K&S CORPORATION LIMITED

NEWS RELEASE

28 August 2020

KSC Announces Full Year Result for FY20

The Directors of K&S Corporation Limited (ASX: "KSC") today announce a statutory profit before tax of $16.1 million for the year ended 30 June 2020. The result is 403.3% higher than the prior corresponding period.

Statutory profit after tax was $11.2 million, 384.1% higher than the previous year statutory profit after tax of $2.3 million.

Included in the Group's statutory result for FY20 was $12.4 million (before tax) attributable to JobKeeper and $1.3 million (before tax) in NZ wage subsidy, both of which were received in the June 2020 quarter. The Group's statutory result also included $9.6 million of non-recurring costs, largely related to hire purchase break costs from the Group's debt refinancing totalling $3.6 million, $3.4 million in redundancy costs and a further $1.4 million of costs associated with the sale of the Western Australia based Regal General Freight business that was concluded in August 2019.

After adjusting for the above significant items including government wage subsidies, the current year underlying[1] profit before tax was $12.0 million, an increase of 270.1% on the prior corresponding period. The underlying profit after tax was $8.4 million, up on the prior corresponding period by $6.1 million.

Operating revenues decreased by 12.7% to $790.6 million in FY20.

Operating cashflow for FY20 was $83.1 million, 34.4% higher than for the previous year, which included benefits derived through continued and improved working capital management as well as government wage subsidies.

Safety remains a key focus for the Group. The Group's lost time injury rate improved, reducing from 10.0 at the end FY19 to 6.6.

Addressing the challenges posed by COVID-19 required considerable resourcing and was the major area of employee welfare and safety focus in the second half of FY20. Cognisant of the Group's large and mobile workforce which services numerous customer sites, it is pleasing that at this point in time the Group has had nil employee COVID-19 cases.

The Australian Transport business delivered a strong improvement in results compared to FY19. Full year revenue declined due to a combination of the cessation of contracts, divestment of underperforming business units and customer activity reduction consequent to COVID-19. The implementation of cost reduction strategies continued across the business, contributing strongly to improved underlying profit.

[1] Underlying profits are categorised as non-IFRS financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the Statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. The adjustments are detailed in Annexure A to this announcement. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to review by the auditor.

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In particular, the Group has focussed on operational efficiencies, supplier renegotiations, cessation of underperforming activities, and the rationalisation and replacement of specific fleet assets that reduced operating costs. Ongoing cost reductions are expected to continue to be accretive in in FY21, although these may be offset by possible COVID-19 related impacts.

The New Zealand business realised a sound result in FY20, despite the Stage 4 COVID-19 lockdowns being put in place from 23 March 2020 to 26 April 2020. The New Zealand business continues to realise growth through the provision of its integrated and value adding service offering, with further business diversification also being achieved.

The fuel trading business has again provided sound financial results, despite demand softening in the June 2020 quarter consequent to COVID-19. The fuel retailing and wholesaling markets are dynamic and continue to exhibit a high level of competition.

Balance Sheet and Funding

The Group successfully completed the refinance of its debt facilities in April 2020. The Group secured a new $200 million debt facility that completely re-financed the previous debt arrangements that included a significant number of hire-purchase lease contracts. Leveraging the Group's sound balance sheet, the new debt package provides improved terms, liquidity, pricing and debt covenant headroom and does not require any mandatory amortisation in FY21.

The debt facility comprises funding in three year tranches totalling A$150 million and five year tranches totalling A$50 million, and will be utilised for fleet capex, working capital and general corporate purposes. The debt facility was provided by two of the Group's existing lenders, Westpac and NAB, with the addition of a new lender, Bank of China.

The Group's net asset position increased by 6.3% to $255.4 million in FY20.

The Group's gearing ratio (excluding lease liabilities) reduced to 21.4% at 30 June 2020, compared to 35.4% in the prior year.

Business Restructuring

As part of the ongoing cost reduction focus, the Group completed a number of restructuring activities during the year:

- General freight – The Western Australia based Regal General Freight business was sold in August 2019 to Centurion Transport Co. Pty Ltd. Under the agreement, Regal transferred to Centurion its rights and entitlements under customer contracts and Centurion made offers of employment to the majority of the employees of K&S working in the Regal General Freight business. The sale was completed on 30 August 2019.

- Bulk transportation - The Port Kembla based bulk transportation business was closed in January 2020 following the exit of the Illawarra Coal contract. The closure of the Port Kembla bulk business resulted in an improvement in Group underlying performance in the second half of FY20.

- Chemical and energy transportation – A number of underperforming operations were exited during the year.

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Each of the above initiatives were accretive to the FY20 profit. The Group recorded a total restructuring expense of $3.4 million in relation to these initiatives.

COVID-19

It is not possible to forecast with any certainty the magnitude of the COVID-19 impact on the Australian and New Zealand economies or upon the Group itself. In the June 2020 quarter the Group experienced reduced revenues in a number of business units in Australia and New Zealand as a result of COVID-19. At a minimum the Group expects revenues to be adversely impacted by COVID-19 in the first half of FY21.

With the exception of the Stage 4 lockdown imposed in New Zealand between 23 March 2020 and 26 April 2020, the Group's operations have not been subject to any Government mandated shut downs or state border closures.

