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MANAGING DIRECTOR AND CFO PRESENTATION COMMENTARY 2010 INTERIM RESULTS

Josef Farnik
Managing Director and CEO

Introduction and Overview

Spotless delivered a strong first half result compared to the prior corresponding period, despite continued economic uncertainty, and we are well positioned for future growth.

During the half, Facility Services performed strongly. A number of major new business wins combined with contribution from recent acquisitions contributed significantly to our earnings growth. While demand softness is still evident, particularly across airports and hospitality sectors, we have seen some signs of a recovery, specifically improved demand from our Resources clients.

Braiform performed significantly better than the prior corresponding period, notwithstanding the continued softness in apparel demand. Earnings growth was driven by our restructuring efforts and efficiency initiatives, particularly in distribution processes and administration.

Today's announcement is further evidence that our transformation journey is on track. Our strategic direction is relevant and our business model resonates with the needs of our clients. Spotless is now better aligned, more efficient and will continue to capitalise on growth opportunities, supported by a balance sheet in excellent shape.

Given the seasonality of our businesses and also the impact of recent contract wins, we expect higher revenue and earnings in the second half.

Financial Results

Reported EBITDA rose 5 per cent to \$81.6 million over the prior corresponding period.

Reported EBIT was up 13 per cent to \$47.3 million over the prior corresponding period, whilst EBIT prior to non-recurring items and asset sales rose almost 10 per cent.

The Directors declared an interim dividend of 5.0 cents franked to 60 per cent. This is in line with Spotless' previously stated target payout ratio of between 50 per cent and 60 per cent of earnings per share. Andre will cover the drivers of our dividend franking a little later.

Facility Services EBIT, prior to non-recurring items and asset sales, rose 4 per cent to \$44.1 million. This pleasing result was mainly driven by new business wins and the impact of recent bolt-on acquisitions but was somewhat offset by reduced activity within existing contracts due to more subdued economic conditions.

Braiform EBIT rose 256 per cent to \$3.2 million. This strong earnings growth was driven by the impact of restructuring efforts and our strict financial discipline in terms of operating efficiencies. The significant decline in sales volumes is directly attributable to continued softness in the retail markets in the United States and Europe.

In terms of growth metrics I highlight that net profit after tax, but prior to non-recurring items and asset sales rose 30 per cent to \$24.5 million over the prior corresponding period.

Earnings per share on the same basis rose 15 per cent to 10 cents per share, and Reported EPS rose 25 per cent on the prior period.

Net Operating Cash Flow increased 56 per cent to \$37.8 million, a reflection of our strong operating cash flow generation.

It's relevant at this point to note that our Balance Sheet is in excellent shape, with Gearing lowered from 44.5 per cent to 30.1 per cent. This is at the bottom end of our target range of 30 per cent to 50 per cent.

Revenue growth was driven by Facility Services as Braiform continued to experience tough market conditions. It's noteworthy that excluding the zero margin pass-through revenue, Group sales revenue rose a healthy 5.4 per cent, with Facility Services revenue growth of 11.7 per cent on this same basis.

Revenue growth translated into underlying EBIT growth of almost 10 per cent. The Group profit result was driven by all areas of the business including a reduction in Corporate Administration costs.

Strategic Roadmap

Before discussing Divisional performance in more detail, it is relevant to recap on our strategic roadmap and the building blocks that are critical in realising our full potential.

A little over two years ago, having implemented necessary governance frameworks within the company, including a rejuvenated Board and management, we restructured the organisation along our specialised service lines.

We then embarked on a Group-wide efficiency improvement program, which delivered significant cost savings ahead of the Global Financial Crisis.

Whilst we have removed costs and inefficiency, we have been concurrently reinvesting in our business development area, which is starting to pay dividends. We also continue to reinvest some of our cost savings into areas such as IT systems, the safety of our people and risk management. This reinvestment is an important plank in our strategic plan.

It is important to understand why the growth opportunities before us exceed the general economic growth rates of our customer's industries.

