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**INTERIM REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

**PREPARED IN ACCORDANCE WITH ASX LISTING RULE 4.2A**

This document should be read in conjunction with the most recent annual financial report

**Appendix 4D**
**Probiotec Limited  
Half Year Report  
For the half year ended 31 December 2019**
Results for announcement to market

Current Reporting Period: Half year ended 31 December 2019

Previous Corresponding Period: Half year ended 31 December 2018

Results from continuing operations	Movement			(\$'000)
Sales Revenue from continuing operations	Up	33.5%	to	44,109
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	61.5%	to	5,981
Earnings before interest and tax (EBIT)	Up	57.2%	to	3,700
Net profit from ordinary activities before tax attributable to members (NPBT)	Up	59.5%	to	2,499
Net profit for the period attributable to members (NPAT)	Up	64.6%	to	1,805
Earnings per share	Up	58.6%	to	2.72 ¢

Net Tangible assets per share as at 31 December 2019	21.0 ¢
Net Tangible assets per share as at 31 December 2018	58.3 ¢

Dividends (Ordinary shares)	Record Date	Amount per Security	Franked Amount per Security
Interim Dividend	4 March 2020	1.5 cent	1.5 cent

**Dividends**

The directors have today declared an interim dividend of 1.5 cents per ordinary share, fully franked, and to be paid on 19 March 2020. The dividend will be payable to shareholders of record on 4 March 2020. This dividend is up 50% from 1 cent in the prior period. The company's Dividend Reinvestment Plan will not be operational for this dividend. This dividend does not relate to any conduit foreign income.

A final dividend of 2.5 cents per ordinary share relating to the 2019 financial year was paid during the half year.

Please refer to the commentary on the following page for an explanation of the above movements.

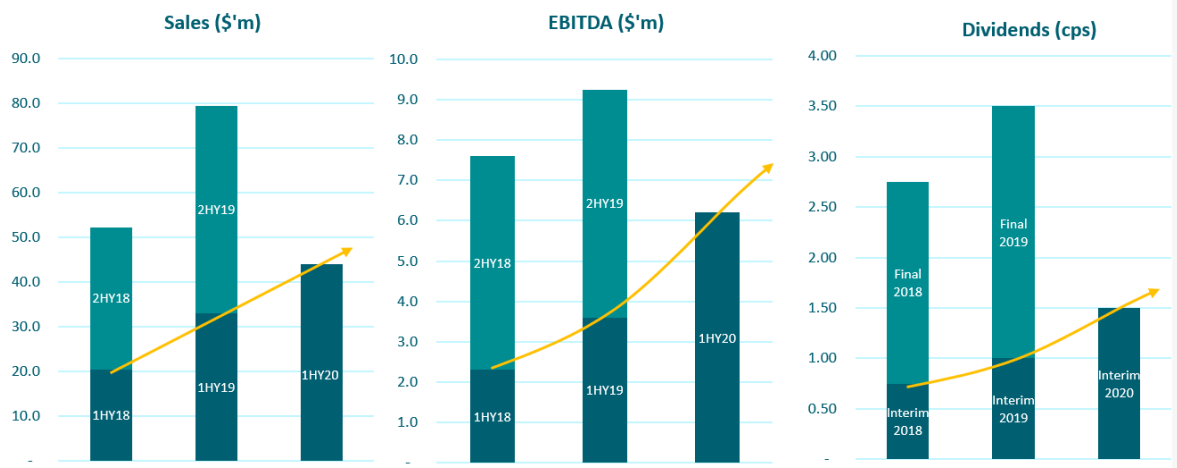
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## Review of Results

The Group's statutory net operating profit after tax from continuing activities attributable to members for the half year was \$1.81 million compared to a profit of \$1.10 million for the prior corresponding period. During the half year, the Company incurred \$0.22 million in non-recurring costs relating predominantly to the acquisition of ABS (Aus) Pty Ltd along with \$0.42 million in acquisition related amortisation. Underlying net profit after tax from continuing activities grew by 85% to \$2.03 million, continuing the growth of recent years.

For the half year ended 31 December 2019, the Group's sales revenue from continuing operations increased by 34% to \$44.1 million.

