



# Apiam Animal Health Ltd

## H1 FY22 results presentation

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25 February 2022

# H1 FY22 financial highlights

Revenue

**\$75.1M**

+22.7% vs H1 FY21

Gross profit

**\$46.2M**

+32.5% vs H1 FY21

EBITDA  
(underlying)<sup>1</sup>

**\$8.7M**

+15.1% vs H1 FY21

NPAT  
(underlying)<sup>1</sup>

**\$3.2M**

+13.0% vs H1 FY21

**Operating cash conversion 92%**  
(of underlying EBITDA)<sup>1</sup>

**1.2 cps interim dividend**

Notes:

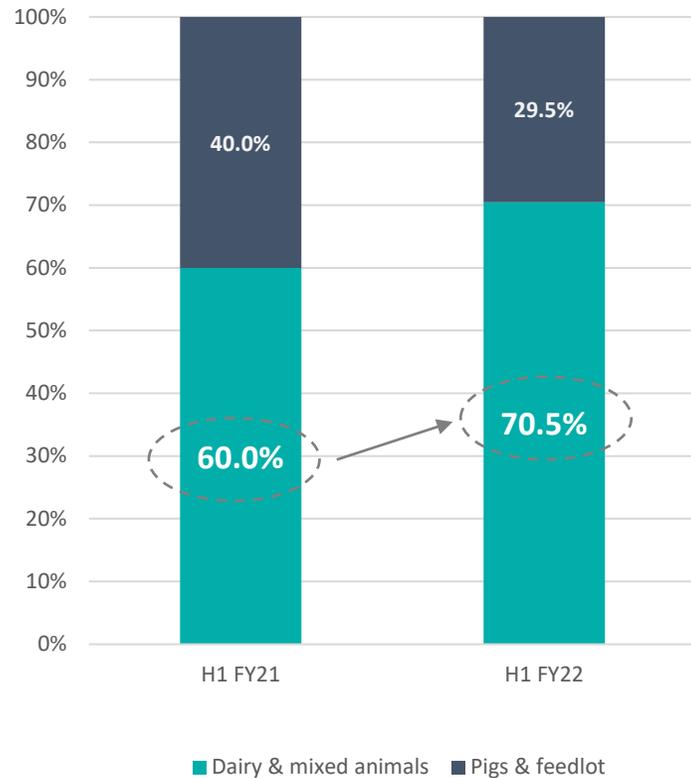
<sup>1</sup> Underlying EBITDA and NPAT are non-IFRS measures and in H1 FY22 exclude one-off expenses of \$1.7M (which includes \$1.4M of acquisition related stamp duty in Queensland). Underlying NPAT excludes \$0.3m of customer relationship amortisation (post-tax basis). Detailed P&L analysis is presented on slides 7-10

# H1 FY22 summary

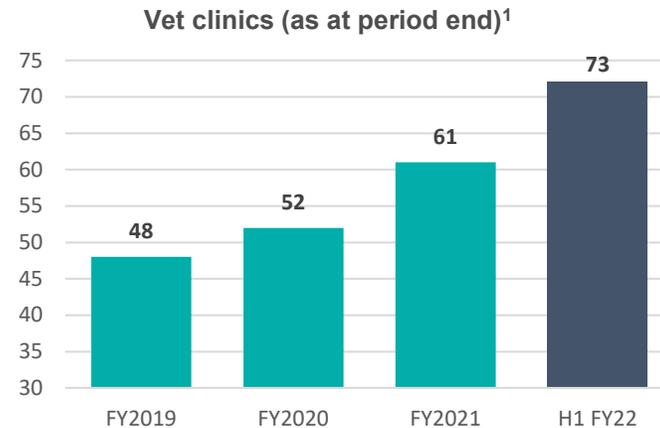
- **Revenue momentum** driven by excellent dairy & mixed animal segment performance
  - +9.3% LFL revenue growth in dairy & mixed animal segment in H1 FY22
- **Execution of growth strategy** delivering +22.7% total revenue growth as dairy & mixed animal clinics grow to 70% of business; driving less cyclical revenue & higher gross margins
- **Accelerated acquisition program** with 8 acquisitions completed in H1 FY22; expanded market presence in fast-growth areas such as SE Qld and equine operations
- **Operating earnings reflect increased re-investment**, in-line with accelerated growth strategy:
  - increasing vet headcount to support growing demand during changing industry landscape  
*(overseas & local experienced vet recruitment)*
  - investments to capture rapid market growth in dairy & mixed animal segments  
*(greenfield sites, integration & support of accelerated acquisition program)*
- **Market cycles** continued to impact pig and beef feedlot segments vs PCP; however early stages of recovery commenced in H2 FY22 in-line with reported industry data

# Dairy & mixed animal clinics growing in line with strategy

## Contribution of dairy & mixed animal segment now over 70%



## Supported by execution of regional expansion strategy...

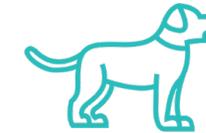


- **8** acquisitions completed in H1 FY22 (adding 11 clinics)
- **3** new greenfields clinics opened in last 12 months
- **58** additional veterinarians joined Apiam in H1 FY22

