

# Investor presentation FY20 results

---

24 August 2020



# FY2020 snapshot

## REVENUE

**\$118.4M**

vs FY19 : + 6.0 %

## GROSS PROFIT

**\$64.0M**

vs FY19 : +13.8%

## EBIT (underlying)

**\$8.4M**

vs FY19 : +23.3%

## NPAT (reported)

**\$4.2M**

vs FY19 : +31.8%

**50% increase in FY20 final dividend to 1.2 cps (vs FY19 final dividend)**

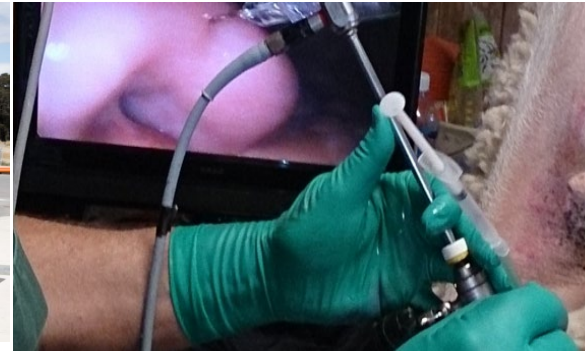


# Highlights

- ✓ **Revenue growth:** in the face of COVID-19 challenges & varying industry conditions
- ✓ **Business strategy delivering results:** acquisitions, product & service expansion, & operating leverage - contributing to growth
- ✓ **Gross margin expansion :** enhanced product offering & clinic-level efficiencies (FY20 : 54.1% vs FY19: 50.3%)
- ✓ **Material earnings uplift:** enhanced business infrastructure, cost efficiencies & acquisitions (FY20 underlying EBIT margin 7.1% up from 6.1% in FY19)
- ✓ **Solid balance sheet:** supporting an increased full year dividend (FY20 total dividends 25% higher than FY19)



# Diversified 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>• 46 clinics strategically located across Victoria, Tasmania, Queensland, WA and NSW</li> <li>• Joint Venture with Petstock to roll out additional clinics in regional 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</li> <li>• 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>• ACE Laboratory Services – diagnostic lab services &amp; autogenous vaccines</li> <li>• Grampians Animal Health – sheep consulting &amp; parasitology diagnostics</li> </ul>	<ul style="list-style-type: none"> <li>• Veterinary consulting services provided in 10+ countries</li> <li>• US Joint Venture for distribution of specialised swine products</li> <li>• ACE Laboratory Services – autogenous vaccine export opportunities</li> </ul>

Core veterinary business

High growth complementary business initiatives



# FY20 financials

---



# Profit and loss summary – underlying basis

## Revenue growth & strong margin expansion

\$m	FY2020A	FY2019A (not AASB 16 adjusted)	Variance	%
Total revenue	118.4	111.7	6.7	6.0%
<b>Gross profit</b>	<b>64.0</b>	<b>56.2</b>	<b>7.8</b>	<b>13.8%</b>
Operating expenses <sup>2</sup>	(49.6)	(44.0)	(5.6)	12.8%
Property lease expense	-	(2.2)	-	-
<b>Underlying EBITDA <sup>2,3</sup></b>	<b>14.4</b>	<b>10.0</b>	<b>4.4</b>	<b>43.3%</b>
Amortisation ROU assets	(2.4)	0.0	(2.4)	-
Depreciation & amortisation	(3.6)	(3.2)	(0.4)	11.3%
<b>Underlying EBIT <sup>3</sup></b>	<b>8.4</b>	<b>6.8</b>	<b>1.6</b>	<b>23.3%</b>
<b>Underlying NPAT <sup>2,3</sup></b>	<b>4.9</b>	<b>4.0</b>	<b>0.9</b>	<b>23.0%</b>
Reported NPAT <sup>2,3</sup>	<b>4.2</b>	<b>3.2</b>	<b>1.0</b>	<b>31.8%</b>

EBITDA (pre AASB 16 adjusted)	11.9	10.0	1.8	18.4%
GM	54.1%	50.3%		
Underlying EBIT margin	7.1%	6.1%		

