Investor Presentation

Half Year Results December 2019

HRL Holdings (ASX:HRL)

HRL

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HRL Overview

HRL

WHO WE ARE

OCTIEF | OCTFOLIO | PRECISE CONSULTING | MORRISON GEOTECHNIC | ANALYTICA LABORATORIES

WHAT WE DO

- Sampling
- Laboratory
- Data Management

LABORATORY SERVICES

- Food
- Geotech and Construction Materials
- Environmental
- Occupational Hygiene

BRANCH NETWORK

Laboratory locations:

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

Consulting offices

Palmerston North

OUR MAJOR SHAREHOLDERS

Shareholder composition:

Board and management	~18%
Institutional	~58%
Other	~24%

Substantial holder notices >5%

Viburnum Funds	23%
Perennial Value	15%
AustralianSuper	6%
Entities associated with Terry Cooney	7%

FINANCIAL HIGHLIGHTS

	H1 FY20 $000's *(Pre AASB 16)*[2]	H1 FY19 $000's *(Pre AASB 16)*[2]	INCREASE $000's	H1 FY20 $000's *(Post AASB 16)*
Revenues	16,288	14,104	2,184	16,288
Underlying EBITDA	2,600	711	1,889	3,080
Underlying NPAT	1,056	(139)	1,195	1,056
Operating cash flows generated [3]	3,528	(58)	3,586	3,940
Working capital [4]	810	524	286	810
Statutory loss after tax [1]	(2,728)	(4,226)	1,498	(2,728)

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. Statutory loss includes non-operating items as detailed in Appendix A, with the majority comprising the Analytica earnout ($2.2M) and amortization of acquisition intangibles ($1.6M).
2. During the period HRL adopted the new leasing standard AASB 16. Comparative figures were not restated. For comparability, the above figures have been calculated before adjustments arising under AASB 16. Refer to Appendix B for further details.
3. Excludes cash outflows associated with earn-out payments.
4. Working capital is defined as net current assets, excluding an interest only loan drawn to $2.3M which has no expiry but is subject to annual review by Westpac.

SOCIAL RESPONSIBILITY

No uncontrolled environmental releases

Continued focus on safety with 28% reduction in total reportable injuries

Diverse workforce with 46% female

H1FY2020 Highlights

SEGMENT PERFORMANCE – H1FY20

	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT $000's	GEOTECH $000's	FOOD/ENVIRO LABORATORY $000's	SOFTWARE $000's	TOTAL $000's	$000'S	$000's
Revenues	4,723	3,526	7,557	438	16,280	-	16,280
Underlying EBITDA before AASB 16 ($)	**1,272**	**90**	**1,865**	**240**	**3,467**	**(867)**	**2,600**
Underlying EBITDA (%)	*27%*	*3%*	*25%*	*55%*	*21%*	-	*16%*
Operating depreciation and amortisation	(219)	(113)	(701)	(37)	(1,070)	(5)	(1,075)
Net interest expense	(31)	(7)	7	-	(31)	(101)	(132)
Underlying profit before tax	**1,022**	**(29)**	**1,170**	**203**	**2,366**	**(973)**	**1,393**
Operating income tax	(281)	8	(328)	(57)	(658)	321	(337)
Underlying profit after tax	**741**	**(21)**	**843**	**146**	**1,709**	**(652)**	**1,056**
Non-operating adjustments							
Analytica earn-out expenses	-	-	(2,158)	-	(2,158)	-	(2,158)
Amortisation of intangible assets arising from acquisitions	-	(295)	(912)	(281)	(1,488)	-	(1,488)
Lapsed performance shares	-	-	-	-	-	(21)	(21)
Share of loss - equity accounted investments	-	-	(268)	-	(268)	-	(268)
Non-operating income tax	-	258	254	-	335	(185)	150
Statutory profit after income tax	**741**	**(235)**	**(2,242)**	**(135)**	**(1,870)**	**(858)**	**(2,728)**

