

# Ag & Vet Weekly



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*All the news on ASX-listed agriculture and veterinary companies*

## Dr Boreham's Crucible: Apiam Animal Health

**By TIM BOREHAM**

**ASX code:** AHX

**Share price:** 63 cents

**Shares on issue:** 116,597,135

**Market cap:** \$73.5 million

**Chief executive officer:** Dr Chris Richards

**Board:** Prof Andrew Vizard (chair), Dr Richards, Michael van Blommestein, Richard John Dennis, Prof Jan Tennent

**Financials (year to June 30, 2020):** revenue \$118m (up 6%), underlying earnings before interest and tax \$8.4m (up 23%), net profit \$4.2m (up 31%), final dividend 1.2c per share (up 50%), full year dividend 2c (up 25%), cash of \$2.5m (up 31%), total debt \$39.96m (up 10%)

**Major identifiable holders:** Cjoea Family Co (Richards Family) 25%, Regal Funds Management 12.5%, Cobash Pty Ltd (J&S Wright Family) 2.6%, Scolexia Commodities 1.9%, GFS Securities (Glenfare Super Fund) 1.7%.

There's evidently no need for a #metoo affirmative action push in the veterinary sector, given a whopping 80 percent of graduates are women.

As Apiam founder and chief executive Chris Richards explains, tasks previously requiring brute force are now done mechanically and you don't need to be a 120-kilogram hulk to tend the creatures great and small.

While James Herriot frequently had his whole arm inserted up the rear end of a birthing cow, for instance, modern imaging removes the needs for such hands-on involvement in the husbandry process.

The female skew means that there's an emerging veterinarian shortage, because the supposedly balanced market depicted in the stats assumes the vets are full-time. But increasingly they are working part-time, motherhood being one obvious reason.

The only listed ASX-listed veterinary play, the Bendigo, Victoria-based Apiam provides services across 46 clinics in all states except South Australia, as well as on-farm consulting to pig, dairy and feedlot cattle farmers.

The company also has regional city-based companion animal practices and all up has a complement of 150 veterinarians and 400 support staff.

"Creating Apiam wasn't really a consolidation play," Dr Richards says.

"It was more about the ability to attract and mentor vets in rural Australia, which was becoming more difficult for single practices. We thought we could achieve more by having a larger group with more access to new skills."

He adds that it's prohibitive for younger vets to buy into larger practices without taking on big debts.

"Our model enables vets and nurses to have a single piece of a larger company."

## **A tale of two Dr Richards**

Apiam may be the only ASX listed vet stock - but it wasn't the first.

That honor goes to Greencross Vets. The Brisbane-based chain listed in 2007 and then merged with pet chain Petbarn in 2013. The engorged group was acquired by interests associated with private equity giant TPG for \$675 million and delisted in early 2019.

Coincidentally, Greencross was founded by another Dr Richards: Glen Richards, who was an investor in the second series of the reality TV entrepreneur-nurturing show Shark Tank.

Apiam listed in December 2015, raising \$40 million at \$1 apiece. Of these funds, \$17 million financed a vendor sell-down while \$25 million was used to buy 12 vet practices (the company already had an interest in five of them).

A Geelong boy, Dr Richards (as in Chris) joined a Bendigo vet practice specializing in pigs, after graduating in 1996.

In 1998, he established an eponymous pig veterinary services business in 1998, before rounding up some practices to form Apiam.

Apiam's board includes Michael van Blommestein, the country manager for the local business of animal health giant Zoetis when it demerged from Pfizer Australia.

Prof Jan Tennent is an expert in microbial resistance and a principal fellow of University of Melbourne. She was CEO of Bio 21 Institute/Biomedical Research Victoria for eight years.

### **The Uber Eats of porcine semen**

Apiam services 35 percent of the nation's pig industry, more than half the beef cattle feedlot sector and 35 percent of the dairy sector.

But Apiam's operations go further than giving a quick once-over to a colic-y cow or pregnant pig, in that it covers products and specialist services such as pig semen.

In fact, about 75 to 80 percent of the company's total revenue derives from products such as medicines, vaccines and food supplements. The products are delivered to the farm gate via the company's own network of vans, warehouses and genetic labs.

In the year to June 2020, Apiam splurged on three acquisitions, the biggest being the \$12.4 million pick-up of Bendigo's ACE Laboratory Services. ACE provides highly specialized vaccine and diagnostic laboratory services. The labs take a specific pathogen and engineer a customized vaccine for that farm, in cases where the existing vaccine does not work or is not available.

If only a Sars-Cov-2 vaccine prophylactic were that easy!

Apiam then acquired Grampians Animal Health, a consultancy in Hamilton at the heart of Victoria's fecund Western District. It then bolstered its Gippsland presence by Hoovering up the Warragul practice of Devoted Vets.

The company also has a joint venture with pet chain Petstock - not to be confused with Petbarn - with clinics in two Petstock outlets and an ambition to roll out additional locations.

### **We won't all be 'rooned**

As with the agriculture sector generally, Apiam is emerging from a difficult period of drought and bushfires, with the dairy and feedlot divisions suffering added travails.

