



ASX Announcement

16 May 2017

Shareholder Update and HRL Group Awarded New Contracts

HIGHLIGHTS

- New acquisitions performing well and integration is underway
 - OCTIEF awarded another major contract with Northern Territory Government
 - Morrison Geotechnic secures new 3-year service agreement with Queensland Department of Transport and Main Roads
 - OCTFOLIO granted approved contractor status with South32 to provide asbestos software services
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Business Integration – Morrison Geotechnic

Morrison Geotechnic has performed well in April, being the first month after settlement. Our executive team have visited all three sites and the enthusiasm of the Morrison team has been appreciated. The integration of the business is now underway and areas of cooperation between existing HRL businesses have been identified. Morrison and OCTIEF are jointly undertaking their first client project on a contaminated land project in Brisbane in May demonstrating the strong opportunities available for collaboration.

Northern Territory Department of Housing and Community Development

OCTIEF Pty Ltd (**OCTIEF**), has been awarded a significant contract by the Northern Territory Department of Housing and Community Development to carry out asbestos surveys across a range of public housing assets throughout the Darwin, Casuarina and Palmerston regions of the Northern Territory.

The Department of Housing and Community Development was established by the Northern Territory Government in September 2016 from the former Department of Housing and the Department of Local Government and Community Services. The government formed the department to bring together many of the key functions that provide services in affordable and accessible housing, local government and community development across the Northern Territory.

The contract is expected to be completed over a 6 month period and be serviced out of the Darwin branch. Laboratory sample analysis will also be undertaken by the Darwin branch to keep the entire process in-house, ensuring both quality and efficient turnaround times.

The Department of Housing and Community Development contract further strengthens OCTIEF's relationship with the Northern Territory Government. OCTIEF's Darwin branch has enjoyed regular ongoing works with a number of Northern Territory Government departments to complement its private sector works in the region.



Queensland Department of Transport and Main Roads

Morrison Geotechnic Pty Ltd (**Morrison Geotechnic**), has executed a new service agreement with Queensland Department of Transport and Main Roads. The agreement allows Morrison Geotechnic to operate as a service provider for the Department of Transport and Main Roads across projects throughout Queensland.

The service agreement runs for a period of 3 years and has two one-year extension options, and covers both field geotechnic engineering and laboratory services.

The Queensland State Government has a current \$10.7 billion Capital Program of which \$4.388 billion is allocated to transport and roads. This new service contract provides important strategic exposure for HRL.

South32

OCTFOLIO Pty Ltd (**OCTFOLIO**) has been granted approved contractor status with South32. South32 will utilise the OCTFOLIO software platform for its asbestos registers on their Cannington and Groote Eylandt assets in Queensland and the Northern Territory respectively.

These new agreements demonstrate HRL's ability to win large scale competitive contracts, by consistently delivering safely executed projects, on time and to budget which add value to our clients.

As part of its strategy, HRL will continue to aggressively target government and large corporate based projects in both Australia and New Zealand as they:

- are typically longer term;
- demand the higher levels of service and reporting that the HRL Group are known for;
- are of a scale that smaller "cut price" operators cannot service; and
- provide consistent revenue in an industry which has volatile demand from the private sector.

The contract values are commercial in confidence and therefore have not been disclosed.

An investor presentation follows.

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HRL Holdings (ASX:HRL)

Investor Presentation | May 2017



Company Overview

Emergent company in the growing environmental services industry



Corporate Overview

Market Metrics

Share price (8 May 2017)	\$0.084
Shares on Issue	236.8m
Market capitalisation	\$19.9m



Substantial Shareholders

Kevin Maloney (Chairman)
Darren Anderson (Exec Director)
Viburnum Funds

Investment Proposition

- ✓ Currently has a very small market share in a large and growing market
- ✓ Industry is split between very large players (hundreds of millions in revenue) and smaller private players which creates an opportunity for the Group to fill the void in the “mid market”
- ✓ Attractive industry economics (high margins & returns on capital) with significant barriers to entry
- ✓ Fast and nimble operator which can act more decisively on market opportunities compared to larger and more bureaucratic industry players
- ✓ Strong focus on technology leadership and enablement
- ✓ Alignment between key management / Board and shareholders via significant (~40%) shareholding in the Group
- ✓ Long runway of both organic and acquisition growth opportunities



