Apiam Animal Health Ltd

FY23 results presentation

28 August 2023

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KEY TAKEAWAYS

Dairy & mixed animal segment driving resilient growth

- Delivering 77% of Group revenue in FY23
- Organic LFL[1] segment revenue growth of +4.9% vs PCP (+6.4% in H2 FY23)

Driving growth and extracting efficiencies across the existing business

- Optimisation of staff rostering and achievement of greater efficiencies
- Increased adoption of service programs

Leveraging acquisition program undertaken in FY22 & FY23

- Strategic priority in FY24 to continue integration of existing acquisitions to deliver earnings margin expansion
- FY24 acquisitions to take account of free cash flow, debt and strict financial criteria including synergy realisation potential

Redundancy & restructuring initiatives (completed Jun 2023) expected to save $2.6M p.a. from FY24

Notes

1. *Like-for-Like clinics includes those that the company has operated for a full twelve months prior to FY23*

FY23 RESULTS SNAPSHOT

Revenue
$192.8M
+22.6% vs FY22

Gross profit
$125.3M
+28.6% vs FY22

Gross Profit Margin
65.0%
vs 62.0% in FY22

EBITA (underlying)[1]
$12.8M
+11.6% vs FY22

NPATA[1,2] (underlying)
$6.4M
(9.6)% vs FY22

Operating cash flow
$17.4M
+15.7% vs FY22

Cashflow conversion
129.2%
of $16.2M EBITDA (underlying) [1]
pre-AASB16

Notes:
1. Underlying earnings are non-IFRS measures and exclude one-off acquisition, integration & restructuring costs (tax effected where applicable at NPAT level)
2. Before amortisation (tax effected)

DAIRY & MIXED ANIMAL SEGMENT DRIVING RESILIENT REVENUES

FY23 vs FY22

+33.2%
Reported dairy & mixed segment revenue growth

+4.9%
LFL segment revenue growth FY23[2]

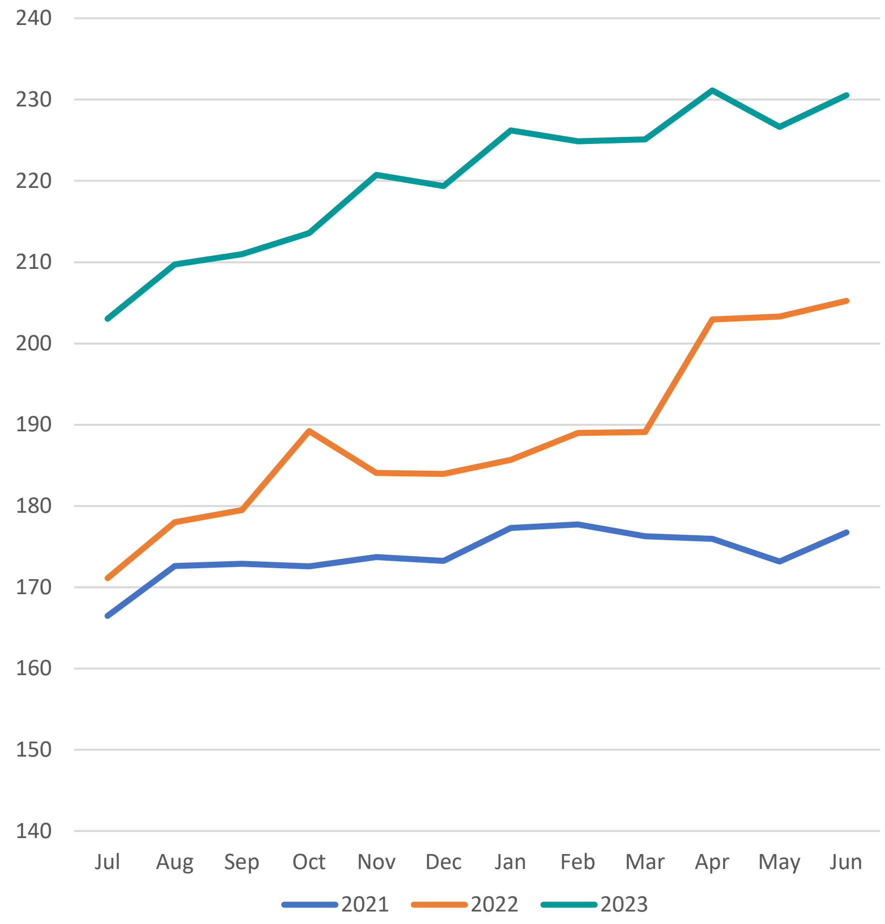
+12.8%
Avg. transaction value[1]

