

ASX Release

Apiam Animal Health Limited

(ASX: AHX)

Apiam delivers revenue and underlying EBITDA growth as cost base normalises

H1 FY2018 Highlights

- Revenue growth (+10.1% in H1 FY2018 vs pcp), driven by strong performances across the pig, dairy and mixed animal businesses
- Underlying EBITDA growth (+11.7% in H1 FY2018 vs pcp) as investment in the operating platform now largely complete, and operating expense growth has normalised
- High cash conversion driven by improved working capital management
- Successfully executing on business development initiatives, through strategic partnerships and new products and services
- Acquisition strategy continues with acquisition of Terang & Mortlake Veterinary Clinic during the period – and two further strategic acquisition announcements in February
- Positive outlook for FY2018, with revenue and earnings growth to continue
- Interim dividend of 0.8 cents per share, fully franked. Dividend Reinvestment Plan to be maintained

Melbourne, February 26, 2018 – Apiam Animal Health Limited (**Apiam** or the **Company**) today released its financial results for the first half of the 2018 financial year.

Revenue for the 6 months to 31 December 2017 (H1 FY2018) was \$50.8m, improving 10.1% on H1 FY2017, the prior comparable period (**pcp**). Revenue growth in H1 FY2018 (excluding the impact of acquisitions) was 5.6% compared to the pcp.

Apiam's revenue growth was driven by strong performances across Apiam's pig, dairy and mixed animal businesses. Similarly to H2 FY2017, Apiam's pig revenues continued to benefit from new service and training initiatives as well as new customers and products. Apiam's dairy & mixed animal businesses performed well, supported by strong industry fundamentals and the business development initiatives that have been introduced by the Company over the past year.

Apiam's beef feedlot revenues were affected by a reduction in animal numbers in Q2 FY2018, resulting in H1 FY2018 revenues similar to H1 FY2017 levels. Industry conditions varied by region, dependent upon feeder, beef and grain prices with animal numbers in the Queensland and Northern NSW regions most affected.

Apiam reported gross profit of \$24.5m for H1 FY2018, representing a group gross profit margin of 48.2% in the period (H1 FY2017: 49.0%). The slight drop in gross margin occurred as a result of the higher contribution of the lower margin pig business to Apiam's overall revenues.

Underlying EBITDA growth (excluding one-off costs and income¹) increased 11.7% to \$4.5m in H1 FY2018 (H1 FY2017: \$4.0m), as Apiam's investment in its operating cost base normalised over the period. While total operating expenses increased 7.7% in H1 FY2018 versus pcp, they declined by 1.8% when compared to H2 FY2017.

Net profit before tax in H1 FY2018 was \$2.6m, an increase of 7.6% compared to H1 FY2017. Apiam's reported net profit after tax (NPAT) for H1 FY2018 was \$1.8m with a favourable tax adjustment in H1 FY2017 affecting the reported NPAT growth rate between the periods (H1 FY2017 NPAT was \$1.9m, excluding \$1.3m of non-operating income associated with the reversal of a contingent liability on the balance sheet).

The following tables are presented to assist in the interpretation of the underlying performance of the Company during the H1 FY2018 period. This information is additional and provided using non-IFRS information and terminology.

Apiam H1 FY2018 Underlying Financial Results

	H1 FY18A	H1 FY17A	Variance	%
Total Revenue	50.8	46.1	4.7	10.1%
Gross Profit	24.5	22.6	1.9	8.4%
Operating Expenses	(20.0)	(18.6)	(1.4)	7.7%
Underlying EBITDA	4.5	4.0	0.5	11.7%
Integration / ERP / Acquisition expenses	(0.4)	(0.6)	0.2	(32.0)%
EBITDA	4.1	3.5	0.6	18.6%
Depreciation & Amortization	(1.1)	(0.7)	(0.4)	67.8%
Interest	(0.4)	(0.3)	(0.1)	4.9%
Share of equity accounted income	0.0	0.0	0.0	na
Profit before tax	2.6	2.4	0.2	7.6%
Tax	(0.8)	(0.6)	(0.2)	43.2%
Net Profit after tax (operating)	1.8	1.9	(0.1)	(3.6)%
Non-operating income	0.0	1.3	(1.3)	(0.0)
Net Profit after tax (reported)	1.8	3.1	(1.3)	(42.4)%
Gross Margin (%)	48.2%	49.0%		
Underlying EBITDA margin (%)	8.8%	8.7%		

