ASX announcement

Vita Group delivers a record result for FY17

18 August 2017

- Revenues up 5% to $674.6m
- EBITDA[1] $65.0m (underlying EBITDA[2] up 5%); NPAT[1] $39.0m (underlying NPAT[2] up 11%)
- Earnings per share[1] 25.62 cents (underlying earnings per share[2] up 10%)
- Strong operating cash flows and balance sheet; net cash balance of $17.8m
- Full year dividend up 19% to 16.6 cps fully franked, representing a payout ratio of 65%

Vita Group (ASX:VTG) today reported a record result for the twelve months to 30 June 2017. The group delivered a 5 per cent increase in revenues from continuing operations to $674.6m. Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations was $65.0m, up 5 per cent on underlying EBITDA in the prior year. Net profit after tax (NPAT) from continuing operations was $39.0m, up 11 per cent on underlying NPAT in the prior year. There were no underlying adjustments to FY17 earnings from continuing operations. Prior year underlying earnings from continuing operations excluded a $4.0m non-cash benefit (pre-tax) relating to a contribution from the group's now discontinued ESP swap and warranty products.

The Board declared a fully franked final dividend of 7.4 cents per share (cps), resulting in a fully franked dividend for the full-year of 16.6 cps, an increase of 19 per cent on the prior year, with a payout ratio of 65 per cent. The final dividend is to be paid on 29 September 2017 to shareholders on record as at 15 September 2017.

Strong earnings coupled with tight management of working capital contributed to operating cash flows after tax of $52.5m, up 7 per cent. Vita invested $20.7m in acquisitions, refits and technology solutions, whilst financing outflows were $26.6m, primarily reflecting dividends paid in the year. Vita also received $5.0m from the proceeds of a maturing term deposit. As a result, cash balances improved by $10.3m to $29.7m at the end of the period, providing Vita with significant balance sheet flexibility to invest in growth opportunities in line with its strategy.

Chief Executive Officer, Maxine Horne commented: "I am very pleased with our performance, which highlights Vita's ability to execute, in spite of the current market challenges. Our results demonstrate why we focus on attracting and developing the best talent to deliver exceptional customer experiences through consultative selling. This is key to our ongoing success."

($m unless otherwise stated)	FY17	FY16	Change
Continuing operations			
Revenue	674.6	645.1	5%
Gross profit	242.9	230.7	5%
Gross Profit Margin	*36.0%*	*35.8%*	
EBITDA	65.0	66.1	(2%)
Non-cash benefit from ESP	*0.0*	*4.0*	
Underlying EBITDA[2]	*65.0*	*62.0*	*5%*
EBIT	55.4	54.8	1%
Underlying EBIT[2]	*55.4*	*50.8*	*9%*
NPAT	39.0	38.0	3%
Underlying NPAT[2]	*39.0*	*35.2*	*11%*
Earnings per share (EPS)	25.62cps	25.12cps	2%
Underlying EPS[2]	*25.62cps*	*23.29cps*	*10%*
Full Year Dividend	16.60 cps	13.97 cps	19%
Profit/(loss) from discontinued Next Byte operations	0.4	(2.7)	
EPS including discontinued operations	**25.91cps**	**23.37cps**	**11%**

[1] From continuing operations
[2] A non-IFRS measure. From continuing operations excluding the benefit from the discontinued ESP swap/warranty product in FY16

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Year in Review

Vita's retail information and communication technology (ICT) channel delivered a 2 per cent lift in revenue and a 1 per cent increase in EBITDA, despite like-for-like revenue declining 5 per cent as a result of remuneration reductions, mainly impacting in the second half. The impact of remuneration reduction was offset by an increased focus on consultative solution-selling, enabling multi-product sales and a reduction in performance variation across the network. In addition, the physical optimisation of the portfolio delivered significant benefit during the period with Vita ending the year with 105 Telstra-branded retail stores. The group's One Zero brand was retired at the end of the financial year, in line with Vita's strategy within the telecommunications sector, to focus on the Telstra brand.

Revenues from Vita's small-to-medium business (SMB) and enterprise channels rose 20 per cent, and whilst the EBITDA result was modest in the context of group earnings, growth in relative terms was significant. This again reflected the group's growing capability in consultative-selling and providing value for customers. This was supported by the group's investment in the salesforce™ platform, which enables the management of end-to-end customer journeys, from managing the sales pipeline, through to the consulting process, and into post-sales service. The group also rolled out its proprietary XLR8™ journal technology into its business channels, following its success in the retail channel. This technology facilitates improved performance management, coaching and talent development, via a single digital solution.

Vita decided at the end of FY17 to consolidate the SMB and enterprise channels into one business ICT division, reflecting the growing importance of ICT across all customer segments. With the business channels now representing 13 per cent and 15 per cent of the group's revenue and gross profit respectively, the focus in the coming year and beyond will be to continue to grow revenues, deliver improved profitability and partner with Telstra to drive consolidation in what remains a fragmented market.

