

FY2019 Interim results presentation

EXPLORE OUR WORLD

Established 1975 | Listed JSE limited 1987



ADCORP IS A WORKPLACE SOLUTIONS COMPANY

Presented by

Innocent Dutiro – *Chief Executive Officer*

Cheryl-Jane “CJ” Kujenga – *Chief Financial Officer*





FORWARD LOOKING STATEMENTS

The statements contained herein may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements, include without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to operations, margins, overall market trends, risk management and exchange rates. Forward-looking statements are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment.

Although forward-looking statements contained in this presentation are based upon what management of the Company believes are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements apply only as of the date on which they are made, and Adcorp undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

15 October 2018

**Business
context**



**Financial
results**



**Strategic
direction**



Conclusion



Business context

Innocent Dutirot
Chief Executive Officer





Half-year results reflect **early-stage positive outcomes** of the work performed by the leadership team over the past year to stabilise the Group in preparation for a strategic transformation



Period under review marked by a **difficult trading environment**



Parts of our business face headwinds therefore driving a case for a **strategy reset**



What you will hear today:

- Detail on the **business performance** for the half-year ended 31 August 2018
- Overview of the changes in the South African **regulatory framework** and what this means for our business
- The Adcorp business **going forward...**

Salient features



Group revenue for the year **increased by 3%** to R8 billion compared to R7.7 billion in August 2017



Australia revenue **increased by 11%** in constant currency terms



Underlying EBITDA for the period **increased by 33%** to R231 million



Net profit from continuing operations of R99 million (2017: Loss of R36 million)



Earnings per share 90,2 cents (2017: Loss per share of 120,7 cents)



Cash generated by operations R358 million (2017: R122 million)



Gearing **improved to 35%** from 61% due to change in net debt from R1.3 billion to R650 million



Group **operating costs reduced** by 16% to R896 million



Employers are largely looking for flexibility in their business cost structures hence a **decline in vacancies for permanent positions** and **increased demand for contract resources**

Trends we are seeing in the temporary and permanent placement businesses



Highest demand in the age group 25 to 35 for qualified workers with experience



~80% of our temporary employees are youth
(minimum requirements almost always a matric and basic computer skills)






Ongoing **trend of retrenchments** given slow economic growth, increased cost pressures and increasing competition



Substantial **MISMATCH BETWEEN SKILLS DEMAND AND SUPPLY** in professional services with the highest demand for skills being in **finance and specialised ICT and digital** job categories - despite the high unemployment rate in South Africa many of our **vacancies in these areas remain open** for very long periods

Operations: South Africa



WHAT WE DO	INDUSTRIAL SERVICES	PROFESSIONAL SERVICES	SUPPORT SERVICES	TRAINING SERVICES	FINANCIAL SERVICES
CHALLENGES and OPPORTUNITIES	 <p>Labour Relations Act Constitutional Court ruling and National Minimum Wage laws</p> <p>Increased positive engagement with our clients as we focus on holistic workplace solutions</p>	 <p>Largest supplier of IT and digital professionals in South Africa</p> <p>High demand for specialist skills</p>	 <p>Labour Relations Act Constitutional Court ruling and National Minimum Wage laws</p> <p>Digital disruption in office workplace</p>	 <p>Our opportunity lies in the ability to address the skills shortage, with our accreditations and knowledge, and work with our stakeholders to close the skills gap</p>	 <p>Primarily an enabler to our Industrial and Support Services divisions</p> <p>Funeral support business operates in a very niche, established market</p>

