

STRENGTH THROUGH DIVERSITY



Group Ltd
Interim Report 2014

DIRECTOR'S INTERIM REPORT



The first half of the year ending 31 March 2015 represents the first full 6 month period in which Madison has been included in the AWF Group. The acquisition has already proved its value; contributing significantly to the overall financial performance of the Group and enabling AWF to achieve its strategy of becoming New Zealand's largest full spectrum recruitment company.

The Group is now comprised of three trading entities; Allied Work Force, Madison and TradeForce; with capability spanning all aspects of commercial and industrial recruitment services including temporary, contract and permanent assignments.

Collectively, these operations include 41 branches, employ over 230 full time staff and deploy up to 4,500 temporary staff daily.

Our focus continues to be on growing the strong footprint of each entity in their respective sectors, while also developing opportunities for a combined, complementary service offering to key clients and prospects with diverse recruitment requirements.

We have sought to leverage our core strengths around specialist recruitment services and core business functions such as Health and Safety, to ensure that our Group operations continue to meet changing market expectations and regulatory requirements.

The outstanding contribution of Madison as a complimentary sister company to Allied Work Force has been a resounding success for the Group; as can be seen in the following financial results.

REVENUE

\$68.75_m

Up 10% against the same period last year

GROUP SALES FOR THE PERIOD

\$98.6_m

An increase of 58% for the 6 months

NET PROFIT AFTER TAX

\$2.9_m

Up 54% compared to the same period last year

UNDERLYING EARNINGS*

\$3.57_m

Rose by 78% for the 6 months

GROUP EARNINGS PER SHARE

10.9_{cps}

Lifted by 51% for the first half year

DIVIDEND

7.2_{cps}

An increase of 12.5% on last year's 6.4cps

Financial Performance

The Madison business delivered a very strong result in the half; benefitting from a buoyant economy and increased employer confidence; particularly in the permanent recruitment side of the business. Growth in this business unit has exceeded 10% against the same period last year (prior to AWF's acquisition).

Conversely, as the unemployment rate hit a new low at 5.4%, the Allied Work Force business has felt the impact of fewer quality workers seeking temporary employment. This has limited its ability to fully realise the growth potential presented by the significant demand for workers; resulting in more modest than expected sales growth at 3.6%. This, combined with ongoing margin pressure, continues to sharpen our focus on achieving balance across our client portfolio of large volume, low margin agreements and higher margin retail supply arrangements.

The performance of the Tradeforce business unit suffered a significant downturn, with a 24% reduction in revenue compared to the same period last year. A contributing factor was the impact of the infant formula contamination scare which created significant disruption in demand for production workers.

Overall, these factors contributed to a slight decline in the Group's Services to Industry sector of 2%. However, overall the Group is on track to meet its year end performance expectations.

Group sales for the 6 months rose by 58% to \$98.6 million, whilst net profit after tax rose by 54% to \$2.9 million, as compared to the same period last year.

Underlying earnings; the non-GAAP measure which adds back amortisation of intangibles and the tax effect (considered by the AWF Directors to best reflect the overall operating

performance of the Group) rose by 78% to \$3.57 million.

Group earnings per share for the half year lifted by 51% to 10.9 cents, whilst on an underlying earnings basis this lift was 75% to 13.4 cents per share.

We expect that the counter-cyclical balance we have achieved in developing both permanent and temporary recruitment capability will continue to be a driver of increased profitability across the Group.

Allied Work Force

Allied Work Force now operates 35 branches across the country, providing predominantly temporary staff to industry.

Following a five year cycle of tight labour market conditions, the last 18 months has seen real employment growth; creating acute shortages in the supply of both skilled and semi-skilled workers. It is now common for our operations to face shortfalls in supply of over 100 workers per day. The impact has hit hardest in Auckland and Christchurch where the demand for workers to support major infrastructure projects has been high for some time. With the ramp up of key projects in the Wellington / Kapiti region in the New Year, we are expecting that all the main centres will soon be experiencing similar conditions.

