

5 October 2023



Spark Limited (SPK)

The company will hold its Annual Shareholders Meeting at **10.00am Friday 3 November 2023**.

The location is **Spark City Conference Centre, Level 2, 167 Victoria Street West, Auckland**.

You can also join the meeting online [here](#).

Company Overview

The company is the largest telco in New Zealand. It employs over 5,400 people in 24 business hubs, 63 retail stores, 16 data centres and its headquarters. It has 2.7 million mobile connections, 699,000 broadband connections with 98% of the country on the 4G network. It is rolling out the 5G network at pace with 1.46 million connections in 77 locations across the country.

Current Strategy

Spark's purpose is "to help all of New Zealand win big in a digital world". The strategy for FY24 to FY26 is set out on page 14 of the Annual Report. For New Zealanders, Spark's aim is to *lead mobile* and *optimise broadband* while for New Zealand businesses, Spark will help them to grow, and become more productive and sustainable.

Our purpose

**TO HELP ALL OF
NEW ZEALAND
WIN BIG IN A DIGITAL WORLD**

Āwhinatia ngā tāngata katoa o Aotearoa
kia matomato te tipu i te ao matihiko

Our values

TŪHONO: we connect

WHAKAMANA: we empower

MATOMATO: we succeed together

MĀIA: we are bold

Our FY24-26 focus

We will empower the people and businesses creating Aotearoa's tomorrow by:

Bringing New Zealanders the best digital-first experiences, curated to their needs



LEAD
Mobile



OPTIMISE
Broadband



LEAD
SME & Business



GROW
High-tech Solutions

Our enablers

Next evolution technology

Simple, data-driven organisation

Innovation culture

Our commitment: to stand together for generations to come

Toitū Sustainability at Spark



Economic Transformation



Digital Equity



Sustainable Spark

Te Korowai Tupu



Our Māori Strategy

Our FY26 outcomes

Low/mid single digit CAGR EBITDAI growth

>10% Free cash flow growth

+10 lift Customer engagement

Top decile People engagement

Top quartile Sustainability benchmarking

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See below.
Director share ownership	G	See below.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: Excellent disclosure. The Board Charter notes that “*The Board may determine that additional allowances be paid to a Director, as appropriate, to reflect additional services provided to the Company by that Director*”, although no such payments are disclosed for FY23.

Director Share Ownership: Directors are expected to accumulate the equivalent of one year’s fees over their first three years. While NZSA encourages share ownership by independent directors, it does not support compulsion as this reduces the pool of available directors, may compromise independence, and removes the ‘market signal’ associated with share purchases.

The timeframe of three years to achieve the target implies a 33% purchase rate, meaning that a board applicant would require existing wealth to serve on the Board. NZSA does not believe that ability is not defined solely by wealth. In this context, however, we observe that the Chair holds discretion to waive the requirement depending on a director’s personal circumstances.

Executive Remuneration: The CEO is paid a base salary and a short-term incentive (STI) in cash and a long-term incentive (LTI) by way of share options.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure ‘groups’), weightings and the level of achievement for each component versus target associated with any awards.

Spark offer excellent disclosure of this methodology for both the STI and LTI awards. We’re pleased to observe that the LTI award is based on an absolute shareholder return.

The STI and LTI maximums are 75% each of the base salary. NZSA prefers a weighting towards LTI to ensure the CEO’s interests are aligned with the long-term interests of shareholders.

Golden parachutes/handshakes: While NZSA does not generally support such payments, we are pleased to see the clear disclosure offered by Spark, highlighting a 3-month notice period by the company and an associated 9-month payment. This provides a disclosed ‘cap’ on the total possible payment.

We note that Spark clearly discloses the ‘without cause’ notification period and associated termination payment for the CEO. However, this results in a significant termination payment, beyond that generally offered to other staff. Nonetheless, NZSA appreciates the disclosure offered, in excess of that usually offered by other NZX-listed companies.

Board Composition: Spark discloses a comprehensive skills matrix that provides assurance to shareholders as to the relationship of individuals on the Board to the governance skills required.

The company is one of very few that participates in the IoD’s Future Director programme (or similar) designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

We note the CEO/Managing Director is a member of the Nominations and Corporate Governance Committee. NZSA considers this could create a conflict of interest as regards the nomination and appointment of new Directors. Whilst it is appropriate the CEO is consulted, NZSA believes the CEO should not take part in the appointment process.

The nature of the company’s board indicates a commitment to thought, experiential and social diversity, with relevant experience for Spark.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note that the Chair was appointed in 2011 with the other Directors appointed between 2016-22. The company has a clear succession management process in place, evidenced by recent appointments and the statement in the Annual Report around Board renewal and succession planning. NZSA appreciates clear signals related to the future plans of long-serving Directors.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance and decision-making activities. We also look for evidence that Boards are across their risk management responsibilities.

The [Board Charter](#) states that Directors are entitled to seek independent external advice at Spark’s expense, with the prior approval of the Chair. Board members are also able to access internal staff as required. The internal audit plan is overseen by the Audit Committee and the Company Secretary is accountable to the Board as disclosed in the Annual Report.

Spark offers comprehensive disclosure of the key strategic, business, operational and financial risks that impact the business, as well as mitigations. There is also thorough disclosure of its risk management and governance processes. We note that Spark aligns with COSO ERM and ISO 31000 standards related to risk management.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	G	See below.

