



Apiam Animal Health Limited

ASX: AHX

Appendix 4D and Financial Report for the half-year ended 31 December 2020

COMPANY DETAILS

Name of entity:	Apiam Animal Health Limited
ACN:	604 961 024
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET Statutory Results Summary

	CHANGES FROM PERIOD ENDED 31 December					
	2020			2019		
		%		\$m		\$m
Revenue from ordinary activities	up	8.9	to	61.2	from	56.2
Net profit attributable to members	up	53.8	to	2.6	from	1.7
Profit from ordinary activities after tax attributable to members	up	53.8	to	2.6	from	1.7
Underlying EBIT (Incl. non-controlling interests)	up	30.8	to	4.4	from	3.4

Underlying EBIT (Earnings Before Interest and Tax) is considered by Management to be a useful indicator 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
2020 Final Dividend:	1.2 cents	1.2 cents
2021 Interim Dividend (declared after balance date but not yet paid):	1.2 cents	1.2 cents
Record date for determining entitlements to the dividend:	22 March 2021	
Date dividend payable:	23 April 2021	

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 FY21 interim DRP must nominate to do so by 29 March 2021.

Shareholders who elect to participate in the DRP for the 2021 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 30 March 2021 and 5 April 2021 ('Pricing Period'). The timetable in respect of the 2021 interim dividend and DRP is as follows:

Event / Action	Date*
Record Date	22 March 2021
Election Date: Last date for shareholders to make an election to participate in the DRP	5.00 pm (Melbourne time) on 29 March 2021
Pricing Period Commencement Date	30 March 2021
Last Day of Pricing Period	5 April 2021
Announcement of DRP issue price	6 April 2021
Dividend Payment Date / Issue of DRP shares	23 April 2021

Details of the DRP can be downloaded from www.apiam.com.au. In order to participate in the DRP for the 2021 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 29 March 2021. An online election can be made by visiting www.boardroomlimited.com.au.

Net Tangible Asset per Security

	2021	2020
Net Tangible assets per share	-\$0.14	-\$0.14

Return to shareholders

Dividends of \$1,399,390 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 following entities commenced during the period

- Crosvet Pty Ltd – 1 December 2020

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 \$55,879 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 2020 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 2020.

Director details

The following persons were Directors of Apiam Animal Health Limited 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
- Dr Jan Tennent

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 has reported another strong revenue and earnings performance in H1 FY21, delivering material growth on the prior comparable period (pcp). Against the backdrop of a global pandemic, and various industry challenges, Apiam has demonstrated the strength of its diversified model and the essential nature of its business operations.

Revenue in H1 FY21 increased 8.9% to \$61.2 million (H1 FY20: \$56.2 million) driven by significant growth in Apiam's dairy & mixed animal segment revenue. Greater clinic market share in many of the Company's operating regions as well as favourable industry conditions were important contributors to this performance. Apiam is driving rapid growth in this area as a result of the acceleration in regional pet ownership and further detail is presented in the section below.

Apiam also delivered a resilient revenue result in its pig segment in H1 FY21 supported by its strategic move toward higher-value consultancy services. This acted to offset some of the underlying industry challenges in the broader pig sector. Beef feedlot revenues continued to be impacted by reduced animal numbers following record highs in FY19 and early FY20. Ongoing COVID-19 impacts, particularly in the foodservice industry have continued to adversely affect the growth and performance of beef feedlot producers in H1 FY21.

Apiam's ongoing acquisition strategy was also an important driver of the Company's H1 FY21 revenue performance, including the acquisition of Don Crosby Veterinary Surgeons which was completed in December 2020 and the acquisition of ACE Laboratories in the pcp, which has performed strongly under Apiam's ownership.

Like-for-like revenue, excluding the impact of acquisitions, fell by 0.9% in H1 FY21 reflecting the impact of market cycles in the beef feedlot sector as outlined above and the rolling-off of low margin wholesale sales in the pig segment. New business initiatives, introduced by management in FY20, such as the ProDairy and Best Mates subscription revenue programs, were successful organic initiatives offsetting these segment challenges.

