

Vita Group delivers positive FY20 result in challenging conditions

21 August 2020

Vita Group (ASX: VTG) today reported a robust result for the year to 30 June 2020, despite significant change and disruption, including Telstra remuneration changes in its information and communication technology (ICT) channel from 1 July 2019 and the group-wide impact of COVID-19 from March 2020.

The group delivered record revenues of \$773.1 million, a three per cent increase on prior year. Earnings before interest, tax, depreciation and amortisation (EBITDA), excluding the impact of AASB 16 (implemented during the period) for comparative purposes, increased nine per cent to \$49.9 million. Earnings before interest and tax (EBIT) grew seven per cent to \$37.2 million. The result was underpinned by strong performance in the ICT channel (particularly up to March 2020), growth and improved productivity in the skin-health and wellness (SHAW) channel, and a proactive response to COVID-19.

There were several non-recurring items in the result, including the net benefit of the Federal government's JobKeeper subsidy, after top-up payments to team members, and revisions to the carrying values of some tangible and intangible assets, liabilities and provisions.

Underlying EBIT (excluding the impact of non-recurring items) increased four per cent to \$36.1 million. Net profit after tax (NPAT) decreased eight per cent to \$22.4 million as a result of AASB 16 (a \$1.6 million adverse impact) as well as a higher effective tax rate following the inclusion of non-deductible, non-recurring charges.

Vita ended the period with net cash of \$24.1 million as a result of solid operating cash flows, disciplined capital management and a focus on liquidity during COVID-19. Operating cash flows after tax were \$41.1 million, with \$19.1 million of capital expenditure directed towards additional clinics in the SHAW channel, retail ICT store refits, and further IT investments. Net financing cash flows were \$11.9 million, reflecting lease payments (\$11.5 million), debt repayments (\$8.8 million), dividends paid (\$6.5 million), all offset by proceeds from borrowings (\$12.8 million) and the group's dividend reinvestment plan (\$2.0 million).

Whilst the trading environment continues to be uncertain, the board resolved to resume dividend payments in line with the easing of COVID-19 restrictions in many parts of the country, following cancellation of the FY20 interim dividend in March 2020. It determined to pay a fully-franked final dividend of \$3.9 million, equating to 2.4 cents per share, representing a H2 payout ratio of 50 per cent of profits after tax. The final dividend is payable on 25 September 2020 to shareholders on record as at 11 September 2020.

The board also determined to reinstate the full remuneration of each of the Non-Executive Directors and the Chief Executive Officer, effective 22 June 2020. The remuneration of other members of the leadership team has also been reinstated with effect from that date.

(\$m unless otherwise stated)	FY20	FY19	Change
Group Revenue	773.1	753.7	3%
Information & Communication Technology (ICT)	752.0	739.3	2%
Skin-Health & Wellness (SHAW)	20.1	13.7	47%
Other	1.0	0.7	43%
Group gross profit	212.5	229.7	(7%)
Group gross profit %	27.5%	30.5%	
Group EBITDA (pre-AASB 16)	49.9	45.8	9%
Information & Communication Technology (ICT)	84.9	79.3	7%
Skin-Health & Wellness (SHAW)	(1.9)	(3.7)	49%
Other	(33.1)	(29.8)	(11%)
Group EBIT	37.2	34.7	7%
Information & Communication Technology (ICT)	78.9	75.0	5%
Skin-Health & Wellness (SHAW)	(7.0)	(6.7)	(4%)
Other	(34.7)	(33.6)	(3%)
Non-recurring items	(1.1)	-	-
JobKeeper subsidy	(10.2)	-	-
Once off expenses	9.1	-	-
Underlying group EBIT (excluding non-recurring items)	36.1	34.7	4%
Information & Communication Technology (ICT)	73.2	75.0	(2%)
Skin-Health & Wellness (SHAW)	(5.8)	(6.7)	13%
Other	(31.3)	(33.6)	7%
Group NPAT	22.4	24.3	(8%)
Earnings per share	13.71 cps	15.04 cps	(9%)
Underlying earnings per share	13.75 cps	15.04 cps	(9%)
Full year dividend (\$m)	3.9	14.9	(74%)
Interim dividend	-	5.2 cps	(100%)
Final dividend	2.4 cps	4.0 cps	(40%)

FY20 in Review

COVID-19

The group proactively managed the impacts of COVID-19 to protect the business for the short and long-term. Its Business Continuity Plan ensured strict adherence to government legislation and focused on mitigating risk in areas including health and safety, inventory supply, continuity of service and responsible value creation for customers.

