

Apium Animal Health Limited

ASX: AHX

Appendix 4D and Financial Report for the half-year ended 31 December 2019

COMPANY DETAILS

Name of entity:	Apium Animal Health Limited
ACN:	604 961 024
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory Results Summary

CHANGES FROM PERIOD ENDED 31 December						
		2019		2018		
		%		\$m	\$m	
Revenue from ordinary activities	up	0.3	to	56.2	from	56.1
Net profit attributable to members	up	4.0	to	1.7	from	1.6
Profit from ordinary activities after tax attributable to members	up	4.0	to	1.7	from	1.6
Underlying EBIT (Incl. non-controlling interests)	down	3.2	To	3.4	From	3.5

Underlying EBIT (Earnings Before Interest and Tax) is considered by Management to be a useful indicator of business profitability and excludes one-off corporate restructuring costs as well as integration, ERP and acquisition expenses.

Further commentary on the interim results can be found in the 'Operating and Financial Review' section within the Directors' report of the attached Interim Financial Statements.

Dividends

	Amount per security Cents	Franked amount per security cents
2019 Final Dividend	0.8 cents	0.8 cents
2020 Interim Dividend (declared after balance date but not yet paid)	0.8 cents	0.8 cents
Record date for determining entitlements to the dividend:	23 March 2020	
Date dividend payable:	24 April 2020	

Dividend reinvestment plan

The Company initiated a Dividend Reinvestment Plan (DRP) on the 25 August 2017 which provides shareholders with the opportunity to utilise all or part of their dividend to purchase shares in the Company. Shareholders electing to participate in the FY20 interim DRP must nominate to do so by 30 March 2020.

Shareholders who elect to participate in the DRP for the 2020 interim dividend will be issued shares at a DRP issue price which will be the average of the daily market price of Apiam's shares over the period of five trading days between 31 March 2020 and 6 April 2020 ('Pricing Period'). The timetable in respect of the 2020 interim dividend and DRP is as follows:

Event / Action	Date*
Record Date	23 March 2020
Election Date: Last date for shareholders to make an election to participate in the DRP	5.00 pm (Melbourne time) on 30 March 2020
Pricing Period Commencement Date	31 March 2020
Last Day of Pricing Period	6 April 2020
Announcement of DRP issue price	7 April 2020
Dividend Payment Date / Issue of DRP shares	24 April 2020

Details of the DRP can be downloaded from www.apiam.com.au. In order to participate in the DRP for the 2020 Interim dividend, shareholders should ensure that their DRP Election Form is received, or an online election is made, by no later than 5.00 pm (Melbourne time) on 30 March 2020. An online election can be made by visiting www.boardroom.com.au.

Net Tangible Asset per Security

	2020	2019
Net Tangible assets per share	-\$0.25	-\$0.05

Return to shareholders

Dividends of \$849,347 were paid during the period; no share buy backs were conducted during the year.

Basis of Preparation

This report is based on the consolidated financial statements which have been reviewed by Grant Thornton Audit Pty Ltd. The review report is included within the Company's Interim Report which accompanies this Appendix 4D.

Entities over which control has been gained or lost during the period

Control over the following entities commenced during the period

- Animal Consulting Enterprises Pty Ltd – 1 October 2019
- Devoted Vets – 1 November 2019
- Grampians Animal Health – 1 December 2019

There were no entities over which control was lost during the period.

Associates and Joint Venture Entities

The company has a 50% ownership interest in South West Equine. Apiam's share of net profit after tax was \$18,995 for the six-month period.

Dividend Reinvestment Plan

The company announced the establishment of a dividend reinvestment plan on 25 August 2017.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 31 December 2019 Interim Report (which includes the Directors' Report) which accompanies this Appendix 4D.

Accounting Standards

This Report has been compiled using Australian Accounting Standards and International Financial Reporting Standards

Directors' Report

The Directors present their report together with the consolidated financial statements of Apiam Animal Health Limited (Apiam) for the half-year ended 31 December 2019.

Director details

The following persons were directors of Apiam Animal Health during the half-year and up to the date of this report:

- Professor Andrew Vizard
- Dr Christopher Irwin Richards
- Mr Richard John Dennis
- Mr Michael van Blommestein
- Professor Jan Tennent

Principal Activities

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision of veterinary products and services to production and companion animals.

Review of operations

Apiam reported resilient revenue for the 6 months to 31 December 2019 (H1 FY2020) despite challenging and dry industry conditions in the pig and dairy segments, where reductions in animal numbers occurred. This was offset by strong industry fundamentals in the beef feedlot and companion animal segments as well as the commencement of contributions from acquisitions and new business initiatives.

