

ASX announcement



Vita Group delivers solid interim result

28 February 2018

Vita Group Limited (ASX:VTG) today reported a solid performance for the six months to 31 December 2017, despite challenging industry conditions.

The group delivered revenues from continuing operations of \$329.6 million, four per cent lower than prior year; with earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations of \$20.0 million, down 43 per cent on prior year. Net profit after tax (NPAT) was \$11.2 million.

These results were well ahead of guidance provided to the market in October 2017, and in line with upgraded guidance issued in January 2018, reflecting a stronger October to December trading quarter, supported by an earlier relaxation of constraints on iPhone 8 and iPhone X inventory after launch, and the group's rigorous focus on cost control.

Operating cash flows after tax were \$18.0 million, reflecting strong cash conversion and additional investment in working capital in support of the iPhone 8 and iPhone X launches. Vita invested a net \$13.2 million in acquisitions, refits and technology solutions, which will deliver benefits into the future. Financing outflows were \$12.0 million, primarily reflecting \$11.3 million in dividends paid in the period. The cash balance at the end of the half was \$22.5 million and the group had no net debt, positioning it strongly for ongoing investment in growth opportunities, in line with Vita's strategy.

Vita maintained its dividend payout ratio at 65 per cent of profits after tax. The Board declared a fully franked interim dividend of 4.7 cents per share, to be paid on 13 April 2018 to shareholders on record as at 29 March 2018.

Chief Executive Officer, Maxine Horne commented: "We are pleased that, despite industry margin pressures, we delivered a solid interim result that exceeds guidance. Our team has continued to consult with our customers to deliver exceptional experiences. They've rigorously focused on cost control, and all without letting challenging conditions impact their love for what they do."

(\$m unless otherwise stated)	H1 FY18	H1 FY17	Change
Continuing operations			
Revenue	329.6	344.1	(4%)
Gross profit	103.3	128.3	(19%)
EBITDA	20.0	35.0	(43%)
EBIT	15.7	30.1	(48%)
NPAT	11.2	21.4	(48%)
Earnings per share (EPS)	7.32 cps	14.11 cps	(48%)
Interim Dividend	4.7 cps	9.2 cps	(49%)
Profit/(loss) from discontinued Next Byte operations	0.0	0.3	

Group revenues from continuing operations declined four per cent to \$329.6 million, primarily due to remuneration reductions from Telstra in Vita's retail information and communications technology (ICT) channel. In addition, consumer demand in the first four months of the fiscal year was softer than expected, as a result of a longer than usual period of time between the announcement and shipment of new Apple iPhone products.

These changes mainly impacted Vita's retail channel in ICT, resulting in a four per cent decline in revenues and a 38 per cent reduction in EBITDA. Productivity and performance improvements, combined with the continued optimisation of the physical portfolio (two store additions and two divestments) assisted and will deliver benefits in the second half.



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In the business channel of ICT, revenues were down 10 per cent, with small-to-medium business sales slightly up, offset by lower enterprise sales. The reduction in enterprise sales reflected a renewed focus on account profitability, with the group choosing to exit some lines of business that did not meet financial hurdles. As a result, EBITDA increased eight per cent in the period as the group began to leverage its scale, whilst continuing to achieve cost savings, which will flow through fully in the second half and beyond.

Group gross margins declined due to remuneration reductions and a movement in product mix toward lower margin items such as devices and recontracted plans.

Vita continued its focus on productivity and efficiency gains, reducing total operating expenses by 11 per cent, including a 17 per cent reduction in support costs.

Importantly during the half, Vita delivered on its strategic intent to take its core competency of consultative selling into new, attractive categories. In November 2017, Vita entered the non-invasive medical aesthetics (NIMA) market, acquiring medical-grade skincare brand, Clear Complexions, which is performing well and remains on track to deliver annual revenue of around \$10.0 million and annual EBITDA of more than \$1.0 million in the year post acquisition. In addition, Vita's accessories brand, Sprout, continued to grow its points of distribution, and Vita's men's active and lifestyle brand, SQDAthletica, continued its journey as a start-up business and is building momentum in retail, online and wholesale channels.

SECOND-HALF OUTLOOK

Vita Group expects to deliver EBITDA in the range of \$38.0 million to \$43.0 million for FY18, in line with the guidance provided to the market in January 2018.

Vita has now absorbed Telstra's remuneration changes. Backed by its strengthened strategic partnership with Telstra, the group will continue to deliver healthy returns by improving performance and further optimising its portfolio. In new categories, all brands, including Clear Complexions, are firmly embedded into the group and Vita is well positioned, with significant financial capacity to drive strategic investment.

"This is an exciting time of evolution for Vita Group," said Ms Horne. "We have established a very strong and profitable business. We have recently delivered on our strategic intent, which is to take our proven core competencies into a new attractive category. The NIMA category, like telecommunications historically, is exposed to strong growth opportunities, has healthy margins and is fragmented. We now look forward to executing our three to five-year plan to build a profitable business at scale. There is much to do; and the future is bright."

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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, Sprout, and Clear Complexions. For further information, visit www.vitagroup.com.au.



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