



Investor Presentation

Full Year Results December 2021
HRL Holdings (ASX:HRL)

HRL

This presentation has been approved by the Board

DISCLAIMER

This presentation is not a prospectus nor an offer for securities in any jurisdiction nor a securities recommendation. The information in this presentation is an overview and is based on publicly available information and internally developed data and does not contain all information necessary for investment decisions. In making investment decisions in connection with any acquisition of securities, investors should rely upon their own examination of the assets and consult their own legal, business and/or financial advisors and should not be relied on in connection with a decision to purchase or sell any securities.

The information contained in this presentation has been prepared in good faith by HRL Holdings Limited ("HRL") however, no representation nor warranty expressed or implied is made as to the accuracy, correctness, completeness or adequacy of any statements, estimates, opinions or other information contained in this presentation.

Investment in HRL is subject to investment risk, including possible loss of income and capital invested. The occurrence of events in the future are subject to risks, uncertainties and other factors that may impact HRL's actual results, performance or achievements to differ from those referred to in this presentation. Neither HRL, nor any other member company of the HRL Group, nor any officer or employee guarantees any particular rate of return or performance, nor do they guarantee the repayment of capital. Further, they do not give any assurance or guarantee that the occurrence of the events referred to in this presentation will actually occur as contemplated.

The presentation may contain forward-looking statements regarding the potential of the Company's revenues, projects, interests and the development potential of the Company's business. Any statement describing a goal, expectation, intention or belief of the Company is a forward-looking statement and should be considered an at-risk statement. Given these risks, readers are cautioned not to rely on forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements due to many important factors, risks and uncertainties including, without limitation, risk associated with product sales, development and manufacture, risks inherent in the business, future capital needs, general economic uncertainty and other risks detailed from time to time in the Company's announcements to the ASX.

HRL Overview

A scientist with dark curly hair, wearing safety glasses and a white lab coat, is focused on examining a small, clear vial. The vial has a white label with the text "16-4411 000" and "16-1-5-T" written on it. The scientist is wearing white gloves. The background is a blurred laboratory setting with various pieces of equipment. The entire image has a green tint.

WHO WE ARE



WHAT WE DO



Sampling



Laboratory



Data Management

LABORATORY SERVICES



Food



Geotech and Construction Materials



Environmental



Occupational Hygiene

BRANCH NETWORK

Laboratory locations:

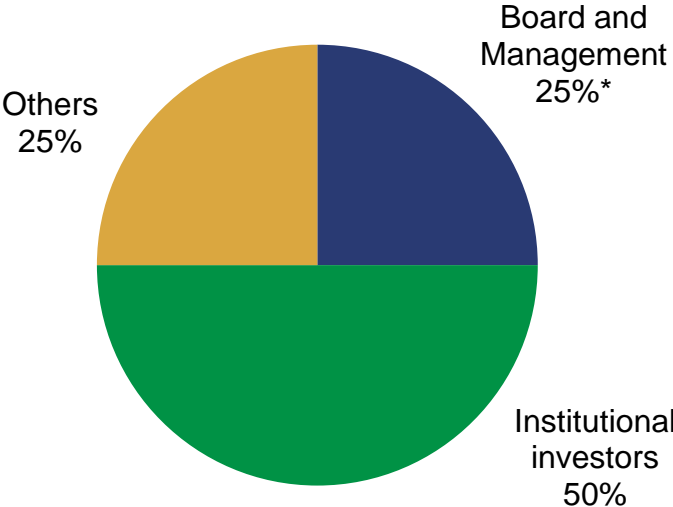
- Brisbane – Darra
- Brisbane – Yatala
- Sunshine Coast
- Darwin
- Auckland
- Wellington
- Christchurch
- Dunedin
- Hamilton
- Hawkes Bay

Consulting offices

- Palmerston North
- Tauranga

OUR MAJOR SHAREHOLDERS

Shareholder composition:



Substantial holder notices >5%

| | |
|--------------------------------|-----|
| Richmond Hill Capital | 22% |
| Perennial Value | 15% |
| AustralianSuper | 11% |
| Australian Ethical Investments | 10% |

* Includes 21.98% interest held by Richmond Hill Capital Pty Ltd. HRL Director Alex White is a director of Richmond Hill Capital Pty Ltd and has an indirect interest as portfolio manager.

