

SKILLED Group Rejects Programmed's Merger Proposal



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Australia's leading provider of workforce solutions

- Well established and trusted brand – 50 years of heritage
- Strong, established safety performance and management systems
- Extensive range of solutions across the labour and recruitment market, with substantial scale and strong positions in attractive higher skill and higher margin segments
- Diversified business model with broad industry and geographic coverage
- Strong client relationships, blue-chip customer base and culture of excellence in customer service
- Industrial relations expertise



Diversified, high quality business model

Workforce Services

- No. 1 provider of blue collar labour hire in Australia, aligned with core SKILLED brand
- Ability to deliver large, accredited teams efficiently on a national basis
- Excellent safety track record
- Broad client base and national branch network



Technical Professionals

- Specialist recruiter, with targeted brands and deep client relationships across diverse industries including resources, telecommunications, health and IT



Engineering

- National operations & maintenance services business with a broad, scalable platform
- Specialising in shutdowns and recurring maintenance services, with exposure to production volumes
- Acquisition of Thomas & Coffey has increased scale, expanded the service offering and enhanced management capability

Diversified, high quality business model

SKILLED Offshore & SKILLED Marine

- Services oil & gas projects across full life cycle, from exploration through construction to production and decommissioning - providing solutions for clients at all parts of the life cycle
- Long history in seismic, drilling and rig manning capability
- Pipeline of major offshore Australian oil & gas projects expected to continue in the medium term; SKILLED is well positioned to secure work
- Past decade of construction activity is moving into production phase; SKILLED provides operating, maintenance and marine logistics solutions in this part of the life cycle
- Business is leveraged to both production volumes and installed capacity rather than commodity prices
- International footprint across all major oil & gas hubs – Australia, New Zealand, Aberdeen (UK), Houston (USA), Malta, Dubai, Singapore



The evolution of SKILLED

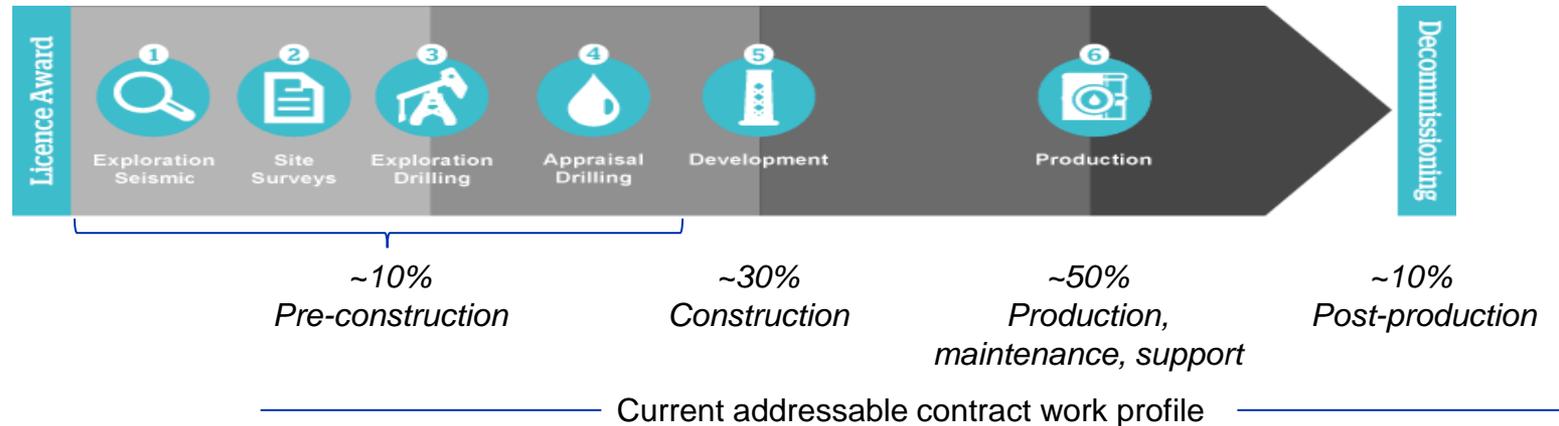
In the last two years, SKILLED has substantially changed its business profile, increasing the resilience of SKILLED's businesses and positioning it to capitalise on future growth opportunities

- Acquisitions in higher margin, higher skill segments
 - Broadsword, to expand into marine logistics and vessels
 - Thomas & Coffey, to expand Engineering into a national operations & maintenance services business with a broad, scalable platform
 - Buyout of the OMSA joint venture to combine with Broadsword and broaden operational and project capability in the marine sector
- Cost improvement, process centralisation and efficiency programs that have delivered \$28 million of cost savings in FY13 and FY14, with at least a further \$15 million in FY15
- Implementation of a strengthened and simplified management structure

