# 2020
# IGNITE LIMITED
## APPENDIX 4C QUARTERLY CASH FLOW REPORT
## AND
## QUARTERLY ACTIVITY REPORT
## 30 JUNE 2020

ABN 43 002 724 334

Lodged with ASX under Listing Rules 4.7B and 4.7C.

www.igniteco.com

Amended 29 July 2020

# Appendix 4C

## Quarterly Cash Flow Report for Entities Subject to Listing Rule 4.7B

**Name of entity**

Ignite Limited

| ABN | Quarter ended ("current quarter") |
|---|---|
| 43 002 724 334 | 30 June 2020 |

| Consolidated statement of cash flows | | | Current quarter $A'000 | Year to date (12 months) $A'000 |
|---|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | | |
| 1.1 | Receipts from customers[1] | | 38,311 | 150,075 |
| 1.2 | Payments for | | | |
| | (a) | research and development | - | - |
| | (b) | product manufacturing and operating costs[2] | (27,811) | (113,188) |
| | (c) | advertising and marketing | (45) | (367) |
| | (d) | leased assets[3] | (239) | (2,145) |
| | (e) | staff costs[2] | (3,344) | (16,324) |
| | (f) | administration and corporate costs | (478) | (4,127) |
| 1.3 | Dividends received (see note 3) | | - | - |
| 1.4 | Interest received | | 2 | 21 |
| 1.5 | Interest and other costs of finance paid | | (147) | (538) |
| 1.6 | Income taxes paid | | - | 43 |
| 1.7 | Government grants and tax incentives | | - | - |
| 1.8 | Other (GST) | | (2,047) | (8,869) |
| **1.9** | **Net cash from operating activities** | | **4,202** | **4,581** |

1. In the first three quarters, the net movement in the debtor finance facility was reported as an operating cashflow at item 1.1. In the current quarter, management have determined to reclassify the net movement in the debtor finance facility as a financing cash flow at item 3.6. The reclassification more accurately reflects operating and financing cash flows and does not change the current quarter and year to date cash balance at item 4.6.
2. In the first three quarters, item 1.2(b) included amounts related to staff payroll on costs totalling $719k for the three quarters. In the current quarter these amounts were reclassified from item 1.2(b) to item 1.2(e). The reclassification does not change the current quarter and year to date net cash from operating activities at item 1.9.
3. In the March quarter, item 1.2(d) was reported as $579k when it should have been reported as $189k. The difference of $390k was for payments for leases of the discontinued operations which should have been classified as right of use assets under AASB16 Leases and reported at item 3.6. In the current quarter, the year to date value at item 1.2(d) is correctly stated as $2,145k.

| Consolidated statement of cash flows | | | Current quarter $A'000 | Year to date (12 months) $A'000 |
|---|---|---|---|---|
| **2.** | **Cash flows from investing activities** | | | |
| 2.1 | Payments to acquire or for: | | | |
| | (a) | entities | - | - |
| | (b) | businesses | - | - |
| | (c) | property, plant and equipment | (9) | (40) |
| | (d) | investments | - | - |
| | (e) | intellectual property | - | - |
| | (f) | other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | | |
| | (a) | entities | - | (718) |
| | (b) | businesses | - | - |
| | (c) | property, plant and equipment | - | - |
| | (d) | investments[1] | 741 | 741 |
| | (e) | intellectual property | - | - |
| | (f) | other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | | - | - |
| 2.4 | Dividends received (see note 3) | | - | - |
| 2.5 | Other (provide details if material) | | - | - |
| **2.6** | **Net cash from/ (used in) investing activities** | | **732** | **(17)** |

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings[2, 3] | (4,729) | (5,488) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| **3.10** | **Net cash used in financing activities** | **(4,729)** | **(5,488)** |

1. In the current quarter, following the cancellation of the bank guarantees for the offices vacated in Melbourne and Sydney, the interest-bearing term deposit provided as security for the bank guarantees was reduced.
2. In the March quarter, item 3.6 was reported as $149k when it should have been reported as $539k. The difference of $390k was for payments for leases of the discontinued operations which should have been classified as right of use assets under AASB16 Leases and reported at item 3.6.
3. In the first three quarters, the net movement in the debtor finance facility was reported as an operating cash flow at item 1.1. In the current quarter, management have determined to reclassify the net movement in the debtor finance facility as a financing cash flow at item 3.6. The reclassification more accurately reflects operating and financing cash flows and does not change the current quarter and year to date cash balance at item 4.6.