HY2022 Highlights

SOCIAL RESPONSIBILITY



Environment

Minimise our environmental footprint

- ✓ No uncontrolled releases
- ✓ No environmental fines or prosecutions



Safety

Health & safety performance

- ✓ Group wide COVID-19 health protocols in place
- ✓ Continued focus on safety with LTIFR of 2.1



People

We value differences and equal opportunities

- ✓ Diverse workforce with 50% female representation



Governance

Operate ethically, responsibly, sustainably

- ✓ Strong cultural alignment, internal assurance programs, ASX governance principles

HY2022: SALES GROWTH CONTINUES, INVESTING FOR CAPACITY

\$18.0M

Revenue

10% growth in constrained business conditions (HY21: \$16.4M)

\$2.0M

Underlying EBITDA

Down 45% on prior period, impacted by weak dairy and honey seasons and COVID-19 (HY21: \$3.6M)

\$0.8M

Operational Cashflow

Soft cashflows on weaker trade and investments in operational capability (HY21: \$3.8M)

\$3.5M

Net Debt

Increased borrowings for capital investment program and joint venture investments

HALF YEAR REVIEW: STRATEGIC OBJECTIVES PROGRESSSED

Group sales revenue growth +10% vs HY21

- Strong growth in environmental and product origin testing, offsetting decline in traditional laboratory honey and dairy markets.
- Environmental and asbestos testing grew 15% (excluding acquisition revenues) despite being one of the main service lines impacted by the NZ lockdowns.
- Geotech major infrastructure multiyear project win was mobilized during the half.
- HAZMAT growth of 22% driven by expanded Australian environmental laboratory offering and increased NZ labour capacity.

Expanding the business and service capability

- Investment in technical operating capacity to support future volume growth. Headcount at December 327 vs June 282 (+16%).
- Material group CAPEX investment of \$3.4M for equipment, software development and joint ventures. This is a significant investment as outlined in the 3 year strategy.

HALF YEAR REVIEW: PROFITABILITY DECLINE

Difficult market conditions and investment in capacity impacted profitability

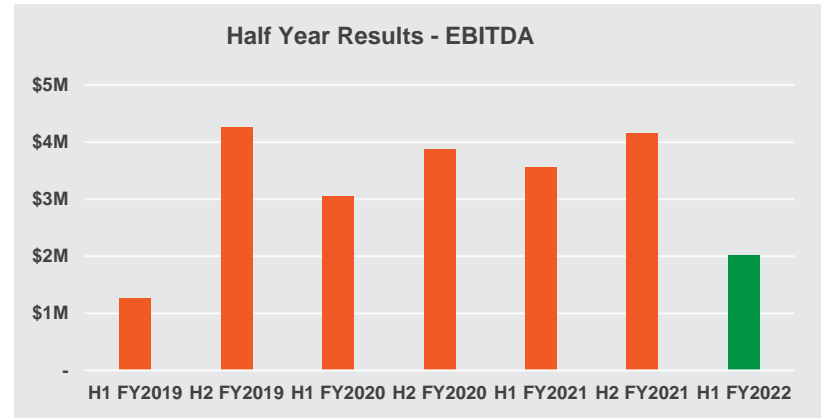
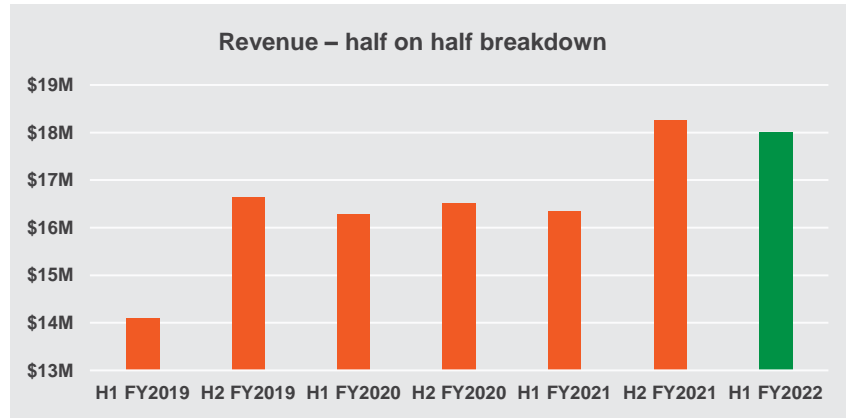
- Honey over supply from the previous season combined with a fall in demand from overseas customers and daigou channels contributed to a 28% drop off in testing.
- Dairy beta casein customers reported excess inventories due to COVID-19 creating substantial demand/supply volatility and daigou channels declining which resulted in a 16% drop off in testing.
- Investment in increased labour resource capacity ahead of continuing sales growth at the cost of short-term profitability.
- COVID-19 NZ impacts for most of the half in key North Island markets being in level 3 to level 4 restrictions from August – November (61% of working days)
 - Customer business' affected resulting in lower laboratory volumes and sampling work.
 - Increased laboratory operating costs due to COVID-19 measures.

