and service
- Digital superiority creates customer preference and pricing advantage
- Emerging core network technologies more efficient

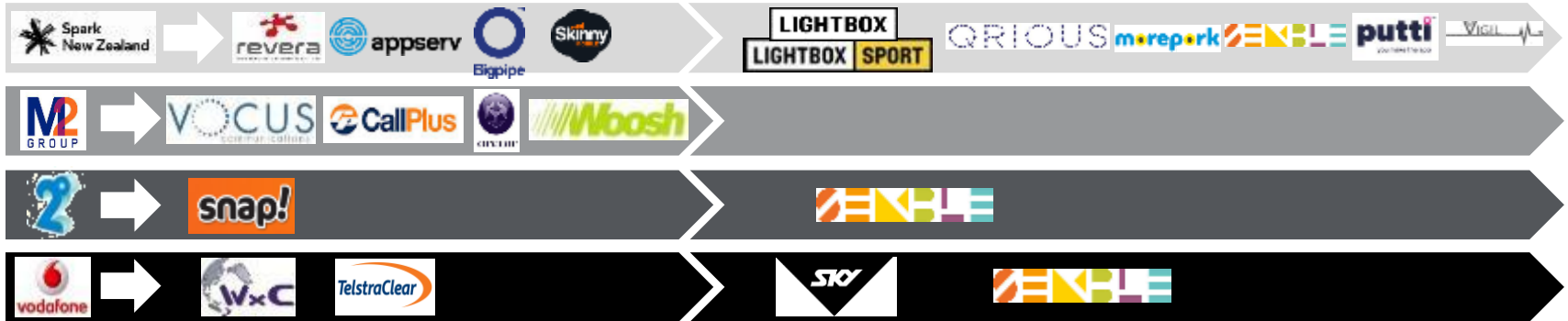
Technology driving change in the New Zealand market

Key Changes

- Consolidation occurring naturally to achieve scale benefits as broadband resale margins are squeezed, creating more full-service players
- Focus is shifting outside of the telco market with diversification into non-core revenue streams to create deeper customer relationships and provide new revenue streams e.g. Media
- Non-traditional players are entering telco markets - e.g. Trustpower offering broadband
- Regulatory stability is returning, with RSPs now largely outside of direct impact

Telco market activity:

Adjacent market activity

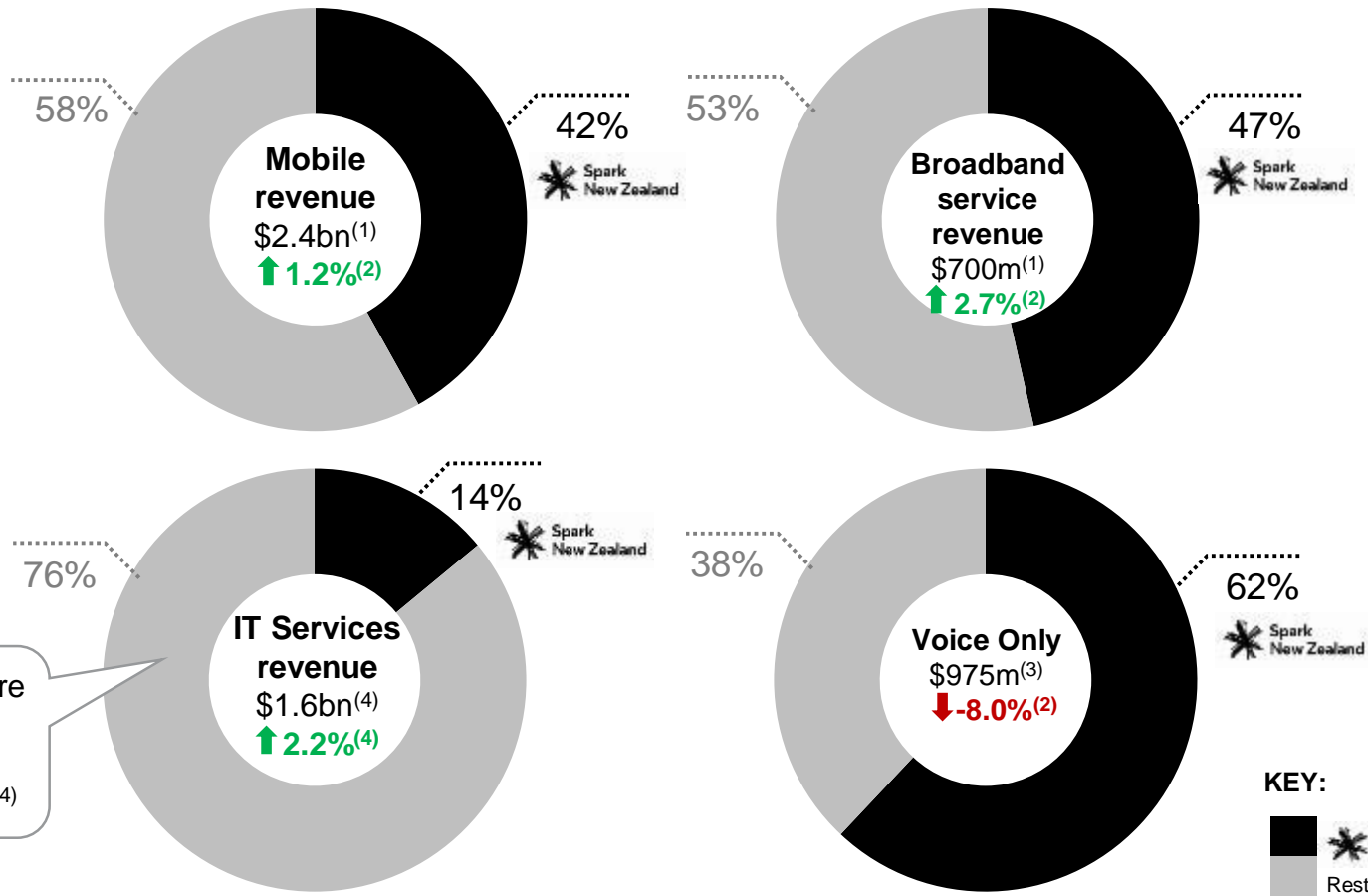


Impact

- Four integrated providers hold 93% of the Broadband market
- All major players now full-service providers
- Three established operators competing in mobile market, with several Mobile Virtual Network Operators (MVNO's) (with six now on Spark)

Spark NZ well positioned in key markets

Revenue is stable and/or growing in key and future markets, while we are managing declines in PSTN voice markets



Cloud infrastructure market:
 Size: \$250m
 ~20% CAGR ⁽⁴⁾

(1) Total market revenue FY15, IDC New Zealand Telecommunications tracker
 (2) FY13-15 CAGR market revenue, IDC New Zealand Telecommunications tracker
 (3) Voice Only is access and calling revenue for voice-only customers, excludes an estimate of the access component that relates to broadband customers. Spark's share of these revenues **excludes** wholesale services provided to other retailers
 (4) Source: IDC tracker - FY15 and IT Services excluding procurement - H2 FY15

Shifting strategic focus to next phase

We're now shifting to the next phase of our strategy: to drive market revenue / margin growth, with continuing improvement in unit costs

- We've executed the first phase of our strategy exactly to plan, and the FY16 outlook conveys confidence that we are on-track to deliver the Spark New Zealand turnaround story
- Our focus for FY16 and 17 is to drive market revenue/margin growth, while continuing to drive improvement in unit costs
- Our EBITDA margins now sit around the top quartile of international benchmarks of comparator organisations
- Therefore, a return to top-line revenue growth is essential for sustainable EBITDA growth
- Spark NZ aims to grow value through a long-term focus. We will do this through seeking long-term revenue growth from core, adjacent and new markets
- Emerging revenue trends in our re-based business provide encouragement that a return to sustainable revenue growth is possible

