

ASX Release

Apiam Animal Health Limited

(ASX: AHX)

23 November 2017

2017 Annual General Meeting, Managing Director's Address

Good morning, I would also like to thank-you for coming today to Apiam's Annual General Meeting and for your support of our Company.

Today I will provide a high-level review of Apiam's financial performance in the 12 months to 30 June 2017, before turning to an update of our strategic initiatives including two recent announcements we have made relating to an acquisition and the proposed JV alliance with PETstock. To finish I will provide shareholders with an update on current industry conditions and the outlook for FY2018.

FY2017 results highlights

We reported our results for the 2017 financial year in August in detail but I will review the key information for shareholders today.

Firstly, I want to point out that when looking at the prior period comparison it needs to be noted that the FY2016 financials comprise an 8-month contribution from the Chris Richards Group and the other nine clinics acquired at the time of the IPO made roughly a 7-month contribution to the FY2016 period.

The acquisitions of Quirindi and AllStock also both occurred during FY2017 and made a 10 month and 6-month contribution to the period respectively.

Some of the key metrics I would like to highlight are:

- FY2017 revenue of \$98.0 million was delivered at the upper end of the \$96.0-\$98.0 million guidance we gave the market in May 2017
- This revenue result was driven by a strong revenue performance in the second half of FY2017, particularly Q4 FY2017 following the challenging industry conditions experienced in Q1 FY2017. Specifically, revenue in H2 FY2017, excluding the impact of acquisitions, increased 6.4% against H1 2017
- Gross margin of 48.2% in FY2017 was higher than gross margin in FY2016 of 46.8% driven by a change in business mix and achievement of procurement synergies

- Operating expenses were impacted by the investment required to “build the foundations” under the first phase of our three-year strategic roadmap. Our operating infrastructure is now at a level required to deliver the next stage of growth and we don’t envisage any significant additional increases going forward
- Reported NPAT for the full year was \$5.0 million, and included \$1.3 million of other income relating to contingent acquisition consideration that was no longer payable
- We also declared a final FY2017 dividend of 0.8 cps, taking the total dividend payout ratio for the year to 42.6%, in line with our targeted dividend policy at the time of the IPO

Strategic roadmap: progress update

At the end of FY2016 we implemented a 3-year strategic roadmap and this was presented to shareholders at this time. The strategic roadmap is comprised of three key building blocks – building the foundation, enhancing efficiencies and leveraging performance.

The 2017 financial year has been focused on executing the first stage “building the foundations” and as I have just said this has impacted our cost base. I would like to re-iterate that I firmly believe the significant investment we have made in the operating platform has positioned us well to deliver on-going organic growth, bolt-on strategic acquisitions and deliver efficiencies and synergies.

In the first few months of the 2018 financial year to date, we have also made progress towards the second phase of our plan – “enhancing efficiencies”. Our back-office functions, delivery and procurement are fully integrated and delivering benefits. Revenue uplift from acquisitions is being achieved and we are actively responding to customer trends to target higher revenue growth and margin opportunities.

Additional operating efficiencies will commence to be delivered throughout FY2018 and into FY2019, particularly as the last remaining system related investment, the Practice Management System roll-out is completed. I will explain this a little further on the next slide.

VetLink update

VetLink is Apiam’s Practice Management System which is being implemented across FY2018 following extensive development work by clinic personnel across several vet clinics over the past year. A two-stage roll-out will now occur beginning with the Western District clinics and a subsequent roll-out across the entire network expected to be complete by end of FY 2018.

It will be fully integrated with our new ERP system and is expected to lead to operating efficiencies at the individual clinic level and consistent work practices across the network. Additional revenue opportunities can also be targeted more quickly and efficiently as they arise.

It is expected that approximately \$0.25m of this investment will be capitalized and amortised over its useful life and that approximately \$0.35m will be expensed.

VetLink represents the final significant investment required to complete Apiam’s group-wide operating infrastructure.

Business development focus

Several initiatives to drive additional revenue streams in FY2018 have been implemented and have already been having success to date. The three key business development initiatives we have identified are:

- Rural & regional expansion strategy. This strategy relates to the expansion of our service offering in locations where strong market demand exists. The opening of our satellite clinic in Nathalia (northern VIC) in 2017 and the recently announced acquisition of TMVC, which further opens up the important Western Districts region in Victoria are consistent with this strategy. We will seek to explore cost effective methods of entering new regions, such as those which leverage nearby infrastructure and cost centres. Apiam expects to open a number of new greenfield and satellite clinics in FY2018.
- Growth focus on the rural companion and mixed animal markets to capture revenue in an underserved segment in rural and regional Australia. Revenue growth opportunities exist through increasing our service offering to more specialised levels. Additionally, the proposed PETstock JV alliance, will accelerate this strategy and offers a cost-effective way to significantly increase our market share in the companion animal market.
- Supply chain initiatives which will focus on further integration of our supply chain as well as expansion into development of a private label range and higher margin products are also being explored.

PETstock alliance

As you are all probably aware, we announced on the 1st of November that we have signed a Memorandum of Understanding to work towards a joint venture alliance with PETstock to open a number of new veterinary clinics to be co-located at various PETstock retail outlets, in regional and rural Australia.

This is a very significant transaction for us as PETstock is a leading specialist retailer of animal products and services across the companion animal and equine segments. The Company has a successful history and has rapidly expanded over the past 15 years to now have more than 135 retail stores across Australia and 12 stores in New Zealand.

