



HRL Holdings (ASX:HRL)

Investor Presentation | Acquisition of Analytica Laboratories



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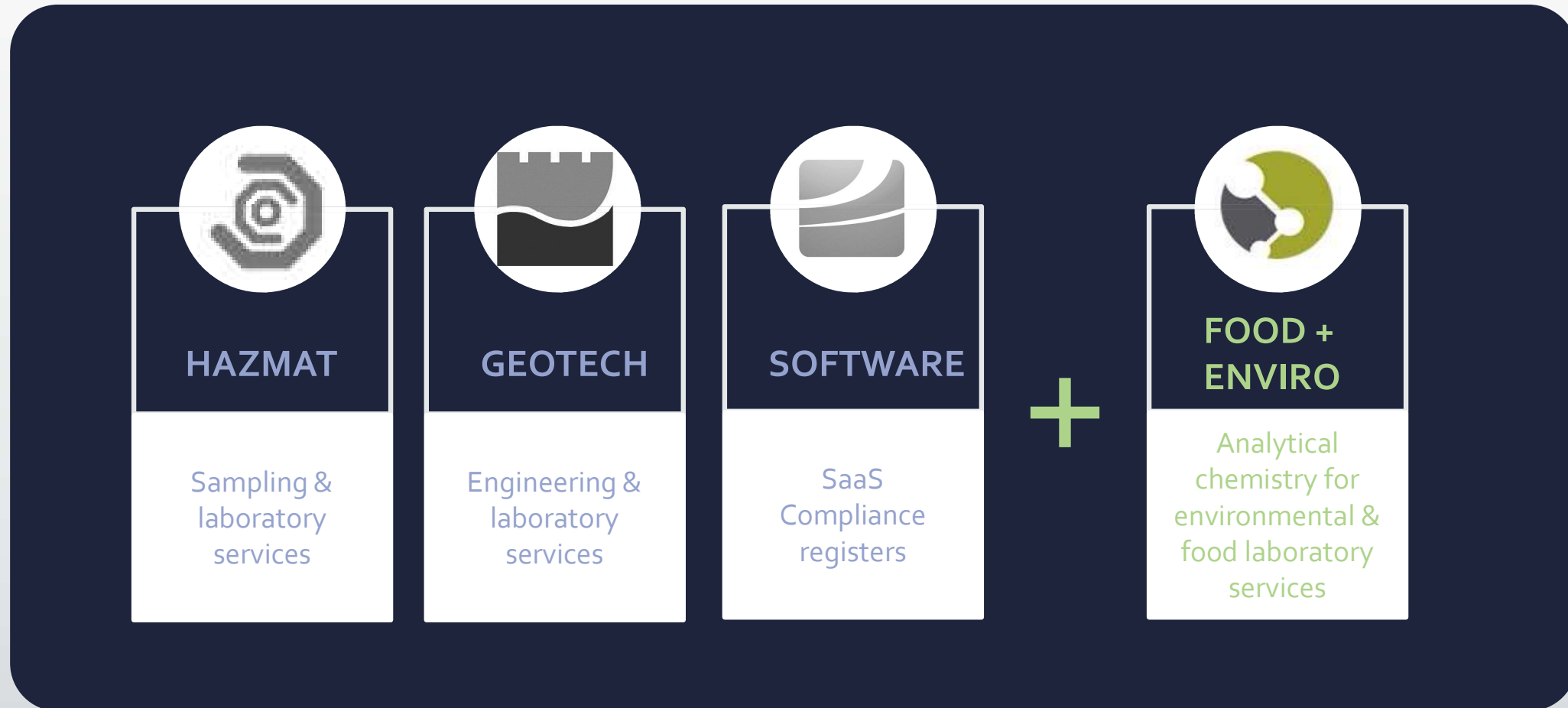


Company Overview

Emergent company in the growing environmental services industry



WHAT WE DO



Investment Proposition – the HRL Group

- ✓ Currently has a very small market share in a large and growing market
- ✓ Industry is split between very large players (with 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



Market Metrics

Share price (12 October 2017)	\$0.09
Shares on Issue	244m
Market capitalisation	\$21.97m

Substantial Shareholders

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

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 Elliott is a Chartered Professional geologist with over 40 years' experience in economic geology, exploration, sampling and chemical analysis, mining, project development and corporate management. He has extensive experience in managing companies and exploration/mining operations in a wide range of commodities. 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, Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. He is a non-executive director of Nexus Minerals Limited and Aruma Resources 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 Old 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>

