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Konekt Limited (ASX: KKT)

ASX Limited
Company Announcements Office
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Konekt Limited FY18 Results

Continued Growth - Revenue up 67% and Underlying EBITDA up 56%

Highlights

- ▶ Underlying Revenue up 67% to \$88.9m including 9 months contribution from *Mission Providence* acquisition
- ▶ Underlying EBITDA up 56% to \$9.1m (\$5.8m FY17)
- ▶ Underlying EPS before amortisation up 20% to 6.1cps (5.1cps in FY17)
- ▶ Final dividend declared of 1.0 cps fully franked, (0.75 cps fully franked in FY17)
- ▶ *Konekt Employment* (rebranded from Mission Providence) performing well and to expectation
- ▶ *Konekt Workcare* (including workcare, training and mental health operations) underlying revenues down 10% to \$47.6m, primarily reflecting lower volumes on new MHS contract and lower icare NSW related referrals, not fully offset by growth in remaining portfolio
- ▶ Annualised occupancy synergies of \$2.75m p.a. well advanced and on track to be achieved by end calendar 2018 – FY19 flat on FY18 premises costs
- ▶ FY19 results to include first full 12 months contribution from *Konekt Employment* business

Konekt Limited (ASX: KKT) today reported its financial results for the 12 months ended 30 June 2018 (FY18). The results include an initial 9-month contribution from the *Mission Providence* acquisition completed end of Q1 FY18.

Konekt Group Chief Executive Officer, Damian Banks, said: “Konekt continued to implement its growth strategy in FY18. We expanded our service offering with the acquisition of a leading provider of employment placement services through the Federal Government’s c\$1.4bn p.a. *jobactive* program and have rebranded the business *Konekt Employment*. We are pleased to report that the business is performing well and to expectation.”

In 2H18 *Konekt Employment* was awarded a contract to provide services in 16 regions under the \$800m p.a. *Disability Employment Services (DES)* program.

“Our *Konekt Workcare* business continued to deliver quality services to its clients; however, with lower volumes under the new MHS contract. We believe volumes under the new contract have stabilised and are in line with FY16 levels. Together with changing market dynamics in NSW and SA workers compensation, this resulted in *Konekt Workcare* underlying revenue being \$5.5 million lower than FY17.

We have integrated our support services across the enlarged group and in April 2018 co-located the Sydney offices of *Konekt Workcare*, *Konekt Employment*, *Communicorp* and Group functions into new premises. We are already experiencing increased communication and productivity benefits from this move.

Going forward into FY19, we expect property expense to be flat with FY18. The company is well advanced on the property synergies program and expect to realise \$2.75m p.a. of savings by end of December this year, with c\$2.0m of these savings to be reflected in FY19 accounts (\$2.4m offset by rent inflation and new office openings). We will also have the benefit of a first full year contribution from *Konekt Employment*”.

Financial Results Summary

Year ended 30 June (A\$m)	2018	2017	Change %	2018	2017	Change %
	Underlying			Statutory		
Revenue	88.9	53.1	67%	89.1	53.5	67%
- Employment	41.3	-	n/a	41.3	-	n/a
- Workcare	47.6	53.1	(10%)	47.8	53.5	(11%)
EBITDA	9.1	5.8	56%	6.2	6.2	(1%)
<i>EBITDA Margin</i>	10.2%	11.0%	(80bp)	6.9%	11.6%	(470bp)
Interest	(1.0)	(0.3)	(large)	(1.0)	(0.3)	(large)
Depreciation	(2.3)	(0.5)	(large)	(2.3)	(0.5)	(large)
Amortisation	(3.7)	(0.5)	(large)	(3.7)	(0.5)	(large)
Net profit before Tax	2.1	4.5	(53%)	(0.9)	4.8	n/a
Tax	0.3	(1.3)	n/a	0.7	(1.3)	n/a
Net Profit after Tax	2.4	3.2	(26%)	(0.2)	3.6	n/a
Net Profit after Tax before Amortisation	6.1	3.8	63%	3.6	4.1	(13%)
EPS before amortisation (cents)	6.13	5.13	20%	3.58	5.63	(36%)
DPS - fully franked (cents)	1.00	0.75	33%	1.00	0.75	33%

1) Underlying FY18 adds back one-off acquisition and integration related costs of \$3.1m and deducts \$0.2m of deferred consideration income in statutory results

2) Underlying FY17 deducts write back of \$0.4m of deferred consideration included in statutory results

Commentary

Konekt reported FY18 underlying revenue up 67% to \$88.9m vs the pcp, driven by 9 months’ contribution from the *Mission Providence* acquisition completed on 29 September 2017.

