



Apiam Animal Health Limited

ASX: AHX

Appendix 4D and Financial Report for the half-year ended 31 December 2022

COMPANY DETAILS

Name of entity:	Apiam Animal Health Limited
ACN:	604 961 024
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory Results Summary

	CHANGES FROM PERIOD ENDED 31 December					
			2022		2021	
		%	\$m	\$m		\$m
Revenue from ordinary activities	up	25	to 93.7	from 75.1		
Net profit attributable to members	up	66	to 2.9	from 1.8		
Profit from ordinary activities after tax attributable to members	up	66	to 2.9	from 1.8		
Underlying EBITA (Incl. non-controlling interests)	up	27	to 6.9	from 5.4		

Underlying EBITA (Earnings Before Interest, Tax, Amortisation and one-off expenses) is considered by Management to be a useful indicator of business profitability and excludes one-off corporate restructuring costs as well as integration and acquisition expenses.

Further commentary on the interim results can be found in the 'Operating and Financial Review' section within the Directors' report of the attached Interim Financial Statements.

Dividends

	Amount per security cents	Franked amount per security cents
2022 Final Dividend	0.4 cents	0.4 cents
2023 Interim Dividend	NIL	NIL

No dividend has been declared in respect of FY23 H1 reporting period. This decision is aligned with the following revised dividend policy communicated in the Chairman's report included in the Annual report lodged on the 29 August 2022.

As the Company focuses on its accelerated growth strategy, earnings margins and free cash flow are also expected to increase considerably. This compelling opportunity is expected to deliver substantial intrinsic value to shareholders. The Board therefore intend to invest all capital during this rapid growth period towards funding the accelerated acquisition strategy rather than returning funds to shareholders via dividends.

Net Tangible Asset per Security

	2022	2021
Net Tangible assets per share	-\$0.21	-\$0.27

Return to shareholders

Dividends of \$697,659 were paid during the period; no share buy backs were conducted during the year.

Basis of Preparation

This report is based on the consolidated financial statements which have been reviewed by Grant Thornton Audit Pty Ltd. The review report is included within the Company's Interim Report which accompanies this Appendix 4D.

Entities over which control has been gained or lost during the period

Refer to Note 5 of the attached Financial Statements for details of entities over which control has been gained. There were no entities over which control was lost.

Associates and Joint Venture Entities

The company has a 50% ownership interest in South West Equine. Apiam's share of net profit after tax was \$56,116 for the six-month period.

Dividend Reinvestment Plan

The company announced the establishment of a dividend reinvestment plan on 25 August 2017.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 31 December 2022 Interim Report (which includes the Directors' Report) which accompanies this Appendix 4D.

Accounting Standards

This Report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

Directors' Report

The Directors present their report together with the consolidated financial statements of Apiam Animal Health Limited (Apiam) for the half-year ended 31 December 2022.

Director details

The following persons were Directors of Apiam Animal Health Limited during the half-year and up to the date of this report:

- Professor Andrew Vizard
- Dr Christopher Irwin Richards
- Mr Richard John Dennis
- Dr Jan Tennent
- Ms Evonne Collier (appointed 1 October 2022)

The following person ceased to be a director during the half year.

- Mr Michael van Blommestein (ceased 24 November 2022)

Principal Activities

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision of veterinary products and services for production and companion animals.

Review of operations

Apiam has recorded strong underlying results in the 6-months to 31 December 2022 (H1 FY23), with growth across key Group profit metrics. Over the period Apiam also continued its accelerated acquisition program to capture opportunities in fast-growing regional locations. Apiam is the leading regional veterinary services provider in Australia and has implemented a strategy to deliver shareholders the benefits of its enhanced scale.

In H1 FY23, Apiam completed 4 acquisitions, following the settlement of 9 acquisitions during FY22. A further two acquisitions have been settled on 1 February 2023. The number of clinics Apiam operate grew from 61 as at the end of FY21 to 79 currently. Acquisitions are performing well under Apiam's ownership, with the clinics acquired in FY22 delivering average revenue growth of 7.8% in H1 FY23 (vs H1 FY22).

Total Apiam revenue in H1 FY23 increased 24.7% to \$93.7 million (H1 FY22: \$75.1 million) driven by continued growth in the dairy & mixed animal segment, which contributes a less cyclical revenue stream as well as higher gross margins to the Group. This segment accounted for 77.2% of Company revenues in H1 FY23 and is a key growth driver of Apiam's financial results.

Revenue growth in the dairy & mixed animal segment for H1 FY23 was 36.5% vs the prior corresponding period (PCP) and was driven by a combination of acquisition growth as well as underlying organic growth. On a like-for-like basis (excluding acquisitions) segment revenue growth was 3.5% for H1 FY23 and on a FY23 year-to-date basis (up to 31 January 2023¹) was 5.7%, reflecting a strong January performance and the impact of some timing differences impacting December 2022 revenues.

