29 November 2016

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 28 November 2016

I attach a copy of the transcript from the Investor teleconference Q&A held on Monday 28 November 2016, for release to the market.

Yours faithfully

Mark Anning,
Group Company Secretary and Legal Counsel
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Transcript: **Broadcast / Investor Q&A re ASX Announcement on 25 November 2016**

Vita Group: **Maxine Horne (MH), Calls Coordinator (CC), Andrew Leyden (AL)**

Callers: **Scott Murdoch (SM), Andrew Tan (AT), Scott Shuttleworth (SS), Roger (R), Tim Powditch (TP), William Wu (WW), Nigel Emslie (NE), Josh Clark (JC), Daniel Ireland (DI), Chris Bainbridge (CB), Sujit Day (SD), Ben McGarry (BM)**

MH: Good morning everybody and thank you for joining us. As you know on Friday, 21st of November we issued an ASX release outlining where we had arrived in relation to the remuneration changes with Telstra. Telstra did announce some proposed remuneration changes to their channels back on Friday, 28th of October and whilst these were only proposals, they do appear to have been leaked to the market and have had significant impact on our share price. I think I'll, I just want to take a bit of a moment to express that remuneration changes occur frequently. They can be material in nature and likewise they can sometimes be immaterial. Remuneration has to change to reflect the changing economic conditions and product life cycle changes within our industry and it has been changing over the life of our 21-year partnership with Telstra. Some changes impact favourably, others adversely. We focus on working out where value can be created in alignment with Telstra and then as always we go after that value. Simultaneously, we do manage the downside risk. As part of our discussions, proposed remuneration is exactly that. Telstra proposes changes that are needed to take into consideration, market changes, market dynamics; they ask for feedback and the proposed changes can change and often do change before they actually hit the market. Our announcement on Friday provided some insight into how our discussions with Telstra have been concluded. On remuneration, a number of changes were made. There will be a reduction in some parts of the construct that we together deem as less effective in driving value and revenues. Simultaneously, there will be greater incentives to encourage up-sell and cross-sell of products across the portfolio which of course suits us and our DNA of solution selling. On these, the outcome will depend on how we perform against key metrics as it has always done and overall we expect they will result in lower margin on a per unit basis. I won't give specifics into the construct, as we all know that that is confidential. On the footprint, we will see some movement on our footprint and we will accelerate our portfolio optimisation initiative. Additions may be both TSN and independent stores. We can't give guidance on numbers yet but that will come in due course. Our overall intention will be that we reach at least a mutual position on the net impact of remuneration change and additional volumes through portfolio optimisation but this of course is based on how we perform and the value that we create for Telstra as it always has. Essentially the more value we create for Telstra, the better off Vita is. On trading, as I am sure you will ask, we don't as a rule give guidance unless it is necessary in terms of disclosure obligations. It is too early to offer an update on the first half given that we are still in November and we haven't closed the month. What I will say is that we had a fairly strong quarter one taking momentum into the quarter from quarter four of last year. We are conscious that we are tracking again a very strong Q2 FY16. We won't be providing like for like updates today as we don't normally do this outside of our normal reporting cycles. Our intention for the full year is to continue driving earnings. Sorry, our intention for the full year is to continue driving earnings from our focus on retail optimisation and generating growth in our business channels, and with that I will open up to the floor for questions.

CC: Thank you. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press * then 2. If you are on a speaker phone, please pick up the handset to ask your question. The first question today comes from Scott Murdoch from Morgans. Please go ahead.

MH: Hello Scott.

SM: Hi Maxine. Hi Andrew. Just on your comment there around expecting the outcome to be a net mutual basis, can you give us a rough timeframe on what that statement's based on?

MH: Sorry, I don't understand your question.

SM: You just said the net, you expect the net outcome to be net mutual ---

MH: Yeah.

SM: --- for earnings but is that sort of a, you know, obviously the store impact gaining more stores; it's not instant, so just wondering if that is over the course of FY17 or you know, if there's a timeframe around that statement?

