



## **CHAIRMAN'S ADDRESS TO SHAREHOLDERS**

Delivered at the Annual General Meeting on  
Friday 25<sup>th</sup> October 2019  
7<sup>th</sup> Floor,  
151 Pirie Street Adelaide SA 5000

## Key Highlights from the addresses

### Trading update and Outlook

- Strong first quarter trading
- Major project supply accelerated during first half as project nears completion
- \$1.0 million bad debt potential exposure to EC&M Ltd
- Too early to quantify how much of the debt will be recoverable
- FY20 profit after tax expected to meet or exceed FY19, even if none of the EC&M debt can be realised
- FY20 capex will increase compared to FY19 with investment in plant capability and capacity to service the significant infrastructure pipeline.

Ladies and Gentlemen,

Today I will be commenting on the 2019 financial year as well as providing an update on our current trading conditions. Chris Hartwig will then provide more detail on current activity and future opportunities.

## **FINANCIAL RESULTS**

Improved sales from both the NSW tunnel project and general markets resulted in revenue of \$60.8 million during the 2019 year. This was a 6.8% increase on the 2018 performance. This increased revenue, along with improved margins and containment of expenses, resulted in a profit after tax of \$2.9 million, which represented 110% growth on the prior year.

Chris Hartwig will provide more detail on the 2019 year in his address.

## **STRATEGIC INITIATIVES**

During the year IXL Systems, a manufacturer and distributor of cable supports that competed with EzyStrut, approached us as they wished to cease the distribution portion of their business. As a result, agreement was reached whereby Korvest purchased a portion of the IXL inventory. In addition, a supply agreement was formalised for IXL to supply to Korvest a range of standard products from their Geelong manufacturing facility to boost Korvest's capacity. IXL was a relatively recent entrant to the market and had invested significantly in manufacturing equipment. Korvest has an option to purchase the equipment from IXL in the event that the supply agreement is terminated by either party. Korvest was pleased with the business that was secured from former IXL customers following the closure of their distribution network.

In February the Victorian EzyStrut branch moved to a new and larger warehouse and office facility. The improved performance of the branch over recent years had meant that the old facility had been outgrown and the new site will provide a good base from which to service the improving Victorian market.

During 2019 the level of capital expenditure increased somewhat compared to the relatively low levels of the prior three years. The investments were made in the areas of

- Energy reduction projects relating to solar and LED lighting,
- Increased factory capacity and capability,
- Factory stay-in-business projects, and
- Environmental projects

## **CURRENT YEAR TO DATE AND OUTLOOK**

I am very pleased to report that first quarter trading for FY20 has been strong as supply to our current tunnel project in NSW accelerated with the project nearing completion.

On the other hand it was disappointing to advise the market in August that EC&M Ltd, had been placed into voluntary administration. EC&M was one of a number of customers that Korvest had been supplying for the NSW tunnel job. Korvest's exposure is approximately \$1.0 million. Due to the complexity and early stage of the voluntary administration it is difficult at this time to accurately estimate how much of the \$1.0 million exposure will be recoverable. Korvest intends to pursue all avenues available to protect its interests in relation to this matter.

What is worth emphasising is that EC&M was a project based customer that Korvest supplied to from time to time based on project demand. Supply to them on the tunnel job had already ceased in July, prior to the administrators being appointed. There is not expected to be any impact on future revenues as a result of them entering voluntary administration.

Setting aside the EC&M issue, the strong start to the year means that we expect the full FY20 year to deliver an improved profit before tax compared to the FY19 year with the result favourably skewed to the first half. Any provision related to EC&M will reduce the improved result however it is expected that the result will be at least in line with FY19.

I would now like to hand over to Chris Hartwig to provide more detail on last year's performance and the future.

GRAEME BILLINGS  
Chairman  
25 October 2019



## **MANAGING DIRECTOR'S ADDRESS TO SHAREHOLDERS**

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Thank you Graeme,

Ladies and Gentlemen, today I will be reflecting on the 2019 financial year and will also provide an update on the current trading conditions and focus for Korvest going forward.

## **FINANCIAL YEAR 2019**

Financial year 2019 continued the turnaround for Korvest with significant profitability improvement achieved.

Our safety performance was acceptable and continues to be an ongoing focus for the business. In addition to safety Korvest also must ensure that we continue to meet our environmental obligations. To achieve this the Board approved the investment in a particulate filter for the main Galvanising plant, with commissioning expected over the upcoming Christmas shutdown.

In the Industrial Products group, the EzyStrut business had a very strong year, benefitting from improved market conditions in the Commercial, Infrastructure, Solar and Mining segments. The NSW road tunnel project commenced late in the first half and continued throughout the remainder of the financial year. Despite improved market conditions the competitive environment for cable supports remains challenging, as evidenced by the withdrawal of a competitor, IXL Systems, late in the financial year. Steel input costs remain at high levels. Electricity costs remain high but the investment in solar panels and LED lighting has offered relief, and a more favourable electricity contract commences next January. EzyStrut continues to lead the market with price increases as a result of these rising input costs. During the year we successfully commissioned a new tray line, reducing cost and increasing capacity.

The Power Step and Titan businesses had a subdued year from a volume perspective, with their result hampered by a stock write-off. During the year the General Manager retired as planned and a new General Manager was appointed. The cost base of the business has been further reduced and the business can now operate profitably despite the lower volume.

In the Production group, the Galvanising business achieved a further improvement in results. The volume was essentially flat, with a shift from external to internal work. Input costs remain high. The average cost of zinc consumed was 7% higher. Gas costs rose again in January 2019 with no relief in sight. We were successful in passing on these cost increases via price rises, but these higher prices risk making galvanising a less competitive corrosion protection system versus other options such as paint.

A growth in inventory due to the tunnel project and some re-stocking of imported items, a higher capex spend and the significant growth in volume, particularly towards the end of the financial year, had a negative impact on cash-flow as expected.

## **FINANCIAL YEAR 2020 OUTLOOK AND STRATEGY**

The improvement achieved in FY19 was pleasing, but improvement opportunities remain.

Our current tunnel project in NSW is drawing to a close. However, the infrastructure pipeline continues to be strong, and winning our share of these projects is the highest priority for the business. Even if we are successful it is not expected that any significant revenue will flow from these projects during FY20. The likelihood of future infrastructure projects running concurrently is high, and therefore we have approved a significant automation project for tunnel products. This project will deliver a more competitive offering and greatly increase our capacity to supply these projects without affecting our day-to-day business.

The focus on our customers will continue. We have made significant gains with our ERP system and will make further enhancements during the year, including real time factory input. This will further improve lead times and order status visibility.

We will continue to focus on our inventory quality. During FY19 we invested in improved holdings of key imported commodity lines, but we must improve our efforts to reduce slow moving stock.

With ongoing high input costs, further price increases were announced by EzyStrut and Galvanising in July.

Our levels of Capital Expenditure will increase during FY20. This increase will be driven by the automation project mentioned above as well as other productivity projects.

As already mentioned by the Chairman, FY20 has started well. Excluding the EC&M matter, we expect to be able to deliver an improved result for FY20, with the result favourably skewed to the first half due to the phase out of the current NSW tunnel project.

Thank you for your time, and I will now hand the meeting back to the Chairman.

CHRIS HARTWIG  
Managing Director  
25 October 2019