



## Financial results presentation

For the year-ended 29 February 2020

Presented by

**Phil Roux**

*Chief Executive Officer*

**Thabiso Hermanus**

*Group Finance Executive*

## 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.*

29 June 2020



**1 Business context**

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**2 FY20 Financial results**

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**3 Response to COVID-19  
and outlook**

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### What you will hear today

- **REVIEW OF OUR PERFORMANCE** for the year ended 29 February 2020
- **REFLECTION** on what went wrong, what has changed and what remains true
- The Adcorp **BUSINESS OUTLOOK** for the year ahead

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

- Rising unemployment in South Africa
- Series of natural disasters in Australia
- Contracting South African economy

### ...and **internal operational challenges**

- Declining revenues
- Margin compression
- Slow cost extraction
- Organisation instability and inward focus



## Macro-economic context

### GLOBAL STAFFING TRENDS

- Staffing industry revenue growth is highly correlated with GDP growth
- Increasing investment in Artificial Intelligence by staffing firms.
- Non-traditional new competitors e.g. Google for Jobs
- Skills shortages
- Automation of workforce
- Low barriers to entry

### SOUTH AFRICA

- Pre-COVID-19 unemployment rate 29.1%
- Ongoing trend of retrenchments
- Flexibility in business cost structures
- Highest demand in the age group 25 to 35
- TES sector has grown significantly in recent years

### COVID-19-19 IMPACT

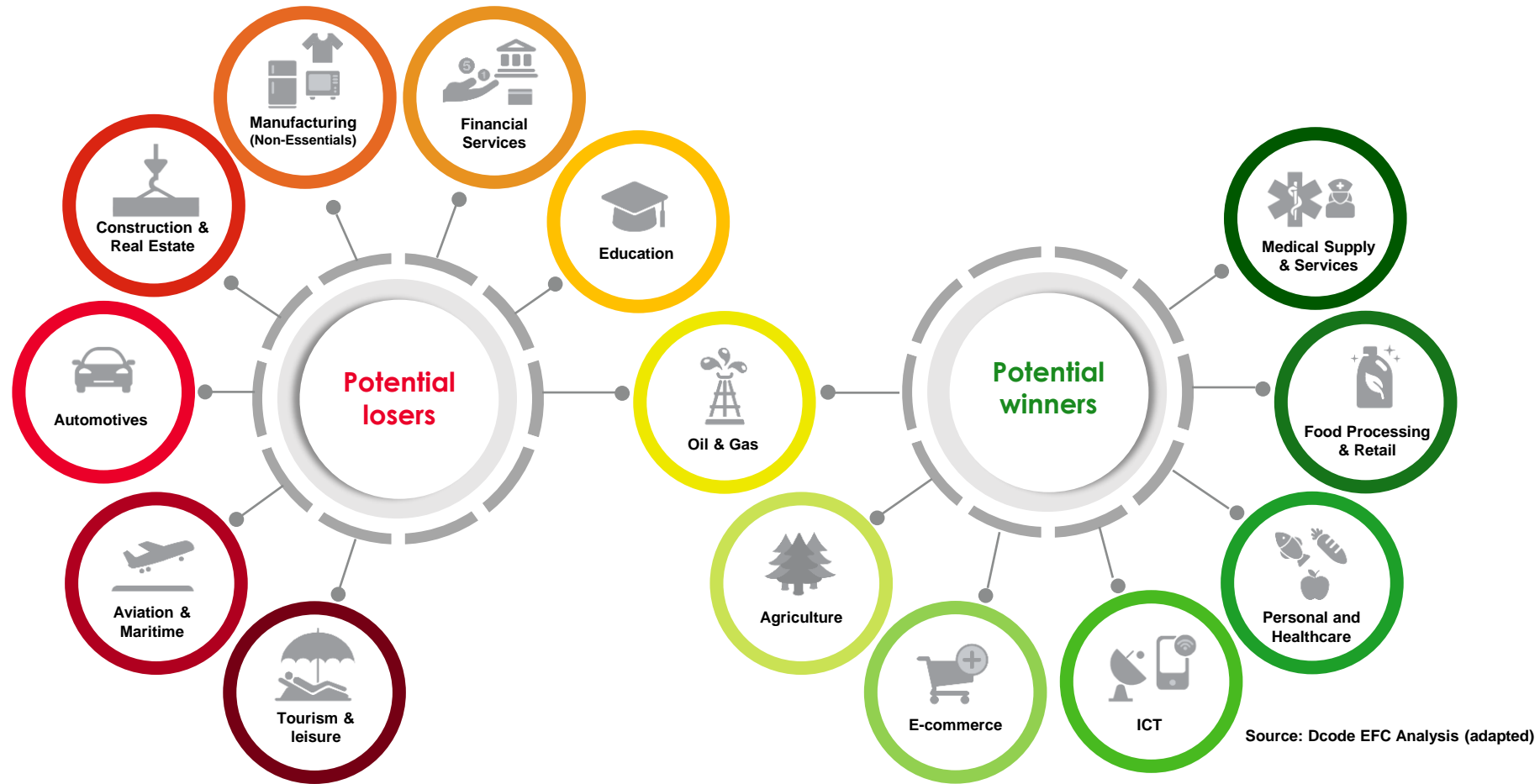
#### *...on the South African economy*

- Double jeopardy – COVID-19 exacerbates contracting economy
- Economic financial strain – tax income losses
- COVID-19 peak yet to materialise

