

**ASX ANNOUNCEMENT: 07 May 2010****CEO on Market Update**

Open Briefing with CEO and MD Greg Hargrave

SKILLED Group Limited  
Level 15, 380 St Kilda Road  
Melbourne, VIC 3004

---

**In this Open Briefing<sup>®</sup>, CEO and MD Greg Hargrave discusses**

- **Lower than expected reported EBITDA for full year ending June 2010**
  - **Commencement of strategic review of SKILLED's business portfolio, performance and prospects**
  - **Rationale for stepping down as CEO and Managing Director of SKILLED Group**
- 

**Open Briefing interview:****[openbriefing.com](http://openbriefing.com)**

SKILLED Group Limited recently announced it expects reported EBITDA for the full year ending June 2010 to be in the range of \$60 million to \$65 million. The guidance implies second half reported EBITDA of \$29 million to \$34 million. This compares with reported EBITDA of \$29.3 million in the previous corresponding period and \$30.7 million in the recent first half. Where are we in SKILLED's business cycle? Are there any signs that your markets have bottomed?

**CEO & MD Greg Hargrave**

SKILLED's core staffing services businesses bottomed out in mid 2009. Since then we have seen steady growth in hours sold and revenues. However, after the seasonal slowdown in early 2010, the rate of improvement did not resume at the same pace as was experienced in late 2009.

In regards to the non staffing services businesses, ATIVO our maintenance and project services business, is currently experiencing significantly better activity levels than in the previous half year period, however it is still a long way off the levels of activity during 2007 and 2008. We expect ATIVO activity levels to continue to improve over the next year.

Offshore Marine Services remains relatively flat overall with some growth in manning revenues. However this is being more than offset by reduced activity levels in the vessel business. We see this trend probably continuing for the next six months or so. The OMS Alliance joint venture servicing the Gorgon project (in which we have a one-third share), is now experiencing strong activity as its service to this major project ramps up.

Our call centre business, Excelior, has continued to experience declines in revenues and earnings in recent months as previous contracts run off and are yet to be fully replaced and volumes from some continuing contracts are reduced. The outlook is improving with new business in the pipeline and excess capacity reduced.

Origin Healthcare, SKILLED Group's nursing agency business continues to experience reduced shift volumes as a result of hospitals reducing their expenditure on agency staff.

[openbriefing.com](http://openbriefing.com)

What has been the trend in SKILLED's market share in its key segments? What have been the key factors affecting performance year to date?

**CEO & MD Greg Hargrave**

We don't believe we have lost any market share in any of our key segments. The performance of the various different businesses reflects the individual economic and commercial influences impacting those businesses and the 'patchy' nature of the economic recovery across different sectors.

[openbriefing.com](http://openbriefing.com)

You mentioned performance of Engineering & Marine Services (Offshore Marine Services and ATIVO), Business Services (Excelior) and Origin Healthcare are substantially below expectations. How much of this underperformance was due to the slower than expected demand recovery and how much was due to issues within management control?

**CEO & MD Greg Hargrave**

Predominately the underperformance against our expectations is due to the slower than expected and patchy nature of the economic recovery as referred to previously.

We also acknowledge, however, that our understanding of the full extent of the underperformance against previous expectations in the OMS Australia business has been in part due to some management issues. In particular, this has affected OMS Australia's vessel business. We have now identified these issues and are taking steps to address them. In the coming months, we will continue to examine the OMS business in order to make changes that will improve its performance.

[openbriefing.com](http://openbriefing.com)

Given the continued performance in OMS, ATIVO, Excelior and Origin Healthcare, do you foresee the need to write down the carrying value of these assets, including the related goodwill?

**CEO & MD Greg Hargrave**

We are carrying goodwill in respect to both OMS and Origin as these were acquired businesses. At present we don't see any need to adjust the carrying value of the goodwill. However, as part of the normal year end accounting process we will review the carrying values with our auditors.

[openbriefing.com](http://openbriefing.com)

As at the end of December 2009, SKILLED had net debt of \$181.2 million, down from \$258.7 million six months earlier. Net debt to net debt plus equity was 35.5 percent, down from 53.3 percent. What has been the trend in net debt and gearing in recent months and what is the anticipated position at year end?

**CEO & MD Greg Hargrave**

Currently our net debt to net debt plus equity remains at about 35 percent with the net debt level at about \$180 million. We expect these levels to be about the same at year end.

