



Apiam Animal Health Limited Annual General Meeting

26 November 2020



AGM Presentation 2020

1

YEAR IN REVIEW

2

GROWTH STRATEGY

3

FY21 YTD PERFORMANCE & OUTLOOK

Key Achievements

- ✓ **Revenue growth:** in the face of COVID-19 challenges & varying industry conditions
- ✓ **Business strategy delivering results:** product & service expansion, acquisitions (ACE Laboratories, Grampians Animal Health, Devoted Vets)
- ✓ **Operating leverage & efficiency:** previous years investment in systems and infrastructure driving cost savings
- ✓ **Material earnings uplift:** gross margin uplift and limited increase in operating cost base
- ✓ **Increased final dividend:** supported by strong balance sheet

P&L snapshot

FY20
REVENUE

\$118.4M



vs FY19:

+6.0 %

FY20
GROSS PROFIT

\$64.0M



vs FY19:

+13.8%

FY20
NPAT

\$4.2M



vs FY19:

+31.8%



Q1 FY21
REVENUE

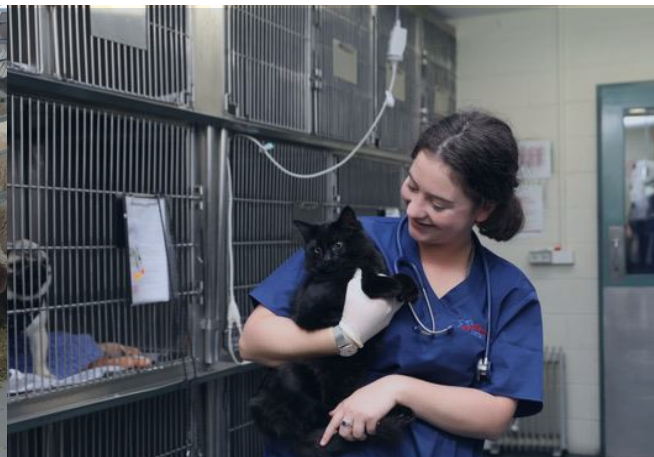
+14.1%

(vs pcp)

GROSS PROFIT

+21.2%

(vs pcp)



FY20 profit and loss

Revenue growth & strong margin expansion

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

EBITDA (pre AASB 16)	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)¹ 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% (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

- Depreciation growth slowing as corporate infrastructure upgrade completed in H1 FY20

FY20 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
- Increased rainfall in H2 FY20 & launch of ProDairy driving strong dairy growth

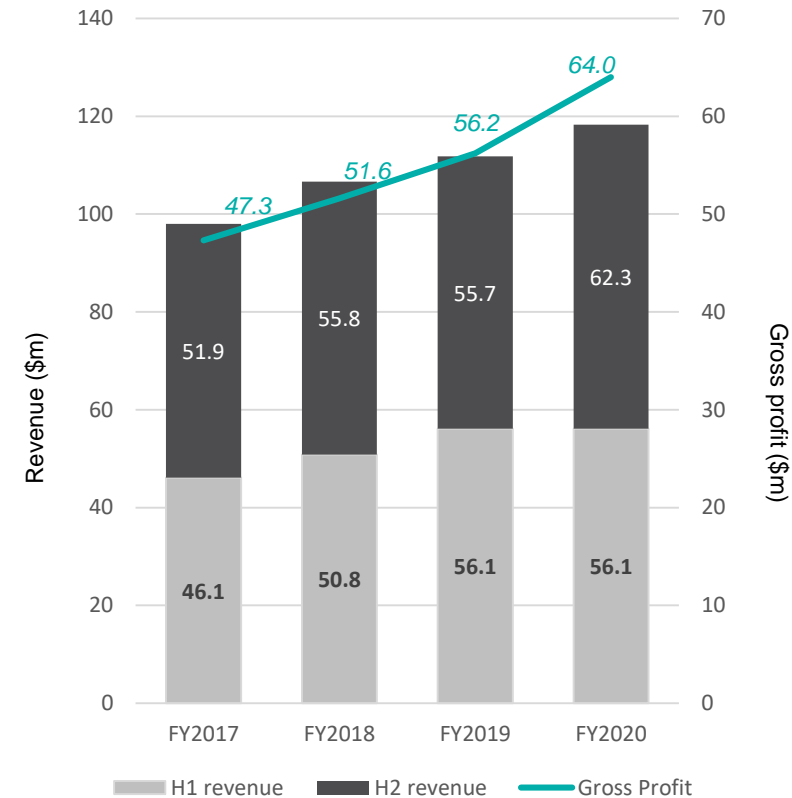
Pigs

- 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



COVID-19 business resilience

Comprehensive business practices ensured continuity of Apiam's 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
- 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 2020 reflective of success of Apiam's Business Continuity measures