AL: Yeah, Scott I'm happy to pick this up. So, the remuneration changes are not all instantaneous. Some will impact the market earlier; some will impact later. Obviously, over that time, we look to optimise our portfolio so that we can mitigate any downside risk arising from that/from any rem change. And also, you know, we want to embed those changes in the portfolios quickly as we can so we get the benefit of those. I mean effectively what you have is a bit of margin compression and some volume gain and we try and get those as close in line as posible in terms of timing.

SM: Okay, thank you. And I just, from the statement on Friday, it talks about the new construct having, you know, an element of performance that you've just spoken about but does the new construct have an increased emphasis on performance or has there been you know material changes around the NPS you know?

MH: Yep. It's no more than normal, Scott. You know, we've always worked under a performance driven remuneration contract and it's very very similar.

AL: Yeah, I'd agree with that Scott. I mean, I think, as we've eluded to in our announcement, I mean, you know, one of the things that we collectively believe is important now is securing more value from the base of customers and I think it's probably fair to say that we've had a reasonably high focus on activation and you know, so we think securing value from whichever source frankly is good for everyone. It's good for customers, because they have holistic solutions coming from one provider and they can be connected that way. It's good for Telstra clearly because it drives revenue and it good for Vita because it drives revenue. So yeah, I mean look the performance orientation's always been exceptionally prominent in terms of the remuneration construct. I just think, you know, as we've always pointed out, the levers change depending on what the commercial priorities are in the market at any one time.

MH: And I will add there that, you know, our history and our track record shows that we're very good at out-performing and out-servicing our customers and also the KPIs that are given to us so, we feel comfortable with the position that we're in.

SM: Okay thank you. Just one last one from me before I give someone else a turn. Just on the additional stores coming on; I think you mentioned that but I missed it. Was I right in hearing that you expect both individual licensees and some stores from Telstra to make up the mix of the additional stores you're expecting?

MH: That's correct, yes.

SM: Okay, thank you. I'll give someone else a turn. Thanks for the replies.

MH: Thank you.

CC: Thank you, the next question comes from Andrew Tan from Bell Potter Securities. Please go ahead.

AT: Hi Maxine. Hi Andrew.

MH: Hey Andrew. Do you guys organise this every conference call?

AT: Yeah, we share it around. Scott goes first, I go first.

MH: It's your turn now Andrew.

AT: I guess I just had the general question just, um, so with the Telstra discussions – was the end position significantly different from where the proposed changes were on the 28th of October?

AL: Yeah, I'll pick that one up.

MH: Yeah.

AL: You know, I mean, Maxine pointed out earlier in the commentary that Telstra often do make proposals in the market and they expect to hear feedback from the departments and that's quite a normal process.

AT: Mm.

AL: I think the unfortunate thing here is that it's been played out rather publically relative to what is normal and so I would say that it is quite normal for Telstra to make a proposal but, you know, sometimes it goes through without any amendments, it makes sense for everyone and it reflects with the commercial reality of the market. Sometimes it offers favourable outcomes, sometimes it, you know, it designed to address challenges. And this one's no different. I think the bigger thing here is that it just happened to be played out publically which is uncommon.

AT: Did they take ---

AL: I don't think it's at all abnormal. I mean, you know, there are clearly some changes that can have a material impact on the business which we talk about those.

MH: Yeah.

AL: Then we try and understand what the overall intention of the change is and then we can really get behind where value can be created.

MH: I think --- Sorry Andrew.

AL: Go ahead.

MH: I think I might add also Andrew, it's around having discussions about understanding, well what are the desired outcomes here? What are the macro elements within the market that's driving this? And then for us to say yep, we get it, we have to change. You know, and ultimately, that's been the story of this business for the last, you know, 20 odd years and, you know, and you of all people know being in the stock since 2009, you'll know that we're very good at understanding that change is required, embracing it and really getting behind it. And that, you know I guess is our key to being able to continue to out-perform and continue to drive value. If you resist change, absolutely, you won't be in business for very long.