The acquisition has performed strongly delivering revenue of \$41.3m over the 9 months and to expectation following its acquisition.

The *Konekt Workcare* business revenues (including workcare, training and mental health operations) were 10% lower at \$47.6m primarily due a 17.5% decline in MHS and insurance revenues partially offset by 7.2% growth in other customer revenue.

Lower volumes were experienced in injury management/RTW services and under the new MHS “on base” service delivery contract, returning to 2016 levels, from the 2017 peak levels. In addition, weaker workers’ compensation markets in NSW and SA due to government initiatives in these States over the past 18-24 months were experienced. Customer demand for consulting, pre-employment and mental health services exhibited good growth demonstrating value of the diversified business.

During the half, the MHS contract was extended to 30 June 2019 exhibiting strong relationship with MHS and delivering quality services to the Defence Forces.

Statutory results for FY18 included \$3.1m of acquisition and integrated costs relating to the *Mission Providence* acquisition. Underlying EBITDA (adding back acquisition and integration costs) was up 56% to \$9.1m vs the pcp.

Tax losses of \$25.3m (\$7.6m at 30%) were acquired with the acquisition of *Mission Providence*. These tax losses were transferred to the Konekt Group and partially recognised in the opening balances at acquisition based on the Group's accounting policy. Subsequently, from the date of acquisition, further tax losses are available to be recognised on the balance sheet and have resulted in a tax benefit of \$0.8m in the profit and loss for FY18.

EPS before amortisation was up 20% to 6.1cps (5.1cps in FY17)

Occupancy Synergies

Occupancy savings across the enlarged network of offices are on track and Konekt expects to achieve annualised savings of \$2.75m p.a. by the end of 1H FY19.

Pleasingly we have front ended a number of these savings and expect that \$2.4m (85% of annualised synergies) will be included in the FY19 results which will be partially offset by rent inflation and new office openings of \$0.4m, with a net saving of \$2.0m in FY19. The total capital costs to capture these savings are now expected to be a maximum of \$2.4m (previously estimated as a maximum of \$3.0m).

In April 2018, Konekt co-located the Sydney offices of *Konekt Workcare*, *Konekt Employment*, *Communicorp* and Group functions into new premises in Sydney. The co-location of these operations and businesses are already experiencing increased communication and productivity benefits.

Balance Sheet/Cash flow

The Balance Sheet as at 30 June 2018 reflects the *Mission Providence* acquisition and its funding.

As at 30 June 2018, net debt was \$9.9m, reflecting total debt of \$15.6m (\$4.0m current, \$11.6m non-current) and cash on hand of \$5.7m. Total Debt/FY18 underlying EBITDA was 1.7 times at FY18 financial year end, Net Debt/FY18 underlying EBITDA was 1.1 times.

Konekt's debt amortises with principal reductions of \$1.0m each quarter.

Intangible assets increased by \$31.4m to \$44.1m, including recognition of fair value of identifiable intangible assets (*jobactive* contract) of \$10.0m amortising over the period to 30 June 2020. FY18 included a total amortisation charge of \$3.7m reflecting \$2.7m for 9 months of *jobactive* contract amortisation and \$1.0m for other intangible assets. It is expected that the annual amortisation charges for the Group will be c.\$4.6m – \$5.0m per annum for FY19 and FY20, of which \$3.6m p.a. will relate to the *jobactive* contract.

Operating cash flow was \$3.9m, after incurring cash costs of \$2.2m relating to acquisition and integration costs and the build of working capital from the acquisition.

Dividend

The Board has declared a final FY18 dividend of 1.0cps fully franked (0.75cps fully franked pcp).

Outlook

It is expected that 12 months of *Konekt Employment* revenue contribution, organic growth, property synergies and disciplined margin management will offset pcp headwinds, labour cost increases, investment in DES establishment and property inflation leaving Konekt well positioned to deliver increased Revenue, EBITDA and EPSA in FY19.

A business update will be provided at the Annual General Meeting on 2 November 2018.

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 FY18 results.

Details of the teleconference are as follows:

Time: 9.30 am
Date: Friday, 17 August 2018
Dial in details: 1800 558 698 or +61 2 9007 3187
Passcode: 511 016

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About Konekt Group

With over 800 staff and 120 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 (Konekt Employment), a leading jobactive provider, we also assist individuals seeking employment and injured workers returning to the workforce.