

A woman in a white lab coat and safety glasses is working in a laboratory. She is holding a multi-well plate with several small vials in it. The background shows shelves with various bottles and equipment. The overall image has a blue tint.

Investor Presentation

Full Year Results June 2019

HRL Holdings (ASX:HRL)

HRL

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HRL Overview



SOCIAL RESPONSIBILITY



No uncontrolled environmental releases

Support to 3 key charities 

Reduced disposable laboratory plastics by 40% at Analytica 

25% reduction in total reportable injuries in second half  



Diverse workforce with 47% female

WHO WE ARE



WHAT WE DO



LABORATORY SERVICES










BRANCH NETWORK

Laboratory locations:
Brisbane – Darra
Brisbane – Yatala
Sunshine Coast
Darwin
Auckland
Wellington
Christchurch
Dunedin
Hamilton

Consulting offices
Palmerston North

WHO BUYS OUR TESTING

 <p>Food</p>	 <p>Environmental</p>	 <p>Industrial buildings and apartment blocks</p>	 <p>Construction</p>	 <p>Geology</p>	 <p>Agricultural</p>	 <p>Hazardous materials</p>
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WHY THEY BUY IT

 <p>Compliance and regulation</p>	 <p>Authenticity and brand protection</p>	 <p>Preserving performance and quality</p>
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MEGATRENDS DRIVING DEMAND



Rising Asian demand for clean and green Australasian food



Rising consumer demand for authentic and traceable food and beverages



Private & public 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

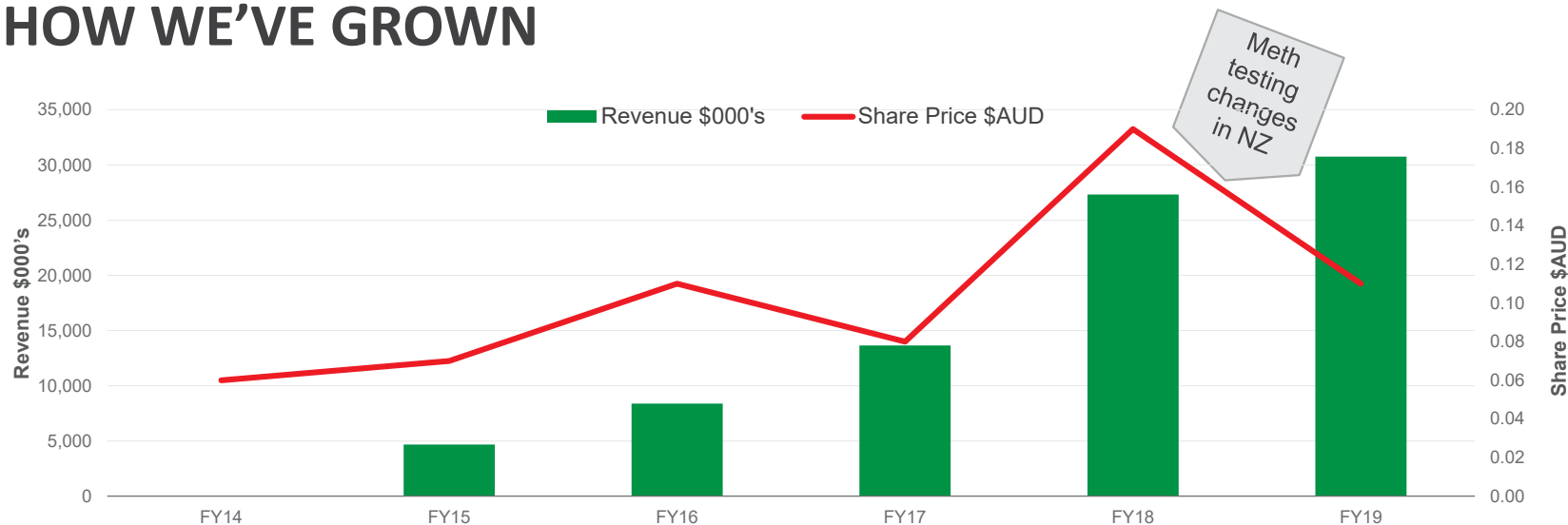
Share holder composition:

Board and management	~19%
Institutional	~55%
Other	~26%

Substantial holder notices >5%

Viburnum Funds	21%
Perennial Value	15%
Entities associated with Terry Cooney	7%

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).

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.

