Apiam animal health

Local knowhow. Global knowledge.

First Half FY2018 Investor Presentation

26 February 2018

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H1 FY2018 : financial snapshot

Revenue	$50.8M	+10.1% vs H1 FY17
EBITDA (underlying[1])	$4.5M	+11.7% vs H1 FY17
NPBT (operating[2])	$2.6M	+7.6% vs H1 FY17
NPAT (operating[2])	$1.8M	$(0.1)M vs H1 FY17
Operating cash flow	$4.0M	+$3.3M vs H1 FY17
Interim DPS	0.8 cps	In-line with H1 FY17

Notes:
1 EBITDA underlying excludes one-off integration and acquisition expenses as well as $1.3m of income associated with the reversal of contingent liability on the balance sheet in FY2017 (contingent acquisition consideration no longer payable)
2 NPBT and NPAT exclude $1.3m of income associated with the reversal of a contingent liability on the balance sheet in the pcp (H1 FY2017)

H1 FY2018 highlights

Financial

- Strong revenue growth particularly across pigs, dairy and mixed animals
- Underlying earnings growth as cost base normalises
- High cash conversion driven by improved working capital management

Strategy & outlook

- Successfully executing on business development initiatives through strategic partnerships (SW Equine and PETstock) and new products and services
- Acquisition strategy continues to leverage cost base – TMVC, Passionate Vetcare and Gympie & District Veterinary Services (SE QLD)
- Revenue and earnings growth expected to continue in H2 FY2018

H1 FY2018 financial results

H1 FY18 vs H1 FY17 profit & loss

Strong revenue growth and cost base normalising

$m	H1 FY18A	H1 FY17A	Variance	%
Total revenue	50.8	46.1	4.7	10.1%
Gross profit	24.5	22.6	1.9	8.4%
Operating Expenses	(20.0)	(18.6)	(1.4)	7.7%
Underlying EBITDA [1]	**4.5**	**4.0**	**0.5**	**11.7%**
One-off expenses	(0.4)	(0.6)	0.2	(32.0)%
EBITDA	**4.1**	**3.5**	**0.6**	**18.6%**
Depreciation & Amortization	(1.1)	(0.7)	(0.4)	67.8%
Interest	(0.4)	(0.3)	(0.1)	4.9%
Share of equity accounted income	0.0	0.0	0.0	na
Net Profit before tax	**2.6**	**2.4**	**0.2**	**7.6%**
Tax	(0.8)	(0.6)	(0.2)	43.2%
Net Profit after tax (operating)	**1.8**	**1.9**	**(0.1)**	**(3.6)%**
Other income [2]	0.0	1.3	(1.3)	(0.0)
Net Profit after tax (reported)	**1.8**	**3.1**	**(1.3)**	**(42.4)%**
GM	48.2%	49.0%		
Underlying EBITDA margin	8.8%	8.7%		

Notes:
1. *Underlying EBITDA excludes one-off integration, ERP & acquisition expenses*
2. *$1.3m of other income in H1 FY17 associated with the reversal of Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)*

Revenue
- Strong growth H1 FY18 vs pcp of 10.1%
  - ex acquisition revenue growth of 5.6%
  - H1 FY18 vs H1 FY17 includes the following ***incremental*** contributions: 2 months QVG, 6 months All Stock, 2 months TMVC

Gross Margin
- Slight decrease vs pcp given higher contribution of pig business in the period

Expenses
- Cost base normalising as bulk of "building foundations" investment completed
  - H1 FY18 opex increased 7.7% vs pcp BUT decreased 1.8% vs H2 FY17
  - acquired businesses account for 61% of opex increase in H1FY18 vs H1 FY17

Depreciation & amortisation
- Increase reflects investment in systems, fleet and equipment to support growth initiatives
- Higher proportion of expected FY2018 capital investment occurred in the first half

Tax
- Favourable tax adjustment recorded in H1 FY17 relating to prior financial year