NZ COVID-19 DISRUPTIONS

The NZ businesses were frequently disrupted and customer’s business activities were constrained by Alert Level 3 and Alert Level 4 restrictions impacting ~61% of available work days.

| Date | Lockdown |
|-----------------------------|--|
| August 17 to August 31 | Level 4 - Nationwide |
| September 1 to September 8 | Level 4 – Auckland and Northland |
| | Level 3 – Rest of New Zealand |
| September 8 to September 22 | Level 4 – Auckland and Northland |
| | Level 2 – Rest of New Zealand |
| September 23 to October 4 | Level 3 – Auckland |
| | Level 2 – Rest of New Zealand |
| October 4 to November 2 | Level 3 – Auckland, Northland and Waikato (Hamilton) |
| | Level 2 – Rest of New Zealand |
| 3 December onwards | COVID-19 Protection Framework (“traffic light system”) |

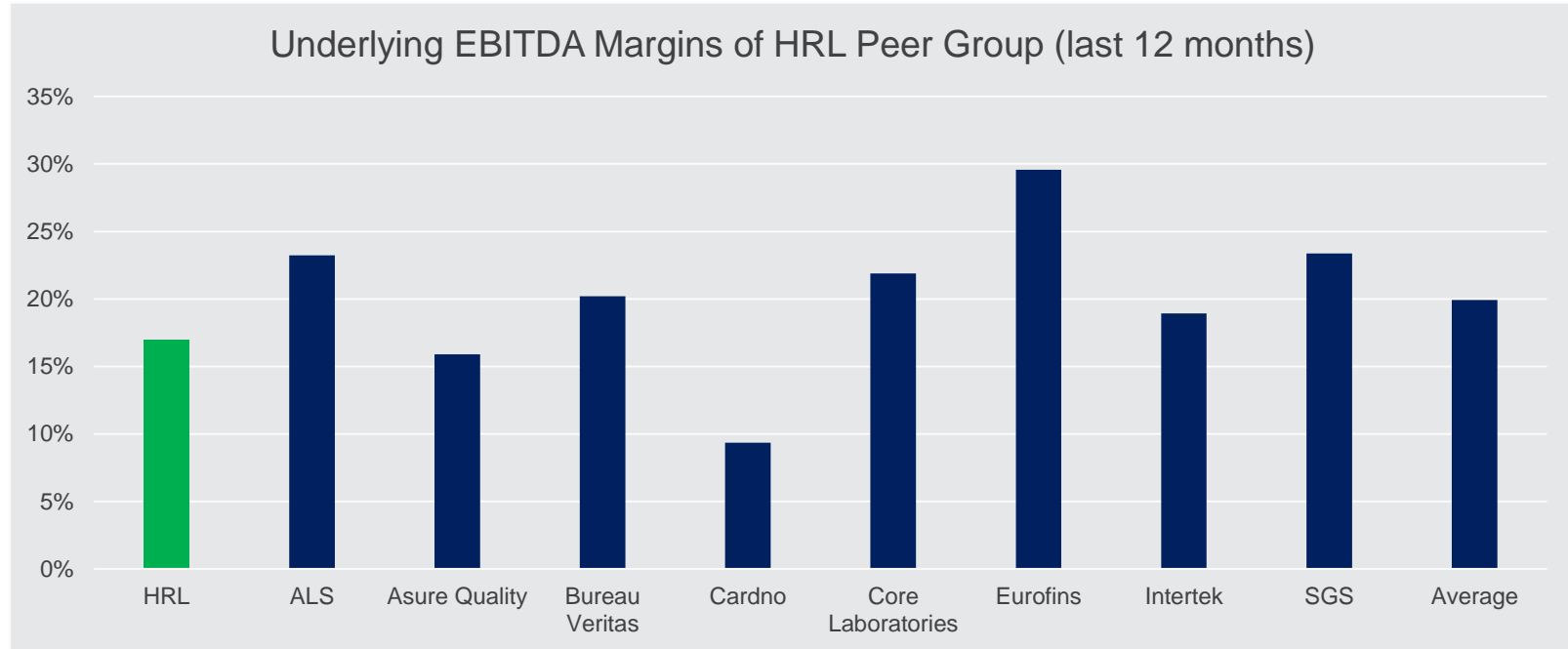
HY2022: REVENUE AND EBITDA



- Growth in environmental, product origin and projects income offset by weak dairy and honey seasons, and NZ COVID-19 restrictions.
- HAZMAT 22% revenue growth solid despite impacts of NZ COVID-19.
- Geotech revenues up 18% on prior period with improved trading conditions.