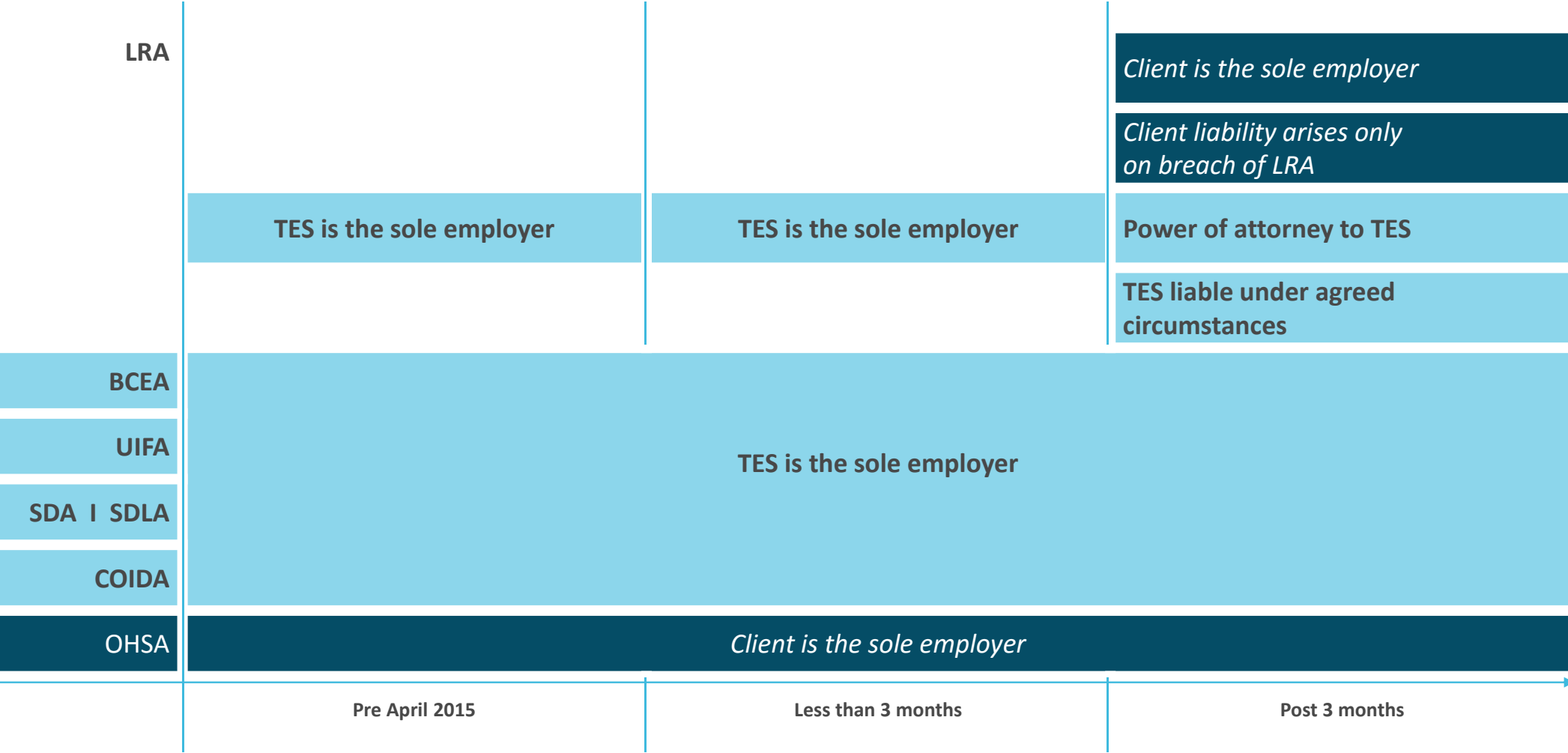


Highlights of the interpretation

- **Limited interpretation** of whether there are two employers or one related to the “affected employee” only for the purposes of the LRA
- The only Temporary Employment Services (TES) “**affected employees**” are those who earn below the Basic Conditions of Employment Act (BCEA) threshold (currently **R205 433 per annum**) and who are placed for **longer than three-months**
- This judgement **does not relate to equal treatment** on remuneration and benefits as this was already dealt with in the LRA amendments effective 1 April 2015

The client is the sole employer for purposes of the LRA, however the triangular relationship between client, assignee and TES still exists

