

ASX announcement



Update on Trading and Commercial Discussions with Telstra

11 May 2017

- Vita Group expects to deliver a record EBITDA result in FY17 within an estimated range of \$63m-\$66m
- Telstra creates geographic clusters for store ownership model with Vita owning a sizeable segment of the Telstra store network
- Vita and Telstra in discussions over future commercial terms

Vita Group today released a trading update indicating that it expects to deliver underlying EBITDA of between \$63.0m and \$66.0m in FY17, which would be a record result for the company. This compares favourably against an underlying EBITDA result of \$62.0m in FY16. Second half EBITDA will be softer than the first half result of \$35.0m, reflecting some remuneration reductions that took effect between December and February, partly offset by the benefits arising from the addition of new Telstra stores in March and April, which will only deliver part year benefits in FY17. The actual FY17 result will be subject to trading outcomes in May and June, year-end completion procedures and an independent audit.

The company also expects to see some changes to its network of Telstra stores, as a result of Telstra's (ASX:TLS) decision to organise its company owned and licensed stores into geographic clusters. Under the proposal, expandable Telstra licensees will be invited to apply to build their Telstra store networks within a particular geographical region. Given Vita's scale and position as Telstra's only Master Licensee, it expects to retain a sizeable portion of the network, of which it currently owns and runs 107 retail stores, with representation in 35 of the 48 Telstra-determined geographic clusters. It will continue to focus on optimising its portfolio to enhance returns through targeted additions, divestments and closures, as well as organic performance improvement initiatives.

In addition, the company announced that it was in discussions with Telstra over commercial terms. The remuneration reductions agreed to between December and February were part of a response to margin pressures faced by Telstra in a very competitive mobility market, and the ongoing impact of the NBN rollout.

Those conditions continue to impact Telstra and the market generally, as we head into FY18 and beyond and have the potential to impact remuneration in the future. Consequently, Vita is working closely and confidentially with Telstra on remuneration and other commercial terms to find mutually acceptable ways of dealing with the challenges that lie ahead. Until these discussions are concluded, Vita has suspended any plans to expand the number of stores in its network.

Chief Executive Officer, Maxine Horne commented, "We are delighted to advise of progress towards another strong result for the company. Whilst there have been some new challenges in the second half of FY17, I am proud of the achievements that our exceptional team members have delivered so far, and look forward to sharing more detail on this and our forward looking plans when we release our full year FY17 results."

"On Telstra's plan to organise its company owned and licensed stores into geographic clusters, we are very supportive. Creating a geo-clustered network allows for intensity of leadership, which ultimately drives better outcomes for customers. An added advantage is the lower cost that comes from clustering. Vita is already well positioned in this area as it adopted this strategy a number of years ago. This move is absolutely in line with the optimisation program that Vita has undertaken with its own stores over the last three years and we will work closely with Telstra to continue optimising our network and, in doing so, bring mutual benefits to both Vita and Telstra, our customers and our broader communities."



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In relation to discussions on commercial terms, Ms. Horne added, "Telstra is facing into a number of challenges reflecting a very competitive mobility market and the impact of the NBN rollout on its business. As a key strategic partner, we will work with Telstra to help them navigate through those issues. We will however look to ensure that the interests of all of our stakeholders, including our team members and our shareholders are taken into account, and that discussions respect the terms and intent of our Telstra Dealership and Master License Agreements."

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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.



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