Strategy & Outlook



Strategic framework for growth



Operations, process & capacity

- ✓ Practice Management System in place across whole clinic network
- ✓ Growth leveraging cost base to deliver margin expansion on incremental revenue



Increase animal numbers

- ✓ Best Mates & ProDairy implemented early FY20
- ✓ Ongoing acquisition program – increasing animal numbers
- ✓ Greenfield clinic strategy



Product and service expansion

- ✓ Private label strategy – commenced roll out private label products in FY20
- ✓ New product distributions delivered and more to come
- ✓ Specialist vaccine & diagnostics operations – deliver growth synergies

Target = growing earnings and shareholder returns

Service & product range expansion in FY20

July 2019

Launch of Best Mates 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

COVID-19 business continuity Acquisition of Grampians Animal Health (includes specialised sheep consulting services)



November 2019

Entered into new distribution agreement with Zoono (ASX : ZNO) – disinfectant nanotechnology



November 2019

Acquisition of Devoted Vets at Warragul Vic.

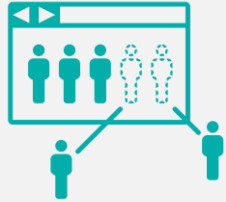


November 2020
Partnership with Ceva (AU) to distribute Forceris™

November 2020

Acquisition of Don Crosby Vet Surgeons (Dubbo)

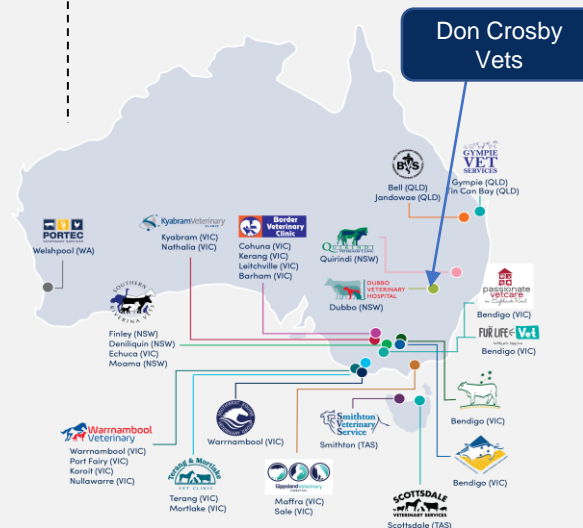
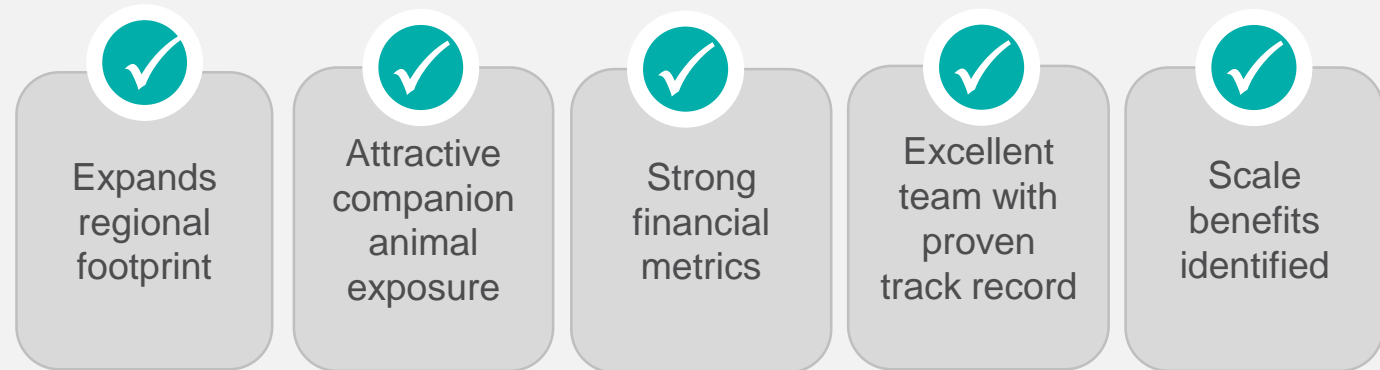
Acquisition strategy delivering results



