26 February 2025

Chair and CEO Commentary

Operational progress continues against difficult trading backdrop

OVERVIEW

- A challenging first half reflecting the growing extent of the economic downturn on enterprise customers.
- Longer-term turnaround strategy and operational building blocks in place to capitalise as and when economic conditions improve.
- Net Loss After Tax of $0.54m versus profit of $0.05m for prior period as some existing customers downsize or seek to reduce their costs.
- Operating costs up slightly to $0.22m (2.2%) on prior period, reflecting increased cost of new sales.
- Refreshed wireless channel strategy delivering solid sales results, including400+ Fonterra tankers transitioned across to VTL’s radio network
- Wired customer engagement improvements offset by a shrinking public sector economy; however recent indications show fibre circuit relinquishments are starting to abate
- Signed major new contract with Transpower (no FY2025 earnings impact) reinforcing an emerging opportunity as a specialist utility managed services provider; Pipeline in Utilities and Energy sector remains strong.
- On track to meet FY25 EBITDA guidance however the elevated economic uncertainty means it is more likely to be in lower half of the range.

FINANCIAL PERFORMANCE

Vital Limited (“VTL” or “Company”) reported a net loss after tax of $0.54 million for the first half of FY25 versus a net profit of $0.05 million in the prior financial year period.

The result includes an after-tax lease adjustment accounting loss of $0.11 million (prior period included a loss of $0.10 million), so the adjusted result for the interim period was a net loss of $0.43 million.

Key factors driving the result were lower Fibre revenues reflecting difficult economic conditions for customers, higher labour expense (resulting from lower levels of labour capitalisation) and higher Other costs from cost of goods associated with increased Hardware and Installation revenue.

REVENUE

Vital Revenue Breakdown (all figures $000)	1H FY2025	1H FY2024	Percentage Change
Wired (Fibre)	4,020	4,617	-12.9%
Wireless (Mobile Radio)	8,165	8,524	-4.2%
Installation	418	194	115.1%
Hardware & Other	301	120	151.1%
Total Services Revenue	**12,904**	**13,445**	**-4.1%**

VTL's revenue declined 4.1% to $12.90 million.

The key challenge continues to be with recurring revenue in the Wired (i.e. fibre) network where ongoing rationalisation of customer circuits in the face of economic headwinds is still occurring at a slightly faster rate than new circuit additions.

In particular, the Wellington and public sector economy, where most of VTL's fibre is located, continues to be very challenged. This macroeconomic environment is seeing customers focussed on network rationalisation and a reasonable portion of fibre circuit relinquishments have seen other telcos reducing circuit numbers, albeit the rate of circuit relinquishments began to abate in the later months of the half.

Much of the Installation, and Hardware & Other relates to the Wireless segment, where revenue saw a slight increase. VTL's dealer channel strategy in Wireless continues to gain customers and direct enterprise sales are growing in the Utility sector in particular, including a major deal with national grid operator Transpower, reinforcing VTL's leadership as a managed service provider to large utility companies.

VTL's first half loss was net of lease accounting adjustment losses (after tax) of $0.42 million. Lease adjustments through the Income Statement are required when lease terms are changed; this is a non-cash accounting entry resulting from differences in balance sheet asset and liabilities created on the lease renewal or alteration. VTL has around 350 lease sites around New Zealand.

Summary Financial Performance (all figures $000)	1H FY2025	1H FY2024	Percentage Change
Total Revenue	12,904	13,455	-4.1%
Staff costs	4,201	4,046	3.8%
Lease/rent costs [1]	3,066	3,133	-2.2%
Other Selling, General & Admin costs	3,211	3,075	4.4%
EBITDA (Adjusted) [2]	**2,427**	**3,201**	**-24.2%**
EBITDA (Adjusted) margin (%)	18.8%	23.8%	
Depreciation [3]	2,308	2,267	1.8%
EBIT (reported)	**119**	**934**	**-87.3**
Net Interest [4]	706	728	-3.0%
Income Tax	-164	58	n.a.
Net Profit after Tax (Adjusted)	**-423**	**149**	**n.a.**
Lease accounting gain/(loss) (after tax) [5]	-112	-97	n.a.
Net Profit after Tax (Reported)	**-535**	**52**	**n.a.**

1. Lease/Rent costs including those otherwise included in Depreciation and Net Interest charges
2. Post lease costs that are otherwise treated as depreciation and Interest
3. Excludes IFRS 16 adjustments resulting from changes to lease profiles
4. Excludes interest component of capitalised lease costs (this is in Lease/Rent costs)
5. Adjustments (non-cash) under IFRS 16 for changes to lease terms (net of tax at 28%

The following table highlights the adjustments between pre- and post-NZ IFRS 16 results.

