

ASX Release

Apiam Animal Health Limited

(ASX: AHX)

2020 Annual General Meeting, Managing Director's Address

Bendigo, 26 November 2020

Thank you, Andrew, and welcome everyone to our first virtual AGM.

In what has been an extraordinary year, and despite the many challenges faced by regional communities, and the broader economy, I am pleased to report that Apiam has delivered strong financial growth.

We have also pursued strategic opportunities, making acquisitions and launching new business initiatives – all of which have been important drivers of our performance.

I will start this morning by reviewing the FY20 financial year, before updating you on our growth strategy and year-to-date FY21 performance and outlook.

FY2020 in Review – Key Achievements

As you know, we reported our full year FY20 results in August.

At this time, we reported strong and resilient revenue growth even in the face of COVID-19 challenges and varying industry conditions. This growth was underpinned by Apiam's diversified customer segments.

We remained committed to our long-term business strategy, and successfully executed expansion of our product and service range, and three important acquisitions during the financial year. I will talk to these shortly, but I want to highlight that these initiatives were important drivers of our financial growth and reaffirm the success of our strategic framework.

In FY20 we also saw operating efficiencies and cost savings from our previous years' investment in our systems and infrastructure.

This, in combination with improving gross profits, has driven margin expansion and has helped to create a material earnings uplift as our cost base has been increasingly leveraged.

And as a result of our earnings growth and strong balance sheet, we were able to increase our final dividend this year.

Profit and Loss Snapshot

I will now run through a snapshot of our Profit and Loss, where we can see the results of our hard work and strategic decisions this year.

- Revenue in the year to 30 June 2020 was up 6% to \$118.4 million;
- Gross profit was up 13.8% to \$64 million; and
- NPAT was up 31.8% to \$4.2 million. This NPAT growth demonstrates the operating leverage that I was just referring.

We have also had a pleasing start to FY21 with Q1 FY21 revenue, being revenue from July 2020 to September 2020, up 14.1% on the prior corresponding period (pcp) and gross profit for Q1 FY21 up 21.2% on pcp.

FY20 Profit and Loss

I'll now provide a more detailed Profit and Loss performance summary – this is a slide that we presented to investors as part of our results.

You can see that at the top-line and despite the headwinds and uncertainty the economy has faced in FY20, Apiam delivered 6.0% revenue growth. This was driven by a very strong performance in our dairy and companion animals segment, particularly in the second half.

Our like-for-like revenue, which excluded the benefit from acquisitions during the period, did fall 5.1% due to a strategic reduction in low margin wholesale sales in the pig segment and the decline in beef feedlot numbers industry wide. I'll talk to industry revenue drivers more on the next slide.

The year saw a strong uplift in our gross margins up from 50.3% in FY19 to 54.1% in FY20 for a number of reasons. Firstly, the roll out of our Practice Management System across the entire clinic network was completed in the first half of FY20. This system has very quickly increased efficiencies in our clinics and revenue capture.

We also optimised our business mix during this period, reducing lower margin wholesale business and, as well, have had the benefit of the attractive acquisitions we have made – many of which operate in higher margin segments. Operating costs have remained relatively flat on FY19 with only a 3.9% increase in costs (on a like-for-like basis) largely due to salary increases.

Finally, our depreciation and amortisation expense has slowed as our corporate infrastructure upgrade was completed, with most of the spend in earlier periods. This combination of factors have driven a 31.8% increase in our statutory NPAT for FY20.

FY20 Revenue and Gross Profit Analysis

Now I want to provide a bit more context about some of the industry revenue drivers this year. Looking at each of our business segments separately, we can see that each has followed its own story in FY20, being affected by different underlying factors.

Dairy and companion animals was a very strong segment with companion animals benefitting from double digit growth in most clinics. Part of this was due to the COVID-19 pandemic and the rapid growth in pet ownership observed since the early lock-downs and travel restrictions around Australia.

