

## Spotless interim results – continued EBIT growth

*This document includes references to a number of non-IFRS items, the definitions of which appear at the end of this document.*

Group metric	Amount	1H12 growth / (decline)
Revenue	\$1,419.4 million	+5.1%
EBITDA	\$78.4 million	+4.8%
EBIT	\$38.6 million	+1.6%
NPAT	\$16.5 million	-5.2%
EPS	6.3 cents per share	-6.0%

Spotless Group Limited (ASX/NZX: SPT) today announced Net Profit After Tax (NPAT) of \$16.5 million for the half year, a decline of 5.2 per cent on the prior period. The Directors declared an interim dividend of 5 cents per share, franked to 100 per cent.

Group EBIT increased 1.6 per cent on the prior period to \$38.6 million. Excluding \$1.9 million in transaction costs, Group EBIT was \$40.5 million, up 5.2 per cent on the prior period. Group revenue prior to pass-through revenue of \$73.2 million, rose 4.9 per cent to \$1,346.2 million.

Australia and New Zealand Facility Services EBIT rose 7.3 per cent to \$48.7 million.

Managing Director and CEO, Josef Farnik, said: "Spotless is experiencing sustained demand for outsourcing in key sectors and the Facility Services business delivered a strong financial result. There were lower mobilisation and start up costs incurred during the period and the demand for the integrated services offering grew. Lower earnings were generated from the existing contract base reflecting lost contracts and as clients continue to operate in an uncertain economic environment. The Company is well positioned for growth and has a strong pipeline of new business.

"In 1H12 Spotless' Resources business performed strongly, with revenue growth of 93 per cent. The Resources sector now accounts for 10 per cent of Facility Services revenue, prior to pass-through revenue, up from 5 per cent in the prior period.

"Spotless mobilised a new integrated facility services contract at ERA's Northern Territory uranium mine during the half, and recently secured a \$45 million support contract for the major Queensland based Curtis LNG project for QGC Pty Limited. Other highlights included the extension of several large Government contracts and support to the Rugby World Cup and Presidents Cup Golf events.

"Braiform continues to be impacted by difficult market conditions, particularly in Europe. Despite this, Braiform maintained contracts, re-signed its largest client for a further three years and secured extensions to existing supply contracts with several major European retailers. Braiform continued to cut costs and anticipates a profitable full year result, in line with previous guidance, despite sustained high input costs.

Spotless re-confirms its FY12 outlook provided at the 2011 Annual General Meeting and in its Management Presentation of 21 December 2011. The Company continues to expect FY12 EBIT (prior to transaction costs primarily relating to private equity engagement costs) to be in the range of \$90-94 million<sup>1</sup>, subject to no further major deterioration in trading conditions.

<sup>1</sup> Refer to the Spotless Management Presentation (including page 37 and Appendix A)

## Australia and New Zealand (“ANZ”) Facility Services

ANZ Facility Services revenue, prior to pass-through revenue, rose 6.9 per cent to \$1,218.4 million, reflecting the impact of new contracts secured during the last twelve months, net of contract losses and major event activity during the half. Since the end of FY11, ANZ Facility Services has secured a number of new contracts with clients including NZ Defence, Olympic Dam, QGC Pty Limited and ERA.

Earnings growth was dampened by higher transitional IT costs as part of the Business and IT Platform project as well as soft demand for discretionary cleaning, maintenance and laundry services within the Group’s portfolio of existing contracts. Lower demand included reduced scope of activity within a number of existing contracts and several contract losses directly attributed to challenging economic conditions. These impacts are offset by lower costs during the half (\$1.2 million during the period, compared with \$3.7 million in the pcp). Start-up costs incurred in the prior comparative period in Laundry Services were not repeated.

With one exception, contracts secured and mobilised in the prior corresponding period performed well and continue to mature in profitability. Early in the second half of FY12 Spotless exited one underperforming Managed Services contract by mutual agreement with the client.

By sector, strong performances were achieved (against revenue prior to the comparative period) in the Leisure, Sports & Entertainment (+13%), Health (+11%), Commerce & Industry (+10%) and Public Housing sectors (+8%).

