



Investor Presentation

Half Year Results December 2020

HRL Holdings (ASX:HRL)



This presentation has been approved by the Board

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HRL Overview

WHO WE ARE



WHAT WE DO



Sampling



Laboratory



Data
Management

LABORATORY SERVICES



Food



Geotech and
Construction
Materials



Environmental



Occupational
Hygiene

BRANCH NETWORK



Laboratory locations:

Brisbane – Darra
Brisbane – Yatala
Sunshine Coast
Darwin
Auckland
Wellington
Christchurch
Dunedin
Hamilton

Consulting offices
Palmerston North

MEGATRENDS DRIVING DEMAND



Rising demand for clean and green Australian/ New Zealand food



Increasing consumer interest in authentic and traceable food and beverages



Private & public sector focus on environmental stewardship and social licence



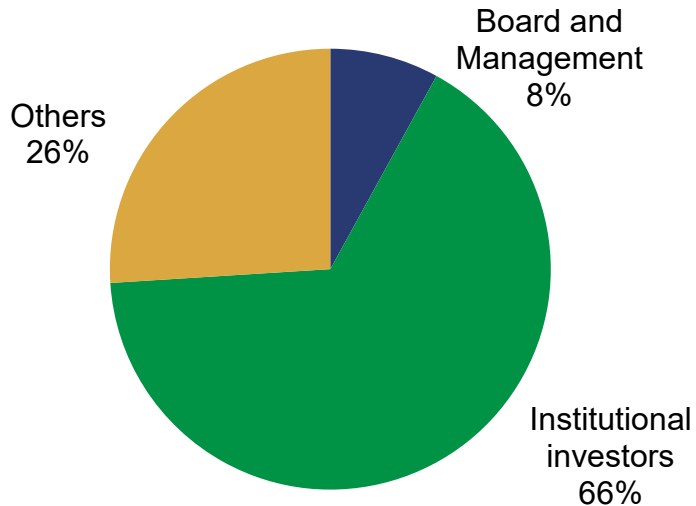
Increasing regulation and the need for demonstrable compliance



Focus on personal / worker health and well-being

OUR MAJOR SHAREHOLDERS

Shareholder composition:



Substantial holder notices >5%

| | |
|---------------------------------------|-----|
| Richmond Hill Capital | 19% |
| Perennial Value | 11% |
| Viburnum Funds | 9% |
| AustralianSuper | 8% |
| Entities associated with Terry Cooney | 6% |

HY2021 Highlights

Internal use only

SOCIAL RESPONSIBILITY



**No uncontrolled
environmental releases**

**Continued focus on
safety with zero
reportable injuries in
H1FY21**



**Diverse workforce with
45% female
representation**

HY21: SOLID FINANCIAL PERFORMANCE. UNDERLYING EBITDA UP +15% ON PCP

\$16.4M

Revenue

In line with prior period despite COVID impacts this half (H1FY20: \$16.3M)

\$3.5M

Underlying EBITDA

Up 15% on prior period (H1FY20: \$3.08M) and meeting upper range of guidance*

\$3.2M

Operational cashflow

Excludes \$0.6M of COVID-19 subsidies received

\$0.6M

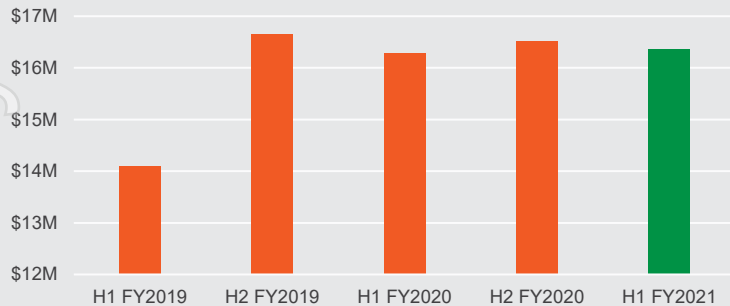
Net Cash

Net cash position of \$0.6M, and undrawn facilities of \$4.7M

*Guidance range of \$3.2M – \$3.5M issued 22 Oct 2020

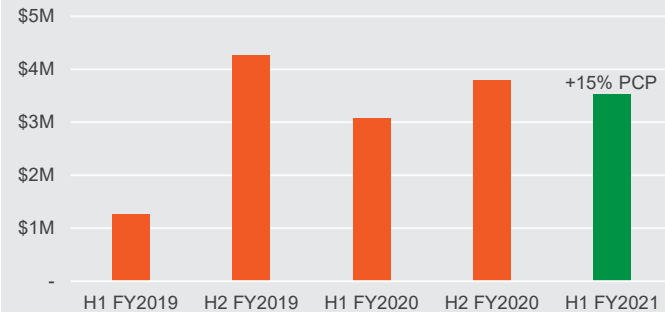
HY21: TESTING BUSINESS REMAINS RESILIENT

