



Investor Presentation

Full Year Results June 2020

HRL Holdings (ASX:HRL)

HRL

This presentation has been approved by the Board

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HRL Overview

A scientist in a white lab coat and safety glasses is shown in a laboratory setting, holding a small vial with both hands. The vial has a label with the text "16-4411 000" and "16-1-5-1". The background is a blurred laboratory environment with various pieces of equipment. The entire image is overlaid with a semi-transparent green filter.

WHO WE ARE



WHAT WE DO



Sampling



Laboratory



Data Management

LABORATORY SERVICES



Food



Geotech and Construction Materials



Environmental



Occupational Hygiene

BRANCH NETWORK



MEGATRENDS DRIVING DEMAND



Rising demand for clean and green Australian/ New Zealand food



Increasing consumer interest in authentic and traceable food and beverages



Private & public sector focus on environmental stewardship and social licence



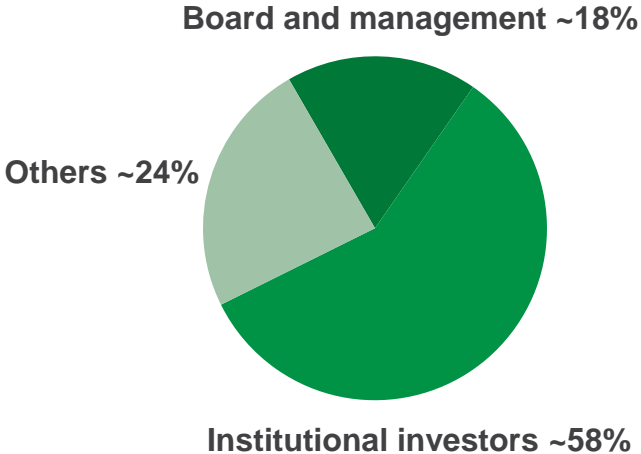
Increasing regulation and the need for demonstrable compliance



Focus on personal / worker health and well-being

OUR MAJOR SHAREHOLDERS

Shareholder composition:



Substantial holder notices >5%

Viburnum Funds	24%
Perennial Value	15%
AustralianSuper	8%
Entities associated with Terry Cooney	7%

FY2020 Highlights



SOCIAL RESPONSIBILITY



No uncontrolled environmental releases

Continued focus on safety with zero reportable injuries in H2FY20



Diverse workforce with 48% female representation

FY20: SOLID FINANCIAL PERFORMANCE IN UNPRECEDENTED TIMES

\$32.8M

Revenue

Up 7% on FY2019

\$6.9M

Underlying EBITDA
(post AASB 16)

Up 24% despite COVID-19

Underlying EBITDA of \$5.9M (pre AASB 16) up 33% and exceeds upper range of guidance*

\$7.4M

Operational
cashflow

Excludes vendor earnout payments and COVID-19 subsidies received

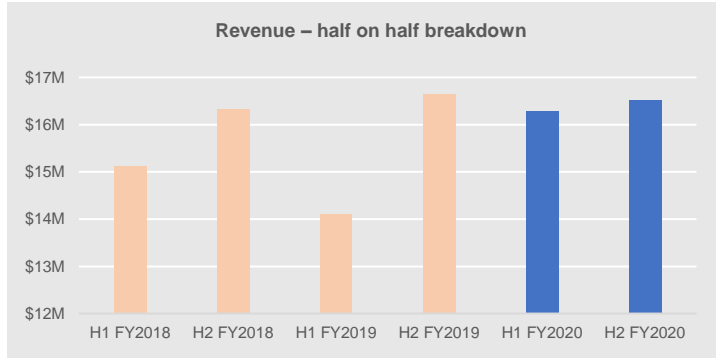
\$1.1M

Net Debt

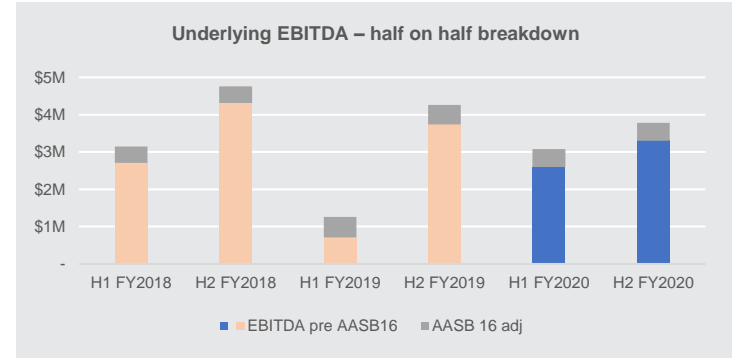
Net Debt down to \$1.1M with all earnout payments now completed