## Strong segment performance and future growth trajectory



**+44.9%**  
*dairy & mixed animal revenue growth*  
(vs H1 FY21)



**+36.5%**  
*dairy & mixed animal underlying EBITDA growth*  
(vs H1 FY21)



**+9.3%**  
*dairy & mixed animal LFL revenue growth*  
(vs H1 FY21)

# Strategy to double revenue base by FY24

## REVENUE GROWTH DRIVERS

Organic growth

- Regional veterinary industry growing rapidly
- Industry outlook for intensive animal segment improving
- Capture further dairy & mixed animal market share
- Track-record of in-house product & service development
- Product innovation opportunities underway with significant market potential

+

Acquisition pipeline

- Strong acquisition pipeline following vet industry restructure post COVID-19
- Track record of M&A execution and integration with 20 acquisitions since IPO
- Investment in H1 FY22 to bolster acquisition support teams and resources within head office

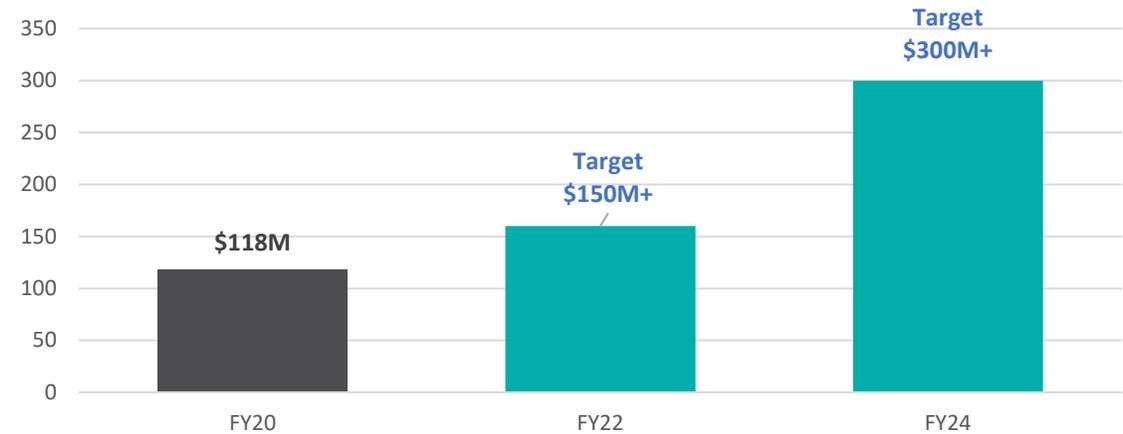
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Greenfield sites

- Greenfield sites to reach financial maturity
- \$3M revenue target per greenfield site within 3 years of opening

**Revenue target of \$300M+ in FY24**

Planned revenue growth trajectory (\$M)



## OPERATING EARNINGS UPLIFT : FY22-FY24

- Further operational leverage from acquisitions executed in FY21 & H1 FY22
- Enhanced business support network resources in place to support future M&A activity and integration – IT, marketing, people & culture, safety
- Optimisation of business mix to drive sustained gross margin / EBITDA margin uplift (growing contribution of less-cyclical dairy & mixed animal segment)
- Further maturity of greenfield sites opened last 12 months
- Higher-margin product & service innovation in intensive animal segment

# H1 FY22 Financial review



# H1 FY22 profit and loss summary

*Excellent revenue and gross profit growth, with operating earnings growth temporarily impacted due to growth investments*

Underlying

\$m	H1 FY22A	H1 FY21A	Variance	%
Total revenue	75.1	61.2	13.9	22.7%
<b>Gross profit</b>	<b>46.2</b>	<b>34.9</b>	<b>11.3</b>	<b>32.5%</b>
Operating expenses	(37.5)	(27.3)	(10.2)	37.4%
<b>Underlying EBITDA <sup>1</sup></b>	<b>8.7</b>	<b>7.5</b>	<b>1.1</b>	<b>15.1%</b>
<b>Underlying NPAT <sup>1,2</sup></b>	<b>3.2</b>	<b>2.8</b>	<b>0.4</b>	<b>13.0%</b>
Amortisation (post tax) (customer relationships)	(0.3)	(0.1)	(0.3)	135.9%
One-off expenses (post tax) (incl. QLD stamp duty in H1 FY22)	(1.2)	(0.2)	(1.0)	624.1%
<b>Reported NPAT</b>	<b>1.8</b>	<b>2.6</b>	<b>(0.8)</b>	<b>(31.5)%</b>

Gross margin	61.5%	57.0%		
Underlying EBITDA margin	11.6%	12.3%		
Underlying EBITDA margin (pre Year 1 greenfield impact) <sup>3</sup>	12.4%	12.4%		

- **Revenue growth of 22.7%** driven by strong growth in dairy & mixed animal segment and acquisitions
- **LFL revenue growth 1.9%** affected by industry cycle in pig and beef feedlot segments
- **Gross profit growth continued - up 32.5%** as dairy & mixed animal segments continues to deliver a growing revenue share overall as well as continued reduction in low margin wholesale operations within pig segment
- **Operating expense growth** reflects impact of investment to capture rapid market growth:
  - recruitment strategy on back of COVID-19 industry restructure (with a focus on experienced vets)
  - integration & support of accelerated acquisition program
  - three new greenfield sites (not breakeven until Year 2 of operations)



