IAS presentation – May

For the year-ended 29 February 2016

ADCORP

THE POWER OF POTENTIAL

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The business of Adcorp

Global staffing and workforce management business

Workforce

Level 2 BBBEE

>100 000 Managed workforce

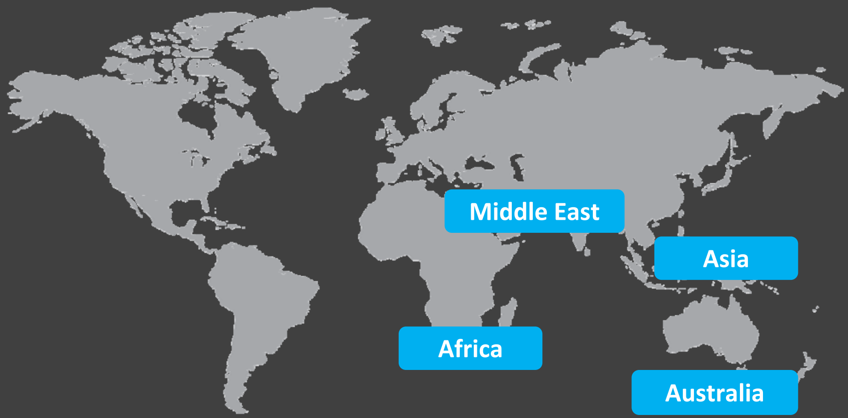
>4 000 Permanent employees

Places people into permanent, contract and flexible jobs

Established

- Founded in 1975
- Listed 1987
- Revenue R15,6BN
- 15% Market share in core South African market

Geographic focus



As a Group we strive to enrich the lives of all our stakeholders

- Best of breed business practices
- Highest standards of corporate governance
- Quality service through operational excellence
- Innovative product and service solutions
- Focused socioeconomic development initiatives and training programmes

Services and solutions

- TES Bulk and contingency
- Permanent employment services
- Professional IT services
- Managed services provider
- Digital service solutions
- Functional outsourcing
- Training
- Candidate benefits

The financial year in review

- Substantial changes to South African labour laws
- Resultant loss of business
- Extensive litigation at shop floor level emanating from new laws
- Relatively stagnant economic conditions
- Slow growth in overall employment
- Downturn in the commodity cycle (oil price)
- Difficult cash collections environment
- Volatile Rand reporting currency
- Extremely challenging debt markets
- Decline in the Adcorp share price

Key challenges

South African labour laws

From a call to ban in 2009

…to mobilising as major lobbyists

- CAPES mobilised (Adcorp the driving force)
- Adcorp Employment Index
- Participation at NEDLAC
- Media campaign around the facts
- Panel debates / TV debates

- Published "The New Divide"
- BLSA / MLC / BUSA / ILO
- National Planning Commission (NPC) visit
- Engaging with unions
- Presidential intermediary

….to lead negotiations at NEDLAC

- CAPES seat at BUSA
- Adcorp effectively led the business delegation at the Nedlac negotiations regarding the most significant rewrite of South African Labour Laws in 40 years

…to educating clients

- 18 month ongoing engagements and workshops with all major clients
- Countrywide road shows and workshops (CAPES)
- Sustained media campaign – TV / Radio / Print / social media

…to implementing new laws

- Developed and invested in new solutions (MSP / Independent Contracting / Functional outsourcing / Learnerships / FTC's etc.)
- Significant investment in leading Senior Council legal opinions

…to defending our position

- Approx. 2 500 individual claims against us
- Deeming provision test cases – CCMA and Labour Court victories
- MSP test case – CCMA
- ProgrammeOne – stripped out R 215m costs (64% people costs)
- Won back 6 300 heads
- Decision to diversify and internationalise the business in 2012 certainly vindicated

'Labour brokers here to stay'

