

Friday 1 April 2022

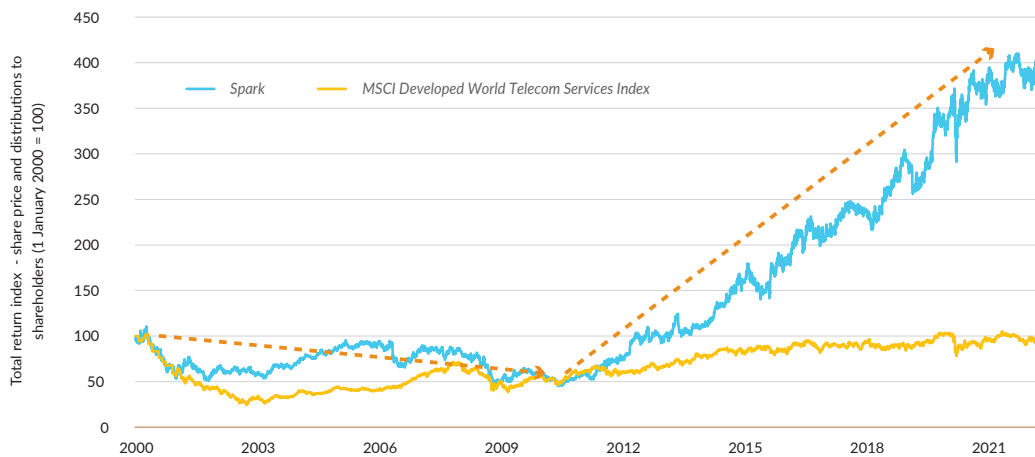
focus

Our purpose
is to help all
of New Zealand
win big in the
digital world.”

*An interview with
Jolie Hodson
CEO of Spark*

Despite the rapid growth in the use of their services, telcos generally haven't been a great hunting ground for investors over the past decade or so. Companies have struggled to balance the rapidly changing industry and the need to continually invest in new technologies, with delivering appropriate returns to shareholders. Notwithstanding this challenging backdrop, Spark has delivered as one of the best performing telcos globally. It's come a long way from the days when it was Telecom and once reckoned to have "the worst corporate reputation in New Zealand".

CONTRASTING DECADES: SPARK TOTAL SHAREHOLDER RETURNS



Source: Refinitiv, Forsyth Barr analysis

You joined Spark, or Telecom as it was then, in 2013. In that time the business has changed a lot. What do you think are the most important changes within Spark over that time?

Spark is an incredibly different place than when I joined nine years ago. We re-branded from Telecom to Spark, and it wasn't just a name change. It was everything that went with it. The purpose, the vision, and the culture. We're a faster, leaner organisation than we were before. When I think about our culture, we're a much more customer oriented organisation and we are more inclusive. Combine all that with the increased cadence of Agile ways of working and our people are more effective every day. More effective for customers. That's led to the results we've been able to achieve over that time.

You mention culture. How do you go about changing culture in a big legacy organisation?

Being really clear on what your standards and values are. And you have to live them. Because people look at what you do, not what you say.

They need to see it when they interact with you. See it in how your leadership team acts. How it flows through into the decisions we make every day in our business. That'll determine whether the culture you talk about is the culture you experience. And if it's a culture people want to be part of and strive for. That's what you're looking to create. A place where people feel they belong and where they want to strive to deliver that extra effort.

As a CEO is culture the number one priority for you?

As CEO I think setting the vision and strategy is a critical part of the role. Within that culture, and getting the right people around you to deliver on the vision and strategy, are equally as important. Because a good strategy on paper without the right people will not deliver a great outcome. Equally, you could argue that great people and culture also help to drive to the best strategy. Getting those things right ensures we prioritise our resources to things that most benefit our customers and shareholders.



“...Missions change over time. People will move around ... It adds more flexibility into the organisation to evolve as priorities change...”

Do you think you have a differentiated culture from other major businesses in New Zealand?

We were the first large company in New Zealand to adopt Agile. The reason we did was because we needed to be faster to market. When we looked at the pace of change happening offshore we knew we wouldn't be able to match it if we didn't do something different. Adopting Agile at scale has empowered our people, along with the work we've done around leadership and development.

