



Apiam Animal Health Ltd FY21 results

30 August 2021

Apiam Animal Health FY21 snapshot



Revenue
\$126.2M
+6.6% vs FY20

Gross profit
\$71.1M
+11.2% vs FY20

EBIT (reported)
\$8.1M
+11.7% vs FY20

NPAT (reported)
\$5.1M
+24.1% vs FY20

Operating cash flow
\$13.7M
+82.5% vs FY20

1.2 cps final dividend
(FY21 total dividends 20% higher than FY20)

Overview FY21

✓ Excellent growth performance in dairy & mixed animal clinics

- +23.7% revenue growth (+12.5% ex-acquisition basis) vs FY20 in dairy & companion animal clinics
- Dairy & mixed animals now largest revenue and earnings contributor; driving gross margin uplift
- Strong operating leverage in dairy & mixed animal clinics driving +44.2% EBIT growth in segment

✓ Market cycles impacting feedlot and pig segments

- Reduced cattle numbers available for feedlots in FY21 due to rebuilding of national breeder herd. Early signs of recovery in Q4 FY21 with cattle availability to feedlots beginning to increase
- Strategic transition to new & innovative antimicrobial and vaccine products in intensive animals; leading to reduced wholesale sales of lower-margin traditional products during the transition period
- Investments in new vaccines and private label products developed to leverage growth as these industries rebound

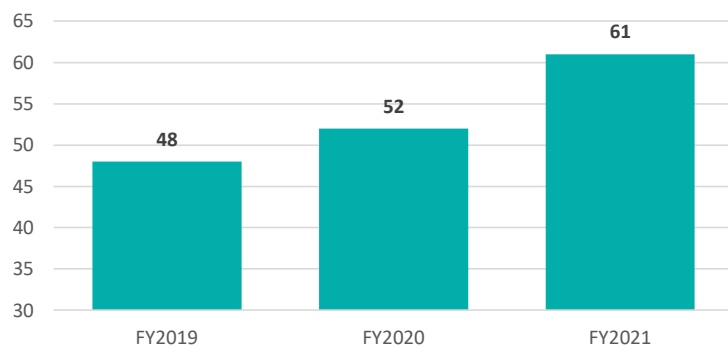
✓ Regional expansion strategy adding 10 new clinics in FY21 (acquired & greenfield)

- Changing veterinary market dynamics providing strong acquisition pipeline
- Disciplined approach to use of capital to deliver best growth opportunities
- 2 greenfield clinics opened H2 FY21, start-up costs impacting EBIT but expected to deliver high return on capital

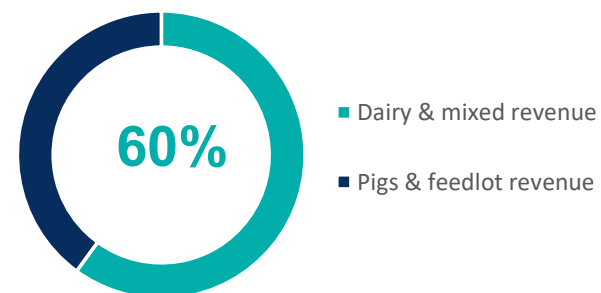


Operational snapshot – FY21 update

Vet clinics (as at period end)¹



Contribution of dairy & mixed animal segment to FY21 revenue



FY2021 progress (vs FY20)



10 new

CLINICS OPENED
(ACQ + GREENFIELD)



+ 50

VETERINARIANS



+108%

GROWTH IN PRODAIRY
MEMBERS



+ 76%

GROWTH IN BEST MATES
MEMBERS

Notes:

¹ Clinics data includes sites providing veterinary and/or ancillary services and includes clinics from acquisition of Scenic Rim Vets, announced 30th June 2021. Excludes new ProDairy satellite clinics. One clinic closed and merged during FY21

FY21 Financial Review



FY21 profit and loss summary

EBIT & NPAT growth, despite margin impacts in H2 FY21 due to greenfield clinic roll-outs

	\$m	FY21A	FY20A	Variance	%
Underlying	Total revenue	126.2	118.3	7.8	6.6%
	Gross profit	71.1	63.9	7.2	11.2%
	Operating expenses	(55.9)	(49.5)	(6.3)	12.8%
	Underlying EBITDA ¹	15.2	14.4	0.8	5.6%
	Depreciation & amortisation	(6.4)	(6.1)	(0.3)	5.0%
	Underlying EBIT ¹	8.8	8.3	0.5	6.1%
	Underlying NPAT ¹	5.6	4.9	0.7	15.4%
Reported	One-off expenses	(0.7)	(1.1)	0.3	(32.9)%
	Reported EBIT	8.1	7.3	0.9	11.7%
	Reported NPAT	5.1	4.1	1.0	24.1%
	Gross margin	56.3%	54.0%		
	Reported EBIT margin	6.4%	6.2%		
	Reported EBIT margin (pre greenfield impact) ³	7.0%	6.2%		

