



# Konekt

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Konekt Limited (ASX: KKT)

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## FIRST HALF FY18 RESULTS

### Highlights

- ▶ 1H FY18 results in line with expectations including a strong 3 month's contribution from Mission Providence:
  - Underlying revenues up 47% to \$38.6m vs pcp, including \$14.0m from Mission Providence
  - Underlying EBITDA up 34% to \$3.99m vs. pcp (excluding \$3.1m of acquisition and integration costs expensed in 1H FY18)
  - Underlying NPAT before amortisation up 10% to \$1.92m vs pcp
  - Reported statutory after tax loss of \$1.25m, included acquisition and integration costs (\$3.1m) and increased amortisation charges (\$1.1m) relating to the acquisition
- ▶ Mission Providence performing well with integration into the Konekt Group proceeding smoothly in line with expectation
- ▶ Good growth in mental health, pre-employment and consulting services offset by market contraction in injury management and return to work activities resulted in \$1.7m lower revenues for existing businesses vs pcp. Cost initiatives reduced impact on Underlying EBITDA margin (10.3% vs 11.3% pcp)
- ▶ Implemented new group organisational structure in early November and completed personnel integration in Finance, HR, IT and Shared Services functions across the enlarged group
- ▶ Annualised occupancy synergies of \$2.5m - \$3.0m p.a. targeted to be realised by end calendar 2018
- ▶ New business opportunities being explored with expanded group capabilities

Proudly part of the Konekt Group of Companies



- ▶ On track to meet FY18 guidance provided at the November 2017 AGM

Konekt Group Chief Executive Officer, Damian Banks, said: “Konekt has delivered an on-target first half result for FY18, in line with our expectations. We are on track to deliver FY18 growth in group revenues and underlying EBITDA of over 70%, as advised at the November 2017 AGM (including a 9-month contribution from Mission Providence). FY19 will show further growth, reflecting the first full 12-month contribution from Mission Providence together with occupancy synergies and without the one-off transaction costs noise.”

### Financial Results Summary

Half Year ended 31 December (\$m)	1H FY18	1H FY17	Change
Revenue	38.78	26.53	46%
<b>Revenue – underlying <sup>(1)(2)</sup></b>	<b>38.64</b>	<b>26.31</b>	<b>47%</b>
EBITDA	1.03	3.20	(68%)
<b>EBITDA – underlying <sup>(1)(2)</sup></b>	<b>3.99</b>	<b>2.98</b>	<b>34%</b>
<b>EBITDA Margin % - underlying</b>	<b>10.33%</b>	<b>11.33%</b>	<b>(100) bp</b>
Interest <sup>(3)</sup>	(0.39)	(0.16)	(large)
Depreciation	(0.79)	(0.27)	(large)
Amortisation <sup>(4)</sup>	(1.31)	(0.20)	(large)
Net profit before Tax (NPBT)	(1.46)	2.57	(large)
<b>NPBT (before amortisation) – underlying</b>	<b>2.81</b>	<b>2.55</b>	<b>10%</b>
Tax	0.21	(0.78)	large
Tax – underlying <sup>(5)</sup>	(0.89)	(0.80)	(10%)
Net Profit after Tax (NPAT)	(1.25)	1.79	(large)
<b>NPAT (before amortisation) - underlying</b>	<b>1.92</b>	<b>1.75</b>	<b>10%</b>
EPS (cents)	(1.33)	2.45	(large)
<b>EPS (before amortisation) (cents) – underlying</b>	<b>2.04</b>	<b>2.39</b>	<b>(15%)</b>

1) Underlying 1H FY18 adds back one-off acquisition related costs of \$3.1m less write back of \$144,000 of deferred consideration included in statutory results

2) Underlying 1H FY17 deducts write back of \$222,000 of deferred consideration included in statutory results

3) 1H FY18 Interest of \$387,000 includes \$282,000 bank & finance lease interest plus \$105,000 interest expense unwind for deferred consideration (versus 1H FY17 \$166,000 interest expense unwind for deferred consideration)

4) 1H FY18 Amortisation includes \$1.1m increased amortisation charges incurred as a result of the Mission Providence acquisition

5) Underlying Tax expense calculated at 31.5% tax rate

### Commentary

Konekt reported strong underlying revenue growth in 1H FY18, up 47% to \$38.6m vs the pcp.

Mission Providence has performed strongly and to expectation, contributing \$14.0m of revenue for 3 months following completion of the acquisition at the end of September 2017.

The half also saw strong performances from Konekt’s mental health, pre-employment and consulting services, offset by volume weakness in injury management/return to work services during the period. Lower volumes were experienced in injury management and return to work services including the new Medibank Health Solutions (MHS) “on base” service delivery model, with volumes returning to 2016 levels, from the 2017 peak levels. Pleasingly, during the half, the MHS contract was extended to June 2019.