**LFL (excluding acquisitions) data<sup>4</sup>**  
**Revenue growth: +1.9% vs H1 FY21**  
**Gross profit growth: +4.3% vs H1 FY21**

Notes:

<sup>1</sup> Underlying earnings excludes one-off acquisition, integration & corporate costs (tax effected where applicable at NPAT level). H1 FY22 one-off costs includes \$1.4 million stamp duty payable on Queensland acquisitions

<sup>2</sup> Before amortisation of customer relationships (tax effected where applicable at NPAT level)

<sup>3</sup> Greenfield Year 1 EBITDA impact in H1 FY22 was \$658K vs \$31K in H1 FY21

<sup>4</sup> Adjusted to exclude Scenic Rim Vet Services (Jul 21), Golden Plains Bannockburn (Aug 21), Harbour City Vet Surgery (Sep 21), Smythesdale Animal Hospital (Oct 21) Horsham Vet Hospital (Dec 21), Agnes Banks Equine Clinic (Dec 21), Fraser Coast Vet Services (Dec 21), North Hill Vet Clinic (Dec 21), Ear Tags Business (Divested Mar 2021)

# Segment analysis – H1 FY22

\$M REVENUE	H1 FY22 reported	H1 FY21 reported	% chg reported	% chg (LFL)
Dairy & mixed (companion)	52.9	36.5	44.9%	9.3%
Beef feedlot & pigs	22.2	24.6	(9.6)%	(9.6)%

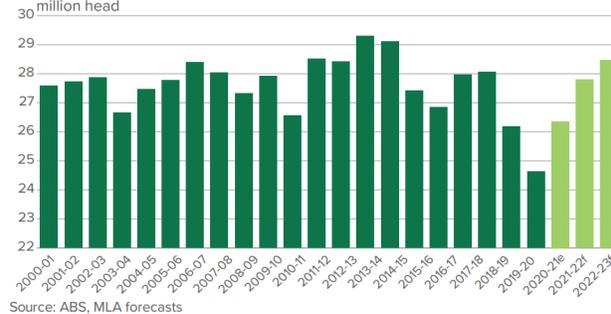
## Dairy & mixed commentary

- +9.3% LFL revenue growth due to regional expansion and capture of market share
- Strong operating earnings growth across dairy & mixed animal clinics (+36.5% at underlying EBITDA level) <sup>1</sup>

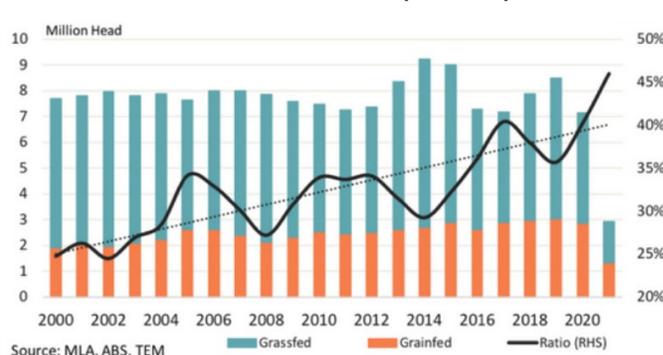
## Feedlot & pig commentary

- As at end of FY21 1.17M cattle on feed, while industry capacity has increased to 1.45M head in anticipation of future growth <sup>2</sup>
- MLA predict cattle herd rebuild to continue in 2022, increasing by 1.1M and becoming more pronounced compared with 2021 <sup>2</sup>
- Slaughter numbers forecast to rise by 11% in 2022, driven by increased supply <sup>2</sup>
- Strategic transition to new & innovative antimicrobial and vaccine products in intensive animals
- Private label products, autogenous vaccines and new services developed to support industry growth

