

Investor Presentation

Full Year Results June 2021

HRL Holdings (ASX:HRL)

This presentation has been approved by the Board

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HRL Overview



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WHO WE ARE

OCTIEF | OCTFOLIO | PRECISE CONSULTING | MORRISON GEOTECHNIC | ANALYTICA LABORATORIES | watertesting HAWKES BAY

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
Hawkes Bay

Consulting offices

Palmerston North
Tauranga

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MEGATRENDS DRIVING DEMAND



Rising demand for clean and green Australian/ New Zealand food



Increasing consumer interest in authentic and traceable food and beverages



Private and public sector focus on environmental stewardship and social licence



Increasing regulation and the need for demonstrable compliance

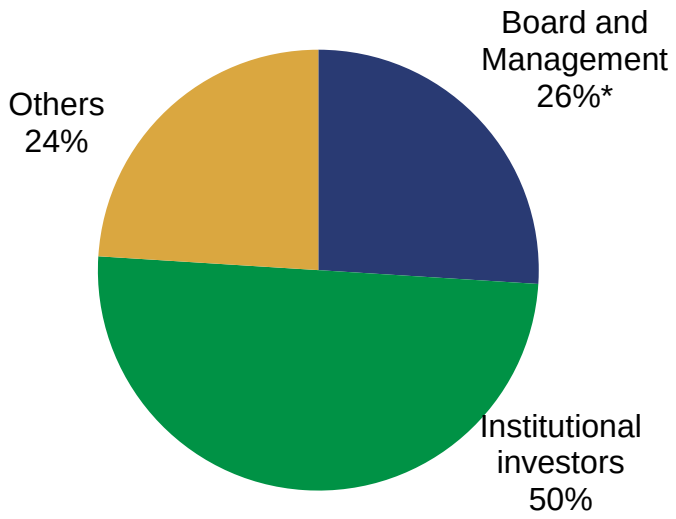


Focus on personal / worker health and well-being

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OUR MAJOR SHAREHOLDERS

Shareholder composition:



Substantial holder notices >5%

Richmond Hill Capital	20%
Viburnum Funds	9%
AustralianSuper	9%
Australian Ethical Investments	6%

** Includes 20% interest held by Richmond Hill Capital Pty Ltd. HRL Director Alex White is a director of Richmond Hill Capital Pty Ltd and has an indirect interest as portfolio manager.*

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FY2021 Highlights



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SOCIAL RESPONSIBILITY



Environment

Minimise our environmental footprint

- ✓ No uncontrolled environmental releases in FY2021



Safety

Industry leading health and safety performance

- ✓ Continued focus on safety with zero reportable injuries in FY2021



People

We value differences and equal opportunities

- ✓ Diverse workforce with 49% female representation



Governance

Operate ethically, responsibly, sustainably

- ✓ Strong cultural alignment, internal assurance programs, ASX governance principles

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FY2021: SOLID FINANCIAL PERFORMANCE. UNDERLYING EBITDA UP +11% ON PCP

$34.6M
Revenue

Growth of 5.5% as business conditions improved in H2 (FY20: $32.8M)

$7.7M
Underlying EBITDA

Up 11% on prior period and exceeding guidance* (FY20: $6.9M)

