FY17 Results Presentation Vita Group (VTG)

A GREAT PLACE TO BE

vita GROUP LIMITED

A RECORD RESULT
IN A CHALLENGING YEAR

RECORD EARNINGS RESULT

REVENUE[1]
$674.6M, +5%

UNDERLYING EBITDA[2]
$65.0M, +5%

DIVIDEND
16.6CPS, +19%

TELSTRA PARTNERSHIP

GOLD STANDARD

EXTENSION TO 2023
WITH ANNUAL REVIEW-BASED EXTENSIONS

AGREED
FUTURE FOOTPRINT TERMS
110 STORES FY18
115 STORES FY20

AGREED
REM FRAMEWORK

STRONG CASH FLOW

FLEXIBLE BALANCE SHEET

PLATFORM TO CONTINUE TO DRIVE EARNINGS

ABILITY TO INVEST IN GROWTH

[1] From continuing operations

[2] A non-IFRS measure. From continuing operations excluding a $4m non cash benefit from the discontinued ESP swap/warranty product in FY16. Refer to Appendix 1 for a reconciliation of reported to underlying earnings.

GROUP HIGHLIGHTS

RETAIL ICT

- Revenue and EBITDA up despite fee income reductions
- Optimisation delivering benefits
- Productivity strong, performance variation reduced
- Investment in proprietary performance management and planning technology, XLR8™, paying off
- Sprout revenue and EBITDA up 30% and 43% respectively; B2B revenue up 75%

BUSINESS ICT

- Positive momentum in SMB and Enterprise channels
- Collectively represent 15% of gross profit
- EBITDA significantly up, albeit modest in absolute terms
- Salesforce™ embedded, delivering improved productivity and customer experiences
- XLR8™ launched

ICT is an acronym for *Information and Communication Technology*

INCOME STATEMENT

CONTINUED STRONG PERFORMANCE

($m unless otherwise stated)	FY17	FY16	
CONTINUING OPERATIONS			
Revenue	674.6	645.1	+5%
Gross Profit %	36.0%	35.8%	
Underlying EBITDA[1]	**65.0**	**62.0**	**+5%**
Non-cash benefit from discontinued proprietary products (ESP)	0.0	4.0	
EBITDA	**65.0**	**66.0**	**(2%)**
EBIT	55.4	54.8	+1%
NPAT	39.0	38.0	+3%
Discontinued operations (net of tax)	0.4	(2.7)	
NPAT including discontinued operations	39.4	35.4	+11%
Ordinary Dividend	**16.6cps**	**13.97cps**	**+19%**

Revenues up 5%

- Growth in all channels
- Retail up 2%, Business up 20%, Sprout up 30%

Gross margins slightly up

- Lower device mix
- Higher growth from business channels

Growth in profitability

UNDERLYING EBITDA[1] **UP 5%**

UNDERLYING EBIT[1] **UP 9%**

UNDERLYING NPAT[1] **UP 11%**

Ordinary full-year dividend 16.6cps up 19%

- 65% payout ratio maintained

[1] A non-IFRS measure. From continuing operations excluding a $4m non cash benefit from the discontinued ESP swap/warranty product in FY16. Refer to Appendix 1 for a reconciliation of reported to underlying earnings.

BALANCE SHEET
STRONG POSITION, FLEXIBILITY TO INVEST

($m)	**30 Jun 17**	**30 Jun 16**
Cash	29.7	24.4
Current assets (exc. cash)	45.9	48.4
Non-current assets	102.0	93.8
Total assets	**177.6**	**166.6**
Current liabilities	(84.2)	(90.0)
Non-current liabilities	(8.6)	(8.6)
Total liabilities	**(92.8)**	**(98.6)**
Net assets	**84.8**	**68.0**
Cash	29.7	24.4
Debt	(11.9)	(15.7)
Net cash	**17.8**	**8.7**

Higher cash balances
- Favourable timing of receipts
- Year-end position up $5.3m to $29.7m however significant intra-month movements in cash balances

Tight management of working capital
- Receivables down $4.7m on timing of receipts
- Inventory under two weeks at $16.4m

Non-current assets up
- Driven by goodwill on store acquisitions

Current liabilities down
- Lower current bank debt

Financial flexibility to pursue growth
- Net cash of $17.8m
- $11.9m gross debt at period end

