



MARKET RELEASE – 30 OCTOBER 2024

Spark reduces FY25 guidance

- EBITDAI¹ guidance² updated from \$1,165-\$1,220 million to \$1,120-\$1,180 million
- Capex³ guidance updated from ~\$460-\$480 million to ~\$415-\$435 million
- Dividend guidance updated from 27.5 cents per share to 25 cents per share, 75% imputed
- Review of non-core assets underway, with decision made to divest Spark's shareholding in Connexa
- SPK-26 Operate Programme expanded to deliver materially higher cost reductions over multi-year period

Spark today announced it is reducing FY25 EBITDAI, capex, and dividend guidance.

While inflation and the Official Cash Rate have reduced since the conclusion of FY24, economic activity in New Zealand remains subdued, with weak consumer spending and business investment. These challenging conditions have impacted Spark's markets of mobile and IT.

Spark Chair Justine Smyth said: "The Board and Management acknowledge that our current financial performance falls short of what is acceptable, and we understand the disappointment our shareholders will be feeling.

"The challenges we are facing are both cyclical and structural. Weak business investment and consumer spending continue to curtail growth and squeeze margins. At the same time, we are undertaking a significant transformation of our Enterprise and Government division to address structural segment challenges.

"We have reduced our EBITDAI guidance range by \$45 million, or 4%, to reflect the softer trading conditions we have experienced, while right sizing our capex guidance to this new earnings profile. With this context the Board has made the difficult but necessary decision to reduce FY25 dividend guidance to 25 cents per share."

With the reduction in EBITDAI guidance being offset by the reduction in capex guidance, Spark's free cash flow ambition of \$400-\$440 million remains unchanged. The Company remains committed to bringing net debt back to targeted levels.

"Looking forward, we are resolutely focussed on resetting performance in our core, expanding the SPK-26 Operate Programme to significantly reduce our cost base and offset market headwinds, and simplifying our portfolio," continued Smyth.

"We are reviewing all non-core assets to determine if Spark remains the best owner, or if divestment or partnerships will deliver greater value to shareholders while further strengthening the balance sheet. We have made the decision to divest our shareholding in mobile towers business Connexa, and while a transaction is not yet certain, the strong levels of interest we have received is reflective of the high quality of the Connexa business. We will provide a further update on the review of non-core assets at our interim results in February, or earlier in the case of any material developments.

¹ 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

² Excluding gains on sale and one-off transformation costs that are greater than \$25 million. Subject to no material change in outlook.

³ Total capital expenditure, including growth and excluding spectrum costs.

“As we reset performance in the short term, we are also focussed on ensuring we are growing shareholder value over the longer term through our data centre strategy. We recognise the need to secure alternative long-term funding options outside of free cash flow to support our development pipeline, and we are currently exploring capital partnerships to achieve this.

“While we are transitioning through a challenging period, Spark has market leading positions in core segments and strong fundamentals that we have every intention of retaining. We deliver a return on invested capital of ~15% for our shareholders, ranking ahead of our peers globally, and we remain confident in our ability to return Spark to its strong track record of stable earnings.”

Drivers of updated guidance

Spark’s updated EBITDAI guidance is primarily driven by the following areas:

Mobile

Mobile service revenue is now expected to be largely flat year-on-year compared to the original FY25 ambition of ~3% growth, driven by lower anticipated growth in overall mobile connections and pressure on ARPU.

During the first quarter of FY25 consumer and SME pay monthly connections continued to grow, but at a slower rate than forecast, while there was a sharper decline in pre-paid connections in a highly competitive market. Additionally, pay monthly and pre-paid ARPU was impacted by lower spend on extras and casual usage, as customers continue to reduce spending. In Enterprise and Government connections remained stable during the quarter, but this was offset by an acceleration in ARPU decline, with increased price erosion at contract resigning and aggressive competitive pricing activity.

IT

Original FY25 guidance assumed stabilisation in the rate of decline of IT services in the second half, and based on the first quarter of trading this remains on track. However, in IT products the mix shift between private and public cloud has accelerated, impacting margins.

SPK-26 Operate Programme

Spark is on track to deliver its net labour cost reduction target of \$50 million in-year. Work continues towards the \$30 million net opex target, and to support this we intend to expand the Operate Programme with the objective of delivering materially higher cost reductions that will be realised over FY25 and FY26 collectively. Spark will provide more details on the benefits and associated transformation costs of the expanded Programme at its interim results in February 2025.

Resetting performance

Spark CEO Jolie Hodson said: “We recognise that we have a lot of work ahead of us to win back the confidence of our shareholders, and we are committed to that work.

“While we are navigating a subdued economic environment and increased competitive pricing pressure in the business market, the long-term value drivers of mobile remain. Demand for data continues to grow, our brand health is strong, and we are focussed on stimulating growth into the second half through pricing, new campaigns, and a new Endless plan line-up that will deliver our customers higher data allowances than ever before. When combined with easing monetary policy, we are confident these tailwinds will continue to support a strong and growing mobile business into the future.

“We have made strong progress on our SPK-26 Operate Programme, with our new Enterprise and Government operating model going live on October 1, integrating our subsidiaries into Spark and improving efficiency. Our product portfolio rationalisation is also progressing to plan.

“Given the challenging market conditions we must go further, faster, and we intend to expand the scope of this programme to include our technology delivery model. This will become a multi-year programme to ensure considered execution that accelerates our strategic focus on automation, simplification, and resilience, while delivering materially higher value over FY25 and FY26 collectively.”

Spark will provide more details on the benefits and associated transformation costs of the expanded SPK-26 Operate Programme at its interim results in February 2025.

Conference call details

Investors and analysts are invited to attend a teleconference with CEO Jolie Hodson and CFO Stefan Knight.

Date: Wednesday 30 October 2024
Time: 12.00 pm (NZDT)
09.00 am (AEST)
10.00 am (AEDT)
Audio Conference ID: 10043037

If you would like to join via teleconference, please register by clicking [here](#) or using the following link: <https://s1.c-conf.com/diamondpass/10043037-ja8b5e.html>

Please note that registered participants will receive their dial in number upon registration.

Country	Date	Time
Australia	30/10/24	09.00 am AEST
Hong Kong	30/10/24	07.00 am HKT
Japan	30/10/24	08.00 am JST
New Zealand	30/10/24	12.00 pm NZDT
Singapore	30/10/24	07.00 am SGT
UK	29/10/24	11.00 pm GMT
USA	29/10/24	7.00 pm EDT

Please note the teleconference will be conducted via teleconference only, there will be no webcast or live audience. The teleconference will be archived and made available for replay on Spark's Investor Centre Website investors.sparknz.co.nz.

Please dial into the teleconference 10 minutes before the start of the presentation.

Authorised by:
Stefan Knight
Finance Director

For more information contact

For media queries please contact:
Althea Lovell
Corporate Relations Lead Partner
(64) 21 222 2992
althea.lovell@spark.co.nz

For investor queries please contact:
Stefan Knight
Finance Director
(64) 27 252 9438
stefan.knight@spark.co.nz

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

For personal use only