FY16 strategy adjusted to suit phase 2 growth agenda

Ambition

At Spark New Zealand, 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

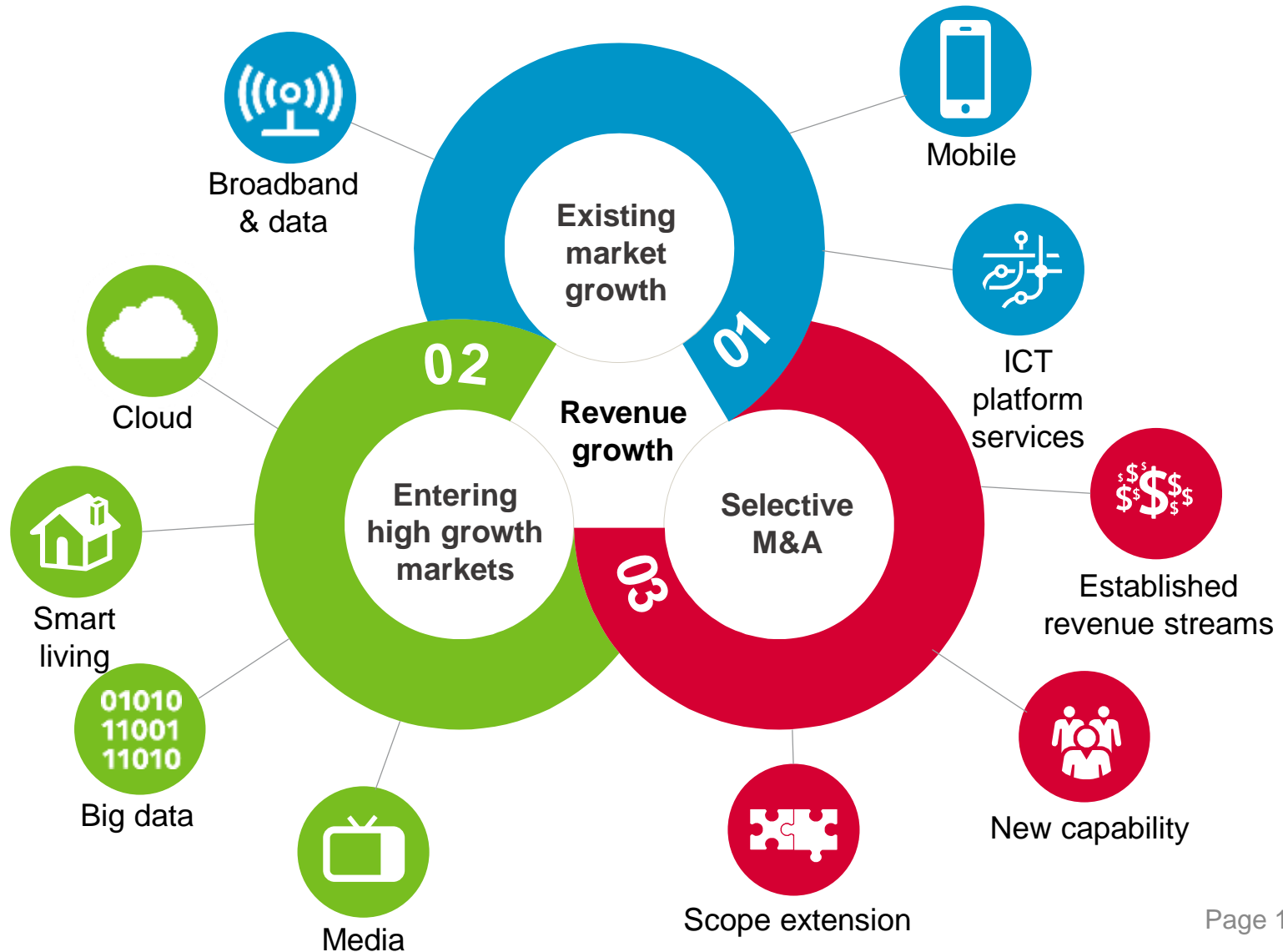
Strategic Programmes

Win Key Markets	Digital First	Spark Talent	Customer Inspired	Spark Brands
------------------------	----------------------	---------------------	--------------------------	---------------------

Foundation

New Zealand's best data network and digital services capability

Three potential key sources of revenue growth being pursued



Revenue growth: existing key markets



Focus areas – Broadband & data

Product

- Accelerate fibre uptake, leveraging voice over fibre capability
- Target business customers with cloud ready secure networks

Market segments

- Targeted offers to under-represented segments e.g. medium business data
- High-value customers – VDSL, fibre and unlimited

Customers and retention

- Develop “All-of-life provider” to enhance cross-sell and up-sell opportunities

Why we're well placed to win

- ✓ **Brand and reputation**
- ✓ **Multi-brand with differentiated product**
- ✓ **Integrated cloud services to business customers**
- ✓ **All-of-life converged offerings**
- ✓ **Industry leading investment in Optical Transport Network, Broadband Gateways and Carrier Ethernet Services**

Revenue growth: existing key markets (ctd)



Focus areas – Mobile

Product

- Invest in superior network and mobile platforms
- Lead in growing connected mobility market (i.e. M2M and IOT)
- Deliver value by 'mobilising' business in combination with Cloud IT

Market segments

- Targeted offers to under-represented segments (Auckland and under-35s)
- Up-sell to higher value plans

Customers and retention

- Offering exclusive products that grow engagement and data usage (e.g. Lightbox & Spotify)
- Build more preference for the Spark and Skinny brands

Why we're well placed to win

- ✓ Value add strategy
- ✓ Brands and reputation
- ✓ Leading network quality
- ✓ Most 700MHz 4G spectrum
- ✓ All of life offerings to leverage existing relationships
- ✓ Connected mobility platforms
- ✓ Cloud IT capability across mobile devices

Revenue growth: existing key markets (ctd)



Focus areas – ICT Platform Services

Why we're well placed to win

Product

- Replace “traditional” bespoke IT with Platform Services delivered as-a-service
- Deliver repeatable, strong EBITDA margins and returns on Spark network and data centre assets

Customers and retention

- Provide scalable, agile solutions for today's “digital” customers

- ✓ **Proven experience and investment in cloud**
- ✓ **National network of 15 high quality data centres**
- ✓ **End-to-end IT and telco capability**
- ✓ **Scalable capability difficult for competitors to match**
- ✓ **Strong local presence in market is beating semi-committed globals**

