Media Release

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AWF Madison reports strong cash flow, growth in revenue but decreased earnings on the back of a challenging year in AWF.

AWF Madison announces today 9% revenue growth to $279.3 million. This was made up of an increase in Madison and the full year earnings of Absolute IT. We have made good progress in growing our scale, reach and efficiency.

- Revenue up 8.9% to $279 million
- NPAT at $5.0 million down 14% from $5.9 million
- Increase in net cash flow from operations from $7.6 million to $11.5 million
- Final dividend steady at 8.2 cents per share
- Introduction of a Dividend Reinvestment Plan

As we had signalled last year, we have concentrated our resources where needs have dictated. This has seen revenue and earnings in our white collar area grow beyond 51% of total revenue for the first time.

Our acquisition of Absolute IT has delivered a strong capability in the rapidly changing IT sector. It is a sector where 'contract resource' is the norm, where internal recruitment teams are less effective recruiting directly, and do not tend to manage contractors. Absolute IT delivered year on year profit and turnover growth and assisted the white collar division grow turnover from $98.7m to $148.9m with segment profit (EBIT) increasing from $3.4m to $6.0m. We have successfully inducted the Absolute IT business and transferred the intellectual property held by the former principals.

The Census Project contributed a large portion of the increased volume as we successfully delivered an innovative and robust solution to Statistics New Zealand. This was a significant and successful learning experience and made a positive contribution, but required a great deal of mobilisation in order to scale up, which we can now leverage. Importantly, our internal learnings helped us further develop our Managed Service delivery model. As a result we were able to bid for and successfully negotiate a large long-term Managed Service contract with a government agency which commenced in April this year.

We will continue to develop our service offerings to be relevant in this changing market. We consider the provision of 'Managed Services for contingent workers' to be a growth opportunity. With this platform in place we expect to replicate this offering across both segments to targeted clients. The recurring revenue and certainty of tenure, a cornerstone of this platform, balances our 'just-in-time services' and provides added certainty to underpin investment in innovative solutions.

Level 6, 51 Shortland Street, Auckland
PO Box 12832, Penrose, Auckland 1642
Tel 09 526 8770 Fax 09 579 0224
awfmadison.co.nz

AWF MADISON

We have continued to drive our platform change and process efficiency in AWF, this was done within the backdrop of a difficult changing market. AWF turnover dropped from $157.7m to $130.0m during this transition phase, but we expect to recover over the ensuing 24 months. Matching market demand and supply has become more challenging. We have become much more selective about clients. Likewise, one-off smaller jobs are difficult to deliver safely. Our sweet spot is mid to large organisations, with fair margins, and ongoing rather than sporadic demand.

We see the decline in AWF as cyclical. We anticipate a stronger contribution in the coming year, leveraging off the transformation. Clients recognise the growing value in our service, integrating training delivery, workforce planning and Health & Safety standards and procedures. As with our white collar sector, AWF expects to deliver a Managed Service with a key client this financial year.

“The regulatory, economic and political environment changed during the year on the back of the 2017 election process and the formation of a new coalition Government. Administrative delays caused the process of recruiting migrant labour to stall, resulting in a January influx, which was inopportune,” says Group CEO Simon Bennett.

Whilst construction in Auckland creates an opportunity, there are cost constraints and the sector is fragmented. Management of credit risk during this stage of the cycle remains front of mind and we are happy with the current debtor’s book.

“Continuing delays in obtaining approvals across the construction sector meant that we were unable to optimise the logistics of matching supply and demand of contingent labour. Unfortunately we received negative publicity from our Filipino migrant business, where several factors including delays made smooth deployment difficult. The skilled migrant sector is important to AWF and NZ and we will continue to work with the regulators to ensure we have an efficient and compliant model.

“The future of work will require a strong contingent and flexible workforce. New Zealand still lags behind OECD counterparts with approximately 10% of our workforce being contingent, compared with 20-30% of the labour force in the US and EU15. Skill shortages will continue in the short to medium-term, and we are positioned well to capitalise on these across our business,” adds Bennett.

The sector offers people fantastic pathways to permanent work, flexibility and variety of roles; whilst allowing companies and government agencies the ability to flex up and efficiently manage their workforce. This was illustrated with our management of Census fieldworkers, where we mobilised up to 3000 workers.

Our net bank debt decreased from $32.4m to $29.7m, and allowed us to complete the purchase of Absolute IT at the end of the year and paying $3.25m in earnout. Net cash flow from operations at $11.5 million was strong (last year $7.6 million), and excellent debtor management resulted in 93% of debtors being current by Year End. There are no debtor issues such as those referred to last year, and full provisions are in place to cover future contingencies.

Whilst we remain comfortable with our debt levels, the Board has for some time considered a review of its capital structure and dividend policy, with a view to determining its capacity to invest in future growth initiatives and reduce bank debt. It has taken independent advice on this, and to this end proposes (subject to NZX approval) introducing a Dividend Reinvestment Plan (DRP) this year. This will allow shareholders to reinvest up to 50% of their dividend in new equity. Simon Hull, the majority shareholder, has indicated he will fully participate in this scheme as will the CEO and the remainder of the Board. Despite a dip in earnings, the strong cash flow and positive outlook enables us to pay a final dividend of 8.2 cents per share, consistent with the prior year.

Group CEO Simon Bennett says "The DRP is a great way to make a meaningful reduction in our core debt over the coming year. It will enable us to repay the debt raised to acquire Absolute IT, once more giving us 'headroom in the balance sheet' for future opportunities. It allows the Board flexibility to increase the capital base, with the support of key shareholders, while allowing other investors the opportunity to reinvest in new shares (up to 50% of the final dividend), at a share price to be determined according to VWAP calculated on 5 business days from Ex Date, being the day before Record Date."

It is disappointing to announce a drop in NPAT at $5 million, 14% below the previous year's $5.8 million. The robustness of our white collar business countered what was a challenging year for AWF.

The outlook for the year ahead is good. The Board is satisfied with the strategic direction and the plan for the year ahead. We have good client and sector diversity and have a good pipeline for new client acquisition across all of our businesses. We will continue to invest in internal efficiencies, innovation and build stronger candidate engagement across changing engagement methodologies. The digital landscape is well-suited to us and an area of continued opportunity and investment.

Simon Bennett
Chief Executive

For the Board:
Ross Keenan 021 685 655
Chairman

For further information contact:
Simon Bennett 021 036 8387