11 May 2017

The Manager

Market Announcements Office
Australian Securities Exchange
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir or Madam

Vita Group Limited – Transcript from Investor Q&A 11 May 2017

I attach a copy of the transcript from the Investor teleconference Q&A held today, 11 May 2017, for release to the market.

Yours faithfully

Mark Anning,
Group Company Secretary and Legal Counsel
Vita Group Limited

Vita Group Limited · ABN 62 113 178 519
Phone. (07) 3624 6666
Fax. (07) 3624 6999
Email. info@vitagroup.com.au
Actual. 77 Hudson Road Albion QLD 4010
Post. PO Box 218 Albion QLD 4010
www.vitagroup.com.au

O/N H-780341

BOARDROOMRADIO

TRANSCRIPT OF QUESTION & ANSWER SESSION WITH

MS MAXINE HORNE

and

MR ANDREW LEYDEN

1.01 PM, THURSDAY, 11 MAY 2017

OPERATOR: Thank you for standing by, and welcome to the Vita Group Investor Q&A. All participants are in a "listen only" mode. This is a question and answer session. If you wish to ask a question, you will need to press the "star" key followed by the number "1" on your telephone keypad. I would now like to hand the conference over to Ms Maxine Horne, CEO. Please go ahead.

MS M. HORNE: Thank you. Good morning, everybody, and thank you for your time today. I'm Maxine Horne, the CEO of the Vita Group, and joining me as always is our Vita Group CFO Andrew Leyden. First of all I want to start with a recap on the information in the ASX statement that we issued today, and then I will hand over for us to take some questions from you all. I do want to acknowledge that whilst we will tell you everything we can, we are operating under a confidentiality agreement within our contract, and also the specifics are not yet worked through. So I do understand that this is very frustrating for you, but unfortunately that is the situation that we're in.

So from a question perspective, we won't be able to go into specifics around the negotiations. Firstly and most importantly, we are pleased to provide a trading update ..... the market ..... where we expect to deliver EBITDA between 63 and 66 million. This is a record result for Vita and compares well against our FY16 result of 62 million. Despite the fact that we're heading into a softer second half, we are happy with how we're tracking.

Now onto the topic of the Vita Group footprint, where Telstra have announced their plans to create geographic clusters. We support this strategy, and in fact, it's something that Vita has been doing for the last few years. We are well positioned, with 107 stores and with representation in 35 out of the 48 clusters. What does that mean? That means that within each of the – we either have – we have as little as one in a cluster or as much as having all of our stores being that cluster. In some of these – so we believe that that puts us in a good negotiating position. This gives us the opportunity to continue to optimise further. We will likely see some additions and exits, but we expect our network to remain strong and profitable.

Now onto the commercial discussions that we're having with Telstra. As I mentioned before, these are confidential. And you know, ultimately, until we're at a position where we can make an announcement to the market, we have made a decision to suspend our expansion of the portfolio. So again to be clear, what that means is there won't be any additions in numbers, but we will continue to optimise within the numbers that we currently have within our footprint. We know we can generate strong profit based off our current store numbers, so we're happy to continue optimising that footprint.

It's also important that we fully understand that these – that – sorry, the commercial implications that come out of our negotiations – let me start again. Sorry. It's also important that we fully understand the commercial implications that come out of these negotiations with Telstra before we actually make any firm decisions around the store-count numbers. And ultimately, as I've already mentioned to you in the past, we are looking to diversify the Vita Group. And we have to make a decision as to where we best spend our money. As we have pointed out for the last year or so, we ..... continue to look for those.

And I think last time around I indicated that we were likely to be in a position in the first half of next year to make an announcement. That is still the case. And we're still very optimistic about the opportunities there. So for me, that's the summary of the ASX update. Hopefully that gives you a little bit more insight. Again I repeat that I understand the frustration, and I do have empathy for shareholders; but unfortunately until we know the specifics, we're unable to communicate those more publicly. Now I would like to open up for questions.

OPERATOR: Thank you. Once again, if you wish to ask a question, please press star then 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star, 2. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Scott Murdoch with Morgans. Please go ahead.