$5.5M
Operational cashflow

Strong cashflows continue

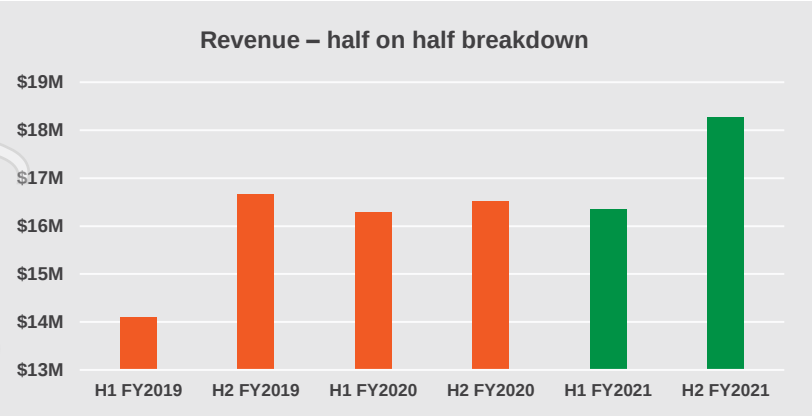
$0.4M
Net Debt

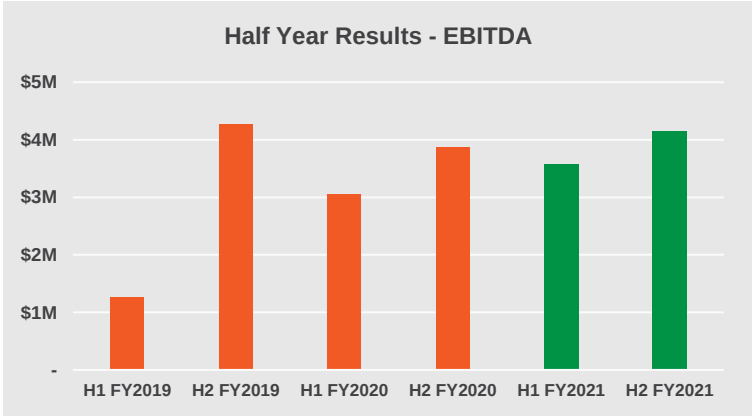
Net debt position of $0.4M, and undrawn facilities of $7.8M

*May guidance $7.3M.

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FY2021: GROWTH RETURNS IN THE 2ND HALF