The beef feedlot and pig segments also remain integral to Apiam's rural vet services. Market cycles however did continue to impact revenue growth in Apiam's beef feedlot segment, with revenue in the feedlot & pig segments down 3.7% in H1 FY23 vs PCP. Apiam expect to deliver further recovery in beef feedlot revenues in the next 12-months in-line with industry forecasts. Recent events impacting H1 FY23 include

¹ January 2023 Financial results are provisional and unaudited

an over-supply of beef in the US which adversely affected domestic export markets, as well as workforce shortages in abattoirs. Pleasingly, revenues and gross margins have been stabilising in the pig segment.

Apiam also continues to play a leading role in industry innovation within these segments, making strong progress in H1 FY23 in the areas of vaccine development, client-centric technologies and sustainable production.

The strategic changes in Apiam's business over the past 18 months and the rapid growth in the dairy & mixed animal segment have resulted in the Company's gross margin continuing to increase strongly - 65.5% in H1 FY23 up from 61.5% in the PCP.

Underlying EBITA² (before one-off expenses) grew 26.7% in H1 FY23 to \$6.9 million (H1 FY22: \$5.4 million). This was despite an uplift in operating expenses associated with the accelerated acquisition program and the Company's strategy to employ higher skillset veterinarians to increase Average Transaction Values. The investment in Apiam's business support network required for the enlarged scale of the Company's operations did however slow considerably in H1 FY23, with growth contained to 5.8% half-on-half (vs H2 FY22), despite a high inflationary environment.

Underlying NPAT³ was \$3.7 million in H1 FY23, up 14.9% on PCP. Reported NPAT increased 65.6% in H1 FY23 given a return in one-off expenses to normalised levels (following a \$1.4 million one-off stamp duty charge related to acquisitions in Queensland in H1 FY22).

The following tables are presented to assist in the interpretation of the underlying performance of Apiam during H1 FY23. This information is additional and presented using non-IFRS information and terminology.

Apiam H1 FY23 Financial Results Summary – Underlying Basis

P&L underlying	H1 FY23	H1 FY22	Variance	%
Total Revenue	93.7	75.1	18.6	24.7%
Gross Profit	61.4	46.2	15.2	32.9%
Operating expenses	(50.7)	(37.5)	(13.2)	35.0%
Underlying EBITDA	10.7	8.7	2.1	23.7%
Underlying EBITA²	6.9	5.4	1.5	26.7%
Underlying NPAT³	3.7	3.2	0.5	14.9%
Amortisation (customer relationships) post tax	(0.5)	(0.3)	(0.3)	72.6%
One-off expenses post tax	(0.3)	(1.2)	0.9	(77.3)%
NPAT attributable to members	2.9	1.8	1.1	65.6%
Gross Margin (%)	65.5%	61.5%		
Underlying EBITDA margin (%)	11.5%	11.6%		
Underlying EBITA margin (%)	7.3%	7.2%		

² Underlying EBITA is a non-IFRS measure and is earnings before interest, tax, amortisation and one-off expenses.

³ Underlying NPAT is a non-IFRS measure and is net profit after tax but before customer relationship amortisation and one-off expenses (tax effected where applicable)

Apiam H1 FY23 Financial Results Summary – Reported Basis

P&L stat	H1 FY23	H1 FY22	Variance	%
Total revenue	93.7	75.1	18.6	24.7%
Gross profit	61.4	46.2	15.2	32.9%
Operating expenses	(50.7)	(37.5)	(13.2)	35.0%
One-off expenses ¹	(0.4)	(1.7)	1.3	(77.3)%
EBITDA	10.4	7.0	3.3	47.4%
Depreciation ROU assets	(1.9)	(1.6)	(0.3)	20.4%
Depreciation & amortisation	(2.9)	(2.4)	(0.5)	22.6%
EBIT	5.5	3.1	2.5	80.3%
Interest	(1.5)	(0.7)	(0.8)	118.4%
Tax	(1.2)	(0.7)	(0.5)	67.8%
Other (including minorities)	0.1	0.1	0.0	6.0%
NPAT attributable to members	2.9	1.8	1.1	65.6%

Notes

¹ One-off expenses include advisory, acquisition, integration and restructuring costs. In H1 FY23 one-off expenses are comprised of \$0.3 million in other expenses and \$0.1 million in employee benefits expenses (vs H1 FY22 one-off expenses which were comprised of \$1.7 million in other expenses)

Growth program in H1 FY23

Apiam continued its accelerated acquisition program in H1 FY23 in order to position itself as the leading provider of regional veterinary services.

