ASHLEY SERVICES GROUP

LABOUR HIRE | TECHNICAL SERVICES | TRAINING

27 February 2024

First Half 2024 Results

- **Underlying EBITDA of $8.1 million, down $2.2 million or 21.3% on pcp**
- **NPAT of $1.0 million, down $5.1 million on pcp**
- **EPS of 0.68 cents per share down 3.31 cents or 82% on pcp**
- **FY24 interim dividend at 0.5 cents, reduced in line with distributable profits. 70% pay-out ratio.**
- **Operating Cash Flow, a $0.8 million outflow. Collections strong, but $5.7m of prior period income tax payments in H1**

Ashley Services Group Limited (ASX: ASH) today announced a statutory after-tax profit ("NPAT") from continuing operations of $1.0 million for the half year to 31 December 2023, a decrease of $5.1 million (83.4%) on the prior corresponding period ("pcp") (1H 2023: profit $6.1 million). The result includes impairment expenses of $3 million within EBITDA and NPAT, primarily relating to the write-down of customer relationships and goodwill associated with the purchase of Linc Personnel Pty Ltd ("Linc").

Revenue of $290.8 million was up by $28.4 million (10.8%) on the pcp (1H 2023: $262.4 million). Revenue includes $28.4 million from Owen Pacific Pty Limited ("OPW"), acquired 6 February 2023.

Group Statutory results ($ million)	**1H24 $m**	**1H23 $m**	**Growth/ Decline %**
Revenue	290.8	262.4	10.8%
Revenue excluding OPW	262.4	262.4	flat
Earnings before interest, tax, depreciation and amortisation (EBITDA) – excluding non-cash impairments, primarily Linc	**8.1**	**10.3**	**(21.3%)**
Earnings before interest and tax (EBIT) – excluding non-cash impairments, primarily Linc	**6.1**	**8.6**	**(30.2%)**
Reported Earnings before interest, tax, depreciation and amortisation (EBITDA)	5.1	10.3	(50.5%)
Reported Earnings before interest and tax (EBIT)	3.1	8.6	(64.0%)
Net profit/(loss) after tax (NPAT)	1.0	6.1	(83.4%)
Basic earnings per share attributable to shareholders of ASH (EPS) - cents	0.68	3.99	(82.0%)

EBITDA by Division ($ million)	1H24 $m	1H23 $m	Growth / (Decline) %
Labour Hire	8.8	11.0	(20.0%)
Training	2.0	1.6	25.0%
Corporate costs*	(2.7)	(2.3)	
EBITDA excluding non-cash impairments, primarily Linc	**8.1**	**10.3**	(21.3%)
Non-cash impairments	(3.0)	n/a	
Group EBITDA	**5.1**	**10.3**	**(50.5%)**
EBITDA % excluding non-cash impairments, primarily Linc	2.79%	3.93%	(114bps)

* Corporate overheads, at $2.7 million, were up $0.4m on the prior corresponding period (1H 2023: $2.3 million), but include a non-cash Long Term Incentive expense of $0.265 million. The underlying 6% increase in Corporate costs represents increased governance and compliance costs, wage inflation and marginally increased management headcount.

Labour Hire Division – a challenging six months

Labour hire for the half year ($million)	1H24 $m	1H23 $m	Growth/ Decline %
Revenue	281.3	255.0	10.3%
Revenue excluding OPW	252.9	255.0	(0.8%)
EBITDA	8.8	11.0	(20.0%)
EBITDA %	3.1%	4.3%	(120bps)

Revenue at $281.3 million was up by $26.3 million or 10.3% on the pcp. Excluding OPW, revenues were down $2.1 million or 0.8% at $252.9 million. Underlying hours (excluding OPW) were down 5%, with general activity down in the warehousing, logistics and retail segments, particularly in the seasonally strong October to December period. The decreased activity was largely offset by inflationary increases in underlying wages.

Labour Hire EBITDA of $8.8 million, was down $2.2 million or 20% (1H 2023: $11.0 million). Linc contributed $1.0 million in the prior period, versus $0.2 million in this period. OPW contributed $0.9 million this period (1H 2023: nil). EBITDA margin reduced to 3.1% (1H 2023: 4.3%), due to the negative impact of fixed hourly margins in the current inflationary environment, the general competitive nature of the labour hire industry and the decrease in benefits received from government support programmes for trainees. The strategic initiative to move towards higher margin sectors including construction, engineering, mining, oil and gas, agriculture and healthcare is progressing, but at a slower pace than anticipated.