H1 FY18 vs H1 FY17 - underlying

Underlying EBITDA growth

$m	H1 2018A	H1 2017A	Variance	Chg (%)
Total revenue	50.8	46.1	4.7	10.1%
Gross profit	24.5	22.6	1.9	8.4%
Expenses				
Employment costs	(14.1)	(13.2)	(0.9)	6.8%
General expenses	(5.9)	(5.4)	(0.5)	9.7%
Operating expenses	**(20.0)**	**(18.6)**	**(1.4)**	**7.7%**
Underlying EBITDA [1]	**4.5**	**4.0**	**0.5**	**11.7%**
Depreciation & amortisation [2]	(1.1)	(0.7)	(0.5)	67.8%
Underlying EBIT [1]	**3.3**	**3.3**	**0.0**	**0.3%**
Gross margin	48.2%	49.0%		
Underlying EBITDA margin	8.8%	8.7%		
Underlying EBIT margin	6.6%	7.2%		

Notes:

1. *Underlying EBITDA and EBIT excludes reversal of contingent consideration and one-off acquisition and integration expenses*
2. *Finalisation of the provisional accounting for QVG acquisition has resulted in $3.2M of goodwill being treated as an intangible asset for customer relationships. Amortisation related to this intangible has been recorded for FY18 ($107K) and restated in FY17 H1($71K)*

Revenue

- Refer to following slide (revenue analysis) for detailed analysis

Expenses

- Operating infrastructure for enlarged group now in place to support future growth strategies and leveraging of cost base
- Operating expense increase is 3.0% in H1 FY2018 vs pcp after excluding the impact of acquisitions

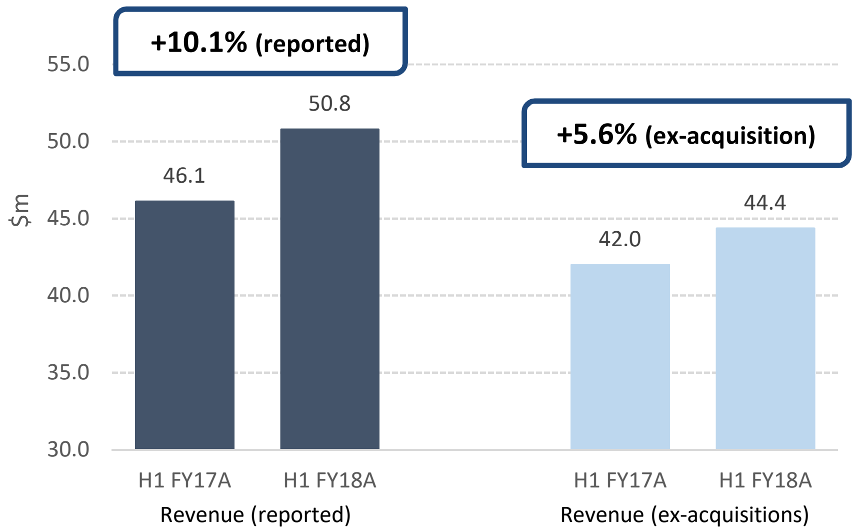
Depreciation & amortisation

- Increase related to investment in building the foundations that occurred in FY17

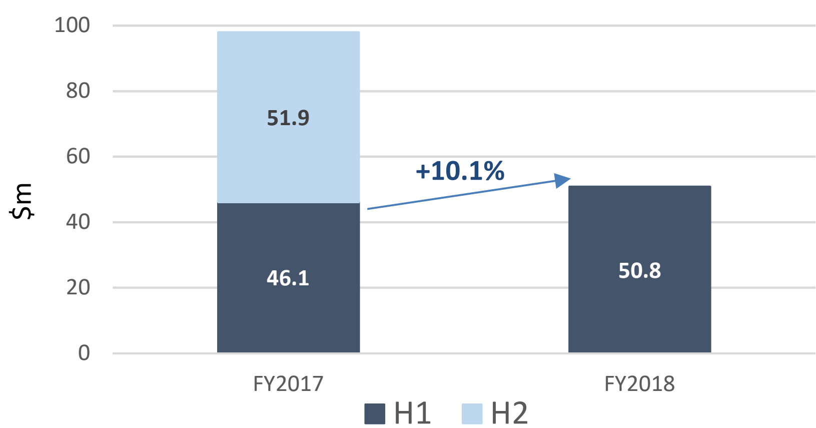
Revenue analysis

Growth in H1 FY2018 revenue on a reported and ex-acquisition basis with normal half on half revenue phasing

