ASHLEY SERVICES GROUP

LABOUR HIRE | RECRUITMENT | TRAINING

30 August 2019

Full Year 2019 Results

EBITDA of $9.11 million, up 13.8% with EBITDA rate of 3.17% up 77bps

NPAT of $5.42 million, up 13.3%

Ashley Services Group Limited (ASX: ASH), today announced a statutory after-tax profit from continuing operations of $5.42 million for the financial year to 30 June 2019, representing a continuation of recent consistent improvement, up $0.64 million or 13.3% on the prior corresponding period (pcp) (FY18: $4.79 million).

Whilst headline revenue of $287.57 million was down by $45.23 million or 13.6% on the pcp (FY17: $332.80 million), the prior period included $59.16 million of revenue related to an Action Workforce contract which was exited at the end of FY18, as disclosed previously. Excluding this prior period revenue, full year revenue for the group was up by $13.93 million or 5.1%, with positive revenue growth across both divisions.

Statutory results for continuing operations ($ million)	FY19	FY18	Change
Revenue	287.57	332.80	↓13.6%
Revenue excluding exited contract	287.57	273.64	↑ 5.1%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	9.11	8.00	↑13.8%
Earnings before interest and tax (EBIT)	8.10	7.34	↑10.3%
Net profit/(loss) after tax (NPAT)	5.42	4.79	↑13.3%
Basic earnings per share (EPS) - cents	3.77	3.33	↑13.2%

FY19 EBITDA of $9.11 million, was up $1.11 million or 13.8% on the pcp (FY18: $8.00 million), with the EBITDA rate up 77 basis points (bps) to 3.17%, reflecting the improving profitability on the lower revenue base.

EBITDA by Division ($ million)	FY19	FY18	Change
Labour Hire	11.46	11.78	↓0.32 (↓2.7%)
Training	1.04	0.04	↑1.00
Corporate costs	(3.39)	(3.83)	↓0.44 (↓11.5%)
Group EBITDA	9.11	8.00	↑1.11 (↑13.8%)
EBITDA %	3.17%	2.40%	↑77bps

A $0.31 million decline in Labour Hire profitability has been more than offset by a pleasing recovery in our Training division as well as continued reduction in Corporate costs.

Labour Hire Division – Slight dip in profitability largely due primarily to downturn in Concept from Q2 onwards, with AWF largely holding EBITDA dollars on lower revenue base

Results for the half year ($million)	FY19	FY18	Variance
Revenue	279.56	326.07	↓14.3%
Revenue excluding exited contract	279.56	266.91	↑ 4.7%
EBITDA	11.46	11.78	↓ 2.7%
EBITDA %	4.10%	3.61%	↑49bps

Engaging up to 5,000 workers weekly, our Labour Hire division is comprised of Action Workforce (blue-collar labour hire), Concept Engineering (technical labour hire) and Blackadder Recruitment (white-collar recruitment). Labour Hire FY19 revenue mix is Action Workforce (80%), Concept Engineering (16%) and Blackadder Recruitment (4%).

Labour Hire saw a revenue decline across the half, down 14.3% on the prior year, due to the absence of $59.16 million from the exited contract. Excluding this contract, Labour Hire revenue was up 4.7% year on year with Action Workforce up by 8.5%, Concept Engineering down by 10.3% and Blackadder Recruitment up by 4.8%.

Action Workforce growth, excluding the exited contract, of 8.5% was strong and included one significant new customer, national expansion of a number of our major existing customers, as well as pleasing growth in a new emerging sector for us.

Concept Engineering growth slowed from early Q2 due to the impact of a decline in infrastructure project activity in the run up to the Victorian state election. The expected recovery in H2 didn't eventuate and this downturn, tracking against what was a very strong H2 FY18, delivered negative growth for H2 FY19. July and August saw a lift on the H2 FY19 levels.

Maintaining Labour Hire profit levels from a lower revenue base, along with ongoing efficiency benefits has delivered an increased Labour Hire EBITDA margin of 4.10%, up 49bps (FY18: 3.61%).