MR S. MURDOCH: Afternoon, guys. Just a couple of questions to kick off. Just on the cluster strategy that you've called out, you've got a presence in 35 of the 48, so that's about 70-odd per cent presence. Can you give us a bit more detail on how many clusters you would have a minority presence or a one-store presence, you know, out of the whole cluster areas?

MS HORNE: I think it's probably sort of high. Sorry. It's between 15 and 20, I think, but I'm not 100 per cent certain on that one, Scott.

MR MURDOCH: Okay. And, obviously, Telstra want licensees - - -

MR A. LEYDEN: You know, Scott, maybe just to add, I mean, as you know, we've been working for that cluster strategy for a while, so a lot of our stores would have been in clusters, as we define them. It's probably fair to say that the way that Telstra look at them may be slightly different. So we probably just have to look at that again and sort of work out, you know, what position – what natural positions would probably be taken either by ourselves or the licensees or Telstra themselves. So, yes, I don't know the exact numbers either, but, you know, we have been working to a cluster strategy for some time, so I would expect that the numbers, you know, where we have a good proportion of the stores, would be reasonable, of that – of the number of clusters that we've stated.

MR MURDOCH: Okay. And then just in – obviously, Telstra have adopted the cluster strategy. So is there – are you, and potentially other licensees or Telstra, force sellers then? Does Telstra have some kind of enforceable power to, you know, enforce the cluster strategy? So you may have to divest, at Telstra's request, stores in a cluster?

MS HORNE: No. Telstra has been very adamant around – or very open around the fact that if you don't want to expand in a cluster you can continue operating where you are throughout the term of your contract.

MR MURDOCH: Okay. But at the end of the term they will be – you know, obviously that's how the cluster methodology of enforced for a – for anyone.

MS HORNE: I mean, that's not our – we – that's not our question to answer, Scott.

MR MURDOCH: Okay. No problems. And just on the 2020 agreement, I guess, is probably a question for investors. That's sort of a rolling five-year agreement, as we understand it. Is that the case? Is it sort of, you know, an ongoing negotiation around 2020, or is it not a five-year rolling agreement? Can you just give us some insight onto the end of term and what's happening now?

MR LEYDEN: Yes, yes. As you know, Scott, the agreement is to 2020. There are some extension criteria which I'm not going to go into in any detail. You know, we will clearly have discussions about that with Telstra, but that discussion will remain confidential. It's not something we can talk about today.

MR MURDOCH: Okay. No problems. I'm sure there's plenty of other questions. I will give someone else a go.

MR LEYDEN: Thanks, mate.

OPERATOR: Thank you. Your next question comes from Scott Shuttleworth, with Montgomery Investment Management. Please go ahead.

MS HORNE: Hello, Scott.

MR SHUTTLEWORTH: Hi there, Maxine, how are you?

MS HORNE: Good, thank you.

MR SHUTTLEWORTH: Excellent. Hi, Andrew.

MR LEYDEN: Hey, Scott.

MR SHUTTLEWORTH: So – I apologise. I arrived on the call a couple of minutes late. So I just wanted to clarify something from the announcement. So when you say a portion of your – so you're going to retain a portion of your stores. Does that mean that the market should expect that – you know, you've got 107 stores at the moment: that you might have something less in the future?

MS HORNE: I'm not quite sure where we .....

MR LEYDEN: Yes. No. Yes. Yes, I know which one you're referring to, Scott. The – no, I don't think we're implying that it's going to shrink materially, if that's what you're talking about. I mean, we will always look at opportunities, portfolio opportunities, as we do today, you know, to – we have sold stores before. We've bought stores before. And we will continue to optimise as we have, subject to opportunities emerging in the marketplace. But you shouldn't read into that that – you know, we're actively planning to consolidate the portfolio down.

MR SHUTTLEWORTH: Okay. No problem. Thank you for that. And I just wanted to clarify the terms of the master agreement that you have with respect to all these sort of additions, exits, that sort of thing.

MS HORNE: Sorry. What was – can you repeat that please, Scott.