- Declined profitability due to:
 - Soft dairy and honey volumes.
 - NZ COVID-19 restrictions.
 - Operational capability investments in technical staff.
 - Mobilisation costs of major Geotech project.

MARGIN COMPARISON



Source: Latest full 12-month results from publicly released reports

FINANCIAL HIGHLIGHTS

| | HY2022 \$000's | HY2021 \$000's | % change |
|--|-------------------|-------------------|----------|
| Revenues | 18,004 | 16,359 | 10% |
| Underlying EBITDA | 2,015 | 3,632 | (45%) |
| Underlying NPAT | 50 | 1,502 | (97%) |
| Operating cash flows generated | 767 | 3,867 | (80%) |
| Net cash/(debt) | (3,482) | 553 | |
| Statutory profit/(loss) after tax ¹ | (729) | 460 | |

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.

SEGMENT PERFORMANCE – HY2022

| | 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 | 5,005 | 3,832 | 8,773 | 394 | 18,004 | - | 18,004 |
| Underlying EBITDA (\$) | 870 | 43 | 1,561 | 64 | 2,538 | (804) | 1,734 |
| Share of profit – CAIQTest (Pacific) Limited | - | - | 280 | - | 280 | - | 280 |
| Underlying EBITDA (\$) | 870 | 43 | 1,841 | 64 | 2,818 | (804) | 2,014 |
| Underlying EBITDA (%) | 17% | 1% | 18% | 16% | 14% | - | 10% |
| Operating depreciation and amortisation | (377) | (235) | (987) | (185) | (1,784) | (20) | (1,804) |
| Net interest expense | (28) | (8) | (33) | - | (69) | (102) | (172) |
| Underlying profit before tax | 465 | (200) | 821 | (121) | 965 | (926) | 39 |
| Operating income tax | (128) | 55 | (230) | 34 | (269) | 280 | 11 |
| Underlying profit after tax | 337 | (145) | 591 | (87) | 696 | (646) | 50 |
| <u>Non-operating adjustments</u> | | | | | | | |
| Amortisation of intangible assets arising from acquisitions | - | - | (244) | - | (244) | - | (244) |
| Share of loss – Food Lab Pacific Limited | - | - | (537) | - | (537) | - | (537) |
| Non-operating income tax | - | - | 68 | - | 68 | (66) | 2 |
| Statutory profit after income tax | 337 | (145) | (122) | (87) | (17) | (713) | (729) |

CASH FLOW

| | HY2022 \$000's | HY2021 \$000's |
|--|-------------------|-------------------|
| EBITDA | 2,015 | 3,632 |
| Share of CAIQTest profits | (280) | (87) |
| Working capital movements | (726) | 525 |
| Income tax payments | (66) | (85) |
| Net interest costs | (176) | (118) |
| Operating cash flows generated | 767 | 3,867 |
| CAPEX investments | (2,791) | (974) |
| Investments in Food Lab Pacific | (586) | (486) |
| CAIQTest loan repayments | 141 | - |
| Debt/lease proceeds/(repayments) | 1,730 | (1,523) |
| Net increase/(decrease) in cash | (739) | 884 |
| Opening cash | 1,585 | 2,854 |
| FX movements | 6 | 9 |
| Closing cash | 852 | 3,747 |

