



23 October 2015

Company Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
Sydney NSW 200

### **Vocation Limited Annual General Meeting (AGM) – 23 October 2015**

Please find attached the following to be presented at Vocation's AGM today:

- Chairman and CEO's Speeches
- Presentation slides

#### **For further details:**

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## **CHAIRMAN'S ADDRESS**

Stewart will present a review of the Company's activities before the formal business of the Meeting. Before that I am going to speak with you about the events of the last 12 months and paint a big picture of what we have done already and plan to achieve in the coming year and beyond.

Vocation is a very different company from a year ago. Following substantial divestments and restructuring, the business is smaller, but more focused on its core operations: providing quality education and ensuring the best outcomes for students.

We also have new governance processes and a new senior leadership team. John Dawkins, who led the board during Vocation's initial public offering in December 2013, stepped down as chairman at the end of November 2014 and I was appointed to succeed him. Stewart Cummins, who joined Vocation as interim CFO in December 2014 was appointed CEO and Managing Director on 1 May 2015, following Mark Hutchinson's resignation. Since joining Vocation, and particularly as CEO, Stewart has conducted a strategic review of the company's operations, and managed the company's banking, internal control and regulatory issues.

In August 2014, we reported that Vocation's pro-forma results for the year to 30 June 2014 had exceeded our December 2013 prospectus forecasts. In the company's first seven months as an ASX-listed Company we had acquired four further businesses, and we were one of the largest and fastest-growing education and training companies in the country.

Our prospectus and 2014 annual report also referred to risks that might restrict Vocation's ability to deliver on its strategy. With hindsight, two of these risks – the company's dependence on the support of government funding, and damage to its brand – were prescient.

Our results for the year to 30 June 2015 reflect the difficulties we have had to face in the past year. Revenue from continuing operations was \$33.3 million and, excluding discontinued businesses, impairment charges and one-off costs, there was an underlying loss before interest, tax, depreciation and amortisation (EBITDA) of \$12.9 million, compared with a restated EBITDA profit of \$3.2 million in FY2014. Impairment of goodwill and intangible assets was \$241 million. The statutory after-tax loss was \$300 million, compared with a restated statutory after-tax loss of \$3.5 million in FY2014.

After such a promising start, the company's fortunes altered considerably following the announcement of a settlement arrangement the company reached in October 2014 with the Victorian Department of Education and Early Childhood Development (DEECD) concerning a review it had been conducting of three of the courses for which we received government funding. The market and media reacted strongly to that news and the follow on effect of that reaction has materially affected our business.

The circumstances, surrounding the review and the Company's disclosure in relation to it is now the subject of litigation that I will touch on further later. For the record, the company maintains that its handling of the issue was entirely appropriate in all the circumstances (many of which are yet to find their way to the public) and that the market reaction was disproportionate.

That said, the focus and lessons from that review and subsequent engagements with the department has caused the Company to redouble its focus on compliance and to ensure that its courses are beyond reproach.

To strengthen procedures and prevent further compliance disputes with the regulator, Vocation's operations were restructured and the use of third party training and assessment providers was discontinued. We also established a Quality Advisory Committee, reporting to the Board, to provide independent oversight of the governance and compliance of Vocation's operations. Since that time we have employed a team of 17 quality, compliance and education staff to administer this aspect of our offerings.

The loss of third party referrals, together with lower direct enrolments, led to a significant decline in student numbers. In December 2014 we announced that the company's statutory earnings before interest, tax, depreciation and amortisation (EBITDA) would be in the range of \$25 million to \$30 million, significantly lower than our previous guidance of \$53 million to \$57 million.

The decline in student numbers continued and, combined with one-off costs related to the DEECD settlement and a number of accounting adjustments, resulted in a further downgrade and the announcement in January 2015 that a statutory after-tax loss of around \$27 million before impairment of non-current assets was expected for the six months to 31 December 2014. A strategic review of all the company's operations and the possibility of selling assets to reduce debt was commenced and due

to the uncertainty, we requested the suspension of trading in the company's shares on the ASX.

Trading began again at the end of February, and at the beginning of March 2015 we announced a statutory after-tax loss for the first half year of \$273 million after impairments of \$241 million.

