



Financial Results Presentation

For the year ended 28 February 2019

Presented by

Innocent Dufiro and Cheryl-Jane (CJ) Kujenga

Chief Executive Officer and 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.

20 May 2019





- 1 | **Delivering a platform for growth** (Innocent Dutiroti)
- 2 | **Financial results** (CJ Kujenga)
- 3 | **Strategic direction** (Innocent Dutiroti)





Delivering a platform for growth

Innocent Dutiro



What you will hear today

- **REVIEW OF OUR PERFORMANCE** for the year ended 28 February 2019
- Our **REVISED OPERATING MODEL** and the value it will create
- The Adcorp **BUSINESS OUTLOOK** for the year ahead

Last eighteen months have been focused on establishing a platform from which we can build a sustainable future for the Group

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

- Rising unemployment in South Africa
- Low GDP growth rates in Australia
- Stifled consumer demand



Performance highlights



Reported **EBITDA**

↑ 242%
to R467 million



Net **profit** after tax

↑ 147%
to R262 million



Revenue

↓ 2%
to R15.0 billion
(2018: R15.3 billion)



Cash generated by operations

↑ 28%
to R500 million
(2018: R390 million)



Earnings per share
240 cents

(2018: Loss per share 517 cents)



Headline earnings per share
245 cents

(2018: Loss per share 86 cents)



Improvement in **DSO** to
50 days from
53 days in 2018



Gearing ratio
improved
to **27%** from 55%

*Dividend declared of **96,10 cents** per share (2018: Nil)*



South Africa macroeconomic environment presents unique labour market challenges



South African unemployment rate increased to **27.6%**

- Driven in large part by lack of appropriately skilled workforce
- Exacerbated by slow economic growth
- Youth unemployment 55,2%

OUR CONTRIBUTION

...FACILITATING JOB CREATION

- Adcorp helped over **73 215** South Africans achieve employment during FY2019
- **~80%** of our temporary assignees are youth (25 – 35)

...BUILDING A TALENT PIPELINE *and preparing South Africans for the future world of work*

- **1 032** employed and unemployed young South Africans were placed on NQF 1 to 5 learnerships with our clients
- **419** artisan apprentices were enrolled on our training programmes in FY2019



A leading workplace solutions company and market leader in human capital and talent management

1

Resourcing



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

Increase employability and connect people with opportunities

2

Outsourcing



Provide clients with outsourced services for **people-intensive processes**

Enhance productivity and improve labour law compliance

3

Training



We facilitate **training** and provide **learning and development** solutions in the form of learnerships, corporate short courses and **employment readiness** programmes

Support skilling and reskilling of South Africa's workforce

4

Consulting



Leverage our knowledge in **HR process and people management** to provide thought leadership in the labour market

Support our clients as they prepare for the future of work

Build workplaces and careers for the future



Transformation journey

Our **focus over the past year** has been to **continue fixing** and **stabilising** the business in preparation for **growth**



R1 BILLION
EBITDA
by 2022



End FY2019

End FY2020

End FY2022

STRATEGIC FOCUS

- Fix and stabilise South Africa operations
- Define new operating model

- Transition into new operating model
- Implement long-term growth strategy for South Africa
- Develop long-term growth strategy for Australia

WHAT WE'VE DONE IN THE PAST YEAR

- Effected a **financial turnaround** of the business
- Restored discipline relating to **cost and working capital**
- **Stemmed the losses** in the Training business
- Successfully **migrated off-shored processes** into an appropriate cost-effective structure in South Africa
- Completed the first phase of the **restructure of our support functions**
- Fully realised the balance of the promised **R200 million Phase One cost-savings**
- Commercial execution of Phase Two targeted at **optimising operating structures** and process re-engineering
- Finalised the **long-term growth strategy** for South Africa underpinned by a new operating model



Performance against our strategy

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



Defined core business areas, growth strategy and operating model to support delivery

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

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

Australia business strategy in development



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



Various projects in flight/ completed that will result in **structural change**:

- Group simplification
- Structural review, process standardisation and re-engineering
- Back-office integration and central shared service model
- Technology enablement project



STRENGTHEN the brand



Development of a **client centric, One Adcorp** solutions-based go-to-market approach

Brand architecture evaluation process is underway

Development of robust **stakeholder engagement** strategy

Alignment of our corporate social investment programmes with our organisational purpose to **build workplaces and careers for the future**



TRANSFORM the culture



Create a culture that is empowering, innovative and diverse, driven by the **Adcorp People Philosophy**

- Attract, reward and retain exceptional people
- Drive a high-performance culture
- Align financial well-being of employees with the economic interest of shareholders















Financial results

CJ Kujenga



Focus areas and progress

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	<p>Blueprint finalised and implementation is commencing in line with the revised operating model</p> 	<p>Target capital structure set at 1.5x Debt: EBITDA</p> <p>Strengthened capital allocation policies and defined capital allocation priorities</p> <p>Aligned performance metrics</p> 	<p>Sustainable cost reduction of R446m since 2017</p> <p>Phase Two optimisation has commenced</p> 	<p>Migration of processes completed</p> 	<p>Positive results evident in cash, net cost of funding and closing net debt position</p> 