Gross margin in H1 FY21 was 56.3%, reflecting continued margin expansion on prior periods (H1 FY20: 54.1%). Apiam has consistently delivered material improvements in gross margins over the past 3-years due to increased revenue capture at the clinic-level following the full scale Practice Management System roll-out. Targeted changes in business mix and the impact of acquisitions have also been important factors in delivering sustainable improvements in the Company's gross margin.

In H1 FY21, Apiam's Underlying EBIT (before one-off acquisition, corporate and integration expenses) increased 30.8% to \$4.4 million and reported NPAT increased 53.8% to \$2.6 million vs pcp. Ongoing operating cost leverage and a strong focus by management on cost containment has driven these strong improvements in earnings.

The following tables are presented to assist in the interpretation of the underlying performance of Apiam during H1 FY21. This information is additional and provided using non-IFRS information and terminology.

Apiam H1 FY21 Financial Result Summary – Underlying

	H1 FY21	H1 FY20	Variance	%
Total Revenue	61.2	56.2	5.0	8.9%
Gross Profit	34.5	30.4	4.1	13.4%
Operating expenses	(26.9)	(24.1)	(2.8)	11.8%
Underlying EBITDA ¹	7.5	6.3	1.2	19.8%
Amortisation ROU assets	(1.2)	(1.2)	(0.0)	2.9%
Depreciation & amortisation	(1.9)	(1.7)	(0.2)	10.1%
Underlying EBIT ¹	4.4	3.4	1.0	30.8%
Underlying NPAT ¹	2.7	2.0	0.7	35.1%

Notes:

- Underlying earnings exclude one-off corporate, acquisition & integration expenses (tax effected where applicable at NPAT level)

Apiam H1 FY21 Financial Result Summary – Reported

	H1 FY21A	H1 FY20A	Variance	%
Total revenue	61.2	56.2	5.0	8.9%
Gross profit	34.5	30.4	4.1	13.4%
Operating expenses	(26.9)	(24.1)	(2.8)	11.8%
One-off expenses	(0.2)	(0.5)	0.3	(54.3)%
EBITDA	7.3	5.8	1.5	26.1%
Amortisation ROU assets	(1.2)	(1.2)	(0.0)	2.9%
Depreciation & amortisation	(1.9)	(1.7)	(0.2)	10.1%
EBIT	4.2	2.9	1.3	45.7%
Interest	(0.5)	(0.6)	0.1	(10.5)%
Tax	(1.2)	(0.7)	(0.5)	75.8%
Other (including minorities) ¹	0.1	0.1	(0.0)	25.3%
NPAT attributable to members	2.6	1.7	0.9	53.8%
Gross margin	56.3%	54.1%		
EBIT margin	6.8%	5.1%		

Notes:

- Includes a range of partner business activities incl. Sth West Equine JV, Apiam Solutions, PETstock Joint Venture, Portec etc

Regional clinic growth strategy

Apiam is capitalising on the significant market opportunity presented by the rapid acceleration of pet ownership in regional areas, following various levels of COVID-19 restrictions around Australia. Many regional hubs are also now experiencing rapid population growth, further supporting this strategy.

Due to this large revenue and earnings opportunity, Apiam strategically invested in greenfield sites in H1 FY21 to increase its market presence in targeted regional locations. The Company's solid capital position allows for investment in these attractive growth opportunities, and for the roll-out of additional clinics or services where return thresholds are met.

In January 2021, Apiam opened a state-of-the-art greenfield clinic in Torquay North (VIC) under its "Fur Life Vet" clinic branding. This was constructed and opened under the Company's Joint Venture agreement with PetStock, under which the parties agree to operate co-located clinics and retail outlets and in which Apiam has an 80% interest. Further "Fur Life Vet" greenfield clinics are in the planning stage and are expected to roll out over the next 12 months, including a new clinic to open in Shepparton in Q3 FY21.