Resources sector revenue rose by 93%, reflecting the maturation and full period impact of contracts won in the prior period as well as contracts secured during the half. The Resources sector now accounts for 10% of revenue prior to pass-through revenue, up from 5% in the prior comparative period.

At 31 December 2011 the Managed Services forward revenue order book stood at \$11.2 billion, in line with 30 June 2011. Public Private Partnerships (PPPs) represent approximately two thirds of the order book.

ANZ Facility Services EBIT, prior to corporate administration costs, rose 7.3 per cent to \$48.7 million.

## International Services

International Services comprises Spotless’ Facility Services operations outside of Australia and New Zealand.

Revenue of \$34.7 million was 16.1% above the prior comparative period. Revenue growth was largely due to:

- The London Olympic Games 2012 contract work generating income during the planning and preparatory stage. This includes event management test events;
- Maintenance cleaning work in London Olympic park; and
- EMC catering revenue (acquired in the pcp).

First half FY12 EBIT of -\$0.5 million was a significant improvement on the prior period of -\$2.4 million, which contained \$1.8 million in start-up costs. Ongoing profitability reflects an overhead structure calibrated to deliver the London Olympics contract in the second half of FY12 and first half of FY13, in addition to future organic growth. A positive earnings contribution from the London Olympics contract during the period was offset by several contract losses.

Further, while Spotless considers the US to be an attractive market, management is refocusing US operations on the Leisure, Sports and Entertainment Sector, comprising convention centres, sporting venues and events. Consistent with this, Spotless will exit from a number of US retail sector cleaning

contracts. This exit will materially improve ongoing profitability. Following this restructure the International Services business will be largely focused on the UK Leisure, Sports & Entertainment sector.

## **Braiform**

Braiform has maintained all contracts, re-signed its largest client for a further three years and secured extensions to existing supply contracts with several major European retailers. It also reduced operational and administrative headcount by 20% on the prior period to counter adverse retail conditions.

Hanger unit sales in 1H12 declined by 19% on the prior period. Higher average unit prices were secured during the prior financial year and the first half, resulting in revenue declining 12.0% to US\$95.1 million (in Australian dollars revenue fell 18.0% to \$92.9 million).

In US dollar terms, EBITDA decreased by 40.0% to US\$5.1 million and EBIT declined from US\$1.0 million to -US\$2.5 million, in line with guidance provided at the 2011 Annual General Meeting. When reported in Australian dollars, EBITDA declined 42.7% to \$5.1 million and EBIT declined from \$1.0 million to -\$2.3 million. Earnings declined faster than unit sales and revenue reduction due to fixed costs.

An increase in Braiform's closed loop reuse business has helped mitigate input cost increases and maintain COGS relative to revenue. Reuse hangers accounted for 44% of total hanger sales in the first half, up from 37% in the prior period reflecting full mobilisation of new reuse clients.

The business anticipates a second half with little recovery in volumes but a strong improvement in contribution margin to provide a profitable full year result despite the extremely challenging conditions and sustained high input costs. This expected recovery is a direct result of the comprehensive restructuring program outlined in the Spotless Management Presentation dated 21 December 2011.

## **Corporate Administration**

Corporate administration costs of \$5.4 million were marginally lower than the pcp of \$5.5 million.

## **Other Items**

Several items are highlighted as part of the 1H12 result due to their unusual size. Consistent with the 2011 interim and full year results, most items are not classified as non-recurring items but are disclosed separately for shareholder information. Transaction costs of \$1.9 million largely relate to private equity engagement costs (pcp \$0.5m – relating to acquisitions).

Mobilisation costs were significantly lower during the period \$1.2 million compared with \$3.7 million in the pcp.

Other start-up costs not repeated that were expensed in the pcp included the cost of transition from two existing Queensland laundries into a greenfields Queensland plant and International Services start-up costs of \$1.8 million.

## **Net Debt, Cash Flow and Tax**

Net debt as at 31 December 2011 was \$360.1 million. In calculating the economic value of net debt Spotless adjusts for non-cash IFRS amounts relating to the FX swap of the US Private Placement Notes issued in December 2010. This adjustment was \$11.0 million as at 31 December 2011. Therefore adjusted net debt increased to \$349.1 million during the half (\$272.9 million as at 30 June 2011). This was the result of:

- the continued investment in business transformation (including the IT platform); and

- an increase in working capital arising from seasonal factors (including catering rights payments) and revenue growth on pcp.