Operating cashflow

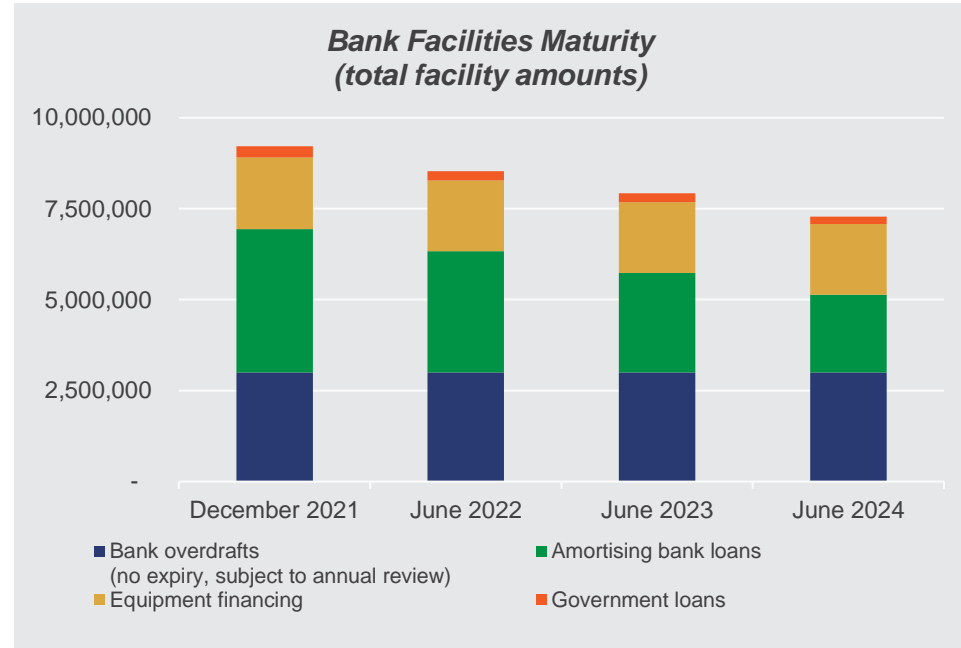
- \$1.6M decrease in EBITDA
- Working capital increases due to prepaid insurances (~\$0.5M) and higher laboratory inventory levels (~\$0.2M)
- Borrowing costs increased in line with higher debt balances

Investing and Financing

- Strategic increased spend on CAPEX focused on laboratory equipment and software
- Further investments made in Food Lab JV
- Debt funding used to finance CAPEX and Food Lab JV contributions
- CAIQTest Pacific JV repayment of all shareholder loans

DEBT METRICS

| December 2021 | |
|--------------------------------|---------|
| Banking Covenants | |
| Debt service cover (min >1.5x) | 2.1x |
| Debt to EBITDA (max 2.0x) | 0.9x |
| Debt/Equity Mix | |
| Net Debt | \$3.5M |
| Total Equity | \$27.0M |
| Bank Facilities | |
| Total available facilities | \$9.2M |
| Total undrawn facilities | \$4.6M |



Strategy Update & Market Outlook

A woman in a white lab coat is looking through a microscope. The image is overlaid with a teal color and a yellow abstract shape on the right side.

STRATEGY UPDATE AND 3 YEAR VISION

- Board and Management have invested significant time in 2021 planning HRL's strategy for the mid-term.
- This process re-affirmed the significant opportunity to build a mid-market, disruptive and high-quality analytical testing business of scale.
- The key driver of the Group's growth over the next 2-3 years will be the continued organic expansion of services and market share gains for the Laboratory segment in addition to future acquisition opportunities.
- The Group has a robust balance sheet with minimal net debt and strong operating cash flows that will enable it to reinvest into the business, with a key focus on:
 - **Capital investment on laboratory equipment.** Given the attractive returns available on laboratory equipment (often +30% return on invested capital), the Board has given a clear directive to aggressively pursue investment opportunities to accelerate organic growth.
 - **Re-investment strategy for the Octfolio software products.** To date this business has been resource constrained and given the size of the market opportunity, the Board believes it is appropriate to allocate additional resources to the business in order to attempt to build a scaled SaaS company that has the potential to become highly valuable to the Group.
- The Group's FY2024 ambition is to organically grow to \$45-50m of revenue (excluding JV operations) at industry leading margins.

STRATEGY UPDATE – LABORATORY

3 year Strategic Initiatives

- Investment initially focused on top line revenue growth followed by longer-term margin gains.
- Target rapid market share growth in the environmental testing space driven by investments in equipment, staff and business development.
- Focus on expanding water testing capabilities acquired through the Water Testing Hawkes Bay acquisition to other regions.
- Continue to provide market leading services in the dairy and honey market by always improving the customer experience.
- Invest in R&D to drive the next wave of testing innovations.
- Continual process review and development to increase volume and cost efficiencies.
- Continue to seek attractive smaller NZ asset acquisitions.

