



Apiam Animal Health Ltd

H1 FY21 results

24 February 2021

H1 FY21 performance snapshot

Revenue

\$61.2M

+8.9%
vs H1 FY20

Gross profit

\$34.5M

+13.4%
vs H1 FY20

Underlying EBIT

\$4.4M

+30.8%
vs H1 FY20

Reported NPAT

\$2.6M

+53.8%
vs H1 FY20

Interim dividend

1.2 cps

+50.0%
vs H1 FY20



Highlights

- **Strong revenue performance**
- **Clear execution of strategy**
- **Capitalising on acceleration of pet ownership in regional growth corridors & dairy industry momentum**
- **Acquisition strategy delivering against criteria**
- **Material earnings uplift - continued gross margin expansion & operating cost leverage**
- **Solid balance sheet & cash flow supporting dividends and reinvestment in business growth**



Operational snapshot



55

CLINICS¹



40

APIAM MENTAL HEALTH
FIRST AID OFFICERS



3 new

CLINICS OPENED
(ACQ + GREENFIELD)



> 4,300

BEST MATES
MEMBERS



> 160

VETERINARIANS



~ 40%

GROWTH IN NEW SERVICE
PROGRAMS MEMBERS in
H1 FY2021



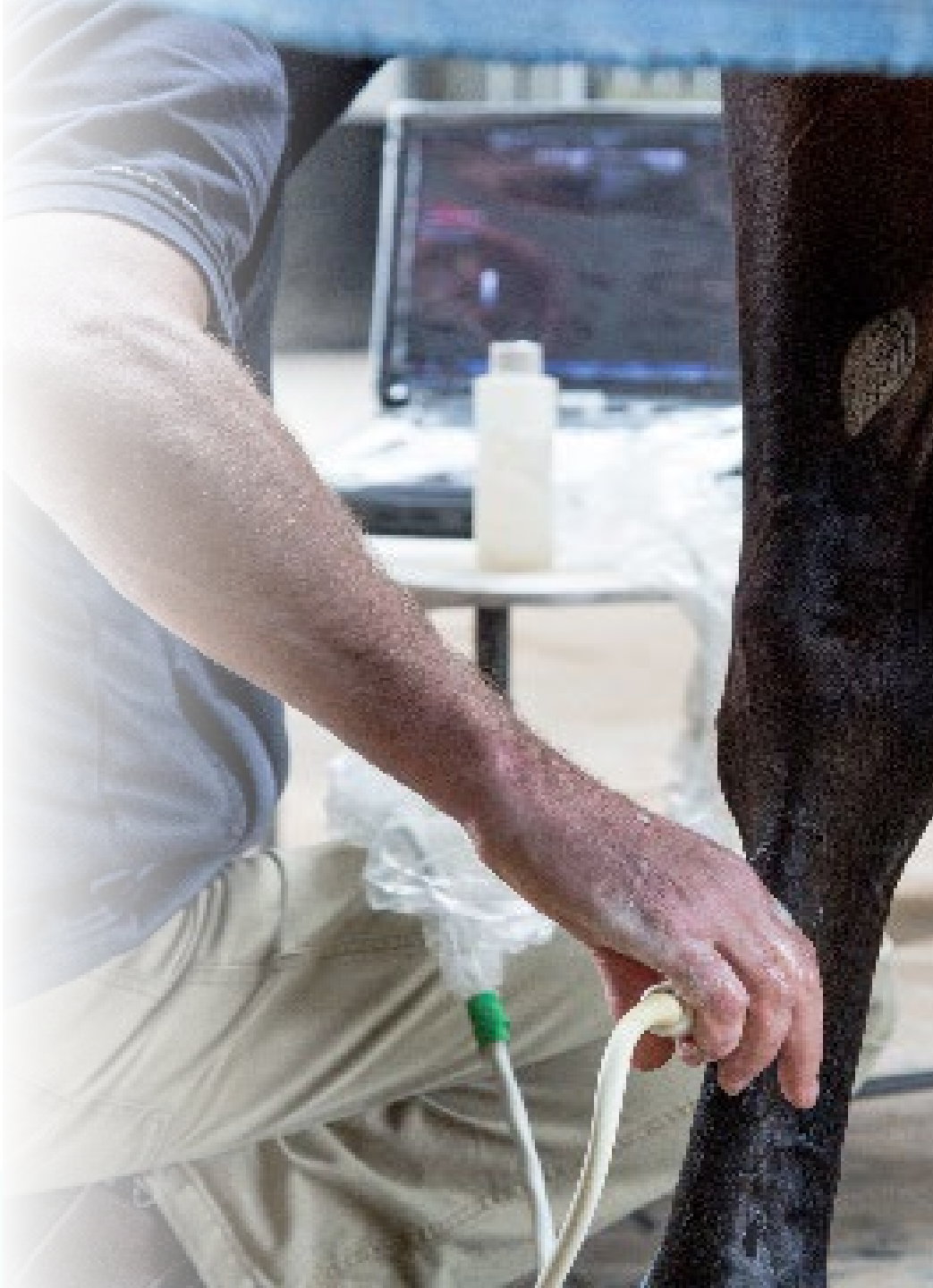
103

LEADERSHIP PROGRAM
GRADUATES



~50%

MIXED ANIMAL CLINIC
% REVENUE
CONTRIBUTION



H1 FY21 Financial Review



H1 FY21 profit and loss summary

Strong reported revenue growth & continued margin expansion

\$m	H1 FY21A	H1 FY20A	Variance	%
Total revenue	61.2	56.2	5.0	8.9%
Gross profit	34.5	30.4	4.1	13.4%
Operating expenses	(26.9)	(24.1)	(2.8)	11.8%
Underlying EBITDA ²	7.5	6.3	1.2	19.8%
Amortisation ROU assets	(1.2)	(1.2)	(0.0)	2.9%