### Notes:

- Adjusted to exclude contributions from ACE Laboratories (Oct 19), Devoted Vets (Nov 19) and Grampians Animal Health (Dec 19)
- The current period (FY20) has been impacted by the first time adoption of the new accounting standard AASB 16 Leases, lease expense of \$2.2M has not been adjusted from the comparative period (FY2019).
- Underlying adjustments to earnings exclude one-off acquisition, integration & corporate costs (tax effected where applicable at NPAT level)

### Revenue

- Reported revenue growth of 6.0% despite varying industry conditions
- Revenue growth (ex acquisitions)<sup>1</sup> was (5.1)% vs PCP
  - mainly due to reduction in low margin wholesale sales
- Strong growth recovery in dairy & companion animal from Q3

### Gross margins

- Strong uplift reflecting:
  - Increasing efficiencies and revenue capture at clinic level (Practice Management System roll-out FY19 & early FY20)
  - Change in business mix strategy over 2HFY19 and into FY20
  - Impact of acquisitions
- Gross Profit (ex acquisitions) increased 0.9% in FY20 (vs PCP)

### Operating expenses

- Underlying operating expense increase of 3.9% (excluding acquisitions) – relating mainly to annual wage increases
- Strong cost containment and limited growth in G&A expense

### Depreciation & Amortisation

- Amortisation of Right Of Use (ROU) assets in accordance with AASB 16 Leases
- Depreciation growth slowing as corporate infrastructure upgrade completed in H1 FY20

### NPAT

- Includes contribution from JV's and minority interests

# Revenue & gross profit analysis

*Strong revenue growth in H2 FY20 and ongoing gross margin expansion*

## FY20 vs FY19 metrics:

- Reported revenue: + 6.0%; Gross profit + 13.8%
- Ex-acquisition revenue : (5.1)%; Gross profit 0.9%

## Dairy & companion animals

- Companion animal revenue continued to grow strongly with double digit growth recorded in most clinics
  - strong underlying industry fundamentals
  - new initiatives increasing market share
- Increased rainfall in H2 FY20 & launch of ProDairy driving strong dairy growth

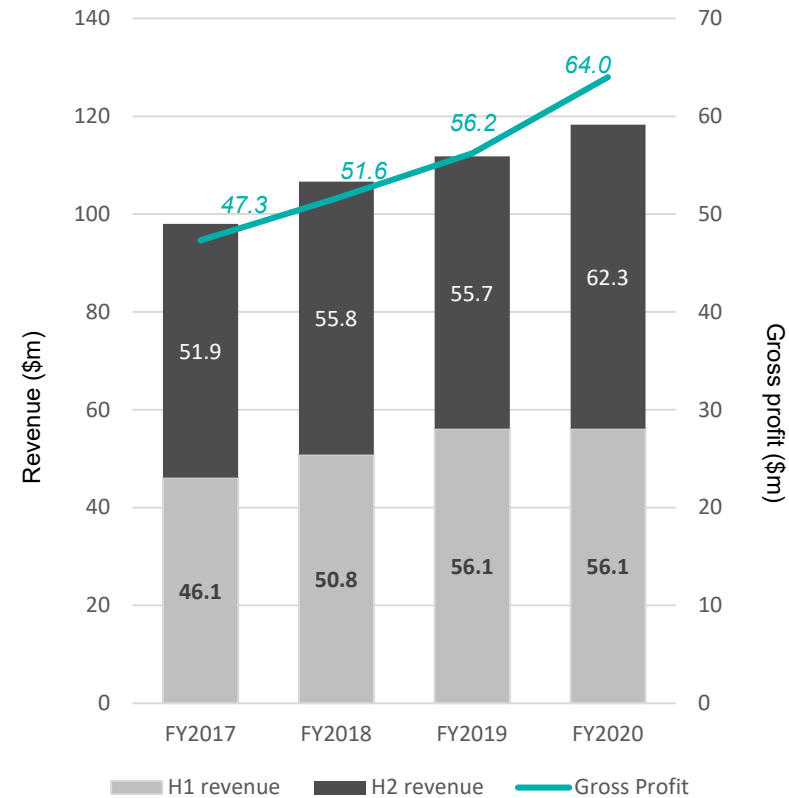
## Pigs

- Industry conditions remain challenging in some areas
- Strategic focus on “higher-value” consultancy services to support revenue
- Reduction in low margin wholesale business

