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Vital Annual Meeting Chair and CEO address

[*To be read in conjunction with the Annual Meeting presentation released today on NZX.*]

FY2023 Overview

FY2023 produced a significantly improved financial result for Vital Limited (VTL or Company) after a disappointing FY2022. The Company delivered to or exceeded FY2023 turnaround metrics published at the start of the year.

Turnaround Metrics (all figures $m)	**FY2023 Actual Result**	**FY2023 Turnaround Metrics**
Revenue	28.1	27.5 – 28.5
Adjusted EBITDA [1]	6.4	5.8 – 6.5
NPAT (adjusted) [2]	0.5	0.0 – 0.2
Adjusted free cash flow [3]	2.9	1.6 – 2.4

1. Post lease costs that are otherwise treated as depreciation and interest
2. Excludes IFRS 16 adjustments resulting from changes to lease profiles
3. Adjusted EBITDA (as above) less capital expenditure

In addition to these key metrics, there was a strong emphasis internally on improving employee and customer engagement and satisfaction. The employee net promoter score (eNPS) increased strongly during FY2023, up from 4 to 25 driven by a focus on culture led by the CEO and senior management team. This resulted in improved employee engagement and lower staff turnover. VTL's customer net promoter score (NPS) improved significantly, up from -7 in early 2022 to 22 in July 2023.

As planned for FY2023, the business repositioning and turnaround strategy commenced and is progressing well. The Company made good progress in three areas.

First was the focus on cost control and efficiency across the business, with total costs reducing around 15.9%. This has been successful, with some further benefits to come in FY2024, although the major cost and efficiency improvement opportunities are largely complete.

Second was tightly managing capital expenditure to improve free cash flow and begin reducing debt levels. With most of the network modernisation complete, fewer major capex projects are underway, although any network will require regular maintenance capex, including equipment replacement or modernisation, and for occasional site moves. Capex in FY2023 was $3.5m, well down from $6.1m the prior year, and around half the spend related to specific customer projects where the capex will be recovered.

Third was putting in place the building blocks to halt and begin to reverse the decline in revenue that has occurred for several years.

The key focus now, and the critical factor to earning an appropriate return on VTL's network assets, remains turning around the unacceptable decline in recurring customer revenue (excluding one offs such as customer capex-related and installation revenue) that has persisted for the past few years.

The Company is focussed on improving sales, continuing to manage costs, and exploring all options to achieve the outcome of generating shareholder value from its networks.

Governance changes

The Board reduced in size from six directors down to four over FY2023 following the stepping down of Rod Snodgrass, Nathan York, and Reg Barrett, followed by the appointment of Mike Shirley, an experienced and capable telecommunications executive. Regrettably for VTL, a recent change of role for Mr Shirley created a conflict of interest and he reluctantly needed to resign.

The Board is currently running a director search process with the intention to replace Mr Shirley, ensuring we maintain the appropriate mix of skills and expertise on the Board.

Cyber incident

Vital recently noted a cyber incident involving intrusion into the Company's corporate server network. This did not appear to extend into Vital's operational systems that monitor and manage the Fibre and Radio communications networks, which continue to operate normally. While there is no evidence of data exfiltration, this remains a possibility, and the Company has taken appropriate steps with those potentially affected. The internal corporate systems are being restored. Vital already invests in cyber protection, and additional measures are now in place to defend against an incident of this nature recurring.

CEO Business review

FY2023 was a year where Vital can be proud. It was a year in which we met or exceeded all the targets we had set. We remain committed to our turnaround strategy. Momentum is building.

- EBITDA (adjusted) of $6.4m up 13.9%.
- Customer NPS up 29 points to positive 22.
- Employee NPS up 21 points to positive 25.

Our Turnaround Strategy

Our strategy is all about deriving value for our shareholders.

We have implemented 3 pillars to our turnaround strategy.

1. Optimise our business and our quality network assets
2. Increase access to our Wired and Wireless Networks
3. Make interacting with Vital much easier for our customers

<u>1. Optimise our business and our quality assets</u>
Vital has quality and tangible assets. Fibre in Wellington and Auckland, and Land Mobile Radio Networks across the breadth of the country including key backhaul infrastructure. Our objective is to increase the utilisation of these networks and optimise the cost to operate.

In FY2023 our operating costs reduced 15.9% or $4.1m on the prior year. These savings occurred across all expense categories from network property and maintenance costs to labour and other administrative costs. We made challenging decisions and rationalised networks where it made commercial sense to do so.

Capital expenditure of $3.5m was down on FY2022 of $6.1m. Approximately 50% of FY2023 Capital expenditure related to specific customer requirements where the customer is effectively paying the capex. This is further evidence we are over the hump of capital investment that was required over the previous few years, where capex was running at between 20-25% of revenue. In FY2023 this was 12.4%.

We are seeing positive results across two of the three key legs to free cash flow growth. Operating costs and Capital expenditure. This leads us into the second pillar.

<u>2. Increase access to our Wired and Wireless networks</u>
Our goal is a return to revenue growth, which is key to profitability and shareholder returns.

As previously communicated Vital has implemented a channel or wholesale go-to-market strategy complimented with focus on our key direct customers. This is about a sharpened focus on the target market which we believe provides the greatest likelihood of top-line growth.