*June guidance range of \$5.5M – \$5.8M (pre AASB 16)

FY20: TESTING BUSINESS REMAINS RESILIENT



- Revenue and profitability continues to improve following on from strong H1FY20
- Revenue growth from both existing and new services lines across HAZMAT, laboratories and software divisions
- Geotech division performance remains weak



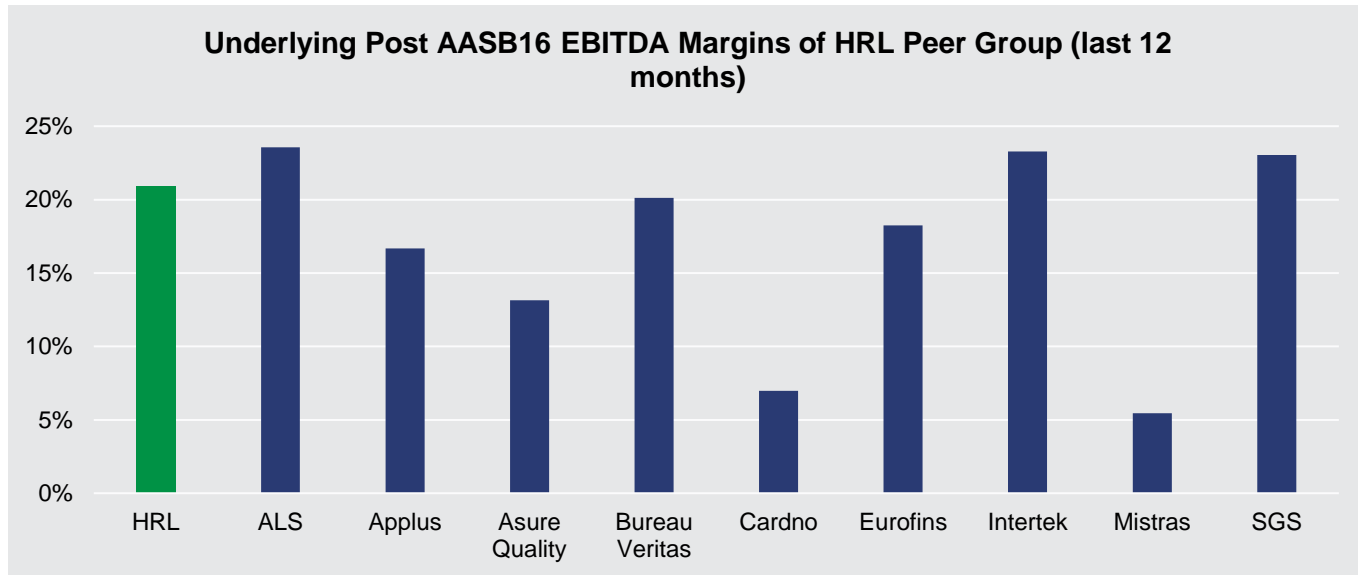
- Performance for the first nine months of FY20 was ahead of internal budgets and on track to achieve full year broker consensus at the time (\$7.2M)
- Q4 of FY2020 was impacted by COVID-19

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

COVID-19 IMPACT

- NZ Government closure of “non-essential” businesses impacted HRL through April and May
 - NZ HAZMAT - fully closed under Level 4 restrictions
 - NZ Laboratories – only food and water testing deemed “essential services” and permitted to operate (approximately 50% of normal turnover)
- Australian businesses (located in QLD and NT) continued to trade with weakened demand and less efficiency due to social distancing requirements
- \$1.5M in government subsidies received, including \$1.1M of NZ wage subsidies
- Future trading conditions remain uncertain

