



HRL Holdings (ASX:HRL)

Investor Presentation | Analytica Laboratory Tour 2018



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Company Overview

Emergent company in the growing environmental services industry



WHAT WE DO



Sampling



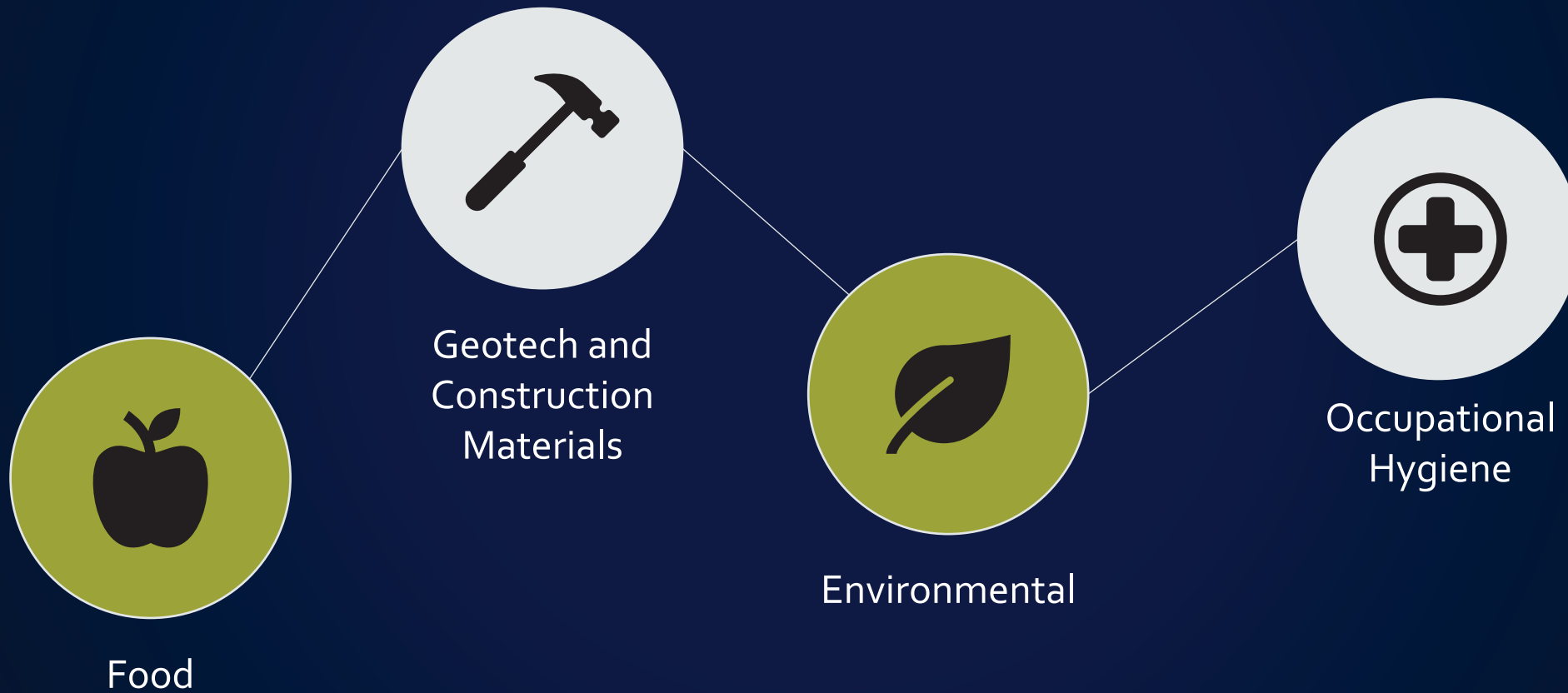
Laboratory



Data Management



LABORATORY SERVICES



BRANCH NETWORK



Laboratory Locations

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

Consulting Offices

- Palmerston North

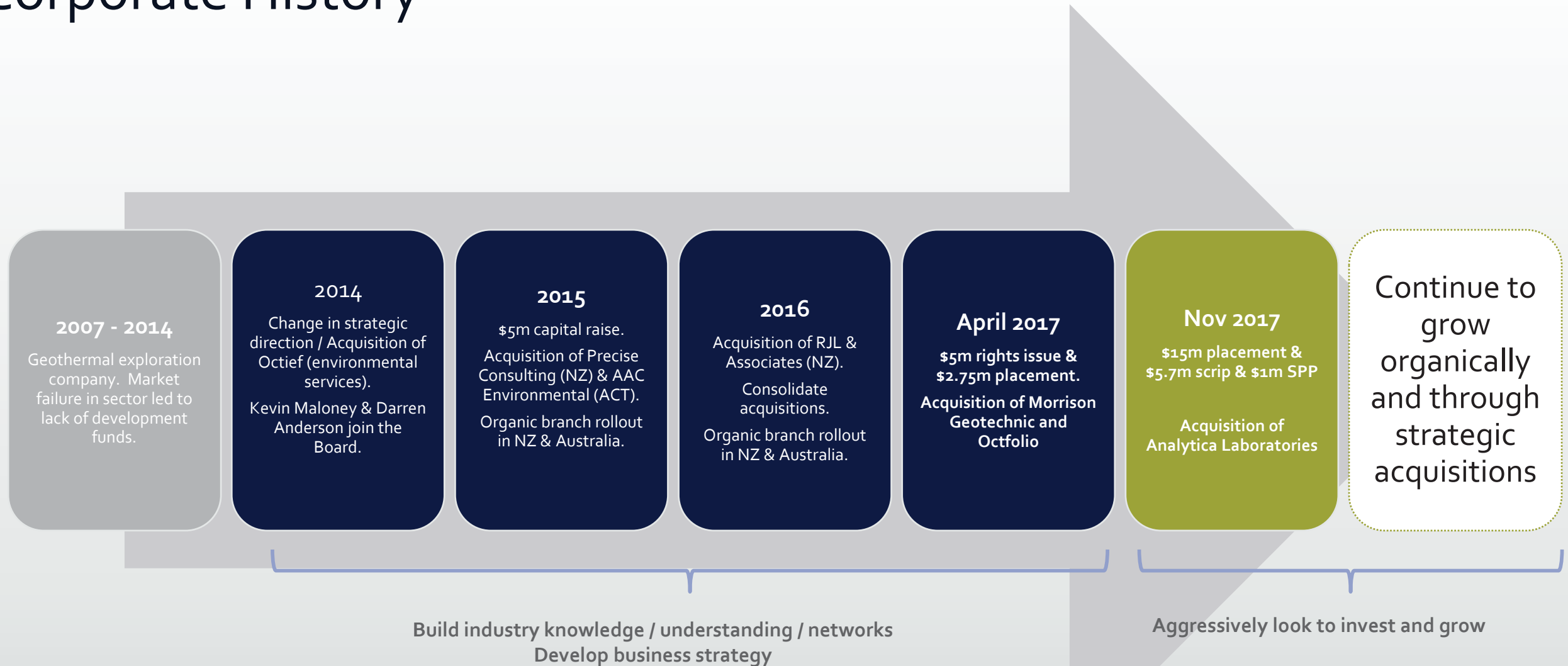


The HRL Culture

- ✓ 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



H1 FY18 Highlights

Platform for growth established



Financial Highlights

	Dec-17 \$000's	Dec-16 \$000's	Increase \$000's
Revenues	10,979	5,469	5,510
Underlying EBITDA ¹	1,441	370	1,071
Operating cash flows generated ²	1,042	(158)	1,200
Working capital	3,946	287	3,659
Net cash/(borrowings)	3,144	(1,375)	4,519
Statutory profit/(loss) after tax	(156)	(8)	(148)

¹ Underlying EBITDA and profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited. Refer to Appendix A for further details of non-underlying items.

² Excludes cash outflows associated with acquisition costs.



