

ASX Announcement : 13 June 20123

MD on Guidance



Open Briefing interview with Managing Director Kym Quick

Clarius Group Limited
Level 3, Suite 302
70 Pitt Street
Sydney NSW 2000*Clarius Group Limited (ASX: CND) is a specialist provider of contracting, staffing and recruitment services to corporate and government organisations across the Asia Pacific region.**Market capitalisation - \$20.6 million*

In this Open Briefing®, Kym discusses:

- Trading conditions in current H2 and outlook for recovery in FY2014
- Opportunities in Chinese recruitment market, new product launch
- Continuing balance sheet strength

Record of interview:

openbriefing.com

Clarius Group (ASX: CND) recently provided guidance of a net loss after tax in the range of \$0.7 million to \$0.95 million for the current year ending 30 June 2013. The projected loss includes one-off restructuring costs of \$0.5 million after tax (\$0.7 million before tax), implying a normalised operating loss of \$0.2 million to \$0.45 million, compared with \$2.1 million net profit, before impairment charges, in the previous year. It also implies a normalised loss of \$0.4 million in the current second half, compared with profit of \$0.7 million in the previous corresponding period. Are there any signs the market has bottomed, and is there further downside risk to your guidance?

MD Kym Quick

We believe the market is very close to the bottom. There is a sense that we're bumping along the bottom and we suspect we'll do so up until the election in September. We would not anticipate any significant uplift until early 2014 after both the election and the seasonal downturn.

The current second half has been quite mixed. The March quarter (our third quarter) was incredibly challenging: we saw a particularly slow period after Christmas, with contractors stood down for longer periods than we've seen traditionally. It also took a very long time for companies to come back into hiring mode. Historically by the end of January, early February, we start to see increased demand, but this year we didn't see that until mid to late March. Both permanent recruitment and contracting were incredibly slow during this period.

In contrast, we've seen an improvement in the current quarter from the point of view of job flow and pipeline. In the local market we've seen improved demand and some increase in productivity, which is encouraging, and at the same time our business in China has started to contribute, moving into profitability from April.

openbriefing.com

What visibility do you have in relation to client demand going into FY2014?

MD Kym Quick

There's a high level of conservatism and caution across most of our client groups. While there's acknowledgement that there are signs of improvement offshore, local clients are

concerned about the slowing of investment in the mining sector, lower commodity prices, and the potential impact this might have on the economy.

There's also a level of uncertainty driven by the election. We think conditions will be slow up until the election, and while a change of government will potentially inspire a little more confidence, by September we're coming into our seasonal downturn. Our view is that it will be calendar 2014 before we start to see stronger positivity in the marketplace.

openbriefing.com

Your restructuring is expected to generate annualised savings of \$6.0 million. To what extent will realising these savings depend on revenue levels and will you be able to retain your reduced cost base once business levels start to recover?

MD Kym Quick

Given no dramatic change in market conditions, we'd expect to realise those savings within the next financial year. There's significant leverage in our current headcount, so we have the capacity to cope with higher levels of business. But certainly, if there were an extreme upturn in the market, we'd start to add back head count since that's what drives our growth. The most significant metric for us at the moment is productivity, so any additional headcount would only come as a result of the existing headcount being at the high end of capacity in respect to productivity.

Obviously, some of the savings in this half have been offset by reinvestment in the growing China market.

openbriefing.com

You've indicated that half of the annualised savings of \$6.0 million will be reinvested in your business in China to take advantage of growth opportunities. What growth opportunities are you seeing in China and what is the expected return on this investment?

MD Kym Quick

The opportunities in China are significant. It's a very strong economy and a huge market, and the recruitment industry there is still in the early stages of development and maturity. We have the opportunity to work with many large international clients, from the US, Europe and Australia, who are also investing heavily in China and who make up the significant portion of our client base in that market. Working with these large multinationals in both regions also gives us the opportunity to get leverage from these relationships across both markets.

Although China has historically been a challenging market to work in, conditions there for foreign companies are improving as the political landscape in China is now more internationally focussed than it has ever been. And regardless of what we hear here about China slowing down, the level of growth is still significant compared with Australia. We have not seen the level of pressure on margins that we've experienced in Australia and with talent in very short supply in such a high demand market, recruitment companies are still a major source of talent for corporations in China.

We believe there are some good opportunities for us to be in the market early and start taking advantage of what will be a market that matures quite quickly over the next five to 10 years.

openbriefing.com

You've also recently launched a new product, the Clarius Skills Indicator, which has replaced the Clarius Skills Index. What was the rationale for this change and what is the target market for the new product?

MD Kym Quick

We've been producing the Clarius Skills Index for the last five years, and it's mapped the changes in supply and demand in the skilled labour market over that period of time. It's obviously mapped some interesting trends given the state of the global economy and the jobs market here in Australia. The difference between the index and the indicator is that the indicator captures a larger workforce (over four million workers) across 10 specialist sectors and provides a one-year ahead quarterly forecast on the entire Australian labour market. So it's a forecasting tool as well as an indicator.

The target market is all employers. The indicator is designed to help organisations get a good sense of where the supply and demand of skills is causing issues. It will help employers assess their future requirements and give a sense of how they may be able to put strategies in place to overcome some of the shortages we foresee over the next couple of years as the market starts to show signs of recovery.

The other body that uses the indicator is the government, though we didn't target it towards that user. It helps the government understand where it needs to invest in terms of skills development.

In current conditions, the skilled labour market has been balanced or in different states of oversupply. But we know that as demand increases, particularly in the area of IT where we see demand and supply as fairly balanced at present, the challenge we'll face is that supply into that market will be more and more limited as we're seeing fewer students going into IT related educational courses.

openbriefing.com

The Indicator predicts that the oversupply of skilled workers will peak at around 85,000 in the September 2013 quarter, compared with 75,000 in the March quarter, falling to 54,000 by the June 2014 quarter. What might this broad trend potentially mean for Clarius's own business?

MD Kym Quick

Our view is that there will be an increase in demand after the election in September, which will obviously lead to a decrease in the supply in those skills categories. We expect that as the Australian economy and its political stability start to improve, and as signs of global economic improvement emerge, we'll see a return to better conditions in terms of hiring and growth within the employment market. That would augur well for our company.

openbriefing.com

On a sector by sector basis, the Clarius Skills Indicator points to a recent softening in demand for information and communication technology (ICT) professionals, bringing this job market into balance. Given this is an area to which Clarius has relatively large exposure, how are you seeking to deal with this trend?

MD Kym Quick

The indicator shows a softening in the last quarter and we've certainly seen that in our trading conditions as well. ICT is a big area of exposure for us and we're looking at opportunities in sectors outside our traditional areas of expertise in the IT space and looking at alternative operating models as well. We're seeing the emergence of on-demand IT resource requirements as opposed to labour hire and head count requirements. We have an operating model in place to help us tap into that market as it emerges and changes, and as organisations look more towards cost effective solutions as opposed to more traditional labour hire solutions.

We've got a strong brand in the marketplace, and even in a non-growth market we still have the opportunity to increase our market share. We're very, very focused on delivery, building our talent pool and making sure our business development activity not only keeps us in front

in our traditional areas but also gives us opportunities to increase our footprint outside our traditional areas.

openbriefing.com

Thank you Kym.

For more information about Clarius Group, visit www.clarius.com.au or call Kym Quick on +61 2 9250 8100.

For previous Open Briefings by Clarius Group, or to receive future Open Briefings by email, visit openbriefing.com

DISCLAIMER: Orient Capital Pty Ltd has taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.