# 2022

# IGNITE LIMITED

# APPENDIX 4D

## PRELIMINARY HALF YEAR REPORT

## 31 DECEMBER 2021

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 2021 – 31 December 2021** | 1 July 2020 – 31 December 2020 |

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| **Description** | **31 Dec 2021 $000** | **31 Dec 2020 $000** | **Change $000** | **Change %** |
|---|---|---|---|---|
| Revenue from ordinary activities | 59,459 | 56,743 | 2,716 | 4.8 |
| (Loss)/ profit from ordinary activities after tax attributable to members[1] | (80) | 2,219 | (2,299) | (103.6) |
| Net (loss)/ profit for the period attributable to members[1] | (80) | 2,219 | (2,299) | (103.6) |

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 2021 Cents** | **31 Dec 2020 Cents** | **Change Cents** | **Change %** |
|---|---|---|---|---|
| Net tangible assets per share[2] | 5.85 | 5.73 | 0.12 | 2.1 |

2. Net tangible assets = Net assets less intangible assets

## FINANCIAL REVIEW

During the half year ended 31 December 2021 Ignite Limited (the "Company") and its controlled entities (the "Group") generated a loss from ordinary activities net of income tax of $80k (31 December 2020: profit of $2,219k), a 103.6% decline on the comparative period. The prior comparative period included the Australian Federal Government JobKeeper Payment subsidy of $2,607k which was recognised in "other income". The result for the half year represented a 79.4% improvement on the underlying 31 December 2020 loss of $388k, excluding the JobKeeper Payment subsidy.

Revenue from continuing operations increased 4.8% to $59,459k (31 December 2020: $56,743k) while the gross profit from continuing operations increased 3.6% to $6,747k (31 December 2020: $6,515k) and the gross profit margin decreased slightly from 11.48% to 11.35%. The increases in revenue and gross profit were primarily due to a rebound in the demand for permanent recruitment from the prior year's COVID-19 low as well as an increase in the number of contingent labour contractors. The marginal gross profit margin decline and the lower gross profit increase relative to the revenue increase was due to the revenue mix with a lower contribution from the high margin On Demand IT Services and Talent Solutions businesses relative to the prior comparative period.

As at 31 December 2021, there were 882 active contractors across the Group versus 878 as at 31 December 2020.

Employee benefits expense decreased 3.0% on the prior comparative period due to a lower headcount and associated salaries and on costs at the beginning of the half year. Occupancy expense decreased 7.1% on the prior comparative period due to negotiated reductions in rent at various office premises. Depreciation and amortisation expense also decreased 20.5% due to the intangible assets being fully amortised in the prior financial year.

Other expenses increased 13.9% on the prior comparative period due to increased marketing and advertising expenditure and the one-time costs associated with planned projects to implement two software as a service ("SaaS") platforms. These platforms are replacing the legacy financial system and the legacy customer and contractor management system supporting the On Demand IT Services division.

## FINANCIAL REVIEW (Continued)

Adding back non-recurring expenditure in the half year underlying earnings were an operating profit of $38k. The non-recurring expenditure related to, among other things, the SaaS implementation costs which are now required to be expensed rather than capitalised pursuant to revisions to AASB138 Intangible Assets, as well as additional professional fees incurred in dealing with shareholder matters.

| | **31 Dec 2021** |
|---|---|
| | **$000** |
| Operating loss | (80) |
| Add back | |
| SaaS implementation costs | 72 |
| Professional fees | 21 |
| Other | 25 |
| Underlying operating profit | 38 |

## OPERATIONAL REVIEW

Specialist Recruitment contributed a profit before allocation of corporate overheads of $2,624k versus $1,950k in the prior comparative period. This 34.6% increase reflected a 6.4% increase in contingent labour revenue and a 92.1% increase in permanent placement revenue on the prior comparative period.

In New South Wales, despite the shadow cast by COVID-19 related public health order lockdowns, new leadership and an increase in customer demand delivered a 173.3% increase in profit before allocation of corporate overheads versus the prior comparative period. The improvement was driven through the gross profit contribution of contingent labour up 11.8% and permanent placement revenue up 62.0%. In the Australian Capital Territory gross profit improved 5.1% on the prior comparative period driven by a number of permanent placements in the half year with contingent labour up 2.1%.

The increase in permanent placement revenue reflected customers opting to engage candidates on a permanent rather than contingent labour basis as they looked to address their resourcing requirements for calendar year 2022. The Federal Government business continues its robust performance while the Engineering vertical has also delivered strong results in the half year.

As at 31 December 2021, there were 750 active contractors within Specialist Recruitment versus 715 as at 31 December 2020.

The On Demand IT Services business recorded a profit before allocation of corporate overheads of $193k in the half year, a 54.6% decrease on the prior comparative period. The decrease reflected a 18.6% decline in revenue with the business being particularly impacted by COVID-19 during the half year with customers delaying project work and various State and Territory public health order related lockdowns preventing access to customer sites to complete on site work. Operating expenses increased significantly in the half year due to the one-time costs associated with the project to implement a SaaS platform to replace the legacy customer and contractor management system as well as the ongoing platform subscription costs.