Revenue (reported & ex-acquisitions)



Revenue (half on half, reported)



Revenue H1 FY2018 vs H1 FY2017 : +10.1%

Revenue increase (ex QVG, AllStock & TMVC acquisitions): +5.6%

- Dairy & mixed animals : strong contribution reflecting industry recovery in dairy and continued growth in companion animal business as a result of business development initiatives. TMVC acquisition contributed two months to H1 FY2018
- Pigs : very strong growth despite challenging industry conditions. New service and training initiatives, new customers and products contributing to growth
- Feedlot : strong animal intakes in Q1 FY18 vs Q1 FY17. Q2 FY18 has traded in line with expectations following a reduction in animal numbers. Industry conditions challenging in some regions, with higher impact on growth in regions with higher grain prices

Revenue H1 2018 vs H2 2017

- Revenue in H2 FY2017 was $51.9m
- In line with normal revenue phasing where H2 revenues exceed H1 revenues
- Similar trend expected in H2 FY2018

Strengthening balance sheet to support future growth

$m	31 Dec 2017A	30 Jun 2017A
Cash	1.1	1.0
Trade & receivables	14.0	14.1
Inventories	12.5	11.5
Property, plant & equipment	8.5	6.4
Intangibles[1]	59.3	58.0
Other	1.1	0.8
Deferred tax asset	2.9	3.4
TOTAL ASSETS	**99.5**	**95.2**
Borrowings	25.5	25.7
Trade & other payables	11.6	9.0
Amounts payable to vendors	0.0	0.0
Tax liabilities	0.7	0.8
Employee benefit obligations	4.7	4.4
Provisions	0.9	0.9
TOTAL LIABILITIES	**43.3**	**40.8**
NET ASSETS	**56.2**	**54.4**

Notes:
1 Finalisation of the provisional accounting for the QVG acquisition has resulted in $3.2M of goodwill being treated as an intangible asset for customer relationships

Working capital
- Improved working capital management & processes
- Normal first half strategic inventory build up for supplier shut down over Dec/Jan
    - $12.5m inventory at 31 Dec 2017 compared to $14.2m at 31 Dec 16
    - reflects the impact of improved systems
- Improved collection time for receivables due to roll-out of consistent policies and practices across the group
- Increase in payables in line with strategic inventory build up & improved management

Property, plant & equipment
- Capital investment associated with growth initiatives, replacement of older fleet vehicles and upgrade of IT infrastructure in clinics
- Higher proportion of expected FY2018 capital investment occurred in the first half

Borrowings
- Strong cash flow performance resulted in small decrease in borrowings and funded capex and TMVC cash consideration ($1.1m)
- Acquisition facility increased by $15m (to $25m) in Dec 17 to better align with growth plans
- Operating leverage ratio 2.9x as at 31/12/17 vs covenant of 4.0x (until 31/12/18)
- Headroom available to fund growth initiatives such as proposed PETstock alliance & future acquisitions

Cashflow summary

Strong cashflow conversion of underlying EBITDA

$m	H1 FY 2018A	H1 FY 2017A
Underlying EBITDA[1]	4.5	4.0
Net cash inflow from operating activities	**4.5**	**0.7**
Add back:		
One off expense paid	0.3	0.5
Interest paid	0.4	0.4
Income tax paid	1.4	0.8
Underlying ungeared pre-tax cashflows:	6.5	2.4
Conversion	**146%**	**60%**

Statutory cashflows $m	H1 FY 2018A	H1 FY 2017A
Net cash used in operating activities	**4.5**	**0.7**
Acquisition of subsidiary, net of cash	(1.1)	(6.3)
Purchases of property, plant and equipment	(2.2)	(0.6)
Restructure of group entities, net of cash	-	-
Purchases of Intangible assets	(0.4)	(0.3)
Net cash used in investing activities	**(3.7)**	**(7.2)**
Dividends paid to shareholders	(0.4)	-
Net changes in financing	(0.2)	5.9
Net cash inflow from financing activities	**(0.6)**	**-**
Net change in cash and cash equivalents	**0.2**	**(0.6)**

