PRIMESERV

GROUP LIMITED

PRIMESERV GROUP LIMITED

REVIEWED PROVISIONAL RESULTS

FOR THE 12 MONTHS ENDED 31 MARCH 2015

COMMENTARY

PROFILE

Primeserv Group Limited focuses on delivering human resources and industrial relations products, services and solutions through its operating pillar, Primeserv HR Services. This incorporates two main areas of specialisation: namely Human Capital Development and Human Capital Outsourcing.

OVERVIEW

The South African economy remains constrained due to a number of macro-economic factors. Extremely high unemployment, an unstable labour environment exacerbated by lengthy and high levels of industrial action together with a regulatory and legislative environment in a state of constant flux in areas critical to investment, including changing B-BBEE regulations and restrictive and onerous labour legislation, have combined to impact negatively on investment in the economy and in particular those areas with large scale labour requirements. From a political perspective, ongoing challenges are being experienced, particularly in the area of high levels of youth dissatisfaction linked to poor education, unemployment and bleak economic prospects. Government has, in consequence, introduced incentives aimed at facilitating higher levels of youth employment allied to skills upliftment. These factors have combined to present a somewhat challenging whilst potentially opportune environment in which the Group is required to operate.

Finality was brought to the debate regarding changes to labour legislation with the passing into law of the amended Labour Relations Act. Some uncertainty remains amongst employers as they come to terms with implementation of these laws. The Group has aligned its services and product offerings to the new labour legislation and has been able to assist clients in managing the transition to the new legislation.

Despite the challenges encountered during the year under review, the Group maintained a consistent level of sales whilst proactively addressing risks and identifying and developing new opportunities.

Gross margin improvements, particularly in the more specialised blue collar project-based environment as well as those linked to large training projects were, to an extent, offset by increased costs in investing in skills and training to facilitate the placement of both youth and specialised candidates, as well as by increased staff and administration costs, site establishment and other infrastructure spend incurred in relation to new contracts. Higher than anticipated costs were also a function of expenses related to prolonged industrial action and the termination of underperforming contracts during the second half of the year under review. Expenses were also elevated by once off costs related to the settlement of a protracted dispute in regard to contested liabilities arising out of an earlier acquisition.

Group revenue for the year under review increased by 2% from R638,8 million to R651,0 million. Gross profit increased by 11% from R98,1 million to R109,3 million with the overall gross profit percentage improving from 15,4% in the prior year to 16,8% for the year under review. This was due in the main to an increase in the contribution from the consulting and training units of the Human Capital Development segment as well as to improved margins in the blue collar outsourcing operations of the Human Capital Outsourcing segment. EBITDA has decreased by 5% from R14,5 million to R13,7 million. Operating profit for the year decreased by 8% from R12,6 million to R11,6 million. The Group's net interest cost has decreased marginally and the interest cover has improved from a ratio of 2,2 to a ratio of 2,4. Interest paid decreased from R5,8 million to R4,9 million. Headline earnings have improved from a profit of R6,1 million to a profit of R11,9 million for the year under review. The Group has a tax credit for the year owing to, inter-alia, tax allowances, the reversal of a provision for taxation no longer required and an increase in the deferred tax asset.

Headline earnings per share have maintained the increasing trend seen in the previous financial period and improved by 96% from 6,51 cents per share to 12,73 cents per share.

The Group's long-term and other receivables have decreased from an aggregate of R13,6 million to R8,9 million. The Group's trade receivables decreased by R9,4 million from R94,6 million to R85,2 million with Days Sales Outstanding ("DSO") reducing from 47 days to 42 days. Trade payables decreased by R14,8 million from R30,6 million to R15,8 million, due to a reduction in payroll liabilities, settlement of creditors prior to year-end and supply chain efficiencies. Financial liabilities and bank borrowings have, in aggregate, decreased from R49,1 million to R42,3 million. Net borrowings decreased from R48,0 million at the end of the prior year to R40,9 million at the end of the current year and gearing has improved from 62% to 46%.

Cash flows from operating activities showed a positive increase of R6,0 million. Cash flow from operations before working capital changes improved by 68% from R7,7 million to R13,0 million whilst cash and cash equivalents recorded a net inflow of R7,1 million for the year under review compared to a net outflow of R5,2 million in the comparable period. The cash conversion ratio has improved from 109% to 117%.

Net asset value has increased by 14% from 83 cents per share to 95 cents per share.

HUMAN CAPITAL DEVELOPMENT

The segment's revenue increased by 12% from R34,3 million to R38,6 million. The segment delivered an operating profit from continuing operations of R1,0 million compared to a profit of R0,6 million in the prior year. EBITDA from continuing operations improved from R1,1 million to R1,4 million. The DSO has improved from 143 days to 75 days.

The consulting and training operations delivered an improved performance. Persistent administration problems at the SETAs led to some delays in both the onset of training and the settlement of accounts by some clients awaiting disbursements from the SETAs for work already undertaken. This resulted in a weaker second half performance by the training unit with a number of projects delayed to the second quarter of the 2016 financial year. The unit has a large number of SETA accredited training and learnership modules capable of being applied to youth training and employment programmes and specialised staff upskilling projects. It is anticipated that this potential will be increasingly realised in the short to medium term.

