

ASX ANNOUNCEMENT



Vita Group Limited
ACN 113 178 519
77 Hudson Road
Albion Qld 4010

24 September 2021

Market Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Vita Group Limited – Market Update

In accordance with the Listing Rules, please find attached for immediate release a market update announcement by Vita Group Limited (ASX: VTG).

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

For enquiries relating to this announcement, contact:

Andrew Ryan
Chief Financial Officer
Mob: 0417 644 756

Rebecca McLeod (Media)
Chief Strategy and Communication Officer
Mob: 0418 731 255

Yours sincerely

A handwritten signature in black ink, appearing to read "George Southgate".

George Southgate
Chief Legal and Risk Officer / Group Company Secretary
Vita Group Limited

Sale of Vita Group's Retail ICT and Sprout business to Telstra

24 September 2021

Vita Group (ASX: VTG) today entered into a Share Sale Agreement (SSA) for the sale of its Retail Information and Communication Technology (ICT) business to Telstra (ASX: TLS) for cash consideration of \$110 million, subject to a net working capital and net-debt adjustment mechanism (referred to as the Vita Retail ICT Sale or Proposed Transaction).

Highlights

- The Proposed Transaction provides shareholder value via an expected fully franked Special Dividend of approximately \$65 to \$75 million, representing \$0.39 to \$0.45 per share, to be paid in two payments, with attached franking credits of up to approximately \$0.17 to \$0.19 per share (based on current estimates).
- Vita intends to retain approximately \$35 million to fund growth of the Artisan Aesthetic Clinics business.
- The Vita Board considers the Proposed Transaction to be in the best interests of Vita Shareholders, given Telstra's intentions to transition the Telstra branded retail store network into Telstra ownership.
- The Proposed Transaction is conditional on, amongst other things, 50 per cent shareholder approval, with an Extraordinary General Meeting currently expected to be held on or about 5 November 2021.

Background

On 11 February 2021, Telstra announced to the ASX its intention to transition the Telstra branded retail store network, including Vita's portfolio of stores, to a corporate ownership model. Vita also announced to the ASX on this date, that this would mean the conclusion of Vita's Telstra Dealer Agreement (TDA) on its expiry date of 30 June 2025, and that it would work with Telstra to finalise the transition arrangements as soon as possible.

Overview of the sale

The Proposed Transaction involves the sale of Vita's Retail Information and Communication Technology (ICT) business to Telstra, which includes all of Vita's Telstra branded retail stores and the Sprout business, for cash consideration of \$110 million, subject to a net working capital and net-debt adjustment to be calculated as at 30 September 2021. As part of the Proposed Transaction, Telstra will take over the employment relationship with all store team members and field leaders, the Sprout team, and the majority of supporting teams and team members, all of whom will continue to be employed by the Vita People entity, which will be owned by Telstra if the transaction is approved.

The Board believes the Proposed Transaction provides benefits to shareholders through realising value from the ICT channel and Sprout business now, rather than trading through to the conclusion of the TDA in an uncertain economic environment and changing ICT landscape.

Following completion of the Proposed Transaction, the Board expects to distribute a majority part of the proceeds, less certain transaction, wind-up, and other transition costs, to shareholders via a fully franked Special Dividend of approximately \$65 million to \$75 million (payable in two payments), representing \$0.39 to \$0.45 per share, plus franking credits of up to approximately \$0.17 to \$0.19 per share. Vita intends to utilise the remaining portion of proceeds, currently estimated to be approximately \$35 million, to fund the further growth of the Artisan Aesthetic Clinics business.

While not legally required to do so, the Board has commissioned audit and accounting firm, BDO to prepare an Independent Expert's Report (IER) regarding the merits of the Proposed Transaction. This report states that the Proposed Transaction is in the best interests of shareholders, listing advantages including:

- Realisation of value for the Retail ICT Business immediately and removal of uncertainty regarding its future operations;
- Fully franked special dividend, providing additional benefit to relevant shareholders;
- No future requirement for Vita's management time to be expended on the Retail ICT Business;
- Enabling Vita to streamline its focus towards the Artisan Business; and
- No other logical or superior proposal existing for the Retail ICT Business.

The full IER will be included in the Notice of Meeting to be sent to shareholders.

