



30 October 2017

ASX Announcement

Appendix 4C – Quarterly Report for Entities Admitted on the Basis of Commitments and Quarterly Update

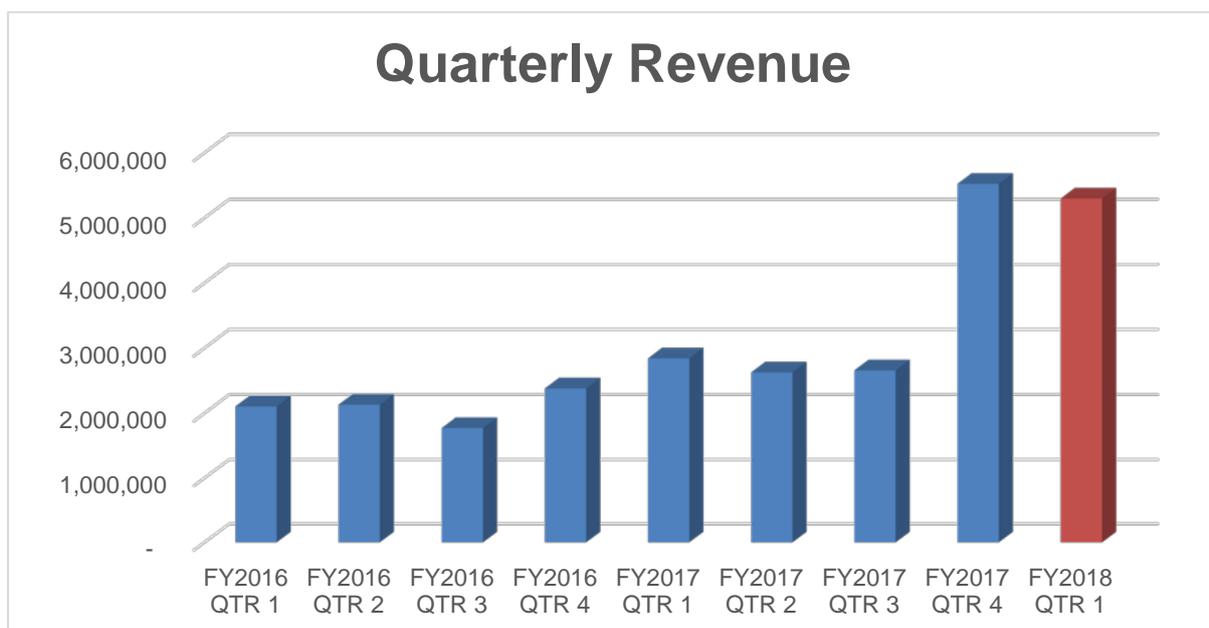
QUARTER HIGHLIGHTS

- HRL Holdings to acquire Analytica Laboratories, a leading analytical chemistry laboratory business based in New Zealand
- Institutional placement of ~A\$15m at the offer price of A\$0.085, subject to shareholder approval
- Securities purchase plan to be offered to existing eligible shareholders at the offer price of A\$0.085, capped at A\$1m
- Continued strong quarterly performance from existing businesses on the back of increased activity in New Zealand

First Quarter Trading and Cashflows

During the quarter, HRL generated \$405k net cash from operating activities. After excluding payments for tax and Analytica acquisition costs, operating cashflows were \$559k. Full details are included in the attached Appendix 4C.

Trading in the quarter was solid with the Group generating revenues of \$5.3M.



The Group had \$925K in cash and a further \$1.2M in undrawn loan facilities at the end of the quarter.



New Zealand

New Zealand operations were very strong during the quarter, with all branches performing above expectations. Property contamination testing was particularly strong with Precise continuing to win jobs in new territories.

Precise expects to maintain this momentum into the next quarter. Precise is seeking out opportunities to expand its field sampling business for tier 1 consultancies and engineering firms.

Australia

Australian activity saw solid results during the quarter, albeit with a small decrease on the record previous quarter.