Segment Performance – HY2018

	Trading Divisions					Corporate	Consolidated
	HAZMAT	GEOTECH	FOOD/ENVIRO LABORATORY	SOFTWARE	TOTAL		
Revenues	5,966,346	3,948,749	845,592	216,436	10,977,123	-	10,977,123
Underlying EBITDA (\$)	1,487,032	209,216	315,851	67,792	2,079,891	(638,237)	1,441,654
Underlying EBITDA (%)	25%	5%	37%	31%	19%	-	13%
Operating depreciation and amortization	(154,950)	(104,348)	(111,203)	(1,427)	(371,929)	(3,643)	(375,572)
Net interest expense	(4,832)	(10,728)	-	-	(15,561)	(18,055)	(33,615)
Underlying profit before tax	1,327,250	94,140	204,648	66,365	1,692,403	(659,935)	1,032,468
Operating income tax	(379,124)	(28,242)	(54,205)	(19,909)	(481,480)	185,148	(296,332)
Underlying profit after tax	948,126	65,898	150,443	46,456	1,210,923	(474,787)	736,136
<u>Non-operating adjustments</u>							
Acquisition related expenses	-	(3,600)	(105,583)	(9,500)	(118,683)	-	(118,683)
Earn-out expenses/adjustments	-	62,500	(417,008)	-	(354,508)	-	(354,508)
Amortisation of intangible assets arising from acquisitions	(107,815)	(207,867)	(137,333)	(158,333)	(611,347)	-	(611,347)
Share based payments	-	-	-	-	-	(4,556)	(4,556)
Non-operating income tax	30,813	44,690	70,128	50,350	195,981	1,367	197,348
Statutory profit after income tax	871,124	(38,379)	(439,353)	(71,027)	322,365	(477,976)	(155,611)



Segment Performance – HY2018 Pro-Forma Basis*

	Trading Divisions					Corporate	Consolidated
	HAZMAT	GEOTECH	FOOD/ENVIRO LABORATORY	SOFTWARE	TOTAL		
Revenues	5,966,346	3,948,749	4,986,094	216,436	15,117,625	-	15,117,625
Underlying EBITDA (\$)	1,487,032	209,216	1,577,149	67,792	3,341,189	(638,237)	2,702,954
<i>Underlying EBITDA (%)</i>	25%	5%	32%	31%	22%	-	18%
Operating depreciation and amortization	(154,950)	(104,348)	(626,409)	(1,427)	(887,134)	(3,643)	(890,777)
Net interest expense	(4,832)	(10,728)	(4,044)	-	(19,605)	(18,055)	(37,660)
Underlying profit before tax	1,327,250	94,140	946,696	66,365	2,434,449	(659,935)	1,774,513
Operating income tax	(379,124)	(28,242)	(265,075)	(19,909)	(692,350)	185,148	(507,201)
Underlying profit after tax	948,126	65,898	681,621	46,456	1,742,100	(474,787)	1,267,315
<u>Non-operating adjustments</u>							
Acquisition related expenses	-	(3,600)	(105,583)	(9,500)	(118,683)	-	(118,683)
Earn-out expenses/adjustments	-	62,500	(417,008)	-	(354,508)	-	(354,508)
Amortisation of intangible assets arising from acquisitions	(107,815)	(207,867)	(823,998)	(158,333)	(1,298,012)	-	(1,298,012)
Share based payments	-	-	-	-	-	(4,556)	(4,556)
Non-operating income tax	30,813	44,690	262,394	50,350	388,247	1,367	389,614
Statutory profit after income tax	871,124	(38,379)	(402,573)	(71,027)	359,144	(477,976)	(118,830)

* includes the 6 month trading results for Analytica and the notional amortisation of related acquisition intangible assets over a 6 month period.