Adjusted net debt is expected to be lower in 2H12, driven by a reduction in working capital, and is expected to average between \$325 million and \$335 million (prior to transaction costs primarily relating to private equity engagement) for the full year due to:

- Greater EBITDA;
- Lower catering rights payments; and
- Reductions in working capital investment.

In January 2012 the Company extended its syndicated corporate debt facility at the same level of \$240 million into the following tranches:

- \$90 million – 364 days.
- \$90 million – 3 years.
- \$60 million – 5 years.

This extension will secure funding throughout the remainder of the Transformation program, and diversify the debt maturity profile to mitigate refinance risk. Pricing under this extended facility has been reduced in line with the market. All other terms including banking covenants remain generally unchanged.

The movement in adjusted net of \$76.2 million for the 6 months to 31 December 2011 was comparable to the pcp of \$58.9 million, despite higher interest payments arising from the full period charge of interest under the long term US Private Placement Notes issued in December 2010, and higher tax payments following the cessation of an Australian tax investment allowance.

Gross operating cash flow in 1H12 of \$20.2 million (compared with \$31.0 million pcp) reflects an increase in working capital arising from revenue growth. As outlined above, working capital balances are expected to decrease in 2H12.

Credit metrics remain strong and significantly below debt covenants. Completion of the Transformation program will augment the further strengthening of balance sheet and cash flows and will optimise the management of working capital.

The effective tax rate of 32.3% before transaction costs of \$1.9 million was below the pcp of 34.7% before transaction costs of \$0.5 million. The largest driver of the change in tax rate was the mix of profits by country. Spotless continues to see an effective tax rate of 32% to 34% going forward, with fluctuations above and below this range a result of the mix of profits by country across the Group's international operations.

## **Dividend**

The Directors have declared an interim dividend of 5 cents per share, franked to 100%. This dividend reflects a payout ratio of 79 per cent to EPS and 75 per cent to EPS prior to transaction costs.

## Outlook

### ANZ Facility Services

Growth is expected from a strong pipeline of new contract opportunities. The profitability of new revenue streams secured in the prior year continues to mature in the face of challenging economic conditions. While the business faces mixed market conditions and some transitional costs are being incurred as the Business and IT Platform project continues, 1H12 EBIT is above the prior year and the transformation plan is on track for completion in FY13. Spotless continues to expect earnings growth in FY12 to be weighted towards the second half.

### International Services

With a focus on the United Kingdom, International Services remains focused on delivering the London Olympics contract. After a break even result from the second half of FY11, the Group expects a positive EBIT contribution in FY12.

### Braiform

Further benefits will be realised in the second half and through FY13 as Braiform's sales pipeline positions it for future organic growth and new business wins. The business anticipates a second half with little recovery in volumes but a strong improvement in contribution margin to provide a profitable full year result despite extremely challenging conditions and sustained high input costs.

### Group

In the absence of a major deterioration in trading conditions, Spotless reiterates the FY12 outlook previously provided at the 2011 Annual General Meeting and expects full year Group EBIT (prior to transaction costs primarily relating to private equity engagement costs) to be in the range of \$90-94 million. This compares with FY11 Group EBIT of \$90.1 million.

The business has the right strategy to enable Spotless to fully realise its potential. Spotless remains committed to delivering sustainable value for its clients, shareholders and its employees.

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#### **ABOUT SPOTLESS** [www.spotless.com](http://www.spotless.com)

Spotless is a leading international services company comprised of two distinct business operations, Facility Services and Retailer Services. Spotless Facility Services supplies single, multi and integrated facilities management, asset maintenance, catering, cleaning and laundry services across a broad range of industry sectors. Spotless employs approximately 40,000 people, supplemented by a network of skilled sub-contractors to deliver over 125 Facility Services.

