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Spark announces FY25 first half results

- Revenue[1], EBITDAI[2], and NPAT[3] declined in a recessionary environment, while Spark maintained its number one position in mobile and broadband[4]
- FY25 EBITDAI guidance reduced to $1,040-$1,100 million, while capex guidance of ~$415-$435 million and FY25 dividend guidance of 25 cents per share (75% imputed) were maintained
- Decisive action being taken to improve performance – momentum building in consumer mobile; Connexa sale expected to deliver proceeds of ~$310 million in Q3[5]; expected net labour and opex reduction of $80-$100 million in FY25 and $110-$140 million of annualised benefits by FY27; and process underway to secure a capital partner to co-invest in data centre growth strategy

Spark New Zealand (Spark) today announced its H1 FY25 results and provided updated FY25 EBITDAI guidance.

With tough operating conditions continuing to impact overall performance, FY25 EBITDAI guidance has been reduced to $1,040-$1,100 million. The primary driver of the change is further deterioration in the performance of Spark's Enterprise and Government division, which has been impacted by spending cuts and mobile fleet reductions across Government and businesses, changes in product mix, and aggressive price competition in mobile.

Spark Chair Justine Smyth said, "When we updated the market in October, we outlined that we were experiencing one of the longest and deepest recessionary periods in recent history. Since that time, we have seen no improvement in these conditions, and while there has been movement on monetary policy, this is yet to flow through to any meaningful change in consumer or business spending.

"We know our shareholders will be rightly concerned by the ongoing headwinds we are facing, and Board and Management are taking decisive action to improve performance in the short-term and deliver sustainable competitive advantage in future years.

"This includes a significant transformation of our operating model and technology and network operations, which is expected to deliver a net labour and opex reduction of $80-100 million in FY25, and $110-$140 million of annualised benefits by FY27.

"We are simplifying our portfolio to focus on our telco core, and in December announced the sale of our remaining stake in Connexa, which is expected to deliver proceeds of ~$310 million and a gain on sale of ~$66 million in reported EBITDAI and complete in the third quarter[5]. We have also commenced a process to invite expressions of interest from prospective capital partners to co-invest and accelerate our data centre growth strategy.

"The scale and pace of deterioration in trading conditions we have experienced over the last year has been substantial, but this only hardens our resolve to respond rapidly, to transform what is in our control, and to set the foundations for Spark to once again deliver strong shareholder returns."

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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] Net Profit After Tax
[4] Market share estimates sourced from IDC at 31 December 2024
[5] The final sale price is subject to an adjustment based on movements in working capital and capital expenditure. All regulatory approvals required have now been received.

The Board declared a first half dividend of 12.5 cents per share, 75% imputed, which will be paid on 4 April 2025. This is in line with FY25 dividend guidance of 25 cents per share, 75% imputed, which has been maintained in recognition of the receipt of ~$310 million in Connexa proceeds expected in Q3. The Dividend Reinvestment Plan will be available for shareholders to receive shares at a 2% discount in lieu of a dividend.

H1 FY25 operating performance

Reported revenue declined 1.9% to $1,939 million, driven by the performance of mobile, IT services, and the continued decline of legacy voice, and partially offset by growth in mobile devices, cloud, data centres, and IoT.

Reported EBITDAI declined 20.9% to $419 million, driven by lower IT services project activity, the mix-shift from private to public cloud, and supplier cost inflation. Reported NPAT declined 77.7% to $35 million, due to lower EBITDAI and higher depreciation and amortisation costs. When adjusting for the non-recurring costs of operating model transformation of $29 million in H1, adjusted EBITDAI declined 15.5% to $448 million, and adjusted NPAT declined 64.3% to $56 million.

Spark's mobile service revenue declined 3.7% to $491 million, driven predominantly by shrinking mobile fleets following customers' headcount reductions and price competition in the Enterprise and Government division, and the cessation of Spark's mobile insurance product in consumer.

Broadband revenue declined 2.3% to $302 million as cost-of-living pressures saw customers trade down to lower priced plans, and connections reduced off the back of intensified price competition.

Total IT revenues[6] declined 1.5% to $336 million. While IT products grew 1.1% to $264 million due to strong growth in public cloud, this change in mix contributed to a 10% margin reduction. Reduced IT services project activity across the government and business sectors saw revenues reduce 10% to $72 million, while high-tech revenues grew 17.1% to $41 million as IoT connections increased 25% to over 2.2 million.

Data centres' revenue increased 13.6% to $25 million, as billing of Spark's 22MW capacity increased.

Commenting on the half-year results, Spark CEO Jolie Hodson said, "Conditions in the New Zealand economy have been incredibly tough, but we are taking action on the things we can control to transform our business.

"We have four key priorities – driving momentum in our telco core, with a particular focus on mobile, simplifying our portfolio, transforming our cost base, and creating long-term shareholder value through our data centre strategy.

"Mobile is central to our business, and we remain the market leader by some distance[4]. This is not something we take for granted, and we have a strong pipeline of new products and campaigns that are proving popular with our customers. We launched new high data pay monthly mobile plans, and acquisition was up 7% compared to the same period last year[7]. We also launched a new prepaid plan line-up in December and early data shows the same promising trends.

"In our Enterprise and Government division, around 80% of the connection decline we have seen comes from mobile fleets shrinking as customers reduce headcounts and deliver cost efficiencies, as opposed to losing business to competitors. Positively, we have seen this trend start to slow, with the rate of fleet shrinkage halving in the first half when compared to the second half of FY24.

"Broadband is a mature and commoditised market and saw consistent lower levels of overall growth. Despite this, wireless broadband is growing and now makes up ~32% of our base, and we continue to see opportunities to accelerate this in the future as 5G delivers higher capacity and speeds.

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[6] IT Products and Services revenue and costs have been restated in prior periods due to a product mapping change with the Data Centres business

[7] Pay monthly acquisitions over November and December up 7% vs the same period in H1 24

"In IT, conditions remain particularly tough, with little to no rebound in business spending. We are undertaking a significant transformation of our technology and network operations that will not only support improved margins in this market in the future but also enable us to leverage global capability and innovation to deliver even better outcomes for our customers."

Spark is establishing several strategic partnerships across IT, cloud, and network that will enable it to deliver better customer and business outcomes at a materially reduced cost, with a targeted ~20% overall average cost efficiency.

An IT infrastructure and services partnership is close to finalisation, and will accelerate automation and efficiencies and deliver a significant reduction in annualised IT costs, while a new strategic cloud partnership with Microsoft will improve Spark's overall cloud economics.

The new technology delivery model forms part of Spark's expanded SPK-26 Operate Programme. This programme is expected to deliver a net labour and opex reduction of $80-100 million in FY25, which increases to $90-$110 million on an annualised basis by the end of the financial year. This will be funded by a non-recurring transformation charge of $45-50 million in FY25, with $29 million recognised in H1. Additional annualised benefits of $20-$30 million commence from FY26-27, meaning the overall expanded programme is forecast to deliver $110-$140 million of annualised benefits by FY27.

Jolie continued "We are responding to the challenges we are experiencing in the short-term, in a way that also builds a stronger, more competitive business over the longer term. It is never easy to make changes that impact our people, and we do not do so lightly. I want to acknowledge our teams at Spark who have continued to support our customers during a time of change for our business."

Updated FY25 guidance

Spark updated FY25 guidance as outlined below:

- **EBITDAI:** $1,040 million - $1,100 million (from $1,120 million - $1,180 million)
- **Capital expenditure:** ~$415-$435 million (no change)
- **Total dividend per share:** 25.0 cents per share, 75% imputed (no change)

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