

Investor Presentation

Full Year Results June 2018

HRL Holdings (ASX:HRL)





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HRL Overview

WHO WE ARE



WHAT WE DO



LABORATORY SERVICES



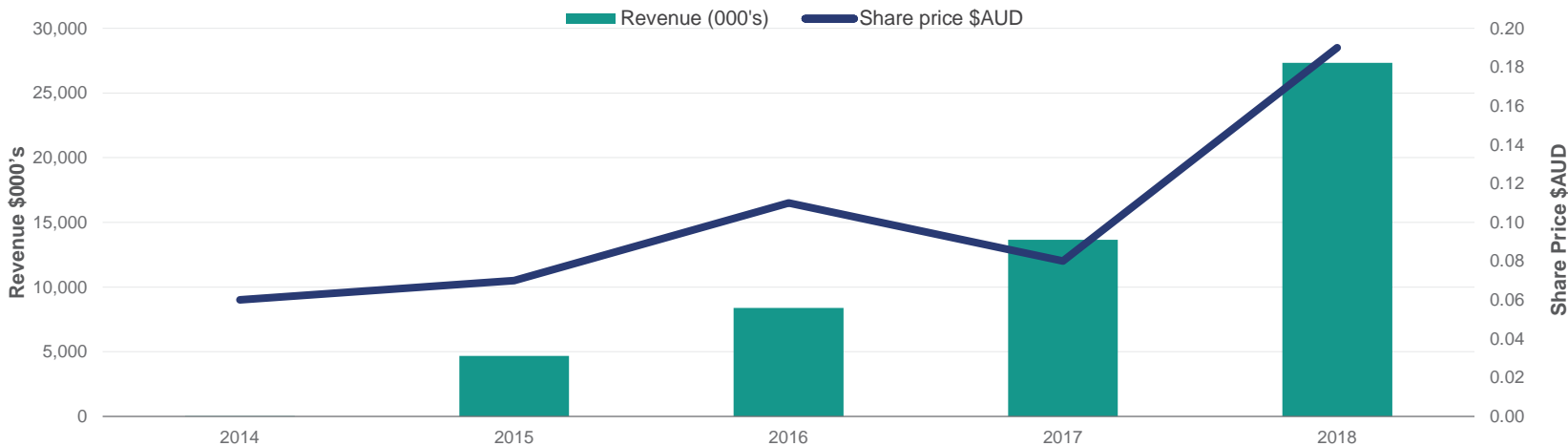
BRANCH NETWORK

Laboratory locations:
 Brisbane – Darra
 Brisbane – Yatala
 Sunshine Coast
 Gold Coast
 Darwin
 Canberra
 Auckland
 Wellington
 Christchurch
 Dunedin
 Hamilton

Consulting offices
 Palmerston North



HOW WE'VE GROWN



2007 - 2014

Geothermal exploration company. Market failure in sector led to lack of development funds.

2014

Change in strategic direction / Acquisition of Octief (environmental services).

Kevin Maloney & Darren Anderson join the Board.

2015

\$5m capital raise.
Acquisition of Precise Consulting (NZ) & AAC Environmental (ACT).

Organic branch rollout in NZ & Australia.

2016

Acquisition of RJL & Associates (NZ).
Consolidate acquisitions.
Organic branch rollout in NZ & Australia.

April 2017

\$5m rights issue & \$2.75m placement.
Acquisition of Morrison Geotechnic and Octfolio.