## Feedlot

- Solid performance in FY20 but some easing from record growth numbers in 2019
- Reduction in animal numbers as a result of reduced beef export demand in Q4 FY20

## Half on half revenue & annual gross profit





# Balance sheet

## Major changes relating to acquisitions & strategic investment in inventory

\$m	30 Jun 2020A	30 Jun 2019A
Cash	2.5	1.9
Trade & receivables	12.1	13.9
Inventories	17.7	10.9
Property, plant & equipment	7.1	8.4
Intangibles	84.3	65.2
Lease ROUA	12.8	-
Other	4.6	4.1
<b>TOTAL ASSETS</b>	<b>141.0</b>	<b>104.4</b>
Borrowings	37.0	26.7
Trade & other payables	8.8	9.6
Lease liability	14.1	-
Other liabilities	12.6	6.8
<b>TOTAL LIABILITIES</b>	<b>72.5</b>	<b>43.1</b>
<b>NET ASSETS</b>	<b>68.5</b>	<b>61.3</b>

### Working capital

- Efficient management of receivables & payables to optimise cash flow
- Growth in inventory relates to the acquisitions and increased stocking of both Apiam private-label & Zoono products as both strategic initiatives were rolled-out over FY20

### Intangibles

- Goodwill from acquisitions (ACE, GAH, Devoted Vets)

### Borrowings

- Net Borrowings increased to \$34.5M due to:
  - Cash component for acquisitions (\$13.3M) – ACE, GAH, Devoted Vets
  - Strategic increase in inventory
- Operating leverage ratio (net debt basis) as at 30 June 2020 of 2.1x vs covenant of 4.0x – significant headroom for growth opportunities
- Access to \$16M acquisition facility

### Other liabilities

- Other liabilities increase to \$12.6M due to provision for contingent consideration relating to acquisitions

### AASB 16 Leases

- Lease Right Of Use Asset (ROUA) of \$12.8M in FY20
- Reclass vehicle HP liability \$1.4m from borrowings



# Cash flow

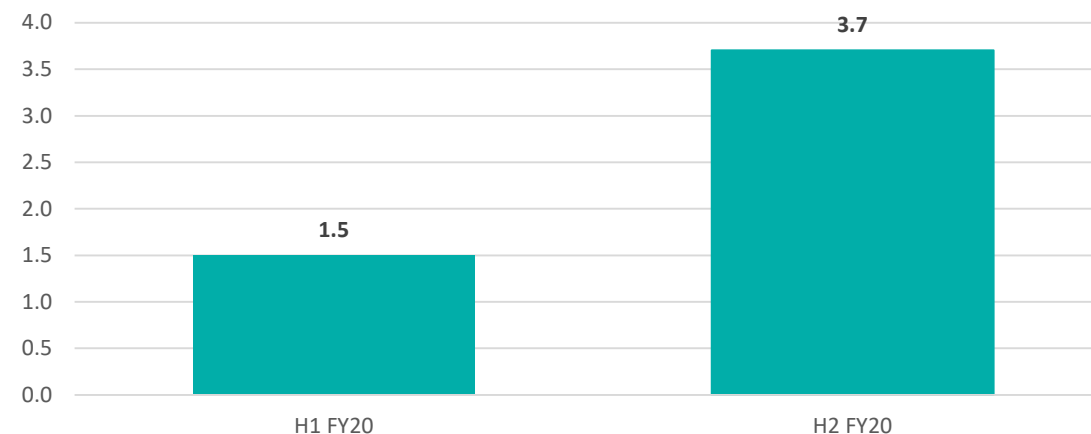
*Growth in cashflow in H2 FY20 driven by increased earnings, but FY20 conversion impacted by inventory investment*