- **Revenue growth of 6.6%** in face of varying conditions across animal segments, driven by strong dairy & mixed animal clinic performance (+23.7% revenue growth vs FY20)
- **LFL revenue growth fell 0.5%** impacted by market cycles in pig and feedlot segments. Pig and feedlot LFL revenue decline 12.3%. Dairy & mixed animal clinics LFL revenue up 12.5%
- **Gross margin growth continued - up 11.2%** due to stronger revenue capture across clinics and continuing impact of business mix changes (growing dairy & mixed animal clinic contribution)
- **Reported operating expense growth** affected by increased employment costs associated with strong dairy and mixed segment growth, acquisitions & greenfield clinic openings. On a LFL basis (ex-greenfield impact):
 - employment costs increased 4.8%
 - other general expenses were contained in-line with FY20



LFL (excluding acquisitions) data²

Revenue growth: -0.5% vs FY20

Gross profit growth: + 1.5% vs FY20

Notes:

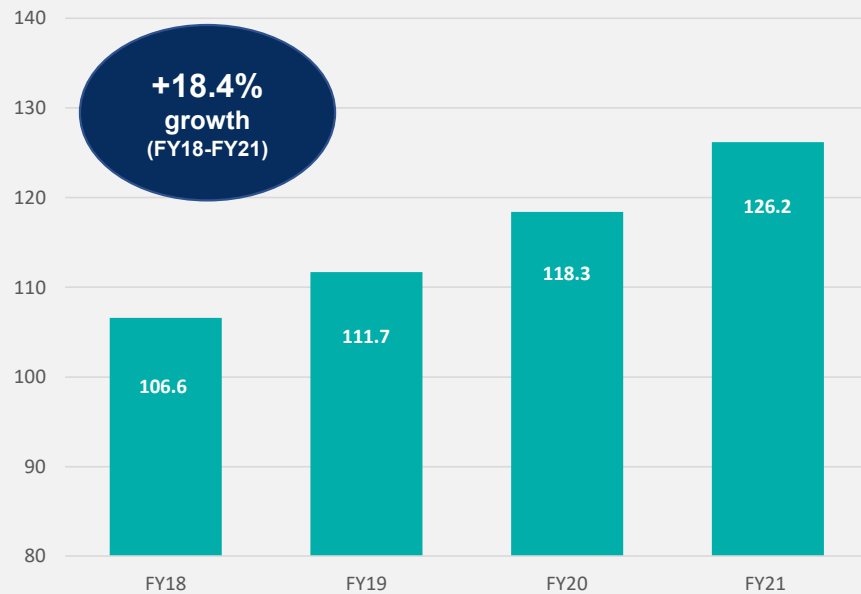
¹ Underlying earnings excludes one-off acquisition, integration & corporate costs (tax effected where applicable at NPAT level)

² Adjusted to exclude contributions from Don Crosby Vet Surgeons (December 2020), Knox Veterinary Clinic (April 2021), Clermont Veterinary Surgery (June 2021) and Samford Valley Vet Hospital (June 2021)

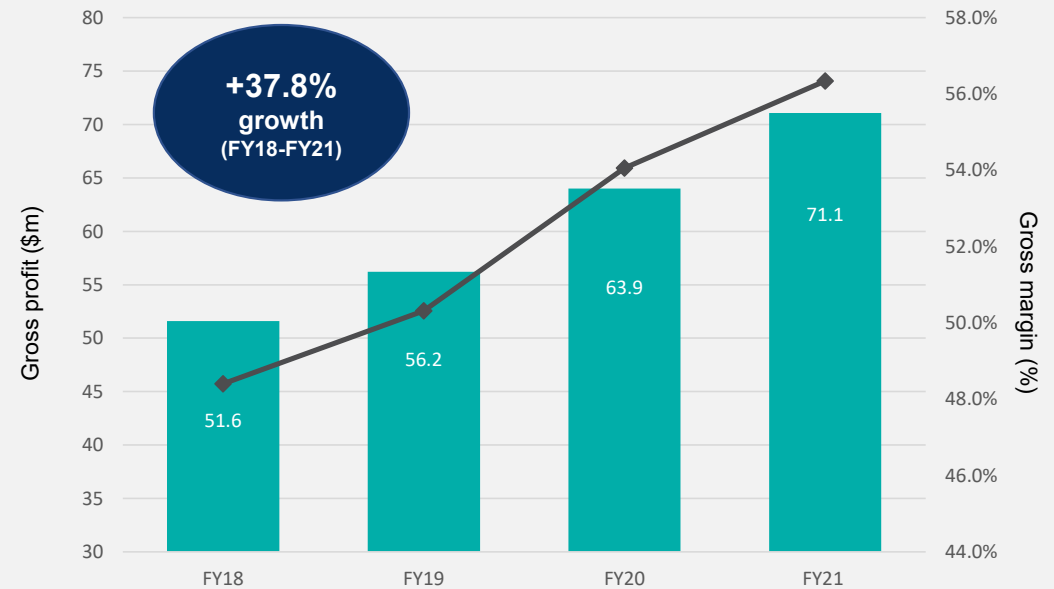
³ Greenfield EBIT impact in FY21 was \$696K and nil in FY20