Depreciation & amortisation	(1.9)	(1.7)	(0.2)	10.1%
Underlying EBIT ²	4.4	3.4	1.0	30.8%
Underlying NPAT ²	2.7	2.0	0.7	35.1%
Reported NPAT	2.6	1.7	0.9	53.8%

EBITDA (pre AASB 16)	6.2	5.0	1.2	23.7%
GM	56.3%	54.1%		
Underlying EBIT margin	7.2%	6.0%		

Notes:

- Adjusted to exclude contributions from ACE Laboratories (Oct 19), Devoted Vets (Nov 19) and Grampians Animal Health (Dec 19)
- Underlying adjustments to earnings exclude one-off acquisition, integration & corporate costs (tax effected where applicable at NPAT level)

Strong reported revenue growth

- Growth of 8.9% in face of COVID-19 impacts and varying conditions across animal segments
- Revenue growth (ex acquisitions)¹ was (0.9)% vs PCP reflecting market cycles in feedlot & pig segments

Continued gross margin expansion

- Increased revenue capture at clinic level
- Change in business mix strategy during FY20 – growing dairy & mixed contribution and strategic changes in pig segment
- Impact of acquisitions
- Gross Profit (ex acquisitions)¹ increased 2.2% (vs PCP)

Operating cost base leverage

- Limited underlying operating expense growth of 2.9% (ex acquisitions)¹
- Underlying increase in employment costs of 6.0% due to:
 - organic business growth, particularly in dairy & mixed animal segment
 - increased leave provision expense given reduced annual leave utilisation by staff
- Strong general cost containment with a 5.9% reduction in other expenses vs PCP (excluding acquisitions)¹

