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ASX Announcement

Presentation to Morgans Queensland Conference 2018

Steve Dabelstein, CEO of HRL Holdings Ltd, will today deliver a presentation at the Morgans Queensland Conference 2018 providing an update on the activities of the company.

A copy of the presentation is attached.

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Investor Presentation

October 2018

HRL Holdings (ASX:HRL)





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WHAT WE'LL COVER



1

Three things
to remember
about HRL

2

About us

3

Our
competitive
landscape

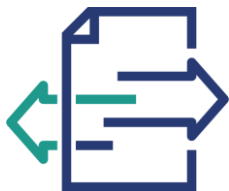
4

What
the future
holds

5

In
conclusion

THREE THINGS TO REMEMBER ABOUT HRL



Proven track record:

382%

EBITDA growth in FY18



Competitive
advantage:
superior testing
speed and quality



Growth just
beginning:
expansion into
higher value verticals

HRL

About us



WHO WE ARE



WHAT WE DO



Sampling



Laboratory



Data
Management

LABORATORY SERVICES



Food



Geotech and
Construction
Materials



Environmental



Occupational
Hygiene

BRANCH NETWORK





OUR MAJOR SHAREHOLDERS

Share holder composition:

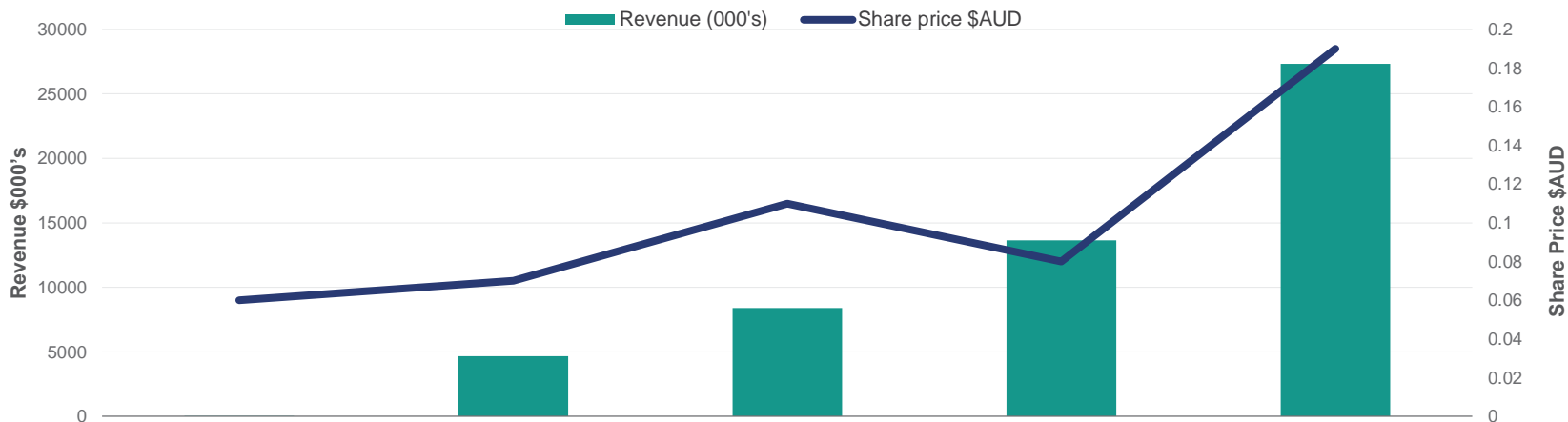
Board and management	~20%
Institutional	~46%
Other	~34%

Substantial holders >5%

Viburnum Funds	19%
Perennial Value	12.5%
Entities associated with Terry Cooney	7.4%
Adam Smith Asset Management	5.2%



HOW WE'VE GROWN



2007—2014

Geothermal exploration company. Market failure in sector led to lack of development funds.



2014

Change in strategic direction / Acquisition of Octief (environmental services).
Kevin Maloney & Darren Anderson join the Board.



2015

\$5m capital raise.
Acquisition of Precise Consulting (NZ) & AAC Environmental (ACT).
Organic branch rollout in NZ & Australia.



2016

Acquisition of RJL & Associates (NZ).
Consolidate acquisitions.
Organic branch rollout in NZ & Australia.



April 2017

\$5m rights issue & \$2.75m placement.
Acquisition of Morrison Geotechnic and Octfolio.



Nov 2017

\$15m placement & \$5.7m scrip & \$1m SPP.
Acquisition of Analytica Laboratories.



