

Passionate about Pets



# Greencross Ltd

For personal use only



## 2014 ANNUAL GENERAL MEETING CEO ADDRESS – JEFFREY DAVID

29 OCTOBER 2014

# Important notice and disclaimer

Although Greencross Limited (“**Greencross**”) has made every effort to ensure the accuracy of information contained in this presentation, Greencross makes no representations as to, and takes no responsibility for, the accuracy, reliability or completeness of the information contained in this presentation and disclaims all liability that may otherwise arise due to any information contained in this presentation being inaccurate, misleading or deceptive, except to the extent that liability cannot be lawfully excluded.







The material contained in this presentation is for information purposes only and does not constitute financial product advice. The information contained in this presentation has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Before making any investment decision, you should consider, with or without the assistance of a financial adviser, whether an investment is appropriate in light of your particular investment needs, objectives and financial circumstances. Any views expressed in this presentation are those of the individual presenter, except where specifically stated to be endorsed as the views of Greencross Limited.

## **Greencross Copyright**

All information, text, material and graphics contained in the Greencross Limited presentation (“**Content**”) are copyright 2014 Greencross Limited. You must not reproduce, copy, modify, republish, upload to a third party, transmit, post or distribute this Content in any way except as authorised in writing by Greencross Limited.

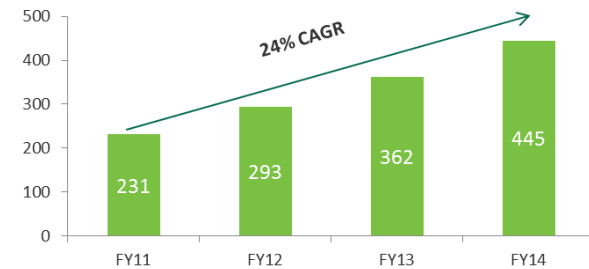
# A record performance in FY2014

Continuing a history of strong growth in the robust pet industry

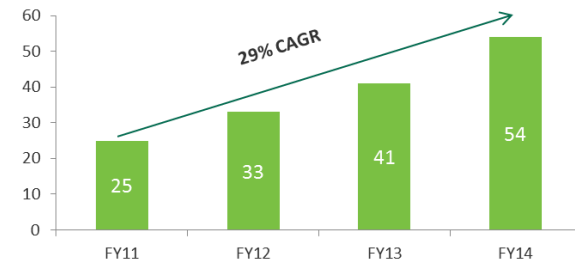
	FY2014 <sup>1</sup>	Change vs. FY2013 <sup>2</sup>
Pro Forma Sites	246	 19%
Pro Forma Revenue	\$445.5 million	 23%
Pro Forma EBITDA	\$54.3 million	 32%
Pro Forma NPAT	\$21.6 million	 45%
Pro Forma EPS	24.0 cents	 28%
Annual Dividend	12.5 cents	 25%

## Historic Trend (Pro-Forma<sup>1</sup>)

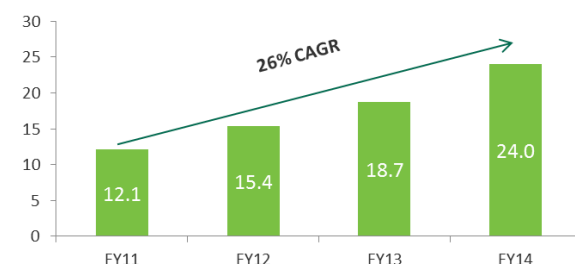
Pro Forma Revenue (\$m)



Pro Forma EBITDA (\$m)



Reported, underlying EPS (cents)