Statutory cashflows \$m	FY20A	FY19A
<b>Net cash provided by operating activities</b>	<b>7.5</b>	<b>4.9</b>
Acquisition of subsidiary, net of cash	(13.1)	(0.3)
Purchases of property, plant and equipment	(1.6)	(2.1)
Purchases of Intangible assets	(0.3)	(0.7)
<b>Net cash used in investing activities</b>	<b>(15.0)</b>	<b>(3.1)</b>
Net changes in financing	12.4	0.2
Dividends paid to shareholders	(1.2)	(1.0)
Repayment of lease liabilities	(3.2)	-
Other	0.1	(0.6)
<b>Net cash inflow from financing activities</b>	<b>8.1</b>	<b>(1.4)</b>
<b>Net change in cash and cash equivalents</b>	<b>0.6</b>	<b>0.4</b>

- Operating cashflows in FY20 impacted by:
  - Reclassification of lease repayments from operating to financing cash outflow (in accordance with AASB 16)
  - strategic investment in private-label and Zoono inventory, particularly in H1 FY20
  - earnings growth and working capital control in H2 FY20
- Capex slowing as major corporate infrastructure investment complete
- Impact of acquisition program on investing & financing cash flows (acquisitions were between 70%-80% debt funded)

Cashflow Conversion \$m	FY20A	FY19A
<b>Underlying EBITDA (pre AASB 16 adjustment)</b>	<b>11.9</b>	<b>10.0</b>
<b>Net cash inflow from operating activities (less AASB 16 lease reclassification impact in FY20)</b>	<b>5.2</b>	<b>4.9</b>
Add back:		
One-off expense	1.1	1.2
Interest paid	1.3	1.1
Income tax paid	0.9	1.6
<b>Underlying cashflow before tax &amp; interest:</b>	<b>8.5</b>	<b>8.7</b>
<b>Conversion</b>	<b>71%</b>	<b>87%</b>

**Operating cash flows half-on-half (less AASB16 lease reclassification impact) (\$M)**



# Capital management

## *Final dividend of 1.2 cps*

	FY2020 final dividend
Dividend	1.2 cps
Payout ratio on NPAT	56.0%
Franking	100%
Record date	18 September 2020
Payment date	23 October 2020

- Board declares a final dividend of 1.2 cps, fully franked, payable on 23 October 2020
- Total dividends in respect of FY20 of 2.0 cps (up 25% from 1.6 cps in FY19)
- Dividend reinvestment plan in place
  - Last day to elect to participate in DRP for FY20 final dividend : 28 September 2020
  - DRP pricing period : 5 day AHX VWAP between 28 September 2020 and 2 October 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



# Service & product range expansion in FY20



# COVID-19 business continuity

*Comprehensive business practices to ensure continuity of essential services*



## Companion Animal Services

- Implementation of strict clinic guidelines & protocol steps with new service offerings
- Modified clinic service
- Kerbside service
- Online booking and telemedicine service – (launched in April) [www.furlifevet.com.au](http://www.furlifevet.com.au)
- Home service (in emergency settings only)



## Livestock & agricultural Services

- New remote consulting technology (live-stream) introduced
- Allows vets to inspect health of herds with farm personnel (maintaining distance)
- On-going remote monitoring on a more efficient basis, particularly for large production animal customers



