ASHLEY SERVICES GROUP
TRAINING | RECRUITMENT | LABOUR HIRE

27 April 2015

Market update and FY15 Earnings Guidance

- Proforma FY15 EBITDA forecast reduced to a range of $21 to $23 million against half year guidance of $29.3 million and prospectus of $31 million
- Reduction in full year earnings from half year forecast driven by:
  - significant shortfall in ASG Integracom earnings – telecommunications business (detailed explanation below)
  - continued weakness in NSW training market due to repercussions from reduced funding under the NSW Demand Driven Model
  - delays in profit realisation from other initiatives including obtaining VET FEE-HELP provider status (now obtained)
- ASG Integracom turnaround – current positive trend has seen monthly student enrolments exceed those used as the basis for prospectus
- Continuing strength in training revenues in Victoria, Queensland and South Australia
- Labour hire business trading in line with prospectus for H2
- Multiple initiatives to drive future growth by leveraging our existing education and training infrastructure. Key growth drivers are VET FEE-HELP and expansion in the International Student and corporate funded VET markets
- Dividend payout for the full year to remain as per prospectus, resulting in increased payout ratio

Ashley Services Group Limited (ASX: ASH) advises that its Proforma FY15 EBITDA forecast is reduced to a range of $21 to $23 million. The key drivers of the lower result since the half year forecast are the performance of its telecommunications business and the lack of funding for training received by ASH under the NSW Demand Driven model from 1 January 2015. Details of the key variances for the half year and the prospectus are summarised in Table 1:

Table 1

Proforma FY15 $m	**Current Forecast**	**Prospectus**	**Variance to Prospectus**	**Forecast at HY**	**Variance to Forecast at HY**
ASG Integracom Revenue	11.5-12.5	22.8	*10.3-11.3*	17.6	*5.1-6.1*
ASG Integracom EBITDA	3.0-4.0	13.3	*9.3-10.3*	8.5	*4.5-5.5*
Total ASH EBITDA	**21.0-23.0**	**31.0**	***8.0-10.0***	**29.3**	***6.3-8.3***

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Integracom: Revised guidance and operational update

ASG Integracom Guidance

As detailed in our FY15 half year results presentation, the performance of the ASG Integracom business was tracking below prospectus guidance. This was due to lower than expected enrolments, which can be primarily attributed to the termination of the $5,500 "Tools for your Trade" incentive program on 1 July 2014.

As discussed at the half year, ASH undertook several initiatives to improve the performance of ASG Integracom, which included:

- improving the sales team
- refining the selling and marketing approach, including the introduction of an internal call centre
- introducing 6 new qualifications to scope, some of which attract substantially higher course fees
- incorporating ASH's state funding contracts into the Integracom courses
- expanding to a national footprint

At the half year, ASH provided revised guidance for the expected FY15 results and reduced its expected ASG Integracom FY15 revenue and EBITDA to $17.6m and $8.5m respectively. The key drivers of the H2 revenue increase (from H1) were increased enrolments (see Table 2) and higher than expected average fees per student (prospectus forecast average fee per student of $3,750). The driver for the expected increase in average fee per student was based on the introduction of higher value qualifications and this was anticipated to represent 25% of total enrolments.

When the forecast was released in February, the improved sales force and marketing initiatives were in place, enrolments of 200 students in the first week of February had been achieved, and enrolments for the higher value qualifications had commenced.

Positive momentum in enrolments continued, resulting in our revised Q3 enrolment figures being achieved. However, only a small number of enrolments were in the higher value qualifications as student availability throughout Q3 for the higher value qualifications was restricted. The forecasts are extremely sensitive to changes in mix and the consequence has been lower revenue and earnings.

It is also now clear that the April forecast of 805 enrolments will not be achieved. Based on this, ASH has adjusted its forecasts for April to 575 and for May and June to 650 enrolments per month.

In addition to the above, ASG Integracom margins have been impacted by additional costs:

- to align internal systems with ASH's
- for a larger marketing and sales team; and
- for the increased number of qualifications on scope

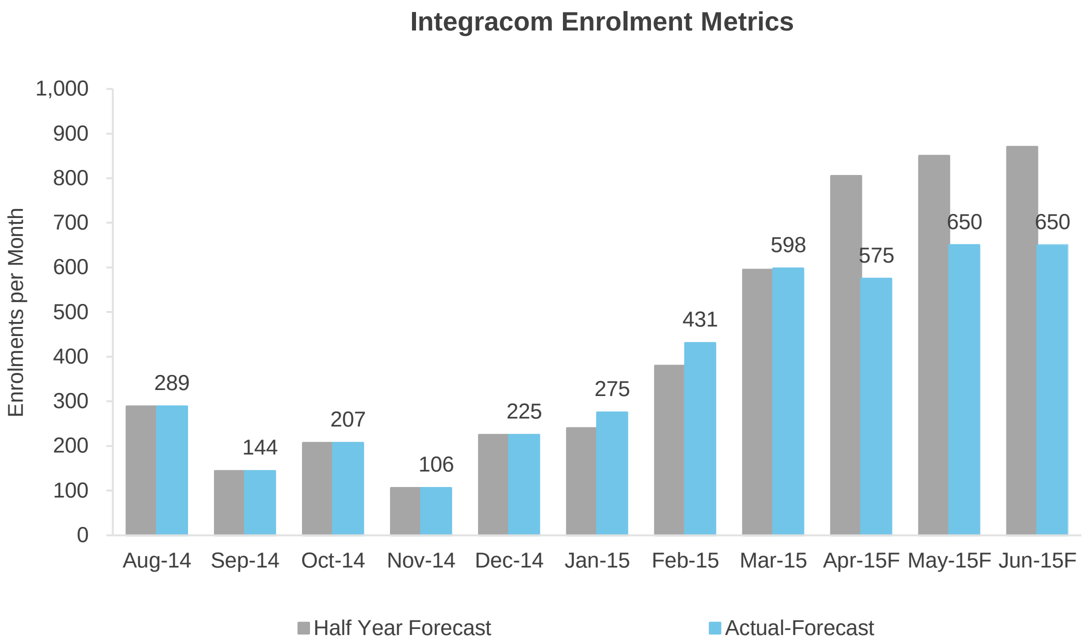
The higher value courses will counter some of this margin impact.

