



IAS presentation – May

For the year ended 28 February 2014

ADCORP

THE POWER OF POTENTIAL

Agenda

- The business of Adcorp
- Salient features of the FY2014 results
- Macro environment trends
- Vision for the Group
- Growth opportunities and acquisition strategy
- Review of the SA labour market
- Adcorp's changing international profile
- Financial overview
- Management priorities, outlook and prospects
- Questions and discussion

The business of Adcorp

- Founded in 1975 / listed on the JSE in 1987
- Independent **workforce management company** with **contract labour, permanent recruitment, business process outsourcing, training, and financial services** offerings
- Operations in **South Africa, rest of Africa, Australia and India**
- Significant Africa, Asia-Pacific and **emerging market growth potential**
- South Africa's **largest diversified employment-services** company
- Employs approx. **3,000 permanent staff** and over **93,000 contractors**
- Key brands:



Salient features

- Revenue for the year **increased by 37% to R11,8 billion**
- Normalised EBITDA for the year **increased by 29% to R544,4 million**
- Normalised earnings per share **increased by 13% to 384,3 cents per share**
- Organic Normalised EBITDA margin **increased from 5,0% to 5,1%**
- Labour Solutions Australia (Pty) Ltd **acquired for R256,5 million**
- Debtors days at **48 days**
- Scrip distribution awarded to shareholders with a **80 cents per share** dividend election
- New **BBBEE** shareholding deal finalised, reported on and implemented during the year
- Successful funding raised under **R2 billion** Domestic Medium-term Note Programme

Macro environment trends

Global trends

- Labour market for developed economies yet to recover
- Growth is in emerging market regions - in the next 30 years, 52% of the global workforce will be domiciled in the Asia region*
- Increased sophistication in terms of the procurement of skills since Global Financial Crisis
- Developed market dominated by a small number of big players

Specific emerging market trends

- Skills shortages abound in emerging markets
- Fragmented / lots of small players
- Markets ripe for consolidation
- No single player dominates the emerging markets
- Volatile labour force and restrictive labour legislation favours the use of contract workers in SA
- Pressure to comply with new BBBEE codes favours contracting in SA

Client trends

- Labour markets increasingly difficult for employers to navigate (favours outsourcing)
- Looking for strategic staffing partners
- Looking for partners established across multiple jurisdictions
- Increasing adoption of MSP / RPO / VMS and gatekeeper solutions
- Smaller players unable to offer MSP / RPO offering

* Source: PageUp People 2014

Consequences of these macro trends

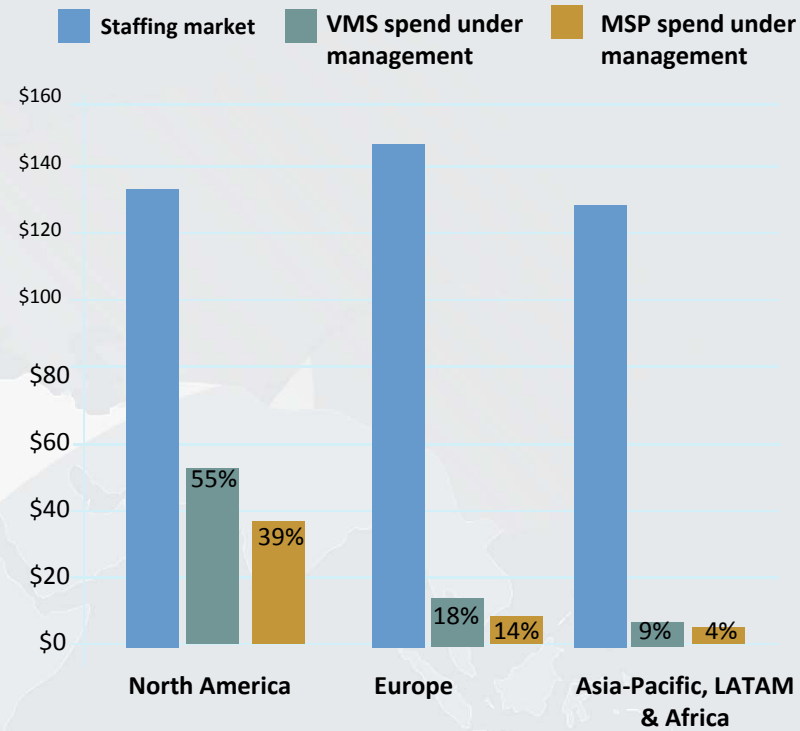
- 1 Contract labour is an attractive alternative to permanent workers
- 2 MSP / RPO offering is gaining momentum – volume at the expense of price
- 3 Critical imperative to be cost competitive in the face of margin pressure (size and scale key advantage in this regard)
- 4 Sophistication, technology and strength of balance sheet are increasingly important (prerequisite for MSP / RPO offering)
- 5 Changing market dynamics resulting in increasing market shares for big players
- 6 Asia-Pacific, Africa and emerging economies hold much promise (oil, gas, infrastructure etc.)
- 7 Scale and footprint of operations have become distinct advantages (MSP / RPO / cost efficiency)
- 8 The major North American and European players have struggled to replicate their dominance in emerging markets