The Vita Retail ICT Sale is conditional on, amongst other things, Vita shareholders passing an ordinary resolution to approve the Vita Retail ICT Sale pursuant to ASX Listing Rule 11.2 at an Extraordinary General Meeting (EGM) (Shareholder Approval)¹. Vita will convene an EGM, expected to be held on or about 5 November 2021, for Vita shareholders to consider and vote on the Vita Retail ICT Sale.

Strategic Rationale

The Proposed Transaction was prompted by Telstra's announcement of its intention to transition all Telstra branded retail stores to corporate ownership, meaning the conclusion of Vita's Telstra Dealer Agreement on 30 June 2025. Whilst Vita could choose to continue to trade its Telstra retail branded stores and Sprout accessories business up to that date, the Proposed Transaction aligns with Vita's strategy to focus on other growth markets.

Vita's expansion into new growth markets became a strategic priority more than five years ago when Vita's research showed that the skin health and wellness category could deliver high margins and a strong growth trajectory, whilst also providing Vita with full ownership and control of the brand, as well as the opportunity to consolidate at the premium end of the market. Vita acquired six skin clinics in 2017, and has since expanded to 20 clinics across the east coast of Australia, through the acquisition of clinics and key clinicians with client databases. These clinics form part of Vita's Artisan Aesthetic Clinics Business.

The Board believes that due to an uncertain and highly competitive environment in ICT, combined with Vita's growing Artisan Business, the Proposed Transaction is in the best interests of shareholders, as it:

- offers a return to shareholders of approximately \$65 million to \$75 million (based on current estimates), via the Special Dividend to be paid in two payments;
- provides certainty for shareholders in a highly competitive telecommunications category; and
- allows the group to focus its efforts and funding on the growth of the Artisan Aesthetic Clinics business, which is in a highly attractive category.

Board recommendation

The Vita Group Board unanimously recommends that Vita shareholders vote in favour of the Retail ICT Sale, and each director intends to vote all Vita shares held or controlled by them in favour of the Retail ICT Sale.

Vita Group Chairman, Mr Dick Simpson, said:

"This agreement represents good value for our shareholders and provides certainty in a highly challenging and dynamic telecommunications market. The Vita Board unanimously supports the offer and believes that Vita is best positioned to succeed in the future, in the growing skin health and wellness industry".

Shareholder Approval and other conditions under the SSA

The Vita Retail ICT Sale is subject to, amongst other things, Shareholder Approval, pursuant to ASX Listing Rule 11.2. The Vita Retail ICT Sale is not subject to further due diligence or financing.

ASX Listing Rule 11.2 requires that if the Company proposes to dispose of its main undertaking, it must first obtain shareholder approval. Shareholders will have an opportunity to vote regarding the Proposed Transaction at the EGM. If shareholders do not approve the Vita Retail ICT Sale, Vita has the right to immediately terminate the SSA.

Annexure A sets out further information on the key terms of the SSA and the Proposed Transaction. Additional details regarding the Vita Retail ICT Sale, including the Independent Expert's Report and information on Vita's financial position before and after completion of the Vita Retail ICT Sale, will be provided to shareholders in the Notice of Meeting, expected to be sent to shareholders at the beginning of October 2021.

Payment of Special Dividend to Shareholders

Vita currently estimates that approximately \$65 to \$75 million will be available for distribution to shareholders via a fully franked Special Dividend, equivalent to \$0.39 to \$0.45 per share. In estimating the amount available for the Special Dividend, Vita has had regard to costs related to the Proposed Transaction including, but not limited to, employee costs, re-structuring costs, adviser fees, repayment of debt and tax payable, cash available from operation to completion, and cash required to adequately support Vita's operations.

Subject to the Proposed Transaction being implemented, Vita expects the Special Dividend to be paid in line with the indicative timetable (below) in two tranches, being a Major Distribution of approximately \$60 to \$65

¹ Based on information presently available, the ASX has determined that Listing Rule 11.1 does not apply to the Proposed Transaction.

million, equating to between \$0.36 to \$0.39 per share; and a Final Distribution of approximately \$5 to \$10 million, equating to between \$0.03 to \$0.06 per share.

The estimated amount and timing of the Special Dividend are based on several assumptions regarding future events, trading conditions, business performance and successful implementation of the Proposed Transaction, all of which involve risks, uncertainties, and other factors beyond Vita's direct control. As a result, the estimate may differ from the final amount which becomes available for distribution to shareholders via the Special Dividend. Vita will provide an updated estimate of the Special Dividend amount prior to the EGM. Vita's Dividend Reinvestment Plan will not apply to the Special Dividend.