+16.3%
Best Mates member growth (vs FY22)

+24.5%
ProDairy revenue growth (vs FY22)

7
Acquisitions completed in FY23

AVERAGE TRANSACTION VALUE ($) (COMPANION ANIMALS)[1]



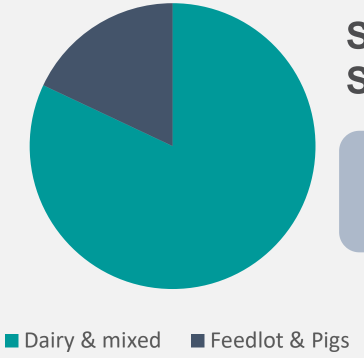
Notes:
1 Average transaction value for companion animals (excludes recently acquired clinics not yet on Apiam's Practice Management System)
2 LFL refers to like-for-like (or ex-acquisition performance) and adjusted to exclude acquisitions executed in FY23 and acquisitions executed in FY22

DIVERSIFIED CLINIC PRESENCE WITH RAPID PET SERVICES GROWTH

Clinic location summary[1]	#
Victoria	38
Queensland	19
NSW	16
Tasmania	3
Western Australia	4

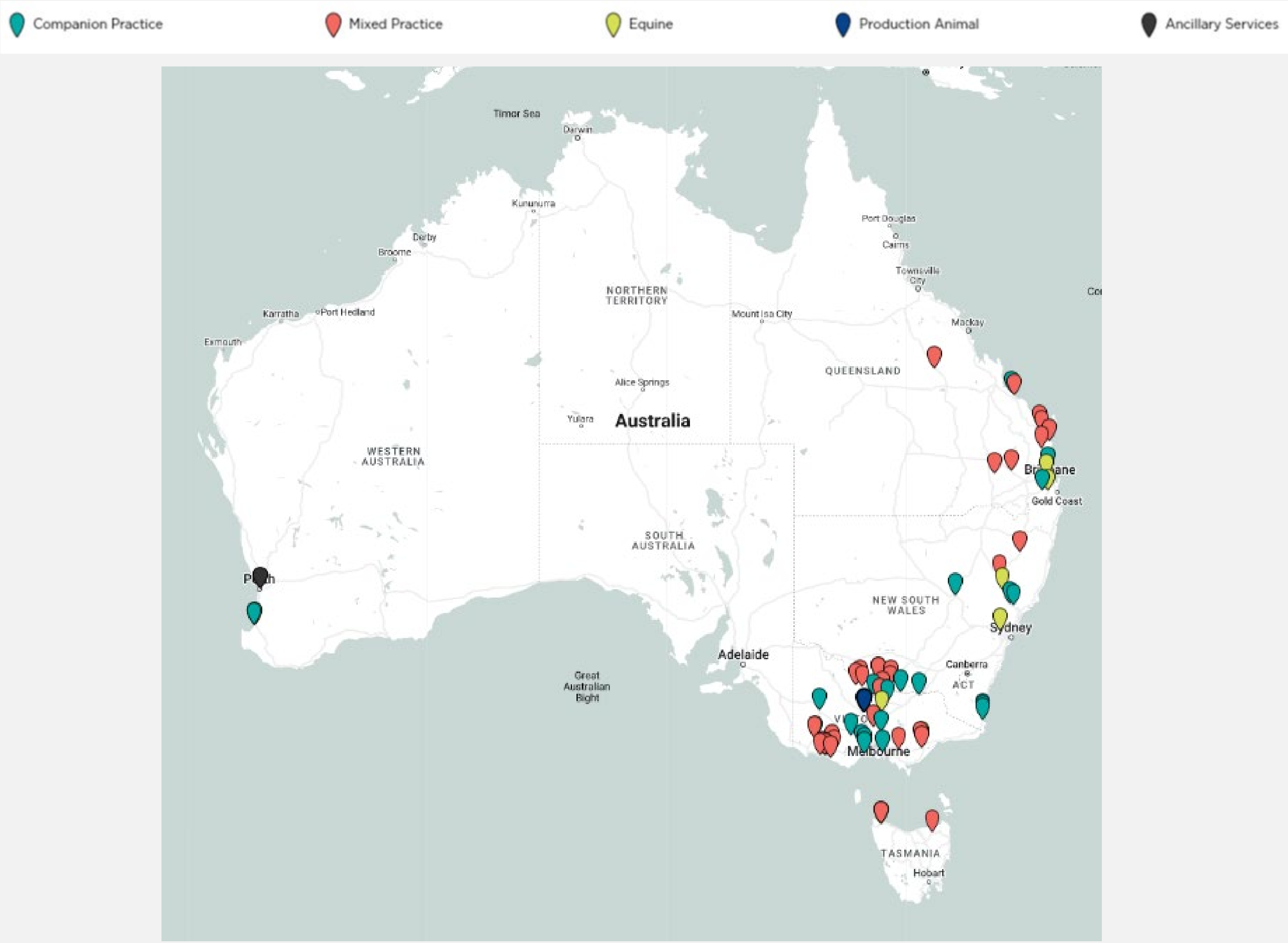
80 clinics **317** clinical veterinarians