Revenue & gross profit analysis

Diversified model delivering resilient revenue



Reported

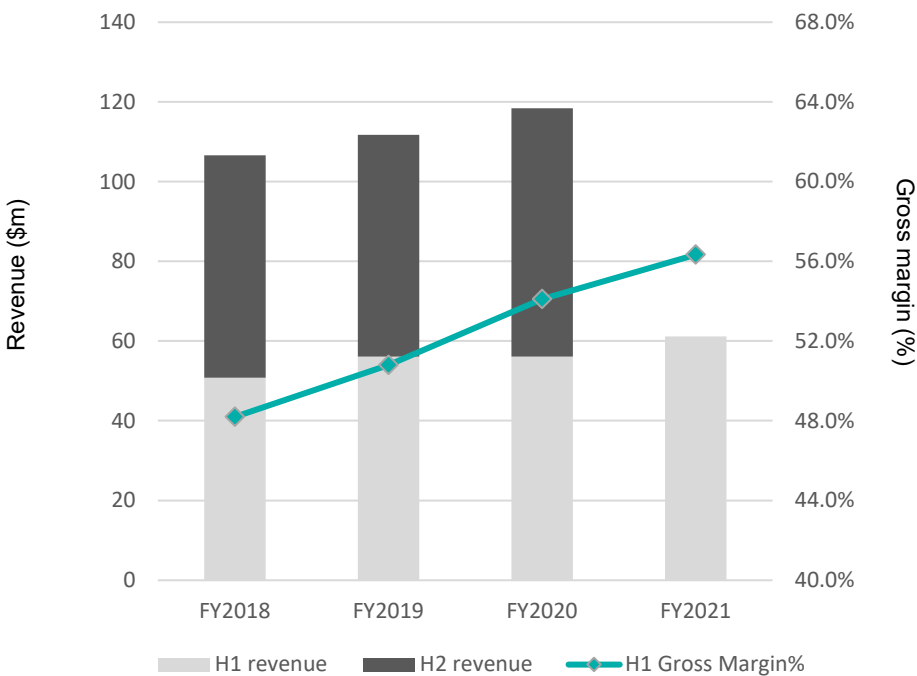
Revenue growth: +8.9% vs H1 FY20
Gross profit growth: + 13.4% vs H1 FY20



Excluding acquisitions¹

Revenue growth: (0.9)% vs H1 FY20
Gross profit growth: + 2.2% vs H1 FY20

Half on half revenue & H1 gross profit margin



DAIRY & MIXED ANIMALS

- Strong performance in mixed animal revenue with significant Best Mates contribution & double-digit growth recorded across all regions
- Favourable industry conditions since H2 FY20 & launch of ProDairy driving strong dairy revenue uplift



PIGS

- Resilient revenue performance despite challenges and market cycle
- Strategic focus on “higher-value” consultancy services to support revenue
- Reduction in low margin wholesale business



FEEDLOT

- Impacted by reduced animal numbers across industry through H2 FY20 and FY21 coming off record highs in FY19 and H1 FY20
- Reduced beef export demand associated with COVID-19 impact on food service
- Industry building capacity for expected growth phase in market cycle

Notes:

1. Adjusted to exclude contributions from ACE Laboratories (Oct 19), Devoted Vets (Nov 19) and Grampians Animal Health (Dec 19)

Balance sheet

Stable balance sheet, reflecting reinvestment in growth initiatives (acquisitions & clinics)

\$m	31 Dec 2020A	30 Jun 2020A ¹
Cash	2.3	2.5
Trade & receivables	12.8	12.1
Inventories	17.8	17.7
Property, plant & equipment	8.0	7.0
Lease ROUA	14.9	12.8
Intangibles	89.1	84.4
Other	5.0	4.7
TOTAL ASSETS	149.7	141.1
Borrowings	41.5	37.0
Trade & other payables	9.7	8.8
Lease liability	16.0	14.1
Other liabilities	10.1	12.8
TOTAL LIABILITIES	77.3	72.7
NET ASSETS	72.5	68.4

Notes:

1. Balance sheet as at 30 June 2020 restated for intangibles related to the acquisition of ACE Laboratories which had been provisionally accounted for in the prior period

Working capital management

- Efficient management of receivables & inventory
- Increase in payables in line with business growth

PPE & leases

- Growth in-line with organic business growth, greenfield clinic roll-outs and acquisition during period

Intangibles from acquisitions

- Don Crosby Vets (Dec 2020)

Borrowings to fund growth

- Net Borrowings increased to \$39.2M due to:
 - cash component for Don Crosby acquisition (\$3.3M)
 - deferred earn-out consideration payment for ACE Laboratories (\$2.9M)
 - investment in roll-out of new greenfield clinics during period (~\$0.8M)
- Operating leverage ratio (net debt basis) as at 31 December 2020 of 2.3x vs covenant of 3.0x – significant headroom for growth opportunities
- Access to additional \$19M under NAB acquisition facility

Other liabilities

- Other liabilities reduction due to payment of ACE deferred earn-out consideration