Opportunity ripe for an independent player of consequence focused on growth and consolidation in Asia-Pacific, Africa and other emerging economies

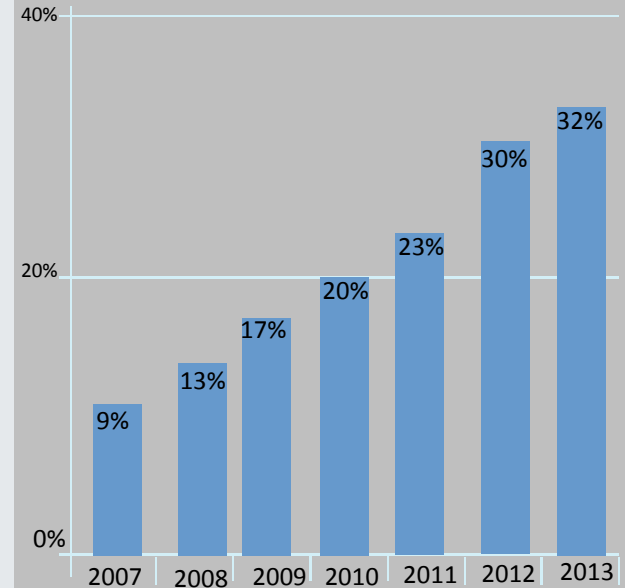
MSP / RPO / VMS gaining significant momentum

MSP and VMS as a proportion of staffing revenue 2012 (US\$ billion)