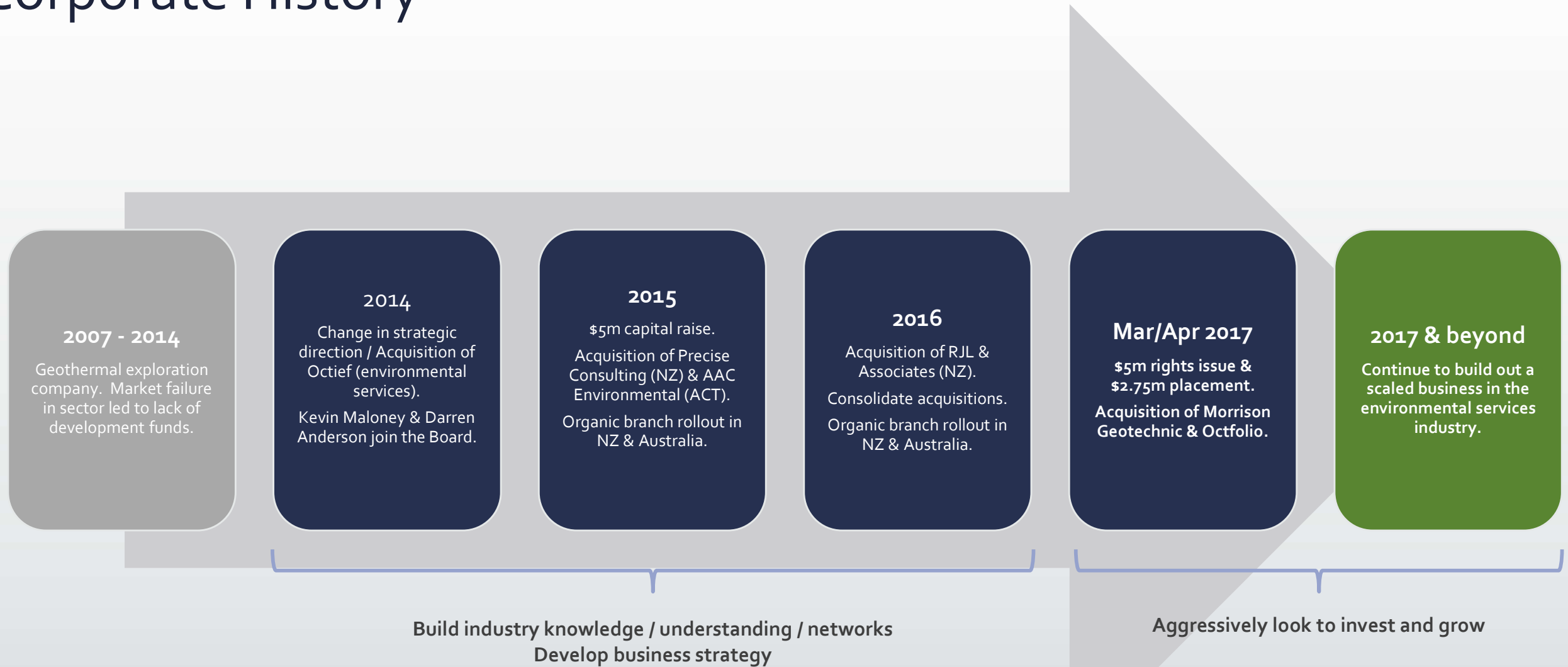


The HRL Culture

- ✓ 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



Current Operations

Operating across multiple service lines in multiple regions

	Hazardous Materials	Geotechnical Services	Software
Current Operations	<i>Octief (Australia) & Precise Consulting (NZ)</i>	<i>Morrison 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	FY17 revenue ~\$11.2m and EBITDA ~\$2.3m (21% EBITDA margins).	FY17 revenue ~\$9.4m and EBITDA ~\$1.5m (16% 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.

Current Branch Network



Laboratory Locations

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

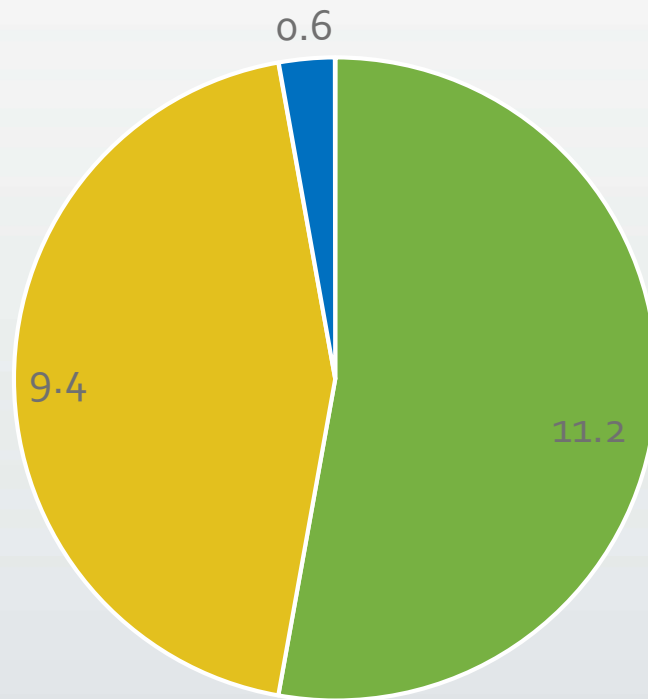
Consulting Offices (no laboratory)