#### *...on staffing markets*

- Variable impact on industries
- Significant labour market contraction
- COVID-19 plays to defensive sectors e.g. retail, pharma, food
- Volatile labour demand
- Retrenchment led labour contraction

## COVID-19: Opportunity in adversity



*Flexibility and staffing solutions will be a key requirement for some industries as they look to maintain operational levels in the year ahead, while navigating the unprecedented challenges arising from the COVID-19 pandemic*

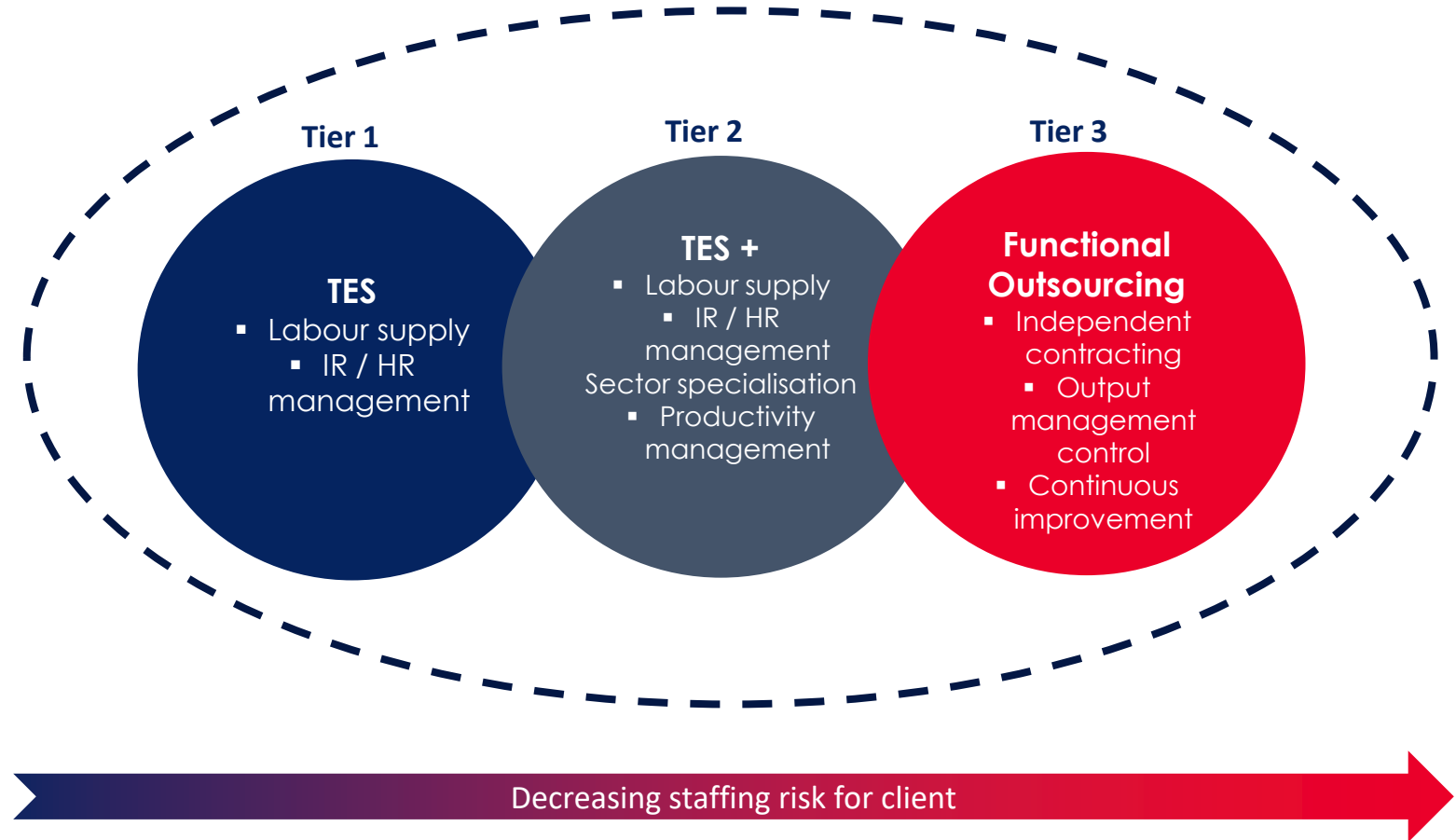
## CEO initial observations: External factors



