Konekt

Local Knowledge. National Strength.

INVESTOR PRESENTATION

FIRST HALF FY18 RESULTS
6 MONTHS ENDING 31 DECEMBER 2017

16 FEBRUARY 2018

SUMMARY

KONEKT LIMITED (ASX: KKT) IS A LEADING OUTSOURCED PROVIDER OF WORKPLACE EMPLOYMENT, HEALTH AND SAFETY AND RETURN-TO-WORK SERVICES FOR INDIVIDUALS AND THEIR EMPLOYERS

1H FY18 RESULTS

- Underlying Revenue up 47% to $38.6m vs pcp - including a $14.0m contribution from Mission Providence for 3 months
- Underlying EBITDA up 34% to $4.0m vs. pcp (excluding $3.1m of acquisition and integration costs in 1H FY18)
- Good growth in mental health, pre-employment and consulting services recorded vs pcp
- Productivity initiatives implemented in response to weaker workers compensation markets in NSW and SA and lower volumes in MHS contract under new service delivery model vs pcp
- New business opportunities being explored with expanded capabilities
- New organisation structure implemented in early November – reflecting expanded business

MISSION PROVIDENCE

- Acquisition completed on 29 Sept 2017
- Total consideration of $27.9m with a net cash outflow of $24.9m (net of $3.0m cash acquired)
- Performing very well with strong 3 month contribution, in line with business case
- Diversified and expanded Konekt's revenue streams
- Integration proceeding smoothly with people element of group finance, IT, HR and corporate services completed
- Targeting $2.5m - $3.0m in annualised occupancy synergies - to be realised by end December 2018

OUTLOOK

- FY18 outlook consistent with guidance provided at November 2017 AGM
- Based on a 9 month contribution from Mission Providence for FY18 and current operations/market conditions, anticipate:
  - Underlying revenue to be up over 70% vs pcp
  - Underlying EBITDA (excluding transaction, integration and one-off costs) to be up over 70% vs pcp
  - Underlying EPS before amortisation (EPSA) to remain dependent upon finalisation of completion accounting, asset valuation and tax determination
- FY19 will show further growth, reflecting the first 12 month contribution from Mission Providence plus targeted occupancy synergies and without one-off transaction costs

1H FY18 HIGHLIGHTS

UNDERLYING RESULTS IN LINE WITH EXPECTATIONS

Underlying	Revenue	EBITDA	NPAT (before amortisation)	EPS (before Amortisation)
1H FY18 (1)	$38.6m	$3.99m	$1.92m	2.04 cents
1H FY17 (2)	$26.3m	$2.98m	$1.75m	2.39 cents
Change	47% ▲	34% ▲	10% ▲	▼ 15%

1) *Underlying 1H FY18: adds back one-off acquisition related costs of $3.1m less write back of $144,000 of deferred consideration included in statutory results*

2) *Underlying 1H FY17: deducts write back of $222,000 of deferred consideration included in statutory results*

- First half FY18 reflected contribution of Mission Providence ($14.0m revenue for 3 months), good performance in mental health, pre-employment and consulting businesses offset by workers compensation insurance market softness in NSW and SA and lower volumes in MHS contract under new "on base" service model ($24.6m revenues from existing business - $1.7m lower vs pcp)
- Reported results include one-off acquisition and integration related costs of $3.1m expensed in the first half (removed for underlying)
- Underlying NPAT up 10% vs pcp (after increased depreciation and interest charges)
- Underlying EPS before amortisation (EPSA) of 2.04 cps down 15% on pcp, reflecting timing of issue of new equity ahead of completion and contribution of Mission Providence
- Raised $15.7m by issue of 32.8m new shares at issue price of 48c per share – expanding shares on issue by 45%
- Cash on hand of $8.0m and $18.3m of bank debt at 31 December 2017
- No interim dividend declared (nil pcp)

