

# 2019 Annual General Meeting

Managing Director's Address  
Dr Chris Richards



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Global knowledge.

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Local knowhow.  
Global knowledge.

# Agenda

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- 1 FY2019 in review
- 2 Growth strategy – service expansion, new products and acquisitions
- 3 YTD performance & outlook



# FY2019 in review

<b>Financials</b>	»»»	<ul style="list-style-type: none"><li>• Resilient revenue despite challenging &amp; dry industry conditions</li><li>• Gross margin improvement across all operating segments</li><li>• Delivery of synergies reducing underlying operating cost base</li><li>• Growth in earnings dampened by industry conditions &amp; investment in new clinics and acquisitions</li></ul>
<b>Business development</b>	»»»	<ul style="list-style-type: none"><li>• Complementary &amp; high growth business focus</li><li>• Significant progress made towards expansion of preventative health programs with launch of our Best Mates and ProDairy programs</li><li>• Developed new genetic exports and other value-added services in highly specialised fields</li></ul>
<b>Acquisitions</b>	»»»	<ul style="list-style-type: none"><li>• Expanded borrowing capacity to fund growth</li><li>• Targeted acquisition strategy</li><li>• Three important &amp; strategic acquisitions settled or announced subsequent to FY19 results – ACE Laboratories, Devoted Vets &amp; Grampians Animal Health</li></ul>

# FY2019 financial summary

	FY19	FY18	% chg	Commentary
Total revenue	111.7	106.6	4.8%	• Robust growth given industry challenges. Ex-acq revenue fell 1.5% vs PCP <sup>1</sup>
<b>Gross profit</b>	<b>56.2</b>	<b>51.6</b>	<b>9.0%</b>	• Change in business mix to higher value transactions
Operating expenses	(46.2)	(41.8)	10.6%	• Impacted by acquisitions & start-up clinic costs • Operating expenses fell 0.6% vs pcg if acquisitions & new clinics excluded
<b>Underlying EBITDA <sup>2</sup></b>	<b>10.0</b>	<b>9.8</b>	<b>2.2%</b>	
Depreciation & amortisation	(3.1)	(2.4)	28.5%	• Capital investment in systems in FY18. D&A expense slowed in H2 FY19
<b>Underlying EBIT <sup>2</sup></b>	<b>6.8</b>	<b>7.3</b>	<b>(6.6)%</b>	• Impacted by increased D&A charge
<b>Underlying NPAT <sup>2</sup></b>	<b>4.0</b>	<b>4.4</b>	<b>(10.2)%</b>	
Gross margin	50.3%	48.4%		• Strong sustainable uplift
Underlying EBITDA margin	8.9%	9.2%		
Net debt	24.8	25.9		• Reduced & well within covenants

1. Adjusted to exclude contributions from Passionate Vetcare (Mar 18), Gympie (Jun 18), TMVC (Nov 17)

2. Underlying earnings excludes one-off acquisition, integration, restructuring and other non-recurring costs (tax effected where applicable at NPAT level)



