

# EBOS Group Ltd

## Results presentation for the Half Year ended 31 December 2015

Patrick Davies    Chief Executive Officer  
John Cullity      Chief Financial Officer

24 February 2016



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The information contained in this presentation should be considered in conjunction with the consolidated financial statements for the period ended 31 December 2015.

All currency amounts are in New Zealand dollars unless stated otherwise.



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# Group Financial Results

EBOS Healthcare warehouse  
(Auckland, New Zealand)

# H1 FY16 Summary Results

## Total Revenue



**\$3.4b**

Up 8.3% (+9.0% Constant FX)

## Total EBITDA



**\$113.7m**

Up 13.3% (+13.9% Constant FX)

## Total NPAT



**\$64.2m**

Up 18.9% (+19.6% Constant FX)

## Operating Cash Flow



**\$46.6m**

Up 52.6%

## Earnings per share



**42.5c**

Up 17.5% (+18.1% Constant FX)

## Interim Dividend per share



**26.0c**

Up 18.2%

# Key First Half Highlights

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## Continued Strategic Investment across the Group of \$97.4 million in the first half

- Acquisition of Red Seal, a natural health products business.
- Acquisition of Zest, a healthcare strategies and communications business.
- Commencement of operations under Onelink Australia's NSW Health medical consumables warehousing and distribution contract.

## Strong Capital Management

- Interim dividend of 26.0 cps, an increase of 18.2% on prior year.
- Industry leading cash conversion cycle of 23 days.
- ROCE of 14.3%, up 140bps on H1 FY15.

# Strong First Half financial performance

| NZ\$m                       | H1<br>FY16  | H1<br>FY15  | Var          | Constant FX<br>Var |
|-----------------------------|-------------|-------------|--------------|--------------------|
| Revenue                     | 3,379.7     | 3,119.9     | 8.3%         | 9.0%               |
| Gross Operating Revenue     | 333.7       | 305.4       | 9.3%         | 9.9%               |
| EBITDA                      | 113.7       | 100.3       | 13.3%        | 13.9%              |
| EBIT                        | 101.4       | 88.5        | 14.6%        | 15.2%              |
| Net Finance Costs           | 9.7         | 11.5        | 15.6%        | 15.2%              |
| Profit Before Tax           | 91.7        | 77.0        | 19.1%        | 19.7%              |
| <b>Net Profit After Tax</b> | <b>64.2</b> | <b>53.9</b> | <b>18.9%</b> | <b>19.6%</b>       |
| EBITDA%                     | 3.36%       | 3.22%       | 14pts        |                    |
| Operating Cash Flow         | 46.6        | 30.5        | 52.6%        |                    |
| EPS - cps                   | 42.5        | 36.2        | 17.5%        | 18.1%              |
| Interim Dividend - cps      | 26.0        | 22.0        | 18.2%        |                    |
| Net Debt : EBITDA           | 1.8x        | 2.0x        | 0.2x         |                    |
| ROCE                        | 14.3%       | 12.9%       | 1.4%         |                    |

- First Half Group Revenue increase of \$259.9m or 9.0% (constant FX):
  - Healthcare up 8.9%.
  - Animal Care up 10.8%.
- EBITDA increase of \$13.4m or 13.9% (constant FX):
  - Healthcare up 13.3%.
  - Animal Care up 16.5%.
- Net Finance Costs reduced by \$1.8m or 15.2% (constant FX).
- NPAT increase of \$10.2m or 19.6% (constant FX).
- EPS growth of 18.1% (constant FX).
- Operating cash flow increased by 52.6% to \$46.6m.