In H1 FY23, Apiam completed the acquisition of the following four businesses:

Business acquired	State	Veterinary speciality	Acquisition date
The Vet Practice	VIC	Mixed animals	1 July 2022
Victorian Equine Group	VIC	Equine specialist	1 July 2022
Harradine & Associates (2 clinics)	WA	Mixed animals & equine	1 November 2022
Hunter Equine	NSW	Equine specialist	8 December 2022

The revenue contribution from these four acquired businesses is expected to be approximately \$23.8 million on an annualised pro-forma basis.

Apiam also completed two further veterinary business acquisitions on 1 February 2023, being Singleton Veterinary Hospital as well as the Merimbula, Pambula & Eden vet clinics (three clinics operated together by joint founders). All clinics are mixed animal clinics, with most of their revenues derived from rapidly expanding companion animal services. Their combined pro-forma revenue contribution on an annualised basis is expected to be approximately \$8.3 million.

Apiam's revised greenfields program with a greater focus on the scale-up of costs also delivered strong outcomes for the Company. In H1 FY23 revenue growth in greenfields clinics (opened FY21 - FY23YTD) was 31% vs PCP, with operating costs reduced by 7.3% for these clinics in the same period.

In H2 FY23, Apiam plans to focus on the delivery of integration benefits and growth synergies from recent acquisitions in order to maximise free cash flow generation. The Company's acquisition pipeline remains strong with phasing of future acquisitions to reflect optimisation of capital resources and cash flow.

Balance sheet

Apiam's balance sheet as at the end of H1 FY23 remains in a solid position and reflects the acquisition program undertaken over the period.

Closing net debt⁴ at 31 December 2022 was \$60.9 million (vs \$41.0 million as at 30 June 2022) primarily reflecting the \$22.1 million cash component for Apiam's acquisitions in H1 FY23.

Apiam's operating leverage ratio at the end of H1 FY23 was 2.5x, within the Company's covenant requirement of 3.5x.

The cash consideration component for Apiam's acquisition of Singleton Veterinary Hospital and the Merimbula, Pambula & Eden vet clinics on 1 February 2023 was \$8.7 million.

Cash flow

Apiam's operating cash flow in H1 FY23 increased 24.2% to \$7.4 million, in-line with the Company's growth in earnings. Capital expenditure over the period remained controlled and working capital was managed to optimise free cash flows.

Operating cash conversion to underlying EBITDA (before AASB 16 lease adjustments) was 103.7%, tracking in-line with Management's long-term target.

Investing and financing cash flows in H1 FY23 reflect the impacts of the accelerated acquisition program undertaken during the period, and the cash consideration drawn down from Apiam's acquisition finance facility.

Statutory cashflows \$m	H1 FY23	H1 FY22
Net cash provided by operating activities	7.4	6.0
Acquisition of subsidiary, net of cash	(22.1)	(25.0)
Purchases of property, plant and equipment	(2.6)	(2.3)
Purchases of Intangible assets	(0.2)	(0.2)
Other	0.2	0.0
Net cash used in investing activities	(24.8)	(27.5)
Net proceeds from borrowings	20.8	25.2
Dividends paid to shareholders	(0.7)	(1.2)
Repayment of lease liabilities	(2.1)	(1.9)
Proceeds from share issue	0.0	0.0
Other	0.0	0.0
Net cash inflow from financing activities	18.0	22.2
Net change in cash and cash equivalents	0.6	0.6

FY23 YTD trading (to 31 January 2023)

Veterinary services revenues remain strong into early H2 FY23 as demand for pet care remained resilient and non-discretionary.

Following revenue phasing impacts that affected the dairy & mixed animal segment in H1 FY23, Apiam delivered strong earnings leverage in January with double-digit like-for-like Group revenue growth recorded for January 2023 (vs January 2022⁵).

⁴ Includes \$1.9M of equipment bank finance for purposes of net debt calculation in H1 FY23 (FY22: \$1.8M)

⁵ January 2023 Financial results are provisional and unaudited

Average Transaction Values also continued to increase driven by consumer demand for high standards of animal care.

Underlying EBITA for FY23 Jan YTD (being the seven months to 31 January 2023) increased 42.0% compared to PCP, with underlying EBITA margins growing to 7.8% (up from 6.9% in FY22 Jan YTD⁶).

Outlook & strategy

Apiam's financial and operational progress during H1 FY23, as well as strong early trading in H2 FY23 (to 31 January 2023) provides strong momentum for FY23 and beyond.

Revenues and earnings from the Company's dairy & mixed animal segment are expected to continue to perform strongly. The financial performance of Apiam's beef feedlot and pig segments is expected to rebound in-line with industry forecasts.

Apiam's operational focus for FY23 is the integration of recent acquisitions made over the past 12-months, as well as leveraging additional opportunities for synergies.