Such employment cycles are familiar to us and the Allied Work Force business is well prepared to respond to change. Initiatives are underway to diversify our service offering; providing more choices for both employment services and skills development programmes to our clients and candidates.

Our first priority has been to ensure that our existing workforce is stable, through deploying effective recognition and reward programmes and providing more options for staff to upskill

* Refer to note 3 of the Financial Statements

through their employment; thereby increasing retention.

Allied Work Force has completed a pilot of a six month skills development pathway programme. Thirty cadets were recruited and developed with a view to being retained permanently by Allied Work Force, transitioned into further development through apprenticeships or facilitated into ongoing placements with our clients after completion. A larger skills development programme is due to commence in December 2014.

Continued development of our workforce is essential to achieve continuity in our ability to supply and to build and maintain our pipeline of quality people. Many of these initiatives require a partnership approach in working with our clients to achieve the desired development and employment outcomes. We have invested in increasing our key account management programs, which has seen us achieve both retention and revenue growth in our existing client base.

Madison

Madison is New Zealand's leading supplier of temporary, permanent and contract staff to all sectors of commerce. With a presence in Auckland, Hamilton, Tauranga, Wellington and Christchurch; the Madison operations are growing with a 12% increase in staff in the last 12 months.

The business has performed strongly since its acquisition by AWF in November 2013, with a successful strategy to retain and grow market share across all areas of the business. The past six months has seen the demand for permanent recruitment services rise as a result of strong business activity, particularly in the Auckland region. This was not as evident in Wellington, as the government hub continues to tighten spend and even paused slightly during the elections.

As in the last couple of years, demand for IT talent has continued to be strong in Auckland and is increasingly so in Wellington and Christchurch. The Christchurch market is more challenging as demand for specific skill sets outweighs the talent available in the region.

With the tightening labour market, Madison has benefited from many employers implementing changes to their internal recruitment model; increasing openness to outsourcing to recruitment agencies for hard to fill roles and supplementary assistance in general.

The company has enjoyed success through refining its brand strategy in 2014, with a focus on building the personal brands of its consulting team and further developing connections with both clients and candidates. To support this, Madison re-launched its company branding with a new responsive website to engage active and passive talent communities; delivering engaging content and thought leadership to connect effectively with these groups.

Tradeforce Recruitment

Tradeforce Recruitment is a unit of the Group acquired almost 3 years ago and involved primarily in supply of temporary staff to the manufacturing, food processing and engineering sectors in Auckland.

As highlighted, the business faced significant headwinds in the first half. Manufacturing was generally slower and some clients were seriously affected by the China infant baby formula crisis. However, the impact of these issues are diminishing and Tradeforce is expected to rally and continue to deliver well for the Group in the second half.

AWF Group Outlook

Traditionally the second half is stronger in the industrial recruitment sector than the first, as weather conditions allow for more outdoor work activity. We expect this trend to continue.

Notwithstanding current employment market constraints, we are confident in meeting our targets at year end, with Madison continuing to contribute well and with Allied Work Force demonstrating stronger growth in the second half.

As demand for both skilled and semi-skilled staff to supply all aspects of commerce and industry is increasing month by month, we are well placed to leverage the strengths of our business units; and our position as this country's largest recruitment provider; to achieve our growth targets. The various initiatives being implemented to develop our business units are already proving to be successful and the diversity in our service offering has given us the flexibility and strength to succeed in a dynamic market.

Dividend

AWF Group has delivered a very satisfactory performance and accordingly the Board has declared a fully imputed dividend of 7.2 cents per share, an increase of 12.5% on last year's 6.4cps.



Mike Huddleston
Chief Executive Officer
15 November 2014



Michael Huddleston

OUR FOCUS 

“Our focus continues to be on growing the strong footprint of each entity in their respective sectors.”