- Perth
- Palmerston North

FY17 Pro-Forma Financial Performance (HRL only)

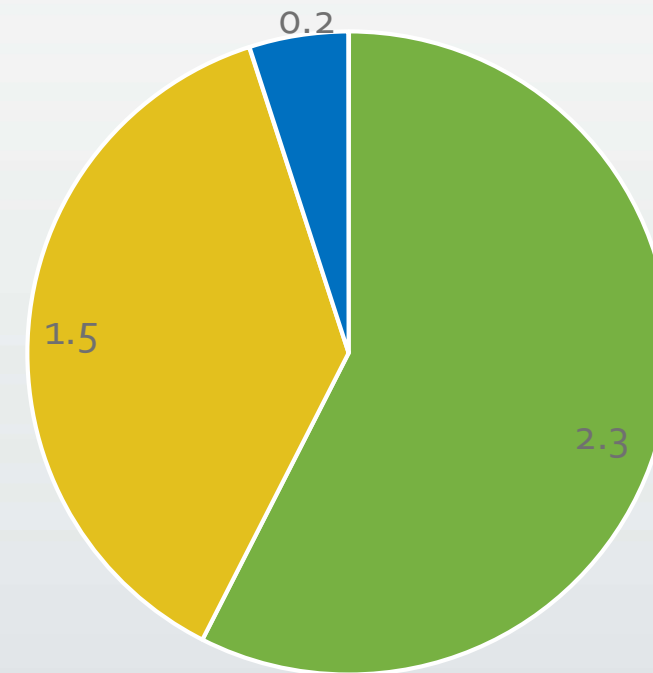
Focus on building scale in an attractive high margin industry

FY2017 REVENUE PRO-FORMA A\$m



■ HAZMAT ■ GEOTECH ■ SOFTWARE

FY2017 EBITDA PRO-FORMA A\$m



■ HAZMAT ■ GEOTECH ■ SOFTWARE

*Trading divisions only, before corporate overheads



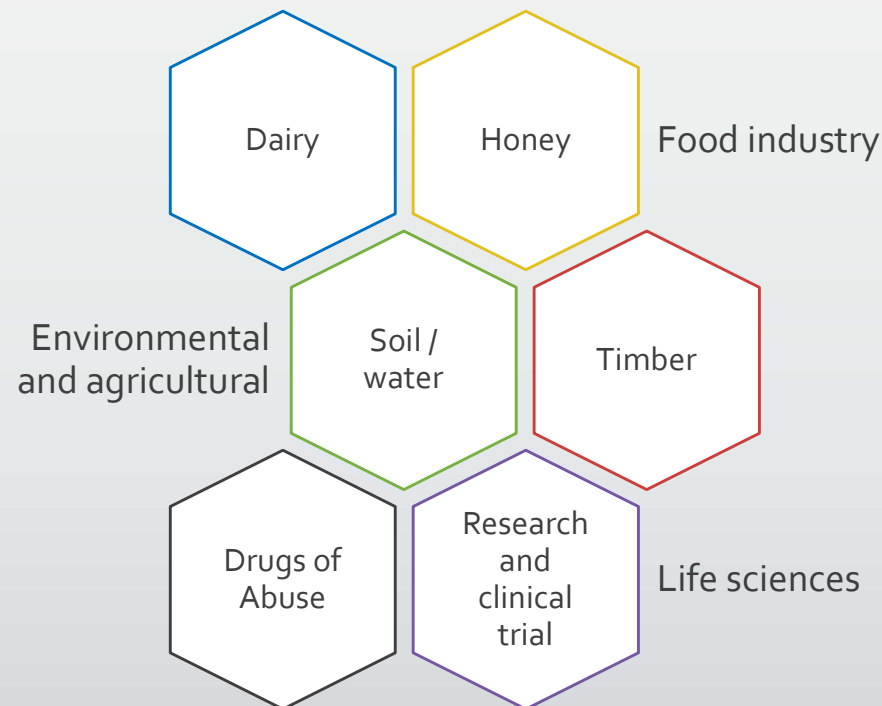
Transformational Acquisition Opportunity

