



Investor Presentation

FY19 Half Year Results for December 2018

HRL Holdings (ASX:HRL)





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HRL Overview

WHO WE ARE



WHAT WE DO



Sampling



Laboratory



Data
Management

LABORATORY SERVICES



Food



Geotech and
Construction
Materials



Environmental



Occupational
Hygiene

BRANCH NETWORK



Laboratory locations:

Brisbane
Sunshine Coast
Gold Coast
Darwin
Canberra
Auckland
Wellington
Christchurch
Dunedin
Hamilton

Consulting offices

Palmerston North

HRL WELCOMES NEW CHAIRMAN

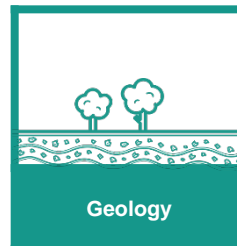
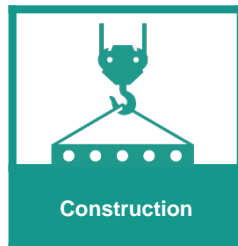
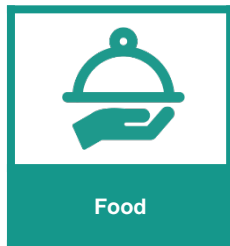
Greg Kilmister joins the Board on the 11th February 2019 as Independent Non-Executive Chairman

Greg previously worked at ALS Limited (ASX:ALQ) for 36 years and was the MD/CEO for twelve years until 2017. Under Greg's leadership, the Brisbane-based company, which was formerly known as Campbell Brothers, entered the ASX100 as it grew from a market capitalisation of \$381 million in 2005 to \$3.4 billion today.

Greg holds a BSc (Chem) with Post Graduate First Class Honours



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



OUR MAJOR SHAREHOLDERS

Share holder composition:

Board and management	~21%
Institutional	~59%
Other	~20%

Substantial holders >5%

Viburnum Funds	19%
Perennial Value	14%
Entities associated with Terry Cooney	7%

FINANCIAL RESULT OVERVIEW

	DEC 2018 \$000's	DEC 2017 \$000's	INCREASE \$000's
Revenues	14,103	10,979	3,124
Underlying EBITDA ¹	711	1,430	(719)
Operating cash flows generated ²	(58)	1,042	(1,100)
Working capital	524	3,229	(2,705)
Net cash/(borrowings)	2,823	3,144	(321)
Statutory profit/(loss) after tax ³	(4,226)	(156)	(4,070)

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 & JV costs.
3. Statutory loss includes a number of non-operating amortizations detailed in Appendix A