Revenue for H1 FY2020 was \$56.2 million, a small increase from H1 FY19, the prior comparable period (pcp), where revenue was \$56.0 million. Revenue in H1 FY2020 (excluding the impact of acquisitions¹) fell 6.5% compared to the pcp as a result of the challenging industry conditions and a targeted change in business mix which resulted in a reduction in lower margin sales.

Apiam's management have implemented a number of business initiatives to address the challenging industry conditions such as the launch of ProDairy and Best Mates (discussed further in the Business Initiatives section). New business initiatives, business mix and efficiencies at the clinic level from the Company's significant investment in its Practice Management System have driven improved gross margin in H1 FY2020.

Apiam reported gross profit of \$30.4 million in H1 FY2020, an increase of 6.7% on pcp. Gross margin for H1 FY2020 was 54.1% (H1 FY2019: 50.8%).

¹ Excluding contributions from the acquisitions of ACE Laboratories (Oct 19), Grampians Animal Health (Dec 19) and Devoted Vets (Oct 19) in H1 FY20

Underlying EBIT in H1 FY20 (excluding one-off acquisition, integration & restructuring expenses) was \$3.4 million, compared to \$3.5 million in H1 FY19. While a strong focus on operating cost control occurred during H1 FY20, there were additional costs incurred in the period associated with new product registrations, new license fees of the recently implemented PMS and some additional staff training and marketing.

Underlying Net Profit After Tax (NPAT) was \$2.0 million in H1 FY2020, 3.6% above underlying NPAT in the pcp. Reported NPAT in H1 FY20 was \$1.7 million, 3.9% above H1 FY19. Apiam's reported and underlying NPAT in H1 FY2020 were negatively impacted by \$70K as a result of the first-time adoption of AASB 16 Leases on 1 July 2019. Prior period comparatives have not been adjusted.

The following tables are presented to assist in the interpretation of the underlying performance of Apiam during H1 FY2020. This information is additional and provided using non-IFRS information and terminology.

Apiam H1 FY2020 Financial Result Summary – Reported

	H1 FY20	H1 FY19	Variance	%
Total revenue	56.2	56.0	0.1	0.3%
Gross profit	30.4	28.5	1.9	6.7%
Operating expenses	(24.1)	(23.5)	(0.6)	2.5%
Underlying EBITDA ¹	6.3	5.0	1.3	26.6%
One-off expenses	(0.5)	(0.5)	(0.0)	1.9%
EBITDA	5.8	4.5	1.3	29.3%
Amortisation ROU assets ²	(1.2)	0.0	(1.2)	-
Depreciation & amortisation	(1.7)	(1.5)	(0.2)	13.7%
EBIT	2.9	3.0	(0.1)	(3.2)%
Interest	(0.6)	(0.6)	(0.0)	1.2%
Tax	(0.7)	(0.7)	0.1	(12.2)%
Other (including minorities) ³	0.1	(0.0)	0.1	-
NPAT attributable to members	1.7	1.6	0.1	4.0%
Gross margin	54.1%	50.8%		
EBIT margin	5.1%	5.3%		

Notes:

- Underlying EBITDA excludes one-off acquisition, integration & restructuring expenses
- The current period (H1 FY20) has been impacted by the first time adoption of the new accounting standard AASB 16 Leases but the comparative (H1 FY2019) has not been adjusted
- Includes a range of partner business activities incl. Sth West Equine JV, Apiam Solutions, PETstock Joint Venture, Portec etc

Apium H1 FY2020 Financial Result Summary – Underlying

	H1 FY20	H1 FY19	Variance	%
Total Revenue	56.2	56.0	0.1	0.3%
Gross Profit	30.4	28.5	1.9	6.7%
Operating expenses	(24.1)	(23.5)	(0.6)	2.5%
Underlying EBITDA ¹	6.3	5.0	1.3	26.6%
Amortisation ROU assets ²	(1.2)	0.0	(1.2)	-
Depreciation & amortisation	(1.7)	(1.5)	(0.2)	13.7%
Underlying EBIT ¹	3.4	3.5	(0.1)	(2.4)%
Underlying NPAT ¹	2.0	2.0	0.1	3.6%
Integration / ERP expense	(0.1)	(0.2)	0.1	(46.8)%
Acquisition / Advisory expense	(0.4)	(0.2)	(0.2)	100.0%
Restructure costs	0.0	(0.1)	0.1	nm

Notes:

- Underlying earnings exclude one-off acquisition, integration & restructuring expenses (tax effected where applicable at NPAT level)
- The current period (H1 FY20) has been impacted by the first time adoption of the new accounting standard *AASB 16 Leases* but the comparative (H1 FY2019) has not been adjusted.