Source: Staffing Industry Analysts, 2013 VMS/MSP Competitive Landscape

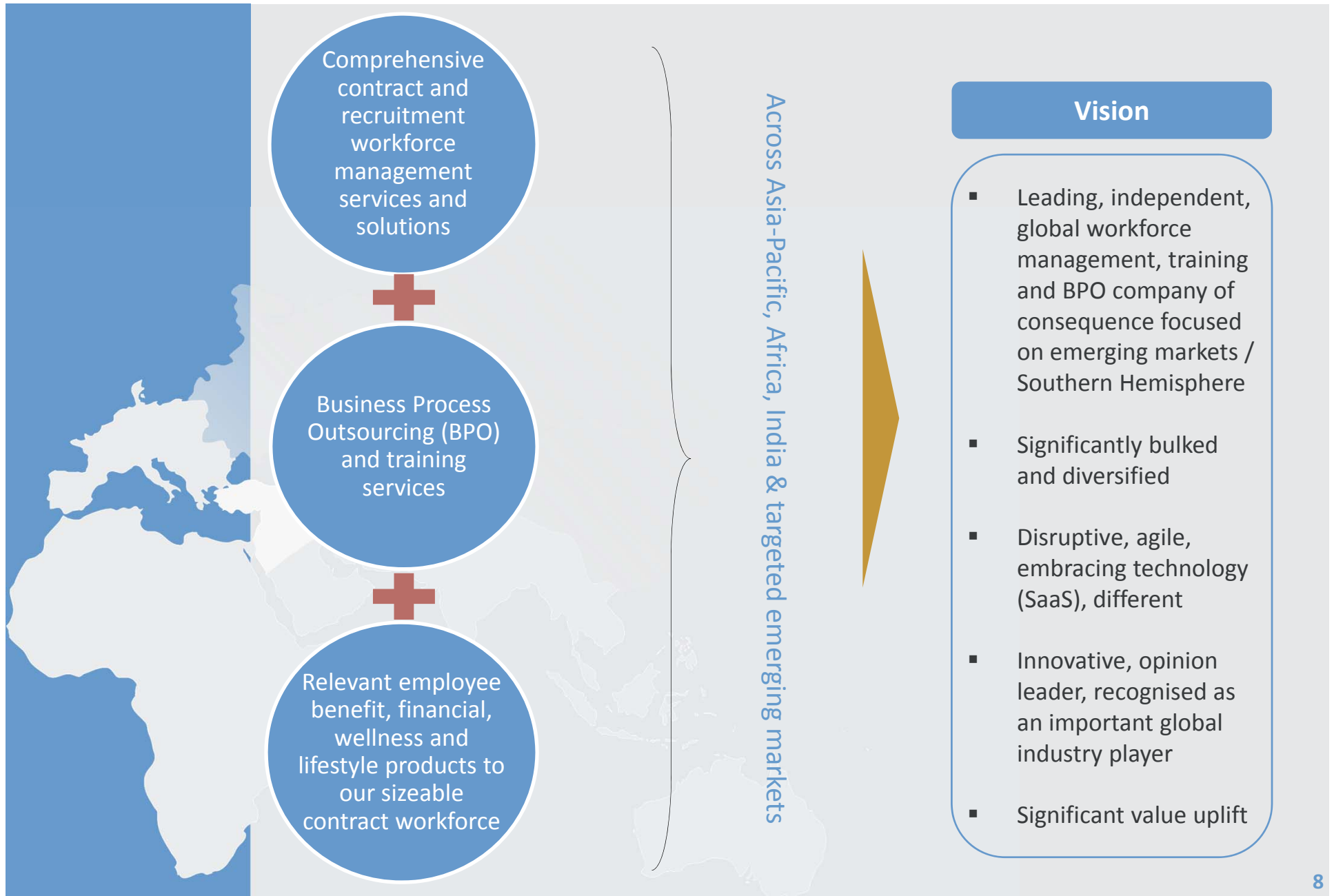
Percentage of recruitment buyers using RPO



US\$ 4 billion per annum industry and growing

Source: Staffing Industry Analysts, 2013 Buyer Survey

Vision



Growth opportunities

Growth to be achieved both organically and inorganically

Organic initiatives

- Market share growth in existing markets (sophistication, MSP's, RPO's and technology)
- Significant growth potential in Africa
 - Workforce management
 - Training
- Back office optimisation providing cost, efficiency, scale and "bolt-on" advantage – Shared Service Centre
- BPO business starts to contribute
- Financial services to atypical staff
- Best practice, centralised international treasury function
- ETI and learnerships
- New labour law amendments

Inorganic opportunities

- Identify potential acquisitions that meet the Group's strategic criteria in the Asia-Pacific region
- "Bolt on" opportunities in the SA market (Kelly)
- Targeted strategy for acquisitions
- Potential for synergies is real