Resilient growth & sustained gross margin expansion

Revenue (\$m) - (FY18 –FY21)



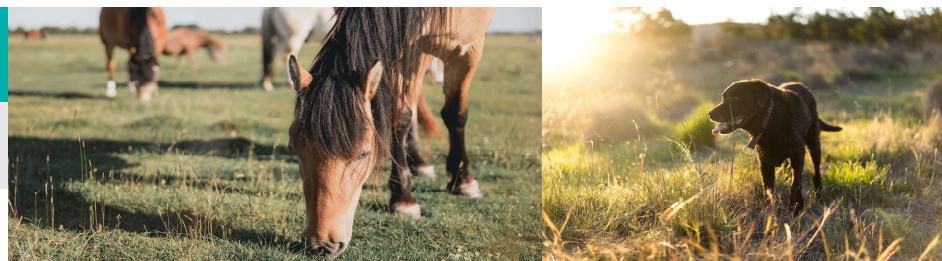
Gross profit & margin - (FY18 – FY21)



- **Resilient revenue growth** over past 4 years despite challenging industry conditions in many agricultural areas
- Investment in systems & targeted change in Apiam business mix to focus on higher value products & services driving **strong gross margin improvement**

Dairy & mixed animals – performance analysis

\$M	FY21 (reported)	FY20 (reported)	% chg (reported)	% chg (LFL)
Revenue	\$75.2m	\$60.8m	+23.7%	+12.5%



Performance commentary

- 12.5% ex-acquisition revenue growth in dairy & mixed animal segment in FY21
 - +5.3% growth in employment costs, driving significant operating earnings leverage across dairy & mixed animal clinics
 - +28.0% growth at EBIT level, ex-acquisition basis but including impact of greenfield expenses
- Regional demographics changing rapidly with significant increase in animal ownership and ongoing vet spend in regional & peri-urban growth corridors
- Dairy industry rebounding strongly after drought (FY19/FY20)
- Excellent growth of Apiam subscription programs (Best Mates & Pro Dairy – further detail slide 20)
- Sale of non-core / low-margin Ear-Tag business during FY21 reduced segment revenue by \$0.3M – forecast FY22 revenue impact \$(1.0)M – no impact at EBIT level

Acquisitions in FY21 expanding dairy & mixed animal segment

Acquisition	Clinic services	Settlement date
Don Crosby Vet Surgeons	Companion & equine	1 Dec 2020
Knox Veterinary Clinic	Companion, equine & cattle	1 Apr 2021
Clermont Veterinary Surgery	Companion, equine & cattle	1 Jun 2021
Samford Valley	Companion & equine	1 Jun 2021
Scenic Rim Vets	Equine, companion	30 Jul 2021
Golden Plains Group	Companion, Livestock	August 2021
Harbour City Vet Surgery	Companion	August 2021



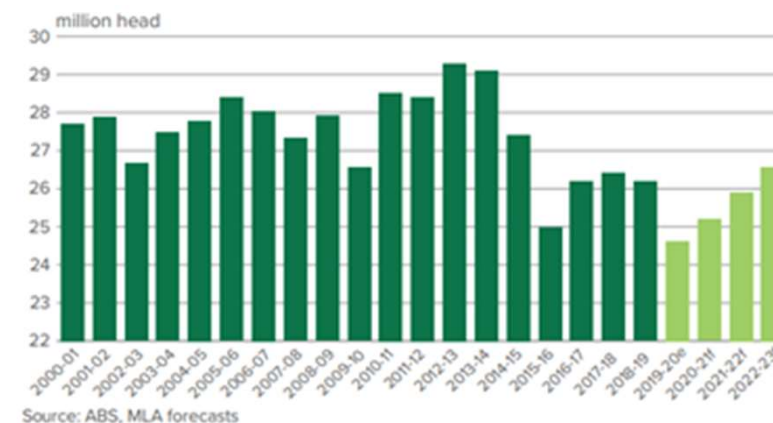
Beef feedlot and pigs – performance analysis

\$M	FY21	FY20	% chg (reported)	% chg (LFL)
Revenue	\$50.9m	\$57.5m	(11.4)%	(12.3)%