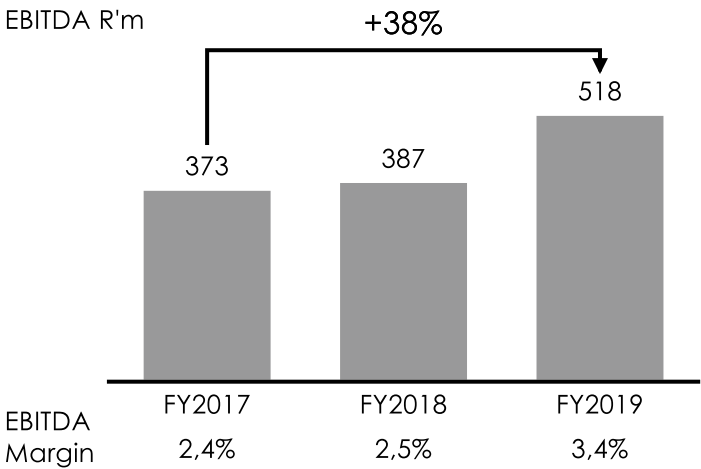
Progress:  Not started  Complete

**this will remain a continual focus area*

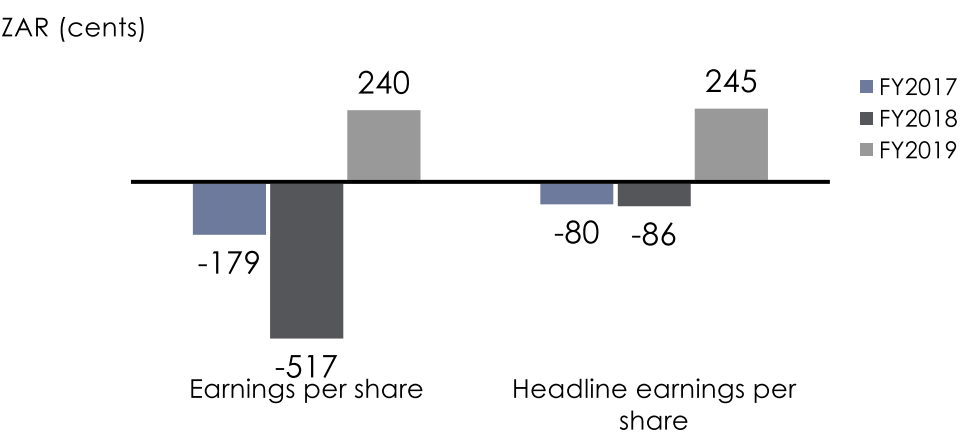


Performance has improved across key metrics

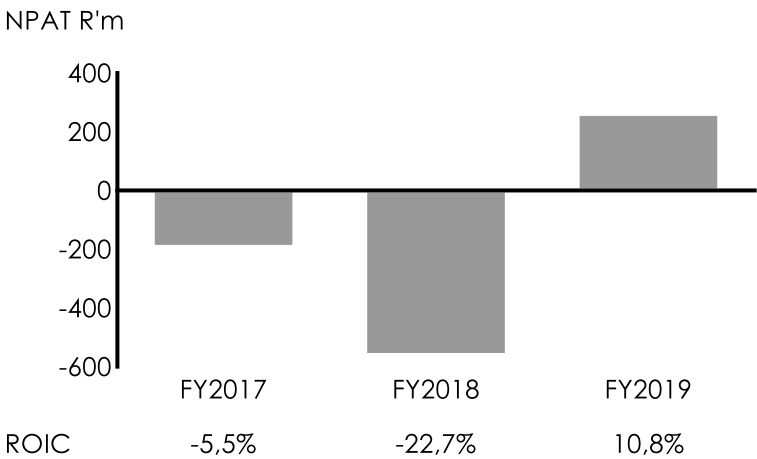
Underlying EBITDA and margin



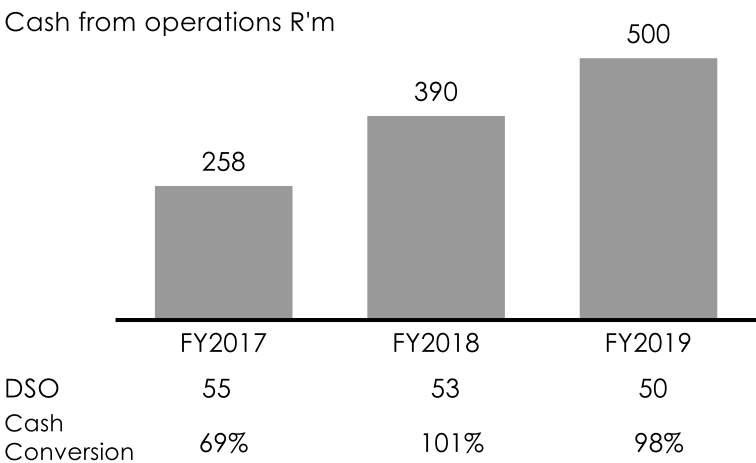
Earnings per share



NPAT and ROIC

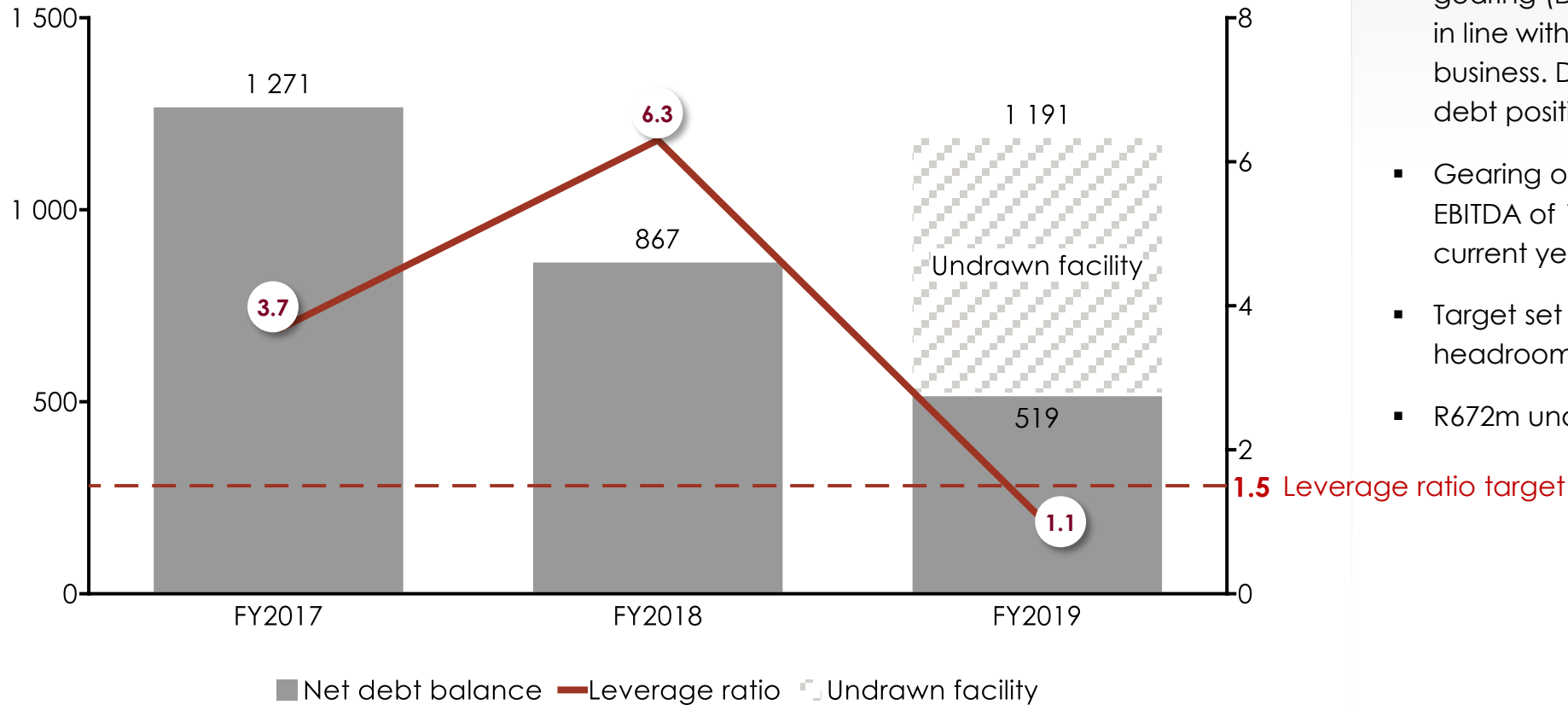


Cash



Balance sheet has been de-gearred providing headroom for value creation

Net Debt R'm