People

Highly credentialed leadership team with a proven track record

Board / Management	Background
<p>Kevin Maloney Chairman</p>	<p>Mr Kevin Maloney is the founder and Chairman of Australian investment entity Tulla Group and has built an extensive career in retail banking, finance and resources. Kevin has been involved with numerous public companies as both an executive and director. After spending 20 years with ANZ Bank, Kevin joined Elders Resources Finance Limited in 1981, progressing to hold numerous positions including Chief Executive Officer.</p> <p>One of Kevin's numerous career highlights was as founder and Executive Chairman of The MAC Services Group (The MAC), which was sold to Oil States International in 2010 for \$651million. Kevin was heavily involved in all stages of The MAC's growth, including its move into mining services accommodation in 1996.</p>
<p>Darren Anderson Executive Director</p>	<p>Mr Darren Anderson was formerly the Executive Director and Chief Operating Officer of Diversified Mining Services Ltd which is an unlisted public company that at its peak in mid-2012 had consolidated revenue in excess of \$200 million and 850 personnel. Previous career highlights include 15 years spent as founder and Managing Director of the Anderson Group of Companies, which grew from a single person operation in Mackay to a company with in excess of 300 employees and 12 operating divisions across both Queensland and New South Wales that serviced the Australian and international coal industries.</p>
<p>Mark Elliott Non-Executive Director</p>	<p>Dr Mark Elliott is a chartered practising geologist with more than 40 years' experience in the minerals and energy sectors including base-metals, gold, iron ore, mineral sands, coal, petroleum and geothermal industries. He has been responsible for building a number of successful private and public resource companies some listing on the Australian Stock Exchange. He has a Diploma in Applied Geology from the Ballarat School of Mines and a Doctor of Philosophy Degree from the University of New South Wales. He is a Fellow of the Australian Institute of Company Directors and Australasian Institute of Mining and Metallurgy. He is a non-executive director of Nexus Minerals Limited. He has a proven track record in corporate management and growing successful businesses in the resource sector.</p>
<p>John Taylor Non-Executive Director</p>	<p>Mr Taylor is the founding partner of Taylors Solicitors, Mackay, a Senior Counsellor of the Queensland law Society and has over 30 years' experience in commercial and property transactions and litigation. John Taylor was, from 2006 to 2010, a director of ASX listed The Mac Services Group Limited where he was Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee. He is also a former Chair of the Mackay Port Authority and a Board member of Tourism Mackay and Mackay Regional Economic Bureau.</p>
<p>Steven Dabelstein CEO</p>	<p>Mr Dabelstein has a strong financial and operational background in various roles, including most recently as General Manager Commercial and Qld Mining/Maintenance Services with Diversified Mining Services Limited. Mr Dabelstein's experience includes public practice accounting, manufacturing, service and the construction industries. Previous roles have provided exposure to large-scale international businesses reporting through and working with companies in the US, Asia and Europe.</p>

