

ASX Release

Apiam Animal Health Limited

(ASX: AHX)

Apiam delivers revenue and underlying EBITDA at upper end of May guidance

Highlights

- FY2017 revenue of \$98.0 million and underlying EBITDA of \$8.3 million - upper end of May 2017 guidance
- Revenue of \$51.9 million in H2 FY2017, an increase of 17.1% on H2 FY2016, driven mainly by acquisitions in feedlot and genetics but also by strong performances in the pig, dairy, companion and equine businesses
- Gross margin expansion due to business mix and the realisation of procurement synergies
- Building the platform for future growth now largely complete. Operating infrastructure in place to underpin continued growth and deliver efficiencies
- Business development initiatives to drive new revenue streams: rural & regional expansion strategy, growth focus on underserved rural companion and mixed animal markets
- Positive outlook for FY2018, with Apiam's revenue performance year to date in line with Company expectations - not affected by the industry conditions that affected Q1 FY2017
- Final dividend of 0.8 cents per share, fully franked. Dividend Reinvestment Plan to be implemented to allow shareholders to reinvest their dividends in Apiam's future growth

Melbourne, August 25, 2017 – Apiam Animal Health Limited (**Apiam** or the **Company**) today released its financial results for the 2017 financial year (**FY2017**). Apiam's results were at the upper end of Company guidance, as reported to shareholders in May 2017.

Revenue for the 12 months to 30 June 2017 was \$98.0m, with revenue for the second half (H2 FY2017) of \$51.9m, improving 17.1% on H2 FY2016, the prior comparable period (**pcp**). In spite of challenging industry conditions in the dairy and feedlot industries, revenue in H2 FY2017 increased 1.0% compared to H2 FY 2016 (excluding the impact of the Quirindi Veterinary Group (QVG) and AllStock acquisitions).

Key drivers of Apiam's revenue results were a strong performance from Apiam's companion animal, genetics services and equine businesses. Apiam's pig revenues also grew as a result of new customers and product lines, particularly in Q4 FY2017. The Company's beef feedlot revenues were affected by cattle supply issues experienced by smaller feedlot customers in South Eastern Australia. Apiam's larger corporate feedlot business has continued to perform in line with company expectations.

Revenue (excluding acquisitions) in H2 FY2017 increased 6.4% against H1 FY 2017, supported by a strong finish to the year across all business units.

Apiam acquired QVG, a leading beef feedlot focused veterinary practice in September 2016 (10-month contribution to FY2017) which has performed in line with expectations. AllStock, was acquired in January 2017 (6-month contribution to FY2017). AllStock have performed strongly since acquisition, delivering both revenue and earnings growth. Additional details are discussed in the Acquisitions section below.

Apiam reported gross profit of \$47.3m for FY17, representing an expansion in the group's gross profit margin from 46.8% in FY2016 to 48.2% in FY2017. This margin uplift was driven by changes in the Company's business mix as well as the realisation of procurement synergies.

Apiam's reported net profit after tax (NPAT) for FY2017 was \$5.0m (which included \$1.3m of non-operating income associated with the reversal of a contingent liability on the balance sheet).

The following tables are presented to assist in the interpretation of the underlying performance of the Company during the FY2017 period. In the absence of a full 12 month FY2016 result, we have also included a half year analysis over the periods H2 2016 (the first full 6 month trading period since Apiam's listing in December 2015), H1 2017 and H2 2017. This information is additional and provided using non-IFRS information and terminology.

Apiam FY17 Consolidated Financial Results

\$M	FY17A	FY16 ¹	Variance	%
Total Revenue	98.0	54.1	43.9	81.1%
Gross Profit	47.3	25.3	21.9	86.6%
Expenses				
Employment Costs	(27.0)	(14.2)	(12.8)	90.8%
Other expenses	(11.9)	(5.3)	(6.6)	123.4%
Total Operating Expenses	(38.9)	(19.5)	(19.4)	99.7%
Underlying EBITDA²	8.3	5.8	2.5	42.8%
Integration / ERP expenses	(0.7)	(0.5)	(0.3)	
Acquisition/Advisory expenses	(0.2)	(3.3)	3.0	
Reversal of contingent consideration	1.3	0.0	1.3	
EBITDA	8.6	2.1	6.5	
Depreciation & Amortization	(1.4)	(0.6)	(0.8)	
EBIT	7.2	1.5	5.7	
Interest	(0.9)	(0.4)	(0.5)	
Net Profit/(loss) before tax	6.3	1.1	5.2	
Tax	(1.3)	(1.0)	(0.3)	
Net Profit/(loss) after tax	5.0	0.1	5.0	
Gross Margin (%)	48.2%	46.8%		
Underlying EBITDA margin (%)	8.5%	10.8%		

Notes:

- 1 FY16A results reflect a partial year comprising contributions from Chris Richards Group (and 3 clinics in which the group had a majority equity interest) from 1 November 2015 and the contribution from 9 other clinics acquired from 10 December 2015
- 2 Underlying EBITDA excludes one-off integration, ERP & acquisition expenses as well as \$1.3m of income associated with the reversal of Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

Apiam FY17 Half Year Analysis

\$M	H2 17A	H1 17A	%	H2 16A	%
Total Revenue	51.9	46.1	12.6%	44.3	17.1%
Gross Profit	24.7	22.6	9.1%	21.1	16.9%
Expenses					
- employment costs	13.8	13.2	4.6%	11.8	17.0%
- general expenses	6.5	5.4	20.9%	4.3	51.9%
Operating expenses	20.3	18.6	9.3%	16.1	26.3%
Underlying EBITDA¹	4.3	4.0	8.4%	5.0	(13.3)%
- Gross margin	47.5%	49.0%		47.7%	
- Underlying EBITDA margin	8.4%	8.7%		11.4%	

Notes:

- 1 Underlying EBITDA excludes one-off integration, ERP & acquisition expenses as well as \$1.3m of income associated with the reversal of Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

Strategic plan & business development

In FY2017, Apiam has been focussed on executing the first phase of its three-year strategic plan – “building the foundations”. This has centred around successfully integrating acquired businesses and building a platform that can deliver future growth for shareholders.

The “building the foundations” phase is now largely complete. Significantly, Apiam’s Enterprise Resource Planning (ERP) system went live on 1 May 2017 and was delivered on-time and on-budget. This was an essential investment for Apiam enabling the company to have an integrated system to track its sales, financial information, stock and human resources data. Capturing of real-time monitoring and forecasting data will also enable the business to drive more efficient work practices and more effectively and quickly respond to customer trends and opportunities. The roll-out of Apiam’s Practice Management System is one of the last planned foundation investments and will occur across FY2018.

As previously advised, additional veterinarians, key account managers and administration support staff required to support Apiam’s next stage of growth were mostly hired in the first half of FY2017. Significant work has also been undertaken in FY2017 in important foundational areas such as work place policies, culture and branding.

Apiam’s focus in FY2018 is to move to the second phase of its strategic plan – “gaining efficiencies”. The Company is well placed to deliver in this area and is already beginning to deliver revenue synergies. Operating efficiencies will commence to be delivered throughout FY2018 and into FY2019, particularly as Apiam’s Practice Management System investment is completed.

Several initiatives to drive additional revenue streams in FY2018 have also been implemented. Specifically, these business development initiatives are:

- Rural & regional expansion strategy: Strategic expansion of services in locations where strong market demand exists. The opening of our satellite clinic in Nathalia (northern VIC) in April 2017 and our subsequent South West Equine Veterinary Group JV are our first examples of this strategy. These are efficient investments requiring limited capital expenditure and which leverage nearby infrastructure and cost centres. Apiam expects to open a number of new greenfield and satellite clinics in FY2018;

- A growth focus on the underserved rural companion and mixed animal markets to capture revenue in an underserved segment in rural and regional Australia; and
- Supply chain initiatives: Further integration of supply chain as well expansion into development of a private label range and higher margin products.

Acquisitions

Apiam announced two acquisitions during FY2017.

Apiam acquired NSW based Quirindi Veterinary Group (QVG) on 1 September 2016 for consideration of \$11.57m. QVG has three key business divisions – (i) provision of veterinary services to large beef production systems throughout Australia; (ii) provision of equine reproduction services at its custom built centre in Quipolly; and (iii) a livestock and companion veterinary practice in Quirindi. The acquisition of QVG strengthened Apiam's position in the beef feedlot industry and established a presence in rural NSW from which to leverage the Company's product offering. Since acquisition, QVG has performed strongly and is important for Apiam's strategy in the beef feedlot sector going forward.

Apiam also acquired AllStock (NSW) Pty Ltd for \$1.75m on 5 January 2017. AllStock provides embryo transfer and artificial insemination services to the sheep and goat industries. AllStock also has commercial operations in livestock identification systems, to enhance traceability in the event of food safety and disease outbreaks. This acquisition has established Apiam as Australia's leader in large scale sheep and goat herd expansion and genetic upgrade programs. AllStock has performed exceptionally well since acquisition, with revenue uplift occurring in the first six months of Apiam's ownership.

Growth via acquisition remains an important part of Apiam's business strategy. Our focus is to make strategic acquisitions to further leverage our cost base and infrastructure and to deliver services and product offering to an enlarged client base.

Expenses

Apiam has brought together some of the largest rural veterinary practices from around the country. In FY2017, Apiam has made a significant investment in "building the foundations" of the enlarged business with the capacity to deliver organic growth, additional strategic acquisitions, synergies and operating efficiencies for shareholders in the coming years.