**Strong business performance in H2 FY20 reflective of success of Business Continuity measures to date**



# ProDairy consultancy & product supply service

*Innovative service model offering dairy farmers an end-to-end service*



Animal Health Programs

Staff Training



Direct ordering capability

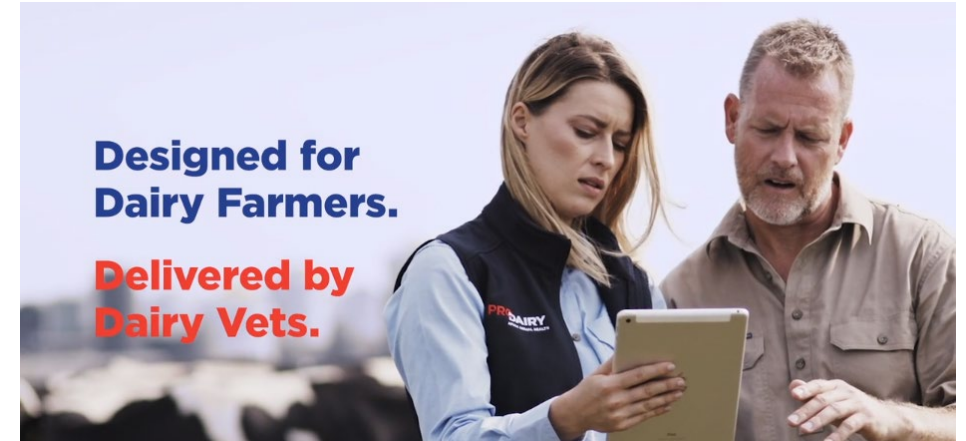
Risk management & planning



Performance analysis reports

Client Assistance Programs

- Full marketing campaign was launched in April 2020 across targeted radio, social media and television
- ~10% of Victoria's dairy cows are subscribed to the program
- Strategy to increase market penetration in Apiam's other geographic areas

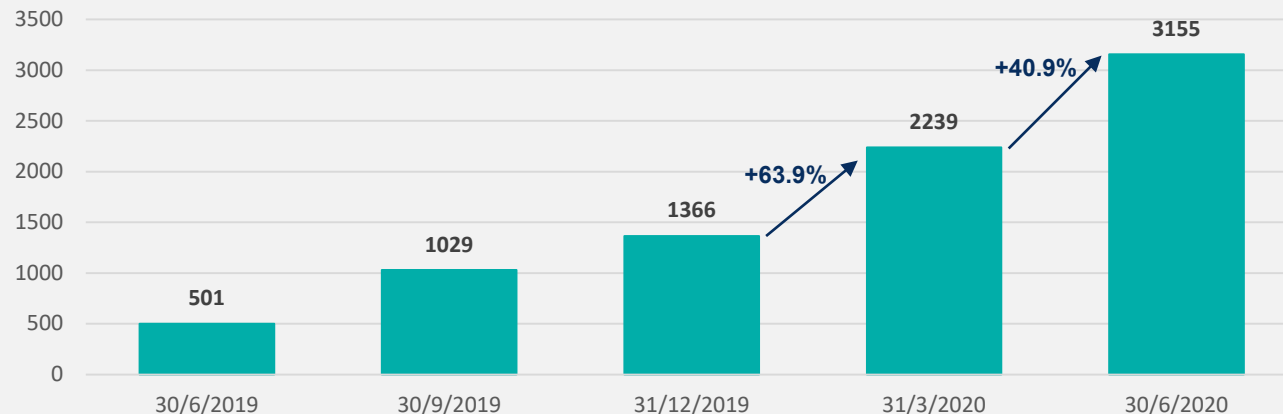


# Best Mates companion animal program

## Wellness program to drive recurring growth in animal services

- Whole of life health and wellness program (annual subscription charge)
- Successful targeted clinic launch program in July 2019
- Expanded across company footprint in FY20
- Very strong growth in Q3 & Q4 FY20 reflective of strong pet ownership growth during COVID-19 restrictions
- 4.5% of active patients were Best Mates members as at end of FY20 (leaving strong opportunity for continued growth)

## Best Mate members (quarterly)



**FUR LIFE Vet BEST MATES**  
*Total Care for your pet*

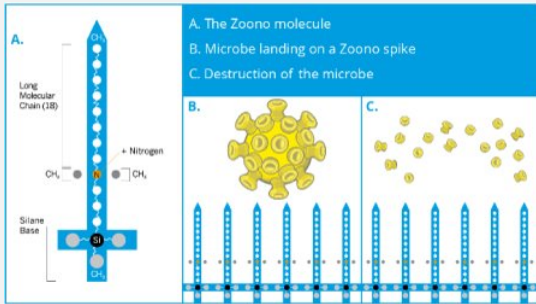
**\$550 PER PET PER YEAR**  
**\$485 PER PET PER YEAR FOR ADDITIONAL PETS**  
**RENEWAL \$485 PER PET PER YEAR**