Weaker workers' compensation markets were experienced during the first half in NSW and SA due to government initiatives in these States over the past 18-24 months. Whilst having experienced low single digit market growth over recent years, this current half witnessed an overall market contraction. Konekt anticipates the market steadying and returning to low single digit growth. The impact of these weaknesses was a reduction in revenues of \$1.7m (6.3%) from Konekt's existing businesses vs the pcp. Konekt has implemented initiatives to align its costs in relevant businesses to the lower volumes and maintain margins.

Underlying EBITDA (adding back \$3.1m of acquisition and integration costs less write back of \$144,000 of deferred consideration included in statutory results) was up 34% to \$3.99m vs the pcp.

Statutory NPAT for 1H FY18 was a loss of \$1.25m reflecting the \$3.1m of acquisition and integration costs and increased amortisation charges of \$1.1m incurred as a result of the Mission Providence acquisition.

Underlying NPAT before amortisation was a profit of \$1.92m up 10% on the pcp.

The integration of Mission Providence into the Konekt Group is proceeding smoothly and in line with expectation. A new organisational structure was implemented in early November along with completing the integration of Finance, HR, Technology and Shared Services personnel across the enlarged group.

### **New occupancy synergies**

New occupancy synergies are also being reviewed across the enlarged group network of 126 offices. Konekt is targeting annualised savings of \$2.5m - \$3.0m by the end calendar 2018, reducing annualised occupancy costs from \$11.0m p.a. to \$8.0m - \$8.5m p.a. There will be an associated up-front investment (primarily capital) of a maximum of \$3.0m in new office fit outs and associated moving and refurbishment costs to realise these annualised savings.

### **Balance Sheet/Cash flow**

The Balance Sheet as at 31 December 2017 reflects the Mission Providence acquisition and the funding for the deal (\$15.7m new equity and \$18.3m new banking facility). The final acquisition price was \$27.9m with a net cash outflow of \$24.9m (net of \$3.0m of cash and cash equivalents acquired).

As at 31 December 2017, net debt was \$10.3m, reflecting gross debt of \$18.3m (\$4.0m current, \$14.3m non-current) and cash on hand was \$8.0m. Gross Debt/FY18 underlying trailing EBITDA is expected to be less than 2.0x at financial year-end.

Konekt's debt facility has a three-year term with principal reductions of \$1.0m each quarter, the first payment having been made in early January 2018.

Intangible assets increased by \$33.4m to \$46.0m following the Mission Providence acquisition, including recognition of fair value of identifiable intangible assets (jobactive contract) of \$10.0m amortising over the period to 30 June 2020 and recognition of goodwill of \$22.6m. Based on this, it is expected that annual amortisation charges relating to the Mission Providence acquisition will be c.\$3.6m per annum (pro rata for 9 months in FY18).

Operating cash flow in the half was negative \$0.1m, due to the impacts of the acquisition, with many of the acquisition and integration expenses as well as the net working capital items from the acquisition being recorded under "operating" cash flows.

### **Dividend**

The Board has determined not to declare an interim dividend. The Board's approach to dividends will be based on considering the Net Profit After Tax before amortisation (NPATA) performance of the company, as well as balancing company and shareholder interests.

## Outlook

Konekt affirms its FY18 outlook as advised at its AGM in November 2017.

Based on a 9-month contribution from Mission Providence in FY18, and current operations/market conditions, Konekt anticipates:

- ▶ Underlying revenue to be up over 70% vs pcp
- ▶ Underlying EBITDA to be up over 70% (excluding transaction, integration and one-off costs) vs the pcp

Underlying EPS before amortisation (EPSA) for FY18 remains dependent upon finalisation of completion accounting, asset valuation and tax determinations related to the acquisition of Mission Providence.

FY19 results will include the benefit of a full 12-month contribution from Mission Providence and of targeted occupancy synergies.

## Teleconference Details

Konekt will hold a teleconference, hosted by its Group Chief Executive Officer, Mr Damian Banks and Group Chief Financial Officer, Ms Reena Minhas, to discuss its interim FY18 results.

### Details of the teleconference are as follows:

Time: 9.30 am, AEST  
Date: Friday, 16 February 2018  
Dial in details: 1800 558 698 or +61 2 9007 3187  
Passcode: 706 408

### Investor Contacts

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### **About Konekt Group**

*With over 800 staff and 126 branches across Australia, Konekt is one of the largest integrated employment placement, workplace injury management and workplace health solutions providers in Australia. Konekt's focus is on helping organisations, individuals and government to maximize workforce participation and productivity, and minimize the impact of workplace injury. We help organisations minimise workplace costs, resulting in increased participation, reduced workers' compensation premiums and safer workplaces. Through Konekt's merger with Mission Providence, a leading Jobactive provider, we also assist individuals seeking employment and injured workers returning to the workforce.*