Highly complementary acquisition that add scale and enhance
competitive position



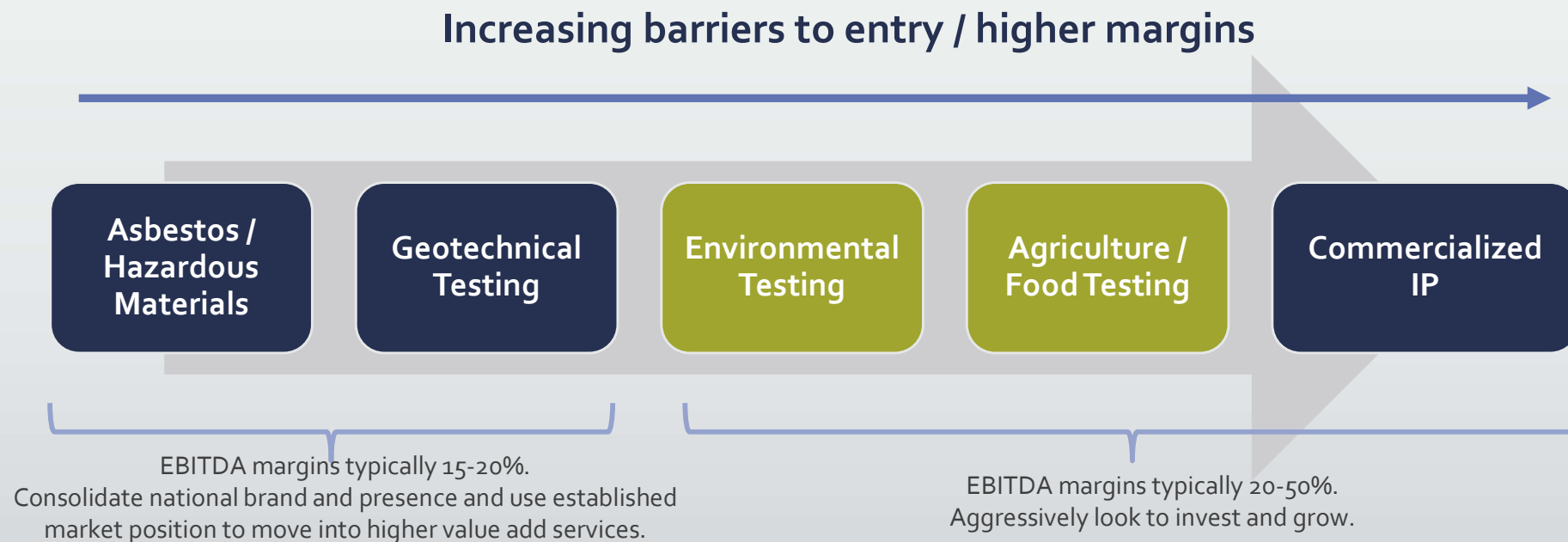
Analytica Laboratories - Overview

- Analytica is a privately owned analytical chemistry laboratory business based in Hamilton New Zealand, specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets.
- Dr Terry Cooney founded the company in 2011 with the goal of building a chemistry laboratory to disrupt the market through innovative laboratory services. Dr Terry Braggins and Steve Howse joined shortly thereafter as executive directors and equity partners.



Strategic Overview

- Analytica operates within the high end environmental and food/agricultural testing markets, building on HRL's strategy to transition along the environmental services **'value chain'** i.e. focus on more sophisticated and advanced analysis with higher barriers to entry.
- Acquisition supports HRL growth into a scaled operator in the large and growing environmental services industry with a medium term (2-3 years) target of achieving \$50m+ in revenue.
- Builds on HRL primary business segments in field sampling, laboratory analysis & technology / reporting solutions.