**Keep your pet healthy and happy for life.**

- Unlimited FREE Consultations**  
Never pay a consult fee, only pay for your discounted medication if required.
- FREE Vaccinations**  
Your dogs annual or biannual vaccination OR your cat's vaccinations tripart, distact and FIV as required.
- FREE 10 Part Health Screen Blood**  
Year Essential tools for identifying diseases at the earliest stage possible.
- FREE Dental Or Desexing**  
Dental Scale and Polish, Dental Chart OR Spay or Castrate.
- FREE Microchip**  
If your pet becomes lost then you are for more likely to become reunited if he or she is microchipped.
- Discounted Medications & Professional Services**  
10% discount on all medicines dispensed and professional services performed by a vet including pathology test, surgery and hospital treatment.
- Discounted Parasite Control**  
15% discount applied on the purchase of parasite control products including the ProHeart SR12 injection.
- Discounted Food & Merchandise**  
15% discount on all food and merchandise sold through the clinic.
- Discounted Grooming**  
20% discount for all members.
- FREE Nail Trims**  
Unlimited free nail trims the duration of their membership.

**Apium** **VISIT FURLIFEVET.COM.AU/BESTMATES** **FUR LIFE Vet**





## *Proprietary sanitiser and disinfectant, effective against COVID-19*

- Exclusive distribution agreement for use in livestock, agriculture and veterinary in AU & US
- Provides ongoing mechanical activity for up to 30 days with over 150 tests by 3rd-party labs
- Demonstrated effectiveness against bacteria and viruses including COVID-19, Avian influenza, African Swine Fever (99.99% efficacy)
- Range of products including Z-71 Microbe Shield - applied to surfaces via fogging or spraying
- Listed on Australian Register of Therapeutic Goods for COVID-19, bacteria and germs on hard surfaces
- Approved under supply and emergency use permit by APVMA as 'Z-71 Ready-to-Use Poultry Guard Sanitiser and Protectant for sanitising poultry sheds, animal pens and farm equipment

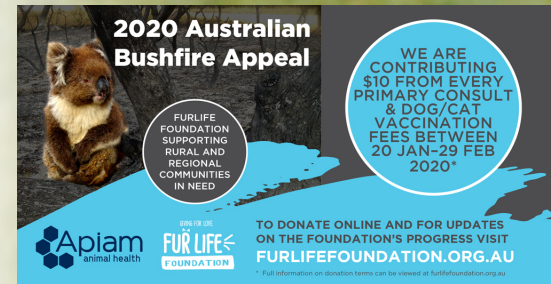
## *Surge in demand with broadening applications & geographies*

- Strong interest from pig, poultry and veterinary industries resulting in material contribution since launch of product sales in March FY20
- Successful trials in USA pig industry and for other livestock diseases
- New customers & applications since COVID-19 outbreak - offices, equine facilities, pet food plants, veterinary clinics, feed mills, vehicles, and pet stores

# Community and customer support

*In FY20, Apiam has continued its commitment to its customers and regional communities, throughout a challenging year*

- Fur Life Foundation has contributed over \$150,000 directly back into local communities via donations to:
  - Three regional wildlife charities to improve native animal wellbeing in those areas affected by bushfires
  - Rural Aid, who has a specialised counselling program to support rural communities
- Our employees have been supported & encouraged to volunteer in their local communities
- Apiam's Customer Assistance Program was used by clients across the dairy, pig and beef feedlot industries



# Industry conditions update

*Apiam is exposed to a diversified group of industry operators*



## Dairy & companion animal

- Dairy climate outlooks have become more favourable. Rain in late summer and throughout autumn provided a boost for the winter season<sup>1</sup>
- As seasonal conditions improve, national milk production has continued to recover, growing year-on-year for the past five months to April<sup>1</sup>
- COVID-19 has seen increased companion animal ownership in regional & rural areas



## Feedlot

- National feedlot capacity continued to expand, increasing 2.5% from the March quarter to a record 1,432,989 head, demonstrating confidence in the future of the lot feeding sector remains strong<sup>2</sup>
- COVID-19 will affect the lot feeding sector, balancing the risk of placing cattle on feed and determining when demand (foodservice) will pick-up will be a challenge<sup>2</sup>



