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

3 October 2019

Konekt Limited (ASX: KKT)

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

Annual General Meeting 2019 – Chairman and CEO's Address

Chairman's Address

The 2019 financial year was characterised by a number of positive achievements in Konekt Employment and continued softness in Konekt Workcare's Injury Management markets including the expiry of its MHS/ADF contract at year end.

Konekt recorded a 9% increase in revenues to $97 million with statutory EBITDA up 39% to $10.3 million. On an underlying basis, EBITDA was up 8% to $9.8 million. This result was achieved following a strong second half after a challenging first half. We continued our strategic focus on building a leading Australian integrated provider of outsourced solutions for workplace health, well-being and employment services.

Konekt's increased scale, expanded and integrated service offerings, national office footprint and growing brand awareness is strengthening our competitive positioning with our customers and with the individuals we help on behalf of our customers. Our two business units, Konekt Employment and Konekt Workcare, helped more than 50,000 individuals directly in FY19.

Our results demonstrated the benefits of our investment in Konekt Employment. This business performed well with a number of significant achievements during FY19. We extended our services into Disability Employment Services, improved quality and increased performance fee contributions against a backdrop of lower unemployment. Importantly, we were 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 State based workers compensation Return to Work Injury Management markets and lower referral volumes from insurers. This was compounded with the announcement that 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 on from a first half 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 full year EBITDA margins maintained at FY18 levels. A key component was the successful execution of our occupancy synergies program, reducing our footprint by around one third of leased space and upgrading offices. This has delivered annualised savings of $3.0m with FY19 impact of $2.6m p.a. including sub-rental of excess space.

Our Annual Report for the financial year ended 30 June 2019 details the Company's performance for the year.

Balance Sheet

As at 30 June 2019, total bank debt was $12.7m ($15.6m pcp). Post FY19 year end, we were pleased to announce the refinancing of the bank debt facility. Tenure has been extended through to 29 September 2022, with a reduction in principal repayments from $1.0m/quarter to $0.5m/quarter together with a new working capital facility of $1.0m.

Gearing (net debt/shareholder funds) as at 30 June 2019 increased to 44% (37% pcp) as $5.7m of cash holdings were utilised in investment, including $1.3m deferred consideration, $2.2m for the purchase of intangible assets and $1.2m for PP&E.

Growth

Since balance date, the company has announced the proposed acquisition of the Disability Employment business of Artius Pty Ltd in Southern Queensland. There remains a single Condition Precedent to Completion of this acquisition. If that condition is met, we expect this to complete in the next few weeks.

Dividend

The Board was pleased to declare a fully franked final dividend for FY19 of 1.0 cents per share (in line with FY18). The record date for the dividend was 19 September 2019 (ex-dividend 18 September 2019) and payable on 29 November 2019.

The Board's approach to dividends is to balance shareholder dividends with franking credits and company's need to fund continued growth. The Board will continue to consider future dividends on a NPAT before amortisation (NPATA) basis.

Thank you

Konekt continues to build a strong culture of performance, engagement and retention in differentiating ourselves as an employer of choice. We believe in nurturing an exceptional work environment.

On behalf of the Board, we would like to sincerely thank all our staff, customers and shareholders for their commitment and continued support.

Our performance in FY19 reflects the dedication of our staff and the support of our customers. We are committed to delivering the best in industry services to our customers and continue to invest in enhancing our services, capabilities and people.

CEO's Address

FY19 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.

Konekt Employment

The Konekt Employment business performed well with a number of positive achievements over the year. FY19 revenues were $54.5m representing its first full year contribution (FY18 $41.3m – representing a 9 month 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 (DES). Lower national unemployment levels resulted in a 7% reduction in national jobactive caseloads to 614,232 at 30 June 2019. Of this national caseload, as at 30 June 2019, Konekt Employment had an allocated jobactive caseload of 26,476 cases in the 8 regions where it has contracts.

FY19 operational highlights included

- jobactive contract tenure extended by two years to 30 June 2022
- Awarded 5-year Disability Employment Services (DES) contract to 30 June 2023
- Improved quality and productivity outcomes

Jobactive contract extensions

In April 2019, Konekt's jobactive and NEIS contracts were extended to 30 June 2022. On 20 March 2019, the then Minister for Jobs and Industrial Relation, The Hon Kelly O'Dwyer MP, announced the Federal Government's vision for the future of its employment services system. This followed the advice of an Employment Services Expert Advisory Panel on how best to reshape and deliver employment services in Australia.