~83% **D&M segment clinics have 50%+ revenue from pets** *(excluding 100% equine clinics)*



SEGMENT REVENUE SPLIT (FY23)

Dairy & mixed: 77%
Feedlot & pigs: 23%



Notes:
1 *Some locations have several clinics or businesses providing veterinary or ancillary services*

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DAIRY & MIXED ANIMAL SEGMENT ANALYSIS – FY23

Half-on-half revenue analysis

% growth vs PCP	FY23 vs FY22 (%)	H1 FY23 (vs pcp)	H2 FY23 (vs pcp)
Revenue (reported)	+33.2%	+36.5%	+30.2%
Revenue (LFL)	+4.9%	+3.5%	+6.4%

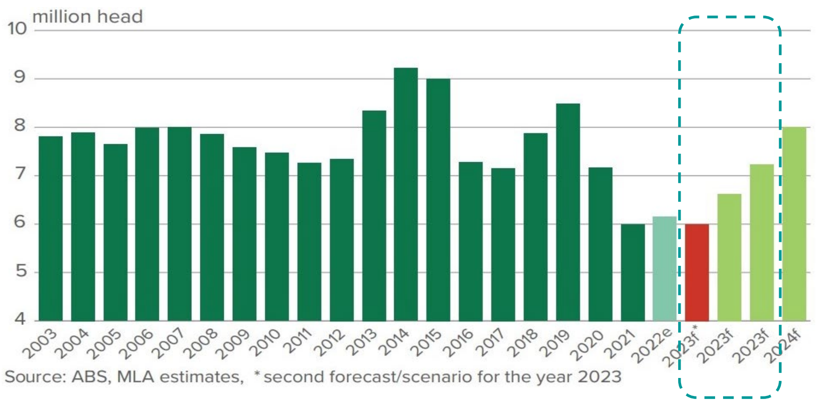
- Dairy and Mixed Segment includes veterinary services and products provided to pets, horses, pasture-based livestock and hobby farms
- Group H1 vs H2 revenue phasing reflects growth in dairy & mixed animal segment and impact of seasonal equine business
- Services to the equine industry are heavily weighted to H1 due to timing of the reproductive season in Australia. Hunter Equine Centre acquisition occurred post FY23 season
- Dairy & Mixed Animal segment LFL revenue growth increased from 3.5% in H1 to 6.4% in H2 (vs pcp)