We're also open about our ambition for diversity and inclusion. For gender that's 40:40:20 gender representation, meaning 40% male, 40% female and 20% of any gender. If you look at our board, our leadership team, we've already achieved that. Now as we look through the rest of the organisation increasing participation of female and Maori/Pasifika in technology is the big focus for us. So I think our differences are the pace and execution that Agile brings alongside a very inclusive culture.

One of our four strategic capabilities we're focused on is a growth mindset. That's about the ability to adapt to change. We're in an industry that doesn't stop, there's constant change. We need to create leaders who can really think about what's happening in the world. When you look at what's happened in the last few years, COVID, or the recent geopolitical environment, the world very rarely stands still. You need people that are capable of adapting to change. That's what we think differentiates us from some other organisations, both in this country and industry competitors abroad.

You mentioned Agile. Can you explain what Agile actually is in practise and how it delivers tangibly better results?

Why we chose to go to Agile was to be faster to market, more customer orientated and to increase engagement and empower our people. How that actually operates in the business is you bring a group of say ten people together on a specific mission, with clear objectives, for a

two week period. Every day there's a stand up where they talk about their progress. In the old world you might have ten people working on that priority, but each with six other priorities going at the same time. So Agile brings a focus on achieving a clear mission. Each of those missions ladder up to your overall organisation goals. And it creates much more of an owner mindset. By which I mean, asking is that mission or piece of work worth \$40k? Because that's about the cost of ten people for two weeks.

Missions change over time. People will move around depending on priorities. It adds more flexibility into the organisation to evolve as priorities change. So Agile is really about focus, setting clear priorities, removing management layers, removing silos. You're bringing together the right functional expertise to take something right the way through from planning, to delivery, to the end customer.

Looking back has Agile been harder or easier to implement than you expected?

Looking back at the first nine months, we looked offshore at different models and we thought about what would work in our organisation. Because it does have to be specific to your market and your business.

There was a lot of heavy lifting to allow us to shift the organisation to Agile on day one. Then in that first year we were working in a completely different way. Not only for the people but also for the leaders. The requirements of leaders were different. Working through and sharing things that are in early development is a different kind of leadership. Standing up in front of people when you don't have all the answers. Leaders are used to being able to talk to most of the things that come up. That was quite a shift for all parts of the organisation, and that takes a while to mature.

Over the following 18 months we've continued to mature. A lot of newer organisations have adopted Agile, but what was different about us is we had a heritage and a way of doing things over many decades.

We did have backup plans for something that might go bump in the night, but it didn't eventuate. Our plan was always to roll forward, never to roll back. Once you make a move on this type of cultural change you can't step back. It's certainly not for the faint hearted. Your organisation has to be quite change able.

You mentioned wanting to promote females, Maori and Pasifika into the technology industry. Can you share with us some of the things Spark is doing to encourage this?

We're working with universities and institutions, both sharing the kind of skills we're looking for but also being proactive about the representation that we want to see. We're also working with Alexia Hilbertidou, founder of GirlBoss, who's trying to enlist and encourage young woman to consider STEM careers, and to study what you need to get into technology tertiary courses.

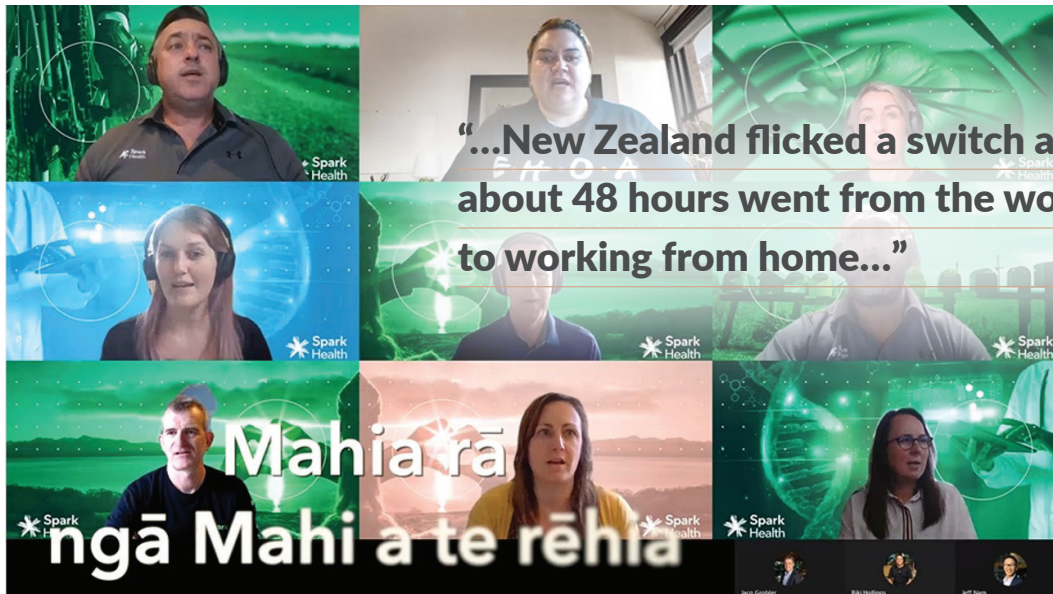
We're also working across industries. Champions for Change is an organisation that we belong to which is a group of CEOs and Chairs looking to promote improved gender representation. We're collectively looking at what we can do together, rather than having a more fragmented approach.