Consequences for Vita Group following the Vita Retail ICT Sale

If the Proposed Transaction is approved by shareholders and completed, Vita will transition the ICT business, along with its current employing entity, Vita People and the relevant employees (approximately 1,170) into Telstra. Vita and Telstra will provide certain reciprocal transitional services to one another (see Annexure A for further detail), for a period up to 30 June 2022, at no fee to either party.

There will be no change to the capital structure of Vita as a result of the Proposed Transaction.

Following completion, the Artisan Business will operate its network of (currently) 20 clinics on a standalone basis, managed and operated by a smaller team, reflecting the size and operations of the Artisan Business moving forward. Further details will be provided in the Notice of Meeting.

Annexure B provides an unaudited historical proforma income statement and balance sheet of Vita, reflecting the implementation of the Proposed Transaction, had it occurred, for the full historical period.

Indicative timetable

Dispatch of Notice of Meeting & Explanatory Memorandum including Independent Expert Report	By the beginning of October 2021
Extraordinary General Meeting	On or about 5 November 2021 at 9.00am (AEST)
Vita Retail ICT Sale completion	By 12 November 2021

The dates above (and references to those dates through this document) are indicative only and are subject to any changes that may be agreed between Vita and Telstra or in consultation with ASX. Vita will update Vita Shareholders via the ASX platform and Vita's website as appropriate when the relevant events are reached or changed, or decisions made.

Comment from the CEO

Vita Group Chief Executive Officer, Ms Maxine Horne, said:

"This is a good outcome for all stakeholders and the fact that we have been able to reach transition arrangements that provides certainty of next steps and ensures value for all parties, is positive. Vita has enjoyed a long-term strategic relationship with Telstra, in which over the last 26 years I believe both parties have gained significant benefit from one another. I am exceptionally proud of our people and the business we have built from the very first Fone Zone store in 1995 through to the significant portfolio of Telstra stores that our highly skilled Vita ICT and support team run. In addition, over this time, we have also created and developed the brand of Sprout Accessories, one of the largest accessory providers in Australia. All of this, in my opinion, will be of immense benefit to Telstra.

With all that is happening across both the ICT and aesthetics categories, the time is right for both parties to move forward with their respective strategies. In Vita's case, this is focusing on the growth opportunity we have in front of us, with the Artisan network."

Advisers

Vita Group is being advised by Bancorp Corporate Finance Limited as financial adviser and MinterEllison as legal adviser.

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

Further enquiries:

Andrew Ryan
Chief Financial Officer
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Annexure A – Summary of Transaction Documents

Share Sale Agreement

The key terms of the Share Sale Agreement are as follows:

- **(Seller)** Vita Group.
- **(Purchaser)** Telstra Corporation Limited or nominee.
- **(Securities being acquired)** The Proposed Transaction relates to the acquisition of all the shares in Fone Zone Pty Ltd and its subsidiaries (**Target Group**), being the corporate entities holding and operating the Retail ICT Stores, the Sprout accessories business, and TBTC Townsville.
- **(Consideration)** Telstra has agreed to pay A\$110 million for the shares, subject to:
 - a positive or negative adjustment if the net working capital (excluding Telstra related net working capital) of the business at 30 September 2021 varies from a nominated target; and
 - a positive or negative adjustment for any debt like items (including the net amount owing to or from Telstra) at 30 September 2021.
- **(Locked Box)** Telstra will also be entitled to an adjustment on a dollar for dollar basis for any amounts paid by members of the Target Group to other members of the Vita Group after 30 September 2021 other than in the ordinary course of business or as agreed in the Share Sale Agreement.
- **(Conditions Precedent)** The Proposed Transaction is conditional on, amongst other things, the following (which if not fulfilled or waived, the Proposed Transaction will not proceed):
 - the Vendor has passed, in accordance with ASX Listing Rule 11.2, a resolution in a general meeting of its shareholders, approving the Proposed Transaction; and has complied with all requirements of Listing Rule 11.2 in respect of the meeting; and
 - obtaining necessary approvals under certain contracts and agreements nominated by Telstra.
- **(Conduct of business prior to Completion)** The ICT and Sprout businesses are to be conducted in the ordinary course pending completion subject to customary restrictions.
- **(Scheduled Completion Date)** By 12 November 2021.
- **(Non-Transferring Vita People Employees)** Senior management team and approximately 45 other Vita People employees will either transfer to the Artisan Business, or remain the responsibility of Vita.
- **(Warranties)** Vita to provide customary warranties regarding the Group and its businesses and affairs.
- **(Indemnities)** Vita to indemnify Telstra for any tax liability of the Target Group prior to 30 September 2021 and specific indemnities for a small number of specific matters identified by Telstra.
- **(Warranty and Indemnity Insurance)** Telstra will take out warranty and indemnity insurance in relation to the Vita warranties and indemnities. Other than the specific indemnities, Telstra's recourse will be limited to recourse under the warranty and indemnity insurance, subject to limited exceptions.
- **(Non-compete)** Vita to provide customary non-compete and non-solicit obligations for a transaction of this nature for a period of up to three years.

