

## ASX Release

# Apiam Animal Health Limited

(ASX: AHX)

29 November 2018

## 2018 Annual General Meeting, Chairman's Address

Good morning ladies and gentlemen and welcome to the 2018 Annual General Meeting of Apiam Animal Health Limited.

During 2018 Apiam achieved a number of significant milestones as we continued to execute our strategic plan.

Solid revenue growth, both in absolute terms and on a like-for-like basis, an improved gross margin and strong cash flow generation in the 2018 financial year are all indicators that elements of our strategic plan are delivering results. In his address, our Managing Director, Chris Richards, will talk in detail about Apiam's financial performance. In my address, I will focus on important strategic initiatives undertaken during the year that provide Apiam with long-term sustainable competitive advantages whilst improving our return on capital for years to come.

When Apiam listed, we acquired a number of veterinary businesses, all with differing management systems. Since that time, shareholders will be aware that Apiam has made significant investments in establishing a high quality corporate operating infrastructure for the Company. This continued during 2018.

During the year, our management team successfully bedded down our new Enterprise Resource Planning software, on time and on budget. This is an important milestone for the Company – enabling efficient centralised monitoring and control of our finances, human resources, stock, infrastructure and property. But there is more work being done.

The other critical operating infrastructure investment that Apiam is now rolling out, after a delay, is a new, uniform Practice Management System. This is the software that every Apiam dairy and mixed animal clinic will use to enhance client and patient management, improve client services, streamline staff workflow and deliver correct and consistent fee structures.

I'm a veterinarian, as are many of our shareholders, so I'll use a biological analogy: the ERP software is like a central nervous system, allowing efficient centralised co-ordination of all our activities, whilst the Practice Management System is like a peripheral nervous system, allowing all of the various arms of our business to function efficiently whilst sending information to, and receiving information from, the central system. We need both systems to efficiently manage the business. Full implementation of our Practice Management System will be a very important milestone for Apiam and is expected to result in additional revenues and cost improvements at an individual clinic, region and segment level. Full effect is forecast for this 2018-19 financial year.

I will now speak about our diversification model. Volatile industry conditions will always be a challenge to any business or service provider that operates in agricultural areas of Australia. That is why we identified diversification as a critical sustainable competitive advantage for Apiam. We

have the scale and capacity to diversify not only geographically but also in terms of the industries that we service.

At the time of our listing in December 2015, Apiam had 25 clinics and about 100 veterinarians. Through our subsequent acquisitions as well as our organic growth initiatives, we now have 43 clinics and over 150 veterinarians.

Our strategic acquisition program saw us acquire three complementary businesses in Victoria and South Eastern Queensland in the 2018 financial year. Each new business has brought new geographic exposures or increased veterinary expertise and services in a different mix of animal species.

In addition, our joint venture with PETstock has been structured to target fast growing and under-serviced companion animal markets in regional locations. This joint venture offers our shareholders a relatively low cost and efficient method of entering the attractive companion animal market. Industry fundamentals in the rural and regional companion animal market are strong and these markets are not characterised by the high levels of competition facing many metropolitan markets.

The success of our first co-located clinic with PETstock at Epsom, which opened in March this year, has already surpassed our expectations and delivered revenues double that of a normal clinic in its first six months of operations.

It is also this diversification model that supports revenue growth across different market cycles – and is a major reason why our Group revenue has proven largely resilient across most of the business in the face of the current drought affecting much of south-east Australia.

At the time of our 2018 financial year results update in August we highlighted that approximately 11% of our revenues are generated from clinics in regions that are considered drought affected. These dry conditions have presented some challenges for our dairy focussed clinics, as many disease events associated with dairy cows occur in wetter environments. However, the opposite can be true for our beef feedlot customers where dry conditions can improve feedlot numbers because beef producers finish off cattle on feed to meet market specifications.

This diversified business model, including exposure to a broad range of industries with different underlying drivers, has underpinned our business stability in spite of the dry conditions, and other industry volatility, that has occurred over the past few years.

Moving forward, Apiam will continue to seek acquisitions that leverage our cost base whilst providing new geographic exposure or introduce specialised offerings to our clients or strengthen an existing region in which we operate.

In every region in which we operate, Apiam aims to be number one – the provider of the highest quality animal care and best possible services to clients. We have targeted our acquisitions to build a critical, unassailable mass of skill and expertise region by region. During 2018 we instituted a regional management model to unleash the competitive advantages that we have built into each region.

Moving on. In production animals particularly, revenue from the sale of animal health products is very important, and from listing, Apiam sought to benefit from improved purchasing power from suppliers. This has occurred, with significant benefits already being captured. But during 2018 we laid down the groundwork for further integration of our supply chain, targeting private labels and higher margin products.

So, for example, we announced in July an exclusive product distribution agreement with Plumblin Life Sciences, a Korean based animal DNA therapeutics company. This high-value product

distribution opportunity is expected to be a significant market opportunity for our business as well as deliver attractive returns for shareholders.

The establishment of a US distribution company with JV partner, Swine Veterinary Centre also occurred in July and will initially see speciality pig products distributed in the US.

Swine Veterinary Centre are first grade partners with a leading reputation as a global swine veterinary group. They are also one of our largest shareholders, so our interests in this JV are aligned. The cash costs of this opportunity are expected to be low and this business is expected to be cash flow positive in its first year.

Chris will speak in detail about the outlook for Apiam. But let me make the point that all of the work that I have just described is building a framework to provide long term, sustainable value to our shareholders. Management are committed to delivering on that framework by maintaining high cash conversion to fund growth, improving our return on capital and delivering growth to the reported NPAT line in the immediate coming years.

Let me now move to some corporate governance matters. As flagged previously, one of your Non-Executive Directors, Charles Sitch, is retiring today. Charles has made a very significant contribution to Apiam's journey from a newly listed company to the larger, more established and diversified group that we are today. I thank him for his service.

We are also very pleased to have had Professor Jan Tennent join the Apiam Board in August, and I welcome Jan to her first Apiam AGM today. Jan has extensive experience in the development and commercialisation of vaccines and in the management of innovation businesses. Jan's expertise has already been extremely valuable to Apiam as we have embarked on the expansion of our product range in new and innovative areas.

Finally, I thank my fellow board members, our 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.