



**HRL Holdings Limited**

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**ASX Announcement**

**20 October 2021**

**2021 AGM Addresses to Shareholders and Trading Update**

Please find attached on behalf of HRL Holdings Limited (ASX: HRL) the Chairman's address and the CEO's address to be delivered today to the shareholders at the Company's Annual General Meeting to be held at 9:00 am at Level 12, 145 Eagle Street, Brisbane, QLD 4000.

This announcement has been approved by the Board

**Paul Marshall**  
**Company Secretary**  
**HRL Holdings Ltd**



**Greg Kilmister  
Chairman  
HRL Holdings Limited**

**Annual General Meeting – 20 October 2021**

**CHAIRMAN'S ADDRESS**

Once again, I am addressing this meeting in somewhat unprecedented times as we operate within the confines of COVID 19; now for the second consecutive year. On that note it is appropriate to acknowledge the outstanding work of all the executives, managers and staff (at all levels) who rose to the occasion over the last twelve months in not only navigating uncertain markets, defined by sudden lockdowns and client disruption, but managed to grow and further develop our services and market penetration through the year. I thank all staff on your behalf.

I will take the formal accounts for the Company for the 2021 Financial Year as being read.

Now I will make some general comments about the 2021 financial year before handing over to our CEO, Steve Dabelstein, who will provide a more detailed overview.

We started the 2021 financial year with the momentum of the strong 2020 financial year. A year where we “righted the ship” and set strong foundations for future growth.

Your Board was pleased with the financial outcome of the 2021 year; with revenue up 5.5 percent to \$34.6 million and importantly underlying EBITDA up 11 percent to \$7.7 million at a very strong margin of 22 percent of revenue. More importantly the Strategic Plan for HRL was revisited during the year and provides focus and a roadmap to develop the company over the next five years. Steve Dabelstein provided an insight into that plan when the full year results were released in July and will comment further in his address today.

Our priority during the year was the safety of all our staff and a determination to protect as many jobs as possible whilst not putting the Company at risk when dealing with the uncertainty of COVID 19, and I am pleased to acknowledge the fact that we recorded no reportable injuries during the year and our LTIFR remains at zero.

Now to the future. HRL has settled into the new norm of the economic environment in which we now operate and we are getting on with the job. Our future will revolve around both organic and inorganic growth opportunities. Whilst we are still very committed to the right acquisitions at the right value, we understand that these opportunities are not always under our control and therefore organic growth, which is under our control, will remain just as important a focus. We have the Balance Sheet to embrace all short and mid-term opportunities, as well as a capable management team with the skills to execute on these strategies. I am confident in the year ahead. The new year has started well (despite the disruptive lockdowns in New Zealand), and Steve will provide some colour around Financial Guidance for the full year as part of his address.

I wish to thank our CEO, Steven Dabelstein, the Executive and Management team at HRL and also all of our valued employees in the individual business units in both Australia and New Zealand for their diligence, enthusiasm and commitment throughout the past year. Once again, we are a better, stronger company for the experiences of the last year.



Finally, I would like to thank our loyal shareholders, clients 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.