Apiam's growth through acquisition strategy

- ✓ Strong acquisition pipeline of strategic investments
- ✓ Disciplined approach with strong track record of M&A execution
- ✓ 6 acquisitions in past 3 years consisting of 8 clinics and a laboratory
- ✓ Comprehensive company infrastructure delivers cost efficiencies
- ✓ Strict acquisition criteria
 - Attractive regional exposure
 - Leading product or service expertise
 - Financial return thresholds
 - Synergies available

DON CROSBY VETS - ACQUISITION BENEFITS



DON CROSBY VETS - OVERVIEW

- Located in Dubbo and Narromine (NSW) – Fast growing regional hub
- Companion & mixed animal focus
- 2 clinics with 6 veterinarians and experienced support team
- \$3.6M revenue in FY20
- Integration commenced
- Settlement expected November 30, 2020

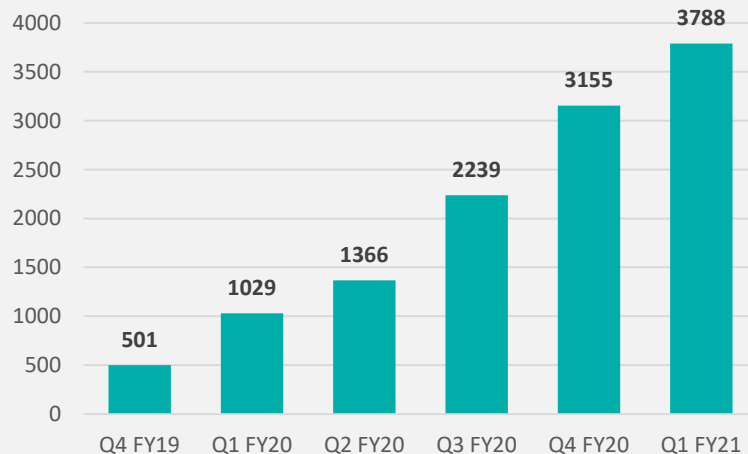
Capturing growth in companion animal segment

Best Mates & greenfield clinic plan to capitalise on rapid growth in pet ownership

Best Mates program overview

- Whole of life health and wellness program (annual subscription charge)
- Expanded across company footprint in FY20
- Very strong growth since H2 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

Best Mate members (quarterly)



Greenfield clinic strategy

- New greenfield clinics planned to open in attractive fast growth regional areas during FY21:
 - Torquay North, VIC (to open Q2 FY2021)
 - Shepparton, VIC (to open Q3 FY2021)
 - Further clinics in planning stage
- Apiam entered into JV strategy with PetStock in Feb 2018 to open co-located clinics & retail outlets in which Apiam have an 80% interest.
- New clinics forecast to break-even within second year from opening



