Konekt Ltd ABN 79 009 155 971
Level 3, 338 Pitt St, Sydney NSW 2000
P O Box 20246, World Square NSW 2002
+61 2 9307 4000
konekt.com.au

18 February 2019

Konekt Limited (ASX: KKT)

ASX Limited
Company Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

1HFY19 Results

Konekt Limited (ASX: KKT) today reported its financial results for the 6 months ended 31 December 2018 (1HFY19).

Key Points

- Revenues (Underlying) up 28% to $49.1m including a full 6 months contribution (3 months in pcp) from the acquisition of Konekt Employment (previously Mission Providence);
- EBITDA $4.1m (vs $4.0m underlying pcp and $1.0m statutory pcp);
- NPATA $2.3m (vs $1.9m underlying pcp and $0.1m statutory pcp);
- EPS before amortisation 2.2 cents (vs 2.0 cents underlying pcp and 0.1 cents statutory pcp);
- Konekt Employment revenues of $28.0m (vs $14.0m in pcp - 3-month contribution) – mix reflecting a softer Jobactive case load (lower unemployment) offset by NEIS and the initial contribution of Disability Employment Services (DES);
- Konekt Workcare revenues of $21.1m were $3.2m lower than pcp due to lower referral volumes from two large contracts - MHS (down 27% on pcp) and icare NSW related return-to-work referrals (down 14% on pcp);
- In November 2018, MHS announced that it had not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract with the Australian Government Department of Defence from 1 July 2019. Konekt Workcare's contract with MHS expires on 30 June 2019;
- The occupancy synergies program has met its goal, with FY19 to be broadly in line with FY18 occupancy costs, (noting that FY18 includes only 9-months of Mission Providence property costs).

Konekt Group Chief Executive Officer, Damian Banks, said: "Konekt's first half FY19 performance has been mixed with Konekt Employment generally performing well in a market with lower unemployment volumes, and Konekt Workcare's performance impacted by lower volumes from MHS and insurance clients generally, while the remaining Corporate and Government sectors held flat.

"The Konekt Employment business is performing well. Stronger performances in placement outcome fees, NEIS and Disability Employment Services income have offset reduced Jobactive case volumes due to reducing unemployment rates.

"In 2H18 Konekt Employment was awarded a contract to provide placement services in 16 regions for the Disability Employment Services (DES) program, and all regions commenced operations in July 2018.

"Our Konekt Workcare business continued to deliver quality services to our clients; however, we continued to experience lower referral volumes from MHS, icare NSW and insurance clients more generally during the half, not offset by a solid performance in our Corporate portfolios.

"We successfully implemented our occupancy synergies program during the half and these savings will see FY19 occupancy costs in line with FY18 occupancy costs, despite FY19 including an extra 3 months occupancy costs from Konekt Employment vs FY18. We have maintained our presence in 115 locations and improved the quality of our premises, while at the same time reducing our footprint by more than 10,000sqm".

Financial Results Summary

Half Year ended 31 Dec 18	**Underlying [1]**			**Statutory**		
$'m	**1H FY19**	**1H FY18**	***Change %***	**1H FY19**	**1H FY18**	***Change %***
Revenue	**49.1**	**38.3**	***28%***	**49.1**	**38.3**	***28%***
- Employment	**28.0**	**14.0**	***100%***	**28.0**	**14.0**	***100%***
- Workcare	**21.1**	**24.3**	***(14%)***	**21.1**	**24.3**	***(14%)***
EBITDA	**4.1**	**4.0**	***3%***	**4.1**	**1.0**	***large***
EBITDA Margin	*8.3%*	*10.3%*	*(200) bps*	*8.3%*	*2.6%*	*large*
Interest	(0.6)	(0.4)	*54%*	(0.6)	(0.4)	*54%*
Depreciation	(1.1)	(0.8)	*(39)%*	(1.1)	(0.8)	*(39)%*
NPBT and Amortisation	**2.4**	**2.8**	***(14%)***	**2.4**	**(0.2)**	***large***
Amortisation	(2.4)	(1.3)	*(84)%*	(2.4)	(1.3)	*(84)%*
Tax (expense)/ Benefit	(0.1)	(0.9)	*(90)%*	(0.1)	0.2	*(142)%*
Net Profit (Loss) after Tax	**(0.1)**	**0.6**	***(112)%***	**(0.1)**	**(1.3)**	***92%***
NPAT before amortisation	**2.3**	**1.9**	***22%***	**2.3**	**0.1**	***large***
EPSA	2.2cps	2.0cps	*10%*	2.2cps	0.1cps	*large*

(1) The use of Underlying and Statutory in the table above relate to the comparative figures only.