Vita's accessories brand Sprout reported another exceptional result for FY17 with revenues up 30 per cent. The brand continued to make significant headway in the business-to-business (B2B) sector, reporting a 75 per cent increase in B2B revenue.

Vita's portfolio, as at 30 June 2017, included 105 Telstra Licensed Stores, 21 Telstra Business Centres and one Fone Zone store. The group added eight Telstra retail stores to the portfolio in FY17, closed one Fone Zone store and two Telstra retail stores, the latter of which occurred under a commercial arrangement between Telstra and Vita. As communicated on Friday, 11 August, Vita has also extended its agreement with strategic partner, Telstra, which will see the number of stores Vita is able to own and operate expand to 110 in FY18 and 115 in FY20.

In the second half of FY17, the Board conducted a review of capital management options, with the benefit of independent advice, with a view to optimise returns for all shareholders over time. The review took into account the capital requirements of existing and new businesses, capital structure and taxation considerations, and capital distribution alternatives. Whilst capital management considerations are ongoing, the Board concluded that it would maintain a 65 per cent payout ratio of profits after tax; that a stable dividend policy was preferred over short-term initiatives such as a share buy-back; and that financial flexibility would be maintained to support growth initiatives.

FY18 Outlook

Vita and Telstra's recently agreed changes to the terms of Vita's Master Licence Agreement relating to tenure, remuneration and an immediate expansion of its allowable store footprint, are all aimed at delivering long-term benefits for both parties.

The tenure of the agreement will now extend to 30 June 2023, with rolling annual extensions after this date. This is subject to annual review, which will include Vita's performance against key metrics. A minimum of three-year's notice is to be provided by either party, should they wish to cease the agreement at the relevant expiry date. This effectively means that, assuming extensions are granted annually, forward tenure will always be at least five years.

On remuneration, Telstra confirmed that it was comfortable with the model of remuneration applicable for FY18, reflecting changes made up to and including 1 July 2017. It also clarified that it had made no specific decisions about any remuneration changes beyond FY18. Whilst Telstra retains the right to amend remuneration up or down to reflect changing market conditions and product lifecycle changes, the current remuneration model balances prevailing industry conditions with the economic health of the licensee channel.

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On retail store footprint, the parties agreed an immediate expansion in the allowable number of stores Vita can own and operate to 110, which takes effect from now. Effective from 1 July 2019, Vita agreed to forego some legacy remuneration components, amounting to approximately 7 – 8 per cent of retail remuneration, which will be partly offset by a further expansion to 115 stores from this date. As currently applies, all movements in and out of the footprint will be subject to Telstra approval. These measures reflect the confidence Telstra continues to place in Vita to deliver results and means that Vita is well positioned to deliver long-term value to all of its stakeholders, including customers, its team members, and of course, Telstra and its shareholders.

Whilst remuneration impacts in FY17 and FY18 will impact FY18 earnings, they are necessary in aligning remuneration with the value Telstra derives from its core product categories. Importantly, Vita and Telstra have agreed a framework that both parties are comfortable with.

There will be several initiatives that will soften the impact of the remuneration changes. Firstly, an expansion in the number of stores Vita can own and operate to 110 will deliver benefits, along with Vita's continued optimisation program, in line with Telstra's strategy to create a geo-clustered network of stores.

A point of differentiation is Vita's ability to consult with customers and provide insights to deliver greater value for the customer and this will be central to Vita's strategy in FY18 to drive up-sell and cross-sell, in both the retail and business channels. In addition, there will be an ongoing focus on reducing performance variability, which will benefit productivity.

In business, Vita will continue to work with Telstra on the go-to-market approach for business customers, driving further consolidation in what remains a fragmented market and leveraging scale now in place to drive growth. This will include collaboration between Vita's business and retail channels, such as embracing small office/home office (SOHO) customers in retail.

Vita has also implemented a number of initiatives to reduce its cost base. The consolidation of the SMB and enterprise channels implemented at the end of FY17 will deliver greater efficiency in FY18. Cost reductions were also made in Vita's support functions. The group will continue to look for opportunities to simplify and automate processes, and manage the business as efficiently as is practical.

Vita will also continue to explore new opportunities for growth in new categories, leveraging its core capability of solution selling. Work is underway to evaluate entry opportunities and the group expects to report progress on this initiative in FY18.

CEO, Maxine Horne commented, "As I always say, we are a people business. Our success lies in our team members and their ability to consult with our customers, gain insights, and translate those insights into providing the correct holistic solution and an exceptional customer experience. Moving into FY18, we look forward to continuing to refine these core competencies in our existing channels, whilst also exploring new business categories that we can put our unique stamp on to bring even greater value to our customers, people, partners and of course our shareholders."

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About Vita Group Vita Group is a consultative solutions provider, specialising in enhancing customers' way of life. Vita operates Telstra branded stores and Business Centres, SQDAthletica, Vita Enterprise Solutions and Sprout. For further information, visit www.vitagroup.com.au.