# EBOS Group Business Overview

Our Trans Tasman market channels continue to deliver strong growth

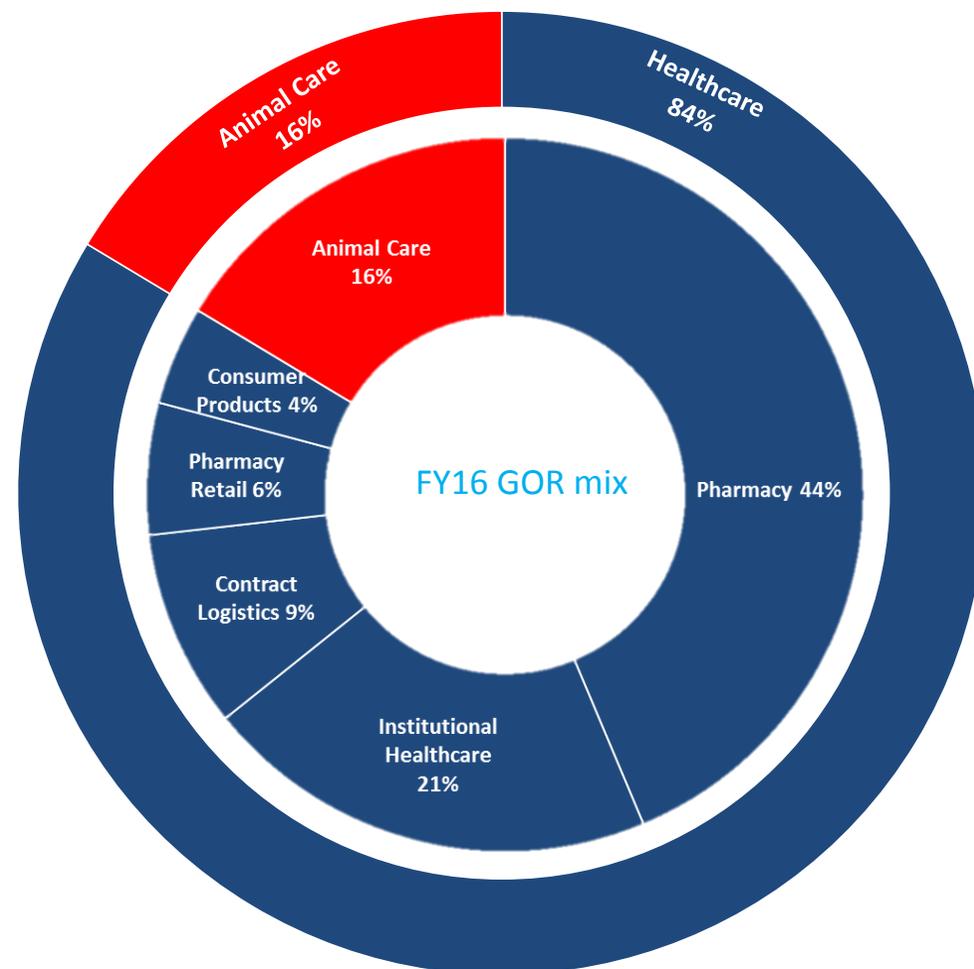
|                                 | HEALTHCARE  |   |  | ANIMAL CARE  |   | EBOS GROUP  |              |
|---------------------------------|---|---|--|--|---|---|--------------|
|                                 | Community Pharmacy  |   |  | Institutional Healthcare   | Contract Logistics  | Pet Care and Veterinary   |              |
|                                 | Pharmacy Wholesale  | Pharmacy Retail   | Consumer Products  |  |   |   |              |
|                                 | <br><br> | <br><br> | <br><br> | <br><br><br><br><br> | <br><br> | <br><br><br><br> |              |
| H1 FY16 GOR\$                   | 145.8m  | 19.9m   | 14.9m  | 68.6m  | 29.9m   | 54.6m   | 333.7m       |
| H1 FY15 GOR \$<br>(Constant FX) | 135.3m  | 18.8m   | 13.4m  | 60.9m  | 26.9m   | 48.2m   | 303.5m       |
| Growth \$                       | 10.5m   | 1.1m  | 1.6m   | 7.7m   | 3.0m  | 6.4m  | 30.2m        |
| Growth %                        | <b>+7.7%</b>  | <b>+6.0%</b>  | <b>+11.9%</b>  | <b>+12.6%</b>  | <b>+11.2%</b>   | <b>+13.2%</b>   | <b>+9.9%</b> |

# Segment earnings and GOR mix

## EBITDA by segment

| NZ\$m        | H1 FY16      | H1 FY15      | Var          | Constant FX Var |
|--------------|--------------|--------------|--------------|-----------------|
| Healthcare   | 99.8         | 88.5         | 12.7%        | 13.3%           |
| Animal Care  | 19.6         | 16.8         | 16.3%        | 16.5%           |
| Corporate    | (5.6)        | (5.0)        | (11.5%)      | (11.8%)         |
| <b>Group</b> | <b>113.7</b> | <b>100.3</b> | <b>13.3%</b> | <b>13.9%</b>    |

## Gross Operating Revenue (GOR) H1 FY16



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Health Management

Diabetes Support Centre

Chemmart  
PHARMACY



Thanks for choosing to look after yourself  
better at Henley Beach Chemmart® Pharmacy.

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(Hons)



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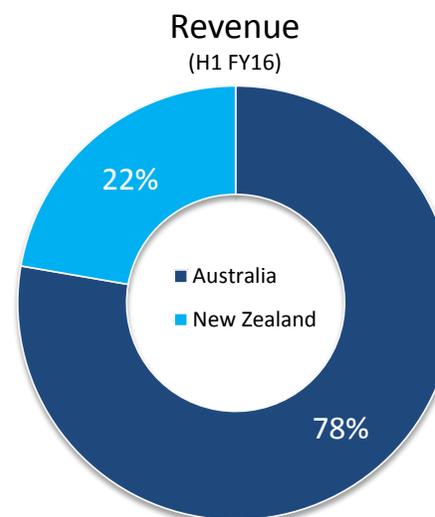
## Healthcare Results