| Consolidated statement of cash flows | | Current quarter $A'000 | Year to date (12 months) $A'000 |
|---|---|---|---|
| **4.** | **Net increase/ (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at the beginning of the period | 225 | 1,287 |
| 4.2 | Net cash from operating activities (item 1.9 above) | 4,202 | 4,581 |
| 4.3 | Net cash from/ (used in) investing activities (item 2.6 above) | 732 | (17) |
| 4.4 | Net cash used in financing activities (item 3.10 above) | (4,729) | (5,488) |
| 4.5 | Effect of movement in exchange rates on cash held | (22) | 45 |
| **4.6** | **Cash and cash equivalents at the end of the period** | **408** | **408** |

| **5.** | **Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | **Current quarter $A'000** | **Previous quarter $A'000** |
|---|---|---|---|
| 5.1 | Bank balances | 408 | 225 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| **5.5** | **Cash and cash equivalents at end of quarter (should equal item 4.6 above)** | **408** | **225** |

| **6.** | **Payments to related parties of the entity and their associates** | **Current quarter $A'000** |
|---|---|---|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1[1] | 149 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

1. Garry Sladden was the Independent Non-Executive Chairman of the entity until 23 January 2019. Following the resignation of the previous Chief Executive Officer, and until such time as a new Chief Executive Officer is appointed, Garry has acted and will continue to act as the Executive Chairman of the entity. During the period that Garry has acted as Executive Chairman, Jennifer Elliott, Chairman of the Board Audit, Risk and Compliance Committee, has chaired the meetings of directors.

| 7. | **Financing facilities**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | **Total facility amount at quarter end $A'000** | **Amount drawn at quarter end $A'000** |
|---|---|---|---|
| 7.1 | Loan facilities | - | - |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (Debtor finance facility) | 5,785 | 1,187 |
| 7.4 | **Total financing facilities** | 5,785 | 1,187 |

| | | |
|---|---|---|
| 7.5 | **Unused financing facilities available at quarter end** | 4,598 |
| 7.6 | Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. | |

As at 30 June 2020 the entity relies on a secured debtor finance facility provided by Scottish Pacific Business Finance expiring on 20 February 2022 (the "Facility") to meet its working capital requirements. The maximum Facility amount is the lower of 85% of approved trade receivables or $15,000k and is subject to certain drawdown conditions. As at 30 June 2020 the applicable interest rate was 6.74%.

| 8. | **Estimated cash available for future operating activities** | **$A'000** |
|---|---|---|
| 8.1 | Net cash from operating activities (item 1.9) | 4,202 |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 408 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 4,598 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 5,006 |
| 8.5 | **Estimated quarters of funding available (item 8.4 divided by item 8.1)** | N/A |

*Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.*

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

## Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 28 July 2020

Authorised by: By the Board of Directors

(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

# Quarterly Activity Report for Entities Subject to Listing Rule 4.7C

Ignite Limited (ASX: IGN) (the "Company") presents its unaudited Quarterly Activity Report for the quarter ended 30 June 2020.

## FINANCIAL SUMMARY

The 30 June 2020 quarter reflected the following:

- Revenues of $32,682k from continuing operations decreased 10% against the comparative quarter in 2019 for continuing operations;
- Gross profit of $3,711k from continuing operations decreased 24% against the comparative quarter in 2019 for continuing operations, with the greater decline relative to the revenue decline due to the mix with lower contribution from high margin permanent placement revenue and On Demand IT Services and People Services revenues;
- Gross profit margin from continuing operations was 11.36%, down from the 13.08% for the nine months to 31 March 2020, due to the gross profit mix with lower contribution from high margin permanent placement revenue and On Demand IT Services and People Services revenues;
- Cash receipts from customers were $38,311k and payments for contingent labour were $27,811k;
- Cash payments for staff costs for continuing operations were $3,344k; and
- Net cash from operating activities for the quarter was $4,202k.

## FINANCIAL UPDATE

### *Revenue*

During the quarter ended 30 June 2020 the Company generated revenues of $32,682k, a decrease of 14% on the comparative quarter in 2019, which included revenues from the discontinued China operations. For continuing operations, revenues of $32,682k represented a 10% decrease against revenues of $36,271k in the comparative quarter of 2019.

