

2017



H1 FY2017
Results update
24 February 2017

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H1 FY17 statutory results

Revenue
\$46.1m

Gross
profit
\$22.6m

Gross
margin
49.0%

Underlying
EBITDA¹
\$4.0m



Operating
NPAT²
\$1.9m

Notes

1 Underlying EBITDA excludes one-off integration & acquisition expenses as well as \$1.3m of income associated with the reversal of Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

2 Operating NPAT excludes \$1.3m of income associated with the reversal of Contingent Liability (as above)

H1 FY17 highlights



Strong H1 FY17 results despite headwinds in Q1 FY17
- Higher 2Q FY17 revenue of \$26.3M vs Q1 FY17 \$19.8M
- Underlying EBITDA Q2 FY17 \$2.9m vs Q1 FY17 \$1.1m



A range of business development initiatives implemented over H1 FY17 to drive continued growth



Successful acquisition strategy to leverage operating cost base - acquisition of Quirindi Vet Group (QVG) (September 2016) and AllStock (January 2017)



Integration process – on track and on budget – Enterprise Resource Planning and Practice Management System expected to commence roll-out 1 May 2017



Stabilisation of industry challenges witnessed in Q1 FY17, with meaningful improvement in dairy and beef feedlot industry since November 2016



H2FY17 revenues expected to exceed H1FY17 revenues
- January 2017 revenue in line with company expectations



Maiden interim dividend of 0.8 cents per share fully franked (equivalent to 43.4% of operating NPAT attributable to shareholders and in-line with intended dividend policy as outlined in the prospectus)