FEEDLOT & PIG VETERINARY SEGMENT ANALYSIS – FY23

Intensive animal segments remain integral to Apiam's rural vet services

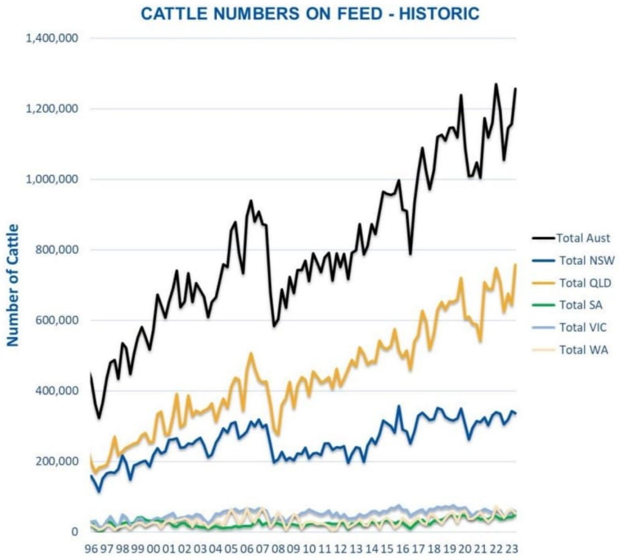
Segment performance % growth vs PCP	FY22	FY23
Revenue (reported & LFL)	(6.5)%	(4.1)%

National adult cattle slaughter



Source: ABS, MLA estimates, *second forecast/scenario for the year 2023

MLA 2023f range depending on rainfall & macro factors



Beef feedlot

- End of La Nina conditions with El Niño expected to set in later in the year[3]
- Number of cattle on feed increased 8.5% in June 2023 quarter (vs March quarter)[2]
- Lift in feedlot utilisation in June 2023 quarter from 74% to 81% of national capacity of 1.56 million head[2]
- Grain fed beef exports for June 2023 quarter up 8% from March quarter – strong demand from China and South Korea balancing softer exports to Japan[2]
- National beef herd at 28.7m head, largest size since 2014[1]

Pigs

- Pig numbers recovered in H2 FY23 from 2022 Japanese Encephalitis effects
- Pig segment revenue up 5% in H2 FY23 (vs pcp)
- Trend to higher value veterinary services
- Focus on bringing new vaccine and unique pharmacological products to market

1. https://www.mla.com.au/prices-markets/Trends-analysis/cattle-projections/
2. https://www.feedlots.com.au/_files/ugd/5bcc7b_fef17fd516d54ebfab5823cd334a277d.pdf
3. https://www.mla.com.au/prices-markets/cattle/feedersteer/

FY23 financial summary

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FY23 P&L SUMMARY

Revenue growth offset by increased wages and finance costs

Underlying

$m	FY23A	FY22A	Variance	%
Total revenue[1]	192.8	157.2	35.6	22.6%
Cost of goods sold[2]	(67.5)	(59.8)	(7.7)	12.9%
Gross profit[3]	**125.3**	**97.4**	**27.9**	**28.6%**
Operating expenses	(104.3)	(79.1)	(25.2)	31.8%
Underlying EBITDA[4]	**21.0**	**18.3**	**2.7**	**14.8%**
Underlying EBITA[4]	**12.8**	**11.5**	**1.3**	**11.6%**
Underlying NPATA[4,5]	**6.4**	**7.1**	**(0.7)**	**(9.6)%**
Amortisation (post tax)	(1.5)	(1.1)	(0.5)	31.4%
One-off expenses (post tax)	(0.5)	(1.4)	0.9	(61.6)%
One-off revenue adjustment (post tax)	(0.5)	-	-	
One-off write-down inventory (post tax)	(1.7)	-	-	
Reported NPAT	**2.3**	**4.6**	**(2.3)**	**(50.9)%**
Gross margin	65.0%	62.0%		
Underlying EBITDA margin	10.9%	11.6%		
Underlying EBITA margin[3]	6.7%	7.3%		