During H1 FY21, Apiam also acquired Don Crosby Veterinary Surgeons (CROSVET Pty Ltd), a high performing mixed animal vet practice operating in an attractive regional location. The business is comprised of two clinics in Dubbo and Narromine (NSW), both being fast growing regional hubs. The acquisition of Don Crosby Veterinary Surgeons has also enabled the operations of an existing smaller Apiam Clinic in the region to be consolidated with the Dubbo and Narromine Clinics.

Balance sheet

Apiam continued to focus on efficient working capital management, and the balance sheet as at 31 December 2020 shows stable working capital levels compared to 30 June 2020.

Apiam's net debt as at 31 December 2020 increased to \$39.2 million, up from \$34.5 million as at 30 June 2020 reflecting the cash consideration for the Don Crosby Veterinary Surgeons acquisition (\$3.3 million), the cash component of the deferred earn-out consideration for the ACE Laboratories acquisition (\$2.9M) and the investment in new greenfield clinics outlined above (\$0.8 million).

Apiam's operating leverage ratio was 2.3x as at 31 December 2020, against a covenant requirement of 3.0x, allowing sufficient headroom to fund growth initiatives in future periods.

Cash flow

Operating cash flow increased strongly in H1 FY21, in-line with Apiam's strong growth in earnings. Cash conversion to underlying EBITDA (less the AASB 16 lease reclassification impact) was strong at 106% for H1 FY21 (vs 59% in H1 FY20, with this period being impacted by investment in inventory for new product distribution).

\$M	H1 FY21A	H1 FY20A
Net cash provided by operating activities	6.4	2.7
Acquisition of subsidiary, net of cash	(6.2)	(12.5)
Purchases of property, plant and equipment	(2.3)	(1.0)
Purchases of Intangible assets	(0.2)	(0.0)
Net cash used in investing activities	(8.8)	(13.5)
Net changes in financing	4.6	13.4
Dividends paid to shareholders	(0.9)	(0.6)
Repayment of lease liabilities	(1.6)	(1.6)
Other	0.1	0.1
Net cash inflow from financing activities	2.1	11.3
Net change in cash and cash equivalents	(0.3)	0.6

Dividend

Apiam's Board of Directors have declared a fully franked interim dividend of 1.2 cents per share (cps), supported by the Company's solid balance sheet and growth in earnings. This implies a 57% payout ratio of NPAT.

The interim dividend will be paid on 23 April 2021 and Apiam's Dividend Reinvestment Plan will be maintained.

Outlook

Apiam expects to continue to deliver strong earnings growth in FY21. Management will continue to accelerate new revenue streams, particularly in the attractive and fast-growing regional dairy and mixed animal segment.

Operating expense management will also remain a key focus, to ensure that further cost leverage and margin expansion is achieved.

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 expected to experience 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 10 of this financial report and forms part of this Directors' Report.

Rounding of amounts

Apiam Animal Health Limited 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:

A handwritten signature in black ink, appearing to be "C. Irwin Richards".

Dr Christopher Irwin Richards
Managing Director

Melbourne
24 February 2021

A handwritten signature in black ink, appearing to be "Andrew Vizard".

Professor Andrew Vizard
Chairman

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 2020, 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 Audit Pty Ltd
Chartered Accountants



C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 February 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2020

	Notes	31 December 2020 \$'000	31 December 2019 \$'000
Continuing operations			
Revenue		61,225	56,200
Other income		-	80
Expenses			
Changes in inventory		101	5,291
Cost of materials		(26,832)	(31,085)
Employee benefit expenses		(20,814)	(18,002)
Acquisition expenses		(24)	(412)
Property expenses		(784)	(680)
Freight, vehicle and transport expenses		(1,458)	(1,496)
Depreciation and amortisation of non-financial assets	6,7	(3,134)	(2,912)
Depreciation of biological assets		(24)	(35)
Other operating expenses		(4,096)	(4,092)
Operating profit		4,160	2,857
Share of profit from equity accounted investments		56	19
Finance costs		(547)	(612)
Profit/(loss) before income tax		3,669	2,264
Income tax (expense) /benefit		(1,134)	(645)
Profit/(loss) from continuing operations		2,535	1,619
Profit/(loss) attributable to:			
Owners of Apiam Animal Health Limited		2,559	1,664
Non-controlling interests		(24)	(45)
		2,535	1,619
Total comprehensive income/(loss) attributable to:			
Owners of Apiam Animal Health Limited		2,559	1,664
Non-controlling interests		(24)	(45)
		2,535	1,619
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 2020

