ASHLEY SERVICES GROUP

LABOUR HIRE | RECRUITMENT | TRAINING

12 February 2019

First Half 2019 Results

EBITDA of $4.53 million, up 20.2% with EBITDA rate of 3.06% up 84bps

NPAT of $2.71m million, up 24.6%

Ashley Services Group Limited (ASX: ASH), today announced a statutory after-tax profit from continuing operations of $2.71 million for the half year to 30 December 2018, representing a pleasing improvement of $0.53 million or 24.6% on the prior corresponding period (pcp) (1H 2018: profit $2.17 million).

Whilst headline revenue of $148.17 million was down by $21.29 million or 12.6% on the pcp (1H 2018: $169.46 million), the prior period included $30.63 million of revenue related to an Action Workforce contract which was exited at the end of FY18, as disclosed in our 22 May 2018 announcement. Excluding this prior period revenue, first half revenue for the group was up by $9.34 million or 6.7%, with positive revenue growth across all divisions.

Statutory results for continuing operations ($ million)	1H19	1H18	Change
Revenue	148.17	169.46	↓12.6%
Revenue excluding exited contract	148.17	138.83	↑6.7%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	4.53	3.77	↑20.2%
Earnings before interest and tax (EBIT)	4.09	3.47	↑17.6%
Net profit/(loss) after tax (NPAT)	2.71	2.17	↑24.6%
Basic earnings per share (EPS) - cents	1.88	1.51	↑24.6%

EBITDA for the half year to 30 December 2018 of $4.53 million, was up $0.76 million or 20.2% on the pcp (1H 2018: $3.77 million), with the EBITDA rate up 84 basis points (bps) to 3.06%. This represents a continued improvement in profitability, with EBITDA up $0.30 million or 7% on the previous six-month period (2H 2018: $4.24 million).

EBITDA by Division ($ million)	1H19	1H18	Change
Labour Hire	5.83	5.59	↑4.4%
Training	0.46	0.12	↑294%
Corporate costs	(1.76)	(1.94)	↓9.1%
Group EBITDA	4.53	3.77	↑20.2%
EBITDA %	3.06%	2.22%	↑84bps

Pleasingly, all divisions exhibited profitability improvement on the pcp, with Labour Hire and Training up by $0.24m and $0.34m respectively, with the latter representing a significant year on year lift of 294%, albeit off a low base.

EBITDA % improvement of 84bps to 3.06% reflects the improved EBITDA result in an environment of reduced revenue, as well as the impact of increasing Concept share, improved Training division performance and further reductions in our cost base.

Labour Hire Division – Action Workforce and Concept Engineering both growing (excluding impact of exited contract), with both brands delivering improved profitability through operational efficiency gains

Results for the half year ($million)	1H19	1H18	Change
Revenue	144.17	165.96	↓13.1%
Revenue excluding exited contract	144.17	135.33	↑6.5%
EBITDA	5.83	5.59	↑4.4%
EBITDA %	4.05%	3.37%	↑68bps

Engaging over 4,500 workers each week, the 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 1H FY19 is Action Workforce (79%), Concept Engineering (17%) and Blackadder Recruitment 4%). The overall mix of our higher margin Concept business continues to grow, up significantly from an 13% share last year, due to both Concept revenue growth and also the exit of the low margin Action Workforce contract.

Labour Hire saw a revenue decline across the half, down 13.1% on the prior year, due to the absence of $30.63 million from the exited contract. Excluding this contract, Labour Hire revenue was up 6.5% year on year with Action Workforce up by 5.2%, Concept Engineering up by 14.4% and Blackadder Recruitment experiencing modest growth.

Concept Engineering growth slowed in Q2 due to the impact of a decline in infrastructure project activity in the run up to the Victorian state election which continued into December. We expect this to be a temporary contraction and anticipate that our Victorian Concept business should be back to previous volumes by mid Q3.

The exit of the low margin Action Workforce contract, along with an increased Concept mix as well as ongoing efficiency benefits have delivered an increased EBITDA margin of 4.05%, up 68bps (1H 2018: 3.37%).

The impressive safety performance of our Labour Hire division continues to deliver record lows, continuing our long history of industry-leading results for our employees and our corporate partners. This result is a direct consequence of the diligent recruitment and on-boarding processes we employ, as well as our continued innovation across our Workplace Health & Safety programmes.

