Apiam Animal Health Limited

ASX: AHX

Appendix 4D and Financial Report for the half-year ended 31 December 2018

COMPANY DETAILS

Name of entity:	Apiam Animal Health Limited
ACN:	604 961 024
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory Results Summary

	CHANGES FROM PERIOD ENDED 31 December					
		2018				2017
		%		$m		$m
Revenue from ordinary activities	up	10	to	56.1	from	50.8
Net profit attributable to members	down	8	to	1.6	from	1.8
Profit from ordinary activities after tax attributable to members	down	8	to	1.6	from	1.8
Underlying EBITDA (Incl. non-controlling interests)	Up	11	to	5.0	From	4.5

Underlying EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) is Management's preferred measurement of business profitability and excludes one-off corporate restructuring costs as well as integration, ERP and acquisition expenses.

Further commentary on the interim results can be found in the 'Operating and Financial Review' section within the Directors' report of the attached Interim Financial Statements.

Dividends

	Amount per security Cents	Franked amount per security cents
2018 Final Dividend	0.8 cents	0.8 cents
2019 Interim Dividend (declared after balance date but not yet paid)	0.8 cents	0.8 cents
Record date for determining entitlements to the dividend:	20 March 2019	
Date dividend payable:	24 April 2019	

Dividend reinvestment plan

The Company initiated a Dividend Reinvestment Plan (DRP) on the 25 August 2017 which provides shareholders with the opportunity to utilise all or part of their dividend to purchase shares in the Company. Shareholders electing to participate in the FY19 interim DRP must nominate to do so by 27 March 2019.

Shareholders who elect to participate in the DRP for the 2019 interim dividend will be issued shares at a DRP issue price which will be the average of the daily market price of Apiam's shares over the period of five trading days between 28 March 2019 and 3 April 2019 ('Pricing Period'). The timetable in respect of the 2019 interim dividend and DRP is as follows:

Event / Action	**Date***
Record Date	20 March 2019
Election Date: Last date for shareholders to make an election to participate in the DRP	5.00 pm (Melbourne time) on 27 March 2019
Pricing Period Commencement Date	28 March 2019
Last Day of Pricing Period	3 April 2019
Announcement of DRP issue price	4 April 2019
Dividend Payment Date / Issue of DRP shares	24 April 2019

Details of the DRP can be downloaded from www.apiam.com.au. In order to participate in the DRP for the 2019 Interim dividend, shareholders should ensure that their DRP Election Form is received, or an online election is made, by no later than 5.00 pm (Melbourne time) on 27 March 2019. An online election can be made by visiting www.boardroom.com.au.

Net Tangible Asset per Security

	2019	2018
Net Tangible assets per share	-$0.05	-$0.03

Return to shareholders

Dividends of $837,551 were paid during the period; no share buy backs were conducted during the year.

Basis of Preparation

This report is based on the consolidated financial statements which have been reviewed by Grant Thornton Audit Pty Ltd. The review report is included within the Company's Interim Report which accompanies this Appendix 4D.

Entities over which control has been gained or lost during the period:

Control over the entity Apiam Solutions LLC commenced on 16 July 2018.
There were no entities over which control was lost during the period.

Associates and Joint Venture Entities

The company has a 50% ownership interest in South West Equine. Apiam's share of net profit after tax was $16,547 for the six-month period.

Dividend Reinvestment Plan:

The company announced the establishment of a dividend reinvestment plan on 25 August 2017.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 31 December 2018 Interim Report (which includes the Directors' Report) which accompanies this Appendix 4D.

Accounting Standards

This Report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

Directors' Report

The Directors present their report together with the consolidated financial statements of Apiam Animal Health Limited (Apiam) for the half-year ended 31 December 2018.

Director details

The following persons were directors of Apiam Animal Health during the half-year and up to the date of this report:

- Professor Andrew Vizard
- Dr Christopher Irwin Richards
- Mr Richard John Dennis
- Mr Michael van Blommestein
- Professor Jan Tennent (commenced 1/8/18)

The following person resigned as a director during the half-year:

- Mr Charles Sitch (resigned 29/11/18)

Principal Activities

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision of veterinary products and services to production and companion animals.