The sole employer for the LRA



Our TES value proposition



Recruitment



Onboarding and
offboarding



Workforce
management



Performance
management



Productivity



Industrial
relations



Payroll and benefits
administration



Learnership
management

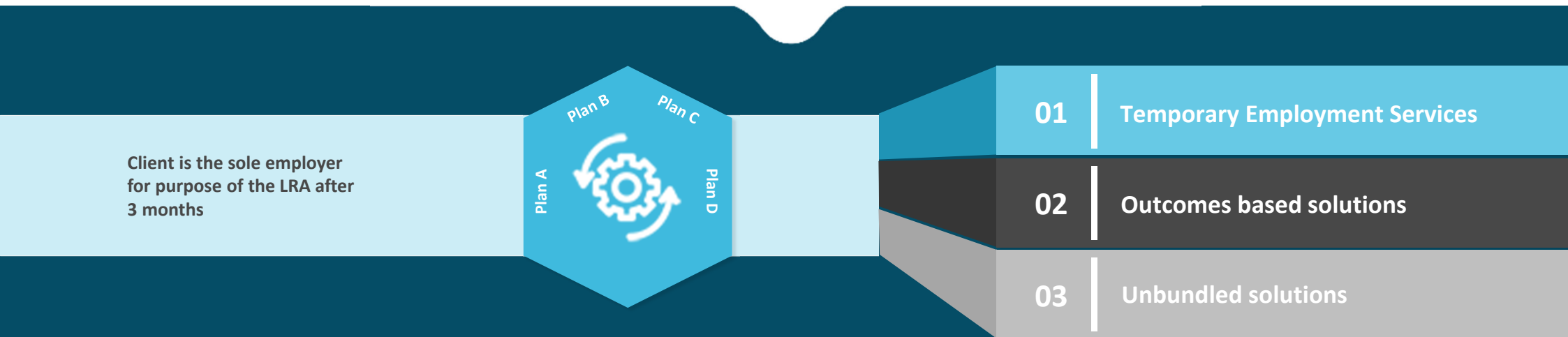


Skills development
and training



Cash flow management
and payroll

Workplace solutions models



01: Temporary Employment Services

- TES assignees above R205K per annum
- TES assignees <3 months, TES absenteeism and entry level
- TES below R205K, >3 months and with Power of Attorney
- Fixed term contracts



02: Outcomes based


- Managed Service Provision (MSP)
- Statement of Work (SOW)
- HRO and RPO solutions
- Functional outsourcing

03: Unbundled solutions


- Sourcing, screening, assessment, verification
- Contracting, on-boarding, payrolling
- BBBEE, skills development, employment equity
- Mobilisation, management and demobilization
- Benefits




	 INDUSTRIAL SERVICES	 PROFESSIONAL SERVICES
WHAT WE DO	<ul style="list-style-type: none">Semi-skilled workers in primarily agriculture, food processing and logisticsSkilled professionals within oil and gas industry focusing on technical disciplines	<ul style="list-style-type: none">Independent contract and permanent resourcing solutions largely in the technology sectorComplemented by a SAP specialisation, project management, RPO, MSP, IT training
CHALLENGES and OPPORTUNITIES	<p>Low-cost competitors seeking a share of the industry resulting in continued margin pressure</p> <p>Strength of our brand and ISO ratings, sound track record and longstanding client relationships.</p>	<p>Leading supplier of IT and digital professionals in Australia</p> <p>High demand for specialist skills</p>



Job ads are 8.7% higher than last year, indicative of solid labour demand



OIL AND GAS EXPLORATION
(and exploration more generally) have also been strong this year, alongside sustained higher commodity prices



Across Australia, the industries with the **greatest growth in employment opportunities** were **MINING, RESOURCES AND ENERGY** *(for the 12th consecutive month)*, and **farming, animals and conservation**

Trends we are seeing in the Australian labour market

Job ads in the **Healthcare and Medical** sector grew, as well as in the **Trades and Services** and **ICT** sector.

These sectors account for **29.2% of all available opportunities** in Australia.






FY2019 half-year financial results

Cheryl-Jane “CJ” Kujenga
Chief Financial Officer



We are making progress against our FY2019 priorities



					
FOCUS AREAS	Simplify Group structure in line with the strategic direction	Finalise development of the capital allocation framework	Progress implementation of cost reduction and efficiency improvements	Migrate offshored processes into an appropriate cost effective structure in South Africa	Maintain focus on working capital and liquidity management
PROGRESS	<i>Significant progress made on the blue print and focus in H2 will be on validating implementation implications</i>	<i>Details of capital allocation principles and target capital structure to be shared with release of full year results</i>	<i>On target to fully realise balance of R200m phase 1 saving, longer-term activity in place to ensure margin improvement to 5% by 2021</i>	<i>On target to have completed the migration in this calendar year</i> v	<i>Positive results evident in cash, net cost of funding and closing net debt position</i>

