29 November 2018

Annual General Meeting

Managing Director's Address

Thank-you Andrew and welcome everyone.

Today I would like to start with a review of the 2018 financial year before moving onto our growth strategy for the year ahead, then conclude by providing an update of our performance for the first few months of the current financial year.

FY2018 in review

Moving to our first slide – FY2018 was a busy and productive year for our company.

As our shareholders would be aware, we reported our full year results for the 12 months to 30 June 2018 in August. At this time we reported revenue growth in each of our animal segments, improved underlying earnings margins and very strong cash flow generation and I will talk to our financials in more detail on the next two slides.

As in previous years, acquisitions also continued to form a core part of our growth strategy and over the financial year we executed three complementary and synergistic acquisitions. These acquisitions - being Terang & Mortlake Vet Clinic, Passionate Vetcare and Gympie & District Vet Services were made up of 5 attractive clinic locations. They were all assessed carefully and met with our strategic objectives and financial return criteria. I am also pleased to report that these businesses have been quickly integrated into the Apiam group platform.

As Andrew has already mentioned this morning our corporate operating infrastructure was a key focus over the 2018 financial year, and was a key driver of early stage efficiencies being delivered across the Group. We were pleased that our on-going cost management focus and the successful completion of the ERP implementation into our backend operations has delivered these results. We are presently in the process of rolling out the final stage of our clinic standard operating infrastructure – our Practice Management System, due to be completed by year end.

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Our business development initiatives executed over the year were targeted to deliver additional growth. In February we announced a Joint Venture alliance agreement with PETstock. Since that time we have opened two new veterinary clinics which have been co-located at PETstock retail outlets. The first clinic, our General Practice, Emergency & Referral Centre at PETstock's superstore in Epsom opened in March and pleasingly has outperformed our revenue expectations.

We also executed on new growth opportunities in the areas of product distribution and entered new international markets and I will be talking about these business development initiatives in more detail shortly.

Profit & loss summary

I would now like to run through our key profit and loss metrics for FY2018.

- FY2018 revenue was $106.6 million, 8.8% higher than the 2017 financial year. Excluding the impact of the acquisitions I just outlined, revenue growth was 4.0% year on year with each animal division recording underlying revenue growth despite some industry challenges being experienced – particularly in pigs and dairy
- We also delivered growth in our gross margins as well as our underlying EBITDA and EBIT margins over the period. The 17.3% growth in underlying EBITDA is a reflection that our investment in our corporate operating infrastructure did deliver efficiencies during the period
- Looking a little further at operating expenses, the increase of 7.3% year on year was largely as a result of our acquisitions which accounted for 90% of this increase. Underlying cost growth was minimal
- You will also note that our depreciation & amortisation charge increased 54.1% in FY2018, and this is related to our substantial capital investment in the business over the year in areas such as fleet, IT and equipment for the clinics.
- Total one-off expenses also increased in FY2018, mostly as a result of non-recurring corporate restructuring costs to drive growth opportunities.

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Balance sheet & cash flow summary

Moving to our balance sheet, I want to highlight that despite the significant investment we have made in the business this year, and the cash components of our acquisitions which totalled $4.7 million, our borrowings increased only modestly - by $1.1 million.

We are comfortably maintaining our banking covenants – and this is a direct result of our strong cash flow performance.

In FY2018, we delivered very strong operating cash flow in line with growth in our earnings and working capital improvements. A strong focus on management of inventory, receivables and payments to suppliers occurred and delivered positive cash flow outcomes.

The cash flow summary also clearly shows the strong re-investment of our operating cash flow in our future business growth – particularly acquisitions and capex, as well as a dividend payment of $1.0m.

I will now move onto our growth plans for the current year and beyond.

AHX growth strategy

At the end of FY2016 we implemented a 3-year strategic roadmap and this was presented to shareholders at this time. This strategic roadmap is comprised of three key building blocks – building the foundations, gaining efficiencies and leveraging performance.

The 2018 financial year has been focused on gaining efficiencies following the significant investments we have made in our operating platform. Our operating systems, back office functions and supply chain are all now fully integrated and delivering efficiencies.

In FY2019, we will also be focused on leveraging growth across the business via three key business drivers – these being i) improving operations, process & capacity, ii) increasing animal numbers and iii) continued expansion of our services and product range. Improvements and efficiencies achieved in any of these key business drivers can be leveraged across our entire network, in essence having a multiplier effect.

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We have discussed our operations process already this morning and operating leverage will continue to be targeted this financial year, particularly as the final stage of our Practice Management System at the individual clinic level is completed.

I will now spend some time talking to our business initiatives around driving growth in animal numbers, services and product range over the next few slides.

Growth by animal numbers

There are a number of strategic initiatives in place to increase animal numbers over FY2019.

Our acquisition program will continue and will focus on bolstering our regional expansion model or introducing a new specialized offering to our client base. We have a strong pipeline of potential acquisition clinics identified and will only execute on these opportunities if they meet our acquisition criteria and can deliver financial returns for our shareholders.

Our agreement with PETstock also offers an opportunity to grow animal numbers in FY2019. I have already mentioned the success of our first Epsom clinic and we plan to roll out additional clinics as satellites to existing large Apiam veterinary clinics in the year ahead. These co-located clinics require limited capex and we expect that these clinics can generate attractive returns on capital for Apiam shareholders in a relatively short time-frame.

Finally, we will also be accelerating organic growth in our companion animal business in other ways, such as growth in our companion animal service offering and "best in class" standard of care. Our Fur Life Vet branding will be increasingly disseminated across our network to increase brand awareness in the markets where we operate and increase our market share.

