Apiam animal health

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Financial Year 2017 Investor Presentation

25 August 2017

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FY2017 results snapshot

Revenue
$98.0m

Gross profit
$47.3m

Gross margin
48.2%

Underlying EBITDA[1]
$8.3m

Reported NPAT[2]
$5.0m

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)*

2 *Reported NPAT includes $1.3m of income associated with the reversal of Contingent Liability (as above)*

FY2017 highlights

- FY2017 revenue of $98.0m and underlying EBITDA of $8.3m delivered at upper end of May 2017 guidance
- Revenue growth in H2 2017 driven by acquisitions and strong performance in pig, dairy, companion and equine businesses
- "Building the platform for future growth" largely complete – operating infrastructure in place to underpin continued growth and deliver efficiencies
- Business development initiatives implemented to drive new revenue streams
- Solid start to FY2018 with revenue YTD in line with company expectations – Apiam well placed to deliver revenue and earnings growth in FY2018
- Fully franked final dividend of 0.8 cents per share (total FY17 pay-out ratio of 42.6%). Dividend Reinvestment Plan to be implemented to allow shareholders to reinvest their dividends in Apiam's future growth

FY2017 financial results

FY 2017 vs FY 2016 reported –

FY17 revenue and underlying EBITDA at upper end of May guidance

$m	FY17A	FY16A[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 EBITDA [2]	**8.3**	**5.8**	**2.5**	**42.8%**
Integration / ERP expenses	(0.7)	(0.5)	(0.3)	
Acquisition/Advisory/IPO expenses	(0.2)	(3.3)	3.0	
Other income	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**	
GM	48.2%	46.8%		
Underlying EBITDA margin	8.5%	10.8%		

Notes:

1. *FY16A results reflects a partial year comprising contributions from the Chris Richards Group (and 3 clinics in which this 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)*

Revenue

- FY17 revenue of $98.0m delivered at upper end of May 2017 guidance
- Strong rebound in H2, particularly Q4
- H1 FY17 affected by lower than anticipated Q1 FY17 performance, due to industry conditions
- FY17 includes 10 month Quirindi contribution and 6 month AllStock contribution
- Refer to following slides for more detail

Gross Margin

- Strong improvement vs FY16A driven by business mix & procurement synergies

Expenses

- Investment through FY17 in operating cost base reflects "building the foundations" for future growth and addition of acquired businesses
- Refer to slides 8 & 9 for more detail

Other income

- Relates to contingent consideration from entities acquired in FY16 that has been reversed from the Balance Sheet

Half on half analysis

Strong business wide growth in H2 FY2017

$m	H2 2017A	H1 2017A	Chg (%)	H2 2016A	Chg (%)
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 EBITDA	**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:
Underlying EBITDA excludes reversal of contingent consideration and one-off acquisition and integration expenses

Revenue

- Significant uplift in H2 2017 vs H1 2017 (including & excluding acquisitions)
- Refer to following slide for detailed analysis

Gross margin (H2 2017)

- Gross margin lower vs H1 2017 & in line with H2 2016:
  - QVG acquisition in Sep 2016 contributes a lower average gross margin (beef feedlot sales are at a lower gross margin across the industry)
  - gross margin (ex QVG acquisition) increased given growth in companion and equine services and the realisation of procurement synergies

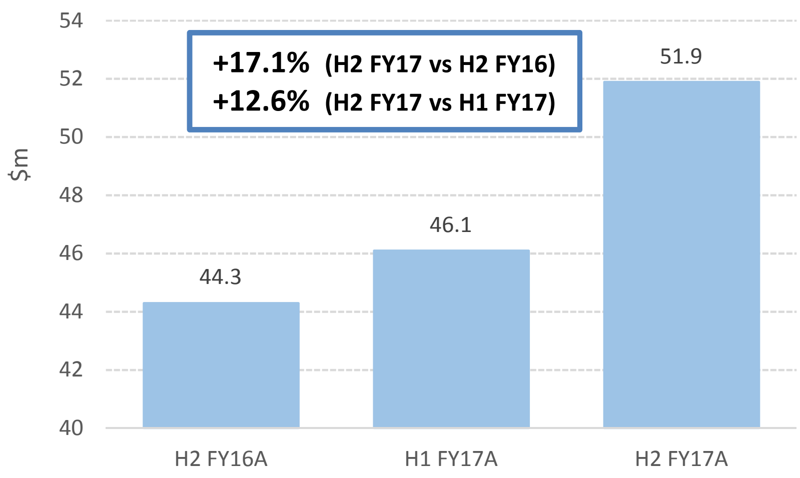
Expenses

- Increased operating expenses in FY2017 reflect the investment required to build the platform for the next stage of company growth and deliver future operational efficiencies
- Incremental operating expenses incurred in FY 2017 forms part of the on-going cost base for Apiam (as communicated in the H1 2017 results)
- Refer following slides for further detail