Underlying results (in \$'000)	HY2020 Reported	Non-recurring costs	Acquisition amortisation	HY2020 Underlying	Growth
SALES	44,109	-	-	<b>44,109</b>	<b>34%</b>
EBITDA	5,981	222	-	<b>6,203</b>	<b>68%</b>
EBIT	3,700	222	415	<b>4,337</b>	<b>72%</b>
NPBT	2,499	222	415	<b>3,135</b>	<b>80%</b>
NPAT	1,805	222	415	<b>2,442</b>	<b>85%</b>



The result for the half year is another significant step in the continued evolution and improvement of the Group.

The half year was one of considerable activity as the Group:

- ✓ Acquired ABS (Aus) Pty Ltd, a high quality pharmaceutical and consumer product packing business;
- ✓ Acquired the assets and customer contracts of CPSA, a packer of prescription and specialty pharmaceutical products;
- ✓ Completed an on-market share placement for ~\$10m;
- ✓ Completed construction of a purpose-built warehouse and manufacturing facility at 85 Cherry Lane, Laverton North (adjacent to our primary manufacturing facility);
- ✓ Continued to acquire and on-board new customers and contracts.

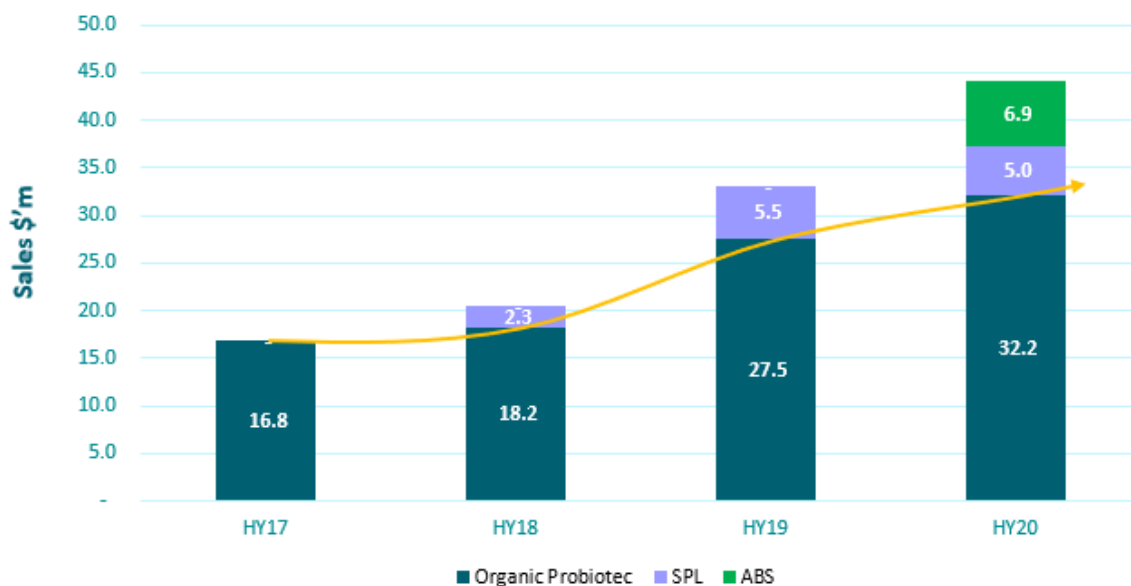
Pleasingly, the executive team at Probiotec was able to execute the above whilst continuing to deliver growth across all financial metrics, including significant growth in contract manufacturing revenue. Despite the operations of the Group being skewed to the second half of the financial year, due in part to the significant influence of Cold and Flu products in our contract manufacturing portfolio together with the introduction of

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new contracts coming online throughout the year, a profitable and improved result for the first half was once again achieved.

### Sales Growth

The Group's revenue from continuing operations rose to \$44.1 million, an increase of 34% over the prior corresponding period. Organic revenue from Probiotec Laverton operations grew by 17%, driven by growth from both existing and new customers. This growth was supplemented by the acquisition of ABS (Aus) Pty Ltd during the half year.



The Group's capabilities continue to be increasingly well recognised in the market and the Group is continuing to experience strong levels of sales inquiries, leads and contracted work. The demand for the Group's manufacturing services and product development capabilities continues to underpin strong orders that are expected to contribute to further growth in the second half of this financial year.

### Capital Management

On 25 September 2019, the Company raised \$10.56 million (before costs) through a placement to institutional, sophisticated and professional investors. The issue price for the placement shares was \$1.76 per share.