HOW WE'VE GROWN

100%

Revenue growth
year-on-year to \$27m

382%

Underlying EBITDA
growth year-on-year
to \$5.8m, exceeding market
expectations*

\$4.6M

Cashflow from operations
excluding acquisition costs

HOW WE DID IT



Expand our laboratory services

HRL now offers testing services in HAZMAT/ Occupational Hygiene, Geotech, Environmental, and Food sectors, increasing our addressable market significantly



Move into higher value chemistry laboratory testing

High margin chemistry testing services contributed 30% of turnover



Invest in high throughput techniques

- Invested \$2.5m in new equipment
- \$4.3m in net cash and \$2.7m in undrawn debt available for new equipment

HOW WE DID IT



Acquisition of Analytica, a leading analytical chemistry laboratory business based in New Zealand

\$16M

capital raised to fund acquisition and other expansion opportunities

Brisbane laboratory expansion for three new service lines:

Acid sulphate soils

Gravimetric dust

Crystalline silica

WHAT MAKES US DIFFERENT



Our laboratory testing provides the data our customers need to protect and strengthen their brands.



In order to support our customers we try to understand precisely the information they are looking for.



This enables us to tailor our service and focus on the type of information needed, method of delivery and timeliness.



We do this by creating better tests, with better turnaround times and for better prices.

Our competitive environment

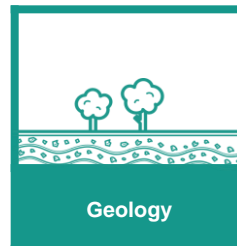
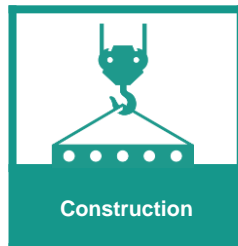
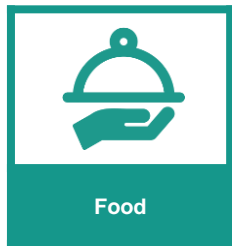
HOW WE MEASURE UP (COMPETITOR COMPARISON)



HRL peer comparison															
	Mkt Cap	PE (x)		EV/EBITDA (x)		EPS Growth		EBITDA margin		Div Yield		ROE		Net Debt/EBITDA	
		FY+1	FY+2	FY+1	FY+2	FY+1	FY+2	FY+1	FY+2	FY+1	FY+2	FY+1	FY+2	FY+1	FY+2
Domestic and international comps															
SGS SA	26,816	25x	23x	14x	13x	6%	10%	20%	21%	3%	3%	36%	36%	0.5x	0.4x
Bureau Veritas SA	15,048	22x	20x	13x	12x	1%	91%	19%	19%	3%	3%	38%	37%	2.3x	2.0x
Intertek Group	14,088	24x	22x	14x	13x	2%	9%	21%	21%	2%	2%	36%	33%	1.3x	0.9x
Eurofins	13,350	30x	35x	15x	13x	21%	21%	18%	19%	1%	1%	14%	15%	3.6x	3.0x
Core Laboratories	7,290	48x	38x	32x	27x	22%	27%	23%	26%	2%	2%	63%	67%	1.3x	1.0x
ALS Ltd.	4,389	25x	22x	14x	13x	25%	15%	22%	23%	2%	3%	15%	16%	1.4x	1.1x
Mistras Group, Inc.	831	26x	21x	NA	NA	83%	23%	11%	11%	0%	0%	NA	NA	NA	NA
HRL Holdings Ltd.	93	23x	17x	12x	9x	12%	37%	23%	25%	0%	0%	13%	16%	0.2x	0.0x
Peer average		29x	24x	17x	15x	23%	16%	19%	20%	2%	2%	34%	34%	1.7x	1.4x

Sources: Morgans, Factset

WHO BUYS OUR TESTING



WHY THEY BUY IT



MEGATRENDS



Rising Asian demand for clean and green Australasian food



Rising consumer demand for authentic and traceable food and beverages



Private sector focus on environmental stewardship and social licence



Increasing regulation and the need for demonstrable compliance



Focus on personal / worker health and well-being

Looking to the future

A person is shown in profile, looking through a microscope. The image is overlaid with several abstract, semi-transparent shapes: a light blue shape that looks like a folded piece of paper or a ribbon, a yellow shape, and a dark blue shape. The background is a teal color with a blurred image of the person and the microscope.

OUTLOOK FOR FY2019

Leveraging off Analytica intellectual property and know how to enter new service lines in both Australia and New Zealand

Utilise new equipment, technology and software platforms to improve efficiencies and margins

Focused business development plans to target new customers and protect the existing customer base

Continued focus on cross selling opportunities across all business units

Geographical expansion into new markets when justified
Support CAIQTest (Pacific) with testing for food exports to China

Using the OCTFOLIO software platform to target new customers and provide enhanced service offerings to existing customers of the other business units

IN THE LONG TERM



HRL aims to achieve revenue turnover of \$50 million within the next three years.



We intend to meet this goal by growing our laboratory services in both new and existing geographies.



And by introducing exciting new testing methods in food, agricultural and environmental services.