Apium's financials in H1 FY20 have been affected by the first-time adoption of *AASB 16 Leases* on 1 July 2019. Prior period comparatives in H1 FY19 have not been adjusted. A summary analysis of Apium's key profit metrics pre & post *AASB 16 Leases* adoption in H1 FY20 is set out below.

\$m ¹	H1 FY2020A	H1 FY2019A (<i>not AASB 16 adjusted</i>)	Variance	%
Total revenue	56.2	56.0	0.1	0.3%
Post AASB 16 in H1 FY20				
EBITDA	6.3	5.0	1.3	26.6%
EBIT	3.4	3.5	(0.1)	(2.4)%
NPAT	2.0	2.0	0.1	3.6%
Pre AASB 16 in H1 FY20				
EBITDA	5.1	5.0	0.1	2.4%
EBIT	3.4	3.5	(0.1)	(2.4)%
NPAT	2.1	2.0	0.1	7.1%

Notes:

- All figures presented on an underlying basis to exclude one-off acquisition, integration & restructuring costs (tax effected where applicable at the NPAT level)

Acquisitions

Acquisitions continue to form a core part of Apium's growth strategy and in H1 FY20 the Company completed two significant acquisitions – ACE Laboratory Services and Grampians Animal Health.

The acquisition of ACE Laboratory Services (ACE) was completed in October 2019 with a purchase price of \$16 million (inclusive of \$3.625 million contingent consideration related to an earn-out).

ACE is a highly specialised business that offers autogenous – otherwise known as custom – vaccines, as well as diagnostic services for large production animal producers. It is the market leader in both these

segments. ACE offers Apiam an attractive product and service extension that can then be leveraged across the Company's large production animal footprint.

Apiam completed the acquisition of Grampians Animal Health in December 2019 for total consideration of \$4.65 million (including contingent consideration of \$0.3 million related to an earnout). This business is located in Hamilton, in the Western District region of Victoria and is one of Australia's largest and most productive sheep farming regions. The business is comprised of two key operating units being a companion and mixed animal vet clinic known as Cox Street Vets and a large animal veterinary consulting business called Livestock Logic.

Livestock Logic are a group of veterinary and agricultural consultants that provide expertise in sheep and beef, and offer pasture and grain analysis and parasitology laboratory services. These are attractive services which can be leveraged over Apiam's much larger animal footprint to add value. Apiam also have existing infrastructure in this region and this is a fundamental pillar of our regional expansion strategy.

Business development initiatives

During H1 FY2020, Apiam's management team implemented a number of business initiatives to address challenging industry conditions and deliver new complementary revenue streams.

Best Mates was launched within targeted companion animal clinics in July 2019 and has begun roll-out across the Company footprint in H1 FY20. Best Mates is a wellness program to drive growth through a "whole of life" program that is recurring in nature. Best Mates memberships have experienced strong growth over H1 FY20.

Apiam also launched ProDairy, a recurring revenue dairy consultancy model in August 2019.

In November 2019, Apiam announced it had entered into an exclusive distribution agreement with Zoono Animal Health in respect of Zoono Limited's proprietary protection and disinfectant technology system for use in livestock in Australia and for swine in the US market. The technology has been subject to over 150 tests by third-party laboratories world-wide for human use as well as successful trials in Australia and New Zealand over the past 18-months for use in poultry and pig facilities. Apiam see significant potential for these types of products across its livestock customer base as producers continue to seek alternatives to antimicrobials to prevent and control disease.

Balance sheet

Apiam's balance sheet as at 31 December 2019 reflects the impact of the acquisitions of ACE Laboratory Services and Grampians Animal Health during the half-year period. Apiam's borrowings increased by \$11.7 million to \$38.4 million (vs \$26.7 million as at 30 June 2019) reflecting the cash components of the acquisition consideration. Apiam's gearing remains consistent with its financial targets and covenants with

the Gross Debt² to EBITDA ratio being 3.0x as at 31 December 2019, against a covenant requirement of 4.0x.

As at 31 December 2019, Apiam had also increased its investment in inventory to \$16.2 million, up from \$10.9 million as at 30 June 2019 due to a planned build-up of inventory associated with new products and to take advantage of significant supplier discounts in the lead up to end-of-year.

Cash flow

Apiam's net operating cash flow in H1 FY20 was \$2.7 million compared to \$1.9 million in the pc. Cashflow conversion for H1 FY20 was impacted by the planned increased investment in inventory during the period (refer Balance Sheet section) as well as the reclassification of lease expense to financing activities in accordance with *AASB 16 Leases*.

Apiam's investing and financing cash flows in H1 FY20 reflect the impact of the cash component payable for the acquisitions of ACE Laboratory Services and Grampians Animal Health as well as the associated drawdown of Apiam's banking acquisition facility.

