

24 February 2010

SKILLED Group (ASX: SKE) First Half Results

Context

The prior comparative period (1H FY09) was the strongest performance for SKILLED Group in its history. This was then countered by a widespread decline in our market demand and profitability as the global financial crisis impacted the economy.

As noted during our capital raising this decline stabilised early in this financial year and the overall business is showing an improving trend although this has not yet occurred in all parts of the business.

Financial Summary

- Revenue of \$844.5m down 4% on 2H FY09 and down 21% on 1H FY09
- Reported EBITDA of \$30.7m up 4.8% on 2H FY09 and down 46% on 1H FY09
- Underlying EBITDA \$33.6m up 12.4% on 2H FY09 and down 43% on 1H FY09
- Underlying EBITDA margin is 4.0% up from 3.4% on 2H FY09 and down from 5.5% in 1H FY09
- Net operating cashflow of \$14.6m
- Reported NPAT of \$4.5m down 35% on 2H FY09 and down 79% on 1H FY09
- Underlying NPAT \$9.0 million up 30% on 2H FY09 and down 67% on 1H FY09
- Reported EPS 2.8cps down from 5.5cps for 2H FY09 and down from 17.5cps for 1H FY09
- Gearing has fallen from 53% (June 2009) to 35% (net debt / net debt + equity)
- No interim dividend declared; continued focus on conserving cash

Operational Summary

- Workforce Services has marginally improved profits but embedded within this is an improving monthly profit run rate driven by tight cost control and growth in activity from the lows of July / August
- Restructure of white collar businesses into the Other Staffing Services division delivered improved profitability
- Engineering and Marine Services delivered an improved result due to the contribution of the OMS Alliance JV

- Excelior, our call centre business, had lower profits due to restructuring costs flowing from the wind down of a major contract and slower than expected sales conversion
- Shared services and IT back office systems in their final phase of a successful rollout that will be complete this half
- Continued success in improving safety outcomes with our LTIFR falling to 1.28 injuries per million hours worked compared with 2.20 at June 2009

Outlook

- Market signs indicate a broadening of the recovery
- As discussed at the capital raising management continue to have a positive view of FY11

FINANCIAL PERFORMANCE

SKILLED Group Limited ("SKILLED") (ASX: SKE) today reported revenue of \$844.5 million for the six months to 31 December 2009, down 21% from the prior corresponding period (pcp) and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$30.7 million down 46% from pcp.

Reported net profit after tax (NPAT) fell 79% on pcp to \$4.5 million. After adjusting for the notional non-cash interest charge on earn-out liabilities (\$1.4 million), amortisation of intangible assets (\$1.1 million) and redundancy costs of \$2.0m, the underlying net profit after tax (NPAT) fell 67% to \$9.0 million.

Considering the impact of the global financial crisis on market conditions, SKILLED Group believes that a better comparison of relative business performance for this reporting period is against 2H FY09.

In comparison to 2H FY09, revenue was down 4%, reported EBITDA was up 4.8% and after allowing for restructuring costs underlying EBITDA was \$33.6m up 12.4%. Reported NPAT was down 35% at \$4.5m but underlying NPAT after allowing for non cash items and restructuring costs was \$9.0m up 30% from 2H FY09 (which also included the positive impact of a R&D tax concession).

Total depreciation and amortisation was marginally lower at \$10.4 million, including \$8.8 million in depreciation and amortisation of fixed assets, software and databases, and \$1.6 million in amortisation of other acquired intangibles.

Total net interest expense was \$14.2 million, comprising net interest expense on debt of \$12.8 million and notional interest on earn-out liabilities of \$1.4 million.

Net debt has fallen substantially to \$181.2 million down from \$258.7 million at the end of last financial year. This is primarily due to the completion of the capital raising in September 2009. SKILLED Group's gearing expressed as net debt to net debt plus equity is now 35%, down from 53%.

Commenting on the performance Greg Hargrave, Managing Director and Chief Executive Officer, said:

"The global financial crisis had a serious impact on our business, but we successfully restructured our business and our balance sheet and are cautiously optimistic about the outlook. While the performance of the business is well down from the 1H FY09, we have delivered a slightly improved EBITDA result on the 2H FY09 and expect this rising trend to continue.

The first half saw the business only bottom out as a whole early in this financial year. Since then the profit performance has been progressively improving as elements of the business have started to grow again. This recovery is not yet broad based though. While those areas of the business focused on labour hire have been growing off their lows, those most exposed to customers' capital / exploration expenditure, such as ATIVO and Offshore Marine Services (OMS), have been finding it tough. ATIVO's order book is now improving but OMS is likely to remain challenged over the next six months or so although countering this is the positive contribution from the Offshore Marine Services Alliance JV (OMSA), which has now started delivering services to the Gorgon project.

