

ASX Release

Apiam Animal Health Limited

(ASX: AHX)

23 November 2017

2017 Annual General Meeting, Chairman's Address

It has been a busy and productive period for the Company since last year's AGM and we have been very much focussed on executing the first phase of our strategic plan, integrating acquired businesses and importantly delivering growth for shareholders.

As you know, on listing Apiam brought together some of the largest rural veterinary practices from around the country, and through our vertically integrated model we have created a unique veterinary business, with a diverse service offering, an extensive centralised support infrastructure and a regional and rural focus.

Importantly, it is also this vertically integrated model that is fundamental to Apiam's long term vision as we continue to consolidate rural veterinary practices into our Apiam network. I will discuss this strategic vision in a little more detail shortly.

At the time of our listing in December 2015, Apiam had vet clinics in 25 locations and approximately 100 veterinarians. Through our subsequent acquisitions, such as Quirindi, AllStock and the recently announced Terang & Mortlake Veterinary Clinic as well as organic growth initiatives implemented over the past 18 months, we now have 36 locations and over 130 veterinarians. Our revenue base continues to grow and our business mix is becoming increasingly diversified. Our recent announcement regarding the PETstock Joint Venture alliance will enable further acceleration into the regional companion animal segment – a sector which we think represents an attractive growth opportunity.

I will now briefly address our financial performance in the 2017 financial year. In May 2017 we provided shareholders full year revenue and earnings guidance and I can report that our results for the 2017 financial year were within this market guidance, with revenue of \$98.0 million and underlying EBITDA of \$8.3 million. This performance reflected the impact of a challenging first quarter, but it was particularly pleasing that the business rebounded and achieved strong revenue growth in the second half. Chris will talk to Apiam's financial performance in more detail during his presentation.

I will now address, in some detail, the strategic direction that we are taking and the broad opportunities that Apiam is on track to seize.

Enhancing and leveraging efficiencies is an integral part of Apiam's model and as we have seen in many other industries over the past decade, the ability to cut through inefficiencies has been a key driver of the rationalisation of numerous service sectors.

Veterinary services in rural and regional Australia, has been one of the service sectors that, prior to Apiam's involvement, remained fragmented and had operated much in the same way as it did when I graduated as a young veterinarian about 35 years ago.

At that time, rural vet practices were generally small operations, privately owned and often staffed with 4 or 5 veterinarians. This led to an environment where vets in rural practices had to be a "jack of all trades", attempting to service a broad range of production and companion animals, as well as attempting to look after management of the clinic. So, a day for a lead vet in a typical rural practice may have involved an early morning run to see sick cows at various dairies, a quick pop back to the clinic to undertake some small animal surgery that had been booked in, back out on the road to see a couple of horses, maybe back to the clinic for some small animal consults, and in the evening trying to catch up with the book work – often whilst being on after-hours call. It was a very difficult work load, unlikely to provide best client service and companion animals were typically the underserved segment. This way of working was also unlikely to result in the best business management or commercial practices for the clinic.

The small scale of typical rural and regional veterinary practices led to other inefficiencies. From a supplier perspective, animal products and medications were bought in relatively low quantities from a local wholesaler, who, in turn, may have received them second or third hand from the original manufacturer, passing margin to each intermediary along the way. Sophisticated diagnostic testing, which often involved relatively expensive equipment and specialist staff – was well out of the reach of rural vet practices. So, the typical rural vet practice was forced to either outsource these tests to third parties – at a considerable cost and with significant time delays - or, alternatively determined a treatment regime in the absence of a clear diagnosis. Both of those alternatives potentially compromised the animal's care.

While some rural veterinarian practices have become larger and increasingly sophisticated, the bulk of the industry remains fragmented and many practices continue to operate much in the same way as I have just described, with clinical and financial inefficiencies a fact of life. Fundamentally this is where Apiam believes it can generate significant value for its shareholders. Removing the inefficiencies through our vertically integrated model will improve veterinary and client service, improve the quality of animal care, and at the same time, offers a significant opportunity to create value for our shareholders.