	Notes	31 December 2020 \$'000	30 June 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		2,254	2,509
Trade and other receivables		12,795	11,868
Tax receivable		-	225
Inventories		17,767	17,666
Other current assets		1,535	1,096
Total current assets		34,351	33,364
Non-current assets			
Intangible assets	6	89,104	84,384
Property, plant and equipment	7	22,858	19,805
Biological assets		-	123
Investments		196	140
Deferred tax assets		3,230	3,319
Total non-current assets		115,388	107,771
Total assets		149,739	141,135
LIABILITIES			
Current liabilities			
Trade and other payables		9,653	8,795
Lease liabilities		2,655	2,683
Other current liabilities		421	4,153
Current tax liabilities		1,545	1,300
Borrowings	10	2,502	3,400
Employee benefit obligations		6,587	5,865
Total current liabilities		23,363	26,196
Non-current liabilities			
Borrowings	10	39,031	33,565
Lease liabilities		13,311	11,453
Employee benefit obligations		398	280
Deferred tax liabilities		850	904
Other liabilities		300	300
Total non-current liabilities		53,890	46,502
Total liabilities		77,253	72,698
Net assets		72,486	68,437
EQUITY			
Share capital	9	93,855	91,107
Corporate re-organisation reserve		(26,692)	(26,692)
Non-controlling interest acquisition reserve		(6,615)	(6,615)
Share based payment reserve		398	223
Foreign currency translation reserve		(95)	(20)
Retained earnings		10,570	9,410
Capital and reserves attributable to the owners of Apium Animal Health Limited		71,421	67,413
Non-controlling interests		1,065	1,024
Total equity		72,486	68,437

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Corporate reorganisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Foreign Currency Translation Reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	86,432	(26,692)	(6,615)	330	-	7,092	60,547	762	61,309
Issue of new share capital	4,203	-	-	-	-	-	4,203	142	4,345
Employee share plan	156	-	-	(18)	-	-	138	-	138
Foreign currency translation adjustment	-	-	-	-	18	-	18	-	18
Dividends paid	-	-	-	-	-	(850)	(850)	-	(850)
Transactions with owners	4,359	-	-	(18)	18	(850)	3,509	142	3,651
Profit for the period	-	-	-	-	-	1,664	1,664	(45)	1,619
Total comprehensive income for the period	-	-	-	-	-	1,664	1,664	(45)	1,619
Balance at 31 December 2019	90,791	(26,692)	(6,615)	312	18	7,905	65,719	860	66,579

	Share capital	Corporate reorganisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Foreign Currency Translation Reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	91,107	(26,692)	(6,615)	223	(20)	9,410	67,413	1,024	68,437
Issue of new share capital	453	-	-	-	-	-	453	65	518
Issue of shares to vendors of business acquired	2,225	-	-	-	-	-	2,225	-	2,225
Employee share plan	70	-	-	175	-	-	245	-	245
Foreign currency translation adjustment	-	-	-	-	(75)	-	(75)	-	(75)
Dividends paid	-	-	-	-	-	(1,399)	(1,399)	-	(1,399)
Transactions with owners	2,748	-	-	175	(75)	(1,399)	1,449	65	1,514
Profit for the period	-	-	-	-	-	2,559	2,559	(24)	2,535
Total comprehensive income for the period	-	-	-	-	-	2,559	2,559	(24)	2,535
Balance at 31 December 2020	93,855	(26,692)	(6,615)	398	(95)	10,570	71,421	1,065	72,486