Statement of comprehensive income

R'000	Unaudited 6 months to Aug 2018	Unaudited 6 months to Aug 2017	Audited to 28 Feb 2018
Revenue	7 972 619	7 750 162	15 325 391
Cost of Sales	(6 892 763)	(6 613 968)	(13 097 630)
Gross Profit	1 079 856	1 136 194	2 227 761
Other income	28 073	30 043	58 067
Operating expenses	(876 496)	(992 606)	(1 898 367)
Underlying EBITDA	231 433	173 631	387 461
Strategic initiatives - once-off costs	(19 008)	(78 400)	(250 842)
Reported EBITDA	212 425	95 231	136 619
Depreciation and amortisation	(36 864)	(67 853)	(128 589)
Impairment of intangible assets, goodwill and bonds	-	(22 528)	(477 797)
Profit on disposal of associate	-	-	184 960
Net cost of funding	(49 352)	(55 432)	(124 029)
Sale of non-core assets	1 999	-	-
Share of profits from associates	-	14 186	16 476
Loss before taxation	128 208	(36 396)	(392 359)
Taxation	(29 137)	528	(28 350)
Profit/(loss) - continuing operations	99 071	(35 868)	(420 710)
Profit/(loss) - discontinuing operations	(351)	(92 585)	(140 322)
Net profit/(loss) for the period/year	98 720	(128 453)	(561 032)

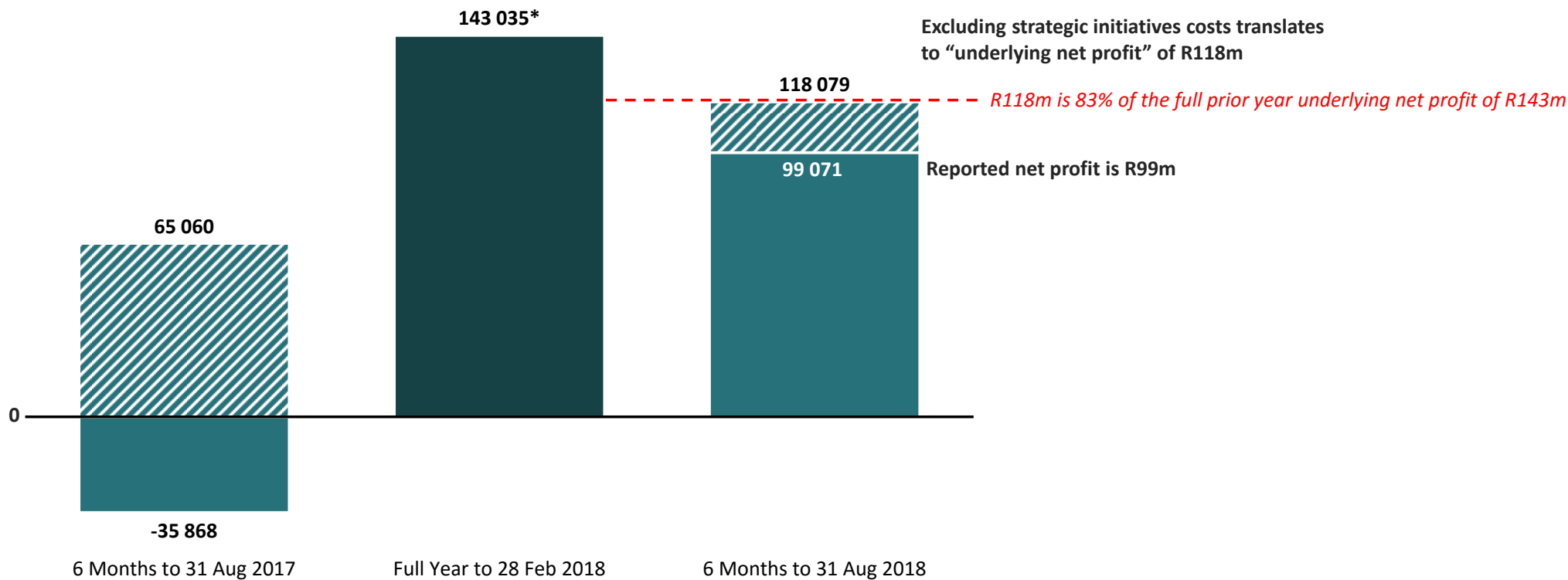


- 3% increase in revenue, SA relatively flat whilst Australia grew 11% in Australian dollar terms
- Decline in gross profit reflective of tougher market conditions and partly impacted by IFRS15 impact
- Cost rationalisation process continues to have a positive impact on operating expenses with a 12% reduction
- 33% growth in underlying EBITDA
- Prior year numbers – once off costs, current year – tracking the costs of strategic turnaround
- Reduction in net cost of finding reflective of concerted working capital and liquidity focus

