SPOTLESS

ASX ANNOUNCEMENT

24 August 2017

SPOTLESS WITHIN FORECAST RANGE

Results for the year ended 30 June 2017

- Sales Revenue of $3,006.3m, down 5.3% from the prior corresponding period reflecting prior period lost contracts and scope reductions, partially offset by the contribution from newly mobilised Public Private Partnerships ("PPPs") contracts.
- EBITDA of $(199.2)m was significantly impacted by $464.3m of impairments, asset write-downs, takeover and transaction costs and other restructuring items following the restructure of the existing contract portfolio.
- Contract renewal rates continued to improve to 93% by number and 76% by annual value. New contract wins also increased during the period to 66% by number and 21% by annual value.
- Net loss after tax of $(347.4)m includes $436.4m of items (after tax) primarily relating to the contract portfolio restructure and takeover costs.
- Operating cash flows of $190.6m demonstrated significant improvement in working capital management and cash collections and, together with decreased net capital expenditure, represent a $119.8m improvement in free cash flow (before payments for acquisitions) from the prior corresponding period.
- Net debt of $782.3m declined $65.8m from December 2016 and $7.5m from June 2016, reflective of the recovery of working capital invested in 1H17, revision of the dividend payout ratio and improved capex management. The Group's net leverage ratio was 2.9x (based on last 12 months EBITDA and allowable adjustments for the purposes of debt covenant metrics) at 30 June 2017.
- The Directors have determined there will be no final dividend the year ended 30 June 2017.

Year Ended 30 June	2017 $m	2016 $m	Change %
Sales Revenue	3,006.3	3,176.1	(5.3)
EBITDA	(199.2)	311.6	(>100)
EBIT	(310.9)	207.8	(>100)
(Loss) / Profit after tax	(347.4)	122.2	(>100)
Basic (losses) / earnings per share (cents)	(31.6)	11.1	(>100)
Final dividend per share (cents)	-	5.0	-
Operating cash flow	190.6	141.7	34.5
Net debt	782.3	789.8	(0.9)
Net leverage ratio[1]	2.9x	2.4x	
Underlying EBITDA	264.3	325.6	(18.8)
Underlying EBIT	161.5	221.8	(27.2)
NPAT excluding restructuring and transaction costs	89.0	122.2	(27.2)
Underlying NPAT	84.1	130.9	(35.7)

[1] Net leverage ratio includes allowable adjustments to EBITDA for the purpose of debt covenant metrics.

Refer to Appendix 1 for reconciliation between statutory results and underlying.

Operating Segments

Facility Services

Year Ended 30 June	2017 $m	2016 $m	Change %
Facility Services Underlying Sales Revenue	**2,782.1**	2,873.0	(3.2)
Pass-through Revenue	**-**	36.7	(100)
Facility Services Sales Revenue	**2,782.1**	2,909.7	(4.4)
Facility Services EBITDA	**(64.1)**	279.0	(>100)
Underlying Facility Services EBITDA	**242.5**	293.0	(17.2)
Facility Services EBITDA Margin	**(2.3)%**	9.6%	
Underlying Facility Services EBITDA Margin	**8.7%**	10.2%	
Depreciation	**(39.3)**	(34.1)	15.2
Facility Services EBITA	**(103.4)**	244.9	(>100)
Underlying Facility Services EBITA	**206.9**	244.9	(15.5)
Facility Services EBITA Margin	**(3.7)%**	8.4%	
Underlying Facility Services EBITA Margin	**7.4%**	9.0%	

Revenue growth was driven by the commencement of new PPPs and the acquisition of Nuvo in October 2016. However, this growth was more than offset by lower volumes across mining camps, a slowdown in AE Smith construction projects and exited contracts as part of the portfolio restructure. The net result was a 4.4% revenue reduction compared with the prior year.

Reported EBITDA for Facility Services was significantly impacted by $306.6m of portfolio restructuring and other costs during the period. Excluding these items, EBITDA decreased by $50.5m / 17.2% from the prior year attributable to the above mentioned revenue losses, costs associated with the exit of the Rio Tinto contract and underperformance of smaller, single service contracts. Increased investment in business development and innovation, which are expected to deliver benefits in the future, also negatively impacted the result. Partially offsetting these decreases were several smaller contract wins, a strong performance from the Defence sector and the commencement of operations and strong margins across the PPP portfolio.

EBITDA margins reduced from the comparative period reflecting the above mentioned restructuring costs, changes in mix in the existing portfolio and reduced margins across some renewed contracts.

Laundries

Year Ended 30 June	2017 $m	2016 $m	Change %
Laundries Sales Revenue	**276.2**	295.3	(6.5)
Laundries EBITDA	**(64.5)**	71.4	(>100)
Underlying Laundries EBITDA	**62.6**	71.4	(12.3)
Laundries EBITDA Margin	**(23.4)%**	24.2%	
Underlying Laundries EBITDA Margin	**22.7%**	24.2%	
Depreciation (including rental stock)	**(52.6)**	(48.4)	8.7
Laundries EBITA	**(117.1)**	23.0	(>100)
Underlying Laundries EBITA	**15.2**	23.0	(33.9)
Laundries EBITA Margin	**(42.4)%**	7.8%	
Underlying Laundries EBITA Margin	**5.5%**	7.8%	

Sales revenue from the Laundries segment of $276.2m decreased by $19.1m or 6.5% from the prior year, driven by lower yields and partially offset by higher volumes in a number of states.

Reported EBITDA has been affected by $127.1m of portfolio restructuring and other costs during the period. Excluding these items, EBITDA decreased by $8.8m / 12.3% from the prior year attributable to margin pressure on new and existing contracts, particularly within hospitality linen; and partially offset by productivity improvements across several plants as a result of capital investments into machinery upgrades.

