



**HRL Holdings Limited**

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## **ASX Announcement**

**29 November 2018**

### **Chairman and CEO Addresses to AGM and Trading Update**

#### **CHAIRMAN'S ADDRESS**

I say with great pleasure that FY18 was a transformational year for HRL Holdings.

'Transformational' because during the course of the financial year we concluded a very exciting transaction with Analytica Laboratories in New Zealand which has added both substantial scale and capability to the wider HRL Group.

I would like to thank HRL Holdings former Chairman, Mr Kevin Maloney, for his exceptional leadership throughout his time with the Company. I also thank my fellow Directors who are all in attendance today and confirm that the Board is working cohesively with our Executive team to guide strategy and ensure robust leadership for our Company.

I also extend a big thank you to our CEO, Steven Dabelstein, and the Executive team at HRL Holdings and also to all of our valued employees in the operating individual business units in both Australia and New Zealand.

This amazing effort has assisted us to remain focused on serving our clients; it has also provided strong momentum and an exciting pipeline of opportunities for the future.

I am confident that HRL Holdings is in an excellent position to embark on an exciting period of growth and development in the years to come.

Finally, and importantly, I would like to thank our loyal shareholders, customers and suppliers for their support throughout the past year, and I would like to assure all stakeholders that we are working very hard to increase the value the company delivers.

I am now pleased to invite our CEO, Steven Dabelstein, to provide his report to you.

**Darren Anderson**  
**Chairman**



## **CEO'S ADDRESS**

Thank you Darren and HRL Directors. I note that we are one day shy of the anniversary of the Analytica transaction, marking a year of successful integration and expansion of that business which I will discuss in further detail during my update. I would like to thank all HRL staff for their hard work and ongoing commitment to success. I will also acknowledge our fantastic customers and suppliers for their support throughout the year.

## **Financial Results FY18**

FY18, the third full financial year for HRL as an environmental services business, was transformative in services, group structure and financial performance. The business has enjoyed rapid growth centred around high value, high throughput commercial laboratory testing.

Revenue increased 100% year on year to \$27.3m

The underlying EBITDA of \$5.8m represents an increase of 382% on FY17 \$1.5m driven by strong performance in the HAZMAT division and the newly acquired Analytica business. Business scale has improved substantially with corporate costs as a percentage of revenue decreasing to just 4.8% (FY17 11%, FY16 15%).

The group generated \$4.6m in operating cashflow after excluding the acquisitions costs.

We closed the FY18 year with net cash of \$4.3m.

## **Market Conditions and Trading Update**

In our 1Q19 trading update I outlined the continued decline in methamphetamine screening and laboratory testing services for Precise Consulting and Analytica. It has now been six months since the New Zealand Government changed its guidelines on the testing standards, and while we now believe that the level of methamphetamine testing services has stabilised, we currently expect methamphetamine related revenues to decline to approximately AUD\$1.9m in FY19, from AUD\$4.6m in FY18.

With regards to FY19 earnings we expect the decline in total methamphetamine testing revenues will result in an adverse EBITDA impact of AUD\$2.2m-\$2.5m for the period, having delivered approximately \$3m of EBITDA in FY18. The EBITDA decline of \$2.2-\$2.5m for FY19 includes \$0.25m for labour retraining and repositioning within Precise Consulting given reduced volumes from methamphetamine service lines. Within the Analytica business methamphetamine related revenues have been largely replaced with new service lines, albeit generating lower margins at this stage.

Trading conditions remain competitive in the construction material testing division, and we continue to invest in operational efficiencies for Morrison Geotechnic. With the Nerang facility lease expiring we are taking the opportunity to consolidate sites with our Yatala HAZMAT branch which is around 20 minutes away and still within the Gold Coast region. The cost synergies are expected to be around \$300k per annum and will take effect from January 2019. An extensive investment program in new technologies has increased the



overall throughput capacity of the business and provides an improved operational platform for future growth.

I will also remind you of the H1/H2 skew in earnings for HRL and in particular to the Analytica New Zealand business. As a high throughput commercial laboratory, the bulk of Analytica's food testing is conducted in the second half of the financial year. The EBITDA weighting in proforma FY18 was 29% first half, to 71% second half. At this early stage of the 2019 financial year we would expect this trend to continue and for the earnings weighting to expand even further into the second half.

### **Leveraging Analytica capabilities for organic growth**

HRL remains focussed on innovation. It will continue to use new equipment, technology and software platforms to improve efficiencies and margins. In looking to leverage Analytica's established chemistry capabilities in the New Zealand market, Analytica management is overseeing the commissioning of new environmental service lines through the existing HRL laboratory facilities in Brisbane. Analytica also continues to develop new services across the food and environmental testing areas within the New Zealand market.

We recently announced an exciting new joint venture with our valued long-term strategic partner Milk Test NZ to develop a full-scale dairy testing laboratory. This is a substantial market in New Zealand where we believe we can be very successful. This greenfield operation will take a couple of years to commercialise, but it highlights our approach to growing mid to long term opportunities.

### **Analytica earnout upper target exceeded**

The acquisition of Analytica Laboratories was effective from the 30 November 2017. Analytica was acquired with an historical EBITDA of NZD\$3m, and the earn-out consideration was for a 6x multiple to be applied for each NZD\$1 of EBITDA greater than NZD\$3m in the 12-month period to 30 November 2018, up to a maximum earn-out of NZD\$11m.

Despite recent headwinds for the methamphetamine service line, Analytica is on track to exceed the top end of its earn-out target by delivering unaudited EBITDA of >NZD \$4.83m in the 12-month period to 30 November 2018, and therefore the vendors will become entitled to receive the full NZD\$11m in earn-out consideration. This earnout will be payable in cash by instalments with the first instalment of 50% due within 60 days of 30th November 2018 and the balance in equal payments over the following 12 months. The earn-out will be funded from existing cash reserves and bank facilities.

The transformational acquisition of Analytica not only added substantial scale but has positioned HRL for the next stage of our growth into chemistry services.

I congratulate the vendors and the entire Analytica team for this excellent result.



### **Overall comment**

In summary, the overall business is performing well after taking into consideration the large loss of volume contributed by the methamphetamine services. We are working hard to replace this work as demonstrated by the first quarter update which reported unaudited AUD\$7.2m of revenue, against a comparable \$7.5m in the pcq on a pro-forma basis. Unfortunately, when removing a high-volume and high margin service line and replacing it with emerging tests there will be an impact to the bottom line in the short-term. However, based upon the success of these new tests, along with other opportunities being actively worked on, we believe the medium and long term prospects remain positive. It is not possible at this early stage of the financial year to quantify the net impact, and further updates will be given with the half year results.

These comments conclude the business update, and I hand back to your Chairman who will now progress directly to the formal resolutions.

**Steven Dabelstein**  
**CEO**

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