

ASX ANNOUNCEMENT

13 August 2014

Results for the year ended 30 June 2014

Financial summary

	FY14	FY13
Sales Revenue¹ (\$m)	1,873.3	1,873.9
Reported NPAT² (\$m)	44.2	56.2
Underlying NPAT (\$m)	55.3	58.4
Underlying EBITDA³ (\$m)	95.4	95.1
Underlying EBITDA³ margin (%)	5.1	5.1
Operating cash flow (before tax) (\$m)	80.9	89.7
Net debt (\$m)	170.1	44.8
Gearing (debt/debt+equity) (%)	26.2	8.7
Reported EPS (cps)	18.9	24.1
Underlying EPS (cps)	23.6	25.0
Dividend (cps)	17.0	16.0

Refer to Appendix 1 for the Performance summary and reconciliation of Reported NPAT to Underlying NPAT

SKILLED Group (ASX:SKE) today announced net profit after tax² of \$44.2 million for the year ended 30 June 2014 and underlying net profit after tax of \$55.3 million.

Revenue was \$1,873.3 million, in line with the previous year, with second half revenue 6.7% higher than the first half. Underlying EBITDA margin was maintained at 5.1%.

	2H14	1H14	2H13	1H13
Sales Revenue¹ (\$m)	967.1	906.3	900.3	973.6
Reported NPAT² (\$m)	23.2	21.0	27.9	28.2
Underlying NPAT (\$m)	29.2	26.0	29.3	29.2
Underlying EBITDA³ (\$m)	51.5	43.9	46.4	48.7

The Board has declared an increased final dividend of 9.5 cps, fully franked. The total dividend declared for FY14 is 17.0 cps (fully franked), up from 16.0 cps in FY13.

Commenting on the result, SKILLED Group CEO, Mr Mick McMahon said, "This result was driven by a stronger performance in the second half from Engineering and Marine Services and contributions from acquisitions, offsetting the cyclical decline in Workforce Services and Technical Professionals. We have continued to deliver on our strategy, with strong revenue growth in the second half and underlying EBITDA margin maintained at 5.1% for the year, despite the challenging market conditions.

"The strategy to invest in more attractive, higher growth sectors while leveraging scale and brand strength in the core business has helped to deliver this year's results. This strategy, coupled with management capability and a strong balance sheet, will continue to support future earnings growth. The strong run-rate achieved in the second half is expected to continue into FY15.

"We are also pleased that our continued focus on safety performance has resulted in a 14% reduction in AIFR⁴ which, in addition to keeping our people safe, helps to reduce our cost base," Mr McMahon added.

Mr McMahon also said that good progress had been made on upgrading SKILLED's ERP (Agresso) and implementing system and process efficiencies, contributing to a further \$15 million sustainable cost reduction.

Segment overview

(EBITDA results are before corporate costs)

Engineering and Marine Services:

Provision of contract maintenance, project and shutdown services and offshore marine manning and management services. Brands include ATIVO, Thomas & Coffey, SKILLED Offshore and Broadsword Marine Services.

	FY14	FY13	2H14	1H14	2H13	1H13
Revenue ¹ (\$m)	617.8	468.8	365.6	252.3	227.8	241.0
EBITDA (\$m)	58.3	41.3	35.6	22.7	21.6	19.7
EBITDA margin	9.4%	8.8%	9.7%	9.0%	9.5%	8.2%

¹ includes equity accounted income from joint ventures

Engineering and Marine Services has delivered strong revenue growth in line with expectations.

Activity levels in ATIVO improved in the second half, with an increase in maintenance and shutdown activity, in addition to contract wins at Olympic Dam, in the Hunter Valley and the Pilbara.

Thomas & Coffey, acquired in February 2014, is performing well, providing reach and capability to the Engineering offering. Integration is progressing to plan.

In SKILLED Offshore, a strong performance from the International and New Zealand businesses, and improved activity levels in the Australian business in the second half, contributed positively to the result.

Mobilisation of the Saipem contract commenced in the fourth quarter, with the majority of activity scheduled to occur in FY15.

Broadsword Marine Services contributed \$16.6 million EBITDA, in line with expectations. The business experienced a high level of vessel utilisation in the second half and has a strong pipeline of work, including mining and infrastructure related projects.

Activity levels in the OMSA JV continue to wind-down, consistent with the client's project schedules. The current contract is due to be completed in December 2015.

Overall, the strong second half run-rate achieved in Engineering and Marine Services is expected to continue into FY15. There is a strong pipeline of opportunities, including recent contract wins.

Workforce Services:

Provision of blue-collar labour hire to clients in the industrial, mining and resources sectors under the SKILLED brand.