Operational update

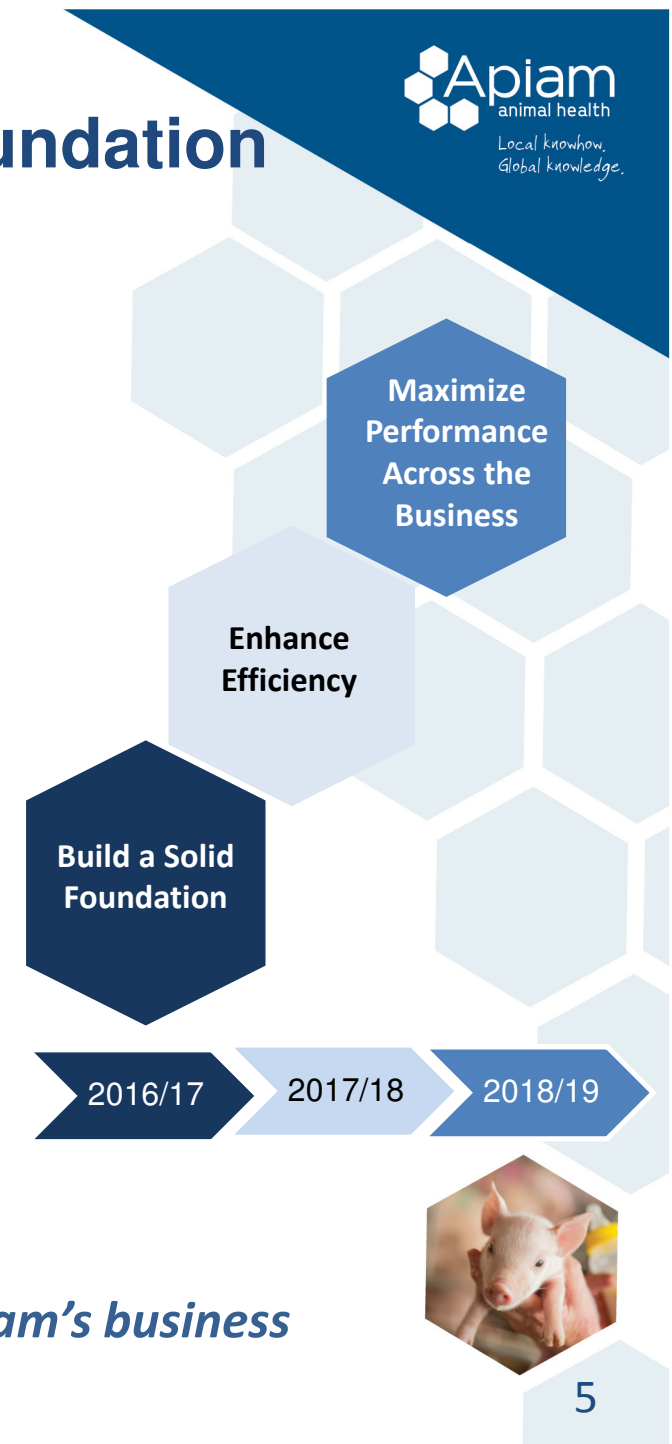


Strategic roadmap: building the foundation

Year one of a three year growth plan

What has been delivered in H1FY17?

- Workplace policies, culture, services
 - ✓ People & culture platform (HIVE) – 70% migration as of end Jan 2017
 - ✓ System improvements (inventory procurement, consolidated sales reporting by item and debtor management)
 - ✓ Key personnel recruitment
 - 3 Key Account Managers appointed
 - Veterinary Services Advisory Committee's (VSAC) have developed new products and services for H2 FY17 roll-out
- Acquisitions
 - ✓ Quirindi Veterinary Group (Sep 2016)
 - ✓ AllStock (Jan 2017)
- Integration platforms
 - ✓ Enterprise Resource Planning (ERP)/Practice Management System (PMS) system roll out expected to commence May 2017
 - ✓ Procurement & delivery fully integrated
 - ✓ Consistent operating environment across whole Apiam group underway



*Successful execution laying the groundwork for Apiam's business
as a part of our three-year plan*

Apium
animal health
Local knowhow.
Global knowledge.

Be sure

*of leadership and excellence
in everything we do*

Aplam
WATER TREATMENT

Local knowledge
Global knowledge.

www.aplam.com.au

NATURAL SPRING WATER

Total Water Analysis	mg/L	
Sodium	<3	
Bicarbonate	<3	
Magnesium	1.5	
Potassium	<1	
Calcium	1.5	
Sulphate	<0.5	

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Execution of acquisition strategy

Successful acquisitions of Quirindi and AllStock – strong strategic fit and expected to be earnings accretive (funded with a combination of cash & scrip)

AllStock business and transaction overview

- Leading expertise and technology provider of embryo transfer and artificial insemination services to the sheep and goat industries
- Revenue of \$1.6m in FY16
- Entered into agreement to acquire AllStock for \$1.75m effective 5 Jan, 2017
- AllStock principals have entered into employment contracts with Apiam subject to restraint conditions and 2 year share escrow



Quirindi Vet Group (QVG) business and transaction overview

- One of Australia's largest rural veterinary groups, providing broad array of veterinary services
- Revenue of \$12.2M in FY16
- Entered into agreement to acquire QVG for \$11.57M effective 1 Sept, 2016
- Increases geographic diversification
- Quirindi principals have entered into employment contracts with Apiam subject to restraint conditions and 2 year share escrow
- Integration progressing to plan, \$4.1m revenue contribution in 4 months in-line with expectations



H1 FY17 review of financial results



H1 FY17 – strong performance despite Q1 headwinds

\$m	Notes	H1 FY17	H2 FY16	Variance	%	H1 FY16 A
Total Revenue	1	46.1	44.3	1.8	4.1%	9.8
Gross Profit		22.6	21.1	1.5	7.1%	4.2
Expenses	2					
Employment Costs		(13.2)	(11.8)	(1.4)	11.9%	(2.2)
Other expenses		(5.4)	(4.3)	(1.1)	25.6%	(1.2)
Total Operating Expenses		(18.6)	(16.1)	(2.5)	15.5%	(3.4)
Underlying EBITDA		4.0	5.0	(1.0)	(20.0%)	0.8
Integration expenses		(0.4)	(0.5)	0.1	(20.0%)	-
Acquisition/Advisory expenses		(0.2)	(0.3)	0.1	(33.3%)	-
Other income	3	1.3	-	1.3	100.0%	-
IPO Costs		-	-	-	0.0%	(2.9)
EBITDA		4.7	4.2	0.5	11.9%	(2.1)
Depreciation & Amortization		(0.6)	(0.5)	(0.1)	20.0%	(0.1)
EBIT		4.1	3.7	0.4	10.8%	(2.2)
Interest		(0.3)	(0.4)	0.1	(25.0%)	(0.0)
Net Profit/(loss) before tax		3.8	3.3	0.5	15.2%	(2.2)
Tax		(0.6)	(1.2)	0.6	(50.0%)	0.2
Net Profit/(loss) after tax		3.2	2.1	1.1	52.4%	(2.0)
GM		49.0%	47.7%			43.0%
Underlying EBITDA margin		8.7%	11.4%			8.0%