1H FY18 HIGHLIGHTS

OPERATIONAL & CUSTOMER PERFORMANCE

- Successful completion of Mission Providence acquisition, largest acquisition to date
- Acquisition performing well and integration into group proceeding smoothly
- Further diversified business portfolio, revenue sources and geographic reach
- Implemented new organisational structure in early November and completed integration of group Finance, HR, IT and Shared Services personnel across the enlarged group
- Work commenced to take advantage of Employer relationships across the group
- Extended term of new *Medibank Health Solutions* contract to June 2019. Working to the new service delivery model with on-base support. Delivering strong value to customer under new contract. Volumes currently at lower levels vs. pcp but lower costs due to more efficient model implementation
- Good performance from mental health, pre-employment services and consulting services
- Productivity improvements being implemented to address market contraction in workers compensation markets in NSW and SA reflecting impact of legislative changes and government policy
- New business opportunities and contracts being actively explored

1H FY18 RESULTS

PLEASING FINANCIAL PERFORMANCE IN 1H FY18

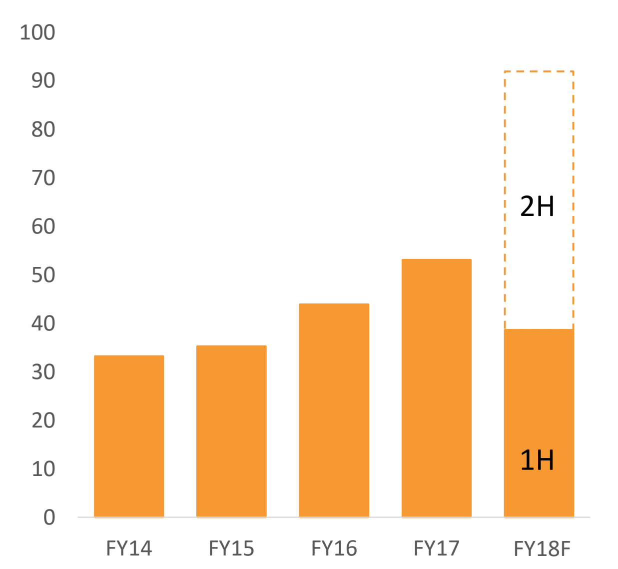
Half Year ended 31 December ($m)	1H FY18	1H FY17	Change %
Revenue	38.78	26.53	46%
Revenue – underlying (1)(2)	**38.64**	**26.31**	**47%**
EBITDA	1.03	3.20	(68%)
EBITDA – underlying (1)(2)	**3.99**	**2.98**	**34%**
EBITDA Margin (%) - underlying	***10.33%***	***11.33%***	***(100) bp***
Interest (3)	(0.39)	(0.16)	(large)
Depreciation	(0.79)	(0.27)	(large)
Amortisation (4)	(1.31)	(0.20)	(large)
Net profit before Tax (NPBT)	(1.46)	2.57	(large)
NPBT (before amortisation) – underlying	**2.81**	**2.55**	**10%**
Tax	0.21	(0.78)	large
Tax – underlying (5)	(0.89)	(0.80)	(10%)
Net Profit after Tax (NPAT)	(1.25)	1.79	(large)
NPAT (before amortisation) – underlying	**1.92**	**1.75**	**10%**
EPS (cents)	(1.33)	2.45	(large)
EPS (before amortisation) (cents) – underlying	**2.04**	**2.39**	**(15%)**

1) *Underlying 1H FY18 adds back one-off acquisition related costs of $3.1m less write back of $144,000 of deferred consideration included in statutory results*
2) *Underlying 1H FY17 deducts write back of $222,000 of deferred consideration included in statutory results*
3) *1H FY18 Interest of $387,000 includes $282,000 bank & finance lease interest plus $105,000 interest expense unwind for deferred consideration (versus 1H FY17 $166,000 interest expense unwind for deferred consideration)*
4) *1H FY18 Amortisation includes $1.1m increased amortisation charges incurred as a result of the Mission Providence acquisition*
5) *Underlying Tax expense calculated at 31.5% tax rate*