NEWS/HOMEPAGE / 01 August 2012 at 10:45am

The financial year in review...continued

Notable successes

- “ProgrammeOne – 82% (R 234 million) of lost contribution recovered
- Ambiguity in new South African labour laws successfully challenged in the Labour Court
- Education of clients has created a better understanding of the laws leading to more rational decisions, benefiting ADCORP
- Many legal challenges successfully defended in the CCMA and the Labour Court
- Stability restored to South African market with significant market share gains
- Group’s diversification and internationalisation strategy vindicated
- Success with customer centric, outcomes based solutions (MSP/RPO) for our large customers
- Important market wins in the Australian market
- Acquisition of Australian oil and gas business, Dare
- Successfully raised off-shore debt to fund Dare acquisition
- Significant progress with international capital raise
- Kelly Group fully integrated with Adcorp’s South African operations
- Entire Kelly Group back office migrated onto Adcorp platform which has lead to substantial cost benefits
- Nihilent prospectus registered with BSE

Salient features

- Revenue for the year **increased by 17%** to R15,6 billion
- Normalised earnings per share **increased by 4%** to 365,3 cents per share
- Headline EPS **increased by 0,4%** to 299,6 cents per share
- Operating profit for the year **increased by 2%** to R464,8 million
- Normalised EBITDA for the year **decreased by 7%** to R621,5 million
- Cash conversion ratio of **87%** (2015: 97%)
- Final dividend **declared of 75 cents per share** (2015: 88 cents per share)

Macro Trends

- **Procurement trends changing**
- **MSP / RPO gaining momentum globally and in South Africa, clients asking for holistic solutions**
- **USA and Europe characterised by large players servicing MNCs**
- **Emerging markets still hold much promise**
- **Heightened corporate activity in the sector**
- **High adoption rates of digitization**
- **Sustained margin and credit term pressures**
- **South African market characterised by:**
  - Low economic growth and negative jobs curve
  - Increased industrial action
  - Consolidation in the market
  - Significant opportunity to grow our market share
- **Resurgence in the use of temporary workers globally as companies prepare themselves for the digital age where new and more advanced skills are required**

Procurement trends changing…

- *tenders*
- *global suppliers*
- *digitization*
- *demand for greater value*
- *outcomes based measurement*