The funds raised under the Placement are intended to facilitate integration and growth opportunities relating to the recent acquisition of ABS, target further bolt on acquisitions (including CPSA that was completed in December 219) and strengthen the Company's balance sheet.

### Acquisition of ABS (Aus) Pty Ltd

On 31 July 2019, the Company acquired all of the issued shares of ABS (Aus) Pty Ltd, which includes the business and assets formerly comprising Australian Blister Sealing Incorporated ("ABS").

ABS is a leading pharmaceutical and consumer products contract packer that has been established for over 40 years. It has capability to pack a very wide range of formats including foil, carded and clamshell blister, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. ABS has long standing relationships with many Australian and global pharmaceutical, cosmetic and food companies.

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The acquisition was settled in cash, for a base amount of \$23.7 million, subject to normal adjustments. The vendor will also be entitled to additional cash consideration of up to \$5 million subject to achievement of earnings hurdles for the first-year post completion.

Acquisition of assets from CPSA

On 10 December 2019, the Company acquired the business assets, including major customer contracts and the plant and equipment required to fulfil the requirements of said contract from Contract Pharmaceutical Services of Australia Pty Ltd CPSA ("CPSA")

CPSA is a leading high-end pharmaceutical contract packer that has been established for over 30 years. It provides a very wide range of packing services and formats including foil, carded and clamshell blister packing, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. CPSA has long standing relationships with many Australian and global pharmaceutical and cosmetic companies.

The acquisition was settled in cash, for a base amount of approximately \$4 million plus inventory (at cost).

**Outlook**

In the absence of any unforeseen events and subject to normal trading conditions, the board reaffirms its full year forecast of revenues to exceed \$100 million and EBITDA in the range of \$16 to \$17 million for FY20.

**Audit Status**

This report is based on accounts which have been reviewed. The accounts are not subject to any dispute, emphasis of matter or qualification.

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**About Probiotec**

Probiotec Limited is a manufacturer, packer and distributor of a range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines and consumer health products. The company owns three manufacturing facilities in Australia and distributes its products both domestically and internationally. Products are manufactured by Probiotec on behalf of a range of clients, including major international pharmaceutical companies.

Further details about Probiotec are available at [www.probiotec.com.au](http://www.probiotec.com.au)

**Authorised for release to the ASX by:**

Wes Stringer  
Managing Director  
Ph: (03) 9278 7555

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Managing Director  
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**PROBIOTEC LIMITED  
AND ITS CONTROLLED ENTITIES  
A.C.N. 075 170 151**

**FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

## INDEX TO FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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## DIRECTORS' REPORT

The Directors submit the financial report of Probiotec Limited (Company) and its controlled entities (Group) for the half-year ended 31 December 2019.

### Directors

The names of the directors in office at any time during or since the end of the half-year are:

Geoffrey Ronald Pearce	Chairman
Wesley Stringer	Managing Director
Greg Lan	Non-Executive Director
Alexander Beard	Non-Executive Director

Directors have been in office since the start of the half-year reporting period to the date of this report unless otherwise stated.

### Company Secretary

The company secretary to the date of this financial report was:

Jared Stringer

The company secretary has been in office since the start of the half-year reporting period to the date of this report.

### Dividends

A dividend of 1.5 cents per fully paid ordinary share has been declared for the half year ended 31 December 2019 (2018: 1.0 cents). A dividend of 2.5 cents per fully paid ordinary share was paid during the half year ended 31 December 2019, being the final dividend relating to the financial year ended 30 June 2019.

### Review of operations

The Group's net operating profit after tax from continuing activities attributable to members for the half year was \$1.81 million compared to a profit of \$1.10 million for the prior corresponding period. Excluding transaction costs (of \$0.22 million) net profit after tax from continuing activities grew by 85% to \$2.03 million, continuing the growth of recent years.

For the half year ended 31 December 2019, the Group's sales revenue from continuing operations increased by 34% to \$44.1 million.

The result for the half year is another significant step in the continued evolution and improvement of the Group.

The half year was one of considerable activity as the Group:

- ✓ Acquired ABS (Aus) Pty Ltd, a high quality pharmaceutical and consumer product packing business;
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### Sales Growth

The Group's revenue from continuing operations rose to \$44.1 million, an increase of 34% over the prior corresponding period. Organic revenue grew by 13%, driven by growth from both existing and new customers. This growth was supplemented by the acquisition of ABS (Aus) Pty Ltd during the half year.

