ASHLEY SERVICES GROUP

LABOUR HIRE | RECRUITMENT | TRAINING

25 February 2021

First Half 2021 Results

- **EBITDA of $6.8 million, up $0.7 million or 12.4%**
- **EBITDA rate of 3.67% up 36bps**
- **NPAT of $4.2m million, up $0.8 million or 23.5% & EPS up 24.0%**
- **First interim dividend at 1.8 cents is 67% of FY20 full year dividend**
- **Operating Cash Flow a $7.0 million outflow due to Action Workforce Nov-Dec significant revenue growth driving increase in working capital**

Ashley Services Group Limited (ASX: ASH), today announced a statutory after-tax profit from continuing operations of $4.2 million for the half year to 3 January 2021, representing a pleasing improvement of $0.8 million (up 23.5%) on the prior corresponding period (pcp) (1H 2020: profit $3.4 million).

EBITDA for the half year to 3 January 2021 of $6.8 million, was up $0.7 million or 12.4% on the pcp (1H 2020: $6.1 million), with our EBITDA rate continuing to improve, up 36 basis points (bps) to 3.67%.

Revenue of $185.9 million was up by $2.6 million (1.4%) on the pcp (1H 2020: $183.4 million), predominantly due to Labour Hire which was up $2.7 million or 1.5% led by Action Workforce, Concept Retail and the CCL Group. It is important to note that H1 FY21 was a 26 week period as against a 27 week period for H1 FY20. Excluding the impact of this additional week ($5.8m), Revenues were up by $8.4 million or 4.7%.

Operating cash flow for the half year period was an outflow of $7.0 million due primarily to the increased working capital requirement resulting from Action Workforce's significant revenue growth across November-December.

Statutory results for continuing operations ($ million)	1H21	1H20	Change
Revenue	186.0	183.4	↑ 1.4%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	6.8	6.1	↑12.4%
Earnings before interest and tax (EBIT)	5.9	4.9	↑20.2%
Net profit/(loss) after tax (NPAT)	4.2	3.4	↑23.5%
Basic earnings per share (EPS) - cents	2.73	2.20	↑24.0%

EBITDA by Division ($ million)	1H21	1H20	Change
Labour Hire	7.5	7.2	↑ 4.0%
Training	1.4	0.8	↑69.9%
Corporate costs	(2.0)	(1.9)	↑ 5.0%
Group EBITDA	6.8	6.1	↑33.8%
EBITDA %	3.67%	3.31%	↑36bps

Labour Hire Division – Positive EBITDA contributions from all Labour Hire brands and Revenue growth for Action Workforce, Concept Retail and the CCL Group.

Results for the half year ($million)	1H21	1H20	Change
Revenue	181.7	179.0	↑ 1.5%
EBITDA	7.5	7.2	↓ 4.0%
EBITDA %	4.12%	4.02%	↑10bps

Labour Hire revenue was up by $2.7 million or 1.5% on the prior year, with strength in Action Workforce, Concept Retail and the CCL Group partially offset by Concept Engineering and Concept Recruitment Solutions which were both down on prior year.

All Labour Hire brands produced positive EBITDA contributions for the half, with the CCL Group, Concept Retail and Concept Recruitment Solutions all delivering increases on the prior corresponding period.

The CCL Group continues to perform ahead of the acquisition business case, and this has resulted in a $0.1 million non-cash fair value adjustment for the second year earn out payment (charged to the P&L in Corporate costs)

Training Division – Improving profitability and addition of The Instruction Company

Results for the half year ($million)	1H21	1H20	Change
Revenue	4.3	4.4	↑ 2.5%
EBITDA	1.4	0.8	↑69.9%
EBITDA %	32.2%	18.2%	

Our first half results include our first contribution from the recently acquired The Instruction Company Pty Ltd (The Instruction Company) which performed in line with expectations, delivering a $0.2 million EBITDA on Revenues of $0.8 million. We have added staff and geographical locations during the latter part of calendar 2020 and we expect these to contribute to results both in the second half but more importantly, well into the future.