Training Division – Growing revenues and a pleasing recovery in profitability

Results for the half year ($million)	FY19	FY18	Variance
Revenue	8.01	6.74	↑19.0%
EBITDA	1.04	0.04	↑ 1.00
EBITDA %	13.00%	0.68%	

The Training division benefited from a strong recovery in our Victorian business with revenues more than doubling in FY19, driving a pleasing profit result. Our Western Australian operations delivered a satisfactory profit performance with similar revenue levels as prior year, whilst Queensland saw modest revenue growth. Overall, our Training division has grown steadily throughout FY19 and we are well placed to continue this steady growth into FY20.

Balance Sheet, Cash Flow and Funding

The Group balance sheet has strengthened overall by $1.8 million, with NPAT of $5.4 million less the dividend payment in FY19 of $3.6 million. Net tangible assets at 30 June 2019 were $23.4m or 16.3c per share (1 July 2018: $21.7m or 15.0c per share).

Operating cash flow was strong in the second half, recovering from an inflow of just $0.3 million at the half due to peak period seasonality, to end at an overall $4.8 million inflow for the year. Our strong cash flow performance has seen us again close the year with zero debt and a solid cash balance after the resumption of dividends during the year.

As at 30 June 2019, the Group had a $5 million working capital facility through Shrimpton Holdings Pty Limited, a company associated with Ross Shrimpton, Managing Director and major shareholder of the Group. As at 30 June 2019, this working capital facility was undrawn (1 July 2018: Nil).

Managing Director's Comments

Ross Shrimpton, Managing Director, said, "2019 delivered another pleasing result for Ashley Services Group, growing our full year profitability and continuing to deliver upon the strategic repositioning of Ashley Services. Our Labour Hire division is delivering higher margin returns and our more focused, complementary Training division has moved back into a profitable position. The 2019 result was in many ways driven by the return to profitability of our Training division which offset a slight decline in profitability in our Labour Hire division, predominantly due to a slower year for Concept.

Action Workforce's growth of 8.5% was particularly pleasing, reflecting also the development of some higher margin business lines which bode well for our future business mix in Action Workforce.

Concept Engineering, which has grown at rates of 70% (FY17) and 58% (FY18), came back a little in FY19 as the Victorian market softened for us, particularly in the rail sector, no doubt impacted by a general slowdown around the state election. We have seen a lift in the first part of the new financial year, and we maintain a positive outlook for this business.

I am pleased to report that the impressive safety performance of our Labour Hire division continues, with injury rates at record lows over the last three years, continuing a long history of industry-leading results for our employees and our corporate partners. Our safety record 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.

Our Concept Engineering brand has successfully grown a permanent recruitment revenue stream during FY19. We are looking to build on this through the development of a meaningful white-collar permanent recruitment division under a new brand, Concept Recruitment Specialists, based out of four locations in Sydney including a new Western Sydney office. Our existing Blackadder brand will focus more on white collar temp and contracting activity complementing our Action Workforce customer base.

The Training division had a real bounce back year, delivering a $1 million profit. Our Victorian operations more than doubled their revenues, resulting in a pleasing return to a solid profit result. Western Australia continues to perform well on relatively consistent revenue levels, whilst Queensland saw modest revenue growth following the opening of two new branches focused on the job network market. We see our Training division as having a sound platform to continue its performance improvement in the year ahead.

Corporate costs were again down further, delivering a year on year reduction of $0.4 million. With corporate costs now at $3.4 million this represents a $2.3 million or just over 40% reduction since 2016.

Another strong cash flow performance sees us again end the year with a strong balance sheet and zero debt after the resumption of dividends during the year. Our FY19 dividend lift of 8% is another positive for our shareholders and at 2.7 cents represents a 71.7% payout ratio relative to our NPAT result.

As announced on 27 August 2019 Ashley Services Group entered into agreements to acquire a major shareholding of the CCL Group. This an ideal fit for Ashley, with a broadening of our Victorian business, aligning with our existing Concept Engineering operations. Both businesses have strong service offerings in the infrastructure sector and will operate under existing management as independent operations. We are delighted to have been able to retain both the founder and key management as shareholders moving forward.

FY19 represents our second full year of building profitability, and all business units are well positioned for improved performance in the year ahead. With the class action now behind us, senior management are able to solely focus on business operations.

Our achievements in FY19 and positive outlook for the year ahead are the result of the dedication of our 200+ committed internal team members, our many thousands of on-hired employees and students, and our highly valued customers".

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.