By keeping prudent control over our costs we are lifting our operating margins as the business rebuilds its revenue base. Underlying EBITDA margin over the last six months is 4.0%, up from 3.4% in the 2H FY09.

The final rollout of our back office IT system is now underway and will be complete by the end of this financial year. This has been delayed somewhat as we balanced competing priorities, but with its completion SKILLED will have a scalable platform for progressively enhancing back office productivity over the next few years.

Pleasingly, throughout the financial crisis we have kept our focus on making our employees safe resulting in a further improvement in with lost time injuries per million hours worked falling from 2.20 at June 2009 to 1.28 at December 2009."

No Interim Dividend

After careful consideration the Board has decided not to declare an interim dividend. SKILLED Group wishes to maintain a focus on conserving cash and reducing debt until profitability returns to more acceptable levels.

OPERATIONAL OVERVIEW

Workforce Services		1H FY10	2H FY09	1H FY09
Revenue	\$M	414.6	409.1	544.4
EBITDA (Before Corporate Office costs)	\$M	17.9	17.5	29.0
EBITDA Margin		4.3%	4.3%	5.3%

Workforce Services, which includes the SKILLED brand, TESA Mining and Extraman, among others, has been heavily impacted by the downturn with EBITDA down significantly on 1H FY09 but up a little on the 2H FY09. However, this hides a significant rebound in activity from its lows of July – August 2009. At the beginning of December 2009 (before the Christmas slowdown) the weekly trend revenue was ~28% above the low point. This is significantly above typical seasonal movements.

The rebound in activity is yet to touch all sectors. Strong improvements in areas such as manufacturing, FMCG, transport and logistics has been evident, while infrastructure and mining are yet to begin strong growth.

Careful cost management has offset the fall in gross margin over the last six months and continues to be applied to ensure the rising revenues translate into improving operating margins.

Other Staffing Services		1H FY10	2H FY09	1H FY09
Revenue	\$M	174.0	180.5	212.5
EBITDA (Before Corporate Office costs)	\$M	7.3	6.2	7.5
EBITDA Margin		4.2%	3.5%	3.5%

Other Staffing Services covers our broadly white collar brands such as Mosaic, PeopleCo, SWAN, Origin, among others.

Significant restructuring has lifted profitability in percentage terms above preceding periods delivering a good performance for the 1st half compared to 2H FY09.

Increasing recruitment activity and a more active SME market will continue to benefit Mosaic and PeopleCo. in the second half.

SWAN, our technical professional's brand, has broadly held performance but is yet to see many signs of an impending improvement in activity.

Origin, our nursing and associated healthcare business remains heavily impacted by the downturn and the shift to more internal staffing by hospitals. Some progress is being made in efforts to expand its market presence into the allied health space but this is not expected to lead to a quick turnaround.

Engineering and Marine Services		1H FY10	2H FY09	1H FY09
Revenue	\$M	229.1	257.3	272.2
EBITDA (Before Corporate Office costs)	\$M	11.4	9.4	26.1
EBITDA Margin		5.0%	3.6%	9.6%

Engineering and Marine Services comprises OMS and ATIVO (maintenance and project services).

This division has been heavily impacted by the downturn as project spending fell and excess supply capacity squeezed margins. EBITDA has improved over the 2H FY09 due to the contribution from the OMSA.

ATIVO, which had a very slow first half, is now seeing an improvement in its order book.

In OMS, the weakness in the Australian vessel chartering market has offset the good performance of the manning business. This weakness is now expected to continue during the second half.

Business Services		1H FY10	2H FY09	1H FY09
Revenue	\$M	28.6	30.7	40.1
EBITDA (Before Corporate Office costs)	\$M	2.2	3.1	5.7
EBITDA Margin		7.6%	10.0%	14.1%

Business Services comprising Excelior, our customer contact and call centre business, saw a decline in profitability driven by some restructuring costs and the slower than expected conversion of their sales pipeline failing to make up for the completion of a major contract.

OUTLOOK

The Australian economy is in the early stages of its recovery and while SKILLED has been benefiting from this in many parts of our business, others are still to respond. All the signs indicate that the economic recovery will continue and broaden to sectors of the economy that have yet to begin the rebuilding process. This should drive an improvement in our revenues and profits over the next 12 months and beyond.

The 2nd half of this financial year continues the rebuilding process for SKILLED. We expect to deliver a stronger result than the first half through both higher revenues and improved operating margin. The magnitude though is still very dependent on the month by month rate of economic recovery.

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About SKILLED Group

SKILLED Group Limited is Australia and New Zealand's leading provider of labour hire and workforce services. SKILLED Group has over 160 offices across Australasia with annualised revenues around A\$1.9 billion. SKILLED partners with clients to improve their workforce efficiency and increase their productivity levels and provides staffing services to the industrial, healthcare and contact service centre sectors. SKILLED is listed on the Australian Stock Exchange (ASX: SKE) and has approximately 6,200 shareholders, predominantly in Australia.