



MARKET UPDATE

4 December 2014

Vocation Limited (VET) today announced that following a review of its operating performance and after assessing the further impact of its October settlement with the Victorian Department of Education and Early Childhood Development (DEECD), the Company expected that its Statutory EBITDA for the year to June 30, 2015, would be between \$25 million and \$30 million.

This compares to a guidance of \$53 million to \$57 million announced on 27 October 2014.

The Group Chief Executive Officer and Managing Director Mr Hutchinson said today:

“In the period since our settlement with the DEECD and our previous forecast, there has been a deterioration in enrolment volumes, particularly from our Victorian operations and our MyVocation initiative.

Along with the impact of discontinuing our relationship with some brokers (as part of our steps to remove risk from the business), we have also experienced significantly lower student enrolments from our referrer network. These factors impact revenue from our Vocational Education and Training business.

The level of impact on our business following the DEECD settlement was unexpected.

As part of the recent changes to our business since the DEECD settlement, we have taken into account the evolving views of industry regulators regarding the use of third party providers. Our revised model reflects the decision to continue to move to an in-house model with reduced regulatory risk. This will provide the best platform for our future business activities.

We are focusing on our longstanding course offerings and launching new courses to improve student choice and outcomes. Our focus remains on our students and clients, for whom we continue to deliver strong educational and job outcomes across Australia.

While the downturn in revenue from the Vocation branded business has been disappointing, we are quickly refocusing the Victorian VET business and strengthening our Higher Education businesses under our portfolio of brands. These brands continue to perform well and we are confident in the positive fundamentals underlying the Group's business, specifically:

- Significantly strengthened management team in place;
- Cost structure aligned to the new simplified and 'direct engagement and delivery' business model;
- Strong ongoing enrolments and positive student satisfaction feedback from our Higher Education courses;
- Well-qualified and enthusiastic team of staff delivering high quality student outcomes.

Going forward we will continue to focus on enterprise clients through the Real Institute, which has a strong track record of implementing national training solutions for a wide range of companies.

Real Institute has seen strong support from its corporate client base and continues to win new contracts.”

Mr Hutchinson added that the Company remains in regular dialogue with all of its state and federal regulators across all of its businesses. “As always, we continue to work constructively with our regulators during the cycle of audits which underpin continuous quality improvement across the entire VET and Higher Education sector.”

A breakdown of the company's revised guidance is set out below:

	FY14	Prior FY15*	Revised FY15*
Higher Education	11.0	16.0	14.8
Diplomas	1.0	14.0	4.5
Cert I-IV & Corporate	45.0	25.0	8.2
Total Statutory EBITDA	57.0	55.0	27.5

* Reflects the midpoint of guidance range

Key factors informing the difference between the updated guidance and our previous guidance include:

- The Higher Education business continues to perform well, albeit slightly behind forecast;
- An unexpected higher level loss of referral partners to the VET FEE-HELP business due to negative sentiment following the DEECD settlement;
- Significant loss of momentum in Victorian enrolments also resulting from the negative sentiment following the DEECD settlement;
- An unexpected delay in enrolments from some enterprise clients.

The forecast statutory EBITDA in H1 is negative \$8m with H2 forecast at \$35.5m. Higher Education and Diplomas collectively are expected to account for \$4.7m and \$14.6m in H1 and H2 respectively.

In the Company's revised Statutory EBITDA forecast for FY15, the incremental growth forecast in H2 compared to H1 is based in part on the traditional underlying EBITDA seasonality in the business and the following specific factors:

- Established seasonality skew of Higher Education to H2, plus growth in ASM & ACAE particularly with international students and interstate expansion (\$6 million);
- Addition of earnings from Building Brighter Futures (following new Domain C contract secured), where enrolments commenced in late October, but full impact is expected in H2 (\$5 million);
- One off costs in excess of \$10m (which have impacted the H1 statutory EBITDA) which includes the impact of the DEECD settlement, redundancies and other advisor costs;
- A lower cost base in H2 as a result of restructuring in H1 (\$7 million);
- Application of Higher Education sales channels and methodologies and brands to the Diploma segment;
- Modest rebuilding of Victorian enrolments in H2 (at improved margins through new direct structure) and continued growth in other states.

The Company remains in a healthy financial position with fully drawn debt facilities of \$120 million and cash balances in excess of \$55 million.

We believe in the education sector and continued growth. The structure of the industry will continue to evolve, as evidenced by recent events, which to this point has impacted Vocation more directly than any other industry participant. The company has responded to this changing landscape by altering our approach to the market in areas we believe are appropriate to set the Company up to benefit from a favourable longer term trend. We remain committed and focused on delivering high quality services to our clients and students.



For further details:

Media:

John Hurst
Cannings Corporate Communications
+ 61 418 708663
+ 61 2 82849901

Investors & Analysts:

Mark Hutchinson
Group CEO and Managing Director
Vocation Limited
+ 61 2 8047 6997

Sydney

Level 15, 1 Pacific highway
North Sydney NSW 2060

Melbourne

380 City Road
Southbank VIC 3006

☎ 1800 VOCATION
✉ ask@vocation.com.au

in Find us on LinkedIn
🐦 [@vocationau](https://twitter.com/vocationau)