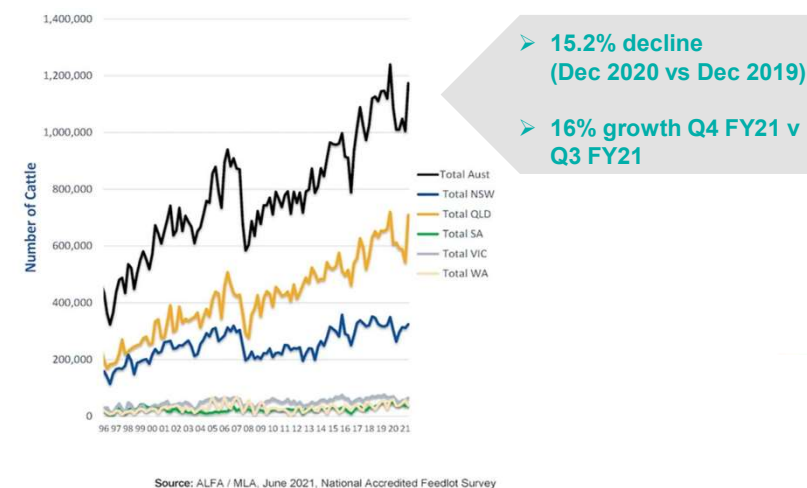
Performance commentary

- Beef feedlot segment revenues affected by low-point of industry cycle
- National beef herd during FY20 at lowest level in 20-years, with early signs of improvement in cattle on feed in Q4 FY21 (+16% growth vs Q3 FY21)
- As at end of FY21 1.17 million cattle on feed, while industry capacity has increased to 1.45 million head in anticipation of future growth
- Strategic transition to new & innovative antimicrobial and vaccine products in intensive animals
 - reduced wholesale sales of lower-margin traditional products during the transition period
- US pig industry challenges of FY21 impacted Zoono roll-out
- Private label products, autogenous vaccines and new services developed to support industry growth

National Cattle Herd (millions)

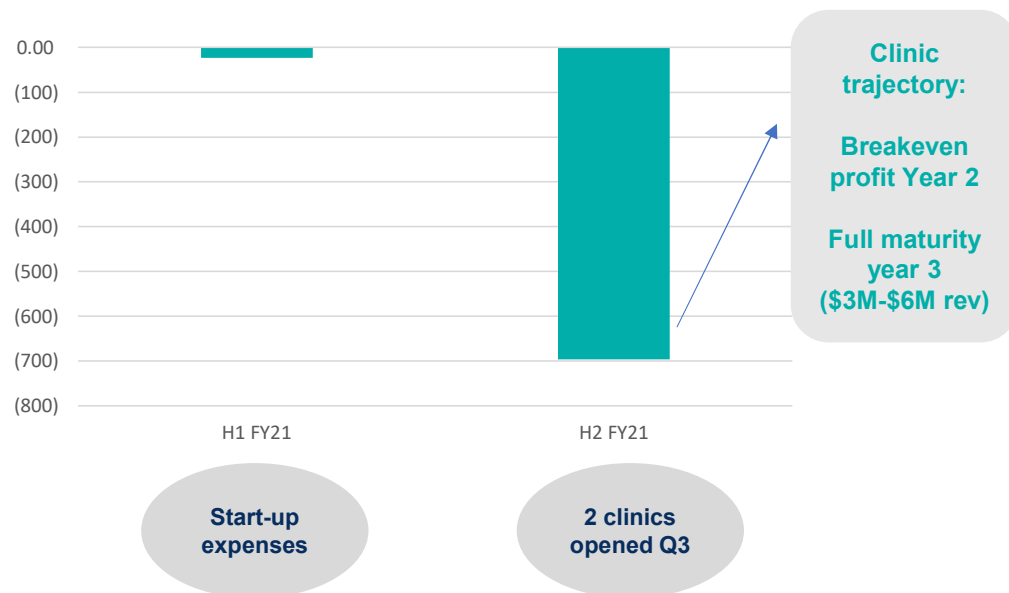


Cattle numbers on feed



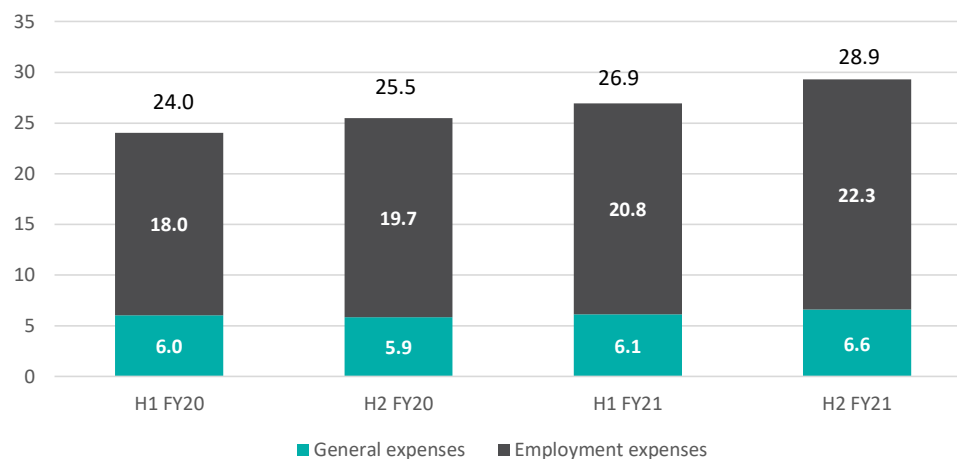
Earnings & expense analysis

Greenfield clinic roll-out pre-tax earnings impact (\$'000s)