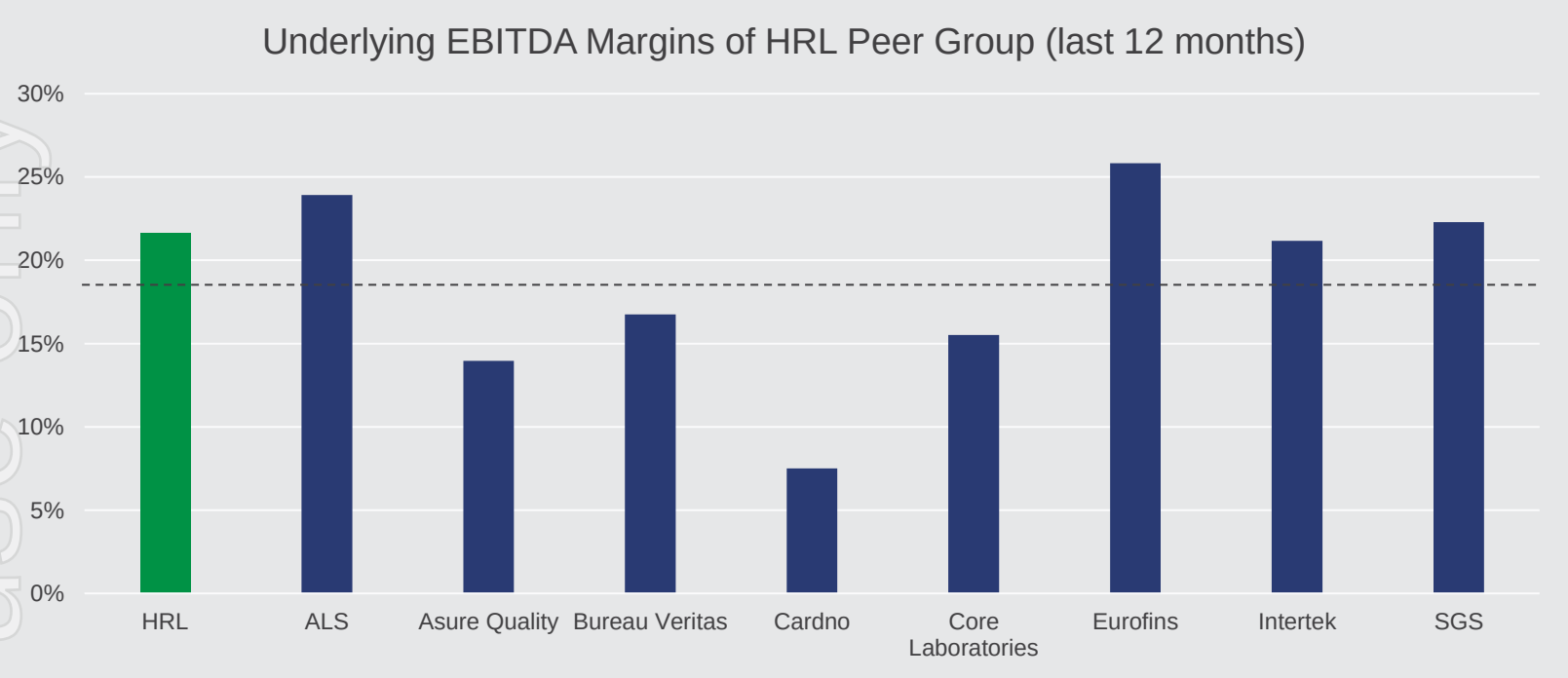


- Record revenues in H2 FY2021 driven by laboratory services. Dairy testing soft but all other service lines outperforming.
- HAZMAT revenues solid with NZ growing strongly through expanded service offering.
- Geotech revenues impacted heavily by extreme rainfall events and difficult trading conditions.

- Good profitability across all business units.
- FY22 will focus investment on both growing revenue and making operations more efficient.

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STRONG MARGIN PERFORMANCE



Source: Latest full 12-month results from publicly released reports

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FINANCIAL HIGHLIGHTS

	FY2021 $000's	FY2020 $000's	% change
Revenues	34,623	32,823	5%
Underlying EBITDA	7,715	6,929	11%
Underlying NPAT	3,228	2,527	28%
Operating cash flows generated [2]	4,887	7,409	(34%)
Net cash/(debt)	(384)	(1,077)	64%
Statutory profit/(loss) after tax [1]	1,312	(2,495)	NA

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.

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SEGMENT PERFORMANCE – FY2021

	TRADING DIVISIONS					CORPORATE	CONSOLIDATED
	HAZMAT $000's	GEOTECH $000's	FOOD/ENVIRO LABORATORY $000's	SOFTWARE $000's	TOTAL $000's	$000'S	$000's
Revenues	9,420	6,060	18,729	852	**34,612**	-	**34,612**
Underlying EBITDA ($)	2,124	919	5,582	371	**8,997**	(1,502)	**7,494**
Share of profit – CAIQTest (Pacific) Limited	-	-	221	-	**221**	-	**221**
Underlying EBITDA ($)	2,214	919	5,803	371	**9,217**	(1,502)	**7,715**
Underlying EBITDA (%)	*23%*	*15%*	*31%*	*44%*	***26%***	-	***22%***
Operating depreciation and amortisation	(664)	(401)	(1,747)	(117)	**(2,939)**	(42)	**(2,971)**
Net interest expense	(73)	(23)	(57)	-	**(153)**	(137)	**(290)**
Underlying profit before tax	1,387	495	3,999	254	**6,135**	(1,681)	**4,454**
Operating income tax	(381)	(136)	(1,120)	(71)	**(1,708)**	482	**(1,226)**
Underlying profit after tax	1,006	359	2,879	183	**4,427**	(1,199)	**3,228**
Non-operating adjustments							
Amortisation of intangible assets arising from acquisitions	-	-	(809)	-	**(809)**	-	**(809)**
Share of loss – Foodlab Pacific Limited	-	-	(1,019)	-	**(1,019)**	-	**(1,019)**
Non-operating income tax	-	-	227	-	**227**	(315)	**(89)**
Statutory profit after income tax	1,006	359	1,278	183	**2,825**	**(1,515)**	**1,312**

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CASH FLOW

	FY2021 $000's	FY2020 $000's
EBITDA	7,714	6,929
Share of CAIQTest profits	(221)	(62)
Working capital movements	(659)	3,084
Income tax payments	(1,012)	(672)
Net interest costs	(301)	(381)
Operating cash flows generated	**5,521**	**8,898**
CAPEX investments	(2,038)	(1,941)
Investments in Food Lab Pacific	(1,137)	(559)
Acquisition of WTHB	(502)	-
Analytica earn out payments	-	(2,584)
Debt/lease repayments	(3,108)	(1,937)
Net increase/(decrease) in cash	**(1,264)**	**1,877**
Opening cash	2,854	1,031
FX movements	(5)	(54)
Closing cash	**1,585**	**2,854**

Operating cash flows strong

- $0.8M increase in EBITDA
- Strong debtor collections
- $0.6M in JobKeeper subsidies received
- FY2020 COVID deferred payments (GST/PAYG) now settled (working capital timing benefit reversed)
- Increase in NZ tax payments