Growth by services

Expansion of our service offering to capture growth and maintain our market leading positions will always be at the core of what we do.

Expansion of our services, targeted around production animals, has been identified as a source of growth in the year ahead.

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I have already talked to many of these initiatives at the time of our FY2018 results so will just touch on a few today.

In our dairy business, which has faced unusually dry conditions in some operating regions, we will be focused on expansion of our services to assist our clients to be more efficient and productive.

In pigs, where grain prices remain a challenge for many producers, we are targeting a range of higher value-add services to continue to drive earnings.

In beef feedlot, service expansion is going to be derived from providing training programs to industry, further integration of our product logistics across the network and potentially offering services into international markets where valuable opportunities exist.

Our highly specialised Genetics Services business offers a number of potential areas for growth in the year ahead and I will now talk to one of these in more detail on the next slide.

Chinese consultancy and export agreement

We have recently executed an agreement with a Chinese group, Gansu Charming Sheep Breeder Co.

Together, Apiam and Gansu have established the Allmate Cooperation Agreement which sets out the terms under which we will work together to establish a "state-of-the-art" genetics centre in China as well as the establishment of breeds suited to Chinese conditions and markets.

This agreement will result in several revenue streams for Apiam.

Firstly, we will be paid consulting revenues for the provision of advice associated with the centre design and set-up as well as optimal sheep breed selection. Ongoing product and services revenues will also be earnt – with product revenues being derived from the sale of sheep embryo's and semen. Service revenues will be earnt in the areas of specialist veterinary services and training.

Revenues will begin to be paid by Gansu to Apiam in H1 FY2019 and the term of this project is expected to last 3-5 years.

We see that there is a strong rationale for this deal.

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Obviously, it is well known that the Chinese market offers many Australian businesses attractive growth opportunities as the rapid emergence of a Chinese middle class is driving demand for many goods not previously consumed or available in this market. In terms of this transaction specifically, there is now strong demand in China for sources of protein beyond just pork and poultry. Lamb is a relatively new and attractive product to the rapidly growing middle and upper class population segment.

In addition, the margin opportunity to Apiam from provision of these goods and services is attractive and would be expected to increase Apiam's overall group gross margin in future years. In addition, providing the products under the terms of this agreement – being first class sheep semen and embryo's sourced from our leading sheep genetics clients - will also increase the utilisation of both our Dubbo and Deniliquin based specialist genetic facilities which have Chinese export accreditation. This will result in further leverage of an existing cost base.

Growth by products – development & opportunities

Lastly, we have identified and recently made substantial progress in relation to product distribution opportunities that we believe can deliver our shareholders attractive returns.

Private label brands, where good margin opportunities exist, are currently under development – mostly focused on next generation products and alternatives to traditional antibiotic based solutions.

Shareholders are aware of the distribution agreement we executed with Plumbline in July and we made a detailed announcement at this time. LifeTide SW5 will be the first of Plumbline's products that we distribute here – and represents a novel biotechnology based product that increases the number of pigs weaned. The product is already approved for use in sow pigs in Australia and NZ and we will be conducting clinical trials to extend the products use into progeny pigs. These trials should be completed by financial year end, at which point we will focus on broadening their application to dairy cattle.

We also executed a joint venture with US based Swine Veterinary Centre which Andrew has already elaborated on. Initial US market interest based on limited market release of two of our products has been strong. Collaboration research trials are currently underway with Kansas

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State University and we expect that following completion, US market demand will ramp-up further.

Outlook

Now turning to Apiam's FY2019 year to date performance and outlook.

Based on the first four months of the 2019 financial year, July to October, we have delivered strong revenue growth of 10% compared to the prior comparable months last financial year. Additionally, our gross margin improvement was very strong, increasing 18% on PCP.

When we look at like-for-like trends, stripping out the impact of the acquisitions we have made in the past 12 months, revenue for the four months July to October is in-line with the PCP and we have delivered a small gross margin improvement of 2%.

These like for like trends are reflective of a change in our business mix and a change in some customer trading structures – where we have targeted a move towards lower volume but higher value transactions. As Andrew mentioned earlier, the drier conditions being experienced in some of our operating regions in South Eastern Australia are having a mixed effect on our business, with a positive influence on beef feedlot while making some of our dairy and pig focussed operations more challenging.

I do want to report however that the new business initiatives that I have outlined this morning, and the strong performance starting to flow through from genetic exports are beginning to counteract these industry headwinds.

Operating expense management remains a key management focus and on a YTD basis underlying operating costs have grown in line with CPI. We remain committed to leveraging our significant investment in equipment, new services and infrastructure at a regional level rather than traditional clinic based service model to drive further efficiencies and growth. We will also be focussed on reducing operational expenditure, particularly as our ERP and PMS systems allow us to reduce resource requirements in specific areas over the coming year.

Turning to the outlook for Apiam in FY2019.

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We have a robust business model and an experienced team with the ability to respond to industry volatility that can occur in our regional and rural operating regions.

Expansion of product distribution, entry into international markets and growth in the companion animal market all represent initiatives that will deliver growth in this current financial year, and we expect their performance to offset the challenges posed by dry conditions in certain regional markets.

Overall, while there is much to do this year to leverage our performance, I am confident that our robust and diversified business model will support revenue growth across different market cycles as well as maintain earnings in line with shareholder expectations.

As a company, we remain firmly committed to delivering material benefits at both the EBITDA and NPAT levels, leveraging the capital we have invested in strategic initiatives over the past three years.

I thank you for your time this morning.

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