We have also experienced favorable weather in H2 FY20, and particularly higher rainfall, which has driven very strong growth in our dairy segment. The launch of ProDairy has also delivered further growth in this segment.

Industry conditions in our pig segment have remained varying and challenging in some regions. In response, we have reduced our exposure to the lower margin wholesale pig business and have refocused on “higher-value” consultancy services.

Our performance in feedlot has been solid, but from a Year-on-Year growth perspective, it has slowed because of the record FY19 growth year for beef feedlot industry wide. We have also seen a reduction in animal numbers as a result of reduced beef export demand due to the COVID-19 pandemic and its impact on foodservices.

Before we move onto the strategy section, I would just like to touch on COVID-19 from Apiam’s perspective, given this has been a major issue for many industries this year.

COVID-19 Business Resilience

In the second half of FY20, Apiam, like all businesses had to respond to the COVID-19 pandemic and put in place appropriate COVID-safe processes. Apiam was proactive in adjusting to this and we implemented changes such as remote consulting technology, modified COVID-safe clinic services and online bookings where appropriate.

As Andrew said earlier however, managing viruses and infectious agents is a core skill set for vets. So we really were very well placed to deal with the pandemic challenges. As a provider of essential services, even during the strictest lock-downs our business was resilient and our business continuity practices worked. This is proven by the strong financial results I just talked through.

We of course continue to monitor changing guidelines around COVID and comply with all COVID-safe recommendations but I want to reassure you that as a business, and with our understanding of infectious disease, we are very well placed to navigate this area.

Let’s move onto the next section – Strategy and Outlook.

Strategic Framework for Growth

When we formed Apiam we knew that to grow successfully we needed the right foundations in place. In 2016, we planned our strategic framework with our target of growing earnings and shareholder returns, and this resulted in our three pillar strategic approach.

Firstly, we needed our operations to work efficiently. We invested heavily in our technology and systems and the final piece of this foundational investment, being the Practice Management System, was completely rolled out across our whole clinic network and completed in the first half of FY20. We have seen the benefits from the Practice Management System with increased revenue capture and growing gross margins. Our broader investment in company infrastructure that took place over the past 3-years is now also providing the efficiency dividends we knew the business was capable of, and this is what our strategy was centred around – growing revenues without growing our cost base. This has been delivered in FY20, and I would like to thank our shareholders for supporting us on this 3-year journey.

We also set a target to grow our animal numbers under management and this has been steadily achieved over several years. This year Best Mates and ProDairy have been fundamental to this growth, as has our ongoing acquisition program. Our Greenfield clinic strategy under which we have a number of new clinics planned in FY21 will also help to take us to the next phase of growth in animal numbers.

Product and service expansion has been a key focus for us for the past two years and is another driver of growth at Apiam and this area of the business is continually evolving. This year we have commenced the rollout of our private label strategy. We also entered specialist vaccine and diagnostics markets via the ACE acquisition and we have already seen a great uptake in demand for these products and services across our customer base.

Service and Product Range Expansion in FY20

This next slide summarises the key strategic initiatives we have undertaken in FY20 and some more recent updates, subsequent to the financial year.

Many of these initiatives represent a new product or service offering that enhances animal health and wellbeing. Best Mates and ProDairy were launched early in the financial year and I'll talk to these in more detail shortly.

As you may remember, we entered into an exclusive product distribution agreement with Zoono Animal Health in November last year to distribute their proprietary disinfectant products for use in livestock, agriculture and veterinary purposes in Australia and the US. Since this time, we have been working to develop the Zoono surface protectant and sanitiser market in these regions.

In the US market initial sales in the second half of FY20 were strong however extreme challenges within the US pig and poultry industry as a result of COVID-19, has required a reduction in sales meetings in these segments. I am pleased however to report that laboratory studies at Iowa State University, to determine the effectiveness of Zoono Microbe Shield on contact against the two main pathogens to the US pig industry, Porcine Reproduction and Respiratory Syndrome virus (PRRSv) and Porcine Epidemic Diarrhea virus (PEDv), the latter being a coronavirus, have been highly successful.

