ASHLEY SERVICES GROUP
TRAINING | RECRUITMENT | LABOUR HIRE

1 March 2017

# First Half 2017 Results, Strategic Review Outcomes and Cessation of Voluntary Suspension

## First Half 2017 Results

On 28 February 2017, Ashley Services Group Limited (ASX: ASH), announced a statutory loss after income tax attributable to ordinary equity holders of $5.4 million for the half year to 31 December 2016 (1H16: after tax loss of $66.7 million). Excluding significant items of $10 million net expense before tax, there was an underlying EBITDA profit of $3.9 million which represented a significant turnaround, up $10.6 million on the previous corresponding period (pcp) (1H16: underlying EBITDA loss of $6.7 million).

Revenue from continuing operations was $163.3 million, 14% above the pcp.

| Statutory results for the half year ($million) | 1H17 | 1H16 |
|---|---|---|
| Revenue | 163.3 | 143.7 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | (6.1) | (67.7) |
| Earnings before interest and tax (EBIT) | (7.7) | (69.5) |
| Net profit after tax (NPAT) | (5.4) | (66.7) |
| Basic loss per share (cents) | (3.7) | (44.4) |

*See Appendix: EBITDA to Underlying EBITDA Bridge – significant items*

| Underlying results for the half year ($million) | 1H17 | 1H16 |
|---|---|---|
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 3.9 | (6.7) |
| Earnings before interest and tax (EBIT) | 2.3 | (8.5) |
| Net profit after tax (NPAT) | 4.0 | (5.7) |
| Basic earnings per share (cents) | 2.8 | (3.8) |

Ross Shrimpton, Managing Director, said “the underlying trading results for the half year was a significant recovery from the previous corresponding period and both the Labour Hire and Training divisions were profitable.”

Driven by the successful integration of two major clients and a record Christmas period for major retail, logistics and engineering customers, Labour Hire revenues increased $15.6 million, up 12% from pcp.

Combined with strong revenue growth across all states and benefits of previous restructuring flowing through, underlying Training revenues increased by $4.0 million, up 28% from pcp (before $1.4 million prior period refund).”

**Training Division – No material 2017 State Funding contracts**

| Results for the half year ($million) | 1H17 | 1H16 | Variance |
|---|---|---|---|
| Revenue | 18.3 | 14.3 | 28% |
| Underlying EBITDA | 2.5 | (6.7) | ↑$9.2m |

Despite a substantial turnaround and being profitable for the first half of 2017, on 20 January 2017, the Company announced that it had not been awarded any material State Funding contracts in New South Wales or Victoria for 2017. This has impacted the future viability of the Training division and precipitated many of the actions indicated in the significant items as outlined in the attached *Appendix: EBITDA to Underlying EBITDA Bridge – significant items* and further outlined below in the Strategic Review outcomes.

**Labour Hire Division – Continued Profitable Growth**

| Results for the half year ($million) | 1H17 | 1H16 | Variance |
|---|---|---|---|
| Revenue | 145.0 | 129.4 | 12% |
| Underlying EBITDA | 3.8 | 3.1 | 23% |

Engaging approximately 4,000 workers each week, the profitable Labour Hire division is made up of Action Workforce (blue-collar labour hire), Concept Engineering (technical labour hire) and Blackadder Recruitment (white-collar recruitment).

Labour Hire experienced strong revenue growth in the first half, and increased margin at 2.7% (1H16: 2.4%) largely due to a doubling of the higher margin Concept Engineering revenues, as well as improved external placement revenues through Blackadder.

**Cash Flow and Funding**

Following the non-cash impairments and write down, the Company's net assets at 31 December 2016 was $20.6 million, compared with $27.1 million at 30 June 2016. Despite the usual seasonal build in working capital within the Labour Hire business, the Company recorded positive operating cash of $1.4 million as at 31 December 2016 (1H16: outflow of $9.2 million).

As per the announcement on 31 January 2017, the Company continues to operate within its $5 million Commercial Cash Advance Facility which was assigned by Bankwest to Shrimpton Holdings Pty Ltd, a company associated with Ross Shrimpton, Managing Director, and with shareholders of the Group. This facility is due to expire on 25 October 2017, and the Company is assessing a number of long term financing options.