# Healthcare segment

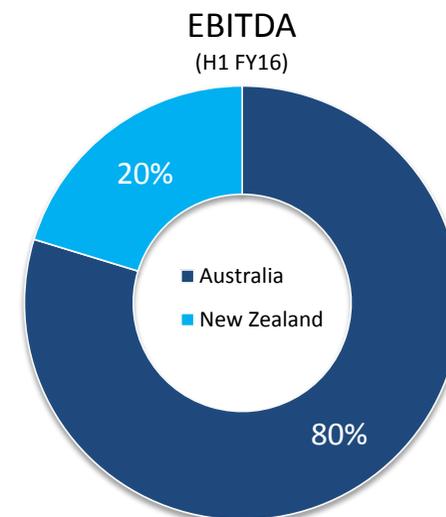
## Significant increases in Revenue, EBITDA and margins

| NZ\$m                     | H1<br>FY16 | H1<br>FY15 | Var   | Constant FX<br>Var |
|---------------------------|------------|------------|-------|--------------------|
| <b>Healthcare segment</b> |            |            |       |                    |
| Revenue                   | 3,169.3    | 2,928.7    | 8.2%  | 8.9%               |
| EBITDA                    | 99.8       | 88.5       | 12.7% | 13.3%              |
| EBIT                      | 89.3       | 78.5       | 13.7% | 14.4%              |
| EBITDA%                   | 3.15%      | 3.02%      | 13pts | 13pts              |
| <b>Australia</b>          |            |            |       |                    |
| Revenue                   | 2,463.3    | 2,285.3    | 7.8%  | 8.7%               |
| EBITDA                    | 79.5       | 72.2       | 10.1% | 10.8%              |
| EBIT                      | 70.2       | 63.4       | 10.6% | 11.4%              |
| EBITDA%                   | 3.23%      | 3.16%      | 7pts  | 7pts               |
| <b>New Zealand</b>        |            |            |       |                    |
| Revenue                   | 706.0      | 643.4      | 9.7%  |                    |
| EBITDA                    | 20.2       | 16.3       | 24.1% |                    |
| EBIT                      | 19.1       | 15.1       | 26.7% |                    |
| EBITDA%                   | 2.86%      | 2.53%      | 33pts |                    |

- Revenue increase of \$240.5m or 8.9% (constant FX):
  - Australia up 8.7%.
  - New Zealand up 9.7%.
- EBITDA increase of \$11.2m or 13.3% (constant FX):
  - Australia up 10.8%.
  - New Zealand up 24.1%.



H1 FY15: Australia 78%, NZ 22%

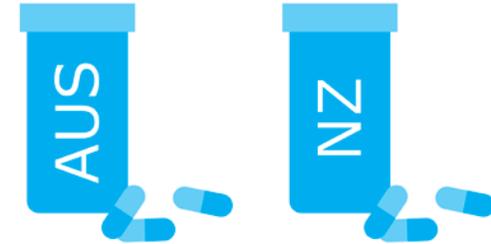


H1 FY15: Australia 82%, NZ 18%

# Healthcare segment

## Half Year Performance Overview

### Community Pharmacy – Pharmacy Wholesale



- First half Pharmacy sales in Australia grew 9.1% to last year (constant FX), attributable to new wholesale business including GPPW and customer growth particularly in OTC products.
- The Keysborough distribution facility in Melbourne opened in October 2014 and is now achieving productivity levels significantly higher than the average of other Australian sites.



- The 6<sup>th</sup> Community Pharmacy Agreement was effective from 1 July 2015. Funding and industry regulation is largely unchanged, including the maintenance of the CSO funding pool for eligible wholesalers.



- Pharmacy sales in New Zealand grew by 5.9% to last year and the division maintained its leading market share.



PHARMACY WHOLESALERS RUSSELLS

# Healthcare segment

## Half Year Performance Overview (continued)



live your best life

### Community Pharmacy – Consumer Products – Red Seal

- Acquisition of Red Seal for \$80 million on 30 November 2015. Funded from the Group's existing debt facilities and is earnings per share (EPS) accretive in Year 1.
- Red Seal is a leader in key NZ segments of the natural health products market including vitamins, minerals and supplements; herbal teas; non-fluoride toothpastes and functional foods including molasses and manuka honey.
- The business prior to acquisition experienced significant growth in both domestic and export markets and will further benefit from expansion via EBOS Group's wider distribution network.
- The acquisition of Red Seal is expected to double the size of our Consumer Products division today.