Notes:

In the absence of a full 6 month H1 FY16 result or H1 FY16 prospectus forecast, H2 FY16 is used as a comparative for this period. H2 FY16 is calculated as reported Full Year FY16 statutory results less reported H1 FY16 statutory results

1. Revenue

- H1 FY17 includes 4 month Quirindi contribution
- Affected by lower than anticipated Q1 FY17 performance, due to challenging industry conditions
- Refer to slide 10 for detailed analysis

2. Expenses

- Refer to slide 11 & 12 for detailed analysis

3. Other income

- Relates to contingent consideration from entities acquired in FY16 that has been reversed from Amounts Payable on the Balance sheet



Strong rebound in Q2

H1 FY17 : Q1 vs Q2 comparison

H1 \$m	Q1 2017	Q2 2017	Chg (%)	H1 2017
Total Revenue	19.8	26.3	32.8%	46.1
Gross Profit	10.1	12.5	23.8%	22.6
Expenses				
Employment costs	(6.4)	(6.8)	6.2%	(13.2)
General expenses	(2.6)	(2.8)	7.7%	(5.4)
Operating Expenses	(9.0)	(9.6)	6.7%	(18.6)
Underlying EBITDA	1.1	2.9	163.6%	4.0
Gross Margin	51.1%	47.3%		49.0%
Underlying EBITDA margin	5.9%	10.8%		8.7%

Revenue

- Q2 vs Q1 up 32.8% (\$26.3m vs \$19.8m) (up 20% ex QVG Acquisition)
- Q1 lower than expected due to:
 - Dairy herd decrease due to low milk and high beef prices
 - Feedlot decrease due to low cattle numbers
 - Pig revenue down due to procurement phasing
- Growth in Q2 due to:
 - Dairy - Recovery in vet services, product sales & new clients
 - Feedlot – Recovery in cattle number entries due to lower beef and grain prices. Quirindi acquisition (contribution for Q2 of \$3.4m vs Q1 of \$0.7m)
 - Pig – resumption of normal buying patterns

Gross margin

- GM prior to acquisitions tracking in line with expectations and showing benefits of procurement synergies
- Reduction in Q2 margin reflects growth via acquisition (QVG) in feedlot sales at lower gross margin

Employment expense

- Q2 vs Q1 - Up 6.2%:
- \$0.3m due to QVG acquisition and \$0.1m due to previously announced investment in Key Account Manager's, Finance, IT, People & Culture (P&C)

Underlying EBITDA:

- Q2 vs Q1 up 163.6% (\$2.9m vs \$1.1m)



Notes:

Underlying EBITDA excludes reversal of contingent consideration and one-off acquisition and integration expenses

Building the platform for future growth

Operating expenses

Employment Costs:

- \$1.4 million increase employment costs (H1FY17 vs H2FY16), of which
 - \$0.8 million associated with previously announced investment in personnel:
 - Veterinarians and KAM's to drive further organic growth in customer base and synergies following future acquisitions
 - Investment in administration (HR, Finance, IT) to consolidate corporate services and provide the platform for future growth
 - \$0.3 million associated with 4 months trading of QVG acquisition
 - \$0.3 million due to introduction of incentive scheme and annual salary adjustment

Other operating expenses:

- \$1.0 million increase in other operating expenses (H1FY17 vs H2FY16), of which the approximate costs are as follows:
 - \$0.5 million associated with business development strategy including VSAC groups, marketing, brand development, people and culture and running costs associated with new personnel
 - \$0.2 million associated with QVG acquisition
 - \$0.3 million increase on underlying cost base

The incremental employment expense and other operating expense will form part of the ongoing cost base for Apiam.



