

16 November 2017

Konekt Limited (ASX: KKT)

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

## Annual General Meeting 2017 – Chairman and CEO’s Address

### Chairman’s Address

Dear Shareholders

On behalf of your Board, I am pleased to report another year of strong growth for Konekt with solid improvements in both financial and operational performance. Our Annual Report for the financial year ended 30 June 2017 lays out the Company’s performance for the year.

In FY17, Konekt continued to drive organic growth at above market growth rates from its existing businesses. At the same time, the focus on productivity and cost control once again delivered improved operating margins.

On behalf of your Board, I am pleased to report another year of strong growth for Konekt with solid improvements in both financial and operational performance. Our Annual Report for the financial year ended 30 June 2017 lays out the Company’s performance for the year.

In FY17, Konekt continued to drive organic growth at above market growth rates from its existing businesses. At the same time, the focus on productivity and cost control once again delivered improved operating margins.

### Key Financial Highlights

The key financial highlights, included:

- ▶ Underlying revenue growth of 21% over the previous year to \$53.1m – which was at the upper end of guidance provided
- ▶ Underlying EBITDA margin increased to 11% from 10%

Proudly part of the Konekt Group of Companies

- ▶ Underlying NPAT was up 16% to \$3.2m; and
- ▶ Underlying EPS was up 15% to 4.4 cents
- ▶ Strong cashflow from operating activities of \$4.9m due to EBITDA growth and working capital management

The five acquisitions completed in the previous year performed well, with a full-year impact on the company's FY17 performance. These acquisitions were targeted at expanding our geographic coverage, customer base and services. I am pleased to report that they are delivering these outcomes for the company.

Late in the second half of FY17, we signed a new contract with our existing customer Medibank Health Solutions for services to the Australian Defence Force which involved a significant realignment of much of our service delivery, including the methods and locations. The new contract commenced on 9 May 2017 with an initial term to October 2018. Post balance date, on 18 September 2017 we were pleased to advise that the term of this contract was further extended to June 2019.

This new contract has had a bedding-in period of some 3 to 4 months as we invested in developing, training and commencing these services.

I also note the announcement by icare NSW of significant changes in the practical operation of Workers' Compensation claims in NSW, with the changes likely taking 12 months to be fully implemented. Konekt was awarded an icare Deed to provide services to them in FY18, one of a reduced number of providers to achieve this outcome.

## **Dividend**

The Board was pleased to declare a fully franked final dividend for the year of 0.75 cents per share. This was an increase over the previous year's dividend of 0.5 cps fully franked.

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

## **People**

Our performance in FY17 once again reflected the dedication of our staff and the support of our customers. Konekt continues to build a strong culture of performance, engagement and retention in differentiating ourselves as an employer, and in making a difference across Australian workplaces. We positively impact peoples' lives, and our people actively participate in improving our company.

We believe in nurturing an exceptional work environment. Our employee values focus on five core areas being leadership, career diversity, personal impact, collaboration, and providing best-in-class services. Our voluntary turnover has fallen by 9% as a result of higher levels of engagement, retention and individual growth.

## **Post Balance Date Acquisition of Mission Providence**

Post balance date, on 11 August 2017, we were pleased to announce that Konekt had agreed to acquire Mission Providence, a leading provider of two programs - Employment Services and the New Enterprise Incentive Scheme (NEIS) - under the Federal Government's jobactive program. Following Commonwealth Department of Employment consent to Konekt's acquisition, the transaction was completed on 29 September 2017 and will make a nine-month contribution to Konekt's FY18 results.

We had been actively reviewing a range of opportunities in this field for the past 18 months and believe Mission Providence is a strong acquisition for Konekt.

The acquisition of Mission Providence provides a number of benefits to Konekt:

- ▶ An attractive acquisition consistent with Konekt's Return-to-Work focus and purpose of maximising workforce participation for individuals
- ▶ Expansion into adjacent return to work and employment placement services markets to diversify and expand Konekt's revenue streams
- ▶ A large established infrastructure, experienced management team and complementary national footprint
- ▶ Enables Konekt to expand further into employment and related return to work programs, leveraging Konekt's experience in workplace rehabilitation services with Mission Providence's expertise; and
- ▶ Financially compelling

The consideration for the acquisition was \$24.0m in cash plus purchase price adjustments, including working capital and net debt adjustments, on completion.

We are delighted to welcome the Mission Providence staff to the Konekt group and look forward to working together to deliver great employment outcomes for individuals and build on our market presence. Mission Providence has a strong and sector-experienced management team led by CEO, Anthony Steel, who will continue to lead the business under Konekt's ownership.

The year ahead sees a significant expansion in Konekt's scale as we bed in the Mission Providence acquisition, continue to deliver high quality services to our customers and individuals in the areas of work safety, return to work services and employment services

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

## **CEO's Address**

### **FY17 Operational Highlights**

For the fourth year running, the Company achieved several new business wins during the year, as well as retaining significant accounts and reflecting the increased capability we have built into the business. We expanded our customer base organically with 30+ new employer customers.

We achieved very solid Return to Work (RTW) rates – with a 94% level maintained for the past two years

We successfully launched a New Employer model nationally, based on Konekt's leading position in South Australia in the Job Placement Services (New Employer) sector.