# Healthcare segment

## Half Year Performance Overview (continued)

### Community Pharmacy – Consumer Products – Endeavour

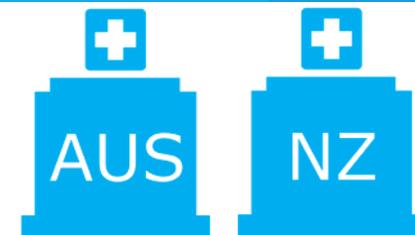


- From the existing Endeavour Consumer Health business, strong sales growth to last year was achieved across our brands including Faulding, Pharmacy Choice and Chemmart. Recent evidence of gross margins being impacted in the current highly competitive OTC market.
- Faulding growth is being driven by both the introduction of new products and expansion into the New Zealand market.



# Healthcare segment

## Half Year Performance Overview (continued)



### Institutional Healthcare

- EBOS continues to expand its position as a specialised, unique and essential partner across a number of areas of Institutional Healthcare in Australia and New Zealand, primarily in hospitals, aged care and primary care.



- Symbion Hospital Services business maintained its market leading position.



- The EBOS Healthcare business across Australia and New Zealand delivered strong sales growth on the prior year, assisted by an improved performance from our International business.



- Onelink Australia commenced operations in November 2015 and three NSW Health warehouses have transitioned to our facility. This contract reinforces our position as a proven and trusted partner for Government.



- Acquisition of Zest on 30 October 2015, as part of our expanding presence in the delivery and administration of specialty pharmaceutical products and services.

# Healthcare segment

## Half Year Performance Overview (continued)



### Healthcare Contract Logistics

- Strong performance across both New Zealand and Australia, with GOR increasing 11.2% from increased activity with pharmaceutical manufacturers.
- Healthcare Logistics (NZ) maintained its leading market share position and combined with cost management, grew earnings over the period. The growth in OTC products assisted the strong performance in the first half.
- Symbion Contract Logistics (Australia) continues to grow its customer base which includes a number of leading pharmaceutical and OTC suppliers.





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## Animal Care Results

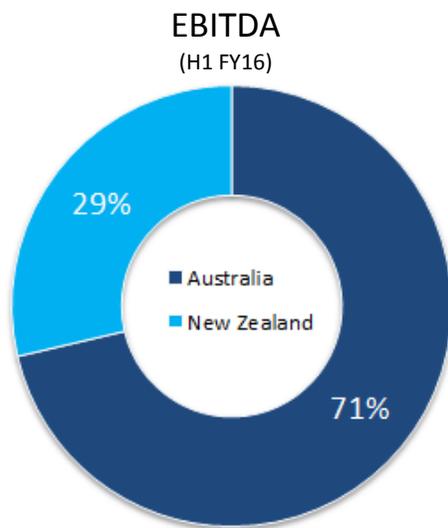
Left: Lyppard sales representative at Monash Veterinary Clinic, a customer of Lyppard (Victoria, Australia)  
Right: Selection of Animal Care products and an Animates store.

# Animal Care segment

BlackHawk drives the significant increase in Revenue and earnings

| NZ\$m                      | H1<br>FY16 | H1<br>FY15 | Var   | Constant FX<br>Var |
|----------------------------|------------|------------|-------|--------------------|
| <b>Animal Care segment</b> |            |            |       |                    |
| Revenue                    | 210.5      | 191.1      | 10.1% | 10.8%              |
| EBITDA                     | 19.6       | 16.8       | 16.3% | 16.5%              |
| EBIT                       | 17.7       | 15.0       | 18.3% | 18.4%              |
| EBITDA%                    | 9.31%      | 8.81%      | 50pts | 46pts              |

- Revenue increase of \$19.3m or 10.8% (constant FX) primarily from growth of branded products (including BlackHawk, Vitapet) and wholesale operations (Lyppard).
- EBITDA increase of \$2.7m or 16.5% (constant FX) attributable to:
  - revenue growth;
  - BlackHawk contribution (acquired 31 October 2014); and
  - higher contribution from our 50% share in Animates.



H1 FY15: Australia 66%, NZ 34%

# Animal Care segment

## Half Year Performance Overview



- The acquisition of BlackHawk has been a successful entry into the premium food market in Australia and complements our strategy of developing and growing our own brands. There continues to be very strong support for the brand in the pet specialty and retail market and sales continue to grow and track above expectation. Under EBOS ownership, BlackHawk sales have grown by ~50% on a like-for-like basis in the first half.



- Masterpet Australia and NZ sales growth of 6.2%, however profit contribution diminished over the period predominantly due to the impact of lower exchange rates negatively impacting on gross margins.



- Vitapet recorded sales growth of 5.1% (constant FX) driven by new product development and investment in the brand.



- Lyppard revenues increased by 5.3% primarily from growth in major vet groups.



- EBOS' 50% share of Animates net profit increased \$0.3m (34%) on last year from like-for-like store sales growth of 7.3%, the opening of three new stores and the acquisition of three Wellington based vet clinics.



