ASHLEY SERVICES GROUP

LABOUR HIRE | RECRUITMENT | TRAINING

17 August 2018

Full Year 2018 Results

Ashley Services Group Limited (ASX: ASH), today announced a statutory after tax profit from continuing operations of $4.8 million for the financial year to 1 July 2018, representing a substantial improvement of $10.2 million on the prior corresponding period (pcp) (FY17: loss $5.4 million).

Revenue from continuing operations was $333 million, $18 million or 6% above the pcp (FY17: $315 million), despite a $12.9 million decline in revenue for the Training division following the restructure of that division as announced eighteen months ago.

Statutory results for the full year ($ million)	FY18	FY17
Revenue from continuing operations	332.8	314.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	8.0	(5.0)
Earnings before interest and tax (EBIT)	7.3	(6.9)
Net profit/(loss) after tax (NPAT) from continuing operations	4.8	(5.4)
Basic earnings/(loss) per share (cents)	3.3	(3.7)

Pleasingly FY18 results require no adjustment to arrive at an Underlying EBITDA, but for comparative purposes it is necessary for FY17 to exclude significant items of $10.7 million net expense before tax, to arrive at an underlying EBITDA profit of $5.7 million.

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

EBITDA by Division ($ million)	FY18	FY17*	Change
Labour Hire	11.8	7.8	↑4.0 (↑51%)
Training	0.0	2.9	↓2.9
Corporate costs	(3.8)	(5.0)	↓1.2 (↓23%)
Total	8.0	5.7	↑2.3 (↑40%)

**FY17 reflects Underlying EBITDA*

The $2.9 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 – Both main brands growing, with Concept Engineering growth particularly strong. Both brands delivering improved profitability through operational efficiency gains

Results for the half year ($million)	FY18	FY17	Variance
Revenue	326.1	289.2	↑12.7%
EBITDA	11.8	7.8	↑51%
EBITDA %	3.61%	2.70%	↑91bps

Engaging almost 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 for FY18 is Action Workforce (81%), Concept Engineering (16%) and Blackadder Recruitment (3%). The overall mix of our higher margin Concept business continues to grow, up significantly from an 11% share last year.

Labour Hire saw strong revenue growth over the year, up 12.7% on the prior year. Action Workforce revenues grew by 7.9% year on year, whilst Concept Engineering grew by a very pleasing 57.7%.

Blackadder Recruitment contracted slightly at both the top and bottom line, delivering a modest profit for the year. The business has been restructured and refocused to more closely align with our Concept Engineering business and we anticipate this should see a return to better levels of performance.

With Labour Hire overheads up by just 4.9% as against revenue growth of 12.7%, the leveraging benefits delivered a 33bps improvement in overheads. This overhead leveraging benefit, revenue growth and the increasing share of Concept Engineering were the driving forces behind the resultant 51% lift in EBITDA and an increased margin of 3.61% (FY17: 2.70%).

The Labour Hire division continues to raise the bar on an already impressive safety record, with an LTIFR of 0.39 for FY18 (FY17: 0.42) continuing a long history of industry-leading results for our employees and our corporate partners, as a direct consequence of our strenuous on-boarding programmes, partnering with our customers, and also an absolute commitment to 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	FY17	Variance
Revenue	6.7	25.5	↓18.8
Underlying EBITDA	0.0	2.9	↓ 2.9

Our Training division emerged from FY18 with a strong Western Australian operation, far improved operations in Queensland, and a strong, highly performing compliance function. Both Western Australia and Queensland delivered pleasing full year profit results and are well positioned for better performances in the year ahead.

These profitable operations were offset by our continued investment in compliance and the cost of rebuilding our Victorian training operations. To date the ramp up in Victoria has been slower than initially hoped and we are continuing to explore options to reshape this business to return it to a profit, which will also serve as a further opportunity to leverage our compliance cost base.

