2023

IGNITE LIMITED

APPENDIX 4D

PRELIMINARY HALF YEAR REPORT

31 DECEMBER 2022

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 2022 – 31 December 2022	1 July 2021 – 31 December 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Description	31 Dec 2022 $000	31 Dec 2021 $000	Change $000	Change %
Revenue from ordinary activities	55,798	59,459	(3,661)	(6.2)
Loss from ordinary activities after tax attributable to members[1]	(820)	(80)	(740)	(925.0)
Net loss for the period attributable to members[1]	(820)	(80)	(740)	(925.0)

1. Previous corresponding period includes net $2,551k for JobKeeper Payment subsidies received less payment of "top-up" wages to eligible staff and contractors

	31 Dec 2022 Cents	31 Dec 2021 Cents	Change Cents	Change %
Net tangible assets per share[2]	4.71	5.85	(1.14)	(19.5)

2. Net tangible assets = Net assets less intangible assets

FINANCIAL REVIEW

During the half year ended 31 December 2022 the Group generated a loss from ordinary activities net of income tax of $820k (31 December 2021: loss of $80k), of which $607k were incurred in the September 2022 quarter. The result was due to losses sustained within our Technology & Talent Solutions business ($312k) and the investment in additional headcount in Specialist Recruitment in NSW and Victoria at the end of FY22 not generating sufficient additional gross margin to offset the additional costs.

Revenue from continuing operations decreased 6.2% to $55,798k (31 December 2021: $59,459k) while the gross profit from continuing operations increased 1.1% to $6,821k (31 December 2021: $6,747k) and the gross profit margin increased from 11.35% to 12.22%. The decrease in revenue was due to a continued focus in Specialist Recruitment on higher margin placements, rather than on high volume, low margin placements as well as a significant reduction in the contribution of Managed Services. The improvement in gross margin is due to a focus of increasing the average margin for new contingent labour placements. The overall increase in total gross margin and gross margin percentage was impacted by the decrease in the relative contribution of the higher margin Managed Services business.

As at 31 December 2022, there were 767 active contractors across the Group versus 882 as at 31 December 2021, with the reduction primarily in low margin contractors in Business Support (decrease of 81 contractors) and loss making contracts in On Demand IT Services (decrease of 21 contractors).

Employee benefits expense increased 14.3% on the prior comparative period due to a higher headcount and associated salaries and on costs at the beginning of the half year. By reducing unproductive headcount in the business, the employee benefits expense decreased by 12.9% in the December 2022 quarter compared to the September 2022 quarter. Further, Management have closed the Talent Solutions business early in the March 2023 quarter. Total redundancies related to the closure that have been incurred in the March 2023 quarter are $52k. As a result of these changes, the expected salary costs for the second half of FY23 will be lower than the costs incurred in the second half of FY22.

Occupancy expense decreased 25.9% on the prior comparative period due to continued savings on office premises relocations on short term leases in the first quarter of the financial year. Depreciation and amortisation expense increased 9.3% due to long term lease renewals. Other expenses increased 7.0% on the prior comparative period due to increased insurance costs and increased travel costs as a result of interstate travel restrictions being lifted and increased advertising costs.

FINANCIAL REVIEW (Continued)

This was partially offset by a reduction in the one-time costs associated with finalisation of the implementation of two software as a service ("SaaS") platforms. These platforms have replaced the legacy financial system and the legacy customer and contractor management system supporting the On Demand IT Services division and have removed our reliance on end-of-life systems and improved our overall cyber security posture.

Adding back non-recurring expenditure in the half year, underlying earnings were an operating loss of $659k. The non-recurring expenditure related to, among other things, redundancies from business restructuring, the finalisation of the SaaS implementation costs as well as additional professional fees incurred in dealing with shareholder and employment matters.

	31 Dec 2022 $000	31 Dec 2021 $000
Operating loss	(820)	(80)
Add back		
SaaS implementation costs	17	72
Legal and Professional fees	105	21
Redundancy costs	31	-
Other	8	25
Underlying operating (loss)/ profit	(659)	38

OPERATIONAL REVIEW

Specialist Recruitment contributed 94.2% of the Group's revenue and 97.4% of profit before corporate overheads. Specialist Recruitment contributed a profit before allocation of corporate overheads of $1,997k versus $2,624k in the prior comparative period. This 23.9% decrease in overall profitability was primarily due to an increase in employee benefits expense of 36.7% following investment in additional headcount at the end of FY22. Regrettably, this investment in NSW and VIC did not contribute as planned and Management have reduced headcount in NSW and VIC in the December 2022 quarter, ensuring a substantially lower cost base in the second half of the financial year.

The 5.7% decrease in contingent labour revenue was largely due to a reduction in the total number of low margin contractors in Business Support, partially offset by a 36.8% increase in permanent placement revenue on the prior comparative period.

