Market Release

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Spark adopts S&P captive finance criteria in relation to interest free mobile device offers

Alongside its reaffirmation of Spark's A- credit rating, Standard & Poor's ("S&P") has today noted that it is applying its captive finance methodology to Spark New Zealand Limited's ("Spark's") interest free mobile device offers.

The continuing adoption of interest free mobile device offers by Spark's customers and the associated draw on working capital is consistent with trends observed globally by many telecommunciations carriers. Spark has been using external financing to fund these working capital needs, with approximately $180 million of Spark's reported 31 December 2017 net debt of $1,097 million driven by the funding of interest free mobile device offers.

Following a global sector review completed in 2016 S&P determined that it is more appropriate to measure debt associated with the financing of device repayment offers, such as Spark's interest free mobile device offers, against the associated receivable assets rather than the cash flows of the underlying business. As a result it has since begun applying its captive finance criteria to telecommunciations companies that provide qualifying device repayment offers; with Spark being the first major carrier in Australiasia to have this criteria adopted as part of S&P's rating analysis.

Application of S&P's captive finance criteria results in the exclusion of debt, assets, revenue, EBITDA, and cash flow associated with the captive entity from S&P's credit analysis of the parent company. In Spark's case the deemed captive entity encompasses only the financing of interest free mobile device offers.

Per S&P's calculation methodology the application of this criteria has resulted in an approximately 0.1x reduction in Spark's net debt to EBITDA ratio. Spark estimates that at its most recently reported balance date of 31 December 2017, this 0.1x reduction in calculated net debt to EBITDA would have equated to additional debt headroom of approximately $130 million; taking Spark's estimate of debt headroom as at that date to approximately $280 million. However it should be noted that S&P ratings are informed by forward-looking analysis and analytical judgement.

Spark continues to explore innovations around the financing of mobile devices, with a focus on satisfying evolving customer needs whilst maximising balance sheet flexibility.

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