In conclusion



THREE THINGS TO REMEMBER ABOUT HRL



Proven track record:

382%

EBITDA growth in FY18



Competitive
advantage:
superior testing
speed and quality



Growth just
beginning:
expansion into
higher value verticals

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	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. These intangible assets are being amortised over a 2 – 5 year period.
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>Analytica 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. As at 30 June 2018, the vendors had performed 7 months of the 24-month service period (29.17%). Accordingly, an amount of NZ\$3208,333 (AUD \$2,942,615) has been recognised in profit or loss.</p> <p>Morrison Geotechnic and OCTFOLIO Morrison Geotechnic did 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. OCTFOLIO did not exceed the minimum profit target to achieve the first stage earn-out payment and consequently the previously recognised provision of \$187,500 has been reversed in profit and loss.</p>
Equity accounted share of loss	<p>HRL has a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China.</p> <p>During the period CAIQTest (Pacific) Limited focused primarily on achieving the necessary accreditations with both the New Zealand and Chinese authorities. Consequently the reported results are not reflective of the underlying trading results of CAIQTest (Pacific) Limited.</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.

APPENDIX B

SEGMENT PERFORMANCE – FY2018



	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT \$000's	GEOTECH \$000's	FOOD/ENVIRO LABORATORY \$000's	SOFTWARE \$000's	TOTAL \$000's	\$000'S	\$000's
Revenues	10,868	7,733	8,206	500	27,307	–	27,307
Underlying EBITDA (\$)	2,489	362	4,085	185	7,121	(1,346)	5,775
Underlying EBITDA (%)	23%	5%	50%	37%	26%	–	21%
Operating depreciation and amortization	(371)	(204)	(892)	(3)	(1,470)	(8)	(1,478)
Net interest expense	(13)	(19)	–	–	(32)	(21)	(53)
Underlying profit before tax	2,105	139	3,192	182	5,618	(1,374)	4,244
Operating income tax	(600)	(42)	(894)	(55)	(1,590)	220	(1,370)
Underlying profit after tax	1,505	97	2,298	127	4,028	(1,154)	2,874
Non-operating adjustments							
Acquisition related expenses	–	(8)	(140)	(10)	(158)	–	(158)
Earn-out expenses/adjustments	–	63	(2,943)	187	(2,693)	–	(2,693)
Amortisation of intangible assets arising from acquisitions	(184)	(416)	(1,024)	(317)	(1,941)	–	(1,941)
Share based payments	–	–	–	–	–	(35)	(35)
Share of loss - equity accounted investment	–	–	(28)	–	(28)	–	(28)
Non-operating income tax	52	108	329	98	587	(110)	477
Statutory profit after income tax	1,373	(156)	(1,508)	85	(205)	(1,299)	(1,504)



APPENDIX B

SEGMENT PERFORMANCE – FY2018 PRO-FORMA BASIS*

	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT \$000's	GEOTECH \$000's	FOOD/ENVIRO LABORATORY \$000's	SOFTWARE \$000's	TOTAL \$000's	\$000'S	\$000's
Revenues	10,868	7,733	12,354	500	31,455	–	31,455
Underlying EBITDA (\$)	2,489	362	5,365	185	8,401	(1,346)	7,055
Underlying EBITDA (%)	23%	5%	43%	37%	26%	–	22%
Operating depreciation and amortization	(371)	(204)	(1,427)	(3)	(2,005)	(8)	(2,013)
Net interest expense	(13)	(19)	(12)	–	(44)	(21)	(65)
Underlying profit before tax	2,105	139	3,926	182	6,352	(1,374)	4,977
Operating income tax	(600)	(42)	(1,099)	(55)	(1,796)	220	(1,576)
Underlying profit after tax	1,505	97	2,827	127	4,556	(1,154)	3,401
Non-operating adjustments							
Acquisition related expenses	–	(8)	(140)	(10)	(158)	–	(158)
Earn-out expenses/adjustments	–	63	(2,943)	187	(2,693)	–	(2,693)
Amortisation of intangible assets arising from acquisitions	(184)	(416)	(1,742)	(317)	(2,659)	–	(2,659)
Share based payments	–	–	–	–	–	(35)	(35)
Share of loss - equity accounted investment	–	–	(28)	–	(28)	–	(28)
Non-operating income tax	52	108	530	98	788	(110)	678
Statutory profit after income tax	1,373	(156)	(1,496)	85	(194)	(1,299)	(1,493)

* Includes the full 12 month trading results for Analytica and the notional amortisation of related acquisition intangible assets over a 12 month period.

FINANCIAL HIGHLIGHTS

	JUNE-18 \$000's	JUNE-17 \$000's	INCREASE \$000's
Revenues	27,307	13,646	13,661
Underlying EBITDA ¹	5,775	1,509	4,266
Operating cash flows generated ²	4,567	53	4,514
Working capital	3,229	1,235	1,994
Net cash/(borrowings)	4,278	(108)	4,386
Statutory profit/(loss) after tax	(1,504)	130	(1,634)

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.