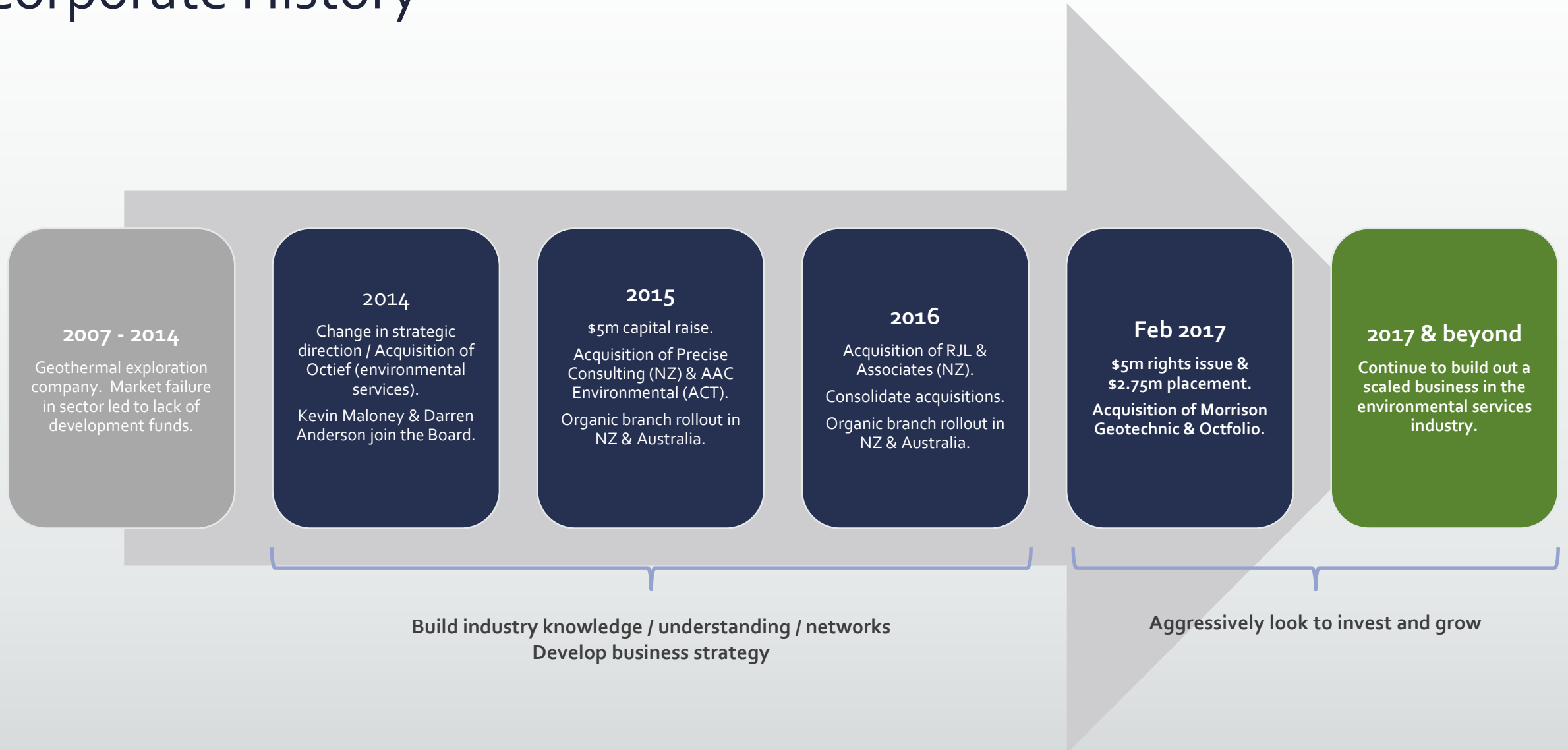


The HRL Culture

- ✓ Customer first & service excellence.
- ✓ Fast and nimble – “we make things happen”.
- ✓ Cost conscious with very lean corporate overheads.
- ✓ Decentralized decision making - “entrepreneurial” approach.
- ✓ Long term and strategic decision making – no short cuts.
- ✓ Attract and retain “A” grade people with incentives linked to long term value creation.
- ✓ “Outsiders” approach i.e. willing to question the status quo and apply best practice from other industries.
- ✓ Growth imperative – encourage operational staff to think about growth opportunities.



Corporate History



Corporate Function

Current corporate overhead cost is ~\$1.5m with limited further investment required in the foreseeable future.

- ✓ Set the strategic road map for the Group to build significant growth
- ✓ Control technology, finance & HR functions
- ✓ Ensure that the Group remains well capitalized to execute on growth options
- ✓ Control capital budgets for capital expenditure and acquisitions to make sure it is spent on the highest returning growth opportunities
- ✓ Engage with relevant Government agencies on regulatory matters
- ✓ Help with business development opportunities when required
- ✓ Make it easy for the divisions to do business

Current Operations

Operating across multiple service lines in multiple regions

	Hazardous Materials	Geotechnical Services	Technology
Current Operations	<i>Octief (Australia) & Precise Consulting (NZ)</i>	<i>Morrison's Geotechnic (Queensland)</i>	<i>Octfolio (Australia & NZ)</i>
Overview	<p>Services – asbestos assessment & management, contaminated land investigations, water quality assessments, methamphetamine screening.</p> <p>Field sampling – geographic coverage, qualified staff, capacity to service client response times, digital collection to ensure efficient and accurate data.</p> <p>Laboratory analysis – fast turn around times, IANZ / NATA accreditation, customer has single point of accountability for results (field and lab are the same business).</p>	<p>Services – geotechnical investigations (infrastructure, commercial, industrial), temporary work design and inspection, construction phase verification.</p> <p>Field sampling – geographic coverage, qualified staff, capacity to service client response times, digital collection to ensure efficient and accurate data.</p> <p>Laboratory analysis – fast turn around times, NATA accreditation, customer has single point of accountability for results (field and lab are the same business).</p>	<p>OCTFOLIO is a specialised software vendor focussed on the development and implementation of information management software solutions for asbestos and hazardous materials, innovative field management software solutions, customised compliance solutions and applications relating to workplace health and safety.</p>
Financial Performance	FY16 revenue ~\$8.4m and EBITDA ~\$2.2m (26% EBITDA margins).	FY16 revenue ~\$8.5m and EBITDA ~\$1.4m (16.5% EBITDA margins).	~\$600k annualised subscription revenue
Market Opportunity	Continue to expand service offering and increase geographic footprint. Attempt to be a first mover for any Government regulatory changes.	Increase geographic footprint in other states and NZ. Exposed to significant infrastructure spend on the east coast of Australia.	Market leading product with a significant market opportunity across multiple industries. Key competitive advantage for the Group.