Revenue growth: entering high growth markets

Current examples



Cloud

- Spark Digital Cloud (incl. Revera)
- Data centre investments



Big data

- Qrious



Smart living

- Morepork



Internet media / entertainment

- Lightbox
- Lightbox Sport

Possible opportunities ahead



- Industry verticals
- Internet of things
- Digital commerce and advertising

Why we're placed to win

- ✓ Utilises existing networks and platforms
- ✓ Leverages existing distribution channels and customer relationships to cross-sell to a large portion of the NZ customer base
- ✓ Designed around creating subscription revenue streams where we have experience
- ✓ Spark brands and reputation
- ✓ Spark's relative scale in small marketplace

Revenue growth: Mergers & Acquisitions

We will continue to consider selective M&A, where appropriate, as a means to growing customer relationships, revenue and profits

M&A to date has included:



Revera – acquired in FY14 for \$96.5m, revenue grown by 47% since acquisition



Appserv – acquired in FY15, Desktop-as-a-Service (DaaS) seats grown 8.3% in year since acquisition



Lightbox Sport – acquired content and sport distribution insights



Putti – delivers capability to develop SME apps in days with strong uptake in business market

Margin improvement driven by efficiency and technology

We continue to see long-term efficiency and cost-reduction opportunities

Opportunity:

- Continuing operational and delivery efficiencies
- Realising benefits from Re-engineering now in its final year of delivery
- New Digital First strategic programme
- Software based networking technology
- Driving more products onto mobile networks (which we own end-to-end)



Where it will show up:

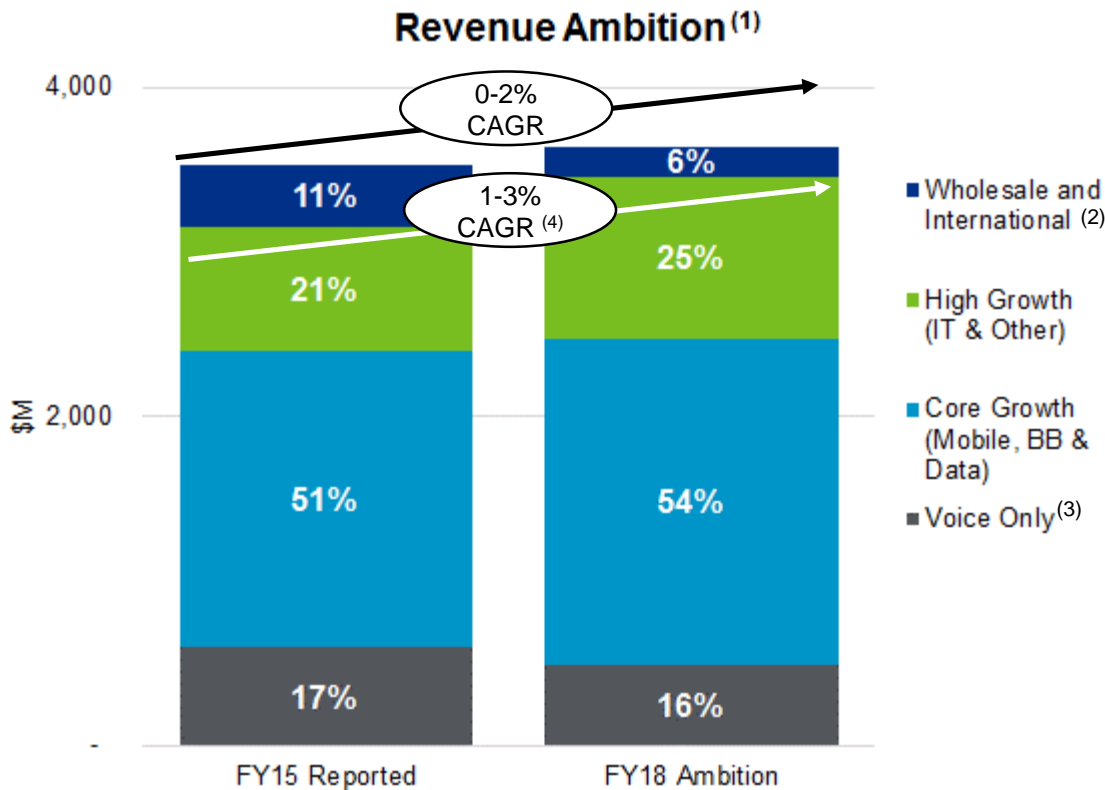
- Major shift to online and on-device customer self-service
- Less duplication in back office, much faster customer delivery
- Improved online capability, speed to market and business intelligence
- Increased automation, better customer management
- Less network support
- Improved mobile margins

Three Year Aspiration

**Chief Financial Officer
Jolie Hodson**



Revenue is expected to grow as we manage Voice Only declines and grow in mobile, ICT platform services and digital services



- Voice Only expected to be ~16% of total revenue by FY18
- Targeting moderate growth in core products of mobile, broadband and data
- High growth markets such as ICT Platform Services and Digital Services are expected to support revenue growth into the future
- Home, Mobile & Business (HMB) already delivering revenue growth
- Digital expected to follow in the near term
- Revenue growth aspiration is line with international peers