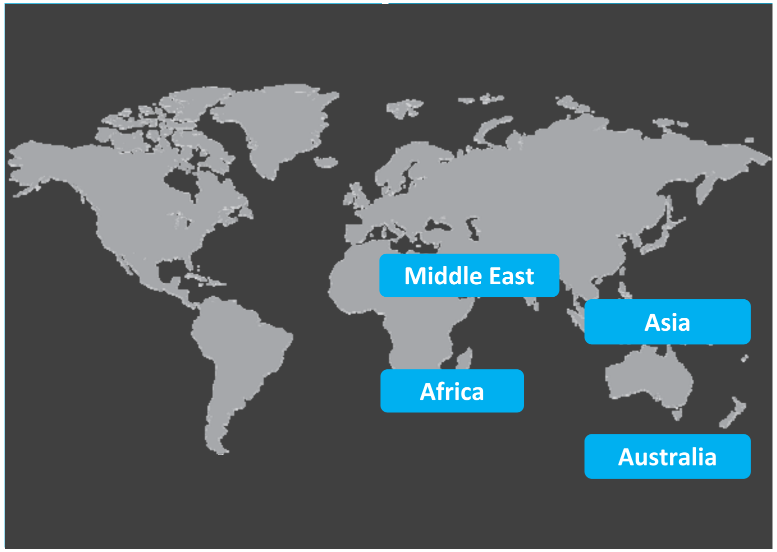
40,4%

…of the U.S. workforce is now made up of contingent workers

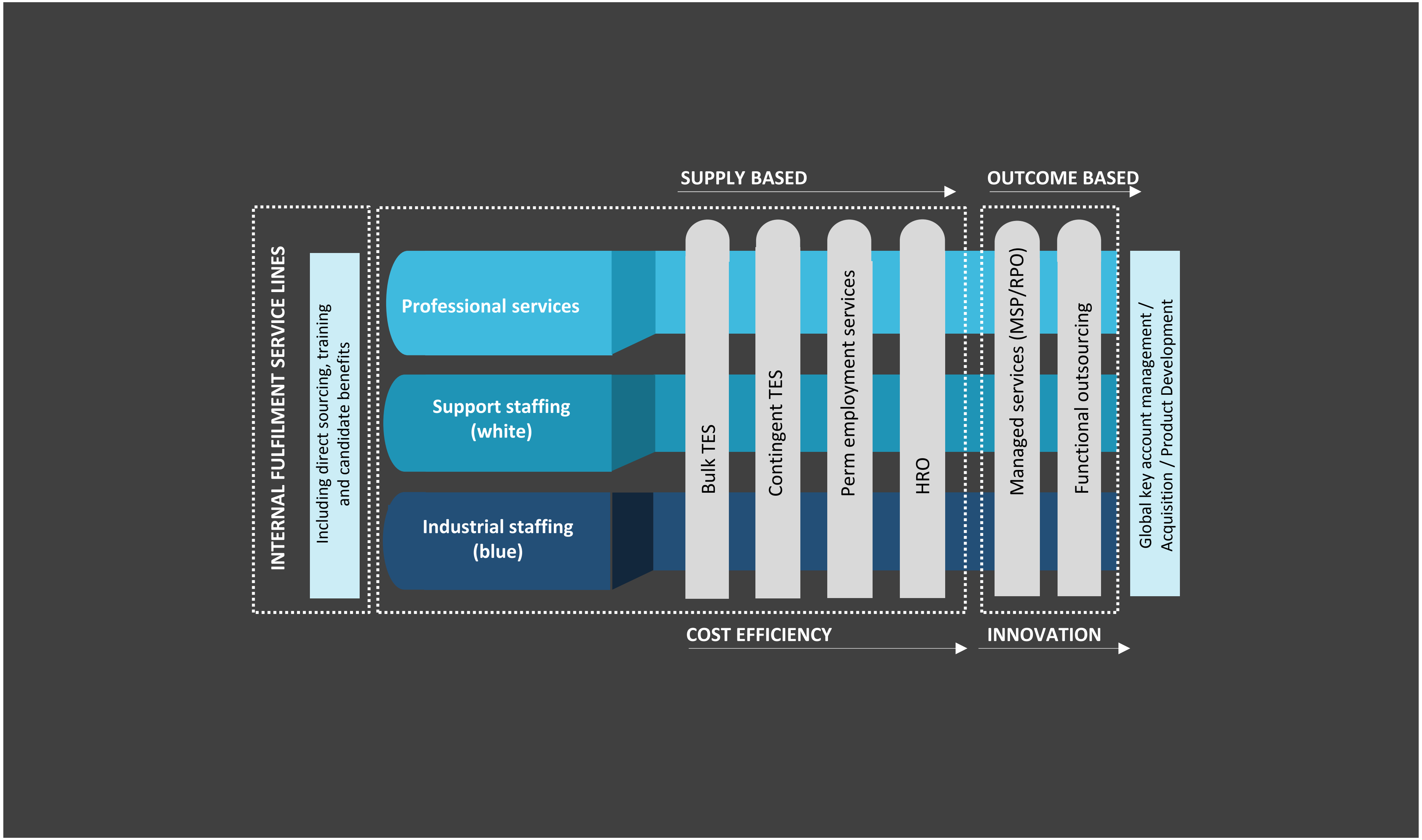
(2005: 30,6%) – Forbes May 2015

Strategic response

- **Strong client and candidate centric approach**
  - know our candidates and clients
- **Focus on emerging markets where we can compete on an equal footing**
  - Africa, the Middle East and the Asia Pacific region
- **These markets are characterised by:**
  - Not dominated to the same extent as the US and European markets
  - Offer good growth potential
  - Relatively low adoption rates of sophisticated solutions such as MSP and RPO (ability to get in on the ground floor)
  - Increasing trade and investment flows between Africa, the Middle East, and the Asia Pacific region
  - Resource based linkages between Africa, the Middle East, and the Asia Pacific region
- **Embrace digitization to create 'Apple' experience for our clients and candidates**
- **Build a world class "clip on" back office backbone**
  - Optimised, standardised processes and procedures
  - Automated on Microsoft Dynamics AX ERP platform
  - Serviced by a highly digitized shared service centre (economies of scale)
- **Raise capital in international capital markets for future international expansion**