Cash flow

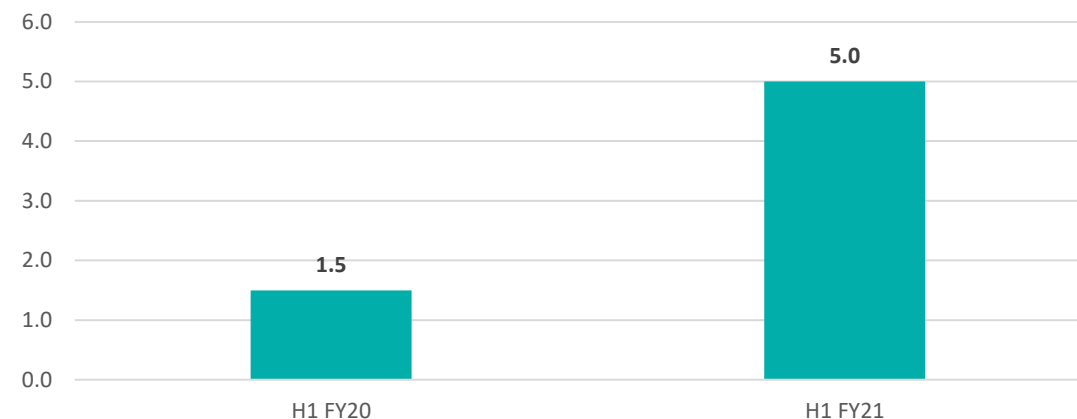
Strong uplift in operating cash & cash conversion

Statutory cashflows \$m	H1 FY21A	H1 FY20A
Net cash provided by operating activities	6.4	2.7
Acquisition of subsidiary, net of cash	(6.2)	(12.5)
Purchases of property, plant and equipment	(2.3)	(1.0)
Purchases of Intangible assets	(0.2)	0.0
Net cash used in investing activities	(8.8)	(13.5)
Net changes in financing	4.6	13.4
Dividends paid to shareholders	(0.9)	(0.6)
Repayment of lease liabilities	(1.6)	(1.6)
Other	0.1	0.1
Net cash inflow from financing activities	2.1	11.3
Net change in cash and cash equivalents	(0.3)	0.6

- Operating cashflows in FY21 increased in-line with strong earnings growth
- Acquisition investing outflow (\$6.2M), due to:
 - cash component for Don Crosby acquisition (\$3.3M)
 - deferred earn-out consideration payment for ACE Laboratories (\$2.9M)
- Capex increase to \$2.3M due to reinvestment in business growth:
 - roll-out of new greenfield clinics (\$~0.8M)
 - maintenance capex
 - capex phasing increasingly weighted to H1

Cashflow Conversion \$m	H1 FY21A	H1 FY20A
Underlying EBITDA (pre AASB 16 adjustment)	6.2	5.0
Net cash inflow from operating activities (less AASB 16 lease reclassification impact in FY20)	5.0	1.5
Add back:		
One-off expense	0.2	0.5
Interest paid	0.5	0.6
Income tax paid	0.7	0.3
Underlying cashflow before tax & interest:	6.5	3.0
Conversion	106%	59%

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



Dividends

Interim dividend of 1.2 cps

	H1 FY2021 interim dividend
Dividend	1.2 cps
Payout ratio on NPAT	57%
Franking	100%
Record date	22 March 2021
Payment date	23 April 2021

- Board declares an interim dividend of 1.2 cps, fully franked, payable on 23 April 2021
- Dividend reinvestment plan in place
 - Last day to elect to participate in DRP : 29 March 2021
 - DRP pricing period : 5 day AHX VWAP between 30 March 2021 & 5 April 2021



Strategy, operations & outlook



Strategic framework for growth



Operations, process & capacity



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



Increase animal numbers

Driving growth in FY21

- ✓ Ongoing acquisition program
- ✓ Greenfield clinic strategy in attractive regional growth corridors
- ✓ Best Mates & ProDairy – subscription models



Product and service expansion



- ✓ Private label strategy – commenced roll out of private label products in FY20
 - ✓ New product distributions delivered and more to come
- ✓ Specialist vaccine & diagnostics operations through ACE acquisition in FY20

Delivering leading market footprint for regional animal care

Target = earnings growth and shareholder returns

Driving regional clinic growth in FY21



Capitalising on the rapid acceleration in regional animal ownership with a focus on expansion in high population growth corridors