Notes:

- Underlying EBITDA excludes one-off integration, ERP & acquisition expenses
- Non operating income of \$1.3m in H1 FY2017 is associated with the reversal of a Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

Acquisitions

Growth via acquisition remains an important part of Apiam's business strategy, and the Company continued to progress its acquisition program over the reporting period.

Apiam acquired the Terang and Mortlake Veterinary Clinic (TMVC) on 2 November 2017 for a total consideration of \$1.6m. TMVC operates as two rural vet practices in Western Victorian and has a strong dairy practice offering, but is also active across beef, equine and companion animals. This acquisition strengthens Apiam's presence in a very important beef and dairy location.

¹ Excluding one-off integration, ERP & acquisition expenses as well as \$1.3m of non-operating income associated with the reversal of a contingent liability on the balance sheet in FY2017 (contingent acquisition consideration no longer payable)

Apiam agreed to acquire the South East Queensland based, Gympie & District Veterinary Services (GDVS) for \$4.9 million on 22 February 2018. GDVS is a diversified practice servicing agricultural & companion animals and is comprised of two clinics, one at Gympie and the other at Tin Can Bay, both fast growth and underserved regional and rural areas of Queensland. Following the acquisition, GDVS will operate on a regional basis with Apiam's two existing QLD clinics as part of an expanding footprint in the region. There are significant synergy opportunities that Apiam can achieve by operating with a greater presence in this key production and mixed animal region and by delivering additional organic growth through cross-selling of Apiam's existing veterinary and genetic services expertise across a larger customer base. It will also enable Apiam to develop smaller satellite clinics that leverage off existing clinics in order to capture revenues in underserved peripheral regions.

Apiam will acquire 100% of the shares in the company operating GDVS and completion of the acquisition is conditional on final due diligence. Settlement is expected to take place on, or around, June 30 2018 and the cash component of the acquisition will be funded using Apiam's Acquisition Facility.

The Company also announced on 21 February 2018 that it has entered into an agreement to acquire Passionate Vetcare a regional veterinary clinic based in the North West of Bendigo, Victoria for total consideration of \$0.75 million. Passionate Vetcare is predominantly a companion animal veterinary practice, with some exposure to pigs and mixed animals. This acquisition supports Apiam's Bendigo expansion strategy and provides highly experience veterinary and nursing staff to support the General Practice, Emergency & Referral Centre with 24 hour nursing care to be opened in March 2018.

In-line with Apiam's prior acquisitions, these acquisitions are funded with 70% cash consideration and 30% scrip consideration.

Business development

Apiam has made significant progress in executing its planned business development initiatives as detailed at the time of the FY2017 results. It's rural and regional expansion strategy has seen the Company successfully identify and execute important regional acquisitions during the period.

On 21 February 2018, Apiam announced that it had executed a Joint Venture alliance agreement with PETstock, a leading specialist petcare provider. Under the agreement, Apiam and PETstock will open a number of new veterinary clinics to be co-located at various PETstock retail outlets, in regional and rural Australia. The co-located clinics will be jointly owned, with Apiam as an 80% shareholder in the regional clinics and PETstock as a 20% shareholder. The first co-located clinic to be opened will be the Bendigo General Practice, Emergency & Referral Centre at PETstock's superstore in Bendigo (Epsom). This clinic is scheduled to open in March 2018, and is on schedule.