- **Revenue growth 22.6%:** driven by dairy & mixed animal segment (organic growth & impact of acquisitions)
- **Gross profit growth 28.6%:** gross margin continues to increase (65.0% in FY23) as business segment mix changes with increased companion animal and equine services growth
- **Underlying EBITA growth 11.6%** impacted by:
  - increased employment costs (discussed further next slide)
- **Underlying NPATA down 9.6%** impacted by:
  - growth in finance costs ($3.8M in FY23 vs $1.6M in FY22)
- **Reported NPAT down 50.9% i**mpacted by:
  - one-off write-down relating to provision for inventory items ($2.4M pre-tax / $1.7M post-tax)

Notes:

1. *Excludes one-off revenue adjustment for deferred revenue relating to prior years +$920K and reversal of earn-out no longer payable $(190K)*
2. *Excludes inventory write-down expense of $2.4 million.*
3. *Gross profit is a non-IFRS measure and only considers the cost of inventory associated with product revenue. It does not consider any cost of services associated with service revenue.*
4. *Underlying earnings are non-IFRS measures and exclude one-off acquisition, integration & restructuring costs (tax effected where applicable at NPATA level)*
5. *Before amortisation (tax effected)*

OPERATING EXPENSE ANALYSIS

Increased wages impacted Apiam's operating margins in FY23

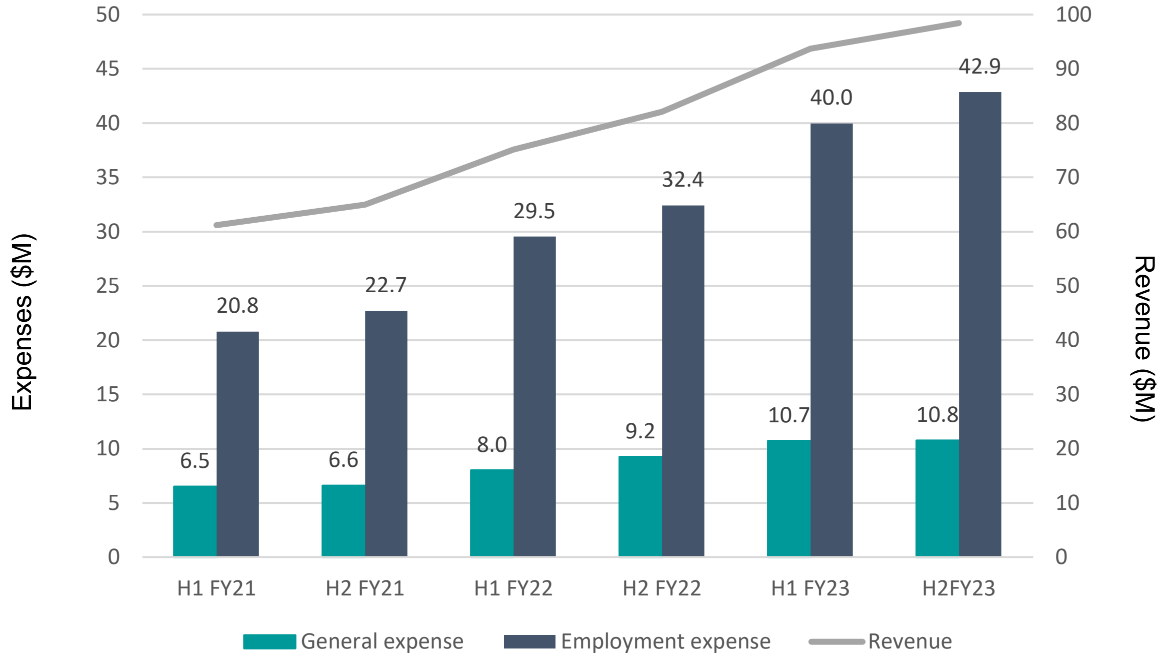
Employment expense:

- Employment costs (LFL basis) in dairy & mixed animal segment increased 8.7% vs PCP impacted by:
  - wage inflation particularly following post-COVID industry restructure
  - strategic recruitment of higher skill-set vets in H1 FY23 following re-opening of international borders
- Business support network costs +7.8% vs FY22 reflecting impact of:
  - full year impact of additional support staff in business support network in areas of P&C, IT, WHS, payroll that were added during FY22
  - accelerated acquisition program in dairy & mixed animal segment (11 acquisitions completed in FY22, 7 acquisitions completed in FY23)
  - implementation of cost-saving measures in H2 FY23 saw 1.9% cost reduction vs H1 FY23. Further costs out in June 2023 (see below)

General operating expense:

- Strong "general expense" cost control in broader inflationary environment

Operating expenses vs revenue trend (half-on-half) ($M)[1]



Notes:
1 Excludes one-off expenses

Redundancy & restructuring program reducing cost in FY24

- Cost-saving program to reduce business support network and non-veterinarian staff at various clinic locations completed in June 2023
- Expected to save $2.6M p.a. (savings to flow through from July 2023)
- Redundancy costs incurred were approx. $0.3M and are treated as non-recurring costs in Apiam's FY23 accounts
- Additional cost savings expected as Management continue to work with several clinics around optimisation of staff rostering & achievement of greater efficiencies

BALANCE SHEET

Reflective of acquisition program

$m	30 Jun 2023A	30 Jun 2022A
Cash	3.2	2.8
Trade & receivables	14.0	13.6
Inventories	15.5	17.8
Property, plant & equipment	43.8	31.6
Intangibles	163.6	126.9
Other assets	6.0	6.4
TOTAL ASSETS	**246.0**	**199.2**
Borrowings	69.0	42.1
Trade & other payables	12.4	11.0
Lease liability	29.0	21.3
Other liabilities	17.7	16.1
TOTAL LIABILITIES	**128.1**	**90.5**
NET ASSETS	**117.9**	**108.7**

Notes:

1. *Borrowings include $2.9M of equipment bank finance (Reported under Lease liability) for purposes of net debt calculation in FY23 (FY22: $1.8M)*

Key movements:

- Intangibles, PP&E reflective of acquisitions settled during FY23
- Write-down to inventory of $2.4M relating to sanitiser and surface protectant product range (non-cash related)
- Other working capital (receivables and payables) well managed to drive increased operating cash flow
- No current exposure to earn-outs

Borrowings & net debt:

- Net debt of $68.7M vs $41.0M[1] as at end of FY22 has increased due to cash component of consideration paid for 7 acquisitions settled in FY23 ($32.5M)
- Operating leverage ratio 3.0x vs covenant of 3.5x (net debt/EBITDA)
- Extended current terms of banking facilities to January 2026
  - $31M available in debt finance facilities as at 30 June 2023

CASH FLOW

Strong cash conversion tracking above target of 100%

Statutory cashflows $m	FY23A	FY22A
Net cash provided by operating activities	**17.4**	**15.0**
Acquisition of subsidiary, net of cash	(32.5)	(28.2)
Payments for property, plant and equipment	(7.9)	(4.2)
Payments for Intangible assets	(0.3)	(0.1)
Other	0.2	0.0
Net cash used in investing activities	**(40.6)**	**(32.5)**
Net changes in financing	28.9	4.8
Dividends paid to shareholders	(0.7)	(2.4)
Repayment of lease liabilities	(4.8)	(3.5)
Proceeds from share issue	0.0	19.2
Other	0.0	0.0
Net cash inflow from financing activities	**23.5**	**18.1**
Net change in cash and cash equivalents	**0.3**	**0.7**

Cashflow Conversion $m	FY23A	FY22A
Underlying EBITDA (pre AASB 16 lease adjustment)	**16.2**	**14.7**
Net cash inflow from operating activities (less AASB 16 lease reclassification impact)	13.4	11.5
Add back:		
One-off expense paid	0.8	2.0
Interest paid	3.8	1.6
Income tax paid	3.0	2.1
Underlying cashflow before tax & interest:	**20.9**	**17.1**
Conversion	**129.2%**	**116.8%**