Investment in key foundational areas in FY2017 were across the following areas:

- \$1.95m in new employees: Veterinarians to drive growth, three additional key account managers as well as strengthening administration support (HR, Finance, IT, Marketing and People & Culture);
- \$1.70m in other operating expenses: Business development strategy, marketing, brand development, people and culture; and
- \$0.80m in IT systems: Implementation of an integrated Enterprise Resource Planning (ERP) system of which \$0.40m was expensed and \$0.40m was capitalised (to be amortised over its useful life, in accordance with accounting standards).

An additional \$1.8m of operating expenses (employment & other) were incurred in FY2017 as a result of the QVG and AllStock acquisitions.

Apiam believes its operating infrastructure is now at a level required to sustain the expected next stage of the Company's growth and expect to deliver additional cost efficiencies as the final stage of system integration is rolled out over FY2018.

Apiam's Practice Management System (PMS) "VetLink" is being implemented in FY2018 following extensive development work by clinic personnel across several vet clinics over the past year. It is expected that approximately \$0.25m of this investment will be capitalised and amortised over its useful life (in accordance with accounting standards) and that approximately \$0.35m will be expensed.

One-off expenses incurred in FY2017 were \$0.5m related to a number of integration projects and the acquisitions.

Balance sheet

As at 30 June 2017, Apiam reported cash on hand of \$1.0m and borrowings of \$25.7m. Borrowings increased from \$16.0m as at 30 June 2016, largely due to the acquisition of QVG during the period. In June 2017, Apiam negotiated new covenants related to its borrowing facility provided by banking partner, NAB. The amended covenants better align Apiam's working capital requirements with its strategic plan, providing greater flexibility where required.

Inventory growth has been in-line with the growth of Apiam's business operations. Inventory levels as at 30 June 2017 were \$11.5m, compared to \$10.2m as at 30 June 2016. Apiam normally experiences a seasonal increase in inventory around December which has decreased, in addition to the company having a focus on inventory controls and management.

The increase in June 30 FY2017 inventories of \$1.3m compared to June 30 FY2016 is due to the centralisation of inventory procurement and the additional inventory required as a result of the QVG acquisition.

Cash flow

Apiam's operating cash flow has improved in the second half of FY2017, particularly due to focussed efforts to reduce inventory. The QVG and AllStock acquisitions have been significant drivers of net investing and net financing cash flows over the period.

\$M	FY2017 A	FY2016 A ¹
Net cash used in operating activities	1.7	(1.2)
Acquisition of subsidiary, net of cash	(8.4)	(24.1)
Purchases of property, plant and equipment	(1.6)	(0.3)
Restructure of group entities, net of cash	0.0	(0.6)
Other	(0.1)	(0.1)
Net cash used in investing activities	(10.0)	(25.1)
Proceeds from issue	0.0	23.0
Net changes in financing	7.2	5.4
Net cash inflow from financing activities	7.2	28.4
Net change in cash and cash equivalents	(1.1)	2.1

Notes:

¹ FY16A results reflect a partial year comprising contributions from Chris Richards Group (and 3 clinics in which the group had a majority equity interest) from 1 November 2015 and the contribution from 9 other clinics acquired from 10 December 2015

² This information is additional and provided using non-IFRS information and terminology.

Capital management

Apiam's Board of Directors have declared a final dividend of 0.8 cents per share, fully franked and payable on 20 October 2017. This represents a total dividend of 1.6 cents per share for FY2017, equivalent to a 42.6% pay-out ratio based on Apiam's FY17 operating NPAT (which excludes \$1.3m of income associated with the reversal of Contingent Liability on the balance sheet).

Apiam will implement a Dividend Reinvestment Plan (**DRP**), allowing eligible shareholders to reinvest their dividend into Apiam shares, and participate in the Company's future growth. The DRP will be in operation for the FY2017 final dividend. The key terms of the proposed Dividend Reinvestment Plan will be sent to shareholders within the next week.

Outlook

Apiam is well placed to deliver revenue and earnings growth in FY2018. We expect the second phase of our strategic plan to deliver further synergies and efficiency benefits for our shareholders.

The key underlying industry drivers for the production animal sector are positive for FY2018 and the rural companion animal sector continues to grow, with increased demand for better service offerings.

Apiam's revenues in FY2018 year to date are in line with Company expectations and have not been affected by the industry challenges that were experienced during Q1 FY2017.

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About Apiam Animal Health Limited

Apiam Animal Health is positioned in the Australian market as a vertically integrated animal health business providing a range of products and services to Production and Mixed animals. Apiam Animal Health's strategy is to service Production and Mixed animals throughout their lifecycle, including the provision of veterinary services, ancillary services, genetics, wholesale and retail of related products, together with technical services related to food-chain security.