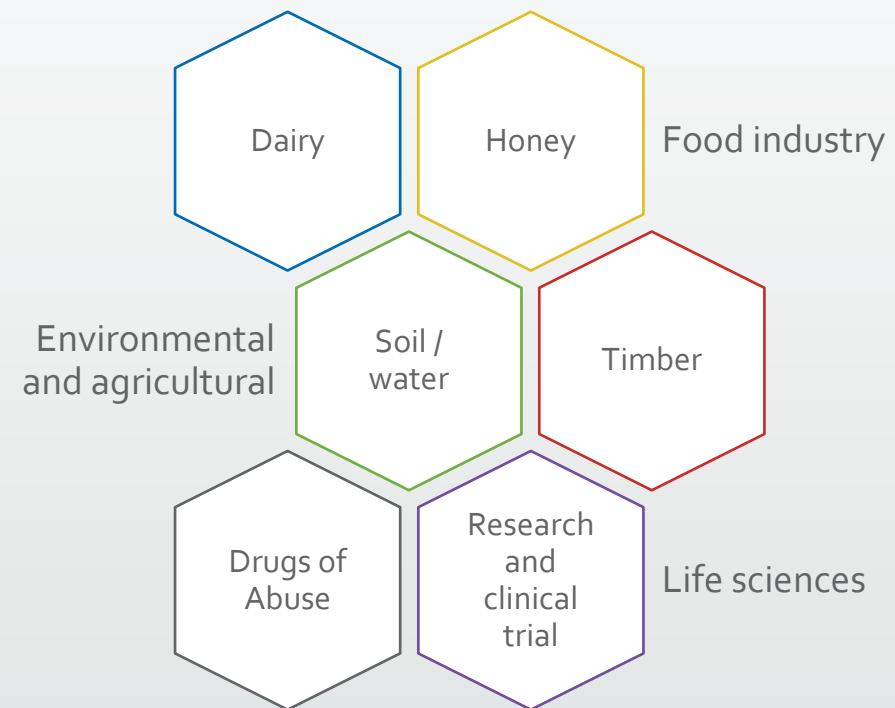
Analytica Laboratories

Game Changers In Analytical Testing



Analytica Laboratories - Overview

- Analytica, privately owned until November 2017, is an 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 and Dr Terry Braggins founded the company in 2011 with the goal of building a chemistry laboratory to disrupt the market through innovative laboratory services. Steve Howse joined shortly thereafter as executive director and equity partner.



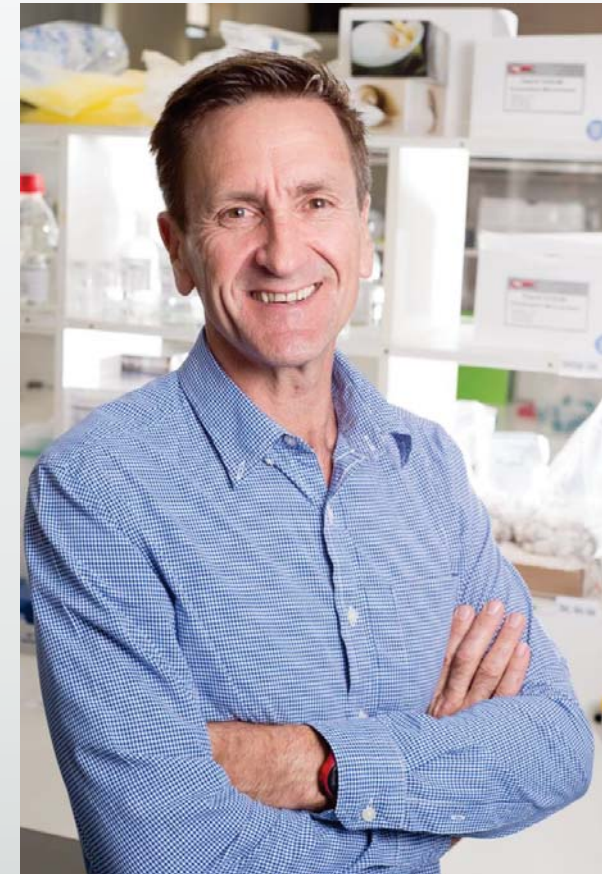
Dr. Terry Cooney

- MSc (Massey) and PhD (Auckland) – Biochemistry
- Founding shareholder and General Manager at Hill Laboratories in Hamilton (NZ)
 - From 1989 – 2007, growing from 16 to >200 staff
 - Agricultural, environmental, and food analysis
- Technical adviser and Australasian auditor for ISO 17025
- IANZ 2.70 technical expert in chromatography and mass spectroscopy.



Dr. Terry Braggins

- BSc (Massey) and PhD (Waikato) – Analytical Chemistry
- 30+ years in R&D organisations - expert in analysis of flavour and aroma in food.
- Science business leadership since 2003 – analytical testing and sensing device manufacture
- NZ auditor for ISO 17025
- IANZ 2.70 technical expert in chromatography and mass spectroscopy.
- Nationally and internationally recognised as expert in honey research and analysis.



Steve Howse

- B Agr Sci (Hons) - Massey
- 25+ years science and agribusiness leadership in NZ – dairy industry and analytical testing
- Company Director.
 - 2011 – 2014: Synlait – dairy farming and dairy manufacturing.
 - 2014 – 2018: Wintec – NZ tertiary education organisation – Deputy Chair, appointed by the NZ government.
 - 2018 – current: HRL Holdings Limited



Company Formation

- Analytica formed in 2011 by Dr. Terry Cooney and Dr Terry Braggins with Steve Howse joining shortly thereafter as executive director and equity partner.
- Initial focus on provision of sophisticated analytical testing services based on the use of high resolution mass spectroscopy.
 - Used in metabolomic and proteomic projects being undertaken by food companies.
 - Also some consulting work related to analytical testing – lab advisory, ISO 17025 auditing, other project work.
- From the outset used leased space on Ruakura Research Centre campus.



