

APIAM ANIMAL HEALTH – ANNUAL GENERAL MEETING

Managing Director's Address – Dr Chris Richards

24th November 2016

Good morning, my name is Chris Richards and I am the Managing Director of Apium Animal Health. I would like to thank everyone for their attendance today and thank our shareholders for their support of the company since it listed on the ASX in December last year.

Today I will provide a short review of our 2016 financial year performance, before turning to an update of our strategic initiatives and business integration progress. Finally, I would like to provide shareholders with a trading update for the first four months of the current financial year and the outlook for FY17.

Business model

Apium Animal Health is uniquely positioned in the Australian market as a vertically integrated animal health business designed to capture all aspects of the animal health value chain.

Following the completion of a number of acquisitions on listing, we now represent the combination of 13 leading production animal and mixed animal practices. We have 29 clinics located in most Australian states and over 110 practicing veterinarians.

Our practices are well supported by a centralized procurement and wholesaling operations with four warehouses in major production animal locations and we have a 21 vehicle fleet to provide fulfillment services.

We also have an ancillary and support division offering a variety of services and products that further support our clients operations.

FY2016 in review

We delivered our results for the 2016 financial year in August and provided shareholders with a summary of the FY16 operational highlights that Apium had achieved in the seven month period since listing.

In addition to achieving the statutory financial forecasts provided in the IPO prospectus, we highlighted our key operational achievements, such as successfully executing our growth strategy through business integration and application of our vertically integrated business model.

From a financial perspective I would like to highlight some key profitability metrics from the 2016 financial year, compared to the forecasts we outlined in the prospectus. It needs to be noted that these financials represent an eight month contribution from the Chris Richards Group and the other nine clinics made a contribution from 10 December 2015.

It is also worth noting that these financials are presented on an underlying basis, as in they are adjusted for one-off costs associated with the IPO and the integration of the acquired clinics at the time of the IPO. Some of the key metrics I would like to discuss are:

- Revenue for the period was 11.4% above the prospectus forecast as a result of significant growth in product sales from the pig category, which accounted for about 60% of the favourability. The balance of the favourability was due to the earlier settlement of the acquired clinics
- Gross margin was slightly below prospectus forecast given this increase in the pig sales which traded at a lower margin, and the delayed phasing in of procurement savings.
- Employment costs were slightly higher than forecast mainly due to early settlement of the clinics but also included additional resources in HR, finance & IT to support integration

Strategic roadmap & initiatives

As Andrew has already mentioned in his speech, our strategic roadmap is comprised of three key building blocks. Our current focus is around “building the foundation” and Andrew has talked about what the main initiatives are in order to achieve this.

I would like to touch on the four pillars in our strategic plan a bit further. Apiam’s growth plan revolves around our strategic themes of high performance team, clinical leadership & operational excellence, customer focus and innovation. I would now like to talk about each of these in a little further detail and give you an update of what has been achieved in the 2017 financial year to date.

Firstly, in relation to developing a high performance team we have made good progress. We have put in place an accelerated graduate program and rolled out an employee assistance program. We see collaboration & knowledge exchange across the company as vital, so we have also developed and deployed our company intranet to foster these relationships.

The main initiative we have been working on under the clinical leadership and operational excellence area is the implementation of integrated systems across the business that will improve efficiencies, reduce risk and provide a safe working environment. I will talk about this further on the next slide where I provide a business integration update.

We are delivering on our customer focus theme through the appointment of Key Account Managers, expanded equine services in Northern Victoria and an overall focus on end-user profitability.

To date, our innovation focus has seen us commence the implementation of the ‘Be Sure’ initiative - Apiam’s platform to provide consistency and scalability, and recognize high quality, professional approaches and business practices.

These initiatives starting to deliver benefits through new revenue streams, with management tracking them individually against expected outcomes.

Business integration progress

Our integration process is obviously very important given Apiam has bought together multiple veterinary businesses. It has been extremely well planned and is progressing on track.

I have previously advised the market that Apiam intends to spend up to \$3.5 million on integration and growth activities in the 2017 year – mostly in the areas of systems and people. I repeat that guidance now and further advise that up to \$3 million of that spend will be expensed in the the 2017 accounts.

In the area of personnel, we have already made some key appointments. Two of three planned Key Account Managers have been appointed in Q1 FY17. These new Key Account Managers have already completed sales training and are already adding value in servicing corporate and mid-tier accounts and identifying growth opportunities. Additionally the Veterinary Services Advisory Committees have developed new services and products ahead of a roll out in H2 of this financial year.

In the area of systems we have scoped our ERP and Practice Management System (PMS) and now appointed providers. We have also updated our HR platform to align the company's strategic objectives with our employees and their KPI's.