Half-year net profit has significantly improved from what was reported in the prior year



Underlying Profit - Continuing Operations R'000

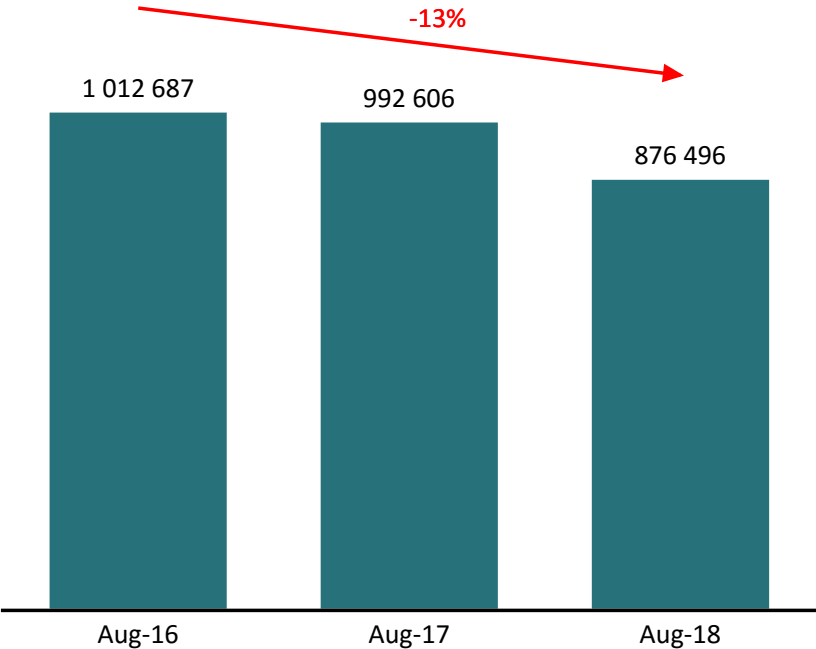


* Calculation included in FY2018 full year results presentation

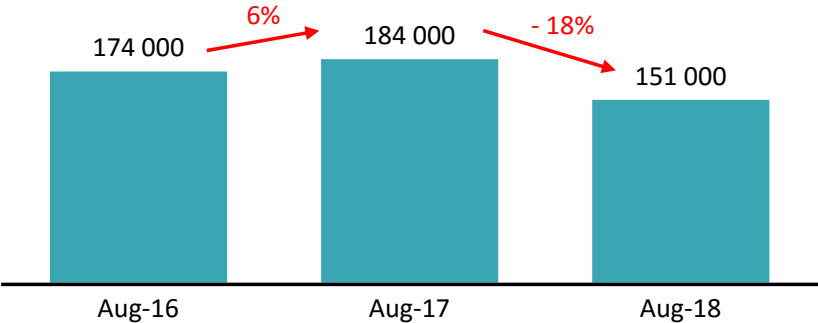
Cost reduction efforts are continuing



Operating Expenses R'000



SA Central Costs R'000

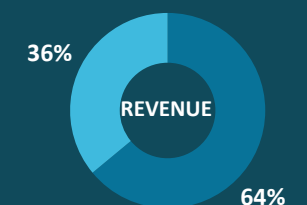


Initiatives that are providing us with short-term gains and positioning the Group for the ongoing strategic turnaround

Headcount rationalisation	Tightened procurement practices	Change spend culture	Rationalised real estate costs	Cancellation of offshored arrangement
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Segmental performance – Revenue: Continuing operations