Analytica Laboratories - Overview

DAIRY / MILK / FOOD ORIGIN

- OAC & Detergent Residues
- Aflatoxin M₁



HONEY

- Manuka 3-in-1
- Leptosperin
- Tutin
- C₄ sugars
- Colour / Conductivity
- Heavy metals
- DHA
- Residues



DRUGS OF ABUSE

- Methamphetamine
- Amphetamine
- Ephedrine
- Pseudoephedrine



ENVIRONMENTAL

- Contaminated land
- Trade waste & resource consents
- Water quality
- Hydrocarbons
- Residues of agrichemicals and other industrial pollutants
- Heavy metals and trace elements
- Nutrients
- General soil & water chemistry



CONTRACT RESEARCH

- One-off or finite projects
- Usually for R&D purposes
- Clinical trials



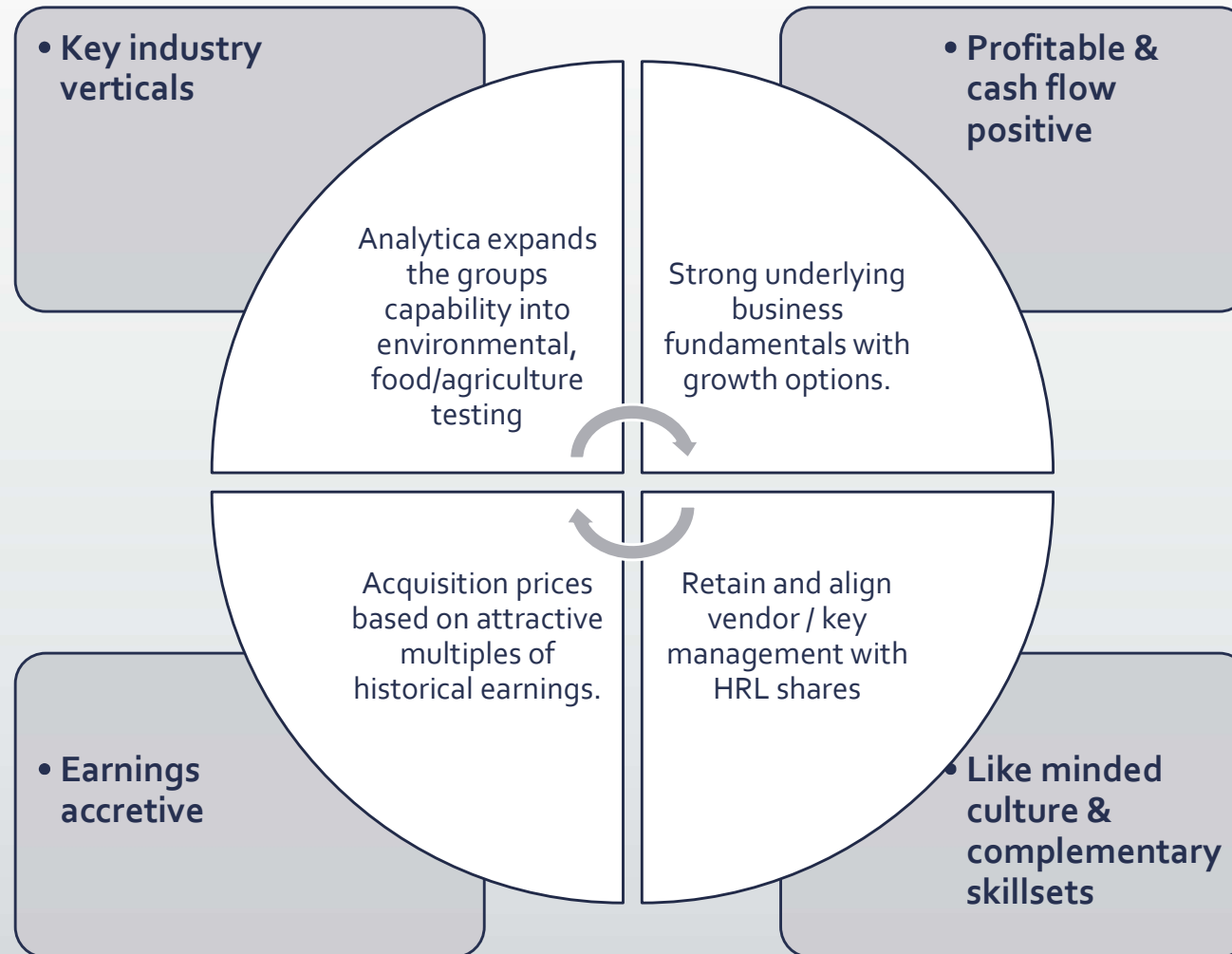
Analytica Laboratories - Rationale



- **Market leaders** - Analytica are market leaders in their innovation and approach to laboratory testing
- **Expansion of industry verticals** - HRL has been actively looking to enter the high value environmental and food/agricultural testing markets
- **Platform for expansion** - The Analytica capability can be extended across HRL network of laboratories and increase capability
- **First mover advantage** - Interest in subsidiary CAIQtest Pacific provides platform for servicing the food export industry – specifically the dairy markets
- **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 on 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** – already aligned with major partners
- **Investment in equipment and technology** – Analytica have invested in the latest equipment and technology allowing the company to have more rapid turnaround times at a lower cost to customers.