Early Growth – Dairy & Honey

- Developed 'game changing' testing solutions for these industries starting in 2013 which kick-started high throughput routine testing.
 - Dairy – residues of detergents and teat sprays in liquid milk, 1080 monofluoroacetate in liquid milk, Aflatoxin M₁.
 - Honey – Manuka honey quality, safety, and authenticity as well as R&D services to assist in ongoing technical development in the industry.
- Experienced significant volume and revenue growth arising from superior speed and cost of testing.

Recent Growth – Timber, Meth, Environmental

- **Timber** – a cost effective method for a local laboratory that dominates timber QA testing in Australasia.
 - Complements their operation with testing they cannot easily do.
- **Methamphetamine** – ‘game changing’ testing service launched in early 2016 which has now grown to be ~20% of Analytica revenue.
- **Environmental** – launched in mid-2016 after 2 year development period, with innovative new options and competitive speed/cost.
 - Excellent uptake based on limited early promotion to major consultants.
 - Substantial growth potential now exists with marketing and sales focus.



People

- Leadership is provided by the 3 founders now as General Managers, with senior team of 5 additional staff (operations, technical, support services, quality).
- Approximately 90 staff, predominantly laboratory based operational or technical roles.
- Ethnically diverse, and gender balanced.
- Substantial growth in staff in last 3 years, from 15-20 people in late 2014.

Analytica Laboratories - Overview

DAIRY / MILK / FOOD ORIGIN

- OAC & Detergent Residues
- Aflatoxin M₁
- Beta casein testing
- Animal health disease monitoring
- Trace analysis



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



Laboratory Tour



Operations

- Operationally divided into Foods and Environmental testing.
- Philosophy is to build high capacity operations, which enable rapid testing on a first-in/first-out basis.
- Substantial and ongoing investment in modern equipment, covering organic and inorganic chemistry analysis.
- Operating from leased facilities on a science campus – with agreed future growth footprint