**Steve Dabelstein, CEO**

**HRL Holdings Limited**

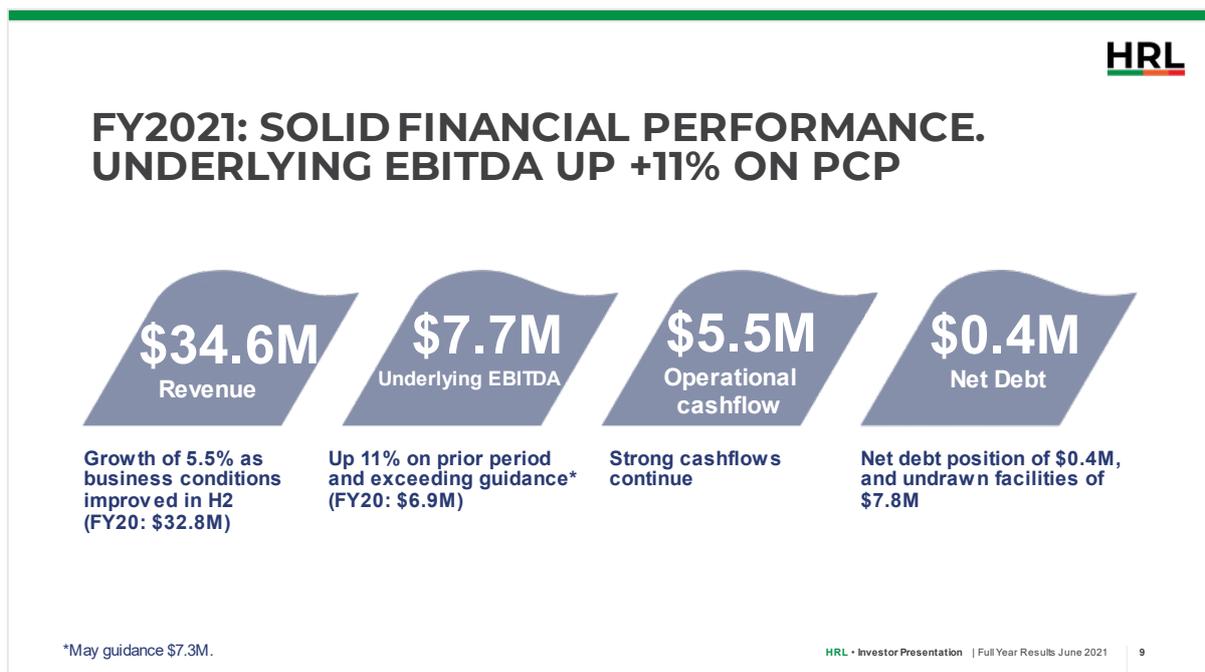
**Annual General Meeting - 20 October 2021**

HRL delivered a particularly strong performance in FY2021 exceeding full year broker consensus despite the ongoing disruptions of COVID-19 impacting work continuity and workforce planning.

HRL continue to prioritise our staff, clients and suppliers' health and safety during the pandemic and comply with all government health directives.

Our focus on building resilience through the operational teams positioned us well to capitalise on improving training conditions in the second half of FY2021. This allowed us to expand EBITDA margin as work volumes improved and the overall financial performance of the group was an improvement on FY2020 across most key metrics:

- Revenue \$34.6M (up 5.5%, FY2020: \$32.8M)
- Underlying EBITDA \$7.7M (up 11.3%, FY2020: \$6.9M)
- Underlying NPAT \$3.2M (up 27.7%, FY2020: \$2.5M)
- Cashflow from operations \$5.5M (decline 12.5%, FY2020: \$6.3M)





## **DIVISIONAL PERFORMANCE**

### **Food and Environmental Laboratory Services**

FY2021 was another strong year of growth for our Food and Environmental Laboratory Services division with revenues up 15% (excluding the acquired Water Testing Hawkes Bay revenues) compared with the prior period, highlighted by:

- Honey revenues up 30% on the prior year due to a combination of global demand for manuka honey as a natural product to provide immune support, a longer tail to the 2020 production season and strong demand for testing of glyphosate and American foul brood in honey as a consequence of changing honey export requirements.
- Milk testing revenues falling 7% on prior year with a decline in beta casein testing in the second half.
- Food and trace origin testing continued to grow with revenues up 19% on the prior year. Following some logistical delays receiving international samples in Q2/Q3, sample numbers increased materially in Q4.
- Environmental testing services (laboratory testing of air, water and soil) continued its development with revenue growth of 17% on the prior year. Project activity in this area picked up in the second half with testing activity now consistently exceeding pre-COVID levels.
- Other services lines (asbestos, drugs of abuse and projects) increased 16% on prior year.

Water testing performed by our recently acquired Hawkes Bay branch in the 4 months since acquisition traded slightly ahead of expectation.

### **HAZMAT**

The HAZMAT division, which incorporates both the Australian and New Zealand business, had a very positive year despite a COVID-19 impacted Q1 in New Zealand. The New Zealand business expanded occupational hygiene services throughout the year and was awarded its first major contract during March. Revenue growth (whilst strong) was hampered slightly in the second half due to resourcing constraints across the whole industry.

Australian operations enjoyed another strong year with consistent workloads from the Queensland and Northern Territory Governments and major utility providers.

### **Software**

The Software division was flat during FY2021 with COVID-19 frustrating our sales engagement with clients and the IT budgets for many businesses were frozen. FY2022 will see additional investment in the platform to target accelerated growth over the mid-term.

### **Geotech**

The Geotech division revenues experienced a sharp decline in the first quarter due to the COVID-19 slowdown. Activity was mixed through the rest of the year with the south-east Queensland construction sector rebounding strongly but offset by extreme rainfall events in Q3. The short-term outlook is more promising with planned land development and infrastructure activity across south-east Queensland at high levels.