The Group's capabilities continue to be increasingly well recognised in the market and the Group is continuing to experience strong levels of sales inquiries, leads and contracted work. The demand for the Group's manufacturing services and product development capabilities continues to underpin strong orders that are expected to contribute to further growth in the second half of this financial year.

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The acquisition was settled in cash, for a base amount of approximately \$4 million plus inventory (at cost).

**Significant Changes in State of Affairs**

There was no other significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto and elsewhere in the financial report of the Company and its controlled entities for the half-year ended 31 December 2019.

**Significant After Balance Date Events**

There has not been any matters or circumstances that have arisen since the end of the half-year that have significantly affected or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in half-year subsequent to the end of the half-year.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 of this report.

Signed in accordance with a resolution of the Board of Directors.



.....  
Director  
Wesley Stringer

Signed at Melbourne this 21<sup>st</sup> day of February 2020

**Auditor's Independence Declaration under Section 307C of the *Corporations Act*  
2001 to the Directors of Probiotec Limited and Controlled Entities**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2019 there has been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

*ShineWing Australia*

**ShineWing Australia**  
Chartered Accountants

*Rami Eltchelebi*

Rami Eltchelebi  
Partner

Melbourne, 21 February 2020

**PROBIOTEC LIMITED**  
A.C.N. 075 170 151

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Note	Consolidated	
		Half-year ended 31 Dec 2019 \$	Half-year ended 31 Dec 2018 \$
Sales revenue from continuing operations		44,108,841	33,032,624
Cost of goods sold		(30,800,636)	(22,158,339)
Gross profit		13,308,205	10,874,285
Other income	4	111,182	138,330
Warehousing and distribution expenses		(2,916,488)	(2,866,795)
Sales and marketing expenses		(662,801)	(560,658)
Finance costs		(1,201,299)	(786,484)
Administration and other expenses	5	(6,140,091)	(5,232,050)
<b>Profit / (loss) from continuing activities before income tax expense</b>		2,498,708	1,566,628
Income tax expense relating to continuing activities		(693,395)	(469,988)
<b>Profit / (loss) for the period attributable to members of the parent entity from continuing activities</b>		1,805,313	1,096,640
Profit / (loss) from discontinued operations	8	(1,113,911)	11,823,568
<b>Profit / (loss) for the period attributable to members of the parent entity</b>		691,402	12,920,208
<b>Other Comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences		-	74,140
Other comprehensive income / (loss) for the half-year, net of tax		-	74,140
<b>Total comprehensive income for the half-year</b>		691,402	12,994,348
<b>Total comprehensive income for the half-year attributable to members of the parent entity</b>		691,402	12,994,348
<b>Earnings per share for profit attributable to members of the parent entity</b>			
Basic (cents per share)		1.04	20.24
Diluted (cents per share)		1.04	19.50
<b>Earnings per share for profit from continuing activities attributable to members of the parent entity</b>			
Basic (cents per share)		2.72	1.72
Diluted (cents per share)		2.72	1.65

*The accompanying notes form part of these financial statements*

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**PROBIOTEC LIMITED**  
**A.C.N. 075 170 151**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

	Note	Consolidated	
		31 Dec 2019	30 Jun 2019
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents		8,372,640	8,843,997
Trade and other receivables		15,476,449	18,764,262
Inventories		14,818,894	13,254,813
Assets held for sale		-	5,775,000
Other current assets		1,310,324	430,141
<b>Total Current Assets</b>		<b>39,978,307</b>	<b>47,068,213</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		20,741,922	17,827,679
Right of use assets		17,852,786	16,402,707
Deferred tax assets		8,644,252	7,649,257
Intangible assets		43,131,416	17,419,937
<b>Total Non-Current Assets</b>		<b>90,370,376</b>	<b>59,299,580</b>
<b>Total Assets</b>		<b>130,348,683</b>	<b>106,367,793</b>
<b>Current Liabilities</b>			
Trade and other payables		13,206,434	12,144,158
Short-term borrowings		1,640,000	1,840,000
Short-term lease liabilities		2,508,131	2,627,083
Current tax liabilities		493,979	136,048
Short-term provisions		4,875,547	2,430,223
<b>Total Current Liabilities</b>		<b>22,724,091</b>	<b>19,177,512</b>
<b>Non-Current Liabilities</b>			
Long-term borrowings		10,480,000	3,900,000
Long-term lease liabilities		24,953,995	22,348,011
Deferred tax liabilities		13,106,445	10,842,945
Long-term provisions		284,589	250,353
<b>Total Non-Current Liabilities</b>		<b>48,825,029</b>	<b>37,341,309</b>
<b>Total Liabilities</b>		<b>71,549,120</b>	<b>56,518,821</b>
<b>Net Assets</b>		<b>58,799,563</b>	<b>49,848,972</b>
<b>Equity</b>			
Contributed equity	3	43,737,151	33,608,259
Foreign Currency Translation Reserve		(379,516)	(379,516)
Share Based Payments Reserve		477,952	477,952
Asset Revaluation Reserve		488,797	488,797
Retained earnings		14,475,179	15,653,480
<b>Total Equity</b>		<b>58,799,563</b>	<b>49,848,972</b>