HUMAN CAPITAL OUTSOURCING

Revenue for the segment increased by 1% from R605,9 million to R612,3 million, with operating profit increasing by 9% from R25,3 million to R27,7 million. EBITDA increased by 8% from R27,1 million to R29,2 million. The DSO showed an improvement from 42 days to 40 days.

This segment saw the blue collar flexible staffing business, which specialises in servicing the logistics, warehousing and distribution, and industrial manufacturing, engineering and construction sectors, deliver a sustained performance. The business maintained its focus on service excellence, and the delivery of integrated HR services aimed at improving productivity at clients within its specialised niches of operations. A major emphasis was placed on developing skills and capabilities across the entire staff complement so as to provide clients with consistent and efficient staffing and workplace productivity solutions.

The sustained drop in the oil price resulted in the curtailment of a number of labour intensive projects linked to the petrochemical industry. This negatively impacted volumes in the second half of the year. This business is redirecting its sales efforts and has been rightsized accordingly.

The white collar professional draughting and engineering staffing operations delivered a flat year on year performance. This operation has to a large extent been impacted by low levels of capital infrastructure spend particularly in the area of state expenditure, and certain mega projects were delayed due to inadequate levels of electricity supply.

Investment was also made in setting up and staffing an expanded regional and site office network to support new contract awards and to develop future opportunities.

Management continues to focus on developing scalable opportunities, improving working capital management, reducing gearing and on further cost efficiencies.

EVENTS AFTER THE REPORTING DATE

Management is not aware of any material events which have occurred subsequent to the end of March 2015. There has been no material change in the Group's contingent liabilities since the year-end.

BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. The results were prepared by the Group Financial Director, Mr R Sack CA(SA).

REVIEW OPINION

The Group's auditors, Baker Tilly SVG, have reviewed the Group's financial results for the year ended 31 March 2015. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement has not been reviewed nor reported on by the auditors.

DIVIDEND DECLARATION

Notice is hereby given that a final gross cash dividend of 1 cent per share (2014: 0 cents per share) for the year ended 31 March 2015 was declared on Friday, 26 June 2015, payable to shareholders recorded in the share register of the Company at the close of business on the record date appearing below. The salient dates pertaining to the final dividend are as follows:

Last date to trade "*cum*" dividend	Friday, 2 October 2015
Date trading commences "*ex*" dividend	Monday, 5 October 2015
Record date	Friday, 9 October 2015
Date of payment	Monday, 12 October 2015

Ordinary share certificates may not be dematerialised or rematerialised between Monday, 5 October 2015 and Friday, 9 October 2015, both days inclusive.

Shareholders who are not exempt from the Dividend Withholding Tax of 15% will therefore receive a net dividend of 0,85 cents per share. The Company has 132 062 743 ordinary shares in issue and its income tax reference number is 9408/002/71/6. The dividend is being paid out of income reserves.

All times provided in this announcement are South African local times.

Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders at their risk. Ordinary shareholders who hold dematerialised shares will have their accounts at their CSDP or broker credited on Monday, 12 October 2015.

TRANSFORMATION

As part of the Group's ongoing transformation process, the Group is considering various options related to its BEE equity participation. The Group is in the final stages of revising its Board composition in line with its transformation strategy.

OUTLOOK

The outlook for economic growth in South Africa remains weak. Industrial action and high unemployment levels continue to be of concern. Nevertheless, the Group continues to pursue further growth opportunities, both in regard to scaling up its existing operations by virtue of organic growth and acquisition, as well as through its diversification into other areas of synergistic business.

On behalf of the Board

M Abel
Acting Chairman and Chief Executive Officer

R Sack
Financial Director

26 June 2015
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("Primeserv" or "the Group" or "the Company")
Incorporated in the Republic of South Africa
Registration number: 1997/013448/06; Share code: PMV; ISIN: ZAE000039277
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Directors: M Abel (Acting Chairman and Chief Executive Officer), JM Judin#, LM Maisela*, DL Rose#, R Sack (Financial Director), DC Seaton, CS Shiceka#
Independent Non-executive * *Non-executive*
Company secretary: ER Goodman Secretarial Services CC (represented by E Goodman)
Registered address: 25 Rudd Road, Illovo, Sandton, 2196
(PO Box 3008, Saxonwold, 2132)
Transfer secretaries: Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Auditors: Baker Tilly SVG, Third Floor, 3 Melrose Boulevard, Melrose Arch, 2076
(PO Box 355, Melrose Arch, 2076)
Sponsor: Deloitte & Touche Sponsor Services (Pty) Ltd, The Woodlands, 20 Woodlands Drive, Woodmead, 2196
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MAJAA105M

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE 12 MONTHS ENDED 31 MARCH 2015

