



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

Delivered at the Annual General Meeting on  
Friday 28<sup>th</sup> October 2016  
7<sup>th</sup> Floor,  
151 Pirie Street Adelaide SA 5000

## Key Highlights from the address

### Board composition

- Peter Brodribb retired in July 2016 and the casual vacancy was filled in August 2016 by Andrew Stobart

### Trading update and Outlook

- First quarter trading has been loss making due to the lack of available project work.
- There are some project opportunities expected to occur late in the second half of the current financial year and into the next financial year. Some improvement is expected in that timeframe.
- Despite the poor first half result the Directors expect to be able to pay an interim dividend of an amount to be determined.

Ladies and Gentlemen,

Welcome to the 46<sup>th</sup> Annual General Meeting of Korvest Ltd. Today I will be reflecting on the 2016 financial year as well as commenting on how we see current trading conditions. Your Managing Director, Alexander Kachellek will speak in more detail on current activity and how the Company is responding to the conditions that we face.

## **FINANCIAL RESULTS**

The revenue from trading activities for the 2016 financial year was \$55.0 million, down 12.8% on the 2015 year. Profit after tax was \$0.95 million, and included the impact of costs incurred in the first quarter pursuing a significant acquisition opportunity which ultimately did not proceed. The after tax financial impact of these costs was \$475k.

In response to the challenging trading conditions the Company embarked on a comprehensive business transformation project. As part of this project the Company restructured its labour force which resulted in redundancies with an after tax cost of \$488k impacting the result.

## **THE BOARD**

As foreshadowed at this meeting last year, the Board has continued to change. Longstanding Director Peter Brodribb retired from the Board in July 2016 having served the Company in both executive and non-executive capacities for over 30 years.

To replace Peter, Andrew Stobart was appointed to the Board in August 2016. Andrew is an experienced senior executive in the consumer and industrial sectors. He was Managing Director and Chief Executive Officer of Olex Cables Pty Ltd, part of the Pacific Dunlop Group. A number of ownership changes occurred in more recent years and the company is now known as Nexans Olex. Andrew is currently Executive Chairman and therefore brings considerable experience in similar markets in which Korvest operates.

## **EXECUTIVE SHARE PLAN**

Later in the meeting we will be considering two resolutions relating to the granting of performance rights to our two executive directors. As a result of feedback received from various interested parties the Remuneration Committee this year sought the advice of Remuneration Consultants AON Hewitt in relation to the structure of the long term incentive plan.

The Board has adopted most of the recommendations and as a result a second performance measure of Relative Total Shareholder Return is proposed to be applied in addition to the existing Earnings Per Share measure with equal weighting. The Board believes this will provide a more balanced assessment of Company performance.

## **DIVIDEND**

The Directors declared 10 cent interim and final dividends during the year. The Company's dividend reinvestment plan was in place for the interim dividend but not for the final dividend. The Company is well aware of the importance of franked dividends to our shareholders and will use the dividend reinvestment plan at times in the future as a mechanism for maximising our ability to continue to make franked dividend payments.

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

As we recently announced, the first quarter trading for the 2017 year has been loss making as a result of the lack of major project work. Whilst trading over the first quarter did show gradual improvement there is not currently an expectation that the second quarter trading will improve sufficiently for the first half result to be a profit. As outlined in our market guidance it is expected that the EBIT loss for the first half could be in the range of \$1.3 to \$1.6 million.

There are a number of known projects in Korvest's markets that are likely to become opportunities later in the second half of the current financial year and into the next. Therefore it is expected that some improvement will be seen in that timeframe.

Despite the disappointing first half result the Directors expect to be able to pay an interim dividend of an amount to be determined.

I would now like to hand over to Alexander Kachellek to talk in more detail about the results and future plans.

**GRAEME BILLINGS**

Chairman

28 October 2016



ABN 20 007 698 106

**Managing Director's  
ADDRESS  
TO SHAREHOLDERS**

Delivered at the Annual General Meeting on  
Friday 28<sup>th</sup> October 2016  
7<sup>th</sup> Floor,  
151 Pirie Street Adelaide SA 5000

Thank you Graeme.