Delivering greater improvements in operating earnings margins and maximising free cash flow generation remains a key priority for Management.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 9 of this financial report and forms part of this Directors' Report.

Rounding of amounts


Apiam Animal Health Limited is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors:



Dr Christopher Irwin Richards
Managing Director

Melbourne
23 February 2023



Professor Andrew Vizard
Chairman

⁶ January 2023 Financial results are provisional and unaudited

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Auditor's Independence Declaration

To the Directors of Apiam Animal Health Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Apiam Animal Health Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 23 February 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2022

	Notes	31 December 2022 \$'000	31 December 2021 \$'000
Revenue		93,719	75,140
Changes in inventories		2,076	3,734
Cost of materials		(34,370)	(32,658)
Employee benefit expenses		(39,973)	(29,545)
Depreciation and amortisation of non-financial assets		(4,818)	(3,960)
Other expenses		(11,090)	(5,060)
Share of profit from equity accounted investments		56	40
Finance costs		(1,531)	(700)
Profit/(loss) before income tax		4,069	2,412
Income tax expense		(1,220)	(722)
Profit for the period from continuing operations		2,849	1,690
Profit for the period attributable to:			
Owners of Apium Animal Health Limited		2,898	1,750
Non-controlling interests		(49)	(60)
Total comprehensive income for the period		2,849	1,690
Earnings per share		Cents	Cents
Basic earnings per share	9	1.68	1.32
Diluted earnings per share	9	1.66	1.30

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	31 December 2022 \$'000	30 June 2022 \$'000
ASSETS			
Current			
Cash and cash equivalents		3,425	2,845
Trade and other receivables		16,780	13,623
Inventories		19,857	17,781
Other current assets		2,931	1,628
Current assets		42,993	35,877
Non-current			
Intangible assets	7	152,029	126,932
Property, plant and equipment	8	39,824	31,640
Investments		277	271
Deferred tax assets		3,587	4,458
Non-current assets		195,717	163,301
Total assets		238,710	199,178
LIABILITIES			
Current liabilities			
Trade and other payables		14,479	10,968
Lease liabilities		4,321	3,558
Other current liabilities		1,320	498
Current tax liabilities		2,662	1,859
Borrowings	11	62,383	2,914
Employee benefit obligations		10,219	8,991
Current liabilities		95,384	28,788
Non-current liabilities			
Borrowings	11	-	39,165
Lease liabilities		23,557	17,753
Employee benefit obligations		544	657
Deferred tax liabilities		2,879	3,626
Other liabilities		505	505
Non-current liabilities		27,485	61,706
Total liabilities		122,869	90,494
Net assets		115,841	108,684
EQUITY			
Share capital	10	132,256	127,249
Corporate re-organisation reserve		(26,692)	(26,692)
Non-controlling interest acquisition reserve		(6,615)	(6,615)
Share based payment reserve		862	871
Foreign currency translation reserve		(12)	(19)
Retained earnings		15,957	13,756
Equity attributable to the owners of Apiam Animal Health Limited		115,756	108,550
Non-controlling interests		85	134
Total equity		115,841	108,684

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Corporate reorganisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Foreign Currency Translation Reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	101,010	(26,692)	(6,615)	595	(79)	11,596	79,815	1,002	80,817
Issue of new share capital	457	-	-	-	-	-	457	-	457
Issue of shares to vendors of business acquired	4,459	-	-	-	-	-	4,459	-	4,459
Employee share plan	392	-	-	14	-	-	406	-	406
Foreign currency translation adjustment	-	-	-	-	23	-	23	-	23
Purchase of non-controlling interest	-	-	-	-	-	795	795	(795)	-
Dividends paid	-	-	-	-	-	(1,615)	(1,615)	-	(1,615)
Transactions with owners	5,308	-	-	14	23	(820)	4,525	(795)	3,730
Profit for the period	-	-	-	-	-	1,750	1,750	(60)	1,690
Total comprehensive income for the period						1,750	1,750	(60)	1,690
Balance at 31 December 2021	106,318	(26,692)	(6,615)	609	(56)	12,526	86,090	147	86,237

	Share capital	Corporate reorganisation reserve	Non-controlling interest acquisition reserve	Share based payment reserve	Foreign Currency Translation Reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2022	127,249	(26,692)	(6,615)	871	(19)	13,756	108,550	134	108,684
Issue of new share capital	42	-	-	-	-	-	42	-	42
Issue of shares to vendors of business acquired	4,656	-	-	-	-	-	4,656	-	4,656
Employee share plan, transfer on exercise of rights	309	-	-	(309)	-	-	-	-	-
Employee share plan, share based payments	-	-	-	300	-	-	300	-	300
Foreign currency translation adjustment	-	-	-	-	7	-	7	-	7
Dividends paid	-	-	-	-	-	(697)	(697)	-	(697)
Transactions with owners	5,007	-	-	(9)	7	(697)	4,308	-	4,308
Profit for the period	-	-	-	-	-	2,898	2,898	(49)	2,849
Total comprehensive income for the period						2,898	2,898	(49)	2,849
Balance at 31 December 2022	132,256	(26,692)	(6,615)	862	(12)	15,957	115,756	85	115,841