Analytica meets HRL strict investment criteria

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



Analytica Laboratories – Benefits & Synergies



- Reputation as a game-changing and innovative organisation across many markets;
- Current directors are highly respected operators across industry, academia and government;
- Generally regarded as the most cost-effective laboratory for many tests and the fastest;
- Impressive range of analytical equipment, customised to maximise efficiency, turnaround times and reliability;
- Experienced employee base with a strong team culture;
- Market leader in honey testing in NZ, both among industry organisations as well as commercial entities in the industry;
- Broad scope of accreditations across numerous testing methods;
- Unique opportunity to provide pre-shipment certification testing from NZ to the Chinese market.
- Proven ability to provide innovative solutions to testing requirements across a broad range of market sectors, which tend to bring game changing results to those markets and continued market growth and development to Analytica.

CAIQTest Pacific - Overview



- Incorporated joint venture between led by Analytica (26% interest) and supported by, the Chinese Academy of Inspection and Quarantine
- CAIQtest Pacific established to facilitate the smoother export of goods from New Zealand, Australia, and the Pacific to China
- Specifically servicing the dairy export market, which currently experiences substantial delays with custom and quarantine when arriving in China and awaiting testing.
- CAIQtest Pacific can test export product locally before shipping to China assisting greatly with supply chain bottlenecks
- In August 2017 the business achieved accreditation with IANZ, Ministry of Primary Industries and the Chinese National Accreditation Service and can now market it's services to commercial dairy exporters

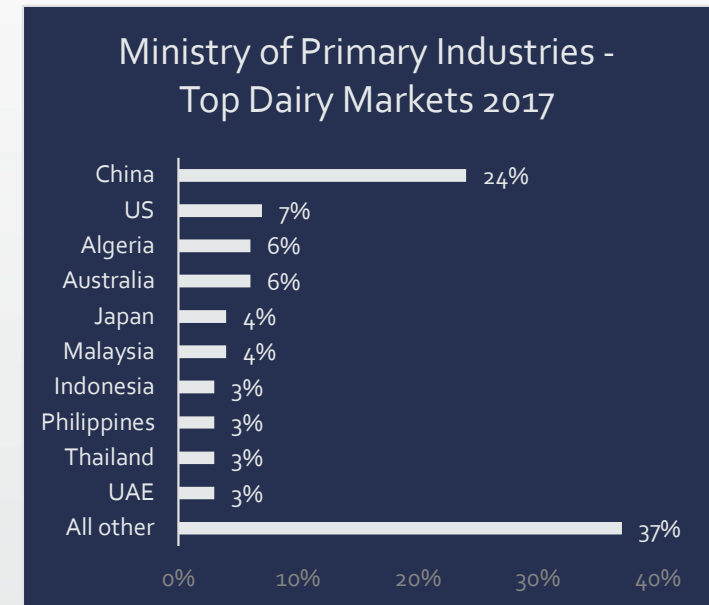



- On infant formula export market
 - “This dependence on the Chinese market is a risk, but strong consumer preferences for safe, high quality, food products should ensure growth opportunities for our exporters in the foreseeable future.”
 - **China’s infant formula registration rules will be implemented on 1 January 2018**, and most New Zealand manufacturers have either applied or are on track to apply shortly to have their brands registered
 - Chinese demand for infant formula will also help boost New Zealand's export revenue for the 2017/18 year and beyond. China’s birth rate is rising due to a relaxation of the one child policy, and Chinese mothers tend to use infant and toddler formula through to three years of age, making this an important market for our infant formula exporters.
 - New Zealand companies have invested in increased infant formula processing capacity to allow us to meet this increased demand