Revenue – half on half breakdown



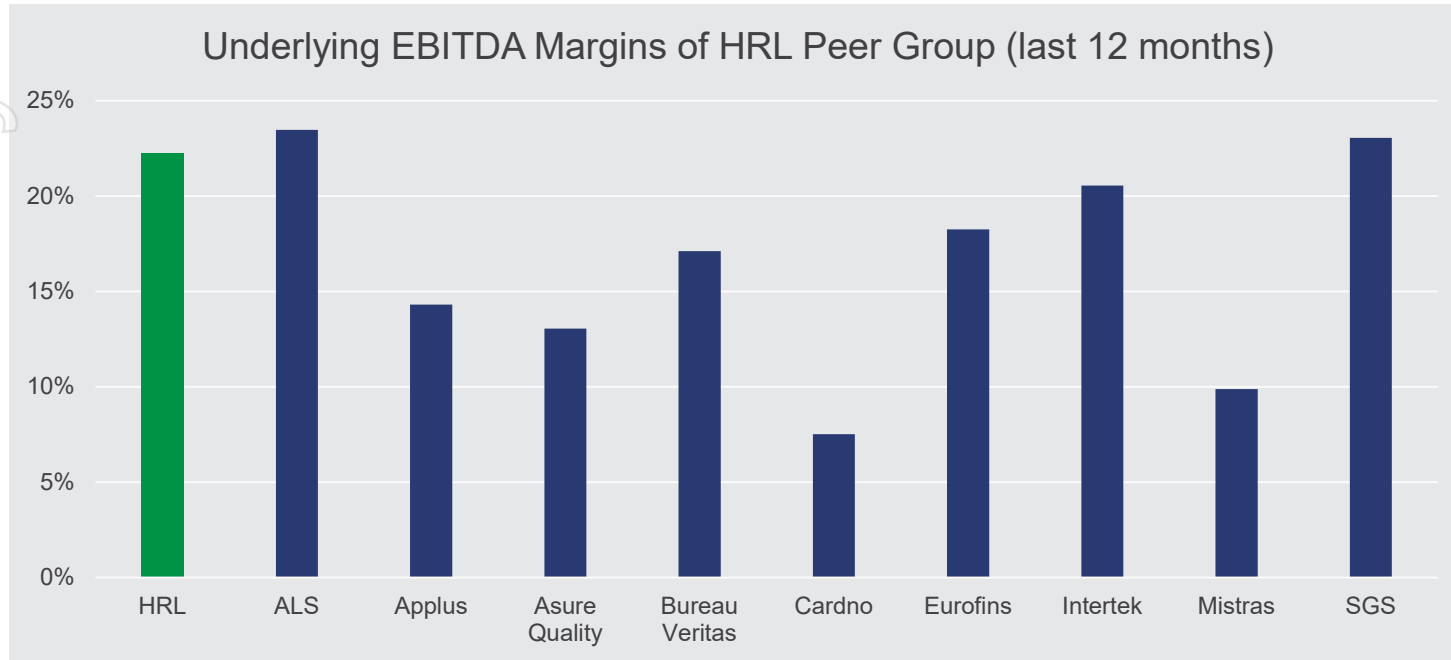
- Consistent revenues with prior period despite COVID headwinds in Q1
- Strong revenue growth across the food laboratory divisions
- Lower revenues from HAZMAT and Geotech but recovering well through Q2

Half Year Results - EBITDA



- Maintained profitability through a challenging period
- All business units well placed moving into the second half.