## Joint Ventures

Trading for CAIQTest (Pacific) Limited during FY2021 was very strong with revenue growing 36% on the prior year. CAIQTest (Pacific) Limited is a New Zealand based laboratory providing pre-shipment testing services for clients exporting goods from Australasia to China, assisting greatly with supply chain bottlenecks.

Food Lab Pacific Limited (Food Lab), achieved a major development milestone during the year receiving its first and second phase of accreditations from IANZ. These accreditations will now allow Food Lab to provide an initial range of services to dairy customers. Food Lab Pacific Limited is a 50:50 greenfield joint venture company with MilkTestNZ, focused on providing dairy and other food related laboratory testing services.

## **STRATEGIC ACHIEVEMENTS**

We have managed the group through challenging business conditions before and was as well prepared as possible for the COVID-19 challenges faced throughout the year. We maintain a prudent and conservative capital management plan, however, continue to invest in key areas which allow the business to benefit from improving trading conditions.

We have successfully progressed the following strategic initiatives throughout the year:

- 1) Outstanding safety performance with a Total Reportable Injury Frequency Rate (TRIFR) of 0
  - Lost Time Injury Frequency Rate (LTIFR) of 0
  - Additional measures were introduced at all our sites as part of our pandemic response
- 2) Female workplace representation further increased and now reported at 49%
  - We updated our Diversity and Inclusion Policy in 2021, a copy of which is available on our website
- 3) Acquisition of New Zealand water testing laboratory
  - Transaction settled in March 2021 and is now fully integrated with HRL's NZ laboratory network
- 4) HRL's joint venture in New Zealand to conduct food testing receives accreditation
  - Two phases of method accreditation now completed
  - Trading with customers has now commenced with dairy product testing
- 5) Strengthened Balance Sheet and borrowing capacity
  - \$0.4M net debt at year end and a total of \$10M loan facilities secured
  - These facilities combined with the Group's strong operating cashflows will be used to fund growth initiatives including new instrumentation, investments in joint ventures, and acquisitions of new businesses

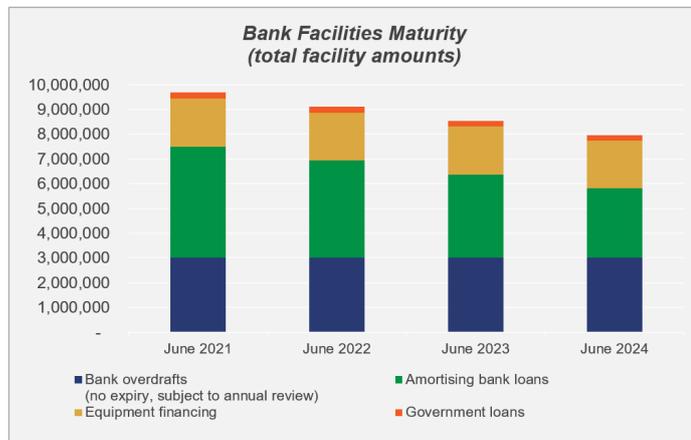
## SOCIAL RESPONSIBILITY

 <p>Environment</p>	<p><b>Minimise our environmental footprint</b></p> <ul style="list-style-type: none"> <li>✓ No uncontrolled environmental releases in FY2021</li> </ul>	 <p>Safety</p>	<p><b>Industry leading health and safety performance</b></p> <ul style="list-style-type: none"> <li>✓ Continued focus on safety with zero reportable injuries in FY2021</li> </ul>
 <p>People</p>	<p><b>We value differences and equal opportunities</b></p> <ul style="list-style-type: none"> <li>✓ Diverse workforce with 49% female representation</li> </ul>	 <p>Governance</p>	<p><b>Operate ethically, responsibly, sustainably</b></p> <ul style="list-style-type: none"> <li>✓ Strong cultural alignment, internal assurance programs, ASX governance principles</li> </ul>

HRL • Investor Presentation | Full Year Results June 2021

## DEBT METRICS

	June 2021
<b>Banking Covenants</b>	
Debt service cover (min >1.5x)	2.9x
Debt to EBITDA (max 2.0x)	0.3x
<b>Debt/Equity Mix</b>	
Net Debt	\$0.4M
Total Equity	\$27.5M
<b>Bank Facilities</b>	
Total available facilities	\$9.8M
Total undrawn facilities	\$7.8M