## Pigs

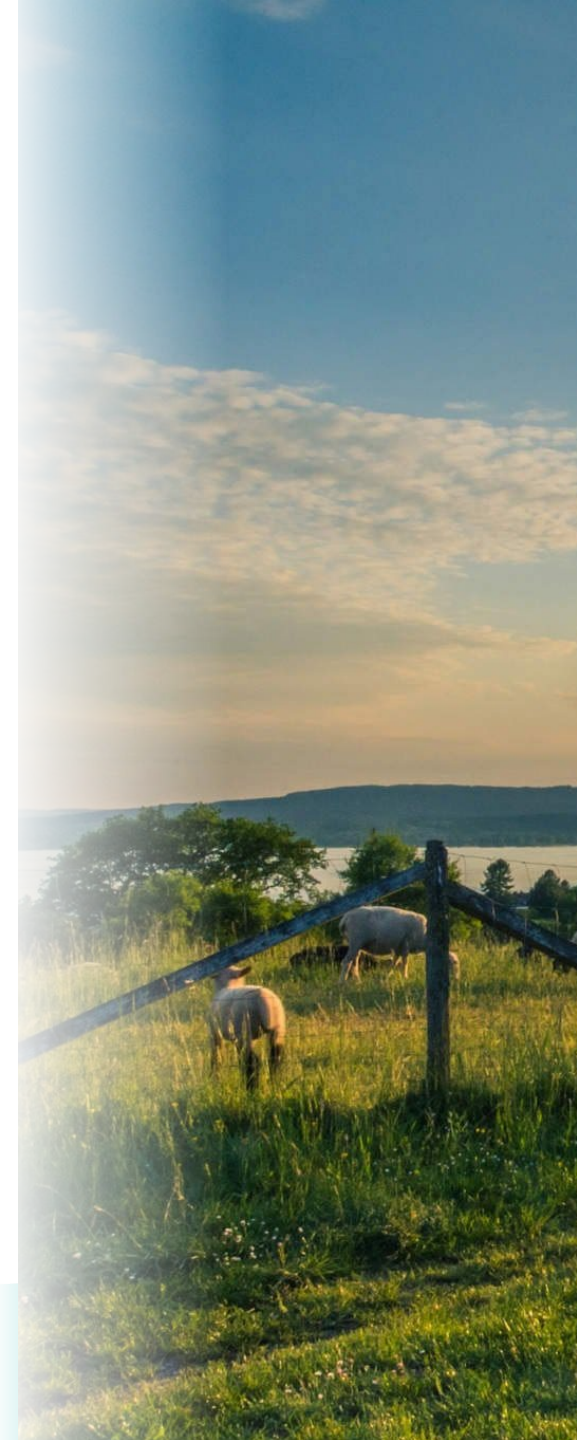
- Indicator prices for pigs will head into June 2020 on a firmer footing<sup>3</sup>
- These factors (grain prices & demand recovery) are positive for producers especially those who have been exposed to high feed prices and lower pig prices since Easter<sup>3</sup>

Notes:

<sup>1</sup> Dairy Situation & Outlook, Dairy Australia – June 2020

<sup>2</sup> Meat & Livestock Australia – April 2020

<sup>3</sup> Australian pork newspaper, 6 June 2020





# Outlook

- Apiam's business operations expected to remain strong & stable despite COVID-19 challenges and market cycles
- Management committed to execution of long-term strategic plan:
  - focus on leveraging the investments made in operational systems, new products & services to deliver ongoing margin expansion
  - strategic acquisition pipeline in place to enter attractive new veterinary markets, leverage company infrastructure and further diversify portfolio
  - investing for growth balanced against return on capital
- Early trading in FY21 (6 weeks YTD) reflects solid revenue and earnings growth on PCP