Revenue Model – Hazardous Materials

Increasingly focused on recurring revenue streams and long term projects



Revenue streams:

- Audit – onsite labour
- Laboratory analysis – charge per sample
- Report – fees for management plans
- Clearances – onsite labour and analysis of samples
- Recurring revenue – re-audits and management of registers
- SaaS – monthly fees for managing client HAZMAT compliance registers (Octfolio)

Branch Network



Laboratory Locations

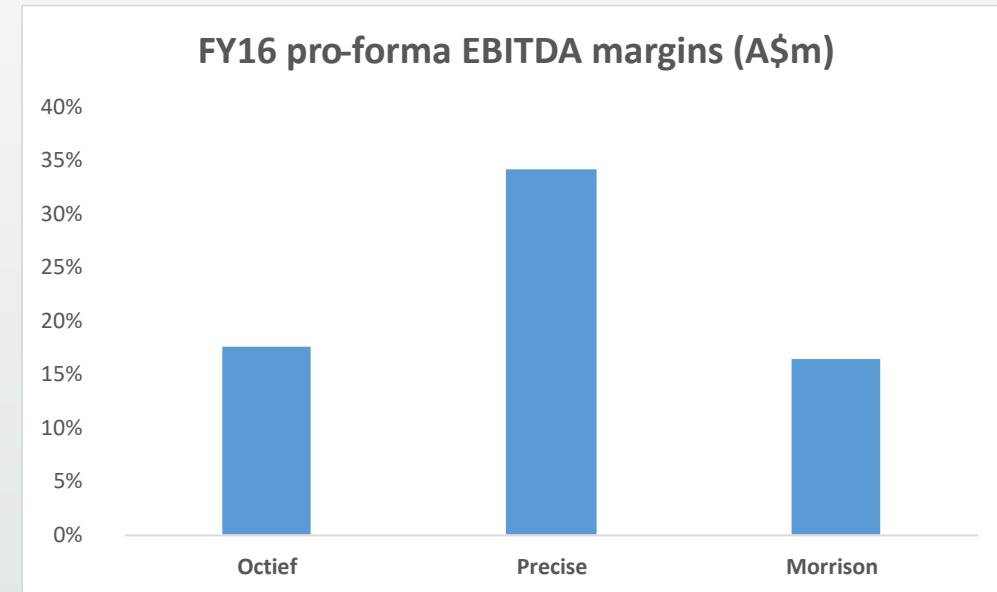
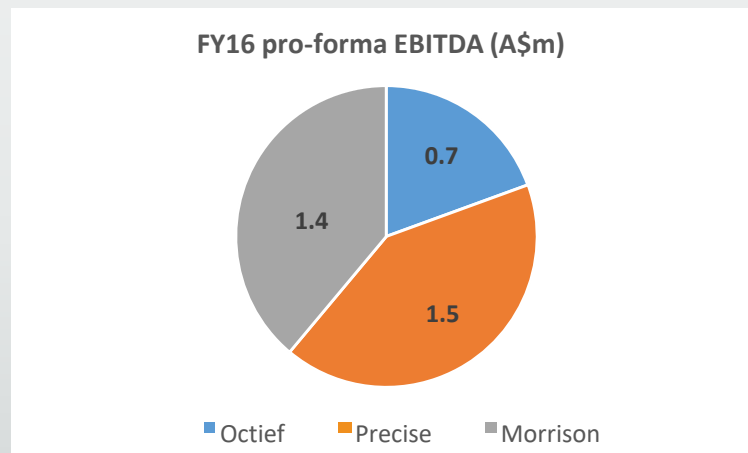
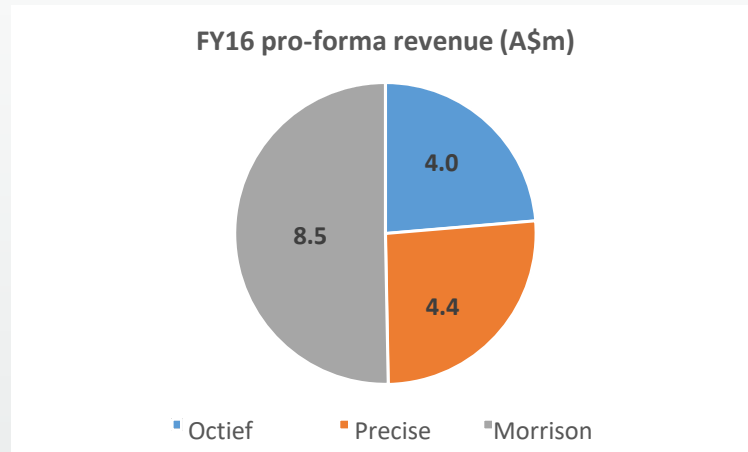
- Brisbane – Darra
- Brisbane – Yatala
- Sunshine Coast
- Gold Coast
- Darwin
- Canberra
- Auckland
- Wellington
- Christchurch
- Dunedin