We also continued to invest in product development and technology platforms, with capex of \$1.3m for FY17, continuing our data driven thematic resulting in new insights being delivered to the market

And finally, we improved staff retention rates with excellent engagement scores, including from the acquired businesses

All in all, a year marked by further solid progress.

The range of initiatives undertaken to improve our performance and strengthen our position over recent years has provided the platform for Konekt's continued organic growth and to complete five bolt-on acquisitions in FY16; expanding our geographic coverage, customer base and services. We have been disciplined in our assessments of the opportunities, and our results indicate these businesses have integrated well.

Whilst the vast majority of our work and performance is done with individuals, Konekt recognizes that Revenue is generated from the entities commissioning our services.

To that end, our Revenue is spread between Corporate, Insurance and Government clients – our 3 target groups of Customers.

Our strategic intent is to continue to be #1 in Care and drive further growth.

Specifically, our focus is on:

- ▶ Continuing to develop new sales opportunities, retain existing clients and deepen existing customer relationships
- ▶ Leveraging our Data capability into new Customer and Product insight
- ▶ Improving productivity and maintaining cost discipline
- ▶ Strengthening our leadership capabilities and continued improvements in staff development and employee retention
- ▶ Growing both our scale within the return to work solutions industry and adjacent markets both organically and by targeted acquisitions to diversify and expand our revenue streams, accelerate growth, strengthen our market position and build shareholder value.

Post year end consistent with our focus, we completed the acquisition of Mission Providence.

This was our largest acquisition to date and expanded our services into adjacent employment markets with scale, consistent with our focus and purpose of maximising outcomes for the individuals with whom we work. The acquisition doubles our scale in terms of staff, annualised revenues and EBITDA.

As the Chairman said in his address, we had been actively reviewing and exploring opportunities in the Federal Government's employment services schemes over the last 18 months.

We view this market as an attractive and large adjacent market to our existing return to work and work safety markets, with common customer bases, focus on care for individuals in their work, employment and workplace safety.

A key requirement of any expansion into this adjacent market was being able to secure the right opportunity which provided scale, market position with a strong management team, large established infrastructure and cultural fit with Konekt. And of course, an acquisition which met our financial metrics and enhanced the value of Konekt to shareholders.

The jobactive program is significant with Federal Government funding budgeted to be approximately \$1.4bn per annum through to FY20. The outsourcing of assisting jobseekers to find employment by the Federal Government has existed in various forms since 1994, including Working Nation, Job Network, Job Services Australia and, most recently, jobactive. The Federal Government has committed funding of approximately \$1.4bn per annum to the jobactive program.

Mission Providence holds a 5% market share in the national Employment Services segment based on caseload handled. In the regions in which Mission Providence has operations, it has an estimated 19% market share.

The NEIS has been running for over 30 years and attracted additional funding in the 2016-2017 Federal Budget to an annual spend of \$83m - from \$61-65m over the five-year period FY10 - FY15. There is a total of 8,600 NEIS places available each year and Mission Providence holds a market share of approximately 30%.

The quality of management is always a critical aspect for us in reviewing acquisitions.

Mission Providence has a very high-quality leadership team. We are very excited to have them join the Konekt family with Anthony Steel, CEO, continuing to lead Mission Providence's operations as part of the Konekt group.

Following the acquisition, Konekt will have more than 800 staff with strengthened national coverage on the ground and close to our customers.

Mission Providence operates in a number of parallel markets to Konekt nationwide. We expect this will enhance Konekt's ability to deliver return to work employment and return to work from injury programs. It also provides the capacity to leverage both Konekt's and Mission Providence's expertise and networks to expand our presence in existing regions and enter new or underserved markets. For example, a potential future opportunity is in services under the National Disability Insurance Scheme.

Konekt now operates in sectors for its services with an addressable market of an estimated \$2.75bn in annual revenues. Prior to the Mission Providence acquisition, Konekt's addressable market was an estimated \$350m pa.

At the announcement of the acquisition we provided guidance for FY18 based on a proforma basis, assuming a full year's contribution from Mission Providence.

Completion of Mission Providence acquisition on 29 September 2017 will result in a 9 month contribution from Mission Providence.

Konekt anticipates FY18 reported performance to be in line with guidance issued on 11 August 2017 at the full year results:

- ▶ Underlying revenue to be up over 70%
- ▶ Underlying EBITDA (excluding one-off items) to be up over 70%
- ▶ Underlying EPS before amortization (EPSA) dependant upon finalisation of completion accounting, asset valuation and tax determination

FY19 is expected to show a strongly accretive EPS before amortisation (EPSA), reflecting a full 12 month contribution from Mission Providence

Amortisation of intangible assets arising from the acquisition is expected to have a material impact on statutory results over the period to 30 June 2020.

## Contacts

Reena Minhas  
**Company Secretary**

T: +61 2 9307 4007  
E: [tmugridge@konekt.com.au](mailto:tmugridge@konekt.com.au)

***Konekt helps Australia's best workplaces become more productive.*** Our focus is on helping organisations, individuals and government to maximize workforce participation and productivity, and minimize the impact of workplace injury. With 800 permanent staff and 120 offices around Australia, Konekt has the reach and expertise to make a true difference. The Konekt team deliver employment placement, workplace health and injury management outcomes - offering an integrated participation and productivity solution.