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FY19 Results

Konekt Limited (ASX: KKT) today reported its financial results for the 12 months ended 30 June 2019 (FY19).

Key Points

- Underlying Revenue $97.0m (FY18 $88.9m)
- Reported FY19 EBITDA $10.3m (FY18 Restated: $7.4m)
- Underlying EBITDA $9.8m (FY18 $9.1m)
- Occupancy synergies program achieved annualised savings of $3.0m p.a.
- Konekt Employment
    - Awarded 5 year Disability Employment Services (DES) to 30 June 2023
    - jobactive contract tenure extended by two years to 30 June 2022
- Konekt Workcare
    - Continued softness in workers compensation RTW Injury Management markets and referral volumes
    - MHS contract expired at year end ($9.7m FY19 revenues)
- FY19 dividend 1.0 cps, fully franked and payable in cash (FY18 - 1.0 cps, fully franked)

Konekt Chief Executive Officer, Damian Banks, commented: “Our FY19 results demonstrated the benefits of our investment in Konekt Employment. Konekt Employment performed well with a number of significant achievements during FY19. We extended our services into Disability Employment, improved quality and increased performance fee contributions against a backdrop of lower unemployment. We were also pleased to advise of the extension of our jobactive contract tenure from 30 June 2020 to 30 June 2022, which has provided the basis for further investment and stability for staff.

“In contrast, Konekt Workcare had a tough year due to reduced Injury Management revenues as a result of continued softness and structural change in Workers Compensation markets and lower referral volumes from insurers. This was compounded with the announcement that the MHS contract with the ADF would expire at the end of FY19. Injury Prevention services, including mental health consulting, had a strong second half following a deferral of spending by financial services clients during the Hayne Royal Commission.

"Cost saving and productivity initiatives undertaken during the year saw a strong rebound in second half margins, with FY19 EBITDA margins maintained at FY18 levels. A key component was the successful execution of our occupancy synergies program reducing our footprint by around 30% of leased space whilst upgrading many sites. This has delivered an annualised run rate savings of $3.0m with $2.6m realised in FY19, and a further $0.4m flowing to FY20.

"With the MHS contract expiring at end FY19, we are focussed on both organic and targeted bolt on acquisitions to replace the MHS revenues of $9.7m generated in FY19. Whilst the immediate loss of these revenues will impact FY20 revenue and EBITDA, we are confident that FY21 will see EBITDA above FY19 levels".

Financial Results Summary

	Underlying			Statutory		
	2019	2018	Change	2019	2018 Restated	Change
Revenue	**97.0**	**88.9**	*9%*	**97.0**	**89.1**	*9%*
- Employment	54.5	41.3	*32%*	54.5	41.3	*32%*
- Workcare	42.5	47.6	*(11%)*	42.5	47.8	*(11%)*
EBITDA	**9.8**	**9.1**	*8%*	**10.3**	**7.4**	*39%*
EBITDA Margin	10.1%	*10.2%*	*10bps*	10.6%	*8.3%*	*230bps*
Interest	(1.1)	(1.0)	*(10%)*	(1.1)	(1.0)	*(10%)*
Depreciation	(1.9)	(2.3)	*17%*	(1.9)	(2.3)	*17 %*
Amortisation	(5.4)	(3.7)	*(46 %)*	(5.4)	(3.7)	*(46 %)*
Net profit before Tax	**1.3**	**2.1**	***(38%)***	**1.8**	**0.3**	***large***
Tax	(0.3)	0.3	*(large)*	(0.2)	0.3	*(large)*
Net Profit after Tax	**1.0**	**2.4**	***(58 %)***	**1.6**	**0.7**	***large***
Net Profit after Tax before Amortisation	6.4	**6.1**	***5%***	7.0	**4.3**	***63%***
EPS before amortisation (cents)	6.1	6.1	-	6.6	4.4	*50%*
DPS - fully franked (cents)	1.0	1.0	-	1.0	1.0	-

1) *Underlying FY19 adds back the MHS contract exit costs of $0.2m and deducts adjustment to make-good of $0.6m*
2) *Underlying FY18 adds back one-off acquisition and integration related costs of $3.1m and deducts $0.2m of deferred consideration income in statutory results*
3) *FY18 results have been restated post a review of Trade and Other Payables and Deferred Revenue tax treatment resulting in an increase in Profit after Tax and Net Assets of $824,000. Refer to FY19 accounts (note 4) for further details.*

Commentary

Konekt Employment

Konekt Employment performed solidly with FY19 revenue of $54.5m reflecting its full first full year contribution.

Konekt Employment has three contracts with the Federal Government providing employment placement services for the unemployed into long term sustainable employment including jobactive, jobactive NEIS and Disability Employment Services. These contracts contributed 73%, 20% and 6% of Konekt Employment revenues respectively in FY19.