Update on ERP / PMS investment

Investment in Enterprise Resource Planning and Practice Management System – on track & on budget

- Investment undertaken to support scale and deliver operating efficiencies as Apiam continues to grow
- Project tracking on budget and on time
 - ERP scheduled roll-out expected to commence May 2017
 - Integrated PMS to be configured in FY17 and will be phased into clinics over 6 months commencing in June 2017
- Total project cost c.\$1.6 million
 - Majority of project investment to be incurred in H2 FY17 (some PMS deployment expenses to be recognised in line with phased roll-out in H1 FY18)
 - Apiam estimates 40-45% of the project cost will be capitalised and amortised over the useful life
 - \$0.15m has been expensed in H1 FY17 YTD and is reported on the integration expense line. A further \$0.3m for H1 FY17 YTD has been capitalised and will be amortised over the useful life.



Maintaining a strong balance sheet to support future growth

\$m	31 Dec 2016A	30 Jun 2016A
Cash	1.5	2.1
Trade & receivables	13.6	13.3
Inventories	14.2	10.2
Property, plant & equipment	5.7	4.5
Intangibles	56.1	44.7
Other	0.8	0.4
Deferred tax asset	3.7	3
TOTAL ASSETS	95.6	78.1
Borrowings	22.7	16.0
Trade & other payables	13.8	9.5
Amounts payable to vendors	-	1.3
Tax liabilities	2.2	1.3
Provisions	4	3.7
TOTAL LIABILITIES	42.7	31.8
NET ASSETS	52.9	46.3

Inventory

- Routine strategic inventory build in December prior to supplier holiday close-down

Intangibles and borrowings

- Increase in intangibles & borrowings in line with the Quirindi acquisition
- Cash consideration of the acquisition of QVG on 1 Sept 2016 (and AllStock subsequent to FY17 H1 on 5 Jan 2017) was funded by the groups \$10m acquisition facility
 - to be refinanced as the business continues to grow

Trade and other payables:

- Higher in December as a result of the inventory build

Amounts Payable to Vendors

- \$1.25m contingent consideration for two entities acquired has been reversed from Amounts Payable as a result of not achieving their earnout target



H1 FY17 cashflow summary

Cashflow conversion of underlying EBITDA

\$m	H1 FY17 A
Underlying EBITDA	4.0
Net cash inflow from operating activities	0.7
Add back:	
Integration/Acquisition expense	0.5
Interest expense	0.4
Income tax paid	0.8
Underlying ungeared pre-tax cashflows:	2.4
Conversion	60%

FY16 H1 Statutory cashflows \$m	H1 FY17A	H2 FY16A
Net cash used in operating activities	0.7	(2.4)
Acquisition of subsidiary, net of cash	(6.3)	(3.2)
Purchases of property, plant and equipment	(0.6)	(0.3)
Restructure of group entities, net of cash	-	(1.1)
Purchases of Intangible assets	(0.3)	(0.1)
Net cash used in investing activities	(7.2)	(4.7)
Proceeds from issue	-	0.0
Net changes in financing	5.9	2.7
Share transaction costs	-	(0.2)
Net cash inflow from financing activities	5.9	2.6
Net change in cash and cash equivalents	(0.6)	(4.5)

Cashflow

- EBITDA cash conversion for H1 FY17 reflects the \$1.5m working capital impact of the routine build in inventory due to supplier holiday close down. Inventory value expected to return to normal operating levels by end of FY17.