AWF Group Limited

Condensed Statement of Comprehensive Income

for the six month period ended 30 September 2014 (unaudited)

	30/09/2014 (unaudited)	30/09/2013 (unaudited)
	\$'000	\$'000
Revenue	98,568	62,468
Investment revenue	50	1
Direct costs	(1,268)	(1,489)
Employee benefits expense	(86,157)	(53,950)
Depreciation and amortisation expense	(1,375)	(568)
Other operating expenses	(4,504)	(3,614)
Finance costs	(946)	(75)
Profit before tax	4,368	2,773
Income tax expense	(1,466)	(888)
Profit for the period	2,902	1,885
Total comprehensive income for the period, net of tax	2,902	1,885
Total comprehensive income is attributable to Equity holders of the parent	2,902	1,885
Earnings per share		
Total basic and diluted earnings per share (cents per share)	10.9	7.2

Condensed Statement of Financial Position

as at 30 September 2014 (unaudited)

	Notes	30/09/2014 (unaudited)	30/09/2013 (unaudited)	31/03/2014 (audited)
		\$'000	\$'000	\$'000
Assets				
Non-current assets				
Property, plant and equipment		2,096	1,939	2,220
Goodwill		28,694	10,561	28,694
Other intangible assets		17,440	2,224	18,224
Deferred tax			696	
		48,230	15,420	49,138
Current assets				
Trade and other receivables		19,746	14,143	24,677
Cash and cash equivalents		9,154	2,124	3,146
		28,900	16,267	27,823
Total assets		77,130	31,687	76,961
Equity and liabilities				
Capital and reserves				
Share capital		16,023	14,545	14,545
Treasury account		(2,281)	(803)	(803)
Group share scheme reserve		116	54	86
Retained earnings		7,851	6,540	6,935
Equity attributable to equity holders of the parent		21,709	20,336	20,763
Total equity		21,709	20,336	20,763
Non-current liabilities				
Deferred tax liabilities		1,245		1,405
Borrowings		28,303	803	28,183
		29,548	803	29,588
Current liabilities				
Trade and other payables		16,589	9,857	17,268
Taxation payable		537	368	570
Provisions		247	323	272
Current portion of borrowings		2,500		2,500
Madison Group second payment	5	6,000		6,000
		25,873	10,548	26,610
Total liabilities		55,421	11,351	56,198
Total equity and liabilities		77,130	31,687	76,961

Condensed Consolidated Cash Flow Statement

for the six month period ended 30 September 2014 (unaudited)

	Notes	30/09/2014 (unaudited)	30/09/2013 (unaudited)
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		103,517	66,884
Interest Received		50	1
Payments to suppliers and employees		(92,551)	(60,586)
Net cash generated from operations		11,016	6,299
Income taxes paid		(1,740)	(1,678)
Interest paid		(946)	(75)
Net cash from operating activities	7	8,330	4,546
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		70	32
Payments for property, plant and equipment		(378)	(574)
Payments for other intangible assets		(147)	(66)
Net cash (used in)/from investing activities		(455)	(608)
Cash flows from financing activities			
Dividends paid to equity holders of the parent		(1,986)	(3,187)
Proceeds from borrowings		119	
Net cash (used in)/from financing activities		(1,867)	(3,187)
Net increase in cash and cash equivalents		6,008	751
Cash and cash equivalents at the beginning of the period		3,146	1,373
Cash and cash equivalents at the end of the period			
Bank balances and cash		9,154	2,124

AWF Group Limited

Condensed Statement of Changes in Equity

for the six month period ended 30 September 2014 (unaudited)

	Share capital	Retained earnings	Equity-settled employee benefits reserve	Treasury account	Attributable to equity holders of the parent
	\$'000	\$'000	\$'000	\$'000	\$'000
2014					
Balance at 1 April 2013	14,545	7,842	23	(803)	21,607
Profit and total comprehensive income for the period		1,885			1,885
Payment of dividends		(3,187)			(3,187)
Recognition of share-based payments			31		31
Balance at 30 September 2013	14,545	6,540	54	(803)	20,336
2015					
Balance at 1 April 2014	14,545	6,935	86	(803)	20,763
Profit and total comprehensive income for the period		2,902			2,902
Payment of dividends		(1,986)			(1,986)
Recognition of share-based payments			30		30
Treasury stock issued	1,478			(1,478)	
Balance at 30 September 2014	16,023	7,851	116	(2,281)	21,709

AWF Group Limited

Condensed Notes to the Financial Statements

as at and for the 6 months to 30 September 2014 (unaudited)

1. Statement of accounting policies

The accounting policies used in preparation of these half yearly financial statements are consistent with those used in the March 2014 annual report.

