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Konekt Limited (ASX: KKT)

ASX Limited
Company Announcements Office
Exchange Centre
20 Bridge Street
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Annual General Meeting 2018 – Chairman and CEO's Address

Chairman's Address

Dear Shareholders

On behalf of your Board I am pleased to report another year of strong growth for Konekt with solid improvements in both financial and operational performance, in part following the acquisition and subsequent transformation of the business of Mission Providence, now renamed Konekt Employment. Our Annual Report for the financial year ended 30 June 2018 details the Company's performance for the year.

In FY2018, Konekt continued to successfully implement its strategy of building the leading Australian integrated service provider of outsourced solutions for workplace health, well-being and employment services.

Key Financial Highlights

The key financial highlights, included:

- Underlying revenue growth of 67% over the previous year to $89.1m – including $41.3m from the 9 months contribution of Mission Providence;
- Underlying EBITDA increased by 56% from $5.8m to $9.1m, excluding costs associated with the acquisition and integration of Mission Providence of $3.1m;
- Underlying EPS (before amortisation) was up 20% to 6.13 cents; and
- Strong cashflow from operating activities of $3.9m, after incurring cash costs of $2.1m relating to acquisition and integration costs.

Within these highlights is the repositioning of the company, through the successful expansion of our product offerings, as well as the synergy and optionality afforded by the Mission Providence acquisition, now rebranded as Konekt Employment. This is the largest acquisition undertaken by

Konekt to date and has been well executed when looking at all key metrics across customer engagement, staff engagement and financial outcomes.

Our Konekt Workcare business has seen a challenging market environment in which we operate. Of particular note are our two largest single customers, both spending significantly less in the past 12 months than we had seen in the prior year. Beyond these two, we have seen good organic growth across our remaining portfolio of customers.

We have repositioned our suite of brands across the business, transitioning from various legacy and acquired brands to align the new look with the Konekt Employment and Konekt Workcare brands.

Our operating platform has national scale and a more diversified range of products and revenue streams from which we can leverage wider customer engagement, product synergies and growth.

Of particular interest to our future is our participation in large labour origination markets across Return to Work (RTW) within the Military and Workers' Compensation areas, combined with new placement activity in Disability and Unemployment areas. These areas will further leverage the growth opportunities in our strong legacy business in labour distribution markets.

Your directors see further investment in technology as being critical to leveraging the connection between labour availability and demand. We continue to see our business as one requiring local market presence, coupled with our national scale, allowing an investment in delivery solutions to meet the customer demands.

Lastly, your directors see the need for a diversified and nimble business in a changing landscape, of particular note:

- The resilient Australian economy continues to achieve strong employment market results, however this does impact the availability of new candidates in the jobactive program, and consequently net revenue;
- The emerging prominence of Consumer directed choice in more of our product areas resulting in our investment in moving to a consumer friendly, well understood brand proposition;
- Changes in client behavior on the Workcare side, leading to reducing referral volumes (from MHS/others); and
- Mentally healthy and safe workplaces are becoming more important to Australia's well-being than ever before and is driving an increase in demand for Konekt in these areas.

Dividend

The Board was pleased to declare a fully franked final dividend for the year of 1.0 cents per share. This is a 33% increase over the previous year's dividend of 0.75 cps fully franked. The dividend will be paid on the 8th of November.

The company's approach to dividends is to balance any dividend payments with available franking credits and company's need to fund continued growth. The Board will consider future dividends on a NPAT before amortisation (NPATA) basis, particularly given the non-cash amortisation charges from the most recent acquisition.

People

We would not have been able to achieve the growth in the business without the dedication of our staff and support of our customers. Of particular note was the continued performance of our front-line teams, despite the machinations and distractions of a large integration this year. At the time of acquisition, we established an integration plan which I am pleased to report has been achieved on time and on budget.

CEO's Address

FY2018 Operational Highlights

Our Purpose as an organisation is quite simple, we believe "that work is good for all, and our purpose is to maximise workforce participation and workplace safety". We aim to make a difference across Australian workplaces. We positively impact peoples' lives, and our people actively participate in improving our company.