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2022

	Notes	31 December 2022 \$'000	31 December 2021 \$'000
Cash flows from operating activities			
Receipts from customers		102,873	84,543
Payments to suppliers and employees		(91,962)	(75,058)
		10,911	9,485
Acquisition costs relating to acquisition of business		(321)	(1,651)
Interest paid		(1,531)	(700)
Income taxes paid		(1,629)	(1,166)
Net cash inflow from operating activities		7,430	5,968
Cash flows from investing activities			
Payment for acquisition of businesses, net of cash acquired		(22,106)	(25,033)
Payments for property, plant and equipment		(2,627)	(2,343)
Proceeds from disposals of property, plant & equipment		127	7
Payments for intangible assets		(258)	(197)
Dividends received		50	40
Net cash outflow from investing activities		(24,814)	(27,526)
Cash flows from financing activities			
Proceeds from borrowings		25,881	27,543
Repayment of borrowings		(5,129)	(2,318)
Lease payments		(2,115)	(1,887)
Dividends paid to company shareholders		(673)	(1,158)
Net cash inflow from financing activities		17,964	22,180
Net (decrease)/increase in cash and cash equivalents		580	622
Cash and cash equivalents at the beginning of the half-year		2,845	2,150
Cash and cash equivalents at end of the half year		3,425	2,772

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Apium provide veterinary services and products to production and companion animals across three segments as follows:

- Dairy and mixed
- Feedlot
- Pigs

Apium operates a vertically integrated business with logistics, wholesale procurement arm, laboratory services and manufactures autogenous vaccines and private label products.

Apium service companion animals and production animals throughout their life cycle through provision of the following:

- systems to provide and monitor herd health, animal welfare and production programs;
- companion animal and equine medicine and surgical services
- pet wellness programs
- technologies to record and analyse production data
- technologies to manage compliance with legislative requirements on pharmaceutical use;
- wholesale, retail and dispensing of animal health products,
- on-farm delivery of products via its own logistics capability;
- facilitation and auditing of industry market assurance programs;
- ancillary services such genetic services, laboratory diagnostics and custom vaccine manufacturing;
- on-farm and on-line training programs for clients.

There have been no significant changes in the nature of these activities during the half year.

2. General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six (6) months ended 31 December 2022 and are presented in Australian Dollars (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the financial statements of Apium Animal Health Ltd for the period ended 30 June 2022 and the detailed accounting policies at Note 3 below and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 23 February 2023.

3. Significant accounting policies

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 30 June 2022.

4. Going Concern

At 31 December 2022 the Group had a net current asset deficiency (current assets less current liabilities) of \$51,710,000. The current asset deficiency is impacted by the classification of the Group's outstanding banking facility of \$62,383,000 (refer to note 11) which falls due under existing arrangements that expire on 31 October 2023.

The Group is currently in negotiations with bank with an initial offer underway from the National Australia Bank to extend the term of the facility for 2 years, the Board of directors have determined to allow the existing facility to run its full term on the basis that it represents a better commercial outcome for the Company. The existing facility has very competitive interest margins and seeing out the full term will offer a substantial saving to the Company. The Directors have full confidence that a suitable renewal for the loan facility will be negotiated prior to the 31 October 2023.

The Directors have considered the performance and position of the group and based on the above consider that the going concern assumption is appropriate for the preparation of the financial report. The ability to continue of as a going concern is contingent upon continued availability of external financing or other forms of capital. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets or the classification of liabilities that might be incurred should the Group not be able to continue as a going concern.

5. Business combinations

The Group applies the acquisition method in accounting for business combinations.

During the reporting period the Group acquired 100% of the business assets of the veterinary clinics listed below. The number of fully paid shares issued and fair value per share is included.

Veterinary Business	Acquisition Date	No. of Shares issued	Fair value per share
Victorian Equine Group (VEG)	1 July 2022	3,827,019	\$0.65
Victorian Equine Group (VEG)	1 July 2022	215,952	\$0.73
Harradine & Associates (HAV)	1 November 2022	683,851	\$0.72

During the reporting period the Group acquired 100% of the issued share capital and voting rights of the entities listed below. The number of fully paid shares issued and fair value per share is included.

Entity	Acquisition Date	No. of Shares issued	Fair value per share
The Vet Practice (TVP)	1 July 2022	1,697,573	\$0.65
Hunter Equine Centre (HEC)	8 December 2022	623,501	\$0.665

The following detailed table highlights the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition for each of the business combinations undertaken in the period.