AT: Yep.

MH: But that's not just in the telecommunication's industry – that's in every industry today.

AT: Yes yes. What were some of the desired outcomes, you know, Telstra suggested?

MH: Again, I'm not, you know, that's confidential. That's under a Confidentiality Agreement and unlike some, I like to honour mine.

AT: Okay and in terms of, I just wanted some colour about the nature of the changes; so I guess when Telstra communicated, you know, these proposed changes – was it more like you know they making sweeping changes or were they trying to tinker around the edges and kind of see how it goes, or you know, what was some of the colour about your intent?

AL: Yeah so I mean maybe, I'll give you a little bit of clarity without betraying any of those confidentiality obligations. I think put simply, Telstra are trying to drive revenue and trying to do that in a way that balances you know the possibility in that revenue and the revenue generates and there are some elements of the remuneration construct that just weren't as effective in driving revenue in a way others are. And so, what you are seeing here is a reduction in those components that, you know, I think we all collectively believe don't contribute to revenue directly and there's been an increase in incentives that are designed to support solution selling across a range of products which again really suits the way that we sell, the way that we service customers. So, no they're not abnormal. They're perfectly understandable, I think, you know, when we have the context for them, we're able to operationalise those within our business quite well.

MH: I think, it's also in preparation for where the market's heading too Andrew, you know. It's not just around mobility; it's about, you know, total holistic solutions that, you know, cloud collaboration. That's going to hit retail locations as well. So, you know, it is around say giving the channel notice that, you know, we need/we're giving you time to change and this is the first step in that change mechanism.

AT: Okay. And have you responded by making changes already within I guess for store footprint and your staffing?

MH: Yes. I mean, any retailer is constantly looking at their staffing levels, their footprint. As you know, we do it on a weekly basis and we are continually looking at, you know, at the moment, we're looking at what's required for Christmas trade but we're also looking at okay, we're not walking away from our clustreing strategy. We made, you know; we've always talked about having a national clustered network. We know that works. We know we get economies of scale. We know we get leverage and intensity of leadership and we'll continue down that path.

AT: Okay. And lastly, like, you know, what is the reaction from the individual licensees been? Have you seen some reactions in the market?

MH: I have no idea. I focus on my business and my business alone.

AT: All right. All right, thank you.

CC: Thank you. The next question comes from Scott Shuttleworth from Montgomery Investment Management. Please go ahead.

MH: Hey Scott.

SS: Hi Maxine. Hi Andrew. Thanks for taking time to have a chat to the market today. We just had a couple of questions; I've also got Roger here.

MH: Hey Roger, how are you?

R: Well thanks guys.

SS: So, we just wanted to talk as I said about a couple of things. The first one was in relation to the volume improvements that you mentioned so is that for existing products or would that be a new suite of products?

MH: It's a combination of both. So, it is a combination of existing products that haven't necessarily been sold to the correct volumes because the remuneration construct was not correct and also in anticipation of new products coming down the line.

AL: Scott, the other implication of course is that volume will come from a net addition of stores into the network.

SS: Okay, no worries. And with the margin compression that you were speaking of, would that be offset by some economies that you were already talking about prior to negotiations? So obviously you're looking at physical [inaudible] optimisation and there were some other bits and pieces that you could achieve so is that going to be sort of bought in to make a mutual outcome or are these new economy?

AL: Yeah so Scott, if you think about the changes here, we expect to see some degree of margin dilution of the construct with the remunerations change. We think the business that we generate through cross-selling and up-selling will be agreed to. We think the volume that will come through portfolio changes will be agreed to and that's an important one. And obviously we always look to secure self-sufficiencies within our business as well. I mean that's just running a good business. Just making sure that you're running a clean operation ultimately. So the combination of those three things we believe will offset the the lower margins that we expect to see in our business. As Maxine pointed out earlier, all depends on how we perform as to whether that's mutual, negative or positive. Clearly we want to make that as positive an outcome as possible but in order to do that we have to perform as we always have had to do with whatever remuneration construct is in place.