STRONG MARGIN PERFORMANCE



Source: Latest 12-month results from publicly released reports

FINANCIAL HIGHLIGHTS

| | H1 FY21 \$000's | H1 FY20 \$000's | % change |
|--|--------------------|--------------------|----------|
| Revenues | 16,359 | 16,288 | 0.4% |
| Underlying EBITDA | 3,535 | 3,080 | 14.8% |
| Underlying NPAT | 1,415 | 1,056 | 34.0% |
| Operating cash flows generated ² | 3,232 | 3,940 | -18.0% |
| Net cash/(debt) | 533 | (3,665) | |
| Working capital ³ | 796 | 810 | -1.7% |
| Statutory profit/(loss) after tax ¹ | 460 | (2,728) | |

1. Underlying EBITDA and NPAT 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 earnings. Underlying profit measures have not been audited. Refer to Appendix A for further details of non-underlying items. Statutory loss includes non-operating items as detailed in Appendix A.

2. Excludes cash outflows associated with earn-out payments and cash inflows associated with COVID-19 subsidies.

3. Working capital is defined as net current assets, excluding revenue billed in advance (\$0.09M) and AASB16 lease liabilities on premises leases (\$0.69M)

SEGMENT PERFORMANCE – H1 FY21

| | TRADING DIVISIONS | | | | | CORPORATE | CONSOLIDATED |
|---|-------------------|---------|---------------------------|----------|---------|-----------|--------------|
| | HAZMAT | GEOTECH | FOOD/ENVIRO LABORATORY | SOFTWARE | TOTAL | | |
| | \$000's | \$000's | \$000's | \$000's | \$000's | \$000's | \$000's |
| Revenues | 4,104 | 3,249 | 8,590 | 413 | 16,356 | - | 16,356 |
| Underlying EBITDA (\$) | 926 | 806 | 2,376 | 168 | 4,276 | (741) | 3,535 |
| Underlying EBITDA (%) | 23% | 25% | 28% | 41% | 26% | - | 22% |
| Operating depreciation and amortisation | (333) | (196) | (813) | (54) | (1,396) | (20) | (1,416) |
| Net interest expense | (40) | (13) | (31) | 0 | (84) | (86) | (170) |
| Underlying profit before tax | 553 | 597 | 1,532 | 114 | 2,796 | (846) | 1,950 |
| Operating income tax | (152) | (164) | (429) | (32) | (777) | 243 | (535) |
| Underlying profit after tax | 401 | 433 | 1,103 | 82 | 2,019 | (604) | 1,415 |
| <u>Non-operating adjustments</u> | | | | | | | |
| Amortisation of intangible assets arising from acquisitions | - | - | (588) | - | (588) | - | (588) |
| Share of loss - equity accounted investments | - | - | (379) | - | (379) | - | (380) |
| Non-operating income tax | - | - | 165 | - | 165 | (153) | 12 |
| Statutory profit after income tax | 401 | 433 | 301 | 82 | 1,217 | (757) | 460 |

CASH FLOW

| | H1 FY21 \$000's | H1 FY20 \$000's |
|--|--------------------|--------------------|
| EBITDA | 3,535 | 3,080 |
| Working capital movements | 536 | 1,562 |
| Income tax payments | (85) | (505) |
| Net interest costs | (118) | (196) |
| Operating cash flows generated | 3,868 | 3,941 |
| CAPEX investments | (973) | (501) |
| Investments in Food Lab joint venture | (486) | (135) |
| Analytica earn out payments | - | (2,584) |
| Bank debt/lease repayments | (1,523) | (501) |
| Net increase/(decrease) in cash | 886 | 220 |
| Opening cash | 2,854 | 1,031 |
| FX movements | 6 | 5 |
| Closing cash | 3,747 | 1,256 |