Review of operations

Apiam delivered another period of solid growth for the 6 months to 31 December 2018 (H1 FY2019).

Revenue for H1 FY2019 was $56.0 million, improving 10.4% compared to H1 FY2018, the prior comparable period (pcp). Revenue growth in H1 FY2019 (excluding the impact of acquisitions) was 2.0% compared to the pcp.

Apiam's revenue growth was driven by a strong performance across the beef feedlot and companion animal segments. In the beef feedlot sector drier conditions have had a positive effect on animal numbers with beef producers increasingly finishing off cattle on feed to meet market expectations. The companion animal segment continues to grow strongly, driven by strong industry fundamentals in regional and rural areas.

Revenue from the dairy and pig segments were affected by dry conditions in parts of South Eastern Australia, however new business initiatives were introduced to offset these challenges during the period.

Apiam reported gross profit of $28.5 million in H1 FY2019, an increase of 16.4% on pcp. Gross margin for H1 FY2019 was 50.8% (H1 FY2018: 48.2%). This strong gross margin improvement occurred as a result of a targeted change in Apiam's business mix, particularly towards higher value, lower volume transactions.

Underlying EBITDA growth (excluding one-off acquisition, integration & restructuring expenses) increased 11.0% to $5.0 million in H1 FY2019 following a continued focus by management on limiting operating expense growth. Total operating expense growth was impacted by acquisitions and the start-up costs associated with the Epsom Emergency & Referral Centre opened under the PETstock Joint Venture in

March 2018. Underlying operating expense growth was more limited at 0.9% compared to pcp when excluding the impact of acquisitions and the Epsom clinic opening.

Depreciation & amortisation expense has continued to grow in H1 FY2019 increasing to $1.5 million compared to $1.1 million in the pcp. This is a direct result of the growth in Apiam's fixed asset base that occurred over FY2018 in-line with the company's establishment of an integrated corporate infrastructure.

This has been a necessary investment to replace legacy assets acquired as part of the initial clinic acquisitions that occurred at the time of Apiam's listing, and to realise operating efficiencies as the company grows. This process is now largely complete, with the final roll-out of the Practice Management System (PMS) at the clinical level due to be finalised by end of FY2019.

Underlying Net Profit After Tax (NPAT), before the impact of one-off costs was $2.0 million in H1 FY2019 which was in-line with pcp despite the increased depreciation & amortisation charge. Reported NPAT was $1.6 million in H1 FY2019, 7.9% lower than pcp (H1 FY2018: $1.8 million) and impacted by $0.5 million one-off costs in H1 FY2019.

The following tables are presented to assist in the interpretation of the underlying performance of Apiam during H1 FY2019. This information is additional and provided using non-IFRS information and terminology.

Apiam H1 FY2019 Financial Result Summary – Reported

$M	H1 FY19	H1 FY18	Variance	%
Total Revenue	56.0	50.8	5.3	10.4%
Gross Profit	28.5	24.5	4.0	16.4%
Operating expenses	(23.5)	(20.0)	(3.5)	17.6%
Underlying EBITDA[1]	**5.0**	**4.5**	**0.5**	**11.0%**
One-off expenses	(0.5)	(0.4)	(0.1)	30.5%
EBITDA	**4.5**	**4.1**	**0.4**	**9.2%**
Depreciation & Amortisation	(1.5)	(1.1)	(0.4)	**31.9%**
EBIT	**3.0**	**3.0**	**0.0**	**0.5%**
Interest	(0.6)	(0.4)	(0.2)	69.0%
Tax	(0.7)	(0.8)	0.1	(10.7)%
Other (incl. minorities)[2]	(0.0)	(0.0)	0.0	(15.2)%
NPAT (attributable to members)	**1.6**	**1.8**	**(0.1)**	**(7.9)%**
Gross Margin (%)	50.8%	48.2%		
Underlying EBITDA margin (%)	8.9%	8.8%		

Notes:
1. Underlying EBITDA excludes one-off acquisition, integration & restructuring expenses
2. Includes partner business activities of Sth West Equine JV, Apiam Solutions, PETstock Joint Venture and Portec

