

## ASX ANNOUNCEMENT

11 February 2015

### Results for the six months ended 31 December 2014

#### Financial summary

|   | 1H15    | 1H14  | %<br>change |
|---|---------|-------|-------------|
| Sales revenue <sup>1</sup> (\$m)        | 1,001.9 | 906.3 | 10.6%       |
| EBITDA <sup>2</sup> (\$m)               | 49.3    | 43.9  | 12.3%       |
| EBITDA <sup>2</sup> margin (%)          | 4.9%    | 4.8%  | 8bps        |
| Reported NPAT (\$m)                     | 21.2    | 21.0  | 0.8%        |
| Underlying NPAT <sup>3</sup> (\$m)      | 26.7    | 26.0  | 2.6%        |
| Reported EPS (cps)                      | 9.0     | 9.0   | -           |
| Underlying EPS (cps)                    | 11.3    | 11.1  | 1.8%        |
| Return on capital employed <sup>4</sup> | 12.4%   | 13.7% | (125bps)    |
| Operating cash flow (before tax) (\$m)  | 5.2     | 13.1  | (60.1%)     |
| Capital expenditure (\$m)               | 8.4     | 8.6   | (2.4%)      |
| Net debt (\$m)                          | 220.6   | 132.9 | 66.1%       |
| Gearing <sup>5</sup>                    | 31.4%   | 21.9% | 950bps      |
| Dividend (cps)                          | 7.5     | 7.5   | -           |

1 Includes equity accounted income from joint ventures

2 As per segment reporting

3 Refer to appendix for reconciliation of underlying NPAT to reported NPAT. Underlying NPAT is an unaudited non-IFRS measure

4 EBIT/Average capital employed

5 Debt/(Debt + Equity)

SKILLED Group (ASX:SKE) today announced net profit after tax of \$21.2 million for the six months ended 31 December 2014 and underlying net profit after tax of \$26.7<sup>1</sup> million.

Revenue was \$1,001.9 million, 10.6% above the previous corresponding period, and the EBITDA margin increased to 4.9% (1H14: 4.8%).

The Board has declared an interim dividend of 7.5 cps, fully franked, consistent with the 2014 interim dividend of 7.5 cps.

Commenting on the result, SKILLED Group Chief Executive Officer, Mr Angus McKay said, "This is a solid result in challenging market conditions, demonstrating the benefits of our diversified earnings base.

"The combination of acquisitions and major projects like Saipem has delivered growth in both revenue and earnings. We are also seeing some pleasing trends in parts of Technical Professionals.

"We remain on track to deliver our commitment of at least \$15 million of cost savings in FY15.

"The foundations of our businesses are strong and position SKILLED well for its next phase of development. However, we must adapt our business model to structural changes in the economy and enhance our offering to clients.

"Our unwavering focus on safety saw our All Injury Frequency Rate continue to decline through 1H15."

<sup>1</sup> Refer to appendix for reconciliation of underlying NPAT to reported NPAT. Underlying NPAT is an unaudited non-IFRS measure

## Segment overview

(EBITDA results are before corporate costs)

### Engineering & Marine Services:

Provision of contract maintenance, project and shutdown services and offshore marine manning and management services. Brands include ATIVO, Thomas & Coffey, SKILLED Offshore, OMSA and Broadsword Marine Services.

|                                  | 1H15  | 2H14  | 1H14  | 1H15 vs 1H14 |
|----------------------------------|-------|-------|-------|--------------|
| Sales revenue <sup>1</sup> (\$m) | 431.7 | 365.6 | 252.3 | 71.1%        |
| EBITDA (\$m)                     | 36.4  | 35.6  | 22.7  | 60.8%        |
| EBITDA margin %                  | 8.4%  | 9.7%  | 9.0%  | (54bps)      |

1 - Includes equity accounted income from joint ventures

Engineering & Marine Services delivered strong revenue growth in line with expectations in 1H15, driven by acquisitions, major projects and strong business trends that are expected to continue into the second half.

The contribution of Thomas & Coffey (from February 2014) has exceeded expectations. The integration with ATIVO is well advanced and has created an Engineering business that is benefiting from its ability to leverage scale and broad capabilities across a national footprint and range of industries. Recent contract wins include clients in mining, manufacturing and utilities.

SKILLED Offshore continues to work with a broad range of clients across the oil & gas life cycle, with healthy levels of activity in the seismic, drilling, construction and production segments. As part of the Saipem project, the Castorone vessel mobilised in February 2015 and its work is expected to continue into FY16.