Shareholders are aware of our three-year strategic roadmap, and at last year's AGM I discussed our plan to focus on executing the first phase "building the foundations" during the 2017 financial year. This current financial year will see us turn our focus to the second phase of the three-year strategic roadmap to "enhance efficiencies" – the area which will drive our strategic objectives for the 2018 financial year and beyond. It is these efficiencies that we believe can be gained through harnessing our scale and our vertically integrated model to our advantage. To be clear, we intend to disrupt the inefficiencies in the existing rural and regional veterinary service model.

Even though it is early days in this second phase, good progress has already been made. For example, rather than vets having to be 'jack of all trades' we are beginning to increasingly target the expert skill base in our team of 130 vets. Apiam has, for example, a group of veterinarians who are extremely skilled and experienced in reproduction, embryo transfer and artificial insemination. We can now put those vets together in teams to service clients, and jobs of any scale, anywhere in Australia - and internationally, for that matter.

Similarly, rather than burdening our veterinarians with unnecessary administration and management responsibilities, we want our vets to do what only they can do - and what they do

best – be vets and service their clients. So, we are now rolling out our regional management model in which appropriately skilled regional leads can efficiently support the local veterinary teams, thereby freeing up our vets to see more clients.

In phase two of our strategic plan, we also wish to address the under- servicing of companion animals that has generally occurred in regional Australia. Our recent alliance with PETstock is evidence of progress in that turnaround. Apium and PETstock intend to open the first co-located clinic as a 24-hour Veterinary Emergency & Referral Centre, at PETstock’s recently opened retail superstore in Bendigo (Epsom). This 24-hour Emergency and Referral centre will be equipped with ‘best in class’ diagnostic equipment, including the regions first CT machine. The centre will engage a combination of specialist veterinarians and consultants experienced in surgery and medicine, as well as general and emergency veterinary practitioners. This is a good example of how Apium can use its scale to effect – we have 11 veterinary clinics that will be able to feed cases requiring specialist treatment to this centre, and have the capital to properly invest into a region that we have identified as having a very strong need for a 24-hour small animal emergency service veterinary clinic.

Moving on. In production animals particularly, revenue from the sale of animal health products is very important, and from listing, Apium sought to benefit from improved purchasing power from suppliers. I am pleased to say this has occurred, with significant benefits already being captured. But we are not stopping there. During Phase two of our strategy, we will seek further integration of our supply chain, with an increase in private labels, and higher margin products. Similarly, in diagnostics, we intend to invest in diagnostic technologies and the skill sets that will improve our quality of service whilst increasing our returns.

Our model also provides an opportunity for improved training and recruitment of staff. This will be pursued during phase two of our plan, through, for example, stronger relationships with Australian veterinary schools.

So, as you may sense, there is work to be done and it is early days for phase two of our strategic plan, but we see a very clear, and I think, exciting, path ahead of us, and we intend to methodically capture the valuable opportunities that our model presents.

Let me now move to some corporate governance matters. As you know, all your board members were initially appointed at Apium’s listing, less than two years ago. As Chair, I feel very fortunate to have board members with such a complete set of skill, experience and integrity, however, proper board rotation is desirable. This was discussed by the board, and Charles Sitch offered to retire at the next AGM to enable board rotation to begin. Consequently, it is the Board’s intention to appoint a suitably qualified and experienced female board member during 2018 to fill the vacancy that Charles will create.

I now conclude with three points. Firstly, I re-iterate to shareholders that Apium’s business is backed by favourable long-term industry fundamentals for both the production and companion animal sector. While we did witness some industry volatility in the first quarter of the 2017 financial year, these industry conditions have significantly moved back towards historical trading patterns. I do want to highlight that short-term volatility will always occur, but in the long term, Australia’s animal production industries are very well placed as the demand for protein continues to increase – particularly amongst our key trading partners.

Secondly, after the significant time and resources we have invested over the past year in “building the foundations” Apium is now very well placed to deliver growth in the year ahead. We

expect the second phase of our strategic plan to be successful in driving further synergy benefits and cost efficiencies, and remain committed to our core business strategies to create long term value for our shareholders.

And finally, I thank my fellow board members, Apiam's employees and our shareholders for your continued support and look forward to sharing with you our continued progress throughout the coming year.

-Ends-

For further information, please contact:

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About Apiam Animal Health Limited

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.