The Queensland market remains strong. The 3-year asbestos audit cycle for state based assets continued. The environmental engineering/sciences service line continued its recent growth securing a number of large contaminated land projects during the year.

The NSW loose-fill asbestos insulation program has been put on hold temporarily by the NSW government. Activity in the ACT branch consequently fell back to its normal operating level, with excess staff redeployed to the Northern Territory. HRL understands the NSW loose-fill asbestos insulation program will resume sometime in calendar year 2018.

In late FY2017, OCTIEF was awarded a significant contract by the Northern Territory Department of Housing and Community Development to carry out asbestos surveys across a range of public housing assets throughout the Darwin, Casuarina and Palmerston regions of the Northern Territory. Works on this contract commenced in late August 2017.

Morrison Geotechnic continues to contribute well to the group's results, with the business currently on track to meet the second highest earn-out target.

Morrison Geotechnic has a number of very large civil works tenders submitted, with the successful bidders due to be announced before year end.

Proposed acquisition of Analytica Laboratories

On 16 October 2017, HRL Holdings Limited (**HRL** or the **Company**) entered into a conditional agreement with the shareholders of Analytica Laboratories Limited (**Analytica**) to acquire all of the issued capital in Analytica.

Analytica is a privately owned, New Zealand-based analytical chemistry laboratory business specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets.

Analytica has a strong competitive position in high-end environmental and food/agricultural testing markets with industry leading customers/partners. Key features include:

- ✓ Market leader in honey testing in New Zealand, both among industry organisations and producers/distributors
- ✓ Dominant position in the liquid milk analysis and food origin testing, via strategic alliance with market leading partners
- ✓ Strong and growing exposure to the environmental testing and methamphetamine property screening market with the recent launch of innovative testing services



Strategic Rationale

The acquisition is transformational and positions HRL for its next stage of growth by expanding the business' capabilities and expertise in new markets.

- ✓ Highly complementary acquisition adding scale and enhancing competitive position
 - Combined businesses FY18 forecast to deliver in excess of \$33m revenue and in excess of \$7.3m underlying EBITDA with 22% EBITDA margin (assumes run rate to achieving full earn out)
 - Provides rapid entry into the high value environmental and food/agriculture testing market, building on HRL's strategy to focus on more sophisticated and advanced analysis with higher barriers to entry
 - Leverages highly skilled technical and operational staff across a broader operational base
 - Provides ability to leverage strong existing brand and reputation when entering new markets
 - Compliments existing operations through advanced technology and equipment
- ✓ CAIQtest (Pacific) provides a unique opportunity to support the growing export market to China
 - Incorporated joint venture led by Analytica (26% interest) and supported by the Chinese Academy of Inspection and Quarantine
 - New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China assisting greatly with supply chain bottlenecks – a key concern for exporters
 - Currently services the dairy export market, with a focus on infant milk formula
 - CAIQtest (Pacific) developed a first mover advantage by achieving accreditation with the Chinese National Accreditation Service (August 2017) for a broad dairy testing scope – can now provide services to commercial dairy exporters

Acquisition Details

In consideration for 100% of the share capital of Analytica, HRL will pay a purchase price of up to NZ\$30m to the vendors of Analytica (**Analytica Vendors**).

The purchase price is broken down as follows:

- NZ\$13.3m upfront cash consideration on completion of the Analytica acquisition;
- NZ\$5.7m upfront HRL scrip consideration on completion of the Analytica acquisition, subject to a 2-year escrow period; and
- Up to NZ\$11m cash earn-out consideration, based on the following criteria:
 - Analytica business to achieve 12-month post-settlement EBITDA in excess of NZ\$3m;
 - Analytica Vendors to receive a 6x multiple on each NZ\$1 of EBITDA greater than NZ\$3m, up to a maximum earn-out consideration of NZ\$11m; and
 - 50% of earn-out is payable 12 months post-settlement, and 50% in 12 equal monthly instalments thereafter.