MR SHUTTLEWORTH: So obviously you guys have in the past talked about – that you have a master agreement with Telstra.

MS HORNE: Yes.

MR SHUTTLEWORTH: Now, you have ..... you have some additions coming up. You know? I guess we just want to get some confidence that there's – you know, the size of your network with respect to this master agreement isn't – you know, it's not going to be, like ..... or anything like that in future.

MR LEYDEN: Well, we're not making any call on what sort of numbers - - -

MS HORNE: Yes.

MR LEYDEN: - - - we're going to have. Our plans at the moment are just to work within the size of the footprint that we've got. We will continue optimising. You know? If we get great offers for some of those locations, of course we consider them. But at the moment, our plans are just to optimise within the current size of the footprint that we have.

MR SHUTTLEWORTH: Okay. Thank you for that. And just one final question. So obviously the guidance in the press – in the announcement that was provided implies a certain run rate of EBITDA for the second half. And going back to the result, you talked about some softening in the second quarter. Now, is this sort of lower run rate of EBITDA – is that a function of just the REM changes, or would there be any sort of lower foot traffic there as well?

MR LEYDEN: It's primarily a function of REM change – save to say, you know, April was a relatively disrupted month, because there were just a lot of bank holidays and things like that. But it's primarily the REM change ..... of the benefits that we got from the ..... we brought into the network. But really, it's – you know, it's a lower-margin environment that we have, that we're operating within as a consequence of those REM changes. That will clearly continue into next year.

And, you know, we have to – you know, reflect that in the way we run the business into the future. And that means – you know, looking for opportunities for efficiency as we move forward. But yes, we – you know, we will have to make a few adjustments. But you know, other than that, we're still very happy with the level of profitability coming out of the Group. And as Maxine pointed out, whichever way you look at it it's going to be a record result for the Group this year. And we're absolutely delighted with that.

MR SHUTTLEWORTH: Okay. Great. Thank you very much.

OPERATOR: Thank you. Your next question comes from Robert Bonza, a private investor. Please go ahead.

MS HORNE: Morning, Robert.

MR R. BONZA: G'day, Maxine. Yes. I – so in that letter this morning – yes, you mentioned – yes, a master franchise. My understanding is that you own all of your shops. Would you – as a master franchise, would you franchise out your shops?

MS HORNE: No.

MR BONZA: No.

MS HORNE: We've always been a – we run company-owned locations. And we find that that enables us to drive a lot more discipline into the business.

MR BONZA: Understand there. Yes. No, that's just the "master franchise" comment I wanted some clarification on. So - - -

MS HORNE: Sure. The master licensee is around us having a multiple number of outlets that we represent – that we run and operate for Telstra.

MR BONZA: Okay, mate. No. Very good.

MS HORNE: No problem. Thank you.

MR BONZA: Bye.

OPERATOR: Thank you. Your next question comes from Warren Jeffries from Canaccord Genuity. Please go ahead.

MR W. JEFFRIES: G'day, Maxine and Andrew.

MR LEYDEN: Hi Warren.

MS HORNE: Hi Warren, how are you going?

MR JEFFRIES: Good. Just to go back on the portfolio as it currently stands – and I guess there's just some feedback coming in, there's some ambiguity about you will retain your portion, or a large portion of the network, versus a large portion of what you've already got. I think that's where there's a bit of dispute. It's not unreasonable to expect that – you're talking about not expanding the network from 107, so it's quite reasonable in 12 months time you still might have 107, but you can still optimise within that number to buy, close down or take on other sites. Is that what I'm understanding?

MR LEYDEN: Yes, yes. Well, we – I mean, we just made a decision just to hold any expansion of the network until - - -

MR JEFFRIES: Yes.

MR LEYDEN: Which is – it's clearly always subject to Telstra approval, but - - -

MR JEFFRIES: Yes, yes.

MR LEYDEN: - - - we made a decision to suspend that just for now until we got through this commercial discussion, and once we've got through that discussion we can reassess. But that's the position that we've taken at the moment.