	FY14	FY13	2H14	1H14	2H13	1H13
Revenue (\$m)	884.3	918.3	431.7	452.6	454.9	463.4
EBITDA (\$m)	35.2	40.8	15.8	19.4	18.3	22.5
EBITDA margin	4.0%	4.4%	3.7%	4.3%	4.0%	4.9%

Workforce Services' revenue and margin continued to be affected by difficult market conditions, particularly in the mining and manufacturing sectors, with weaker employment growth post the Federal budget.

Underlying activity levels stabilised in the second half and have been maintained to date with contract wins in iron ore, coal, infrastructure, rail and further opportunities in telecommunications (NBN).

Good progress was made on the implementation of systems and process initiatives and further cost reduction, partially offsetting continued pricing pressure. The recently upgraded ERP (Agresso), and ongoing automation and centralisation of activities, will benefit Workforce Services in particular.

Volumes in Workforce Services continued to benefit from supplier consolidation in mining and FMCG sectors.

The pipeline of infrastructure projects and re-setting of NBN activity is expected to support future growth.

Technical Professionals:

Provision of engineering and technical professional staff, white collar and nursing staff. Brands in this segment include Swan, Mosaic and Skilled Health

	FY14	FY13	2H14	1H14	2H13	1H13
Revenue (\$m)	375.0	488.9	172.3	202.8	217.5	271.4
EBITDA (\$m)	16.6	26.8	7.2	9.3	11.7	15.1
EBITDA margin	4.4%	5.5%	4.2%	4.6%	5.4%	5.6%

Swan revenue and contractor numbers declined significantly across the year, affected by reduced engineering project activity. However, contractor numbers appear to have stabilised towards the end of the second half.

There was weaker demand for permanent and contractor technical professional roles, however demand for NBN related telecommunication roles is expected to increase in FY15. Training Services and Indigenous employment continued to perform well, and performance improved in Skilled Health.

The cost base in this segment was lowered significantly during FY14 in response to the ongoing difficult market conditions.

Net debt and operating cash flow

Net debt increased by \$125.3 million from \$44.8 million at 30 June 2013 to \$170.1 million at 30 June 2014, which includes payments for acquisitions of \$86.5 million (net of \$8.5 million of debt assumed), additional capital expenditure and the impact of the initial working capital requirement to support the Saipem project. Working capital to support the Saipem project is expected to peak in mid FY15.

Capital expenditure increased to \$51.0 million (FY13: \$11.3 million) due to the purchase of additional Broadsword vessels and investment in systems.

Gearing (debt/debt+equity) at 26.2% remains conservative following recent acquisitions and investments.

Operating cash flow before tax was \$80.9 million (FY13: \$89.7 million), which was impacted by the initial build-up of working capital for the Saipem project in the fourth quarter and acquisition and restructuring costs.

Strategy implementation

1. Building scale in attractive and higher growth sectors to support future earnings growth

Rapid growth was achieved in Engineering and Marine Services with **Broadsword Marine Services**, (acquired in July 2013), delivering \$16.6 million EBITDA (in line with expectations at acquisition of \$16-\$17 million). The integration of Broadsword's back office functions to the ERP has been substantially completed and the business is well positioned for growth.

The acquisition of **Thomas & Coffey** (February 2014) added capability and reach to the existing engineering business. The contributions to earnings and synergies delivered for the five months to June 2014 were in line with expectations, with further synergies expected in FY15.

Capability to recruit and mobilise large scale projects: The provision of manning services to the pipe-laying phase of the Ichthys LNG (Saipem) project is progressing well, with the first vessel already mobilised and the second vessel scheduled to be mobilised in 1H15. Approximately 1,000 construction and marine personnel are expected to be placed through SKILLED's involvement in the project.

2. Investing in systems and processes to leverage scale across the Group

The **ERP (Agresso)** upgrade (including payroll, invoicing, procurement) went live in July, on time and on-budget, delivering substantial improvements in efficiency and greater consistency across back office processes. This provides a solid foundation for business growth.

A reduction in indirect costs of \$15 million (with \$3.0 million in associated restructuring costs) was achieved this year, delivering \$41 million in sustainable cost reductions over the past three years. It is expected that a further reduction of approximately \$10 million will be delivered in FY15.

3. Capitalising on growth opportunities

SKILLED Engineering, which includes Thomas & Coffey, ATIVO and Damstra, is now a national operations and maintenance services business, with a broad, scalable platform. It has significant exposure to the mining & resources segment, with activity aligned to production volumes rather than commodity prices. Recent contract wins and renewals in FY14 underpin the future revenue base with substantial growth potential in current sectors and geographies.