We're also focused on the future of work and upskilling and reskilling in our own organisation. We have a number of different ways that people join us. For example, some of them do it while they are studying in our contact centre or retail stores. So how do we nurture those people and build them into our organisation? We can move some into technology roles and invest in them. And that need has probably been heightened over the last two years because of the border restrictions. It has accelerated that work.

How challenging has COVID been for the organisation? Are there any lessons or impacts that will prove enduring?

If you stand back and think about the industry that we're in being digital services, COVID has probably been the biggest Chief Digital Officer around. Over the past two years you've probably seen five years of normal transformation, which has been significant.

For our business, roaming was lost when borders closed. That's been gone for a couple of years. As we approach the next financial year that should start to return as borders open up. Our stores and retail footprint have been impacted by closures on and off. In the first year of the pandemic we provided significant support to businesses to get them ready to have more people working at home. When you think about it, New Zealand flicked a switch and in about 48 hours went from the workplace to working from home. That was possible due to the quality of the infrastructure that we do have in this country. That's in fibre and mobile networks, through the investment we've made over time. We really didn't miss a beat.



Looking ahead, the digital economy to me is a big focus. How we build both skills and the right infrastructure for the time ahead. That's more of our focus now.

How would you describe your vision and strategy to our investors?

Our purpose it is to help all of New Zealand to win big in the digital world. That's really the context for what we do. And that's whether you're a consumer using our mobile services, or you're a business or government enterprise transitioning to the cloud. That sets the scene for who we are.

We've got some established markets, in mobile, broadband and IT. They're probably the things that people traditionally know us for. We've got future markets, such as digital health and IoT (internet of things). Looking ahead to 5G and even further out to 6G, they're areas for growth. IoT is really about connecting a lot of devices together to help businesses make decisions faster, to do more with their data, to be more effective and efficient. In a world where sustainability is becoming an increasingly bigger issue for every business, every citizen and every country, technology will play its role in helping to solve that as well. We're seeing that increasingly in the solutions we sell.

Our role is really creating the infrastructure and digital services that help individuals and businesses to succeed in that digital world. There

are four world class capabilities we think sit alongside those markets.

The first one is simple intuitive experiences so our customers are able to engage with us easily and get what they want when they want. Data and insight is critical. We've done work around AI, machine learning, understanding our customers, and the households that they live in. Bringing together different forms of data helps us better achieve that. We've also invested significantly in our smart networks. That's about automation and investing in new technologies such as 5G, IoT, and Cloud. And the last one is around growth mindsets which we touched on earlier. Which is really about our people, adaptive leadership, how they continue to grow and change with the environment they're in so we can deliver on those strategies.

Thinking about the core markets of mobile, broadband, and cloud. They will set us up for that future. There are growth opportunities. Health is a good example. The health system is transforming from largely paper based to much more technology based. We've got a role to play in that. Our digital health strategy focuses on both platforms and security, helping DHBs and others head towards that cloud transformation. Our role is to enable other businesses through the technology we provide, and provide skills and services to assist our customers to make that transition. That's really our key role in New Zealand and those industries.



“..Overall content plays an important part of our entertainment proposition for customers, whether that’s Netflix, Neon, Spotify or sport...”