H1FY20: STRONG FINANCIAL PERFORMANCE

+265%

EBITDA recovery continues and up 265% on PCP

$2.6M

Underlying EBITDA (pre AASB 16) upper range of guidance*

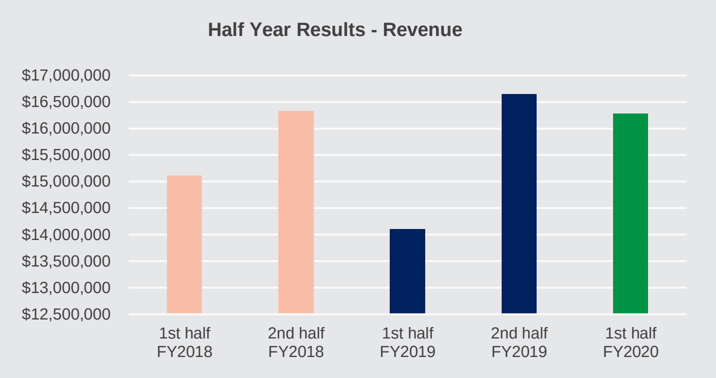
$3.5M

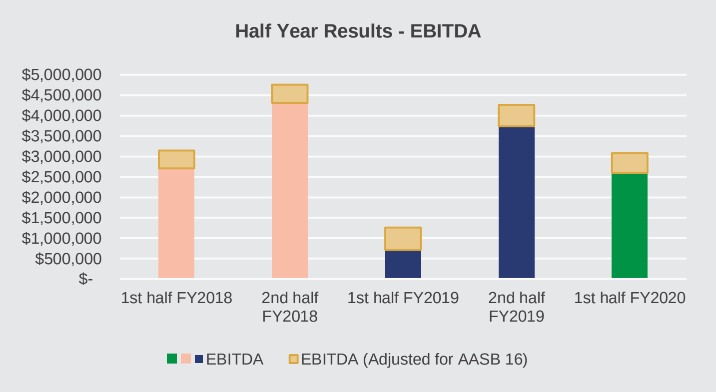
Cashflow from operations excluding vendor earnout payments

*AGM guidance range of $2.4M – $2.7M

H1FY20: RESULTS ON TRACK

- Revenue and profitability continues to improve following on from H2FY19
- Strong revenue growth from both existing and new services lines across HAZMAT, laboratories and software divisions
- Performance still weak in Geotech division
- Well placed to continue momentum into the seasonally stronger 2nd half. Historically revenues have been split 35/65 1st half to 2nd half
- FY20 broker consensus* $6.975m EBITDA