STRONG MARGIN PERFORMANCE



Source: Latest 12-month results from publicly released reports

FINANCIAL HIGHLIGHTS – POST AASB 16

	FY20 \$000's	FY19 \$000's	% change
Revenues	32,823	30,755	7%
Underlying EBITDA	6,867	5,533	24%
Underlying NPAT	2,464	1,534	61%
Operating cash flows generated ²	7,409	3,435	116%
Working capital ³	851	2,025	(58%)
Statutory loss after tax ¹	(2,495)	(7,127)	(65%)

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 (\$2.5M).

2. Excludes cash outflows associated with earn-out payments and cash inflows associated with COVID-19 subsidies.

3. Working capital is defined as net current assets, excluding revenue billed in advance (\$0.17M), AASB16 lease liabilities on premises leases (\$0.71M), and an interest only loan drawn to \$0.81M which has no expiry but is subject to annual review by Westpac.

FINANCIAL HIGHLIGHTS – PRE AASB 16

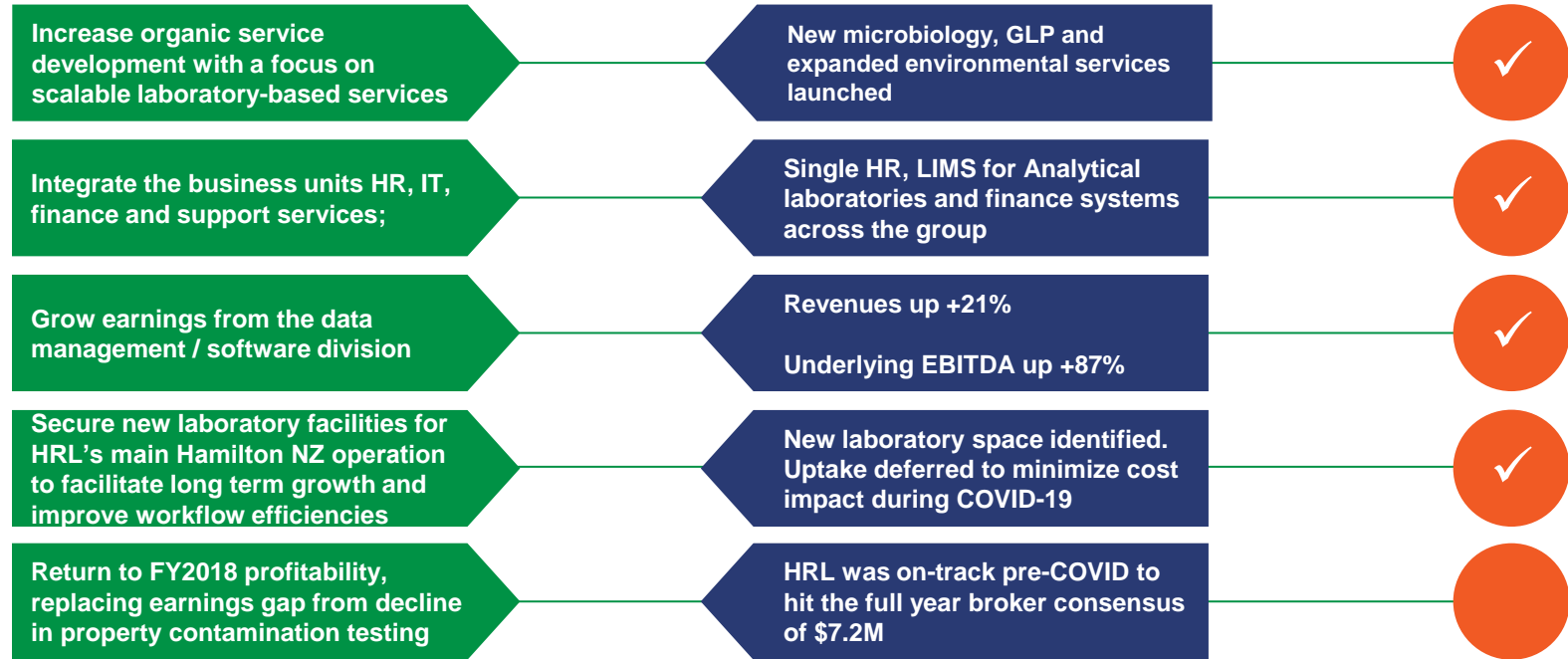
	FY20 \$000's (Pre AASB 16) ²	FY19 \$000's (Pre AASB 16) ²	% change	FY20 \$000's (Post AASB 16)
Revenues	32,823	30,755	7%	32,823
Underlying EBITDA	5,903	4,451	33%	6,867
Underlying NPAT	2,464	1,534	61%	2,464
Operating cash flows generated ³	6,550	2,747	138%	7,409
Working capital ⁴	851	2,025	(58%)	851
Statutory loss after tax ¹	(2,495)	(7,127)	(65%)	(2,495)