Apiam H1 FY2019 Financial Result Summary – Underlying

$M	H1 FY19	H1 FY18	Variance	%
Total Revenue	56.0	50.8	5.3	10.4%
Gross Profit	**28.5**	**24.5**	**4.0**	**16.4%**
Employment expenses	(16.9)	(14.1)	(2.8)	19.8%
Operating expenses	(6.6)	(5.9)	(0.7)	12.3%
Underlying EBITDA [1]	**5.0**	**4.5**	**0.5**	**11.0%**
Depreciation & amortisation	(1.5)	(1.1)	(0.4)	31.9%
Underlying EBIT [1]	**3.5**	**3.3**	**0.1**	**3.9%**
Interest & tax	(1.5)	(1.3)	(0.2)	14.7%
Other[2]	(0.0)	(0.0)	-	-
Underlying NPAT [1]	**2.0**	**2.0**	**-**	**-**
Integration / ERP expense	(0.2)	(0.3)	0.1	(22.1)%
Acquisition / Advisory expense	(0.2)	(0.1)	(0.1)	69.5%
Restructure costs	(0.1)	0.0	(0.1)	nm

Notes:
1. Underlying earnings exclude one-off acquisition, integration & restructuring expenses (tax effected where applicable at NPAT level)
2. Includes partner business activities of Sth West Equine JV, Apiam Solutions, PETstock Joint Venture and Portec

Business development initiatives

In H1 FY2019 Apiam has been focused on leveraging growth across the business via three key drivers – these being i) improving operations, process & capacity ii) increasing animal numbers and iii) continued expansion of the Company's services and product range.

Improvements in operations, process & capacity to drive cost leverage will continue to be a key management focus this financial year, particularly as the final stage of the Company's PMS at the individual clinic level is rolled out. At this stage, the PMS roll-out is approximately 70% complete at the company-wide level and due to be complete by end of FY2019 (however the majority of the costs to finalise the implementation have already been incurred). The PMS is expected to deliver meaningful financial benefits in FY2020.

There are also a number of strategic initiatives that have been on-going in H1 FY2019 to support growth in animal numbers. In addition to organic initiatives, Apiam's acquisition assessment program has continued to focus on bolstering the Company's regional expansion model. A strong pipeline of acquisition clinics has been identified and assessed based on the Company's strict acquisition rationale and financial return criteria.

Significant progress relating to the expansion of Apiam's services and product range has also been made over H1 FY2019, including entry into new international markets. In November 2018, Apiam entered into the Allmate Cooperation Agreement with Gansu Charming Sheep Breeder Co. This is an agreement to provide consultancy services to a state of the art sheep genetics centre in China focused on establishing breeds suited to Chinese conditions and markets. First revenues from this agreement were received by Apiam in H1 FY2019 and the expected project term is 3-5 years.

Additionally, during H1 FY2019 Apiam received first revenues from its Joint Venture with Swine Veterinary Centre for two of Apiam's swine based products. Collaboration trials are currently underway with a major US University following which it is expected that US market demand will ramp up further.

A distribution agreement with Plumbline Life Sciences was also entered into in July 2018 under which Apiam will exclusively distribute a number of Plumbline's patented immunotherapy technology products in Australia and New Zealand and have first right of refusal for exclusive distribution of future products in a range of markets. Clinical trials for Plumbline's first product Lifetide SW5 are on-track to be completed by end of FY2019. This represents an important market opportunity for Apiam given the significant number of pig and dairy animals the Company has under management and the improved production performance that the product has demonstrated in previous research and trials.

Private label brands, where attractive margin opportunity exists are also currently under development, and mostly focused on next generation products and alternatives to traditional antibiotic based solutions.

Balance sheet

Apiam's balance sheet as at 31 December 2018 remains fairly stable when compared to 30 June 2018 and is supportive of future growth opportunities. Apiam's operating leverage ratio was 2.8x as at 31 December 2018, against a covenant requirement of 4.0x. Apiam's operating leverage covenant ratio will revert to 3.5x as at 30 June 2019.