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2020

	Notes	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers		66,451	64,618
Payments to suppliers and employees		(58,769)	(60,519)
		7,682	4,099
Acquisition costs relating to acquisition of subsidiary		(24)	(408)
Interest paid		(547)	(611)
Income taxes paid		(724)	(341)
Net cash inflow from operating activities		6,387	2,738
Cash flows from investing activities			
Payment for acquisition of businesses, net of cash acquired	4	(3,318)	(12,510)
Earnout payments for acquisitions		(2,900)	-
Payments for property, plant and equipment		(2,369)	(1,039)
Proceeds from disposals of property, plant & equipment		28	80
Payments for intangible assets		(228)	(30)
Net cash outflow from investing activities		(8,787)	(13,499)
Cash flows from financing activities			
Proceeds from borrowings		6,947	18,715
Repayment of borrowings		(2,357)	(5,328)
Lease payments		(1,563)	(1,640)
Dividends paid to company shareholders		(946)	(551)
Capital contribution of non-controlling interest		64	142
Net cash inflow from financing activities		2,145	11,338
Net (decrease)/increase in cash and cash equivalents		(255)	578
Cash and cash equivalents at the beginning of the half-year		2,509	1,873
Cash and cash equivalents at end of the half year		2,254	2,451

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Apiam provide veterinary services and products to production and companion animals across three segments as follows:

- Dairy and mixed
- Feedlot
- Pigs

Apiam operates a vertically integrated business with logistics, wholesale procurement arm, laboratory services and manufactures autogenous vaccines and private label products.

Apiam service companion animals and production animals throughout their life cycle through provision of the following:

- systems to provide and monitor herd health, animal welfare and production programs;
- companion animal and equine medicine and surgical services
- pet wellness programs
- technologies to record and analyse production data
- technologies to manage compliance with legislative requirements on pharmaceutical use;
- wholesale, retail and dispensing of animal health products,
- on-farm delivery of products via its own logistics capability;
- facilitation and auditing of industry market assurance programs;
- ancillary services such genetic services, laboratory diagnostics and custom vaccine manufacturing;
- 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 2020 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 2020 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 24 February 2021.

3. Significant accounting policies

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 30 June 2020.

4. Business combinations

The Group applies the acquisition method in accounting for business combinations.

On 1 December 2020 the Group acquired 100% of the issued share capital and voting rights of Crosvet Pty Ltd. The following detailed table highlights the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition for the business combination undertaken in the period. On the acquisition of Crosvet, 2,207,506 fully paid shares were issued at a fair value of \$0.6795 per share.

This business combination has initially been accounted for on a provisional basis as at 31 December 2020.

	Crosvet \$'000
Fair value of consideration transferred	
Amounts settled in cash	3,327
Amount settled by issue of shares at fair value	1,500
Payable to vendors	100
Total fair value of consideration transferred	4,927
Recognised amounts of identifiable net assets	
Property, plant & equipment	829
Deferred tax assets	17
Total non-current assets	846
Cash and equivalents	10
Inventories	144
Trade and other receivables	144
Other assets	12
Total current assets	310
Employee benefit obligations	89
Current tax liabilities	112
Trade and other payables	53
Lease liabilities	80
Total current liabilities	334
Lease liabilities	749
Employee benefit obligations	13
Total non-current liabilities	762
Identifiable net assets	60
Goodwill on acquisition	4,867
Net cash outflow on acquisition	3,318

4.1 Consideration transferred

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

4.2 Identifiable net assets

Assets acquired and liabilities assumed are generally measured at their acquisition date fair values. Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at acquisition date.

The measurement period ends on either the earlier of (i) 12 months from date of acquisition or (ii) when the Group receives all the information possible to determine the fair value.

The fair value of the identifiable assets acquired and liabilities assumed have been determined provisionally at 31 December 2020. The Group is currently obtaining the information necessary to appropriately consider the identification and fair value of identifiable assets and liabilities assumed.

4.3 Goodwill

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated on the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net asset. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

The goodwill that arose on the combination can be attributed to the value of the businesses to the Group in addition to the net tangible assets acquired, synergies expected to be derived from the combination and the value of each of the veterinary businesses which cannot be recognised as an intangible asset. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

4.4 Contribution to the Group results

The period between the beginning of the reporting period and the date of acquisition was not business as usual due to the acquisition, making it impractical to determine revenue and profit or loss generated in the period. The period 1 December to 31 December 2020 remains impractical to report business as usual for CrosVet Pty Ltd due to various integration activities impacting results within the first year of operations and the introduction of ongoing charges for shared services within the group.