- Planned losses associated with greenfield clinic roll-outs were \$696K in H2 FY21, up from \$23K in H1 FY21 (Torquay North, Shepparton, ProDairy sites)

Operating expense analysis (\$M)



- General operating expenses were well contained with limited growth in H2 FY21 related to acquisitions and increased travel, client visits, conferences etc as COVID restrictions were eased during the period
- Employment expense increase due to:
 - resourcing & staff growth in dairy & mixed animal clinics to capture growing market share
 - new Greenfield clinics which have high employment costs during the first 12 months of operations

Balance sheet

Strong balance sheet funding acquisitions & business investment

\$m	30 Jun 2021A	30 Jun 2020A ¹
Cash	2.2	2.5
Trade & receivables	13.5	12.1
Inventories	16.0	17.7
Property, plant & equipment	24.5	19.9
Intangibles	95.1	84.9
Other	5.3	4.6
TOTAL ASSETS	156.6	141.7
Borrowings	37.7	37.0
Trade & other payables	9.7	8.8
Lease liability	17.3	14.1
Other liabilities	11.0	13.3
TOTAL LIABILITIES	75.8	73.2
NET ASSETS	80.9	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
2. Includes \$1.6M of bank finance lease liability for purposes of net debt calculation in FY21 (FY20: \$1.4M)

- **Efficient working capital management:**

- Normalised inventory levels following strategic investment in FY20 to mitigate potential supply issues and launch private-label products
- Management of receivables and payables to optimise cash flow

- **Intangibles:**

- Goodwill increase from four acquisitions

- **Borrowings and gearing:**

- Net borrowings of \$37.2M (vs \$35.9M at end of FY20)²
 - cash component for acquisitions (\$11.7M)
 - strong operating cash flow generation
 - \$6M capital raise undertaken in April 2021
- Operating leverage ratio (net debt basis) as at 30/6/21 of 2.0x vs covenant of 3.0x
- Significant debt facility headroom available to continue regional expansion plans

Cash flow

Strong uplift in operating cash flow & cash conversion

Statutory cashflows \$m	FY21A	FY20A
Net cash provided by operating activities	13.7	7.5
Acquisition of subsidiary, net of cash	(11.7)	(13.1)
Purchases of property, plant and equipment	(4.7)	(1.6)
Purchases of Intangible assets	(0.2)	(0.3)
Net cash used in investing activities	(16.6)	(15.0)
Net changes in financing	1.6	12.4
Dividends paid to shareholders	(1.9)	(1.2)
Repayment of lease liabilities	(2.9)	(3.2)
Proceeds from share issue	5.7	-
Other	0.1	0.1
Net cash inflow from financing activities	2.6	8.1
Net change in cash and cash equivalents	(0.4)	0.6

Cashflow Conversion \$m	FY21A	FY20A
Underlying EBITDA (pre AASB 16 adjustment)	12.7	11.9
Net cash inflow from operating activities (less AASB 16 lease reclassification impact)	10.9	5.2
Add back:		
One-off expense	0.7	1.1
Interest paid	1.2	1.4
Income tax paid	2.1	0.9
Underlying cashflow before tax & interest:	14.9	8.5
Conversion	117%	72%

- Operating cashflows in FY21 +82.5% in-line with earnings growth and working capital management
- Capex increase to \$4.7M due to reinvestment in business growth:
 - roll-out of new greenfield clinics \$2.0M
 - one-off rebranding of clinics \$0.2M
 - underlying capital expenditure for business \$2.5M
- Capital raise \$6.0M (before costs) in April 2021

Dividends

Final dividend of 1.2 cps

	FY2021 final dividend
Dividend	1.2 cps
Payout ratio on NPAT	60%
Franking	100%
Record date	17 September 2021
Payment date	22 October 2021

- Board declares a final dividend of 1.2 cps, fully franked, payable on 22 October 2021
- Total dividends declared for FY21 of 2.4 cps up 20% vs FY20 dividends declared of 2.0 cps
- Dividend reinvestment plan in place
 - Last day to elect to participate in DRP : 27 September 2021
 - DRP pricing period : 5 day AHX VWAP between 27 September and 1 October 2021