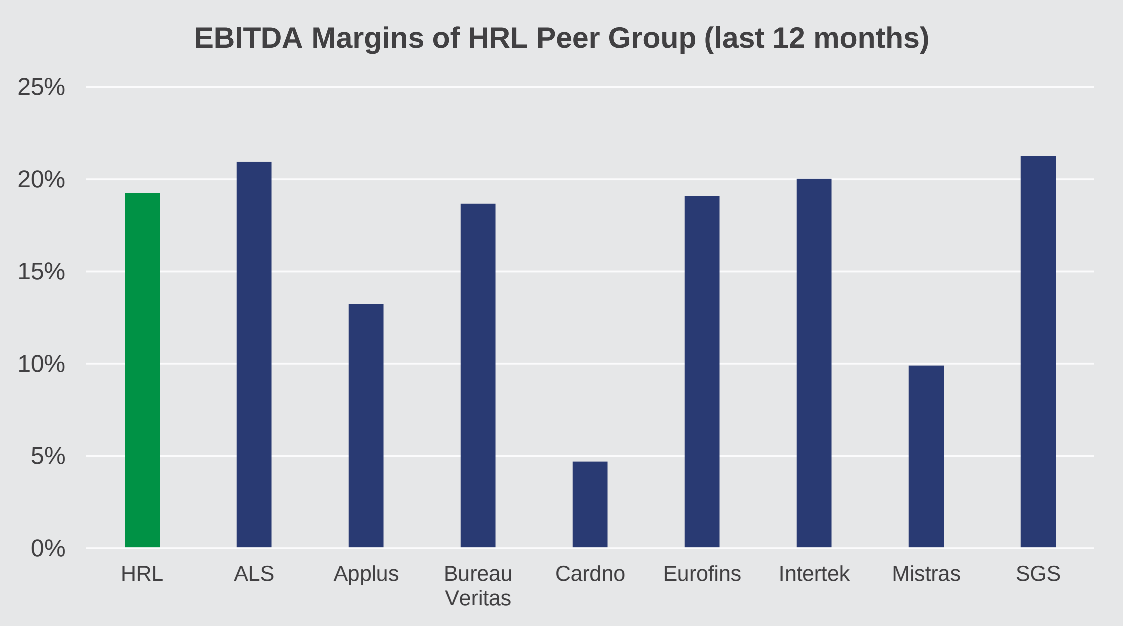




*Canaccord Genuity $6.9m 17/10/2019, Morgans $7.1m 17/10/2019, Bell Potter $7.1m 12/12/2019, Taylor Collison $6.8m 29/11/2019

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

MARGIN PERFORMANCE RECOVERED



Source: Latest 12-month results from publicly released reports

CASH FLOW

	H1 FY20 $000's *(Pre AASB 16)*[2]	H1 FY19 $000's *(Pre AASB 16)*[2]	H1 FY20 $000's *(Post AASB 16)*[2]
EBITDA	2,600	712	3,080
Working capital movements	1,571	106	1,562
Income tax payments	(505)	(884)	(505)
Net interest costs	(138)	(15)	(196)
Operating cash flows generated	**3,528**	**(81)**	**3,941**
CAPEX investments	(501)	(741)	(501)
Investments in Food Lab joint venture	(135)	-	(135)
Analytica earn out payments	(2,584)	-	(2,584)
Bank debt/lease repayments	(88)	(495)	(501)
Net increase/(decrease) in cash	**220**	**(1,317)**	**220**
Opening cash	1,031	5,393	1,031
FX movements	5	135	5
Closing cash	**1,256**	**4,211**	**1,256**

Operating cash flow up $3.6M

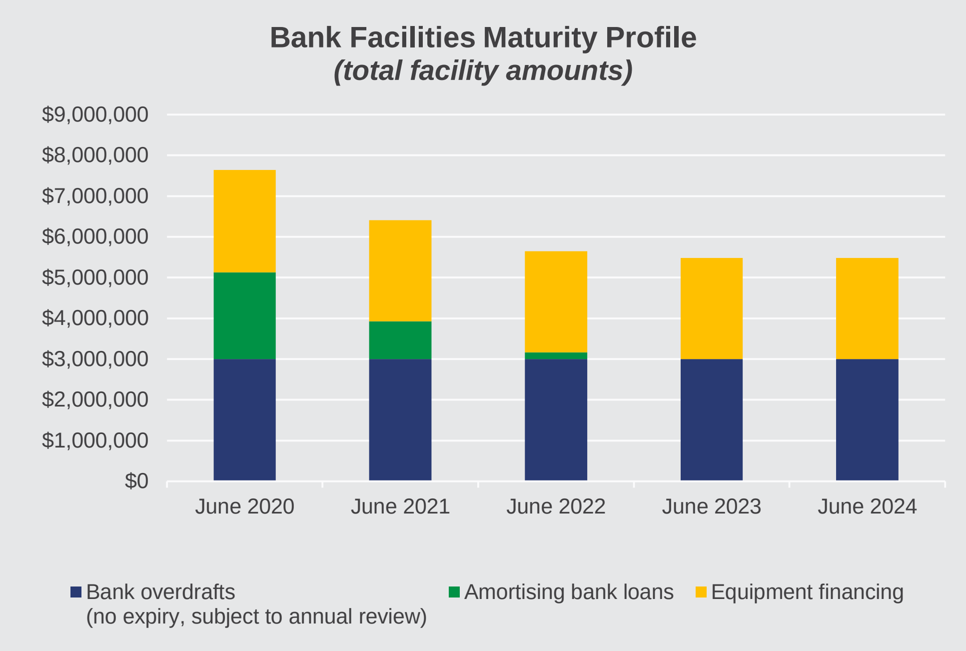
- 265% increase in EBITDA
- Strong debtor recovery
- Disciplined working capital management
- Lower tax payments due to weaker FY2019

