

# SKILLED Group Rejects Programmed's Merger Proposal



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# Australia's leading provider of workforce solutions

- Well established and trusted brand – 50 years of heritage
- Strong, established safety performance and management systems
- Extensive range of solutions across the labour and recruitment market, with substantial scale and strong positions in attractive higher skill and higher margin segments
- Diversified business model with broad industry and geographic coverage
- Strong client relationships, blue-chip customer base and culture of excellence in customer service
- Industrial relations expertise



# Diversified, high quality business model

## Workforce Services

- No. 1 provider of blue collar labour hire in Australia, aligned with core SKILLED brand
- Ability to deliver large, accredited teams efficiently on a national basis
- Excellent safety track record
- Broad client base and national branch network



## Technical Professionals

- Specialist recruiter, with targeted brands and deep client relationships across diverse industries including resources, telecommunications, health and IT



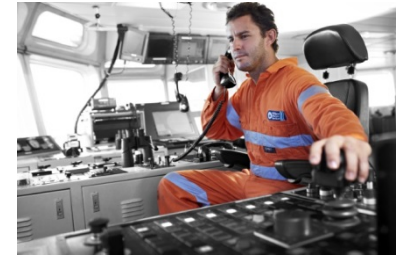
## Engineering

- National operations & maintenance services business with a broad, scalable platform
- Specialising in shutdowns and recurring maintenance services, with exposure to production volumes
- Acquisition of Thomas & Coffey has increased scale, expanded the service offering and enhanced management capability

# Diversified, high quality business model

## SKILLED Offshore & SKILLED Marine

- Services oil & gas projects across full life cycle, from exploration through construction to production and decommissioning - providing solutions for clients at all parts of the life cycle
- Long history in seismic, drilling and rig manning capability
- Pipeline of major offshore Australian oil & gas projects expected to continue in the medium term; SKILLED is well positioned to secure work
- Past decade of construction activity is moving into production phase; SKILLED provides operating, maintenance and marine logistics solutions in this part of the life cycle
- Business is leveraged to both production volumes and installed capacity rather than commodity prices
- International footprint across all major oil & gas hubs – Australia, New Zealand, Aberdeen (UK), Houston (USA), Malta, Dubai, Singapore



# The evolution of SKILLED

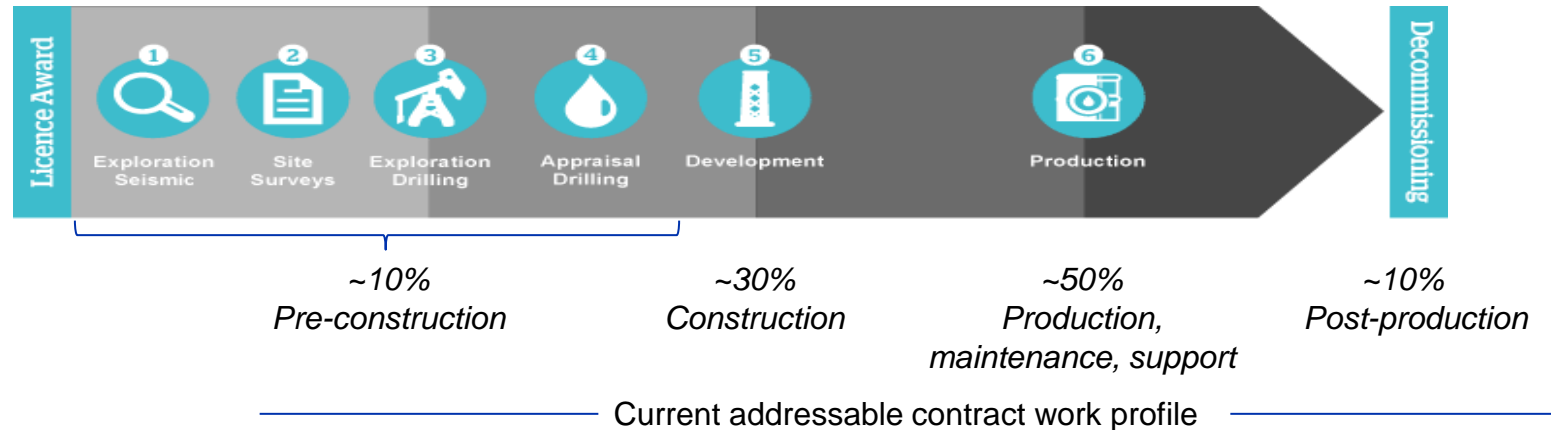
**In the last two years, SKILLED has substantially changed its business profile, increasing the resilience of SKILLED's businesses and positioning it to capitalise on future growth opportunities**

