



VOCATION LIMITED

2015 HALF YEAR RESULTS PRESENTATION

2 March 2015

Vocation 2015 Half Year Results

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Agenda



1. Summary of Activity
2. 2015 Half Year Results
3. Divisional Performance
4. Financial Management
5. Update on VET Compliance
6. Strategic Review Update
7. Summary and Outlook

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Summary of Activity



Vocation has experienced significant challenges over the past 6 months as it has dealt with the DEECD settlement in October 2014 and the resultant impacts

Vocation has moved quickly to:

1. Remediate issues, comply with regulatory directives and establish a new quality team under the guidance of the independent Quality Advisory Committee (QAC)
2. Restructure the cost base to a sustainable level including taking steps to deregister two RTOs in Victoria
3. Bolster the market and operating reputation and performance of ongoing VET businesses
4. Establish a capital structure appropriate for the ongoing business

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Financial Summary and Overview



Statutory results	<ul style="list-style-type: none"> • Total revenue of \$57.7 million • Loss after income tax attributable to ordinary equity holders of \$272.6 million • Earnings per share loss of 124.2 cents
Significant items (after tax)	<ul style="list-style-type: none"> • Totalled \$259 million net loss: <ul style="list-style-type: none"> • \$241 million impairment of goodwill and intangible assets • \$7 million loss due to settlement with DEECD with the balance of \$9.0 million reflected in the restatement of FY14 earnings (\$17.8 million before tax as announced on 28 January 2015) • \$11 million corporate and restructuring charges
Underlying results	<ul style="list-style-type: none"> • EBITDA profit of \$1.6 million and EBIT loss of \$3.9 million • Loss after income tax attributable to ordinary equity holders of \$6.8 million • Earnings per share loss of 3.1 cents
Trading conditions	<ul style="list-style-type: none"> • Weakening of VET revenues in both Direct and Enterprise segments as a result of recent challenges • Trading in the Higher Education segment is stable with performance in line with expectations

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Underlying Divisional Performance



	Revenue		EBITDA*		EBIT *	
\$ million	1H 15	1H 14	1H 15	1H 14	1H 15	1H 14
Vocational Education & Training	19.0	8.5	1.8	1.8	1.2	1.1
Higher Education	28.5	N/A	4.7	N/A	3.5	N/A
Corporate	N/A	N/A	(4.9)	N/A	(8.6)	N/A
Total	47.5	8.5	1.6	1.8	(3.9)	1.1

* Represent Underlying Results

Note:

1. Divisional performance as set out above has been prepared on an underlying basis. Refer to page 12 for reconciliation of detailed adjustments from Statutory Profit to Underlying Profit. Refer to pages 1 and 2 of the 31 December 2014 Directors' Report for detailed explanations of Underlying Adjustments and definitions.

AVANA

REAL
INSTITUTE



ASM
AUSTRALIAN SCHOOL
OF MANAGEMENT

ACAE

ENDEAVOUR

Vocation 2015 Half Year Results

Vocational Education and Training Division



\$ million	1H 15	1H 14
Revenue		
Vocational Education & Training	17.4	7.0
VETtrak	1.6	1.5
Total VET Revenue	19.0	8.5
Operating Expenses	(17.2)	(6.7)
EBITDA¹	1.8	1.8
Depreciation & Amortisation	(0.6)	(0.7)
EBIT¹	1.2	(1.1)

- VET result heavily affected by impact of DEECD settlement, business closure of BAWM and Aspin RTOs, and associated restructuring costs
- Real and AVANA each posted \$10 million in revenue for 1H 15, in line with expectations
- BAWM and Aspin RTOs progressively wound down from September 2014 onwards

Note:

1. Represent Underlying Results

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Vocational Education and Training Division (cont'd)



- Direct enrolments were affected in 1H 15 by the DEECD settlement, but have started to improve in areas of logistics, hospitality and business
- Enterprise – in general corporate clients have been supportive and demonstrated an understanding that the DEECD review does not affect the remaining Vocation businesses, in particular Real and AVANA. However, there has been further revenue impact from clients deferring or terminating business dealings due to the uncertainty
- Building Brighter Futures and Real Communities programs (integrated with AVANA Communities in 2014) continue to trade in line with expectations and deliver valuable training to disadvantaged individuals
- OzSoft / VETtrak – High proportion of recurring revenue and modest sales growth has performance in line with expectations

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Higher Education Division



\$ million	1H 15	1H 14
Revenue		
Endeavour Learning Group	24.3	N/A
ASM / ACAE	4.2	N/A
Total HE Revenue	28.5	N/A
Operating Expenses	(23.8)	N/A
EBITDA	4.7	N/A
Depreciation & Amortisation	(1.2)	N/A
EBIT	3.5	N/A

