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***Dr Chris Richards,  
Managing Director***



## Message from the Managing Director



Dear Owner of Apiam,

Welcome to the second edition of our quarterly newsletter. We have been working diligently this quarter to drive our business development initiatives and focus on the second phase of our three-year strategic plan to "gain efficiencies". We have also made some significant announcements over the period.

In August, we reported our results for the 2017 financial year and more recently, we announced the acquisition of the Terang and Mortlake Veterinary Clinic and our intention to enter into a Joint Venture alliance with PETstock, a leading specialist petcare provider.

To briefly summarise our 2017 financial results, we reported revenue of \$98.0 million and underlying EBITDA of \$8.3 million. These results were within the guidance range we provided shareholders in our May 2017 Trading Update (where we estimated revenue of \$96-\$98 million and underlying EBITDA of \$7.2-\$8.5 million).

Pleasingly, we delivered a strong rebound in revenue in the second half of the financial year, particularly following the industry challenges we experienced in the first quarter. Apiam's pig, companion animal, genetic services and equine businesses made very strong contributions to the Company's revenue over the period, as did the acquisitions of Quirindi Vet Group and AllStock.

The bottom line here is that our Company is growing, despite some industry volatility and challenges.

Our EBITDA is reflective of the additional investment we have made in the back-end services to support a robust growth strategy – a decision we chose to make in the best interests of the medium and long term future of the Company.

From an earnings perspective, Apiam delivered an improvement in gross margin as a result of a strong performance in higher margin services, particularly in the companion animal business.

The delivery of a near full year of procurement synergies also contributed to our gross margin expansion, highlighting the impact that synergy benefits from our business integration program can deliver. Our NPAT for FY2017 was \$5.0 million.

As we have communicated a number of times now, Apiam has spent significant time and resources on the first phase of our three year strategic plan, "building the foundations" of the enlarged business to ensure the necessary platform for future growth and to realise efficiencies.

This was an important step for the Company which on listing brought together some of the largest veterinary practices in regional Australia. I am pleased to report this phase is nearing completion.

The roll-out of Apiam's Practice Management System, "Vetlink", at an estimated cost of approximately \$600,000 is one of the last planned foundational investments and this will occur over the coming financial year.

# Message from the Managing Director - cont.

We are now firmly focused on the second phase of our strategic roadmap to “gain efficiencies” and leverage from the intensive work undertaken by leaders within the clinics and Company over the past two years.

I am pleased to report we are already delivering revenue synergies across all species segments, seen at a revenue increase level in the areas of dairy and mixed animal service programs, pig products and sheep genetic services.

Operating efficiencies will commence to be delivered through FY2018 and FY2019, particularly as the VetLink roll-out is completed.

At the time of our results release in August 2017, we identified three key business development initiatives that we have implemented to drive additional revenue streams in the coming years. These development initiatives are:

- rural and regional expansion strategy : strategic expansion of services in locations where strong market demand exists, through new services, greenfield sites and strategic acquisitions
- growth focus on underserved rural companion and mixed animal markets : capturing organic growth in an underserved segment and developing new sites where unique opportunities arise
- supply chain initiatives: further integration of supply chain, increase in development of private label range and higher margin products

Growth via acquisition and the employment of further satellite clinics continues to form a fundamental part of our business strategy in order to deliver new revenue streams and leverage our enlarged cost base and infrastructure.

We announced in October the acquisition of two rural vet practices, operating as the Terang and Mortlake Veterinary Clinic (TMVC) in Western Victoria, for total consideration of \$1.6 million.

This acquisition opens up a new strategic regional location for Apiam given this area of Western Victoria is among Australia’s largest dairy locations and is also a highly productive beef area.

Apiam has also recently introduced a Dividend Reinvestment Plan (DRP) in respect of its 2017 final dividend. The re-investment rate in respect of the final dividend was 46.2% (Employee shareholder re-investment rate was 48%), indicating the high level of confidence our shareholders (both institutional and retail) and employees have in us to execute on our growth plans.

This DRP program supports Apiam in continuing to fund future growth initiatives and provides a mechanism for potential reward to those who support our medium to long term strategy.

We are excited about the opportunities that lie ahead for Apiam in the coming financial year. Apiam has had a solid start to the 2018 financial year.