R'000	Unaudited 6 months to Aug 2018	Unaudited 6 months to Aug 2017	Audited to 28 Feb 2018
SOUTH AFRICA			
Industrial Services	3 198 437	3 065 667	6 278 103
Professional Services	961 809	904 166	1 802 508
Support Services	729 817	774 207	1 471 207
Training Services	90 913	95 083	178 454
Financial Services	84 733	91 685	192 281
Other	1 024	8 049	16 034
Total – South Africa	5 066 733	4 938 857	9 938 587
AUSTRALIA			
Industrial Services	889 510	866 181	1 696 419
Professional Services	2 016 376	1 945 124	3 690 385
Total - Australia	2 905 886	2 811 305	5 386 804
Total Group Revenue	7 972 619	7 750 162	15 325 391



■ South Africa ■ Australia

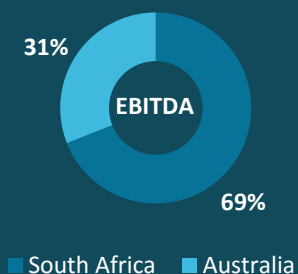
- Modified retrospective approach taken to implementing IFRS 15: Revenue Recognition, therefore current period adjusted and no retrospective adjustments made. Resulted in increase of R310m to Industrial Services South Africa revenue
- Apart from Professional Services, South Africa operations reflecting a reduction in revenue. Largely driven by economic pressure from our clients with lower headcount and permanent placements
- Australia H1 revenue AUD300m (August 2017: AUD269m). Positive results from Paxus Tier 2/3 client strategy and LSA benefitting from growth in the Australia meat industry.
- Positive Australia results dampened by ZAR: AUD movement, resulting in the 11% increase translating to 3% in Rand terms

Outlook

- Potential reduction in revenue from some clients due to regulatory changes
- H2 revenue should largely track historical trends across both geographies

Segmental performance – EBITDA: Continuing operations

R'000	Unaudited 6 months to Aug 2018	Unaudited 6 months to Aug 2017	Audited to 28 Feb 2018
SOUTH AFRICA			
Industrial Services	166 503	169 702	338 347
Professional Services	77 898	78 893	160 860
Support Services	28 741	21 390	49 012
Training Services	6 106	(12 548)	(32 501)
Financial Services	32 113	30 549	58 218
South Africa operations before transformation related and central costs	311 361	287 986	573 936
Central costs	(150 989)	(183 560)	(323 634)
Underlying EBITDA – South Africa	160 372	104 426	250 302
Strategic initiatives / once-off costs	(19 008)	(78 400)	(250 842)
Reported EBITDA – South Africa	141 364	26 026	(540)
AUSTRALIA			
Industrial Services	30 483	26 953	58 096
Professional Services	55 213	56 419	104 059
Australia operations before central costs	85 696	83 372	162 155
Central costs	(14 635)	(14 167)	(24 996)
Reported EBITDA - Australia	71 061	69 205	137 159
Underlying EBITDA Group	231 433	173 631	387 461
Reported EBITDA - Group	212 425	95 231	136 619



- Industrial Services impacted by continued margin pressure and assignee headcount reduction from clients
- Professional Services margins down due to increased doubtful debt provision. This is the first time in this segment and efforts are continuing to ensure amounts are recovered before year end
- Support Services and Training are benefitting from the reduction in costs and increased client engagement
- Australia EBITDA growth in line with revenue growth at 11% in AUD terms, AUD7m (August 2017: AUD6,6m)

Outlook

- Focused effort to right-size the cost base of the South Africa Industrial Services business to mitigate against regulatory headwinds*
- We expect the rest of the businesses to continue on the H1 trajectory*