Operating cash flows strong

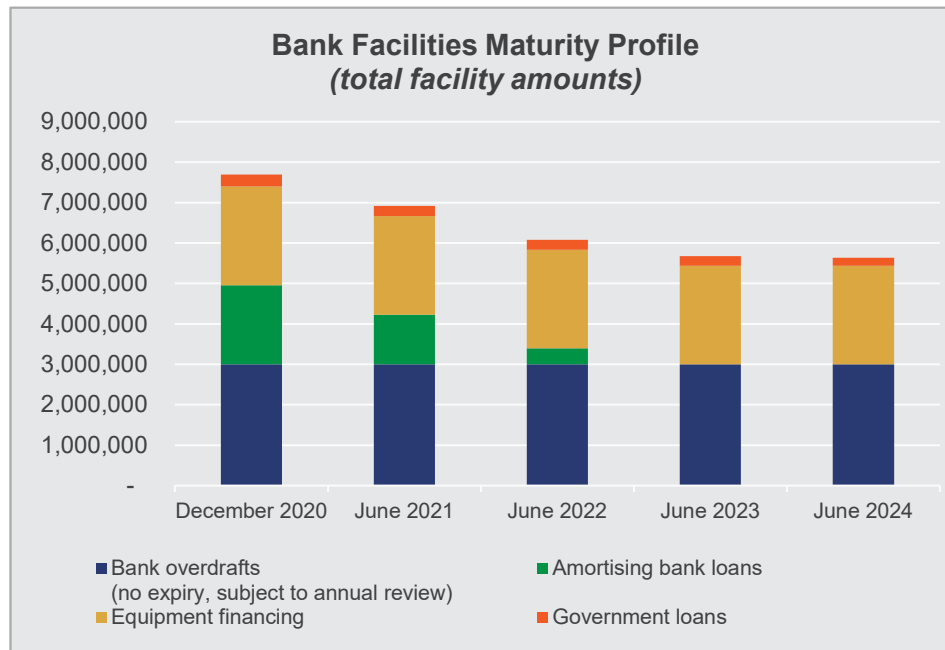
- \$0.5M increase in EBITDA
- Strong debtor collections
- \$0.6M in JobKeeper subsidies received
- COVID deferred payments (GST/PAYG) settled
- NZ tax payments not due until 2nd half

Investing in future growth

- Further investments made in Food Lab JV – trading due to commence calendar 2021
- CAPEX focused on lab equipment and OCTFOLIO software upgrades
- Excess cash applied against bank debt, now in a net cash position of \$0.6M

DEBT METRICS

| | Dec 2020 |
|--------------------------------|----------|
| Banking Covenants | |
| Debt service cover (min >1.5x) | 3.0x |
| Debt to EBITDA (max 200%) | 50% |
| Debt/Equity Mix | |
| Net Cash/(Debt) | \$0.6M |
| Total Equity | \$26.7M |
| Bank Facilities | |
| Total available facilities | \$7.9M |
| Total undrawn facilities | \$4.7M |



MARKET OUTLOOK FOR FY2021

Laboratory

- Food testing levels to be driven by normal primary production factors
- Enviro testing likely to take time to recover in line with wider economy
- Remaining divisions focused on new opportunities (organic and M&A)

HAZMAT

- Cautiously optimistic of NZ revenues building back through the year
- Government clients offers some stability to workloads

Software

- Ongoing feature development to expand target market
- Business development activities returning post COVID interruptions

Geotech

- Current market outlook is improving with an increasing level of tender activity
- Opportunities may present through infrastructure projects

Joint Ventures

- Food Lab progressing well through laboratory accreditations and customer development. Trading to commence in CY2021
- CAIQTest Pacific to continue momentum gained over past 12 months

CONTACTS AND MORE INFORMATION

Steven Dabelstein | CEO

+61 405 770 166

steven.dabelstein@hrlholdings.com

Michael Harvey | CFO

+61 409 334 366

michael.harvey@hrlholdings.com

www.hrlholdings.com



APPENDIX A

DETAILS ON NON-OPERATING PROFIT ADJUSTMENTS

| ADJUSTMENT | DESCRIPTION |
|--|--|
| Analytica earn-out expense | The Analytica vendors achieved the full earn-out profit target resulting in the full earn-out payment of NZ\$11,000,000. Payment of the earn-out consideration was contingent on ongoing service of certain key staff and was recognized progressively over the service period. The expense recognized in FY20 was \$2.16M. The earn-out payments were completed in November 2019. |
| Amortisation of intangible assets arising from acquisitions | The excess purchase price over the value of both the tangible assets and goodwill acquired during the acquisitions of Analytica, Morrison Geotechnic and OCTFOLIO has been allocated against specific identifiable intangible assets. As at 30 June 2020, Morrison Geotechnic and OCTFOLIO intangible assets were fully amortised. The remaining Analytica intangible assets are being amortised over a 5 year period. |
| Equity accounted share of profits | <p>HRL's % share of profit/loss for its non-controlling investments in:</p> <ul style="list-style-type: none"> • Food Lab Pacific Limited (50%); and • CAIQTest (Pacific) Limited (26%). <p>During the half year ended 31 December 2020, HRL's share of profit/loss in each was:</p> <ul style="list-style-type: none"> • Food Lab Pacific Limited – loss of \$467k • CAIQTest (Pacific) Limited – profit of \$87k |