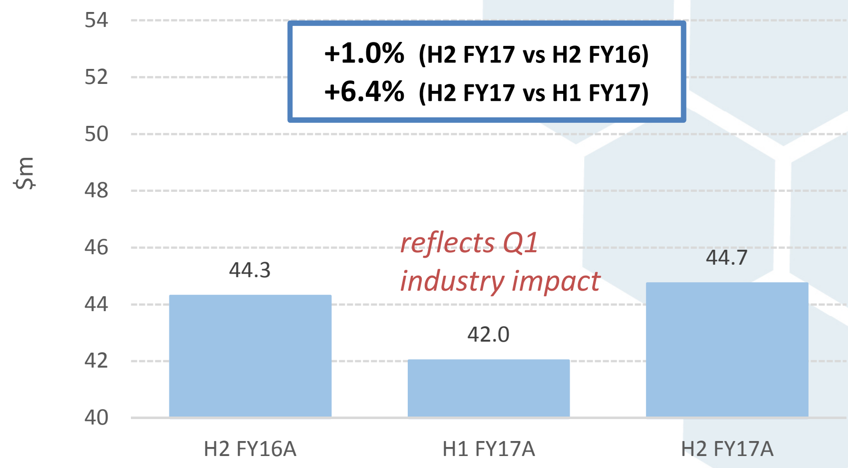
Revenue analysis

Growth initiatives driving benefits, underlying growth returning

Revenue



Revenue (ex QVG & AllStock)



Revenue H2 2017 vs H2 2016: 17.1%

- Revenue increase (ex QVG & AllStock acquisition): 1.0%
  - Companion animals : strong growth initiatives in clinics
  - Dairy : industry conditions stabilised in Q2. Recovery in vet services & product sales
  - Pigs : new customers and products delivered in Q4 2017
  - Feedlot : revenue affected by cattle supply issues experienced by smaller feedlot customers in SE Aust. Larger corporate feedlot business performed in line with expectations

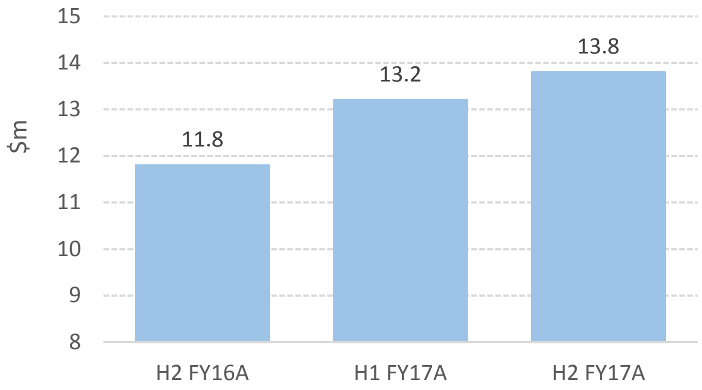
Revenue H2 2017 vs H1 2017: 12.6%

- Strong underlying revenue growth (ex QVG & Allstock acquisition): 6.4%
  - All business segments recorded growth given recovery from Q1 2017 industry conditions and realisation of growth initiatives

Operating expenses

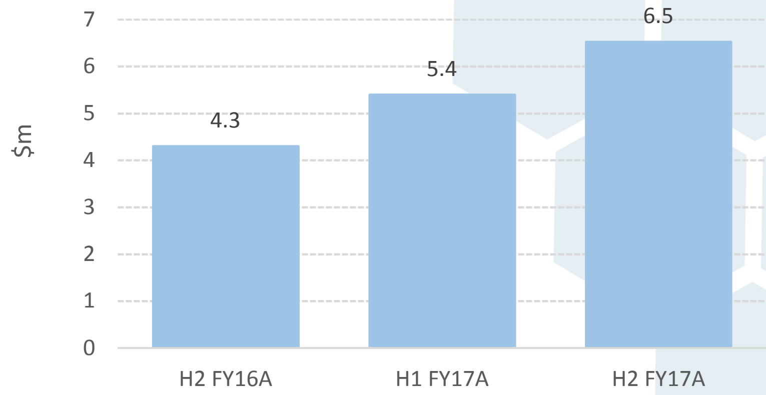
Building the platform for future growth

Employment costs



- Majority of planned investment in additional personnel made in H1 FY2017
- Full year increase of ~ $3.4m in FY2017 VS FY2016 (annualized H2 FY2016)
  - $1.95m: investment in key personnel (KAM's, vets, admin personnel)
  - $0.9m: QVG & AllStock acquisitions
  - $0.6m: introduction of incentive scheme and CPI adjustment
- No further material additions required in near term (excl. any future acquisitions or new growth initiatives)