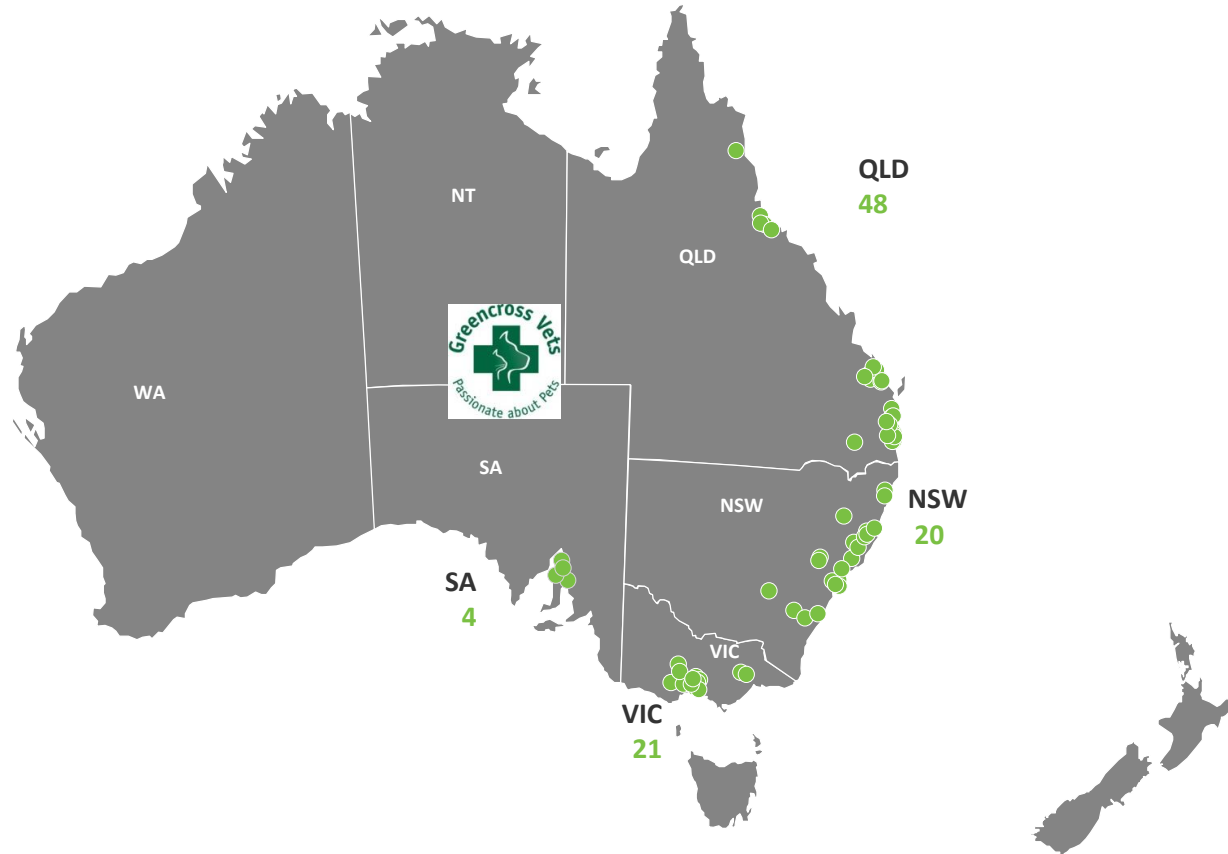


1. Pro Forma FY2014 assumes the merger with Mammoth was completed on 30 June 2013, excluding integration and transaction costs and one off items. Includes Pro Forma synergies. Excludes City Farmers which was acquired on 17 July 2014.
2. Pro Forma FY2013 assumes the merger was completed on 30 June 2012, excluding one off items.