MR JEFFRIES: Yes. Look, I just – I think there was a bit of interpretation that you hope to maintain a significant portion of the network, was a comment that you hope to retain a significant portion of what you've already got, hence people might be thinking you end up with 75 or 80 sites - - -

MS HORNE: Sure.

MR JEFFRIES: - - - in the short to medium term.

MR LEYDEN: Yes. No. Yes.

MS HORNE: Yes. No, we understand.

MR LEYDEN: Yes.

MR JEFFRIES: Yes, yes, yes. And just to that extent also, if – you know, if this all comes to pass and things pan out as Telstra want, and ideally franchisees all own a cluster in a region, if there's 48 clusters or regions out there that fall into this – and just for simplicity's sake, if you guys – and we've talked about this – end up with a third of those sites or regions, does that mean you need to work your portfolio into about 16 of the 48, which would represent a third, or there's still going to be flexibility to try and cluster as best you can, but there might be sites that stand alone within another person's cluster longer term?

MS HORNE: Sure. I mean, as I mentioned before, I think it was Scott's question around can, you know, a licensee be forced to sell - - -

MR JEFFRIES: Yes, yes.

MS HORNE: The answer was no, that if they don't choose to expand within their nominated cluster that they sit in, they can continue to operate as they are. We will continue to just look at – as we have historically, look at optimising our footprint. You know, we're very comfortable with the profit that we generate from the existing network. And we see areas of opportunity. That will obviously be in discussions – who wants to sell, who wants to buy, etcetera, and also with Telstra involvement. So it really isn't any – as we've always mentioned, we've been running to a cluster strategy for quite a while now, and our strategy hasn't changed there.

MR JEFFRIES: I guess it's still fair to say there's a limited buying audience out there for these sites if they come up.

MR LEYDEN: Well, it has been Warren.

MS HORNE: Yes.

MR JEFFRIES: Yes, correct. And there always has been. But there may be more coming, and is that going to, you know, suppress or depress some of the multiples you have been paying – which haven't been onerous anyway, I would suggest.

MS HORNE: I think it's probably a little bit too early to make comment on that. We don't know.

MR JEFFRIES: Yes, yes. And I guess just one final one - - -

MR LEYDEN: Yes. The – so the only thing I would say, Warren, is, you know, I don't think anything has radically changed here. The only thing that we're saying - - -

MR JEFFRIES: Yes.

MR LEYDEN: - - - at that moment is that we're not intending to expand our portfolio. That's really the only thing that – at the moment - - -

MS HORNE: Yes.

MR LEYDEN: - - - until we've got through these commercial discussions. And that's the only thing I think you really need to read into that.

MR JEFFRIES: Yes.

MS HORNE: And that's not really based on the clustering methodology. As you know, we're very supportive of that. It's really about understanding and getting through the commercial negotiations.

MR JEFFRIES: Yes. And just on the four new stores you've picked up during the half, you know, if - - -

MS HORNE: Yes, there's five.

MR JEFFRIES: Five, yes. What is the broad metrics of those given, you know, that they could be quite material to helping uplift the next half?

MR LEYDEN: Well, I mean, they will contribute in full to the next half. I mean, I won't talk about their specific contribution. You can have a look at that in the stats at the end of the year. But, you know, they will deliver a full-year contribution and, you know, we look forward to seeing that come through the books. So – but yes, you will obviously see the metrics relating to those, you know, when we publish at the end of the year.

MR JEFFRIES: Right. And I guess there's one more point we haven't touched on. We're talking just about the retail locations here. How's the business centres going, the enterprise value? Is that starting to look like it will contribute meaningfully and maybe help mitigate some of this fallout of earnings?

MS HORNE: It – we – as – if you remember last time we did our round of discussions with the investor community, we talked about the pilot that we're undertaking up in Townsville, and that has started.

MR JEFFRIES: Yes, yes.

MS HORNE: Excuse me. I've got a bit of a frog in my throat. And it's early days as yet, but we're seeing some very positive signs there. Will it – this half, I'm pretty sure it's not going to be that meaningful, but we are moving in the right direction.

MR JEFFRIES: Okay. All right. Cheers.