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 (\$2.5M).
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 and cash inflows associated with COVID-19 subsidies.
4. Working capital is defined as net current assets, excluding revenue billed in advance (\$0.17M), AASB16 lease liabilities on premises leases (\$0.71M), and an interest only loan drawn to \$0.81M which has no expiry but is subject to annual review by Westpac.

OUR FY2020 DELIVERABLES

What we said

What we did



SEGMENT PERFORMANCE – FY20 (POST AASB 16)

	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	8,666	6,828	16,424	888	32,806	-	32,806
Underlying EBITDA (\$)	2,123	446	5,327	460	8,356	(1,489)	6,867
Underlying EBITDA (%)	25%	7%	32%	52%	25%	-	21%
Operating depreciation and amortisation	(705)	(385)	(1,903)	(83)	(3,076)	(25)	(3,101)
Net interest expense	(79)	(42)	(10)	-	(132)	(231)	(364)
Underlying profit before tax	1,339	19	3,414	377	5,149	(1,747)	3,402
Operating income tax	(368)	(6)	(956)	(106)	(1,435)	499	(937)
Underlying profit after tax	971	13	2,458	271	3,714	(1,249)	2,464
<u>Non-operating adjustments</u>							
Analytica earn-out expenses	-	-	(2,158)	-	(2,158)	-	(2,158)
Amortisation of intangible assets arising from acquisitions	-	(442)	(1,812)	(285)	(2,540)	-	(2,540)
Lapsed FY19 performance shares	-	-	-	-	-	(41)	(41)
Share of loss - equity accounted investments	-	-	(513)	-	(513)	-	(513)
Non-operating income tax	-	122	505	-	627	(334)	293
Statutory profit after income tax	971	(307)	(1,520)	(13)	(869)	(1,626)	(2,495)

Refer to Appendix B for breakdown of AASB-16 impact

SEGMENT PERFORMANCE – FY20 (PRE AASB 16)

	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	8,666	6,828	16,424	888	32,806	-	32,806
Underlying EBITDA before AASB 16 (\$)	1,821	262	4,894	460	7,437	(1,534)	5,904
Underlying EBITDA (%)	21%	4%	30%	52%	23%	-	18%
Operating depreciation and amortisation	(439)	(226)	(1,489)	(83)	(2,238)	(19)	(2,257)
Net interest expense	(42)	(17)	9	-	(51)	(194)	(245)
Underlying profit before tax	1,339	19	3,414	377	5,149	(1,747)	3,402
Operating income tax	(368)	(6)	(956)	(106)	(1,435)	499	(937)
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CASH FLOW

	FY20 \$000's <i>(Pre AASB 16)²</i>	FY19 \$000's <i>(Pre AASB 16)²</i>	FY20 \$000's <i>(Post AASB 16)²</i>
EBITDA	5,904	4,451	6,867
Working capital movements	3,069	(535)	3,084
Income tax payments	(672)	(1,007)	(672)
Net interest costs	(262)	(162)	(381)
Operating cash flows generated	8,039	2,747	8,898
CAPEX investments	(1,941)	(1,050)	(1,941)
Investments in Food Lab joint venture	(559)	(47)	(559)
Analytica earn out payments	(2,584)	(7,886)	(2,584)
Bank debt/lease repayments	(1,078)	1,843	(1,937)
Net increase/(decrease) in cash	1,877	(4,393)	1,877
Opening cash	1,031	5,393	1,031
FX movements	(54)	31	(54)
Closing cash	2,854	1,031	2,854