SEGMENT PERFORMANCE – H1 FY2019

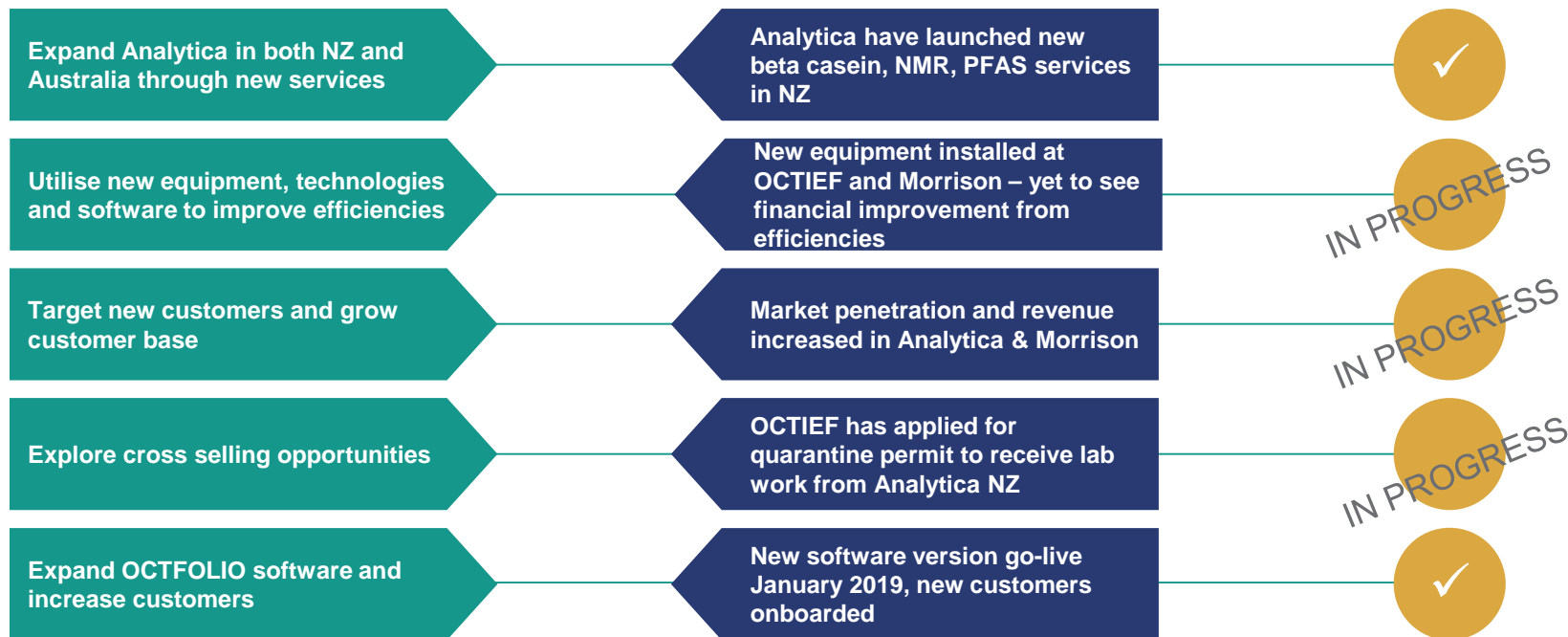
	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT	GEOTECH	FOOD/ENVIRO LABORATORY	SOFTWARE	TOTAL		
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000'S	\$000's
Revenues	3,741	4,045	6,051	242	14,079	-	14,079
Underlying EBITDA (\$)	(25)	96	1,556	86	1,713	(1,002)	711
Underlying EBITDA (%)	(1%)	2%	26%	35%	12%	-	5%
Operating depreciation and amortisation	(210)	(100)	(675)	(14)	(1,000)	(6)	(1,005)
Net interest expense	(18)	(8)	-	-	(26)	16	10
Underlying profit before tax	(253)	(12)	881	72	688	(993)	(305)
Operating income tax	71	3	(247)	(20)	(193)	358	165
Underlying profit after tax	(182)	(9)	634	52	495	(635)	(140)
<i>Non-operating adjustments</i>							
JV incorporation related expenses	-	-	(22)	-	(22)	-	(22)
Earn-out expenses/adjustments	-	-	(2,722)	188	(2,534)	-	(2,534)
Amortisation of intangible assets arising from acquisitions	(77)	(512)	(892)	(601)	(2,082)	-	(2,082)
Share based payments	-	-	-	-	-	(31)	(31)
Share of loss - equity accounted investment	-	-	(10)	-	(10)	-	(10)
Non-operating income tax	22	141	256	165	584	9	593
Statutory profit after income tax	(237)	(380)	(2,756)	(196)	(3,569)	(657)	(4,226)

December 2018 Highlights

OUR FY2019 DELIVERABLES

What we said

What we have done so far



OPERATIONAL HIGHLIGHTS

Analytica, earnout upper target exceeded. Reduces acquisition multiple to 5x.1



Precise laboratories to transfer across to Analytica and be fully integrated



RENT

Property costs reduced through consolidation of Nerang and Yatala sites in December

New laboratory tests launched including:

NMR for honey

PFAS in water

Beta casein genomics

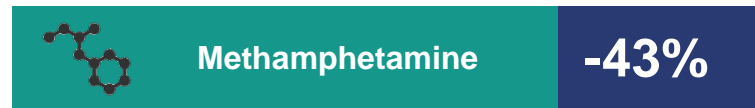
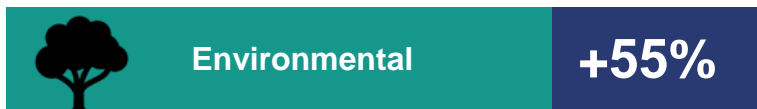


OCTFOLIO platform upgrade with new Android capability, streamlined onboarding, lower hosting costs

CAIQTEST achieved full accreditation

FOODLAB has new facility and is currently recruiting for GM

ANALYTICA SALES GROWTH DECEMBER 2018 VS DECEMBER 2017



December 2018 vs PCP

Revenue up 21% to \$6.051m

EBITDA \$1.556m vs \$1.577m proforma basis

Future Developments

A close-up photograph of a person's face as they look through a microscope. The image is overlaid with several semi-transparent, geometric shapes in shades of teal, yellow, and blue, creating a modern, scientific aesthetic. The background is a soft-focus laboratory setting.

OUTLOOK FOR FY2019

Leverage 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

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

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 connected to the establishment of Food Lab Pacific Limited joint venture.
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 an 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 Analytica exceeded the maximum EBITDA target for the 12 months ended 30 November 2018, resulting in an earn-out of NZ\$11,000,000. As at 31 December 2018, the vendors had performed 13 months of the 24-month service period (54.17%). Accordingly, an amount of NZ\$5,958,333 (AUD \$5,664,353) has been recognised as a provision in the balance sheet. The earnout expense attributable to this period of \$2,721,738 has been recognised in the income statement.</p> <p>OCTFOLIO OCTFOLIO is not expected to meet the minimum profit target to achieve the second 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.