# A resilient vet services portfolio with high growth opportunities

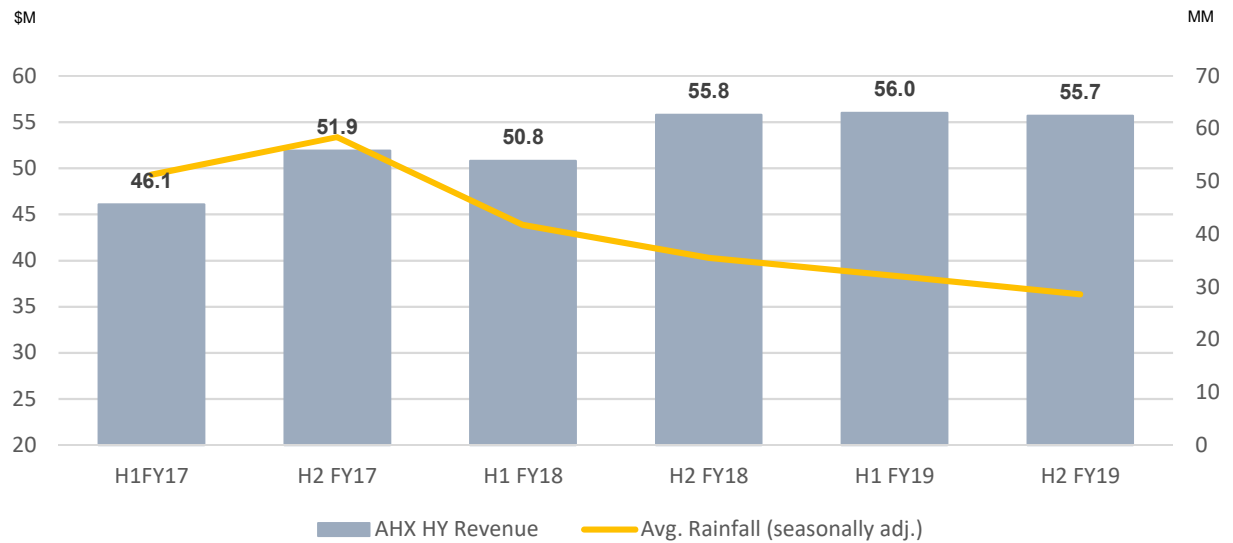
			
Veterinary Services	Product sales	Genetics & Ancillary	International export
<ul style="list-style-type: none"> <li>• Veterinary, animal well-being and production services</li> <li>• Service the whole animal spectrum – beef feedlot, pigs, dairy and companion animals (including equine)</li> <li>• 42 clinics strategically located across Victoria, Tasmania, Queensland, WA and NSW</li> <li>• JV with PETstock to roll out further veterinary locations</li> <li>• Employ over 150 veterinarians and technicians</li> </ul>	<ul style="list-style-type: none"> <li>• Veterinary service programs supported by technical products</li> <li>• In-house warehousing and logistics services that deliver products to vet clinics and end-point customers</li> <li>• Several new product distribution agreements put in place in FY19 (Zoono distribution agreement in FY20)</li> <li>• Private label initiative to improve value proposition and supply reliability</li> <li>• Integrated online platform to support efficient growth</li> </ul>	<ul style="list-style-type: none"> <li>• Genetics sourcing, sales and related consulting services</li> <li>• Genetics centres located in key regions applying new technologies to improve fertility and productivity</li> <li>• Services to producers of quality systems including biosecurity and food safety plans</li> <li>• <b>ACE Laboratory Services – diagnostic lab services &amp; autogenous vaccines</b></li> <li>• <b>Grampians Animal health – sheep consulting &amp; parasitology diagnostics</b></li> </ul>	<ul style="list-style-type: none"> <li>• Veterinary consulting services provided in 10+ countries</li> <li>• Chinese sheep genetics, consultancy and export agreement</li> <li>• Development of new markets for year-round genetic services</li> <li>• US Joint Venture for distribution of specialised swine products</li> <li>• <b>ACE Laboratory Services – autogenous vaccine export opportunities</b></li> </ul>
Core veterinary business		High growth complementary business initiatives	



# Resilient revenue base

*Diversified model driving stability in the face of challenging industry conditions*

AHX HY Revenues (\$m) vs Aust. Wide Avg Rainfall (mm)



Source : Australian Bureau of Statistics  
Australia wide monthly rainfall data averaged over 6 month periods

# Growth strategy

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LEVERAGING PERFORMANCE

# Strategic Focus



## Operations, process & capacity

- ✓ Integrated systems implemented to improve efficiencies and capture missed revenue
- ✓ Roll-out of practice management systems
- ✓ Customer focused systems to improve value proposition



## Animal numbers

- ✓ Business unit synergies driving improved value proposition across most species
- ✓ Strong acquisition pipeline
- ✓ Best Mates & ProDairy implemented to expand animal footprint



## Services and product range

- ✓ Private label strategy to improve margins and reduce supply risk
- ✓ New unique product distributions acquired to reduce antibiotic usage & improve animal productivity
- ✓ Service programs to improve preventative health and wellness