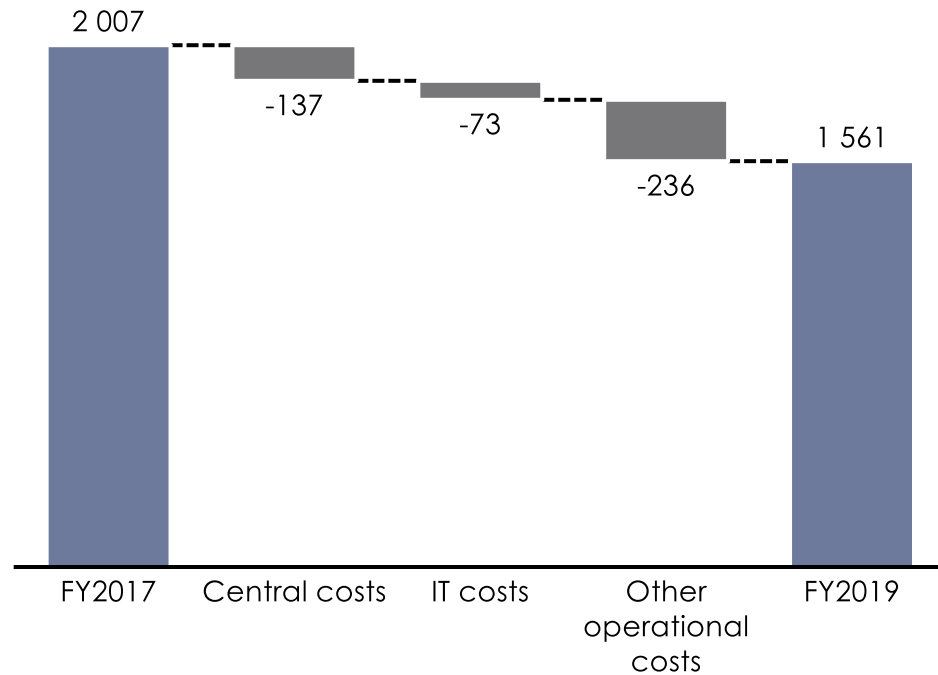
Commentary

- Diligent approach to cash and working capital management has reduced net debt to R519m
- Leverage measure transitioning from gearing (Debt: Equity) to Debt: EBITDA in line with how we manage the business. Debt is based on the net debt position
- Gearing of 27% vs. 55% (2018) → Debt: EBITDA of 1,1x vs. 6,3x achieved in the current year
- Target set at 1,5x. Closed the year with headroom against target
- R672m undrawn facilities