These financial statements comply with International Accounting Standard 34 and NZ IAS 34.

1.1 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

In the March 2014 annual report, the Group declared that there were standards amendments and interpretations to existing standards that are not yet effective and have not been early adopted that the Group had yet to consider the effect and impact to reporting. The Group has now considered these Standards, amendments and interpretations and they are discussed below.

NZ IFRS 9 Financial instruments - effective for annual reporting periods beginning on or after 1 January 2015 with early adoption permitted. This standard introduces new requirements for the classification and measurement of financial assets. All recognised financial assets that are currently in the scope of NZ IAS 39 will be measured at either amortised cost or fair value. In order for financial assets to be measured at amortised cost certain criteria must be met. A revision to NZ IFRS 9 also adds guidance on the classification and measurement of financial liabilities and the de-recognition of financial instruments. Most of the requirements in NZ IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to NZ IFRS 9. Most of the requirements in NZ IAS 39 in relation to the de-recognition of financial assets and financial liabilities have been retained, but additional disclosures are now required under NZ IFRS 7. This new standard and subsequent revision are likely to affect the Group's accounting for its financial assets and liabilities. The group does not anticipate any significant impact to the result from application of this standard.

Annual Improvements to NZ IFRSs: 2010-2012 Cycle - effective for annual periods beginning on or after 1 July 2014. The annual improvements are largely clarifications, covering:

- the definition of vesting condition in NZ IFRS 2 Share based payments
- accounting for contingent consideration in a business combination under NZ IFRS 3 Business Combinations
- disclosure re aggregating operating segments under NZ IFRS 8 Operating Segments
- fair value of short term receivables and payables under NZ IFRS 13 Fair Value Measurement
- restatement of accumulated depreciation/amortisation under the revaluation method in NZ IAS 16 Property, Plant and Equipment and NZ IAS 38 Intangible Assets
- management entities providing key management personnel services to a reporting entity under NZ IAS 24 Related Party Disclosures.

The Group is yet to assess the full impact of these amendments.

Annual Improvements to NZ IFRSs: 2011-2013 Cycle - effective for annual periods beginning on or after 1 July 2014. These annual improvements are also largely clarifications, including clarification of the:

- scope exclusion for joint ventures under NZ IFRS 3 Business Combinations
- scope of the portfolio exception under NZ IFRS 13 Fair Value Measurement
- interrelationship between NZ IFRS 3 Business Combinations and NZ IAS 40 Investment Property.

The Group is yet to assess the full impact of these amendments.

2. Segment information

2.1 Services from which reportable segments derive their revenues

The basis of segmentation is consistent with the annual report and the Group's reportable segments under NZ IFRS 8 are as follows:

- Temporary staffing to industry
- Temporary, contract and permanent staff services to commerce

2.2 Segment revenue and results

	Segment revenue		Segment profit	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
Temporary staffing to industry	61,120	62,468	3,047	3,502
Temporary, contract and permanent staff services to commerce	37,448		2,777	
Total for continuing operations	98,568	62,468	5,823	3,502
Other income			50	1
Central administration costs and directors' salaries			(560)	(655)
Finance costs			(946)	(75)
Profit before tax			4,368	2,773
Income tax expense			(1,466)	(888)
Total revenue (excluding investment income) and profit	98,568	62,468	2,902	1,885

Revenue reported above represents revenue generated from external customers. Inter-segment sales in the period were \$206,279 (2013: \$ Nil).

