

H1 FY2020 Results update

24 February 2020



Local knowhow.
Global knowledge.

H1 FY2020 snapshot

REVENUE

\$56.2M

vs H1 FY19 : + 0.3 %

GROSS PROFIT

\$30.4M

vs H1 FY19 : + 6.7 %

*GM : 54.1% in H1 FY20
vs 50.8% in H1 FY19*

EBITDA

(underlying & pre AASB 16
impact)

\$5.1M

vs H1 FY19 : +2.4%

NPAT

(underlying & pre AASB
16 impact)

\$2.1M

vs H1 FY19 : +7.1%

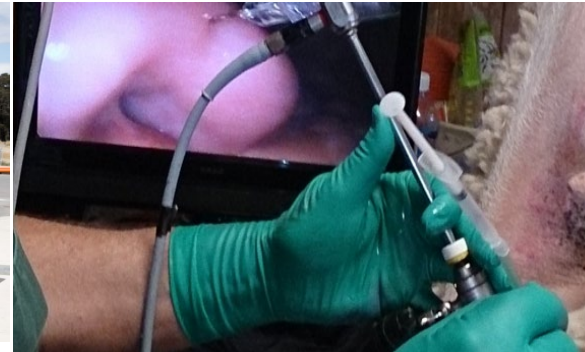
Interim dividend 0.8cps
(in-line with H1 FY19)

H1 FY2020 highlights

- **Resilient revenue & earnings despite industry conditions**
 - Growth from feedlot, companion animals, acquisitions and new business initiatives have offset the impact of dairy and pig segments which are recovering from animal reductions.
 - Gross margin improvement in all business segments. Change in business mix also delivering improvement (54.1% in H1FY20 vs 50.8% in H1 FY19)
 - Focus on operating cost control
- **Business development initiatives driving new revenue streams**
 - Complementary revenue streams with diversification benefits
 - Expansion of product & services (ProDairy, Best Mates, acquisitions)
- **Recent acquisitions performing strongly**
 - ACE Laboratories (October 2019) – highly specialised services
 - Grampians Animal Health (December 2019) – agricultural consulting
- **Well positioned to deliver growth as industry conditions improve and new business initiatives deliver full benefits**



A resilient vet services portfolio with high growth opportunities



Veterinary Services	Product sales	Genetics & Ancillary	International export
<ul style="list-style-type: none"> • Veterinary, animal well-being and production services • Service the whole animal spectrum – beef feedlot, pigs, dairy and companion animals (including equine) • 46 clinics strategically located across Victoria, Tasmania, Queensland, WA and NSW • JV with PETstock to roll out further veterinary locations • Employ over 150 veterinarians and technicians 	<ul style="list-style-type: none"> • Veterinary service programs supported by technical products • In-house warehousing and logistics services that deliver products to vet clinics and end-point customers • Several new product distribution agreements put in place in FY19 (Zoono distribution agreement in FY20) • Private label initiative to improve value proposition and supply reliability • Integrated online platform to support efficient growth 	<ul style="list-style-type: none"> • Genetics sourcing, sales and related consulting services • Genetics centres located in key regions applying new technologies to improve fertility and productivity • Services to producers of quality systems including biosecurity and food safety plans • ACE Laboratory Services – diagnostic lab services & autogenous vaccines • Grampians Animal health – sheep consulting & parasitology diagnostics 	<ul style="list-style-type: none"> • Veterinary consulting services provided in 10+ countries • Chinese sheep genetics, consultancy and export agreement • Development of new markets for year-round genetic services • US Joint Venture for distribution of specialised swine products • ACE Laboratory Services – autogenous vaccine export opportunities

Core veterinary business

High growth complementary business initiatives

H1 FY20 financials



Profit and loss summary – underlying basis

Gross margin expansion and operating cost control in challenging industry environment