Capturing growth through regional expansion



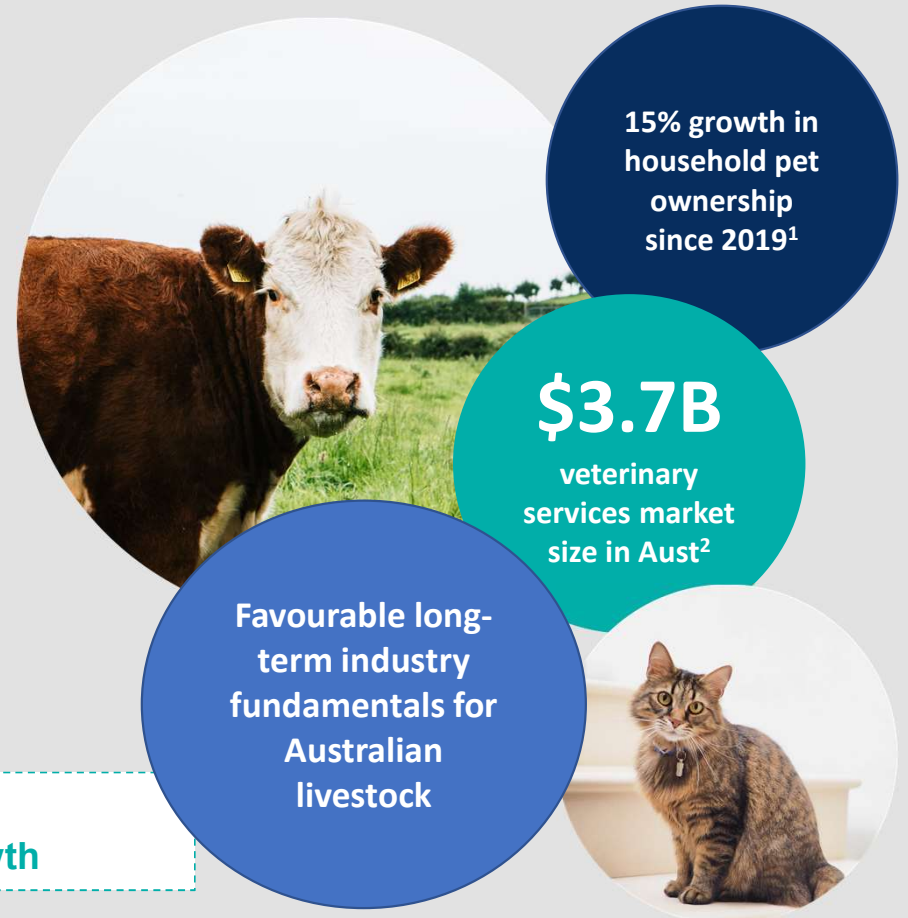
Regional veterinary markets growing strongly

Targeting attractive market opportunity

- ✓ Population rates surging in regional growth corridors
- ✓ Significant increase in pet ownership continuing post COVID-19
- ✓ Post-drought conditions supporting strong pasture-based livestock industries (Dairy, beef, sheep)
- ✓ Apiam's broad animal expertise aligned with regional vet offering – different to metro focussed models
- ✓ Mixed animal clinics driving higher margin opportunities than intensive livestock clinics



**Apiam's regional expansion strategy –
designed to capture rapid veterinary market growth**



Source :

1 Animal Medicines Australia, Pets and the Pandemic, August 2021

2 IBIS Australia, 2021

Apiam's 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

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

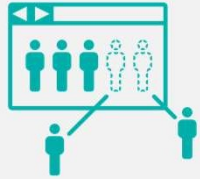
Driving growth in FY22 and beyond

Increase animal numbers

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

Establishing dominant market footprint for regional livestock and pet care

Strategic acquisition program



Apiam's growth through acquisition strategy

- ✓ Strong acquisition pipeline of strategic investments
- ✓ Disciplined approach with strong track record of M&A execution
- ✓ 8 acquisitions in past 3 years consisting of 11 clinics and a laboratory¹
- ✓ Purpose-built company infrastructure delivers cost efficiencies
- ✓ Strict acquisition criteria

LEVERAGING REVENUE GROWTH THROUGH DEEP SKILLS AND EXPERIENCE IN REGIONAL VETERINARY SERVICES



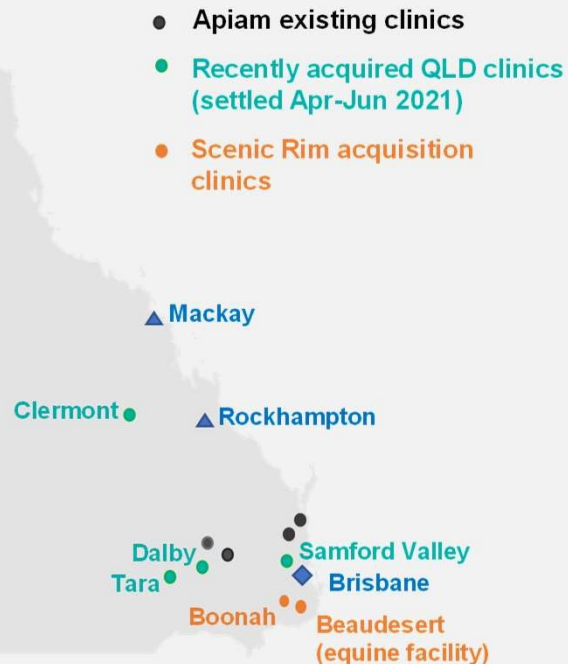
Notes

¹ Businesses and clinics that AHX acquired during FY19-FY21. In FY22, AHX has acquired, or agreed to acquire, an additional 3 veterinary businesses