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue, finance costs, and income tax expense. This is the same measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

2.3 Segment assets

	2014	2013
	\$'000	\$'000
Temporary staffing to industry	29,949	30,101
Temporary, contract and permanent staff services to commerce	46,849	
Total segment assets	76,798	30,101
Unallocated assets	332	1,586
Total assets	77,130	31,687

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments other than other financial assets and tax assets of the parent. Goodwill has been allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

2.4 Segment liabilities

	2014	2013
	\$'000	\$'000
Temporary staffing to industry	9,337	11,314
Temporary, contract and permanent staff services to commerce	44,823	
Total segment liabilities	54,160	11,314
Unallocated liabilities	1,262	37
Total liabilities	55,422	11,351

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the liabilities attributable to each segment. All liabilities are allocated to reportable segments other than other financial liabilities and tax liabilities of the parent.

2.5 Other segment information

	Depreciation and amortisation		Employee benefits		Additions to non-current assets	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Temporary staffing to industry	540	568	53,329	53,472	(198)	(23)
Temporary, contract and permanent staff services to commerce	835		32,417		(709)	
Unallocated			411	478		
Total	1,375	568	86,157	53,950	(907)	(23)

2.6 Geographical information

The Group operates in one geographical area New Zealand (country of domicile). All revenues from external customers, and non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts are attributed to the Group's country of domicile.

2.7 Information about major customers

The Group has one customer who individually accounts for 12.76% of the group revenue in the six months to 30 September 2014. This customer works primarily, but not exclusively in the services to commerce sector. In prior six months period to 30 September 2013, no customer accounted for more than 10% of the group revenue.

3. Supplementary information

Underlying earnings is a non-GAAP measure which adjusts for amortisation of identifiable intangible assets acquired through acquisition of subsidiaries, profit on disposal of subsidiaries and impairment of goodwill. In the opinion of the directors, underlying earnings more correctly reflects the operating performance of the Group. This treatment is consistent with the previous reporting period.

	30/09/2014 (unaudited)	30/09/2013 (unaudited)
	\$'000	\$'000
Underlying earnings		
Profit for the period	2,902	1,885
Add back Amortisation of Intangible assets	931	164
Less gain on sale of subsidiary		
Tax effect on adjustments	(261)	(46)
Underlying earnings after tax	3,572	2,003
Total underlying earnings is attributable to:		
Equity holders of the parent	3,572	2,003
Earnings per share		
Total basic and diluted underlying earnings per share (cps)	13.4	7.7

4. Financial instruments

The carrying amounts of financial instruments at balance date approximate the fair value at that date.

5. Madison Group Second Payment

This liability is contingent on the Madison Group performing to expectations in the year to 1 November 2014. Management is of the view that the required performance will be achieved and the final \$6m settlement will be paid by the end of November 2014 and has accordingly been provided for in the financial statements.

6. Contingent Liabilities

There were no contingent liabilities as at 30 September 2014 or 30 September 2013.

7. Reconciliation of surplus after taxation with cash flows from operating activities

	30/09/2014 (unaudited)	30/09/2013 (unaudited)
	\$'000	\$'000
Reported surplus after tax	2,902	1,885
Non-cash items (continuing operations)		
Depreciation and amortisation	1,375	568
Gain on sale of subsidiary		
(Profit) on disposal of property, plant and equipment	(15)	(16)
(Decrease)/increase in provisions	(21)	(85)
Increase in bad debt provision	(12)	140
Movement in deferred tax assets	(159)	79
Equity-settled share-based payments	30	31
	4,100	2,602
Movements in working capital:		
Decrease in trade and other receivables	4,941	4,276
Decrease in trade and other payables	(679)	(1,462)
Decrease in taxation payable	(32)	(870)
	4,230	1,944
Net cash inflows from operating activities	8,330	4,546

8. Dividends paid

During the six months ended 30 September 2014, the group paid dividends of \$1.985 million (six months ended 30 September 2013 \$3.187 million including a 3.0 cents per share special dividend of \$0.784 million).

9. Events subsequent to balance date

Interim Dividend

On 30 October 2014 the directors approved the payment of a fully imputed interim dividend of \$1.918 million (7.2 cents per share) to be paid on 5 December 2014.



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