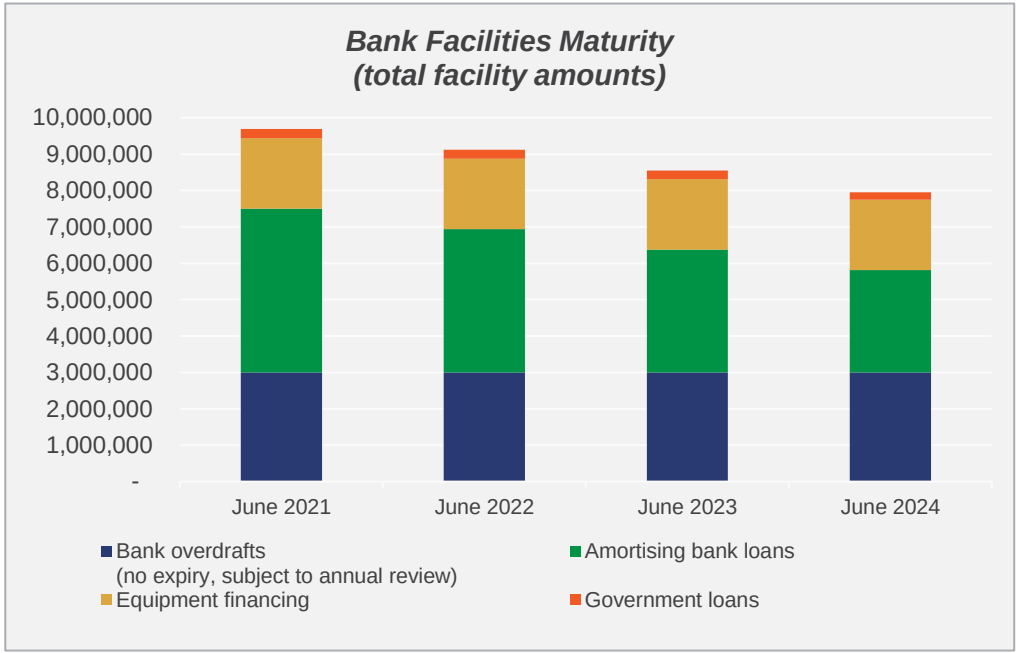
Investing in future growth

- Further investments made in Food Lab JV – accredited with trading to commence in FY2022
- Acquired Water Testing Hawkes Bay (WTHB) in March 2021
- CAPEX focused on lab capacity increases and new service lines
- Excess cash applied against bank debt, net debt position of $0.4M

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DEBT METRICS

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



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Strategy Update & Future Developments



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STRATEGY UPDATE AND 3 YEAR VISION

- Board and Management have invested significant time in recent months planning HRL's strategy for the mid-term.
- This process re-affirmed the significant opportunity to build a mid-market, disruptive and high-quality analytical testing business of scale.
- The key driver of the Group's growth over the next 2-3 years will be the continued organic expansion of services and market share gains for the Laboratory segment in addition to future acquisition opportunities.
- The Group has a robust balance sheet with minimal net debt and strong operating cash flows that will enable it to reinvest into the business, with a key focus on:
  - **Capital investment on laboratory equipment**. Given the attractive returns available on laboratory equipment (often +30% return on invested capital), the Board has given a clear directive to aggressively pursue investment opportunities to accelerate organic growth.
  - **Re-investment strategy for the Octfolio software products**. To date this business has been resource constrained and given the size of the market opportunity, the Board believes it is appropriate to allocate additional resources to the business in order to attempt to build a scaled SaaS company that has the potential to become highly valuable to the Group.
- The Group's FY2024 ambition is to organically grow to $45-50m of revenue (excluding JV operations) at industry leading margins.

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STRATEGY UPDATE – LABORATORY

Strategic Initiatives

- 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.

3 year targets

- AUD$24-25M revenue (FY2021: $18.7M)
- 29-32% EBITDA margin (FY2021: 31%)
- New service lines will require investment in both OPEX and CAPEX and revenue growth will outstrip EBITDA growth in the shorter-term but margin growth will follow in 2-3 years.

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STRATEGY UPDATE – SOFTWARE

Strategic Initiatives

- 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.

