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Candle Australia Limited
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Candle Australia Limited reported a 57 percent increase in NPAT to $7.15 million and a 29 percent increase in revenue to $232 million in the year ending 30 June 2005. To what extent has this strong result been driven by recent acquisitions and to what extent does it reflect organic growth?

MD Rob Collins
Organic growth comprised around 23 percent in FY05, excluding our recent acquisitions. Our achievements in FY05 reflect our strong focus on the business fundamentals across our group. Candle Information and Communications Technology (Candle ICT) had a good year, growing 12 percent at the margin level. Candle ICT remains our largest division and accounts for around 60 percent of our profit. Although we remain focused and strong in ICT recruitment, we are no longer considered solely as an ICT recruitment business. All our businesses performed well and on a combined basis showed solid margin growth.

In October 2004, we acquired The One Umbrella, a specialist recruiter in the library, records management and knowledge management area. Therefore, the result included only nine months' contribution from that business. Whilst we were very pleased with the results from The One Umbrella, most of our FY05 growth came from our other businesses, in ICT, office support, banking and finance, and executive recruitment.

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Is the cycle for recruitment services still trending positively?

MD Rob Collins
Given the underlying strength in the general economy and the consequent increase in demand for staff, the cycle for recruitment services appears to be sound and is expected to remain that way for the foreseeable future. We're confident of further profit and EPS growth this year.

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What's the outlook for Candle ICT?

MD Rob Collins
In regards to the market generally, the Department of Employment and Workplace Relations' ICT Vacancy Index is reported to be 42 percent higher than in August 2004. But despite the increase over the past 12 months, the ICT Index is around 62 percent lower than it was during the peak of ICT demand in 2000.

These trends reflect our view that demand for ICT will probably continue to increase, but that we are a very long way from what could be considered the "top" of the market.

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How much growth did each of your other businesses contribute in FY05? Is there scope to maintain organic growth at recent levels within your other businesses?

MD Rob Collins
The largest growth came from our business support division comprising Workskills Professionals, Premier Personnel and Alliance. We had 80 percent year-on-year growth and while we'd be delighted with a repeat performance in FY06, our expectations for the year are a little more modest. Freeman Adams had 17 percent organic growth, which was very pleasing as it already has good market penetration, especially in the Sydney market. There is room for expansion as we look to penetrate the insurance, funds management and superannuation sectors within the banking and finance market. The executive recruitment division also had very strong growth albeit off a small base.

There is scope for continued organic growth across all business lines, supported by our competitive value proposition and low staff turnover.

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Following your recent acquisition of Parker Bridge Australia and Choice IT, how are these businesses performing against expectations? What synergies have become evident as you've started to integrate these businesses into your group?

MD Rob Collins
Both businesses are performing very well and we remain very positive about them. Parker Bridge, a specialist commercial accounting recruitment business has enjoyed a great start to the financial year and we expect it will continue to perform

well. We see an opportunity to build out an Australasian operation focused in the accounting market and are prepared to do that either organically or by acquisition.

Similarly, Choice IT has posted very good revenues and is on track.

With both these businesses, we are only a few months into the earn-out periods, so there's a long way to go, but the early signs are already very encouraging.

We do not factor in synergies into our acquisition models. Having said that, in the case of Parker Bridge, we have integrated what was their ICT division into our Technology Co-sourcing Solutions brand and this is working very well. Additionally, we have merged their former office support division into our Alliance Recruitment. We do expect synergies from these initiatives to flow, positively impacting our profitability.

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You had zero gearing, zero net debt and surplus cash of $7.4 million as at 30 June 2005. What is Candle's acquisition criteria and what size of targets would you consider?

MD Rob Collins
Acquisitions must be EPS positive in year one, have a good cultural fit and strong staff retention. The acquisition consideration must be in the form of cash and equity. Our conservative balance sheet and strong cash flows give us a very sound platform for execution of our vision. Clearly we have the track record and capacity to execute both medium-sized and larger acquisitions and would be prepared to do so if we saw they met the key criteria. We are patient and have demonstrated a preparedness to wait if necessary. In the meantime, we will continue the trend of improved shareholder returns, evidenced by this year's total dividend of 13.5 cents per share, fully franked.

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Operating cash flow was $8.6 million in FY05. Why was cash flow so strong? How will you employ your cash resources?

MD Rob Collins
We focused heavily on our receivables-to-sales, which improved significantly as a result. This initiative freed up cash. In addition, while demand for permanent staff increased, the rate of growth in ICT contractors temporarily slowed towards the end of the year, thus freeing up cash at balance date.

We used some of the cash as part consideration for the recent acquisitions of Parker Bridge and Choice IT and will use some more to finalise payments for past acquisitions, while the rest will likely be used to fund working capital needs and growth.

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What's the current mix of permanent and temporary placement revenue and how do you see it evolving over time?

MD Rob Collins
At the gross margin level, around 70 percent of income is generated from contracting and temporary staff augmentation services and 30 percent from permanent placements. We expect the demand for permanent staff will increase over the period ahead. However, we will aim to maintain this mix more or less the same. Such a mix is a key part of our strategy for managing risk.

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The net margin on total contractors and temporaries on assignment increased around 25 percent. What factors underpin your margin improvements and are they sustainable?

MD Rob Collins
Two factors drive margin: the number of transactions and the yield per transaction. We focus on both. In a demand market, opportunities exist to grow both.

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Operating margin (EBIT/revenue) increased 20 percent to 4.7 percent. Is there scope for further improvement and how are you going to achieve this?

MD Rob Collins
We've achieved a steady improvement in operating margin over the last four years and are now tracking at around 5 percent. While the improvements have been solid, I'm not yet completely content with these levels.

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What will be your priorities in the next 12 months? Could you comment on the outlook for FY06?

MD Rob Collins
Our key priority is consistency. We remain committed to our strategy of growth by acquisition and organic growth, focusing on staff retention and client satisfaction. Our over-arching claim is that clients will get better outcomes when they use our services and we must live up to that promise as we drive our business forward. I expect next year to be another year of growth for Candle Australia Limited.

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Thank you Rob.

To read previous Candle Australia Limited Open Briefings, or to receive future Open Briefings by email, please visit www.corporatefile.com.au.

For further information on Candle Australia Limited, visit www.candle.com.au or email Rob Collins at rcollins@candle.com.au.