

20 November 2009

Company Announcements Office  
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# **SPOTLESS GROUP LIMITED 2009 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS**

**Any enquiries should be directed to Mr. Andre Carstens (Company Secretary) on +61 3 9269 7600**



**20 November 2009**

**Mr Peter Smedley  
Chairman**

**Spotless Group Limited AGM Address**

**Introduction**

My intention this morning is to:

- review the financial performance of your company in 2009;
- discuss the transformational changes that continued during the year; and
- to provide some insight into the outlook for the business in the context of the global and local economic environment.

**High level discussion of 2009 results**

Last year I spoke to you about our review of the company's strategic direction, operational performance and future prospects and took you through the results of the first year of the company's subsequent transformation. 2009 marked the second year of this transformational journey. It is well known to everybody in this room that 2009 also marked a year of challenging economic conditions, the severity of which have not been experienced for decades. Despite these economic conditions, your company delivered a very credible performance in 2009.

Reported earnings before interest and tax (EBIT) for the 12 months to June 2009 increased by 43.9 per cent to \$90.1 million despite a decline in Group revenue of 2.4 per cent to \$2.39 billion. This reflects strong financial discipline and efficiencies but also the significant restructuring incurred in 2008 was less pronounced in 2009. The decrease in sales revenue was a direct result of the worsening economic conditions experienced by our clients, and subsequently our businesses. This impact was more pronounced in the second half of 2009.

Reported net profit after tax was \$42.7 million, a rise of 64.2 per cent on the previous year.

Underlying EBIT within our Australian and New Zealand businesses declined marginally by 0.4 per cent during the year. Whilst Braiform EBIT decreased by 56 per cent for the full year, it was pleasing that, after a softer first half result, second half EBIT increased by 23 per cent (over the first half), despite the continuation of poor retail demand in the United States and Europe. This second half improvement largely reflected the benefits of a range of initiatives implemented by Braiform management over the past two years.

Underlying earnings per share increased by 62.5 per cent to 19.5 cents per share. This earnings per share growth reflects the aforementioned solid growth in Group operating earnings, offset slightly by a small increase in interest expense, a \$4.4m impairment charge on our investment in Programmed Maintenance Services and a minor rise in the number of shares on issue. The 0.3 per cent rise in issued capital during 2009 reflects shareholder participation in the Dividend Reinvestment Plan.



Net operating cash flow increased from \$103.6 million in 2008 to \$136.3 million in 2009. Whilst 2008 cash flows were adversely impacted by restructuring costs, the strong 2009 cash flow performance is testament to the cash flow generating capacity of the Spotless business.

It is especially relevant in the current financial and economic environment to discuss the Company's financial position.

During the year, the Company undertook a number of measures aimed at further strengthening its financial platform. Firstly, the Company restructured, extended and fully refinanced its senior debt facilities, which now expire in 2012. In 2009 net debt increased 3.1 per cent to \$247.2 million. Gearing – that is, net debt to net debt plus equity - was broadly flat on the prior year and was 40.5 per cent as at 30 June 2009. As previously announced, an Institutional Placement and Share Purchase Plan were completed in September 2009 resulting in a total equity raising of \$86 million. This equity raising is a prudent measure and has further strengthened the balance sheet. The Board believes that the Company's balance sheet and ongoing cash flow generation places Spotless in a competitive position to withstand external pressures, and also act on investment opportunities.

I would like to take a moment to say, on behalf of the Board, that Directors carefully considered the most cost effective, transparent, fair and efficient method to raise equity capital. We also sought to cap the funds raised, as we only sought what was needed. We believe the Company achieved the right balance. I am pleased to say that the placement was well oversubscribed, and the Share Purchase Plan provided retail shareholders with the opportunity to participate on the same terms as institutional shareholders. No retail shareholders were scaled back from the maximum application amount allowed. I would like to acknowledge and sincerely thank shareholders for the strong support given to the company through the capital raising.