Let me explain:

- We see future growth from our existing contracts and existing services as our clients grow
- There is a trend towards outsourcing currently 'self-performed' activity as organisations discover the value of an integrated outsourcing partner
- We have significant opportunities to undertake more work for our clients as we further embed account management principles and undertake active cross-selling activity. Most of our current revenues and customer contracts are on a single line of business, and we see many opportunities to add to this
- Discussions with prospective clients are increasingly including the benefit that Spotless can bring with integrated service contracts
- Finally, strategic acquisitions are an important part of our growth plans, where they meet our strategic and financial filters

Strategy & Business Model

Our services can be loosely described as Outsourced Services. We undertake activities and deliver outcomes to clients in areas where our specialisation and scale make us more compelling than our clients undertaking the activity in-house. Adding to industry growth and our 'contestable' business every year are 'in-house' activities that are made available for outsourcing by organisations who challenge the value that can be realised by outsourcing to a trusted partner.

To make us the most compelling provider in each of our key market sectors, we are assembling a leading services business with multiple related services under one roof. This simplifies the client interface, creates economies of scale, and we take profit margin layers out of the outsourcing equation by self-delivering within our core areas of competency as much as possible. This ensures we have a competitive cost structure and overall value proposition when benchmarked against competitors or 'in-house' functions.

That said, we don't try to be all things to all people – our business model retains significant flexibility. We have a fantastic network of accredited sub-contractors we work shoulder to shoulder with every day to manage and deliver over 100 services.

Divisional Overview – Managed Services

Managed Services revenue excluding pass-through revenues increased by 26 per cent. As you will recall, pass-through revenue carries no profit margin for Spotless and so we exclude it from our assessment of growth and profit margins.

Managed Services experienced strong revenue growth within some existing contracts and a strong contribution from Riley Shelley, our painting and property services business acquired in June 2009. The Federal Government stimulus programs also contributed to the Managed Services revenue growth during the period.

EBIT grew 9 per cent to \$16.3 million as a result of the aforementioned revenue growth. However, continued restructuring and efficiency improvement initiatives as well as contract mobilisation costs were incurred in the half. Importantly, our forward order book remains strong at over \$8 billion.

Divisional Overview – Laundry Services

Laundry Services revenue increased by 4 per cent on the prior corresponding period, driven mainly by new Linen business won in the ACT and Queensland. The Linen business was impacted by ongoing challenging market conditions within hospitality and accommodation sectors across Australia and New Zealand.

The demand softness we have been experiencing within the Garments segment has showed some signs of stabilising over the last six months.

EBIT increased 8 per cent to \$14.8 million, driven by an increased focus on operational and production efficiency across all sites and improved overhead cost control.

Divisional Overview – Food Services

Food Services revenue fell 4 per cent due to the pullback in corporate hospitality caused by the economic conditions. Some of the lost revenue was at proportionately higher margins than the Food Services average, as evidenced by the 12 per cent fall in EBIT during the period.

Alliance Catering was impacted by lowered high value function activity. The Hospitality business was impacted by fewer sporting events and concerts and the redevelopment of Eden Park in New Zealand ahead of the 2011 Rugby World Cup.

These adverse impacts were partially offset by the completion of airport redevelopments, improved major event schedules and significant new contract wins.

As mentioned earlier, EBIT fell 12 per cent to \$10.7 million as a consequence of the reduced demand, coupled with margin decline at stadia and venues caused by softening corporate attendances and reduced premium function activity.

Divisional Overview – Cleaning Services

Cleaning Services revenue increased 7 per cent, with major business wins in the Education, Industrial and Hospitality sectors. Our leading WA-based cleaning services business, Arrix, contributed strongly to the result.

EBIT fell by 9 per cent to \$6.9 million as a result of the temporary de-scoping of major contracts due to the economic downturn, the impact of which was first felt in the second half of 2009. It is worth noting that labour productivity rates have been maintained despite a number of recent award changes.

At this point it is relevant to discuss the planned acquisition of CE Property Services Group, which will bolster the scale of our cleaning operations in Australia and expand our geographical reach and our employee base.

Acquisition of CE Property Services Group

Spotless recently signed a conditional agreement to acquire the privately owned international cleaning and related services company, CE Property Services Group, widely known for the Cleanevent and CleanDomain brands.

CE Property Services Group is a natural fit with Spotless and will enable us to offer additional services to existing and potential clients, improve outsourcing efficiencies and ultimately increase value for our clients.

Importantly, its international footprint will deliver an important building block in our growth plans, but with an incremental expansion strategy to manage our risk profile.

We will leverage opportunities to introduce additional Spotless services to Cleanevent and CleanDomain clients in the UK, where we believe there is a demand, particularly in the hospitality sector, for a comprehensive outsourced services solution spanning maintenance, food services, cleaning and related services.

When this acquisition is completed Spotless will have almost 40,000 staff and well over 4,000 subcontractors providing specialist services tailored to market sector requirements.