### **3 YEAR STRATEGY**

Looking forward, the Group is focused on delivering on its 3-year strategy of building a mid-market, disruptive and high-quality analytical testing business of scale. Planned initiatives to achieve this goal include:

#### **Laboratory**

- Investment initially focused on top line revenue growth followed by longer-term margin gains.
- Target rapid market share growth in the environmental testing space driven by investments in equipment, staff and business development.
- Focus on expanding water testing capabilities acquired through the Water Testing Hawkes Bay acquisition to other regions.
- Continue to provide market leading services in the dairy and honey market by always improving the customer experience.
- Invest in R&D to drive the next wave of testing innovations.
- Continual process review and development to increase volume and cost efficiencies.
- Continue to seek attractive smaller NZ asset acquisitions.

#### **Software**

- Reinvest current software earnings back into the product.
- Bring software development in-house to accelerate product development.
- Establish a reseller/agency network for current products to accelerate sales:
  - Appoint new reseller business development team
  - Develop reseller specific products to support growth
- Commence development on new mass market compliance and reporting tools that are flexible and affordable to all businesses.

#### **HAZMAT**

- Focus on New Zealand opportunities in both asbestos consulting and the new occupational hygiene service.
- Investment in recurring graduate/trainee programs to address structural labour constraints in the New Zealand market.
- Increase market share in high margin, high demand occupational hygiene services.
- Mature Australian consulting operations to remain consistent. Strong engagement with key account customers to continue to win their work.
- Australian growth to come from expanded laboratory offerings, focusing on local environmental testing opportunities.

## Geotech

- Increase short term revenues – large multiyear road development project secured will help underpin revenues.
- Take advantage of planned Southeast Queensland infrastructure spend.
- Focus on cost control and process efficiencies.
- Investigate niche specialised testing services that are less price sensitive and have higher technical barriers to entry.
- Commence strategic review of business.

## FY2022 OUTLOOK

We are now just over three months into the new financial year and despite the impacts of New Zealand’s COVID-19 lockdowns trading in Q1 was only moderately below expectation. We expect there will be ongoing headwinds on business activity as both Australian and New Zealand governments look to transition away from lockdowns as the bulk of the populations become fully vaccinated. Quantifying both the timing and impact of this process is difficult and the Group is not in position at this early stage to offer any updates on profit guidance for FY2022.

We confirm that the key market outlook drivers for the short term and our planned initiatives remain the same:

## MARKET OUTLOOK FOR FY2022 –HRL GROUP

Laboratory	HAZMAT	Geotech	Software
<ul style="list-style-type: none"> <li>▪ Dairy and honey testing levels to be driven by normal primary production factors. Dairy testing to improve as the year progresses.</li> <li>▪ Focus on growing environmental testing market share with investment in equipment and staff.</li> <li>▪ Trace origin testing to continue to grow with new tests and higher capacity available from FY2021 investments.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Exciting New Zealand opportunities with new occupational hygiene service set to grow rapidly.</li> <li>▪ Investment in people resources to continue growing market share, as current labour availability constrains NZ growth.</li> <li>▪ Australian consulting revenues to remain consistent. Focus on expanding inhouse laboratory offering.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large multiyear road development project secured will underpin revenues.</li> <li>▪ Business is well positioned to benefit from planned Southeast QLD infrastructure spend over the medium term.</li> <li>▪ Underlying segment fundamentals remain challenging.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus on product development.</li> <li>▪ Business development activity should improve as COVID restrictions reduce.</li> <li>▪ Enterprise software budgets expected to increase following a freeze due to COVID.</li> <li>▪ Reseller network development will open more opportunities later in FY2022.</li> </ul>

## MARKET OUTLOOK FOR FY2022 – HRL GROUP

- FY2022 will lay the foundation for the [3 year](#) strategy.
- HRL expects to invest heavily in both CAPEX (laboratory equipment and software) and OPEX (people and processes). FY2022 CAPEX is expected to be in the range of \$4M.
- HRL is targeting strong revenue growth through FY2022. Margin growth is expected to lag initially but follow in subsequent years.
- OCTFOLIO is expected to trade at breakeven levels as resources are re-invested in the new product suite.
- HRL will continue to support its joint venture partners as they both enter exciting new phases. [CAIQTest Pacific](#) continues to strongly grow both revenue and profits. Food Lab is now accredited and enters its first year of commercial trading.
- HRL will continue to seek out new acquisition and joint venture opportunities in the laboratory segment.

Thank you.