Acquisition strategy

- **Why desirable?**
 - Size and geographic spread important - need to be where our clients are
 - Growth potential is in emerging markets which no one dominates
 - Have extensive knowledge and track record in emerging markets
 - Offers up good potential for synergies
 - Diversifies the portfolio
 - Pricing opportunities for value accretion
- **Target geographies**
 - South Africa
 - Asia Pacific
- **Profile**
 - Buy successful, well established businesses with strong management teams
 - Perpetuate the success and harvest the synergies
- **Bigger, more established businesses tend to carry lower risk**
 - Critical mass
 - Lesser dependence on individuals
 - Adcorp better able to contribute
 - Greater potential for synergies
- **Preference is for outright ownership**
- **Funded through a combination of debt, internal cash generation and new equity**

Potential for synergies

▪ **Benefits to Adcorp**

- More strings to the bow - strengthens Adcorp's MSP and RPO offerings
- Scale advantage wrt. back office, payroll and funding
- Candidate access in a skills short market
- Enhances career opportunities for staff

▪ **Benefits to target companies**

- Access to Adcorp's existing and future MSP and RPO engagements
- Scale advantage wrt. back office, payroll and funding
- Access to Adcorp's know-how (IP) and technology platforms
- Benefit from Adcorp's governance structures, reputation and client risk mitigation offerings
- Candidate access in a skills short market
- Enhances career opportunities for staff
- Benefit from Adcorp's BBBEE credentials (SA market)

▪ **Notable past successes**

- Capital Outsourcing Group (blue collar)
- Staff-U-Need (specialist blue collar)
- FMS (BPO)
- Paracon (IT contracting)
- RFA (blue collar – Africa)
- Paxus (IT contracting – Australia)

Update on recent acquisitions

- **Paracon (IT contracting – South Africa)**
 - Acquired November 2011
 - Has integrated well
 - Has greatly complimented the Group’s MSP and RPO strategy
 - Outstanding result from Nihilent
 - Adds meaningful value to Paxus (knowledge, Nihilent, aaX)

- **Paxus (IT contracting – Australia)**
 - Acquired January 2013
 - Bedded down (new back office, ERP platform, leases etc.)
 - Achieved forecast in a tough market
 - Australian beachhead has created opportunities for both Nihilent and aaX

- **RFA (Blue collar – Africa)**
 - Acquired September 2012
 - Entre’ into important new African markets
 - Significant year-on-year growth and well ahead of budget

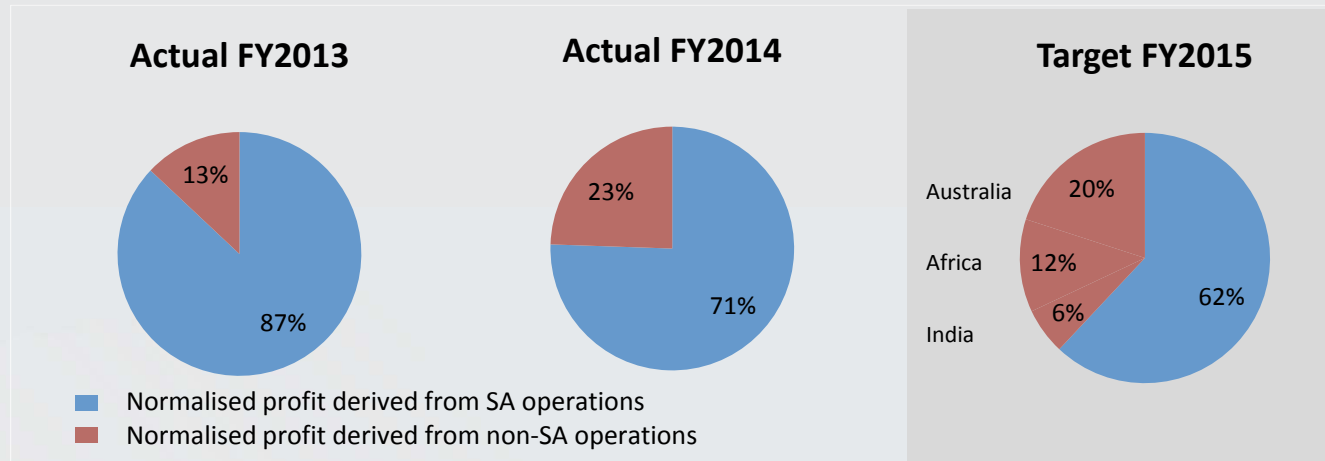
- **LSA (Blue collar - Australia)**
 - Acquired December 2013
 - Bedding down but early days
 - Good growth potential (agricultural sector)
 - Synergies with SA blue collar operations (know-how, technology, oil and gas, candidate attraction, ISO, MSP offering etc.)