The PETstock Joint Venture alliance will significantly increase Apiam's exposure to the regional companion and mixed animal market, an area Apiam have identified as a key business development opportunity given it is underserved and has a high growth profile.

Expenses

Over the course of FY2017, Apiam made significant investments in systems and infrastructure in order to deliver synergies and efficiencies as the Company's scale and operations continue to grow.

In H1 FY2018 operating expense growth has normalised as Apiam's operating infrastructure is now at the required level to support the groups future growth strategy. Total operating expenses

grew 7.7% to \$20.0m in H1 FY2018 however declined by 1.8% when compared to the immediately preceding half (H2 FY2017: \$20.4m).

The acquisitions of QVG, AllStock and TMVC accounted for a significant portion of the operating expense growth over the period. On an ex-acquisition basis operating expenses grew 3.0% in H1 FY2018 versus the pcp.

Balance sheet

Over H1 FY2018 Apiam have been successful in improving all aspects of working capital management, across trade receivables, inventory and payables. For example, Apiam's routine stock-build in December resulted in the inventory balance increasing to \$12.5m as at 31 December 2017, however this was at a significantly lower level than the twelve months prior where inventory was \$14.2m as at 31 December 2016.

Apiam continued to invest in property, plant and equipment throughout H1 FY2018 through the replacement of older fleet vehicles, upgrade of IT infrastructure in clinics and other capital investment associated with growth initiatives. As a result PP&E increased to \$8.5m as at 31 December 2017 (30 June 2017: \$6.4m).

Apiam's borrowings decreased marginally by \$0.2m to \$25.5m as at 31 December 2017 with strong operating cash flow funding the bulk of the Company's capital investment and the TMVC cash consideration. Apiam also negotiated a \$15m increase to its acquisition facility (to a total of \$25m) and new covenants related to its borrowing facility provided by banking partner, NAB. The amended facility and covenants better align with Apiam's growth strategy and provide the Company greater flexibility.

Cash flow

Apiam's operating cash flow improved strongly in H1 FY2018, particularly due to Apiam's focused efforts to improve working capital management. Cash conversion to underlying EBITDA for H1 FY2018 was 146% compared to 60% in the pcp. Management expect cash conversion to align closely with underlying EBITDA moving forward.

\$M	H1 FY2018	H1 FY2017
Net cash used in operating activities	4.5	0.7
Acquisition of subsidiary, net of cash	(1.1)	(6.3)
Purchases of property, plant and equipment	(2.2)	(0.6)
Restructure of group entities, net of cash	-	-
Purchases of intangible assets	(0.4)	(0.3)
Net cash used in investing activities	(3.7)	(7.2)
Proceeds from issue	(0.4)	-
Net changes in financing	(0.2)	5.9
Net cash inflow from financing activities	(0.6)	-
Net change in cash and cash equivalents	0.2	(0.6)

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 27 April 2018. This represents a 46.4% 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 is confident of the outlook for the Company for the full 2018 financial year, and expects to deliver further revenue and earnings growth in the second half, particularly taking into account normal revenue phasing for the Company. The operating costs associated with building the foundations of the enlarged business are now normalising and the Company's operating infrastructure is at a level required to deliver the next phase of growth.

New revenue streams from business development and strategic acquisitions are expected to continue.

H1 FY2018 conference call details

Investors are invited to join a conference call hosted by Managing Director Chris Richards and CFO Matt White at 11am AEDT on Monday 26th February, 2018.

To access the call please use the dial in details below.

Conference ID: 697458

Australia Toll Free:	1 800 558 698
Alternate Australia Toll Free:	1 800 809 971
Australia Local:	02 9007 3187
New Zealand Toll Free:	0800 453 055
Hong Kong:	800 966 806
Singapore:	800 101 2785
United Kingdom:	0800 051 8245
United States:	(855) 881 1339

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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.