Audit Rotation: The company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, and discloses the date of appointment of the Audit firm (Deloitte, 2020) and Audit Partner (Jason Stachurski, 2023) within the Notice of Meeting.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	A
Metrics and Targets	G
Assurance	A

Overall approach: For 2023 Spark has prepared their Annual Report in accordance with the Integrated Reporting <IR> Framework. Since 2019 Spark’s ESG commentary has been included within their Annual Reports, after producing separate ESG Reports since 2016. They have also produced their second Greenhouse Gas Inventory Report.

Sustainability Governance: Spark discloses a Board Skills Matrix that names each Director and incorporates sustainability into one of the identified skills. They also dedicate people to sustainability by way of their cross-functional ESG Squad and dedicated roles.

Strategy and Impact: Spark’s Sustainability Framework, Toitu Sustainability, has been developed in accordance with UN Sustainable Development Goals and is “integrated into Spark’s business strategy through our commitment to the three pillars of Economic Transformation, Digital Equity and a Sustainable Spark”.

Their progress against KPIs will be reported within each Integrated Report. They also acknowledge that climate change poses a risk to their business as do wider environmental and non-environmental factors. Spark has undertaken two scenario models to determine the impact on it strategy, and acknowledges that it is yet to determine the financial impacts in terms of cost or capital investment decision-making.

Risk and Opportunity: Spark’s climate change scenario-based risk assessment identifies seven risks and one opportunity, thoroughly describing the risk, impact and mitigation. We do note there is limited discussion of non-climate-related environmental risks, and would be interested in further disclosures

in future. It is likely that Spark will continue to improve disclosures as the mandatory climate-related disclosure regime comes into effect in FY24.

Metrics and Targets: Spark's GHG Inventory contains their Scope 1-3 GHG emissions with comparative data since FY2020 and is subject to limited assurance by Deloitte. They detail many environmental targets and also have ESG CEO incentive targets.

Assurance: While it is good to see Spark can provide external limited assurance for its GHG Inventory, there is no assurance provided for other non-financial or environmental disclosures made in their reporting.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	The company does not make political donations

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	See below.
Takeover or Scheme	n/a	n/a if no takeover

Sparks's share price fell from \$5.10 to \$4.74 (as of 26th September 2023) over the last 12 months – a 7% decline. The NZX 50 rose by 1% in the same period. The capitalisation of SPK is \$8.7b placing it 4th out of 128 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	2023	Change
Revenue	\$3,623m	\$3,593m	\$3,720m	\$4,491m	21%
EBITDAI	\$1,113m	\$1,124m	\$1,150m	\$1,722	50%
EBITDAI Margin	31%	31%	31%	38%	24%
NPAT	\$420m	\$384m	\$410m	\$1,135m	177%
EPS ¹	\$0.229	\$0.206	\$0.219	\$0.615	181%
PE Ratio	21	23	23	8	
Capitalisation	\$8.6b	\$8.9	\$9.5b	\$8.7b	-8%
Current Ratio	1.18	0.98	1.30	1.27	-2%
Debt Equity	1.96	1.74	1.84	1.31	-29%
Operating CF	\$903m	\$858m	\$841m	\$800m	-5%

Operating CF (cps)	\$0.49	\$0.46	\$0.45	\$0.43	-5%
NTA Per Share ¹	\$0.34	\$0.34	\$0.34	\$0.61	81%
Dividend ¹	\$0.25	\$0.25	\$0.25	\$0.27	8%

¹ per share figures based off actual shares at balance date (not weighted average)

Spark had a good year in FY 23 and most metrics improved, yet a falling share price was the outcome. It must be noted that the sale of Connexa provided a net gain on disposal of \$583m and this is reflected in the overall NPAT figure. This is a one-off item and will not be repeated in FY24.

Revenues were up by 21% to \$4.5b coupled with an increased EBITDAI margin of 38% meant increased EBITDAI of \$1,722 and subsequently an increase of 177% in NPAT to \$1,135m. This led to EPS of \$0.615 being reported.

SPK paid increased fully imputed dividends of \$0.27.

Last year we made the following comments in relation to Spark's dividends:

We note that this dividend payment is larger than earnings per share. Spark bases its dividend policy on free cashflow. Free cashflow allows for operating cashflows adjusted for the impact of leases under IFRS16 and capital that is need by the company to maintain its business ('maintenance capex'). Spark's dividend policy and recent market actions, such as suspension of its Dividend Reinvestment Plan, indicates to NZSA that it has confidence in sustaining its business on a lower level of maintenance capex as compared with Depreciation.

Spark has a large depreciation expense of \$504m, typical of most technology-based companies. As noted above, the relationship of the dividend policy compared to maintenance capex remains a key factor in sustaining Spark's dividend.

The company is in a financially sound position with a current ratio at 1.20 and following the successful divestment of Connexa and repayment of \$417m of long-term debt, the debt equity ratio has fallen to 1.31.

SPK has outstanding operating cashflows of \$800m, representing \$0.43 cents per share.

SPK has a low NTA of \$0.61 and shares consistently trade at large premiums to NTA.

In an [investor presentation](#) released to market on the 18th August, SPK issued guidance for FY24 with EBITDAI expected to be in the range of \$1,215m - \$1,260m. Capital expenditure is expected to remain fixed at \$510m-\$530m and SPK are also forecasting an increased fully imputed dividend of 27.5 cents per share.

The share register is widely held by a variety of institutions and individuals.

Resolutions

1. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://vote.linkmarketservices.com/SPK>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Wednesday 1 November 2023.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA