Question and Answer

Operator

First question comes from the line of Sameer Chopra from Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

Congratulations. Very, very strong results and I suppose the capital management has turned up 12 months before expected. I had 2 questions. Firstly, just around mobile ARPUs. Could you maybe talk through what were the different headwinds you had internationally in '15, including the government repricing? And maybe a little bit of commentary around how customer behavior, around either spinning up or spinning down on time is playing out right now; that's kind of first. And then the second question is around costs into financial year '16. Maybe, Jolie, if you can provide a view around labor and other expenses. So basically, the fixed cost in the business, how is that expected to trend next year? What are the factors that sort of push it up or down?

Simon Moutter
Former MD & Executive Director

Sameer, thank you for your opening comments. So we are very pleased with the results, so thank you for the recognition of that. Look, on customer behavior on mobile, we've got a very clear postpaid lineup and plans today, and I think the market is stabilizing around a construct that provides good upsell incentive. And so if you look at our plan, we start with plans at $9 in prepaid. They're all plans really. There's just a payment difference. The prepaid market value at $9, $19 and $29 is pretty consistent across the market and hasn't really moved for a year, so it's pretty stable there now. And in postpaid, you really have a range of price points, the -- and that's sort of the $40 to $50 level now. You have unlimited voice and unlimited text and really, just the price points above that are around data and some of the value adds like Spotify. So those -- the tightened price points and the good value in those bundles is actually seeing quite a strong migration up the price points in postpaid. So that's supporting our performance in postpaid and really under the strong connection but it's the real highlight is our continuing very good performance in postpaid. So that's sort of what's moving in customer behavior. I think we saw during the year, as we had indicated, the lapping of the price step-downs in the government contracts broadly occurring. So late in the financial, we started to see mobile flattening out in the Spark Digital group, which is where the impact of some of those big contract price-downs were occurring. And so mobile doesn't -- in the more recent months' performance are showing sort of return to reasonable performance in that segment now as we've lapped those big shifts. So Jolie, any comment on the -- specifically on the ARPUs? I don't have those in front of me, but...

Jolie Hodson
CEO & Executive Director

Yes. No, I think you've covered most of those elements. You can see in the overall ARPU, it declined to $28.61. That was driven predominantly by postpaid. But if you pull that apart predominantly by the business market rather than consumer where we had good growth in service revenues, business was impacted as you said by that transition of the All of Government repricing contract and more of the sort of shadow government associations moving on to that contract, so we anticipate in '16 that that should level.

Simon Moutter
Former MD & Executive Director

And we're eager [ph] on the cost?

Jolie Hodson
CEO & Executive Director

Yes. So on the cost base, Sameer, in terms of, I think you asked around labor and what can we -- look, we continue to see opportunities to improve our productivity, enabled both by technology changes but also changes, as Simon referenced in earlier, in terms of how both our connect and digital businesses work together. So we still see opportunity there. And you'll remember that the connect DevOps restructuring that we completed in the first half of FY '15, obviously, the savings only came in, in the second half, so there'll be further savings into FY '16. And just more broadly in costs, we'll see the flow-through of -- from the Turnaround initiatives that were completed later in FY '15 will impact the savings. On the offsetting that, of course, is we continue to invest in our new ventures and in our growth in businesses like IT services and also in mobile growth, will continue to mean that there are investments in cost of sales. So I think productivity will continue and it'll help us offset any further price diminution, but also support new growth.

Operator

Next question comes from Arie Dekker from First NZ Capital.

Arie Dekker
Jarden Limited, Research Division

Just firstly on the guidance, so just -- so that guidance for EBITDA is off the $962 million and is on current comm comm. But will a further price increase be required on the draft pricing as it stands at the moment? Or will the price increase you put through earlier on the year be sufficient?

Simon Moutter
Former MD & Executive Director

I don't -- there's no intention to do anything further on price. We have just got in market at the moment a price change occurring around the development levies, which we're passing through, but other than that, we have no plans around pricing of broadband.

Jolie Hodson
CEO & Executive Director

And just for clarity, Arie, that the 1st of February pricing, we haven't recognized in FY '15 because of the no backdating. Equally, in the first 5 months of FY '16, we also haven't recognized that within our -- because there is no backdating after that once the new process…

Arie Dekker
Jarden Limited, Research Division

Where has that been -- where is that sitting and how will it be released?

Jolie Hodson
CEO & Executive Director

It's provisioned in revenue, so it's netted out in revenue.

Simon Moutter
Former MD & Executive Director

And we won't tell you how it's going to be released until we know what happens -- what they have to say.

Jolie Hodson
CEO & Executive Director

Until all the final decisions are out and sure that there's no subject to any kind of appeals or anything like that.

Arie Dekker
Jarden Limited, Research Division

Yes, 2 quick questions also for you, Jolie. Just firstly, the D&A profile from $450 million down to the new CapEx level, straight line and how many years?

Jolie Hodson
CEO & Executive Director

Sorry?

Arie Dekker
Jarden Limited, Research Division

Over how many years will -- do you expect D&A to go from the $450 million currently down to the new CapEx level under $400 million?

Jolie Hodson
CEO & Executive Director

We might have to come back to you that on, Arie. We expect -- if you look at '16, we'd expect that depreciation level to reduce again off where it is today. But in terms of taking it down to the CapEx level, I might get Stefan to come back to you on that, yes.

Arie Dekker
Jarden Limited, Research Division

Yes, it was flat in '15 but maybe that's because you also got the increased CapEx obviously. Just if you could try to connect the half…

Jolie Hodson
CEO & Executive Director

We have got some acceleration of [indiscernible] and technologies are changing, so we're also have been looking at those rates. But we're expecting a reduction in FY '16 and so.

Arie Dekker
Jarden Limited, Research Division

Yes, no definitely. Just keen to get the profile because it goes to earnings.

Jolie Hodson
CEO & Executive Director

Yes, for the profile; it's in it [indiscernible].

Arie Dekker
Jarden Limited, Research Division

Brilliant. And last year, you gave some guidance down, just cautioned people down on Southern Cross given it was a lower year. Can we expect a return to more normal levels in '16?

Jolie Hodson
CEO & Executive Director

Southern Cross always -- you can see the reason we guided it because it was a reasonable reduction last year. I think if you think and look back over a long-run basis, I think, using an average would be a reasonable estimate for FY '16, so.

Arie Dekker
Jarden Limited, Research Division

Sure. Okay. And the payout ratio for your dividend, are you sort of envisaged needing to go over 100% payout on the ordinaries?

Simon Moutter

Former MD & Executive Director

It varies. It's sort of very slight in the -- potentially. But sort of we don't have policies around ratios to profit anymore, Arie. It's sort of a -- in our view, an old way to look at it. So we've got the cash, we've got excess capital. So we're sort of trying to signal in, in the -- the level of the ordinary dividend as we think is sustainable, we wouldn't put it up there and then want to retreat from that in future years, so that's what we believe we can get to over time.

Jolie Hodson
CEO & Executive Director

And the special's really around resetting our capital gearing and so forth.

Simon Moutter
Former MD & Executive Director

Yes.

Arie Dekker
Jarden Limited, Research Division

Yes, sure. That makes sense. I think -- ah yes, I guess last question for me then just on digital ventures. What sort of -- I guess you've had a bunch of good things going on in the business and then also have the benefit at the moment of UBA price decrease cycling through. You also, on an EBITDA, have had the gains from the sale. What sort of investment in digital ventures are you sort of going to be happy to make over the next couple of years? I mean, it was a $30 million hit to EBITDA in '15. You sort of -- you comment some revenues will be coming in presumably over the next couple of years, but you've got things that you're sort of ramping up. Is the $30 million sort of the level we should sort of think that you're quite comfortable investing into that business at the moment?

Simon Moutter
Former MD & Executive Director

But of the order is the right, yes. We've built a series of businesses that are out the door and the focus is on monetizing them right now. So you shouldn't imagine we're going to launch another 5 things and lift the value -- the expense. Right now, we'll want to prove those in a bit before we do too much more there. So you'd expect the sort of year-on-year impact to moderate significantly now because they're up and out the door, and hopefully, they start to kick some goals on revenue and we make some progress.

Operator

Next question comes from Blair Galpin from Forsyth Barr.

Blair Galpin
Forsyth Barr Group Ltd., Research Division

Firstly, just in terms of the mobile space, just clarifying. I mean, are you still seeing quite a bit of the competition sort of at the start of this half of the year in the, I suppose, the retail prepaid base? It was quite aggressive earlier on. And secondly, just to clarify, just on the EBITDA uplift for next year. You mentioned it was sort of on a continual EBITDA. So is that the 3% on $962 million? Just to be really clear on that one.

Jolie Hodson
CEO & Executive Director

EBITDA guidance, yes $962 million, 0% to 3% on $962 million, yes. So reported and continuing are the same effectively.

Simon Moutter
Former MD & Executive Director

Yes. And Blair, on mobile and prepaid, the pricing and value has been very stable for quite some time now. And customer sat. is high with that, so there's -- and I think if you look worldwide, New Zealand prepaid value at those price points is outstanding. So that's fine. The issues with prepaid is mostly around June in the way the market is acquiring customers. So at the moment, acquisition offers silly $9 handset deals with $20 load -- preloaded SIMs, et cetera, is driving a lot of tune for very, very little value. So we tend to shy away from participating in that market. That is, unfortunately, the work of our 2 competitors who are driving a lot of that, but that's really the dynamic and we are focused hard on how we could shift the behavior around prepaid acquisition because it isn't -- it must be extremely dilutive to all 3 players actually the way that's playing out at the moment.

Operator

[Operator Instructions] Next question comes from Tristan Joll from UBS.

Tristan Joll
UBS Investment Bank, Research Division

I just wanted to drill down a little bit on that comment, Simon, you made on whether or not the payout ratio will exceed 100%. Is it probable that that will happen in the short term?

Jolie Hodson
CEO & Executive Director

Yes, yes.

Simon Moutter
Former MD & Executive Director

Yes, it is.

Tristan Joll
UBS Investment Bank, Research Division

And then I guess the -- just a follow-on dividend question. I mean the philosophy behind the special, is it that capital that still remains from the divestments?

Jolie Hodson
CEO & Executive Director

That's right, yes, yes.

Simon Moutter
Former MD & Executive Director

Yes, yes. Think of the special as a way of resetting capital and over time, yes.

Jolie Hodson
CEO & Executive Director

And using the buyback as well, of course. So...

Tristan Joll
UBS Investment Bank, Research Division

Yes. So Simon, you seem to be, in answer to the other question, suggesting that you would probably pay out above 100%. Presumably, that's a sort of a -- maybe a next year thing?

Simon Moutter
Former MD & Executive Director

I think that's broadly right, Tristan, yes. But you might in a very -- in the earlier years -- we're clearly viewing that we can return to revenue growth, and we wouldn't bother with that unless we could return to earnings growth. So we're taking a view of what our earnings will look like and therefore would see the dividend, the ordinary dividend element with a view of that. And -- but you're right, it could --

Jolie Hodson
CEO & Executive Director

It will be.

Simon Moutter
Former MD & Executive Director

In the first year, would probably be slightly under the dividend amount, but the headroom on our capital base obviously is multiples of that, so.

Tristan Joll
UBS Investment Bank, Research Division

Okay. It's good thing. And then just a couple of, I suppose, outlook questions. I think you dropped headcount by about 470-odd in this fiscal year. How do we think about that next year? And then I know we just had a -- you had a question on D&A, but have you -- did you make a comment earlier that you would expect that to step down from current levels next year? And then finally, are we back to a normal tax rate next year?

Jolie Hodson
CEO & Executive Director

Yes, so to knock those all off, so from an FTE or a people perspective, yes, we would expect to see continuing reductions. I think, obviously, the 470 included divestment of Cooks within that, so it had a higher number. So I think in the sort of small hundreds type level. In terms of depreciation, yes, reducing in FY '16. And in terms of the tax rate, yes, you'd expect a return to a sort of normal -- around that sort of 27% -- 27%, 26% type thing. It's really been the divestments that have impacted it this year mainly.

Operator

Next question comes from Ian Martin, an independent analyst.

Ian Martin

Simon, I guess, I've been relatively skeptical about where you -- whether you'd get the business to where you've got it to as soon as you have. I would have thought it might take another year, so well done on where it's got to so far. But I guess, what I'm looking at now is FY '16. You seem fairly bullish on driving market revenue, driving margin growth, and you've got a strong uplift in underlying -- or ordinary dividend next year, 10% on the higher level this year. But perhaps the best is that EBITDA guidance is still flat to 3%. So I just wonder why given you seem relatively bullish about the outlook and turnaround for next year, you've got such a relatively flat guidance. I guess the other aspect to that is looking at the different parts of the business, you see that one set of trend's working very much in your favor in Home, Mobile business where you've got pretty good revenue growth, particularly in mobile, and strong EBITDA performance, but slightly different set of trends in Spark Digital and I wonder what's going on there, that one's working very well in your favor but the other business is -- I guess, has a relatively negative outlook.

Simon Moutter
Former MD & Executive Director

Hard questions, Ian. Thank you. Look, I think on EBITDA, there's still a lot of moving parts in this business, right. It's still got a lot of heavy decliners in fixed voice, et cetera. So we'd sort of regard the EBITDA as the swing-around in the performance, right. We'd been forecasting declines in previous years, and now, we're forecasting an increase. But look, that's challenging for sure, but you see increased continuing confidence around cost reduction, OpEx, et cetera underneath that, which means we've got a view to the earnings and so therefore, are confident around that we can manage that level of dividend as I was running out with Tristan a minute ago. Jolie, did you want to add anything there?

Jolie Hodson
CEO & Executive Director

Just going to say if you look at EBITDA margins that we currently have and you consider that we don't own the access network in terms of taken into account with Chorus, effectively, those margins are sitting close to getting into that sort of top-quartile performance. So I think at a 3% growth, those margins are -- from an earnings point of view, are pretty strong. And obviously, the other thing is we're choosing to invest in new businesses to create growth for the future as well, so that does have a drag in the early years.

Simon Moutter
Former MD & Executive Director

What's the add back? It's about 11 percentage points isn't it?

Jolie Hodson
CEO & Executive Director

Yes, yes.

Simon Moutter
Former MD & Executive Director

Yes, Ian, on our EBITDA margin relative to, say, a Telstra or someone else, you have to add back roughly 11 points to account for the fact that we have the revenue for access but not the costs of access in the system, so -- or not the margins, the earnings from it; that belongs to Chorus and the LSC. So hopefully, that explains that. And then yes, the tale of the two sort of front-end operating divisions, it is -- there's no question that the mass-market division, which we know of as Home, Mobile & Business, has been the stronger performer of the 2. And the primary reason for that is actually the Spark Digital business is a more -- much more complex business, has a wider range of much more complex products and services and multiyear contractual agreements with very large customers that has taken a lot of adjustment to do the reset. So in the mass-market business, it's -- you can make reset decisions more quickly. You can turn all products off by declaring them closed and not selling them anymore, and you can launch new things quickly and implement new ways of doing business quite fast. And the digital business is more complex than that because we have multiyear agreements and have to negotiate the change processes and then manage those processes extremely carefully so that we don't put customers at risk. So it's been a harder division to shift, and you see a lot of the pain and cost of change. And the loss of all of that activity does result in some impact on sales momentum. And so having now got through that, including [ph] our sales force back at market completely, that's why we're sort of more confident around our view for the performance in that division looking forward. And we think a good result for Spark Digital in FY '16 will be to get back to a stabilized, i.e., no further year-on-year decline in that business. So hopefully that adds a bit of color.

Operator

Next question comes from Adrian Allbon from Craigs Investment Partners.

Adrian Allbon
Craigs Investment Partners Limited, Research Division

Simon, just wondering if you could give us a bit more color on your broadband strategy, just noting that if the market structure is sort of changing with the likes of Trustpower sort of entering your profit pool and you've also got SKY TV kind of reselling the product and then, more recently I guess, Two Degrees announcing sort of a cross-bundle?

Simon Moutter
Former MD & Executive Director

Yes, look, I wouldn't describe Trustpower as entering the profit pool. I'd have described their offer as entering the loss pool at $49 or whatever it is. But look, I think the consolidation and the transition to a market where you had more integrated fixed and mobile players was highly predictable and has been well signaled by the parties in there, and certainly was consistent with our view when we framed strategy for that. And we sort of think that's helpful at the end of the day. It is a consolidated market, is probably in the long run more -- the most likely outcome. At the moment, there is a large number of brands in the fiber business, but we've seen that before with dial-up Internet and copper broadband before. That will reconsolidate over time and we've seen that occur. So we think it's sort of the movement that you would reasonably expect. It does create a lot of pressure, particularly in the pricing sort of market. So the market sort of for the 40 gigabyte customer, what we call them entry-level broadband plans where you're getting into prices down in the sub-$60 price point, which are really not profitable price points. There's no way you can make money at those levels. So that's where it's the most challenging, and I think over time, just the gravity of economic sense will force that to shift. So it's how we view it.

Adrian Allbon
Craigs Investment Partners Limited, Research Division

Okay. And just in terms of sort of thinking about like a single risk I guess to your range on EBITDA guidance, would it be the broadband behavior? Or is there something else that we should be kind of thinking about?

Simon Moutter
Former MD & Executive Director

No. I think -- I don't think broadband -- we can hold our own there and always has the ability to turn up and down the competitive intensity quite quickly if we need to. I think the biggest -- always the biggest risks in this business to EBITDA are where the old margins, the heavy margins in fixed voice and if things move materially around that high-margin, legacy activity would be the biggest risk. But again, I'd emphasize that we're very good at managing that, and I think have showed a pretty sound trend there over time. So while it would be the right thing that could move it the most materially, I don't think that's likely.

Adrian Allbon
Craigs Investment Partners Limited, Research Division

So -- and just to be clear on that, we would see that sort of turn up in the Spark Digital business. Is that sort of where you're signaling that or you also...

Simon Moutter
Former MD & Executive Director

You can see it in both. If things -- if there was a material change to the pattern, but I think at the moment, you can see the pattern of technology migration mostly driving that change, not so much competitive intense. There's not much competition for fixed voice any more. There's just not enough market for that. So it's mostly technology changes or how you might price other, say, a mobile service against a fixed service or something that would drive steep shifts there, but -- yes. And remember, we're not alone here. So our 2 major competitors, both have very significant exposures to the fixed business, so it's not -- they have nothing particular to gain by leaping to accelerating the decline for some reason.

Operator

Next question comes from Raymond Tong from Goldman Sachs.

Raymond Tong
Goldman Sachs Group Inc., Research Division

I just had 2 questions. Simon, you sort of alluded to a shift in strategy towards, I suppose, monetization of customer growth and acquisition. Can you maybe talk about the opportunity there and maybe share with us any sort of data or statistics you may have in terms of the amount of data or volume growth across your fixed customer base and also, in mobile now with the shift to 4G? And secondly, can you maybe talk about the kind of share that you're seeing in fixed line or in broadband in the U.S. bigger fiber areas versus the more traditional copper side?

Simon Moutter
Former MD & Executive Director

Look, we continue to see extremely heavy customer demand, for data, principally; there's no question that's the driving force on both mobile and fixed broadband today. So the emergence of unlimited plans has seen data volumes on our -- on the fixed broadband network grow by over 50% over the last 4 months. It's been a very substantial growth there. So that's driving a pretty consistent and strong upsell path from limited plans to the unlimited volume plans where there's a bit of ARPU and margin for us when we achieve that, given that we have a very substantial core network that can handle that extra capacity at a very low-margin cost. So that's a beneficial track. And similarly, in mobile, I think just the more rapid uptake of smartphones. We've seen 4G volumes grow to -- I think the last time I looked, which is only 1 month or 2, over 40% of all of the data volumes. What are we up to now? Yes, around -- yes, so around 40%, I think, of our mobile data now has already been carried on 4G, which is -- which that migration has occurred more quickly than we expected and 4G mobiles consume more data because they've better at it. And so strong demand there and that is helping us drive upsell in the mobile plan lineup, so. And that's the key, I think, to monetization in mobile is to maintain included plan value with a decent step in structure and allows the mobile operators to take some additional value as customers shift or wish to get higher-volume plans. The pattern in New Zealand has not been so much a price issue, but much more aggressive expansion of plan value. And if we're going to monetize it, we're going to need to manage that a bit more carefully than we have in the past couple of years. So that's the track on that. And then what was the last part of the question, Raymond?

Jolie Hodson
CEO & Executive Director

About the fiber share.

Simon Moutter
Former MD & Executive Director

Fiber share, yes. So look, we were -- on fiber, we're not satisfied with our absolute market share on fiber, and you would expect us not to be. We have some excuses. I hate making them, but they're real ones in that we -- as the major provider, we had a very, very substantial job to do to build an integrated fiber solution that could work into our billing and fulfillment systems and things. So we were slower to market based on our old IT stack. I hope in our future reengineered one, we won't have these problems again, but we were slow to market in getting across fiber nationwide, but we're there. And we also took a long time to get a fiber voice service up and running, but we have now achieved that and our share of net adds is substantially up now. So we're very -- we're approaching that market now with a lot more confidence that we've got a complete product set and a good capability. I just hasten to add and it's unfortunate I have to say this, but still, the continuing poor performance of the fiber providers in provisioning is a real detriment to the opportunity in this business, and we work hard with them. But it is substandard and all 4, 5 of providers in New Zealand need to materially lift their game if we're going to have a good customer experience when we take customers on to the network. It's a great product then they've got it and we're now using it subsequently, but the drama of getting connected on fiber is just simply unacceptable. That puts us, as RSPs, in a very difficult position where we have to carry the customer through it, but have nothing -- effectively nothing to do with the physical process. And so we're in a very active set of discussions with all the parties trying to find a better way to do that. And I can assure customers out there that at Spark, we are totally committed to some sort of step shift in the way fiber's being done today. We probably need to call to a close do we, team? Yes, we've run a bit over time. So thank you, everyone, for joining the conference. And if there are further questions, our investor relations teams will be very happy to take them and please make use of the new Investor Relations Spark app. We'll talk to you again at the half year. Thank you.