# Appendices



# Profit and loss summary - statutory

\$m	FY2020A	FY2019A	Variance	%
<b>Total revenue</b>	118.4	111.7	6.7	6.0%
<b>Gross profit</b>	64.0	56.2	7.8	13.8%
Operating expenses	(49.6)	(46.2)	(3.4)	7.4%
One-off expenses	(1.1)	(1.2)	0.1	(9.0)%
<b>EBITDA</b>	<b>13.3</b>	<b>8.9</b>	<b>4.5</b>	<b>50.2%</b>
Amortisation ROU assets <sup>1</sup>	(2.4)	0.0	(2.4)	-
Depreciation & amortisation	(3.6)	(3.2)	(0.4)	11.3%
<b>EBIT</b>	<b>7.4</b>	<b>5.7</b>	<b>1.7</b>	<b>29.8%</b>
Interest	(1.4)	(1.1)	(0.2)	20.1%
Tax	(1.8)	(1.4)	(0.4)	25.0%
Other (including minorities)	(0.1)	0.0	(0.1)	-
<b>NPAT attributable to members</b>	<b>4.2</b>	<b>3.2</b>	<b>1.0</b>	<b>31.8%</b>

- Includes one-off expenses

Notes:

1. The current period (FY20) has been impacted by the first time adoption of the new accounting standard AASB 16 Leases but the comparative (FY2019) has not been adjusted.



# Profit and loss summary – impact of AASB16

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

\$m	FY2020A	FY2019A (not AASB 16 adjusted)	Variance	%
Total revenue	118.4	111.7	6.7	6.0%
<b>Post AASB 16 in FY20</b>				
EBITDA	14.4	10.0	4.4	43.4%
EBIT	8.4	6.8	1.6	23.3%
NPAT	4.9	4.0	0.9	23.0%
<b>Pre AASB 16 in FY20</b>				
EBITDA	11.9	10.0	1.8	18.4%
EBIT	8.3	6.8	1.5	21.7%
NPAT	5.0	4.0	1.1	26.9%

### Adoption of AASB 16 Leases in FY20 :

- Increases reported EBITDA by \$2.5M (reduction in operating expense)
- Increases EBIT by \$0.1M
- Reduces NPAT by \$0.1M

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

# Disclaimer

---

## DISCLAIMER

The information presented to you by Apiam Animal Health Limited ACN 604 961 024 (**Company**) in this presentation and any related documents (together, **Materials**) has been prepared for information purposes only and is not an offer or invitation to acquire or dispose of shares in the Company, nor shall it be relied on in connection with any investment decision.

## NO FINANCIAL ADVICE

The information contained in the Materials has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Nothing in the Materials constitutes as financial advice. Before making any investment decision, you should consider, with or without the assistance of a financial advisor, whether an investment is appropriate in light of your particular investment needs, objective and financial circumstances.

## NO LIABILITY

The Company has prepared the Materials based on information available to it at the time of preparation, from sources believed to be reliable and subject to the qualifications in the Materials. To the maximum extent permitted by law, the Company, its related bodies corporate and their respective officers, employees, representatives, agents or advisers accept no responsibility or liability for the contents of the Materials. No representation or warranty, express or implied, is made as to the fairness, accuracy, adequacy, validity, correctness or completeness of the information, opinions and conclusions contained in the Materials.

## PAST PERFORMANCE

Past performance information contained in the Materials is given for illustration purposes only and should not be relied upon as (and is not) an indication of future performance. Actual results could differ materially from those referred to in the Materials.

## FORWARD LOOKING STATEMENTS

The Materials contain certain 'forward looking statements'. These statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievement of the Company to be materially different from future results, performance or achievements expressed or implied by those statements.

These statements reflect views only as of the date of the Materials. The actual results of the Company may differ materially from the anticipated results, performance or achievement expressed, projected or implied by these forward looking statements. Subject to any obligations under the Corporations Act, the Company disclaims any obligation to disseminate any updates or revision to any forward looking statement to reflect any change in expectations in relation to those statements or any change in circumstances, events or conditions on which any of those statements are based.

While the Company believes that the expectations reflected in the forward looking statements in the Materials are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in the Materials will actually occur and you are cautioned not to place undue reliance on any forward looking statements.