Summarised statement of financial position



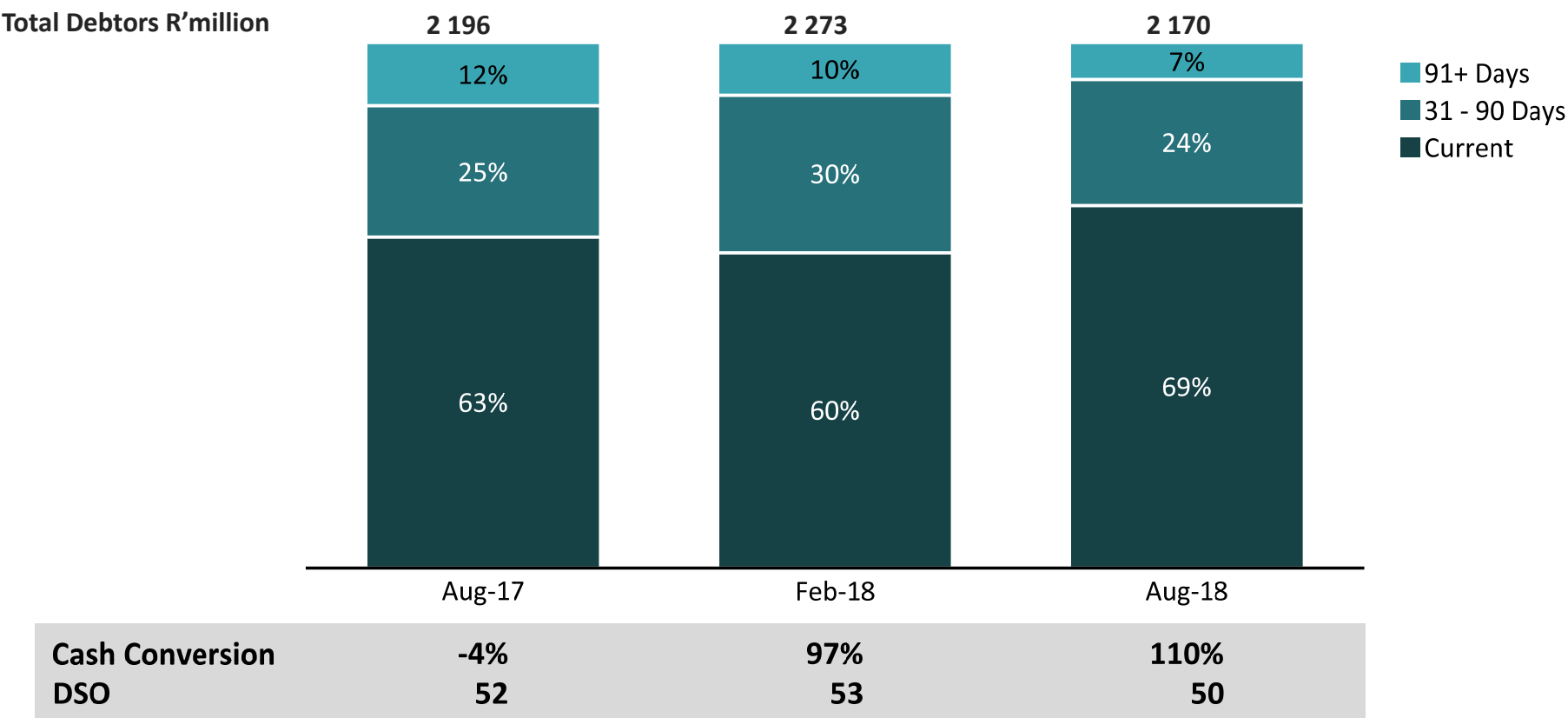
R'000	Audited to 28 Feb 2018	Unaudited 6 months to Aug 2018	Unaudited 6 months to Aug 2017
ASSETS			
Property and equipment	65 756	65 137	89 027
Intangible assets and goodwill	1 437 795	1 488 044	1 930 351
Investments and other financial assets	23 605	24 031	41 497
Tax and deferred tax asset	270 931	287 000	211 498
Trade receivables	2 272 550	2 170 205	2 195 886
Other receivables	89 399	141 732	235 856
Investment in associate	-	-	154 994
Cash at bank	360 328	599 370	323 750
Total assets from continuing operations	4 520 364	4 775 519	5 182 859
Assets classified as held for sale	10 434	-	196 691
Total assets	4 530 798	4 775 519	5 379 550
EQUITY AND LIABILITIES			
Capital and reserves	1 602 589	1 851 214	2 132 843
Interest bearing borrowings	1 218 559	1 231 757	1 617 599
Share-based payment liability	8 133	-	17 354
Tax and deferred tax liability	160 040	140 184	130 331
Provisions, trade and other payables	1 512 232	1 552 364	1 410 391
Total liabilities from continuing operations	4 501 553	4 775 519	5 308 518
Liabilities classified as held for sale	29 245	-	71 032
Total equity and liabilities	4 530 798	4 775 519	5 379 550