FY2019 Highlights



FY2019:REBUILDING EARNINGS BASE



+12.5%

**Revenue growth
year-on-year to \$30m**

\$4.45M

**Underlying EBITDA
impacted by decreased NZ
meth testing but still
meeting market
expectations***

\$2.7M

**Cashflow from operations
excluding vendor earnout
payments**

*Average of Canaccord Colts and Morgans Financial forecast

FINANCIAL HIGHLIGHTS

	FY2019 \$000's	FY2018 \$000's	INCREASE \$000's
Revenues	30,755	27,307	3,448
Underlying EBITDA ¹	4,451	5,775	(1,324)
Underlying NPAT	1,534	2,874	(1,340)
Operating cash flows generated ²	2,747	4,567	(1,820)
Working capital ³	2,025	3,229	(1,204)
Net cash/(borrowings) ⁴	(3,567)	4,278	(7,845)
Statutory loss after tax ⁵	(7,127)	(1,504)	(5,623)

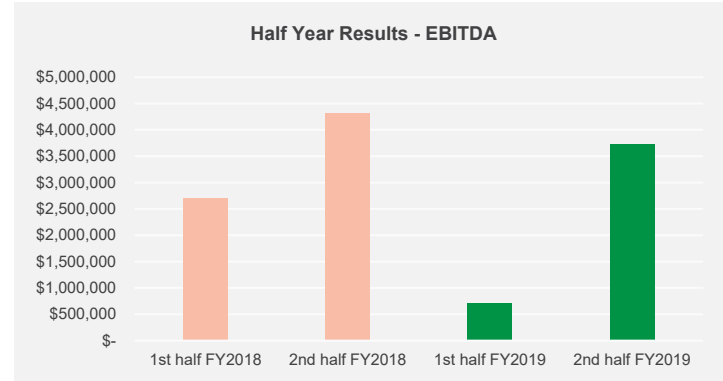
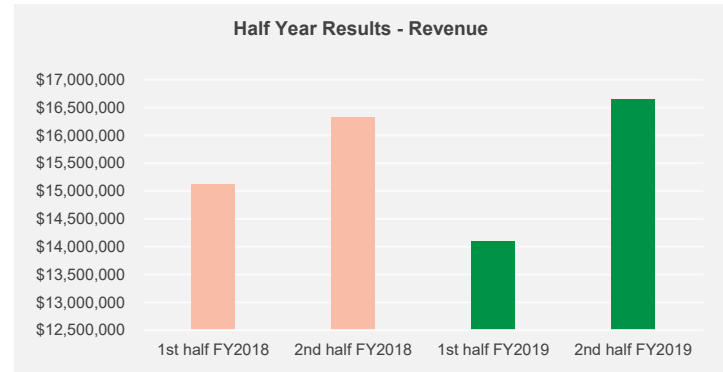
1. Underlying EBITDA, EBIT and NPAT reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying earnings. Underlying profit measures have not been audited. Refer to Appendix A for further details of non-underlying items.
2. Excludes cash outflows associated with vendor earnout costs.
3. Working capital is defined as net current assets, excluding an interest only loan drawn to \$1,911,741 which has no expiry but it subject to annual review by Westpac.
4. HRL has additional undrawn facilities at 30 June 2019 of \$1,918,727.
5. Statutory loss includes non-operating items as detailed in Appendix A

SEGMENT PERFORMANCE – 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	7,762	8,028	14,204	735	30,729	-	30,729
Underlying EBITDA (\$)	736	707	4,595	246	6,283	(1,833)	4,451
Underlying EBITDA (%)	9%	9%	32%	33%	20%	-	14%
Operating depreciation and amortisation	(435)	(207)	(1,497)	(45)	(2,184)	(10)	(2,194)
Net interest expense	(48)	(17)	-	-	(66)	(70)	(136)
Underlying profit before tax	253	483	3,098	200	4,034	(1,912)	2,121
Operating income tax	(69)	(133)	(867)	(55)	(1,125)	538	(587)
Underlying profit after tax	183	350	2,230	145	2,909	(1,375)	1,534
<u>Non-operating adjustments</u>							
Food Lab Pacific establishment expenses	-	-	(22)	-	(22)	-	(22)
Earn-out expenses/adjustments	-	-	(5,257)	188	(5,070)	-	(5,070)
Amortisation of intangible assets arising from acquisitions	(102)	(806)	(1,812)	(882)	(3,602)	-	(3,602)
Impairment of goodwill	(661)	-	-	-	(661)	-	(661)
One-off restructure expenses	(215)	(133)	-	-	(348)	-	(348)
Lapsed performance shares	-	-	-	-	-	(62)	(62)
Share of profits - equity accounted investments	-	-	3	-	3	-	3
Non-operating income tax	88	258	513	243	(1,102)	-	(1,102)
Statutory profit after income tax	(707)	(331)	(4,344)	(307)	(5,690)	(1,437)	(7,127)