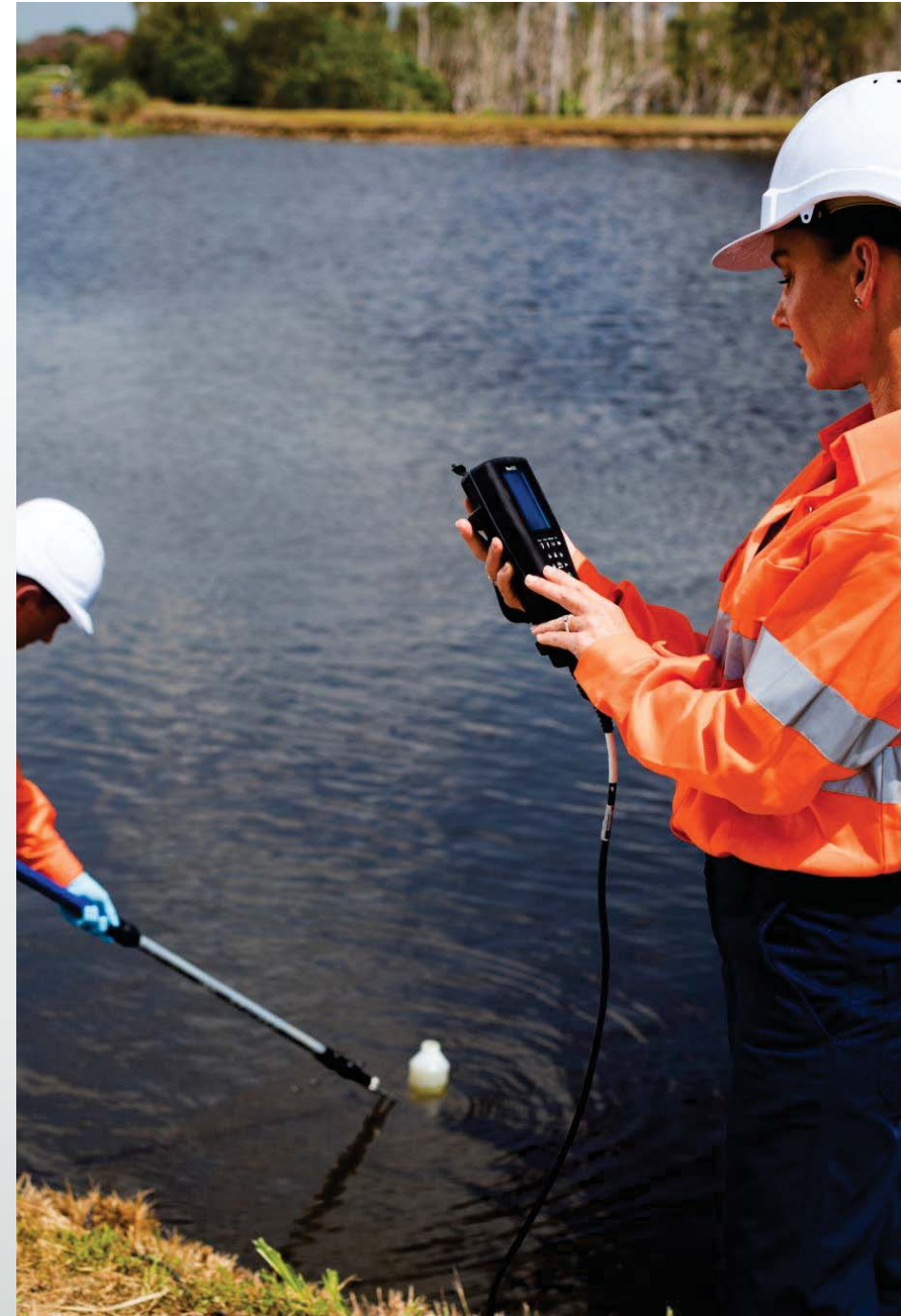


Quality

- ISO 17025 accredited (by IANZ – equivalent to NATA in Australia) for practically all high throughput testing we undertake.
- Terry Cooney and Terry Braggins are IANZ 2.70 method experts in Mass Spectroscopy – accredited results from newly developed methods.
- An MPI (NZ government) Recognised Laboratory for critical honey and dairy tests where MPI approval is required for export.

Customers

- The largest provider of services to NZ honey customers – including all the largest companies processing and selling honey.
- Strategic alliance with MilkTestNZ places us in dominant position regarding liquid milk analysis, with scope to extend the relationship
- Service a range of companies involved in methamphetamine testing, including HRL subsidiary Precise Consulting.
- Acquired work from major environmental consultancies post-launch. Opportunity for further growth in this sector.



Laboratory Tour

- Visit to the operations of environmental, foods, DNA
- Scheduled for later in the day – less people around, but equipment is still operational and will see some of the automation
- Keep with group leader
- Don't touch equipment or samples
- In case of emergency, evacuate by following group leader
- Meet back in this presentation room for questions and a final recap before leaving site