During the first half SKILLED moved to 100% ownership of OMSA, which is benefiting from new Gorgon work under its existing contract. Consistent with the project plan, vessels continue to de-mobilise as the construction phase moves towards its conclusion.

OMSA has been combined with Broadsword to form SKILLED Marine, which will leverage technical and management capabilities, as well as Gorgon project expertise, across Broadsword's asset base.

Broadsword performed strongly in Q1, but Q2 performance was disappointing, largely as a result of the termination of the Western Desert Resources project. The integration of the business with OMSA will accelerate its recovery.

Overall Engineering & Marine Services, enhanced by the successful combination of businesses, continued to deliver revenue and earnings growth in 1H15.

### Workforce Services:

Provision of blue-collar labour hire to clients in the industrial, mining and resources sectors under the SKILLED brand.

| Workforce Services  | 1H15  | 2H14  | 1H14  | 1H15 vs 1H14 |
|---------------------|-------|-------|-------|--------------|
| Sales revenue (\$m) | 405.3 | 431.7 | 452.6 | (10.4)%      |
| EBITDA (\$m)        | 12.3  | 15.8  | 19.4  | (36.7)%      |
| EBITDA margin %     | 3.0%  | 3.7%  | 4.3%  | (126bps)     |

Market conditions and the impact of client insourcing (partly offset through supplier consolidation by clients), affected Workforce Services' revenue and margin through 1H15. Activity levels were lower overall, but variable across sectors and geographies, with the infrastructure pipeline converting more slowly than expected.

Workforce Services is benefiting from increased automation, centralisation of processes and systems investment, however the full benefits of this work are yet to be realised. In response to market conditions the cost reduction program was accelerated during the half to drive further scale benefits.

Workforce Services continues to retain key clients and is benefiting from panel consolidation. The business has a clear focus on improving pricing discipline, cost and working capital management, while it evolves its business model to reflect the current market dynamics. The business is focused on providing a broader, value-enhancing offering to clients in the context of structural changes in the market.

### Technical Professionals:

*Provision of engineering and technical professional staff, white collar and nursing staff. Brands in this segment include Swan, Mosaic and SKILLED Health*

| Technical Professionals | 1H15  | 2H14  | 1H14  | 1H15 vs 1H14 |
|-------------------------|-------|-------|-------|--------------|
| Sales Revenue (\$m)     | 168.7 | 172.3 | 202.8 | (16.8)%      |
| EBITDA (\$m)            | 8.1   | 7.2   | 9.3   | (12.9)%      |
| EBITDA Margin %         | 4.8%  | 4.2%  | 4.6%  | 21bps        |

Overall, the revenue trend in Technical Professionals stabilised in 1H15, with higher EBITDA and margin vs 2H14. There was higher demand for permanent and contractor roles (excluding Swan) and positive trends in the white collar segment in particular.

Swan experienced a decline in contractor numbers during the half, as front end engineering design work remained weak, and a key client project nears completion.

Looking forward, Technical Professionals will maintain its focus on process improvement and capitalising on growth opportunities in targeted sectors, such as trainees & apprentices, health and niche white collar markets.

### Net debt and operating cash flow

As expected, net debt increased through the half as a result of seasonal factors and working capital to support the Saipem project. At 31 December 2014 SKILLED's net debt was \$220.6 million and gearing (debt/debt+equity) was 31.4%. The gearing level is appropriate and consistent with the business' working capital requirements, with sufficient headroom under SKILLED's facilities.

Operating cash flow before tax was \$5.2 million (1H14: \$13.1 million).

### Interim dividend

The Board has declared an interim dividend of 7.5 cps, fully franked, consistent with the FY14 interim dividend of 7.5 cps.

The Record Date for determining entitlements to the interim dividend is 18 March 2015, with payment on 10 April 2015.

The Dividend Reinvestment Plan will remain suspended until further notice.

### Strategy update

Under Angus McKay, SKILLED's new Chief Executive Officer, work is progressing on the strategy for the next phase of SKILLED's development. The current focus is on maintaining SKILLED's safety leadership position and building on the company's solid foundations.

SKILLED will continue to build scale and capability in attractive sectors. Specifically it will expand the Engineering & Marine Services business by exploiting the current asset and capability base. The combination of Thomas & Coffey and ATIVO, and OMSA and Broadsword, provide excellent platforms from which to expand.