Balance Sheet, Cash Flow and Funding

The Group balance sheet has strengthened overall by almost $5 million, in line with the year's net profit after tax, with net assets at $24.8 million (30 June 2017: $20.0 million). Net tangible assets at end 1 July 2018 represent $21.7m or 15.0c per share (30 June 2017: $16.7m or 11.6c per share).

Operating cash flow (from continuing operations) recovered well in the second half, recovering from a $2.8 million outflow at the half due to peak period seasonality, to end at an overall $3.2 million inflow for the year, so a strong inflow of $6.0 million across the second half. This is all despite the fact that we brought forward employee entitlement payments totalling $3.7 million to take advantage of tax planning opportunities. Without this we would have seen an overall operating cash inflow of $6.9 million for the year.

This strong cash flow performance has seen us again close the year with zero debt, a solid cash balance and a robust balance sheet which has us well positioned to take advantage of growth opportunities which may present themselves.

As at 1 July 2018, 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 at 1 July 2018, this working capital facility was undrawn (30 June 2017: Nil).

Managing Director's Comments

Ross Shrimpton, Managing Director, said, "2018 represents a pleasing return to full year profitability and validates our strategic repositioning of Ashley Services back in March 2017 as a Labour Hire company with a smaller and more focused, complementary Training division. The 2018 result is primarily due to the solid performance of our Labour Hire division, with Action Workforce and Concept Engineering offsetting the decline in our Training division. Top line growth for Labour Hire was strong, in large part driven by impressive growth in our Concept Engineering brand, although Action Workforce played a role here also.

Looking forward, Action will come back in revenue terms in line with our previously announced contract loss, although much of this decline will be offset by growth in new and existing customers across both brands. As also outlined previously we do not anticipate any material negative impact on the overall profitability of the group as the result of this contract loss.

Aside from the top line strength, cost control in our labour hire division has also played an important role, with overheads growing at a slower rate than our strong revenue growth, delivering improved profitability in the Labour Hire division due to this improved leveraging of our cost base as well as the increase in mix of our higher margin Concept business.

In relation to the all-important area of Safety, I am delighted to report further improvement on what was already an impressive result with our Lost Time Injury Frequency Rate (LTIFR) reducing further to 0.39, down from 0.42 last year. That truly is world's best practice and something we are extremely proud of, and which is a direct consequence of our strenuous on-boarding programmes, closely partnering with our customers, and also an absolute commitment to continued innovation across our Workplace Health & Safety programmes.

Corporate cost reduction has continued to be achieved with a further year on year reduction of $1.2 million or 23%. With corporate costs now at $3.8 million this represents a $1.9 million or 33% reduction since 2016. We won't be resting on our laurels here though and will remain focused on delivering upon ongoing opportunities to further reduce our cost base.

In terms of our Training division I am pleased to report that Western Australia has performed well across the year, whilst Queensland closed the year in much better shape. Our Victoria operations are still finding their way after being awarded a contract for calendar 2018 and we are working hard to get the right qualifications on scope to allow this operation to make a positive contribution again.

A strong cash flow performance, particularly across the second half, has seen us again end the year with no debt and a strong balance sheet which leaves us still well positioned to take look at acquisition opportunities as they arise. I am particularly pleased we were able to return to the payment of dividends after an almost three-year hiatus during what was a challenging period for our organization.

I am very proud of our organization and of our 220 strong committed internal team members, our many thousands of on-hired employees and students, and our highly valued customers, all who have all played an important role in what has been a significant turnaround of the Ashley Services Group business, with the high-quality results produced this year.

For further details:

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 almost 5,000 workers on a weekly basis.

APPENDIX: EBITDA to Underlying EBITDA Bridge – significant items

	FY18	FY17**
EBITDA*	**8.0**	**(5.0)**
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
NSW Department Finalisation costs	-	0.7
Net non-trading adjustments	-	**10.7**
Underlying EBITDA	**8.0**	**5.7**

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

** FY17 significant items have been adjusted to exclude discontinued operations