6 month review of Analytica Acquisition

Highly complimentary acquisition that add scale and enhance
competitive position



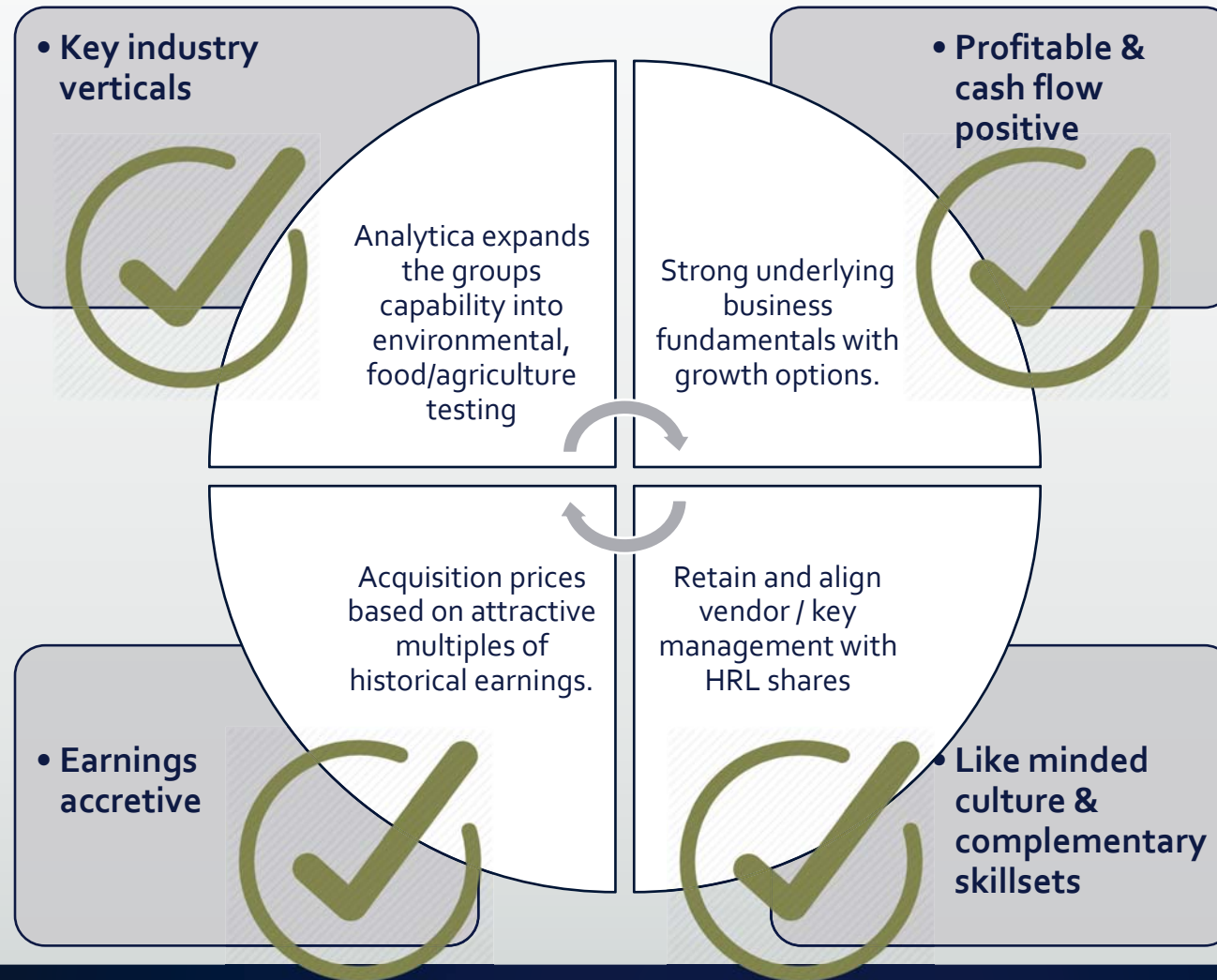
Analytica Laboratories - Rationale



- **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;
- **Management** 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.

Current Business - Foods

- Dairy
 - Maintain current revenues
 - Ongoing growth in beta casein protein testing arising from expansion of market demand
 - Beta casein genotype (DNA) testing
 - Disease status monitoring of herds
 - Pursue expansion opportunities through MilkTestNZ strategic alliance
- Honey
 - Maintain current revenues
 - Hive health testing
 - Expanded service range and operating efficiencies offset competitive testing market.
 - Provenance and adulteration testing
- SIFT-MS
 - Investigate food quality applications for this new instrument

Current Business – Environmental, Drugs of Abuse

- Drugs of Abuse
 - Maintain and grow revenues from methamphetamine property screening samples
 - New testing standards in NZ drive increased market demand.
 - Launch worker drug screening
- Timber
 - Sustain revenues at historically high levels
 - NZ timber treatment market continues to perform strongly.
 - Seek Australian testing opportunities
- Environmental
 - Strong growth from business development activity.



New Business

- On-boarding of food traceability client who have chosen to outsource lab work to Analytica and close their in-house lab. Supporting their international traceability service.
- Human drug screening – extend current methamphetamine testing to this new application.
- Air and gas analysis using new technology – develop new testing services for compounds in air and gases based on new technology. Initial application for screening in the environmental sector, but broad potential across many different market sectors.
- Expansion of animal health disease monitoring services