Measures were taken to protect Vita's financial position, including the previously announced cancellation of the FY20 interim dividend, deferral of non-essential capital projects, cost reduction initiatives, and temporary rent arrangements agreed with landlords. Vita's board and leadership team (except for the CEO) took temporary remuneration reductions and CEO, Maxine Horne, voluntarily suspended her base salary, effective from 1 April 2020. Several support team members volunteered temporary remuneration reductions, agreed to work reduced hours, or utilised annual leave. The group welcomed assistance from the Federal government in the form of the JobKeeper wage subsidy, which provided a net \$10.2 million benefit, after top-up payments to team members, and was instrumental in protecting jobs. It also appreciated the support it received from landlords in the form of rent assistance.

During the period, Vita Group made the decision to exit its SQDAthletica men's athleisure business in order to focus on its strategic priorities in the ICT and SHAW channels.

Information and Communications Technology

ICT revenues increased two per cent to \$752.0 million and EBITDA, excluding the impact of AASB 16, was \$84.9 million, up seven per cent on the prior year.

The retail ICT division delivered a five per cent increase in revenues due to a continued focus on consulting and delivering products and services which create value for customers. Device revenue was strong, particularly from the start of the period up to March 2020 and the impact of COVID-19. The retail team leveraged its capacity and capability during COVID-19 to support Telstra to keep customers connected to mobile and fixed networks, which is critical during lockdown periods.

Vita's accessories brand, Sprout, continued its positive contribution to growth and profitability through ongoing innovation across a range of product categories and progressed its strategy to expand in its business-to-business segment outside of the Vita network.

The business ICT division continued to complement the retail ICT store network by providing solutions to small-to-medium and large business customers. The Telstra Business Technology Centres and the enterprise business achieved significant productivity improvements, whilst supporting steady demand during COVID-19 as business customers enabled their employees to work remotely.

Skin-Health and Wellness

Revenues in the SHAW channel increased to \$20.1 million, a 47 per cent uplift despite a six-week closure from March 2020 due to COVID-19 restrictions, and EBITDA improved to a \$1.9 million loss, compared with a \$3.7 million loss in the prior year.

Continued expansion of the clinic network through acquisitions and greenfield additions contributed to the result, with the group ending the period with 21 clinics, 13 of which were Artisan branded. Organic growth was achieved during the period, which accelerated after the clinics re-opened in May 2020, following further team member upskilling in consulting and delivering value to clients, as well as significant productivity improvements as a result of further embedding of Vita's operating rhythms and disciplines.

The channel continued to invest in the Artisan Aesthetic Clinics brand through awareness and marketing campaigns and the launch of the Artisan branded app, all of which assisted to drive client visits and support retention. Further enhancements to the group's proprietary software solution, cosmedcloud™ were made, which will support the group's intention to distribute this unique client management software offering to the broader medical category.

FY21 Outlook

The environment in which Vita competes will remain challenging with the impacts of COVID-19 continuing to affect the economy nationally. Vita will continue to focus on its core ICT and SHAW businesses, consulting with customers to create value and delivering exceptional outcomes for them.

In ICT, key areas of focus will be further improvements in the productivity of the store portfolio, both organically and through selective acquisitions and divestments. The group's strategic partnership with Telstra will continue to be of key importance as the industry shifts towards an omni-channel ecosystem and the role of retail continues to change.

The Sprout accessories business will deliver further innovation through product development in profitable categories such as multi-purpose audio, wireless charging and outdoor accessories, whilst continuing to expand its distribution channels.

In SHAW, the focus includes driving further organic growth and productivity improvements from the clinic portfolio, building on the gains already made through leveraging Vita's consulting capabilities and strong operating disciplines. Performance improvement will be supported by the continued evolution of cosmedcloud™. The group will look to add additional clinics to the network in FY22 and beyond.

Vita Group CEO, Maxine Horne commented, "I'm immensely proud of Vita's performance in what has been a year of significant change and disruption. Despite the challenges presented by COVID-19, we have achieved a very solid result in an unprecedented year. Our achievements are, more than ever before, a result of our dedicated and hardworking Vita peeps, who have shown flexibility and commitment and have acted in line with our Vita values. They have maintained a steadfast focus on looking after our customers and I cannot thank them enough for everything they have done and continue to do to make Vita 'a great place to be.'

While COVID-19 will undoubtedly continue to impact Australia and our economy in FY21, our highly capable team, strong balance sheet, and clear strategy for growth should maximise our ability to successfully and responsibly deliver value over the long-term. I want to sincerely thank our entire Vita community – from team members and customers, through to suppliers and investors – for their support during FY20 and for standing with us during COVID-19. Your flexibility and support have been instrumental in helping us to successfully manage its impact to date and position Vita strongly for the future."

This announcement has been authorised for release by VTG's Board of Directors.

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About Vita Group Vita Group specialises in enhancing customers' ways of life, in its key categories of information and communications technology (through Telstra retail stores, Telstra Business Technology Centres, Vita Enterprise Solutions and Sprout accessories) as well as skin-health and wellness through its Artisan Aesthetic Clinics brand and a network of non-branded clinics. For more information visit www.vitagroup.com.au.