Lower national unemployment levels resulted in a 7% reduction in national jobactive caseloads (614,232 at 30 June 2019). As at 30 June 2019, Konekt Employment had an allocated jobactive caseload of 26,476 cases, representing a market share of 17% of allocations in the regions where Konekt Employment has contracts.

In April 2019 the jobactive and jobactive NEIS contracts were extended to 30 June 2022.

Konekt Employment secured a Disability Employment Services contract with a 5 year term commencing 1 July 2018. DES is c$800m pa Federal Government program. Konekt Employment's contract encompasses 16 regions (total 71 locations) and is serviced from 44 Konekt offices - 43 existing office locations and one new office added. 26 new staff were employed to service DES.

The jobactive contract extensions and new Disability Employment Services contract are very positive developments providing increased stability for staff and support for further investment.

Quality and productivity initiatives were achieved as a result of management focus and improved training and systems. jobactive Star Ratings improved over FY19 with ratings since Q3 FY19 above the average of larger providers with a footprint larger than Konekt Employment's 64 sites. Star Ratings are an external Federal Government measure of outcomes achieved by service provider office with outcomes based on period of employment from placement – calculated on 12 and 26 week basis – and other quality measures.

Konekt Workcare

Konekt Workcare FY19 revenues (including Injury Prevention and Injury Management operations) were $42.5m, $5.1m lower vs pcp. The reduction was predominantly in Injury Management services due to continued softness and structural change in State based workers compensation RTW Injury Management markets and lower referral volumes from insurers and lower MHS contract revenues.

This reflects continued decline in serious workplace injuries as businesses increase injury prevention measures, consolidation and changes in workers compensation management practices lengthening time before injuries are referred to external RTW managers. We believe this market is beginning to stabilise.

As previously advised, Konekt Workcare's contract with MHS expired on 30 June 2019 with $0.2m of final contract exit costs incurred and expensed in FY19. The exit transition was well managed.

Injury Prevention services including Corporate, Pre-employment and Mental Health services were $1.0m lower in FY19 partly as result of disruption to financial services from Hayne Royal Commission in 1H FY19. Revenues improved in second half post the Royal Commission.

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 explore, utilising its assessments expertise, 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 then 128 locations across Australia, whilst maintaining a presence in each of those areas and upgraded the quality of its premises. The occupancy synergies program has been successfully implemented during FY19, with Konekt now operating 107 full time offices and 30 outreach sites nationwide. Leased floor space reduced by 30% to 21,000 sqm. Many sites are now delivering multiple services. The program has achieved annualised property savings of $3.0m p.a. with $2.6m realized in FY19 and a further $0.4m flowing to FY20.

Balance Sheet/Cash flow

As at 30 June 2019, net debt was $13.3m ($11.3m pcp), including total bank debt of $12.7m ($15.6m pcp). During FY19 principal bank debt repayments of $4.0m were made. Net Debt/FY19 underlying EBITDA was 1.36 times.

Net debt increased as cash holdings of $5.7m were utilised in investment - $1.3m deferred consideration, $2.2m for the purchase of intangible assets and $1.2m for PP&E.

Gearing (net debt/shareholder funds) as at 30 June 2019 was 44% (37% pcp). Konekt's primary debt facility amortised with principal reductions of $1.0m each quarter.

Post FY19 year end, the tenure of the bank debt facility was extended to 29 September 2022, with a reduction in principal repayments from $1.0m/quarter to $0.5m/quarter and new working capital facility of $1.0m.

Operating cash flow for FY19 was $3.8m ($3.9m in pcp). After payment of acquisition costs of $0.9m ($2.1m pcp). Operating cashflows were impacted by trade and other payable reduction of $2.0m, accrued employee entitlements for exiting staff of $0.7m and timing of other working capital items.

Outlook

Konekt expects FY20 revenue in the range of $88.0 - $91.0m and EBITDA in the range of $8.1 - $9.0m, reflecting business improvement offset by the expiry of the MHS/ADF contract at end of FY19.

Whilst the immediate loss of these revenues will impact FY20 revenue and EBITDA, Konekt is confident that FY21 will see EBITDA above FY19 levels.

Teleconference Details

Konekt will hold a teleconference, hosted by its Group Chief Executive Officer, Mr Damian Banks and Group Chief Financial Officer, Ms Reena Minhas, to discuss its FY19 results.

Details of the teleconference are as follows:

Time:	9.30 am, AEST
Date:	Friday, 23 August 2019
Dial in details:	1800 148 258
Passcode:	6229197

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About Konekt Group

With 700 staff and over 107 branches across Australia, Konekt is one of the largest integrated employment placements, 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. Konekt Employment is a leading jobactive, NEIS and DES provider, with Konekt Workcare assisting injured workers returning to the workforce.