2020

IGNITE LIMITED

APPENDIX 4D

PRELIMINARY HALF YEAR REPORT

31 DECEMBER 2019

ABN 43 002 724 334

Lodged with ASX under Listing Rule 4.2A.3

www.igniteco.com

REPORT PERIOD

Reporting period:	Previous corresponding period:
1 July 2019 – 31 December 2019	1 July 2018 – 31 December 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Description	31 Dec 2019 $000	31 Dec 2018 $000	Change $000	Change %
Revenue from ordinary activities	70,033	83,048	(13,015)	(15.7)
Loss from ordinary activities after tax attributable to members	(4,992)	(2,147)	(2,845)	132.5
Net loss for the period attributable to members	(4,992)	(2,147)	(2,845)	132.5

	31 Dec 2019 Cents	31 Dec 2018 Cents	Change Cents	Change %
Net tangible assets per share[1]	4.56	12.82	(8.26)	(64.4)

1. Net tangible assets = Net assets less intangible assets

BUSINESS REVIEW

During the half year ended 31 December 2019 Ignite Limited (the "Company") and its controlled entities (the "Group") generated a loss from ordinary activities after income tax of $4,992k (31 December 2018: loss of $2,147k), while the loss from continuing operations of $2,497k (31 December 2018: loss of $2,304k) represented a 8.4% increase on the comparative period. The revenue from continuing operations was $68,001k (31 December 2018: $79,499k) while gross profit from continuing operations for the half year decreased $1,454k (14.0%) and the gross profit margin increased slightly from 13.04% to 13.11%.

Employee benefits expense decreased 13.3% due to reduced headcount and salaries as well as lower commission expense. Operating lease expense decreased 22.8% primarily due to the implementation of the new accounting standard AASB 16 Leases ("AASB 16"). Depreciation and amortisation expense, however, increased 23.3% following the adoption of AASB 16 in the period due to the depreciation associated with the right-of-use assets. Other expenses were down 2.7% on the comparative period due to decreases across a range of items including travel and entertainment, insurance and bad debts.

The Specialist Recruitment business contributed a profit before tax and corporate overheads of $1,102k versus $1,761k in the comparative period. This 37.4% decrease in profit reflected the 14.7% reduction in contingent labour revenue from previously reported customer losses and the 49.8% reduction in permanent recruitment placements due to fewer specialist recruitment consultants. Significant focus was directed towards ensuring the right leadership was in place in our key markets and consequently NSW and Victoria welcomed two new General Managers, who are both well-known and respected in the Australian recruitment industry, and in the ACT a long-serving member of the team was promoted to the leadership role. At the same time the impact of the increased focus on consultant performance and productivity resulted in headcount reductions of 16% In the half year. The ACT continued to be the strongest performing business unit with significant revenue growth and profit improvement against the comparative period. The Victorian office relocated in the second quarter to more cost-effective Melbourne CBD premises and those benefits will be realised in the second half.

The On Demand IT Services business delivered a profit before tax and corporate overheads of $126k in the half year, a decrease of 31.5% on the comparative period. This decline reflected a 12.6% revenue decrease from client delays in awarding contracts and a reduction in the proportion of high margin projects.

The People Services business delivered a profit before tax and corporate overheads of $629k, a 270.0% improvement on the comparative period. This improvement reflected a 41.1% growth in revenue and a significant improvement in profit margin before corporate overheads from 14.3% to 37.6% based on the client and project mix in the half year.

Corporate overheads were down 1.5% on the comparative period. Non-recurring costs were incurred in the half year on professional services related to the search for the Chief Executive Officer, higher than anticipated audit fees, advisory and legal fees associated with a structural review of the Group and the disposal of the China business. In December 2019 following a brief tender process, the Company successfully changed its Australian auditors and tax advisors to PKF and expects to achieve expenditure efficiencies in the next financial year.

On 18 November 2019 the Company's wholly owned Hong Kong subsidiary Lloyd Morgan Limited sold 100% of its subsidiary Lloyd Morgan Hong Kong Limited, which in turn owned the China business including 89% of Lloyd Morgan China Limited and 100% of Beijing Candle Technology Service Co Ltd. The purchaser was the then Chief Executive Officer of Lloyd Morgan China Limited. The sale was entered into for nominal cash consideration and based on the acquisition of the business as a going concern on an "as is, where is" basis, with all faults and without any warranties or representations by the seller and without any future recourse to the seller in respect of the business sold.

As at the date of disposal, the China business had incurred a loss before tax of $1,637k (31 December 2018: $39k profit before tax). The Company, through its related entities, had majority ownership and control of the China business for more than twelve years and experienced mixed results and numerous challenges in its performance during that period. Over the last five years, the China operations, which were self-funding and self-sufficient, had consumed a disproportionate amount of both the Board and the executive team's time relative to the scale of operations and contribution to revenue and profitability. There were also limited synergies with the Australian business which operated predominantly in the contingent labour market.