Consulting Offices (no laboratory)

- Perth
- Palmerston North

Financial Performance

Focus on building scale in an attractive high margin industry



Industry Overview

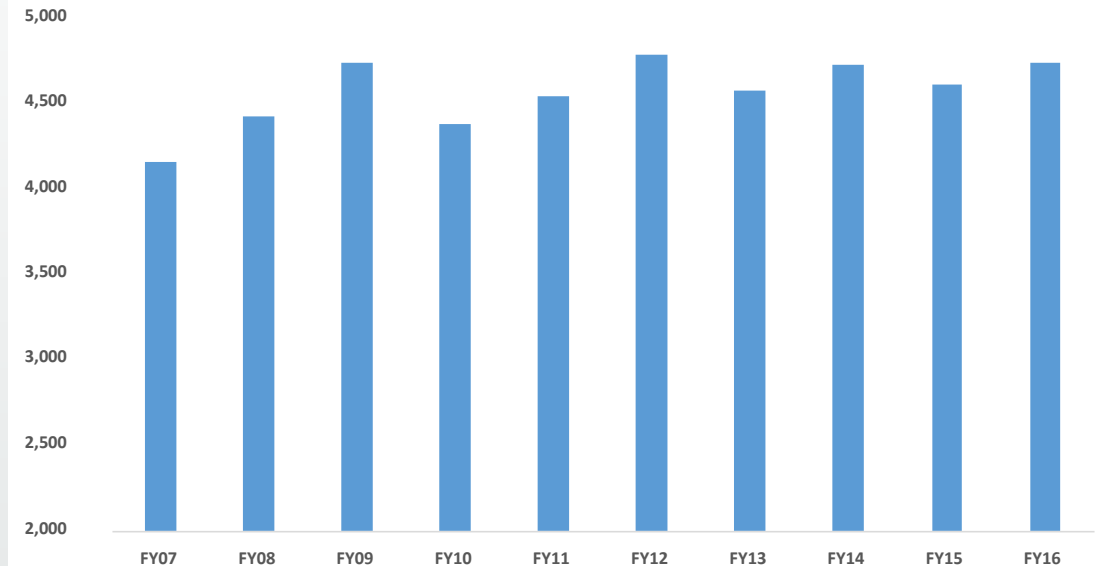
Large and growing industry



Industry Overview

- The environmental services industry in Australia is very large with over \$4.5bn of revenue recorded in FY16 with many attractive niche opportunities.
- While recent growth has been sluggish this has primarily been driven by the downturn in the mining sector to which the Group has no exposure. Other parts of the industry have been displaying strong growth e.g. hazardous materials, agriculture, water.
- Overall industry concentration is relatively low with the top 4 players accounting for about 30% of industry revenue (IBIS World) despite some of the larger players aggressively targeting acquisitions over recent years.
- Scale operators generally achieve very attractive returns on invested capital due to significant barriers to entry and scale benefits.
- Major companies:
 - **ALS Limited:** market share estimate ~12% (IBIS World) with \$1.3bn revenue and \$223m EBITDA in FY16. Operates 4 main divisions – minerals, energy, life sciences & industrial. Over 11,000 staff in 370 locations and 65 countries.
 - **SGS Australia:** market share estimate ~8% (IBIS World) with \$390m revenue in calendar 2015. Provides a range of inspection, testing, certification and verification services to a range of industries. Operates more than 50 offices with 1,900 staff in Australia (1,650 offices globally with 80,000 staff).
 - **Bureau Veritas Australia:** market share estimate ~6% (IBIS World) with \$320m revenue in calendar 2015. Globally the business has 66,500 staff in 1,400 offices