\$M	H1 FY20A	H1 FY19A
Net cash provided by operating activities	2.7	1.9
Acquisition of subsidiary, net of cash	(12.5)	(0.3)
Purchases of property, plant and equipment	(1.0)	(1.0)
Purchases of Intangible assets	(0.0)	(0.5)
Net cash used in investing activities	(13.5)	(1.8)
Net changes in financing	13.4	0.5
Dividends paid to shareholders	(0.6)	(0.5)
Repayment of lease liabilities	(1.6)	
Other	(0.1)	0.1
Net cash inflow from financing activities	11.3	0.1
Net change in cash and cash equivalents	0.6	0.2

Dividend

The Apiam Board of Directors have declared an interim dividend of 0.8 cents per share, 100% fully franked. The interim dividend will be paid on 24 April 2020. This represents a 54.9% payout ratio of NPAT.

Apiam's Dividend Reinvestment Plan will be maintained to allow shareholders to reinvest their dividends in Apiam's future growth.

Outlook

Apiam is well positioned to deliver growth as industry conditions improve. Recent rainfall and favorable commodity prices across all segments are positive for Apiam's H2 FY20 outlook.

² Gross Debt calculated excluding the impact of AASB16 Lease Liabilities

Apiam continue to work on adding new business lines and initiatives to leverage our footprint and deliver complementary revenue streams. These also support diversification and resilience of revenues.

The Company's focus for the remainder of FY20 is to deliver earnings growth through delivery of business initiatives and leveraging the benefits from Apiam's investment in corporate infrastructure and operating platform.

Apiam expects to deliver EBIT growth in H2 FY20 compared to the preceding half, H1 FY20.

Likely development and expected results of operations

The Company's strategy is to build on the solid foundation it has established as an integrated animal health business servicing the rural production and companion animal sectors and ensure we can meet the needs of a market which is expected to experience growth.

The Company expects to continue to invest through acquisition, new greenfield sites, partnerships and further recruitment of leading expertise to ensure we have the capability required to prosper in the expanding global animal health industry.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this financial report and forms part of this Directors' Report.

Rounding of amounts

Apiam Animal Health is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors:



Dr Christopher Irwin Richards
Managing Director

Melbourne
24 February 2020



Professor Andrew Vizard
Chairman

Auditor's Independence Declaration

To the Directors of Apiam Animal Health Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Apiam Animal Health Limited for the period ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 February 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Notes	31 December 2019 \$'000	31 December 2018 \$'000
Continuing operations			
Revenue		56,200	56,050
Other income		80	9
Expenses			
Changes in inventory		5,291	(370)
Cost of materials		(31,085)	(27,192)
Costs of consumables and services		(451)	(475)
Employee benefit expenses		(18,002)	(17,056)
Acquisition expenses		(412)	(176)
Property expenses		(680)	(1,733)
Freight, vehicle and transport expenses		(1,045)	(963)
Depreciation and amortisation of non-financial assets		(2,876)	(1,501)
Depreciation of biological assets		(35)	-
Other operating expenses		(4,092)	(3,612)
Operating profit		2,893	2,981
Share of profit from equity accounted investments		19	17
Finance costs		(612)	(600)
Profit/(loss) before income tax		2,300	2,398
Income tax (expense) /benefit		(656)	(748)
Profit/(loss) from continuing operations		1,644	1,650
Profit/(loss) attributable to:			
Owners of Apium Animal Health Limited		1,689	1,624
Non-controlling interests		(45)	26
		1,644	1,650
Total comprehensive income/(loss) attributable to:			
Owners of Apium Animal Health Limited		1,689	1,624
Non-controlling interests		(45)	26
		1,644	1,650
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share		\$0.02	\$0.02
Diluted earnings per share		\$0.02	\$0.02

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		2,451	1,873
Trade and other receivables		13,010	13,906
Inventories		16,238	10,947
Other current assets		1,135	1,003
Total current assets		32,834	27,729
Non-current assets			
Property, plant and equipment	7	20,737	8,381
Intangible assets	6	83,083	65,225
Biological assets		170	220
Investment in joint venture		114	95
Deferred tax assets		3,308	2,796
Total non-current assets		107,412	76,717
Total assets		140,246	104,446
LIABILITIES			
Current liabilities			
Trade and other payables		9,869	9,596
Lease liabilities	8	3,038	-
Other current liabilities		4,441	400
Borrowings	11	2,940	3,707
Current tax liabilities		676	230
Provisions		5,636	4,852
Total current liabilities		26,600	18,785
Non-current liabilities			
Borrowings	11	35,493	23,035
Lease liabilities	8	10,164	-
Provisions		333	273
Deferred tax liabilities		752	784
Other liabilities		300	260
Total non-current liabilities		47,042	24,352
Total liabilities		73,642	43,137
Net assets		66,604	61,309
EQUITY			
Share capital	10	90,791	86,432
Corporate re-organisation reserve		(26,692)	(26,692)
Non-controlling interest acquisition reserve		(6,615)	(6,615)
Share based payment reserve		312	330
Foreign currency translation reserve		18	-
Retained earnings		7,930	7,092
Capital and reserves attributable to the owners of Apium Animal Health Limited		65,744	60,547
Non-controlling interests		860	762
Total equity		66,604	61,309