During the June quarter the Company experienced the impact of COVID-19 and the health, safety and well-being of staff and contractors working with clients was a key focus. At the end of the March quarter the Company had moved to allow all its staff to work from home where possible and also liaised with its clients to facilitate its contractors also working from home where the clients and roles permitted, both in Australia and New Zealand. This transition proved to be very successful and largely seamless for staff, contractors, clients and the Company, with minimal to no interruption to services.

Against the comparative period in 2019, revenues declined by 12% in April and by more than 40% in May due to declines in client demand for contingent labour and permanent placement services and the delay in commencement of projects in the On Demand IT Services and People Services divisions. Revenues rebounded in June and the result for the quarter was a decline of 10% against the comparative quarter in 2019 for continuing operations.

The Company's gross profit for the June quarter of $3,711k decreased 46% on the $6,928k for the comparative quarter in 2019, which included the discontinued China operations. For continuing operations, gross profit of $3,711k represented a 24% decrease against gross profit of $4,915k in the comparative quarter of 2019. The greater decline in gross profit relative to the revenue decline was due to the mix with lower contribution from high margin permanent placement revenue and On Demand IT Services and People Services revenues.

### *Expenditure*

Contingent labour costs of $28,971k for the quarter ended 30 June 2020 were down 8% on the comparative quarter in 2019 for continuing operations, in line with the decline in revenue from continuing operations. The discontinued China operations focussed on permanent recruitment and did not impact contingent labour costs in the comparative quarter.

The Company continued its focus on improving consultant performance and productivity as well as reducing operating costs during the June quarter resulting in the departure of underperforming consultants and the elimination of several non-core roles. Redundancies equivalent to 14% of the Company's staff were implemented during the quarter with total headcount reductions including attrition at 19%.

Additionally, the Company's Sydney and Western Sydney offices relocated to more cost-effective premises during the quarter.

The financial benefit from these headcount reductions and office relocations started to be realised in the second half of the June quarter. The full benefit of these structural cost reductions is expected to be realised in the 2021 financial year.

The impact of the headcount reductions in the first nine months of the 2020 financial year together with the annual leave and long service leave taken by staff during the June quarter is reflected in the 37% reduction in staff and related costs during the quarter ended 30 June 2020 against continuing operations in the comparative quarter of 2019.

### *Cashflows*

Cash and cash equivalents at 30 June 2020 were $408k, up from $225k at 31 March 2020. The net cash inflow for the June quarter was $183k with net cash from operating activities of $4,202k.

Cash receipts from customers were $38,311k for the June quarter. This was consistent with the 22% increase in revenue versus the March quarter and strong debtor collections assisted by temporary shortening of payment terms by several large clients. Cash payments for contingent labour of $27,811k were up 18% on the March quarter for continuing operations. Several State Governments offered COVID-19 related payroll tax payment deferrals in the June quarter resulting in cash payments increasing at a slower rate than cash receipts versus the March quarter.

Cash payments for staff costs in the June quarter were $3,344k. The normalised June quarter cash payments for staff costs was $2,625k after adjusting for the year to date reclassification of $719k from contingent labour costs to staff costs.

## OPERATIONAL UPDATE

### *Specialist Recruitment*

In the quarter ended 30 June 2020, the Specialist Recruitment business contributed a profit before tax and corporate overheads of $1,329k versus a $499k profit in the comparative quarter of 2019. This positive movement reflected a 46% reduction in salary and related costs offsetting a 16% decline in gross profit, principally due to a decrease in high margin permanent placement revenue as clients placed recruitment on hold during the quarter while they assessed the full impact of COVID-19.

The profit before tax and corporate overheads for the June quarter increased 466% on the March quarter due to a 14% increase in gross profit, principally in contingent labour and a 22% decrease in salary and overhead costs.

The continuing focus on improving consultant performance and productivity and a focus on the key functional verticals of IT and Digital and Business Support resulted in headcount reductions of 21% during the quarter through a combination of attrition and redundancies. The full benefit from these reductions will be realised during the 2021 financial year.

In addition, the result for the June quarter reflected a one-off impairment loss of $282k on the Brisbane property lease.

The NSW business, which experienced most of the headcount reductions during the quarter, achieved a modest $34k net profit before corporate overheads for the June quarter, up 128% on the comparative quarter in 2019. Meanwhile, the Victorian business achieved a $271k net profit before corporate overheads in the June quarter, assisted by the write-back of a sizeable doubtful debt provision from the March quarter. The ACT business contributed $1,190k in net profit before corporate overheads for the June quarter.