Cash Flow

	2017 $m	2016 $m	Change %
Operating Cash Flow	**190.6**	**141.7**	**34.5**
Investing Activities			
Net investments for P,P&E, IT[1]systems and capitalised contract costs	(71.3)	(142.2)	(49.9)
Facility Services – P,P&E and capitalised contract costs	*(25.4)*	*(64.1)*	*(60.4)*
Laundries – P,P&E and capitalised contract costs	*(8.2)*	*(14.0)*	*(41.4)*
Laundries – rental stock	*(31.5)*	*(46.1)*	*(31.7)*
Laundries – asset sales	*10.4*	*-*	*-*
Corporate – P,P&E and IT Systems	*(12.2)*	*(20.6)*	*(40.8)*
Other	*(4.4)*	*2.6*	*(>100)*
Free Cash Flow before acquisitions	**119.3**	**(0.5)**	**>100**

[1] Information technology

Operating cash flows improved significantly from the prior year despite the reduced EBITDA. The $119.8m increase was driven by a strong focus on working capital resulting in improved cash collections and recovery of working capital invested in the FY15 and FY16 acquired businesses.

Total capital expenditure reduced by $70.9m / 49.9% following the completion of the SAP development project, mobilisation of several PPP contracts and general tightening of capital expenditure levels across both Facility Services and Laundries.

Balance Sheet

Key Balance Sheet Metrics	2017 $m	2016 $m	Change %
Current Assets	**522.0**	532.9	(2.0)
Non-current Assets	**1,390.0**	1,708.0	(18.6)
- Goodwill	**753.4**	1,032.0	(27.0)
- P,P&E and Other	**636.6**	676.0	(5.8)
Current Liabilities	**1,346.5**	421.4	>100
Non-current Liabilities	**144.7**	992.2	(85.4)
Net current Assets	**(824.5)**	111.5	(>100)
Net Assets	**420.8**	827.3	(49.1)
Net Debt	**782.3**	789.8	(0.9)

Balance sheet movements in the year were significantly impacted by the various impairments, asset write-downs and additional provisions and accruals required following the contract portfolio restructure undertaken during the year.

The balance sheet movements also incorporate the impact of the Nuvo acquisition. A number of other balance sheet items were also impacted by the provisional purchase price accounting and consolidation of this acquisition. Refer to Note 21 to the financial statements for more detail.

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Appendix 1

The Reported Loss for the year includes a number of charges and other items, which are summarised below. For further details, refer to the Notes 6 and 7 to the Financial Statements for the year ended 30 June 2017.

Year Ended 30 June 2017		$m
Reported EBITDA		**(199.2)**
Contract rationalisation and restructuring costs		441.5
Takeover and other transaction costs		22.8
EBITDA excluding restructuring and transaction costs		**265.1**
Other items (i)		(0.8)
Underlying EBITDA		**264.3**
Reported NPAT		**(347.4)**
Contract rationalisation and restructuring costs		414.5
Takeover and other transaction costs		21.9
NPAT excluding restructuring and transaction costs		**89.0**
Other items (i)		(4.9)
Underlying NPAT		**84.1**
(i) Other items	**EBITDA**	**NPAT**
Loss on disposal of MV Epicure	2.5	1.8
Exit costs of major Resources contract	2.1	1.5
Acquisition related settlement costs	(3.3)	(2.3)
Re-measurement of deferred tax liability	-	(4.3)
Other	(2.1)	(1.6)
Total other items within NPAT	**(0.8)**	**(4.9)**

Contract rationalisation and restructuring costs

These items largely relate to the accounting impacts of the Group's decision to review its current contract portfolio in line with its strategy outlined in August 2016. As a result, the Group is exiting a number of contracts within its portfolio as well as allowing the business to focus on investing in high-growth sectors, and improving performance and profitability.

This optimisation will result in the accelerated exit of low-performing contracts to allow the business to focus on priority growth areas as soon as possible. The Group has identified various facilities services and laundry contracts as non-core.

2017 $m	Other operating expenses	Direct employee expenses	Depreciation and amortisation expense	Interest Expense	Tax impact	Total
Goodwill impairment	315.7	-	-	-	-	**315.7**
Other intangible asset write-downs	15.1	-	-	-	(1.1)	**14.0**
Property, plant and equipment write-downs and loss on disposals	38.5	-	5.2	-	(13.1)	**30.6**
Other asset write-downs	32.1	-	2.3	-	(10.2)	**24.2**
Onerous contract provisions	20.0	-	1.4	1.2	(6.8)	**15.8**
Other provisions and accruals	16.7	-	-	-	(4.9)	**11.8**
Restructuring costs	1.9	1.5	-	-	(1.0)	**2.4**
Total Contract Rationalisation and Restructuring Costs	440.0	1.5	8.9	1.2	(37.1)	**414.5**

Property, plant and equipment write-downs (pre-tax) impact plant and equipment by $21.4 million in the Facility Services segment. The Laundries segment incurred write-downs (pre-tax) of $9.6 million for rental stock and $12.7 million for plant and equipment respectively, including costs associated with the closure of the Belmont Laundry and one New Zealand Laundry.

Other asset write-downs include intangible asset write downs (pre-tax) which impacted software development by $15.1 million in the Facility Services segment. Other asset write-downs impacted Trade and other receivables by $17.0 million.

Takeover and other transaction costs

Takeover and other transaction costs largely relate to advisor fees associated with the Downer takeover bid, in addition to costs related to other acquisitions and disposal transactions, together with other associated legal fees. These costs also include share-based payment expense incurred as a result of the accelerated vesting of employee Long-Term Incentive Plans, due to the takeover.

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