3 year target

- Reseller network fully established across both Australia and New Zealand.
- Development of new mass market compliance and reporting product complete and ready to market.
- EBITDA positive following expected breakeven years in FY2022 and FY2023.

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STRATEGY UPDATE – HAZMAT

Strategic Initiatives

- 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.

3 year target

- AUD$11-13M revenue (FY2021: $9.4M)
- 18-23% EBITDA margin (FY2021: 23%)
- Diversified revenue stream through growth of occupational hygiene and environmental laboratory services.

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STRATEGY UPDATE – GEOTECH

Strategic Initiatives

- 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.

3 year target

- AUD$7-8M revenue (FY2021: $6M)
- 8-12% EBITDA margin (FY2021: 15%)
- Expanded laboratory testing capability with specialised testing offering.
- Sustainable margin gains through modernised systems and processes.

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STRATEGY UPDATE – FOOD LAB PACIFIC JV

Strategic Initiatives

- Food Lab has now commenced trading.
- Business development and revenue growth to continue throughout FY22 primarily focused on testing of finished products, ingredients and in-process samples.
- Further method development will be required based on customer requirements.
- HRL funding commitment in FY2022 of $0.6M for capital equipment and OPEX.

3 year target

- Established and growing market share of an estimated NZD$40M addressable market in dairy product testing.
- Profitable operations and cashflow generative.
- Explore opportunities to expand into other food product testing.

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STRATEGY UPDATE - ACQUISITIONS

- HRL continues to seek out larger acquisition opportunities in the laboratory space.
- There have been limited acquisition opportunities over the last 2 years, compounded by the COVID-19 situation.
- HRL continues to maintain good relations with several high-quality businesses that are not yet ready to sell.
- In the absence of these opportunities, HRL continues to review smaller asset acquisitions such as Water Testing Hawkes Bay that can be acquired for smaller transaction multiples and fill a service or geographic gap. HRL is also seeking other opportunities such as joint ventures and strategic partnerships with other entities.
- A large acquisition of a high-quality laboratory business remains a key priority and HRL will continue to seek out opportunities in FY2022 and beyond.

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FY2022 Outlook

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MARKET OUTLOOK FOR FY2022 – HRL GROUP

Laboratory

- Dairy and honey testing levels to be driven by normal primary production factors. Dairy testing to improve as the year progresses.
- Focus on growing environmental testing market share with investment in equipment and staff.
- Trace origin testing to continue to grow with new tests and higher capacity available from FY2021 investments.

HAZMAT

- Exciting New Zealand opportunities with new occupational hygiene service set to grow rapidly.
- Investment in people resources to continue growing market share, as current labour availability constrains NZ growth.
- Australian consulting revenues to remain consistent. Focus on expanding inhouse laboratory offering.

Geotech

- Large multiyear road development project secured will underpin revenues.
- Business is well positioned to benefit from planned Southeast QLD infrastructure spend over the medium term.
- Underlying segment fundamentals remain challenging.

Software

- Focus on product development.
- Business development activity should improve as COVID restrictions reduce.
- Enterprise software budgets expected to increase following a freeze due to COVID.
- Reseller network development will open more opportunities later in FY2022.

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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.

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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 FY2020 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, Water Testing Hawkes Bay, Morrison Geotechnic and OCTFOLIO has been allocated against specific identifiable intangible assets. As at 30 June 2021, Morrison Geotechnic and OCTFOLIO intangible assets were fully amortised. The remaining Analytica and Water Testing Hawkes Bay intangible assets are being amortised over a 5 year period.
Equity accounted share of profits	HRL's % share of profit/loss for its non-controlling investments in Food Lab Pacific Limited (50%). During the half year ended 30 June 2021, HRL's share of loss in Food Lab Pacific Limited was ($1,019,000). 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.
Non-operating tax	Non-operating tax comprises: • The notional tax benefit arising on the amortization of acquired intangible assets; • The impact of deferred tax benefits arising on the reduction of Australian tax rates in FY2021 (27.5% to 26%) and FY2022 (26% to 25%); and • Non-resident withholding tax incurred on intercompany interest charged between the Australian and New Zealand tax groups. This withholding tax will be ultimately recoverable when the Australian tax group utilizes all of its remaining carried forward tax losses but has not been recognized as deferred tax asset at this stage.

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