### *On Demand IT Services*

The On Demand IT Services business recorded a net loss before tax and corporate overheads of $17k, a decrease of 145% against the comparative quarter in 2019. This reflected a 37% decline in revenue against the comparative quarter in 2019 due to delays in the commencement of new projects. The net loss before tax and corporate overheads of $17k was a 111% decrease on the March quarter of $156k which included the write-back of a doubtful debt provision.

### *People Services*

The People Services business recorded a net profit before tax and corporate overheads of $78k, a 66% decrease against the comparative quarter in 2019. The result was an increase of 186% against the net loss before tax and corporate overheads of $91k in the March quarter. This favourable movement reflected the commencement of several new projects in June following delays during the March quarter.

### *Shared Services*

Net corporate overheads decreased 11% against the comparative quarter in 2019 mainly due to a 21% reduction in non-staff related operating costs, including property leases assisted by partial rental holidays from a select number of landlords. While the June quarter net corporate overheads were flat on the March quarter, headcount reductions of 23% were achieved during the quarter and the financial benefit from these reductions will be realised in the 2021 financial year.

## DEBTOR FINANCE FACILITY

As at 30 June 2020 the Company relies on a secured debtor finance facility provided by Scottish Pacific Business Finance expiring on 20 February 2022 (the “Facility”) to meet its working capital requirements. The maximum Facility amount is the lower of 85% of approved trade receivables or $15,000k and is subject to certain drawdown conditions.

The total available Facility as at 30 June 2020 was $5,785k, with the amount drawn down $1,187k (21%) and the applicable interest rate 6.74%.

## OUTLOOK FOR THE FIRST QUARTER 2021

Significant inroads were made during the 2020 financial year in right sizing a large portion of the Company’s fixed infrastructure costs including staff and property. The Company is now better positioned to meet the ongoing challenges posed by COVID-19 to the health, safety and well-being of staff and contractors working with clients and the economic uncertainty in Australia.

Overall total headcount for continuing operations decreased 35% against June 2019. In addition, three offices were relocated in Melbourne and Sydney to more cost-effective options providing greater operational flexibility, while in the June quarter the lease for the closed Brisbane office was fully impaired. The former Brisbane office clients, contractors and candidates are now serviced and managed by the ACT office. These property changes achieved a greater than 40% monthly reduction in accounting expense. The full financial benefit of these staff reductions and property rationalisations will be realised during the 2021 financial year.

Following the decline in May 2020 sales versus May 2019 by more than 30%, the Company successfully registered for the Federal Government’s JobKeeper Payment subsidy at the end of the June quarter. The first JobKeeper Payment subsidy was received by the Company during July and these payments are expected to continue to the end of the scheme on 27 September 2020 provided the Company and staff continue to meet the relevant eligibility criteria.

Updates on the impact of the JobKeeper Payment on the Company’s results for the 2021 financial year will be provided when the September quarter Appendix 4C and quarterly activity report are lodged, by which time any uncertainty will be reduced.

Based on the Company's 10% revenue decline in the June 2020 quarter versus the June 2019 quarter, the Company will not be eligible for JobKeeper 2.0 commencing on 28 September 2020, as the eligibility requirements stipulate that revenue in both the June 2020 and September 2020 quarters needs to decline by 30% or more on the comparative quarters in 2019.

Following the June 2020 rebound in revenue, the first half of July 2020 has seen continuing strong client demand for contingent labour particularly from the Company's Federal and State Government clients as well as commercial clients in sectors that have not been directly impacted by COVID-19 related staff layoffs and/or operational closures. While permanent placement revenues are not at their pre-COVID-19 levels, there is selective permanent recruitment occurring amongst existing and new clients.

In the 2021 financial year the On Demand IT Services division has been awarded three new projects from existing clients for which it had tendered during the 2020 financial year. The largest of these projects commenced in July 2020 with the remaining two expected to commence in the first half of the 2021 financial year.

The People Services division which had a very slow March quarter began to pick up momentum in June with several projects being approved to commence and that momentum has continued into July.

The Company expects the current COVID-19 resurgence to delay staff returning to their offices and contractors to client sites. The key focus for the September 2020 quarter will be to:

- Seek further operational efficiencies and expenditure reductions where possible;
- Review several large IT and software supplier contracts due for renewal in the first half of the 2021 financial year;
- Retain and grow the contingent labour workforce; and
- Undertake business development activities in sectors hiring during COVID-19.