CASH FLOW
STRONG CASH CONVERSION

($m)	**FY17**	**FY16**
Operating cash flows *from continuing operations*	52.8	50.4
Investing cash flows *from continuing operations*	(15.7)	(31.3)
Financing cash flows *from continuing operations*	(26.6)	(14.0)
Cash flows *from discontinued operations*	(0.2)	(1.3)
Net cash movement	**10.3**	**3.8**
Opening cash balance	**19.4**	**15.6**
Closing cash balance	**29.7**	**19.4**

Operating cash flows

- Earnings growth
- Strong cash conversion
- Higher cash tax payments

Investing cash flows

- Capex of $20.7m included $11.7m directed towards acquisitions and $9.0m on fitouts and IT
- Proceeds of maturing term deposit received $5m

Financing cash flows

- Dividends $26.4m
- Repayment of borrowings $15.7m
- New debt drawn down $11.8m

CAPITAL MANAGEMENT
OPTIMISING VALUE

REVIEW 2HFY17

- Independent advice taken
- All shareholders considered
- Focused on optimising value over time, not just short-term

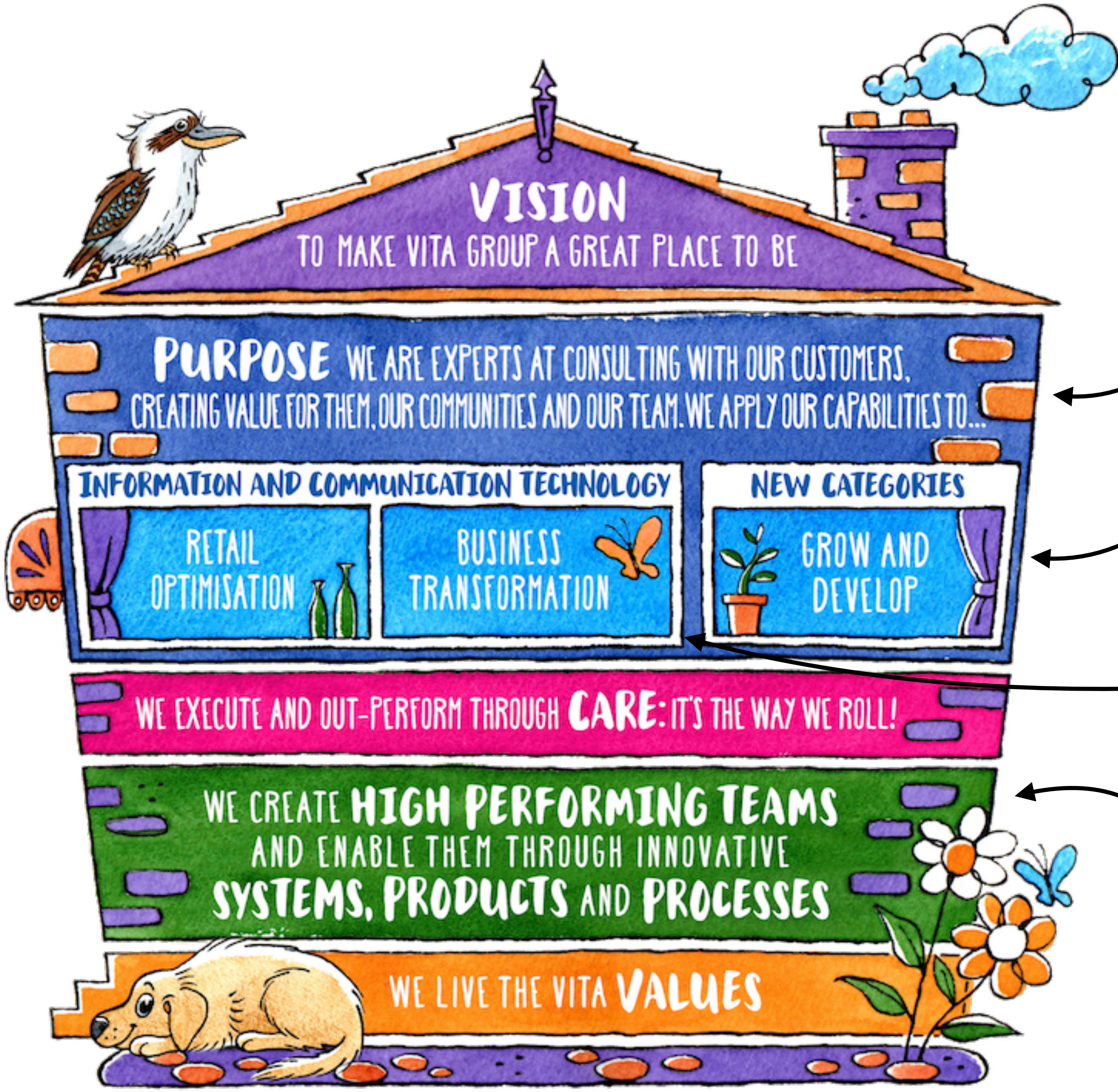
SCOPE

- Capital requirements – new and existing businesses
- Capital structure and taxation considerations
- Distribution options (dividend policy, buy-backs, etc)

OUTCOMES

- Maintain 65% dividend payout ratio, fully-franked
- Maintain balance sheet flexibility to support growth initiatives; maintain conservative gearing position
- Short-term initiatives de-prioritised in favour of stable dividend policy and investments in long-term growth

OUR STRATEGY



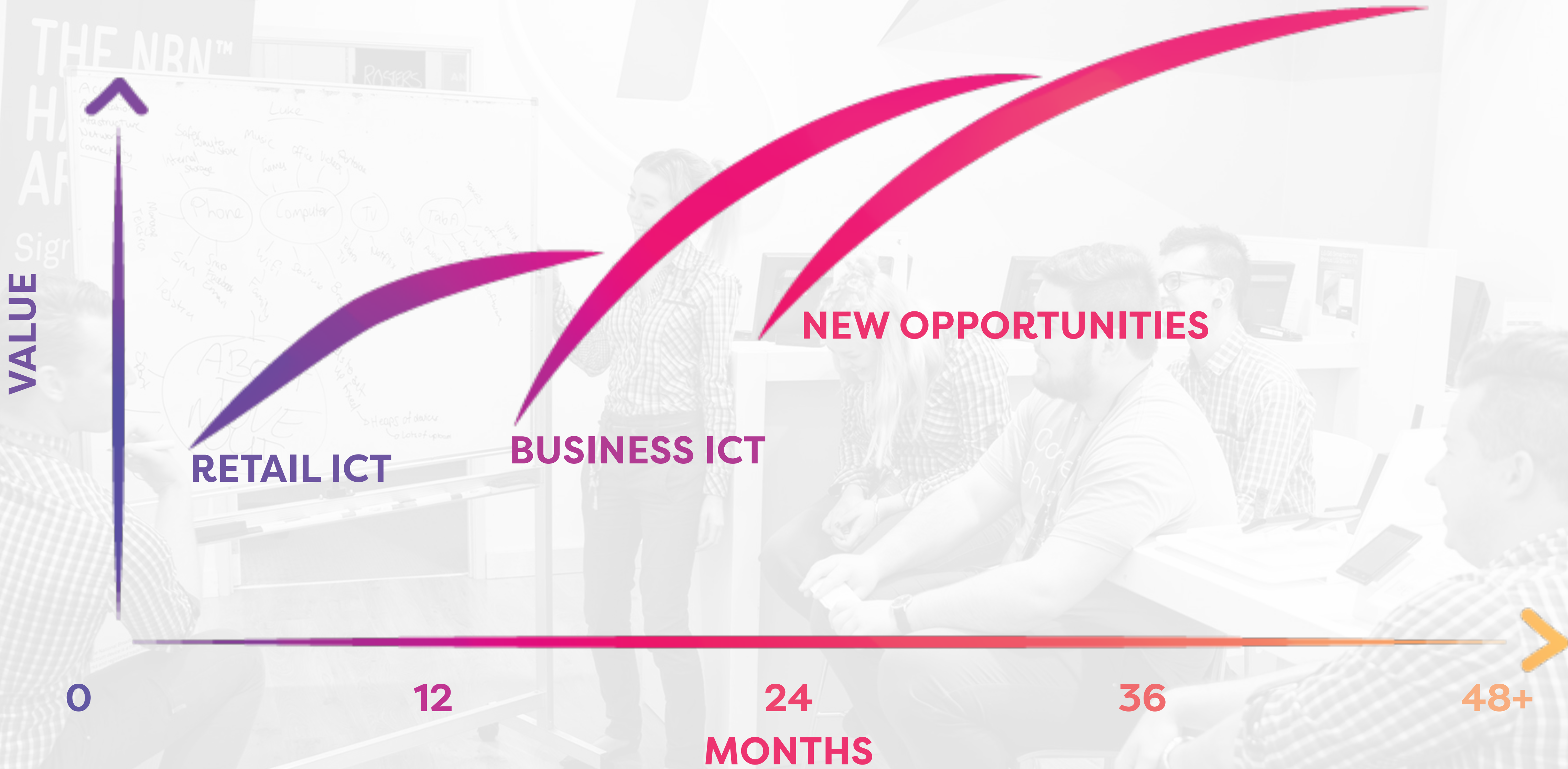
Updated purpose, articulates why we exist: core capability of consultative selling emphasised