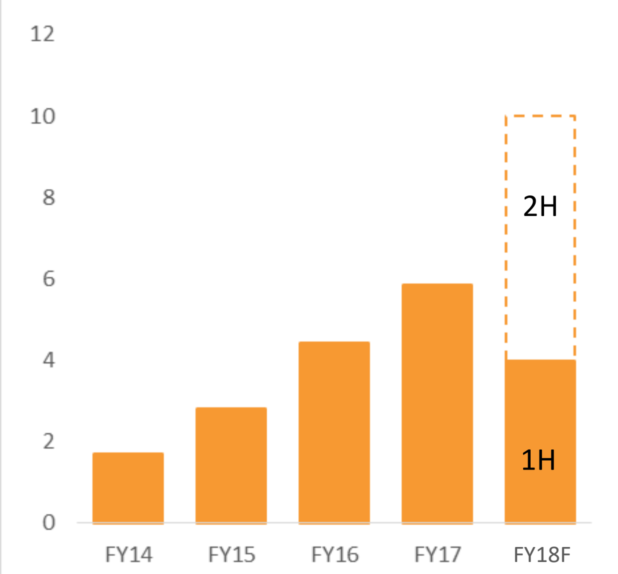
1H FY18 RESULTS AND OUTLOOK

CONTINUED HALF ON HALF GROWTH ACCELERATED THROUGH THE ACQUISITION OF MISSION PROVIDENCE

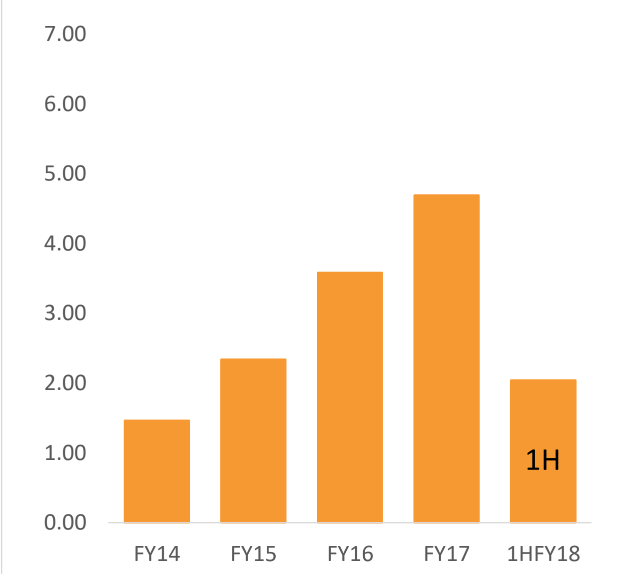
Underlying Revenue ($m)



Underlying EBITDA ($m)



Underlying EPS before amortisation (EPSA) (cents)



1) *FY18F represents 1H FY18 Actual and 2H FY18 Forecast. 2H FY18 Underlying EPS before amortisation (EPSA) to remain dependent upon finalisation of completion accounting, asset valuation and tax determination. Historic EPSA adjusted to account for tax.*

2) *FY18F Underlying Revenue / EBITDA / EPSA reflect 9 months of Mission Providence trading and excluding $3.1m of one-off transaction and integration costs and excluding $144,000 write back of deferred consideration included in statutory results in accordance with accounting standards*

3) *FY17 Underlying Revenue / EBITDA / EPSA deducts write back of $367,000 of deferred consideration included in statutory results in accordance with accounting standards*