Each of these business combinations have initially been accounted for on a provisional basis as at 31 December 2022. The measurement period for provisional accounting ends on either the earlier of 12 months from the date of acquisition or when the acquirer receives all the information possible to determine the fair value.

	VEG \$'000	TVP \$'000	HAV \$'000	HEC \$'000	Total \$'000
Fair value of consideration transferred					
Amounts settled in cash	7,287	7,006	1,928	5,944	22,165
Amount settled by issue of shares at fair value	2,645	1,103	492	415	4,655
Payable to vendors	-	-	257	-	257
Total fair value of consideration transferred	9,932	8,109	2,677	6,359	27,077
Recognised amounts of identifiable net assets					
Cash and equivalents	-	112	-	89	201
Trade and other receivables	313	35	320	1,765	2,433
Inventories	246	180	169	165	760
Other assets	-	27	-	39	66
Total current assets	559	354	489	2,058	3,460
Trademarks and trade names	237	262	-	-	499
Customer relationships	1,029	906	323	995	3,253
Property, plant & equipment	1,597	1,367	953	1,596	5,513
Deferred tax assets	-	-	-	15	15
Total non-current assets	2,863	2,535	1,276	2,606	9,280
Trade and other payables	110	400	-	831	1,341
Other current liabilities	-	-	-	69	69
Current tax liabilities	-	200	-	179	379
Employee benefit obligations	86	311	67	113	577
Lease liabilities	127	116	142	131	516
Total current liabilities	323	1,027	209	1,323	2,882
Lease liabilities	1,244	619	589	1,370	3,822
Employee benefit obligations	6	23	9	18	56
Deferred tax liabilities	352	250	72	298	972
Total non-current liabilities	1,602	892	670	1,686	4,850
Identifiable net assets	1,497	970	886	1,655	5,008
Goodwill on acquisition	8,435	7,139	1,791	4,704	22,069
Net cash outflow on acquisition	7,287	6,894	1,928	5,855	21,964

5.1 Consideration transferred

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

5.2 Identifiable net assets

Assets acquired and liabilities assumed are measured at their acquisition date fair values. Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at acquisition date.

The measurement period ends on either the earlier of (i) 12 months from date of acquisition or (ii) when the Group receives all the information possible to determine the fair value.

The fair value of the identifiable assets acquired and liabilities assumed have been determined provisionally at 31 December 2022. The Group is currently obtaining the information necessary to appropriately consider the identification and fair value of identifiable assets and liabilities assumed.

5.3 Goodwill

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated on the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

The goodwill that arose on the combination can be attributed to the value of the businesses to the Group in addition to the net tangible assets acquired, synergies expected to be derived from the combination and the value of each of the veterinary businesses which cannot be recognised as an intangible asset. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

5.4 Contribution to the Group results

For each acquisition, the period between the beginning of the reporting period and the date of acquisition was not business as usual due to the acquisition, making it impractical to determine revenue and profit or loss generated in the period. The period from acquisition to the end of the reporting period remains impractical to report business as usual for each acquisition due to various integration activities impacting results within the first year of operations and the introduction of ongoing charges for shared services within the Group.

5.5 Restatement of prior period intangibles provisionally accounted

Apiam has restated the financial statements of three of the veterinary businesses it acquired in the financial year ended 30 June 2022. The acquisitions were provisionally accounted for in that period. Subsequent to the acquisition, it was noted that there were customer relationships and trademarks within these businesses and that a portion of goodwill recognised upon acquisition must be reclassified as intangible assets. The customer relationships recognised as intangible assets are amortised over the useful life of the asset. This resulted in a restatement of each of the affected financial statement line items for prior periods as follows:

	30 June 2022		
Statement of financial position (extract)	Previous amount \$'000	Adjustment \$'000	Restated amount \$'000
Goodwill	113,580	(286)	113,294
Trademarks and trade names	2,491	63	2,554
Customer relationships	9,243	323	9,566
Deferred tax assets	4,426	32	4,458
Other current liabilities	(500)	2	(498)
Employee benefit obligations (current)	(8,972)	(19)	(8,991)
Employee benefit obligations (non-current)	(657)	1	(657)
Deferred tax liabilities	(3,510)	(116)	(3,626)

6. Segment reporting

Identification of reportable operating segments

Management identifies its operating segments based on the species to which the Group provide veterinary services and supply animal health products. The Group's three (3) main operating segments are:

- Dairy and mixed;
- Feedlot;
- Pigs;

Each of these operating segments is managed separately as each species group requires specific veterinary expertise and resources, as well as marketing approaches. These operating segments are monitored and strategic decisions are made based on adjusted segment operating results.