FY2021 regional expansion through acquisition

Expanding QLD and NSW clinic presence (to 19 clinics) and adding ~\$20.2M revenue (FY21 pro-forma basis)

Queensland - newly acquired clinics and existing clinics



scale is approximate

Notes:

1. Apiam entered an agreement to acquire Scenic Rim on 30 June 2021



Don Crosby Vets (Dubbo, NSW)

- Located in Dubbo NSW
- Consolidation of two clinics in strong growth location
- Large companion animal and equine exposure



Clermont Veterinary Surgery

- Located in Central Queensland (population ~3K)
- Large agriculture holdings in region
- Revenues split between companion animals, equine and cattle



Samford Valley Veterinary Hospital

- Located approximately 25km north-west of Brisbane
- Strong peri-urban growth location
- Large companion animal and equine exposure



Knox Veterinary Clinic

- Located in Dalby with a branch clinic at Tara
- Companion and production animal services
- Important step in expanding Apiam's services in the Darling Downs region



Scenic Rim Veterinary Services¹

- Located in Beaudesert and Boonah in SE Queensland
- Large equine, companion and production animal clinics
- Significantly expands Apiam's equine footprint

Greenfield clinic roll-out program



A focus on expansion in high population & peri-urban growth corridors

Rationale & clinic economics

- ☑ Clinics rolled out under “Fur Life Vet” brand
- ☑ Strong revenue & margin opportunities with successful track record
- ☑ Attractive roll-out clinic economics :
 - ✓ 6-10 FTE vets
 - ✓ \$3-6M annual revenue
 - ✓ Break-even profit expected in year 2
 - ✓ Full maturity in year 3

FY21 progress

- ☑ Torquay North, VIC (opened January 2021)
- ☑ Shepparton, VIC (opened March 2021)
- ☑ Highton (Geelong) VIC (opened July 2021)
- ☑ Further clinics in planning stage

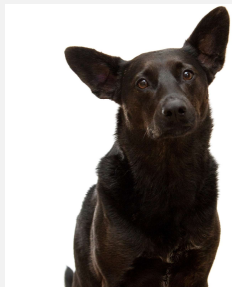
JV formed Feb 2018



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

How do Apiam choose optimal clinic locations?

- Peri-urban locations with track record of strong population growth
 - As an example, Torquay was amongst the fastest growing regions in VIC (double most other locations) between 2006-2016¹
 - Current planning is based on a doubling of the current population by 2040
- Within daily commute of capital city
- Species mix in region
- Ability to leverage existing Apiam staff, services and infrastructure
- Large regional city growth plans



Notes

1 Based on Department of Land, Water and Environmental Planning data

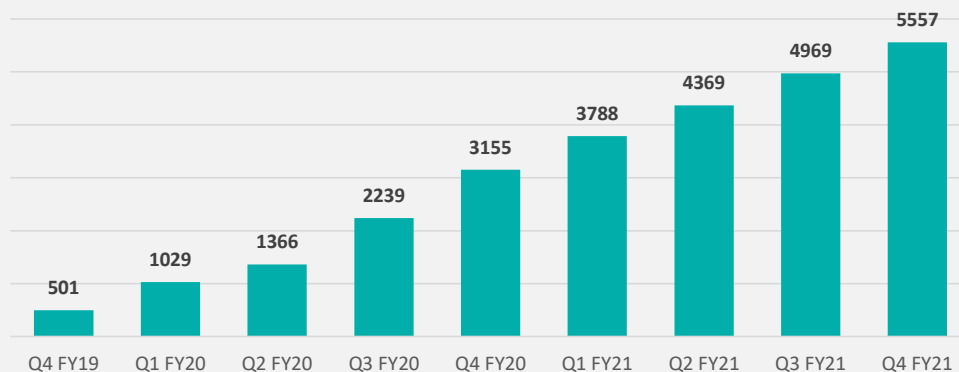
FUR LIFE Vet

Services - subscription model initiatives delivering growth



- Annual subscription animal wellness program
- Member growth of 76% as at end FY21 (vs pcp)
- ~7.3% of active patients were Best Mates members as at end of FY21
- Immediate synergies in acquisition and greenfield clinics

Best Mate members (quarterly)



- 108% growth in dairy farm enrollments in FY21 (vs pcp)
- ~11.2% of AU'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 opened in FY21



Product initiatives to drive future growth

ZOONO[®]



ZOONO EFFECTIVE AGAINST PIG VIRUSES AFTER 21 DAYS

- Trials at Iowa State University undertaken to test Zoono Microbe Shield duration of effectiveness on a rubber surface – on both non-washed and washed surfaces (at 7 and 14 days) to simulate abrasion from pigs
- Results showed a significant reduction in PED virus and PRRS virus that was applied to the surface 21 days after Zoono Microbe Shield application
- Zoono Microbe Shield was equally effective on both the washed and non-washed surfaces
- Data supports commercial applications in production systems
- Re-launch of product to market with US pharma company - Q2 FY22