Talent Solutions (rebranded from People Services in the half year) delivered a loss before allocation of corporate overheads of $115k, a 291.7% decrease on the prior comparative period. This result reflected a 10.1% decrease in revenue as well as a significant investment in new headcount, including the appointment in August 2021 of a new leader, Nikki Grech, as Executive General Manager. Nikki has been actively building out the skills and capabilities of the team, refreshing the division's go to market proposition and developing an improved pipeline of opportunities to drive revenue and gross profit growth in subsequent periods.

## OPERATIONAL REVIEW (Continued)

Net corporate overheads decreased $4k (0.1%) against the prior comparative period. This was due to reductions in operating expenses, finance costs and depreciation and amortisation offset by a 12.2% increase in salary and on costs. A 3.4% reduction in operating expenses arose from legal fees, software licenses, subscriptions and telephony, offset by costs associated with the project to implement a SaaS platform to replace the legacy financial system. Finance costs decreased 38.1% due to improved working capital principally from the continuing benefits of the JobKeeper Payment subsidies received in the prior comparative period resulting in a lower drawdown of the debtor finance facility. The intangible assets were fully amortised in the prior financial year resulting in a 63.1% reduction in the depreciation and amortisation expense.

## OUTLOOK

We are pleased to report the continued improved performance of the Group as demonstrated by back-to-back quarters of gross profit growth in the first half of the financial year. The executive team is focused on profitable growth whilst also investing in new headcount and enhancements to the delivery of our services. The greatly reduced statutory operating loss of $80k, which includes $118k of non-recurring strategic investment and other costs that are unlikely to impact the business moving forward, is a significant improvement on the performance in the prior comparative period (excluding the JobKeeper Payment subsidy).

The Group expects to be operating in the second half of the financial year in a market where customer demand within our main sectors continues to be high. The Specialist Recruitment business is anticipated to maintain its positive trend and this will be the main contributing factor in the Group achieving year on year revenue growth in the current financial year.

From a sector perspective, a key part of our customer growth strategy is Federal Government and the outlook is for continued demand in the third quarter. The Business Support vertical was severely impacted by COVID-19 related lockdowns in the first half of the financial year and we are now starting to see an improved performance as lockdowns ease and customer demand returns.

The NSW and Victorian businesses are also expecting continued customer demand and our delivery has been bolstered with key staff appointments in the first half of the financial year. Whilst we are pleased with the progress made in the appointment of staff we are still in the early stages of onboarding.

The progress in establishing the national resourcing centre in the half year has been pleasing, however, we are still in the early phase of creating a new scalable customer delivery model. The creation of the national resourcing centre is a key strategic initiative for the Group with a leader hired externally and the first cohort of new hires joining in the third quarter. Given the nature of the project, the impact of this investment will be seen in the third and fourth quarters and we expect the full benefits of the national resourcing centre to be realised in the 2023 financial year.

The On Demand IT Services business should also see an improved performance in the second half of the financial year with lockdowns easing and COVID-19 delayed projects now being recommenced. The current focus of the business is the acquisition of new customers and contracts that will better align with the strengths of the Specialist Recruitment business.

Within the Talent Solution business we have seen very strong uplift in revenue in the first half of the financial year with the acquisition of a range of new customers and generally strong market conditions. Whilst pleasing, the results are against a severely COVID-19 impacted prior comparative period. We have recently increased our business development capability to drive growth in the second half of the financial year and are looking towards the 2023 financial year with a positive outlook.

## OUTLOOK (Continued)

Although the Talent Solutions business has typically been Federal Government focused and operating almost exclusively within the ACT, the momentum gained during the half year was partly due to winning new customers outside of Federal Government and the ACT, which is testimony to the efforts of the new leadership team. The customer contracts won in the first half of the year have also been extended to the end of the financial year.

From a talent acquisition perspective, we have been very pleased with the investment in new talent in the first half of the financial year. We expect this hiring to form the basis for continued momentum and revenue growth in the business during the 2023 financial year.

After a pleasing performance where we have generated consistent growth across the first half of the financial year for the first time in many years, our focus for the second half of the financial year is:

- Further penetration within our key customers to achieve greater cross sell opportunity across all business lines;
- Successful onboarding of new staff and continued investment within our most profitable sectors and business lines; and
- Taking refreshed "customer and market" strategies for our On Demand IT Services and Talent Solutions businesses to our customers supported by an increased business development capability.

The key business risks that may impact our ability to achieve our short to medium term financial objectives are the ability to achieve sales penetration within key customers and to successfully onboard new staff. These two items are the key variables that will impact the rate of revenue growth.

## DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST

During the half year ended 31 December 2021, 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 2021** | **31 Dec 2020** |
| 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 24 February 2022 the Directors resolved not to declare an interim dividend for the half year ended 31 December 2021. No interim dividend was paid in the previous corresponding period.