Later in March we were able to announce agreement for our first asset sales aimed at reducing debt to a more manageable level. The Australian School of Management and the Australian College of Applied Education were sold for \$16.3 million, including a \$1 million contingent consideration. This was materially above the price for which they were bought in 2014; and Endeavour Learning Group was sold for up to \$73.8 million, including a contingent deferred consideration of up to \$10 million. Since then we have sold OzSoft Solutions for \$3.1 million.

These sales generated gross proceeds of \$84 million, contributing to a reduction in the company's gross debt from \$120 million in early December 2014 to \$11 million at the end of June 2015. This enabled us to renegotiate the terms of our bank facilities and extend their maturity in early July 2015, providing greater financial stability.

We still have many challenges to overcome. Regulators remain highly active in their monitoring of all providers and Vocation will be no exception. We are also facing three class actions. The damage to Vocation's reputation caused by the events of the past year has had an impact on new business. Regarding the class actions, those matters are currently before the courts and Vocation will defend the claims vigorously. Vocation has made a cross claim against a third party that may bear some liability in the event Vocation does. The class actions will take some considerable time to work their way through the Court system. We do not yet have sufficient information to calculate the company's potential liability in the event that it was ultimately unsuccessful in defending the class actions but it could be assumed that any such result would be material. Given the matters are before the courts I'm not at liberty to go into further detail in relation to the class actions at this time.

We now have a more stable base on which to rebuild, growing organically rather than through acquisition. We have improved the quality and delivery of our courses, strengthened our regulatory compliance and begun to restore our credibility with government regulators and funders. By way of example, Real Institute was recently awarded a seven (normally five) year licence renewal by the Australian Skills Quality Authority. We also advised in September that ASQA has confirmed all of

our ASQA regulated RTOs are compliant. Sales and cash flow are increasing, albeit slowly, and the Board has endorsed management's five-point turnaround plan.

I appreciate that Vocation's performance during the past year has been extremely disappointing for our shareholders. I can assure you that the Board and new management team have done, and will continue to do, all they can to restore shareholder value. We have been confronted by almost daily "brush fires" (or worse) and I want to commend the time and effort of my fellow directors in dealing with these expeditiously.

I would also like to advise shareholders that the Board has reactivated a process of looking for an additional Board member with an education background to enhance the Board's current skills and experience.

I will now turn to some questions the Board has received in advance of the meeting. One of our shareholders has submitted a question as to whether Vocation was considering taking any action against the founders of the RTOs affected by the Department's review and which have now been closed down.

As mentioned earlier in my address, we are limited in what we can say about the class actions affecting the company given those matters are currently before the Court and it would be inappropriate for me to comment on specific matters relevant to those disputes and related issues in this forum. That said, as you would expect, the company has, and will continue to consider all issues relevant to the litigation quite carefully and will take such steps as are prudent in the interests of the company and its shareholders

## **CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR'S PRESENTATION**

Since May we have been able to focus on the efficient operation of our business, after a period when management was diverted first by acquisitions and then by divestments and closures to deleverage the company's balance sheet and by the restructuring of the Victorian business.

We have moved quickly to remediate the company's issues. There has been significant progress with building a well-credentialed leadership team, refreshing Vocation's course offering in six key streams, and taking steps to restore our reputation and credibility with government, customers and other stakeholders. The company's bank facilities have been extended and we are beginning to attract new student enrolments, increasing revenue and cash flow and boosting our confidence in the company's future.

We still have hurdles to overcome, but the fundamentals of the business are sound. Over \$6 billion is spent each year on vocational education and training, of which a third is through some 4,500 private sector organisations, and this expenditure is expected to grow as the national economy transitions from manufacturing and resources. If Vocation can be recognised as the most professional business in our sector, providing the best courses and operating to the highest standards, the potential to expand our business is significant.

To take advantage of this opportunity we have adopted a five-point turnaround plan.

### **1. Build a strong management team**

We have a fresh organisational structure, with new appointments – both internal and external – in all roles reporting to the CEO. This has strengthened accountability and has already begun to improve the efficiency and quality of operational processes.

### **2. Revise the course offering**

Our course offering has been refocused into six key streams, with non-strategic or uneconomic courses discontinued and removal of duplicated courses between the company's four RTOs. By March 2016, the number of qualifications for which we provide training will have been reduced from 106 to around 60.