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## Group Financial Information

A-Frame automatic picking system,  
Symbion Keysborough facility  
(Melbourne, Australia)

# Cash Flow

EBOS has an excellent portfolio of strong cash generating businesses

| NZ\$m                                   | H1<br>FY16   | H1<br>FY15   | Var\$       | Var%          |
|---|--------------|--------------|-------------|---------------|
| <b>EBITDA</b>                           | <b>113.7</b> | <b>100.3</b> | <b>13.4</b> | <b>13.3%</b>  |
| Net interest paid                       | (9.7)        | (11.5)       | 1.8         | 15.6%         |
| Tax paid                                | (29.8)       | (27.5)       | (2.3)       | (8.4%)        |
| Net working capital and other movements | (27.7)       | (30.8)       | 3.1         | 10.1%         |
| <b>Cash from Operating activities</b>   | <b>46.6</b>  | <b>30.5</b>  | <b>16.1</b> | <b>52.6%</b>  |
| Proceeds from disposal of assets        | 5.0          | 0.6          | 4.4         | 692.2%        |
| Capital expenditure                     | (5.9)        | (9.9)        | 4.1         | 41.0%         |
| <b>Free Cash Flow</b>                   | <b>45.7</b>  | <b>21.2</b>  | <b>24.5</b> | <b>115.6%</b> |

- Continued focus on working capital management led to Operating cash flow of \$46.6m being generated in the first half.
- Net interest payments reduced in the first half to last year by \$1.8m or 15.6%.
- Cash investment in net working capital of \$27.7m reflective of strong revenue growth and seasonality associated with period end date of 31 December.
- Capex in H1 FY16 includes the cost of Onelink Australia's new facility (\$3.0m). Last year's Capex included \$5.3m for the new Melbourne distribution centre.
- Proceeds from asset disposals relates to the sale of the previous Melbourne warehouse (\$4.9m).

# Working Capital and Cash Conversion

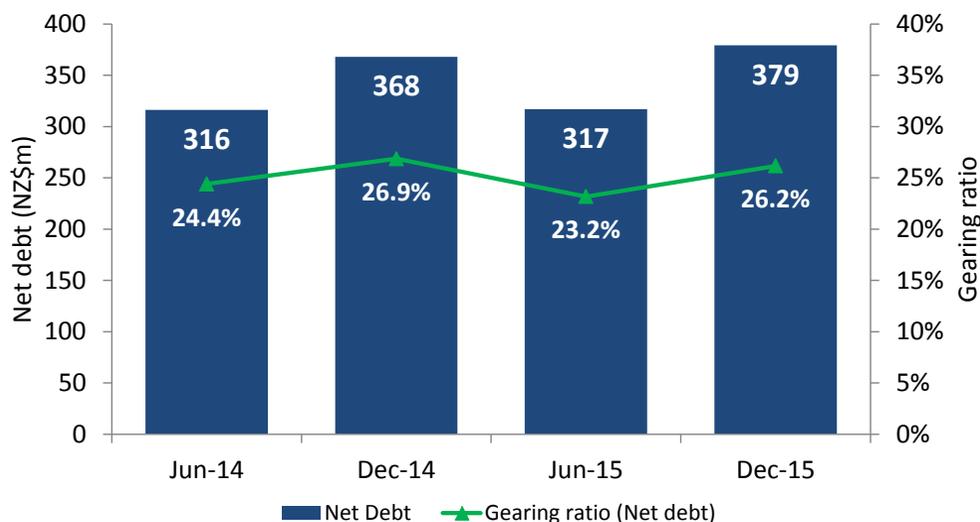
Industry leading cash conversion cycle of 23 days

| NZ\$m                       | Dec-15       | Jun-15       | Dec-14       |
|-----------------------------|--------------|--------------|--------------|
| <b>Net Working Capital</b>  |              |              |              |
| Trade receivables           | 853.9        | 787.9        | 773.4        |
| Inventory                   | 548.8        | 518.3        | 515.4        |
| Trade payables              | (941.1)      | (871.2)      | (855.0)      |
| Other                       | (109.2)      | (105.3)      | (87.6)       |
| <b>Total</b>                | <b>352.3</b> | <b>329.8</b> | <b>346.2</b> |
| <b>Cash conversion days</b> |              |              |              |
| Debtor days                 | 47           | 47           | 46           |
| Inventory days              | 33           | 35           | 34           |
| Creditor days               | 57           | 58           | 56           |
| <b>Cash conversion days</b> | <b>23</b>    | <b>24</b>    | <b>24</b>    |

- Strong working capital management disciplines are a key focus of the Group.
- Cash conversion cycle improved to 23 days and remains industry leading.
- Key ratios are consistent with prior periods.

