ASHLEY SERVICES GROUP

LABOUR HIRE | RECRUITMENT | TRAINING

21 February 2018

First Half 2018 Results

Ashley Services Group Limited (ASX: ASH), today announced a statutory after tax profit from continuing operations of $2.2 million for the half year to 31 December 2017, representing a substantial improvement of $7.3 million on the prior corresponding period (pcp) (1H17: loss $5.1 million).

Revenue from continuing operations was $169.5 million, $6.9 million or 4.2% above the pcp (1H17: $162.6 million), despite a $14.1 million decline in revenue for the Training division following the restructure of that division as announced twelve months ago.

Statutory results for the full year ($ million)	1H18	1H17
Revenue from continuing operations	169.5	162.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)	3.8	(5.8)
Earnings before interest and tax (EBIT)	3.5	(7.4)
Net profit/(loss) after tax (NPAT) from continuing operations	2.2	(5.1)
Basic earnings/(loss) per share (cents)	1.5	(3.6)

Pleasingly 1H18 results require no adjustment to arrive at an Underlying EBITDA, but for comparative purposes it is necessary for 1H17 to exclude significant items of $9.8 million net expense before tax, to arrive at an underlying EBITDA profit of $4.0 million.

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

EBITDA by Division ($ million)	1H18	1H17*	Change
Labour Hire	5.6	3.9	↑1.7 (↑45%)
Training	0.1	2.7	↓2.6
Corporate costs	(1.9)	(2.6)	↓0.7 (↓25%)
Total	3.8	4.0	↓0.2

**1H17 reflects Underlying EBITDA*

The $2.6 million decline in profitability resulting from the restructured Training division has been offset by strong revenue and profit growth in the Labour Hire division as well as a significant reduction in Corporate costs.

Labour Hire Division – Action Workforce and Concept Engineering both growing strongly, with both brands delivering improved profitability through operational efficiency gains

Results for the half year ($million)	1H18	1H17	Variance
Revenue	166.0	145.0	↑14.5%
EBITDA	5.6	3.9	↑45%
EBITDA %	3.4%	2.7%	↑70bps

Engaging over 5,000 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 revenue mix is Action Workforce (83%), Concept Engineering (13%) and Blackadder Recruitment (4%).

Labour Hire saw strong revenue growth across the half, up 14.5% on the prior year. Action Workforce revenues grew by 13% year on year, whilst Concept Engineering grew by a very pleasing 31%.

Blackadder Recruitment contracted slightly at both the top and bottom line, but maintained a modest profit for the half. The business has been restructured and refocused and whilst there have been some promising signs the improvement in results are yet to materialise.

With Labour Hire overheads up just 1.2% as against revenue growth of 14.5%, the leveraging benefits delivered a 55bps improvement in overheads. This overhead leveraging benefit was the driving force behind the resultant 45% lift in EBITDA and an increased margin of 3.37% (1H17: 2.66%).

The Labour Hire division continues to exhibit an impressive safety record, with an LTIFR of 0.56 at the end of December 2017 continuing a long history of industry-leading results for our employees and our corporate partners, as a direct result of our continued innovation across our Workplace Health & Safety programmes.

Training Division – Three meaningful Training state operations moving forward under a culture of compliance

Results for the half year ($million)	1H18	1H17	Variance
Revenue	3.5	17.6	↓14.1
Underlying EBITDA	0.1	2.7	↓2.6

Our Training division has effectively operated with only meaningful operations in Western Australia and Queensland, both of which have operated profitably over the half. These profitable operations were largely offset by our continued investment in compliance and our unprofitable Victorian training operations. Minimal operations were maintained throughout the first half in Victoria, in anticipation of the outcome of the awarding of the 2018-19 Standard VET Funding Contract – Skills First Program.

We are pleased to report that we were awarded a modest contract in Victoria, which whilst not material in the context of the overall Training division profitability, will make a contribution moving forward and will also serve as a further opportunity to leverage our compliance cost base.

We look forward to improved profitability out of our three active markets, being Western Australia, Queensland and Victoria, all of which will continue to operate under a strong culture of compliance, but the FY18 contribution from the Training division is expected to be minimal.

Balance Sheet, Cash Flow and Funding

The Group balance sheet has strengthened overall by just over $2 million, in line with the first half profit, with net assets at $22.2 million (30 June 2017: $20.0 million). Net tangible assets at end 31 December 2017 represent $19.0m or 13.2c per share (30 June 2017: $16.7m or 11.6c per share).

Balance sheet movements are characterised by a first half build to a peak in December as our customers increase their usage of temporary labour. This creates a short term lift in the working capital requirement as seen by the increases in both Receivables (up $10.1 million) and Payables (up $3.6 million). Operating cash flow accordingly is a challenge across the first half and ended at an outflow of $2.8 million (1HFY17 $1.0m inflow).

With this working capital requirement we have managed to again close the period with zero debt and a solid balance sheet which has us well poised to take advantage of growth opportunities which may present themselves.

As at 31 December 2017, the Group had a $5 million working capital facility through Shrimpton Holdings Pty Limited, a company associated with Ross Shrimpton, Managing Director, and with shareholders of the Group. As mentioned above, at 31 December 2017, the working capital facility was undrawn (30 June 2017, nil).

Managing Director's Comments

Ross Shrimpton, Managing Director, said, "It was pleasing to see that we have been able to continue to build on the positive momentum outlined for the first quarter at our AGM. Our first half result represents a strong EBITDA on the back of a solid performance from our Labour Hire division. Action Workforce and Concept Engineering have offset the decline in our Training division. Top line growth for both of our major Labour Hire brands has been strong, and by closely controlling our costs during this growth, we have been able to leverage our cost base to deliver improved profitability in the Labour Hire division.

I would also like to highlight our industry best practice performance in the area of workplace health and safety. With an LTIFR just above 0.5 this is a testament to how seriously we take our responsibilities to our employees and our customers.

Corporate costs have played a role in our result, being well down on prior year as we managed the challenge of bringing them down to a level more appropriate to our current operations.

In terms of our Training division I am pleased to report that Western Australia has performed well and Queensland continues to develop. The recent awarding of a funding contract in Victoria is pleasing and now gives us the opportunity to have meaningful training operations in these three states.

Our balance sheet has pleasingly strengthened further over the last six months. We have deferred any decision on dividend payments at the half, pending consideration of acquisition opportunities that we are currently evaluating. We do anticipate further announcements in this regard in the coming months.

Finally, I would like to take the opportunity to thank all of our team at Ashley Services, both our 220 committed internal team members, as well as the more than 5,000 employees who work every day in our customer's businesses, delivering a level of service we firmly believe to be the best operating in our sector. We are proud of our performance and the role it plays in our customer's success".

For further details:

Ross Shrimpton
Managing Director

Chris McFadden
Chief Financial Officer

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 5,000 workers on a weekly basis.

APPENDIX: EBITDA to Underlying EBITDA Bridge – significant items

	1H18	1H17**
EBITDA*	**3.8**	**(5.8)**
Impairment of intangibles		5.5
Impairment of Property, Plant & Equipment		2.7
Write-down of redundant payroll system		0.7
Restructuring expense		0.7
Cancellation of Shares issued on acquisition		(1.1)
Training division refunds from prior periods relating mainly to Victorian rectification activity		1.4
Net non-trading adjustments		**9.8**
Underlying EBITDA	**3.8**	**4.0**

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

** 1H17 significant items have been adjusted to exclude discontinued operations