In Radio (Wireless) this has been about the wholesale focus with our National Radio Dealer network. We are seeing excellent traction across Auckland, Northland, Waikato, Taranaki, Bay of Plenty and Canterbury regions. One of our dealers has recently recruited a Business Development person with a focus on selling onto Vital's networks.

Land Mobile Radio is about growing our market share and we are seeing pockets of network consolidation occur.

In Fibre (Wired) we have put a tremendous amount of effort in over the past 12 months. We firmly believe our product offering, pricing (which on average is now sitting below our major competitor) and ability to deliver puts us in a strong position. Our Fibre Channel NPS (a subset of overall NPS) result was positive 61. This is a strong and improved endorsement of positive engagement stemming from Vital's focussed interactions and capability across our teams.

Overall, our Sales Pipeline is growing and we are seeing an increase in Fibre feasibility requests complemented with opportunities in Radio.

3. Make interacting with Vital much easier for our customers

We have spent a lot of time listening to our customers and a significant amount of effort has been invested to 'remove barriers' and fundamentally simplify how to procure from Vital.

Our new Fibre portal released in August is all about automating and simplifying the process for our Channel partners to procure fibre. Feedback to date has been excellent. The portal is complemented by our investment in Account Management and key support functions across the business.

The improved customer and employee engagement metrics demonstrate we are making good progress.

FY2023 Financial snapshot

FY2023 was a pleasing year in that we delivered on all the financial targets we set. A 13.9% increase in adjusted EBITDA to $6.4m or 22.8% (from 17.9%) is an excellent reflection of the optimisation initiatives we have taken.

Whilst revenue declined 10.6% or $3.3m this was a combination of one-off projects, the shutting-down of networks that did not make viable commercial sense and the relinquishment of some services no longer required. For example, the service provided to MIQ facilities.

Excluding the impact of lease accounting Vital returned to an adjusted profit after tax of $0.5m.

FY23 Summary of performance

Our achievements in FY23 should not go unnoticed:

- The efforts of the Vital team have been reflected in the Customer NPS movement of 29 points to positive 22.
- Our employee attrition rate decreased significantly from the prior year and this was reflected in our Employee NPS of 25, an increase of 21 points.
- The retention of key customers, notably the extension of St John through to 2027 with a right of renewal to 2029.
- Our networks came through the extreme weather events (Gabrielle and Hale) well.
- Our new sales channel strategy and portal is strengthening the sales pipeline.
- Costs and Capital expenditure are both significantly down, reflecting an increased business efficiency.

- Our Network performance is high. We had a 44% reduction in network incidents when comparing Q4FY22 against Q4FY23. This is demonstrating the benefits of recent investments.
- Network replacement costs have increased, underlining the value of Vitals assets.

FY2023 Improving our assets

Wired
Vital has significant fibre assets in Auckland and Wellington. Our turnaround strategy is about leveraging these further and delivering growth. Our channel strategy, portal implementation and competitive positioning in the market are fundamental initiatives to achieve this.

When complemented with reduced cost to serve and reduction in capital expenditure, our return on fibre assets is increasing. Adjusted EBITDA increased 2.9% on FY2022.

Wireless
We are seeing traction in the wholesale dealer partner strategy as we look to grow market share. We have seen more than 500 new connections come onto Vital's networks in FY2023 from our regional dealers. Our regional dealers have local knowledge and strong relationships with the end customers which our strategy aims to leverage.

Adjusted EBITDA has increased 1.6% on FY2022.

We are well positioned to provide continuity to emergency services in the event of any PSN delay.

FY2024 Looking ahead and Guidance Metrics

We have had a solid Q1 performance and reaffirm our FY2024 guidance. Notwithstanding, risk factors continue to exist and need to be managed. These include macroeconomic uncertainty, competitive threats, cyber-security, and extreme weather events.

We expect demand for network services to grow and are seeing a range of opportunities in our Pipeline.

FY2024 sees us continue the ruthless pursuit on cost efficiency, new product solutions, improved network utilisation, and new sales and partner opportunities.

We are looking to maintain turnaround momentum and strategic execution to improve shareholder returns.

We are reaffirming our FY2024 guidance.

Turnaround Metrics (all figures $m)	**FY2023 Actual Result**	**FY2024 Turnaround Metrics**
Revenue	28.1	28.0 – 29.0
Adjusted EBITDA [1]	6.4	6.6 – 7.1
NPAT (adjusted) [2]	0.5	0.7 – 1.1
Adjusted free cash flow [3]	2.9	3.0 – 4.0

1. Post lease costs that are otherwise treated as depreciation and interest
2. Excludes IFRS 16 adjustments resulting from changes to lease profiles
3. Adjusted EBITDA (as above) less capital expenditure

We have had a solid Q1 where we have achieved the following unaudited results.

- Revenue of $7.1m
- Adjusted EBITDA of $1.8m
- Adjusted NPAT of $0.23m
- Adjusted Free cash flow of $1.24m

I would like to thank the Vital team, our customers, suppliers and stakeholders for their continued efforts and support. It does not go unnoticed.

ENDS