### Industry challenges

- Structural changes to the industry over time
- Fractured industry akin to commoditisation in parts
- Incoherent brand-value propositions
- Fixed versus variable workforce conundrum
- Keeping pace with and adoption of new HR technologies
- Lack of business model agility
- Onerous SA labour regulatory environment

### Temporary staffing model eco-system



## CEO initial observations: Internal considerations

### BRANDS

BLU. CAPability funxion

BLU.CYNERGY ADfusion

KELLY CHA/RISMA! zesty

PARACON allaboutXpert talentCRU

TORQUE IT PMI I Can!

paxus LS Labour Solutions Australia DARE

7|8|V FMS



Adcorp has **scale** and **operational capability**, *but...*

- Significant debt burden
- Steep revenue declines – structural and own goals
- Margin compression due to labour market pressures
- Mostly purveyors of temporary labour
- People placement versus strategic functional outsourcing
- Organisational instability and disruption
- Cumbersome legacy systems
- Insufficient data and insight-driven decision making





## FY20 Financial results

PRESENTED BY

**Thabiso Hermanus**  
*Group Finance Executive*

## Financial snapshot



**Revenue from continuing operations ↓ 10%**  
to R13 billion  
(2019: R14,5 billion *restated\**)



**Operating profit from continuing operations ↓ 49%**  
to R195 million  
(2019: R379 million *restated\**)



**Cash** generated by operations ↓ **57%**  
to R213 million  
(2019: R500 million)



**No dividend** declared for the year ended 29 February 2020  
(2019: 96,1 cents)



**Loss per share**  
**561 cents**  
(2019: Earnings per share 240 cents)



**Headline loss per share**  
**6,2 cents**  
(2019: Earnings per share 245 cents)



**DSO 54 days** from  
52 days in 2019



**Gearing** ratio  
**58%** from 27%

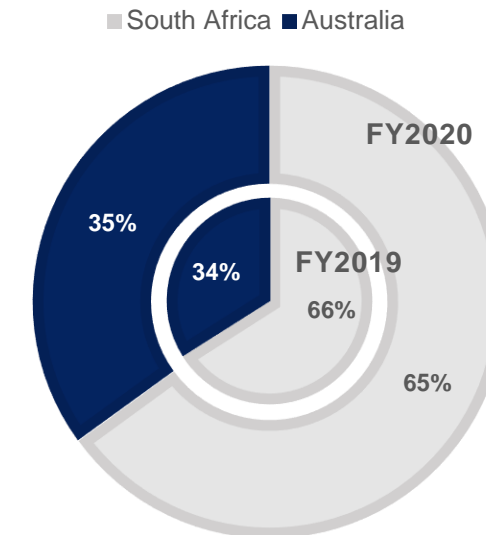
*\*Restated to classify Dare Holdings Proprietary Limited - Australia as an asset held for sale in accordance with IFRS 5 (Discontinued operations)*

## Segmental performance - Revenue

	2020	2019	Var %
	R'000	R'000	
<b>South Africa</b>			
Industrial Services	5 541 907	5 980 971	-7%
Professional Services	1 766 491	1 935 706	-9%
Support Services	939 910	1 371 072	-31%
Training	142 963	166 005	-14%
Financial Services	136 022	149 336	-9%
<b>Total – SA Revenue</b>	<b>8 527 293</b>	<b>9 603 090</b>	<b>-11%</b>
<b>Australia</b>			
Industrial Services	779 983	1 084 009*	-28%
Professional Services	3 751 071	3 839 095	-2%
<b>Total - Australia Revenue</b>	<b>4 531 054</b>	<b>4 923 104</b>	<b>-8%</b>
<b>Total Group Revenue</b>	<b>13 058 347</b>	<b>14 526 194</b>	<b>-10%</b>

## Commentary

- South Africa revenue decline largely attributed to reduction in TES headcount in Industrial and Support Services
- Australia revenue decline largely due to drought conditions and flooding in the first half of the year, which materially impacted Labour Solutions Australia



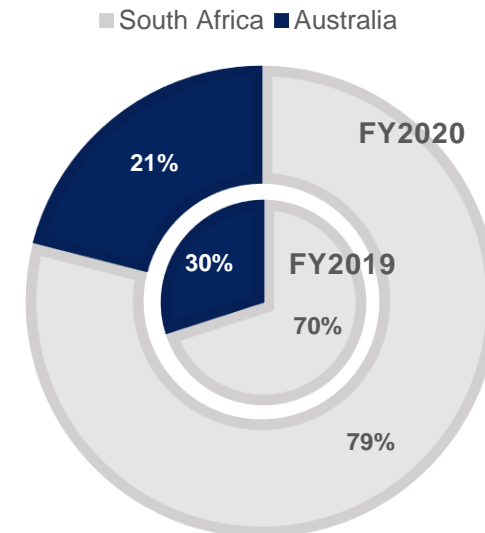
\*2019 Revenue restated to classify Dare Holdings Proprietary Limited - Australia as an asset held for sale