MS HORNE: Thank you.

OPERATOR: Thank you. Your next question comes from Tim Powditch, with Bligh Capital.

MS HORNE: Hi, Tim.

MR T. POWDITCH: Yes, hi. How are you going, guys?

MS HORNE: Good.

MR POWDITCH: Excuse me. Yes. Look, I've just got a couple of questions around a similar theme. Telstra Business Centres, is that something that you think Telstra is wedded to, owning them? You know, has that come into the discussions you're having around retail, or is that another discussion altogether, or is that part of the negotiations? I know you can't give a lot of detail, is there a possibility for change there?

MS HORNE: As we've said, there is a lot of – that business space is evolving and we are working very closely with Telstra in that space. We've been working on the go to market approach. It is – the market itself is still highly fragmented and so it is around trying – and part of the pilot up in Townsville is to work out what the best approach for that market segment. We do expect it – to your point, and we do expect to how we service a customer to evolve and that – yes. But as I said, we are feeling very positive results coming out of that with regards to the consultative selling to the business space, which basically results in us selling more multiple products and services to the same customer, which is the ultimate goal.

MR POWDITCH: Yes. Okay. And taking the business discussion a little bit further. In the negotiations over your commercial terms, is it likely that – I mean, clearly you're growing your revenues in SME and enterprise business, but is one of the bargaining chips you have with Telstra, and not to give the game away, but I mean, is it that you want to get better priced goods out of Telstra so you can be more competitive and more profitable in terms of the enterprise and SME businesses as well? I mean, it's not just all about retail, right, so therefore, I presume the commercial terms has changed quite a bit in only the last couple of years, in terms of where you sit now within Telstra, and so how does that all feed in?

MR LEYDEN: Yes. So, I mean, it's really like, about devices. It's more about the service proposition that you deliver to customers. Yes. Well, that will be part of a discussion, no doubt, in terms of how commercials will evolve. I think more importantly, the business opportunity is both an opportunity for Telstra and an opportunity for Vita Group and you know, it's a fragmented market. It's an area where I think, you know, we would, as a partnership, aspire to deliver better outcomes, whether as a share opportunity and there's a share of ..... opportunity as well, so we just think it's upsiding business to be honest with you. I think that's – so that's about – you know, it's less about sort of commercial discussions from a remuneration perspective. I think it's more about how we go about addressing that market.

MR POWDITCH: Yes. Okay. And the last one. Has there been anything public put out by Telstra to say that they – in terms of they have come out, I think, and said that they, you know, want to take some maybe metro licences back in house, and all that, sort of part of this whole thing, is there anything that says that Telstra is only interested in major metro kind of areas themselves, or are they interested wherever the spaces are across the clusters?

MR LEYDEN: Well, I don't think Telstra came specifically and said that about metro. I think they responded to a leak of information to the market. I think Telstra probably needs to speak about their intentions themselves, rather than us sort of, you know, present out opinion on it, you know. I think what you're referring to was a linked document that Telstra have commented on, so we will probably leave it there.

MS HORNE: Yes.

MR POWDITCH: Yes. Okay. All right. Thanks, guys.

OPERATOR: Thank you. Your next question comes from Josh Kannourakis with Baillieu Host. Please go ahead.

MS HORNE: Hey, Josh.

MR J. KANNOURAKIS: Hi, guys. So just a couple of quick questions. The first one, just on the REM changes and timing. So if we look there, we – you noted that they came into effect sort of December and February. In the previous docs you've also said that there were some sort of small offsetting positive REM changes as well to sort of offset some of those. If we look at the run rate of the second half, have they fully been taken into account across the broader run rate of the second half, or was there a step change in those REM changes across the half?

MR LEYDEN: Yes, the vast majority of it was through. So those changes were made progressively between December and February. But the majority were sort of in from February onwards. So I would say that the majority of that, or the net impact of all of that has actually hit the market already. So, you know, if you're trying to work out run rates, you can probably, you know, reasonably reliably use the second half as a determining run rate.