H2FY19: RECOVERY UNDERWAY

- NZ government moved quickly to change the property contamination thresholds in H1FY19
- Changes resulted in less property testing throughout FY19 impacting sampling and laboratory volumes (circa \$2.5M EBITDA impact)
- HRL restructured cost base, and focussed growth back into hazmat, food and environmental testing
- Strategy back on track for recovery into FY2020



* FY2018 figures are on a pro-forma basis including the full 12 month trading results for Analytica.


H2FY19: OPERATIONAL HIGHLIGHTS

Restructured NZ Hazmat division, completed in February. Subsequent months trading have each produced EBITDA >20% per month

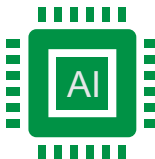
\$940k
Annualised cost savings achieved through strategic restructuring

- New laboratory tests launched including:
- Glyphosate testing
 - Beta-casein genotyping
 - Oxygen isotope trace

Precise laboratories transferred across to Analytica and fully integrated



ANALYTICA
developing AI capability for image recognition



CAIQTEST PACIFIC JV continues to work with Chinese authorities to expand testing services. **FOODLAB JV** has commenced method development with 4 staff

ANALYTICA REVENUE GROWTH FY19 v PCP



Dairy +16%



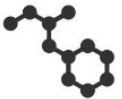
Environmental +93%



Honey +14%

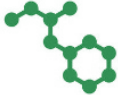




Authenticity & Trace +51%



Drugs of abuse (methamphetamine) -48%

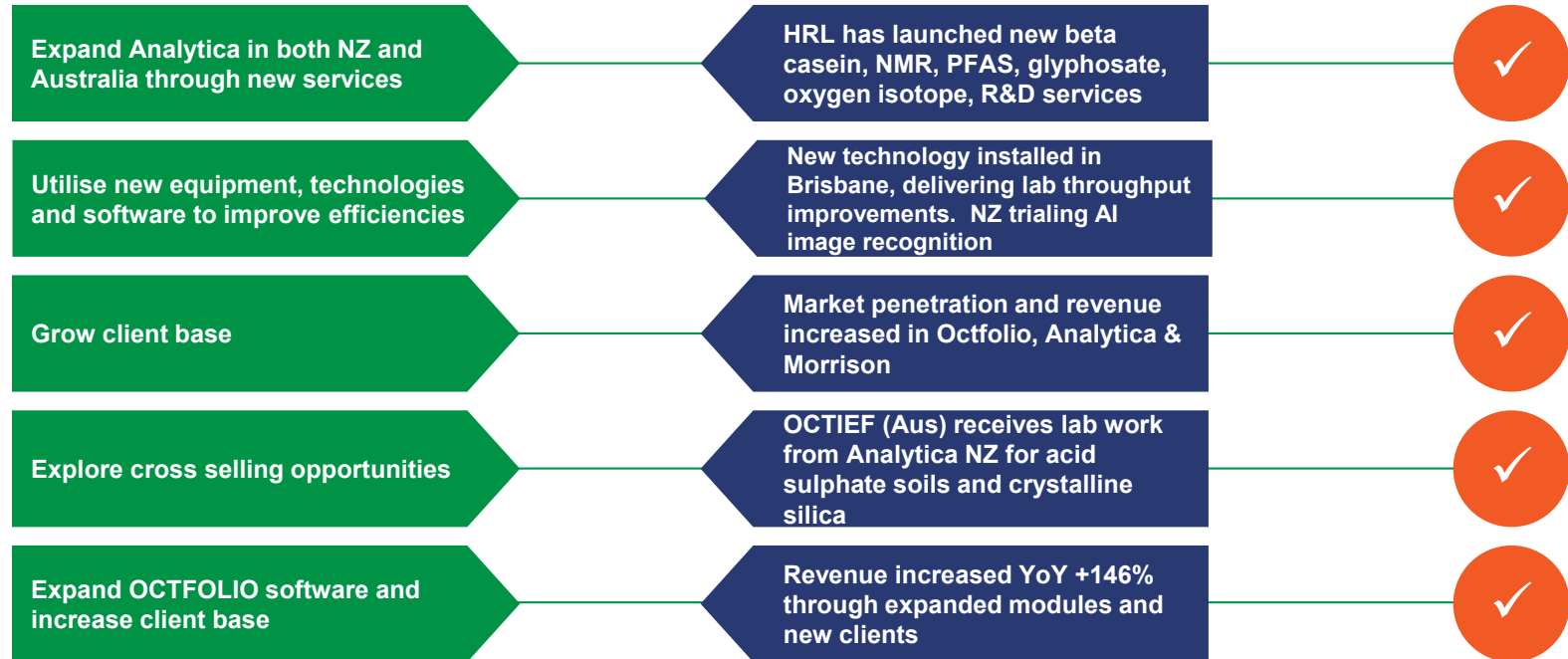
HAZMAT DIVISION

	Performance commentary	Actions taken to improve
	NZ property contamination (methamphetamine) revenues -77%	Restructured NZ to cut overhead costs and transfer laboratory operations to Analytica
	Asbestos revenue -20% in Australia with completion of ACT loose-fill projects	Closed ACT branch
	Environmental laboratory in Australia being established under guidance of Analytica management	Continued to drive organic growth in scalable laboratory services to diversify away from labour centric projects

OUR FY2019 DELIVERABLES

What we said

What we did



Future Developments

A woman in a white lab coat is looking through a microscope in a laboratory setting. The image is overlaid with a blue tint and a white abstract shape that partially obscures her face and the microscope. The background is blurred, showing laboratory equipment and lights.

OUTLOOK FOR FY2020

Return to FY2018 level of profitability, replacing the meth testing decline in demand

Integrate business unit support services for HR, finance and IT infrastructure

Secure and build out new laboratory facilities for Analytica NZ (main site Hamilton) to facilitate long term growth and improve workflow efficiencies

Continue to drive organic service development with a focus on scalable laboratory-based services