Training Division – pleasing lift in revenue and profits

Training for the half year ($million)	1H24 $m	1H23 $m	Growth%
Revenue	9.5	7.4	28.4%
EBITDA	2.0	1.6	25.0%
EBITDA %	21.1%	21.8%	(7bps)

Revenues for the first half were up by $2.1 million (28.4%), with growth continuing across both the Ashley and The Instruction Company ("TIC") training businesses, as new courses were added to scope and both businesses increased geographic coverage.

Training EBITDA of $2.0 million was up $0.4 million on the prior corresponding period (1H 2023: $1.6 million). EBITDA margins were maintained at just over 21%.

Cash Flow, balance sheet and funding

The operating cash flow for the half-year was an outflow of $0.75 million (1H 2023: inflow of $7.5 million). Operating cash flows included $6.7 million of tax payments (mainly in relation to the financial year ended 30 June 2023) and $1.2 million of interest and other financing payments.

Net cash used in investing activities was a $4.1 million outflow. Underlying capital spending for the six months was $1.8 million ($0.2 million below prior period). Payments for businesses, net of cash acquired were $2.7 million with the 1st instalment of $0.9m paid to acquire the remaining 20% of the CCL Group and the 2nd instalment of $1.8 million paid in relation to the prior year acquisition of OPW.

Net cash used in financing activities included the $4.3 million payment of the 2023 final dividend, as well as normal ongoing lease payments of $0.8 million.

Net debt (cash less borrowings) increased $10 million in the period to $15.6 million net debt.

Net assets at $31.2 million were down $3.1 million on the financial year ended 30 June 2023 position of $34.3 million, largely in line with the net profit after tax of $1.0 million for the six months, reduced by payment of the FY23 final dividend of $4.3 million in September 2023.

Intangible assets decreased $4.7 million, due to ongoing amortisation of customer relationships and the non-cash impairments in the period of acquired customer relationships and goodwill arising from the acquisition of Linc.

Non-cash impairment expense

Elements of non-cash impairment expense	1H24 $m	1H23 $m
Linc customer relationship	1.8	-
Linc goodwill	1.6	-
Impairment of associated company investments	0.2	-
Reduction in redemption liabilities to purchase the remaining 25% of Linc (acquired 31 January 2024 for $0.244 million) and the remaining 20% of the CCL Group (acquired 14 July 2023).	(0.6)	-
Net non-cash impairment expense (EBITDA and NPAT impacts)	**3.0**	**-**

Managing Director's Comments

Ross Shrimpton, Managing Director, said "The first half result has been challenging.

The outcome of the Linc acquisition is disappointing. As with all acquisitions, there was risk associated with the purchase of Linc. We had 18 months to renew the major customer contract or secure new customers and expand within the higher margin Oil and Gas sector. As of today, the business is ongoing, but with minor contracts in hand. Earnings from Linc in FY24 will be negligible. The value of acquired customer relationships (originally $2.5 million) have been written off in full throughout FY23 and H1 FY24. Goodwill has also been impaired, with its value reduced to $0.35 million during H1 of FY24.

Revenue for OPW remains solid. The business is working well with customers to adapt to operating changes required following the introduction of a new deed governing the Seasonal Worker Programme. Short-term results have been impacted by increasing flight and accommodation costs, not fully recoverable from workers.

Results from the construction related traffic management and labour hire business in Victoria fell short of expectations and the prior period, with project delays and industrial relation challenges impacting equipment utilisation, labour utilisation and margin.

The expected organic revenue growth from our traditional labour hire businesses did not occur with underlying hours (excluding OPW) down 5%, with general activity down in the warehousing, logistics and retail segments, particularly in the traditionally strong October to December period.

Business has commenced in the healthcare and mining sectors, but incremental impacts in FY24 will not be significant. Our focus remains on:

i) Growing the technical services division, including the mining sector in Western Australia;

ii) Growing the horticulture and healthcare Sectors. The horticulture sector is growing significantly, boosted by the OPW acquisition;

iii) Capitalising on strengths within our Training Division by continuing to expand both qualifications on scope and geographic coverage;

iv) Solidifying margins in the core supply chain, retail and construction labour hire sectors; and

v) Improving efficiencies and lowering cost through continuing system and process improvements. I am pleased with the progress achieved by our team in the last three months, with efficiencies and cost reductions being delivered across all areas of service delivery and supporting administration".

For further details:

Paul Brittain
Chief Financial Officer and Executive Director

Established almost half a century ago as a Labour Hire business in Sydney, Ashley Services Group listed on the Australian Securities Exchange in 2014. Today, it has cemented its position as a prominent national labour hire provider engaging over 7,200 workers during the peak seasonal period.