ASX Announcement

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SPOTLESS RESULT IN LINE WITH GUIDANCE, WELL POSITIONED FOR GROWTH

Spotless Group Holdings Limited (ASX: SPO), a leading provider of outsourced facility services in Australia and New Zealand, today announced its results for the twelve months to 30 June 2016.

Key highlights

- Result in line with guidance
- Reported revenue growth of 10.6% with EBITDA down 1.5% on previous period
- Significant growth in underlying revenue and EBITDA of 17% and 6% respectively
- Facility Services business (92% of revenue) maintained underlying EBITDA margin of 10.2%
- Net profit after tax (NPAT) of $122m, down 14% and underlying NPAT of $131m down 4% on previous period
- Net debt improved from 31 December and comfortably within debt facility requirements
- Directors have declared a final dividend of 5.0 cents per share, partly franked (1.5 cents), demonstrating confidence in the company's strategy reset

Financial result summary

Year Ended 30 June	2016 $m	2015 $m	Change
Sales Revenue	**3,176**	2,873	+10.6%
EBITDA	**312**	316	(1.5%)
Profit after tax	**122**	143	(14.4%)
Basic earnings per share (cents)	**11.1**	13.0	(14.4%)
Final dividend per share (cents)	**5.0**	5.5	(9.1%)
Operating cash flow	**142**	247	(42.6%)
Net debt	**790**	564	+40.2%
Net debt/EBITDA (times)	**2.4**	1.8	
Underlying EBITDA	**326**	307	+6.0%
Underlying EBITDA margin (%)	**10.4**	11.4	(100bps)
Underlying EBIT margin (%)	**7.1**	8.5	(140bps)
Underlying profit after tax	**131**	136	(4.0%)

The reported result includes certain one-off items previously outlined to the market. These items included $9 million of costs relating to unsuccessful tenders, $5 million of incremental small bid costs expensed in this period and a $9 million benefit in the previous year relating to re-measurement of provisions.

Spotless Chairman Margaret Jackson said that while FY16 was a challenging year, the company remained in a strong financial position.

"The short-term issues outlined in the December trading update and reflected in this result have been resolved," she said. "Strong financial discipline was required to meet guidance and we continue to undertake significant action to improve overall business performance and profitability".

"The integration of acquisitions is complete, which will provide for a full-year contribution in FY17, while our contract renewal rates remain robust and our contract win rate is improving".

"After careful consideration of the potential growth in the Laundries business, and the resolution of the acquisition integration issues that impacted performance in FY16, Spotless has determined that the best value for Spotless' shareholders will be achieved by retaining this business".

"I am pleased with the focus and hard work of the new management team. They have completed a strategy reset that will deliver business growth through expanding our offerings to clients, winning new customers and entering additional markets. This will ensure the company returns to sustainable, reliable and predictable growth. The final dividend of 5.0 cents per share, reinforces the Board's confidence in the company's future." In FY16, our total dividend of 8.5 cents represents a payout ratio of 71%.

Spotless Chief Executive Officer & Managing Director, Martin Sheppard, said the result highlighted the strong fundamentals of the business, including its stable and "blue chip" long-term client base.

"Our solid FY16 performance is underscored by strong renewals across a range of sectors such as Health, Government, Commercial, Leisure and acquisitions, along with a business development focus on higher margin business" he said.

"As the largest local outsourced service provider in the market, Spotless has a real competitive advantage. This is cemented by our ability to coordinate an integrated service offering across all of our capabilities which few others can beat. FY16 has been a transitional year with short-term factors adversely affecting performance. However, achieving a result in line with guidance reflects the strong operational and financial focus from the new team. Everyone at Spotless is motivated by the growth opportunities for the business and we are confident about what lies ahead."

Strong financial position

FY16 saw significant growth in underlying revenue and EBITDA of 17% and 6% respectively. Recent acquisitions made a positive contribution to the FY16 result and, with integration now complete, a full-year contribution can be expected in FY17. Management remain focused on delivering the growth ambitions of these acquisitions. The company's most significant bolt-on acquisition, UASG, is performing well and in line with expectations. Organic growth declined slightly in the current year due to contract losses in the prior and current period.