MR KANNOURAKIS: And I suppose on that, Andrew, in terms of how you've sort of refocused training of your staff to deal with the new remuneration structures, have you felt like that response has been in keeping with your previous responses to REM changes historically?

MS HORNE: Obviously, that's an ongoing thing and some of your team members adapt very, very quickly, and some take a bit longer. The monitoring, you know, so our Accelerate program that we use internally allows us to identify our consultants and who are doing the consultative sale, which for us is around, you know, making sure that we've got the right solution for the customers, making sure that we're talking about a holistic approach and we're not just, you know, pushing product. It is really around what's right for the customer. So that's an ever-ongoing process, Josh, and as new people come into the organisation it's about bringing them up to speed as well. But I would say that, you know, the uptake has been as before where some people have grabbed the ball and ran with it, and some people are still continuing to go down their learning path and to - - -

MR KANNOURAKIS: Yes, so I suppose the read-through there is that, you know, although you do hope to have some further improvements, that broadly the run rates is, you know, how you are incorporating the changes fully into the second half and how you expect to react to it.

MS HORNE: Yes, but as we've always pointed out historically, we know we manage the KPIs, we benchmark them across the organisation and we know where the areas of opportunity are from a – you know, are continuing to sell more than one product to the customer and to make sure that they really do have the right solution. So we – and we home in on those and manage by exception.

MR KANNOURAKIS: Okay.

MS HORNE: So we know that there's still potential there.

MR KANNOURAKIS: Still potential. Okay, great. And then second part, just in terms of the cost profile, so on an expected, I suppose, a lower run rate or earnings base going forward, is there much of that in the cost base or much cost out that you believe could take out at all?

MR LEYDEN: Well, it's hard to say, you know, what level of, you know, costs we can sort of, you know, look to take out of the business. I think it would be fair to say in a lower margin environment it would be remiss of us not to look at the cost base. And so we will, in a nutshell. Now, that's not to say that it's going to be a radical thing, but we've got to look at it and we've determine what our actions are going to be. But it's - - -

MS HORNE: Yes.

MR LEYDEN: We have an ongoing opportunity to run this business as efficiently as possible.

MS HORNE: Yes. And, you know, at the end of the day, Josh, we don't want to strip as much cost out as we can just to please – to show a number short term. We need to make sure that any changes we make to the business can enable us to continue with our growth.

MR KANNOURAKIS: Okay, great. And just one final one, I suppose more for the retail shareholders, just on the dividend, do you still expect to keep a sort of payout ratio in line with historical rates?

MS HORNE: Yes, look, the board hasn't had any reason to change its position on our dividend policy.

MR KANNOURAKIS: Okay, great. Thanks, guys.

OPERATOR: Thank you. Your next question comes from Ben Rowe, with Paterson Securities. Please go ahead.

MS HORNE: Afternoon, Ben.

MR B. ROWE: Hi, guys. How are you? Just a quick question from me in regard to the commercial negotiations. Can you just give us any sort of "best guess" as to how long you think that process will go. I know that's probably a difficult question to answer: but just how things have evolved in previous negotiations and when we can expect to get some finalisation or some comfort around what these negotiations are going to entail.

MS HORNE: Sure. It's pretty hard to give – you're right. It is hard for us to pinpoint the length of time that that will take. So I would be disinclined to make any comment there.

MR ROWE: Okay. That's fine. And just to clarify, this – the commercial negotiations revolve around the current existing 2020 licence. It's not anything beyond that.

MR LEYDEN: Look, it will be a range of matters, to be honest with you. And I won't go into any detail here. But it will be – you know, it could be any number of the commercial terms within that contract. And you know, it is good to refresh the terms of that contract as the market moves and – you know? So we welcome that and encourage that. And this is not a unique event. We've done this previously. You know? We've updated the agreement many times, and you know, I expect that we will go through this discussion and there will be another update.

So – it's important that we do that, because the market changes. The economics of the market change. New products and services come into the market that we need to take advantage of. And it's a perfectly natural thing to do. The industry is changing all the time, and we have to keep sort of revisiting the industry and look at where the opportunities to make – to drive profitability will be. So it's not something you should see necessarily as an issue. It's often an opportunity to sort of reset the relationship, to focus on the areas of growth and the areas of profitability.