We are currently undertaking further studies at ISU to establish the residual effect (or duration of efficacy) and expect these results in the coming months. In Australia, we have achieved an excellent response to preventing clinical rotavirus infections and continue to undertake trials to establish production performance benefits in pigs during their life cycle.

We were also busy on the acquisition front, with three acquisitions completed during FY20 being the acquisition of ACE Laboratory Services, Grampians Animal Health and Devoted Vets in Warragul. The largest of the three was ACE Laboratory Services for \$16 million. All these acquisitions have performed well and added valuable skills, services or an expanded regional exposure for Apiam.

I also want to highlight two more recent initiatives announced just this month.

Firstly, in early November we entered into a partnership with Ceva Animal Health in Australia to distribute Forceris™. Forceris™ is Australia's first single shot combination of gleptoferron and toltrazuril, which prevents iron deficiency anaemia and controls coccidiosis, a parasitic disease of the intestinal tract, in newborn piglets. This will deliver Australian pig farmers a labour-saving technology solution (as it reduces a two stage process to one stage) and will enhance piglet survival. It was made available to Apiam's pig clients in November and all Australian pig farmers will have access in the coming days.

We also last week announced the acquisition of Don Crosby Veterinary Surgeons, a strong regional mixed animal practice located in Dubbo (NSW). I'll talk to this more on the next slide.

Acquisition Strategy Delivering Results

As you know, Apiam has maintained a strong acquisition pipeline and has consistently executed acquisitions to support its growth framework. We have a strong track record on M&A execution, and in the past 3 years have completed 6 acquisitions – comprising 8 veterinary clinics. Each of these acquisitions has helped the business to grow and diversify.

We continue to maintain strict acquisition criteria and we are well practiced now at integrating the businesses efficiently. Every acquisition must have attractive regional exposure, a leading product or service expertise and of course meet financial return thresholds, including the availability of synergies.

The Don Crosby Vets acquisition announced to the ASX last week brings a number of these benefits to Apiam. It expands our regional footprint, has an attractive companion animal exposure - the segment which has done so well in FY20, has strong financial metrics and is lead by an excellent team with a proven track record. There are also important scale benefits and synergies which can be achieved, particularly as Apiam has an existing small presence in the Dubbo area.

We look forward to completing this acquisition, and expect settlement to occur on 30 November 2020.

Now I will talk to some of the other strategic initiatives we have implemented.

Capturing Growth in the Companion Animal Segment

As I said earlier, pet ownership has been growing rapidly this year due to COVID-19 either with families being at home spending more time with pets or individuals needing company during lock down periods. In line with this market wide trend, Apiam's companion animal business has also growth strongly and I believe some of the initiatives we have introduced have positioned us well, and allowed us to capture additional market share.

Our Best Mates program, which is only 18 months old, is a subscription-based animal wellness program and has had a good year with very strong growth in subscriptions. If you look at the chart, you will see a strong upward subscription trend, particularly over the past 3-quarters. Around 4.5% of our active patients were Best Mates members at the end of FY20, leaving us with plenty of room to continue to grow the program.

We have also put in place an updated Greenfields clinic strategy over the past few months and we plan to open clinics in fast growing regional areas during FY21. New sites due to open in the coming quarters are planned for Shepparton and Torquay North. The Torquay North clinic will occur under our Joint Venture with PetStock whereby we operate a co-located vet clinic at a PetStock retail store. Apiam have an 80% interest in these clinics. Our existing co-located clinics in Bendigo suburbs, Epsom and Golden Square which have both opened in the past 2 years, are performing well and we expect future clinics to do the same.

ProDairy Consultancy and Product Supply Service

Turning now to another successful initiative we introduced in FY20.

Our ProDairy business was launched just over a year ago and is an innovative service model offering dairy farmers an end-to-end service that extends across areas such as staff training, direct ordering capability and risk management.