Our FY2018 Operational Highlights include:

For our Konekt Employment business;

- The successful completion of the Mission Providence acquisition allowing our expansion into adjacent markets, maximising workforce participation;
- Good performance in the Jobactive program, with the placement of approximately 21,000 job seekers into new employment. However, we saw some slippage in the Star Ratings, a key performance measure applied by the Department of Employment in Quarter 1 of calendar 2018. While we have responded quickly, and are returning to a positive trajectory, some reallocation risk remains;
- Very good performance in the NEIS program – supporting the establishment of new enterprises across 20 regions;
- Significant increase in Employee Engagement following the change in ownership;
- Stronger employment markets & lower unemployment, with lower administration fees partially offset by higher outcome fees; and
- Winning 16 regions for the Disability Employment Services (DES) program, which commenced in July 2018 for 5 years.

The Chairman mentioned earlier our opportunity within the emerging consumer-directed choice marketplace of the future. To illustrate this, the Disability Employment Services (DES) program is entirely Consumer-directed for their choice of provider. The Government holds a role of oversight, licensing and regulation while allowing the consumer marketplace to develop. This is a trend we are observing in other jurisdictions around the world, and being well prepared for this eminent change is an important strategy to our future growth. Our new brand suite and positioning reflects this emerging opportunity, the timing of which in other programs is yet unknown – however, we will be ready.

For our Konekt Workcare, CommuniCorp and Training businesses

- We successfully managed the Return to Work program for thousands of workers across our customer base, with solid Same Employer RTW rates at high levels, and improved New Employer RTW rates across the portfolio;
- We did observe a decline in the size of the RTW market (of 7%-13%) due to a smaller military market spend, and lower spend from icare in NSW;
- Good growth in Mental Health solutions requirements (particularly CommuniCorp); and
- A developing product in providing Pre-Employment screening solutions to some of our larger customers;

Whilst the vast majority of our work and performance is in servicing individuals, Konekt recognizes that revenue is generated from the corporate customers commissioning our services. To that end, our revenue is spread between Corporate, Insurance and Government clients – our 3 target groups of Customers.

Across our Head office responsibilities:

- We commenced our Occupancy Synergy program reviewing our property portfolio of more than 120 locations to both upgrade the quality of our locations and reduce our footprint by 10,000 sqm of under-utilized space; and
- As previously advised, our forecast annualized savings on a run-rate basis are on track to be achieved by the end of this calendar year.

And importantly for our People

- Re-invigorating a strong culture of performance, engagement, retention and making a difference; and
- For the fifth year running, the Company achieved several new business wins during the year, as well as retaining significant accounts and reflecting the increased capability, depth and resilience we have built into the business. We expanded our customer base organically with a number of new employer customers.

We also continued to invest in product development and technology platforms, with capex of $1.9m for FY2018, (beyond the acquisition expense) continuing our data driven thematic.

Our business focus remains on:

- Continuing to retain existing customers, secure new customers, and deepen those relationships to develop new sales opportunities;
- Leveraging our Data capability into new Customer and Product insight;
- Improving productivity and maintaining cost discipline;
- Strengthening our leadership capabilities and continued improvements in staff development and employee retention; and
- Growing our scale both within the return to work solutions industry and adjacent markets, organically and by targeted acquisitions to diversify and expand our revenue streams, accelerate growth, strengthen our market position and build shareholder value.

Trading and Outlook

Trading in the first 3 months of the FY2019 year has been mixed with NEIS and DES outperforming expectations, Jobactive and CommuniCorp on par, and Workcare remaining challenged, particularly on the lower referral volumes from MHS and icare.

The risks remain in subdued icare and MHS volumes, any reallocation within the Jobactive contract and a major contract non-renewal risk in Workcare.

The upsides are a modest recovery in MHS and icare volumes, above expected conversion of Mental Health consulting enquiries into second half revenue, and above expected success in DES placements after the promising start to this program.

On balance, Konekt therefore anticipates FY2019 performance to be in line with guidance issued on 16 August 2018 at full year result with both Underlying revenue and Underlying EBITDA increasing on the prior year results.

Contacts

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Company Secretary

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Konekt helps Australia's best workplaces become more productive. *Our focus is on helping organisations, individuals and government to maximize workforce participation and productivity, and minimize the impact of workplace injury. With 800 permanent staff and 120 offices around Australia, Konekt has the reach and expertise to make a true difference. The Konekt team deliver employment placement, workplace health and injury management outcomes - offering an integrated participation and productivity solution.*