ASX Release

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Business Update[1]

- Solid revenue growth occurring in staffing, maintenance and facility management services across many non-resource sectors, with a significant pipeline of opportunities
- Sharp drop in demand for marine services following further recent decline in oil and gas prices
- Integration of Skilled going well and ahead of plan with more than $30 million (annualised) of cost savings to be delivered by 31 March 2016
- FY16 (year end 31 March) operating EBITA expected to be approximately $65 million
- Non-cash marine goodwill impairment of approximately $75 million in 2H FY16 expected, arising from steep decline in oil and gas prices and sale of Broadsword vessels
- FY17 operating EBITA projection $100 - $110 million based upon achieving FY15 EBITA margin
- FY16 final dividend expected to be 5 cents per share fully franked, based upon existing policy (50% payout ratio) and current second half earnings forecast

Customers of Programmed (ASX: PRG) in markets that have been weak over the past few years, such as retailing, tourism, transport and manufacturing, are hiring people and spending on their assets again, and there are growing opportunities in the education, health and aged care sectors. Demand is growing for staff and maintenance services across these sectors which represent more than 2/3 of group revenue going forward. Demand for labour in the resources sectors, however, has weakened further due to the completion of major projects, cutbacks in mining companies' exploration and operating budgets, and a sharp drop in services for the oil and gas industry following the recent further decline in oil and gas prices.

The integration of Skilled, which Programmed acquired in October 2015, is ahead of plan, with cost savings of more than $30 million per annum expected to be realised by 31 March 2016. The group and divisional management teams have bonded and are operating successfully, and most businesses will have been rebranded by 31 March 2016. Integration of the core business IT systems will be completed during the next 12 months with further cost savings envisaged.

Programmed's managing director, Chris Sutherland said, 'The further reduction in demand from the resources sectors, and in particular from the offshore oil and gas sector following the recent steep decline in oil and gas prices, has impacted both the former Programmed and Skilled parts of the business. In this environment, the benefits of combining both organisations and realising cost savings are particularly important, while the company delivers its long-term strategy to develop a larger scale, more efficient, leading provider of staffing, maintenance and facility management services serving all sectors of the economy.'

[1] All forecasts and projections contained within this ASX release are based upon current estimates and remain subject to actual trading conditions not materially changing from present, final acquisition accounting of Skilled including fair value assessment of assets acquired, completion of FY16 audit and excludes Broadsword revenue and earnings which will be treated as a discontinuing business in the FY16 accounts.

Programmed's results for the year to 31 March 2016 will include a six month contribution from Skilled and, as announced in November, will be reported in the existing three segments, renamed as follows:

STAFFING (formerly Workforce)

This segment combines Programmed's Workforce business and Skilled's Workforce Services and Technical Professionals businesses, and on a 12 month pro-forma basis (i.e. including Skilled revenue from 1 April 2015) would have FY16 revenue of approximately $1,450 million.

On a pro-forma basis, staffing revenue during FY16 has been in line with FY15, with the exception of the WA-based business of Swan Personnel which provides engineering and technical personnel to the resources industry and has experienced a reduction in revenue from $175 million in FY15 to approximately $90 million in FY16. Swan Personnel has been repositioned as the WA operation of the Programmed Professionals business, extending its focus to the broader white collar market where there are opportunities in the retail, tourism and infrastructure sectors.

The Staffing segment's earnings before interest, tax and amortisation (EBITA) for FY16 are forecast to be approximately $22 million. This figure includes a six month contribution from Skilled.

MAINTENANCE (formerly Property & Infrastructure)

This segment combines Programmed's Property & Infrastructure businesses with Skilled's Industrial Maintenance businesses (including the former Ativo and Thomas & Coffey). On a 12 month pro-forma basis (i.e. including Skilled revenue from 1 April 2015), the segment's FY16 revenue would be approximately $1,100 million.

Demand across the property and infrastructure sectors continues to grow, but the industrial businesses' revenue declined in the second half, reflecting less project opportunities in the mining sector. The company's industrial and mining activities are being refocused on operational support and maintenance opportunities with traditional customers in iron ore and coal where consolidation of service providers is continuing. The company is also seeking new opportunities in gold, energy and processing where customers are investing further capital.

The Maintenance segment's EBITA for FY16 is forecast to be approximately $43 million. This figure includes a six month contribution from Skilled.