\$m	H1 FY2020A	H1 FY2019A (not AASB 16 adjusted)	Variance	%
Total revenue	56.2	56.0	0.1	0.3%
Gross profit	30.4	28.5	1.9	6.7%
Operating expenses ²	(24.1)	(22.4)	(1.7)	7.6%
Property lease expense	-	(1.1)	-	-
Underlying EBITDA ^{2,3} (post AASB 16 in H1 FY20)	6.3	5.0	1.3	26.6%
Amortisation ROU assets	(1.2)	-	(1.2)	-
Depreciation & amortisation	(1.7)	(1.5)	(0.2)	13.7%
Underlying EBIT ³	3.4	3.5	(0.1)	(2.4)%
Underlying NPAT ^{2,3} (post AASB 16 in H1 FY20)	2.0	2.0	0.1	3.6%
GM	54.1%	50.8%		
Underlying EBIT margin	6.0%	6.2%		

Notes:

- Adjusted to exclude contributions from ACE Laboratories (Oct 19), Devoted Vets (Nov 19) and Grampians Animal Health (Dec 19)
- The current period (H1 FY20) has been impacted by the first time adoption of the new accounting standard AASB 16 Leases, lease expense of \$1.1M has not been adjusted from the comparative period (H1 FY2019).
- Underlying adjustments to earnings exclude one-off acquisition, integration & restructuring costs (tax effected where applicable at NPAT level)

Revenue

- Maintained top-line revenue despite challenging industry conditions – benefits of diversified model & acquisitions
- Ex-acquisition¹ revenue fell 6.5% due to reduction in low margin wholesale business, negative impact of pigs & dairy

Gross margins

- Gross profit uplift due to impact of targeted change in business mix & benefits from PMS roll-out in clinics
- Increasingly specialised service offering (ie. ACE Laboratories, consulting, new products, new business initiatives)

Operating expenses

- Focus on underlying operating cost containment
- Operating expense growth largely a result of new acquisitions with ex-acquisition growth of 2.0% vs pcg
- Employment expense growth ex-acquisition 0.7% vs pcg
- Growth in expenses mainly due to marketing, training, product registration fees and first-time annual licence fees associated with PMS systems

Depreciation & Amortisation

- First time amortisation of ROU assets in accordance with new AASB 16 Leases

NPAT

- Includes contribution from JV's and minority interests

Profit and loss summary – impact of AASB16

Key profit metrics pre & post AASB 16 implementation in H1 FY20

\$m	H1 FY2020A	H1 FY2019A (not AASB 16 adjusted)	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%

Adoption of AASB 16 in H1 FY20 :

- Increases reported EBITDA by \$1.2M (reduction in operating expense)
- No impact on EBIT
- Reduces NPAT by \$70K

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

Balance sheet

Balance sheet movements reflective of recent acquisitions and adoption of AASB 16 Leases

\$m	31 Dec 2019A	30 Jun 2019A
Cash	2.5	1.9
Trade & receivables	13.0	13.9
Inventories	16.2	10.9
Property, plant & equipment	8.8	8.4
Intangibles	83.1	65.2
Lease ROUA	11.9	
Other	4.7	4.1
TOTAL ASSETS	140.2	104.4
Borrowings	38.4	26.7
Trade & other payables	9.9	9.6
Lease liability	13.2	
Other liabilities	12.1	6.8
TOTAL LIABILITIES	73.6	43.1
NET ASSETS	66.6	61.3

Working Capital

- Investment in inventories in H1 FY20 to take advantage of favourable supplier pricing and increased holdings associated with new products

Lease ROUA

- First time inclusion of lease ROUA of \$11.9M in accordance with AASB 16 Leases

Borrowings

- Borrowing increase to \$38.4M as at 31 December 2019 as result of:
 - Acquisition cash component \$12.5M (ACE, GAH, Devoted Vets)
 - Strategic increase in inventory
 - Vehicle HP liability \$1.5M reclassified to Lease liability.
- Operating leverage ratio 31/12/19
 - Gross Debt¹ to EBITDA 3.0x versus covenant of 4.0x
- \$16M headroom remains available under acquisition facility

Lease liability ROUA

- First time inclusion of lease liability ROUA of \$11.7M in accordance with AASB 16 Leases
- Reclass vehicle HP liability \$1.5M from Borrowings

Other liabilities

- Contingent consideration \$3.925M related to earnout agreements for ACE and GAH

Notes:

1. Gross Debt calculated excluding the impact of AASB16 Lease Liabilities

Cash flow

Cash flow in H1 FY20 reflects impact of acquisitions

Statutory cashflows \$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

Cash flow

- Operating cash flow impacted as follows:
 - Acquisition costs & investment in inventory in H1 FY20
 - AASB16, transfer of lease expense to financing activities
- Investing activities include cash components of acquisitions as follows:
 - ACE Laboratories \$9.3M
 - GAH \$2.7M
 - Devoted Vets \$0.5M
- Capex in-line with pcp
- Financing cash flow represents:
 - Draw down of acquisition facility
 - AASB16, lease expense now treated as repayment of lease liabilities

Capital management

Interim dividend of 0.8 cps

	H1 FY2020 interim dividend
Dividend	0.8 cps
Payout ratio on NPAT	54.9%
Franking	100%
Record date	Monday 23, March 2020
Payment date	Friday 24, April 2020

- Board declares an interim dividend of 0.8 cps, fully franked, payable on Friday 24 April 2020
- Dividend reinvestment plan in place
 - Last day to participate in DRP for interim FY20 dividend : Monday 30 March 2020
 - DRP pricing period : 5 day AHX VWAP between 31 March 2020 and 6 April 2020



Strategy & outlook



LEVERAGING PERFORMANCE

Strategic Focus



Enhance 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



Increase 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 expansion

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

Recent acquisitions update

Broadening Apiam's specialist service offering and increasing market share in attractive regional locations

ACE Laboratory Services



- Acquisition price \$16.0M (incl deferred consideration of \$3.6M)
- Completion October 2019
- Highly specialized autogenous (custom) vaccine and diagnostics laboratory service provider to large production animal producers
- Market leader in Australia in attractive and high growth markets
- Compelling acquisition rationale for Apiam
- FY19 revenue of \$6.5M

Grampians Animal Health



- Acquisition price \$4.65M (incl deferred consideration of \$0.3M)
- Completion December 2019
- Headquartered in Hamilton, attractive regional location in Victoria – Australia's largest & most productive sheep farming area
- Large regional mixed animal veterinary clinic & production animal consultancy business
- Increases AHX's South West operating region to 7 vet clinics
- FY19 revenue of \$4.1M

Acquisitions performing above forecast and integration on track

Service & product range expansion

July 2019

Launch of BestMates Wellness Program (recurring revenue model)



August 2019

Launch of ProDairy consultancy program



October 2019

Acquisition of ACE Laboratory Services (highly specialized service offering)



December 2019

Acquisition of Grampians Animal Health (includes expertise in sheep consulting services)



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November 2019

Entered into new distribution agreement with Zoono Animal Health – disinfectant nanotechnology



November 2019

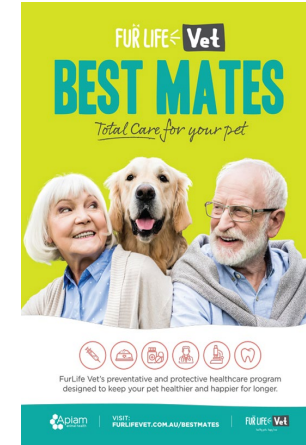
Acquisition of Devoted Vets at Warragul Vic.

New programs & initiatives

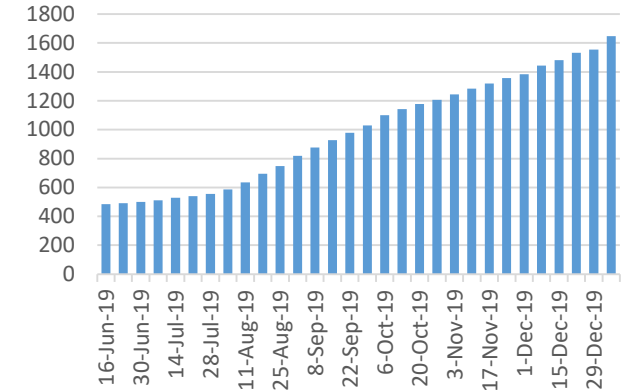


Best Mates

- Wellness program to drive growth in companion animal services
- Whole of life health and wellness program drives loyalty
- Successful FY19 focused clinic launch program in July being expanded in FY20 across company footprint
- 57% average monthly growth in the member base since launch month (July 19)