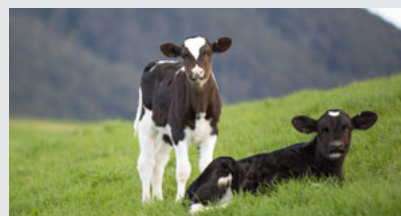
Industry conditions currently remain stable realizing that there will always be short term variances, and as Apiam grows we are putting in place strategies to reduce the effects of industry volatility. We are currently well placed to deliver revenue and earnings growth in the coming year.

Finally, I would like to re-iterate we greatly appreciate the support of our shareholders, the owners of Apiam. Please contact [investorrelations@apiam.com.au](mailto:investorrelations@apiam.com.au) should you have any questions arising from this newsletter.

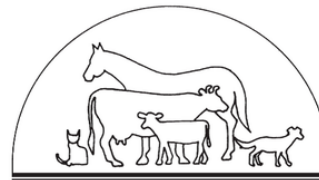
Yours sincerely,

Chris Richards  
Managing Director  
Apiam Animal Health Ltd

***"(The TMVC) acquisition opens up a new strategic regional location for Apiam given this area of Western Victoria is among Australia’s largest dairy locations and is also a highly productive beef area."***



TERANG AND MORTLAKE VETERINARY CLINIC



## TMVC acquisition

On October 16, Apiam announced it had acquired the Terang and Mortlake Veterinary Clinic (TMVC) for consideration of \$1.6 million. TMVC is comprised of two rural practices employing 6 veterinarians, and is located in Western Victoria (50km East of Warrnambool, the regional base of four Apiam clinics).

The practice generates approximately half of its revenue from the dairy sector, as well as from companion, equine and beef veterinary services. It is also recognized as a leading referral practice in the region for greyhound medicine and surgery and canine reproduction.

The acquisition of TMVC makes strategic sense for Apiam, particularly in light of our regional expansion strategy. Western Victoria is Australia's largest dairy region and a highly productive beef area.

Apiam have very well established and market leading expertise in the dairy and beef veterinary services area. The acquisition of these clinics enables the Company to grow its presence in the district, and importantly expand its dairy and beef offering (services, products and reproduction/genetics) in this region.

TMVC generated revenue of approximately \$2.2 in FY2017, and based on the agreed acquisition terms, the TMVC acquisition is expected to be earnings accretive for Apiam shareholders in the first year of ownership.

The acquisition is also expected to realize immediate synergies through the ability for Apiam to operate on a regional basis in Western Victoria, leverage the Company's existing cost base and infrastructure of key account managers, logistics and marketing resources as well as providing a new market opportunity to drive additional revenue streams.



## Exclusive Distributorship

Apiam has been appointed during the quarter as the Australian distributor of Meddit B.V., a company established in The Netherlands that has an innovative range of vaccination applicators for livestock.

Apiam has secured the exclusive distribution on their current and future products for the Australian and New Zealand markets.

Apiam is currently undertaking beta testing on a number of different species production systems to establish the most appropriate products for the market with commercial distribution expected to commence in Q3 FY18.

# Veterinarian profile - Dr Gemma Chuck

## BVetMed PhD



**Dr. Gemma Chuck**  
Developer of Flying Start.

Dr Gemma Chuck is well known as one of Australia's leading experts on calf rearing. Gemma graduated with a Bachelor of Veterinary Medicine degree from The Royal Veterinary College in London, UK, in June 2006. She worked briefly in the South West of England in a mixed practice clinic before moving to Far North Queensland in January 2007. She settled on the Atherton Tablelands with her husband Jason where she worked for a large mixed practice clinic. Here she initially developed her skills in dairy and beef cattle and in 2009 was appointed Adjunct Lecturer at James Cook University. Her responsibilities included the practical teaching of dairy cattle medicine and surgery to final year veterinary undergraduates.

In November 2010, Gemma moved to Victoria to undertake a three year Residency in Dairy Cattle Medicine and Production at The University of Melbourne based at a large dairy practice in south west Victoria. Part of the Residency included a Masters in Veterinary Science by research and this was converted into a Doctorate of Philosophy project in February 2013.

The title of her PhD thesis was "The effect of early life events on lactation and reproductive performance in dairy heifers" and was completed in April 2016. Gemma maintained her consultancy work in calf and heifer health during her post-graduate studies and following the formation of Apiam in December 2015, Gemma joined the Apiam Dairy Services technical team.