SS: Sure. But just to make sure I understand, so in order to make a mutual outcome you'd need to use portfolio optimisation strategies that, maybe in the prior past, you, [all these leads] would come through and sort of be accretive to the company so basically those would come in and sort of offset for an initial outcome like, you know, we can't rely on them anymore for a benefit. Is that right?

MH: No ---

AL: No, I wouldn't say that. I'd say that we are going to try and get the best outcome here as we possibly can. Our intention is to continue growing earnings. Strategically we do that through our retail optimisation, growth in our business channels in both SMB and in enterprise and I think the point we're trying to make here is that the remuneration constructs didn't – you know, there are a lot of different ways of skinning a cat when it comes to remuneration and the levers that we pull and the degrees to which we pull them will determine whether we get, you know, will determine the outcome and we've got to now put those changes into market, operationalise them and perform to the best of our ability to drive value and, you know, I think, we need to look at that all the time to see how successful we are in doing that. We're confident of course and, you know, we always back ourselves to perform ---

MH: Yeah.

AL: --- and our intention will be that we create value for them.

MH: And the other thing I will say is obviously we're aware of the consensus that's out there too so and we're under certain obligations that if we don't feel that that's the case.

SS: Okay.

R: So perhaps another way to answer your question, sorry Scott. Another way to answer the question is the volume growth that you're required now to achieve the result – is that going to be dramatically greater than what you were going to achieve? Or does that need to be dramatically greater than what you were going to achieve?

MH: It needs to be a different mix, Roger. So it's an increase in certain products but mostly it's around the different mix and making sure that you're selling more products to the same customers.

R: Mm.

MH: ... which again comes back to our DNA of solution selling.

R: Okay, thank you. Scott probably has one more question and apologies for everyone that's waiting. Just going off piste slightly; the contract terms with Telstra for the new stores – are you able to articulate how they are different from the original 100 stores?

MH: All of our footprint optimisation falls under our existing TDA Telstra Dealer Agreement where it currently has the expiry, correct me if I'm wrong here, Andrew, it's March 2020?

AT: August 2020, yep.

[?] word/s cannot be identified
... dialogue trails away
--- dialogue is interrupted

MH: Oh, August, sorry.

R: So those – you might remember those terms, the 9-year term that had a, I think a 5-year term that rolled forward one, I think it rolled forward annually – are they still in place for the new stores?

MH: Yes. Anything that comes into the Vita Group is covered by our Telstra Dealer Agreement and the expiry date currently on that is August 2020.

R: Okay.

MH: Yep.

AL: Yeah. so different stores, Roger, they don't have different Ts and Cs attached to them. They all fall within our master agreement.

R: Okay, that's, that's good, thank you.

SS: And this last question. So we know that you can't give us specific guidance on what the margin change is but can you give any guidance as to the magnitude of the margin change? Like, you know, would we be looking at maybe a few basis points or is this, you know, a few hundred basis points?

AL: Yeah, Scott. We're not going to get into any more detail on that because I think we've got to see how we operationalise those changes in market before we offer any guidance. So the changes will start to come into effect 1st of December; well at least the [?] ones] and we'll want to see how we perform against some of the ones in particular that encourage sales of broad products across the portfolio so I think we've got to get it into market first before we can sort of quantify where we think the margins are going to come out.

SS: Sure. All right, thanks very much.

AL: Thank you.

CC: Thank you. The next question comes from Tim Powditch from Bligh Capital. Please go ahead.

MH: Hey Tim.

TP: Hi, how you going?

MH: I'm good thank you.

TP: That's good, that's good. I was going to ask about your agreement with Telstra and it runs through, so that's confirmed, August 2020. So has there been any discussion about extending that at this stage or is it just too early to bother?