Cash flow

Apiam's operating cash flow was $1.9 million in H1 FY2019 compared to $4.5 million in the pcp. The cash flow performance in H1 FY2018 was particularly strong and benefited from the one-off initial impact of improved working capital processes – particularly inventory and receivables terms, which were introduced during the period. Operating cash flows in H1 FY2019 were also impacted by a higher proportion of sales occurring in December vs pcp, and therefore not received as cash inflows within the reporting period.

Apiam's investment in property, plant and equipment was $1.0 million in H1 FY2019, a reduction when compared to $2.2 million in the pcp reflecting that Apiam's investment in upgrading its corporate infrastructure is mostly complete.

Cash flow conversion to underlying EBITDA for H1 FY2019 was 83% compared to 147% in H1 FY2018. Management expect the cash flow conversion to EBITDA ratio to trend towards 100% over FY2019.

$M	H1 FY2019	H1 FY2018
Net cash used in operating activities	**1.9**	**4.5**
Acquisition of subsidiary, net of cash	(0.3)	(1.1)
Purchases of property, plant and equipment	(1.0)	(2.2)
Proceeds from disposals of PP&E	0.0	0.0
Purchases of intangible assets	(0.5)	(0.4)
Net cash used in investing activities	**(1.8)**	**(3.7)**
Net changes in financing	0.5	(0.2)
Dividends paid to shareholders	(0.5)	(0.4)
Other	0.1	0.1
Net cash inflow from financing activities	**0.1**	**(0.5)**
Net change in cash and cash equivalents	**0.2**	**0.2**

Notes: This information is additional and provided using non-IFRS information and terminology

Dividend

The Apiam Board of Directors have declared an interim dividend of 0.8 cents per share, 100% fully franked. The interim dividend will be paid on 24 April 2019. This represents a 51.8% payout ratio of NPAT.

Apiam's Dividend Reinvestment Plan will be maintained to allow shareholders to reinvest their dividends in Apiam's future growth.

Outlook

Apiam expects to deliver revenue and earnings growth in FY2019.

The company is confident that its robust, diversification model will continue to support revenue growth, across different market cycles. In addition, new business development initiatives targeting attractive market opportunities have been executed, particularly in the areas of new product development & distribution, genetic exports and companion animal growth.

Operating expense management remains a key management focus and Apiam remain committed to leveraging the significant investment made in equipment, new services and infrastructure at a regional level rather than a clinic level. This is expected to drive further efficiencies and growth.

As a company, Apiam remains firmly committed to delivering material benefits at both the EBTIDA and NPAT levels, leveraging the capital invested in strategic initiatives over the past three years.

Likely development and expected results of operations

The Company's strategy is to build on the solid foundation it has established as an integrated animal health business servicing the rural production and companion animal sectors and ensure we can meet the needs of a market which is experiencing strong growth.

The Company expects to continue to invest through acquisition, new greenfield sites, partnerships and further recruitment of leading expertise to ensure we have the capability required to prosper in the expanding global animal health industry.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this financial report and forms part of this Directors' Report.

Rounding of amounts

Apiam Animal Health is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors:

Dr Christopher Irwin Richards Managing Director	Professor Andrew Vizard Chairman

Melbourne
25 February 2019

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Auditor's Independence Declaration

To the Directors of Apiam Animal Health Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Apiam Animal Health Limited for the half-year ended 31 December 2018. I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 25 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Continuing operations			
Revenue		56,050	50,777
Other income		9	8
Expenses			
Changes in inventory		(370)	1,108
Cost of materials		(27,192)	(27,408)
Costs of consumables and services		(475)	(462)
Employee benefit expenses		(17,056)	(14,135)
Listing and acquisition expenses		(176)	(142)
Property expenses		(1,733)	(1,436)
Freight, vehicle and transport expenses		(963)	(676)
Depreciation and amortisation of non-financial assets		(1,501)	(1,138)
Other operating expenses		(3,612)	(3,525)
Operating profit		**2,981**	**2,971**
Share of profit from equity accounted investments		17	16
Finance costs – net		**(600)**	**(359)**
Profit/(loss) before income tax		2,398	2,628
Income tax (expense) /benefit		(748)	(837)
Profit/(loss) from continuing operations		**1,650**	**1,791**
Profit/(loss) attributable to:			
Owners of Apiam Animal Health Limited		1,624	1,764
Non-controlling interests		26	27
		1,650	**1,791**
Total comprehensive income/(loss) attributable to:			
Owners of Apiam Animal Health Limited		1,624	1,764
Non-controlling interests		26	27
		1,650	**1,791**

Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:	Cents	Cents
Basic earnings per share	**$0.02**	$0.02
Diluted earnings per share	**$0.02**	$0.02

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		1,662	1,436
Trade and other receivables		16,102	14,744
Inventories		10,886	11,256
Other current assets		1,304	851
Total current assets		**29,954**	**28,287**
Non-current assets			
Property, plant and equipment	6	9,059	9,418
Intangible assets	5	65,196	64,515
Investment in joint venture		93	75
Deferred tax assets		3,110	3,109
Total non-current assets		**77,458**	**77,117**
Total assets		**107,412**	**105,404**
LIABILITIES			
Current liabilities			
Trade and other payables		12,665	12,269
Other current liabilities		400	400
Borrowings	9	4,014	3,930
Current tax liabilities		251	594
Provisions		4,962	4,253
Total current liabilities		**22,292**	**21,446**
Non-current liabilities			
Borrowings	9	23,720	23,336
Provisions		272	810
Deferred tax liabilities		817	867
Other liabilities		220	220
Total non-current liabilities		**25,029**	**25,233**
Total liabilities		**47,321**	**46,679**
Net assets		**60,091**	**58,725**
EQUITY			
Share capital	8	86,145	85,775
Corporate re-organisation reserve		(26,692)	(26,692)
Non-controlling interest acquisition reserve		(6,615)	(6,615)
Share based payment reserve		56	-
Retained earnings		6,394	5,607
Capital and reserves attributable to the owners of Apiam Animal Health Limited		**59,288**	**58,075**
Non-controlling interests		803	650
Total equity		**60,091**	**58,725**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

	Share capital	Corporate re-organisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2017	**83,066**	**(26,692)**	**(6,615)**	**-**	**3,956**	**53,715**	**642**	**54,357**
Issue of shares to vendors of business acquired	480	-	-	-	-	480	-	480
Issue of new share capital	367	-	-	-	-	367	-	367
Dividends paid	-	-	-	-	(807)	(807)	-	(807)
Transactions with owners	**847**	**-**	**-**	**-**	**(807)**	**40**	**-**	**40**
Profit for the period	-	-	-	-	1,764	1,764	27	1,791
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,764**	**1,764**	**27**	**1,791**
Balance at 31 December 2017	**83,913**	**(26,692)**	**(6,615)**	**-**	**4,913**	**55,519**	**669**	**56,188**

	Share capital	Corporate re-organisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2018	**85,775**	**(26,692)**	**(6,615)**	**-**	**5,607**	**58,075**	**650**	**58,725**
Issue of new share capital	370	-	-	-	-	370	127	497
Employee share plan	-	-	-	56	-	56	-	56
Dividends paid	-	-	-	-	(837)	(837)	-	(837)
Transactions with owners	**370**	**-**	**-**	**56**	**(837)**	**(411)**	**127**	**(284)**
Profit for the period	-	-	-	-	1,624	1,624	26	1,650
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,624**	**1,624**	**26**	**1,650**
Balance at 31 December 2018	**86,145**	**(26,692)**	**(6,615)**	**56**	**6,394**	**59,288**	**803**	**60,091**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Notes	**31 December 2018 $'000**	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		61,068	55,651
Payments to suppliers and employees		(57,239)	(49,370)
		3,829	**6,281**
Acquisition costs relating to acquisition of subsidiary	4	(171)	(63)
Interest paid		(603)	(359)
Income taxes paid		(1,142)	(1,365)
Net cash inflow from operating activities		**1,913**	**4,494**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired		(265)	(1,073)
Payments for property, plant and equipment		(1,018)	(2,217)
Proceeds from disposals of property, plant & equipment		9	3
Payments for intangible assets		(540)	(405)
Net cash outflow from investing activities		**(1,814)**	**(3,692)**
Cash flows from financing activities			
Proceeds from borrowings		7,759	2,725
Repayment of borrowings		(6,943)	(2,658)
Finance lease payments		(348)	(278)
Dividends paid to company shareholders		(468)	(441)
Capital contribution of non-controlling interest		127	127
Net cash inflow from financing activities		**127**	**(652)**
Net (decrease)/increase in cash and cash equivalents		226	150
Cash and cash equivalents at the beginning of the half-year		1,436	968
Cash and cash equivalents at end of the half year		**1,662**	**1,118**