Significant market opportunity

- ✓ Population rates surging in regional growth corridors
- ✓ Significant increase in pet ownership post COVID-19
- ✓ Larger and broader animal expertise required for regional offering – different to metro focussed models
- ✓ Mixed animal clinics generally offer higher margin opportunities than livestock only clinics

JV formed Feb 2018



JV strategy to open co-located clinics & retail outlets in which Apiam have an 80% interest

Rationale & clinic economics

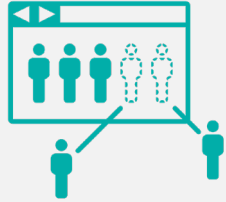
- ☑ Growth & margin opportunity
- ☑ AHX capital position allows investment subject to strict return assessment
- ☑ Attractive clinic economics on greenfield projects :
 - ✓ 6-10 FTE vets
 - ✓ \$3-6M annual revenue
 - ✓ Break-even profit expected in year 2
 - ✓ Full maturity in year 3

Update on progress - H1 FY21

- ☑ Torquay North, VIC (opened January 2021) – fast growing regional hub outside of Geelong
- ☑ Shepparton, VIC (to open Q3 FY21)
- ☑ Further clinics in planning stage



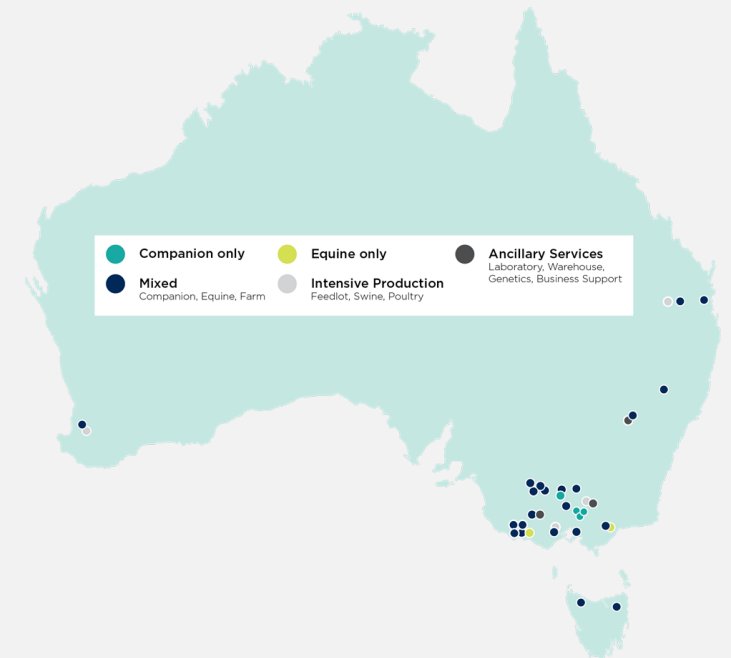
Acquisitions supporting FY21 strategy



Apiam's growth through acquisition strategy

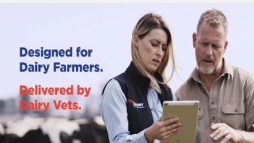
- ✓ Strong acquisition pipeline of strategic investments
- ✓ Disciplined approach with strong track record of M&A execution
- ✓ 6 acquisitions in past 3 years consisting of 8 clinics and a laboratory
- ✓ Purpose-built company infrastructure delivers cost efficiencies
- ✓ Strict acquisition criteria

DRIVING INCREASED ANIMAL NUMBERS IN IMPORTANT REGIONAL LOCATIONS



Service program initiatives

PRO DAIRY



INNOVATIVE MODEL OFFERING END-TO-END PRODUCTS & SERVICE TO DAIRY FARMERS

- 41.5% growth in dairy farm enrollments in H1 FY21 (since end of FY20)
- ~12% of Victoria's dairy cows are enrolled in the program with further opportunities for expansion into Tasmania and NSW
- Strategy to increase market penetration in Apiam's other geographic areas
- Two new ProDairy satellite clinic locations to open in FY21