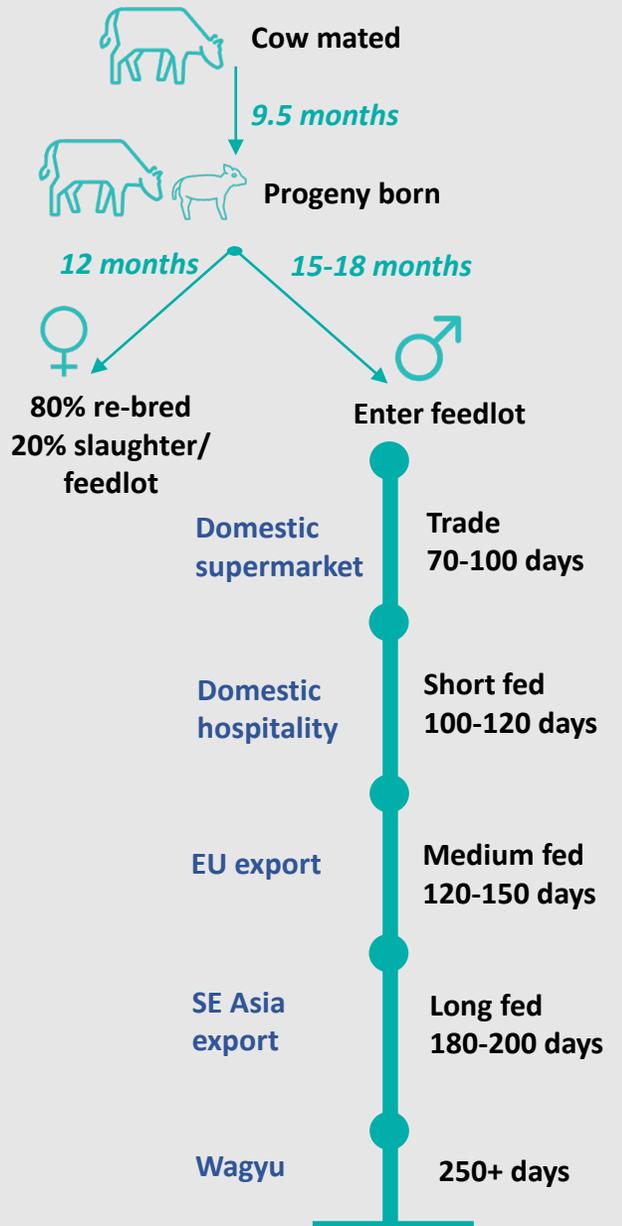
National Cattle Herd (millions)



Grainfed vs Grassfed cattle (million)



## Feedlot cattle - illustrative timeline



Note

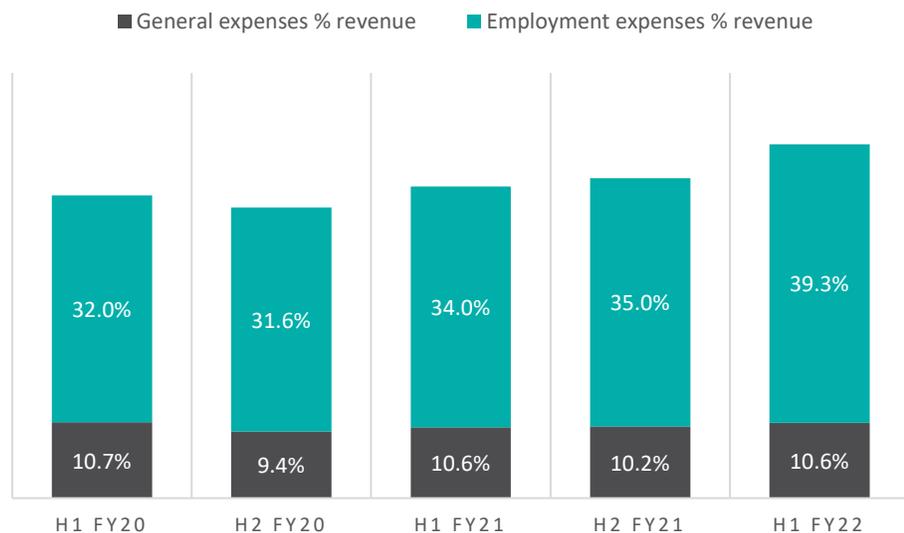
<sup>1</sup> Growth in segment EBITDA measured before the allocation of corporate costs. Before one-off expenses

<sup>2</sup> Meat and Livestock Association ([www.mla.com.au](http://www.mla.com.au))

# Operating expense analysis

*Growth in expenses reflective of Apiam's investment in capturing rapid veterinary market revenue growth*

Operating expenses as a % of revenue



\$M	H1 FY20	H2 FY20	H1 FY21	H2 FY21	H1 FY22
General expenses	6.0	5.9	6.5	6.6	8.0
Employment expenses	18.0	19.7	20.8	22.7	29.5
<b>Revenue</b>	<b>56.2</b>	<b>62.1</b>	<b>61.2</b>	<b>65.0</b>	<b>75.1</b>

## General operating expenses

- General expenses as a % of revenue in-line with previous periods
- Growth in H1 FY22 related to acquired clinics, fuel, training and recruitment
  - international vet recruitment fees and strategic focus on recruitment of experienced vets in H1 FY22

## Employment expenses

- Employment expenses increased in H1 FY22 as a result of AHX's accelerated acquisition program and regional expansion in the dairy & mixed animal segment
- Increased costs were associated with :
  - **Wage increases:** Higher skillset costs for vets post COVID-19 industry restructure (veterinarians account for ~30% of AHX staff by number)
  - **Greenfield clinics:** 3 x Year 1 greenfield clinics (higher employment costs during the first 12 months of operations)
  - **Head Office Support:** Addition of ~10 FTE in BSN (business support network) in areas of people & culture, IT, safety and marketing. Sufficient BSN resources now in place to support new acquisitions and future acquisition pipeline
  - **Change in business mix:** growing contribution of dairy & mixed clinics
  - **COVID-19 related:** additional vet staff required onsite in periods of regional lockdowns