Commentary

Group revenue for 1H FY19 was $49.1m, up $10.8m on pcp, reflecting a full period contribution from the Konekt Employment acquisition (vs 3 months contribution in pcp). Whilst Konekt Employment increased its revenue contribution by $14.0m vs pcp, Konekt Workcare revenue was $3.2m lower vs pcp.

Underlying EBITDA margins were 8.3% for the half (vs 10.3% pcp) as a result of the lower revenues in Konekt Workcare.

NPATA was $2.3m (vs $1.9m pcp) reflecting lower taxation and full period impact of increased interest, depreciation and amortisation charges as consequence of Konekt Employment acquisition.

EPS before amortisation was 2.2 cents per share (vs 2.0c underlying pcp, 0.1 cents per share statutory pcp).

Konekt Employment

Konekt Employment performed solidly with revenue of $28.0m for the half ($14.0m pcp) reflecting a full 6-month contribution.

Konekt Employment provides placement services for the unemployed into long term sustainable employment under the Federal Government's Jobactive and DES programs. Improving economic outcomes and the industry-wide success of the program have seen growth in the national workforce and reduction in numbers of unemployed.

The performance of the Jobactive contract remains in line with expectations. The Konekt Employment business has delivered 5% revenue growth over pcp (on a proforma basis), showing an 11% improvement in fees from outcomes, offset by 5% reduction in administration fees, highlighting its focus on working with jobseekers to secure and maintain their job placements. Konekt has assisted more than 30,000 jobseekers in seeking employment in the last 12 months.

Both the NEIS and the new DES program have performed well. The NEIS business continues to evolve in supporting new entrepreneurs establish and develop new business opportunities, delivering solid growth in its revenues. We successfully implemented the Disability Employment Services (DES) program into 16 regions commencing in July 2018. It is performing ahead of plan in terms of participants, revenue and earnings, and will continue to contribute positively over time.

Konekt Employment has built momentum during the period, having invested in restructuring the business and focusing its operational emphasis on maximising job placement outcomes. This is a key component of the Department of Jobs and Small Business Star Ratings, the relative performance framework for measuring the efficiency, effectiveness and quality of Jobactive providers.

The current Jobactive contract expires in June 2020, and we are mindful that recent political and media commentary has suggested a desire for improving outcomes and lower overall costs to the Commonwealth. Through our ongoing commitment to improving service delivery, demonstrated in our recent operational performance, and the company will be well placed to continue our support of job-seekers and employers into the future.

Konekt Workcare

Konekt Workcare revenues (including workcare, training and mental health operations) of $21.1m were $3.2m lower vs pcp. Konekt Workcare has seen a challenging market environment with significantly reduced referral volumes from MHS, icare NSW and insurance clients during the half.

The MHS "On-Base" service delivery continued to experience decreasing revenues by 27% against pcp, associated with having operated a full year of service provision within a fixed service fee model for the majority of referrals. The reduced volumes associated with MHS is a result of structural changes in the way services have been contracted since May 2017.

Weakness in the icare NSW workers compensation markets continued to impact as icare led initiatives drive a new model of client care and outcomes. As a result of these changes it is likely that Konekt has lost some market share in the reduced market, however, the majority of the reduction remains a smaller available market.

The Corporate, Pre-employment and Mental Health segments showed flat revenue performance vs the pcp. The Financial Services Royal Commission saw some reduced spending vs pcp from financial institutions, with demand now likely restored for a prospective second half. Solid performance in Pre-employments continues with employment conditions remaining buoyant again this half.

In November 2018, MHS announced that it had not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract with the Australian Government Department of Defence from 1 July 2019. Konekt Workcare's contract with MHS will expire on 30 June 2019. Konekt has forecast steady volumes off this new lower base through to the end of this financial year, however the exact nature of the transition plan is yet to be finalised.