Other operating expenses



- Planned investment to drive a range of organic and inorganic growth opportunities
- Full year increase of ~ $3.3m in FY2017 VS FY2016 (annualized H2 FY2016)
  - $1.7m: investment in business development such as VSAC's, marketing, brand development, people & culture, promotion of new service and integrated retail offering
  - $0.9m: QVG & AllStock acquisitions
  - $0.7m: increase in underlying cost base
- No significant additional increases in the underlying cost base expected in FY2018 (excl. new growth initiatives)

Apiam's operating infrastructure is now at a level required to deliver the next stage of growth. Synergies expected to be delivered across FY2018/2019 as a result of these investments.

Update on ERP / PMS investment

Project update

- ERP system went live May 1, 2017 – on time & on budget
- Practice Management System (PMS) will now be rolled out across all clinics over FY2018 following initial employment by clinics already using legacy “VetLink” program

Project costs & financial impact

- Total project cost ~ $1.4 million
  (lower than the previously estimated $1.6 million)
- $0.8 million of project investment incurred in FY 2017
  - $0.4 million expensed, reported in integration expense in the P&L
  - $0.4 million capitalised
- ~ $0.6 million balance to come in FY 2018 (roll-out of PMS system)
  - $0.35 million to be expensed
  - $0.25 million to be capitalised

Investment to support scale and deliver operating efficiencies as Apiam continues to grow

Strong balance sheet to support future growth

$m	30 Jun 2017A	30 Jun 2016A
Cash	1.0	2.1
Trade & receivables	14.1	13.3
Inventories	11.5	10.2
Property, plant & equipment	6.4	4.5
Intangibles	57.2	44.7
Other	0.8	0.4
Deferred tax asset	3.4	3.0
TOTAL ASSETS	**94.4**	**78.1**
Borrowings	25.7	16.0
Trade & other payables	9.0	9.5
Amounts payable to vendors	0.0	1.3
Tax liabilities	0.8	1.4
Provisions	4.4	3.7
TOTAL LIABILITIES	**39.9**	**31.8**
NET ASSETS	**54.5**	**46.3**

Inventory

- Inventory growth in-line with the transition to centralised procurement and acquisition of QVG
- Reduced from $14.2m as at 31 Dec 2016 to $11.5m as at 30 June 2017 (company focus on inventory controls and management)

Intangibles and borrowings

- Increase in intangibles and borrowings due to QVG and AllStock acquisitions
- Amendment to banking covenants announced in June 17 to better align with growth strategy and working capital requirements
- Operating leverage ratio as at 30 June 17 of 2.6x versus covenant of 3.5x
  (calculated as gross debt / underlying EBITDA including contingent consideration income)
- Headroom available to fund potential growth initiatives

Amounts Payable to Vendors

- $1.3m contingent consideration no longer payable

FY 2017 cashflow summary

Improving cashflow conversion of underlying EBITDA

$m	FY 2017A	FY 2016A[1]
Underlying EBITDA[2]	8.3	5.8
Net cash inflow from operating activities	**1.7**	**0.9**
Add back:		
Integration/ERP expense	0.7	-
Acquisition / advisory expense	0.2	-
Interest expense	0.9	0.4
Income tax paid	1.9	1.2
Underlying ungeared pre-tax cashflows:	5.4	2.5
Conversion	**65%**	**44%**

FY16 H1 Statutory cashflows $m	FY 2017A	FY 2016A[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)
Purchases of Intangible assets	(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**

Cashflow

- Investment in working capital has occurred over FY2017 as Apiam has moved to centralised procurement & due to the impact of acquisitions
- EBITDA to cash flow conversion improvement since FY16 (and H1 FY17 of 60%) driven by :
  - focussed efforts to improve inventory over past 6 months

Statutory Cashflows

- Investing activities includes:
  - QVG & AllStock acquisitions
  - purchases of veterinary vehicles and equipment (ie. Diagnostics)
- Financing activities includes:
  - increase in borrowings to fund the acquisitions

Notes:
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Capital management

Dividend and future growth initiatives

	FY17 interim	FY17 final	FY17 total
Dividend	0.8 cps	0.8 cps	1.6 cps
Payout ratio on NPAT[1]	43.4%	41.5%	42.6%
Franking	100%	100%	100%
Record date	14 Mar 2017	21 Sep 2017	
Payment date	27 Apr 2017	27 Oct 2017	

Notes

1 Based on Operating NPAT which excludes $1.3m of income associated with the reversal of Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