MH: It's probably too early. As you recall, we extended it back in March. So, you know, I guess the most frustrating thing about the recent occurrence really is that we've spent a lot of time not focussing on the business and having to do things because this has played out in the public arena. So we're very keen to just get back on performing, heads down and doing what we do best. So, yeah, we don't/there's not an intent there currently.

TP: Under that arrangement, you know, clearly whatever changes Telstra makes for the Vita Group it has to make for everybody else, you know, JB Hi-Fi etc etc if we're talking retail - that's the case right?

MH: For the branded channels. I don't think JB Hi-Fi would come under that because they would be considered non-branded.

TP: Oh, it's only for the branded, okay, okay.

AL: Tim, we don't comment on any remuneration consequences that affects everybody else as we're not privy to it so so ---

TP: Right.

A: --- we really focus on what we look after ourselves.

TP: Okay, all right. And what if any impact do these negotiations have on the SME and enterprise parts of the business because, I mean, they're the parts of the business that aren't currently really profitable that you're trying to get into the right shape to get profitable, we've got the revenue growing. Is this more impacting on the retail business or is there some element of discussion around that sort of? ... and I know Telstra are pushing stuff through that pipe so that's, that's great, yeah.

A: Yeah. So, the changes are primarily retail, you know, impact the retail channel but some of the changes particularly around encouraging up-selling and cross-selling apply equally to the business channels particularly in SME so, you know, they will be embraced there. And I think overall the focus on business [to date], you know. We all collectively see the business channels as a market that's relatively undisturbed. So we still see the business channel as a wonderful opportunity and we're working closely with Telstra to make sure that we're aligned in how we try and exploit that market. So, you know, whether that be through, you know, a little bit through the retail channel or done through the other channels that we operate as a business. So, still a very lucrative opportunity. I think the way that we go to market's still, you know, still an area that we are debating.

TP: Yeah, okay. All right, that's great, that's all from me.

CC: Thank you. The next question comes from William Wu from Perennial Value Management. Please go ahead.

WW: Hi Maxine, Hello Andrew. Can you hear me?

MH: Yes, thanks William.

WW: I have a few questions. The first one, as you mentioned, these negotiations sort of played out a little bit publicly. Has this happened before? If not, why this time? Is it because the changes were perhaps or the proposals were more onerous than in the past?

MH: So in answer to your first question, Tthere have been small leakages in the past, yes. But secondly, I think this time around it's quite a change in – remember I talked about briefly around I get, you know, make the channel, you know, in anticipation of where the market's going and there's just this whole cloud collaboration and there's a different skillset required to do that and again it's something that we identified a while ago which is why we've been investing in our enterprise channel and the small business channel and we're quite uniquely placed to be able to pull that skillset, sort of, scale it down and move it into retail. And it would be challenging for an individual licensee that probably hasn't really thought about where the market's heading. So, I think it's a combination of the number of changes and that's not necessarily the volume but there were tweaks made across a number of different products and services and also just the mindset that, you know – and again, William, you'll remember that I've been talking to you around, you know, retail is here to stay but its role is changing and it is around that role and how does it fit into Omni channel and how do you manage your portfolio of customers and how do we maximise that customer base? So there's a lot of change in – but not necessarily all around the remuneration, it's just conceptually, you know, I used to shift boxes, now I have to become much more of a consultant in selling the organisation, that provides insights to customers and treats them so well that they want to keep coming back and I keep selling, you know, more than the one item to the same customer. So, it is quite/my personal opinion is there's been a fair degree of change in this round of announcements.

WW: Okay. And my last question would be in regards to the updated store count you've mentioned due course but I mean would it be fair to say it'll be at half yearly results perhaps or even longer than that? When can you expect to provide an update on that?

AL: Yeah, what ---

MH: I think you – oh, sorry, carry on Andrew.

A: Yeah, William, when we're in a position to. I think as soon as we can we will. I don't think we'll be through all of our thinking and our discussions with all of the relevant parties that are involved in determining the footprint outcome. So I don't think we'll be there by February; possibly a little bit beyond that maybe.

