



22 OCTOBER 2024

# Vital Annual Meeting Chair and CEO Address

(To be read in conjunction with the Annual Meeting presentation released today on NZX)

## CHAIR OVERVIEW

In August 2024 Vital reported its progress for the FY2024 year with results that were largely in line with guidance expectations, despite very challenging business conditions.

The Vital turnaround strategy, commenced 2 years ago, was designed to arrest the previous decline in key customers, stabilise the business, significantly improve operational efficiency and reduce costs, build better sales channels, improve the customer experience, and win or re-sign more key customers.

That turnaround strategy was reflected in solid results being achieved in FY23 and continuing throughout FY2024. This was despite a particularly challenging macro-economic operating environment, particularly in the Wellington market, where Vital has most of its fibre network, and which is heavily affected by pressures from cuts to central government spending.

Turnaround Metrics (all figures \$m)	FY2024 Actual Result	FY2024 Metrics Guidance (revised)	FY2023 Metrics Guidance (original)
Revenue	26.9	26.7-27.2	28.0-29.0
Adjusted EBITDA	6.4	6.4-6.7	6.6-7.1
Adjusted NPAT	0.3	0.4-0.7	0.7-1.1
Adjusted Free Cash Flow	4.1	3.8-4.0	3.0-4.0

While pleased with overall progress, Vital's financial results are still not where we aspire to be in the longer term. With a solid foundation now laid and two full years of disciplined delivery, Vital's focus is now on driving revenue growth, greater operating leverage, and the acquisition of new customers.

In August 2024, Vital received notice of an intention by Empire Technology Limited to make a partial takeover offer for 50.01% of the fully paid ordinary shares in Vital. The Board was committed to acting in the best long-term interests of shareholders and considered this notice along with the support of independent advisers.

It advised Vital shareholders not to take any action about the notice until further guidance was received by the Board and if or when an offer eventuated. In September 2024 Empire Technology Limited advised that it would not proceed with its partial takeover offer.

In governance updates, while Vital has an appropriate balance of skills and experience on the Board, it will continue to look selectively for additional and appropriate governance skills that will benefit the ongoing turnaround strategy.

## **CEO BUSINESS REVIEW**

### **Financial Results in more detail**

Revenue was down 4.5% from \$28.1 million in FY2023 to \$26.9 million for FY2024, which was within the revised guidance, and largely reflected Vital electing not to renew a low margin contract that accounted for about 70% of the year-on-year revenue decline. The remainder of the change in revenue was largely from the fall in fibre circuit connections as businesses continue to actively manage their cost bases.

Operating costs were \$20.5m, down 6% on FY2023 costs, with Selling, General and Admin costs down 13.6% on the prior, reflecting tight operational cost control.

Adjusted net profit after tax (NPAT) was \$0.3 million, down from the FY2023 result of \$0.5 million, resulting from the flow through impact of lower revenue. That said, adjusted free cash flow of \$4.1 million was at the top end of Vital's guidance metrics, assisted by careful management of capital expenditure.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) was \$6.4 million, flat on the prior year with pressure on fibre circuit numbers offsetting gains from ongoing improvements in channel strategy relationships and new connections.

### **Operational Performance**

Momentum is building, and key initiatives and capital investments are being executed simultaneously across the Wired and Wireless businesses to position Vital and its quality fibre and radio assets more favourably for future growth.

The Vital sales function was restructured during FY24 and is supporting an improved opportunity pipeline and new customers. These sales gains have been masked by an increase in fibre relinquishments, especially in the small to medium-sized business market, highlighting the tough economic conditions and increased cost-consciousness, particularly in the Wellington market.

Vital's channel partnering strategy and wholesale arrangements are producing sales and revenue results and we continue to build relationships with larger sales prospects, which we expect to see reflected in additional enterprise new business. Key enterprise sales wins include a major Fonterra fleet contract of 500+ vehicles on the digital LMR network, extending LMR coverage into Meridian Energy dams, providing IP connectivity into Lodestone Solar Farms and further new orders with Wellington Electricity.

These new wins were complemented with extensions to existing contracts, notably Powerco, Victoria University, St John and FENZ.

Our operating and capital expenditure disciplines continued throughout FY2024.

### **Strength in Utilities**

Vital has been steadily building a strong market position in the critical utilities sector, with long-term partnerships in place with Powerco, Unison and Wellington Electricity. This is a strength for Vital in both the wireless and the fibre segments. That market position has continued to improve over the last 6-12 months, through both re-signs of existing customers such as Powerco, plus new business with Lodestone Solar Farms (through Lexel), Meridian Energy (through One NZ), and work with Horizon Energy, all providing evidence of Vital's growing influence in the Utilities sector.

Our utility sales pipeline is also highly active, including advanced discussions on a long-term 10+ year partnership with a large-scale national utility provider. We look forward to updating shareholders on the outcome of these discussions in due course.

### **Positive NPS trends**

Pleasingly Vital's customer net promoter score (NPS) continues to improve from positive 22 in July 2023 to positive 41 in July 2024. Employee net promoter score (eNPS) has also continued to improve, going from positive 25 a year ago to positive 30 at the end of FY24.

These results are a testament to the Vital strategy to significantly improve the customer experience.

## LOOKING AHEAD TO FY25

We will continue to target incremental improvement to underlying financial performance in FY2025. Q1 FY2025 performance saw the following unaudited results:

- **Revenue of \$6.7m**
- **Adjusted EBITDA of \$1.3m**

While we have a strong pipeline of opportunities, we continue to see challenges in conversion given the prevailing economic conditions. We remain committed to delivering our turnaround strategy.

Considering the ongoing market conditions, we are providing the following FY2025 guidance metrics.

Turnaround Metrics (all figures \$m)	FY2024 Actual Result	FY2024 Metrics Guidance (revised)
Revenue	26.9	26.0 – 27.0
Adjusted EBITDA	6.4	5.8 – 6.2
Adjusted NPAT	0.3	0.0 – 0.2
Adjusted Free Cash Flow	4.1	3.5-3.9

A return to revenue growth is critical to financial success and this remains the key focus of the Board and Management team. Revenue for FY2025 continues to challenge with economic conditions continuing to delay pipeline conversion.

Despite recent reductions in the official cash rate (OCR) and the end of the interest rate tightening cycle, we expect relatively tough economic conditions are likely to remain prevalent for much of the remainder of the financial year and are actively managing our cost base accordingly.

In reflecting on where Vital has come from in recent years, and current results, the current strategy remains on track, and the Company is increasingly well-positioned for ongoing improvement.

We thank Vital's shareholders and customers for their ongoing support and acknowledge the entire Vital team for their hard work and strategic execution over the year.

**END**

For investor enquiries contact

**Jason Bull** on [jbull@vital.co.nz](mailto:jbull@vital.co.nz) or 027 497 4548

For media enquiries contact

**Rich Llewellyn** on [richard@shanahan.nz](mailto:richard@shanahan.nz) or 027 523 2362