- Board declares a final dividend of 0.8 cps, fully franked, payable on 27 October 2017
  - Total dividend for FY17 of 1.6 cps
  - Total FY17 dividend payout ratio of 42.6% of NPAT[1]
- Dividend reinvestment plan to be implemented to allow shareholders to reinvest their dividends in Apiam's future growth
  - Last day to elect to participate in DRP for FY17 final dividend : 29 September 2017
  - DRP pricing period : 5 day AHX VWAP between 2 October and 6 October 2017
- Well positioned to fund future growth initiatives
  - Organic initiatives, targeted acquisitions and new greenfield sites (refer following slides)

Operational update

Three year strategic roadmap:
significant progress against our stated objectives

	"Building the foundations" (Progress in H2 2017)	"Enhance efficiencies" (Expected outcomes in FY2018 & FY2019)
SYSTEMS	• ERP implementation – live 1 May 2017 - capture real time monitoring and forecast data - consistent systems to track sales data and other financial information, inventory, synergies and HR data across organisation	• Drive more efficient work practices & reduce costs (on a relative basis) • Actively respond to customer trends and target group resources to deliver on growth & higher margin opportunities
SYSTEMS	• Preparation for roll-out of Practice Management System "VetLink" in H2 FY2017 • Successful roll-out in initial test clinic	• Stage 2 VetLink Roll-out • Track all client interactions & greater knowledge sharing across group – driving revenue opportunities and cost efficiencies
GROWTH	• Investment in specialist infrastructure (ie. diagnostics) & vet training (customer service, technical & sales) • Focus on standardised operating procedures	• Boost standards of care and capture greater share of client vet spend • Increase higher margin product offering & repeat business
ACQUISITIONS	• Integration of acquisitions (Quirindi & AllStock)	• Further AllStock revenue uplift as product offering leveraged across other species serviced by the company • Leverage Quirindi data collection and analysis opportunities • Future acquisition opportunities

Business development focus

Initiatives driving future business growth

1

Rural & regional expansion strategy : strategic expansion of services in locations where strong market demand exists

- efficient capex investment, satellite sites to existing clinics, thereby leveraging existing infrastructure and cost centres
- examples in H2 2017 include Nathalia satellite clinic and South West Equine JV
- a number of new greenfield and satellite sites planned for FY 2018
- acquisitions remain a fundamental part of Apiam's strategy to leverage its enlarged infrastructure
- complementary bolt-on acquisitions have been identified

2

Growth focus on companion & mixed animal market : capturing organic growth in an underserviced segment in rural and regional Australia

- investment in new technologies such as diagnostics – pathology machines – Xray, Ultrasound, CT machines
- investment in specialised training of vets
- additional sales & marketing training to leverage recently developed service and product offerings

3

Supply chain : further integration of supply chain, increase in development of private label range and higher margin products

Outlook

Industry conditions update

Positive outlook across the sectors in which Apiam operates

BEEF

BEEF FEEDLOT

- Large corporate feedlots experienced positive turnaround in H2 FY2017 after a challenging Q1 FY2017 as a result of higher steer prices and availability
- Supply issues in smaller feedlots experienced over FY2017 beginning to resolve
- Trading conditions expected to improve and stabilise in FY2018

DAIRY

DAIRY

- Positive underlying drivers (fodder prices, milk prices, water prices)
- AHX client base have diversified supplier channels and are not predominantly aligned to any one milk supplier

PIGS

PIGS

- Recent softening in farm gate pig prices may dampen industry growth rates in the next 12 months
- AHX client base expected to deliver growth in animal numbers despite decline in pig prices
- Expect medium term industry expansion to continue to meet future demand

COMPANION

COMPANION & EQUINE

- Population willing to spend greater share of wallet as service level increases
- New technologies & diagnostics to drive additional growth

Outlook

Confident outlook for FY2018

- Favorable industry outlook
  - key drivers for the production animal sector are positive for FY2018
  - rural companion animal sector growing, with increased demand for better services offering – presents additional growth opportunities
- Apiam strongly positioned to capture on growth initiatives following investment in platform during FY2017
- Focus in FY2018 on delivering the second phase of Apiam's strategic plan - "gaining efficiencies"
  - building the foundations largely complete and the PMS system roll-out to occur in FY2018
  - operational efficiencies & new revenue streams from business development to drive organic growth in FY2018
  - acquisitions to leverage cost base remain a fundamental part of Apiam's strategy
- FY2018 YTD revenue in line with company expectations and above prior comparable period - not affected by the industry challenges that occurred in Q1 FY2017

Apiam is well placed to deliver revenue and earnings growth in FY2018

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Local knowhow.
Global knowledge.

Thank you for your support