The Group has enacted pandemic protocols to assist manage the safety of employees. The Group has also implemented measures to mitigate potential impacts of COVID-19 upon its continued ability to fulfil core managerial, administrative, and operational functions. Pleasingly, for the June 2020 quarter, the Group was able to maintain near pre-COVID-19 levels of workforce participation with nil major stand down actions. The receipt of the JobKeeper wage subsidy has further strengthened the Group's financial position and will assist it to withstand the longer term impacts of COVID-19 on operations.

Dividend

The Directors are cognisant of the fact that whilst the statutory earnings for FY20 include significant contributions from government wage subsidies, the Group's underlying earnings have also improved significantly compared to the prior year. The final dividend declared was determined with reference to the underlying net profit after tax, as opposed to the statutory profit after tax, and specifically excludes any impact of government wage subsidies from the dividend calculation.

The Directors have declared a fully franked final dividend of 3.0 cents per share (2019: 0 cents per share). This follows the interim dividend of 2.0 cents per share paid in April 2020, making the total dividend 5.0 cents per share in respect of the year ended 30 June 2020.

The final dividend will be paid on 3 November 2020, with the date for determining entitlements being 20 October 2020.

Directors have elected to suspend the dividend reinvestment plan (DRP) in respect of the final dividend. The Directors believe that it is in the best interests of Shareholders to suspend the DRP as the Group's shares are currently trading at too great a discount to the net tangible asset backing of $1.74 per share and the issuing of shares under the dividend reinvestment plan would be dilutionary to existing shareholders.

Board Composition and Management

Sallie Emmett was appointed as a non-executive director with effect from 24 September 2019. Mrs Emmett is a lawyer with over 30 years' experience as a practising solicitor in both legal and management roles. Mrs Emmett has a broad range of commercial exposure, including to the transport sector, and expertise in workplace relations.

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Ray Smith retired as a non-executive director on 26 November 2019. Mr Smith made a significant contribution over his eleven years as a non-executive director.

Wayne Johnston ceased as Chief Financial Officer on 16 December 2019. Raunak Parikh was appointed to the position of Chief Financial Officer on 1 April 2020. Mr Parikh previously occupied the position of Group Financial Controller at K&S from May 2019.

Outlook

Providing earnings guidance going forward remains difficult, particularly having regard to the uncertainties created by COVID-19.

The Group has secure long term bank facilities and low gearing levels, and will continue to take a conservative approach to financial risk as well as maintaining a strong focus on working capital management and underlying profit improvement. The Group will continue to target organic growth, particularly in market segments such as contract logistics that will deliver stronger returns on investment.

The Group continues to review the industry segments in which it operates as well as the ways it offers services to the market. The Group also continues to review customer accounts that currently do not generate adequate financial returns.

Authorised by the Board of Directors
K&S Corporation Limited

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Annexure A – Financial Overview

Financial Overview		2020	2019	% Movement
Operating Revenue	$'000	790,639	905,207	**(12.7%)**
Statutory profit after tax	$'000	11,237	2,321	**384.1%**
Statutory profit before tax	$'000	16,090	3,197	**403.3%**
Earnings before interest and tax (EBIT)	$'000	26,410	11,158	**136.7%**
Earnings before interest, tax and depreciation (EBITDA)[2]	$'000	82,426	60,515	**36.2%**
Less legal settlement income	$'000	-	(9,525)	**(100.0%)**
Less JobKeeper income and NZ wages subsidy	$'000	(13,731)	-	**100.0%**
Less other significant items	$'000	9,648	9,572	**0.8%**
Underlying profit before interest, tax & depreciation[2]	$'000	74,758	60,562	**23.4%**
Underlying profit before interest & tax	$'000	18,742	11,205	**67.3%**
Underlying profit before tax[1]	$'000	12,007	3,244	**270.1%**
Underlying operating profit after tax[1]	$'000	8,405	2,354	**257.1%**
Total assets	$'000	563,344	579,778	**(2.8%)**
Net borrowings excluding lease liabilities	$'000	69,608	131,605	**(47.1%)**
Shareholders' funds	$'000	255,367	240,331	**6.3%**
Finance costs[2]	$'000	10,320	7,961	**29.6%**
Depreciation[2]	$'000	56,016	49,357	**13.5%**
Dividend per share	cents	5.0	2.0	**150%**
Net tangible assets per share[3]	$	1.74	1.84	**(5.4%)**
Operating cash flow[2]	$'000	83,074	61,833	**34.4%**
Return on assets	%	2.0	0.4	**398.3%**
Gearing	%	21.4	35.4	**(39.6%)**
Employee numbers		2,161	2,749	**(21.4%)**
Lost time injuries		31	57	**(45.6%)**
Lost time injuries frequency rate		6.6	10.0	**(34.0%)**

[1] Underlying profits and earnings per share based on underlying profits are categorised as non-IFRS Financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230- Disclosing non-IFRS information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments primarily include the Government wage subsidies received, redundancies, debt refinancing, COVID-19 related costs, onerous lease expenses and costs associated with the sale of Regal General Freight. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to audit or review by the auditor.

[2] Balances include amounts arising from the adoption of the new leasing accounting standard AASB 16 *Leases* from 1 July 2019.

[3] The net tangible asset backing per ordinary security has been impacted by the introduction of AASB 16. At 30 June 2020, $26.6 million of lease liabilities were included within the net tangible assets calculation, but $25.7 million of right of use assets have been excluded as they are considered to be of an intangible nature. This has reduced the net tangible asset per security by $0.20.