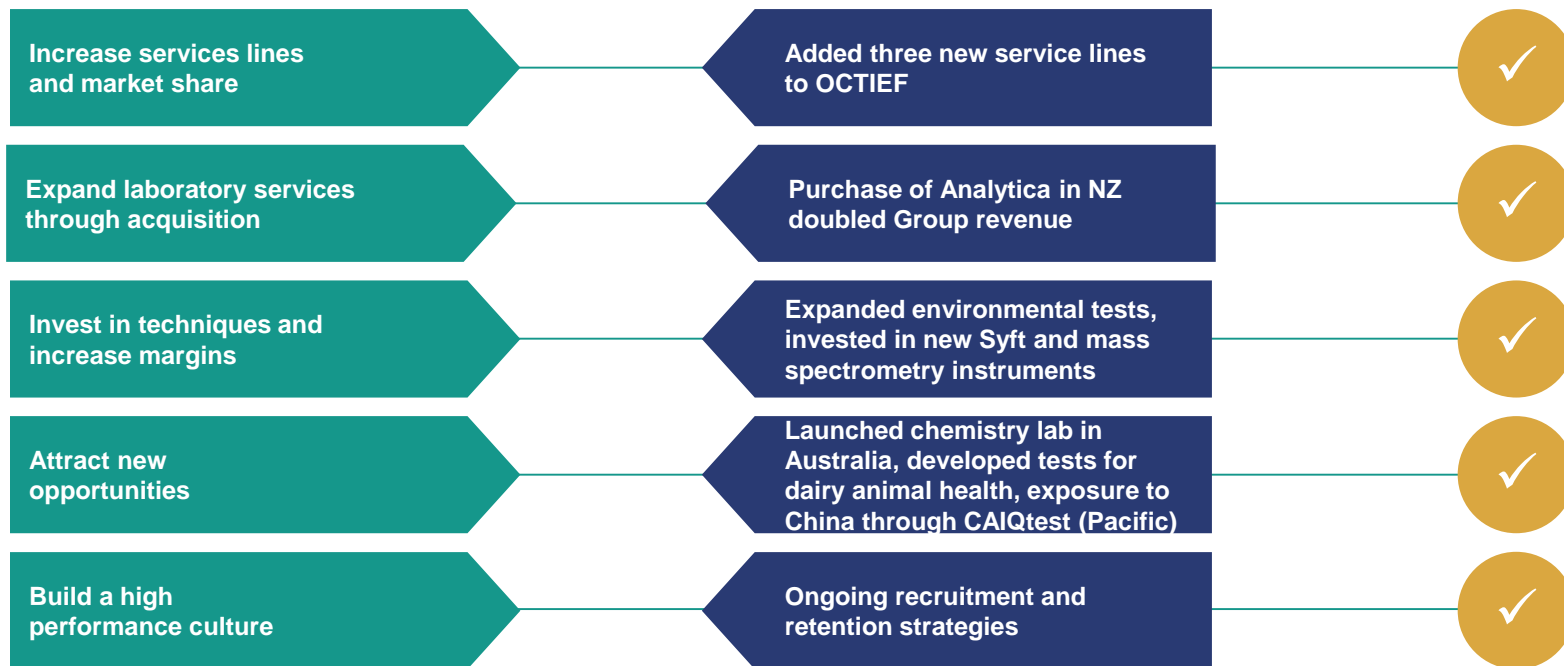
Nov 2017

\$15m placement & \$5.7m scrip & \$1m SPP.
Acquisition of Analytica Laboratories.

OUR FY2018 DELIVERABLES

What we said

What we delivered



OUR STRATEGY FOR SUCCESS IN FY2018



Expand our laboratory services

HRL now offers testing services in HAZMAT/ Occupational Hygiene, Geotech, Environmental and Food sectors, increasing our addressable market significantly



Move into higher value chemistry laboratory testing

High margin chemistry testing services contributed 30% of turnover



Invest in high throughput techniques

- Invested \$2.5m in new equipment
- \$4.3m in net cash and \$2.7m in undrawn debt available for new equipment

June 2018 Highlights

Investing in growth and technology



2018: DELIVERING GROWTH & PERFORMANCE

+100%

Revenue growth
year-on-year to \$27m

+382%

Underlying EBITDA growth
year-on-year to \$5.8m,
exceeding market
expectations*

\$4.6M

Cashflow from operations
excluding acquisition
costs

*Canaccord Colts forecast \$5.6m

FINANCIAL HIGHLIGHTS

	FY2018 \$000's	FY2017 \$000's	INCREASE \$000's
Revenues	27,307	13,646	13,661
Underlying EBITDA ¹	5,775	1,509	4,266
Operating cash flows generated ²	4,567	53	4,514
Working capital	3,229	1,235	1,994
Net cash/(borrowings)	4,278	(108)	4,386
Statutory profit/(loss) after tax ¹	(1,504)	130	(1,634)

1. Underlying EBITDA and profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited. Refer to Appendix A for further details of non-underlying items.
2. Excludes cash outflows associated with acquisition costs.

OPERATIONAL HIGHLIGHTS

Acquisition of Analytica, a leading analytical chemistry laboratory based in New Zealand



\$16M

capital raised to fund acquisition and other expansion opportunities

Brisbane laboratory expansion for three new service lines:

Acid sulphate soils

Gravimetric dust

Crystalline silica



SEGMENT PERFORMANCE – FY2018

	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT \$000's	GEOTECH \$000's	FOOD/ENVIRO LABORATORY \$000's	SOFTWARE \$000's	TOTAL \$000's	\$000'S	\$000's
Revenues	10,868	7,733	8,206	500	27,307	–	27,307
Underlying EBITDA (\$)	2,489	362	4,085	185	7,121	(1,346)	5,775
Underlying EBITDA (%)	23%	5%	50%	37%	26%	–	21%
Operating depreciation and amortisation	(371)	(204)	(892)	(3)	(1,470)	(8)	(1,478)
Net interest expense	(13)	(19)	–	–	(32)	(21)	(53)
Underlying profit before tax	2,105	139	3,192	182	5,618	(1,374)	4,244
Operating income tax	(600)	(42)	(894)	(55)	(1,590)	220	(1,370)
Underlying profit after tax	1,505	97	2,298	127	4,028	(1,154)	2,874
<i>Non-operating adjustments</i>							
Acquisition related expenses	–	(8)	(140)	(10)	(158)	–	(158)
Earn-out expenses/adjustments	–	63	(2,943)	187	(2,693)	–	(2,693)
Amortisation of intangible assets arising from acquisitions	(184)	(416)	(1,024)	(317)	(1,941)	–	(1,941)
Share based payments	–	–	–	–	–	(35)	(35)
Share of loss - equity accounted investment	–	–	(28)	–	(28)	–	(28)
Non-operating income tax	52	108	329	98	587	(110)	477
Statutory profit after income tax	1,373	(156)	(1,508)	85	(205)	(1,299)	(1,504)