MR ROWE: No. Certainly. I guess the issue for investors is how long do they have to remain in the dark for while those negotiations – you know, go on. Is there light at the end of the tunnel in – you know, a month or two, or are we talking – you know, sort of four, five, six months down the track where we can actually get some visibility?

MS HORNE: Sure. I mean, it is – we really can't tell you at this moment in time. But what we can tell you is as soon as we are able to come out to the investment community with certainty, we will.

MR ROWE: Of course. No. Thank you, guys. Appreciate it.

OPERATOR: Thank you. Once again, if you wish to ask a question, please press "star", "1" on your phone and wait for your name to be announced. Your next question comes from Warren Jeffries from Canaccord Genuity. Please go ahead.

MR JEFFRIES: Yes. Sorry, guys, not to labour the point, but the remuneration discussions from December to February, I think earlier, you were saying are largely being implemented and absorbed into the business. So what you've got now is the more immediate discussions around the configuration of the portfolio and the clustering and the ownership structures. Would that be right?

MS HORNE: No. It's a combination of a lot things. As Andrew has already said, there are a number of things that sit within our existing relationship. Modifying to, you know, the industry pressures that everyone is facing and making sure that we're focused on moving forward on the things that deliver value for Telstra and ourselves.

MR JEFFRIES: So more remuneration changes will be part of that again then, potentially, or likely.

MS HORNE: Potentially.

MR JEFFRIES: And I guess one of the things that – I mean, the numbers speak for themselves on this, I guess, up until recently, that I think you would always say that, you know, when these things have occurred historically, you've been in a position to take them on and then re-configure the sales base, the incentives and the KPIs for your guys at the coal face to make sure they were mitigated and potentially prospered, so are those days over a little bit, where these things are going to be put to you and it's always going to be all right, we're going to cop a whack here, or do you see a situation where, you know, this has been quite severe, but we think going forward, there's an avenue where we will absorb them. We will take them on board. We will reconfigure the sales team, and we will make this a positive, not a negative

MS HORNE: Well, I mean, ultimately we always do that. We always look to how do we make it a positive. How do we make sure that we're generating profitability for the organisation, but I do have to say that we are operating in a lower margin environment and that's industry led, so part of the process and you know, hopefully, people can see why we're looking to add other categories to our group to take our consultative selling and to, you know, use that experience in other categories to help develop and help to generate revenue outside of the industry. Having said that though, we will, of course, look to maximise whatever opportunity is before us.

MR JEFFRIES: Well, to that extent, I guess, and you sort of flagged it previously, you know, there was another leg you were looking at to add to the business. How was that progressing, or the search for that progressing?

MS HORNE: It's progressing and we feel very confident about being in a position to announce something towards the second half of this calendar year.

MR JEFFRIES: Right. Good one. Thank you.

OPERATOR: Thank you. Your next question comes from Mitchell Dole, a private investor. Please go ahead.

MR M. DOLE: G'day, guys. Thanks for taking my question, and if you can't answer, by all means just say so. But in terms of if Telstra did want to acquire some of your stores off you to operate themselves, is there anything in your agreement that would guide the negotiation over the price they will need to pay you, or is it just an open negotiation?

MR LEYDEN: I guess guidance would probably be the best way to describe it, but no, I think that would just be an open discussion between the two parties and as yet, we haven't had any of those conversations, so we don't really have any precedent to rely upon, so we clearly acquired some stores historically, and that has just been an open conversation. I would expect that that would occur if – you know, if any store in the portfolio have moved the other way.

MR DOLE: Great. Thanks very much, guys. Thank you.

OPERATOR: Thank you. Your next question comes from Scott Murdoch with Morgans. Please go ahead.

MS HORNE: Scott, I'm going - - -

MR MURDOCH: Sorry.

MS HORNE: I'm going to charge you per question.