# One-off costs & greenfield Year 1 earnings impacts

## One-off expenses associated with growth strategy (\$m)

Pre-tax basis	H1 FY21	H1 FY22
Stamp duty QLD acquisitions	-	1.4
Acquisition & advisory costs	0.1	0.1
Other	0.1	0.1
<b>Total one-off expenses</b>	<b>0.2</b>	<b>1.7</b>

- Stamp duty is a QLD State Government charge related to the purchase of assets for the Scenic Rim acquisition on 30 July 2021
- Apiam may be subject to stamp duty expenses on future acquisitions as part of its growth strategy (should future acquisition targets be located in NSW, QLD or WA)

## Greenfield clinic financial profile

	Investment phase		Profit phase
	Year 1	Year 2	Year 3
# of Apiam clinics (currently in phase)	3	-	-
Sales revenue (per clinic)	\$0.5 – \$1.0 million	\$1.0 – \$1.5 million	\$2.5 -3.0 million
EBIT (per clinic)	\$(0.3) – (0.5) million	break-even	\$0.4 - 0.6 million
Underling EBIT margin (per clinic)	-	break-even	~15%-20%

- EBIT losses associated with greenfield clinic roll-outs increased in H1 FY22 to \$909K (vs \$696K in H2 FY21)
- Reflects the cumulative impact of 3 new greenfield sites in first year of operations (Torquay North, Shepparton, Highton)
- New client acquisition in greenfield clinics partly delayed due to regional lockdowns in VIC in H2 FY21 (ie. delayed clinic marketing, community activations and opening events)
- Two new greenfield clinics planned to open in FY23

# Balance sheet

*Solid capital position reflective of accelerated acquisition program in H1 FY22*

\$m	31 Dec 2021A	30 Jun 2021A <sup>1</sup>
Cash	2.8	2.2
Trade & receivables	13.5	13.5
Inventories	19.8	16.0
Property, plant & equipment	31.4	25.0
Intangibles	123.6	95.3
Other	6.7	5.3
<b>TOTAL ASSETS</b>	<b>197.7</b>	<b>157.3</b>
Borrowings	62.5	37.7
Trade & other payables	12.3	9.7
Lease liability	21.6	17.3
Other liabilities	15.2	11.7
<b>TOTAL LIABILITIES</b>	<b>111.5</b>	<b>76.5</b>
<b>NET ASSETS</b>	<b>86.2</b>	<b>80.8</b>

Notes:

1. Balance sheet as at 30 June 2021 restated for intangibles & PPE for clinic acquisitions which had been provisionally accounted for in the prior period
2. Includes \$1.8M of bank finance lease liability for purposes of net debt calculation in H1 FY22 (FY21: \$1.6M)
3. Deferred tax liabilities related to customer relationship intangible assets recognised on acquisitions

- **Efficient working capital management:**
  - Strategic investment in inventory to manage effects of COVID-19 related supply chain disruptions over summer period
  - Receivables and payables continue to be managed effectively to optimise cash flow
- **Property, plant & equipment / Lease liability:**
  - ROU assets & liabilities increase related to property leases for acquired clinics.
- **Intangibles:**
  - Goodwill increase as a result of 8 acquisitions completed in H1 FY22
- **Borrowings and gearing:**
  - Net borrowings of \$61.5M (vs \$37.2M at end of FY20)<sup>2</sup>
    - Total cash component for acquisitions \$25.0M
  - Operating leverage ratio 2.8x vs covenant 3.5x (net debt to EBITDA basis, adjusted for working capital facility)
  - Current headroom of \$18.1 million under existing acquisition facility
- **Other liabilities**
  - Growth in employee benefit and deferred tax liabilities<sup>3</sup> from acquired clinics

# Cash flow

*Operating cash conversion of earnings remains close to Apiam's business target of 100%*

Statutory cashflows \$m	H1 FY22A	H1 FY21A
<b>Net cash provided by operating activities</b>	<b>6.0</b>	<b>6.4</b>
Acquisition of subsidiary, net of cash	(25.0)	(3.3)
Purchases of property, plant and equipment	(2.3)	(2.4)
Purchases of Intangible assets	(0.2)	(0.2)
Other	0.0	(2.9)
<b>Net cash used in investing activities</b>	<b>(27.5)</b>	<b>(8.8)</b>
Net changes in financing	25.2	4.6
Dividends paid to shareholders	(1.2)	(0.9)
Repayment of lease liabilities	(1.9)	(1.6)
Proceeds from share issue	0.0	0.0
Other	0.0	0.1
<b>Net cash inflow from financing activities</b>	<b>22.2</b>	<b>2.1</b>
<b>Net change in cash and cash equivalents</b>	<b>0.6</b>	<b>(0.3)</b>

Cashflow Conversion \$m	H1 FY22A	H1 FY21A
<b>Underlying EBITDA (pre AASB 16 lease adjustment)</b>	<b>6.9</b>	<b>6.2</b>
<b>Net cash inflow from operating activities (less AASB 16 lease reclassification impact)</b>	<b>4.2</b>	<b>5.0</b>
Add back:		
One-off expense paid	0.3	0.7
Interest paid	0.7	0.5
Income tax paid	1.2	0.7
<b>Underlying cashflow before tax &amp; interest:</b>	<b>6.4</b>	<b>6.5</b>
<b>Conversion</b>	<b>92%</b>	<b>105%</b>