Our aim is to be recognised for the best courses in a more limited number of areas, enabling us to increase investment in the courses' quality while benefiting from economies of scale. New courses will only be introduced when there is sufficient customer demand.

### **3. Integrate and upgrade systems and processes**

We are harmonising and rationalising systems and processes to provide accurate management information and enable tighter earnings and cash flow control. A single system now tracks student enrolments daily, three payroll systems have been replaced with one, and the number of bank accounts has been reduced from 50 to 12.

With stronger management disciplines we are now able to decentralise operations to empower our four state offices – New South Wales/ACT, Victoria, Queensland and Western Australia. We have strict protocols, and SMART (Specific, Measurable, Achievable, Realistic and Time-bound) budget targets have been introduced for each state. We are working to automate daily student enrolment reports, standardise our multiple student management systems and adopt a single online learning system.

Costs have been reduced to a sustainable level following a detailed review of all business activities and through reducing the number of staff in line with current student volumes. Two RTOs in Victoria have been deregistered and the company's offices in Melbourne and Perth have been relocated.

### **4. Introduce market-leading quality and compliance controls**

We are establishing a three-tier governance process to ensure students receive the highest quality education and training experience and that we comply with all directives set by government funders and regulators. A national quality management team monitors regulatory compliance of all courses and student records and liaises with external auditors from federal and state authorities, and we have appointed a quality officer in each state to maintain standards on the ground.

Over the last 12 months, their performance has been overseen by the independent Quality Advisory Committee or QAC, formed in October 2014, which reports directly to the Vocation Board. We have announced that the QAC will change following the conclusion

of its first term. We are currently working to develop a new governance model suitable to the next phase of Vocation's operations which will separate the independent oversight of Vocation's quality and compliance management activities and expert advice to the Board on strategic educational quality risks, developments and opportunities.

A 'student lifecycle' blueprint has been introduced to define the training process and ensure our courses are tailored and deliver value to different groups of students.

The re-registration of Real Institute for seven years to 31 August 2022 demonstrates the progress we are making with winning the confidence of government regulators.

## **5. Rebrand our operations**

We intend to rationalise our trading brands. At present we market our courses under eight brands – Avana Learning, Real Institute, Real Corporate Partners, Training and Development Australia (TDA), TDA Online, Learning Verve, Building Brighter Futures, and Customer Service Institute of Australia – which weakens brand equity and can lead to confusion among our stakeholders. By consolidating brands we will be able to market a stronger, cohesive business with an appropriate range of training skills and experience.

While we are rebuilding our enrolment pipeline and student numbers are increasing, the diversion of focus earlier this year will result in a lag before this progress is reflected in Vocation's financial performance. Nonetheless, our business is far more steadfast than before; our operations are more disciplined and we have tighter and more effective financial controls and compliance procedures. Our priorities during the coming year are to restore our relationships with government funders and regulators and to counter legal claims against the company. We can then devote all our resources to building our market share and increasing earnings and cash flow.

There is a wide range of training experience in our organisation which we aim to harness through building a strong team culture that encourages everyone to contribute to continuous improvement of our operations. To align the interests of our employees and shareholders, we are planning to introduce an employee share scheme so both groups benefit from the company's turnaround.



We have also commenced a new employee engagement strategy, incorporating monthly 'pulse' feedback, to motivate our people so their skills and experience can help us to refine Vocation's business model. Feedback to the first survey was very encouraging, with 96% of employees saying they are positive about the company's future, 86% saying they are clear on our vision and strategy, and 85% saying they would recommended Vocation as an employer.

Going forward, the Company's 2 key objectives are to:

1. Restore credibility with stakeholders; and
2. Successfully rebuild core VET business

We are on track with implementing the 5 point turnaround plan and focus and discipline will underpin execution of this plan over the next few years.

We are committed to upholding high standards of quality and integrity, and will strive to deliver the best student and industry training programs in Australia.