WW: Okay, thank you.

CC: Thank you. The next question comes from Nigel Emslie from Morgans. Please go ahead.

NE: Hi Maxine and Andrew, how you going?

MH: Good thank you, Nigel, how are you?

NE: Good good. Just a quick question, are your changes made to the Vita Group are the same changes that all the independent stores are going to have to deal with?

MH: I think um – sorry.

AL: Sorry Maxine, go ahead.

MH: As Andrew implied before we really, you know, that's not my place to comment. I can comment around what's going on in the Vita Group and that's it.

NE: So I'll assume 'yes'. So are you going to have the opportunity to buy more stores to offset this margin decline? Is it going to encourage more of those independents to sell because they'll be in, you know, an inferior position? They've not being able to claw back that margin loss that Telstra's ---

MH: Again, as I'm not in that person's mind, I would have no idea what they're thinking.

AL: I think ... Look, it really isn't our place to give you our views on what individual licensees are going to think. I think that's really an issue for them. Does it have the potential of putting more pressure on licensees that, you know, are looking at, you know, their business for the next five years? Maybe it will but I think it's really down to them to determine, you know, how they build their own businesses. You know, we back ourselves when it comes to performance and value creation. I think a lot depends on what your perspective is and how much change you can absorb in your business and within your life. I mean individual licensees have got other priorities as well as their business so, yeah, it's really not for us to comment but there's, you know, I think potential, a little bit more to think about if you're a large business ---

MH: Yeah. I think the comment that I probably will make is that we are as I mentioned before uniquely situated in that we have, you know, a lot of experience and infrastructure already setup within our organisation/in our business channels that we can scale down and move into retail. We also have a structure around us as an organisation]. We're a corporate company. We've got the structure. We've got all the people. You know, we have HR people that deal with HR issues; we have IT people that deal with IT; we have marketing people that deal with marketing. When you're an individual licensee as the owner, you do it all. So, that kind of adds, in my mind, would add a higher degree of complexity to running the organisation but as Andrew said, you know, some people will be up for the challenge and some people won't.

NE: Also, just how complex are the changes that you guys have to make internally in terms of training your sales staff, you know, changing your remuneration structure internally? Are you going to have enough time to actually implement those?

MH: Yes. As I said, this is something that we've been dealing with for the last 20 odd years and so the way our remuneration/commission structure is geared up, it reflects Telstra's to us. We have an L&D department. Everything is done online. We have the tablets that enables us to push out training. Our business managers – 80% of their time is spent on coaching. They are already out there coaching the new products so, um yeah. The [answer] to that is 'yes' and it's nothing new to us.

NE: Just one last one. Do you think this changes your valuation view on purchasing of other businesses/other stores?

MH: Time will tell.

NE: Alright. Okay. Thanks Maxine.

CC: Thank you. The next question comes from Josh Clark from Ausbil Investment Management. Please go ahead.

JC: Hi Maxine. Hi Andrew.

MH: Hey Josh, how ya going?

JC: Good thanks. Just one quick one from me. I was hoping you could touch on SQD Athletica and just the rationale for moving into men's apparel at the kinda growth rates that you're seeing, whether it's a profitable concept and what the strategy looks like?

MH: Sure. Andrew, if you want to add to ---

AL: Yep.