- Operating cash flow and capex in H1 FY22 in-line with PCP
- Investing and financing cash flow a reflection of accelerated acquisition program with eight acquisitions completed in H1 FY22
- Total cash component of acquisition consideration of \$25M

# Dividends

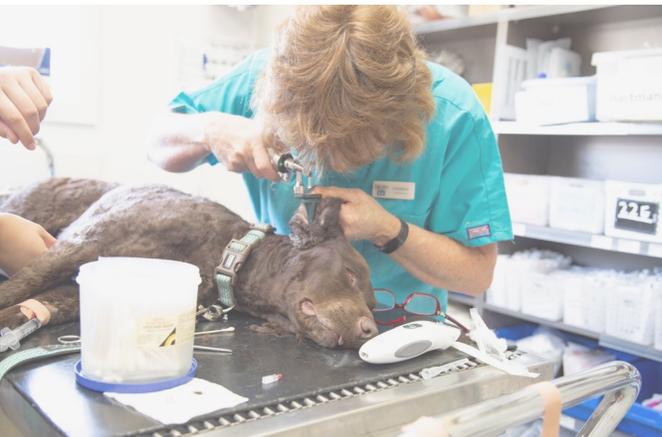
## Interim dividend of 1.2 cps

	H1 FY2022 interim dividend
Dividend	1.2 cps
Payout ratio on Reported NPAT	94.9%
Payout ratio on Underlying NPAT <sup>1</sup>	51.6%
Franking	100.0%
Record date	22 March 2022
Payment date	20 April 2022

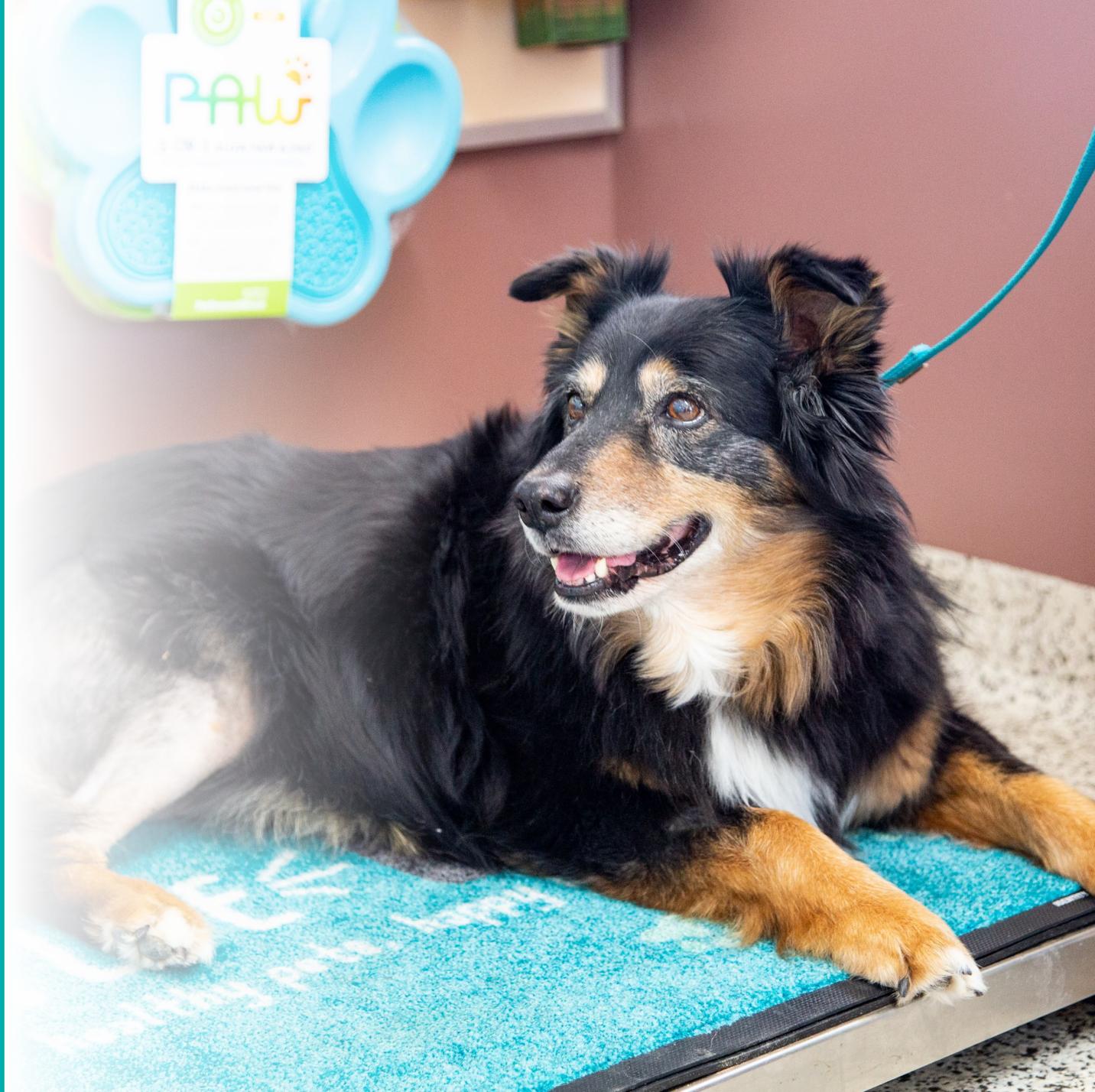
Notes:

<sup>1</sup> Underlying NPAT is a non-IFRS measure and excludes one-off expenses of \$1.7M (which includes \$1.4M of acquisition related stamp duty in Queensland) and \$0.4m of customer relationship amortisation

- Board declares an interim dividend of 1.2 cps, fully franked, payable 20 April 2022
- Dividend reinvestment plan in place
  - Last day to elect to participate in DRP : 29 March 2022
  - DRP pricing period : 5 day AHX VWAP between 30 March 2022 and 5 April 2022
- Apiam's Board will continue to assess dividend practice in-line with the company strategy



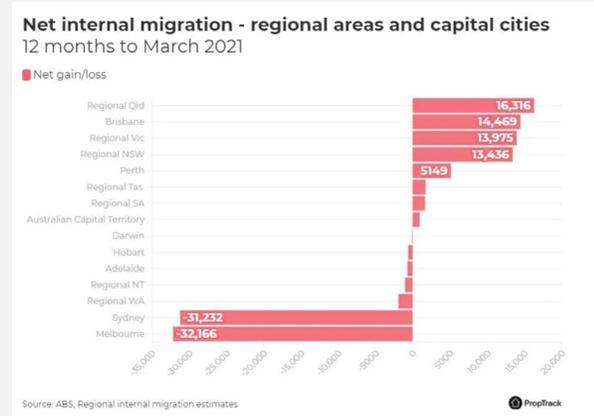
# H1 FY22 Strategic update



# Rapid regional veterinary market growth

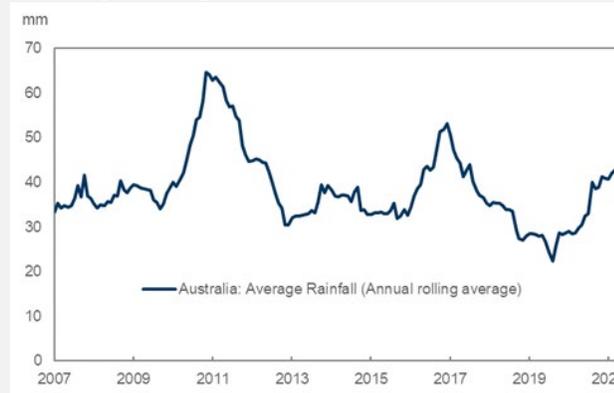
- ✓ Net migration to regional areas is the highest on record
- ✓ Significant increase in pet and livestock ownership continuing post COVID-19
- ✓ Increasing spend per household on vetcare
- ✓ Apiam’s broad animal expertise aligned with regional vet offering – different to metro models
- ✓ La Niña & post-drought conditions supporting strong pasture-based livestock industries (dairy, beef, sheep, equine)
- ✓ Rapid regional growth and vet industry dynamics enhancing high quality acquisition pipeline

## Net internal migration (cities to regions)

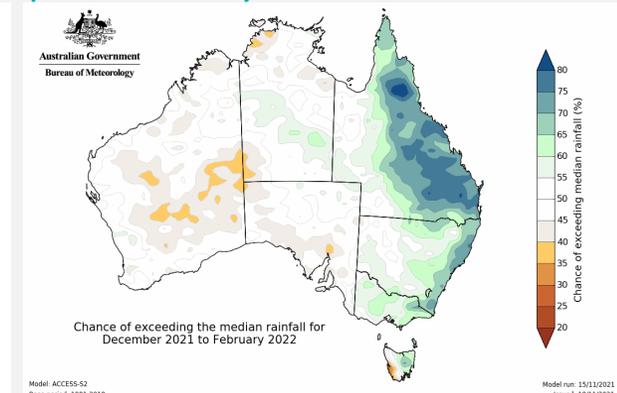


**15%**  
growth in household pet ownership since 2019<sup>1</sup>

## Australian avg rainfall (rolling average)



## Median rainfall forecast (Dec 21 – Feb 22)



# Strategic acquisition program

## Apiam's acquisition track record

- ✓ 8 acquisitions completed in H1 FY22 - adding 11 new clinics
- ✓ Significant expansion into fast-growth QLD regions
- ✓ Building strong presence and expertise in equine segment
- ✓ Significant acquisition pipeline with Apiam considered a leading industry partner for vendors