Hitherto depleting, milk production has grown consistently for the past five months.

With feedlots, official statistics show that national capacity has expanded by 2.5 percent for the year, to a record 1,432,989 head (to be precise) as of June 30, 2020.

Dr Richards says dairy and drought "certainly provided" challenges, but since the fiery and parched summer, rain has fallen in all the right places.

Covid-19 continues to pose issues for the feedlot sector, which needs to make a call on when food services (restaurant) demand will pick up, along with cheaper cattle prices, which are currently being bought-up by restockers.

“But we are seeing some really good tailwinds for farmers,” Dr Richards says.

“There’s a very strong regional outlook for the supply of meat in Australia and also through export markets.”

## **Doing things differently**

Apiam is innovating on both the big animal and fluffy companion fronts.

On the former, a program called Pro Dairy provides staff training on all matters dairy including better husbandry and feed advice.

An impressive 10 percent of Victorian cows have subscribed to ... correction, the owners of one-tenth of the lockdown state’s dairy herd have signed up to ... Pro Dairy.

Not all of Apiam’s vets are out in the field. The company has clinics in suburban areas as well and is thus benefiting from PPPP - pandemic panic puppy purchasing.

“[Pets] are a very fast-growing part of our business,” Dr Richards says. “When we listed, [companion animals] were around 13 to 14 percent [of revenues] and it’s more than doubled over that period.”

Apiam’s Best Mates companion program is a subscription service providing perks such as free dental and vaccinations (for the animal, not the owner) and unlimited consultations.

The program has grown to 3,500 dogs and cats, from a base of 400, just one year ago.

“We are seeing about 400 to 500 new subscriptions every month,” Dr Richards says. “The program now covers about five percent of the animals we provide care to.”

The owners pay \$525 for the first pet with a discount on the second beast, whether it be a terrapin or a terrier.

## **Cleaning up with Zoono**

One way to look at Apiam is as a de facto exposure to the business of the Kiwi-based, ASX-listed Zoono, which has recorded bumper revenue and earnings on the back of its coronavirus-busting disinfectants.

No! Animals can’t catch Covid-19, but the sheds, pens and equipment still need to be sanitized.

Apiam's involvement dates back to 12 months ago, when it began trialling Zoono's nanotechnology.

Late last year the parties struck an exclusive local distribution agreement pertaining to livestock (read pigs) and a non-exclusive one for poultry.

Dr Richards says another coronavirus, porcine epidemic diarrhoea (PED) - has caused havoc in the pig industry.

Apiam is carrying out PED trials at piggeries with US joint-venture partner Swine Veterinary Services. The joint venture will sell Zoono product over there, where the porcine sector is about 30 times bigger than Australia's.

Coronaviruses aside, he says having fewer germs in the barn generally makes for better animal husbandry.

"By reducing pathogens in the environment, we see differences in how animals perform in terms of feed efficiency and growth rates."

## **Finances and performance**

Apiam's results for the year to June 30, 2020 showed a workmanlike six percent revenue gain to \$118 million, with net profit surging a creditable 31 percent to \$4.2 million.

The company indulged shareholders with a final dividend 1.2 cents per share, up 50 percent, taking the full-year payout to two cents per share.

Management says trading for the first six weeks reflects "solid revenue and earnings growth".

But have Apiam investors been rewarded share price wise?

Not really.

During the Covid-19 sell-off the stock slumped from 54 cents, to a record low of 38 cents on March 27.

True, the shares rallied from 49 cents to 64 cents in September, but remain shy of their issue price and their August 2016 zenith of \$1.81.

One reason for the price malaise is that Apiam's debt of just under \$40 million - the upshot of the cash component of the acquisitions and (wisely) buying extra inventory - appears toppish.

Dr Richards argues the debt equates to well under three times Apiam's underlying earnings, compared with a ceiling of four times demanded by the banks.

“We would like to be closer to two times [earnings] and with what we are seeing with the business at the moment we are heading more towards that level.”

He adds the company could fund a \$25 million acquisition with cash and debt - and still be well within banking covenants.

Meanwhile, the Zoono tie-up is becoming a material contributor to Apiam's turnover.

“We did a couple of million bucks in the last two quarters but the second [current] half may see a real material change,” Dr Richards says.

### **Dr Boreham's diagnosis:**

Apiam is upbeat about the coming year and of course it's got a lot to do with the rain that came in late summer and didn't go away for another day.

In the meantime, the companion animal business is vital, in that it purrs to a different beat and thus smooths out the lumpy income from the production beast side.

If the propitious rural conditions prevail, Apiam's fortunes should follow the similar upwards trajectory: house broker Shaw and Partners forecasts a current-year net profit of \$6.9 million, 30 percent higher, on revenue of \$127 million (up 7.5 percent).

Dr Richards' prescription for the lagging share price is simple: “We need to keep delivering the results we have produced over the last two quarters.”

Can't argue with that.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Let's hope the queue of buyers at animal rescue shelters will remember that a dog is for life, not just for Covid.***