## Segmental performance – EBITDA

	2020	2019	Var %
	R'000	R'000	
<b>South Africa</b>			
Industrial Services	301 861	344 005	-12%
Professional Services	125 201	188 552	-34%
Support Services	14 001	49 387	-72%
Training	22 413	5 806	286%
Financial Services	69 295	65 189	6%
<b>Operations results before central costs</b>	<b>532 771</b>	<b>652 939</b>	-18%
Central costs	(264 712)	(329 762)	20%
<b>Total – South Africa EBITDA</b>	<b>268 059</b>	<b>323 177</b>	-17%
<b>Australia</b>			
Industrial Services	(4 145)	42 416*	-110%
Professional Services	91 463	116 142	-21%
<b>Operations results before central costs</b>	<b>87 318</b>	<b>158 558</b>	-45%
Central costs	(14 790)	(23 284)	36%
<b>Total – Australia EBITDA</b>	<b>72 528</b>	<b>135 274</b>	-46%
<b>Total Group EBITDA</b>	<b>340 587</b>	<b>458 451</b>	-26%

## Commentary

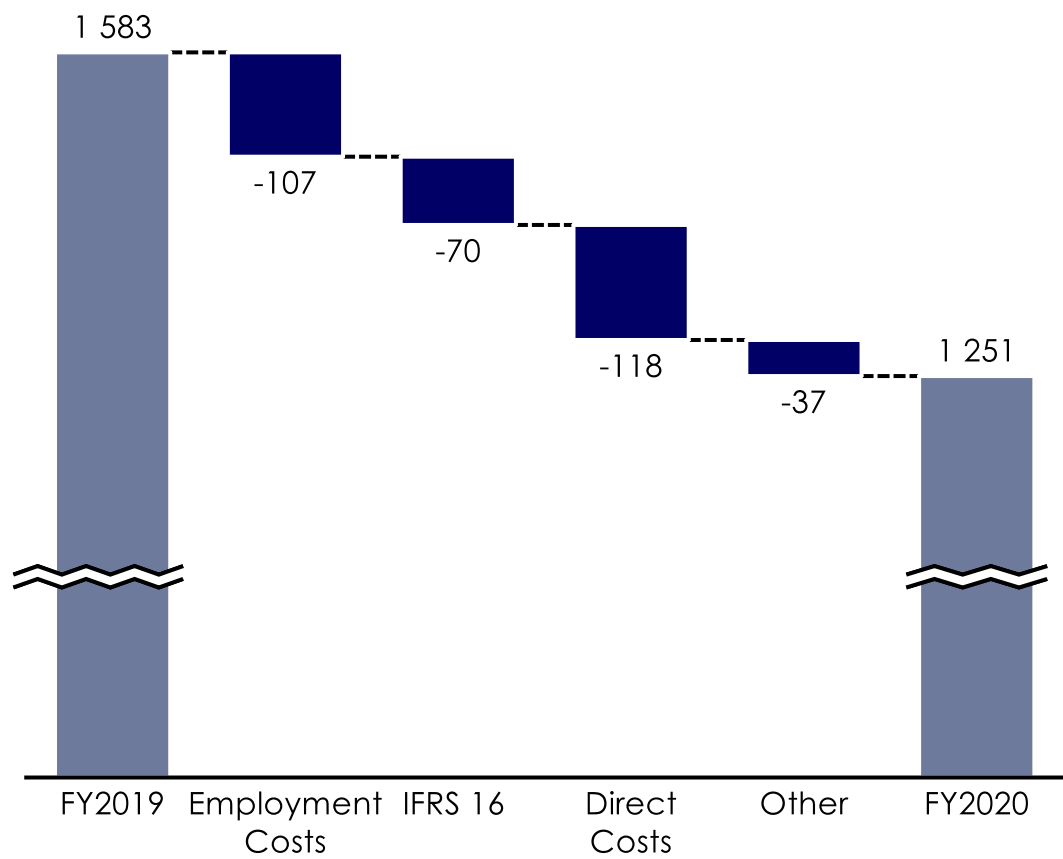
- Revenue decline exacerbated by GP margin compression
- GP margin compression amidst trading pressure
- Continuation of cost saving initiatives further reduced operating expenses



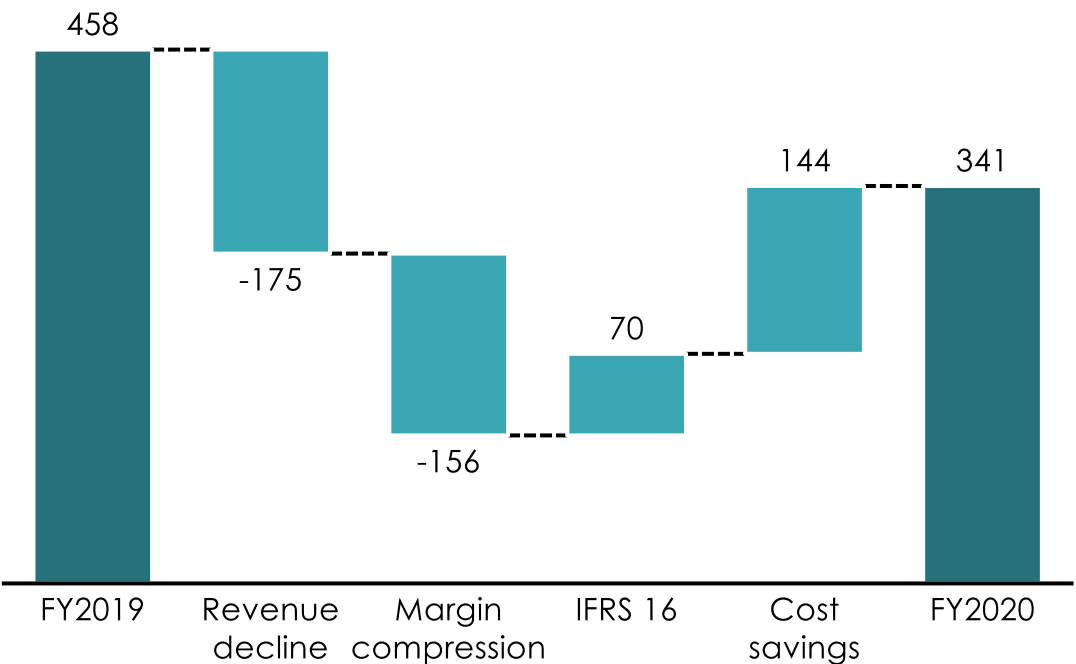
\*2019 EBITDA restated to classify Dare Holdings Proprietary Limited - Australia as an asset held for sale

# Right-sizing cushions revenue and margin compression

Operating cost analysis (R'm)



EBITDA movement (R'm)





## Summarised consolidated statement of profit and loss

	2020 R'000	2019 R'000	Var %
<b>Revenue</b>	<b>13 058 347</b>	<b>14 526 509</b>	-10%
Cost of sales	(11 495 905)	(12 530 029)	-8%
<b>Gross profit</b>	<b>1 562 442</b>	<b>1 996 480</b>	-22%
<i>GP Margin</i>	11,97%	13,74%	-13%
Other income	28 302	44 678	-37%
Operating expenses	(1 250 157)	(1 582 707)	-21%
<i>Operating expenses</i>	<i>(1 320 488)</i>	<i>(1 582 707)</i>	
<i>IFRS 16 adjustment</i>	<i>70 331</i>		
<b>EBITDA</b>	<b>340 587</b>	<b>458 451</b>	-26%
Depreciation and amortisation	(145 305)	(79 416)	83%
<i>Depreciation and amortisation</i>	<i>(79 684)</i>	<i>(79 416)</i>	
<i>IFRS 16 adjustment</i>	<i>(65 621)</i>		
<b>Operating profit</b>	<b>195 282</b>	<b>379 035</b>	-48%
Net interest	(105 499)	(83 697)	-26%
<i>Net interest</i>	<i>(69 861)</i>	<i>(83 697)</i>	
<i>IFRS 16 adjustment</i>	<i>(35 638)</i>		
Impairments & Loss on sale of entities	(614 088)	(6 247)	>100%
<b>Profit / (Loss) before taxation</b>	<b>(524 305)</b>	<b>289 091</b>	>-100%
Taxation	(84 226)	(32 808)	>100%
<b>Profit / (Loss) from continuing operations</b>	<b>(608 531)</b>	<b>256 283</b>	>-100%
<b>Effective tax rate</b>	<b>(16,0%)</b>	<b>11,0%</b>	

## Commentary

- Group revenue driven largely by declines in Industrial Services revenue in both South Africa and Australia
- Change in direct cost allocation method in FY2020
- New lease standard IFRS 16 adopted prospectively by the group for the year ended 29 February 2020
- Impaired R558 million worth of goodwill in resourcing-based cash-generating units in both South Africa and Australia
- The group recognized less assessed losses than in the prior year, this along with the derecognition of the deferred tax contributed to the tax expense of R84 million (2019: R32 million)

## Summarised consolidated statement of financial position

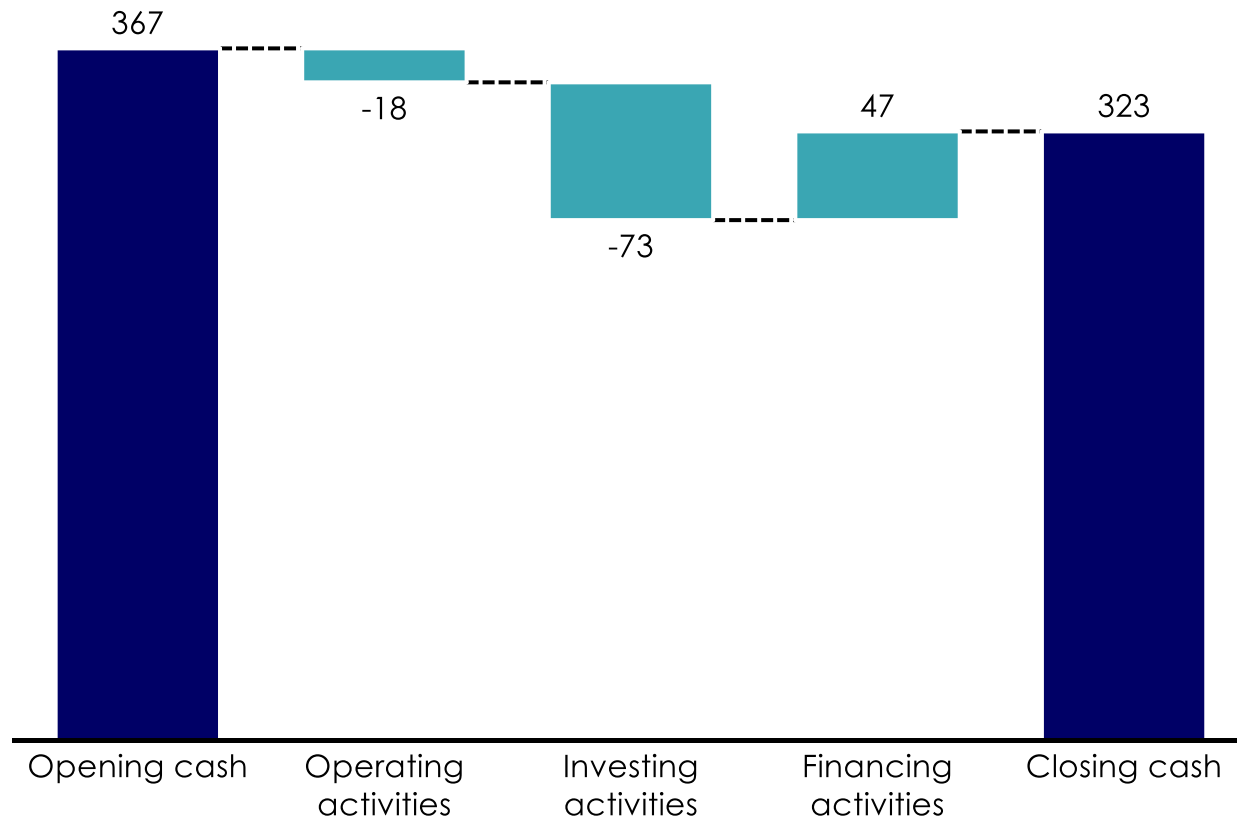
	2020 R'000	2019 R'000	Var %
<b>Assets</b>			
Property and equipment	72 212	57 647	25%
Intangible assets and Goodwill	846 577	1 420 412	-40%
Right-of-use lease assets	414 917	-	100%
Investments and other financial assets	22 051	18 239	16%
Tax and deferred tax asset	205 302	305 792	-33%
Trade and other receivables	2 016 700	2 190 202	-8%
Cash at bank	319 154	366 857	-13%
	<b>3 896 913</b>	<b>4 359 149</b>	-11%
Non-current assets held for sale and assets of disposal groups	116 039	-	100%
<b>Total assets</b>	<b>4 012 952</b>	<b>4 359 149</b>	-8%
<b>Equity and liabilities</b>			
Capital and reserves	1 175 761	1 905 474	-38%
Interest bearing borrowings	1 001 866	885 529	-13%
Right-of-use lease liabilities	497 478	-	100%
Tax and deferred tax liability	125 927	163 590	-23%
Provisions, trade and other payables	1 173 061	1 404 556	-17%
	<b>3 974 093</b>	<b>4 359 149</b>	-9%
Liabilities directly classified as held for sale	38 859	-	100%
<b>Total equity and liabilities</b>	<b>4 012 952</b>	<b>4 359 149</b>	-8%

### Commentary

- Debtors book remains strong
- Right-of-use lease liability recognized due to IFRS 16
- Reclassification of R1 billion loan in SA to current liabilities
- Decreased recognition of assessed losses to R343 million resulting in a deferred tax asset of R96 million
- Unrecognised portion of the assessed loss is R678 million (2019: R313m million)

## Cashflow movement

Cash flow FY2020 (R'm)

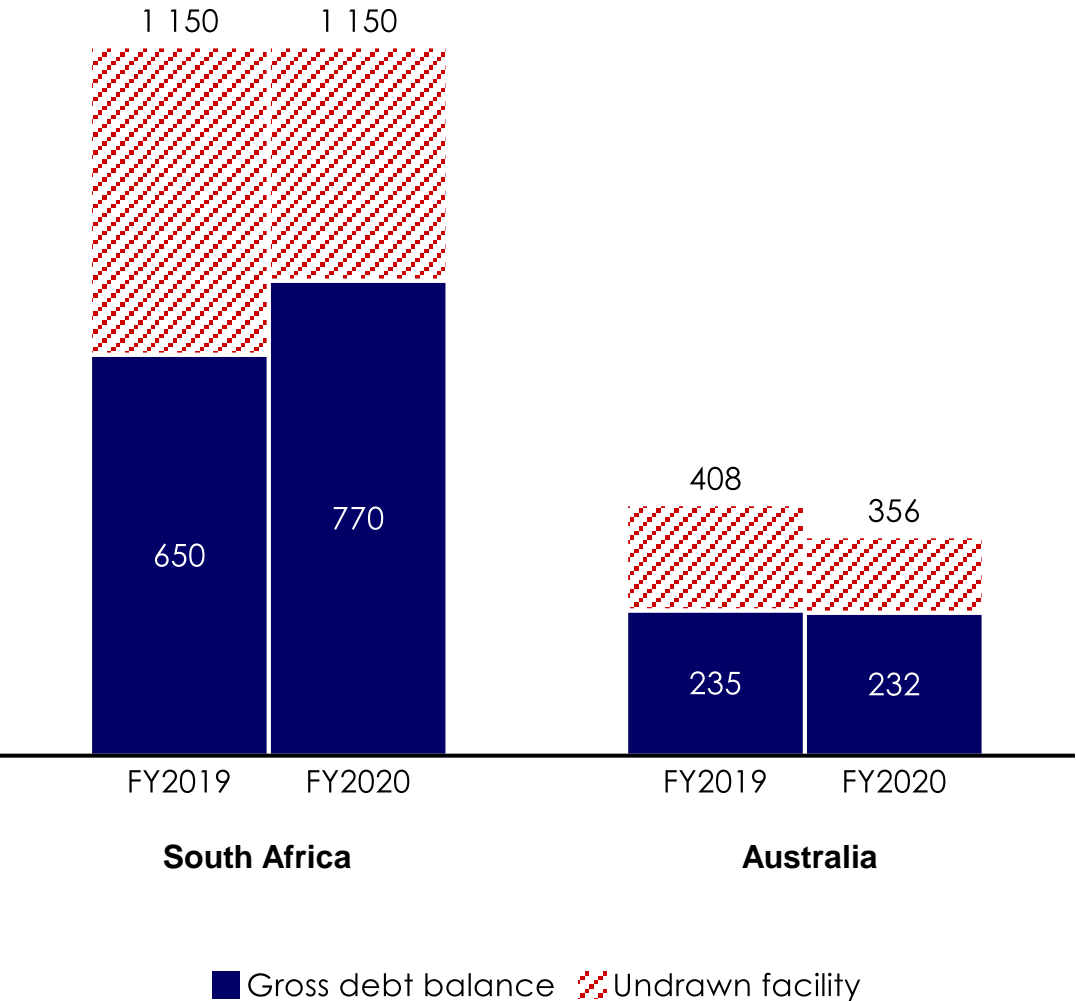


### Commentary

- Dividend paid R106m (96.1 cents per share declared for year ended 28 February 2019)
- No dividend declared for FY2020
- Excess cash in H1 of FY2020 used for share repurchase
- Investing activities largely investment in technology transformation

# Debt management

## Commentary



- Debt facility is used primarily to fund working capital requirements
- Post year-end SA facility restructured down to R850 million from R1 billion
- Accordion facility of R 150 million available during December to February
- South Africa debt restructured to 2022 with bullet payments



## **COVID-19 response and business outlook**

PRESENTED BY

**Phil Roux**

*Chief Executive Officer*



## Managing a new normal – COVID-19 response



### ENSURING BUSINESS CONTINUITY

- **Work from home**
- Measures to **virtualize training offerings**
- Fever/temperature **testing for employees**

### OPERATIONAL IMPACT

- TES and Functional Outsourcing operations provide **staffing to essential services**
- Permanent placements **hiring freezes** seeing gradual recovery
- Independent contracting largely sustained
- Training offers **largely classroom-based training** which remains closed

### MAINTAINING LIQUIDITY

- **Cost savings and liquidity management** interventions

# COVID-19 segmental commercial impact

## INDUSTRIAL SERVICES

- Margins impacted by the more profitable client base not trading in lockdown levels 5 and 4
- ETI\* income higher due to government relief measures

## PROFESSIONAL PLACEMENTS

- Higher than anticipated demand for MSP offering in level 3
- IT Resourcing revenues stable throughout lockdown

## TRAINING

- Training operating at very low capacity due to:
  - Covid-19 infection risks associated with classroom learning
  - Slow uptake in virtual training
  - Postponement of training by corporate clients

