



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

Delivered at the Annual General Meeting on  
Friday 23<sup>th</sup> October 2020

## Key Highlights from the addresses

- First quarter trading sound
- Stage 4 lockdown in Victoria had a noticeable effect on the Victorian market
- Supply of a major NSW infrastructure project commenced in July 2020 and will continue into early FY22
- Another NSW infrastructure project has been secured with supply to commence in FY22
- JobKeeper 1 will contribute \$1.3 million after tax to the first half result
- Not eligible for JobKeeper 2
- High levels of capex to continue in FY21 to continue to modernise and automate the factory

Ladies and Gentlemen,

This morning I will be commenting on some key aspects of the 2020 financial year before handing over to Chris Hartwig to provide more detail on both last year and the year ahead.

I would like to start by informing shareholders that Korvest turned 50 this year. The company, initially known as Kia Ora Investments Ltd, was formed in February 1970 and subsequently listed on the Australian Stock Exchange in September of the same year. As the company moved away from its initial roots in mining the name was changed to Korvest Ltd in 1979. Many different businesses have been operated by Korvest throughout its history. Of the current businesses, the Galvanising business is the oldest having been acquired in the 1970's. EzyStrut was purchased in 1987 and Power Step in 2013. So congratulations to Korvest as we applaud the company's rich history.

I'll now move onto the more recent history.

## **FINANCIAL RESULTS**

A strong first half of project activity resulted in improved group revenue of \$63.1 million. This was an increase of 3.7% on the 2019 year and pleasingly the third consecutive year of revenue and profitability growth. Activity levels improved and margins grew across all business units in FY20. Profit after tax was \$4.03 million compared to \$2.9 million in FY19.

Unfortunately the result was adversely impacted by a significant bad debt. The net after tax financial impact of the bad debt and the adjustment to the expected credit loss provision was \$497,000.

It is impossible to discuss the trading performance of the business without mentioning COVID-19. As with most businesses, the early stages of the COVID-19 pandemic were challenging, with significant uncertainty and constant situational changes requiring a high degree of Board and management attention. I am pleased to say that the management team responded well by focussing on the three key pillars of people, operations and financial health. As a result, Korvest has been able to navigate this difficult period with minimal disruption. I would like to thank management, staff customers and suppliers for their support and efforts throughout this challenging period.

It is important to note that during the year the Group qualified for the Government JobKeeper subsidy. This contributed \$741,000 to the after tax profit. Chris Hartwig will shortly provide more detail on the operational and market impacts that COVID-19 has had on our business.

## **STRATEGIC INITIATIVES**

During the year significant investment was made in the business with a record \$3.2 million of capital expenditure. Much of the investment is to modernise and automate the operations at our Kilburn facility. The Board believes that the future pipeline of available work is significant and that investment is required now to ensure that we are well placed to be able to meet those demands when they occur. This level of investment was possible due to the strong operating cash flows generated during the year.

## **DIVIDEND**

The Board is aware that Korvest's consistent payment of dividends is important for many shareholders. It was pleasing that despite the challenging economic conditions faced by the Australian economy during 2020, Korvest was able to pay an improved level of dividends during the year.

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

The first quarter trading has been sound. Supply of a major NSW infrastructure project commenced in July and is expected to continue through until early next financial year. Korvest continued to receive JobKeeper funding up until the end of September and this will have a \$1.3 million after tax impact on the first half result.

Given the ongoing uncertainty that currently exists in the Australian economy, particularly in relation to the ongoing impact of COVID-19, the Korvest Board have decided to not provide any specific FY21 guidance at this time.

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

23 October 2020



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

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Friday 23<sup>rd</sup> October 2020

Thank you Graeme,

Ladies and Gentlemen, today I will be reflecting on the 2020 financial year and will also provide an update on the current trading conditions and key focus areas for Korvest going forward.

## **FINANCIAL YEAR 2020**

Financial year 2020 continued the positive progress of the past few years for Korvest with significant improvement in revenue and profitability achieved.

Our safety performance was reasonable but can still improve. The management team have recently placed further emphasis on our safety efforts as we strive for best practice in this area. As advised last year, Korvest also takes its environmental obligations seriously and installed a particulate filter for the main Galvanising plant during the year. The filter was successfully commissioned over the Christmas shutdown and is operating well.