Clearly defined our core pillars of growth: ICT (retail and business) and new categories.

Combined business channels to better reflect adoption of ICT across large and small businesses

Innovation fosters our entrepreneurial spirit

HORIZONS OF GROWTH



RETAIL ICT

- Physical optimisation continues
- Selectively add stores, subject to return criteria
- Improve performance (and reduce variation) through focus on consulting
- Embrace SOHO

BUSINESS ICT

- SMB and Enterprise merged 1 July 2017 to reflect ICT customers moving down value chain
- Working closely with Telstra to evolve go-to-market model
- Capitalise on scale now in place to drive growth and profitability

NEW OPPORTUNITIES

- Extend consultative selling capabilities into structurally attractive categories
- Categories prioritised
- Evaluating specific opportunities

OUTLOOK

RETAIL ICT

Remuneration reductions

- FY17 reductions – c. $8m incremental to flow through FY18 (implemented part-year FY17)
- FY18 reductions – c. $17m effective 1 Jul 2017
- FY19 – no specific decisions made
- FY20 - no specific decisions made other than Vita forgoing legacy remuneration items c. $11m (7-8% of retail remuneration) in return for five new stores

Offsets

- Rollout new consult process
  - Greater cross and up-sell
  - Multi-product holdings
  - Improved performance variability
- Selective acquisitions under expanded footprint agreement
- SOHO in retail

No reductions in customer facing investment

BUSINESS ICT

- Significant growth opportunity
- Extend consultative selling across ICT stack
- Collaborate with Telstra to drive consolidation in fragmented market
- Refine go-to-market model with Telstra