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

	Share capital	Corporate re-organisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018	85,775	(26,692)	(6,615)	-	5,607	58,075	650	58,725
Issue of new share capital	370	-	-	-	-	370	127	497
Employee share plan	-	-	-	56	-	56	-	56
Dividends paid	-	-	-	-	(837)	(837)	-	(837)
Transactions with owners	370	-	-	56	(837)	(411)	127	(284)
Profit for the period	-	-	-	-	1,624	1,624	26	1,650
Total comprehensive income for the period	-	-	-	-	1,624	1,624	26	1,650
Balance at 31 December 2018	86,145	(26,692)	(6,615)	56	6,394	59,288	803	60,091

	Share capital	Corporate reorganisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Foreign Currency Translation Reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	86,432	(26,692)	(6,615)	330	-	7,092	60,547	762	61,309
Issue of new share capital	4,203	-	-	-	-	-	4,203	142	4,345
Employee share plan	156	-	-	(18)	-	-	138	-	138
Foreign currency translation adjustment	-	-	-	-	18	-	18	-	18
Dividends paid	-	-	-	-	-	(850)	(850)	-	(850)
Transactions with owners	4,359	-	-	(18)	18	(850)	3,509	142	3,651
Profit for the period	-	-	-	-	-	1,689	1,689	(45)	1,644
Total comprehensive income for the period	-	-	-	-	-	1,689	1,689	(45)	1,644
Balance at 31 December 2019	90,791	(26,692)	(6,615)	312	18	7,930	65,744	860	66,604

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2019

	Notes	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities			
Receipts from customers		64,618	61,068
Payments to suppliers and employees		(60,519)	(57,239)
		4,099	3,829
Acquisition costs relating to acquisition of subsidiary		(408)	(171)
Interest paid		(611)	(603)
Income taxes paid		(341)	(1,142)
Net cash inflow from operating activities		2,738	1,913
Cash flows from investing activities			
Payment for acquisition of businesses, net of cash acquired	4	(12,510)	(265)
Payments for property, plant and equipment		(1,039)	(1,018)
Proceeds from disposals of property, plant & equipment		80	9
Payments for intangible assets		(30)	(540)
Net cash outflow from investing activities		(13,499)	(1,814)
Cash flows from financing activities			
Proceeds from borrowings		18,715	7,759
Repayment of borrowings		(5,328)	(6,943)
Lease payments		(1,640)	(348)
Dividends paid to company shareholders		(551)	(468)
Capital contribution of non-controlling interest		142	127
Net cash inflow from financing activities		11,338	127
Net (decrease)/increase in cash and cash equivalents		578	226
Cash and cash equivalents at the beginning of the half-year		1,873	1,436
Cash and cash equivalents at end of the half year		2,451	1,662

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision of veterinary products and services to production and companion animals. Apiam's strategy is to service production animals throughout their life cycle, including the provision of:

- systems to assist in herd health programs;
- production advice;
- consulting services and products to assist in the prevention of animal diseases;
- technologies to manage compliance with legislative requirements on pharmaceutical use;
- advice and services in respect of animal welfare compliance;
- retail animal health product sales;
- on-farm delivery of products via its own logistics capability;
- third party auditing services of industry quality assurance programs;
- technology development for animal health management;
- ancillary services such as sales and/or delivery of genetics and associated products; and
- on-farm and on-line training programs for clients.

There have been no significant changes in the nature of these activities during the half year.

2. General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six (6) months ended 31 December 2019 and are presented in Australian Dollars (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the financial statements of Apiam Animal Health Ltd for the period ended 30 June 2019 and the detailed accounting policies at Note 3 below and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 24 February 2020.