A final dividend of 6.0 cents per share has been declared, bringing the total dividend for the 2009 year to 11.0 cents per share. This represents a dividend payout ratio of 51 per cent based on underlying earnings per share, compared with 80 per cent in 2008. During the year the Board reviewed the company's dividend policy, concluding that the Company would target a payout ratio of between 50 per cent and 60 per cent of earnings per share. This setting will allow the Company to retain sufficient capital to fund growth and maintain the discipline of returning surplus capital to shareholders in a tax efficient manner.

Subsequent to the end of the 2009 financial year, Spotless announced an Offer for all the shares in Taylors Group Limited it did not already own. At the time, Spotless owned 66 per cent of Taylors, which is the Laundry Services business in New Zealand. The clear rationale for this transaction was to further invest in a core business and to streamline administrative activities. The Offer recently closed to great success and we are pleased that Spotless will shortly own 100 per cent of Taylors. There will be no change to strategic direction or business structure as we already manage the business.



## **People**

Turning now to people-related matters. The Spotless business is comprised of over 32,000 employees, and an additional 4,500 sub-contractors. As these figures indicate, we have a very significant and strategically important base of people working within the Company. Regrettably, one employee in Honduras died during the year in a workplace accident. The Company's commitment to safe working policies and practices is of the utmost importance to the Board, and Jo will further address our group wide safety focus later this morning.

## **Board Composition**

The recomposition and rejuvenation of the Board has continued during 2009 and is now nearing completion. David Davis, who had been a Director since 2000, stepped down in February. Lawrie O'Bryan, who steps down as director today will be the final, currently envisaged change to the composition of the Board, which will now comprise six fully independent Non-Executive Directors and the Managing Director and Chief Executive Officer, Jo Farnik. On behalf of the Board, I would like to thank Lawrie for his 10 years of exemplary service to the Spotless Board.

In February 2009, Bronwyn Morris assumed the Chair of the Audit, Finance and Risk Committee from Lawrie.

In view of the economic conditions the Directors decided to freeze their fees at the 2009 rate for the 2010 financial year. Director's fees were last increased in 2006. The Non-executive Director Share Plan has also been temporarily suspended. Further to the freeze of Director's fees, in light of economic circumstances, a Management salary freeze has been implemented for the course of 2010 covering all non-award employees earning above a defined threshold.

In respect of Managing Director remuneration, I note that Jo Farnik's fixed remuneration package is some 24.2 per cent lower than his predecessor, with stringent short and long term hurdles in place before any incentives are vested or paid. Jo was not entitled to receive any short term or long term incentives in 2009, and none were paid. Additionally, no bonuses were paid to Key Management in 2009 in respect of financial performance. Your Board takes shareholder concerns around pay for performance very seriously, and we will continue to ensure alignment of Management, Board and shareholder interests.

## **Macroeconomic Environment & Outlook**

I would like to close by making some observations on the near term challenges and opportunities currently facing Spotless, along with some comments on the long term outlook for the Company.

Whilst the Australian and New Zealand economies appear to be recovering more quickly than many other countries around the world, we are yet to see a return to pre-slowdown demand patterns. Our clients remain cautious in respect of expenditure. Despite this, the trend towards outsourcing continues.



Shareholders should also be mindful that despite improving conditions in Australia and New Zealand, Braiform continues to face retail market softness in North America and Europe. Whilst general economic conditions are showing signs of stabilising, no clear recovery trend has been established. We remain vigilant to ensure operating efficiency, but ready to capture demand when volumes inevitably increase.

In the coming year, management will also seek to identify and bring forward growth initiatives that add long term value.

On behalf of the Board, I would like to thank our shareholders for their continued support of the Company.

I would also like to thank the Managing Director and CEO, Jo Farnik, the executive management team and all Spotless employees for their unwavering service to our clients and their significant contribution to the Company. It has been a tough year. Economic conditions remain uncertain and it is not yet clear when client sentiment and spending patterns will tangibly improve. However, with the transformation of the Company well underway and a clear growth strategy in place, Spotless is well positioned to weather any ongoing economic softness and to take full advantage of improvements in conditions when they occur.



Peter Smedley  
Chairman