NZ IFRS 16 Pre/Post Reconciliation (all figures $000)	Pre IFRS 16 Adjustment	NZ IFRS 16 Adjustment	NZ IFRS 16 Reported
Total Revenue	12,904	–	12,904
EBITDA (Adjusted)	**2,427**	**2,527**	**5,727**
Depreciation and Amortisation	-2,308	-1,918	-4,226
Finance Income	6	–	6
Finance Expense	-712	-738	-1,450
Net Profit before Tax (Adjusted)	**-587**	**-185**	**-772**
Income Tax expense	164	73	237
Net Profit after Tax (Adjusted)	**-423**	**-112**	**-535**

Balance sheet, liquidity and debt

VTL’s bank debt facility, which consists of secured funding facilities with Bank of New Zealand with a combined limit of $15.6 million, has a maturity date of January 2026. While short-term interest rates have begun to fall, there is a lag effect of around three months before this flows through into the interest rate paid by VTL. Debt reduction remains a high priority.

Selected Balance Sheet and Cashflow Figures (all figures $000)	H1 FY2025	H1 FY2024	Change
Bank debt	12,600	13,300	-700
Cash	-976	79	-1,055
Right of Use Assets [1]	16,788	18,236	-1,447
Right of Use Liabilities	18,788	19,848	-1,061
Wired assets [1,]	26,075	29,267	-3,192
Wireless assets [1,]	36,455	35,312	1,143
Operating Activities cashflow (Adjusted) [2]	2,427	3,201	-774
Capital expenditure	1,225	1,203	22
Op cashflow (Adjusted) less Capex	**1,202**	**1,998**	**-796**

1. Note that Network assets (Wired and Wireless) include Right of use assets (mostly in Wireless)

2. Cashflow from Operating Activities in Financial Statements less Principal payment of Lease Liabilities

Capital expenditure for the 1H FY25 was $1.23 million (53% being customer funded) versus $1.20 million in the prior period. Non-customer requested capex continues to be well managed.

OPERATIONAL PROGRESS

The current phase of the turnaround strategy has largely been completed, although some minor staffing changes late in 1H FY2025 will provide an additional modest cost reduction benefit from 2H.

While VTL's strategy is gaining traction, and producing new customers, revenue headwinds continue as a consequence of the challenging macroeconomic conditions, particularly in the shrinking public sector economy which continues to see fibre circuit cancellations.

Revenue stabilised in Wireless, down in Wired, broadly flat underlying costs

Recurring revenues declined against the prior corresponding six-month period down marginally in Wireless but were down 12.9% in Wired, reflecting the public sector economic headwinds. Hardware and Installation revenues relating to new or incremental customer activity produced slight overall revenue growth for the Wireless segment.

While reported staff expense rose 3.8%, staff cash costs were largely flat which was a solid result, with the expense increase resulting from lower levels of labour capitalisation during the half year. Aside from one-off, customer-initiated projects, capital expenditure is expected to hold steady around current levels. Staff turnover continues to reduce, with rolling twelve-month turnover down to 9%

Leases represent VTL's second largest cost item and reduced (on a non-IFRS 16 basis) by 2.2% on the prior period. VTL continues to optimise site locations, site costs and network efficiency. VTL has extensive and modern networks with ample capacity and resilient solutions – a key factor when engaging with existing and prospective customers, and important as digital infrastructure becomes more critical every year.

Wireless Utility sector gains

In late 1H, VTL signed an eleven-year operational partnership with national grid operator Transpower to provide it with radio relay links as part of Transpower's capital investment to refresh its TransGO network. This network is one of New Zealand's largest private telecommunications networks. It uses buried optical fibre augmented by microwave radio to provide communications between all Transpower's substations and sites from Tiwai Point to Kaikohe. This contract reinforces VTL's growing strength in national utilities, with current long-term partnerships in place with Powerco, Unison and Wellington Electricity.

VTL will design, build, maintain and manage over 26 digital microwave links supporting Transpower's tele-protection signalling and other critical services between substations and other Transpower sites.

The TransGO contract, once built, is estimated to deliver high single-digit percent growth to current EBITDA, although given the construction period, it will not contribute to FY2025 results. In addition, new project work has been secured with Lodestone Solar Farms, Meridian Energy, and Horizon Energy. Lodestone has further farms planned which VTL expects to deliver connectivity to.

Customer and culture progress

Customer relationships have improved materially over the past 1-2 years and the sales pipeline is now significantly larger, although the conversion rate has been slower than expected and customers remain cautious due to the economic conditions.

Strong customer relationships are reflected with an NPS of +41. This has yet to translate into revenue growth although there were several new Wireless business wins that will commence contributing revenue from FY2026. Offsetting that, the macroeconomic environment is clearly still challenging, with customers downsizing or looking for cost savings which is a significant contributing factor to fibre circuit relinquishments.