Grow earnings from data management / software division

Support HRL's JV investments to realise strategic potential

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APPENDIX A

DETAILS ON NON-OPERATING PROFIT ADJUSTMENTS

ADJUSTMENT	DESCRIPTION
Food Lab establishment expenses	Legal and other expenses related to the formation of the Food Lab Pacific joint venture with MilkTest NZ.
Earn-out expenses/adjustments	<p>The Analytica vendors achieved the full earn-out profit target resulting in the full earn-out payment of NZ\$11,000,000. Payment of the earn-out consideration is contingent on ongoing service of certain key staff and is recognized progressively over the service period. The expense recognized in FY2019 was NZ\$5,500,000 or AU\$5,257,121.</p> <p>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 was reversed in FY2019.</p>
Amortisation of intangible assets arising from acquisitions	The excess purchase price over the value of both the tangible assets and goodwill acquired during the acquisitions of Analytica, AAC Environmental, R.J.L & 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.
Impairment of goodwill	With the conclusion of the “Mr Fluffy” asbestos program in the ACT and surrounding areas, and limited other opportunities in the region, OCTIEF closed its ACT branch. Previously acquired goodwill relating to this branch has been written down to nil.
One-off restructure expenses	<p>One-off employee redundancies, premises closures and relocations costs relating to the:</p> <ul style="list-style-type: none"> • Transfer of Precise laboratories to Analytica • Relocation and restructure of the Morrison Gold Coast facility • Closure of the OCTEIF ACT branch
Equity accounted share of profits	Both Food Lab Pacific Limited and CAIQTest (Pacific) Limited remain at an early phase of development and accreditation.
Lapsed performance shares	<p>In August 2016 HRL introduced a long term incentive plan for key management. The performance conditions of these instruments were not met and the performance shares have now lapsed in full. The value of these performance shares was recognized as an expense in the income statement over the vesting period.</p> <p>HRL will be introducing a revised long term incentive plan in FY2020. The plan is designed to provide a strong link to shareholder value and long term sustainable growth. The LTI Plan will contain four performance hurdles of TSR, EPS, EBITDA and ROCE which will ensure active capital management and will drive sustainable financial performance over the longer term as well as ensure a fair outcome for shareholders and management.</p> <p>Further details of the FY2020 LTI Plan are included in the Annual Report.</p>