Following a review of the options available and considering the ongoing risks and challenges in the China market, the Board determined not to invest further capital in the China business. Following that decision, the Board considered that the business, its clients, candidates and staff were best served by local ownership with a locally focused and experienced leadership team. The disposal of the China business will allow the executive team to focus on the Group's core Australian business.

THE HALF YEAR AHEAD

Following the successful sale of the underperforming China business in November 2019 the Group finished the half year with its strongest December result in many years, with all Australian operational business units delivering a profit before corporate overheads and the Group achieving an overall profit for the month.

Without the distraction of China, the executive team turned its attention to the Specialist Recruitment business, in particular the NSW and Victorian divisions, and the On Demand IT Services business.

Following the appointment of new General Managers to lead the NSW, Victorian and ACT Specialist Recruitment businesses in the second quarter, the priority turned to improving performance, productivity and profitability. This saw a renewed focus on the key functional verticals, including IT and Digital, Accounting and Finance, Business Support and Engineering and Construction, and an exit from those verticals where the Group had underperformed, lacked critical mass or did not possess the competencies in clients, candidates and consultants.

The focus on consultant performance and productivity in the half year resulted in the departure of underperforming staff in NSW and Victoria. The hiring plans for the second half are now aligned with attracting high performing consultants to drive growth in clients and revenue in the key functional verticals, especially in the primary markets of NSW and Victoria, while maintaining and growing the strong position established in the ACT.

The new General Managers have been supported by a range of strategies to attract high performing consultants to rebuild their teams aligned to the functional vertical focus and as a result several new consultants have joined early in the third quarter.

NSW delivered a profit before corporate overheads in December 2019 for the first time in twelve months while Victoria delivered a 99% improvement in profit before corporate overheads for the half year versus the comparative period. This positive momentum is expected to continue into the second half. The ACT is expected to deliver an equally strong result in the second half on the back of steady half year revenues versus the comparative period with strong contingent labour revenues compensating for lower permanent recruitment revenues.

The On Demand IT Services business has a number of opportunities and projects in the pipeline and end customer decisions are expected in the second half. Success could see significant increases in revenues in Australia and New Zealand.

The People Services business performed extremely well in the half year and this is expected to continue into the second half.

Following the relocation of the Victorian office in the second quarter, the Group expects to maintain the momentum in infrastructure cost efficiencies in the second half with the relocation of the Sydney CBD and Western Sydney offices in the fourth quarter. These relocations will reduce aggregate annualised lease expenses for those two locations by more than 35%.

The Group continues to seek opportunities to optimise the efficiency of the corporate and support services provided to the various operational business units. For example, in January 2020 the Group successfully extended its debtor finance facility with Scottish Pacific Business Finance to 20 February 2022.

Early in the second half the Board decided to suspend the search for a new Chief Executive Officer until the next financial year and to continue under the leadership of the Executive Chairman. This will afford the leadership team the opportunity to maintain the momentum built up in the half year around consultant performance and productivity improvement, and to drive operational efficiencies in infrastructure costs and corporate support services in the lead up to the 2021 financial year.

The Group now has an energised and experienced leadership team in place supported by an engaged and driven workforce across both operating business units and corporate support services, all of whom are committed to achieving the continued turnaround of Ignite.

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN LOST

Entity Name	Date Control Lost
Lloyd Morgan Hong Kong Limited	18 November 2019
Lloyd Morgan China Limited	18 November 2019
Beijing Candle Technology Service Co Ltd	18 November 2019

	31 Dec 2019 $000	31 Dec 2018 $000	Change $000	Change %
(Loss)/profit from ordinary activities, net of income tax of above disposed entities	(2,495)	157	(2,652)	(1,689.2)

ASSOCIATES AND JOINT VENTURES

The Company does not have any holdings in associates or joint ventures.

PARENT ENTITY

The ultimate parent entity and ultimate controlling entity within the consolidated entity is Ignite Limited. The condensed consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities as at the reporting date.

				Equity Holding %[1]	
Entity Name	Principal Activity	Country of Incorporation	Class of Shares	31 Dec 2019	31 Dec 2018
Ignite New Zealand Holdings Limited	Holding	New Zealand	Ordinary	100	100
Ignite IT Services Limited	Operating	New Zealand	Ordinary	100	100
Lloyd Morgan Limited	Dormant	Hong Kong	Ordinary	100	100

1. The proportion of ownership interest is equal to the proportion of voting power held.

DIVIDENDS OR DIVIDEND DISTRIBUTION PLAN

On 28 February 2020 the Directors resolved not to declare an interim dividend for the half year ended 31 December 2019. No interim dividend was paid in the previous corresponding period.