The Minister outlined a new employment services model underpinned by a number of transformative changes and reducing red tape for employers and providers. The key components are set out in the 2019 Annual Report.

New Disability Employment Services Contract

Konekt Employment secured a Disability Employment Services (DES) contract with a 5 year term commencing 1 July 2018. DES is c$800m p.a. Federal Government program. Konekt Employment's contract encompasses 16 regions (total 71 regions) and is serviced from 44 Konekt offices - 43 existing office locations and one new office. We have employed 26 new staff to service DES. Performance has been ahead of expectations and we are positioned to further grow our DES business.

The contract extensions and new DES contract are very positive developments providing increased stability for staff, enabling retention to the company and industry and support for further investment.

Improved quality and productivity

Quality and productivity initiatives were achieved as a result of management focus and improved training and systems. Average Konekt jobactive Star Ratings (on an unweighted basis) improved over FY19. Since Q3 FY19 Konekt's Star Ratings have been 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 Group

Konekt's Workcare Group comprises Injury Prevention services and Injury Management RTW services. These businesses provide:

- Injury prevention services, Return-to-Work (RTW) injury management, rehabilitation and consultancy services, pre-employment services, Workplace Health and Safety – audits, inspections and consulting. Konekt's primary RTW case focus is in the range of 4 weeks to 2 years off work,
- Training courses (face to face and online) through accredited health care professionals - registered training organisation, and
- Workplace psychology specialists operating Australia wide. Helping employers and employees develop positive workplace mental health, well-being and resilience capabilities.

Workcare has a staff of over 250 people - predominately allied health professionals - servicing government agencies, insurers and corporates.

This division has seen a challenging market environment with FY19 revenues (including Injury Prevention and Injury Management operations) of $42.5m being $5.1m lower than FY18. The fall 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 coupled with lower MHS contract revenues.

In November 2018, MHS announced that it had not been selected as the preferred tenderer for the renewal of the Health Services contract with the Australian Defence Force from 1 July 2019. As a consequence, Konekt Workcare's contract with MHS expired on 30 June 2019. In FY19 the MHS contract contributed revenues of $9.7m, representing 23% of FY19 Konekt Workcare revenues (and 10% of Group Revenue). Konekt supported an orderly and efficient transition of this service with total transition exit costs incurred of $0.2m.

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 the 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 (c.29,800 sqm under lease with

22,000 sqm representing Mission Providence offices on acquisition), whilst maintaining a presence in each of those areas and upgrading the quality of premises.

The occupancy synergies program was successfully executed during FY19, with Konekt now operating 107 leased locations nationwide. Leased floor space reduced by one third to 21,000 sqm. Many sites are now delivering multiple services. The program has achieved annualised property savings of $3.0m p.a. with FY19 impact of $2.6m pa. including sub-rental of excess space.

With a majority of its properties having lease renewal options between now and 30 June 2020, Konekt is currently assessing further addressable property savings of up to $1.2m p.a. with 50% expected to be realised in FY20.

Focus

Our immediate focus in FY20 includes:

1. Organic growth in both Konekt Employment (primarily NEIS and DES) and Konekt Workcare (mental health services, NDIS and Government clients);

2. Targeted bolt-on acquisitions; and

3. Reducing group operating cost base by 7 – 10% through property, telecommunications, other operational and Head Office efficiencies to optimise margin.

Trading and Outlook

Trading in the first 2 months of the current financial year has been in line with our internal budgets.

With the MHS contract expiring at end FY19, we are focussed on both organic growth and targeted bolt on acquisitions to replace the MHS revenues of $9.7m generated in FY19.

In line with guidance provided at the FY19 Results and reflecting the expiry of the MHS/ADF contract at end of FY19, Konekt expects FY20 revenue in the range of $88.0m - $91.0m and EBITDA in the range of $8.1 – $9.0m.

Konekt remains confident that it expects FY21 EBITDA to be above the FY19 levels.

Reena Minhas
Company Secretary

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