(1) Not intended as earnings guidance

(2) The FY15-16 decline in Wholesale and International reflects the business divestments and the primary service regulatory change

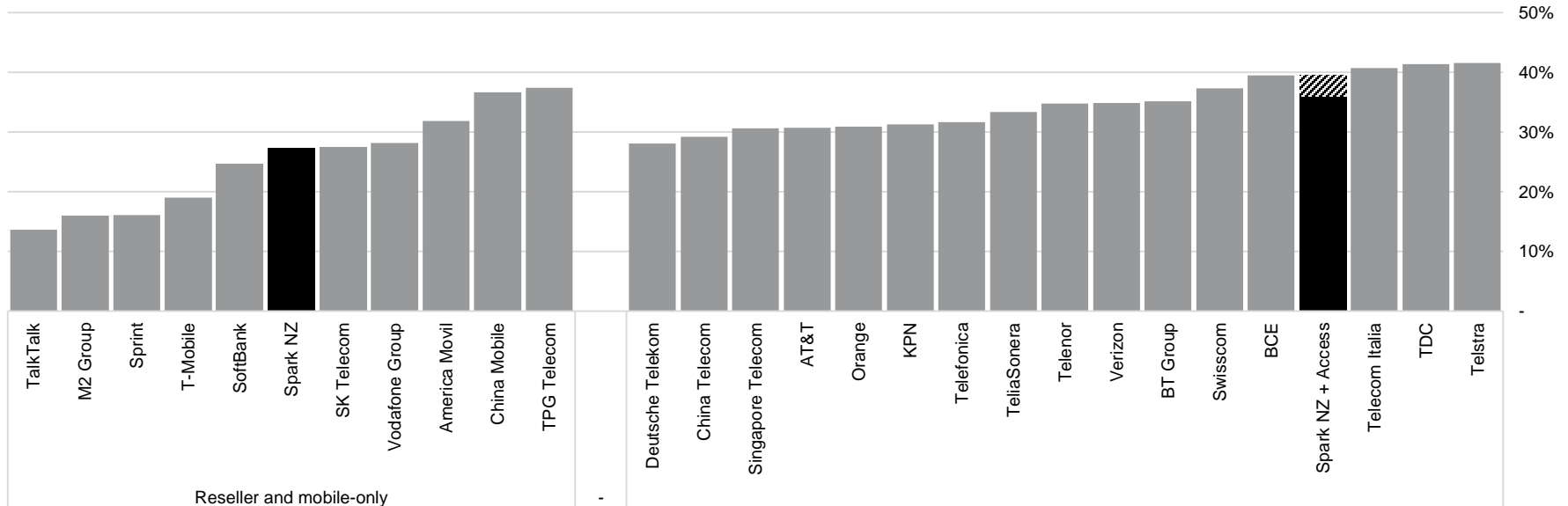
(3) Voice Only is access and calling revenue for voice-only customers. The Access component that relates to Broadband customers is included in broadband

(4) The ambition for revenue growth CAGR excluding the Wholesale and International business is higher as it removes the impact of the main regulatory and business divestment

EBITDA margin is in the top quartile of our international peers

- Spark EBITDA margin of 27% is comparable with other resellers and mobile only telcos which typically have lower EBITDA margin than vertically integrated fixed and mobile telcos
- Adding back access network margins (Spark NZ + Access) the comparison leads to estimated EBITDA margin percentage in the top quartile of our integrated international peers
- Opportunity remains for further modest efficiency gains, with return to revenue growth essential to drive EBITDA growth

EBITDA to Revenue Percentage vs International Peers

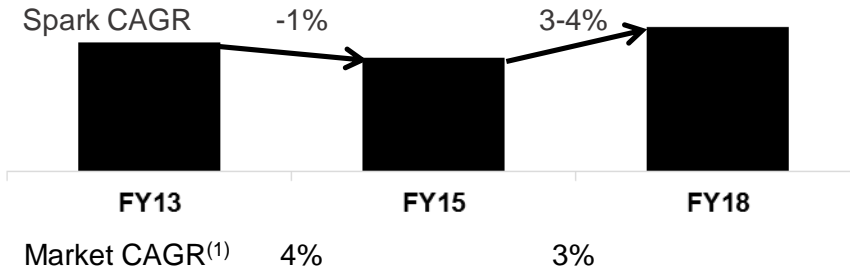


(1) Based on internal estimates

Revenue growth ambition through market share gains in existing markets

Ambition for:

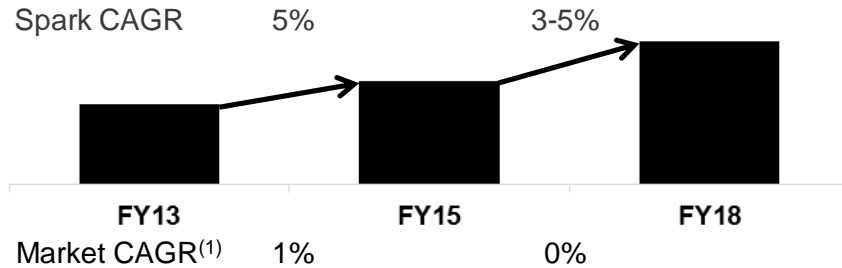
Spark Broadband



Hold revenue market share, with Broadband revenue growth from uptake of fibre and higher value based plans



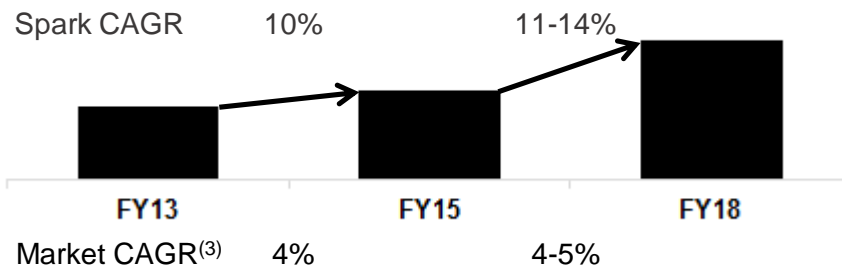
Spark Mobile



Mobile revenue growth slightly ahead of market performance driven by rising brand preference and focus on value-based differentiation



ICT Platform Services⁽²⁾



Spark IT growth targeted in Cloud and ICT platform services, the high growth area of the IT market











(1) IDC New Zealand Telecommunications Forecast 2014-2019 (Oct 2015)
 (2) Includes 'traditional' IT Services that are in transition to Platforms; Excludes Spark Procurement
 (3) Source: IDC tracker - FY15 and IT Services excluding procurement - H2 FY15

International peers shifting to adjacent markets

International peers have shifted from solely providing telco products to entering a number of adjacent markets

Our targeted growth in adjacent markets is consistent with our international peers

Adjacent market								
Cloud services	✓	✓	✓	✓	✓	✓	✓	✓
Internet of Things & M2M	✓	✓		✓	✓	✓	✓	✓
Smart living	✓	✓	✓	✓	✓	✓	✓	✓
Media & entertainment	✓	✓	✓	✓	✓	✓	✓	✓
Big data	✓	✓	✓		✓	✓	✓	✓

In New Zealand these are significant markets, for example:

- media revenue ~\$1.2bn
- smart living / home security \$150m+

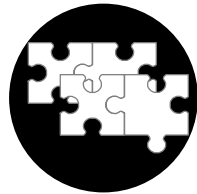
Revenue growth through M&A bolt-ons

We will continue to assess M&A opportunities to further grow our business



We will assess opportunities against these filters:

- New **capability** within an existing market
- **Established revenue and operational capability**
- Bolt-on capability in a high-growth adjacent market
- Ability to achieve a '**fast start**' or acquire **market share**
- **NZ based**



Example



Future M&A likely to be below \$100m but we will assess all opportunities on their individual merits as a means to growing customer relationships, revenue and profits

Productivity improvements will continue

Driven by technology and digital self-service enabling fundamental business change

Near term

- Re-engineering benefits
 - Further operational efficiency across Spark Connect and Spark Digital
 - Cost of sales reduction offset by volume growth in Mobile and ICT Platform Services
-

Mid term

- Digital First programme aims to transform the business into a digital leader, improving customer experiences and reducing the cost to serve, ~\$150m in EBITDA benefits (revenue and cost) over 3 years
 - Increasing use of mobile to meet customer demand
-