MH: --- to commentary as well. So essentially, and we've always talked when we've talked to the market, we've talked about the four growth horizons. So that the first three are embedded well and truly in our telecommunications business. We've started to look outside of that and say well 'where do we take the business further' and clearly we've got some very demonstrable skills and core competencies in retail. So about two years ago, we started a whole heap of research and really started at a very broad spectrum looking for industries and sectors that met the criteria that we were looking for. So, high growth, high margin, the ability for us to add our value adding, our solution selling and the ability for us to leverage our technology and utilise Cloud in establishing a business etc. Part of that there so, that was that piece of work and essentially, um, it came around as a conversation between a couple of people around, you know, where do men go to get their athleisure? You know, athleisure is a huge growth area particular in the female arena and, so where do the men go for theirs? And currently, as it stands, they get to go to the likes of Lululemon where they have a male section. And so we started investigating the requirement or was there a niche opportunity for us to provide something like this to the male population? And essentially, all the research that we've done has come back and said 'yes', you know, men's health fitness is growing. The stats around it are showing that there's a real change in attitude to men being able to look after themselves. You know, men going out buying their own things, looking after their skin, um, that the rise of all of these barber shops. It really is, you know, the new man is quite concerned about what he looks like, how he dresses and how fit he is. And essentially that's the tone of the voice of the brand. It is around encouraging men to be fit for life. We're not encouraging them to be, you know, Michael Jordan. We're just saying, you know, hey let's do a bit of exercise and here's some gear for you to do it in. It's much more than that. You know, we've got a cosmetics range. I don't know what men call it. Um, cleansing where, you know, moisturiser, cleansing. We have accessories. We've got sunglasses. We've got wallets. We've got cycling accessories. So it really is quite a holistic approach to men and their physical wellbeing, both physically and emotionally. We currently have two stores. We have one which is our icon store at Pacific Fair on the Gold Coast and we do have a pop-up in Carindale that's there, I think, for about nine months Andrew unless ---

AL: Yep.

MH: --- unless um, yeah. So that's the investment that we've made so far and we do have a quite a strong online presence and it is our intention that our largest store is our online store and essentially we are piloting, you know, the brand/ the concept … it's early days. The stores have been open less than four weeks, I think, but we're getting very very good feedback from the products, the placement of the stores, the environment that we've created and sales are increasing week-on-week so we're feeling very optimistic about it. You can be rest assured though that this is something that we are piloting as all large companies do – they pilot concepts. Some work, some don't. We're not at a point of betting the farm at all and it will really be as a way to meet various criteria and the forecast that we're expecting. Then we'll contemplate further expansion.

JC: Great. Thanks very much.

CC: Thank you. Once again, to ask a question please. Please press *1 on your phone. The next question comes from Daniel Ireland from Farnham Investment Management. Please go ahead.

DI: Hi guys! My question is around – Telstra's made some changes to the management team, in particular, they've brought over [Kevin Russell] from Optus and the strategy there was to bring some of the store network in house.

MH: A-hm.

DI: I was just wondering – in the discussions, was there any sort of indication that Telstra were looking to do that?

MH: I think you will find, I've talked quite extensively in the past around clustering and the benefits of clustering a location brings and if you think, if you lift it up a bit and you think from a Telstra perspective, it enables them to leverage their omni channel aspirations. But also, it enables them to really own a territory strategically from an NPS perspective. So, look, there haven't been any discussions but it wouldn't surprise me if Telstra did buy some stores in order to fulfil their own corporate clusters. If you're answer is around, you know, is there a massive intention of bringing back all of the licensees into corporate stores, the answer is – well there hasn't been any discussion and my response to that it's highly unlikely.

DI: Okay. And in terms of the NPS, I mean, your stores on average there are much higher than the rest of the Telstra network – is that correct?

MH: They're currently tracking higher, yes.

DI: Okay. So it doesn't really make sense from an NPS perspective to sort of bring your skills in-house. You're sort of tracking better than the average so, yep. Okay, thanks.

MH: Thank you.

CC: The next question comes from Chris Bainbridge from Pie Funds Management. Please go ahead.

MH: Hello Chris.

CB: Oh hi.

MH: Did Mark send you? Did he?

CB: Yeah.

MH: Yes.

CB: Just a quick question. Could you just provide a bit more colour so Andrew elaborated that he didn't think that the thinking around the store footprint would be done by February. So when could we expect that to be settled?

