



# Investor Presentation

Half Year Results December 2020

HRL Holdings (ASX:HRL)

**HRL**

*This presentation has been approved by the Board*

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

**Consulting offices**  
Palmerston North

## 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**



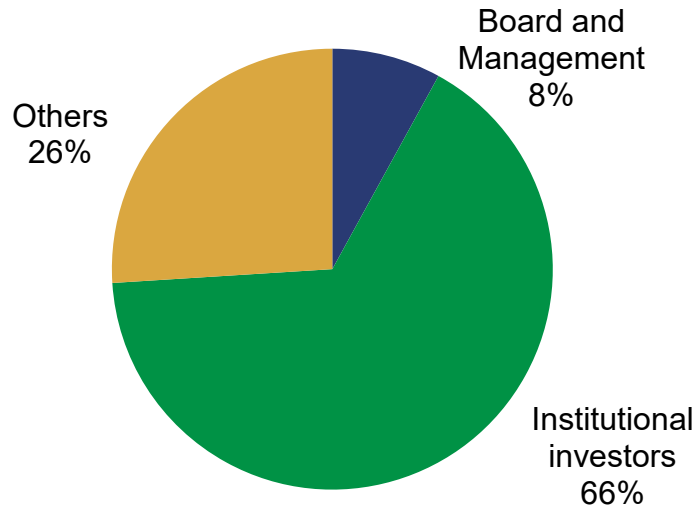
**Increasing regulation and the need for demonstrable compliance**



**Focus on personal / worker health and well-being**

# OUR MAJOR SHAREHOLDERS

## Shareholder composition:



## Substantial holder notices >5%

Richmond Hill Capital	19%
Perennial Value	11%
Viburnum Funds	9%
AustralianSuper	8%
Entities associated with Terry Cooney	6%



# HY2021 Highlights

A person wearing an orange safety suit and green gloves is holding a yellow shovel filled with dark, granular material. The background is blurred, showing more of the person and the material. A blue wavy line graphic is overlaid on the right side of the image.

# SOCIAL RESPONSIBILITY



**No uncontrolled  
environmental releases**

**Continued focus on  
safety with zero  
reportable injuries in  
H1FY21**



**Diverse workforce with  
45% female  
representation**



## **HY21: SOLID FINANCIAL PERFORMANCE. UNDERLYING EBITDA UP +15% ON PCP**

**\$16.4M**

Revenue

In line with prior period despite COVID impacts this half (H1FY20: \$16.3M)

**\$3.5M**

Underlying EBITDA

Up 15% on prior period (H1FY20: \$3.08M) and meeting upper range of guidance\*

**\$3.2M**

Operational cashflow

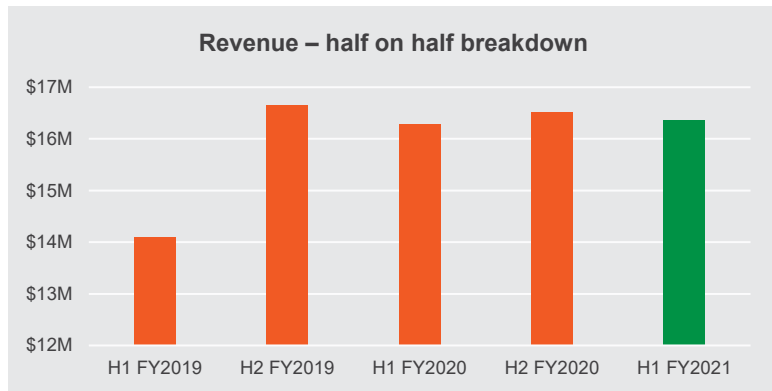
Excludes \$0.6M of COVID-19 subsidies received