MARINE (formerly Resources)

This segment combines Programmed's Resources division, which has been primarily marine-related, and Skilled's marine businesses (formerly Skilled Maritime, Skilled Offshore, Broadsword and OMSA). Following conditional agreements to sell Broadsword Marine Services' vessels, the Broadsword business will be treated as a discontinued operation and its revenue and earnings will not be included in the company's FY16 results from continuing operations.

The Marine segment's FY16 revenue on a 12 month pro-forma basis (i.e. including Skilled revenue from 1 April 2015) would be approximately $800 million, including approximately $400 million from Saipem (Ichthys) and OMSA (Gorgon) construction-related work, which is now complete.

Following completion of the major offshore construction projects that the marine business has serviced in the past few years, significant working capital will be recovered by 31 March 2016. The business is being downsized to suit expected less activity during the next 12 months arising from the steep decline in oil and gas prices.

The Marine segment's EBITA for FY16 is forecast to be approximately $16 million. This figure includes a six month contribution from Skilled and excludes the Broadsword business.

CORPORATE COSTS

Corporate and unallocated costs in FY16 are expected to total approximately $16 million.

FY16 GUIDANCE

Reflecting the above, Programmed expects to report group EBITA for FY16 of approximately $65 million before one-off non-trading costs and amortisation.

As a result of accelerating the integration and extraction of cost synergies arising from the Skilled transaction, one-off non-trading costs in FY16 are forecast to increase to approximately $30 million.

In view of the reduced demand for marine services following the significant fall in the oil price over the past few months and the sale of vessels operated by the Marine division (as announced on 7 January 2016), the company also expects to recognise a non-cash impairment charge of approximately $75 million related to the Marine segment's goodwill. The eventual charge will depend on final discount rates and forecasts following completion of the company's FY16 results.

A non-cash amortisation expense of approximately $10 million is forecast in FY16 arising from the acquisition of Skilled and the accounting value of brands, contract intangibles and customer relationships.

Depreciation and interest expense for FY16 are expected to be approximately $16 million and $12 million respectively.

The board expects to declare a final dividend in line with its policy of paying dividends equivalent to 50% of after-tax profit before one-off items and non-cash amortisation. Based upon the above forecast, the final dividend is expected to be 5 cents per share, fully franked.

Net debt at 31 March 2016 is expected to be in the range $260 - $290 million, compared with $302 million after financial close of the Skilled acquisition on 16th October, and notwithstanding the larger one off integration costs being incurred in FY16 to deliver greater cost savings in FY17 and subsequent years. The company remains committed to reducing debt in the short term through the group's strong cash flow, sales of non-core assets and other means.

LOOKING AHEAD

As a guide to Programmed's FY17 performance, the group's pro-forma FY16 revenue (including Skilled revenue from 1 April 2015), excluding revenue from the Ichthys and Gorgon projects, would be approximately $3 billion. Of this, about 2/3 is derived from the property, infrastructure, transport, manufacturing and other non-resources sectors, and 1/3 comes from the resources sectors.

The outlook for staffing, maintenance and facility management services for non-resources sector customers remains solid. The company is pursuing a significant pipeline of tenders and opportunities, and revenue from these sectors is expected to grow in FY17. Demand for services from the resources sectors, however, is expected to weaken further in the short term.

The company is seeking to offset the decline in revenue from the resources sectors by achieving growth in the non-resources sectors and accelerating cost savings, with the aim of achieving a similar, or better, EBITA margin to FY15 (3.5%). Based on current estimates, this would result in FY17 EBITA in the range of approximately $100 to $110 million.

Chris Sutherland said, 'Whilst the halving of the oil price in the past three months has had a significant impact on our Marine division, the group's diversity across all industry sectors gives Programmed considerable strength and resilience. As we reported in November, we are seeing greater demand for our services from most non-resource based sectors of the economy which represent more than 2/3 of group revenue, and our increased scale following our acquisition of Skilled is opening new opportunities.

'We are taking action to lower costs in those parts of our business exposed to the oil and gas sector and to position the group to secure additional staffing and maintenance contracts from infrastructure, manufacturing, industrial and other non-resources companies. We will also continue to develop further cost savings as we integrate the systems of Programmed and Skilled.'

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