NEW OPPORTUNITIES

- Assessing entry options
- Likely timing FY18

COST BASE

c. $4m - $5m reduction from 1 July 2017

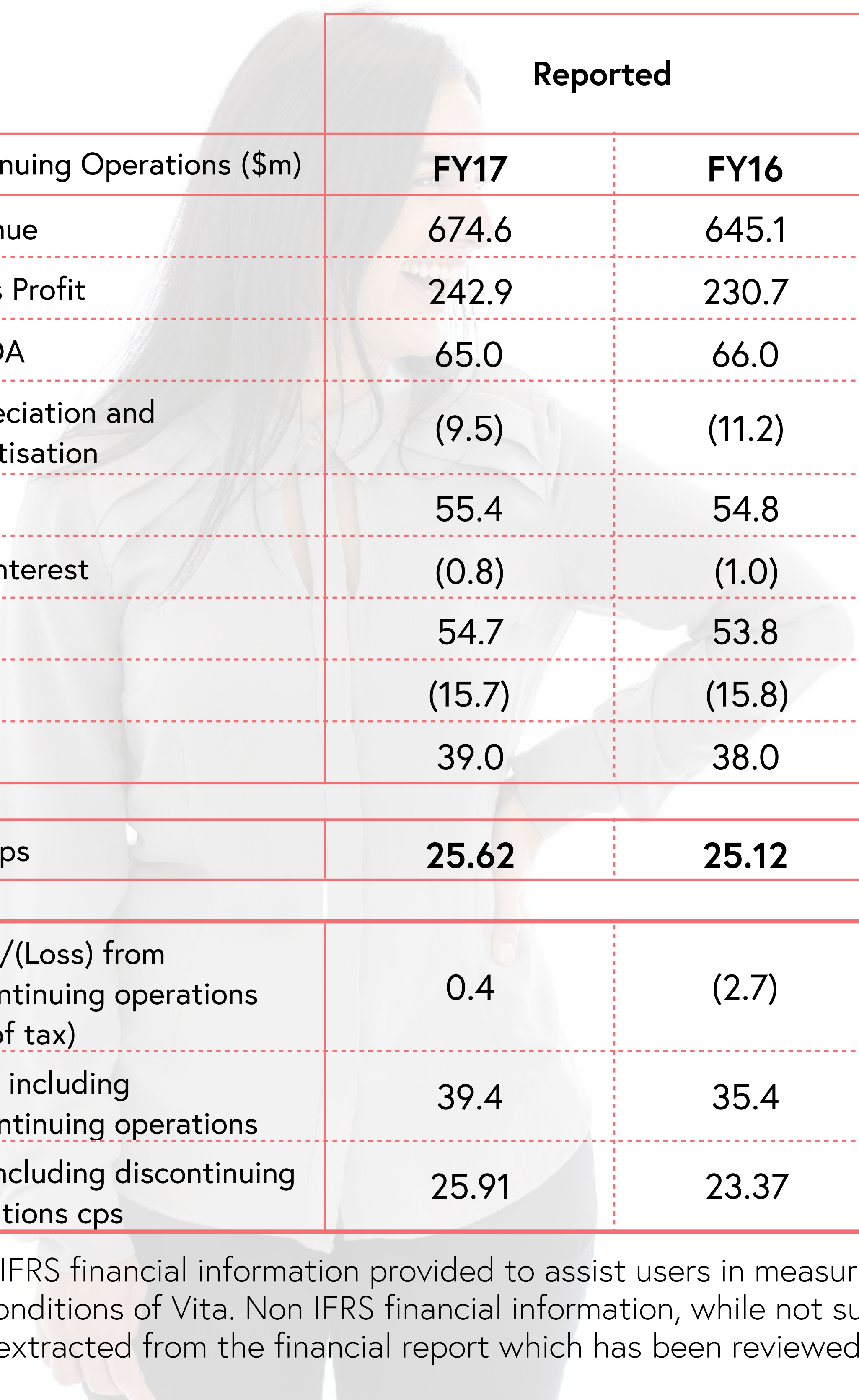
- Business channel consolidation
- Support costs

Continual focus on efficiency opportunities (FY18 onwards)

- Process improvement
- Automation
- Elimination of non-core activities

APPENDIX

RECONCILIATION OF REPORTED TO UNDERLYING EARNINGS



	Reported		Non-cash benefit from discontinued ESP swap/warranty product		Underlying*	
Continuing Operations ($m)	**FY17**	**FY16**	**FY17**	**FY16**	**FY17**	**FY16**
Revenue	674.6	645.1		(4.6)	674.6	640.5
Gross Profit	242.9	230.7		(4.6)	242.9	226.1
EBITDA	65.0	66.0		(4.0)	65.0	62.0
Depreciation and Amortisation	(9.5)	(11.2)			(9.5)	(11.2)
EBIT	55.4	54.8		(4.0)	55.4	50.8
Net Interest	(0.8)	(1.0)			(0.8)	(1.0)
PBT	54.7	53.8		(4.0)	54.7	49.8
Tax	(15.7)	(15.8)		1.2	(15.7)	(14.6)
NPAT	39.0	38.0		(2.8)	39.0	35.2
EPS cps	**25.62**	**25.12**		**(1.8)**	25.62	23.29
Profit/(Loss) from discontinuing operations (net of tax)	0.4	(2.7)			0.4	(2.7)
NPAT including discontinuing operations	39.4	35.4		(2.8)	39.4	32.6
EPS including discontinuing operations cps	25.91	23.37		(1.85)	25.91	21.52

* Non-IFRS financial information provided to assist users in measuring the financial performance and conditions of Vita. Non IFRS financial information, while not subject to audit or review, has been extracted from the financial report which has been reviewed by our external auditors.

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