Margin optimisation is tracking the trajectory required for the FY2021 target of 5%

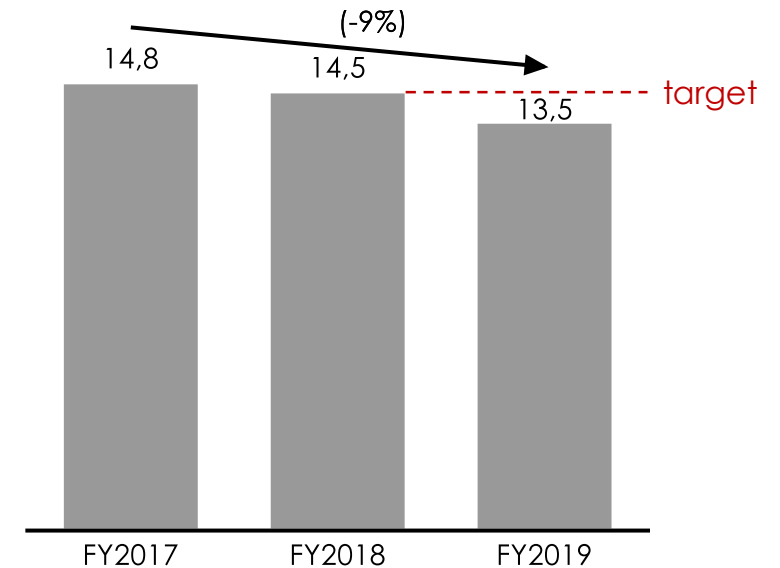
Concerted efforts on cost savings resulted in **improved EBITDA**

Operating cost analysis R'm



...partially offset by a drop in gross profit margins

GP Margin %



Ongoing focus is to further reduce costs by R100 million and improve GP % to 14.5% by FY2021



Summarised consolidated operating profit

	2019	2018	Var %
R'000	R'000	R'000	
Revenue	15 065 369	15 325 391	-2%
Cost of sales	(13 032 499)	(13 097 630)	
Gross profit	2 032 870	2 227 761	-9%
GP%	13,5%	14,5%	
Other income	45 461	58 067	
Operating expenses	(1 560 676)	(1 898 367)	-18%
Underlying EBITDA	517 655	387 461	34%
EBITDA Margin %	3,4%	2,5%	
Transformation costs / Once off costs	(50 498)	(250 842)	
EBITDA	467 157	136 619	242%
Depreciation and amortisation	(79 416)	(128 589)	38%
Operating profit	387 741	8 030	4 729%

Commentary

- Revenue has dropped by 2% in the current year mainly due to headcount volume reduction in both Industrial Services and Support Services and negative impact of agricultural cycles in Industrial Services Australia
- GP margin dropped due to a combination of pricing pressure, difficult economic conditions experienced by clients as well as changes in accounting for a significant contract in Outsourcing from revenue recognized as an agent i.e. net basis, to recognition as a principal i.e. gross basis
- Operating costs have decreased by 18% as part of the cost reduction initiative
- Transformation costs relate to strategic initiatives
- This all resulted in a reported EBITDA increase of 242% and operating profit improvement to R387m from R8m



Summarised consolidated statement of profit and loss

R'000	2019 R'000	2018 R'000	Var %
Operating profit	387 741	8 030	
Net cost of funding	(83 593)	(124 029)	33%
Impairment of intangible assets, goodwill and bonds	(6 821)	(477 797)	
Profit on disposal of associate (pre-tax)	574	184 960	
Share of profits from associates	—	16 476	
Profit / (Loss) before taxation	297 901	(392 360)	176%
Taxation	(35 578)	(28 350)	26%
Profit / (Loss) for the year from continuing operations	262 323	(420 710)	162%
Loss for the year from discontinuing operations	(178)	(140 322)	
Net profit / (loss) for the year	262 145	(561 032)	147%
Effective tax rate	12,0%	-7,0%	
Earnings per share continuing operations (cents)	240,0	(517,0)	
Headline earnings per share continuing operations (cents)	245,0	(86,0)	