SEGMENT PERFORMANCE – FY2018 PRO-FORMA BASIS*

	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT \$000's	GEOTECH \$000's	FOOD/ENVIRO LABORATORY \$000's	SOFTWARE \$000's	TOTAL \$000's	\$000'S	\$000's
Revenues	10,868	7,733	12,354	500	31,455	–	31,455
Underlying EBITDA (\$)	2,489	362	5,365	185	8,401	(1,346)	7,055
Underlying EBITDA (%)	23%	5%	43%	37%	26%	–	22%
Operating depreciation and amortisation	(371)	(204)	(1,427)	(3)	(2,005)	(8)	(2,013)
Net interest expense	(13)	(19)	(12)	–	(44)	(21)	(65)
Underlying profit before tax	2,105	139	3,926	182	6,352	(1,374)	4,977
Operating income tax	(600)	(42)	(1,099)	(55)	(1,796)	220	(1,576)
Underlying profit after tax	1,505	97	2,827	127	4,556	(1,154)	3,401
<i>Non-operating adjustments</i>							
Acquisition related expenses	–	(8)	(140)	(10)	(158)	–	(158)
Earn-out expenses/adjustments	–	63	(2,943)	187	(2,693)	–	(2,693)
Amortisation of intangible assets arising from acquisitions	(184)	(416)	(1,742)	(317)	(2,659)	–	(2,659)
Share based payments	–	–	–	–	–	(35)	(35)
Share of loss - equity accounted investment	–	–	(28)	–	(28)	–	(28)
Non-operating income tax	52	108	530	98	788	(110)	678
Statutory profit after income tax	1,373	(156)	(1,496)	85	(194)	(1,299)	(1,493)

* Includes the full 12 month trading results for Analytica and the notional amortisation of related acquisition intangible assets over a 12 month period.

Future Developments

A person in a white lab coat is looking through a microscope. The image is overlaid with several abstract, semi-transparent geometric shapes in shades of teal, yellow, and blue. The background is a blurred laboratory setting.

OUTLOOK FOR FY2019

Leverage Analytica intellectual property and know-how to enter new service lines in both Australia and New Zealand

Utilise new equipment, technology and software platforms to improve efficiencies and margins

Focused business development plans to target new customers and protect the existing customer base

Continued focus on cross-selling opportunities across all business units

Geographical expansion into new markets when justified

Support CAIQTest (Pacific) with testing for food exports to China

Use the OCTFOLIO software platform to target new customers and provide enhanced service offerings to existing customers of the other business units

CONTACTS AND MORE INFORMATION

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APPENDIX A

DETAILS ON NON-OPERATING PROFIT ADJUSTMENTS

ADJUSTMENT	DESCRIPTION
Acquisition related expenses	Acquisition related expenses relate to third party supplier costs that connected to the recent acquisition of Analytica, Morrison Geotechnic and OCTFOLIO
Amortisation of intangible assets arising from acquisitions	The excess purchase price over the value of the tangible assets acquired during the acquisitions of Analytica, AAC Environmental, RJI & Associates, Morrison Geotechnic and OCTFOLIO has been allocated against specific identifiable intangible assets. These intangible assets are being amortised over a 2 – 5 year period.
Earn-out expenses/adjustments	<p>The vendors of Analytica and Morrison Geotechnic have the opportunity to receive an earn-out payment if certain profit targets are met. Payment of the earn-out consideration is contingent on ongoing service of certain key staff, with the earn-out reduced proportionally if employment is terminated prior to the minimum service period.</p> <p>Analytica HRL estimates that Analytica will exceed the maximum EBITDA target for the 12 months ended 30 November 2018, resulting in an estimated earn-out of NZ\$11,000,000. As at 30 June 2018, the vendors had performed 7 months of the 24-month service period (29.17%). Accordingly, an amount of NZ\$3,208,333 (AUD \$2,942,615) has been recognised in profit or loss.</p> <p>Morrison Geotechnic and OCTFOLIO Morrison Geotechnic did not exceed the minimum profit target to achieve an earn-out payment and consequently the previously recognised provision of \$62,500 has been reversed in profit and loss. OCTFOLIO did not exceed the minimum profit target to achieve the first stage earn-out payment and consequently the previously recognised provision of \$187,500 has been reversed in profit and loss.</p>
Equity accounted share of loss	<p>HRL has a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China.</p> <p>During the period CAIQTest (Pacific) Limited focused primarily on achieving the necessary accreditations with both the New Zealand and Chinese authorities. Consequently the reported results are not reflective of the underlying trading results of CAIQTest (Pacific) Limited.</p>
Share based payments	In August 2016 HRL introduced a long term incentive plan for key management. The plan will focus on long term shareholder wealth creation and retention of key personnel. The value of these performance shares is being recognized as an expense in the income statement over the 3 year vesting period.