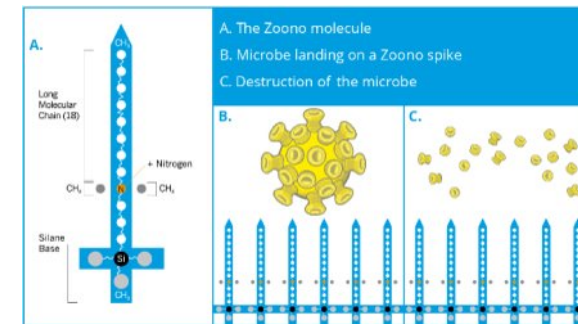


Best Mate members (weekly)

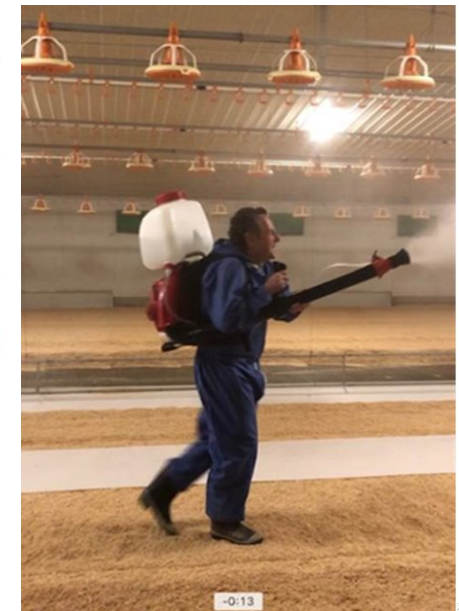


Zoono distribution agreement

- Executed distribution agreement with Zoono Animal Health for distribution of proprietary sanitiser and protectant nanotechnology for use in livestock facilities in Australia and USA
- Innovative alternative to chemicals which both sanitizes and provides ongoing mechanical activity for up to 42 days
- Over 150 tests by third-party laboratories world-wide for human use
- Demonstrated effectiveness against range of bacteria and viruses including H1N1 influenza and African Swine Fever (99.99% efficacy)
- Successful field trials in AUS & NZ poultry and pigs last 18 months demonstrated extended duration of activity against microbes
- Extensive feed efficiency and growth rate production gains in poultry. Pig productivity trials to establish economic benefit have commenced
- Sales expected to commence in Australia and USA in Q3FY20



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Industry conditions outlook

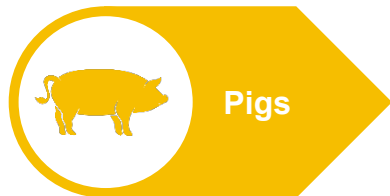
Diversification reduces exposure to a mix of industry conditions



- Lot feeding sector has been growing in recent years in response to strong demand for high quality grain fed beef and its key role in finishing cattle in drought conditions ¹
- For the year ahead, the number of cattle on feed is expected to remain at a historically high level, albeit likely easing from the record numbers in 2019 ¹



- Operating conditions for dairy farms are mixed across the country. Farmers in southern Australia are experiencing a highly favourable season. In comparison, those further north continue to face ongoing challenges ²
- Companion animal health and wellbeing attitudes in regional areas continue to align with metro attitudes - provides strong support for industry in the medium term



- Domestic grain prices have softened, following global grain markets lower ³
- Improved margins over feed costs for producers compared to 12 months ago³
- Reduction in pigs slaughtered in 2019⁴
- Cull rates of breeder stock declined in back end of 2019⁴