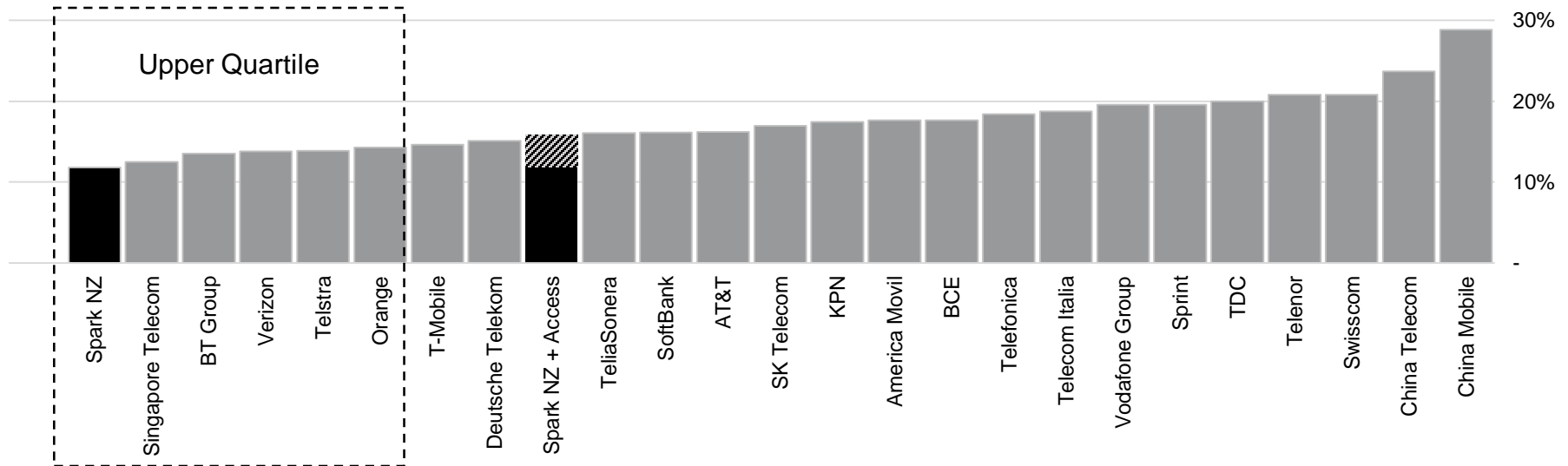
Long term

- Network Technology evolution
 - Software Defined Networks
 - Network Virtualisation Function

Capital expenditure now at target levels, driving sustainable FCF uplift

- Targeting sustainable long term capex envelope of below \$400M per annum
- This envelope equates to ~11% capex to sales ratio which is consistent with best in class peers
- Over time capital investment will be rebalanced from IT Re-engineering to other strategic programmes that deliver the best data network and digital services capability
- Mobile enhancement spend expected at around \$70M - \$100M per annum, supporting revenue growth and ICT Platform Services growth aspirations
- FCF growth driven by EBITDA growth and stable capital expenditure to sustain the business

Capex to Revenue Percentage vs International Peers



(1) Based on internal estimates

Materially increasing shareholder returns

Principles

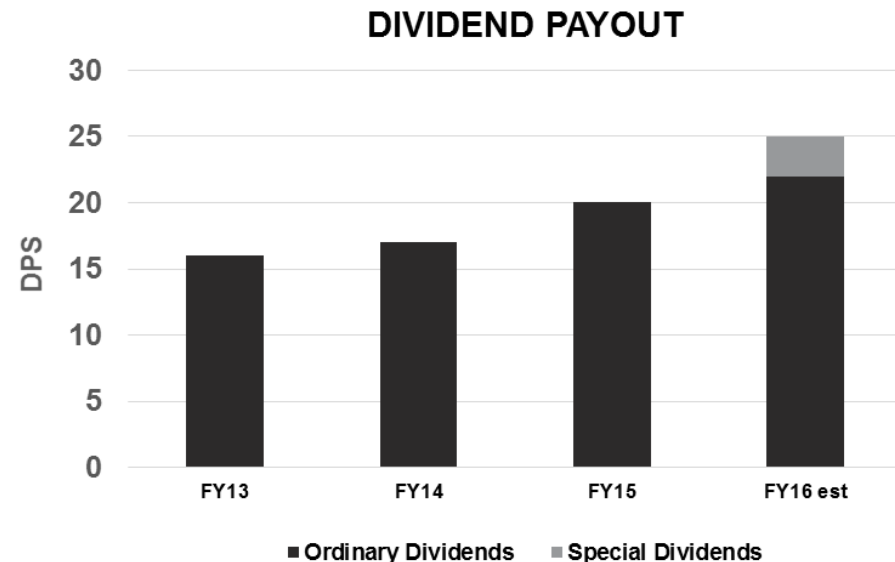
- Remain committed to conservative capital structure and single 'A Band' Credit Rating from S&P
- Preferred method of shareholder distributions is to sustainably grow ordinary dividends over time in line with earnings growth
- On-market share buybacks and special dividends used as appropriate to reset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