The Higher Education division is trading in line with expectations

Notes:

1. ELG was acquired on 1 July 2014
2. Remaining 50% of ASM was acquired on 22 October 2014

Endeavour Learning Group

- Health – enrolments ahead of expectations
- Beauty – enrolments up on corresponding period
- Fitness – enrolments are slightly ahead of expectations following recent changes

Australian School of Management / Australian College of Advanced Education – trading ahead of expectations due to strong international student enrolments and a high rate of returning students

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Financial Management – Key Points



Balance sheet	<ul style="list-style-type: none"> • Net assets fell to \$14 million reflecting the combined impact of impairment write-downs, first half trading losses and prior period balance sheet restatement <ul style="list-style-type: none"> • \$241 million impairment of goodwill and intangibles • \$12 million reduction from prior period balance sheet restatement
Capital structure	<ul style="list-style-type: none"> • Stable cash position - net cash of \$19.1 million at 31 December 2014 • \$35 million of debt repayments in December 2014 • Net interest expense of \$2.9 million for 1H 15 • Amended agreement with bank group provides stability while Vocation completes its strategic review and allows time to realign its capital structure with future business activities
Cash flow	<ul style="list-style-type: none"> • \$23.5 million statutory operating cash outflow in H1 FY2015 • \$85 million paid for Endeavour Learning Group and the remaining 50% of Australian School of Management • \$42 million increase in borrowings to fund acquisitions • \$72 million proceeds from September 2014 share placement net of transaction costs • \$6.5 million dividend paid on 10 October 2014

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Group Income Statement – Statutory and Underlying Results



	Statutory Results		Underlying Adjustments		Underlying Results	
	1H 15	1H 14	1H 15	1H 14	1H 15	1H 14
\$ million						
Revenue	57.7	52.8	(10.2)	(44.3)	47.5	8.5
Expenses	(82.2)	(52.7)	36.3	46.0	(45.9)	(6.7)
EBITDA	(24.5)	0.1	26.1	1.7	1.6	1.8
Depreciation and amortisation	(7.6)	(1.0)	2.1	0.3	(5.5)	(0.7)
Net interest expense	(2.9)	-	0.6	-	(2.3)	-
Impairment of goodwill and intangible assets	(240.7)	-	240.7	-	-	-
(Loss)/profit from before income tax	(275.7)	(0.9)	269.5	2.0	(6.2)	1.1
Income tax benefit/(expense)	3.1	(0.1)	(3.7)	(0.7)	(0.6)	(0.8)
(Loss)/profit after income tax attributable to ordinary equity holders	(272.6)	(1.0)	265.8	1.3	(6.8)	0.3
Weighted average number of shares (millions)	219.5	100.2	-	-	219.5	100.2
Diluted earnings per share (cents)	(124.2)	(1.0)			(3.1)	0.3

Notes:

1. Shaded area indicates IFRS disclosures in 1H 15 Financial Statements. Refer page 12 for reconciliation of detailed adjustments from Statutory Profit to Underlying Profit.

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Statutory Profit Reconciliation to Underlying Profit



\$ million	1H 15	1H 14
Statutory (loss) after income tax attributable to ordinary equity holders	(272.6)	(1.0)
Impairment of goodwill and intangible assets	(224.7)	-
Discontinued businesses	(30.2)	7.6
One-off costs	(10.9)	(8.9)
Underlying NPAT	(6.8)	0.3

Notes:

1. Impairment of assets in 1H 15 reflects the write down of Vocation goodwill and intangibles
2. Discontinued businesses reflect the closure / pending closure of BAWM and Aspin RTOs
3. One-off costs include restructuring and redundancy costs relating to the reorganisation of the business and provisions for claims and onerous contracts

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FY14 Results Restatement



\$ million	Reported FY14	Adjustment	Restated FY14
Revenue	128.6	(17.9)	110.7
Expenses	(112.7)	(1.1)	(113.8)
EBITDA	15.9	(16.8)	(0.9)
Depreciation and amortisation	(3.7)	-	(3.7)
EBIT	12.2	(16.8)	(4.6)
Net interest expense	(0.2)	-	(0.2)
Profit before income tax expense	12.0	(16.8)	(4.8)
Income tax expense	(3.8)	5.0	1.2
NPAT	8.2	(11.8)	(3.6)

- Vocation has identified and reversed certain revenue from FY14 predominantly related to the DEECD settlement

The Company has restated its FY14 numbers due to an arguable misinterpretation of facts at the time in relation to the likely quantum of the DEECD settlement. Refer to Note 3 of the Interim Report for a fuller explanation of the restatement