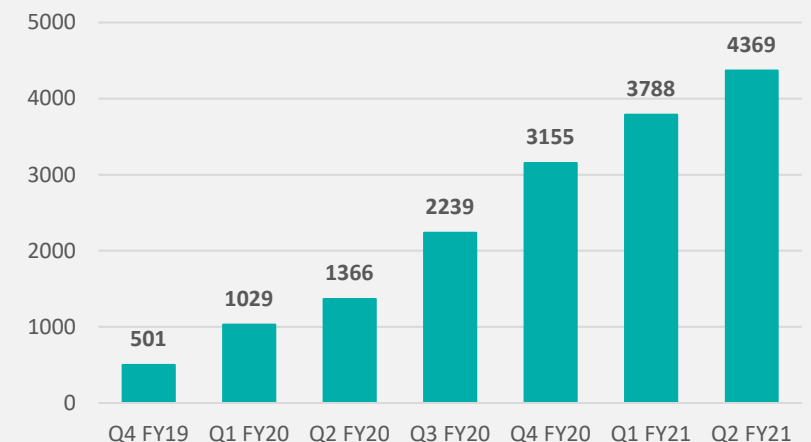
FUR LIFE Vet
BEST MATES
Total Care for your pet



WHOLE OF LIFE COMPANION ANIMAL WELLNESS PROGRAM

- Rolled-out across whole company footprint in FY20
- Very strong growth reflective of increased pet ownership post COVID-19 lockdowns
- Full advertising campaign (including TV) in Q1 FY21
- Immediate synergies in acquisition and greenfield clinics
- Member growth of 38.5% in H1 FY21 (since end of FY20)
- ~6.0% of active patients were Best Mates members as at end of H1 FY21

Best Mate members (quarterly)



Zoono disinfectant distribution update

Apiam and Zoono have entered into an exclusive distribution agreement

- Agreement entered into in November 2019 – for livestock use in Australia & swine in the US
- Strong interest from pig, poultry and veterinary industries
- Zoono products have demonstrated feed efficiency and growth rate production gains in poultry
- Pig productivity trials to establish economic benefit are progressing in both Australia & the US
- Stage 1 laboratory studies at Iowa State University (ISU) to determine the effectiveness of Zoono Microbe Shield on contact (6 minutes) against the two main pathogens to the US pig industry have been highly successful with no survival of either virus tested
- Stage 2 trial results have shown up to a 99.9% reduction in Porcine Epidemic Diarrhea virus (a swine coronavirus) on farrowing mat surfaces 7 days after they were either sprayed with or dipped in Zoono Microbe Shield

Estimated efficacy study timeline



Stage 2 - demonstrated ongoing activity on surface for 7 days (ISU)



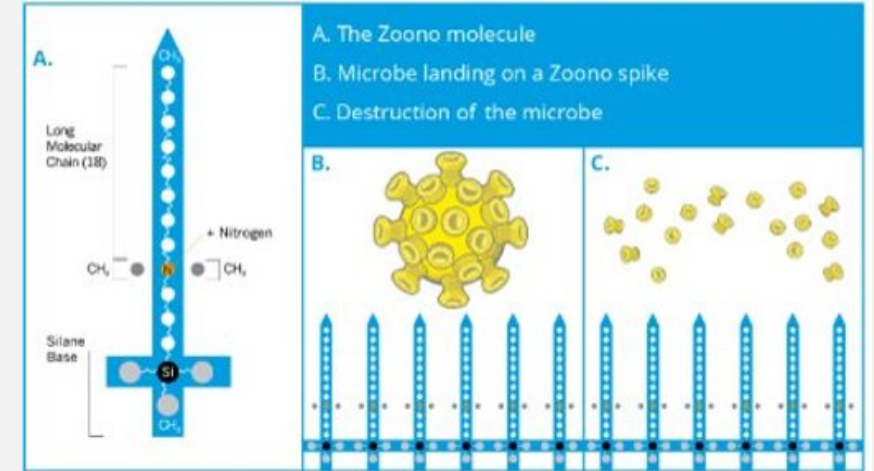
Q3 FY21

Stage 3 – trial to demonstrate on-going activity on surfaces for 21 days (ISU)

Expected Q4 FY21

Greater range of economically important pathogens to be tested
Commercial in-market launch

Expected H1 FY22



ZOONO®

- Innovative proprietary sanitiser and disinfectant
- Provides ongoing mechanical activity (length of time against animal pathogens currently subject of trials)
- Demonstrated effectiveness in global trials against a range of viruses including COVID-19 surrogate, Avian influenza, African Swine Fever, PEDv and PRRSv.
- Range of products including Z-71 Microbe Shield – applied to surfaces via fogging or spraying
- Range of products listed by the various regulatory bodies in Australia, USA, and Canada.