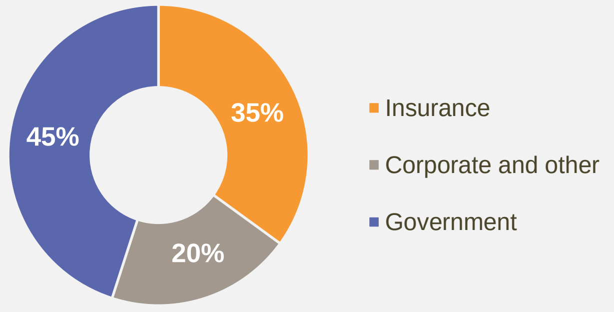
4) *FY16 Underlying EBITDA / EPSA adds back one-off acquisition related costs of $570,000 less estimated acquired EBITDA from SRC and CommuniCorp of $180,000*

5) *FY15 Underlying EBITDA / EPSA includes one-off "Strengthening the Core" investment of $425,000 fully expensed in the year*

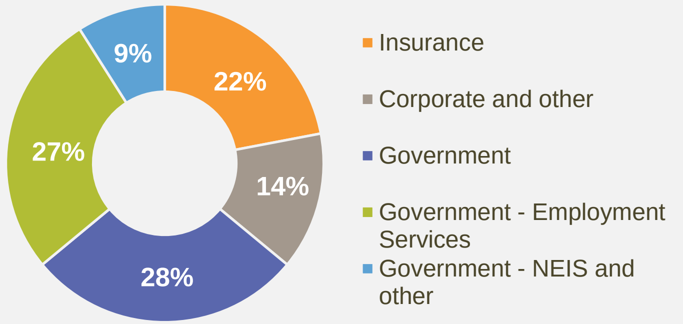
PORTFOLIO DIVERSIFICATION

PORTFOLIO DIVERSIFCATION - CONTRACTION IN INJURY MANAGEMENT / RETURN TO WORK FROM INSURANCE

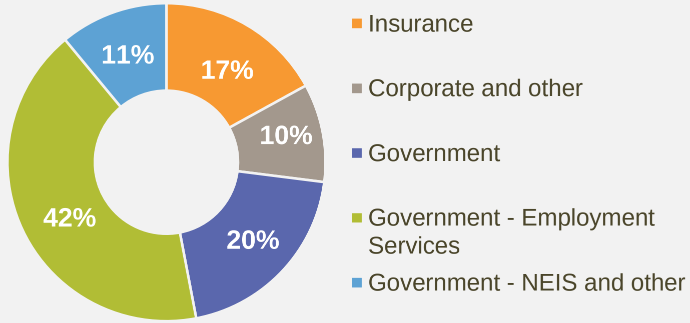
Revenue by Funding Source (FY17)



Revenue by Funding Source (1H FY18)