	Reviewed 2015 R'000	Audited 2014 R'000
Revenue	650 960	638 791
Cost of sales	(541 641)	(540 670)
Gross profit	109 319	98 121
EBITDA	13 701	14 454
Depreciation and amortisation	(2 110)	(1 863)
Operating profit	11 591	12 591
Interest received	272	983
Interest paid	(4 862)	(5 766)
Profit before taxation	7 001	7 808
Taxation	4 134	(1 366)
Total comprehensive income	11 135	6 442
Loss from discontinued operation (net of tax)	–	(2 002)
Total comprehensive income	11 135	4 440
Total comprehensive income attributable to:		
Ordinary shareholders of the Company	11 923	6 096
Non-controlling shareholders' interest – share of loss	(788)	(1 656)
Total comprehensive income	11 135	4 440
Reconciliation of headline earnings		
Net profit attributable to shareholders	11 923	6 096
Headline earnings	11 923	6 096
– Continuing operations	11 923	8 098
– Discontinued operations	–	(2 002)
Weighted average number of shares ('000)	93 682	93 682
Diluted weighted average number of shares ('000)	93 682	93 682
Earnings per share and diluted earnings per share (cents)	12,73	6,51
– Continuing operations	12,73	8,65
– Discontinued operations	–	(2,14)
Headline earnings and diluted headline earnings per share (cents)	12,73	6,51
– continuing operations	12,73	8,65
– discontinued operations	–	(2,14)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2015

		Reviewed 2015 R'000	Audited 2014 R'000
ASSETS			
Non-current assets		47 788	50 567
Equipment and vehicles		3 534	3 930
Investment property		7 645	7 645
Goodwill		18 170	18 170
Intangible assets		1 360	2 269
Long-term receivables		3 048	6 860
Deferred tax asset		14 031	11 693
Current assets		92 485	102 595
Inventories		119	200
Trade receivables		85 218	94 555
Other receivables		5 836	6 748
Cash and cash equivalents		1 312	1 092
Total assets		140 273	153 162
EQUITY AND LIABILITIES			
Equity		81 877	70 742
Capital and reserves		89 232	77 309
Non-controlling interest		(7 355)	(6 567)
Non-current liabilities		110	–
Current liabilities		58 286	82 420
Trade and other payables		15 759	30 545
Financial liabilities		32	–
Taxation payable		289	2 803
Bank borrowings		42 206	49 072
Total equity and liabilities		140 273	153 162
Number of shares in issue at end of year (net of treasury shares)	('000)	93 682	93 682
Net asset value per share	(cents)	95	83

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 12 MONTHS ENDED 31 MARCH 2015

	Reviewed 2015 R'000	Audited 2014 R'000
Profit before taxation	7 001	7 808
Loss before tax from discontinued operations	–	(2 002)
Adjusted for non-cash items		
– continuing and discontinued operations	5 918	1 863
Operating cash flows before working capital changes	12 919	7 669
Net working capital changes	(4 454)	(5 460)
Taxation paid	(717)	(461)
Cash flows from operating activities	7 748	1 748
Cash flows from investing activities	(804)	(1 946)
Cash flows from financing activities	142	(5 031)
Net increase/(decrease) in cash and cash equivalents	7 086	(5 229)
Cash and cash equivalents at beginning of year	(47 980)	(42 751)
Cash and cash equivalents at end of year	(40 894)	(47 980)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE 12 MONTHS ENDED 31 MARCH 2015

	Reviewed 2015 R'000	Audited 2014 R'000
Balance at beginning of year	70 742	66 263
Attributable earnings	11 923	6 096
Disposal of interest to minority	–	39
Non-controlling shareholders' interest	(788)	(1 656)
Balance at end of year	81 877	70 742

SEGMENTAL ANALYSIS
FOR THE 12 MONTHS ENDED 31 MARCH 2015

	Reviewed 2015 R'000	Audited 2014 R'000
Revenue from external customers (continuing and discontinued operations)		
Human Capital Outsourcing	612 275	605 932
Human Capital Development	38 569	34 319
Total	650 844	640 251
Revenue – inter-segment		
Human Capital Outsourcing	–	–
Human Capital Development	116	493
Total	116	493
Business segment operating profit results (continuing and discontinued operations)		
Human Capital Outsourcing	27 690	25 347
Human Capital Development	1 007	(1 428)
– Continuing operations	1 007	574
– Discontinued operations	–	(2 002)
Central Services	(17 106)	(13 330)
Operating profit	11 591	10 589
Interest received	272	983
Interest paid	(4 862)	(5 766)
Profit before taxation	7 001	5 806
Business segment EBITDA (continuing and discontinued operations)		
Human Capital Outsourcing	29 180	27 056
Human Capital Development	1 443	(865)
– Continuing operations	1 443	1 137
– Discontinued operations	–	(2 002)
Central Services	(16 922)	(13 739)
Total	13 701	12 452
Business segment total assets		
Human Capital Outsourcing	107 875	116 789
Human Capital Development	20 728	26 617
Central Services	11 670	9 756
Total	140 273	153 162