▶ SCAN ME

NOVEL DATA SYSTEM FOR SWINE HEALTH & PRODUCTION

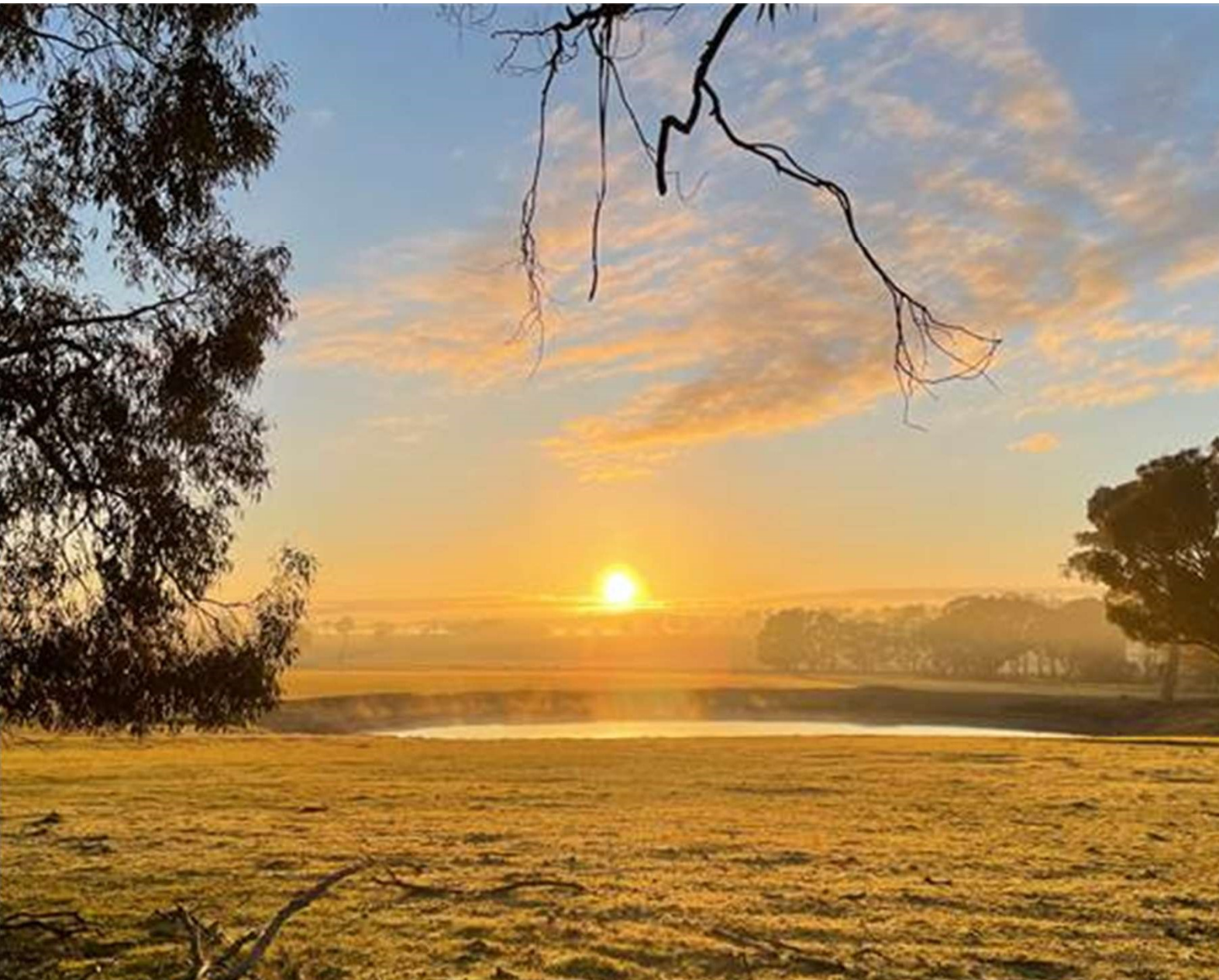
- Data platform developed by Apiam to enhance antimicrobial stewardship, better monitor pig health and treatments in real-time and improve quality assurance
- Pilot program undertaken in WA piggeries for 12 months now successfully completed
- Currently being commercialized across Australian pig industry
- Pilot programs expected to commence in USA and Europe in Q2 FY22



FY22 outlook

- Apiam is expected to continue to deliver revenue and earnings growth in FY22
- Ongoing strategy is to capture rapid regional veterinary market growth (organic initiatives, acquisitions and roll-out of greenfield clinics)
- Commercialisation of recent investment in new services, technologies and products to underpin recovery in intensive animal business as market cycle correction expected to continue
- Business reinvestment to be carefully balanced against return on capital thresholds





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