Under the alliance, the Apiam – PETstock Joint Venture intends to open the first co-located clinic as a 24-hour Veterinary Emergency & Referral Centre and General Practice, equipped with best-in-class technology, at PETstock's recently opened retail superstore in Bendigo (Epsom).

This would be followed with the opening of a number of veterinary clinics within existing PETstock stores in, or on the fringe of, existing Apiam operating regions. We expect this program to commence in Q4 FY2018. The co-located clinics would be owned jointly with Apiam as the majority shareholder and operated by Apiam under a management agreement.

We are very excited to be entering into an alliance with a leading retail player such as PETstock, who similar to Apiam have their origins in regional and rural Australia. The alliance will immediately open up a new market demographic for Apiam as we can leverage our broad service offering across PETstock's large customer base. It is also consistent with our strategy of increasing our presence in the high growth companion animal market. We believe this alliance represents exciting

synergistic opportunities for both parties and look forward to a strong working relationship with PETstock.

We expect that a definitive shareholders agreement for the first co-located clinic will be executed within the next month. We will notify shareholders via an ASX announcement once this agreement is executed.

TMVC acquisition

We have also recently announced the acquisition of two rural vet practices, operating as the Terang and Mortlake Veterinary Clinic in Western Victoria, for total consideration of \$1.6 million. This acquisition was effective as at 1 November 2017 so will make an 8-month contribution to our FY2018 financials.

TMCV has six veterinarians and is a diverse practice predominantly servicing the dairy industry, and is also active across the companion animal, equine and beef categories.

TMVC generated revenue of approximately \$2.2 million in FY2017 and the TMCV acquisition is expected to be earnings accretive for Apiam shareholders in the first year of ownership. In line with our prior acquisitions the consideration was 70% cash and 30% Apiam shares.

There is a strong strategic rationale for the TMVC acquisition and it is expected to realise immediate synergies through the ability for Apiam to operate on a regional basis in Western Victoria and leverage the Company's existing cost base and infrastructure of key account managers, logistics and marketing resources. It will also provide a new market opportunity, the important Western District market, to drive additional revenue streams.

Industry conditions update

I would now like to update you of recent industry conditions and the outlook. In FY2018 year to date, industry conditions have been positive across all the sectors in which Apiam operates.

In the beef feedlot sector, we have witnessed a positive turnaround from the challenging industry conditions experienced in the first half of the 2017 financial year. The supply issues affecting smaller feedlots, particularly in SE Australia have been resolving. Apiam's larger corporate feedlot business continued to perform well and in line with our expectations despite this period of volatility and we believe the outlook in beef feedlot is strong.

Volatility in the dairy sector is always very well publicised and is a constant source of news. From our perspective we found dairy industry conditions stabilised in the second quarter of FY2017 and we saw a recovery in vet services and product sales. We have a very diverse dairy customer base and are not overly exposed to any one milk supplier's issues. We believe the dairy industry has positive underlying drivers and a good medium-term outlook.

Turning to pigs, we found that despite some mixed industry conditions in FY2017, we as a company experienced a strong performance particularly in Q4 FY2017 as a result of new customers and product lines in our pig business. In 2018 YTD we have again had a good start to the year thanks to our successful client base who, despite rising grain prices have been delivering growth in animal numbers. As I have said previously, we believe medium term industry expansion is inevitable given future demand projections in this sector.

Finally, the companion and equine sector is constantly benefiting from demographic changes and the changing attitudes to pets. The population, particularly in our regional and rural markets, is certainly willing to spend a greater share of their income on their companion animals than in the past. Increasing levels of service and diagnostic technologies also mean this industry is expected to continue to experience strong underlying growth.

Outlook

Now turning to Apiam's FY2018 performance and outlook.

FY2018 has started well, and Apiam delivered revenue of \$24.8 million in Q1 FY2018, representing an increase of 25.3% compared to Q1 FY2017, the prior comparable period.

If we exclude the impact of acquisitions, this growth rate remains robust at 12.1% as illustrated in the charts on the right.

Importantly we have recorded positive revenue growth across all animal segments in Q1 FY2018 including high single digit revenue growth in the dairy and mixed animal businesses – both on a reported and an ex-acquisition basis.

Our revenue phasing is affected by the occurrence of significant events in the animal calendar. In FY2018 to date these animal events have fallen as we have expected and therefore we would anticipate normal revenue phasing which will see greater revenues in Q2 & Q4 than in Q1 & Q3. Additionally, our normal phasing is also likely to result in greater revenues in the second half compared to the first half.

We will continue to work hard in FY2018 to deliver on our revenue growth initiatives and synergy opportunities and we are well positioned to capture the efficiency benefits that our investment in our operating platform is expected to deliver. Our operating cost base is now at a level required to support our growth plans.

Overall, I am confident that Apiam is well placed to deliver revenue and earnings growth in FY2018 and remain committed to delivering value for our shareholders.

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For further information, please contact:

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About Apiam Animal Health Limited

Apiam Animal Health is positioned in the Australian market as a vertically integrated animal health business providing a range of products and services to Production and Mixed animals. Apiam Animal Health's strategy is to service Production and Mixed animals throughout their lifecycle, including the provision of veterinary services, ancillary services, genetics, wholesale and retail of related products, together with technical services related to food-chain security.