Environmental Services Industry Revenue in Australia (A\$m)



Source: IBIS World, Jan 2017

Regulation & Policy

- The industry is subject to a high degree of regulatory control.
- The National Association of Testing Authorities (NATA) and International Accreditation New Zealand (IANZ) is recognized by the Crown as the national provider of laboratory accreditation for Australia and New Zealand. NATA/IANZ laboratory accreditation provides recognition and status in the testing community and demonstrates to clients the laboratory's commitment to quality.
- Asbestos
 - The Asbestos Safety and Eradication Agency was established to provide a national focus on asbestos. Under the Asbestos Management Review (AMR) there was an aspirational aim to eliminate the risks of asbestos from government and commercial structures by 2030.
 - State legislation requires workplaces where asbestos is fixed or installed to maintain an asbestos register. The register must record the location of the asbestos, the type and condition of any asbestos containing material and any activities carried out in the workplace that are likely to damage or disturb the asbestos.
 - New Zealand asbestos regulation was introduced in 2016 which now reflects similar levels of regulation to Australian states.
- Meth screening
 - Australia and NZ meth lab contamination regulated by federal guidelines
 - NZ leading the market with guidelines designed for meth use contamination
 - NZ to publish new standard in June 2017 (NZS 8510)



Barriers to Entry

- ✓ Initial capital outlay for laboratory equipment and systems.
- ✓ Significant advantages to incumbent market position / customer relationships – the cost of environmental testing generally represents a relatively small % of the overall product or project for the customer yet is critically important therefore there are low incentives for customers to change provider.
- ✓ Industry knowhow – while most laboratory operators do not have patent protection around various processes there are often significant trade secrets involved.
- ✓ Laboratory accreditation.
- ✓ Brand name / reputation.
- ✓ Long term contracts.