- Operating cash flow +15.7% in FY23 (vs PCP)
- Strong working capital management
- Capex increase relates to opening of three new greenfield clinics and fit-out of a clinic related to flood damage
- Reduced final FY22 dividend (paid in H1 FY23) in-line with revised dividend policy. Dividend paused to re-invest in growth
- Cash component for acquisition consideration of $32.5M

Strategy & outlook

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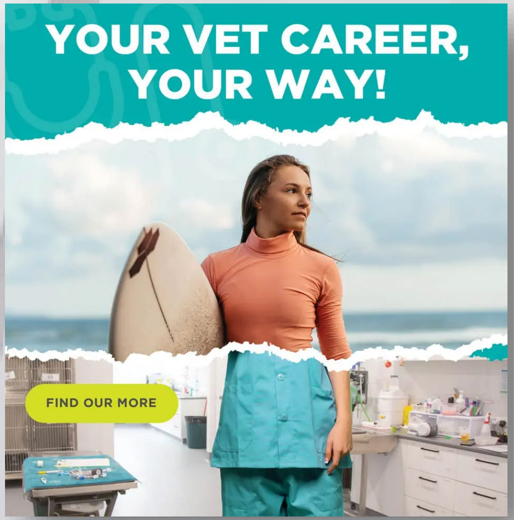
APIAM ATTRACTING REGIONAL VETS

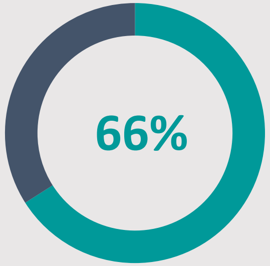
Supported through strong value proposition

- Our veterinary workforce continues to expand to meet a growing market – AHX value proposition attracting vets to the regions (+15% net on departs)
- Compressed working weeks – ~80% of Apiam vets on flexible workplace programs including 4-day work week or 9-day fortnight
- Your Vet Career, Your Way!
  - recruitment program focussed on flexibility to align career pathways, work hours and lifestyle choices
- Tele-triage (Vetriage™) to prioritise emergencies vs non-critical calls (reduces after-hours and weekend calls to veterinarians by >70%)
- Student debt (HECS) reduction program – very strong interest since launch with several grants offered prior to October 2023 deadline



UNIQUE VETERINARIAN WORKFORCE DYNAMICS LEVERAGING SKILLSETS

Full-time veterinarians as % of total vet workforce



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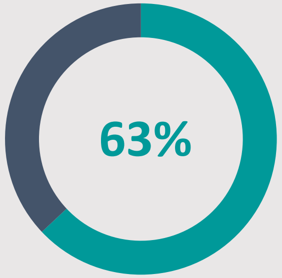
Industry[1]

Female full-time veterinarians as % of total female vet workforce



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Vets joined Apiam vs departed in FY23
(excluding acquisition contribution)

+15.0%

Notes:

1 Industry benchmarking service referenced at Australian Veterinary Association conference 2023 – State of the Market

GREENFIELD CLINIC PROGRAM UPDATE

Revised model leveraging organic revenue growth

Greenfield clinic performance

(clinics opened FY21 – FY23, six greenfield clinics)

	Revenue growth	Operating expense	EBITA impact from greenfield clinics
FY23 (Vs PCP)	Up 53.3%	Up 22.1%	**FY23 (Vs PCP) : +$0.2M** **FY22 (Vs PCP) : $(0.7)M**

- **Investment in Greenfields starting to deliver positive EBITA impact Vs PCP**
- **Carefully targeted regions with attractive demographics**
- **Attracting experienced veterinarians delivering high standards of care**
- **Efficient capex model & access to high growth population base and retail customer flow**
- **Three years to full financial maturity**

FY23

Oct 2022 – Hastings (VIC)

Mar 2023 – Yarrawonga (VIC)