The pre-existing Training division performed well in a challenging training environment impacted by COVID related restrictions and lockdowns. To deliver a first half EBITDA of $1.2m shows that the team has performed well in adjusting its cost structure and delivery methods to cope with the changed environment it is currently operating in.

We have held onto our full Training division team during what has been a challenging period and remain well poised to capitalise on any uptick in training activity as and when it arises.

Balance Sheet, Cash Flow and Funding

The operating cash flow for the half year period was an outflow of $7.0 million (1H 2020: inflow of $2.2 million), due primarily to the increased working capital requirement resulting from an increasing revenue trend for Action Workforce, which was significantly above that experienced in previous years. To illustrate, Action Workforce Revenue was up $6.9m or 33% on prior year in the December period. With the associated wage payments being made in H1 FY21 and the collections in line with terms being in January, this sees a corresponding lift in Trade Receivables, creating a working capital requirement which is evidenced in the cash flow. Increased working capital requirements resulting from strong revenue growth are a positive forward indicator for our performance.

In addition, H1 FY21 ended on Sunday 3 January 2021 as against H1 FY20 which ended on Sunday 5 January 2020. This effectively means that the final week of the period had only three business days in between the Boxing Day and New Years Day holidays. The previous year's final week had one less public holiday and importantly had two business days post New Year's Day. This has a significant negative impact on end of period collections for the December FY21 financial period, which were down $3.3m on the final week of H1 FY20.

The first half also saw the $3.9 million payment of the 2020 final dividend and the $1.1 million initial payment ($0.6m net of cash acquired) for The Instruction Company funded out of existing cash reserves. The first year Earn-out payment of $0.8 million was also paid during the period in relation to the CCL acquisition.

Accordingly, our Balance Sheet saw lifts in Trade Receivables and Borrowings and also a decrease in Cash reserves.

The acquisition of The Instruction Company resulted in the recognition of Goodwill of $1.5 million based on the provisional accounting included at the half. The final treatment which will be included in the full year result may entail some retrospective adjustments which may recognise other intangible assets and therefore impact on this goodwill value.

Please refer to the comments contained within the 4D for greater detail on these balance sheet movements.

As at 3 January 2021, the $5.25 million Bank Bill Business Loan was drawn to $5.0 million. The $13 million Invoice Financing facility was drawn to $1.7 million, for total Borrowings of $6.7 million.

Managing Director's Comments

Ross Shrimpton, Managing Director, said, "The first six months of financial year 2021 saw Ashley Services bounce back strongly and I am very happy to report a result which was well ahead of the pre-COVID first half of last year. Our first half EBITDA result of $6.8 million was a pleasing $0.7 million up on the prior corresponding period and relative to a COVID impacted previous six months, we were up an impressive $3.2 million or 88%, so definitely a very positive lift.

It was a result delivered by all divisions. Labour Hire saw positive EBITDA contributions from all brands and both revenue and bottom-line growth. Training also performed well as the team continued to control costs and adapt their delivery methodology to meet the challenges of COVID.

Our acquisition of The Instruction Company was finalised during the period and has delivered a first half result in line with the acquisition business case. During the period we have also added resources and expanded the geographical footprint to build future growth in this business.

I am equally pleased to report that our previous acquisition of the CCL Group continues to perform ahead of our expectations and is on track for an improved year.

Our operating cash flow, whilst representing an outflow of $7.0 million for the first half, is due to an increased working capital requirement resulting from significant revenue growth for Action Workforce over our Christmas peak period. In this respect this is a very positive indicator for our business.

It was pleasing also to deliver on our previously announced intention to return to twice yearly dividend payments now that we are in a position to do this in line with the Group's preference to pay fully franked dividends. The interim dividend of 1.8 cents per share represents a level that is 67% of last year's full year dividend.

I'd also like to take the opportunity to welcome The Instruction Company team who have joined us following the acquisition, along with a number of additional team members who have been brought on board to move the business forward to bigger and better things in the years ahead. Our whole team has contributed to this result and I'd like to thank them and our customers for their valued support".

For further details:

Chris McFadden
Executive Director, Company Secretary & 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 6,000 workers during the peak seasonal period.