Building the foundations

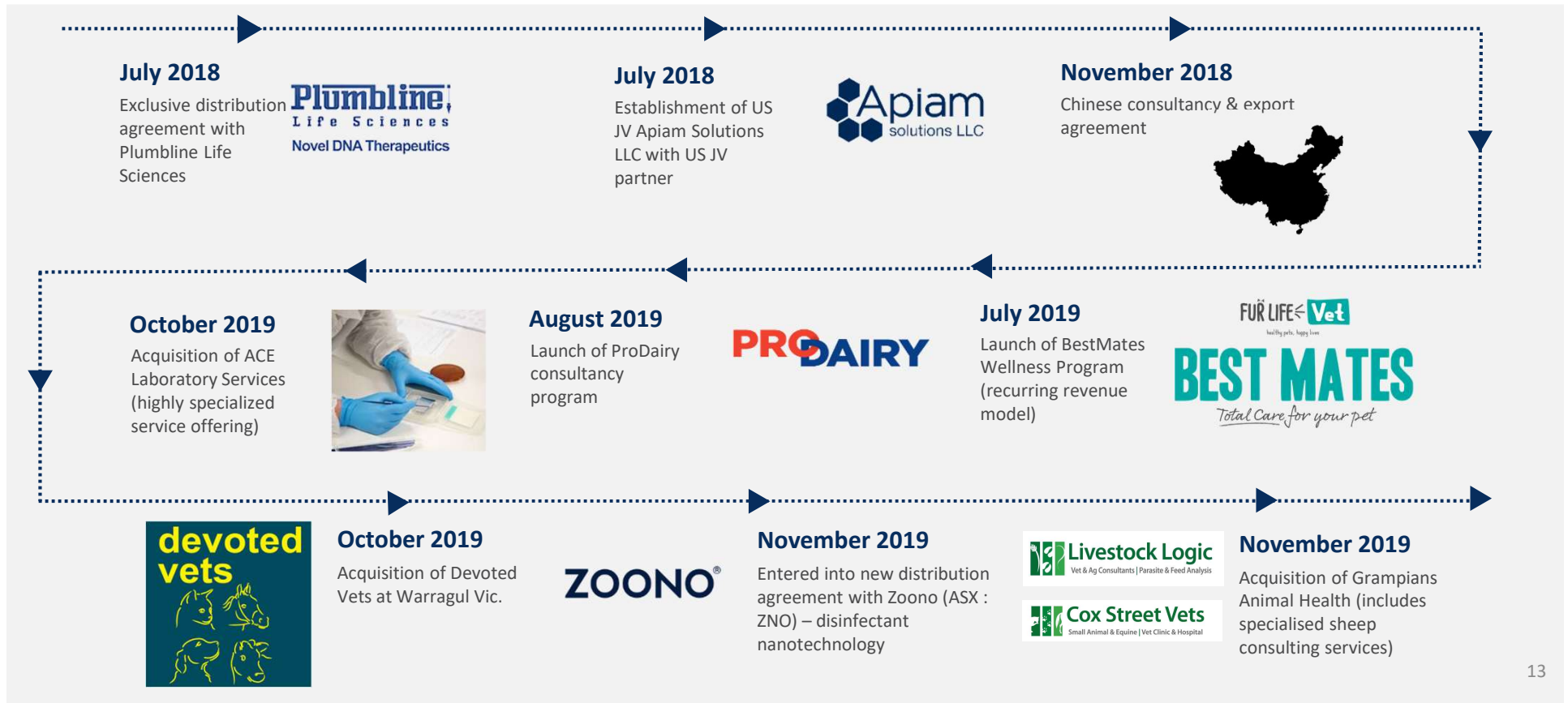
Gaining efficiencies

Leveraging performance



# Service & product range expansion

*A key focus in FY2019 & FY2020 YTD with several new business initiatives established*



# New programs & initiatives

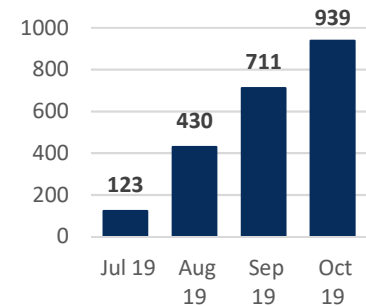


## Best Mates

- Wellness program to drive growth in companion animal services
- Whole of life health and wellness program drives loyalty
- Successful FY19 focus clinic launch program in July being expanded in FY20 across company footprint
- Average monthly member growth of 116% since launch

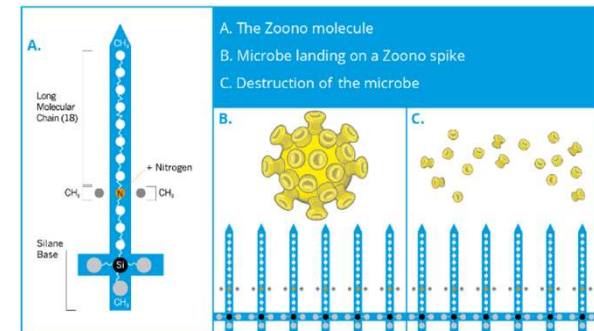


Best Mate members (total at month end)



## Zoono distribution agreement

- Executed distribution agreement with Zoono (ASX: ZNO) for distribution of proprietary disinfectant nanotechnology
- Innovative alternative to chemicals which both sanitizes and provides ongoing mechanical activity for up to 30 days
- Over 150 tests by third-party laboratories world-wide for human use
- Successful trials in AUS and NZ poultry and pigs over last 18 months
- Demonstrated effectiveness against range of bacteria and viruses including H1N1 influenza. Trials underway for African Swine Fever and other important swine viruses
- Apium has exclusivity for livestock purposes (with exception of poultry) in Australia and exclusivity for swine industry in USA