6 month update

- Strong organic growth in environmental and product testing despite COVID-19 interruptions to key customer markets.
- Increase in headcount of +14% to increase capacity in key segments.
- New water testing capability being deployed to South Island branch.
- New equipment automation robotics to be deployed in H2.
- \$2M CAPEX investment for high-end instrumentation during the period.

STRATEGY UPDATE – SOFTWARE

3 year Strategic Initiatives

- Reinvest current software earnings back into the product.
- Bring software development in-house to accelerate product development.
- Establish a reseller/agency network for current products to accelerate sales:
 - Appoint new reseller business development team
 - Develop reseller specific products to support growth
- Commence development on new mass market compliance and reporting tools that are flexible and affordable to all businesses.

6 month update

- Reinvestment of earnings to fund growth has commenced.
- Development of reseller platform is underway.
- Expect to appoint new partners to establish a reseller network in H2.

STRATEGY UPDATE – HAZMAT

3 year Strategic Initiatives

- Focus on New Zealand opportunities in both asbestos consulting and the new occupational hygiene service.
- Investment in recurring graduate/trainee programs to address structural labour constraints in the New Zealand market.
- Increase market share in high margin, high demand occupational hygiene services.
- Mature Australian consulting operations to remain consistent. Strong engagement with key account customers to continue to win their work.
- Australian growth to come from expanded laboratory offerings, focusing on local environmental testing opportunities.

6 month update

- NZ Occupational hygiene expansion disrupted by COVID-19 restrictions in the North Island, however major projects booked to start in H2.
- Headcount growth of 10% in NZ to service increased demand. Blend of trainees and experienced staff.
- Australian laboratory CAPEX \$0.2M to provide environmental services. Method development underway with accreditation booked for H2.

STRATEGY UPDATE – GEOTECH

3 year Strategic Initiatives

- Increase short term revenues – large multiyear road development project secured will help underpin revenues.
- Take advantage of planned Southeast Queensland infrastructure spend.
- Focus on cost control and process efficiencies.
- Investigate niche specialised testing services that are less price sensitive and have higher technical barriers to entry.
- Commence strategic review of business.

6 month update

- New multiyear project has mobilised, with significant resourcing costs incurred in H1.
- Headcount growth of +38%.
- Revenue growth +18% on HY21.
- Management working on cost efficiencies and productivity initiatives to increase profitability.

MARKET OUTLOOK FOR FY2022 – HRL GROUP

- We continue to expect significant COVID-19 disruptions to business operations which remain difficult to forecast.
- FY2022 will lay the foundation for the 3 year strategy and we expect to continue to develop this in H2.
- HRL expects to invest heavily in both CAPEX (joint ventures, laboratory equipment and software) and OPEX (people and processes). FY2022 CAPEX is expected to be around \$4.5M.
- HRL is targeting strong revenue growth through FY2022. Margin growth is expected to lag initially but follow in subsequent years as our investments generate returns.
- OCTFOLIO is expected to trade at breakeven levels as resources are re-invested in the new product suite.
- HRL will continue to support its joint venture partners as they both enter exciting new phases. CAIQTest Pacific continues to strongly grow both revenue and profits. Food Lab is now in a business development phase.
- HRL will continue to seek out new acquisition and joint venture opportunities in the laboratory segment.

CONTACTS AND MORE INFORMATION

Steven Dabelstein | CEO
steven.dabelstein@hrlholdings.com

Michael Harvey | CFO
michael.harvey@hrlholdings.com

www.hrlholdings.com



APPENDIX A

DETAILS ON NON-OPERATING PROFIT

| ADJUSTMENT | DESCRIPTION |
|--|---|
| 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, and Water Testing Hawkes Bay. The Analytica and Water Testing Hawkes Bay intangible assets are being amortised over a 3 to 5 year period. |
| Equity accounted share of profits | HRL's % share of profit/loss for its non-controlling investments in Food Lab Pacific Limited (50%). During the half year ended 31 December 2021, HRL's share of loss in Food Lab Pacific Limited was (\$537,000). |
| Non-operating tax | Non-operating tax comprises: <ul style="list-style-type: none"> • The notional tax benefit arising on the amortization of acquired intangible assets; and • Non-resident withholding tax incurred on intercompany interest charged between the Australian and New Zealand tax groups. This withholding tax will be ultimately recoverable when the Australian tax group utilizes all of its remaining carried forward tax losses but has not been recognized as deferred tax asset at this stage. |