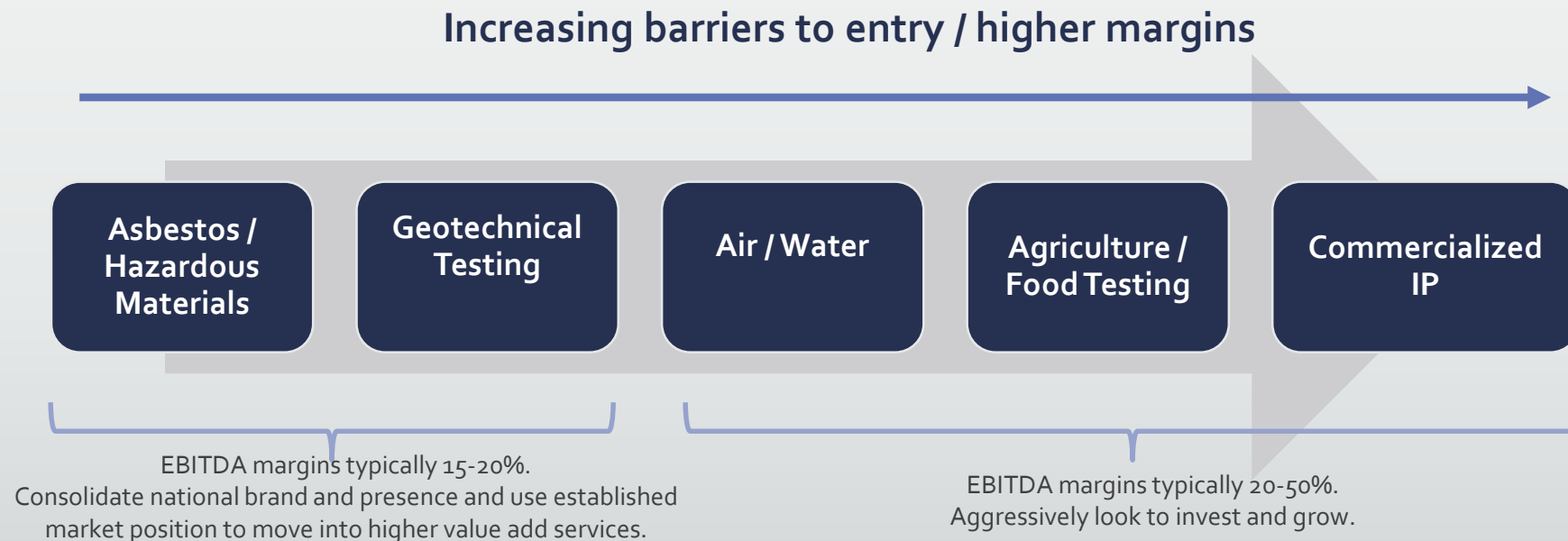
Strategy / Market Opportunity

Small fish in a big pond



Strategic Overview

- Build, develop and acquire complementary environmental testing and inspection businesses
- Create a scaled operator in the large and growing environmental services industry with a medium term (2-3 years) target of achieving \$50m+ in revenue.
- The primary focus is on field sampling, laboratory analysis & technology / reporting solutions.
- The Group will focus on specific niche industry verticals that it has identified as being open to consolidation opportunities.
- Increasingly the Group will attempt to transition along the environmental services '*value chain*' i.e. focus on more sophisticated and advanced analysis with higher barriers to entry.



Benefits of Scale

There are significant advantages to building scale in this industry including:

- ***Fixed operating costs*** – laboratories have relatively fixed operating costs so volumes above a break-even level are highly accretive to profitability which provides a very favorable operating environment for incumbents.
- ***Brand name*** – building a trusted brand name in the industry that can be relied upon for accurate results and strong customer service is very important given the critical nature of the services provider.
- ***National accounts*** – scale enables the company to tender for large work programs across multiple jurisdictions.
- ***Investment in equipment and technology*** – the industry is constantly evolving and the ability to continue to invest in the latest equipment and technology allows the company to have more rapid turnaround times at a lower cost to customers.



Growth Options

The Group will use a combination of both organic growth and acquisition opportunities to achieve scale.

Organic opportunities:

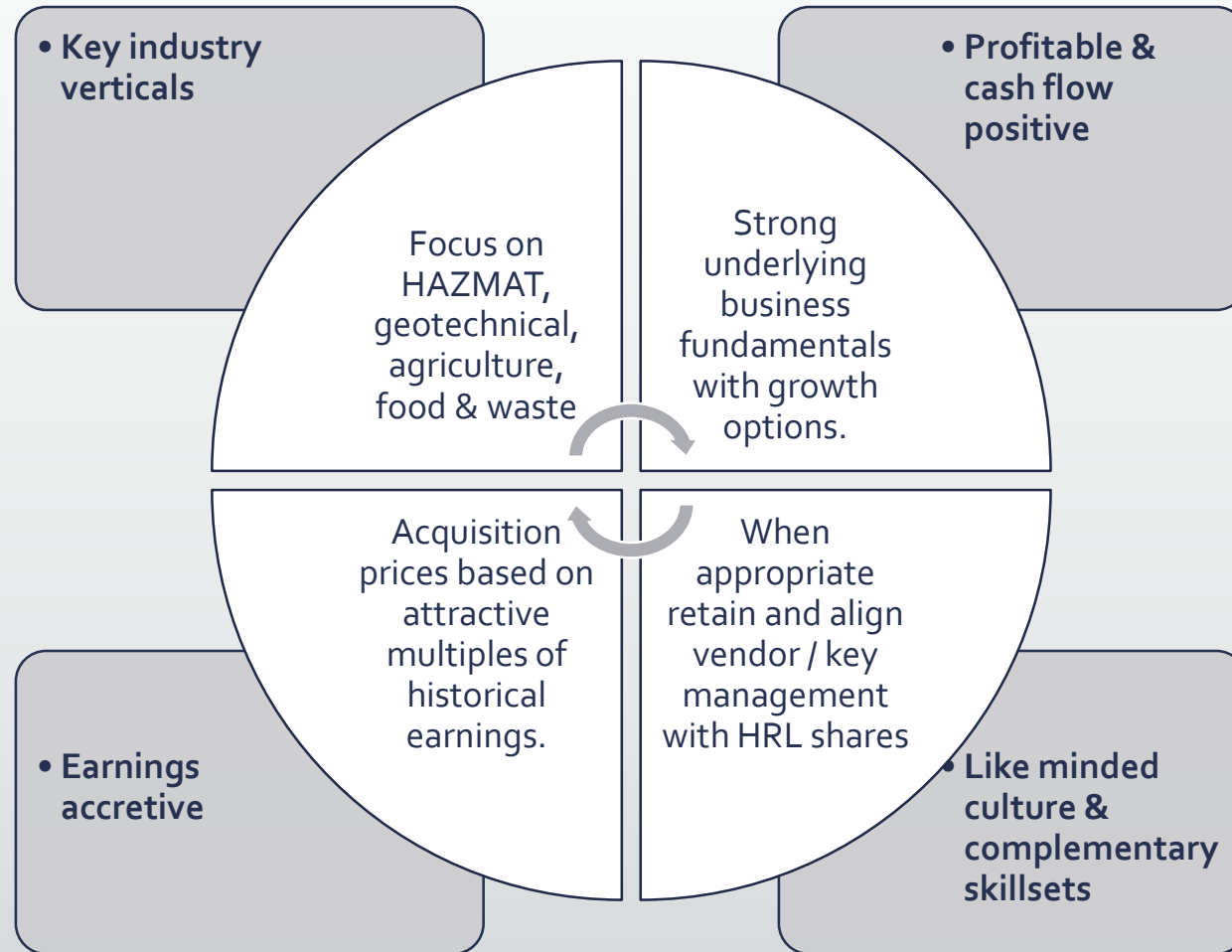
- Wherever possible the Group will attempt to build out organically rather than pay away goodwill on acquisitions. The Group has undertaken significant organic expansion of their branch network over the past 18 months.