Operating cash flow up \$5.3M

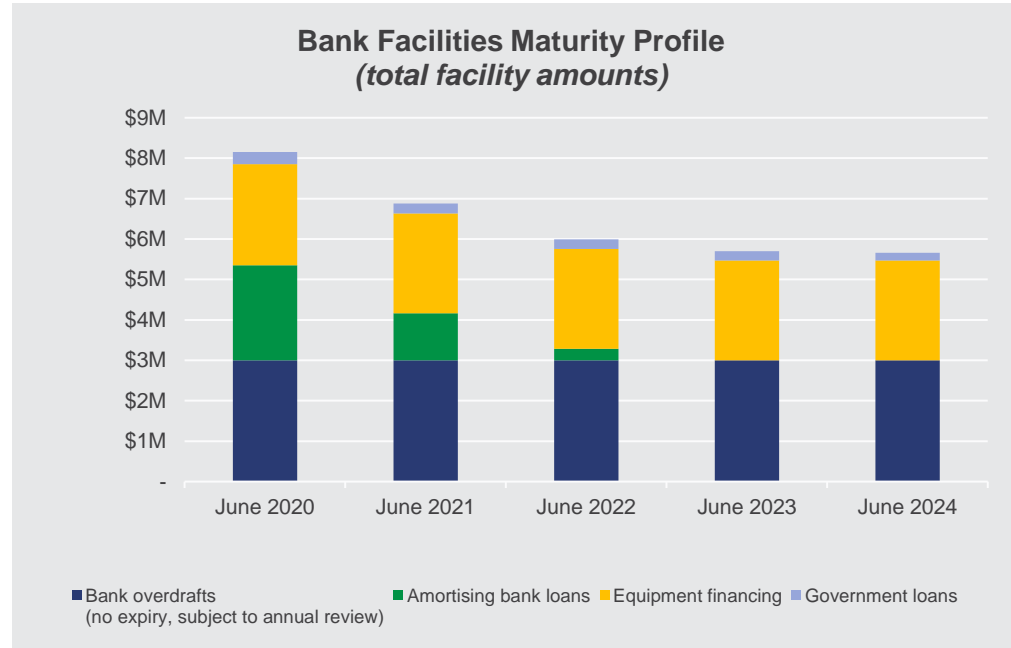
- \$1.5M increase in EBITDA
- Strong debtor collections
- \$0.7M in COVID-19 payment deferrals (GST/PAYG/payroll taxes)
- Disciplined working capital management
- Lower tax payments due to weaker FY2019

Investing in future growth

- Final Analytica earn out payment made in Nov 2019
- Further investments made in Food Lab – trading due to commence calendar 2021
- CAPEX focused on lab equipment and OCTFOLIO software upgrades
- Excess cash applied against bank debt – net debt now at \$1.1M

DEBT METRICS

June 2020	
Banking Covenants	
Debt service cover (min >1.5x)	3.2x
Debt to EBITDA (max 200%)	66%
Debt/Equity Mix	
Net Debt	\$1.1M
Total Equity	\$26.0M
Bank Facilities	
Total available facilities	\$8.2M
Total undrawn facilities	\$4.3M



Future Developments

A woman with dark hair, wearing a white lab coat, is shown in profile, looking through a microscope. The image is overlaid with a semi-transparent white shape that partially obscures her face and the microscope. The background is a blurred laboratory setting with various pieces of equipment. The overall color palette is a monochromatic blue.