Net debt



	Audited to 28 Feb 2018	Unaudited 6 months to Aug 2018	Unaudited 6 months to Aug 2017
South Africa interest-bearing liabilities	(663 129)	(432 608)	(978 184)
Interest bearing loans	(925 000)	(850 000)	(871 487)
Net cash at bank	261 871	417 392	(106 697)
Australia interest-bearing liabilities	(195 102)	(199 779)	(314 287)
Interest bearing loans	(281 883)	(381 031)	(402 026)
Net cash at bank	86 781	181 252	87 739
Other	(14 367)	(14 036)	(18 116)
Group net debt	(872 598)	(646 423)	(1 310 587)
Net gearing	54%	35%	61%
Unutilized committed facilities	199 400	220 557	105 865
South Africa	75 000	150 000	33 549
Australia	124 400	70 557	72 316

Overall improvement to debtors management, resulting in higher cash



We are focusing on strengthening our sources of capital to enable sustainable shareholder return



CASH FROM
OPERATIONS

Optimise conversion of
EBITDA to available cash



DEBT

Strengthen the balance
sheet, reduce dependency
of debt funding



RAISING EQUITY

Not in the pipeline

1

Determine target
capital structure
and funding
mechanism for
growth

2

Set aside
sustainable
investment
requirements

3

Determine
sustainable
shareholder
payout

Work we are doing over the next 6 months

Optimisation of shareholder returns

Strategic direction

Innocent Dutiro
Chief Executive Officer



Transformation journey



R1 BILLION
EBITDA
by 2022

South Africa is our **core market** and our strategic focus area for the short to medium-term where the emphasis has been to fix and stabilise operations, *attention will turn to longer-term growth strategy including Australia in the next financial year*



STRATEGIC FOCUS	<ul style="list-style-type: none"> Fix and stabilise South Africa operations (Australia currently stable) 	<ul style="list-style-type: none"> Define new operating model Develop long-term growth strategies for South Africa and Australia
WHAT WE'VE DONE	<ul style="list-style-type: none"> Restored discipline relating to cost and working capital Stemmed the losses in the Training business and stabilised Support Services businesses Secured funding lines and stabilised liquidity Exited non-core businesses Completed changes to Group executive team with the appointment of the Chief Commercial Officer and the Chief People officer who have started developing our go-to-market strategy and "One Adcorp" culture respectively 	

Strategic priorities



Build a **STRONG** business that is **FOCUSED** on leveraging our core



Enhancing our delivery in our key areas of capability:

- **Resourcing**
- **Training**
- **Consulting**
- **Outsourcing**

Continue to provide **Financial Service solutions** that enhance the experience of our employees

Retain our presence in **Australia**

Ensure that the business is **LEAN AND AGILE**



Various projects in flight that will result in structural change:

- Group **simplification**
- **Structural review**, process standardisation and re-engineering
- **Back-office integration** and **shared service** strategy
- **Role of the centre**
- **Technology enablement**

STRENGTHEN the brand



History of acquisitive growth strategy has seen us own **32 brands**

BLU.	FMS	DARE	functiono	allaboutXpert
DA V	MONDIAL IT SOLUTIONS	PARACON	paxus Technology & Digital Lead	talen CRU
The Personal Concept	TIGER TAIL	TORQUE IT	CHA/RISMAI	KELLY
Quest	rightsourcing	zest	Cam!	PMI

Brand architecture evaluation process is underway

TRANSFORM the culture



Create a culture that is **empowering, innovative and diverse**

Driven by **Adcorp People Philosophy**

Strategic capabilities on which the future Adcorp will be built



1

Resourcing



- Adcorp's *core business* is the *recruitment and placement* of permanent and temporary staff in primarily IT, administrative and industrial categories

2

Training



- Given the skills challenges that South Africa faces, we see significant opportunity in *building a strong Adcorp training proposition* leveraging a number of assets that Adcorp already possesses

3

Consulting



- Leverage our knowledge in *HR process and people management* to provide thought leadership in the labour market and partner with clients on their HR digital transformation journeys

4

Outsourcing



- Provide clients with outsourced services for *people-intensive processes* in order to enhance productivity and improve labour law compliance

A WORKPLACE SOLUTIONS company

PRESENTATION BY ADCORP

Q&A

Thank you