*The accompanying notes form part of these financial statements*

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PROBIOTEC LIMITED  
A.C.N. 075 170 151

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Ordinary Share Capital \$	Foreign Currency Translation Reserve \$	Asset Revaluation Reserve \$	Share Based Payments Reserve \$	Retained Earnings \$	Total \$
<b>Balance as at 1 July 2018</b>	38,596,329	(287,254)	4,026,722	477,952	9,389,411	52,203,160
<b>Total comprehensive income for the half-year</b>						
Profit for the half-year	-	-	-	-	12,920,208	12,920,208
Asset sales	-	-	(3,537,925)	-	-	(3,537,925)
Other comprehensive income	-	(74,140)	-	-	-	(74,140)
<b>Total comprehensive income for the half-year</b>	-	(74,140)	(3,537,925)	-	12,920,208	9,308,143
<b>Transactions with owners in their capacity as owners</b>						
Shares issued during the half year	(3,127,278)	-	-	-	-	(3,127,278)
Dividends paid or provided for	-	-	-	-	(4,466,055)	(4,466,055)
<b>Balance as at 31 December 2018</b>	35,469,051	(361,394)	488,797	477,952	17,843,564	53,917,970
<b>Total comprehensive income for the half-year</b>						
Profit for the half-year	-	-	-	-	(1,589,323)	(1,589,323)
Other comprehensive income	-	(18,122)	-	-	-	(18,122)
<b>Total comprehensive income for the half-year</b>	-	(18,122)	-	-	(1,589,323)	(1,607,445)
<b>Transactions with owners in their capacity as owners</b>						
Shares issued / (cancelled) during the half year	(1,860,792)	-	-	-	-	(1,860,792)
Dividends paid or provided for	-	-	-	-	(600,759)	(600,759)
<b>Balance as at 1 July 2019</b>	33,608,259	(379,516)	488,797	477,952	15,653,481	49,848,972
<b>Total comprehensive income for the half-year</b>						
Profit for the half-year	-	-	-	-	691,402	691,402
Asset sales	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the half-year</b>	-	-	-	-	691,402	691,402
<b>Transactions with owners in their capacity as owners</b>						
Shares issued / (cancelled) during the half year	10,128,892	-	-	-	-	10,128,892
Dividends paid or provided for	-	-	-	-	(1,869,703)	(1,869,703)
<b>Balance as at 31 December 2019</b>	43,737,151	(379,516)	488,797	477,952	14,475,179	58,799,563

The accompanying notes form part of these financial statements

**PROBIOTEC LIMITED**  
**A.C.N. 075 170 151**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Consolidated	
	Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018
Note	\$	\$
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	50,359,725	35,353,763
Payments to suppliers and employees	(40,290,289)	(38,691,198)
Interest received	-	13,000
Income tax paid	(605,558)	(144,211)
Interest and other costs of finance paid	(1,201,299)	(786,484)
<b>Net cash (used in) / provided by operating activities</b>	<b>8,262,579</b>	<b>(4,255,130)</b>
<b>Cash Flows From Investing Activities</b>		
Payments for property, plant and equipment	(636,038)	(7,043,194)
Proceeds from sale of property, plant and equipment	-	21,500,000
Proceeds from sale of intangible assets	5,297,038	22,073,000
Payment for investment in subsidiaries, net of cash received	10 (24,378,715)	(1,000,000)
Payments for intangible assets	(3,242,284)	(579,913)
<b>Net cash provided by / (used in) investing activities</b>	<b>(22,959,999)</b>	<b>34,949,893</b>
<b>Cash Flows From Financing Activities</b>		
Dividends Paid	(1,869,703)	(4,466,055)
Proceeds from issue of shares	10,137,600	695,000
Payment for shares - Buy back	(8,708)	(3,822,278)
Proceeds from borrowings	8,586,874	3,802,600
Repayment of borrowings	(2,620,000)	(8,912,822)
<b>Net cash (used in) / provided by financing activities</b>	<b>14,226,063</b>	<b>(12,703,555)</b>
Net increase / (decrease) in cash and cash equivalents	(471,357)	17,991,208
<b>Cash and cash equivalents at the beginning of the period</b>	<b>8,843,997</b>	<b>1,816,089</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>8,372,640</b>	<b>19,807,297</b>