## AUSTRALIA

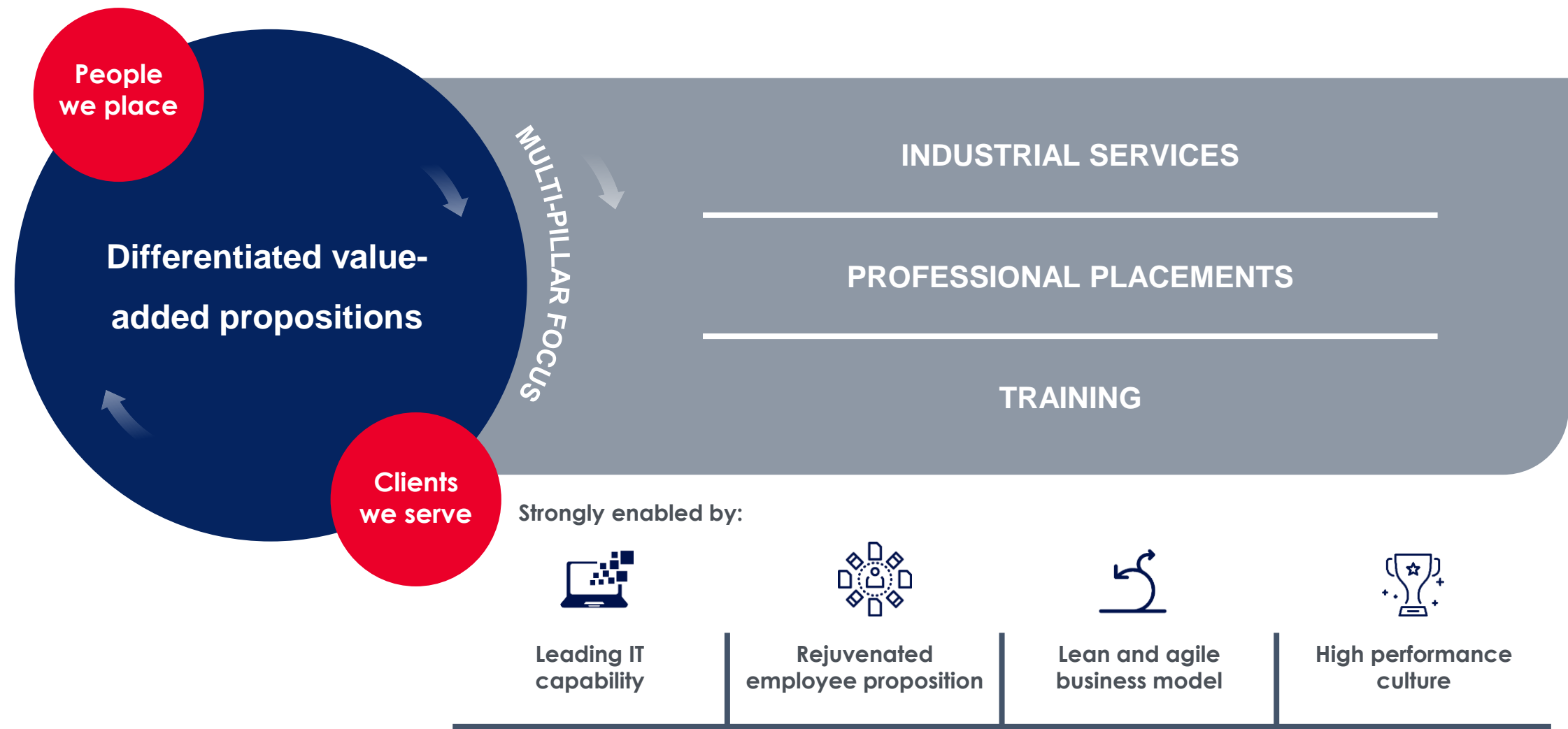
- Contractor volumes dropped marginally in Q1 largely in LSA
- Paxus contractor volumes stable with higher utilisation rates due to domestic travel restrictions



## Remedial actions

- Rigorous cash collections
- Reduction of non-essential spend
- Targeting sector specific top-line opportunities
- Revision of business model
- Fast track digital solutions

Corporate architecture - Steeped in customer centricity



## Commenced a strategic process – 8 value drivers

Corporate and  
brand strategy

1

Portfolio  
strategy

2

Margin  
optimisation

3

Strategic  
customer  
management

4

Cost base  
reset

5

IT  
transformation  
and  
digitalisation

6

Leadership and  
organisational  
development

7

Divestitures

8





## Outlook – focus on stabilisation and optimisation



### STRATEGIC OUTLOOK

- SA economy contracts sharply
- Higher levels of unemployment
- Widening skills deficit
- Increased rivalry
- Reinvention of business models
- New ways of working

### IMPLICATIONS FOR ADCORP BUSINESS

- Capitalise on defensive sectors
- Implement 'self-help' programme
- Strengthen corporate value proposition
- Customer-centric focus





**adcorp**  
Connecting Potential

**Thank You**

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