Gross profit from Specialist Recruitment increased by 4.1% to $5,943k with gross margin increasing from 10.3% to 11.3% due to the continued focus on higher margin business and the increase in permanent placement revenue. The higher margin focus has led to an increase in our IT vertical in both contingent labour placements and permanent placements, for a combined 15.5% gross profit increase across the vertical.

As at 31 December 2022, there were 659 active contractors within Specialist Recruitment versus 750 as at 31 December 2021 with the reduction principally in Business Support (81 contractors).

The On Demand IT Services business recorded a profit before allocation of corporate overheads of $363k in the half year, an 88.1% increase on the prior comparative period. This increase is the result of restructuring and a focus on higher margin clients, using a smaller delivery team, as well as a reduction in other operating expenses due to the completion of the implementation of the SaaS platform to replace the legacy customer and contractor management system.

OPERATIONAL REVIEW (Continued)

Technology & Talent Solutions delivered a loss before allocation of corporate overheads of $312k, a 171.3% increase on the loss incurred in the prior comparative period. This result reflected a 20.1% decrease in revenue, with gross profit decreasing 14.2% due to short-term non-recurring projects with government agencies and consulting firms secured in the prior period without equivalent projects secured in the current half year. Salary costs increased by 42.0%, due to investment in headcount in business in the second half of FY22.

In the Talent Solutions business, the combination of larger projects ending and the change of government had a significant impact on project pipeline and conversion due to work being delayed or halted. We have closed this segment of the business early in the March 2023 quarter. Total redundancies related to the closure that have been incurred in the March 2023 quarter are $52k.

Net corporate overheads increased $83k (3.0%) against the prior comparative period. This was due to increases in operating expenses and finance costs offset by a reduction in salary and on costs and occupancy expense. The increase in operating expenses by 21.1% arose from higher insurance premiums, travel costs, software licences and SaaS subscription payments, partially offset by a reduction in one-off consulting costs associated with the implementation of the SaaS platform to replace the legacy financial system. Finance costs increased 114.7% due to increases in interest rates and higher drawdowns of the debtor finance facility to finance working capital particularly in the September 2022 quarter. Employee benefits decreased 6.5% due to a slight reduction in headcount to 18. Reduction in occupancy expenses was due to office relocations.

OUTLOOK

As a result of staffing changes in the underperforming areas of the business, the expected salary costs for the second half of FY23 will be lower than the costs incurred in the first half of FY23 and in the second half of FY22. The cost savings from discontinuing the Talent Solutions business will start impacting the result from the June 2023 quarter. Consequently, following these recent changes, Management are expecting a significant improvement in net profit in the second half of the financial year.

A key change in our 3-year strategy has been to close our Talent Solutions business and to focus our future headcount investment in Specialist Recruitment in the ACT and NSW businesses which are more mature and have tenure in client relationships which can be leveraged.

Within our Managed Services business, we have narrowed our focus to Technology. Whilst the revenue and gross margin have reduced in On Demand IT Services, the restructure of the business at the end of last year to reduce our cost base and focus on higher margin work has been successful. The business now makes a strong contribution and has the highest net margin percentage within the Group. We expect this to continue to do so given the tenure of the client contracts we have in place.

The Technology Solutions delivery model and cost structure is flexible and aligned to our core IT customers. In particular:

- The delivery model only engages a squad once the work is won and due to commence as opposed to retaining a “bench” which incurs cost and impacts cash flow.
- The division started in July FY22 and has already won and completed projects.
- The client opportunity and work won has primarily been within Government. This provides a great cross sell opportunity for the group between Technology Solutions and our Specialist Recruitment Government teams who also have the strongest client relationships.

OUTLOOK (Continued)

As Ignite look ahead, the key components of our "Invest, Transform & Grow" strategy (improvement in average margin, growth in Federal Government and Technology Solutions) are positively impacting the business. Steps taken to reduce the cost base and continued focus on gross margin percentage will deliver a significant net profit improvement in the final quarter of this financial year and into FY24.

The focus of the Chief Executive Officer and the Executive team is:

- Ensure we maximise the productivity of our experienced Specialist Recruitment consultants and bringing investment headcount through to profitability;
- Continue to grow our contractor base within Federal and State Government with Queensland and NSW representing further opportunity to grow;
- Acquisition of clients and further generation of pipeline within our Technology Solutions business; and
- Work towards our gross profit % margin target of 14% through blended growth in Specialist Recruitment and Technology Solutions.

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST

During the half year ended 31 December 2022, the Company has not gained or lost control over any entities.

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 2022**	**31 Dec 2021**
Ignite New Zealand Holdings Limited	Holding	New Zealand	Ordinary	100	100
Ignite IT Services Limited	Operating	New Zealand	Ordinary	100	100

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

DIVIDENDS OR DIVIDEND DISTRIBUTION PLAN

On 27 February 2023 the Directors resolved not to declare an interim dividend for the half year ended 31 December 2022. No interim dividend was paid in the previous corresponding period.