SKILLED will continue to leverage its scale and brand strength in Workforce Services and Technical Professionals, while focusing on industries where customised solutions for clients are appropriately valued. This will require changes to the business model to innovate and adapt SKILLED's offerings.

Further updates on SKILLED's strategy will be provided in due course.

## Outlook

In the context of continuing external market challenges, SKILLED's performance will be supported by its diversified business mix and underlying resilience.

- **Engineering & Marine Services:** Engineering is expected to continue to generate attractive growth across a range of sectors and to convert its strong pipeline of shutdown and maintenance work. SKILLED Offshore has a visible pipeline of opportunities and is well placed to deliver existing contracts and continue to win new work, leveraging its full life cycle exposure and strong client relationships. The Castorone vessel mobilised in early February 2015, with work on the Saipem project expected to continue into FY16.
- **Workforce Services:** While challenging market conditions are expected to continue, management is focused on positioning the business for sustainable and profitable growth. The Transformation program will continue to deliver greater efficiency and effectiveness, with more initiatives planned for the second half. A key ongoing focus will be continuing to retain existing customers and taking advantage of opportunities to win new panel positions.
- **Technical Professionals:** Modest growth is expected across white-collar recruitment, health and training services; contractor numbers in Swan are likely to remain weak.

SKILLED will continue with its cost improvement, process centralisation and efficiency program, which is on track to deliver at least \$15 million of savings in FY15.

### 1H15 results briefing and audio webcast

Angus McKay, CEO and Gary Kent, CFO will brief analysts and institutional investors on the SKILLED Group Half Year Results today, Wednesday 11 February 2015 at 10:30am (AEDT).

A live audio webcast of the briefing will be available on a listen-only basis. The audio webcast archive and transcript will be made available on SKILLED's website. [Click here to register for the webcast.](#)

## Appendix 1: Performance summary and reconciliation of Reported NPAT to Underlying NPAT

| \$m                                     | 1H15    | 1H14  | % change |
|---|---------|-------|----------|
| Revenue <sup>1</sup>                    | 1,001.9 | 906.3 | 10.6%    |
| EBITDA <sup>2</sup>                     | 49.3    | 43.9  | 12.3%    |
| EBITDA <sup>2</sup> Margin %            | 4.9%    | 4.8%  | 8bps     |
| Depreciation & Amortisation             | (7.4)   | (5.6) | 32.6%    |
| EBIT                                    | 41.9    | 38.3  | 9.3%     |
| EBIT Margin %                           | 4.2%    | 4.2%  | (5bps)   |
| Interest                                | (5.5)   | (3.0) | 79.3%    |
| Profit before tax                       | 36.4    | 35.3  | 3.3%     |
| Restructuring costs                     | (2.3)   | (2.3) |          |
| Acquisition and integration costs       | (1.3)   | (1.2) |          |
| Non cash acquisition related costs      | (4.0)   | (3.1) |          |
| Income tax expense                      | (7.6)   | (7.7) |          |
| Net profit after tax                    | 21.2    | 21.0  | 0.8%     |
| <u>Underlying net profit after tax</u>  |         |       |          |
| Statutory net profit after tax          | 21.2    | 21.0  | 0.8%     |
| Restructuring costs                     | 2.3     | 2.3   |          |
| Acquisition and integration costs       | 1.3     | 1.2   |          |
| Non cash acquisition related costs      | 4.0     | 3.1   |          |
| Income tax expense on reconciling items | (2.1)   | (1.6) |          |
| Underlying net profit after tax         | 26.7    | 26.0  | 2.6%     |
| EPS - Statutory NPAT (cps)              | 9.0     | 9.0   | -        |
| EPS - Underlying (cps)                  | 11.3    | 11.1  | 1.8%     |

1 - Includes equity accounted income from joint ventures

2 - as per segment reporting in the Financial Report

For further information please contact:  
 Andrew Ford, Group General Manager  
 Finance & Investor Relations  
 SKILLED Group Limited  
 Mobile: 0408 377 854

### About SKILLED Group

SKILLED Group Limited is Australia's leading provider of labour hire and workforce services. SKILLED Group has over 80 offices across Australasia with annualised revenues of around A\$1.9 billion. SKILLED partners with clients to improve their workforce efficiency, enhance safety performance and increase productivity levels. SKILLED is listed on the Australian Securities Exchange (ASX: SKE) and has approximately 7,600 shareholders, predominantly in Australia.