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Balance Sheet



\$ million	31 Dec 2014	Restated 30 June 2014	Reported 30 June 2014
Cash and cash equivalents	19.1	21.7	21.7
Receivables	42.5	36.8	44.0
Goodwill and intangibles	88.5	253.8	253.8
Property, plant and equipment	9.7	2.3	2.3
Other assets	2.4	0.1	0.1
Total assets	162.1	314.7	321.9
Payables	(22.9)	(41.0)	(42.4)
Provisions and employee benefits	(17.0)	(13.3)	(1.3)
Borrowings	(85.4)	(42.7)	(42.6)
Deferred revenue	(22.8)	(2.8)	(2.8)
Other liabilities	(0.1)	(2.8)	(8.1)
Total liabilities	(148.2)	(102.7)	(98.2)
Net assets	13.9	212.0	223.7

- Overall liquidity remained steady at December vs June 2014
- Receivables rose to reflect the impact of the Endeavour acquisition
- Goodwill and intangibles fell due to outcome of impairment assessment
- Payables decreased due to closure of the solutions business
- Provisions include allowance for issues in Victoria
- Borrowings rose to fund acquisitions
- Deferred revenue primarily relates to Higher Education businesses acquired
- Loan facility amended on 23 February 2015 – key terms in Note 7 of Half Year Accounts

Notes: 30 June 2014 Balance Sheet has been restated for DEECD settlement

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Cash Flows



\$ million	1H 15	1H 14
Underlying EBITDA	1.6	1.8
Cash impact of underlying adjustments	(23.7)	(5.1)
Change in working capital	2.6	14.0
Net interest and other financing costs	(1.8)	-
Income tax paid	(2.2)	(2.9)
Cash from operating activities	(23.5)	7.8
Payment for purchase of businesses	(85.2)	(121.1)
Capitalised course material development costs	(0.9)	(1.0)
Property, plant and equipment	(1.3)	(0.3)
Cash flows used in investing activities	(87.4)	(122.4)
Net proceeds from issue of shares	72.4	140.5
Net proceeds from borrowings	42.3	-
Dividends paid	(6.5)	(9.5)
Cash flows from financing activities	108.2	131
Net Cash flow	(2.7)	16.4

Payment for Purchase of businesses

Acquisition of Endeavour Learning Group and for the remaining 50% of ASM

Issue of Shares

Net \$72.4 million from the share placement in September 2014

Proceeds from Borrowings

\$42.3 million increase in borrowings to fund acquisitions

Dividend

\$6.5 million paid on 10 October 2014

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Update on VET Compliance



- Vocation operates Vocational Education and Training businesses in 6 states and territories across Australia and holds 6 RTO licences at both Federal and State levels
- The 2 primary regulators of Vocation's VET businesses are the Australian Skills Quality Authority (ASQA) and the Victoria Registration and Qualifications Authority (VRQA)
- Funding is received under a range of specific Federal and State Government programs
- Vocation is subject to a stringent monitoring and assessment regime, with regular audits undertaken by ASQA and VRQA and their nominees
- At the current date there remain a number of regulatory audits either in progress or with outcomes pending (likely to be concluded in March 2015)
 - Further provisions have been taken up for likely issues in Victoria with Learning Verve (CSIA) and BAWM
- While the Company strives to achieve the highest levels of compliance across its business, and has invested significant extra resources and personnel over the past 3-4 months, more work is required in order to future ensure sustained high performance

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Strategic Review Update



Situation	Response / Status
Vocation's financial, regulatory and operating reputation has been materially damaged by the events of 2014	<p>The Company improved its governance and compliance practices across its VET business through establishing the independent Quality Advisory Committee and hiring a new quality team</p>
The Company needs to have a more appropriate capital structure going forward	<p>The Company is taking steps to deleverage its balance sheet</p> <ul style="list-style-type: none"> • 333 Capital is assisting this process
Limited integration between the Vocational Education and Higher Education divisions	The Board has initiated a Strategic Review looking at all options for its business
The Company has received strong interest from a number of credible parties to acquire some businesses	It is likely that there will be a sale of part or all of several assets

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Summary and Outlook



<p>2H15 Outlook</p>	<ul style="list-style-type: none"> Excluding the impact of any potential asset sales, the Company expects to generate an Underlying EBITDA of circa \$10 million in 2H 15 The Company will update this estimate once the shape of the ongoing business is set after the Strategic Review is conducted
<p>Strategic review and capital structure</p>	<ul style="list-style-type: none"> As announced on 23 February 2015, the Company and its advisors, 333 Capital, are continuing to explore potential asset sales with interested parties
<p>Business focus</p>	<p>Enterprise</p> <ul style="list-style-type: none"> Continued focus on Enterprise (B2B) national delivery though significantly strengthened team, specifically due to the Real Institute acquisition and AVANA's existing Enterprise business <p>Relaunch Direct Platform</p> <ul style="list-style-type: none"> Relaunch MyVocation strategy under new branding after the final restructure