COVID-19 impacted the global economy during the second half of financial year 2020. Korvest quickly established a Management Steering Committee to implement a number of changes within the business. The key focus of these initiatives were to:

- Safeguard our people by quickly putting protections and processes in place at all sites
- Understand the key risks to Korvest and implement appropriate risk management strategies
- Scenario planning for various possible impacts of the pandemic
- Minimise the impact of an outbreak at a Korvest work site
- Ensure the business had sufficient consumables to continue to operate
- Build inventory across our supply chains
- Optimise supply across our multiple suppliers for key commodity items
- Monitor the financial health of Korvest, in particular cash flow management

Some of the measures taken, such as shift changes and temperature testing, did have a cost impact to Korvest but this was not overly significant. In addition, Korvest did not see any material impacts in the market segments in which it operates. I would like to take the opportunity to thank all of our employees for their support and understanding in these uncertain times.

In the Industrial Products group, the EzyStrut business had a very strong year, with activity skewed towards the first half due to supply on two major infrastructure projects. These projects concluded during the first half. However, bid activity was very high during the second half on other major infrastructure projects, with EzyStrut being successful in winning further project work commencing in Financial Year 2021. Aside from major project work, the day-to-day and wholesaler segments were solid. EzyStrut successfully implemented a Customer Relationship Management program during the second half that was developed in-house. The EzyStrut result was

adversely affected by a major project customer entering administration, with no return to unsecured creditors. Until recently, Korvest has not had credit insurance and through the cycle this has been a marginally better financial outcome for the business. However, given the current uncertainty due to COVID-19, Korvest has since taken out credit insurance mitigating the risk with respect to debtors.

The supply arrangement with IXL was concluded late in the second half, with Korvest exercising its option to purchase the key production lines from IXL and relocating them to the Kilburn factory. This was made more difficult due to travel restrictions as a result of COVID-19 and it was pleasing to have the main tray line successfully commissioned prior to the end of the financial year. In addition to the IXL equipment, further capital expenditure was made on two automation projects. The key project is being built in New Zealand and was significantly impacted by the shutdown due to COVID-19. As a result this project is expected to be commissioned just prior to Christmas 2020.

Input costs such as steel, aluminium and stainless steel remain at high levels. Over the past few years significant effort has been made to reduce electricity costs via investment in solar panels and LED lighting. A more favourable electricity contract commenced in January 2020, providing welcome relief. A further 270kW of solar panels are now on order, with installation and commissioning expected to be completed in December 2020.

The Power Step and Titan businesses had their best year under Korvest ownership, benefitting from an improving mining segment and lower product costs via improved sourcing. The lower overhead structure also contributed to the result.

In the Production group, the Galvanising business improved in terms of both volume and profitability. External project work and volumes for our spin plant improved with internal (EzyStrut) volumes steady. The cost of zinc fell during the year, with the average cost of zinc consumed 4% lower than the prior financial year. Gas costs were again high. Korvest has recently locked in its gas pricing for calendar years 2021 and 2022, saving approximately \$80,000 per annum.

Cash-flow was strong due to the project cycle, but the upcoming infrastructure project will consume cash in the first half of FY21. Inventory grew due to the stock build as a result of COVID-19 and production commencement for the infrastructure project.

## **FINANCIAL YEAR 2021 OUTLOOK AND STRATEGY**

Korvest remains focused on improving our business and taking advantage of the strong infrastructure pipeline. We have expanded our engineering and project management teams to ensure we can win our share of these major projects. We have been successful with one major infrastructure project, with supply currently underway and expected to run into the start of FY22. In

addition we have secured a further infrastructure project with supply set to commence in early FY22 and extend into FY23. The major infrastructure projects involve a heavy requirement for our engineering and sales teams in the tendering phase whilst we supply and expedite the projects we have won concurrently.

Our levels of Capital Expenditure will remain high during FY21. As mentioned at last year's AGM, the likelihood of future infrastructure projects running concurrently is high, and therefore commissioning of our automation project for tunnel products remains a high priority. In addition there will be more focus on Capex spend on automation projects moving forward. There will also be further capex on replacement pickle tanks in Galvanising and the solar system mentioned previously.

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

As mentioned by the Chairman, Korvest has been a beneficiary of the JobKeeper scheme, but was not eligible for JobKeeper 2. Therefore this benefit concluded in September 2020. In addition, the effects of the Stage 4 lockdown in Victoria on the EzyStrut business in that state have been quite noticeable. Aside from Victoria, our day-to-day markets are sound but not buoyant.

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

CHRIS HARTWIG  
Managing Director  
23 October 2020