New standards adopted as at 1 July 2019

AASB 16 Leases

AASB 16 'Leases' replaces AASB 117 'Leases' and several lease related interpretations. The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated and there have been no adjustments to opening retained earnings on transition to AASB 16.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and interpretation 4 and has not applied AASB 16 to arrangements that were previously not identified as leases under AASB 117 and interpretation 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 2.965%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

Total operating lease commitments disclosed at 30 June 2019	10,119
Variable lease payments not recognised	(492)
Operating lease liabilities before discounting	9,627
Discounted using incremental borrowing rate	(553)
Reasonably certain extension options	2,436
Finance lease obligations	1,685
Total lease liabilities recognised under AASB 16 at 1 July 2019	13,195

AASB Interpretation 23 Uncertainty over Income Tax Treatments

Interpretation 23 requires that assessment of whether the effect of uncertainty over income tax treatment should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax basis, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

The Group has adopted Interpretation 23 from 1 July 2019, based on an assessment of whether it is “probable” that a taxation authority will accept an uncertain tax treatment. This assessment takes into account that for certain jurisdictions in which the company operates, a local tax authority may seek to open a company’s books as far back as inception of the company. Where it is probable, the company has determined tax balances consistently with the tax treatment used or planned to be used in its income tax filings. Where the Group has determined that it is not probable that the taxation authority will accept an uncertain tax treatment, the most likely amount or expected value has been used in determining taxable balances (depending on which method is expected to better predict the resolution of the uncertainty). There has been no material impact from the adoption of interpretation 23 in this reporting period.

3. Changes in significant accounting policies and estimates

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Groups last annual financial statements for year ended 30 June 2019. Except as described below. Note that the changes in accounting policies specified below only apply to the current period.

The accounting policies and estimates have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

AASB 16 Leases became effective for periods beginning on or after 1 January 2019. Accordingly, the Group applied AASB 16 for the interim period ended 31 December 2019 using the modified retrospective approach. Changes to the Group's accounting policies arising from these standards are summarised below:

3.1 Leases

As described in Note 3, the Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117.

Accounting policy applicable from 1 July 2019

For any new contracts entered into on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at the same value of the lease liability less any lease incentives.

The Group depreciates the right-of-use assets on a straight-line basis from 1 July 2019 to the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been disclosed separately under current and non-current lease liabilities.

Accounting policy applicable before 1 July 2019

Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged to the statement of profit & loss and other comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4. Business combinations

The Group applies the acquisition method in accounting for business combinations.

On 1 October 2019 the Group acquired 100% of the issued share capital and voting rights of Animal Consulting Enterprises Pty Ltd (ACE).

On 1 November 2019, the Group acquired the business assets of Devoted Vets (DVW).

On 1 December 2019, the Group acquired 100% of the issued share capital and voting rights of Grampians Animal Health (GAH).

The following detailed table highlights the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition for each of the business combinations undertaken in the period. ACE Laboratory Services is a highly specialised autogenous (custom) vaccine and diagnostics laboratory service provider to large production animal producers, with Australia's market leading position in these segments. The acquisition establishes Apiam as the leading player in these highly specialised growth markets. The acquisitions of GAH and DVW expand Apiam's presence in the Western District and Gippsland regions of Victoria. On the acquisition of ACE, 5,788,120 fully paid shares were issued at a fair value of \$0.4276 per share. On the acquisition of GAH, 2,980,390 shares were issued at a fair value of \$0.4394 per share.

	ACE \$'000	DVW \$'000	GAH \$'000	Total \$'000
Fair value of consideration transferred				
Amounts settled in cash	9,450	491	2,811	12,752
Amount settled by issue of shares at fair value	2,475	-	1,310	3,785
Payable to vendors	3,825	75	450	4,350
Total fair value of consideration transferred	15,750	566	4,571	20,887
Recognised amounts of identifiable net assets				
Property plant and equipment	459	65	347	871
Intangible assets	3	-	50	53
Deferred tax assets	140	18	65	223
Total non-current assets	602	83	462	1,147
Cash and equivalents	113	-	129	242
Inventories	890	102	133	1,125
Trade and other receivables	1,329	140	454	1,923
Total current assets	2,332	242	716	3,290
Provisions	-	-	24	24
Total non-current liabilities	-	-	24	24
Provisions	357	42	159	558
Current tax liabilities	176	-	-	176
Trade and other payables	463	53	213	729
Total current liabilities	996	95	372	1,463
Identifiable net assets	1,938	230	782	2,950
Goodwill on acquisition	13,812	336	3,789	17,937
Net cash outflow on acquisition	9,337	491	2,682	12,510

4.1 Consideration transferred

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

4.2 Identifiable net assets

Assets acquired and liabilities assumed are generally measured at their acquisition date fair values. Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at acquisition date.

The measurement period ends on either the earlier of (i) 12 months from date of acquisition or (ii) when the Group receives all the information possible to determine the fair value.

The fair value of the identifiable assets acquired and liabilities assumed have been determined provisionally at 31 December 2019. The Group is currently obtaining the information necessary to appropriately consider the identification and fair value of identifiable assets and liabilities assumed.