Training Division – Improved profitability with Victoria leading the way

Results for the half year ($million)	1H19	1H18	Change
Revenue	4.00	3.50	↑14.2%
EBITDA	0.46	0.12	↑$0.34m
EBITDA %	11.53%	3.34%	↑819bps

Our Training division continues to operate across three states, those being Victoria, Queensland and Western Australia. Our Victorian business has been improving month after month and is delivering strong results. Western Australia also remains profitable. Our Queensland operation continues to improve and with new branches opening recently in Ipswich and Logan, we believe this will enable us to leverage the opportunities in the job seeker agency market which will be key to better performances in Queensland.

We look forward to continued improving profitability from our Training division, as we continue to operate under a strong culture of compliance.

Balance Sheet, Cash Flow and Funding

Net assets at $23.9 million were down by $0.9 million on the financial year ending 1 July 2018 position of $24.8 million, reflecting the first half profitability less the reduction in retained earnings resulting from the payment of the final dividend of $3.6 million.

Balance sheet movements are characterised by a first half build to a peak in December as our customers increase their usage of temporary labour, which creates a short term lift in the working capital requirement best seen in an increase in Receivables (up $1.8 million), although for the half we benefited from the unwinding of the previously mentioned exited contract, which meant the lift was less than in previous years. The decline in Net Cash (down $3.8 million) was primarily related to the payment of the final dividend of $3.6 million. The Group had net cash of $2.6 million at 30 December 2018 (net cash of $6.4 million at 1 July 2018). The operating cash flow for the half year period was an inflow of $0.3 million (1H 2018: outflow of $2.8 million).

We ended the half year to 30 December 2018 with zero debt and have a solid balance sheet which leaves us well poised to take advantage of growth opportunities which may present themselves.

As at 30 December 2018, the Group had a $5 million working capital facility through Shrimpton Holdings Pty Limited, a company associated with Ross Shrimpton, Managing Director, major shareholder of the Group. As mentioned above, at 30 December 2018, the working capital facility was undrawn (1 July 2018, nil).

Managing Director's Comments

Ross Shrimpton, Managing Director, said, "Our first half result represents a pleasing lift in profitability as we successfully navigated the exit of a large revenue, but marginally profitable contract in our Action Workforce business. It was also pleasing to see our Training division exhibit clear signs of improvement off the low base of a year earlier.

Concept Engineering and Blackadder combined to more than fill any drop in Action Workforce. Whilst Concept revenue softened in Q2, as infrastructure project activity pulled back due to the Victorian state election, we are comfortable that this was a temporary lull and remain optimistic for continued growth in our Concept business.

Corporate costs continue to come down year on year, down another 9%, and while the opportunities here have been largely delivered upon over the preceding two years, we will continue to seek out and convert every saving opportunity we can.

In terms of our Training division, I am pleased to report that our Victorian business has come back well, moving into a solid profit position. Western Australia also remains profitable. Queensland continues to improve, with two new branches opened recently in Ipswich and Logan, which we believe will be key to better performances in this state as we leverage the opportunities in the job seeker agency market.

Our balance sheet remains strong, with minimal usage of our debt facility required to ride the working capital cycle and our positive cash generation in what is our traditionally tougher half is a positive development.

We remain on the lookout for acquisition opportunities and the lack of announcements in this regard is in no way any reflection of a lack of effort. We have evaluated a number, but as yet none have met our requirements. That said, we do see the sense in the appropriate, complementary acquisition for the Group and are continuing to explore opportunities.

Whilst no dividend has been declared in relation to the first half results, this is primarily due to the Group's preference to pay fully franked dividends. Given the utilisation of carried forward tax losses this is best delivered via a final dividend for the 2019 financial year which will likely have similar timing to the dividend we made last year in July-August 2018. Any final dividend for the 2019 financial year will be subject to board assessment in late FY19, taking into consideration the second half operational performance and the state of play on any acquisition opportunities under consideration.

I would finally like to take the opportunity to recognise the commitment of and to thank our team at Ashley Services, both our more than 200 committed internal team members, as well as the more than 4,500 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 remain proud of this performance and of the role it plays in our customer's ongoing success".

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 in excess of 4,500 workers on a weekly basis.