Our core business remains strong and provides a platform for growth. Underlying EBITDA margin in the Facilities Services business (92% of revenue) were maintained at 10.2%. The underlying EBITDA margin in the Laundries business was impacted by integration issues flowing from the acquisitions, with margins decreasing from 31.0% to 24.2%.

Debt and cashflow

Spotless maintains a solid capital structure, with net debt of $790 million at 30 June 2016, down marginally from 31 December. This represents net debt to EBITDA of 2.4 times, well within debt facility requirements and is at levels which the Board and management are comfortable with. 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.

Our net debt position is as expected and reflects operating cashflows being used for investment including the $202m in acquisitions over the last two years, the investment in working capital, incremental laundry stock purchases required to support these businesses and to fund dividends. After adjusting for certain non-recurring items, the underlying operating cash flow was in line with the prior year and represented a cash conversion of 83%. Moving forward there will be a greater focus on cash conversion.

Strategy reset

Spotless has completed a strategy reset, which has been reviewed with the Board and provides a clear vision, purpose and strategy for the company.

The Company's growth agenda will be supported by three core **strategy** pillars:

- **Extend** the breadth of offer through sector prioritisation and extending services;
- **Unlock value** by optimising our leading market positon and strong core business; and
- **Reposition** our brand and employee value proposition to enable and facilitate our growth agenda.

Focus areas include:

- Organic growth prioritised over acquisition growth;
- High return, low capital intensive sectors and services are the priority. These include Education, Health, Government and Defence;
- Increasing our win rates. Focus on fewer but larger opportunities;
- Cross selling into existing categories to provide an integrated solution;
- Focusing on improving opportunity qualification;
- Strengthening account management and customer focus within our existing customers;
- Brand repositioning; and
- Prioritising innovation by introducing "Smart Spotless" and applying in practice with our customers.

Spotless continues to deliver strong margins on a large and growing contract book that is diversified by sector and services. This provides a very stable base and Spotless is well positioned for the next phase of growth.

Capability uplift

To support delivery of our strategy there has been significant focus on building the capability within the Spotless leadership team:

- New appointments: Nigel Chadwick (Chief Financial Officer), Julian Fogarty (Brand Innovation and Technology), Catherine Walsh (People Performance & Culture), Leanne Gough (Marketing) and Geoff Bryant (Investor Relations & M&A) have joined the Spotless team;
- Internal promotions: Dana Nelson (Chief Operating Officer); Agi Luczak (Markets and Growth);
- Business development resources have been added across Government, Aged Care and Tertiary Education; and
- Scope has been increased for other personnel to ensure our resources are aligned to our strategy.

Organic growth a key focus

During the year, Spotless was awarded a number of new and renewed contracts, valued at over $130 million (new business) and $480m (renewal business) in annual revenues. Notable contracts included:

- Facilities management and integrated services contracts for the NSW Land and Housing Corporation, SA Health, Ergon Energy and Central Alliance Health NZ;
- Public Private Partnerships with the Victorian Department of Education, WA Department of Education and the Australian National University; and
- Township management for Rio Tinto Hail Creek, QGC and Anglo American.

We continue to have a high new business win rate (50%) across total number of pursued opportunities. However, our FY16 win rate by revenue was impacted by the loss of a significant contract with Rio Tinto.

Spotless is the leading operator of social infrastructure PPPs across Australia and New Zealand, with nine projects operational and seven contracts currently mobilising. These have a combined average tenure of ~25+ years, providing a secure, long-term revenue stream. PPP revenues were ~$154m in FY16 (FY15: $113m), with strong growth expected as projects reach full operational phase in FY17 and beyond.

Spotless self-delivers approximately 70% 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 $1.3 billion in tender opportunities.

Outlook

Spotless is confident in the strength of the underlying business and that the pipeline of opportunities support re-stimulation of organic growth. However, the rate of growth will be driven by the success and timing of the strategy reset initiatives, particularly the returns from the recent investment in business development resources.

For FY17 and beyond, growth and attractive returns are expected through:

- Improved performance of the Laundries business;
- Driving growth from our recently acquired businesses;
- Commencement of recently won PPPs, with seven PPPs currently mobilising;
- Price escalations in existing contracts;
- Greater focus on free cash flow conversion;
- New wins in a steadily growing contestable market; and
- Conversion of the current pipeline of more than $1.3 billion of opportunities.

There are no significant upcoming contract renewals that will materially impact FY17.

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