4.3 Goodwill

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated on the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net asset. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

The goodwill that arose on the combination can be attributed to the value of the businesses to the Group in addition to the net tangible assets acquired, synergies expected to be derived from the combination and the value of each of the veterinary businesses which cannot be recognised as an intangible asset. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

5. Segment reporting

Identification of reportable operating segments

Management identifies its operating segments based on the species to which the Group provide veterinary services and supply animal health products. The Group's three (3) main operating segments are:

- Dairy and Mixed;
- Feedlots;
- Pigs;

Each of these operating segments is managed separately as each species group requires specific veterinary expertise and resources, as well as marketing approaches. These operating segments are monitored and strategic decisions are made based on adjusted segment operating results.

The operating segments are aggregated for reporting purposes on the basis that each business segment has sales consisting predominantly of S4 products, over the counter products and service revenue and that these products and services exhibit similar economic characteristics across each business. Corporate overheads that cannot be allocated to a specific segment are disclosed separately.

The revenues and profit generated by the Group's operating segments are summarized as follows:

	Six (6) months to 31 December 2019 \$'000	Six (6) months to 31 December 2018 \$'000
Revenue from external customers	56,200	56,050
Segment operating costs	(52,207)	(52,513)
Segment operating profit	3,993	3,537

5. Segment reporting (continued)

The Group's segment operating profit reconciles to the Group's profit after tax as presented in its financial statements as follows:

	Six (6) months to 31 December 2019 \$'000	Six (6) months to 31 December 2018 \$'000
Total reporting segment operating profit	3,993	3,537
Other income	80	9
Corporate overheads	(768)	(389)
Acquisition costs	(408)	(171)
Integration costs	(4)	(5)
Finance costs	(612)	(600)
Share of profit from equity accounted investments	19	17
Net profit before tax	2,300	2,398
Income tax	(656)	(748)
Net profit after tax	1,644	1,650

6. Intangible assets

The following table shows the movements in intangible assets:

	Goodwill \$'000	Customer Relation- ships \$'000	Capitalised develop- ment costs \$'000	Total \$'000
At 30 June 2019				
Cost	61,506	3,223	1,140	65,869
Accumulated amortization and impairment	-	(609)	(35)	(644)
Net book value	61,506	2,614	1,105	65,225
Half-year ended 31 December 2019				
Opening net book value	61,506	2,614	1,105	65,225
Additions	-	-	57	57
Acquisition of subsidiary (a)	17,937	-	53	17,990
Amortisation	-	(107)	(82)	(189)
Closing net book value	79,443	2,507	1,133	83,083
At 31 December 2019				
Cost	79,443	3,223	1,250	83,916
Accumulated amortization and impairment	-	(716)	(117)	(833)
Net book value	79,443	2,507	1,133	83,083

- (a) The goodwill intangible asset of the Company increased due to the acquisition of Animal Consulting Enterprises Pty Ltd, Devoted Vets and Grampians Animal Health.

7. Property, plant and equipment

The following tables show the movements in property, plant and equipment:

	Leased Buildings \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Assets under construction \$'000	Total \$'000
At 30 June 2019						
At cost	-	572	9,301	4,991	1,146	16,010
Accumulated depreciation	-	(169)	(4,428)	(2,847)	(185)	(7,629)
Net book value	-	403	4,873	2,144	961	8,381
Half year ended 31 December 2019						
Opening net book value	-	403	4,873	2,144	961	8,381
Adjustment on transition to AASB16	11,686	-	-	-	-	11,686
Additions	-	31	626	110	191	958
Additions through business combinations	-	139	702	30	-	871
Leased buildings from business combinations	1,414	-	-	-	-	1,414
Depreciation charge	(1,157)	(58)	(910)	(372)	(76)	(2,573)
Closing net book value	11,943	515	5,291	1,912	1,076	20,737
At 31 December 2019						
Cost	13,100	742	10,629	5,131	1,337	30,939
Accumulated depreciation	(1,157)	(227)	(5,338)	(3,219)	(261)	(10,202)
Net book amount	11,943	515	5,291	1,912	1,076	20,737

8. Leasing

Lease liabilities are presented in the statement of financial position within Lease liabilities as follows:

	31 December 2019 \$'000	31 December 2018 \$'000
Lease liabilities (current)	3,038	-
Lease liabilities (non-current)	10,164	-

Minimum lease payments due	Within one year \$'000	One to two years \$'000	Two to three years \$'000	Three to four years \$'000	Four to five years \$'000	After five years \$'000	Total \$'000
31 December 2019							
Lease payments	3,380	2,764	2,187	2,005	1,522	2,571	14,429
Finance charges	(342)	(293)	(218)	(156)	(102)	(116)	(1,227)
Net present values	3,038	2,471	1,969	1,849	1,420	2,455	13,202

9. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Apium Animal Health Limited) as the numerator, ie no adjustments to profits were necessary during the six (6) months period to 31 December 2019 and 31 December 2018.