Since launch, the program has grown strongly and we estimate farmers representing approximately 10% of Victoria's dairy cows having subscribed to the program, leaving further growth to come in many areas. The images to the right provide a snapshot of the media campaign we launched in April this year across targeted radio, social media and television as part of a strategy to increase market penetration in other geographic areas.

Two new ProDairy satellite clinic locations are due to open in FY21 and these will provide a local presence in new geographical areas.

Community and Customer Support

Before I turn to the outlook, I would just like to acknowledge what we are doing to help the communities that we work within, particularly coming off the back of a very challenging year for many.

This year our Fur Life Foundation has contributed over \$150,000 to support rural communities including three regional wildlife charities to improve native animal wellbeing in areas that were affected by summer bushfires. We recently donated \$10,000 to the Bohollow Wildlife Shelter in the Goulburn Valley area. This is a 24-hour animal rescue service and the funds will be used to support their operations during the peak summer period. We have also made a similar donation to the Mosswood Wildlife Rehabilitation Centre in South West Victoria.

Rural Aid, who has a specialised counselling program to support rural communities, is another important organization Apiam supports. We have been particularly committed to this cause in 2020 where people, especially in rural Victoria, having come off an extended drought period were confronted with summer bushfires. We recently donated \$120,000 to Rural Aid.

As part of our ongoing in-house programs we are committed to providing financial support to our employees that choose to volunteer in their local communities, by allowing paid work days for volunteering activities.

Now let's turn to the outlook.

Industry Conditions Update

I will start by giving an update of industry conditions across our customer segments.

The dairy and companion animal segment conditions remain very strong. The dairy segment is benefiting from better rainfall and the end of drought conditions, this is expected to continue for some time. As I mentioned the underlying fundamentals for companion animal ownership is also predicted to remain strong, particularly as the regional approach to pet ownership increasingly aligns with metro attitudes and the impacts of COVID-19 restrictions continue to be felt.

While the beef feedlot sector has not benefited from the same growth in FY20, this is because it came off a record year in FY19. The impact of COVID-19 has been felt across this sector as beef export volumes have declined by around 6%-8%. Overall, long-term confidence in the sector remains strong as there are fundamental demand drivers that underpin demand, particularly with the growth of the middle-income class in China and ongoing African Swine Fever impacts on the Chinese pork supply.

These same factors also support demand for Australian pork and the first quarter of FY21 has seen growth year-on-year. Exports have increased and imports decreased over the last few

months on the back of global pork shortages as a result of African Swine Fever. Swine industry producers are currently in an expansion phase to capitalise on these drivers, having had a difficult previous few years.

Lastly, and supportive for all production animal sectors, is the strong outlook for grain, given good rainfall across winter and into spring. Australia's grain production is expected to re-build to pre drought levels. As a key input for all production animal operators this is expected to be beneficial right across Apiam's client base.

The Bureau of Meteorology has also recently declared a La Niña event which typically results in materially higher rainfall across northern and eastern Australia for a considerable period of time. This will also provide favourable conditions for farmers.

YTD Trading and Outlook

We have had a strong start to FY21 with revenue up 10.1% and gross profit up 18.9% for the FY21 YTD period being July to October.

On an ex-acquisition basis, we continued to achieve very strong growth in the dairy and mixed animals business, however this was offset to a degree by a reduction in animal numbers in the feedlot business. Life-for-like growth at the EBIT and NPAT levels did however remain material.

We expect the business to continue to trade strongly for the remainder of FY21 despite industry volatility and the continuing COVID-19 pandemic. The management team are committed to executing our strategic growth plan as I have outlined today and to delivering shareholder returns.

We will also continue to invest in growth opportunities this year however we will be careful to balance this against return on capital.

Looking to H1 FY21, which we will report in February next year, we expect our revenue and earnings growth momentum to continue.

I conclude by thanking our shareholders for your continuing support. I also thank my Board colleagues and our dedicated employees for your ongoing commitment and hard work to move our company into its next stage of growth.

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This announcement is authorised for release by the Board of Directors.

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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.