7 December 2015

Market Update and FY16 Earnings Guidance

- Strategic review complete and resulting actions commenced
- Revenue from diversification initiatives flowing through
- Reaffirm continuing compliance of all RTOs and that all funding contracts are in place
- FY16 EBITDA forecast reduced to a range of $7 million to $9 million
- Independent Board appointments and Managing Director searches underway
- Dividend policy reviewed, with no interim dividend to be declared for 1HFY16

Strategy reaffirmed

Ashley Services Group Limited (ASX: ASH) reaffirms its strategy to be a high quality, industry relevant training provider within the vocational education sector operating under an integrated business model offering employment and career progression opportunities to our students and the wider market.

Key focus areas for the future

The Board acknowledges that results to date have been below expectations and this in part drove the recent strategic review of the business. This review is now complete and the Board reaffirms our future focus areas:

- Optimisation of the integrated model – growth in the labour hire business will be driven by opportunities to deliver training or employment in skill shortage areas or to provide employment to International students;
- Diversification of training revenues:
  - Expansion of corporate (existing worker) training concentrated on our key target industries of telecommunications, hospitality and children's services;
  - Expansion of the International business
  - Delivery of diploma and advanced diploma vocational courses to students accessing VET FEE-HELP funding;

ASH notes however that the VET FEE-HELP reform bill issued 2 December 2015 will have a negative impact on ASH's ability to grow within the VET FEE-HELP sector in 2016, with 2016 funding to be primarily allocated to those RTOs which had previously accessed funding in 2015.

Training business update

Significant federal government and state funding changes in relation to training of unemployed workers continue to detrimentally impact enrolments and commencements in the public market, with public revenues in Queensland, South Australia, Western Australia and Tasmania are now minor.

The training division has been restructured to strengthen its ability to deliver on ASH's strategy, and to concentrate on the largest training markets, namely New South Wales and Victoria, where the integrated model is also most effective.

ASH is in the process of rationalising training facilities in Queensland, South Australia, Western Australia and Tasmania, which is negatively impacting earnings. The ongoing benefit to ASH will be a significantly reduced cost base.

ASH will maintain a reduced presence in these markets as required and particularly to support our key nationally focused activities.

Additional costs have been incurred during the first half of FY2016 in relation to ASH's diversification initiatives, in particular in sales and marketing activities to establish these operations.

Our investment in diversification initiatives (VET FEE-HELP, hospitality and children's services, and telecommunications) has now started to gain traction. Some of the recent developments in these areas include:

- The telecommunications (ASGI) student base has now reached its original target of 4,000 students;
- New partnership secured with Bosch Security Systems to deliver vendor specific training to a market with in excess of 5,000 technicians;
- First training opportunities within NBN have been secured;
- The hospitality student base has now reached budgeted levels;
- National childcare provider partnerships now in place, with ASH providing training to existing workers and pathways to employment for public students;
- First 100 VET FEE-HELP enrolments have been secured.

Although ASGI enrolments have been strong, limited availability of the predominantly employed student base to complete training has slowed the transition of students from enrolment to commencement of training. ASH has been working with students and employers to provide alternative methods of training delivery to improve student availability, including offering blended onsite training.

ASH enrolled its 100th VET FEE-HELP student in early December as part of the ongoing diversification strategy. Each of our students is allocated a personal liaison officer to ensure that our students are engaged, committed and progressing through their courses. However, in light of the recent VET FEE-HELP reform bill amendments, ASH has now removed any additional VET FEE-HELP revenues and profits from its FY16 forecast guidance.

International business update

Significant investments have been made opening the Melbourne campus and expanding our premises in Perth. The business now has approvals to train over 500 students and capacity for up to 1,000 students.

Vocational Training – a sector in focus

The vocational education sector has come under much scrutiny recently with the investigation of a number of private providers by regulators.

It is important to note that ASH's business model is significantly different to those under review and all ASH's Registered Training Organisations (RTOs) are operating with full regulatory compliance and all funding contracts are fully operational. ASH is not the subject of any state of federal government enquiry or review concerning the education and training services it provides.

ASH welcomes the continued tightening of regulations in the vocational education sector and expects that significant government review and intervention within the VET sector will continue. ASH's strong history of quality training places it in a sound market position.

FY16 guidance update

ASH has incurred an EBITDA loss of $0.6 million for the four months to 31 October 2015. The loss has been driven by:

- A significant reduction in training revenues within the job seeker (public) market in all states except Victoria but operating costs continued to be incurred in these markets while the longer term impact of the changes to funding for the unemployed training market was assessed;
- Significant investment (circa $2.5 million for the six months to 31 December 2015) made in sales, marketing and compliance to diversify training revenue streams.

The Board expects second half profits to return to more normal levels as a result of:

- Elimination of losses from underperforming operations, following the recent restructuring (estimated $3.5 million benefit);
- Revenues now increasing from diversification initiatives;
- Increasing profits in NSW as a result of the smart and skilled funding now available to ASH. The team is now in place to deliver training to trainees and apprentices;
- Increasing profits in ASGI. Delivery models have been amended to better suit the needs of both students and employers.

As a consequence of the year to date loss, ASH has reduced its EBITDA forecast for the financial year ended 30 June 2016 to be between $7 million to $9 million. Corresponding net profit after tax before amortisation of acquired intangibles (NPATA) has been reduced to between $3.5 million to $5 million.

Balance sheet and cash flow management

Due to the year to date loss and the seasonal build in labour hire working capital, the Board expects ASH to be in a net debt position at 31 December 2015. The working capital facility remains at $15m and ASH has the continuing support of its bankers.

Maintaining a strong financial position is important to the Board of ASH, and therefore the Board has determined that it will not be declaring an interim dividend. Dividend payments for the full year will be reassessed in June 2016.

The seasonal labour hire working capital build will reverse in the six months to 30 June 2016 and ASH expects to have positive net cash at 30 June 2016.

Board and Senior Management

The Board has also commenced search processes to reconstruct the existing Board to achieve a majority of Non-Executive Independent Directors by June 2016 and to replace Ross Shrimpton as Managing Director. The intention at that time is that Ross would move to a Non-Executive Director role with the company.

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