The operating segments are aggregated for reporting purposes on the basis that each business segment has sales consisting predominantly of S4 products, over the counter products and service revenue and that these products and services exhibit similar economic characteristics across each business. Corporate overheads that cannot be allocated to a specific segment are disclosed separately.

The revenues and profit generated by the Group's operating segments are summarized as follows:

	Six (6) months to 31 December 2022 \$'000	Six (6) months to 31 December 2021 \$'000
Revenue from external customers	93,719	75,140
Segment operating costs	(86,531)	(69,176)
Segment operating profit	7,188	5,964

The Group's segment operating profit reconciles to the Group's profit after tax as presented in its financial statements as follows:

	Six (6) months to 31 December 2022 \$'000	Six (6) months to 31 December 2021 \$'000
Total reporting segment operating profit	7,188	5,964
Corporate overheads	(1,182)	(1,241)
Acquisition and integration costs	(321)	(1,581)
Restructure costs	(141)	(70)
Finance costs	(1,531)	(700)
Share of profit from equity accounted investments	56	40
Net profit before tax	4,069	2,412
Income tax	(1,220)	(722)
Net profit after tax	2,849	1,690

7. Intangible assets

The following table shows the movements in intangible assets:

	Goodwill \$'000	Customer Relation- ships \$'000	Trademar ks & Trade Names \$'000	Capitalised develop- ment costs \$'000	Total \$'000
At 30 June 2022					
Cost	113,294	11,919	2,554	2,993	130,760
Accumulated amortisation and impairment	-	(2,353)	-	(1,476)	(3,829)
Net book value	113,294	9,566	2,554	1,517	126,931
Half-year ended 31 December 2022					
Opening net book value	113,294	9,566	2,554	1,517	126,931
Additions	-	-	-	243	243
Acquisition of subsidiaries (a)	22,069	3,253	499	-	25,821
Amortisation	-	(762)	-	(204)	(966)
Closing net book value	135,363	12,057	3,053	1,556	152,029
At 31 December 2022					
Cost	135,363	15,172	3,053	3,236	156,824
Accumulated amortisation and impairment	-	(3,115)	-	(1,680)	(4,795)
Net book value	135,363	12,057	3,053	1,556	152,029

(a) The goodwill of the Company increased during the period ending 31 December 2022 due to the acquisitions detailed in Note 5.

The relative allocations may change at the completion of acquisition accounting for businesses acquired during the period.

8. Property, plant and equipment

The following tables show the movements in property, plant and equipment:

	Leased Buildings (i)	Leasehold improve- ments	Plant and equipme nt	Motor vehicle s (ii)	Assets under constru ction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2022						
At cost	26,773	3,527	16,665	7,510	279	54,754
Accumulated depreciation	(7,645)	(988)	(9,340)	(5,141)	-	(23,114)
Net book value	19,128	2,539	7,325	2,369	279	31,640
Half year ended 31 December 2022						
Opening net book value	19,128	2,539	7,325	2,369	279	31,640
Additions	3,896	12	1,410	1,162	43	6,523
Acquisition of subsidiaries	4,337	441	381	354	-	5,513
Transfers	-	105	127	-	(232)	-
Depreciation charge	(1,900)	(278)	(1,201)	(473)	-	(3,852)
Closing net book value	25,461	2,819	8,042	3,412	90	39,824
At 31 December 2022						
Cost	33,976	4,085	18,691	9,092	90	65,934
Accumulated depreciation	(8,515)	(1,266)	(10,649)	(5,680)	-	(26,110)
Net book amount	25,461	2,819	8,042	3,412	90	39,824

i) Right of use Assets

ii) Includes leased and owned motor vehicles

9. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Apiam Animal Health Limited) as the numerator, ie no adjustments to profits were necessary during the six (6) months period to 31 December 2022 and 31 December 2021.

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six (6) months to 31 December 2022	Six (6) months to 31 December 2021
Weighted average number of shares used in basic earnings per share	172,366,708	132,571,600
Weighted average number of shares used in diluted earnings per share	174,937,183	134,713,445

10. Share capital

Each share has the same right to receive dividends and the repayment of capital and represents one vote at the shareholders' meeting of Apiam Animal Health Ltd. Shares issued and authorised are summarised as follows:

	Six (6) months to 31 December 2022 No.	Year ended 30 June 2022 No.	Six (6) months to 31 December 2022 \$'000	Year ended 30 June 2022 \$'000
Shares issued and fully paid				
• beginning of the period	166,388,823	129,896,893	127,249	101,010
• shares issued as consideration for business acquisitions	7,047,896	5,976,370	4,656	5,333
• issued under dividend reinvestment plan	33,475	1,021,307	25	919
• share placement	-	28,924,553	-	20,247
• transaction costs on issue of new share	-	-	-	(748)
• employee shares issued	378,628	569,700	326	488
Shares issues and fully paid	173,848,822	166,388,823	132,256	127,249
Total shares authorised at the end of the period	173,848,822	166,388,823	132,256	127,249

Each share has the same right to receive dividend and the repayment of capital and represents one vote at the shareholders' meeting of Apiam.