Customer centric delivery model



The opportunity / vision

- **To become a global workforce management solutions business of consequence focused on:**
  - Africa
  - The Middle East
  - The Asia Pacific region
- **An established leader in MSP / RPO solutions**
- **Grow into and with our key clients**
- **Use digitization as an enabler to create smarter client and candidate centric solutions**
- **Accessing international capital markets to extend capability and reach**
- **South Africa remains an important core market**
  - Offers sizeable scale advantage
  - Undisputed leader in the market – great pockets of potential
  - Strong cash flow characteristics
  - Global reference site for MSP / RPO offerings
  - Innovation hub of the Group
  - Incubator for talent
- **Potential for a significant value uplift**

Advantages we have

- Our relative size and presence in large customers
- Strong pan-African presence
- Expertise in emerging markets
- Increasing investment and trade flows between Africa, the Middle East, Asia Pacific region
- Expertise in oil, gas, mining and resources
- Globally relevant client reference sites in South Africa
- World class, “clip on” back office and cloud IT backbone
- Established international beachhead
- Undisputed leader in the South African market
  - Adcorp has presence in all Top 100 JSE companies
- Well advanced in procuring international funding
- Management team capable of driving the Global strategy

International strategy

- International hub established in Singapore
- Ownership of international assets in the process of being transferred to Singapore holding company
- Discussions with international financiers significantly advanced
- Strong support for internationalisation strategy
- Acquisition opportunities identified
- Plans for IPO of international business being firmed up
- Significant value uplift potential

Acquisition criteria…

focus on new

- *geography*
- *service offering*
- *industry vertical*

providing high

- *growth*
- *margins*
- *cash conversion*

Financial overview

Performance against stated financial targets

R'000	*Revised weighted financial target*	**Actual FY2016**	**Actual FY2015**	**Actual FY2014**
Return on assets managed	23.0%	**21.4%**	27.7%	26.8%
Return on sales	4.0%	**3.8%**	4.8%	4.4%
Asset turnover – times	5.7	**5.7**	5.8	6.1
Cash conversion ratio	80%	**87%**	97%	48%
Debtors days	47	**47**	47	48
Gearing %	37%	**43%**	28%	37%

Statement of normalised earnings

R'000	**FY2016**	**FY2015**	*% change*
Revenue	**15 585 751**	**13 322 398**	**17**
Cost of sales	(13 069 007)	(11 126 945)	(17)
Gross profit	**2 516 744**	**2 195 453**	**15**
Other income	128 325	101 895	26
Admin, marketing and operating expenses	(2 180 302)	(1 628 880)	(18)
Normalised EBITDA	**621 521**	**668 468**	**7**
Depreciation and amortisation	(64 307)	(52 547)	(22)
Normalised operating profit before interest	**557 214**	**615 921**	**(10)**
Net interest paid	(110 053)	(90 816)	(21)
Normalised operating profit before taxation	**447 161**	**525 105**	**(15)**
Normalised taxation	(76 125)	(103 471)	26
Normalised operating profit for the year	371 036	421 634	(12)
Share of profits from associates	23 078	29 778	(23)
Non-controlling interest	862	342	-
Total Normalised profit for the year	**394 976**	**451 754**	**(13)**
Normalised earnings per share – previously reported basis	365.1	436.8	(16)
Diluted earnings per share – previously reported basis	352.6	411.5	(14)