MR MURDOCH: Hey, I couldn't get back on. But largely they've been answered, to be honest. I just – just two very quick ones, though. The cost offsets – obviously that's a possibility in there. But would you – is there a level of service you have to maintain, either contractually or otherwise – you know, to – in-store, because that's obviously your cost base, is employee expenses.

MS HORNE: Sure. Yes. I mean - - -

MR MURDOCH: You know, just some of those cost offsets, just to see where they - - -

MS HORNE: Contractually, no. But at the end of the day, why would we want to reduce the level of service to our customers? That's our core competency. That's how we deliver value. It's how we drive repeat customers. It would be an absolute no-no to do that. And that was the comment that I made before, is yes, we were actively going to look to reduce the cost base, but in a way in which it does not impact the way that we deliver service and continues to enable our growth.

MR MURDOCH: Okay. No problem. And just one last very quick question. You had I think circa 28 million of cash at the end of the last half. Is that – obviously you need to invest in other areas for growth. So we could expect that the cash is required for other investment rather than any – you know, capital management such as a buyback?

MR LEYDEN: Well, I think the first thing I would point out, Scott, is that we've just paid an interim dividend of best part of 14 million, which gobbled up a chunk of that money, which hopefully investors have been happy recipients of. Look, I think we're open-minded about capital management. I think we have investment opportunities ahead of us and we're – that will be the first point of call for any surplus capital that we have. You know, our investors have enjoyed good dividends as well, and good growth in dividends and a pretty healthy pay-out ratio. You know, we would have to put a lot of consideration into changing that position.

And other capital management initiatives, like buybacks, are always on the cards. I mean, I think – you know, we always look at them; we always assess the pros and cons of them, despite what – you know, one or two investors may think. And we try and do the right thing by our – you know, the majority of our shareholders. And as I say, nothing is off the cards. I don't see us having to go and raise new equity, if that's kind of your question. But you know, we're always looking at capital management, to make sure that we are doing the right thing by our shareholder base.

MR MURDOCH: Okay. No problem. That's all from me. Thank you.

MR LEYDEN: Thank you.

OPERATOR: Thank you. Your next question comes from Paul Middleton, a private investor. Please go ahead.

MR P. MIDDLETON: Yes, hi. Thanks for the opportunity. I was also going to ask about a share buyback, considering the share price, and just noting that I think you've taken in about 70 million of free cash flow in the last 18 months, so yes, I do appreciate the dividends and that you might have some acquisitions in future, but yes, I just wanted to follow up on the comment about the share buyback.

MR LEYDEN: Yes. Was it Paul?

MR MIDDLETON: Yes, that's right.

MR LEYDEN: Yes. So, Paul, yes, I mean, if you look at – the 35 per cent of cash we don't issue is dividends we've re-invested in the business to good effect, and the 65 per cent we've obviously paid out as dividends, so any free cash flow generated, really has been re-distributed or re-invested. Yes, buybacks sell and they're clearly attractive. I mean, you know, prima facie, they're attractive if you don't have investment opportunities. If you think you're undervalued. Investment opportunities will always – you know, as a company that's really still focused on driving earnings growth, and we are, we would be looking to invest in investment opportunities as the first port of call.

Things like dividends and buybacks obviously come into account when you think your stock is undervalued. You know, you can argue we're sort of heading into that territory, depending on how you thought about it. So, yes, we will obviously give it consideration and you know, I think it would be fair to say not everyone supports buybacks. I think there are different points of view on it, but clearly, when you have a stock price that has fallen like ours has, then clearly, it is something that we collectively would consider.

MR MIDDLETON: Yes, yes. And return record is nearly 50 per cent, so you know, it would seem a pretty good investment.

MR LEYDEN: Yes.

MR MIDDLETON: Yes, yes. Thank you.

MR LEYDEN: Thanks. Thanks, Paul.

OPERATOR: Thank you. That's all the time we have for questions today. I will now hand back to Ms Horne for closing remarks.

MS HORNE: So thank you everybody for your time today. I do appreciate you coming on and hopefully, we've been able to provide you with some clarity. As I mentioned before, I do understand your frustration and as soon as we have more detail to share, you can be assured that we will do so. Thanks.

OPERATOR: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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