



Local knowhow.  
Global knowledge.

# 2018 Annual General Meeting

## Managing Director's Address



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# FY2018 IN REVIEW

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## Financial



- Revenue growth across all animal segments
- Underlying margin improvement
- Strong cash flow generation

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## Acquisitions



- Terang & Mortlake Vet Clinic (Nov 2017)
- Passionate Vetcare (Mar 2018)
- Gympie & District (Jun 2018)

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## Efficiencies



- Strong cost management focus
- Early stage efficiencies
- Completion of ERP implementation

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## Business development



- PETstock JV clinic openings
  - New product distribution opportunities
  - International markets
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# Profit and loss summary

## Underlying earnings growth driven by improving operating margins

\$m	FY18A	FY17A	Variance	%
<b>Total revenue</b>	106.6	98.0	8.6	8.8%
<b>Gross profit</b>	<b>51.6</b>	<b>47.3</b>	<b>4.3</b>	<b>9.1%</b>
Operating expenses	(41.8)	(38.9)	(2.9)	7.3%
<b>Underlying EBITDA<sup>1</sup></b>	<b>9.8</b>	<b>8.3</b>	<b>1.4</b>	<b>17.3%</b>
Depreciation & amortisation <sup>2</sup>	(2.4)	(1.6)	(0.8)	54.1%
<b>Underlying EBIT<sup>1</sup></b>	<b>7.3</b>	<b>6.7</b>	<b>0.6</b>	<b>8.7%</b>
Interest & tax	(2.9)	(2.4)	(0.5)	22.5%
<b>Underlying NPAT<sup>1</sup></b>	<b>4.4</b>	<b>4.3</b>	<b>0.1</b>	<b>1.0%</b>
One-off expenses (after tax)	(1.1)	(0.7)	(0.4)	60.0%
<b>NPAT (operating)</b>	<b>3.3</b>	<b>3.7</b>	<b>(0.4)</b>	<b>(11.2)%</b>
Other income	0.0	1.2	(1.2)	nm
<b>NPAT (reported)</b>	<b>3.3</b>	<b>4.9</b>	<b>(1.6)</b>	<b>(33.2)%</b>

### Notes:

- Underlying earnings exclude one-off acquisition, integration & restructuring expenses (tax effected where applicable at NPAT level) & reversal of contingent acquisition consideration recorded in FY17 of \$1.25M
- Re-statement of FY17A amortization due to \$3.2M reclassification of intangible associated with QVG acquisition

### Revenue

- Reported revenue growth of 8.8% (FY18 vs pcip)
- LFL revenue growth of 4.0% (FY18 vs pcip)

### Underlying earnings

- Strong growth at EBITDA level given cost management focus and gross margin improvement
- Underlying EBIT & NPAT growth despite increased D&A expense

### Expenses

- Operating expense increase of 7.3% in FY18
- Acquired businesses account for >90% of opex increase
- One-off expenses detailed in FY18 results – relate to acquisitions, integration & restructuring

# Balance sheet & cash flow summary

## Balance sheet summary

\$m	30 Jun 2018	30 Jun 2017
Cash	1.4	1.0
Trade receivables	14.7	14.1
Inventories	11.3	11.5
Property, plant & equipment	9.4	6.4
Intangibles & other	68.5	62.2
<b>TOTAL ASSETS</b>	<b>105.4</b>	<b>95.2</b>
Borrowings	27.3	25.7
Payables & other	19.4	15.1
<b>TOTAL LIABILITIES</b>	<b>46.7</b>	<b>40.8</b>
<b>NET ASSETS</b>	<b>58.7</b>	<b>54.4</b>

- Modest increase in net borrowings, despite significant investment in capex and cash component of acquisition consideration (\$4.7m)
- Banking covenants well maintained

## Cash flow summary

\$m	FY 2018	FY 2017
<b>Net cash used in operating activities</b>	<b>9.2</b>	<b>1.7</b>
Acquisition of subsidiary, net of cash	(4.7)	(8.4)
Purchases of property, plant and equipment	(4.5)	(1.6)
Other	(0.4)	(0.0)
<b>Net cash used in investing activities</b>	<b>(9.5)</b>	<b>(10.0)</b>
Dividend paid to shareholders	(1.0)	(0.8)
Other net changes in financing	1.8	8.0
<b>Net cash inflow from financing activities</b>	<b>0.8</b>	<b>7.2</b>
<b>Net change in cash and cash equiv.</b>	<b>0.5</b>	<b>(1.1)</b>
<b>Underlying EBITDA cash conversion</b>	<b>136%</b>	<b>65%</b>

- Very strong earnings to cashflow conversion in FY2018
- Strong operating cash flow driven by improved inventory and receivable management as well as better management of suppliers
- Cash flow supported shareholder dividends paid (\$1.0m) with balance being re-invested in acquisitions and capex to grow the business