MARKET OUTLOOK FOR FY2021

Laboratory

- Food testing levels to be driven by normal primary production factors
- Enviro testing likely to take time to recover in line with wider economy
- Remaining divisions focused on new opportunities (organic and M&A)

HAZMAT

- Cautiously optimistic of NZ revenues building back through the year
- Large % of Government clients offers some protection
- Impact of NZ and QLD elections unknown at this stage

Software

- Ongoing feature development to expand target market
- Business development activities ramping up
- Focus on NZ opportunities

Geotech

- Current market outlook remains weak
- Opportunities may present through infrastructure projects

Joint Ventures

- Food Lab progressing well through laboratory accreditations and customer development. Trading to commence in CY2021
- CAIQTest Pacific to continue momentum gained over past 6 months

CONTACTS AND MORE INFORMATION

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APPENDIX A

DETAILS ON NON-OPERATING PROFIT

ADJUSTMENT	DESCRIPTION
Analytica earn-out expense	<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 was contingent on ongoing service of certain key staff and was recognized progressively over the service period. The expense recognized in FY20 was \$2,157,570</p>
Amortisation of intangible assets arising from acquisitions	<p>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. As at 30 June 2020, Morrison Geotechnic and OCTFOLIO intangible assets are fully amortised. The remaining Analytica intangible assets are being amortised over a 3 – 5 year period.</p>
Equity accounted share of profits	<p>HRL's % share of profit/loss for its investments in:</p> <ul style="list-style-type: none"> • Food Lab Pacific Limited (50%); and • CAIQTest (Pacific) Limited (26%). <p>Both Food Lab Pacific Limited and CAIQTest (Pacific) Limited remain at an early phase of development.</p>
Lapsed performance shares	<p>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 lapsed in full in June 2019. The value of these performance shares continues to be recognized as an expense in the income statement over the 3 year service vesting period (FY19 to FY21).</p>

APPENDIX B

AASB 16 “LEASES” IMPACTS

INCOME STATEMENT	FY20 \$000's
Revenues	32,806
Other expenses (excluding building lease expenses, interest, depreciation and amortization)	(25,939)
Underlying EBITDA (post AASB 16)	6,867
Right-of-use asset amortization expense	(844)
Interest on leased premises liabilities	(119)
Underlying EBITDA (pre AASB 16)	5,904
Operating depreciation and amortisation	(2,257)
Net interest expense	(245)
Underlying profit before tax	3,402
Operating income tax	(937)
Underlying profit after tax	2,464
<u>Non-operating adjustments</u>	
Analytica earn-out expenses	(2,158)
Amortisation of intangible assets arising from acquisitions	(2,540)
Lapsed performance shares	(41)
Share of loss - equity accounted investments	(513)
Non-operating income tax	292
Statutory profit after income tax	(2,495)

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 \$963k higher
- Underlying and statutory profit remain unchanged

APPENDIX B

AASB 16 “LEASES” IMPACTS

Cash Flow Statement	FY20 \$000's <i>(Pre AASB 16)</i>	FY20 \$000's <i>(Post AASB 16)</i>
Receipts from customers	37,392	37,392
Payments to suppliers and employees	(29,908)	(28,930)
Net interest costs	(262)	(381)
COVID-19 wage subsidies	1,489	1,489
Income tax payments	(672)	(672)
Operating cash flows generated	8,039	8,898
CAPEX investments	(1,941)	(1,941)
Investments in Food Lab joint venture	(559)	(559)
Analytica earn out payments	(2,584)	(2,584)
Bank debt/lease repayments	(1,078)	(1,937)
Net increase/(decrease) in cash	1,877	1,877
Opening cash	1,031	1,031
FX movements	(54)	(54)
Closing cash	2,854	2,854

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 \$859k higher
- Financing cash flows under AASB 16 are \$859k lower

APPENDIX B

AASB 16 “LEASES” IMPACTS

Balance Sheet	FY20 \$000's <i>(Pre AASB 16)</i>	FY20 \$000's <i>(Post AASB 16)</i>
Assets		
Plant and equipment	6,938	5,922
Right of use assets	-	3,075
Other assets	29,983	27,924
TOTAL ASSETS	36,921	36,921
Borrowings	3,931	2,833
Lease liabilities	-	3,209
Other liabilities	22,097	19,986
TOTAL LIABILITIES	26,028	26,028

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