Employer of choice

Apiam values people & culture as a key asset of its business and they are intrinsic to its competitive advantage



MARKET LEADING HR PRACTICES

To attract the best talent Apiam offers the following benefits:

- ✓ A wide variety of leadership roles
- ✓ Significant opportunity for flexible work practices
- ✓ Strong culture of recognising female talent
- ✓ Flexible path to promotion
- ✓ Continuous education focus
- ✓ Recognition and rewards programs
- ✓ Mental health support



Finalist in 2020 Australian HR awards:

- ✓ Best Graduate Development Program
- ✓ Employer of choice (100-899 employees)
- ✓ Australian HR team of the year



TELE-TRIAGE INITIATIVE

Introduced in H1 FY21 to address work-life balance issues for regional vets:

- ✓ After hours calls taken by experienced virtual support team
- ✓ Incidents triaged to ensure best practice response to emergency care and other non-critical matters
- ✓ Proprietary software system developed to allocate appropriate resources and ensure best practice veterinary services
- ✓ Reduction in vet after hours calls by up to 50% since deployment
- ✓ Initiative assisting in recruitment and retention of vet workforce



Industry conditions update



Dairy & mixed

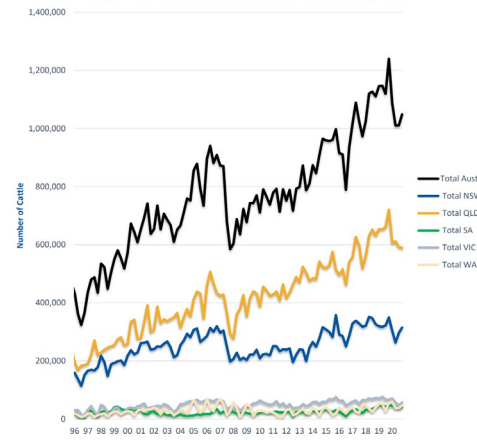
- Australian milk production is forecast to increase 4% in 2021¹
- The growth will be driven by favourable farm conditions such as abundant feed stocks, summer rainfall and a lowering water price¹
- Companion animal ownership in regional & rural areas experiencing strong growth
- Regional demographics changing rapidly



Feedlot

- Despite a difficult 2020, where the cattle herd hit a 20-year low, the outlook for beef feedlot is largely positive²
- Beef production is expected to tighten in 2021, as producers across the country look to rebuild herd numbers
- December 2020 - feedlots were at 72.5% capacity with 1.048m cattle on feed³
- 'Mega-trends' of population growth and middle-class incomes, combined with effects of African Swine Fever on Chinese pork supply, underpin the appetite for Australian beef²

CATTLE NUMBERS ON FEED - HISTORIC



Source: ALFA / MLA, December 2020, National Accredited Feedlot Survey



Input prices

- Australian farmers have delivered the second largest grain crop ever after years of drought⁵
- 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 several years⁶



Pigs

- Australia's sow numbers are forecast to rise marginally in 2020-21
- Chinese pig herds will be rebuilt in 2021 following containment of African swine fever⁴
- Industry capacity expansion continuing to meet future demands

Source:

- 1 Dairy News Australia – December 2020
- 2 Meat & Livestock Australia – December 2020
- 3 ALFA/MLA Feedlot Survey October-December 2020
- 4 Department of Agriculture – December 2020
- 5 ABC news – December 2020
- 6 Bureau of Meteorology – September 2020

FY21 outlook

- Apiam's business operations expected to remain strong & stable despite ongoing COVID-19 impacts and market cycles
- Continue to drive clinic growth off the back of the rapid acceleration in pet ownership in regional growth corridors; a key management priority for FY21
- Business reinvestment to be carefully balanced against return on capital thresholds
- Strong earnings outlook for remainder of FY21



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.