**\$0.6M**

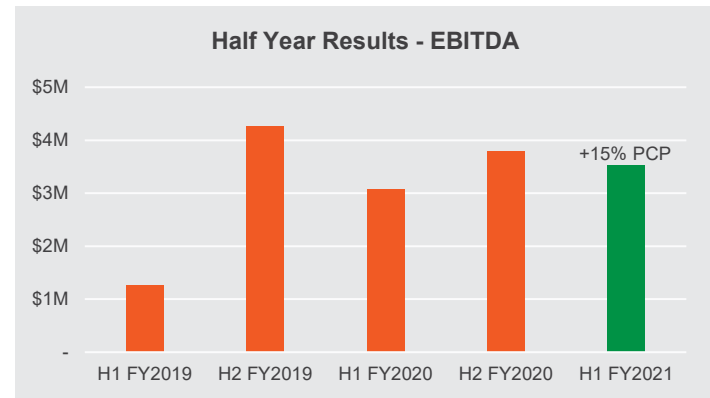
Net Cash

Net cash position of \$0.6M, and undrawn facilities of \$4.7M

## HY21: TESTING BUSINESS REMAINS RESILIENT

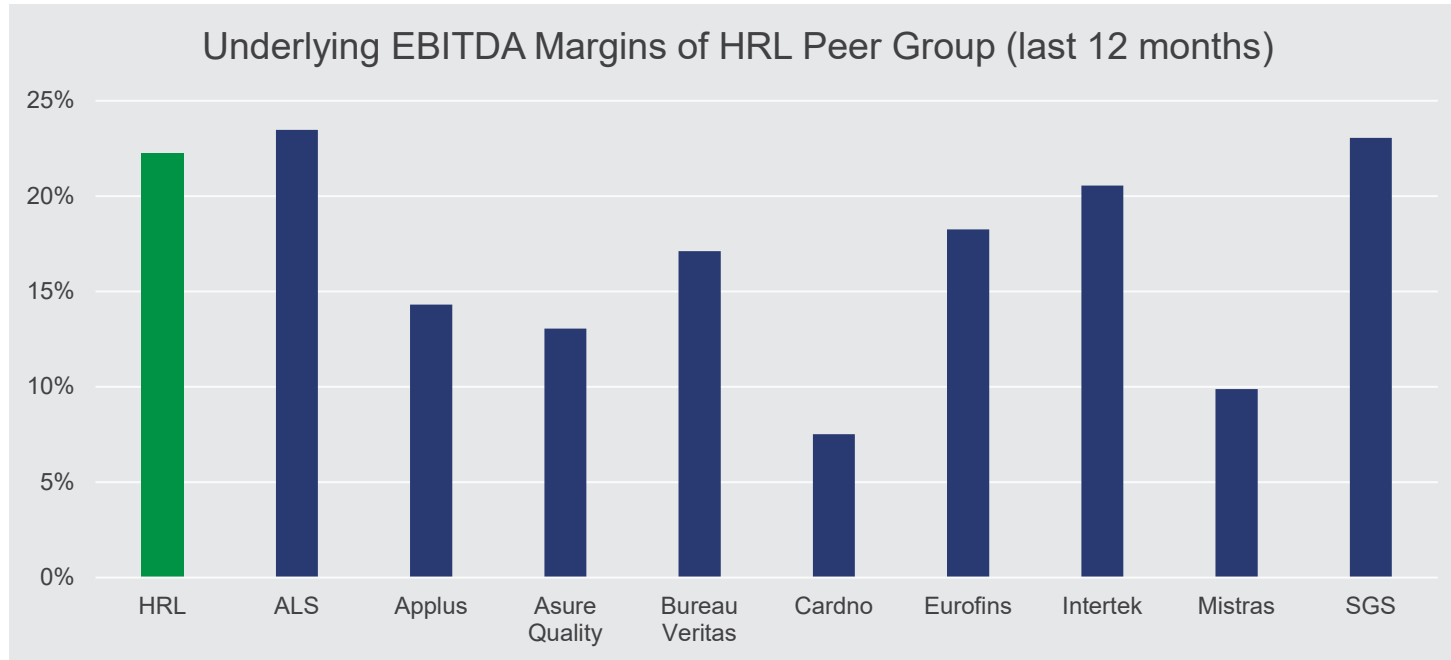


- Consistent revenues with prior period despite COVID headwinds in Q1
- Strong revenue growth across the food laboratory divisions
- Lower revenues from HAZMAT and Geotech but recovering well through Q2



- Maintained profitability through a challenging period
- All business units well placed moving into the second half.

## STRONG MARGIN PERFORMANCE



Source: Latest 12-month results from publicly released reports

# FINANCIAL HIGHLIGHTS

	H1 FY21 \$000's	H1 FY20 \$000's	% change
Revenues	16,359	16,288	0.4%
Underlying EBITDA	3,535	3,080	14.8%
Underlying NPAT	1,415	1,056	34.0%
Operating cash flows generated <sup>2</sup>	3,232	3,940	-18.0%
Net cash/(debt)	533	(3,665)	
Working capital <sup>3</sup>	796	810	-1.7%
Statutory profit/(loss) after tax <sup>1</sup>	460	(2,728)	

1. Underlying EBITDA 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.

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 (\$0.09M) and AASB16 lease liabilities on premises leases (\$0.69M)

# SEGMENT PERFORMANCE – H1 FY21

	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	4,104	3,249	8,590	413	16,356	-	16,356
<b>Underlying EBITDA (\$)</b>	926	806	2,376	168	4,276	(741)	3,535
Underlying EBITDA (%)	23%	25%	28%	41%	26%	-	22%
Operating depreciation and amortisation	(333)	(196)	(813)	(54)	(1,396)	(20)	(1,416)
Net interest expense	(40)	(13)	(31)	0	(84)	(86)	(170)
<b>Underlying profit before tax</b>	553	597	1,532	114	2,796	(846)	1,950
Operating income tax	(152)	(164)	(429)	(32)	(777)	243	(535)
<b>Underlying profit after tax</b>	401	433	1,103	82	2,019	(604)	1,415
<b><u>Non-operating adjustments</u></b>							
Amortisation of intangible assets arising from acquisitions	-	-	(588)	-	(588)	-	(588)
Share of loss - equity accounted investments	-	-	(379)	-	(379)	-	(380)
Non-operating income tax	-	-	165	-	165	(153)	12
<b>Statutory profit after income tax</b>	401	433	301	82	1,217	(757)	460