Commentary

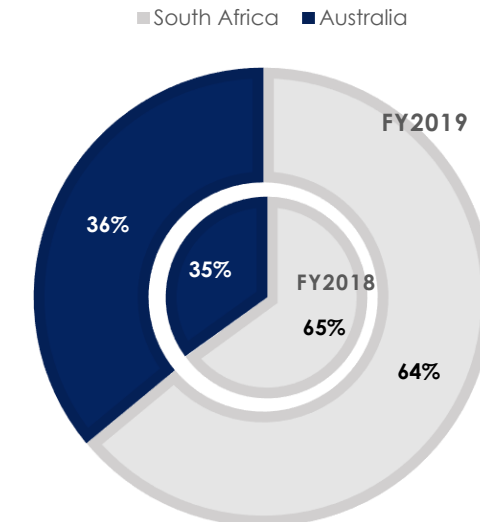
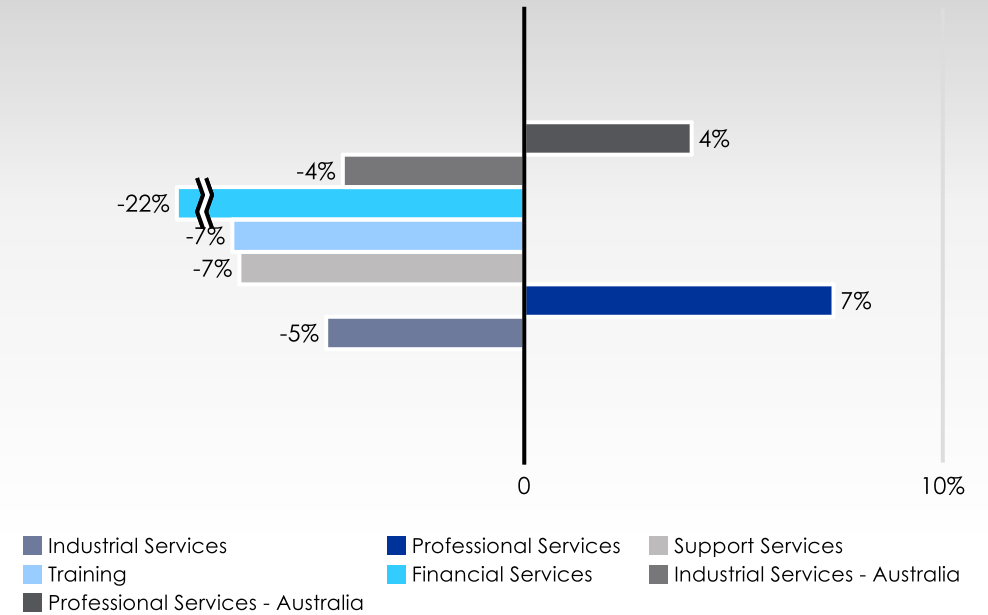
- The focus to manage cash has resulted in a drop in net financing costs by 33%
- The Impairment expense was as a result of the Razzbri business in Australia
- The effective tax rate is 12%, largely driven by the ETI, learnership allowances and the recognition of certain assessed losses as deferred tax assets
- Net profit from continuing operations improved by 162%
- No trading taking place in the rest of Africa operations, but costs incurred as part of closure



Segmental performance - Revenue

	2019 R'000	2018 R'000	Var %
South Africa			
Industrial Services	5 980 971	6 278 103	-5%
Professional Services	1 935 706	1 802 508	7%
Support Services	1 371 072	1 471 207	-7%
Training	166 005	178 454	-7%
Financial Services	149 335	192 281	-22%
Central costs	315	16 034	-98%
Total – SA reported	9 603 405	9 938 587	-3%
Australia			
Industrial Services	1 622 869	1 696 419	-4%
Professional Services	3 839 095	3 690 385	4%
Total - Australia reported	5 461 964	5 386 804	1%
Total Group - reported	15 065 369	15 325 391	-2%

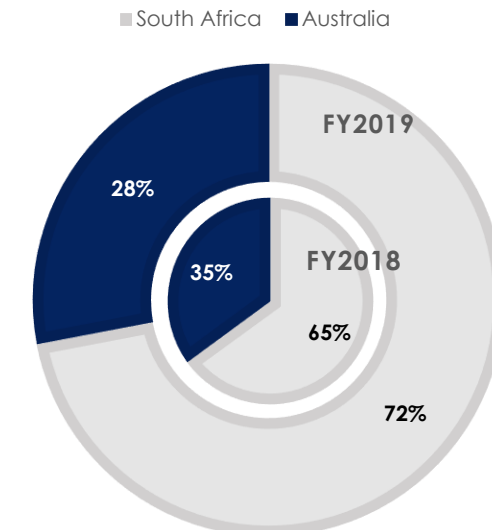
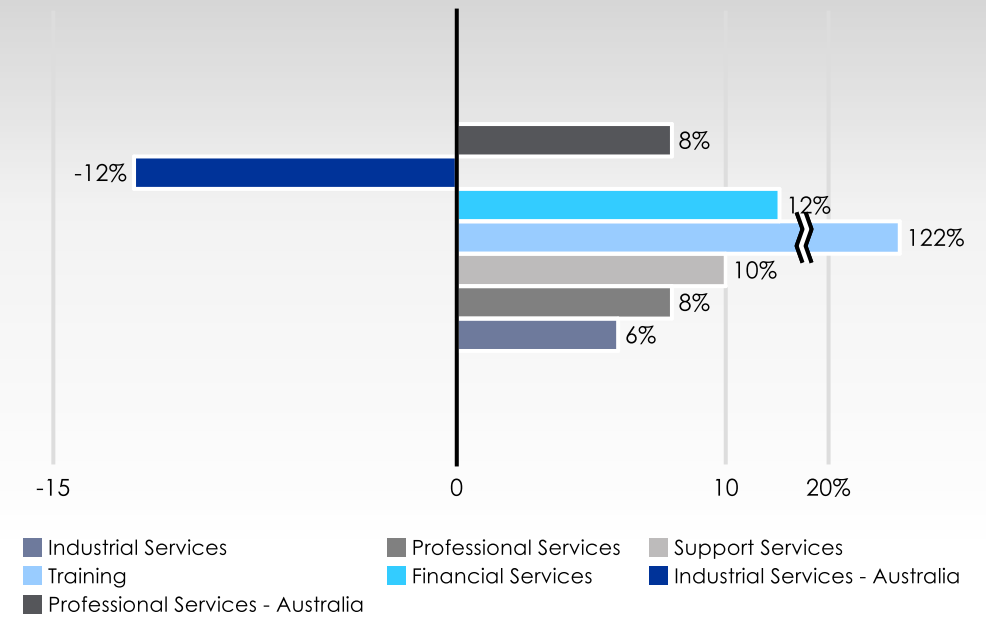
Movement in revenue