The payment of the earn-out consideration is also contingent on the Analytica Vendors providing ongoing services for a minimum of 2 years post-settlement.

Under the terms of the acquisition agreement, Analytica Vendors will have the right to appoint a Director to the Board of HRL.

Completion of the Analytica acquisition is conditional on a number of factors, including:



- all necessary ASX and ASIC approvals, waivers and confirmations being obtained by HRL;
- shareholder approval being obtained by HRL for the proposed Analytica acquisition and placement; and
- other conditions which are standard for a transaction of this nature.

Institutional Placement and SPP

Conditional Placement

To fund the upfront cash consideration of the Analytica acquisition price, HRL is undertaking a conditional placement, subject to shareholder approval, to raise A\$15m, by issuing 176,500,000 shares at a price of A\$0.085 (**Conditional Placement**).

The Conditional Placement was strongly supported by domestic and international sophisticated and institutional investors. Settlement of the Conditional Placement will be subject to shareholder approval of the Analytica acquisition at a General Meeting to be held on 23 November 2017.

Securities Purchase Plan

In addition to the Conditional Placement, the Company is offering existing eligible shareholders with registered addresses in Australia and New Zealand the opportunity to subscribe for up to approximately A\$15,000 or 176,470 shares under a Securities Purchase Plan (**SPP**). The issue price under the SPP is A\$0.085 per share, which is the same price as under the Conditional Placement. The amount raised under the SPP will be capped at A\$1m.

All shares issued under the Conditional Placement and SPP will rank equally with existing HRL shares on issue.

For further information contact:

Investor and media:

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

HRL HOLDINGS LIMITED

ABN

99 120 896 371

Quarter ended ("current quarter")

September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,434	5,434
1.2 Payments for		
(a) research and development	-	-
(b) direct costs of sales	(690)	(690)
(c) advertising and marketing	(3)	(3)
(d) leased assets	(236)	(236)
(e) staff costs	(3,036)	(3,036)
(f) administration and corporate costs	(892)	(892)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(18)	(18)
1.6 Income taxes paid	(104)	(104)
1.7 Government grants and tax incentives	-	-
1.8 Acquisition costs	(50)	(50)
1.9 Net cash from / (used in) operating activities	405	405
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(51)	(51)
(b) businesses (see item 10)	-	-
(c) net cash on acquisition of subsidiaries	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	12	12
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(39)	(39)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Net proceeds from borrowings	-	-
3.6 Net repayment of borrowings	(144)	(144)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(144)	(144)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	728	728
4.2 Net cash from / (used in) operating activities (item 1.9 above)	405	405
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(39)	(39)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(144)	(144)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(26)	(26)
4.6	Cash and cash equivalents at end of quarter	925	925

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	805	608
5.2	Call deposits	120	120
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	925	728

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	133
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Executive and Non-Executive Directors' remuneration and fees (\$107k)

Rental payments to a Director related entity in relation to premises rented by OCTIEF Pty Ltd (\$26k)

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	2,323	1,123
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Equipment loan facility provided by Westpac. Security taken over the asset that the borrowings relates to. Interest rates of 4.35% - 5.10% per annum which expire between December 2018 and February 2019.

Morrison Geotechnic equipment loan facility provided by NAB. Security taken over the asset that the borrowings relates to. Interest rates of 4.67% - 5.20% per annum which expire between June 2018 and December 2020.

Commercial bank loan provided by Westpac. Secured against all current and non-current assets of the Group by floating charge. The facility has an interest rate of 4.85% per annum and expires in September 2019.

Insurance financing is unsecured. The facilities have an average interest rate of 5.51% per annum and expire between July 2017 and March 2018.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Direct cost of sales	700
9.3 Advertising and marketing	20
9.4 Leased assets	240
9.5 Staff costs	2,950
9.6 Administration and corporate costs	950
9.7 Other – acquisition costs	50
9.8 Total estimated cash outflows	4,910

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


Company Secretary

Date: 30 October 2017

Print name: Paul Marshall

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.