

17 October 2022



Spark Limited (SPK)

The company will hold its Annual Shareholders Meeting at **10.00am Friday 4 November 2022.**

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 5,000 people in 24 business hubs, 67 retail stores and 16 data centres and its headquarters. It has 2.4 million mobile connections and over 700,000 broadband connections with 98% of the country on the 4G network. It is rolling out the 5G network at pace.

During the year Pip Greenwood resigned from the Board and Sheridan Broadbent and Gordon Macleod were appointed. Paul Berriman will retire from the Board at the ASM.

Current Strategy

Spark's purpose is "to help all of New Zealand win big in a digital world". Their strategy sets a path for how Spark will continue to live up to the purpose. It focusses on four world-class capabilities: simple intuitive customer experiences; deep customer insights; smart automated networks and growth mindsets.

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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	G	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	G	See below.
Director Tenure	A	See below.
ASM Format	G	See below.
Independent Advice for the Board	G	See below.

Directors Fees: In general, 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 FY22.

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.

Golden parachutes/handshakes: We note that Spark clearly discloses the ‘without cause’ notification period and associated termination payment for the CEO. We note, however, that 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 and appointed its third Future Director during the year. 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 Remunerations 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 three directors (out of nine) were appointed in 2011 (including the Chair), with other directors appointed between 2016-22. The company has a clear succession management process in place, evidenced by recent appointments and a statement in the annual report. Nonetheless, NZSA appreciates clear signals related to the future plans of long-serving directors.

Independent Advice for the Board: 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.

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.

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 noted in the [Corporate Governance Statement](#)).

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: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. Unlike many companies it discloses the appointment date of the Lead Audit Partner and the Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations were made.

Gender Pay: Spark provides thorough disclosures around gender pay ratios for different parts of its workforce, a position supported by NZSA. This will likely form a part of NZSA's policy development programme in 2023.

Environmental Sustainability: We note Spark's progress on disclosing governance, strategic implications, risk & opportunities and metrics associated with the TCFD (Taskforce on Climate-related Financial Disclosures) framework. The specific, factual disclosures including measurable outcomes should reassure shareholders that the company is not 'greenwashing' its stakeholders. NZSA believes the company is well on-track to meet the obligations of the upcoming Climate-related disclosures regime.

NZSA is close to releasing an *Environmental Sustainability* policy, that takes a broader approach to the disclosure of environmental risks and opportunities and their impacts. We will also begin to apply this policy to our assessments from 2023.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	See below.
Capital Raise process	n/a	<i>n/a if no capital raised</i>
Takeover or Scheme	n/a	<i>n/a if no takeover</i>

Dividends and Imputation: We note whilst the earnings per share was 21.9 cents the dividend per share was 25 cents (fully imputed). The company has clearly disclosed the rationale for the dividend

is based on free cashflow, which takes into account working capital and capital expenditure requirements.

Sparks's share price rose from \$4.59 to \$5.09 (as of 18th October 2022) over the last 12 months – a 11% increase. This compares extremely favourably with the NZX 50 which declined by 17% in the same period. The capitalisation of SPK is \$9.5b placing it 4th out of 130 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	Change
Revenue	\$3,623m	\$3,593m	\$3,720m	4%
EBITDAI	\$1,113m	\$1,124m	\$1,150m	4%
EBITDAI Margin	31%	31%	31%	n/c
NPAT	\$420m	\$384m	\$410m	7%
EPS ¹	\$0.229	\$0.206	\$0.219	7%
PE Ratio	21	23	23	
Current Ratio	1.18	0.98	1.30	33%
Debt Equity	1.96	1.74	1.84	6%
Operating CF	\$903m	\$858m	\$841m	-2%
Operating CF (cps)	\$0.49	\$0.46	\$0.45	-2%
NTA Per Share ¹	\$0.34	\$0.34	\$0.34	n/c
Dividend Per Share ¹	\$0.25	\$0.25	\$0.25	n/c

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

Spark had a good year in FY 22 and the promise of another good year in FY23. This was also reflected in the share price which bucked the market trend. SPK's also maintained their PE ratio at 23.

Revenues were up by 4% to \$3.7b coupled with a fixed EBITDA margin of 31% meant increased EBITDAI of \$1,150 and subsequently an increase of 7% in NPAT to \$410m. This led to EPS of \$0.219 being reported. SPK paid a fully imputed steady dividend of \$0.25.

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.

The company is in a financially sound position with a current ratio at 1.30 and the debt equity ratio of 1.84. This is on the high side and if interest rates were to rise this may materially increase the finance expense and could potentially put pressure on profits. During the year the company increased long-term interest-bearing debt by \$203m.

SPK has outstanding operating cashflows of \$841m (although down 2% on 2021's \$858m), representing \$0.45 cents per share.

In a positive presentation presented to market on August 24th 2022, SPK issued guidance for FY23 with EBITDAI expected to be in the range of \$1,185m - \$1,225m which would be a marked improvement on 2022. Capital expenditure is expected to remain fixed at \$410m and SPK is also forecasting an increased fully imputed dividend of 27 cents per share.

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.

2. To elect Gordon MacLeod as an Independent Director.

Gordon MacLeod was appointed to the Board 1 August 2022 and is therefore required to offer himself for election. He was formerly at Ryman Healthcare Group, where he most recently served as CEO. Prior to this he was a Corporate Finance and Advisory Partner with PWC and was also the Finance Director of a Hi-Tech UK listed company based on the Cambridge Science Park in England. He is a Director of Deleat Group and is also a trustee of Breast Cancer Foundation NZ.

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

3. To elect Sheridan Broadbent as an Independent Director.

Sheridan Broadbent was appointed to the Board 1 August 2022 and is therefore required to offer herself for election. She has an executive and governance career spanning telecommunications, ICT, infrastructure, and energy. Her governance experience includes her role as Independent Director for Manawa Energy, Cloudsource Holding (Safer Me), Chair-elect of Pipeline and Civil Group, and member of the Government’s Cyber Security Advisory Committee. Previous governance experience includes her roles as Chair of Kordia and Director of Transpower.

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

4. To re-elect Warwick Bray as an Independent Director.

Warwick Bray was appointed to the Board in September 2019. He was formerly Chief Financial Officer, Group Managing Director Product, Executive Director Mobile, and Head of Corporate Strategy at Telstra. Prior to Telstra, roles included Managing Director at JP Morgan (London) in telecommunications equity research and Partner at McKinsey & Company (London), advising telecommunications companies. He has served on the GSMA strategy committee, the boards of Hong Kong mobile business CSL and Australian pay TV operator Foxtel and as Chairman of the Australian Mobile Telecommunications Association.

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

5. To re-elect Justine Smyth as an Independent Director.

Justine Smyth was appointed to the Board in December 2011 and Chair in 2017. Her background is in finance and business management, having been a Partner with Deloitte and Group Finance Director at Lion Nathan. She is currently Chair of The Breast Cancer Foundation New Zealand and a former director of Auckland International Airport Limited.

We note should she be re-elected she will have served almost 14 years at the end of that term. NZSA would expect some indication of her future tenure in line with good succession planning, however we will support her re-election.

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

6. To re-elect Jolie Hodson as a Non-Independent Director.

Jolie Hodson was appointed Chief Executive Officer on 1 July 2019 and appointed to the Board in September 2019. She joined Spark in 2013 as CFO and held the roles of CEO Spark Digital and Customer Director before being appointed CEO. Prior to joining Spark Jolie worked for 20 years in a range of senior roles for the Lion Group and Deloitte.

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

Proxies



Many Investors, One Voice

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 2 November 2022.**

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

The Team at NZSA