Segmental performance – Underlying EBITDA

	2019 R'000	2018 R'000	Var %
South Africa			
Industrial Services	359 634	338 347	6%
Professional Services	174 228	160 860	8%
Support Services	53 749	49 012	10%
Training	7 148	(32 501)	122%
Financial Services	65 196	58 218	12%
Operations results before central costs	659 955	573 936	15%
Central costs	(287 947)	(323 634)	11%
Total – South Africa	372 008	250 302	49%
Australia			
Industrial Services	51 015	58 096	-12%
Professional Services	112 474	104 059	8%
Operations results before central costs	163 489	162 155	1%
Central costs	(17 841)	(24 996)	29%
Total - Australia	145 647	137 159	6%
Total Group – underlying	517 655	387 461	34%

Movement in EBITDA



Summarised consolidated statement of financial position

	2019 R'000	2018 R'000	Var %
Assets			
Property and equipment	57 647	65 756	-12%
Intangible assets and Goodwill	1 421 661	1 437 796	-1%
Investments and other financial assets	15 247	23 605	-35%
Tax and deferred tax asset	305 792	270 931	13%
Trade receivables	2 095 774	2 224 511	-6%
Other receivables	102 463	137 438	-25%
Cash at bank	366 857	339 735	8%
Assets from continuing operations	4 365 441	4 499 771	-3%
Assets held for sale	-	31 027	
Total assets	4 365 441	4 530 798	-4%
Equity and liabilities			
Capital and reserves	1 911 764	1 602 587	19%
Interest bearing borrowings	885 529	1 218 560	-27%
Share-based payment liability	-	8 133	-100%
Tax and deferred tax liability	163 590	160 040	2%
Provisions, trade and other payables	1 404 556	1 512 232	-7%
Equity and liabilities from continuing operations	4 365 439	4 501 553	-3%
Liabilities directly classified as held for sale		29 245	-100%
Total equity and liabilities	4 365 439	4 530 798	-4%