### Attachment 1 - Income Statement

Revenue				Functional	Functional		
A\$ million	1H12	1H11	Change	Currency	Currency	Change	
				1H12	1H11		
Cleaning Services	192.6	208.3	(7.5)%				
Food Services	309.0	296.5	4.2%				
Laundry Services	132.4	123.1	7.6%				
Managed Services <sup>1</sup>	584.4	512.3	14.1%				
<b>Facility Services</b>	<b>1,218.4</b>	<b>1,140.2</b>	<b>6.9%</b>				
International Services	34.7	29.9	16.1%	GBP	22.4	18.2	23.1%
Braiform <sup>2</sup>	92.9	113.3	(18.0)%	USD	95.1	108.1	(12.0)%
Corporate Administration	0.2	0.2	0.0%				
<b>Group<sup>1,2</sup></b>	<b>1,346.2</b>	<b>1,283.6</b>	<b>4.9%</b>				

EBIT				Functional	Functional		
A\$ million	1H12	1H11	Change	Currency	Currency	Change	
				1H12	1H11		
Cleaning Services	4.6	6.0	(23.3)%				
Food Services	12.6	10.8	16.7%				
Laundry Services	12.6	12.4	1.6%				
Managed Services	18.9	16.2	16.7%				
<b>EBIT - Facility Services</b>	<b>48.7</b>	<b>45.4</b>	<b>7.3%</b>				
International Services	(0.5)	(2.4)	79.2%	GBP	(0.3)	(1.5)	80.0%
Braiform	(2.3)	1.0	<(100.0)%	USD	(2.5)	1.0	<(100.0)%
Corporate Administration	(5.4)	(5.5)	1.8%				
<b>EBIT - Group (prior to transaction costs)<sup>3</sup></b>	<b>40.5</b>	<b>38.5</b>	<b>5.2%</b>				
Transaction Costs	(1.9)	(0.5)	<(100.0)%				
<b>EBIT - Group</b>	<b>38.6</b>	<b>38.0</b>	<b>1.6%</b>				

NPAT			
A\$ million	1H12	1H11	Change
EBIT - Group (prior to transaction costs) <sup>3</sup>	40.5	38.5	5.2%
Net finance costs	(14.2)	(11.4)	(24.6)%
<b>Profit Before Tax (prior to transaction costs)<sup>3</sup></b>	<b>26.3</b>	<b>27.1</b>	<b>(3.0)%</b>
Tax Expense	(8.5)	(9.4)	9.6%
<b>NPAT (prior to transaction costs)<sup>3</sup></b>	<b>17.8</b>	<b>17.7</b>	<b>0.6%</b>
Transaction costs (pre-tax)	(1.9)	(0.5)	<(100.0)%
Transaction costs (post-tax)	(1.3)	(0.3)	<(100.0)%
<b>NPAT</b>	<b>16.5</b>	<b>17.4</b>	<b>(5.2)%</b>
EPS (cents) (prior to transaction costs) <sup>3</sup>	6.7	6.8	(1.5)%
<b>EPS (cents)</b>	<b>6.3</b>	<b>6.7</b>	<b>(6.0)%</b>

<sup>1</sup> Managed Services revenue excludes \$73.2m pass through revenue (1H11: \$67.4m)

<sup>2</sup> Braiform revenue includes \$1.7m of Royalty income (1H11: \$2.0m)

<sup>3</sup> Transaction costs of \$1.9m (1H11: \$0.5m) primarily relate to private equity engagement costs

## Non-IFRS Items

This document includes references to a number of non-IFRS items. These are defined below:

<b><i>Pass through revenue</i></b>	<i>Revenue generated by Spotless at zero profit margin</i>
<b><i>EBITDA</i></b>	<i>Profit before depreciation, amortisation, net finance costs and income tax expense</i>
<b><i>EBIT</i></b>	<i>Profit before net finance costs and income tax expense</i>
<b><i>NPAT</i></b>	<i>Net profit after tax</i>
<b><i>EPS</i></b>	<i>Earnings per share</i>
<b><i>Net Debt</i></b>	<i>Borrowings and other financial liabilities less cash and cash equivalents</i>
<b><i>Adjusted net debt</i></b>	<i>Net debt (defined above) less the non cash IFRS impact of FX swaps of -\$11m (1H11: -\$2.3m)</i>
<b><i>Gross Operating Cash Flow</i></b>	<i>Receipts from customers less payments to suppliers</i>
<b><i>pcp</i></b>	<i>Prior corresponding period</i>