For personal use only

# During FY2014 Greencross was transformed from a veterinary service provider on the east coast of Australia...

Prior to the merger with Mammoth, Greencross operated 93 vet clinics



Addressable market ~\$2B

For personal use only

# Into Australasia's leading pet care specialist

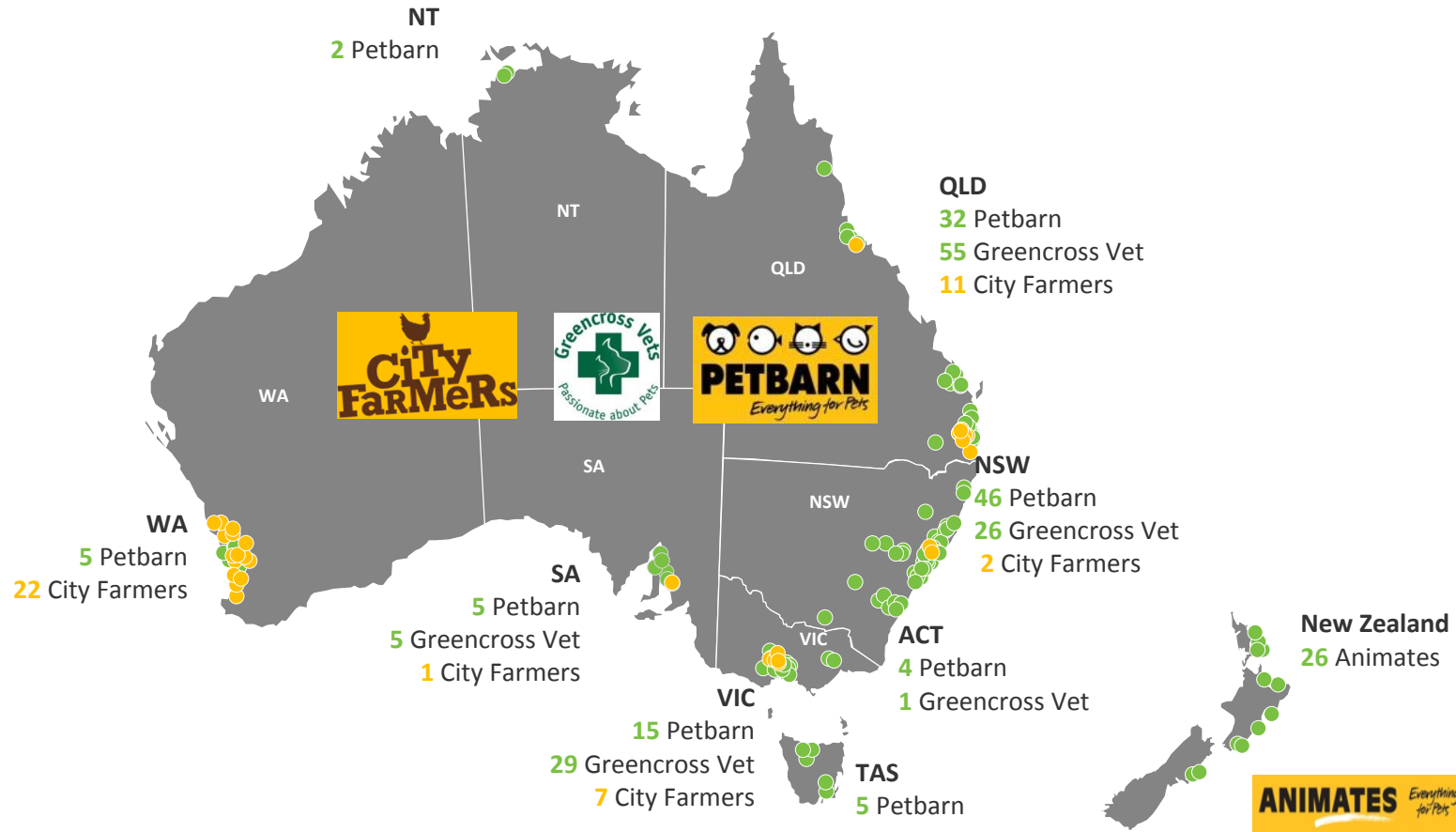
Greencross currently operates 299 locations across Australia and New Zealand comprising 183 stores and 116 clinics

**69 New stores opened or acquired in FY2014 and FY2015 YTD<sup>1</sup>:**

- QLD – 20
- NSW – 7
- VIC – 9
- WA – 24
- ACT – 1
- SA – 3
- NZ – 5

**23 New Clinics opened or acquired in FY2014 and FY2015 YTD:**

- QLD – 7
- NSW – 6
- VIC – 8
- ACT – 1
- SA – 1



Addressable market ~\$8B (AUS\$7B; NZ\$1B)

1. Includes the acquisition of 42 City Farmers stores which was completed on 17 July 2014

# Greencross reaches each segment of the ANZ pet care market

Social and demographic trends support the ~4 to 5% CAGR of the ~\$7 billion Australian pet care sector. Greencross is Australia and New Zealand's largest fully integrated pet specialist

## Food and Accessories (\$3b)

### High incidence of pet ownership

- 63% of Australian households own a pet<sup>1</sup>

### Humanisation

- 60% of Australian pet owners regard their pets as members of the family<sup>1</sup>
- Pet parents are willing to spend more to improve the quality and longevity of their pets life
- Pampering of pets driving high growth rates in pet treats