Statement of normalised earnings *continued*

R'000	FY2016	FY2015	*% change*
Calculation of modified normalised earnings			
Total Normalised profit for the year	394 976	451 754	(13)
Adjusted for:			
Share-based payment expense	31 164	(80 724)	
Establishment costs	(30 906)	(8 390)	
Modified normalised profit for the year	**395 234**	**362 641**	**9**
Modified normalised earnings per share – cents	**365,3**	**350,7**	**4**
Modified diluted normalised earnings per share - cents	**352,9**	**330,3**	**7**
Weighted average no of shares – 000's	108 189	103 415	5
Diluted weighted average no of shares – 000's	112 008	109 788	2
Total dividends (cents)	**135**	**148**	
Interim dividend (cents)	60	60	
Final dividend (cents)	**75**	**88**	

Abridged balance sheet

	FY2016	FY2015
Assets		
Non-current assets	2 636 416	2 326 188
- Non-current tangible assets	137 796	112 425
- Non-current intangible assets	2 498 620	2 213 763
Current assets (excluding cash)	2 895 680	2 338 339
Total assets	**5 532 096**	**4 664 527**
Equity and liabilities		
Capital and reserves	2 685 301	2 465 032
Non-interest bearing liabilities	1 684 326	1 497 005
Net interest bearing debt	1 162 469	702 490
Total equity and liabilities	**5 532 096**	**4 664 527**
Net asset value per share (cents)	2 442	2 254

Segmental contribution – Normalised EBITDA

R'000	*% contrib.*	**FY2016**	**FY2015**	*% change*
Staffing	**80,9**	**502 548**	**554 908**	(9.4)
Industrial (Blue-collar)	65,6	407 406	455 478	(10.6)
Administrative (White-collar)	15,3	95 142	99 430	(4.3)
Professional services	**25,3**	**157 319**	**150 493**	**4.5**
BPO, training and candidate benefits	**9,6**	**59 394**	**59 324**	**0,1**
Total from trading ops.	**115,8**	**719 261**	**764 725**	**(5.9)**
Emergent business	**(0,8)**	**(5 001)**	**(8 320)**	**39.9**
Group central costs	**15,0**	**(92 739)**	**(87 937)**	**(5.5)**
Total	**100**	**621 521**	**668 468**	(7.0)
South Africa	**74**	**457 208**	**508 120**	**(10.0)**
International*	**26**	**164 313**	**160 348**	**2.4**
Total	**100**	**621 521**	**668 468**	**(7.0)**

* Excludes earnings from associate company Nihilent

Analysis

	FY2016	FY2015
Cash generated by operations (R'000)	**353 306**	597 750
Interest cover (times)	**5.1**	6.8
Dividend cover (times)	**2.7**	3.0
Gross profit percentage	**16.1%**	16.5%
Expense ratio percentage	**14.0%**	13.8%
Normalised EBITDA margin	**4.0%**	5.0%
Return on Equity (ROE)	**15.3%**	19.8%
Normalised effective tax rate	**17.0%**	19.0%

Management priorities

- **Conclude international funding**
- **Finalise Singapore structure**
- **Progress acquisitive opportunities**
- **Drive cost and operational efficiencies further**
- **Realise the Group's international aspirations unlocking the potential for a value uplift**
- **Further enhance**
  - Cash collections
  - Margin management
- **Progress and entrench the client and candidate centric organisational framework**

Outlook and prospects

- **Have the advantage of a cost competitive and operationally efficient back office**
- **South African market conditions have stabilised and sales volumes are recovering**
- **Whilst general market conditions are not expected to improve substantially, prospects remain positive given:**
  - The Group's relevant strategic positioning
  - Extended geographic reach
  - Efficient operating platform
  - Access to capital necessary for international expansion
  - Globally relevant sales proposition
- **Certain strategic advantages should position the Group well for the future**
  - Group's customer centric sales approach
  - Its ability to cross-sell across its various operations in different geographies
  - The adoption of cutting edge technology and digitization
- **The Group remains well on track to achieve its strategic objectives of:**
  - Being recognised as a global industry player of consequence
  - Specifically focused on Africa, the Middle East, Asia Pacific region with potential for a significant value uplift


Questions and discussion
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