SKILLED Offshore growth opportunities are underpinned by:

- potential upside in Broadsword's performance as a result of high vessel utilisation and diversified earnings mix, with 50% of revenue now outside Northern Territory (mainly WA and QLD)
- international growth, with SKILLED offices in Houston and Singapore established. SKILLED now has offices in all key oil & gas hubs, supporting the substantial global expenditure in oil & gas
- whole-of-life cycle marine activity and floating LNG support longer term growth in the oil & gas sector (e.g. seismic, drilling, environmental support, construction support).

Final dividend

The Board has declared an increased final dividend of 9.5 cps, fully franked. The total dividend declared for FY14 is 17.0 cps (fully franked), up from 16.0 cps in FY13.

The Record Date for determining entitlements to the final dividend is 18 September 2014, with payment on 17 October 2014.

The Dividend Reinvestment Plan will remain suspended until further notice.

Outlook

The stronger second half FY14 trends are expected to continue into FY15, despite external market challenges:

- **Engineering & Marine Services:** the contribution from the Saipem project will offset reduced activity from the OMSA JV. A full year contribution from Thomas & Coffey and growth in Broadsword will support FY15 earnings. Growth is also expected from increased activity levels, new contract wins and a visible pipeline of opportunities.
- **Workforce Services:** overall activity levels appear to have stabilised, with wins in FMCG, mining & resources and transport & logistics, however margin pressure is expected to continue.
- **Technical Professionals:** contractor numbers in Swan showed some signs of stabilising at the end of FY14. Telecommunications activity is expected to strengthen in line with increased NBN activity. Health and Training Services activity levels are expected to remain solid into FY15.

The cost reduction program is expected to deliver a further \$10 million benefit in FY15.

Working capital will peak in mid FY15 in line with activity on the Saipem project.

SKILLED is well positioned for longer term benefits from its pipeline of opportunities across infrastructure, mining and oil & gas and any cyclical improvement in economic activity and expansion in mining volumes. Ongoing strategy implementation, further cost reduction, cash generation and a strong balance sheet support future dividends and SKILLED will continue to invest in future growth.

2014 results briefing and audio webcast

Mick McMahon, CEO will brief analysts and institutional investors on the 2014 Full Year Results today, Wednesday 13 August 2014 at 10:30am (AEST). Participation on the conference call is by invitation only.

A live audio webcast of the briefing will also be available. The audio webcast is a listen only facility and does not enable questions. The audio webcast archive and transcript will be made available on the website. [Click here to register for the webcast](#)

Appendix 1: Performance summary and reconciliation of Reported NPAT to Underlying NPAT

\$m	2014	2013	Variance	% change
Revenue ¹	1,873.3	1,873.9	(0.6)	(0.0%)
EBITDA ²	95.4	95.1	0.3	0.3%
EBITDA Margin %	5.1%	5.1%	0.0%	
Depreciation & Amortisation	(12.5)	(10.4)	(2.1)	20.2%
EBIT ²	82.9	84.7	(1.8)	(2.2%)
EBIT Margin %	4.4%	4.5%	(0.1%)	
Interest	(7.8)	(3.8)	(4.0)	106.2%
Profit before tax ²	75.1	80.9	(5.8)	(7.2%)
Restructuring costs ²	(3.0)	(2.5)	(0.4)	
Acquisition and integration costs ²	(4.0)	(0.6)	(3.4)	
Non cash acquisition related costs ²	(7.5)	(0.6)	(6.9)	
Income tax expense	(16.4)	(21.0)	4.7	(22.1%)
Net profit after tax	44.2	56.2	(12.0)	(21.3%)
<u>Underlying net profit after tax</u>				
Statutory net profit after tax	44.2	56.2	(12.0)	(21.3%)
Restructuring costs	3.0	2.5	0.4	
Acquisition and integration costs	4.0	0.6	3.4	
Non cash acquisition related costs	7.5	0.6	6.9	
Income tax expense on restructuring & other items	(3.4)	(1.5)	(2.0)	
Underlying net profit after tax	55.3	58.4	(3.2)	(5.4%)
EPS - Statutory NPAT (cps)	18.9	24.1	(5.2)	(21.6%)
EPS - Underlying (cps)	23.6	25.0	(1.4)	(5.7%)

1 - includes equity accounted income from joint ventures 2 - as per segment reporting in the Financial Report

For further information please contact:
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About SKILLED Group

SKILLED Group Limited is Australia's leading provider of labour hire and workforce services. SKILLED Group has 100 offices across Australasia with annualised revenues of around A\$1.9billion. SKILLED partners with clients to improve their workforce efficiency, enhance safety performance and increase productivity levels. SKILLED is listed on the Australian Securities Exchange (ASX: SKE) and has approximately 5,600 shareholders, predominantly in Australia.