*The accompanying notes form part of these financial statements*

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1

(a) BASIS OF FINANCIAL REPORT PREPARATION

These general purpose interim financial statements for half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Probiotec Limited and its controlled entities (referred to as the "consolidated group" or "group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 20 February 2020.

(b) ACCOUNTING POLICIES

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements. The Group has considered the implications of new or amended Accounting Standards as per below.

2 DIVIDENDS

	31 Dec 2019 \$	31 Dec 2018 \$
<b>Ordinary Shares</b>		
Dividends paid for during the half-year	1,869,703	4,466,055
Dividends not recognised at the end of the half-year	1,121,683	611,977

Since the end of the half-year the directors have declared an interim dividend of 1.5 cent per fully paid ordinary share.

The interim dividend was declared on 20 February 2020 and is payable on 19 March 2020 with a record date for determining entitlements to the dividend of 4 March 2020.

3 CONTRIBUTED EQUITY

Reconciliation of fully paid ordinary shares

	\$	Number of Shares
Balance at 1 July 2019	33,608,259	60,034,675
Issue of shares	10,137,600	14,750,000
Buy Back / Cancellation of shares	(8,708)	(5,805)
Share issue costs	-	-
Balance at 31 December 2019	<u>43,737,151</u>	<u>74,778,870</u>

4 OTHER INCOME

	31 Dec 2019 \$	31 Dec 2018 \$
Other income for the half-year comprised:		
Other income	111,182	138,330
	<u>111,182</u>	<u>138,330</u>

5 ADMINISTRATION & OTHER EXPENSES

Administration & other expenses comprises:

	31 Dec 2019	31 Dec 2018
Accounting, Audit and legal fees	147,125	106,931
Transaction costs	221,625	295,000
Insurance	323,157	240,417
Employee costs	3,889,171	3,335,855
Office expenses	268,217	262,404
Compliance costs	86,230	114,586
Amortisation - non contractual customer relationships	475,000	175,000
Other expenses	729,566	674,490
	<u>6,140,091</u>	<u>5,204,683</u>

6 SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the half year that has significantly affected or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs after the half year.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

7 FAIR VALUE MEASUREMENTS

(a) Valuation Techniques

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- *Market approach*: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

- *Income approach*: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

- *Cost approach*: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

(b) Financial Instruments

The following table represents a comparison between the carrying amounts and fair values of financial assets and liabilities:

	31-Dec-19		30-Jun-19	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	8,372,640	8,372,640	8,843,997	8,843,997
Trade and other receivables	15,476,449	15,476,449	18,764,262	18,764,262
	<u>23,849,089</u>	<u>23,849,089</u>	<u>27,608,259</u>	<u>27,608,259</u>
<b>Financial liabilities:</b>				
Trade and other payables	13,206,434	13,206,434	12,144,158	12,144,158
Borrowings	12,120,000	12,120,000	5,740,000	5,740,000
Lease Liabilities	27,462,126	27,462,126	24,975,094	24,975,094
	<u>52,788,560</u>	<u>52,788,560</u>	<u>42,859,252</u>	<u>42,859,252</u>