# CASH FLOW

	H1 FY21 \$000's	H1 FY20 \$000's
EBITDA	3,535	3,080
Working capital movements	536	1,562
Income tax payments	(85)	(505)
Net interest costs	(118)	(196)
<b>Operating cash flows generated</b>	<b>3,868</b>	<b>3,941</b>
CAPEX investments	(973)	(501)
Investments in Food Lab joint venture	(486)	(135)
Analytica earn out payments	-	(2,584)
Bank debt/lease repayments	(1,523)	(501)
<b>Net increase/(decrease) in cash</b>	<b>886</b>	<b>220</b>
Opening cash	2,854	1,031
FX movements	6	5
<b>Closing cash</b>	<b>3,747</b>	<b>1,256</b>

## Operating cash flows strong

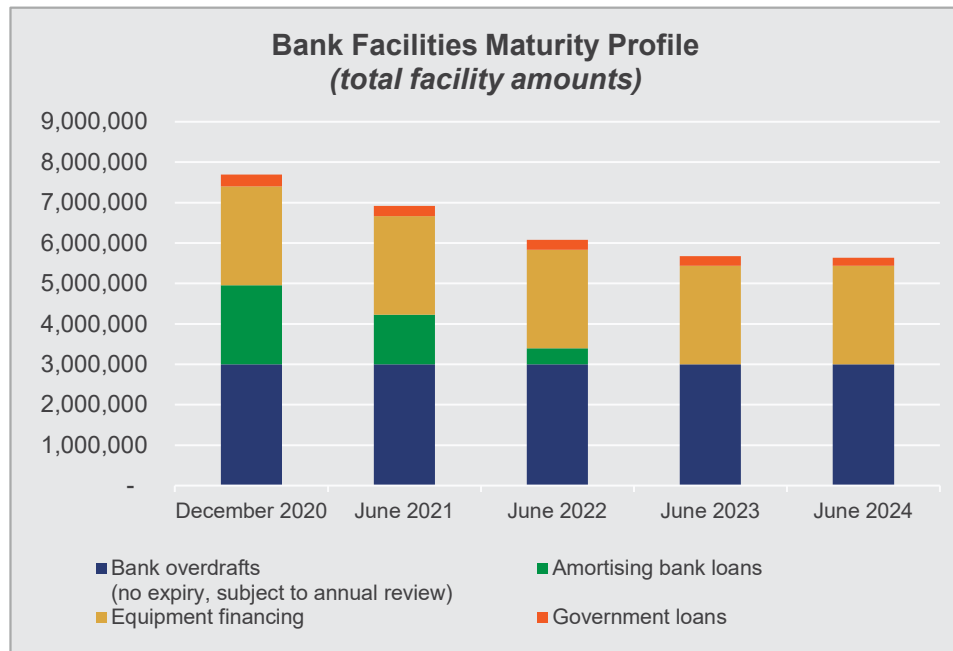
- \$0.5M increase in EBITDA
- Strong debtor collections
- \$0.6M in JobKeeper subsidies received
- COVID deferred payments (GST/PAYG) settled
- NZ tax payments not due until 2<sup>nd</sup> half

## Investing in future growth

- Further investments made in Food Lab JV – trading due to commence calendar 2021
- CAPEX focused on lab equipment and OCTFOLIO software upgrades
- Excess cash applied against bank debt, now in a net cash position of \$0.6M

# DEBT METRICS

	Dec 2020
<b>Banking Covenants</b>	
Debt service cover (min >1.5x)	3.0x
Debt to EBITDA (max 200%)	50%
<b>Debt/Equity Mix</b>	
Net Cash/(Debt)	\$0.6M
Total Equity	\$26.7M
<b>Bank Facilities</b>	
Total available facilities	\$7.9M
Total undrawn facilities	\$4.7M



# 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
- Government clients offers some stability to workloads

## Software

- Ongoing feature development to expand target market
- Business development activities returning post COVID interruptions

## Geotech

- Current market outlook is improving with an increasing level of tender activity
- 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 12 months

# CONTACTS AND MORE INFORMATION

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# APPENDIX A

## DETAILS ON NON-OPERATING PROFIT ADJUSTMENTS

ADJUSTMENT	DESCRIPTION
<b>Analytica earn-out expense</b>	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 \$2.16M. The earn-out payments were completed in November 2019.
<b>Amortisation of intangible assets arising from acquisitions</b>	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 were fully amortised. The remaining Analytica intangible assets are being amortised over a 5 year period.
<b>Equity accounted share of profits</b>	<p>HRL's % share of profit/loss for its non-controlling investments in:</p> <ul style="list-style-type: none"> <li>Food Lab Pacific Limited (50%); and</li> <li>CAIQTest (Pacific) Limited (26%).</li> </ul> <p>During the half year ended 31 December 2020, HRL's share of profit/loss in each was:</p> <ul style="list-style-type: none"> <li>Food Lab Pacific Limited – loss of \$467k</li> <li>CAIQTest (Pacific) Limited – profit of \$87k</li> </ul>