### Premiumisation

- Growing awareness of the importance of pet nutrition
- Trend towards higher margin premium and specialty food brands, which offer more nutritional value than mass market brands
- Increased popularity of breed specific / age specific food
- Higher sales of food with vitamins and dietary supplements targeted at particular health concerns

## Veterinary Services (\$2b)

### Aggregation

- Demographic trends are reducing demand for practice ownership
  - ~80% of Australian veterinary graduates are women
  - Gen Y vets placing increased emphasis on work life balance and flexible work hours
  - Many vets would prefer to focus on practising veterinary medicine rather than running a business

### Specialisation

- Increased demand for specialist medical procedures requiring expertise and /or advanced technology
  - Radiology
  - Pathology
  - Dermatology
  - Cardiology
  - Dentistry
  - Ophthalmology
- This is set to grow as pet health insurance deepens its penetration, currently 5%

## Non Veterinary Services (\$2b)

### Humanisation

- Increased demand for premium services
  - Dog walking
  - Grooming
  - Dog washing
  - Accommodation
  - Training and Obedience
  - Acupuncture
  - Hydrotherapy
  - Pet travel
- Pet insurance
- Pet crematoria

1. Source: Pet Ownership in Australia 2013

# Greencross targets pet parents

We help our customers become better pet parents

## Pet Owners

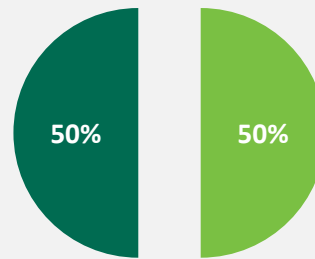
- Butch has an owner
- Butch lives outdoors
- Butch eats budget food and table scraps
- Butch plays with an old tennis ball
- When it is wet, Butch is allowed into the laundry
- On special occasions, Butch gets a bone



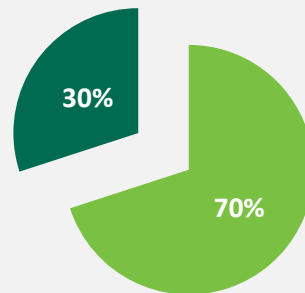
1. Source: Management estimates

### Split by Pet Owner Type

#### Pet Ownership<sup>1</sup>



#### Expenditure<sup>1</sup>



## Pet Parents

- April has pet parents who treat her as a member of the family
- April lives indoors and sleeps in her own special bed
- April eats premium food and loves dog treats
- April enjoys playing with her snuggle, IQ and chew toys
- When it is wet, April wears her coat and matching collar
- On special occasions, April goes to the groomer to ensure she looks her best. She gets presents on her birthday and shares in all of the family's celebrations



'April'



For personal use only

# Synergies from both the Mammoth merger and the City Farmers acquisition are being delivered in line with expectations

The delivery of merger synergies is a key component of FY2015 earnings

Deal	Type	Synergy Driver	Commentary
Synergies from the Mammoth Merger	Cost	Alignment of Supplier Terms	<ul style="list-style-type: none"> <li>Completed on track</li> </ul>
		Shared Services Cost Savings	<ul style="list-style-type: none"> <li>Cost savings in line with expectations</li> </ul>
	Revenue	Co-location	<ul style="list-style-type: none"> <li>Kawana open, targeting 3 to 6 sites by end of FY2015</li> </ul>
		Remerchandising	<ul style="list-style-type: none"> <li>Ahead of expectations, roll out underway</li> </ul>
		Cross Referrals	<ul style="list-style-type: none"> <li>Petbarn referrals to Greencross proving harder than expected</li> </ul>
Synergies from the City Farmers Acquisition	Cost	Margin Uplift	<ul style="list-style-type: none"> <li>Equalisation of trading terms completed</li> </ul>
		Operational efficiencies	<ul style="list-style-type: none"> <li>Elimination of duplicated activities complete</li> </ul>
		Network optimisation	<ul style="list-style-type: none"> <li>Rebranding and network review substantially complete</li> </ul>
	Revenue	Enhanced Merchandise Offering	<ul style="list-style-type: none"> <li>Common range agreed, phased implementation underway</li> </ul>
		Co-located Vet clinics	<ul style="list-style-type: none"> <li>To start in FY2016 following results of trials</li> </ul>

For personal use only



# Synergy update – enhancing vet merchandising

Ku-Ring-Gai – large sales area – before...

