

18 November 2014

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Programmed Maintenance Services Ltd
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Results for first half to September 2014

Statutory NPAT \$9.8 million
NPAT before non-trading items \$12.1 million
Interim dividend up 8% to 6.5 cps, fully franked
Net debt down 42% to \$24 million

Programmed (ASX:PRG), which provides staffing, maintenance and facility management services, today announced an after-tax profit of \$12.1 million before non-trading items for the six months to 30 September 2014 (1H FY14: \$12.8 million). After non-trading items, after-tax profit was \$9.8 million (1H FY14: \$12.4 million).

Non-trading items were the final earn-out payment of \$1.4 million for the acquisition of Turnpoint (announced in July 2014); restructuring costs of \$0.9 million (announced in May 2014); and \$0.3 million for Programmed's share of the net loss by its associate OneShift.

Revenue was \$716.9 million (1H FY14: \$723.6 million).

Earnings before interest and tax (EBIT) by the Property & Infrastructure and Resources divisions were in line with the previous year, but lower earnings by the Workforce division resulted in a decline of 8% in group EBIT before non-trading items to \$20.6 million (1H FY14: \$22.4 million).

Interest paid was down 27% to \$3.0 million due to a reduction in net debt to \$24.3 million at 30 September 2014, 42% lower than at 31 March 2014 (\$42.2 million).

The board has determined to increase the interim dividend by 8% to 6.5 cents per share fully franked, payable on 22nd January 2015 to shareholders on the register at 8th January.

Chris Sutherland, managing director of Programmed, said: 'We are pleased to have maintained strong cash flow, lowered debt and increased the dividend in challenging market conditions. Importantly, we are also making necessary changes to the business and investing in longer-term growth opportunities, which have reduced reported profit in the short term but will position the company for future growth.'

'Programmed is at the coal face of significant change across the Australian economy, and we are ensuring we are well positioned in the markets that will grow in the longer term. Examples are our investment in OneShift and our growing pipeline of infrastructure work, with significant new long-term maintenance and facility management contract wins and renewals.'

zero/harm

'The parts of the economy built on the back of large “blue collar” workforces remain under cost pressure, and these customers are seeking lower prices and placing pressure on service provider margins, including our task-based maintenance and workforce services. In response to lower-cost imported goods, online sales / digital disruption, and rigid labour laws, many of these customers are restructuring their business, including investing in technology, offshoring some functions to lower labour costs, and outsourcing non-core activities. This has weakened blue collar labour demand and employment in parts of the economy such as the manufacturing, transport and logistics, and light industrial sectors.

'However, other parts of the economy – such as health, aged care, education, tourism and recreation – are growing and demand for our services in these sectors is increasing. Existing public assets are getting older and require upgrades and greater levels of maintenance to maintain service. The growing population is requiring new assets to be built and increasingly governments at all levels are looking for privately funded and managed solutions, creating further opportunities for Programmed,' said Chris Sutherland.

Group Results	1H FY15 30 Sep 2014 \$m	1H FY14 30 Sep 2013 \$m	% change
Revenue	716.9	723.6	(0.9%)
Results Before Non Trading Items			
EBITDA	26.3	28.1	(6.4%)
Depreciation and amortisation	(5.7)	(5.7)	0.0%
EBIT	20.6	22.4	(8.0%)
Interest	(3.0)	(4.1)	26.8%
Profit before Tax	17.6	18.3	(3.8%)
Income tax expense	(5.5)	(5.5)	0.0%
Profit after Tax (before non trading items)	12.1	12.8	(5.5%)
Non Trading Items			
Restructuring costs	(0.9)	(0.6)	
Incentive payment (Turnpoint acquisition)	(1.4)		
Share of net loss of associate (OneShift)	(0.3)		
Tax on non trading items	0.3	0.2	
Profit after Tax (statutory basis)	9.8	12.4	(21.0%)
Earnings per Share (before non trading items)	10.2	10.9	(6.4%)
Earnings per Share (statutory basis)	8.2	10.5	(21.9%)
Weighted Average Shares on Issue (million)	118.4	118.2	

Property & Infrastructure	1H FY15 30 Sep 2014 \$m	1H FY14 30 Sep 2013 \$m	% change
Revenue	397.3	381.3	4%
EBIT	11.1	11.0	1%

The Property & Infrastructure division, which contributed 44% of the company's EBIT in FY14, provides a range of maintenance, property and operational services, including painting, electrical, communications, grounds, signage, specialist turf, general building repairs and facility management.

Gross margins for task-based sundry / project works across painting, grounds, signage, electrical and communications services remained tight, with customers continuing to seek lower costs and competitors sometimes meeting their price expectations. Programmed is responding by using systems and scale to lower overheads further and by adding value to customers through the company's national network and ability to bundle services. These changes resulted in one-off costs of \$0.6 million in the first half and further one-off costs of \$1 million are forecast in the second half.

Programmed Turnpoint, the specialist turf business acquired in 2012, continued to perform well and has a strong pipeline of opportunities. As announced in July, the company's first half results include a one-off expense of \$1.4 million representing the final performance-related portion of the business' purchase price.