Ladies and Gentlemen, today I will be reflecting on the business operations during the 2016 financial year as well as commenting on how the business is dealing with the current trading conditions.

### **Last Year, 2015-16**

There were a number of highs and lows to the year. Firstly safety, we had zero lost time injuries for the whole year and only one medically treated injury in January. This is a fantastic effort by everyone in the business; it is so important that nobody is injured whilst at Korvest.

As I mentioned in last year's address we predicted that the activity in the non-residential construction segment that we operate in was reducing and that any growth in Australia was going to be difficult during this low period. To counter that reduction in part we embarked on investigating opportunities in the South East Asian market, particularly as the Australian dollar was weakening. We have learnt a lot from having a person target that market but we have also found that it is extremely competitive. There are areas where our expertise, quality and standards are required though and that is in the offshore rig building market in Singapore. This market is currently also subdued which means that the customer is looking for competitors to his incumbent suppliers and this may give us an opportunity. To sell into this offshore market it is necessary to have DNV, ABS or similar certified product and we are currently finalising this. The factory has been DNV certified and that was relatively easy due to our current ISO certificates. We believe that with the possibility of Adelaide becoming a hub for the building of ships in the near future this development will also be of use here.

In NZ our sales have been successful through our distributor there and we expect that to continue.

In the early part of the year there was an opportunity to make a considerable acquisition but unfortunately that was not successful, in the end the other party's view of the market conditions were the converse to ours so we could not agree on a deal.

With the poor market conditions and us having only one major LNG project in EzyStrut we took action and made a number of people redundant together with a reorganisation of the business enabling us to reduce the number of senior managers.

Our major project for this LNG customer in WA continued for approximately 2/3<sup>rd</sup> of the year but once that ended there were very few projects for the last third of the year. We have had excellent feedback from the project on how we performed, I am very proud of the team we have in the business.

I might add that our Galvanising business, which is largely dependent upon the SA market, saw its lowest tonnage since my records began which is 10 years, whilst on the positive side we have maintained our market share.

## **This year, 2016-17**

is proving to be extremely difficult. The numbers of projects at the start of this FY were minimal but we do see this improving from early next calendar year.

As EzyStrut is the national market leader of cable support systems with a presence in every state we experience the vagaries of the activity or inactivity in those states with SA, NT, QLD and WA all being subdued due to their lack lustre economies with regard to non-residential construction whereas Victoria and NSW are buoyant and active. We have even increased our market share in Victoria.

The project activity on the east coast particularly in infrastructure projects is expected to improve and we are currently working with a number of project teams providing engineering advice on our products. As you are aware we are able to design for specific requirements, as we are one of the few in our market with engineering resources and expertise. As a reminder we were the first with a fire rated product that enables us to be the eminent provider of cable support systems to tunnel projects. There are a number of tunnel projects for 2017 right through to 2018. For these projects we have the project management expertise and capacity to ensure quality and delivery to these multiple projects. We have demonstrated this in the past by simultaneously supplying to very large projects in WA, NT, and QLD

In terms of plant improvements and productivity. With the market moving away from the heavy industrial product to the lighter commercial tray we have placed on order a roll former that will be in operation early next calendar year, this will bring our number of roll formers up to a total of 6. This process will speed up production, improve our quality and produce trays more efficiently and effectively. This will improve our competitiveness on the projects particularly in the eastern states.

We continue to work on reducing costs throughout the operations, our headcount is now at 174, it was at 306 at its peak six years ago. I am very proud of our employees, almost every one of them assists in implementing improvements to their work place for safety and productivity.

The Power Step part of the business has been reduced in size to cope with the low activity in the mining industry. On a positive note we expect to ship a prototype safety access system next month that will be fitted onto a freight locomotive. Should this be successful this will open up a totally different market segment for us.

We continue to review all parts of the organisation so that we can respond to market demands be they low or high. We are also looking at how we can increase the volumes through our operations in the galvanising plant, the factory here in Kilburn and around the country. We have a strong balance sheet with zero debt that enables us to work to the future.

**Alexander Kachellek,**  
**Managing Director,**  
**28 October 2016**