Activity levels remain strong in oil & gas

>\$1 billion of addressable offshore contract work visible over the medium term in Australia

- Oil & gas business is underpinned by full life cycle exposure



- Offshore exploration work is expected to continue in Australia and NZ, supported by permit requirements
- Stable outlook for drilling, with rig numbers expected to remain constant
- Sizable pipeline of construction projects already underway to be completed, which will then shift to production phase
- Substantial investment in new capacity has and will increase long-term oil & gas production base, which will require operating and maintenance services

Well placed, despite challenging market conditions

Track record of delivering results through economic cycles; business resilience improved through investments in higher skill, higher margin businesses and systems

- Conditions in the mining sector remain challenging, but opportunities for growth exist
 - Major mining projects are moving from the construction to production phase - increases pipeline of opportunities for shutdown and maintenance services
 - SKILLED is benefiting from panel consolidation by major clients
- Well placed to deliver existing contracts and win new contract work in oil & gas
 - Strong client relationships and established expertise (e.g. OMSA currently an 'A' rated supplier)
 - International platform provides strong base to service global clients
- Difficult conditions continue in manufacturing; Group assisted by diversified exposure to growth sectors such as telecommunications, health and infrastructure
- Well-established cost improvement, process centralisation and efficiency program, which will continue to benefit the Group
 - \$28m of savings delivered over FY13 and FY14; at least a further \$15m expected in FY15
 - Upgrade of the ERP system (Agresso) has provided a solid foundation for consistent and efficient back office activities across the Group

Programmed merger proposal review

Review of Programmed merger proposal has been undertaken by Board and management, considering:

- The extent of the industrial logic of combining the two businesses, taking into account the changes to SKILLED's business profile over the last two years
- Synergy and dis-synergy potential
- The proposed economic terms and the relative contributions to a merged group

Industrial logic is not compelling

Merger would provide increased scale across labour hire and marine, however, SKILLED's focus is on delivering a "better" business, not just a "bigger" one

- There is some industrial logic to a merged SKILLED and Programmed, but it is not compelling, and is less so given the changes to SKILLED's business profile over the last two years
- SKILLED is already the market leader in blue collar labour hire, with strong client relationships and safety record
 - Improvement in relative market position from SKILLED's perspective is less than it would be for Programmed
- SKILLED has expanded in Engineering and has a good pipeline of growth opportunities in segments Programmed does not operate in
- In Marine Services, Programmed is primarily exposed to the offshore construction segment, while SKILLED has diversified exposure across the full oil & gas project life cycle
- SKILLED Group's operating margins are higher than Programmed's, reflecting its overall more attractive business mix
- Programmed's Property & Infrastructure business would provide diversification to SKILLED, as it has a different structure and risk profile to SKILLED's existing businesses, as would Programmed's greater exposure to the government and infrastructure sectors

Synergy potential exists

The (net) financial synergies from a merger are in the order of the \$20 million per year stated by Programmed and would take a number of years to achieve. Upside potential is limited by activities already undertaken by both SKILLED and Programmed

- Majority of cost saving opportunity would be the removal of duplicated corporate overheads – does not better position the business for future growth
- Some dis-synergies impact is also likely
- The remaining synergies could be achieved over 2 - 3 years, but would be more difficult to realise
- Cash cost of realising the synergies would likely outweigh the benefits in the first year
- SKILLED has delivered significant cost savings over the past two years, with further programs underway. Programmed has also delivered cost savings and undertaken branch network reduction in recent years

Proposal undervalues SKILLED

The terms of Programmed's proposal undervalue SKILLED

- Terms do not reflect the quality and breadth of SKILLED's businesses
- The contribution of SKILLED to a potential merged group is not reflected

Conclusion

- The industrial logic for a merger with Programmed is not compelling
- The (net) synergy potential is in the order of the \$20 million per year stated by Programmed
 - The majority relates to the removal of duplicated corporate overheads
- The terms of Programmed's proposal undervalue SKILLED and its contribution to a merged group
- Any transaction that appropriately reflects the value of SKILLED and recognises its contribution to a merged group would be considered on its merits

- SKILLED has a strong future as a standalone business
- SKILLED will report its results for 1H15 on 11 February 2015
- Board and management, led by Angus McKay, are highly motivated and committed to delivering strong and sustainable returns
- In the context of his position as the new Chief Executive Officer, Angus McKay will provide an update on SKILLED's strategy to deliver value for shareholders in due course