The division's facility management and maintenance activities continue to grow and seven significant long term contracts have been secured or renewed since March 2014, including:

- A new five year contract to maintain social housing in NZ, which commenced on 1 July 2014;
- Renewal of the WA social housing maintenance contract for the South West region, and the addition of two new regions, which commenced on 2 November 2014 for an initial five years;
- Renewal of the facility management contract on Rottneest Island for a further five years, with the scope expanded to include all accommodation housekeeping, which commenced on 1 August 2014;
- A new three year contract to maintain Fonterra's logistics distribution centres in NZ, which commenced on 1 September 2014;
- A new fourteen year contract for maintenance and lifecycle refurbishment of the South Queensland Corrections Centre, which commenced on 1 July 2014;
- A new contract with Coles to maintain its support office and state office facilities, which commenced in September 2014;
- Renewal of the estate services contract with Energy Australia at Yallourn Power Station for a further four years.

In addition, the facility management business has a strong pipeline of opportunities, with over \$3 billion of work identified across new and existing infrastructure that has been, or will be, tendered during the current financial year. These include being part of consortia bidding for the following PPPs (Public



Private Partnerships):

- Wollongong University student accommodation project;
- WA schools PPP project (which would include an equity investment);
- Victorian schools PPP project;
- Second schools PPP project in New Zealand (in the same consortium that was successful for the first NZ schools PPP project);
- ACT Canberra Courts PPP project.

Resources	1H FY15 30 Sep 2014 \$m	1H FY14 30 Sep 2013 \$m	% change
Revenue	130.1	148.4	(12%)
EBIT	11.6	11.9	(3%)

The Resources division, which contributed 39% of the company's EBIT in FY14, provides a range of workforce, maintenance, construction support and operational services to both the offshore oil and gas and onshore mining sectors.

It is probable that some work is being deferred until a new marine EBA is concluded with a number of the industry participants. Programmed's major contract with Heerema Marine Contractors for the Ichthys project commenced at the end of September. This is expected to run for more than 12 months so, subject to no impact from the current EBA negotiations, the second half is projected to be stronger than the first half.

New opportunities are being sought relating to seismic, drilling, construction and production projects on the NW Shelf and in the Timor Sea, Bass Strait and New Zealand waters, and the outlook for the offshore oil and gas sector remains positive.

Workforce	1H FY15 30 Sep 2014 \$m	1H FY14 30 Sep 2013 \$m	% change
Revenue	188.4	192.2	(2%)
EBIT	3.0	4.9	(39%)

The Workforce division, which contributed 17% of the company's EBIT in FY14, provides staffing services across most industry sectors, and particularly the manufacturing, light industrial, transport and logistics, construction and mining sectors.

Earnings were affected by ongoing weakness in the blue collar economy and the impact of structural changes across the staffing industry.

For more than a year the division has been reshaping its business in response to these changes. A significant \$2 million upgrade of the core Workforce business system has been completed to provide new capability that operates simply and efficiently across any mobile device. The system also enables further centralisation of recruitment functions in each state and expansion of the mobile account / sales network, reducing the need for some branches and lowering overall overhead costs. This redesign of the way the business functions was completed in October, resulting in a reduction in the number of branches and personnel and ongoing cost savings of more than \$3 million per annum, with one-off costs associated with the changes of \$0.3 million in the first half and \$1 million forecast in the second half of FY15.

OneShift, the start-up online recruitment business in which Programmed invested \$5 million for a 27.5% equity stake in October 2013, is growing strongly. There are now more than 340,000 job seekers and more than 34,000 employers registered, and sales have grown from less than \$10,000 per month at the time of the investment to more than \$200,000 in September 2014.

The Federal Government is restructuring how unemployed people are managed back to work and has released a tender for new National Employment Services providers. The tender seeks service providers in more than 50 regions across Australia, and Programmed has formed an alliance with APM (a national provider of workforce and rehabilitation services) to tender for the provision of services to many of these regions. This is a new market for Programmed, with a total market size of \$1.4 billion per annum.

Unallocated Costs

Unallocated costs, which relate to corporate overheads and non-trading income and expenses, were \$5.2 million (1H FY14: \$5.4 million).

Cash Flow and Net Debt

Cash flow remained strong, with gross operating cash flow of \$46.1 million (1H FY14: \$56.6 million). Net operating cash flow was \$36.1 million (1H FY14: \$43.0 million).

Net debt fell a further \$18 million to \$24.3 million at 30 September 2014 from \$42.2 million at 31 March 2014. The company's net debt to equity ratio fell to 6.0% from 10.3% at 31 March 2014. Bank guarantees provided increased from \$66.5 million at March 2014 to \$80.0 million at September 2014 due mainly to additional FM contracts being secured.

Full Year Guidance

The group’s trading EBIT for FY15 is projected to be approximately \$50 to \$52 million, before non-trading items. In addition to the non-trading items totalling \$2.6 million before tax in the first half, the company’s accounts for the full year are expected to include non-trading items of approximately \$2.0 million in the second half, as explained above in the reports on the Workforce and Property & Infrastructure divisions, and \$0.1 million in respect of Programmed's share of OneShift's loss in the second half.

This guidance is based on the following assumptions:

- i) No industrial action associated with the ongoing marine EBA negotiations;
- ii) No change to current market conditions and margins;
- iii) Workforce redesign delivers savings as planned.

For further information contact:

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