



ASX ANNOUNCEMENT

Vita Group delivers solid FY18 result

17 August 2018

Vita Group (ASX:VTG) today reported a solid result for the twelve months to 30 June 2018, delivering record revenues from continuing operations of \$684.5 million, a three per cent increase on the prior year. Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$41.0 million, comfortably within January 2018 guidance, reflecting strong device sales, particularly in the second half.

The EBITDA result however, was 37 per cent down on FY17, due to previously communicated remuneration reductions and adverse product mix movements within the group's information and communications technology (ICT) channel, impacting gross margins. These impacts were partially offset by a rigorous focus on cost control. Despite acquisitions within Vita's non-invasive medical aesthetics (NIMA) channel, the group achieved a four per cent reduction in operating expenses, including an 11 per cent reduction in support costs. Net profit after tax (NPAT) was \$22.0 million.

Strong cash conversion and tight working capital management resulted in operating cash flows of \$36.6 million. The group invested \$26.8 million (net of disposals) in acquisitions, refits and technology across both the ICT and NIMA businesses. Net financing cash flows were \$7.8 million, primarily reflecting \$18.5 million in dividends paid in the period, offset by \$8.5m in proceeds raised through the group's dividend reinvestment plan. Cash balances at the end of FY18 were \$31.6 million and Vita had no net debt at period end, providing flexibility for investment in growth opportunities.

The Board declared a fully-franked final dividend of 4.4 cents per share (cps), resulting in a fully-franked dividend for the full year of 9.1 cps, representing a payout ratio of 65 per cent. The final dividend will be paid on 28 September 2018 to shareholders on record as at 14 September 2018.

<i>(\$m unless otherwise stated)</i>	FY18	FY17	Change
<u>Continuing operations</u>			
Revenue	684.5	667.3	3%
Gross profit	211.3	242.9	(13%)
Gross profit %	31%	36%	
EBITDA	41.0	65.0	(37%)
EBIT	30.9	55.4	(44%)
NPAT	22.0	39.0	(44%)
Profit / loss from discontinued Next Byte operations	0.0	0.4	
NPAT including discontinued operations	22.0	39.4	(44%)
Full year dividend	9.1 cps	16.6 cps	(45%)
Earnings per share	14.13	25.62	(45%)

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FY18 in Review

Vita's full year results demonstrate solid performance, despite challenging ICT industry conditions.

The retail ICT channel delivered a two per cent increase in revenues after a particularly strong second half. EBITDA, however, was lower, reflecting remuneration reductions and an adverse product mix, partially offset by productivity gains and a rigorous focus on costs.

In the business ICT channel, small-to-medium business revenues increased six per cent, with device sales well up on prior year. Whilst enterprise channel revenues were 13 per cent lower as the group refocused on profitable lines of business, the product mix improved to reflect strong annuity, and professional and managed services revenues. EBITDA for the combined business ICT channel grew versus FY17.

Vita's accessories brand, Sprout continued to deliver solid results, achieving distribution gains outside its traditional ICT channel after launching new product innovations in waterproof audio and wireless charging.

The group's men's active and lifestyle brand, SQDAthletica continued to grow, achieving good momentum across retail, online and wholesale channels.

Vita delivered on its strategic intent to replicate its significant consulting expertise in new, attractive categories – namely the NIMA market, which displays many of the characteristics which the ICT category showed early in its lifecycle. Vita acquired six Clear Complexions clinics in November 2017 and Artisan Cosmetic & Rejuvenation Clinic in May 2018, and all clinics are now embedded and performing in line with, or ahead of, expectations. A new customer-facing brand has been developed and will be launched in early FY19, as the group begins to add scale, in line with its strategy to establish a national network of aesthetic clinics leading the premium space.

Vita's physical portfolio, as at 30 June 2018, included 105 Telstra Licensed Stores, 23 Telstra Business Centres, one Fone Zone store, one SQDAthletica store, six Clear Complexions clinics and one Artisan Cosmetic & Rejuvenation clinic. Seven Telstra retail stores and two Telstra Business Centres were added in FY18, while seven Telstra retail stores were sold or closed, in line with the group's optimisation strategy.

FY19 Outlook

Vita Group is strategically and financially well-positioned for the future.

The ICT channel will continue to drive improved performance, generate cash flow and deliver strong returns through its optimisation and productivity programs.

In line with Telstra's recently updated strategy for small-to-medium business customers, Vita has entered a process to transition from the Telstra Business Centre model, and has applied to become part of the new, premium Telstra Business Technology Centre (TBTC) model in FY19. Vita is confident it will be successful with its application, which would see Vita operate fewer points of presence across significantly expanded territories. TBTCs will service small-to-medium businesses with more complex technology needs, offering whole-of-business solutions through highly trained consultants. Small business customers with relatively simpler needs will be serviced by the retail channel, utilising existing infrastructure, but with whole of business solutions. This represents a significant opportunity for Vita's retail channel. In enterprise, the group will continue to focus on improving product mix and profitability across its key accounts.



Vita's NIMA channel is a material opportunity for value creation with high mid-to-long term revenue and profit potential and will be a focus for capital investment in FY19 and beyond. With a strong operating model and support structure as well as a new brand, the group is well-positioned to scale the channel materially over four to five years. Clinics will operate under one national brand and will benefit from Vita's operational expertise and scalable systems and processes. Each clinic will portray a unique and bespoke character that pays homage to the buildings and communities that they are part of. The clinics will be doctor and nurse practitioner led and will offer a range of modalities from injectables, dermal and body treatments, to skin care. Vita's goal is to be the leading, premium medical aesthetics brand in Australia, setting the benchmark for quality results, safety and best practice.

Across all businesses and support services, Vita will continue its focus on cost control, driving productivity and profitability, whilst continuing to evolve its portfolio. At the same time, Vita will continue to look after its most important asset – it's people, through an ongoing focus on developing strong leaders and building a positive workplace culture.

Chief Executive Officer, Maxine Horne said: "I'm very pleased with Vita Group's performance in FY18, which once again proves our ability to adapt and evolve in a challenging environment. We have an amazing group of leaders and it's when you're faced with challenges like we've had in FY18, that this talent shines through. By leveraging our core competency of expert consulting, our team has continued to drive profitability across our increasingly diverse network of brands. As a result, we are well-positioned for the future as we continue to deliver greater value for our customers, team members, the communities we operate in, and of course our shareholders. I thank all of our amazing Vita peeps for a tough, but rewarding year, and I look forward to working with the team to continue to create a great future for all of our stakeholders."

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About Vita Group: Vita Group is leading retailer, specialising in enhancing customers' way of life across a diverse network of brands. Vita operates Telstra branded retail stores and business technology centres, Vita Enterprise Solutions, Sprout, Clear Complexions, Artisan Cosmetic & Rejuvenation Clinic and SQDAthletica. For further information, visit www.vitagroup.com.au.