On-market share buyback

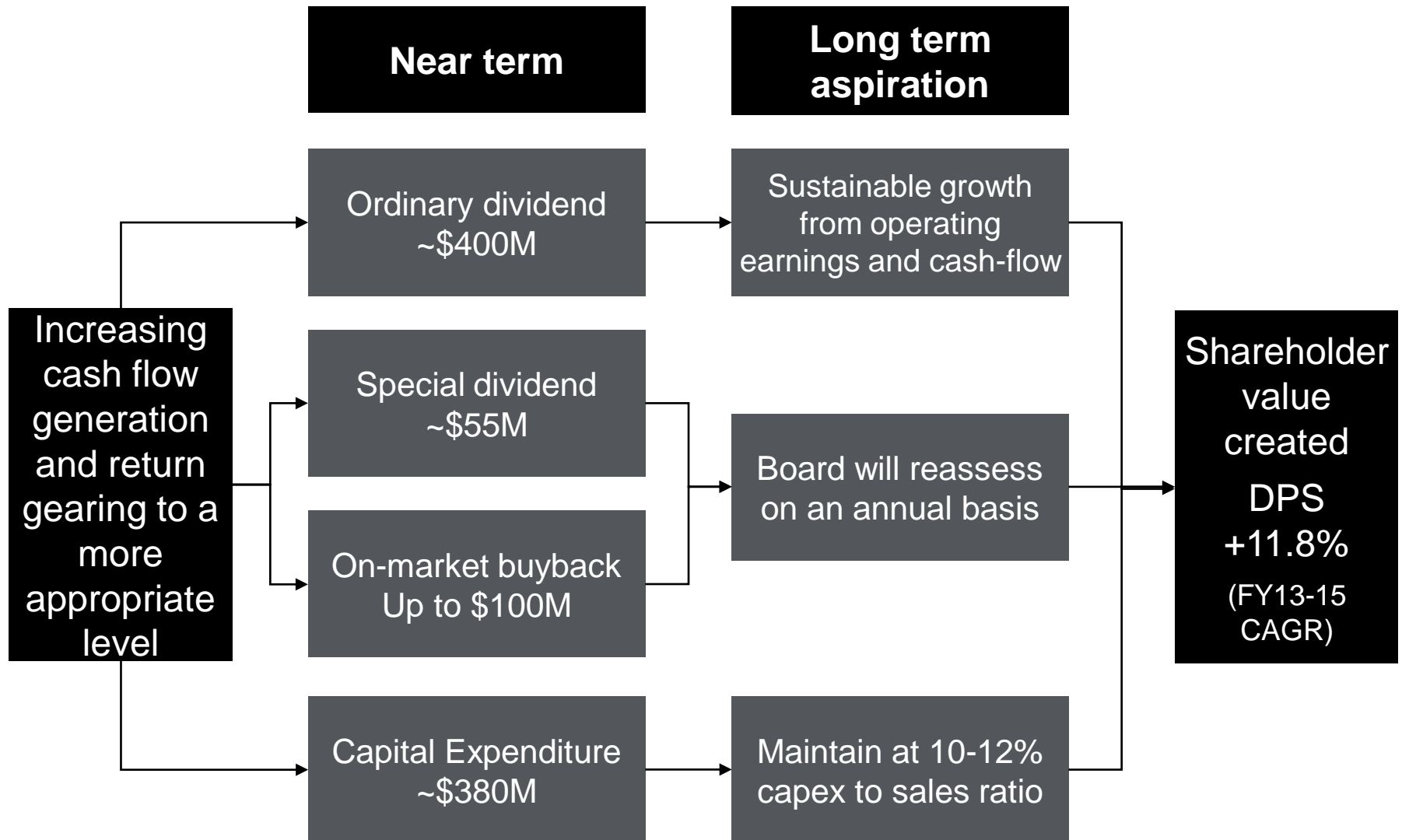
- Intention to return gearing to a more appropriate level for the company via an on-market share buyback of up to \$100m during 2015 calendar year - 35% complete at 14 October 2015

Dividends

- Anticipate FY16 ordinary dividend of 22 cps and special dividend of 3 cps (subject to no material adverse change in operating outlook). Imputation expected to be at least 75%
- FY16 dividend forecast up 25%
- DRP suspended



Seeking to create value for shareholders



Our three year aspiration

- **Aiming for modest revenue, EBITDA and EPS growth**
- **While capital expenditure is maintained within target envelope**
- **Generating strong free cash flows**
- **Leading to increasing shareholder returns**

Disclaimer

This announcement may include forward-looking statements regarding future events and the future financial performance of Spark New Zealand. Such forward-looking statements are based on the beliefs of management as well as on assumptions made by and information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as '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. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Spark New Zealand's anticipated growth strategies, Spark New Zealand's future results of operations and financial condition, economic conditions and the regulatory environment in New Zealand; competition in the markets in which Spark New Zealand operates; risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Spark New Zealand's financial condition in particular and risks detailed in Spark New Zealand's filings with NZX and ASX. Except as required by law or the listing rules of the stock exchanges on which Spark New Zealand is listed, Spark New Zealand undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

FY16 Guidance

	FY15 Actuals	FY16 Guidance
Reported EBITDA ⁽¹⁾	\$962m	0-3% growth
Capex (excl spectrum)	\$418m	around \$380m
Dividends Per Share ⁽²⁾	20 cps fully imputed	Ordinary Div 22 cps ⁽²⁾ +Special Div 3 cps At least 75% imputed

Based on our Q1-FY16 performance we are reaffirming the guidance provided at the H2 FY15 results announcement.

(1) EBITDA guidance is relative to FY15 continuing operations and assumes copper broadband input costs based on IPP pricing to 1 Dec 2015 and then 2nd draft FPP pricing, with no backdating

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