Acquisition opportunities:

- Acquisitions will be used to expand in existing service lines and enter new markets.
- Given the stickiness of many customer relationships it is often necessary to buy existing operations in order to gain a foothold.
- The Group believes that there are a significant number of high quality private industry operators who do not want to be acquired by the large industry players (with their associated bureaucracy). HRL can offer vendors a much more flexible and dynamic operating environment with potential equity participation.
- All acquisitions are **thoroughly integrated** within the Group from a systems / compliance & cultural perspective. The benefits of scale can only truly be realized with a very diligent approach to integration.

Approach to Acquisitions

The Group takes a very considered and strategic approach to acquisitions with very strict criteria.



Technology & Systems Focus

- The Group is very focused on being an industry leader with respect to the use of technology.
- Use technology to streamline processes in order to lower costs of doing business and provide exceptional customer service
- Whenever practical the Group will attempt to use the same systems across all operating divisions in order to reduce complexity and better enable staff to be mobile across the business (i.e. alleviates the need to train staff in new systems).



March/April 2017 Acquisitions

Highly complementary acquisitions that add scale and enhance competitive position



OCTFOLIO



- OCTFOLIO is a specialist software vendor providing an information management solution for asbestos and hazardous materials compliance.
- Flagship product “Octfolio Hazardous Materials Compliance Software” is a cloud-based platform providing hazardous materials, environmental and OH&S management services to clients in Australia and New Zealand.
- Acquisition benefits include:
 - Complementary and enhanced service offering to HRL’s existing businesses.
 - Exposure to other HAZMAT revenue streams.
 - Potential expansion into other markets – software has the potential to be used in other industries that require asset tracking and auditing.
 - Attractive valuation at ~4x annualized subscription revenue.
- High quality customer base including:



Morrison Geotechnic



- Established in 2000 with 58 FTE staff across Brisbane, Gold Coast and Sunshine Coast offices.
- Services the civil, engineering and construction industries primarily across south-east Queensland with a portfolio of 12,000+ completed projects.
- Provides laboratory and engineering services including geotechnical investigations & studies, temporary work designs & inspections, construction phase verification, soil / concrete / aggregate testing in NATA accredited laboratories & onsite mobile laboratory testing.
- Derives 65%+ revenues from existing blue chip customers and referrals with a balanced portfolio of clients (top 10 customers account for ~54% of revenue).
- Acquisition benefits include:
 - Establishes a new attractive service line for the Group with the potential to expand in other geographic areas.
 - Strong competitive position with 3 NATA approved laboratories.
 - Opportunity to invest in technology to support field staff real-time data collection and sample registration.
 - Exposed to significant infrastructure spending forecast in Queensland over the next 5+ years.
 - Attractive valuation at ~3x EBITDA.

Peer Comparisons

Attractive industry that commands premium market multiples



Peer Comparisons

Attractive industry dynamics results in premium market multiples being attached to scaled providers

	ALS Limited	Bureau Veritas	SGS	Intertek Group
Market capitalisation (A\$bn)	3.1	11.3	15.9	7.1
Enterprise Value (A\$bn)	3.5	11.0	16.7	8.2
Last 12mths Revenue (A\$m)	1,325	4,806	5,945	2,879
Last 12mths EBITDA (A\$m)	223	914	1,118	526
Last 12mths EBITDA Margin (%)	16.8%	19.0%	18.8%	18.3%
EV / FY17 NTM EBITDA	12.0x	11.6x	13.2x	12.8x

Source: Capital IQ, accessed April 2017