

29<sup>th</sup> September 2016

Programmed Maintenance Services Ltd  
ACN 054 742 264

## Programmed Update

Programmed has concluded that in the short term revenue growth in its staffing business will now not offset the steep decline in the marine business. The net reduction in revenue will therefore lead to lower earnings in the year to 31 March 2017 than previous guidance. FY17 EBITDA is now projected to be approximately \$100m (previous guidance \$120m), excluding one off Skilled integration and restructuring costs.

An additional \$7m of marine redundancies costs have been incurred to further downsize the marine business, leading to one-off Skilled integration and restructuring costs of \$17m projected in FY17 (previous guidance \$10m).

### OFFSHORE / MARINE WORK

The significant fall in the oil price and completion of three large LNG projects has resulted in lower revenue for the combined Programmed/Skilled marine business during the past two years. FY17 marine revenue is now projected to be about \$190m (approximately 6.7% of projected FY17 revenue), 80% lower than two years ago.

In Australia, the number of offshore / marine employees has decreased nearly 90% over the past two years from 3,048 employees in August 2014 to 340 in August 2016.

In response, further redundancies have been made and the offshore / marine business has been merged into a single larger operations and maintenance division to further reduce overhead support costs. This has resulted in the one-off redundancy expense of \$7m mentioned above.

### LABOUR DEMAND

Programmed Skilled Workforce (PSW) performed well in the 12 months to June 2016 which provided confidence that growth could be achieved. For the 12 months to June 2016, the on-hire headcount was down just 1.4% despite large falls in the mining states of WA, QLD and NT – i.e. growth in the non-mining states and regions was until this point offsetting the falls in the mining states.

The PSW on-hire headcount in July and August, which normally are stronger months than June, fell unexpectedly by 6.7% compared to June, with reduced demand seen across many customers in all major states. As there was no loss of customers, it would appear that many PSW customers have started their new financial year by lowering costs and reducing capex.

This suggests stronger consumer-driven headwinds leading to lower labour demand across the supply chains that feed the consumer goods, retail and material supply sectors. As a result, PSW's revenue projection for FY17 has been reduced and will now not offset the decline in Marine revenue.

However, PSW remains well positioned to support businesses which are seeking new efficiencies and improvements in safety and service by outsourcing for the first time, or by consolidating service providers. PSW has more than \$300m (per annum) of new, near term revenue opportunities in its development pipeline, which if successful will support growth into next year.

**zero/harm**

## **STRONG CASH FLOW**

Tight working capital management will continue to lead to strong cash flow, which will increase further when integration of the accounting system is completed later this year. Capital expenditure is projected to be approximately \$15m which is less than depreciation. The lower revenue projected in the short term may result in an additional reduction in working capital.

Net debt is projected to be less than \$200m at March 2017.

## **STRATEGIC OUTLOOK**

Programmed has a clear vision to be a leading provider of staffing, maintenance and facility management services, without injury.

Like most businesses today, scale and efficiency are important as all customers seek price and productivity improvements and global competitors increase their presence in Australia. The acquisition of Skilled in October 2015 was a very important long-term transformation opportunity for Programmed to greatly increase its scale and efficiency and grow services across a much larger customer base.

The integration of Skilled into Programmed is going very well and is nearly complete. The main benefits of scale, efficiency and improved marketing across the combined group's customers will accrue over a number of years.

The entire Programmed Skilled Workforce business will be on a single business system by the end of November which will then enable a more efficient coordinated sales approach across the entire network of more than 60 branches.

The Professionals business is marketing its white collar staffing services to a wider group of customers and growth is expected in the next 12 months. In particular, the opportunities in health and aged care are increasing.

The Property Services business is performing well with the sales pipeline across its traditional education, aged care, retail and commercial customers remaining solid.

The Facility Management business is consolidating its contract wins of the last 12 months with work-in-hand of \$2,200m and a pipeline of further opportunities under active development.

The Industrial Maintenance business has improved its performance in the first half of FY17 compared to the second half of FY16, but headwinds remain in some sectors.

The Marine Services business has a number of exploration and construction opportunities which are expected to support future activity levels no lower than the present.

### **For further information contact:**

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