Cashflow conversion

- Improved working capital management & processes have significantly improved cash conversion over the period – net cash inflows across inventory, receivables & payables
- Cash conversion to align closely with underlying EBITDA moving forward

Statutory Cashflows

- Investing activities include:
  - TMVC cash consideration component
  - capital investment associated with growth initiatives, replacement of older fleet vehicles and upgrade of IT infrastructure in clinics
- Financing activities include:
  - proceeds from DRP in respect of FY17 final dividend

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)*

Capital management

Dividend and reinvestment plan

	FY18 interim
Dividend	0.8 cps
Payout ratio on NPAT[1]	46.4%
Franking	100%
Record date	14 Mar 2018
Payment date	27 Apr 2018

Notes
1 Refers to H1 FY2018 operating NPAT of $1.8m

- Board declares an interim dividend of 0.8 cps, fully franked, payable on 27 April 2018
  - Equivalent to a dividend payout ratio of 46.4% of NPAT[1]
- Dividend reinvestment plan in place to allow shareholders to reinvest their dividends in Apiam's future growth
  - Last day to elect to participate in DRP for FY18 interim dividend : Wednesday 21 March 2018
  - DRP pricing period : 5 day AHX VWAP between Thursday 22 March – Wednesday 28 March 2018
  - Announcement of DRP issue price : Thursday 29 March 2018
- Well positioned to fund future growth initiatives
  - PETstock alliance, organic initiatives, targeted acquisitions and new greenfield sites

Operational update

Business development initiatives

Significant progress in H1 FY2018

	Initiative	Progress in H1 FY2018
1	Rural & regional expansion strategy	✓ Acquisition of TMVC to strengthen presence in important western districts beef and dairy region ✓ Gympie & District Vet Services acquisition represents significant expansion in strategic & fast growth geographic location (SE QLD) ✓ South West Equine JV in Western Victoria expanding equine services
2	Growth focus on underserviced & fast growth companion / mixed animal market	✓ PETstock JV alliance executed February 21 2018 – co-located clinics targeting regional companion & mixed animal market to commence roll out in Q3 FY2018 – Bendigo General Practice, Emergency & Referral Centre with 24 hour nursing care – to open March 2018 (on-track) – Passionate Vetcare acquisition in Bendigo to expand footprint and provide additional resources for Bendigo growth initiatives ✓ Commenced intensive in-clinic training program focused on customer service, standards of care and capturing missing charges
3	Supply chain	✓ Significant upgrade of fleet in H1 FY18 to improve capacity & reliability ✓ Commercialisation of a number of private label products in H1 FY2018 under the “Vet Only” brand and new distributorships

PETstock agreement update

Joint Venture agreement has been executed by the parties

Key JV agreement terms

- Co-located clinics in regional areas to be jointly owned - Apiam as 80% shareholder, PETstock as 20% shareholder
- First co-located regional clinic will be Bendigo General Practice, Emergency and Referral Centre at PETstock's recently opened superstore in Bendigo (Epsom). To open March 2018
- Future clinics to be located in, or on the edge of Apiam's existing operating regions
- Clinics to be operated by Apiam via a management agreement & PETstock to independently operate retail stores
- Parties to jointly investigate potential for synergies in back-end support, procurement and IT as well as other growth opportunities

Strategic rationale

- Consistent with regional expansion strategy
- Accelerates Apiam's presence in the high growth & under-serviced regional companion animal market
- Immediately opens up new market demographic – Apiam can leverage broad service offering across PETstock's large and loyal retail customer base
- Cost effective expansion model
- Provides PETstock regional and rural with best practice vet skills & technical expertise

Apiam animal health

Local knowhow. Global knowledge.