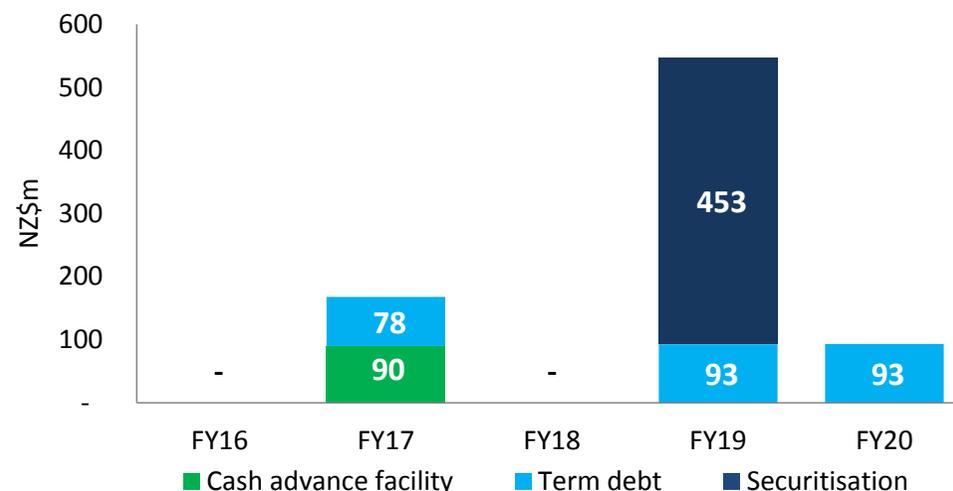
# Net Debt, Gearing and Debt Maturity

## Net Debt and Gearing



- Net Debt of \$379m at December 2015.
- Net Debt : EBITDA of 1.8x at December 2015 (1.6x at June 2015, 2.0x at December 2014).
- Increase in the Gearing ratio from 23.3% at June 2015 to 26.2% at December 2015 – primarily due to the 100% debt financing of the Red Seal acquisition.

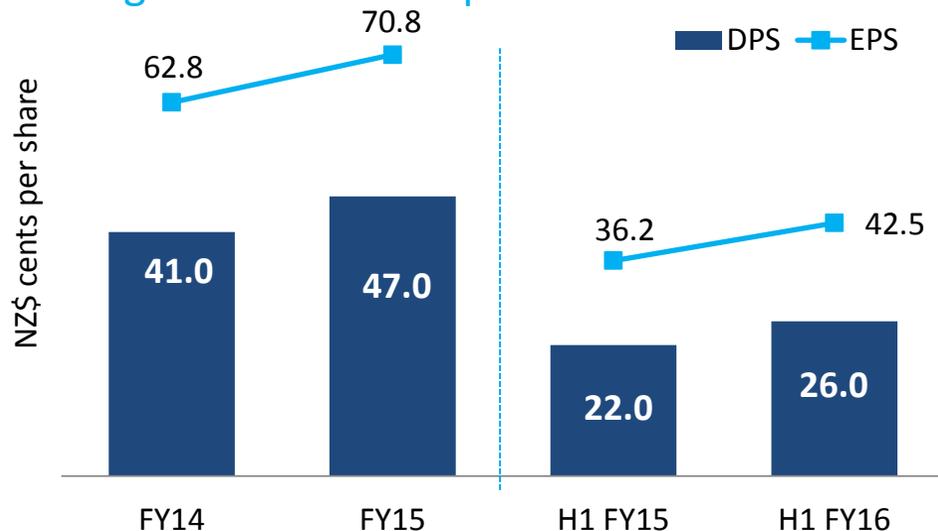
## Debt Maturity Profile – current facility limits



- Post 31 December, EBOS extended the maturity date of the Securitisation program by an additional year to September 2018 and increased the facility limit by A\$40m to A\$425m.

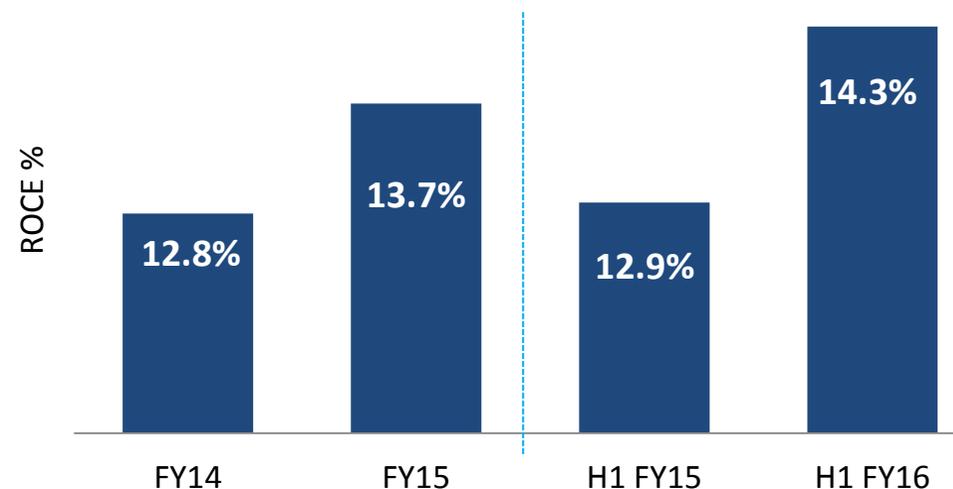
# Earnings and Dividends per Share, ROCE

## Earnings and Dividends per share



- EPS growth of 17.5% (18.1% constant FX) in H1 FY6 following a 12.7% increase in FY15.
- Interim dividend of 26.0 cents (imputed to 25%), an increase of 4.0 cents or 18.2 % from last year.
- Dividend payout ratio of 61%.
- Interim dividend is 100% franked for Australian resident shareholders.
- DRP is being suspended for the interim dividend.