It is important to consider these results in context of the health of the underlying ASG Integracom business and the progress that has been made to date:

- enrolments have increased from a low of 106 in November to 598 in March, up 460%
- monthly enrolments are now tracking above the monthly prospectus average
- average revenue per student is approximately 20% above prospectus of $3,750
- ASH expects that a number of students currently completing Certificate III will progressively transition into the higher value qualifications offered

ASH expects that enrolments will continue to be strong and that average revenue per enrolment in the Integracom business will continue to increase.

Table 2



ASG Integracom – Understanding the Business and Industry

ASG Integracom is a telecommunications training provider, offering qualifications in a rapidly changing environment. The industry has been identified as having skills shortages and requiring licenced technicians.

Students of ASG Integracom are typically employees of small to medium businesses, which are often receiving work that has been contracted to them from larger organisations.

As at August 2014, the Australian Government Department of Employment estimated that there are approximately 236,000 electro-technology and telecommunications trade workers in Australia. ASH believes that a number of these require upskilling and skill diversification in line with our qualifications offering. Given changing technology, ASH believes many of these individuals will continue to upskill on an ongoing basis to maintain their knowledge within the industry.

Organisations require the diverse training products provided by ASG Integracom that meet the relevant Australian Communications and Media Authority ("ACMA") licencing regulations, and complimentary products that allow companies to tender for additional projects in similar areas across the industry.

Since ASH's acquisition of ASG Integracom, 6 new qualifications have been added to scope. ASH believes that a significant number of current enrolments will continue on to train in these new product offerings.

ASH is confident in its ability to continue to be the market leader in telecommunications training and to continue to adapt to an industry that requires ongoing upskilling. The pace of change in the industry is expected to continue, which should provide a steady stream of upskilling enrolments from both previous trainees and new trainees.

Update on other matters

Training NSW

As noted in the half yearly presentation the total funding allocation across ASH's RTOs following the implementation of NSW Smart and Skilled funding contract (the Demand Driven Model), which became effective 1 January 2015, was significantly lower than expected. ASH understands that funding was largely given to TAFEs in preference to the private providers, which is in contrast to the precedent set by other states where students can choose their education provider.

At the half year, ASH assumed a $1m improvement in revenue from H1 to H2 in NSW, on the basis of TAFE subcontracting agreements being secured and corporate initiatives that would eventuate. While a TAFE subcontracting has been secured and other corporate initiatives are underway, timing of these revenues have been later than anticipated and it is now expected that NSW training revenue in H2 will be below H1.

The government funding situation for NSW means the short term outlook for NSW is challenging, but we continue to focus on all opportunities for improvement.

Other businesses

ASH's Labour Hire business and core Ashley Institute Training business (outside of NSW) are still forecast to exceed original full year prospectus guidance, reflecting the strong market position of those businesses.

Dividend

Despite the expected earnings decrease, cash flow is expected to be adequate to allow a final dividend of 4.1c per share to be declared, in line with prospectus. This dividend payout will result in an increased payout ratio.

Outlook

Ross Shrimpton said: “The disappointing ASG Integracom result and the negative impact from the NSW Smart and Skilled funding have been greater than anticipated at the half year and the positive impacts from other initiatives have been unable to make up the shortfall. Efforts to improve ASH’s Telecommunications training business are now delivering results with monthly student enrolments above original prospectus targets and average revenue per student about 20% above original expectations due to the addition of higher value qualifications to scope.

“The overall business model is working and both the Labour Hire and remaining training businesses are performing in line with or above original prospectus forecasts. ASH has entered the International Student education business during FY15 and invested in its future growth. It has achieved VET FEE-HELP provider status and is growing its corporate training market in skills shortage areas both organically and through acquisition (SILK). These initiatives are designed to access new and diversified funding streams and an even broader student base to fully utilise the existing ASH education and training infrastructure”.

Investor briefing call

An investor briefing and Q&A session will be held at 4.45PM (AEST) today. Details for the call are below:

Dial in details:

- Australia: 1800 857 029
- HK: 8009 67125
- Singapore: 8006 163 130
- United States: 1866 814 5210
- Canada: 1866 617 8166
- International: +61 3 8687 0635 (Not Toll Free will incur International charges)

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