(c) The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

Recurring fair value measurements	31 December 2019			
	Level 1	Level 2	Level 3	Total
<i>Non-financial assets</i>	\$	\$	\$	\$
Freehold land	-	300,000	-	300,000
Freehold buildings	-	-	709,015	709,015
Total non-financial assets recognised at fair value on a recurring basis	<u>-</u>	<u>300,000</u>	<u>709,015</u>	<u>1,009,015</u>
Total non-financial assets recognised at fair value	-	300,000	709,015	1,009,015
Recurring fair value measurements	30 June 2019			
Level 1	Level 2	Level 3	Total	
<i>Non-financial assets</i>	\$	\$	\$	\$
Freehold land	-	300,000	-	300,000
Freehold buildings	-	-	727,233	727,233
Total non-financial assets recognised at fair value on a recurring basis	<u>-</u>	<u>300,000</u>	<u>727,233</u>	<u>1,027,233</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

(d) Valuation techniques and inputs used to measure Level 2 and Level 3 fair values

Description (Fair Value hierarchy)	at 31 Dec 2019	Valuation technique(s)	Inputs used
<i>Non-financial assets</i>			
Freehold land * (Level 2)	300,000	Market approach using recent observable market data for similar properties;	Price per square metre (\$100 - \$160 psm); - Useful life (20-22 years)
Freehold buildings (Level 3)	709,015	Depreciated Replacement Cost;	- Cost per square metre (\$600 - \$700 psm)
<i>Financial Liability</i>			
Contingent consideration (Level 3)	1,810,274	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined based on a probability factor on the earn out being achieved.	- Forecast annual revenue - Forecast EBITDA; - Risk adjusted discount rate (8.3%)

\* The fair value of freehold land and buildings is determined at least every three years based on valuations by an independent valuer. At the end of each intervening period, the directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data.

(e) Reconciliation of recurring Level 3 fair value measurements

	Specialised Building
Balance at the beginning of the year	727,233
Additions	-
Transfers	-
Depreciation	(18,218)
Asset sales	-
Revaluation	-
Balance at the end of the year	<u>709,015</u>

8 DISCONTINUED OPERATIONS

As set out in the financial report for the year ended 30 June 2019 and in note 9 below, the Group has now divested its pharmaceuticals brand portfolio along with its Improvy weight management brand, Celebrity Slim brand and associated assets.

The Comprehensive income of the discontinued operations was:	2019	2018
	\$	\$
Revenue	1,596,767	33,032,624
Profit on sale of intangible assets	499,228	16,068,961
Loss on sale of property, plant and equipment	-	(2,044,610)
Expenses	<u>(3,359,635)</u>	<u>(37,069,347)</u>
Profit / (loss) from discontinued operations before income tax	<u>(1,263,640)</u>	<u>9,987,629</u>
Income tax benefit / (expense)	149,729	1,835,939
Profit / (loss) from discontinued operations after income tax	<u>(1,113,911)</u>	<u>11,823,568</u>

The cash flow of the discontinued operations was:

Net cash flow used in operating activities	(1,762,868)	(5,208,636)
Net cash flow provided by investing activities	499,228	43,573,000
Net cash flow used in financing activities	-	(4,980,000)
Net increase / (decrease) in cash held	<u>(1,263,640)</u>	<u>33,384,364</u>

9 ASSETS HELD FOR SALE

	31 Dec 2019	30 Jun 2019
	\$	\$
Developed products	-	<u>5,775,000</u>

On 3 October 2019, the Group completed the sale of the Celebrity Slim brand, including all intellectual property and business assets associated with the brand ("CS") to Global Brands Australia.

Probiotec will continue to manufacture the Celebrity brand on an exclusive basis under a long term agreement.

The sale of Celebrity Slim delivered gross proceeds of \$6.75 million (after adjusting for working capital) and resulted in a profit before tax of \$0.50 million.

Transaction costs of \$706,314 million were incurred as a result of the sale of CS.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

10 ACQUISITION OF ABS (AUS) PTY LTD

*Acquisition of ABS (Aus) Pty Ltd*

On 31 July 2019 Probiotec Limited ('Probiotec') acquired 100% of the issued share capital of ABS (Aus) Pty Ltd ('ABS'), a pharmaceutical and consumer product contract packaging company. The acquisition of ABS increases the manufacturing capability and scale of Probiotec.

The fair value of the purchase consideration as at the date of acquisition are as follows:

Purchase Consideration	\$
Cash	23,766,342
Working capital adjustment	850,781
Contingent cash consideration	1,810,274
<b>Total Purchase Consideration</b>	<b>26,427,397</b>

Contingent consideration was subject to the achievement of EBITDA targets during the first year post completion resulting in up to \$5,000,000 earn out if the maximum target are met. The fair value of the contingent consideration of \$1,810,274 has been estimated by calculating the present value of the future expected cash outflows based on a discount rate of 8.3% and a probability factor applied to the likelihood of the relevant earn-out being achieved.