Facility Services – Business Development

Spotless is competitively positioned to support clients with strong value propositions and a unique breadth and depth of services. Our strong integrated services capability resulted in significant new business wins during the later part of the period, particularly within the Resources, Education and Retail sectors.

Facility Services – Growth Opportunities

The most critical building block in our journey is the delivery of growth. The growth agenda for Spotless is underpinned by a set of prescriptive strategic and financial filters and we continue to pursue both organic and acquisitive growth opportunities to best realise shareholder and client value. Looking forward, management has a strong pipeline of growth and investment opportunities currently under review.

In terms of organic growth, we continue to focus on increasing the number of services provided to existing clients and through strengthened account management principles. Additionally, our sector expertise offers a tremendous growth opportunity for Spotless. Ultimately it's our expertise across a broad range of industry sectors, combined with deep service line knowledge that creates value for clients and in turn shareholders.

Construction of Spotless' new \$20 million commercial laundry in Brisbane is expected to be completed by the end of the Financial Year. The new laundry will be a world-class green facility optimising water and energy usage. I look forward to hosting clients, investors and State Government at a launch of this exciting facility later this year.

Divisional Overview – Braiform

Braiform delivered a pleasing result in the first half against the backdrop of significantly soft global retail conditions. In US dollar terms, although revenue fell 17 per cent over the prior corresponding period, EBIT increased 212 per cent to US\$2.9 million.

The decline in revenue reflects lower sales volumes, selling prices and some changes in product mix amid the soft global retail market for garments.

During the period Braiform secured sales volume increases from several key customers. As a result, the business is experiencing full factory utilisation for our manufacturing partners in China for the first time in more than five years.

EBIT growth was driven by the positive impacts of recent restructuring work and a continued focus on efficiency; including cost savings from the streamlining of distribution facilities and other elements of the supply chain and a reduction in global staffing levels.

Resin is a key input for Braiform, and cost increases during the first half were mitigated through the implementation of a number of strategies. Not all of the resin cost increases in the first half were able to be passed on during the period.

Braiform delivered US\$10 million in EBITDA during the half year and continues to generate positive cash flows, as it has done throughout the downturn.

Braiform – Growth Opportunities

Growth opportunities for Braiform include:

- Full contribution from garment hanger contract wins in the first half
- Full impact of several new closed loop reuse contracts, expected to impact late in the second half of 2010
- Increased retailer interest in new closed loop reuse contracts
- Expansion of the print and packaging offer (items such as swing tags, labels, security tags and packaging required for garments) in the North American market
- Completion of the global roll out of Braiform IT systems, which will produce significant performance improvements and efficiencies
- Continued focus on lowering the cost base through efficiency improvements

For Braiform, the timing and extent of a global economic recovery remains less clear. However, the business is well positioned to take full advantage of market opportunities when retail conditions improve.

Andre Carstens
Chief Financial Officer

Further to Jo's earlier comments, I am pleased to outline for you today a strong set of results for Spotless.

Profit and Loss Statement

Excluding pass-through revenues, Facility Services sales revenues rose 11.7 per cent during the year. Pass-through revenue represents revenues recorded on our books on behalf of Managed Services customers at zero profit margin. Including pass-through revenue, Facility Services sales revenue increase of 7.4 per cent on the prior corresponding period was the result of significant new business wins across all divisions, including work resulting from governments' fiscal response to the global economic crisis, and the impact of recent bolt-on acquisitions. These effects were offset by reduced scope of existing contracts and some contract losses directly attributed to the challenging economic conditions, as outlined by Jo earlier.

Group EBITDA (prior to NRIs and asset sales) improved 3.4 per cent on the prior corresponding period, which was driven by growth in Laundry Services and Managed Services.

Following the trend from the prior year, the lower depreciation and amortisation charges reflects the lower capex trend in prior years, as well as the impact of the FY08 restructuring initiatives. As you will see later in the presentation, the cash flow indicates that capex has experienced growth in 1H10, driven by commencement of work on the new Linen and Garments laundry in Brisbane. This rise in capex levels was fully anticipated and was flagged at the 2009 full year results presentation, where we noted that given where we were in our investment cycle we expected that capex and depreciation levels would stop falling and return to a level of growth due to general business growth and our current and planned investments.