Statutory Cashflows

H1 FY17 Investing activities:

- Reflect the acquisition of QVG \$6.3m
- Purchases of PPE:
 - \$0.6m on veterinary equipment to increase range of services provided (i.e. in house diagnostics)

H1 FY17 Financing activities:

- Reflect the increase in borrowings to fund the cash consideration for the QVG acquisition



Outlook



Industry conditions update

The beef & dairy industry have stabilised since the Q1 FY17 challenges



BEEF FEEDLOT

- Industry experienced positive turnaround on back of lower feeder steer prices in Q2 FY17 after a challenging Q1 FY17¹
- H2 FY17 expected to remain strong as grain prices become more affordable²



DAIRY

- Momentum is changing
- Positive indicators going forward for dairy industry
 - Apiam client herd rebuilding - monthly volume cattle cull cows in saleyards has fallen year-on-year since October 2016². January 2017 year to date now back in line with previous year to date
 - Grain and fodder prices more affordable²
 - Global milk prices in recovery phase²
 - Temporary water trades in irrigation areas down by 73% in price and subsequently up by over 100% in volume²

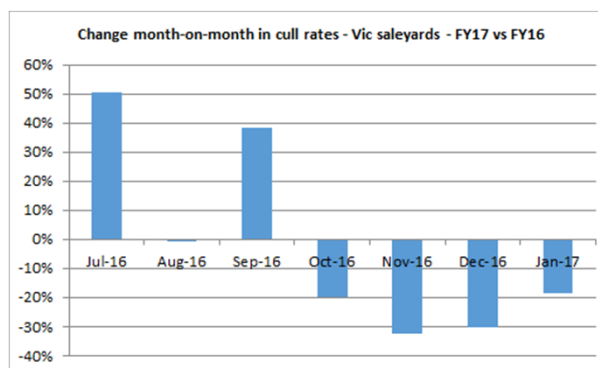


PIGS

- Industry conditions remain good
- Pig meat production growth in line with expectations - continued to grow at 4% since Jun 15³
- Robust industry expansion to meet future pork demand

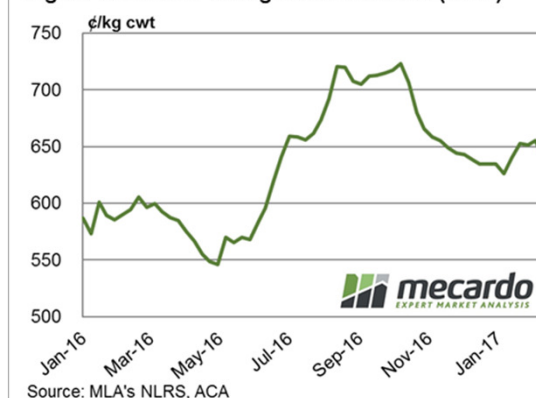
Feed prices			
Spot prices	Jan-17	Jan-16	Change
Feed wheat (av. \$/t del. Melbourne)	194	285	-32%
Barley (av. \$/t del. Melbourne)	172	263	-35%
Lucerne hay (av. \$/t del. Central Vic.)	360	451	-20%
Pasture hay (av. \$/t del. Central Vic.)	166	257	-35%

Source: Production inputs monitor Issue 137 – Feb 2017, Dairy Australia



Source: Dairy Australia

Figure 1. Eastern Young Cattle Indicator (EYCI)



Notes:

- 1 Mercado expert market analysis, Feb 10, 2017
- 2 Production inputs monitor Issue 137 – Feb 2017, Dairy Australia
- 3 Abs, Livestock slaughtered and meat produced, Australia, June 2016

Outlook

Business strategy for future growth

- Three year strategic roadmap delivered & underway
 - focus for FY17 is building the platform that will deliver benefits for 5-10 years
- Favourable industry outlook for production animal sector
 - Dairy and beef feedlot sectors have stabilised and conditions have improved
- Synergies, new service and product development to materialise in H2 FY17 and beyond
- Expansion of revenue streams through satellite branch clinics and strong acquisition pathway to leverage cost base
- **H2 revenue expected to be greater than H1 revenue**
 - Apiam management responded quickly to the challenges experienced in Q1 FY17 and delivered a strong Q2 FY17
 - January 2017 revenue is in line with company expectations



Investment case

- ✓ Vertically integrated business across entire animal health value chain
- ✓ Three-year strategy for growth developed and underway
- ✓ Delivering on growth plans through acquisitions and integration
- ✓ Attractive financial profile with high cash conversion
- ✓ Strong long-term industry fundamentals
- ✓ Experienced team with proven ability to deliver growth despite varying industry conditions



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