11. Borrowings

As at 31 December 2022, the contractual maturities of the Group's non-derivative financial liabilities were:

	31 December 2022	30 June 2022
	\$'000	\$'000
Current		
Bank loans	62,406	2,932
less capitalised costs	(23)	(18)
Total current borrowings	62,383	2,914
Non-current		
Bank loans	-	39,165
Total non-current borrowings	-	39,165

Loan covenants

The key financial covenants applicable to bank facilities are:

- Maximum gearing ratio of 45% measured on a daily basis for the financial years ending 30 June 2022 and 30 June 2023 (ratio of net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities divided by net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities plus equity);
- Maximum operating leverage ratio of 3.0 times (ratio of net debt excluding overdraft facility, documentary letter of credit facility and AASB16 lease liabilities divided by EBITDA. EBITDA includes any acquisitions annualized EBITDA for the financial year in which it is purchased and excludes one off acquisition and integration/system expense costs. Maximum ratio includes a step up to 3.5 times for any twelve month period following total acquisitions exceeding \$10 million; and
- The Group complied with all bank covenants during the period.

11. Borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

Total facilities	31 December 2022	30 June 2022
	\$'000	\$'000
Bank - term loan facilities	103,700	83,700
Bank - master asset finance agreement for equipment finance	4,500	4,500
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	109,500	89,500
Used at reporting date		
Bank - term loan facilities	62,406	42,097
Bank - master asset finance agreement for equipment finance	1,911	1,803
	64,317	43,900
Unused at reporting date		
Bank - term loan facilities	41,294	41,603
Bank - master asset finance agreement for equipment finance	2,589	2,697
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	45,183	45,600

The term of all bank facilities expire on 31 October 2023, apart from one term facility of \$20 million which expires on 31 October 2024.

Refer to Note 4 Going Concern for further details on the term of facilities.

12. Contingent assets and liabilities

In the Directors' view, there are no contingent assets or liabilities that will have a material effect on the Group.

13. Dividends

Dividends of \$697,659 were declared to equity holders during the six months ended 31 December 2022. Of this amount \$672,461 was paid in cash while \$25,198 was issued in shares under Apiam's dividend reinvestment plan.

14. Events after the reporting date

On 1 February 2023 the Group acquired the business assets of Merimbula, Pambula & Eden Vet Clinics in the South Coast region of NSW. All three clinics are mixed animal clinics with a companion animal focus. The consideration consisted of an initial cash payment of \$2,710,756 and 1,079,461 fully paid shares issued at a fair value of \$0.62 per share. The prima facie value of net assets acquired is \$246,190 and the prima facie goodwill is \$3,233,832. The prima facie balance sheet is not yet fair valued and is subject to change. The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination including implementation of the Groups programs, software systems, support networks, supply and employment contracts. Separately identifiable intangible assets (customer relationships / trade names) are expected and have not yet been fair valued.

On 1 February 2023, the Group acquired 100% of the issued share capital and voting rights of Singleton Veterinary Hospital, a two clinic practice located in the regional townships of Singleton and nearby Branxton, NSW. The business services pets, livestock and exotic animals. The consideration consisted of a cash payment of \$5,498,940 and 2,893,892 fully paid shares issued at a fair value of \$0.62 per share. The prima facie value of net assets acquired is \$101,594 and the prima facie goodwill is \$7,341,559. The prima facie balance sheet is not yet fair valued and is subject to change. The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination including implementation of the Groups programs, software systems, support networks, supply and employment contracts. Separately identifiable intangible assets (customer relationships / trade names) are expected and have not yet been fair valued.

The acquisitions of these veterinary businesses expands Apiam's presence in regional New South Wales. At this time the acquisitions have not been finalised and the goodwill cannot be quantified.

15. Company details

The registered office of the business of the Company is:
27-33 Piper Lane
East Bendigo, VIC, 3350

The principal place of business of the Company is:
27-33 Piper Lane
East Bendigo VIC 3550

Directors' Declaration

- 1 In the opinion of the Directors of Apium Animal Health Limited:
 - a the consolidated financial statements and notes of Apium Animal Health Limited are in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of its financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
 - ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - b there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink, appearing to read "C. Irwin Richards", written over a horizontal line.

Dr Christopher Irwin Richards
Managing Director

Melbourne
23 February 2023

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Independent Auditor's Review Report

To the Members of Apiam Animal Health Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Apiam Animal Health Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Apiam Animal Health Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Apiam Animal Health Limited's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 23 February 2023