CAIQTest Pacific - Opportunity



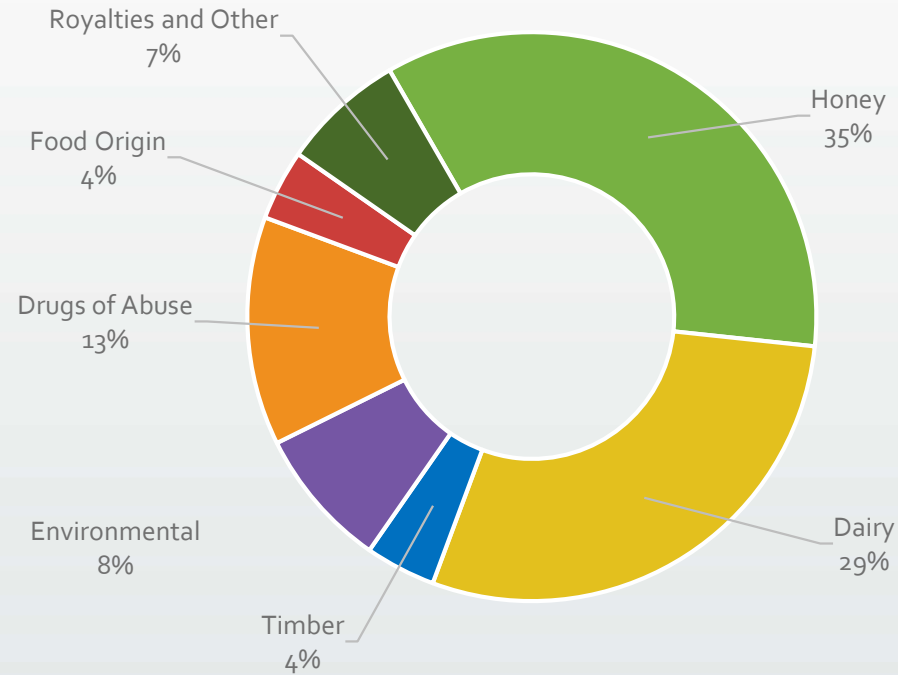
Ministry for Primary Industries - Dairy Export
\$NZ millions




 Infant formula export volumes have grown 160% in the past 5 years

Analytica Revenue

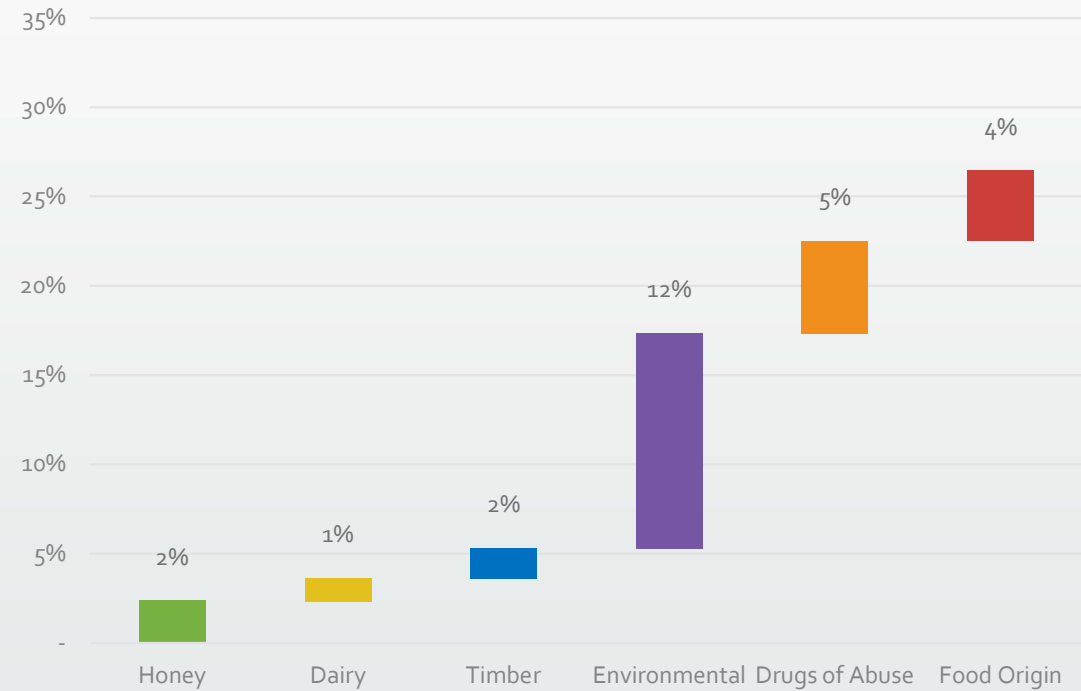
Analytica - Revenue Sources



Nature of contracts

The majority of laboratory testing is conducted on a per sample basis. A portion of the customer base (dairy, food origin and timber) is typically contracted or JV arrangement, however volumes are variable.