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six (6) months to 31 December 2019	Six (6) months to 31 December 2018
Weighted average number of shares used in basic earnings per share	109,703,964	104,905,368
Weighted average number of shares used in diluted earnings per share	111,544,411	104,905,368
Shares deemed to be issued for no consideration in respect of share-based Payments	-	-

10. Share capital

Each share has the same right to receive dividends and the repayment of capital and represents one vote at the shareholders' meeting of Apium Animal Health Ltd. Shares issued and authorised are summarised as follows:

	Six (6) months to 31 December 2019 No.	Year ended 30 June 2019 No.	Six (6) months to 31 December 2019 \$'000	Year ended 30 June 2019 \$'000
Shares issued and fully paid				
• beginning of the period	105,897,728	104,693,843	86,432	85,775
• shares issued as consideration for business acquisitions	9,020,504	-	3,905	-
• issued under dividend reinvestment plan	635,289	1,203,885	298	657
• employee shares issued	330,878	-	156	-
Shares issues and fully paid	115,884,399	105,897,728	90,791	86,432
Total shares authorised at the end of the period	115,884,399	105,897,728	90,791	86,432

11. Borrowings

As at 31 December 2019, the contractual maturities of the Group's non-derivative financial liabilities were:

	31 December 2019	30 June 2019
	\$'000	\$'000
Current		
Bank loans	2,961	2,983
less capitalised costs	(21)	(20)
Lease liability	-	793
less deferred interest charges	-	(49)
Total current borrowings	2,940	3,707
Non-current		
Bank loans	35,526	22,123
less capitalised costs	(33)	(29)
Lease liability	-	986
less deferred interest charges	-	(45)
Total non-current borrowings	35,493	23,035

Loan covenants

The key financial covenants applicable to bank facilities are:

- Maximum gearing ratio of 45% measured on a half yearly basis, reducing to 35% at July 2021 (ratio of gross debt less revolving working capital facilities to gross debt less revolving working capital facilities plus equity);
- Maximum operating leverage ratio of 4.0 times, reducing to 3.5x at July 2021 (ratio of gross debt to EBITDA excluding one off acquisition and integration expense costs); and
- The Group complied with all bank covenants during the period.

11. Borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

Total facilities	31 December 2019	30 June 2019
	\$'000	\$'000
Bank - term loan facilities	59,700	59,700
Bank - master asset finance agreement for equipment finance	3,500	3,500
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	64,500	64,500
Used at reporting date		
Bank - term loan facilities	38,433	25,057
Bank - master asset finance agreement for equipment finance	1,422	1,684
Bank - overdraft facility	-	-
Bank - credit card facility	-	-
	39,855	26,741
Unused at reporting date		
Bank - term loan facilities	21,267	34,643
Bank - master asset finance agreement for equipment finance	2,078	1,816
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	24,645	37,759

12. Contingent assets and liabilities

In the Directors' view, there are no contingent assets or liabilities that will have a material effect on the Group.

13. Dividends

Dividends of \$849,347 were declared to equity holders during the six months ended 31 December 2019. Of this amount \$550,708 was paid in cash while \$298,639 was issued in shares under Apiam's dividend reinvestment plan.

14. Events after the reporting date

The Apiam Board of Directors declared an interim dividend on the 24 February 2020. The interim dividend of \$927,075 is 0.8 cps, fully franked and will be paid on 24 April 2020.

There are no matters or circumstances that have arisen since the end of the period that have significantly affected or may significantly affect either:

- The entities operations in future financial years;
- The results of those operations in future financial years;
- The entities state of affairs in future financial years.

15. Company details

The registered office of the business of the Company is:

27-33 Piper Lane

East Bendigo, VIC, 3350

The principal place of business of the Company is:

27-33 Piper Lane

East Bendigo VIC 3550

Directors' Declaration

- 1 In the opinion of the Directors of Apiam Animal Health Limited:
 - a the consolidated financial statements and notes of Apiam Animal Health Limited are in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of its financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - b there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink, appearing to read "C. Irwin Richards", written over a horizontal line.

Dr Christopher Irwin Richards
Managing Director

Melbourne
24 February 2020

Independent Auditor's Report

To the Members of Apiam Animal Health Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Apiam Animal Health Limited (The "company") and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Apiam Animal Health Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Apiam Animal Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Grant Thornton Audit Pty Ltd
Chartered Accountants



C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 February 2020