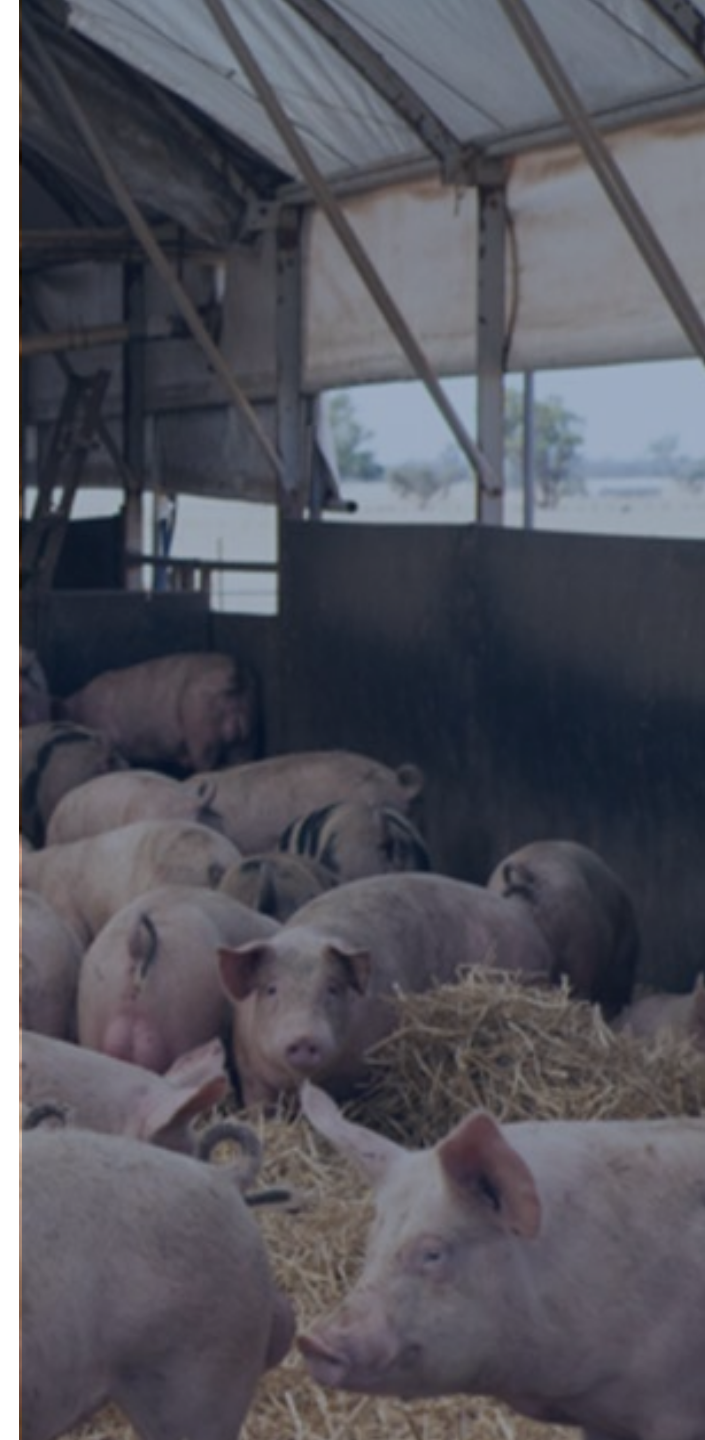
Notes:

¹ Meat & Livestock Australia – February 2020

² Dairy Situation & Outlook, Dairy Australia - December 2019

³ Australian pork, Eyes & ears, 31 January 2020

⁴ Reference Australian Pork Communique 7 February 2020



Outlook

Apiam is well positioned to deliver growth as industry conditions improve

- Recent rainfall and favorable commodity prices across all segments are positive for H2 FY20 outlook
- Global shortage of meat protein supporting growth in animal numbers
- New business lines and initiatives in place to leverage footprint and diversify revenue streams

Diversified platform expected to deliver EBIT growth in H2 FY20 (vs H1 FY20)

- Driving growing EBIT margins through:
 - New service and product initiatives with attractive margin opportunities
 - Leveraging benefits from investment in infrastructure and operating platform
- Targeted acquisition strategy continues to be a core part of Apiam's growth strategy



Appendices

Profit and loss summary - statutory

Statutory results including one-off expenses

\$m	H1 FY2020A	H1 FY2019A	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 ¹	(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)	0.1	(0.0)	0.1	-
NPAT attributable to members	1.7	1.6	0.1	4.0%

Notes:

1. 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.

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