ProDairy consultancy & product supply service

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



Animal Health Programs

Staff Training



Direct ordering capability

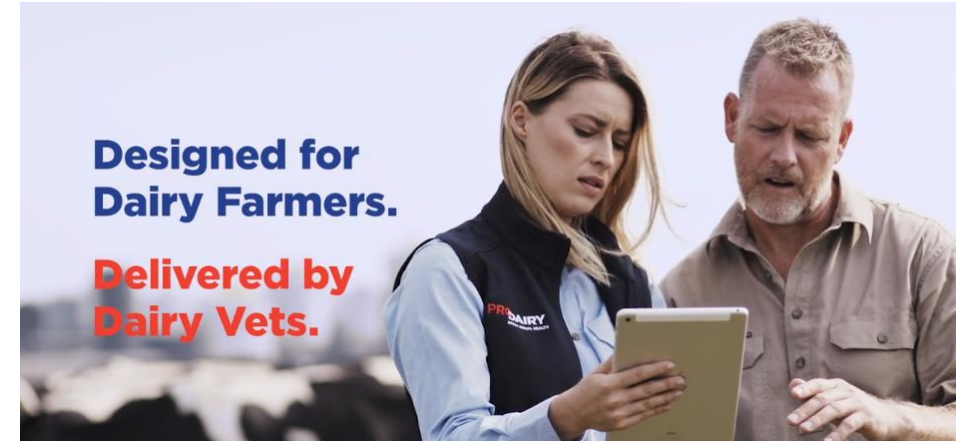
Risk management & planning

Performance analysis reports



Client Assistance Programs

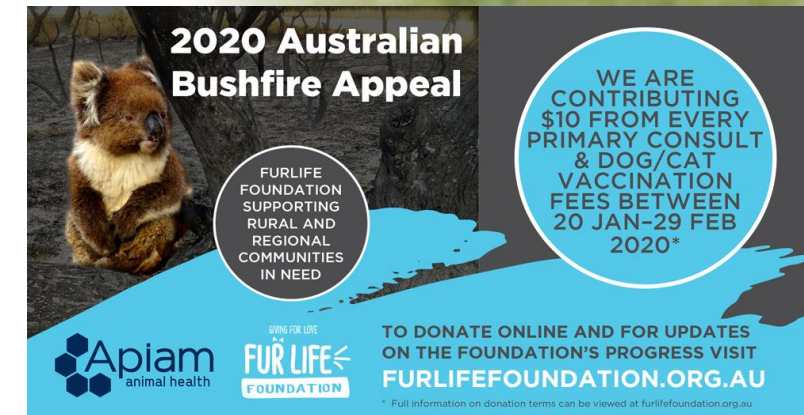
- Full marketing campaign was launched in April 2020 across targeted radio, social media and television
- ~10% of Victoria's dairy cows are subscribed to the program
- Strategy to increase market penetration in Apiam's other geographic areas
- Two new ProDairy satellite clinic locations to open in FY21



Community and customer support

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

- Fur Life Foundation has contributed over \$150K directly back into local communities via donations to:
 - Three regional wildlife charities to improve native animal wellbeing in those areas affected by bushfires including the Bohollow Wildlife Shelter in the Goulburn Valley area and the Mosswood Wildlife Rehabilitation Centre in South West Victoria (\$30K)
 - Rural Aid, who has a specialised counselling program to support rural communities (\$120K)
- Our employees have been supported & encouraged to volunteer in their local communities
- Apiam's Customer Assistance Program has been 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

- Australian milk production is forecast to increase 2.5% in 2020-21. This is an upward revision since June 2020 and is a result of the sustained improvement in seasonal conditions and a positive September to November rainfall outlook¹
- Companion animal ownership in regional & rural areas continues to grow rapidly



Feedlot

- Cattle on feed numbers have decreased significantly in 2020 due to record feeder cattle prices and COVID-19 impacts on foodservice demand (export volumes down ~6%-8%)²
- National feedlot capacity has however continued to expand, increasing to record levels of over 1.5 million head, demonstrating that confidence in the future of the lot feeding sector remains strong
- The global 'mega-trends' of growth in population and middle-class incomes, combined with continuing effects of African Swine Fever on Chinese pork supply, underpin the appetite for Australian beef



Pigs

- Q1 FY21 has seen increased number of pigs slaughtered on previous comparable period³
- Monthly imported pork volumes have dropped significantly since March 2020 to five year lows³
- Industry capacity expansion continuing to meet future demands



Input prices

- Record grain harvest (forecast to increase to 2016/2017 levels) will be positive for all production animal sectors¹
- La Niña weather event declared by Bureau of Meteorology in Sep 2020. Typically results in higher rainfall in eastern and northern Australia during the spring and summer season, possibly for a period of several years⁴

Source:

- ¹ *Department of Agriculture – September Quarter 2020*
- ² *Meat & Livestock Australia – October 2020*
- ³ *Australian Pork Limited Import and Export report - August 2020*
- ⁴ *Bureau of Meteorology – September 2020*

YTD trading & outlook

YTD Trading FY21 (July – October)

- Revenue +10.1% vs July-October FY20 (PCP)
- Gross Profit +18.9% vs July-October FY20 (PCP)

Outlook

- Apiam's business operations expected to remain strong & stable despite COVID-19 challenges and market cycles
- Management committed to execution of strategic plan and delivering shareholder returns
- Investing for growth to be carefully balanced against return on capital
- Revenue & earnings growth momentum expected to continue for remainder of H1 FY21



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