Economies of scale are already being achieved in procurement & delivery, with efficiencies being gained through Apiam logistics now delivering direct to clinics and many new customers.

Outlook – Industry conditions

I would now like to update you of recent industry conditions across our key customer markets. I think it is important to firstly point out that Apiam's business is affected most directly by animal numbers rather than commodity fluctuations. While the industry outlook for production animals in Australia is incredibly strong, we have encountered some recent short term challenges in the beef & dairy industry, mainly because of short-term shifts in animal numbers.

Firstly beef feedlot. The number of beef feedlot cattle across the industry has declined by 13% in Q1 from previous quarter. This is partly a result of the well publicised cattle supply shortages with herds at their lowest level in 20 years. Additionally, the unusually high rain pattern in the first quarter of the 2017 financial year has enabled producers to keep their stock on grass rather than provide them as calves to feedlot operations. Demand for feedlot is expected to increase into 2018.

The dairy industry has also suffered from some recent industry challenges. The number of dairy cattle across Apiam's customer base was negatively affected by the industry reduction in farm gate milk prices in 2016. In particular, the unusual combination of low milk prices but high meat prices resulted in an increase in cull rates of cows, predominantly in July and August 2016. More recently, however, global milk prices have entered a recovery phase which is encouraging for Apiam's dairy customer base and we are now seeing increased heifer retention on farms as herd sizes are re-established.

The pig industry remains good. Pig meat production is in line with expectations and we are witnessing robust industry expansion to meet future pork demand.

Outlook – Trading update

I would now like to provide shareholders with a trading update from the months July to October 2016.

Revenue of \$19.8m in the first quarter of the 2017 financial year was below expectations, primarily due to a combination of two factors. Firstly the challenging feedlot and dairy industry specific factors as I have just outlined. Secondly, abnormal customer purchasing patterns in pigs and dairy occurred during this period. October revenue of \$8.35m was at expectations due to the resumption of more normal servicing and purchasing patterns in the dairy and pig industries and importantly, revenue growth initiatives implemented by Apiam.

Our revenue from the period July 2016 to October 2016 was \$28.15m. Trading to date for November 2016 is also meeting our revenue expectations.

I do want to note though that this was a short term factor and expected customer purchasing patterns in these areas have now resumed.

Can I take this opportunity to reinforce that Apiam's management team has, over many years, proven its ability to drive business growth despite varying industry conditions, and that we have a number of growth initiatives in place.

Outlook FY17 – FY17 Trading Update H1 and H2

Now I would like to turn to the outlook for Apiam going forward into the 2017 financial year.

The second quarter for FY17 to date is showing a significantly improved revenue trajectory. Revenue in October and November to date has been in line with our expectations.

The reduced revenue against expectation thus appears to be restricted to the first quarter of FY17

However, the reduced revenue of Q1, will impact Apiam's first half 2017 revenue and consequently EBITDA.

Apiam has responded quickly to the challenges experienced in the first quarter of FY17. We have introduced specific initiatives to drive organic sales across all business segments to deliver a strong FY17 second half.

We are also reviewing our costs but we remain committed to delivering on our strategy.

As a result of all of these factors, revenue in the second half of FY17 is expected to be greater than the first half FY17 revenue. I also make the point that due to varying industry conditions, and our own rate of growth in differing market segments, revenue spread between H1 and H2 may vary year to year

Delivering to Strategy

As Andrew and I have mentioned, the 2017 financial year has always been about building the foundation of Apiam's business which is well underway. This will deliver benefits for the next 5-10 years

We are delivering on our organic growth strategy with Key account managers appointed, new service offerings in clinics and new greenfield branch clinics being planned.

We are also delivering on our acquisition strategy. This financial year will include a part year contribution from Quirindi Vet Group. Additionally, we have a strong acquisition pathway in a fragmented industry. All our acquisitions are subject to Apiam's strict acquisition criteria, such as being synergistic and that enhance our services to our client base.

As I just mentioned, we have also implemented new initiatives to drive strong sales performance in the second half of FY17.

Fundamentally, we are a company that is exposed to a very favourable sector being the "production animal sector". The economic outlook for the sector is very strong supported by a range of long term domestic and international macro-economic and demographic drivers and trends.

To conclude, Apiam is well placed to continue to grow returns for our shareholders as we implement our business strategy.

I would like to thank the Board, the management team and our dedicated employees for their efforts towards building the company to date, as well as you as shareholders for your continued support.

About Apiam

Apiam Animal Health is positioned in the Australian market as a vertically integrated animal health business providing a range of products and services to Production and Mixed animals. Apiam Animal Health's strategy is to service Production and Mixed animals throughout their lifecycle, including the provision of veterinary services, ancillary services, genetics, wholesale and retail of related products, together with technical services related to food-chain security.