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision of veterinary products and services to production and companion animals. Apiam's strategy is to service production animals throughout their life cycle, including the provision of:

- systems to assist in herd health programs;
- production advice;
- consulting services and products to assist in the prevention of animal diseases;
- technologies to manage compliance with legislative requirements on pharmaceutical use;
- advice and services in respect of animal welfare compliance;
- retail animal health product sales;
- on-farm delivery of products via its own logistics capability;
- third party auditing services of industry quality assurance programs;
- technology development for animal health management;
- ancillary services such as sales and/or delivery of genetics and associated products; and
- on-farm and on-line training programs for clients.

There have been no significant changes in the nature of these activities during the half year.

2. General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six (6) months ended 31 December 2018 and are presented in Australian Dollars ($AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the financial statements of Apiam Animal Health Ltd for the period ended 30 June 2018 and the detailed accounting policies at Note 3 below and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 25 February 2019.

New standards adopted as at 1 July 2018

AASB 15 Revenue from contracts with Customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 did not have a material impact on the transactions and balances recognised in the financial statements.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an ‘expected credit loss’ model for impairment of financial assets.

When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The adoption of AASB 9 did not have a material impact to the financial instruments held by the Group. The following classification was impacted by the adoption of AASB 9.

Financial Assets	AASB 139 Classification	AASB 9 Classification
Trade and other receivables	Loans and receivables	Amortised cost

Impairment of financial assets:

AASB 9’s new impairment model use more forward looking information to recognize expected credit losses - the ‘expected credit losses (ECL) model’. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

3. Changes in significant accounting policies and estimates

The interim financial statements have been prepared in accordance with the same accounting policies, except as noted, and estimates adopted in the Group’s last annual financial statements for the year ended 30 June 2018.

The accounting policies and estimates have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014) became effective for periods beginning on or after 1 January 2018. Accordingly, the Group applied AASB 15 and AASB 9 for the interim period ended 31 December 2018. Changes to the Group’s accounting policies arising from these standards are summarised below:

3.1 Revenue

Revenue arise mainly from the sale of animal health products and veterinary services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

The Group often enters into transactions involving a range of the Group's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Some of the Group's contracts provide for veterinary goods and services to be delivered over a number of months. These services are invoiced in a number of instalments while costs to deliver the goods and services are being incurred. In each case the contracts are reviewed to determine the performance obligations and revenue to be recognised when the veterinary services and products have been delivered in accordance with the obligations stated in the contract.

3.2 Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets, are classified into the following categories upon initial recognition:

• financial assets at amortised cost

• financial assets at fair value through profit or loss (FVPL)

Classifications are determined by both:

• The entity's business model for managing the financial asset

• The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The group's policies are primarily unchanged by the introduction of AASB 9.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables for larger debts on a case by case basis to determine the risk of default of those customers and the amount considered doubtful. Smaller amounts are assessed on a collective basis as they possess characteristics based on the days past due. The Group allows 20% for smaller amounts that are more than 90 days past due.

4. Segment reporting

Identification of reportable operating segments

Management identifies its operating segments based on the species to which the Group provide veterinary services and supply animal health products. The Group's three (3) main operating segments are:

• Dairy and Mixed;
• Feedlots;
• Pigs;

Each of these operating segments is managed separately as each species group requires specific veterinary expertise and resources, as well as marketing approaches. These operating segments are monitored and strategic decisions are made based on adjusted segment operating results.

The operating segments are aggregated for reporting purposes on the basis that each business segment has sales consisting predominantly of S4 products, over the counter products and service revenue and that these products and services exhibit similar economic characteristics across each business. Corporate overheads that cannot be allocated to a specific segment are disclosed separately.

