MEDIA RELEASE

29 May 2019

One-offs and refocus affect revenue, earnings at AWF Madison

AWF Madison Group [NZX:AWF] today announces lower revenue and earnings for the March 2019 financial year as a result of a refocus in our blue collar division, AWF, and non-recurring factors. The level of Dividend is maintained as a result of continuing strong cash flow and confidence in the year ahead.

- Revenue down 4.1% to $267 million
- NPAT down to $2.0 million
- Acquisition of JacksonStone & Partners complements and extends our presence in permanent and contracting recruitment
- Final dividend steady at 8.2 cents per share

Lower Group revenue of $267.8 million was driven largely by AWF. A highly successful year at Absolute IT helped lift the revenue contribution from our white collar sector to just under 57% of Group revenue, from 51% in FY18.

At AWF, revenue fell by 10.8% to $115.8 million as the division continued to shift focus from high cost-to-serve customers in favour of higher-margin business.

As identified in the Interim result announcement, there have been a number of one-off or non-recurring factors that affected AWF's profit contribution, which decreased from $4.8 million to $1.3 million.

- A number of customers in the construction sector were placed in receivership or liquidation, impacting earnings and resulting in bad debt write offs of $1.1 million.
- Regulatory issues impeded AWF from redeploying migrant workers on guaranteed wages to cities and regions where they were needed, at a direct cost of $1.5 million, plus lost opportunity margin.

AWF Madison CEO Simon Bennett said the Group was still committed to the AWF offer, but needed to address the division's focus, as announced during the year.

"We've made good progress re-evaluating business that was consuming large amounts of resource for very little return.

"AWF has many long-standing customers who we value highly. We've been redeploying resource to better service them, and we're now better positioned to look for, and win, similar customers.

"At a Group level, we see our ability to source both blue collar and white collar workers for our customers as a unique competitive strength."

Failures and losses in the construction sector were unprecedented in AWF's history. Bennett said that these had affected AWF in two separate ways, with a number of customers unable to pay money owed to AWF, and in addition, company liquidations around the country having left some AWF migrant workers stranded.

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"Regulatory barriers prevented us from redeploying them where they were needed," Bennett said. "We took the decision to continue to retain and pay them, and we are engaging with officials to see how we can avoid these roadblocks in the future."

Madison's revenue and earnings contributions were lower than in FY18, which had included a large one-off Managed Service contract.

Secured in March 2018, Madison's new Contingent Workforce Managed Service has successfully completed its first year of a four-year contract. Madison will keep seeking opportunities for these innovative contracts, which are attracting considerable customer interest.

Absolute IT continued its strong financial performance in its second full-year contribution since acquisition in late 2016.

The IT recruitment market remained buoyant throughout the year, allowing Absolute IT to increase revenue, gross profit and EBITDA.

During the year, the Group repaid $3 million of bank debt. At balance date term debt stood at $33 million.

A fully imputed Dividend of 8.2 cents per share will be paid on 9 July 2019 to shareholders on the register at 24 June 2019. The Dividend Reinvestment plan will continue to apply.

AWF Madison has committed to a new initiative, The Work Collective, which is dedicated to improving social outcomes through employment. The purpose is to support people who, for various reasons, experience work to be unattainable and may also find the employment process inaccessible.

Bennett said a number of the Group's customers have committed to support this initiative by offering work opportunities.

"We've been looking for some time for a way we can leverage our expertise, networks and resources to help those who want to work, but face barriers to employment." Bennett said.

The Work Collective will function as a social enterprise whose primary purpose is to grow employment opportunities for marginalised people. The majority of profits will be reinvested into support services for these groups.

POST BALANCE DATE

JacksonStone & Partners Limited acquisition announcement (see below):

- Earnings accretive
- Purchase Price payable in tranches, subject to achievement of performance targets
- Acquisition funding from existing debt facilities

FY20

The outlook for FY20 is positive.

Madison and Absolute IT are performing strongly, underwritten by continued high levels of economic activity and JacksonStone will contribute positively to 10 months of the current year.

While further failures among AWF's construction industry customers cannot be ruled out, as a result of applying stricter credit terms, AWF now has a higher-quality customer book, with no large concentration of exposure.

Bennett said AWF had reduced its cost base, and was now geared to return 4% to 6% EBITDA on turnover approaching $120 million.

Ends

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Chief Executive

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JacksonStone & Partners Limited

JacksonStone was established in 2011. The business has a very experienced team of directors, consultants and support staff. The business has gone from strength to strength and now has 30 staff. The consultants have an average of 15 years industry experience which is well beyond the average of our existing AWF Madison businesses. Its reputation for quality service delivery is unrivalled.

JacksonStone has successfully recruited CEO and C-suite roles for large numbers of central and local government organisations along with high profile corporate and not-for-profit clients. The breadth of service includes executive search, recruitment and top-level contracting assignments.

- Turnover for year ending 31 March 19 in excess of $32 million
- Normalised EBITDA for year ending 31 March 19 in excess of $3.0 million
- Growing contribution from ongoing search and recruitment revenue above 30% of gross margin

The transaction is structured with an initial payment of $6.7 million on closing and an estimated $3.8 million payable in three instalments over the next couple of years, subject to JacksonStone achieving defined performance targets. This aligns the vendors with AWF Madison's goals over the coming years and provides an incentive for the vendors to continue to drive performance.

There are great synergies with our other businesses and we are excited at the prospects for a broader offer amongst our white collar businesses.

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