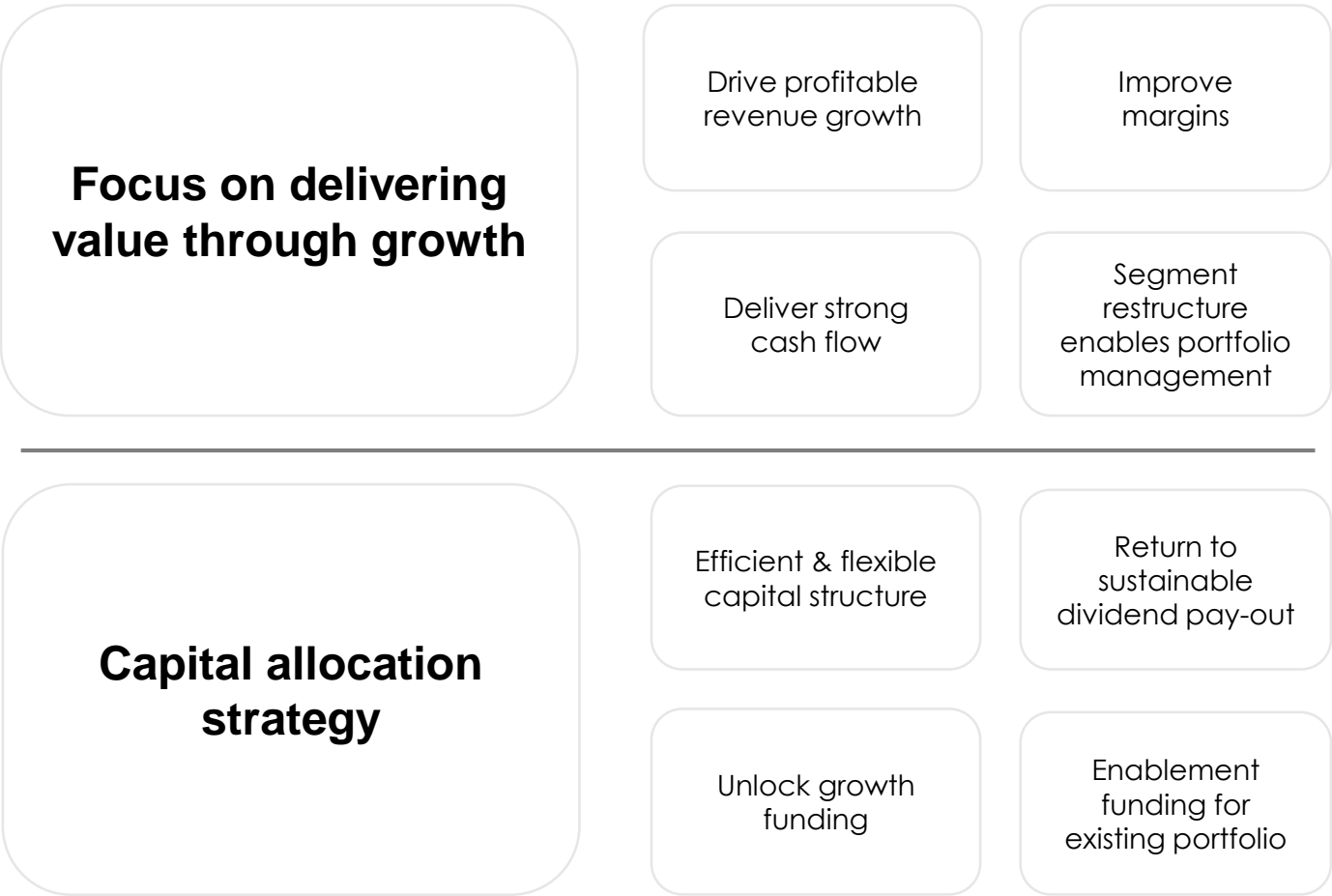
Commentary

- Additional assessed losses of R98m were recognized which resulted in an additional deferred tax asset of R27m in the current year. The unrecognised portion of the assessed loss is R313m (2018: R428m)
- Trade Receivables decreased by 6% due to better collections which can be seen in the reduction in our DSO
- The improvement on the debtor's book has had a positive impact on the interest-bearing debt and cash position of the SA business
- During the year management purchased R15m worth of treasury shares. Opportunistic purchases will continue in FY2020 in line with share price
- Shares awarded under the senior management long-term incentive are now accounted for as equity settled therefore no liability recognized



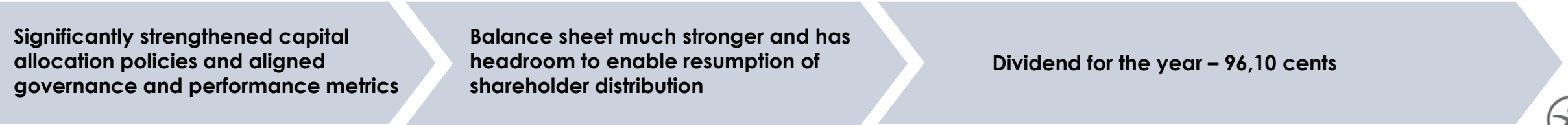
We are focused on creating sustainable shareholder returns

Sustainable growth in total shareholder returns



Measured holistically

- EBITDA growth**
>25% CAGR by FY2022
- EBITDA margin improvement**
5% by FY2021
- ROIC**
Based on NPAT, in excess of WACC
- HEPS Growth**
20% growth based on underlying HEPS
- DSO and cash conversion**
45 days / 85%
- Leverage (Debt : EBITDA)**
1,5x
- Dividend cover**
1,5x



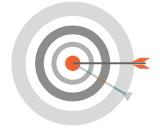


Strategic direction

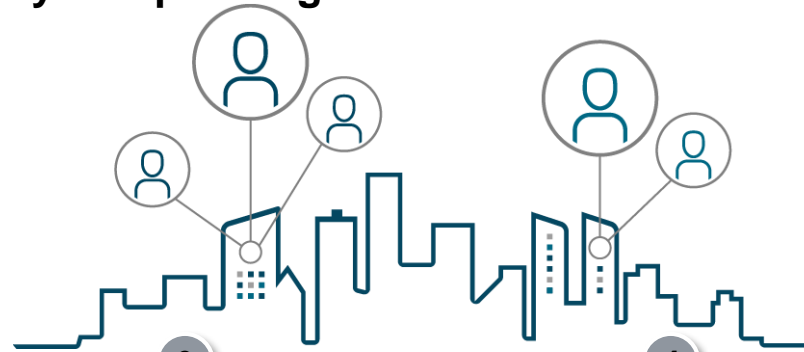
Innocent Dutiro



Delivery of the strategy will be enabled by an operating model that ensures integration, transparency and agility



R1 BILLION
EBITDA
by 2022



	1	2	3	4	
	Resourcing	Outsourcing	Training	Consulting	Australia
Ambition	Maintain market leadership in Temporary Employment Services	Become market leader in HR and Functional Outsourcing	Grow Training business to full potential and be a trusted advisor in L&D	Be a thought leader in the labour market and HR digital transformation	Protect and grow core business
Strengths	<ul style="list-style-type: none"> South Africa's largest Temporary Employment Services provider Well established permanent recruitment brands Competitive positioning in IT contracting market 	<ul style="list-style-type: none"> Capability to manage high-volume, people intensive processes Agility to co-create solutions 	<ul style="list-style-type: none"> Numerous accreditations Strong client relationships Successful IT training business (Torque IT) Campuses across the country 	<ul style="list-style-type: none"> Established project management capability Extensive experience in Labour Relations management 	<ul style="list-style-type: none"> Strong brand and ISO ratings Leading supplier of IT and digital professionals in Australia
Priorities	<p>Streamline and automate processes to improve margins</p> <p>Enhance client, assignee and candidate experience</p> <p>Enhance permanent placement offering</p>	<p>Optimise business structures in line with outsourcing business model</p> <p>Enhance productivity and service delivery model through technology</p> <p>Invest in growth strategy</p>	<p>Develop our value proposition to address our clients' regulatory and transformative L&D needs</p>	<p>Invest in growth strategy</p>	<p>Invest in growth and diversification strategies</p>