Many people are interested in Spark Sport. What lessons have you learned from launching that service over the last few years and how important is content?

Overall content plays an important part of our entertainment proposition for customers, whether that’s Netflix, Neon, Spotify or sport. In our recent first half results we delivered strong revenue and earnings growth in sport. Since then we’ve had the news that we’ll lose the Premier League content from next year. That means when we look ahead we’ll probably have lower sport revenues. That’s getting us to accelerate our thoughts on partnership around that sport content.

Standing back though you can say that, over the past two to three years, New Zealanders have been able to access a whole range of different sports in a whole range of different ways. It has sped up the transformation of that marketplace. For us it’s about finding the right mix of content and entertainment for our consumers, and giving them a choice of things that they would like to consume alongside their broadband or mobile. And finally, we need to get the right financial return. We said we would only invest if we got a strong commercial return. That’s the balance we need to achieve for any content that we have.

One notable change in the New Zealand industry in recent years has been the entry of international players like Microsoft and Amazon. How do you think their entry or other factors will change the New Zealand industry over the next three to five years?

The technology landscape changes so much all the time. The interest in public cloud is definitely accelerating in New Zealand with the likes of Microsoft and AWS. Spark has partnerships with both. But we also offer our own private cloud alongside that.

Customers are transitioning to the cloud. What they need is people onshore to help them make the move. If you have legacy applications it’s not that easy just to move them to the public cloud. You might choose to have some in a private cloud, some in a public cloud, and our role is to help you with that. We also have onshore support services within that.

Just as IT has always changed we’re changing with it. What is true is that partnerships and collaboration will be a much greater part of our world moving forward. Whether that’s content, whether that’s in cloud, whether that’s in our digital health platform. One of the roles that we can uniquely play is we can connect different parts



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of that chain together and make it easy for both suppliers and customers.

There's never a world where we will stand still and we won't have different people coming to compete. The reality is the speed at which we move, and those four capabilities that I touched on before, are really important to us. One of the things we faced back in 2012/2013 was that there were certain revenues and lines of business that would disappear over time. They would need to be replaced by others. We needed to face that reality and make sure we were constantly adjusting our strategy and also adjusting our capability and our investments to reflect that.

Early after I joined, one of the first things I did was to exit a lot of our offshore businesses. That helped to fuel our growth in other areas like cloud and our mobile business. So, part of the role for us is making sure we continue to change, but also recognise the change that is coming and invest in the right places and at the right time to meet that.

What are the tangible things we should look for as evidence Spark has achieved its goals?

We set out our strategy for a world that is primarily wireless. The majority of our relationships are on wireless technology. We're digitally native. A leading cloud custodian – that's

a combination of both public and private. Having 5G everywhere. That's linked to IoT and edge computing. That network infrastructure helps create new revenues opportunities. And our workforce will really help support that change.

What we've seen over the last few years is a transition away from some of those legacy revenues. We've managed to cycle through those now and in the future new revenues will contribute to growth. That's a big focus for us. We've done great work around cost and capital management. Top line growth is now the big driver for us. That will drive underlying earnings and cash flows, and ultimately grow shareholder value.

We're continuing to change and adapt our portfolio to match the shifts that are happening in the world. Our stated strategy for the next three years outlines what you can expect to see from us. Growth of future markets aiming for around \$80-90 million in revenue. The cost work we're doing includes both efficiencies within the business but also the simplification of plans. We're using data to drive the retention and growth in our customers. Those are all the things that we're focused on. Ultimately, when you stand back our aim is to have a growing business.

**...We are an enabling organisation.
That's critical to how we think
about our role in New Zealand...**



Are there any last thoughts you'd like to share with our investors?

We are a New Zealand business. We invest for New Zealand. We're very invested in seeing our community grow. We think about who our stakeholders are. Shareholders are clearly a key part. Also our customers, communities that we work in, whether that is through Spark Foundation, Skinny Jump, or from an environmental perspective. Our success is really based on New Zealand succeeding.

We are an enabling organisation. That's critical to how we think about our role in New Zealand. We all know that productivity has not been something that New Zealand has been renowned for. We believe digital technology is a critical part of achieving better productivity. Our role is to make that as easy as possible for our consumers and our business customers, helping to accelerate that digital economy within New Zealand.



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