Also note that due to our accounting policy change in 2009 in relation to Stock in Circulation (SIC) garment hangers, the depreciation and amortisation expense for both the current and the prior corresponding period includes the non-cash charge of amortising the SIC pool. This relates to a pool of hangers used within Braiform's closed loop garment hanger re-use programs.

I note that net interest expense decreased due to lower than average debt levels. I will discuss further the net debt levels later in the presentation when I touch on the balance sheet.

The effective tax rate of 30.2 per cent (pre-NRIs and asset sales) was lower than the prior corresponding period due to the Federal Government investment allowance and the mix of country profits within Braiform. We believe a tax rate of between 30 per cent and 32 per cent to be sustainable.

Finally, there are no non-recurring items in the half year. This is compared to the prior corresponding period that has the non-cash PMS investment impairment of \$4.4 million, which was required under AASB139. Additionally, there was a profit on sale of a Food Services contract during the prior corresponding period of \$2.9 million, which we highlighted at the time.

Excluding these items from the prior corresponding period, Group EBIT and NPAT rose 9.5 per cent and 29.6 per cent respectively.

Balance Sheet

Net debt at 31 December 2009 decreased significantly from 30 June 2009 to \$192.2 million, with the gearing ratio (net debt to net debt plus equity) lower at 30.1 per cent. This improvement in net debt is a direct result of the equity raising undertaken during the period and strong free cash flow generation.

I also note that our interest coverage ratios have strengthened further, with EBITDA interest cover of over 7 times. I further remind you that we refinanced our syndicated debt facility this time last year, thereby significantly extending our debt maturity profile.

Cash Flow Statement

Pleasingly, Gross operating cash flow increased 14.3 per cent in the first half, well above EBITDA growth. In terms of cash conversion, Gross Operating Cash Flow divided by EBITDA was 63 per cent, up on the prior corresponding period of 51 per cent. Other highlights of the cash flow result were:

- Net operating cash flow rose 55.6 per cent during the year
- Capex rose 35 per cent on the prior corresponding period. This is driven by commencement of work on the new Linen and Garments laundry in Brisbane. I also remind you that this now includes payments for SIC, which came about from our change in accounting policy in 2009
- Spotless raised \$84 million, net of fees, through the successful completion of an institutional placement and a Share Purchase Plan
- Purchase of remaining minority interest in Taylors for \$16 million

The lower amount of dividends paid reflects the revised dividend policy announced at interim results in 2009.

Spotless continues to generate strong cash flows, and our earnings quality remains high.

Results Summary

To recap and mention some other result metrics not previously mentioned:

- Group sales revenue (excluding pass-through) rose 5.4 per cent on the prior corresponding period
- EBIT (prior to NRIs and asset sales) was up 9.5 per cent on the prior corresponding period
- EPS (prior to NRIs and asset sales) up 14.9 per cent on the prior corresponding period
- Gross operating cash flow up 14.3 per cent on the prior corresponding period
- Net operating cash flow up 55.6 per cent on the prior corresponding period
- Gearing, defined as net debt to net debt plus equity, down to 30 per cent
- The Directors have declared an interim DPS of 5.0 cents, franked to 60 per cent

In summary, we are very pleased with our financial performance for the half year.

Josef Farnik
Managing Director and CEO

Outlook

For Facility Services, the business is competitively positioned to support clients with a unique breadth and depth of services. Spotless' strong integrated services offering to clients resulted in significant new business wins during the first half and the pipeline of new contract opportunities has strengthened over the course of the first half.

The impact on clients of more subdued economic conditions has varied across Spotless'

diverse range of clients and service offerings. Facility Services continues to experience some demand softness inside existing contracts, but in areas has shown early signs of recovery. Notwithstanding the possibility for Government fiscal stimulus withdrawal, Facility Services is expected to generate further improved revenue and EBIT in the second half.

For Braiform, the timing and extent of a global economic recovery remains less clear. Additionally, when compared with the prior corresponding period, current foreign exchange rates and resin prices are less favourable.

Notwithstanding these external headwinds, cost and operating efficiency initiatives are in place and Braiform expects to produce improved revenue and EBIT results in the second half of the year, consistent with the business' typical mix of earnings and the impact of previously announced European reuse contracts won in 2009.

Therefore, in the absence of major unforeseen events, Spotless expects that Group second half revenue and earnings will exceed the first half.

In summary, we remain confident that we have the right strategy to enable Spotless to fully realise its potential and remain committed to delivering sustainable value for our clients, shareholders and people.

Thank you for your interest in Spotless today.