Analytica earn out complete

- Final earn out payment made in Nov 2019
- Total of $11M NZD paid through CY2019
- Funded through bank facilities and internal cash flow
- 2nd half cash flows available for capital investment and debt reduction

DEBT METRICS

	December 2019
Banking Covenants	
Debt service cover (min >1.5 times)	4.2 times
Debt to EBITDA (max 200%)	82%
Debt/Equity Mix	
Net Debt	$3.7M
Total Equity	$26.3M
Bank Facilities	
Total available facilities	$8.4M
Total undrawn facilities	$3.5M



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HRL

APPENDIX A
DETAILS ON NON-OPERATING PROFIT

ADJUSTMENT	DESCRIPTION
Analytica earn-out expense	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 was contingent on ongoing service of certain key staff and was recognized progressively over the service period. The expense recognized in HY2019 was $2,157,570
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, Morrison Geotechnic and OCTFOLIO has been allocated against specific identifiable intangible assets. These intangible assets are being amortised over a 2 – 5 year period.
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	In July 2018 HRL introduced a long term incentive plan for 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.

APPENDIX B
AASB 16 “LEASES” IMPACTS

INCOME STATEMENT	H1 FY20 $000’s
Revenues	16,280
Other expenses (excluding building lease expenses, interest, deprecation and amortization)	(13,200)
Underlying EBITDA (post AASB 16)	**3,080**
Right-of-use asset amortization expense	(422)
Interest on leased premises liabilities	(58)
Underlying EBITDA (pre AASB 16)	**2,600**
Operating depreciation and amortisation	(1,075)
Net interest expense	(132)
Underlying profit before tax	**1,393**
Operating income tax	(337)
Underlying profit after tax	**1,056**
Non-operating adjustments	
Analytica earn-out expenses	(2,158)
Amortisation of intangible assets arising from acquisitions	(1,488)
Lapsed performance shares	(21)
Share of loss - equity accounted investments	(268)
Non-operating income tax	150
Statutory profit after income tax	**(2,728)**

Income Statement Changes

- Lease costs associated with premises are now reclassified as amortization and interest expense
- Lease costs were previously shown as rent expenses
- EBITDA calculated under AASB 16 is $480k higher
- Underlying and statutory profit remain unchanged

APPENDIX B
AASB 16 "LEASES" IMPACTS

Cash Flow Statement	H1 FY20 $000's *(Pre AASB 16)*	H1 FY20 $000's *(Post AASB 16)*
Receipts from customers	19,217	19,217
Payments to suppliers and employees	(15,047)	(14,575)
Net interest costs	(137)	(196)
Income tax payments	(505)	(505)
Operating cash flows generated	**3,528**	**3,941**
CAPEX investments	(501)	(501)
Investments in Food Lab joint venture	(135)	(135)
Analytica earn out payments	(2,584)	(2,584)
Bank debt/lease repayments	(88)	(501)
Net increase/(decrease) in cash	**220**	**220**
Opening cash	1,031	1,031
FX movements	5	5
Closing cash	**1,256**	**1,256**

Cash Flow Changes

- Lease payments associated with premises are now reclassified as principal and interest payments
- Lease payments were previously shown as payments to suppliers
- Operating cash flows under AASB 16 are $413k higher
- Financing cash flows under AASB 16 are $413k lower

APPENDIX B
AASB 16 "LEASES" IMPACTS

Balance Sheet	H1 FY20 $000's *(Pre AASB 16)*	H1 FY20 $000's *(Post AASB 16)*
Assets		
Plant and Equipment	6,865	5,619
Right of use assets	-	2,527
Other assets	29,848	28,567
TOTAL ASSETS	**36,713**	**36,713**
Borrowings	4,920	3,562
Lease liabilities	-	1,381
TOTAL LIABILITIES	**26,299**	**26,299**

Balance Sheet Changes

- Bank financed equipment under finance lease/hire purchase style arrangements are now reclassified as a right-of-use asset.
- Lease arrangements for building premises are now recognized as a right-of-use asset and a corresponding amortizing lease liability
- Bank equipment financing is now reclassified as a lease liability