Review of the SA labour market

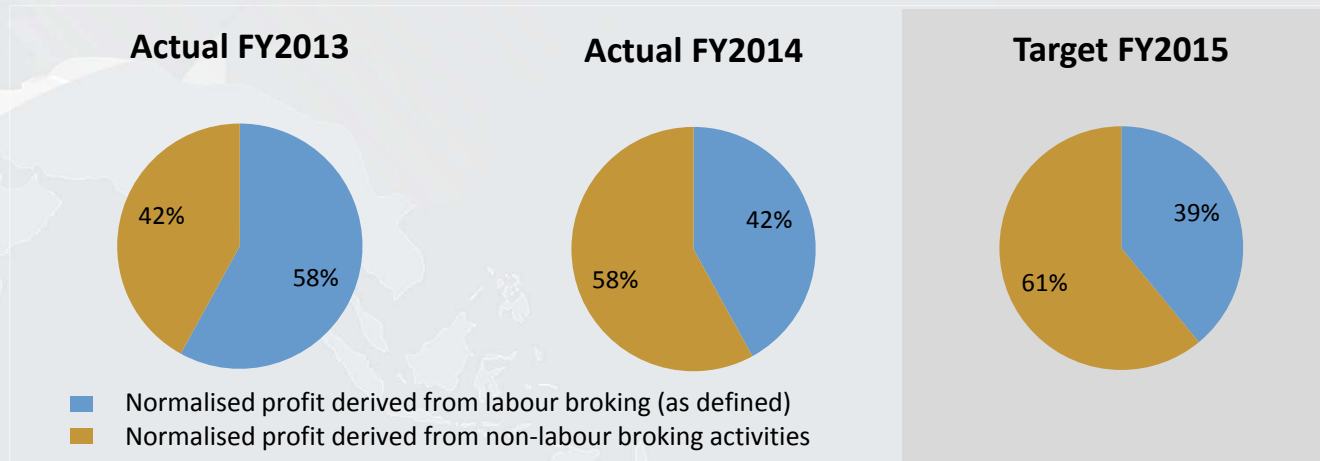
- **Unemployment remains a major challenge**
- **Cosatu in crisis**
 - Numsa split
 - NUM significantly weakened by defections to AMCU
 - General Secretary suspended then subsequently reinstated
- **Damaging strikes in the platinum sector**
- **New restrictive labour legislation well advanced**
 - Labour Relations Act
 - Basic Conditions of Employment Act
 - Employment Services Act
 - Employment Equity Act
 - DTI Codes of Good Practice
- **Promulgation of the LRA delayed yet again**
- **“Equal treatment” clause (LRA and EEA) a major cost for business**
- **Dysfunctional Seta creating blockages in registering learnerships but light at the end of the tunnel**
- **Employment Tax Incentive (ETI) presents good opportunity**
- **Complexity and uncertainty generally good for business**

Adcorp's changing profile

Group's geographic mix



Labour broking mix



* Includes associate earnings from Nihilent

Financial overview

Performance against stated financial targets

R'000	<i>Financial target</i>	Actual FY2014	Actual FY2013	Actual FY2012
Return on assets managed	25%	27%	28%	30%
Return on sales	4.0%	4.4%	4.6%	4.5%
Asset turnover – times	6.25	6.13	6.03	6.60
Cash conversion ratio	85%	48%	100%	79%
Debtors days	40	48	41	36
Gearing %	30%	37%	25%	28%

Statement of normalised earnings

R'000	Feb 2014	Feb 2013	% change
Revenue	11 802 415	8 616 842	37
Cost of sales	(9 891 844)	(7 056 563)	(40)
Gross profit	1 910 571	1 560 279	22
Other income	81 603	65 472	25
Admin, marketing and operating expenses	(1 447 793)	(1 203 210)	(20)
Normalised EBITDA	544 381	422 541	29
Depreciation and amortisation	(46 431)	(41 773)	(11)
Normalised operating profit	497 950	380 768	31
Net interest paid	(68 443)	(56 601)	(21)
Normalised profit before taxation	429 507	324 167	32
Normalised taxation	(107 168)	(65 113)	(65)
Normalised profit for the year	322 339	259 054	24
Share of profits from associates	33 718	14 762	128
Non controlling interest	2 515	(4 350)	-
Normalised profit for the year	358 572	269 466	33
Normalised earnings per share – cents	384.3	341.1	13
Weighted average no of shares – 000's	93 299	78 989	
Total dividends (cents)	140	140	-
Interim dividend (cents)	60	60	
Final dividend (cents)	80	80	

Normalised abridged balance sheet

	Feb 2014	Feb 2013
Assets		
Non current assets	2 164 262	1 860 470
- Non current tangible assets	269 474	196 039
- Non current intangible assets	1 894 788	1 664 431
Current assets (excluding cash)	2 056 223	1 646 658
Total assets	4 220 485	3 507 128
Equity and liabilities		
Capital and reserves	2 097 580	1 895 661
Non interest bearing liabilities	1 345 303	1 141 120
Net interest bearing debt	777 602	470 347
Total equity and liabilities	4 220 485	3 507 128
Net asset value per share (cents)	2 096	2 065
Net tangible asset value per share (cents)	203	252

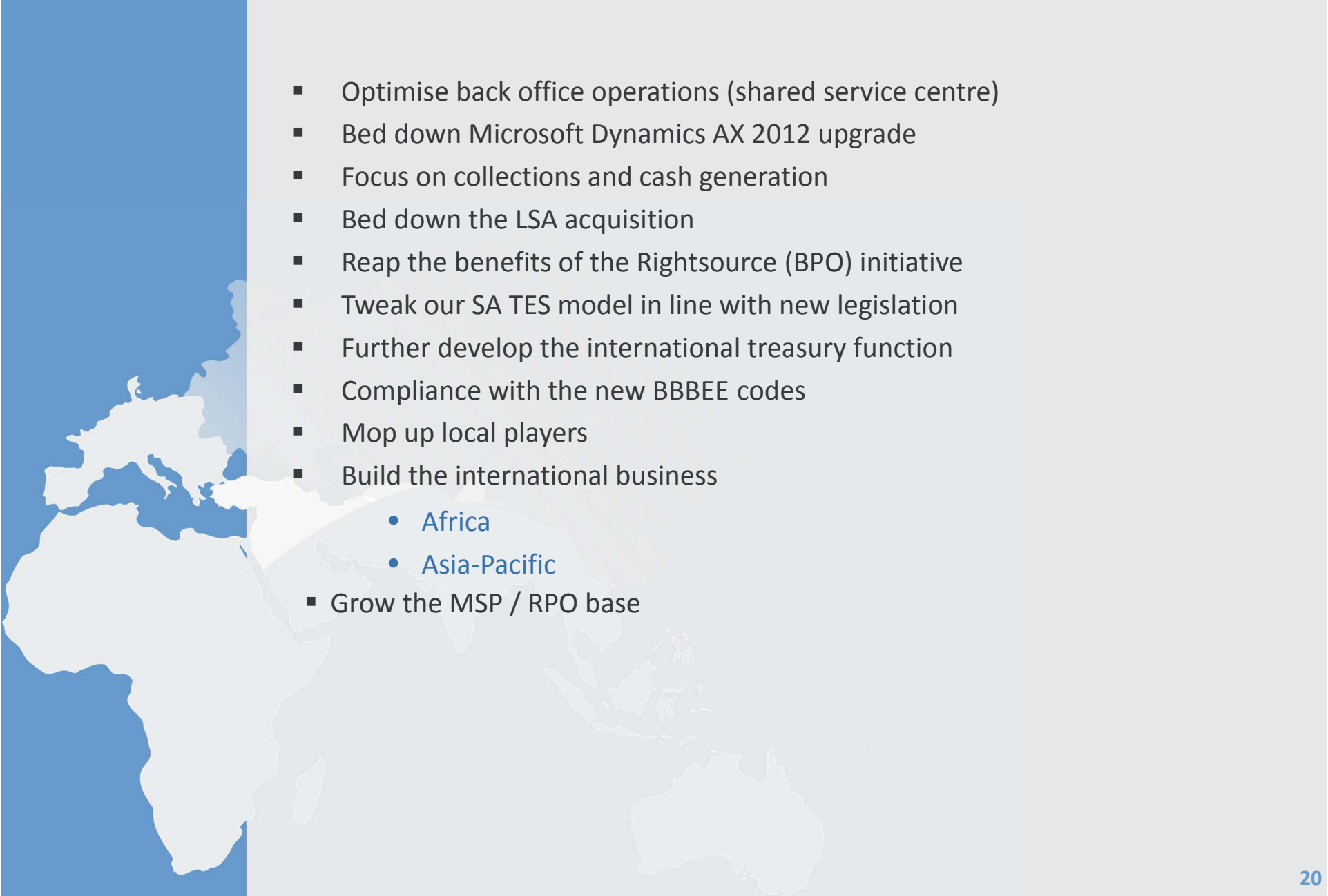
Segmental contribution – Normalised EBITDA