Revenue by Funding Source – Proforma FY18 Annualised

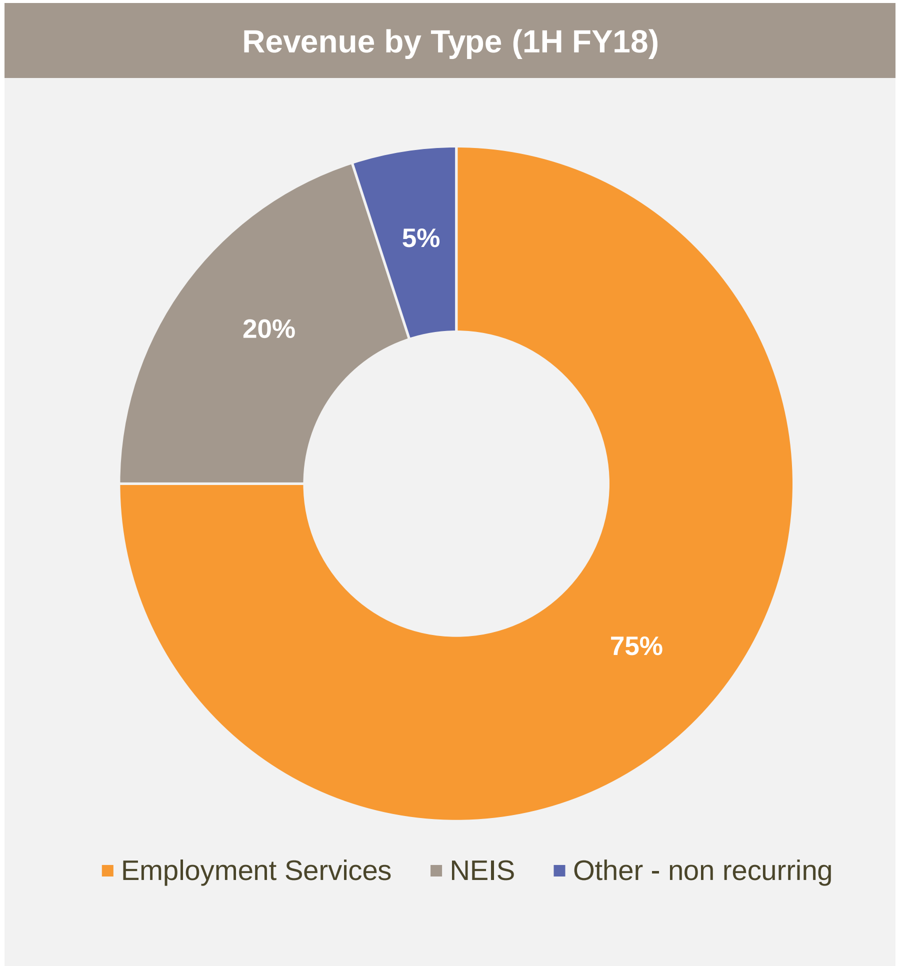


- Mission Providence represents in excess of 50% of group revenues with its revenues diversified across the Employment Services and NEIS programs
  - 8 Employment Services Regions
  - 20 New Employer Incentive Scheme (NEIS) Regions
- Employment regions located in growth corridors with deep labour markets and access to employment opportunities
- Reduced concentration of Insurance at lower point of cycle

MISSION PROVIDENCE

A LEADING PROVIDER WITH STRONG HERITAGE, STRONG PERFORMER READY TO GROW FURTHER

- A leading provider of return to work employment services through the Federal Government's c.$1.4bn per annum jobactive program.
- Mission Providence is one of 42 jobactive providers
- The current jobactive contract runs for 5 years to 30 June 2020, when it is expected to be put up for review including potential for roll-over or restructuring of the program
- The jobactive contract covers Employment Services, New Enterprise Incentive Scheme and other ancillary services
- Employment Services Revenue is generated by:
  - Administration fees (representing 40% of the program) payable every 6 months driven by the number of jobseekers (case load); and
  - Outcome fees (stage payments representing 60% of the program) dependent on the time jobseekers spend in their roles
- Strong and experienced management team
- Performing well and in line with business case post acquisition



BALANCE SHEET

CASH ON HAND OF $8.0M AT 31 DECEMBER LEAVES NET DEBT OF $10.3M

($m)	31 Dec 2017	30 Jun 2017	31 Dec 2016
Cash	8.0	2.8	3.2
Other current assets	11.4	9.7	6.4
Intangible assets	46.0	12.7	12.9
Other non-current	11.6	3.1	3.3
Total Assets	**77.0**	**28.3**	**25.8**
Current liabilities	(31.9)	(10.5)	(9.8)
Non-current liabilities	(16.2)	(2.1)	(1.9)
Total Liabilities	**(48.1)**	**(12.6)**	**(11.7)**
Net Assets	**28.9**	**15.7**	**14.1**