## Strategic Review – Scale Back Training and Labour Hire Focus

As announced 25 November 2016, the Board resolved to engage a third party to undertake a strategic review of the Company. Following the completion of this process, the Board has decided:

- **Scale back the Training Division**

  As a result of the Company not being awarded any material State Funding contracts in New South Wales or Victoria for 2017, the Training division will focus on training out existing government-funded students and will operate with a significantly reduced scope with an increased emphasis on a fee-for-service basis.

  - The ongoing Training division is not expected to contribute material revenues or profits/losses in the remainder of FY17.
  - It is envisaged that the Company can move through this scaling down process with a cash neutral result through to 30 June 2017.
  - Any ongoing surplus lease obligations post 1 July 2017 have been provided for within the first half result.
  - Non-cash charges of $8.3 million have been taken in the first half result to restate the value of the Training division's non-current assets to recoverable amounts, with a further $0.7 million taken up in relation to Training division restructuring charges.

- **Asset sales**

  - The company has entered into a binding Heads of Agreement with companies and individuals associated with the previous owner of Integracom to facilitate a sale of assets of the WA/SA Integracom business for total consideration of $1.065 million.
  - The Company is also currently working with various third-parties to ensure optimal shareholder, student and stakeholder outcomes.

- **Labour Hire Division Focus**
  - The Company is currently exploring all options to maximise the value and profitability of the Labour Hire division.
  - The ongoing training needs of the Labour Hire division will be outsourced to third-party training providers.

## Cessation of Voluntary Suspension

As announced 16 December 2016, the company requested a Voluntary Suspension to provide additional time to undertake its Strategic Review, consider the scenarios proposed and resolve to adopt and implement that scenario that will provide the best outcomes for its shareholders and other stakeholders. In line with the above, the company has completed its Strategic Review and outlined its future initiatives.

The Company has quantified the impact of not being awarded any material New South Wales or Victorian State Funding contracts for 2017 and advised that it does not expect a material profit or loss from the Training division for the remainder of FY17.

The performance monitoring of the Company's RTOs by both the NSW Department of Industry, Skills and Regional Development (NSW Department) and the Victorian Department of Education and Training (VIC Department), as well as by their counterparts in the other States, is an ongoing and continuous process. The company continues to work closely with the relevant State bodies and the Australian Skills Quality Authority (ASQA) to resolve all matters in a prompt and efficient manner, but at any time there is the potential to have a number of open issues.

As part of the NSW Department's ongoing performance monitoring process they are currently withholding payment of $0.7 million. The Company disputes the NSW Department's right to withhold payment and is continuing to work with them towards a resolution. The Company is not aware of any other open issues which are anticipated to have a material impact on the Training division.

Accordingly, the Company requests its Voluntary Suspension cease.

**For further details:**

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*Established almost half a century ago as a Labour Hire business in Sydney, Ashley Services Group listed on the Australian Securities Exchange in 2014. Today, it has cemented its position as a prominent national labour hire provider engaging over 4,000 workers on a weekly basis.*

## APPENDIX: EBITDA to Underlying EBITDA Bridge – significant items

| | H1 FY17 $000 | H1 FY16 $000 |
|---|---|---|
| **EBITDA*** | **(6,102)** | **(67,713)** |
| Reassessment of value of deferred consideration liabilities | - | (2,315) |
| Impairment of intangibles | 5,486 | 63,320 |
| Impairment of Property, Plant & Equipment | 2,867 | - |
| Write-down of redundant payroll system | 664 | - |
| Restructuring expense | 678 | - |
| Cancellation of Shares issued on acquisition | (1,114) | - |
| Training division refunds from prior periods relating mainly to Victorian rectification activity | 1,435 | - |
| **Net non-trading adjustments** | **10,016** | **61,005** |
| **Underlying EBITDA** | **3,914** | **(6,708)** |

* comprises profit / (loss) before income tax, adjusted for depreciation, amortisation, net interest (expense)/income.