Organisational culture as measured by the engagement metric eNPS (Employee Net Promoter Score) remains strong at +34.

OPERATIONAL PERFORMANCE

Wireless

VTL provides the only New Zealand-wide commercial nationwide mobile radio infrastructure. The network is supported by a 24/7 Network Operations Centre (NOC) located in New Zealand.

Mobile radio provides wider geographic coverage than cellular and is more resilient and reliable than cellular in times of emergency or disaster (lower congestion risk than cellular as it is not used by the general public, plus it usually has better battery backup than cellular sites). Mobile radio is utilised by organisations that supply critical services (e.g. electricity network providers) that require “always available” reliability, or have remote work in areas outside cellular coverage as well as commercial operations.

The market/replacement value of VTL’s mobile radio assets is likely higher than current book value, subject to the Company being able to generate an adequate rate of return on the assets.

Wireless segment (all figures $000)	H1 FY2025	H1 FY2024	Percentage Change
Revenue	8,804	8,732	0.8%
Lease/rent costs [1]	2,131	2,192	-2.7%
Other operating costs	4,733	4,472	5.8%
EBITDA (Adjusted) [2]	**1,940**	**2,068**	**-6.2%**
EBITDA Margin (Adjusted) [2]	22.0%	23.7%	
Capital expenditure	860	866	-0.7%
Total assets	36,455	35,312	3.2%

1. Lease/Rent costs including those otherwise included in Depreciation and Net Interest charges
2. Post lease (rent) costs that are otherwise treated as depreciation and interest.

Revenue remains stable with marginal growth on the same period prior year. The make-up of revenues by product resulted in an increase to variable selling costs.

As noted earlier, VTL signed a long-term contract with Transpower, and has additional solar farm sites in the pipeline with Lodestone. The value of VTL’s wireless solution to remote utility sites is compelling and the company is focussed on building new revenues in this space over the next three to five years.

Fonterra – a relationship developed via a key dealer channel partner reflecting the value of our new channel strategy – converted much of its dairy tanker fleet back to mobile radio during 1H and now has over 400 of its dairy fleet tankers on VTL’s network.

VTL’s revised channel strategy has seen smaller customers moved to channel partner relationships while the Company maintains direct enterprise sales activity (plus some in conjunction with partners).

Wired

VTL provides customers with access to wire (fibre optic) networks in Auckland and Wellington, although there is a significantly greater fibre footprint in Wellington.

Wired segment (all figures $000)	1H FY2025	1H FY2024	Percentage Change
Revenue	4,100	4,723	-13.2%
Lease/rent costs [1]	934	941	-0.7%
Other operating costs	1,689	1,669	1.2%
EBITDA (Adjusted) [2]	**1,477**	**2,113**	**-30.1%**
EBITDA Margin (Adjusted) [2]	36.0%	44.7%	
Capital expenditure	365	338	8.1%
Total assets	26,075	29,267	-10.9%

1. Lease/Rent costs including those otherwise included in Depreciation and Net Interest charges
2. Post lease (rent) costs that are otherwise treated as depreciation and interest.

Significant effort has been made around channel partner relationships and implementing software systems that enable channel partners to automate fibre availability at an address and then automatically enable a fibre circuit provisioning process. VTL is an unregulated provider of fibre capacity, meaning it is not subject to the regulated price controls that affect a number of the Company's competitors.

Engagement with channel partners, key customers and prospects remains strong. However, the Wellington economy remains in a difficult position and some partners have been rationalising their fibre circuit requirements, which has meant much of 1H saw fibre circuit relinquishments exceed new fibre circuits each month. This trend began to show improvement later in 1H and anecdotal evidence from other fibre providers gives some reasons for modest optimism.

VTL has simplified fibre circuit pricing and is now running multiple sales campaigns around co-location and service bundling, along with a focus on Wellington construction firms where new building or building refurbishments are occurring.

Late in 1H, VTL commenced a partnership with another fibre provider where both parties intend to leverage each other's fibre networks. This creates a broader cross-selling opportunity to customers that have fibre requirements particularly in Auckland and Wellington.

Both parties have already commenced a program of work to optimise and migrate existing services with other providers resulting in a number of new connections. Joint workshops in March will confirm our timelines to integrate cross network service delivery and quantify our pipeline that will include Dark Fibre and Lit services."

The partnership will leverage our significant nationwide network capability and capacity to deliver services between Auckland and Wellington and to other areas within our nationwide reach.

CORPORATE ACTIVITY: EMPIRE

On 12 August 2024 the Vital Board received an unsolicited non-binding indicative and incomplete proposal outlining a potential partial takeover offer from Empire Technology Limited (“Empire”) to acquire 50.01% of all Vital shares, at a price of NZ$0.375 per share ("Empire NBIO"). The Empire NBIO was expressed to be confidential and remained so it was subsequently released by Empire on 14 August 2014.