The revenues and profit generated by the Group's operating segments are summarised as follows:

	Six (6) months to 31 December 2018 $'000	Six (6) months to 31 December 2017 $'000
Revenue from external customers	56,050	50,777
Segment operating costs	(52,513)	(47,210)
Segment operating profit	**3,537**	**3,567**

The Group's segment operating profit reconciles to the Group's profit after tax as presented in its financial statements as follows:

	Six (6) months to 31 December 2018 $'000	Six (6) months to 31 December 2017 $'000
Total reporting segment operating profit	3,537	3,567
Other income	9	8
Corporate overheads	(389)	(462)
Acquisition costs	(171)	(63)
Integration costs	(5)	(79)
Finance costs	(600)	(359)
Share of profit from equity accounted investments	17	16
Net profit before tax	**2,398**	**2,628**
Income tax	(748)	(837)
Net profit after tax	**1,650**	**1,791**

5. Intangible assets

The following table shows the movements in intangible assets:

	Goodwill $'000	Customer Relation-ships $'000	Capitalised develop-ment costs $'000	Total $'000
At 30 June 2018				
Cost	61,252	3,223	434	64,909
Accumulated amortization and impairment	-	(394)	-	(394)
Net book value	**61,252**	**2,829**	**434**	**64,515**
Half-year ended 31 December 2018				
Opening net book value	61,252	2,829	434	64,515
Additions	-	-	638	638
Acquisition of subsidiary (a)	159	-	-	159
Amortisation	-	(107)	(9)	(116)
Closing net book value	**61,411**	**2,722**	**1,063**	**65,196**
At 31 December 2018				
Cost	61,411	3,223	1,072	65,706
Accumulated amortization and impairment	-	(501)	(9)	(510)
Net book value	**61,411**	**2,722**	**1,063**	**65,196**

(a) The goodwill intangible asset of the Company increased due to the completion of the acquisition of Gympie and District Veterinary Clinic.

6. Property, plant and equipment

The following tables show the movements in property, plant and equipment:

	Leasehold improvements	Plant and equipment	Motor vehicles	Assets under construction	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
At 30 June 2018					
At cost	498	8,542	4,587	591	14,218
Accumulated depreciation	(68)	(2,810)	(1,855)	(67)	(4,800)
Net book value	**430**	**5,732**	**2,732**	**524**	**9,418**
Half year ended 31 December 2018					
Opening net book value	430	5,731	2,732	525	9,418
Additions	40	602	152	248	1,042
Disposals	-	(2)	-	-	(2)
Depreciation charge	(49)	(804)	(508)	(38)	(1,399)
Closing net book value	**421**	**5,527**	**2,376**	**735**	**9,059**
At 31 December 2018					
Cost	538	9,141	4,739	840	15,258
Accumulated depreciation	(117)	(3,614)	(2,363)	(105)	(6,199)
Net book amount	**421**	**5,527**	**2,376**	**735**	**9,059**

7. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Apiam Animal Health Limited) as the numerator, ie no adjustments to profits were necessary during the six (6) months period to 31 December 2018 and 31 December 2017.

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six (6) months to 31 December 2018	Six (6) months to 31 December 2017
Weighted average number of shares used in basic earnings per share	**104,905,368**	101,534,402
Weighted average number of shares used in diluted earnings per share	**104,905,368**	101,534,402
Shares deemed to be issued for no consideration in respect of share-based Payments	**-**	-

8. Share capital

Each share has the same right to receive dividends and the repayment of capital and represents one vote at the shareholders' meeting of Apiam Animal Health Ltd. Shares issued and authorised are summarised as follows:

	Six (6) months to 31 December 2018 No.	Year ended 30 June 2018 No.	Six (6) months to 31 December 2018 $'000	Year ended 30 June 2018 $'000
Shares issued and fully paid				
• beginning of the period	104,693,843	101,177,947	85,775	83,066
• shares issued as consideration for business acquisitions	-	2,683,462	-	2,041
• issued under dividend reinvestment plan	580,904	792,434	370	638
• employee shares issued	-	40,000	-	30
Shares issues and fully paid	**105,274,747**	**104,693,843**	**86,145**	**85,775**
Total shares authorised at the end of the period	**105,274,747**	**104,693,843**	**86,145**	**85,775**