## Return on Capital Employed



- Return on Capital Employed of 14.3% at December 2015, an increase of 60bps from June 2015 and 140bps from December 2014.



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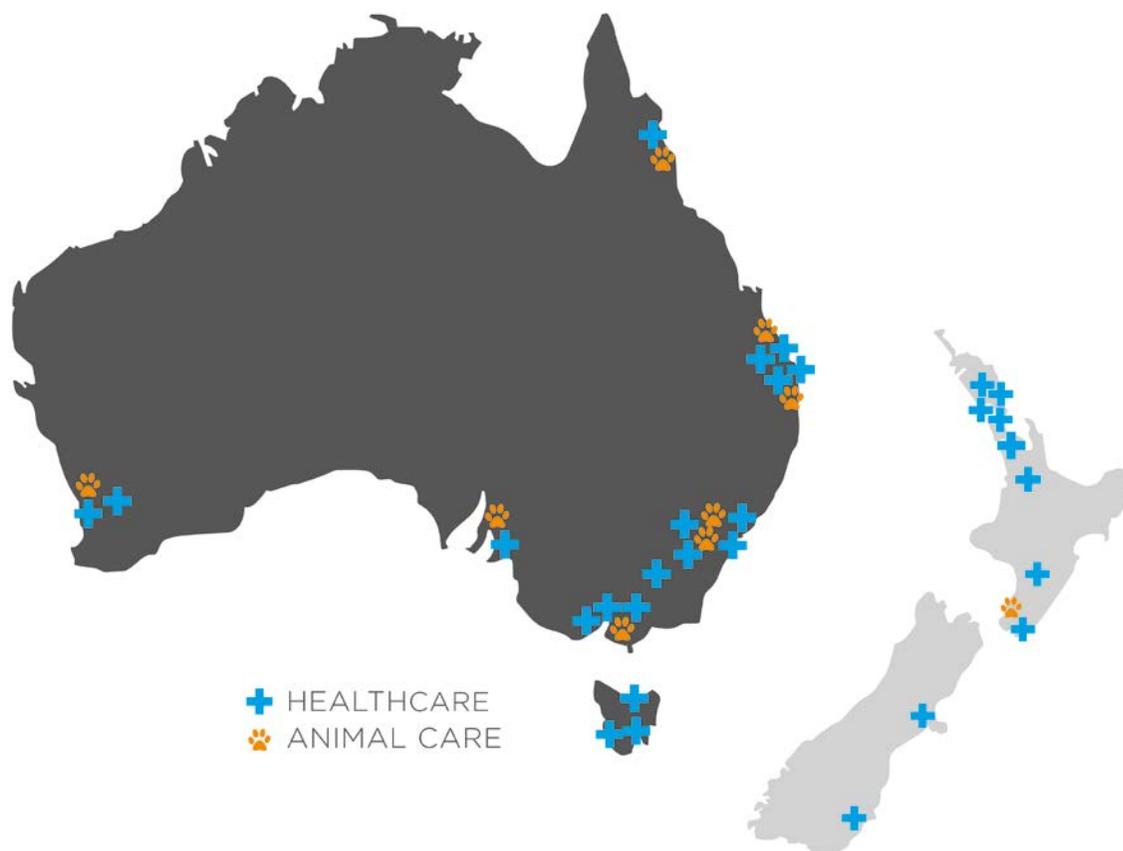
## Summary and Outlook

Left: Masterpet New Zealand warehouse, Wellington  
Right: Rhonda Colley at Symbion, Keysborough, Victoria.  
In 2015, Rhonda celebrated 30 years services with Symbion

# Summary & Outlook

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- In the first half of FY16, EBOS has further strengthened its position as the largest diversified Australasian marketer, wholesaler and distributor of healthcare, medical, pharmaceutical and animal care products.
- EBOS continues to derive the benefits from its diversified portfolio of businesses as well as the underlying demand supporting our Healthcare and Animal care markets.
- Prudent management of our cash flow allows us to continue to actively pursue M&A opportunities and thereby derive improved shareholder returns.
- We remain confident of delivering another year of double digit, constant currency, profit growth for our shareholders in FY16.