# VOCATION LIMITED

## 2015 ANNUAL GENERAL MEETING

**23 October 2015**



# CHAIRMAN'S ADDRESS



# CEO & MANAGING DIRECTOR ADDRESS



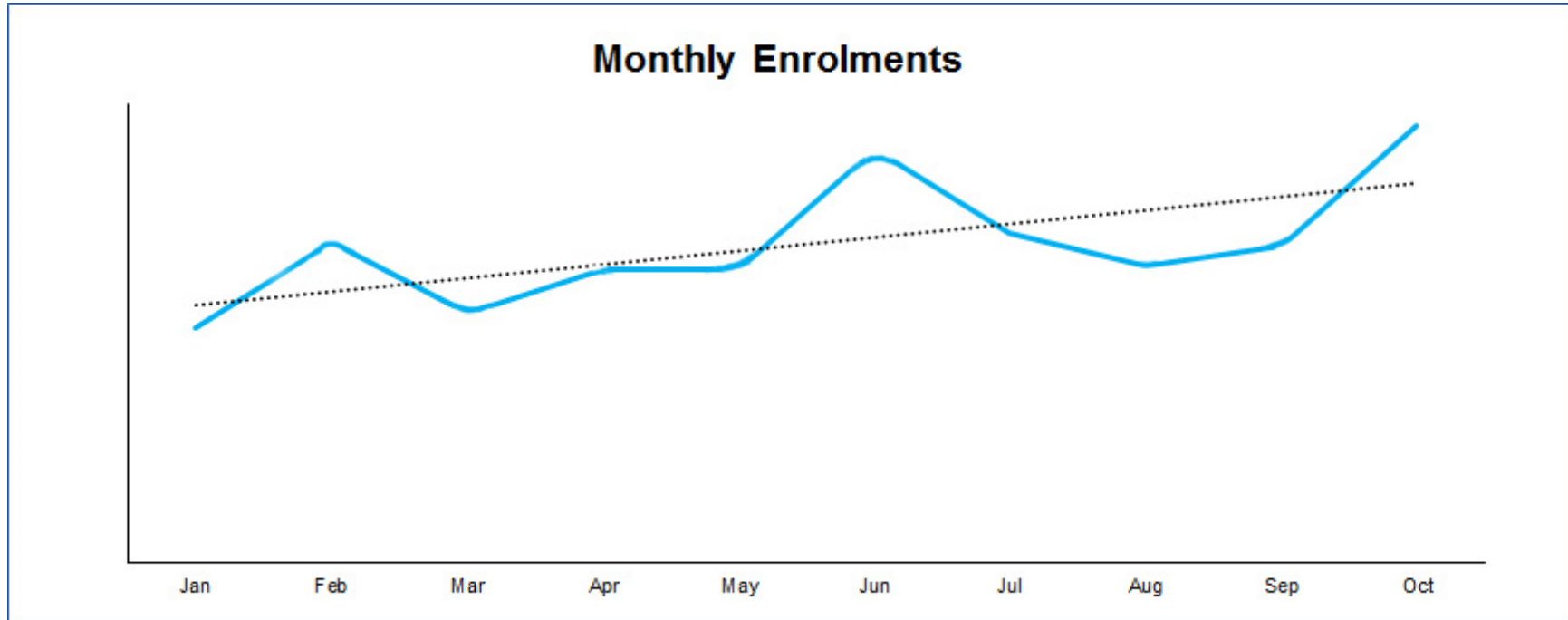
# Turnaround Plan

On 1 June 2015 the Company announced its 5 point turnaround plan to guide its recovery over the next 2-3 years, being focused around:

- People – to revitalise the management team to drive turnaround
- Qualifications Offering – to revise the course offering centred around 6 key streams of excellence to ensure highest levels of quality control and compliance
- Systems – to integrate systems and processes for improved control and efficiency
- Quality and Compliance – to prioritise quality control and compliance
- Brand – to harmonise the portfolio of trading brands

# Turnaround Update

## Business Activity



Note: CY15 data. October is based on forecast

- Enrolments are continuing to build
- October on track for 1,000+ new enrolments

# Outlook



- The Company's 2 key objectives are to:
  1. Restore credibility with stakeholders
  2. Successfully rebuild core VET business
- The Company is on track with implementing its 5 point turnaround plan
  - Focus and discipline will underpin execution of this plan over the next few years
- The Company is committed to upholding high standards of quality and integrity, and strives to deliver the best student and industry training programs in Australia