9. Borrowings

As at 31 December 2018, the contractual maturities of the Group's non-derivative financial liabilities were:

	31 December 2018 $'000	30 June 2018 $'000
Current		
Bank loans	3,280	3,198
less capitalised costs	(14)	(20)
Lease liability	796	815
less deferred interest charges	(48)	(63)
Total current borrowings	**4,014**	**3,930**
Non-current		
Bank loans	22,952	22,260
less capitalised costs	(42)	(43)
Lease liability	841	1,171
less deferred interest charges	(31)	(52)
Total non-current borrowings	**23,720**	**23,336**

Non-derivatives **Contractual maturities of financial liabilities**	**Less than 6 months**	**6-12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total contractual cash flows**
At 31 December 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	12,665	-	-	-	12,665
Borrowing (excluding finance leases)	3,266	-	-	22,910	26,176
Finance lease liabilities	421	326	521	289	1,557
Total non-derivatives	**16,352**	**326**	**521**	**23,199**	**40,398**

Non-derivatives Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows
At 30 June 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	12,269	-	-	-	12,269
Borrowing (excluding finance leases)	3,178	-	13,150	9,067	25,395
Finance lease liabilities	308	444	602	517	1,871
Total non-derivatives	**15,755**	**444**	**13,752**	**9,584**	**39,535**

Loan covenants

The key financial covenants applicable to bank facilities are:

- Maximum gearing ratio of 35% measured on a half yearly basis (ratio of gross debt less revolving working capital facilities to gross debt less revolving working capital facilities plus equity);
- Maximum operating leverage ratio of 4.0 times, reducing to 3.5x at June 2019 (ratio of gross debt to EBITDA excluding one off acquisition and integration expense costs); and
- Minimum interest cover ratio of 5.0 times EBITA as measured on a rolling 12 months' basis (ratio of EBITA excluding one off integration, restructure and acquisition expenses to gross interest expense).
- The Group complied with all bank covenants during the period.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

Total facilities	31 December 2018	30 June 2018
	$'000	$'000
Bank - term loan facilities	45,700	45,700
Bank - master asset finance agreement for equipment finance	3,500	3,500
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	50,500	**50,500**
Used at reporting date		
Bank - term loan facilities	26,176	25,395
Bank - master asset finance agreement for equipment finance	1,557	1,871
Bank - overdraft facility	-	-
Bank - credit card facility	-	-
	27,733	**27,266**
Unused at reporting date		
Bank - term loan facilities	19,524	20,305
Bank - master asset finance agreement for equipment finance	1,943	1,629
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	22,767	**23,234**

10. Contingent assets and liabilities

In the Directors' view, there are no contingent assets or liabilities that will have a material effect on the Group.

11. Dividends

Dividends of $837,551 were declared to equity holders during the six months ended 31 December 2018. Of this amount $467,563 was paid in cash while $369,988 was issued in shares under Apiam's dividend reinvestment plan.

12. Events after the reporting date

The Apiam Board of Directors declared an interim dividend on the 25 February 2019. The interim dividend of $842,198 is 0.8 cps, fully franked and will be paid on 24 April 2019.

There are no matters or circumstances that have arisen since the end of the period that have significantly affected or may significantly affect either:

- The entities operations in future financial years;
- The results of those operations in future financial years;
- The entities state of affairs in future financial years.

13. Company details

The registered office of the business of the Company is:
27-33 Piper Lane
East Bendigo, VIC, 3350

The principal place of business of the Company is:
27-33 Piper Lane
East Bendigo VIC 3550

Directors' Declaration

1 In the opinion of the Directors of Apiam Animal Health Limited:

a the consolidated financial statements and notes of Apiam Animal Health Limited are in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of its financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

Dr Christopher Irwin Richards
Managing Director

Melbourne
25 February 2019

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Independent Auditor's Review Report

To the Members of Apiam Animal Health Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Apiam Animal Health Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Apiam Animal Health Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the Corporations Act 2001, including complying with Accounting Standard AASB 134 Interim Financial Reporting.

Directors' Responsibility for the Half Year Financial Report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Apiam Animal Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 25 February 2019