Apr 2023 – Caboolture (QLD)

FY24

~Feb 2024 – Tarneit (VIC)

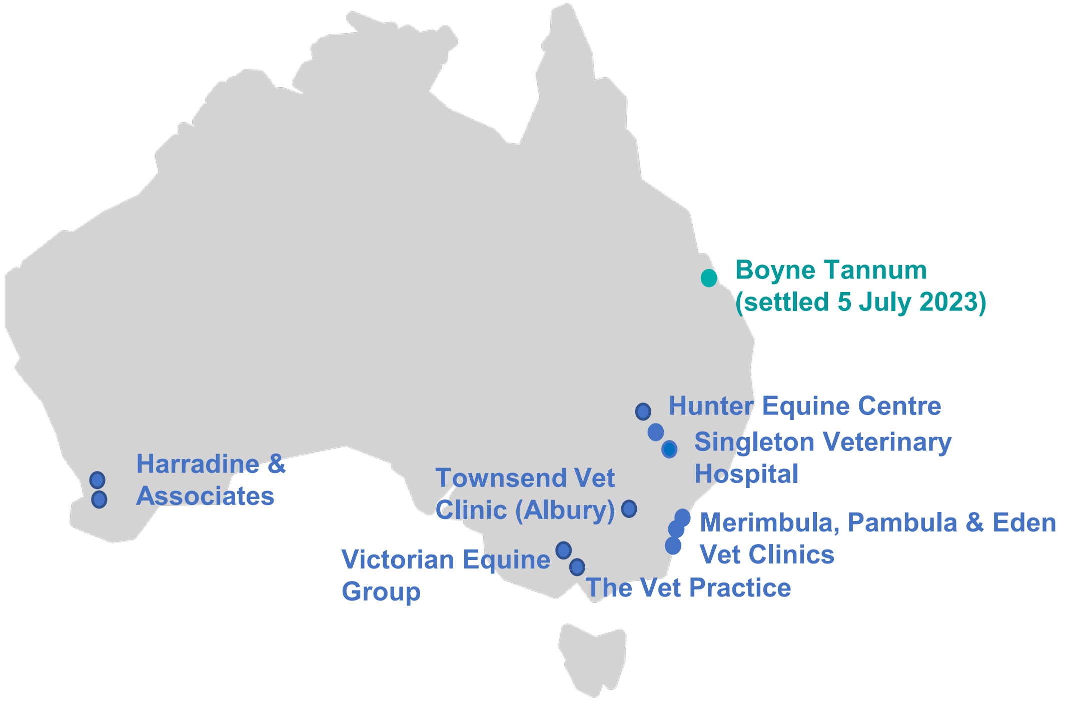
Take a tour!

ACQUISITION PROGRAM UPDATE

- Seven acquisitions completed in FY23; adding 11 clinics
- Total acquisition value of $39.9M in FY23
  - Cash consideration component of $32.5M (81.5%)
- Significant Head Office investment in FY22 & H1 FY23 to integrate systems & processes which has delivered initial synergies in H2 FY23
- Focus in FY24 on extracting further synergies from existing acquisitions and maximising free cash flow
- Slower pace of acquisitions in FY24
- Recent acquisition consideration has been 100% cash-based with no AHX scrip issued
- Softening in valuations

Clinics acquired in FY23

(scale is approximate)



OUTLOOK

Looking ahead in FY24

- **Revenue opportunities remain strong as demand for non-discretionary veterinary services remains resilient and growing in rural and regional locations**
- **AHX's Employee Value proposition and veterinary industry dynamics are enhancing rural and regional veterinarian pipeline**
- **Operating earnings margins expected to improve in FY24**
  - $2.6M annualised cost savings in FY24 from redundancy & restructuring program already executed
  - Further savings being identified at clinic level to increase margins
  - Leveraging of synergies from integration of FY22 and FY23 acquisitions
- **Phasing of future acquisitions to account for debt levels, free cash flow and strict financial criteria including rapid synergy realisation potential**

Questions

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