Konekt is committed to supporting an orderly and efficient transition of this service. We expect to absorb on-base staff into the remaining Workcare business over the coming months. Until a transition out plan is formalised with MHS and the incoming service provider(s), we are unable to determine any one-off costs associated with the transition.

Opportunities continued to present in the Mental Health segment, particularly in the government and corporate space. The NDIS has now emerged as an opportunity for Konekt to consider following some recent changes in direction in that scheme.

Occupancy Synergies Program

Following the acquisition of Mission Providence in September 2017, Konekt commenced a program of rationalising its 128 locations across Australia. Konekt has maintained a presence in each of those areas and upgraded the quality of its premises, while at the same time reducing its footprint by more than 10,000 sqm, reducing to 115 locations. The ooccupancy synergies program has met its goal, with FY19 to be broadly in line with FY18 occupancy costs (noting that FY18 includes only 9-months of Mission Providence property costs).

Balance Sheet/Cash flow

As at 31 December 2018, net debt was $13.1m, reflecting total debt of $15.6m ($4.5m current, $11.1m non-current) and cash on hand of $2.4m. The company's leverage ratio (Total Debt/rolling 12-month EBITDA) was well within Debt Covenant Ratios.

Gearing (net debt/shareholder funds) as at 31 December 2018 was 45% (38% pcp). Konekt's primary debt facility amortises with principal reductions of $1.0m each quarter.

Intangible assets reduced by $1.1m to $43.0m, primarily due to amortisation of client contracts ($1.8m), and continuing investment in developing internal systems ($1.1m). The company also concluded payment of deferred considerations for businesses acquired over the previous 3 years. The remaining benefit of $23.5m in tax losses (on- and off-balance sheet) acquired from Mission Providence remains available to be utilised by the company, at 51% available fraction.

Operating cash flow for the half was $2.3m ($1.0m in pcp before including payment of acquisition costs).

Outlook

Konekt sees the value of a diversified and agile business in a changing customer and business environment, noting in particular:

- The resilient Australian economy maintaining strong headline employment numbers, with Konekt ensuring emphasis on both placing new job-seekers and maintaining existing job placements in their current employment;
- The emerging prominence of Consumer-directed choice in more of our product areas, resulting in our investment in a well understood and consumer friendly brand proposition;
- New opportunities are presenting in the Disability services market, with Konekt well-placed to leverage its existing investment in this area;

- The NDIS potentially opening up to receive services from Workcare companies;
- 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 service offerings in this area.

The potential upsides are a modest recovery in insurance referral 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. The Konekt Employment business will see a strong NEIS performance and placement success offset by lower case volumes as a result of the strong employment markets. The risk remains in the MHS/ADF transition planning.

On balance, Konekt anticipates FY19 revenue in the range of $96.0m - $99.0m and EBITDA in the range of $9.0m - $9.5m (before MHS contract exit costs (if any)).

Konekt is committed to replace the earnings from the loss of the MHS contract with organic growth and a lower operating cost base of circa 10% by FY21, and a program is underway to achieve this result.

Teleconference Details

Konekt will hold a teleconference, hosted by its Group Chief Executive Officer, Mr Damian Banks and Chief Financial Officer, Mr Mike Morris, to discuss its 1HFY19 results.

Details of the teleconference are as follows:

Time:	9.30 am, AEST
Date:	Tuesday, 19 February 2019
Dial in details:	1800 148 258 or +61 2 8038 5271
Passcode:	298 6924

Investor Contacts

Damian Banks
Group Chief Executive Officer

T: +61 2 9307 4007
E: zharoon@konekt.com.au

Mike Morris
Group Chief Financial Officer

T: +61 2 9307 4007
E: zharoon@konekt.com.au

Media Contacts

David Lindsay
K3 Advisors

T: +61 408 700 501
E: david.lindsay@k3advisors.com.au

About Konekt Group

With over 800 staff and 115 branches across Australia, Konekt is one of the largest integrated employment placement, workplace injury management and workplace health solutions providers in Australia. Konekt's focus is on helping organisations, individuals and government to maximize workforce participation and productivity, and minimize the impact of workplace injury. We help organisations minimise workplace costs, resulting in increased participation, reduced workers' compensation premiums and safer workplaces.