4.5 Restatement of prior period intangibles provisionally accounted

Apium acquired Animal Consulting Services Pty Ltd (ACE) in the financial year ended 30 June 2020. The acquisition was provisionally accounted for in that period. Subsequent to the acquisition, it was noted that there were customer relationships within ACE and that a portion of goodwill recognised upon acquisition must be reclassified and recognised as an intangible asset which is amortised over the useful life of the asset. This resulted in a restatement of each of the affected financial statement line items for prior periods as follows:

30 June 2020			
Statement of financial position (extract)	Previous amount \$'000	Adjustment \$'000	Restated amount \$'000
Goodwill	79,750	(2,278)	77,472
Trademarks and trade names	-	1,773	1,773
Customer relationships	3,223	721	3,944
Accumulated amortisation of customer relationships	(824)	(108)	(932)
Deferred tax liabilities	(720)	(184)	(904)
Total equity	68,513	(76)	68,437

31 December 2019			
Statement of profit or loss and other comprehensive income (extract)	Previous amount \$'000	Adjustment \$'000	Restated amount \$'000
Depreciation and amortisation of non-financial assets	(2,876)	(36)	(2,912)
Profit before income tax	2,300	(36)	2,264
Income tax expense	(656)	11	(645)
Total comprehensive income	1,644	(25)	1,619

5. 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 summarized as follows:

	Six (6) months to 31 December 2020 \$'000	Six (6) months to 31 December 2019 \$'000
Revenue from external customers	61,225	56,200
Segment operating costs	(56,092)	(52,243)
Segment operating profit	5,133	3,957

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 2020 \$'000	Six (6) months to 31 December 2019 \$'000
Total reporting segment operating profit	5,133	3,957
Other income	-	80
Corporate overheads	(949)	(768)
Acquisition costs	(24)	(408)
Integration costs	(-)	(4)
Finance costs	(547)	(612)
Share of profit from equity accounted investments	56	19
Net profit before tax	3,669	2,264
Income tax	(1,134)	(645)
Net profit after tax	2,535	1,619

6. Intangible assets

The following table shows the movements in intangible assets:

	Goodwill \$'000	Trademarks and trade names \$'000	Customer Relation- ships \$'000	Capitalised develop- ment costs \$'000	Total \$'000
At 30 June 2020					
Cost	77,472	1,773	3,944	2,675	85,864
Accumulated amortization and impairment	-	-	(932)	(548)	(1,480)
Net book value	77,472	1,773	3,012	2,127	84,384
Half-year ended 31 December 2020					
Opening net book value	77,472	1,773	3,012	2,127	84,384
Additions	-	-	50	178	228
Acquisition of subsidiary (a)	4,867	-	-	-	4,867
Amortisation	-	-	(179)	(196)	(375)
Closing net book value	82,339	1,773	2,883	2,109	89,104
At 31 December 2020					
Cost	82,339	1,773	3,994	2,853	90,959
Accumulated amortization and impairment	-	-	(1,111)	(744)	(1,855)
Net book value	82,339	1,773	2,883	2,109	89,104

- (a) The goodwill of the Company increased during the period ending 31 December 2020 due to the acquisition of Crosvet Pty Ltd on 1 December 2020. Refer to note 4.

7. Property, plant and equipment

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

	Leased Buildings – Right of use asset	Leasehold improve- ments	Plant and equipment	Motor vehicles	Assets under construct- ion	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2020						
At cost	15,143	860	11,037	5,380	36	32,456
Accumulated depreciation	(2,373)	(296)	(6,308)	(3,674)	-	(12,651)
Net book value	12,770	564	4,729	1,706	36	19,805
Half year ended 31 December 2020						
Opening net book value	12,770	564	4,729	1,706	36	19,805
Additions	3,373	696	1,254	488	-	5,811
Depreciation charge	(1,239)	(112)	(994)	(413)	-	(2,758)
Closing net book value	14,904	1,148	4,989	1,781	36	22,858
At 31 December 2020						
Cost	18,316	1,535	12,203	5,879	36	37,969
Accumulated depreciation	(3,412)	(387)	(7,214)	(4,098)	-	(15,111)
Net book amount	14,904	1,148	4,989	1,781	36	22,858

8. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Apium Animal Health Limited) as the numerator, ie no adjustments to profits were necessary during the six (6) months period to 31 December 2020 and 31 December 2019.