# AHX GROWTH STRATEGY

# Phase 3 of Strategic Plan – Leveraging Performance

## Three year strategic Objectives

Phase 1: Building the Foundation

Phase 2: Gaining Efficiencies

Phase 3: Leveraging Performance



## FY19 Initiatives

SERVICES & PRODUCTS RANGE & MARGINS	Apiam private label strategy
	New Services & Products
	Applied Diagnostics
ANIMAL NUMBERS	Business unit synergies
	Acquisition pipeline
	Satellite clinic program
OPERATIONS PROCESS & CAPACITY	Integrated Systems



# GROWTH BY Animal numbers

## Acquisitions

- Supports regional expansion strategy
- Strong pipeline of potential acquisition clinics
- Disciplined process focused on return criteria for shareholders

## PETstock clinics

- Fur Life Vet Epsom opened at PETstock in Bendigo in Mar 2018
  - Emergency and referral clinic for region
  - Offering specialist surgery, medicine & ophthalmology
  - High performance clinic to facilitate staff development
  - Exceeding growth expectation in first months of operations
- Second clinic at PETstock Golden Square opened mid Aug 2018
- Further clinics to be rolled out in FY2019 as satellites to existing large clinics

## Organic growth of companion animal business

- Growth in range of services; market leading standard of care
- “Fur Life Vet” brand disseminated across network



# GROWTH BY Services – Farm animals

## Expansion of offering to deliver growth



Dairy

- ✓ New dairy service programs
- ✓ Integration of new diagnostics
- ✓ Collaboration across regions



Pigs

- ✓ Client benchmarking services
- ✓ Risk management auditing systems
- ✓ Diagnostics and alternatives to antimicrobials



Beef feedlot

- ✓ Training programs to industry
- ✓ Feedlot services to international markets
- ✓ Integrated product logistics being rolled out across network



AHX Genetic Services

- ✓ Continued development of export markets of sheep and goat semen and embryos
- ✓ Industry-first semen evaluation technology implemented in sheep collection centre



# Chinese consultancy and export agreement

## Terms

- Allmate Cooperation Agreement – a partnership between AHX and Gansu Charming Sheep Breeder Co Ltd
- Agreement to establish a state-of-the-art sheep genetics centre in China (construction has commenced); focused on establishing breeds suited to Chinese conditions & markets
- Several revenue streams for AHX
  - Consulting revenues (centre design, breed selection)
  - Ongoing product & service revenues (embryos & semen, specialist veterinary services & training)
- Revenues commencing H1 FY2019; expected project term 3-5 years



## Rationale & opportunity

- Rapidly increasing middle / upper class Chinese population looking to move beyond traditional sources of protein (poultry & pork)
- Margin contribution attractive - expected to increase AHX group gross margin in future years
- Increased utilisation of AHX's Chinese export accredited genetic facilities – expected to leverage existing cost base





# GROWTH BY Product – development & opportunities

## Investing in sustainable product solutions



- ✓ Private Label (Vet Only and Fur Life Vet) brands being developed
- ✓ Alternatives to antibiotics and strategy for expansion of preventative health products in place
- ✓ Strategic global partnerships being developed to deliver next generation animal health and wellness solutions



- ✓ Plumblin product distributorship on track
- ✓ Clinical trials of Life Tide SW5 in progeny pigs to complete in FY2019
- ✓ Registration of products in cattle expected within 18-24 months
- ✓ Attractive commercial structure without milestone payments



- ✓ US Joint Venture product distribution commenced
- ✓ Lead JV partner - Swine Veterinary Center - one of the leading players in the swine sector
- ✓ Strong US market demand for antibiotic replacement products
- ✓ Limited market release of two AHX products; strong initial interest
- ✓ Collaborative research trials underway with Kansas State University (to be completed FY2019)





# FY2019 YTD & Outlook

## FY2019 YTD (Jul – Oct) performance update

- Strong revenue and gross margin improvement (+10% revenue; +18% gross profit vs Jul-Oct FY2018)
- Like-For-Like revenue flat, with small gross margin improvement (+2% gross profit vs Jul-Oct FY2018)
  - reflective of change in business mix and some customer trading structures – targeted move towards “lower volume but higher value” transactions
  - drier conditions having positive influence on feedlot business
  - drier conditions impacting dairy and pig business in some regions
  - new business initiatives and genetic exports starting to counteract YTD headwinds
- Operating expense growth (ex-acquisitions) in-line with CPI

## Outlook

- Industry challenges expected to continue due to drier conditions and grain prices
- New market opportunities in place; expected to counteract industry challenges in FY2019
  - Expansion of product distribution – private label, new products and USA JV
  - Chinese consultancy and export agreement
  - Companion animal growth
- Diversification model expected to maintain earnings in line with expectations
- Company has strong focus on delivering material benefits at EBITDA and NPAT lines from capital deployed on strategic initiatives over last 3 years



A photograph of a large, light-colored pig with dark patches on its face and legs, standing in a grassy field. Three small, light-colored piglets are in the foreground, one to the left and two to the right of the large pig. The background shows a white building and some trees under a clear sky.

**THANK YOU**