- Period end balance sheet changes reflect the Mission Providence acquisition and its funding ($15.7m new equity and new $18.3m debt facility)
- Total debt $18.3m as at 31 December 2017 ($4.0m current, $14.3m non-current)
- Acquisition debt facility has a 3 year term with principal reductions of $1.0m each quarter with first payment made in early January 2018
- Net debt of $10.3m with cash on hand of $8.0m at 31 December 2017
- Intangible assets increased by $33.4m to $46.0m following the Mission Providence acquisition, including recognition of fair value of identifiable intangible assets (jobactive contract) of $10m amortising over the period to 30 June 2020, recognition of $22.6m goodwill and other acquired intangibles $1.8m
- Expected annualised amortisation charge of $3.6m p.a. for period to end FY20 (pro rate for 9 months in FY18)
- Debt/FY18 underlying EBITDA expected to be less than 2x at financial year end

CASH FLOW

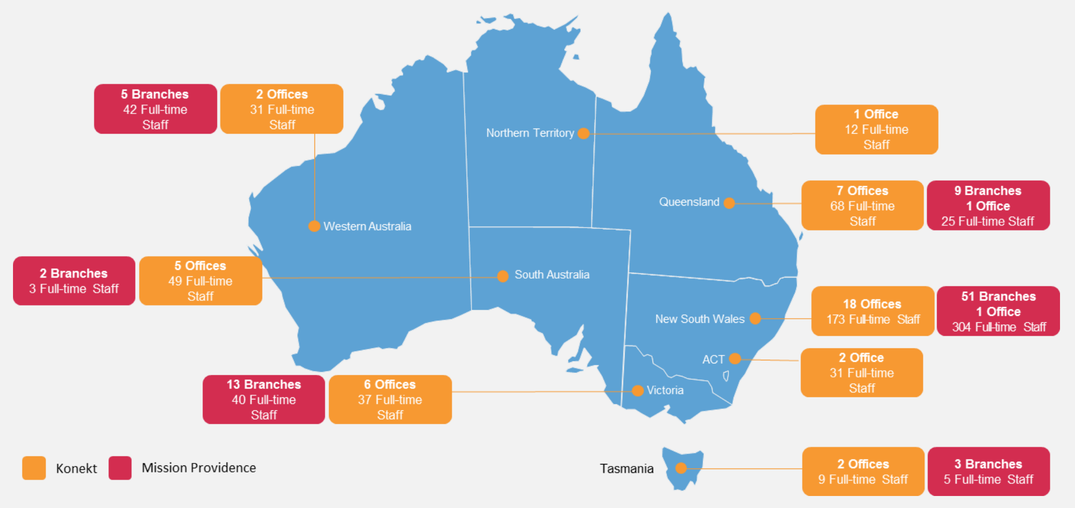
CASH FLOW SHOWS IMPACT OF ACQUISITION

31 December ($m)	1H FY18	1H FY17
Net cash (used in) / from operating activities	(0.1)	4.7
Net cash (used in) investing activities	(26.6)	(1.1)
Net cash provided by / (used in) financing activities	31.9	(0.6)
Net increase in cash	5.2	3.0
Cash at the beginning of the half year	2.8	0.2
Cash at the end of the half year	**8.0**	**3.2**

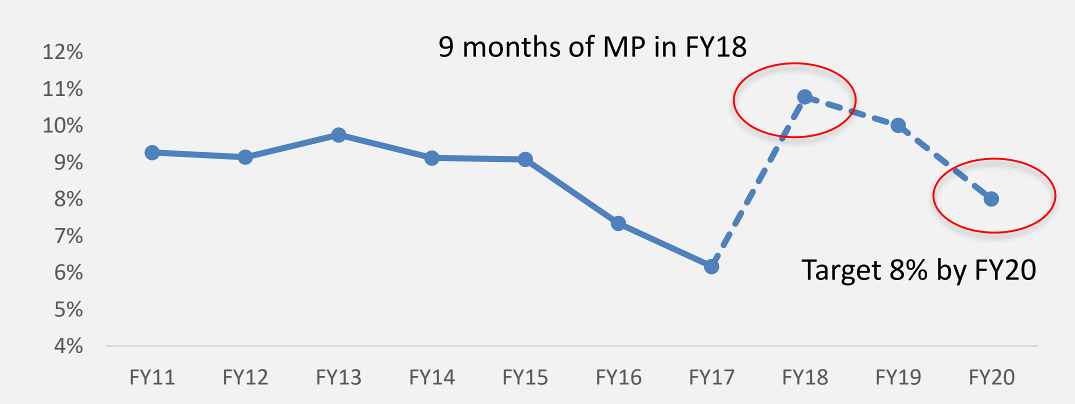
- Operating cash flow was negative $0.1m, due to the impacts of the acquisition, with many of the acquisition and integration expenses as well as the net working capital items from the acquisition being recorded under “operating” cash flow.