- Leading retailer of animal products, services and accessories
- Focus on companion & equine market
- 100% Australian, family owned and operated business
- Founded in 1991 & became a specialist pet retailer in 2002
- Over 145 retail stores across Australia and New Zealand
- Currently 20 PETstock integrated clinics in operation in or near capital cities

pet stock

Acquisition strategy continues

Strategic acquisitions to leverage operating infrastructure

	Gympie & District Vet Services	Passionate Vetcare	Terang & Mortlake Vet Clinic
Business overview	• Two established clinics servicing beef, dairy and companion animals • Experienced veterinary team with expertise to facilitate high growth (12 FTE vets, 30 staff) • Revenue of ~$4.9m in FY17	• Quality companion animal clinic in large regional city • Revenue of $1.8m in FY17	• Comprised of two leading rural veterinary practices in VIC Western districts • Revenue of $2.2m in FY17
Key dates	• Agreement announced February 22 2018	• Agreement announced February 21 2018	• Acquisition effective 2 November 2017
Key terms	• Total consideration of $4.9m • 70% cash, 30% scrip • Scrip issue and employment terms consistent with previous acquisitions • Subject to final due diligence	• Total consideration of $0.75m • Scrip issue and employment terms consistent with previous acquisitions	• Total consideration of $1.6m • 70% cash, 30% scrip
Strategic rationale	• Diversified animal exposures in SE QLD growth corridor • Skill sets to leverage across region • Provides efficiencies to regional model including expansion of satellite clinics • Potential for specialist referral services	• Supports regional expansion strategy • Highly experienced vet and nursing staff to support 24-hour Bendigo Emergency Centre	• Delivering on regional and rural expansion strategy • Establishes presence in important dairy & beef region • Expected to realise immediate synergies

Outlook

Industry conditions update

While the beef feedlot sector has experienced recent volatility, the outlook for the agricultural animal sector remains positive

BEEF FEEDLOT

- Reduction in animal numbers in Q2 FY18 following an extremely strong Q1 FY18 period – H1 FY18 in line with expectations
- Industry conditions varied by region dependent upon feeder, beef and grain prices (mainly QLD and northern NSW affected)
- Underlying industry conditions experienced by northern feedlots in Q2 FY18 are expected to continue through H2 FY18

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

- AHX client base has delivered growth in animal numbers despite the broader industry decline in pig prices
- New service initiatives, products and customers contributing to growth
- Expect medium term industry expansion to continue to meet future demand

MIXED & EQUINE

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

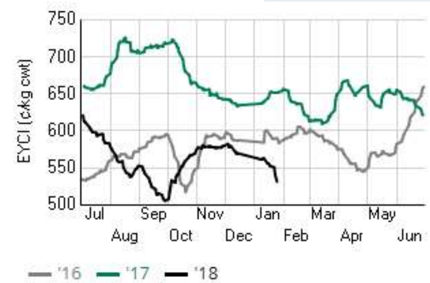
Feed prices

	Nov - 2017	Change (from Oct-17)	Change (from Nov-16)
Spot prices			
Feed wheat (av. $/t del Melbourne)	248	+$13	+$8
Barley (av. $/t del Melbourne)	239	-$5	+$63
Canola meal (av. $/t del Melbourne)	371	+$4	+$25
Lucerne hay (av. $/t del Central Vic)	370	$0	-$80
Pasture hay (av. $/t del Central Vic)	141	+$1	-$61

Source: Rural press

Source: Production inputs monitor, Dec 2018, Dairy Australia

Eastern Young Cattle Indicator



Source: Meat & Livestock Aust.

Outlook

Confident outlook for FY2018

- Apiam is well placed to deliver revenue and earnings growth in FY2018
- H2 FY18 revenues are expected to be greater than H1 FY18 revenues in-line with normal phasing
- Operating cost base has normalised and is at a level required to deliver the next stage of growth
- Gaining efficiencies is a key pillar of the second stage of Apiam's 3-year strategic plan
- Favourable industry outlook, albeit with some ongoing volatility in the beef feedlot sector expected
  - management are highly experienced at delivering growth despite industry conditions and implementing business initiatives to counteract volatility
- New revenue streams from business development and strategic acquisitions to continue to drive growth