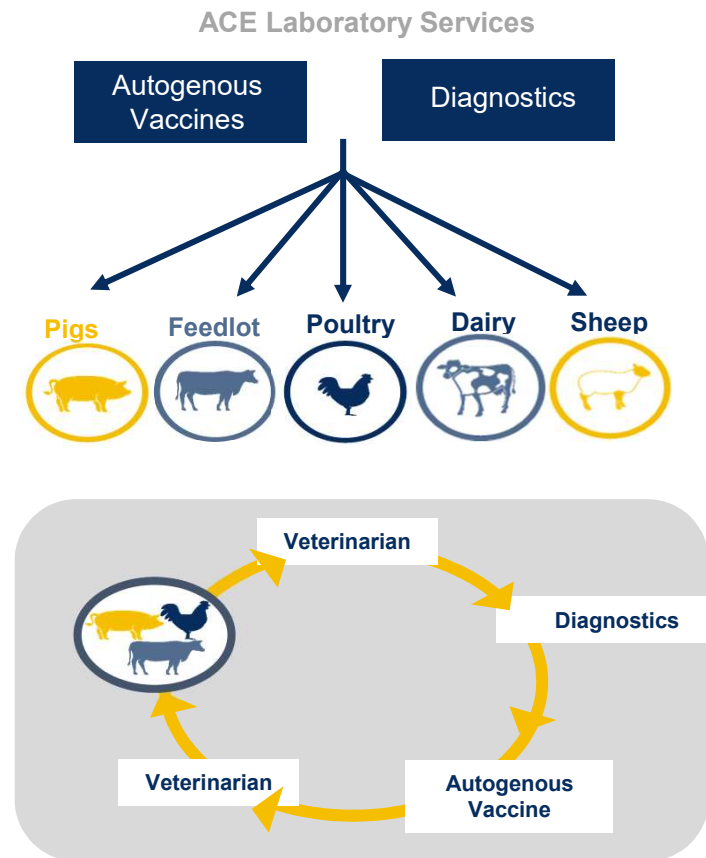


**ZOONO®**

# Strategic acquisition - ACE Laboratory Services

## *Apiam acquired ACE Laboratory Services in October 2019*

- ACE Laboratory Services is Australia's largest full service autogenous (custom) vaccine and diagnostic laboratory services business
- Autogenous vaccines are bespoke vaccines that are only available through the prescribing veterinarian of the specific farming enterprise or system.
- ACE Laboratory Services provide highly specialized services to veterinarians and large production animal producers, particularly in the pig, cattle, sheep and poultry segments
- Initial consideration of \$12.4M (with future earn-out)
- Highly compelling acquisition rationale
  - ✓ Specialised business with strong track record
  - ✓ Attractive high growth markets & higher margin markets
  - ✓ Significant opportunity to cross-sell products and services across Apiam's entire animal footprint
  - ✓ Shareholder value creation



# Strategic acquisition – Grampians Animal Health

## Expands regional footprint & service offering with specialised consulting skills

- Headquartered in Hamilton – Western District of VIC
- Consists of two business units
  - Livestock Logic (Vet and Ag consultants, parasitology and feed analysis labs)
  - Cox Street Vets (Small Animal and Equine Vet Clinic and Hospital)
- One of Australia's largest & most productive sheep farming regions - high rainfall area
- Acquisition consideration of \$4.65M
- Strong acquisition rationale:
  - ✓ Regional expansion leveraging asset base & infrastructure
  - ✓ New skills and renowned expertise in sheep consulting & parasitology diagnostics to leverage across Apiam clients
  - ✓ Large regional veterinary clinic with solid growth
  - ✓ Generated revenue of \$4.1M in FY2019
- Acquisition completion targeted for 1 December 2019



- Located in Hamilton
- Employs six FTE veterinarians
- Services predominantly companion and equine clients



- Specialises in sheep & beef veterinary consulting
- Pasture & grain analysis
- Parasitology laboratory services
- Employs six veterinarians & one nutrition consultant
- Industry leader in its fields with strong business growth last 18-months



# YTD performance & outlook

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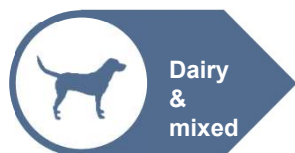


# Industry conditions outlook

*Apiam's diversified animal species mix ensures different industry conditions exposure*



- Drier conditions continue to drive high numbers on feed
- Cattle on feed has consistently been above 1-million head for the last 18 months reflecting the important role feedlots play in managing climate variability and delivering high-quality beef to global customers <sup>1</sup>
- Despite ongoing challenging conditions combined with high supplementary feed costs, demand for high quality Australian grain fed cattle in export numbers has remained robust <sup>1</sup>
- 2019 beef exports on track to be third largest on record<sup>2</sup>