OCCUPANCY SYNERGIES COMMENCED

MISSION PROVIDENCE ACQUISITION ADDED 82 SITES (TOTAL 126) AND DOUBLED PERMANENT STAFF TO MORE THAN 800



Property costs as a % of Revenue (excludes depreciation of FFE)



OCCUPANCY SYNERGIES

- Currently operating from 126 locations with c.29,800 sqm under lease (22,000 sqm represent Mission Providence offices)
- Significant opportunity to extract property synergies from expanded group and improve work environment
- Immediate focus to reduce annualised occupancy costs by c$2.5m- $3.0m - from annualised c$11.0m (post Mission providence acquisition) to an annualised c$8.0m-$8.5m by end of December 2018
- Will reduce sqm under lease and relocate/combine some offices into better office space to improve productivity and work environment
- Associated up-front investment (primarily capital) of a maximum of $3.0m likely required to extract annualised savings
- Apply experience gained in Konekt where have achieved similar benefits in terms of improved office quality and reduced occupancy costs

FOCUS – 3 Business Units – 1 Head Office Support

KONEKT, COMMUNICORP AND MISSION PROVIDENCE BUSINESS UNITS AT THE FOREFRONT – HEAD OFFICE TO SUPPORT

Three primary areas:

1. Settling in and integration of Mission Providence business into the Konekt Group
2. Leveraging the group's combined expertise to win new contracts and deepen existing relationships
3. Grow market share, sales and profitability

Actions include

- Rebranding of Mission Providence during the next 6 months – cost provided for in integration costs expensed in 1H FY18
- Review property related synergies across the expanded geographic footprint and begin implementation
- Maintain and improve Mission Providence's ratings under the jobactive contract
- Continue to develop new products and grow sales pipeline
- Extract further productivity gains across the group, seeking margin maintenance where market weakness exists
- Continued investment in staff and training

SUMMARY

1H FY18 AS EXPECTED – 2H FY18 ON TRACK TO GUIDANCE – 3 BUSINESS UNITS WELL POSITIONED

- Very pleasing first half performance with underlying revenues up 47% and underlying EBITDA up 34% (before acquisition and integration costs expensed in the first half)
- Includes a 3 month contribution from Mission Providence – performing well and to expectation – with integration proceeding smoothly
- Good growth in mental health, pre-employment and consulting services offset by market softening in workers compensation in NSW and SA and lower volumes in MHS contract as new service delivery model settles in – expect 1H FY18 to be repeated in 2H FY18
- Planning underway to realise \$2.5m - \$3.0m annualised occupancy related savings by end December 2018
- On track to meet FY18 guidance provided at the November 2017 AGM
- Based on a 9 month contribution from Mission Providence for FY18 and current operations/market conditions, anticipate growth vs FY17 of:
  - Underlying revenue to be up over 70%
  - Underlying EBITDA to be up over 70% (excluding transaction, integration and one-off costs)
  - Underlying EPS before amortisation (EPSA) remains dependent upon finalisation of completion accounting, asset valuation and tax determinations related to the acquisition of Mission Providence
- FY19 results will show further growth, including the benefit of a full 12 month contribution from Mission Providence and anticipated occupancy synergies

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