AL: So Chris, I said I don't think we'd be in a position to outline exactly where we're heading from story numbers perspective in February. I think it will take a little bit longer. Maybe we could add a little colour in February but it certainly won't be definitive. Umm, it will take as it take as long as it takes us to workout whatever arrangements we need to work out and I know that sounds vague, um, but you know, we've got a number of things that we now need to do to firm up some transactions on the footprint and, you know, once we feel comfortable that those are on track then we'll communicate what it all means. But look, we feel like, you know, we've got some good initiatives ahead of us but we'll continue to improve our physical footprint and the returns that we received from it but I don't think we will be there by the end of February.

CB: Right. So could we see something potentially by sort of the end of FY17?

AL: Look, I'm not going to put a firm timeline on it until we've done the work but, um, yeah, I mean, of course, we'd like to add some colour before then and we'd like to share that colour with our investors but let's get through the work first and we can look at it then.

CB: And one final one from me: I mean, you know, you've mentioned previously there are discussions like with Telstra happened sort of fairly regularly ---

MH: A-hm.

CB: --- have there been discussions about how you might limit that sort of, you know, the impact of what happened this time occurring in the future because, I guess, through no fault of your own they haven't managed to handle it in the best way.

MH: Yep. Yes, there have been discussions.

AL: That said Chris, I think, you know, the, um, you know ... Telstra obviously understand their own disclosure obligations and they are sensitive to the changes in the business of Vita Group. We can't obviously control the impact of anything that third parties outside of that arrangement, you know, choose to discuss publicly and, um, clearly we've had discussions about it because they have been an enormous distraction, for what is a relatively regularly occurring event. The hubub that it's created is phenomenal really relatively. And ah, we just want to get back to running the business rather than spend four weeks managing what is, you know, understandably, an investment community that want to know what's going on. But it is a lot of time that we'd rather spend in a business growing value for ourselves, our shareholders and for our partner and the sooner we can get back to doing that the better.

CB: Okay. Nothing more from me. Thanks.

AL: Thanks.

CC: Thank you. The next question comes from Sujit Day from Credit Suisse. Please go ahead.

SD: Hi guys. Just a couple of quick questions. In terms of the store increase, can you assume that it is at least a material increase in store?

AL: As I've said, we're not going to talk about store numbers until we are in a position where we can offer some clarity. I think you'll find movements in and out and the net impact of that is at this stage to be determined. When as soon as we can give you some colour we will. But yeah. We we we ... put it this way – whatever changes that we make on the portfolio, we expect the impact of those changes to have a beneficial impact on our business of a material nature. So that's what we're working for.

SD: Okay, great. And then as to SQD Athletica – will the pilot program be material to FY 17 earnings or can you give us some of idea what's materiality will be?

AL: It shouldn't be material on FY17 at this stage.

SD: Okay, thank you.

AL: Remember it's an instore pilot, you know, I think again there has probably been a confluence of events that I think that people have potentially overstated the impact of that. Um, it's a pilot. We'll check/we'll review that pilot to see whether it's got the legs or not and look we may pilot other things as well in the future. But as things stand, it should be an immaterial impact on FY17.

SD: Okay thanks.

CC: Thank you. The next question comes from Ben McGarry from Totus Capital. Please go ahead.

BM: Hi. Just along the lines of Sujit question, you said 'immaterial for the active wear business' but would you expense that and run it through the P&L all of the costs for that pilot or would you be capitalising any part of that pilot program?

AL: We capitalise capital spend and we'd expense everything else. Clearly the fixed assets that we expend on putting on a location we would want to capitalise. So, but the majority of the expense of that will run through the P&L.

BM: Okay. Yep. That's all from me, thank you.

AL: Thank you.

CC: Thank you. At this time we're showing no further questions. We'll now hand back to Ms Horne for closing remarks.

MH: Thank you. I'd just like to thank everybody for jumping on the call today and also for your patience over the last four weeks and yep, in summary, as Andrew and I have said a couple of times, we're just really looking forward to getting back to business and delivering value for our partner Telstra, for our shareholders and obviously for our team members. So, thanks everyone for your continued support and, um, speak again in the new year.

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