For personal use only





# Synergy update – enhancing vet merchandising

Ku-Ring-Gai – large sales area – after

For personal use only

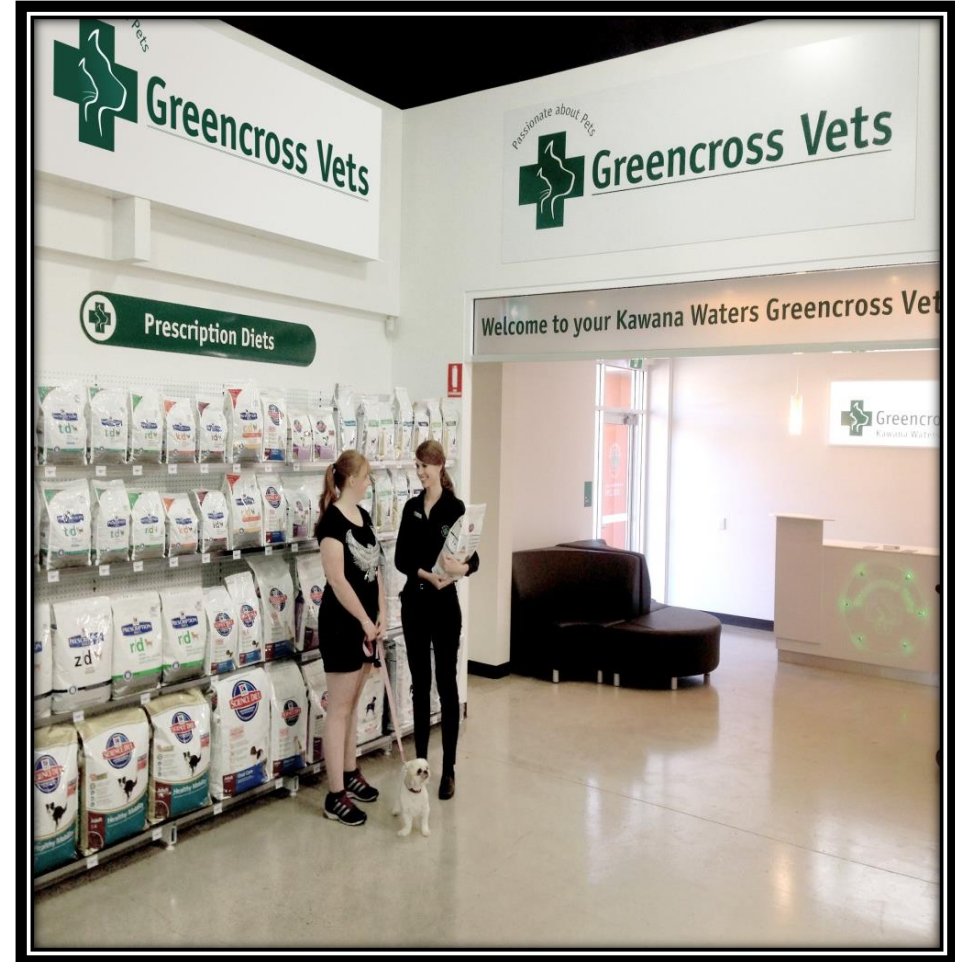




# Co-location – increasing convenience for pet parents

Kawana (QLD) - Greencross' second co-located store & clinic

For personal use only

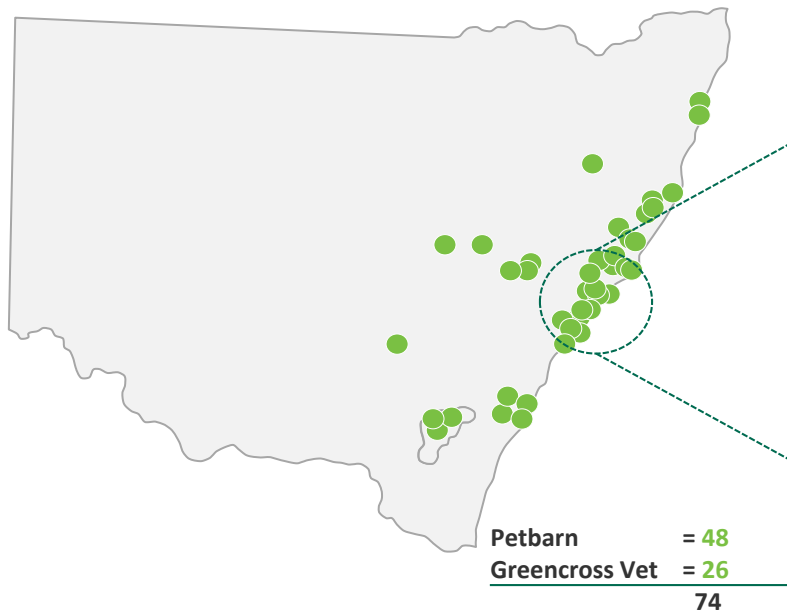