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 2020	Six (6) months to 31 December 2019
Weighted average number of shares used in basic earnings per share	117,601,423	109,703,964
Weighted average number of shares used in diluted earnings per share	119,058,585	111,544,411

9. 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 Apium Animal Health Ltd. Shares issued and authorised are summarised as follows:

	Six (6) months to 31 December 2020 No.	Year ended 30 June 2020 No.	Six (6) months to 31 December 2020 \$'000	Year ended 30 June 2020 \$'000
Shares issued and fully paid				
• beginning of the period	116,597,135	105,897,728	91,107	86,432
• shares issued as consideration for business acquisitions	2,207,506	8,768,510	1,500	3,785
• shares issued on achievement of earnout for prior year acquisition	1,101,321	251,994	725	120
• issued under dividend reinvestment plan	736,066	1,298,025	453	595
• employee shares issued	100,000	380,878	70	175
Shares issues and fully paid	120,742,028	116,597,135	93,855	91,107
Total shares authorised at the end of the period	120,742,028	116,597,135	93,855	91,107

10. Borrowings

As at 31 December 2020, the contractual maturities of the Group's non-derivative financial liabilities were:

	31 December 2020	30 June 2020
	\$'000	\$'000
Current		
Bank loans	2,521	3,419
less capitalised costs	(19)	(19)
Total current borrowings	2,502	3,400
Non-current		
Bank loans	39,067	33,589
less capitalised costs	(36)	(24)
Total non-current borrowings	39,031	33,565

Loan covenants

The key financial covenants applicable to bank facilities are:

- Maximum gearing ratio of 45% measured on a daily basis for the financial years ending 30 June 2021 and 30 June 2022 (ratio of net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities divided by net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities plus equity);
- Maximum operating leverage ratio of 3.0 times (ratio of net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities divided by EBITDA. EBITDA includes any acquisitions annualized EBITDA for the financial year in which it is purchased and excludes one off acquisition and integration/system expense costs. Maximum ratio includes a step up to 3.5 times for any twelve month period following total acquisitions exceeding \$10 million; and
- The Group complied with all bank covenants during the period.

10. Borrowings (continued)

Financing arrangements

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

Total facilities	31 December 2020	30 June 2020
	\$'000	\$'000
Bank - term loan facilities	63,700	59,700
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
	68,500	64,500
Used at reporting date		
Bank - term loan facilities	41,588	36,965
Bank - master asset finance agreement for equipment finance	990	1,299
	42,578	38,264
Unused at reporting date		
Bank - term loan facilities	22,112	22,735
Bank - master asset finance agreement for equipment finance	2,510	2,201
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	25,922	26,236

11. Contingent assets and liabilities

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

12. Dividends

Dividends of \$1,399,390 were declared to equity holders during the six months ended 31 December 2020. Of this amount \$946,202 was paid in cash while \$453,188 was issued in shares under Apiam's dividend reinvestment plan.

13. Events after the reporting date

The Apiam Board of Directors declared an interim dividend on the 24 February 2021. The interim dividend of \$1,448,904 is 1.2 cps, fully franked and will be paid on 23 April 2021.

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.

14. 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 Apium Animal Health Limited:
 - a the consolidated financial statements and notes of Apium 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 2020 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:

A handwritten signature in black ink, appearing to be 'C. Irwin Richards', written over a horizontal line.

Dr Christopher Irwin Richards
Managing Director

Melbourne
24 February 2021

Independent Auditor's Review Report

To the Members of Apiam Animal Health Limited

Report on the review of 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 2020, 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, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Apiam Animal Health Limited does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of Apiam Animal Health Limited's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 2020 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*.

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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 February 2021