R'000	<i>% contrib.</i>	FY2014	FY2013	<i>% change</i>
Staffing		393 410	334 269	18
Blue collar		350 778	291 743	20
White collar		42 632	42 526	-
Independent contracting		190 160	114 056	67
BPO, training & fin. services		50 872	58 406	(13)
Total from trading ops.		634 442	506 731	25
Emergent business		(19 877)	(16 605)	(20)
Group central costs		(70 184)	(67 585)	(4)
Central costs		(75 811)	(53 638)	(41)
Shared services		5 627	(13 947)	-
Total		544 381	422 541	29


Analysis

	FY2014	Feb 2013
Cash generated by operations (R'000)	237 522	379 319
Free cash flow generated per share (cents)	46.3	338.0
Interest cover (times)	8.0	7.5
Dividend cover (times)	2.7	2.4
Gross profit percentage	16.2%	18.1%
Normalised EBITDA margin	4.6%	4.9%
Normalised effective tax rate	25%	20%

Management priorities

- 
- Optimise back office operations (shared service centre)
 - Bed down Microsoft Dynamics AX 2012 upgrade
 - Focus on collections and cash generation
 - Bed down the LSA acquisition
 - Reap the benefits of the Rightsource (BPO) initiative
 - Tweak our SA TES model in line with new legislation
 - Further develop the international treasury function
 - Compliance with the new BBBEE codes
 - Mop up local players
 - Build the international business
 - Africa
 - Asia-Pacific
 - Grow the MSP / RPO base

Outlook and prospects

- 
- Large employers are opting for fewer staffing providers (MSP / RPO models)
 - These new staffing models require a far greater degree of
 - Sophistication
 - Innovation
 - Technology
 - Financial muscle
 - Geographic reach
 - Resultant market share gains for bigger, more sophisticated players such as Adcorp
 - Strong tail winds with ability to capitalise on many organic growth opportunities
 - Our targeted acquisition strategy should deliver synergies, value accretion and exciting growth potential for the future
 - Greater certainty wrt. SA labour legislation imminent
 - All bodes well for the future prospects of the Adcorp Group



Question and answers ...