She was given the task of establishing a 'best in class' calf rearing program and to assist in the development of innovative products to deliver value to Apiam dairy clients. "I couldn't resist the opportunity to be part of Australia's largest dairy veterinary business," said Gemma when asked about her move to Apiam in 2016. "I am passionate about sharing my skills with as many veterinarians and farmers as possible. The Apiam clinics provide this opportunity more than any other veterinary business in Australia. My post-graduate studies have enabled me to develop services and products to improve the wellbeing and health of dairy calves and subsequent profitability of Apiam clients".

When time permits, Gemma also provides consultancy services to non-Apiam clients. Gemma is a Director on the Board of WestVic Dairy as well as sitting on the Executive Committee of the Australian Cattle Veterinarians. She is an active member of the Western Victorian Branch of the Australian Veterinary Association and has a monthly column in the Australian Dairy News.

She has published multiple peer-reviewed papers and has co-authored chapters of Dairy Australia's InCalf and Rearing Healthy Calves books, along with Large Animal Internal Medicine (Smith, 2015).

The work conducted by Dr Chuck has led to the development of the comprehensive Flying Start calf program, which incorporates the Colostrum First service which was launched prior to the current calving season.

This has been embraced by many dairy farmers during its foundation season, and the Company expects the program to gain further momentum over the next six months, during subsequent calving seasons.

## Be sure flying start calf health program

The dairy calving season for Apiam clients is staggered across the year and varies by region. Some regions have strictly seasonal calving herds whilst others will have herds that calve year round. This takes advantage of price incentives paid by some milk processors at different times of the year and the availability of feed.

The Apiam client base typically calves according to the yearly pattern in Chart 1, however seasonal conditions can move the timing 4-6 weeks in either direction.

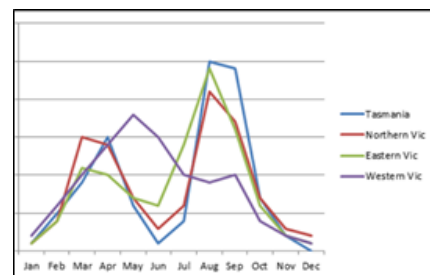


Chart 1: Annual dairy calving pattern (Apiam estimates)



## PETstock alliance



Apiam announced last week that we have signed a Memorandum of Understanding to work towards a joint venture alliance with PETstock to open a number of new veterinary clinics to be co-located at various PETstock retail outlets, in regional and rural Australia.

Under the alliance, the JV company intend to open the first co-located clinic as a 24-hour Veterinary Emergency & Referral Centre, equipped with best-in-class technology, at PETstock's recently opened retail superstore in Bendigo (Epsom).

This would be followed with the opening of a number of veterinary clinics within existing PETstock stores in, or on the fringe of, existing Apiam operating regions, anticipated to commence in Q4 FY2018. The co-located clinics would be operated by Apiam under a management agreement.

PETstock is a privately owned, family operated specialist retailer of animal products, services and accessories (mostly companion animals and equine).

PETstock have experienced rapid growth since their transition to become a specialist pet retailer in 2002. The Company now has more than 140 retail stores across Australia and New Zealand.

PETstock was one of the first pet care companies in Australia to successfully integrate veterinary clinics into their retail stores, commencing in 2007 under the PETstock Vet subsidiary. There are approximately 19 PETstock vet clinics currently in operation, mostly in capital city or city fringe locations.

We are very excited to be entering into an alliance with a leading retail player such as PETstock, who similar to Apiam have their origins in regional and rural Australia.

This alliance would immediately open up a new market demographic for Apiam as we could leverage our broad service offering across PETstock's large customer base.



It is also consistent with our strategy of increasing our presence in the high growth and under-served regional and rural companion animal market.

We believe this alliance represents exciting synergistic opportunities for both parties and look forward to a strong working relationship with PETstock.

In relation to the proposed alliance, Petstock's CEO, Shane Young said "entering into an alliance with Apiam will provide us with access to best practice veterinary skills and knowledge and allow us to leverage Apiam's technical expertise and systems to support our retail operations, providing further 'best in class' service offerings to our loyal customer base".

The companies are working towards executing a definitive Shareholders Agreement within the next two months.

Apiam will notify shareholders via an ASX announcement once a definitive agreement is executed.