- 'Australian dairy farmers have entered a season of record farmgate milk prices, that is weighed down by high input costs and a dry weather outlook for the remainder of the year' (Dairy Australia, October 2019)
- Whilst conditions on farm and for processors remain challenging, a well-balanced global dairy market supports a positive outlook for commodity pricing' (Dairy Australia, October 2019)
- Companion animal health and wellbeing attitudes in regional areas continue to align with metropolitan attitudes - provides strong support for industry in the medium term

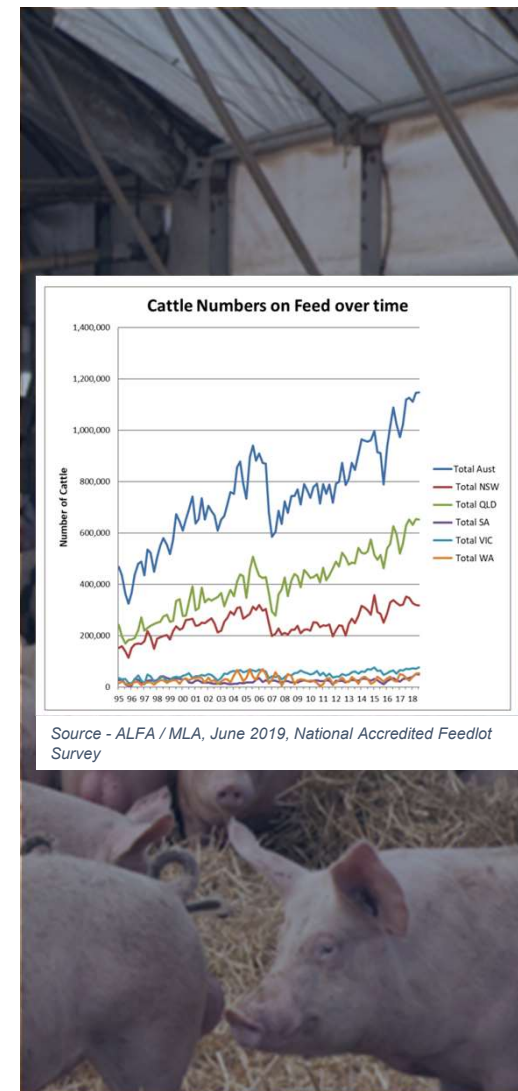


- Pork prices recovering from recent downturn on back of supply shortfall
- Recent rainfall encouraging for grain availability in most regions
- Reduction in global pork supply as a result of African Swine Fever has provided Australian pig industry with unique opportunities to identify potential export markets

Notes:

<sup>1</sup> ALFA / MLA, June 2019, National Accredited Feedlot Survey

<sup>2</sup> Meat & Livestock Australia – October 2019



# African Swine Fever update

*Apiam is at the forefront of ASF farmer education with its **ASFReady** campaign*

## What is African Swine Fever (ASF)?



- ASF has long been present in Africa and eastern Europe
- Recently spread through China and SE Asia as a result of poor biosecurity practices
- Western European countries with ASF have kept ASF out of commercial herds for years through good biosecurity

## Australian Farm biosecurity



- Australia has one of the most extensive surveillance systems in the world to detect illegal pork imports, in addition to farm biosecurity programs designed to keep ASF out of our commercial industry

## What does it mean for Apiam?



- Apiam is highly focused in ensuring that its clients have the best knowledge available to prevent an incursion of ASF on their farms
- Apiam vets actively involved in auditing biosecurity systems across the commercial pig industry
- Expected loss of 25% of global pork supply provides opportunities for Australian pork producers to identify new export markets
- A shortfall in global meat protein has resulted in very strong exports of Australian beef and lamb - expected to continue for years



# YTD performance & Apiam outlook

## FY2020 YTD (Jul – Oct) performance update

- Dairy and pigs recovering from animal reductions - impact reduced by feedlot, companion animals and complementary business initiatives
- Revenue down 1.3% on PCP as a result of dairy challenges, pig numbers and reduction in low margin wholesale product sales
- Gross Profit up 2.9% on PCP as a result increase in higher value services and business mix

## Apiam outlook

- Industry challenges expected to continue in some operating segments in the short-term
- New business lines and initiatives in place to counteract industry challenges & drive growing margins
- Diversified model expected to maintain resilient revenue and earnings
- Growth in earnings expected as industry conditions continue to improve, and service and product initiatives come to market





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