Levers that enable delivery of the operating model



Candidate engagement

Build market leading candidate experience



Client Experience

New client offering to address the workplace of the future



Cost

Optimise operational efficiency to achieve low costs



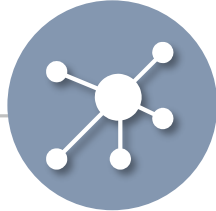
Culture

Embed a collaborative results driven culture



Talent

Recruit, develop, retain with focus on most critical roles



Technology

Use technology to support business ambitions



Operating Model

Lean operating model that supports business



Reputational transformation

Reposition the brand to be synonymous with talent and employability



Our investment case



An organisation that is committed to using its capabilities and market position to **improve socio-economic conditions in our communities** by **increasing employability** and **connecting people with opportunities**



Clear **portfolio alignment** to enable each aspect of the business to be optimised



Focused strategic choices related to value accretive acquisitions and growth initiatives

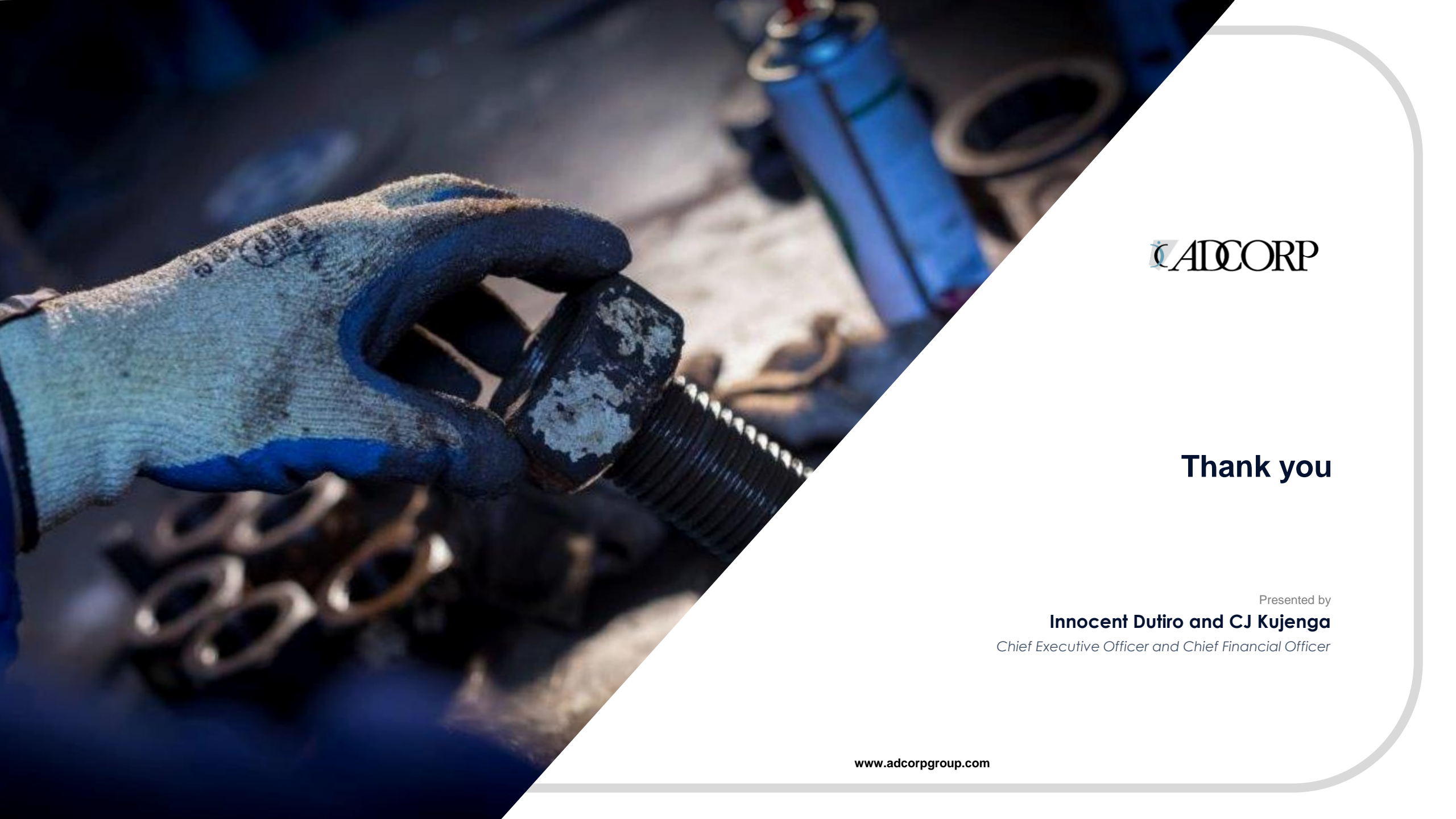


A **commitment** to continual efficiency gains



A **highly cash generative** business with the ability to provide sustainable distributions to shareholders





Thank you

Presented by

Innocent Dufiro and CJ Kujenga

Chief Executive Officer and Chief Financial Officer

www.adcorpgroup.com