The Board, in conjunction with external advisors, reviewed Empire’s bid and took the view the proposed price materially undervalued Vital and sat well below a level at which it would be prepared to grant access to undertake due diligence. Importantly, the partial nature of the potential takeover offer proposed in the Empire NBIO would not provide all shareholders with the ability to sell all of their shares at the proposed offer price, nor any certainty as to the number of shares that would able to be sold if the offer proceeded and was successful. If Empire were to proceed with a partial takeover offer and received acceptances to the offer that result in a greater than 50.01% shareholding, acceptances to the offer would have been subject to scaling.

The Board’s position reflected its initial assessment as to whether Empire’s proposal was in the interest of all shareholders and took into account the Board’s responsibility to ensure the Empire NBIO was given due consideration, while also ensuring the Vital team remained focused on executing the Company’s strategic plans and continued with its turnaround strategy.

On 16 September 2024, VTL announced that Empire had decided that it would not proceed to make a partial takeover offer.

In early December, Empire commenced proceedings in the High Court relating to costs associated with the takeover proposal. Under the Takeovers Act, Empire is required to reimburse VTL for its properly incurred takeover expenses. VTL provided Empire with an invoice for its properly incurred expenses in September (amounting to just over $0.2 million) but, since then, Empire has refused to pay any of those expenses or acknowledged or accepted that any of those expenses were properly incurred.

Further, Empire has claimed that VTL failed to disclose certain information to the market; VTL strongly rejects Empire’s claims and is very confident that it has complied with its relevant obligations. VTL subsequently made a formal request for the Takeovers Panel to determine the amount of expenses that Empire must reimburse to VTL and is awaiting the Panel’s decision.

TURNAROUND METRICS GUIDANCE AND LOOKING AHEAD

The first half result was mixed. On the one hand, customer engagement and sales pipeline continue to gain momentum, there have been some solid wins especially in utilities, the wholesale strategy is delivering, and the first phase of the turnaround strategy has laid solid foundations for when the economy recovers.

However, the difficult economy – Wellington in particular – continues to provide cyclical headwinds that resulted in lower recurring revenues and the macroeconomic environment is expected to remain volatile into the second half.

That said, VTL remains confident in its turnaround strategy with new customers (Transpower, Lodestone) and new partners providing a basis for growth potential, particularly in the utilities space by better leveraging VTL's network of assets.

VTL has also engaged around opportunities for essential infrastructure wireless services outside of the PSN (Public Safety Network). The St John's contract has been extended through until March 2027 with St John having an option for a further two-year renewal period. but work to further diversify VTL's revenue base ahead of St John's transitioning over to the PSN infrastructure remains a critical priority.

Operating costs and capital expenditure remain tightly controlled.

VTL's key objective is to achieve an appropriate rate of return on its infrastructure asset base. This may involve taking advantage of any network optionality or partnering or channel opportunities to improve network utilisation.

A range of scenarios was modelled in arriving at these metrics and typical risk caveats apply, including no material adverse or unforeseen events or circumstances.

Turnaround Metrics (all figures $m)	**H1 FY2025 (Actual)**	**FY2025 (Guidance)**
Revenue	12.9	26.0 – 27.0
Adjusted EBITDA [1]	2.4	5.8 – 6.2
Net Profit after Tax (adjusted) [2]	(0.4)	0.0 – 0.2
Adjusted free cash flow [3]	1.2	3.2 – 3.9

1. Post lease costs that are otherwise treated as depreciation and interest
2. Excludes IFRS 16 accounting adjustments resulting from changes to lease profiles
3. Adjusted EBITDA (as above) less capital expenditure)

To date VTL is tracking slightly behind its turnaround plan. While the FY2025 revenue is currently below expectations, operating costs remain well controlled. Capex is in line with forecast expectations although the full year adjusted Free Cash Flow guidance range has been broadened (low end reduced from $3.5 million to $3.2 million) to reflect the potential timing impact of customer funded projects.

The second half of FY2025 is expected to see some improvement against the 1H trends, although this is partly dependent on the recent rate of fibre cancellations continuing to abate and the pace of New Zealand's economic recovery. Adjusted EBITDA remains on track to meet the guidance range, however the ongoing economic headwinds and the lag for economic improvements to flow through to business customers means we believe it will more likely be in the lower half of the range.

The turnaround strategy represents a planned path to return to positive free cash flow, enabling debt reduction.

RESULTS BRIEFING

All shareholders are invited to attend a virtual briefing on Tuesday 4th March at 10.00am with Jason. To register to attend, please follow the link www.virtualmeeting.co.nz/vtlhy25

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