FY18 Growth Sources



Comments on growth sources

Honey	New manuka grading regulation
Dairy	A1/A2 milk testing
Timber	Growth driven from NZ (Auckland) construction boom and earthquake works
Environmental	Newly launched service loan disrupting current market
Drugs of Abuse	High growth market with new standards introduced July 2017
Food Origin	Secured new contract

Analytica Financial Performance & Combined



(\$AUDm)	FY17 HRL Proforma	FY17 Analytica Proforma	FY17 Combined	FY18 HRL forecast	FY18 Analytica forecast	FY18 Combined
Revenue	21.2	8.7	29.9	22.2	11.0	33.2
Gross Margin	10.6	4.4	15.1	11.4	5.6	17.0
Gross Margin %	50%	51%	50%	51%	51%	51%
EBITDA	2.7	3.2	5.9	3.2	4.0	7.3
EBITDA %	13%	37%	20%	15%	37%	22%

Notes and assumptions:

- All dollars in \$AUD million
- Exchange rate assumption NZD:AUD \$1.05
- HRL proforma includes recent acquisitions Morrison Geotech and Octfolio
- All NZ figures equivalent to 30 June year end
- All EBITDA are underlying as reported

Acquisition Multiples

	Consideration	EBITDA \$NZm	Multiple
Analytica upfront consideration (cash + scrip) ¹	NZ\$18m	3.0 ²	6.0x
Earnout out cash payable	NZ\$0-\$11m	3.0 – 4.8	6.0x
Total consideration (incl. min and maximum earnout achieved)	NZ\$18m-29m		6.0x
Consideration for Analytica's 26% interest in CAIQ(cash)	NZ\$1m		n/a startup

Cash earnout conditions

- Ongoing service by the vendors of at least 2 years post settlement
- Earnout based on achieving 12month post settlement EBITDA hurdle in excess of NZ\$3m:
 - Vendors receive a 6x multiple on each \$1 of EBITDA greater than NZ\$3m, up to a maximum earnout consideration of NZ\$11m
- 50% of earnout is payable 12 months post settlement, with balance payable monthly over the following 12 months

1. NZ\$ 5.7m scrip at the capital raise price & NZ\$12.3m cash
 2. Adjusted for New Zealand financial year-end and normalisations

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)	4.2	13.2	21.9	13.3
Enterprise Value (A\$bn)	4.7	16.6	23.5	14.5
Last 12mths Revenue (A\$m)	1,272	6,993	8,034	4,474
Last 12mths EBITDA (A\$m)	253	1,221	1,503	826
Last 12mths EBITDA Margin (%)	19.9%	17.5%	18.7%	18.5%
EV / FY17 NTM EBITDA	15.1x	12.3x	13.8x	15.5x

Source: Capital IQ, accessed September 2017

Industry Overview

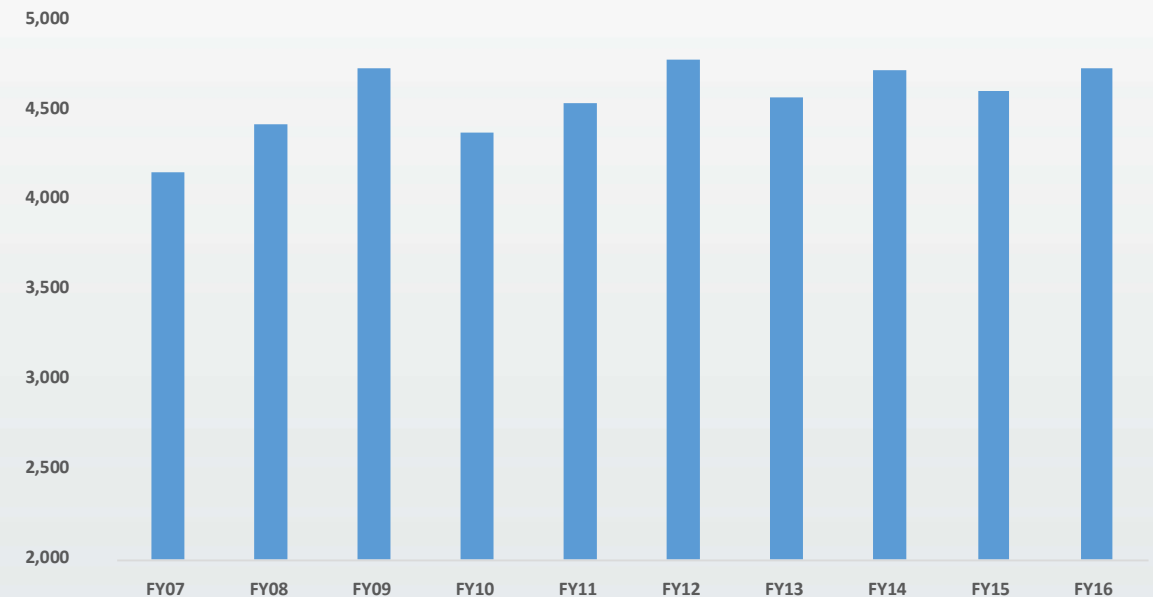
Large and growing industry



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 published 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.