Transitional Services Agreement

- Under this agreement Telstra and Vita will provide the transitional services to each other for a period from Completion to 30 June 2022.

Annexure B – Vita Group Limited pro forma financial statements

The proforma income statement and balance sheet of Vita takes into account the proposed Special Dividend. The historical financial information has been adjusted to reflect Vita as if the Proposed Transaction with Telstra had occurred for the full historical period covered by the financial information. To enable this, the historical financial information has been adjusted to show adjusted or 'proforma' historical financial information. In preparing this information some assumptions were made about the allocation of shared centralised corporate overheads.

Vita Group Limited unaudited proforma income statement as at 30 June 2021

	FY21 Statutory Income Statement (Audited)	FY21 Proforma Income Statement (Unaudited)
Revenue	633,532	28,392
EBITDA (pre-corporate overheads)	89,710	4,935
Centralised corporate overhead	(21,129)	(8,462)
EBITDA	68,581	(3,527)
EBITDA margin %	11%	(12%)
Depreciation and amortisation - other assets	(12,158)	(4,325)
Depreciation and amortisation - ROU assets	(16,082)	(3,166)
EBIT	40,341	(11,018)
Interest - lease liability	(2,139)	(372)
Net finance costs	(1,455)	(94)
Taxation (assumed 30% tax rate for proforma accounts)	(10,409)	3,445
NPAT	26,338	(8,039)
EBITDA (pre-AASB 16)	50,359	(7,065)
Underlying EBITDA (pre-AASB 16 & excluding JobKeeper)	33,700	(8,783)
Underlying EBIT (excluding JobKeeper)	23,682	(12,736)
Underlying NPAT (excluding JobKeeper)	14,677	(9,241)

Notes:

- FY21 included the following JobKeeper amounts received:
 - Total amount received \$16.7m
 - Proforma allocation \$1.7m (Artisan and centralised corporate allocation)

Annexure B (cont.) – Vita Group Limited pro forma financial statements

Vita Group Limited unaudited proforma balance sheet as at 30 June 2021

	Audited FY21 \$'000	Unaudited FY21 Proforma \$'000
ASSETS		
Current assets		
Cash and cash equivalents	38,208	35,115
Trade and other receivables	23,757	200
Inventories	21,181	1,276
Other current assets	2,322	318
Total current assets	85,468	36,909
Non-current assets		
Plant and equipment	25,581	8,289
Right of use assets	37,158	5,783
Intangible assets and goodwill	112,797	24,981
Deferred tax assets	11,238	3,167
Total non-current assets	186,774	42,220
TOTAL ASSETS	272,242	79,129
LIABILITIES		
Current liabilities		
Trade and other payables		
Trade and other payables	61,956	4,572
Interest bearing loans and borrowings	6,241	1,033
Lease liabilities	15,620	2,199
Current tax liabilities	3,116	3,116
Provisions	4,737	862
Contract and other liabilities	3,215	3,215
Total current liabilities	94,885	14,999
Non-current liabilities		
Trade and other payables	-	
Interest bearing loans and borrowings	918	481
Lease liabilities	29,202	4,917
Provisions	4,590	1,019
Contract and other liabilities	1,549	1,549
Total non-current liabilities	36,259	7,966
TOTAL LIABILITIES	131,144	22,964
NET ASSETS	141,098	56,165
EQUITY		
Contributed equity	44,651	44,651
Reserve	804	804
Retained earnings	95,643	10,710
TOTAL EQUITY	141,098	56,165