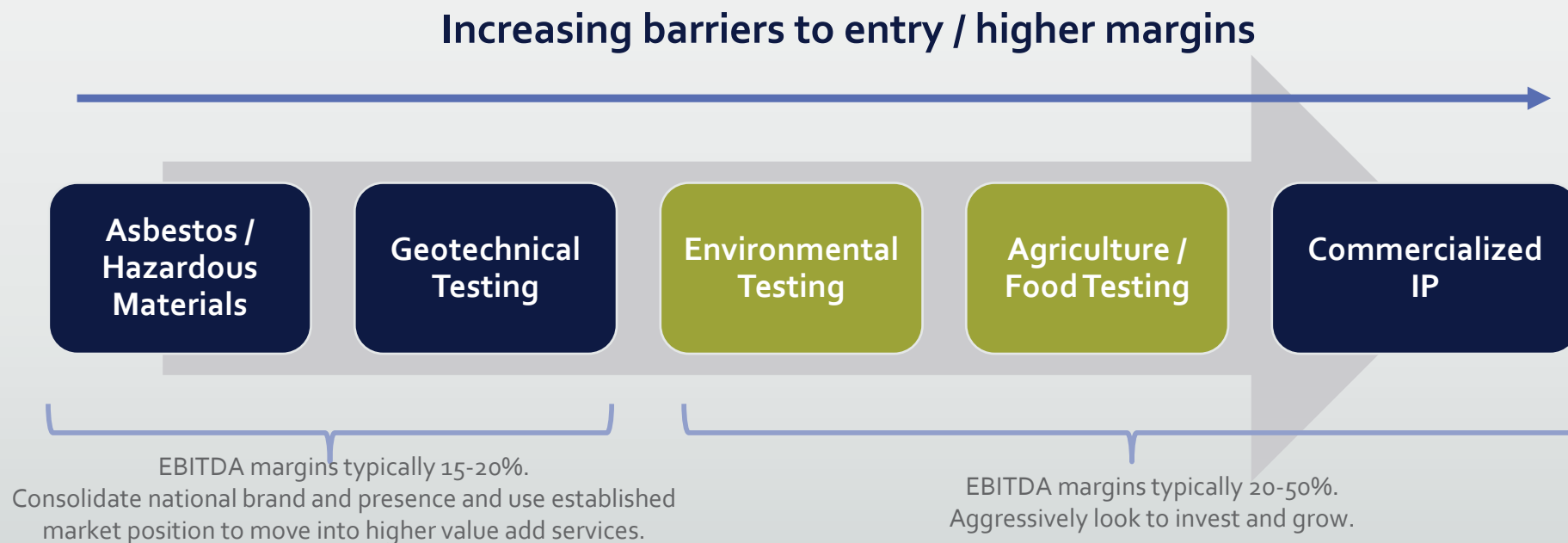
Future Developments

Emergent company in the growing environmental services industry



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.



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.



Contacts and More Information

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Appendix A – Details on non-operating profit adjustments

Adjustment	Description
Acquisition related expenses	Acquisition related expenses relate to third party supplier costs that connected to the recent acquisition of Analytica, Morrison Geotechnic and OCTFOLIO
Amortisation of intangible assets arising from acquisitions	<p>The excess purchase price over the value of the tangible assets acquired during the acquisitions of Analytica, AAC Environmental, RJL & Associates, Morrison Geotechnic and OCTFOLIO has been allocated against specific identifiable intangible assets.</p> <p>These intangible assets are being amortised over a 2 – 5 year period.</p>
Earn-out expenses/adjustments	<p>The vendors of Analytica and Morrison Geotechnic have the opportunity to receive and earn-out payment if certain profit targets are met. Payment of the earn-out consideration is contingent on ongoing service of certain key staff, with the earn-out reduced proportionally if employment is terminated prior to the minimum service period.</p> <p><u>Analytica</u> HRL estimates that Analytica will exceed the maximum EBITDA target for the 12 months ended 30 November 2018, resulting in an estimated earn-out of NZ\$11,000,000.</p> <p>As at 31 December, the vendors had performed 1 months of the 24-month service period (4.16%). Accordingly, an amount of NZ\$458,333 (AUD \$417,008) has been recognised in profit or loss.</p> <p><u>Morrison Geotechnic</u> HRL estimates that Morrison Geotechnic will not exceed the minimum profit target to achieve an earn-out payment and consequently the previously recognised provision of \$62,500 has been reversed in profit and loss.</p>
Share based payments	In August 2016 HRL introduced a long term incentive plan for key management. The plan will focus on long term shareholder wealth creation and retention of key personnel. The value of these performance shares is being recognized as an expense in the income statement over the 3 year vesting period.