

## ASX Announcement

23 February 2016

### SPOTLESS DELIVERS GROWTH IN REVENUE AND UNDERLYING EBITDA FOR 1H16

- Statutory sales revenue up 19.3% on the previous corresponding period (pcp) to \$1,606.0 million reflecting contribution from acquired businesses and solid existing business performance
- Statutory EBITDA of \$137.3 million, flat on pcp as flagged in December trading update
- Underlying EBITDA of \$156.5 million, up 18.6% and underlying EBITDA margin of 9.7% reflecting strong performance of existing businesses and contribution from acquired businesses
- Net profit after tax (NPAT) of \$48.1 million, in line with guidance, and underlying NPAT of \$64.7million, up 14.3% on pcp
- Integration of new businesses continuing to plan and expected to be complete by 30 June 2016
- Debt facilities amended and extended on improved terms
- Directors declare dividend of 3.5 cents, underscoring strength of business and new business pipeline

Spotless Group Holdings Limited (Spotless; ASX: SPO), a leading provider of outsourced facility services in Australia and New Zealand, today announced its results for the six months to 31 December 2015 (1H16).

Spotless reported statutory sales revenue of \$1,606.0 million, up 19.3% on the previous corresponding period (1H15: \$1,346.3 million). Strong top-line growth reflects new contract wins, organic growth and the impact of integrating recent acquisitions.

Statutory earnings before interest, tax, depreciation and amortisation (EBITDA) of \$137.3 million was flat on the previous corresponding period (1H15: \$137.1 million) due to a number of significant items flagged to the market in the company's December trading update, including:

- \$9.0 million of costs relating to unsuccessful tenders;
- \$1.5 million of acquisition related transaction costs;
- \$4.7 million of incremental small bid costs expensed in this period but not in the last period; and
- approximately \$4.0 million of integration costs relating to the Laundries and A.E Smith acquisitions.

After adjusting for these significant items, underlying EBITDA was \$156.5 million, up 18.6% (1H15: \$132.0 million). Strong underlying EBITDA growth during the half reflects incremental contributions from the recently acquired businesses as well as strong performances from the new Defence contract and a number of new and existing Government contracts. The business continues to maintain margins in line with global peers, with an underlying EBITDA margin of 9.7% for the half.

Statutory net profit after tax (NPAT) was \$48.1 million and underlying NPAT was \$64.7million up 14.3% (1H15: \$56.6 million) after adjusting for one-off items.

Directors declared an interim dividend of 3.5 cents per share, demonstrating confidence in acquisition synergies and the company's forward pipeline of tender opportunities.

Spotless Chief Executive Officer & Managing Director, Mr Martin Sheppard, said the company's interim result underscored the strong fundamentals of the business including the stable, long-term nature of the company's client base.

*"Spotless is a great Australian company employing 39,000 people who work hard to serve iconic Australian projects and venues every day of the year. We have delivered solid underlying performance during the half, underscored by new contract wins and renewals across sectors including health, government, commercial, leisure and acquisitions.*

*"The company is stable and solid by its very nature. As the largest local outsourced service provider in the market, Spotless has a real competitive advantage – cemented by our ability to coordinate an integrated service offering across all of our capabilities which few others can beat. Contract renewal rates continue to hold at 84% and our contracts are long-dated, typically five years. We provide essential services to some of the biggest government departments, enterprises and corporates in the country.*

*"Spotless remains an attractive business and it is one that I'm excited to lead – that's why I joined. There are clearly some short term factors that we are addressing but the fundamental investment thesis has not changed and the refreshed management team is motivated by the growth opportunities for the business as we head towards the new financial year and beyond."*

### **Short term impacts on performance being addressed**

Spotless expects the short-term issues addressed in the December trading update to be resolved during the current financial year. Management remains focused on the continued integration of recent laundries acquisitions to enhance operating performance. Full integration of the laundries acquisitions is continuing to plan and is expected to complete by 30 June 2016.

### **Growth remains a focus**

Spotless' growth strategy remains unchanged and has four pillars: underlying market growth outsourcing penetration; market share growth; and expansion opportunities in adjacent services and customer sectors.

The company will continue to pursue business expansion opportunities from FY17, with integration of recent acquisitions the priority during 2H16. The company's most significant bolt-on acquisition last year, USG, is performing very well and in line with expectations.

Spotless self-delivers approximately 75% of services, providing the company with a competitive advantage when it comes to quality, safety, service consistency, oversight and managing risk. Spotless is actively pursuing a current pipeline of \$1.4 billion in tender opportunities.

During the half, Spotless was awarded a number of new and renewed contracts, valued at over \$400 million in annual revenues. Notable contracts included:

- Facilities management and integrated services contracts for BHP Billiton, the NSW Land and Housing Corporation, SA Health, Clipsal 500, Australian Grand Prix and GlaxoSmithKline
- Food and catering contracts for National Australia Bank, BHP Billiton, Telstra and Virgin Brisbane Domestic Terminal
- Township management for Rio Tinto Hail Creek

Spotless is the leading operator of social infrastructure PPPs across Australia and New Zealand with nine operational projects and six contracts currently mobilising. These contracts have a combined average tenure of ~25+ years, providing a secure long-term revenue stream.

Spotless' PPP revenues were ~\$112 million in FY15 and the company expects incremental annualised revenue of ~\$130 million from the six mobilising projects when fully operational. Spotless was recently selected as the FM service provider on both the WA Schools PPP and Victorian New Schools PPP.

### **Strong financial position**

Spotless maintains a solid capital structure, with net debt of \$802.4 million at 31 December 2015, representing net debt to EBITDA of 2.5 times, comfortably within debt facility requirements. The company took the opportunity to both amend and extend its debt facilities in December 2015 on improved terms, with a further \$100 million capacity added.

## Outlook

### FY 2016 Guidance

The Company re-affirms that revenue will significantly exceed FY15 with reported EBITDA tracking flat year on year.

Taking account of tax effected significant items and increased depreciation and amortisation associated primarily with new contract mobilisations and acquisitions, reported NPAT is expected to be approximately 10% below FY15.

Consistent with market guidance issued on 2 December last year, we consider the Company's acquisition integration challenges to be short term. The underlying performance of the business continues to be strong.

### Beyond FY16

The Company's growth agenda will be supported by:

- Improved performance of the laundries;
- Commencement of recently won PPPs;
- Price escalations in existing contracts; and
- New wins in a steadily growing contestable market.

The Company is currently in the middle of a strategy reset which will focus the business on accelerating growth by investing in long dated, expandable contracts which leverage our scale, geographical footprint, breadth of service lines, and generate attractive returns.

For further information:

Investor and analyst contact:  
Nigel Chadwick  
Chief Financial Officer  
T +61 3 8399 7082

Media contact:  
Lauren Thompson  
T +61 438 954 729