- Acquisitions in higher margin, higher skill segments
  - Broadsword, to expand into marine logistics and vessels
  - Thomas & Coffey, to expand Engineering into a national operations & maintenance services business with a broad, scalable platform
  - Buyout of the OMSA joint venture to combine with Broadsword and broaden operational and project capability in the marine sector
- Cost improvement, process centralisation and efficiency programs that have delivered \$28 million of cost savings in FY13 and FY14, with at least a further \$15 million in FY15
- Implementation of a strengthened and simplified management structure

# Activity levels remain strong in oil & gas

>\$1 billion of addressable offshore contract work visible over the medium term in Australia

- Oil & gas business is underpinned by full life cycle exposure



- Offshore exploration work is expected to continue in Australia and NZ, supported by permit requirements
- Stable outlook for drilling, with rig numbers expected to remain constant
- Sizable pipeline of construction projects already underway to be completed, which will then shift to production phase
- Substantial investment in new capacity has and will increase long-term oil & gas production base, which will require operating and maintenance services

# Well placed, despite challenging market conditions

## Track record of delivering results through economic cycles; business resilience improved through investments in higher skill, higher margin businesses and systems

- Conditions in the mining sector remain challenging, but opportunities for growth exist
  - Major mining projects are moving from the construction to production phase - increases pipeline of opportunities for shutdown and maintenance services
  - SKILLED is benefiting from panel consolidation by major clients
- Well placed to deliver existing contracts and win new contract work in oil & gas
  - Strong client relationships and established expertise (e.g. OMSA currently an 'A' rated supplier)
  - International platform provides strong base to service global clients
- Difficult conditions continue in manufacturing; Group assisted by diversified exposure to growth sectors such as telecommunications, health and infrastructure
- Well-established cost improvement, process centralisation and efficiency program, which will continue to benefit the Group
  - \$28m of savings delivered over FY13 and FY14; at least a further \$15m expected in FY15
  - Upgrade of the ERP system (Agresso) has provided a solid foundation for consistent and efficient back office activities across the Group

# Programmed merger proposal review

**Review of Programmed merger proposal has been undertaken by Board and management, considering:**

- The extent of the industrial logic of combining the two businesses, taking into account the changes to SKILLED's business profile over the last two years
- Synergy and dis-synergy potential
- The proposed economic terms and the relative contributions to a merged group



# Industrial logic is not compelling

**Merger would provide increased scale across labour hire and marine, however, SKILLED's focus is on delivering a "better" business, not just a "bigger" one**

- There is some industrial logic to a merged SKILLED and Programmed, but it is not compelling, and is less so given the changes to SKILLED's business profile over the last two years
- SKILLED is already the market leader in blue collar labour hire, with strong client relationships and safety record
  - Improvement in relative market position from SKILLED's perspective is less than it would be for Programmed
- SKILLED has expanded in Engineering and has a good pipeline of growth opportunities in segments Programmed does not operate in
- In Marine Services, Programmed is primarily exposed to the offshore construction segment, while SKILLED has diversified exposure across the full oil & gas project life cycle
- SKILLED Group's operating margins are higher than Programmed's, reflecting its overall more attractive business mix
- Programmed's Property & Infrastructure business would provide diversification to SKILLED, as it has a different structure and risk profile to SKILLED's existing businesses, as would Programmed's greater exposure to the government and infrastructure sectors

# Synergy potential exists

**The (net) financial synergies from a merger are in the order of the \$20 million per year stated by Programmed and would take a number of years to achieve. Upside potential is limited by activities already undertaken by both SKILLED and Programmed**

- Majority of cost saving opportunity would be the removal of duplicated corporate overheads – does not better position the business for future growth
- Some dis-synergies impact is also likely
- The remaining synergies could be achieved over 2 - 3 years, but would be more difficult to realise
- Cash cost of realising the synergies would likely outweigh the benefits in the first year
- SKILLED has delivered significant cost savings over the past two years, with further programs underway. Programmed has also delivered cost savings and undertaken branch network reduction in recent years

# Proposal undervalues SKILLED

## The terms of Programmed's proposal undervalue SKILLED

- Terms do not reflect the quality and breadth of SKILLED's businesses
- The contribution of SKILLED to a potential merged group is not reflected

# Conclusion

- The industrial logic for a merger with Programmed is not compelling
- The (net) synergy potential is in the order of the \$20 million per year stated by Programmed
  - The majority relates to the removal of duplicated corporate overheads
- The terms of Programmed's proposal undervalue SKILLED and its contribution to a merged group
- Any transaction that appropriately reflects the value of SKILLED and recognises its contribution to a merged group would be considered on its merits
  
- SKILLED has a strong future as a standalone business
- SKILLED will report its results for 1H15 on 11 February 2015
- Board and management, led by Angus McKay, are highly motivated and committed to delivering strong and sustainable returns
- In the context of his position as the new Chief Executive Officer, Angus McKay will provide an update on SKILLED's strategy to deliver value for shareholders in due course