# Supporting Information

# Foreign exchange

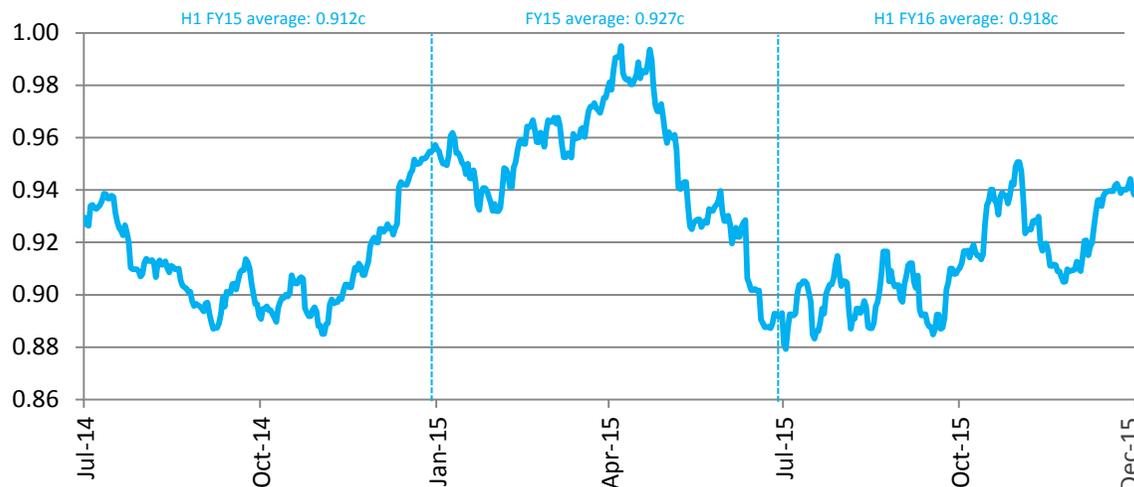
Appreciation of the NZD negatively impacted NZD EBITDA by \$0.6m in the first half

## Revenue and EBITDA by currency

| \$m            | AUD Operations<br>AUD | Average NZD: AUD translation | AUD Operations<br>NZD | NZ Operations<br>NZD | Group Consolidated<br>NZD |
|----------------|-----------------------|------------------------------|-----------------------|----------------------|---------------------------|
| <b>H1 FY16</b> |                       |                              |                       |                      |                           |
| Net Revenue    | 2,425.4               | 0.92                         | 2,643.7               | 736.0                | <b>3,379.7</b>            |
| EBITDA         | 83.6                  | 0.92                         | 91.1                  | 22.6                 | <b>113.7</b>              |
| EBITDA%        | 3.45%                 |                              | 3.45%                 | 3.07%                | <b>3.36%</b>              |

- 80% of the Group's earnings (EBITDA) are generated in AUD.
- The average NZD:AUD FX rate for H1 FY16 increased by 0.6 cents from H1 FY15, negatively impacting the Group's H1 FY16 EBITDA by approximately \$0.6m.
- EBITDA sensitivity to a 1 cent movement in NZD:AUD exchange rate is approximately \$1.9m per annum.

## NZD:AUD exchange rate – July 2014 to December 2015



# Glossary of terms and measures

Except where noted, common terms and measures used in this document are based upon the following definitions:

| Term                              | Definition   |
|-----------------------------------|--|
| Actual results                    | Results translated into NZ dollars at the applicable actual monthly exchange rates ruling in each period.  |
| Constant FX/currency              | Calculated by translating the prior period results into NZ dollars at the actual monthly exchange rates applicable in the current period.  |
| Debtor days                       | Trade debtors at the end of period divided by Revenue for the period, multiplied by number of days in the period.  |
| Inventory days                    | Inventory at the end of period divided by Cost of Sales for the period, multiplied by number of days in the period.  |
| Creditor days                     | Trade creditors at the end of period divided by Cost of Sales for the period, multiplied by number of days in the period.  |
| Cash conversion cycle             | Net working capital days, being Debtor days plus Inventory days less Creditor days.  |
| Revenue                           | Revenue from the sale of goods and the rendering of services.  |
| Gross Operating Revenue (GOR)     | Revenue less cost of sales and the write-down of inventory   |
| EBIT                              | Earnings before interest and tax.  |
| EBITDA                            | Earnings before interest, tax, depreciation and amortisation.  |
| Free Cash Flow                    | Cash from operations less capital expenditure net of proceeds from disposals.  |
| Earnings per share (EPS)          | Net Profit after tax divided by the weighted average number of shares on issue during the period.  |
| Net Debt : EBITDA                 | Ratio of net debt at period end to the last 12 months EBITDA.  |
| Return on Capital Employed (ROCE) | Measured as earnings before interest, tax and amortisation of finite life intangibles for 12 months divided by closing capital employed (including a pro-rata adjustment for entities acquired). |

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