The fair values of the assets and liabilities recognised as at the date of the acquisition are as follows:

Cash assets	238,408
Other financial assets	261,592
Current receivables	2,722,769
Inventories	2,061,103
Property, plant and equipment	1,101,575
Non-contractual customer relationships	5,627,000
Payables	(581,856)
Deferred tax liability	(1,688,100)
Provisions	(691,146)
<b>Net Assets</b>	<b>9,051,345</b>
<b>Goodwill</b>	<b>17,376,052</b>

The fair value of acquired current receivables is \$2,722,769, being the gross contractual amount of which none is expected to be uncollectable.

The goodwill is attributable to (amongst other things) the potential synergies Probiotec expects to derive from the integration of the ABS business into its existing business and an increased presence in the packaging segment of the pharmaceutical supply chain. It will not be deductible for tax purposes.

Acquisition related costs of \$147,417 are included in profit or loss and in operating cash flows in the statement of cash flows.

The purchase consideration cash out flow is as follows:

Cash consideration	23,766,342
Cash acquired	238,408
<b>Net outflow of cash - investing activities</b>	<b>23,527,934</b>

The acquired business contributed revenues of \$7.0 million and net profit of \$1.2 million (or \$1.1 million after transaction costs) to the Group between 1 July 2019 and 31 December 2019.

11 ACQUISITION OF ASSETS AND CUSTOMER RELATIONSHIPS

On 10 December 2019, the Group acquired business assets from Contract Pharmaceutical Services of Australia Pty Ltd ("CPSA"). These assets incorporated plant and equipment together with major customer contracts. Total consideration of approximately \$4 million was paid at completion together with a payment for inventory of \$0.6 million. The allocation of the purchase consideration was as follows:

	\$
Inventory	642,052
Plant and equipment	1,347,451
Customer relationships	2,732,529
<b>Total Purchase Consideration</b>	<b>4,722,032</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

**12 DISAGGREGATION OF REVENUE**

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major product lines.

	Half-year ended	
	31-Dec-19	31-Dec-18
	\$'000	\$'000
Contract manufacturing	44,108,841	33,032,624
<b>Timing of revenue recognition</b>		
At a point in time	44,108,841	33,032,624
Over time	-	-
	<u>44,108,841</u>	<u>33,032,624</u>

**13 OPERATING SEGMENTS**

As disclosed in the 30 June 2019 Financial statements, the directors long longer consider it to be relevant or useful to provide segmental information as the Group's operations are now substantially within the contract manufacturing segment. At 31 December 2019, the Group's operations are still substantially within the contract manufacturing segment.

**14 BORROWINGS**

During the half-year, the Group obtained a new bank loan to the amount of \$8,000,000. The loan bears interest at variable market rates and is repayable within three years. The proceeds from the loan have been used to assist with the acquisition of ABS (Aus) Pty Ltd. Repayments of other borrowings amounting to \$2,620,000 (2018: \$8,912,822) were made in line with previously disclosed repayment terms.

**PROBIOTEC LIMITED  
AND ITS CONTROLLED ENTITIES  
A.C.N. 075 170 151**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Probiotec Limited, the directors of the company declare that:

The financial statements and notes are in accordance with the *Corporations Act 2001*, including:

- a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
- b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



.....  
Director  
Wesley Stringer

Dated at Melbourne this 21<sup>st</sup> day of February 2020

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PROBIOTEC LIMITED

### Report on the Half-year Financial Report

#### *Conclusion*

We have reviewed the half-year financial report of Probiotec Limited ("the Company") and its controlled entities ("the Group") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes to the financial statements 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 half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial 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*.

#### *Directors' Responsibility for the Half-year Financial Report*

The directors of the Company are responsible for the preparation of 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 Responsibilities for the Review of the Half-Year Financial Report*

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 are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Probiotec Limited's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Probiotec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of 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.



*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*ShineWing Australia*

**ShineWing Australia**  
Chartered Accountants

A handwritten signature in blue ink, appearing to read "Rami Eltchebi".

Rami Eltchebi  
Partner

Melbourne, 21 February 2020

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