### REVENUE FROM ACQUISITIONS COMPLETED IN H1 FY22:

- H1 FY22 : \$7.2m
- H2 FY22 Pro-forma: \$11.8m
- Annualised Pro-forma: \$24.5m

## Apiam acquisitions FY21 & H1 FY22

scale is approximate



## Acquisitions expanding dairy, mixed animal & equine segment

Acquisition	Clinic services	Settlement
<b>FY21 acquisitions</b>		
Don Crosby Vet Surgeons (Dubbo & Narromine - 2 clinics)	Companion & equine	1 Dec 2020
Knox Veterinary Clinic (Dalby & Tara- 2 clinics)	Companion, equine & cattle	1 Apr 2021
Clermont Veterinary Surgery	Companion, equine & cattle	1 Jun 2021
Samford Valley Veterinary Hospital	Companion & equine	1 Jun 2021
<b>FY22 acquisitions</b>		
Scenic Rim Veterinary Service (Beaudesert & Boonah -2 clinics)	Equine (referral), companion	30 Jul 2021
Golden Plains Bannockburn	Companion. Livestock	1 Aug 2021
Harbour City Vet Surgery	Companion	2 Sep 2021
Smythesdale Animal Hospital	Companion. Livestock	1 Oct 2021
Horsham Veterinary Hospital	Companion	1 Dec 2021
Agnes Banks Equine Centre	Equine (referral)	1 Dec 2021
Fraser Coast Veterinary Services (3 clinics)	Companion, equine & cattle	1 Dec 2021
North Hill Veterinary Clinic (Armidale)	Companion	1 Dec 2021

# Customer centric service programs



- Member growth of 45.1% as at end H1 FY22 (vs pcp)
- ~7.5% of active patients were Best Mates members as at end of H1 FY22
- Immediate synergies in acquisition and greenfield clinics



## DATA SYSTEM FOR SWINE HEALTH & PRODUCTION

- Enhances antimicrobial stewardship
- Improves quality assurance
- Pilot program completed in Australia
- Currently early-stage commercialization across Australian pig industry
- Pilot program commenced with US pig industry for completion in December 2022



▶ SCAN ME



- 75% growth in dairy farm enrollments in H1 FY22 (vs pcp)
- ~15.0% of AU's dairy cows are enrolled in the program (compared to ~8% in PCP)
- Rapid expansion occurring into new regions
- Services supporting a buoyant industry with increasing milk prices



# Innovation in products



## UNIQUE VACCINE FOR FEEDLOT CATTLE

- APVMA approval received to manufacture *Histophilus somni* vaccine for cattle, sheep & goats
- To be manufactured locally at Apiam's ACE Laboratories facility
- First for Australian livestock industry
- Misunderstood pathogen – can cause high levels of mortality & morbidity in intensively raised cattle
- Currently treated with antibiotics
- Third new vaccine since ACE acquisition in Dec 2019
- New technologies employed can be applied across entire Apiam autogenous vaccine portfolio

## REGULATORY APPROVAL TO LAUNCH XTEND 21® IN US

- Distribution partnership with Aurora Pharmaceutical
- Aurora Pharmaceutical has US EPA notice to market Xtend 21® Antimicrobial Surface Protectant (Zoono Microbe Shield technology)
- Extensive trials in global markets demonstrate efficacy against economically significant livestock pathogens
- Iowa State University demonstrated 21 days enhanced surface protection
- Antimicrobial stewardship innovation within animal health segment
- Aurora is a leading US veterinary pharmaceutical player
  - 10K veterinary customers
  - Supplies 20 specialist products
  - Extensive technical sales network



# Building a sustainable future

## Environmental

- On track to launch our Corporate Sustainability Strategy in FY22
- Developing polystyrene replacement initiative
- Commenced implementation of a solar-based Virtual Power Network across key sites
- On track to launch Antimicrobial Stewardship Strategy in FY22
- Introduced three new vaccines to promote sustainable agriculture

## Social

- Embracing flexible workplace arrangements
- Implemented Mental Health strategy with 51 Mental Health First Aid Officers across clinic network
- Additional employee leave day to support mental health
- Partnership with Smiling Mind to support wellbeing
- Introduced Tele-triage platform to reduce vet after hours
- Fur Life Foundation continues to raise funds to support regional communities
- Australian HR Awards ‘Excellence Award’ for Best Use of Technology for Tele-triage program
- Second year of VetFlix online training conference to support veterinarians, nurses and support staff continuing education

## Governance

- Introduced Remuneration Policy to enhance gender pay equity
- Reviewed Diversity Policy and set measurable diversity objectives
- Developed Nurse Skills Matrix to enhance professional development
- Modern Slavery Statement released in March 2021



# Outlook



**Apiam business strategy aims to double revenue by FY24;**  
*organic growth initiatives, greenfield clinics and future acquisition runway*



**Business infrastructure now in place to support accelerated acquisition program & greater scale of business**



**Uplift in operating earnings expected in H2 FY22;**  
*as increasing benefit of accelerated acquisition program and growth investments flow through*





## QUESTIONS & FURTHER INFORMATION:

Dr Chris Richards  
Managing Director  
Apiam Animal Health Limited  
[chris@apiam.com.au](mailto:chris@apiam.com.au)

Catherine Ross  
Investor Relations  
[catherine.ross@apiam.com.au](mailto:catherine.ross@apiam.com.au)  
0421 997 481



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