[openbriefing.com](http://openbriefing.com)

Operating cash flow for the first half was \$14.6 million, or \$3.1 million after interest costs of \$11.5 million. You also incurred capex spend of \$5.6 million and earn out payments of \$11 million. What are your expectations for cash flow in the second half?

**CEO & MD Greg Hargrave**

The business continues to generate positive operating cash flows. We expect our second half cash earnings to be at least at the same level as the first half, with only a small increase in working capital. On this basis the business will generate improved operating cash flows. We also expect interest levels to be similar in the second half and with regard to investing cash flows, capex levels will be similar however earn-out payments will be lower. Overall this will see SKILLED generating positive free cash flow however not at a level that will see much change in our net debt levels.

[openbriefing.com](http://openbriefing.com)

You've announced a strategic review of SKILLED's business portfolio, performance and prospects. What are the objectives of the review? What do you perceive as the benefits of the strategic review for the future of SKILLED? Will there be any one-off costs as a result of the strategic review?

**CEO & MD Greg Hargrave**

The strategic review will encompass a detailed business unit analysis and consider a broad range of options for SKILLED Group to enhance value to its shareholders and other key stakeholders. The review may canvass changes to the Group's asset portfolio and operational and capital structure. The Board and I consider that it must review all reasonable options for SKILLED to determine the best outcome for the Company and maximise value for shareholders.

Obviously there will be some costs incurred in relation to undertaking the review, however until it is completed it is not possible to say if there will be any one-off costs associated with the implementation of any recommendations arising from the review.

[openbriefing.com](http://openbriefing.com)

Can you provide a timeline for the strategic review?

**CEO & MD Greg Hargrave**

Given the review will be broad ranging and cover a large number of potential outcomes for the company; we expect it to take some months to complete.

[openbriefing.com](http://openbriefing.com)

You intend to step down from your role as Managing Director and Chief Executive Officer upon the completion of the review and implementation of its recommendation. You've grown the company from revenue of \$400 million to almost \$2 billion over 10 years. What was the rationale of your intention to step down?

**CEO & MD Greg Hargrave**

After 10 years leadership and a history of family involvement, I believe that the company would benefit from management renewal. This creates an opportunity to take stock and critically review the business and its options. SKILLED will benefit greatly from a CEO that's able to commit to the business for the medium to long term. I will oversee the strategic review and implementation of its recommendations, and remain committed to the future success of SKILLED Group as a Director and major shareholder.

[openbriefing.com](http://openbriefing.com)

What is the CEO succession plan?

**CEO & MD Greg Hargrave**

Part of the strategic review will be assessing the appropriate future management structure for SKILLED and identifying suitable candidates for any new roles, and the CEO role. Clearly, management structure and candidate suitability will be heavily influenced by the other aspects of the review. The Board will consider both internal and external candidates for the CEO role. This will take some time to work through.

[openbriefing.com](http://openbriefing.com)

Why are you staying to implement the strategic review?

**CEO & MD Greg Hargrave**

I am committed to contributing to the review and the potential restructuring of SKILLED Group and I believe my long term association with the business will enable me to make a valuable contribution. I also have a substantial interest in the outcome of the review as the Group's major shareholder and importantly my interests are very strongly aligned with the interests with SKILLED's other shareholders in this respect.

There's also the strong practical reason in that until the review has been conducted, and recommendations made, it would be premature to begin the search for, or to hire, a new CEO. It makes sense for the new CEO and any new management to be identified only once the Board has determined which recommendations it will proceed with, and it has an understanding of what the particular need, including skills, experience and capabilities, will be.

I expect to also assist with a smooth transition to the new CEO.

[openbriefing.com](http://openbriefing.com)

You retain approximately 30 percent interest in the company. Do you intend to sell your SKILLED Group holding?

**CEO & MD Greg Hargrave**

No, I'm committed to remaining a major shareholder of SKILLED Group and remaining on the Board for the long-term. As an investor I am confident in the prospects of SKILLED Group and I want to participate in the future upside of the business.

[openbriefing.com](http://openbriefing.com)

Thank you Greg.

---

For more information about SKILLED, visit [skilledgroup.com.au](http://skilledgroup.com.au) or call Tim Paine on +61 3 8646 6411. To read other Open Briefings, or to receive future Open Briefings by email, please visit [openbriefing.com](http://openbriefing.com).

**DISCLAIMER:** Orient Capital Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.