# Co-locations, the first step towards the 'cluster' location model

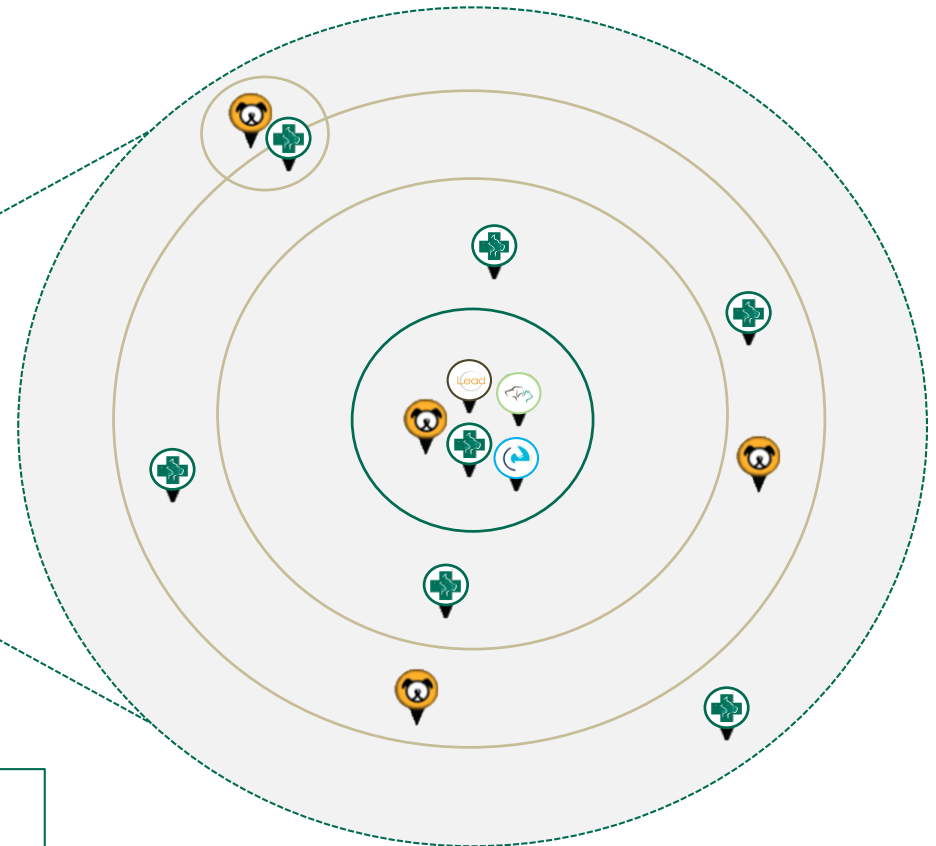
Strategic clustering of specialty pet retail and veterinary services optimises network coverage

Greencross aims to maximise consumer engagement by tailoring a store and clinic network for each targeted region

New South Wales network



Potential cluster model



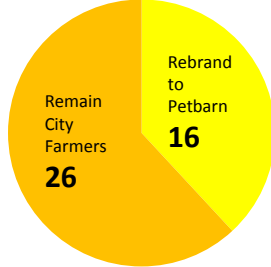
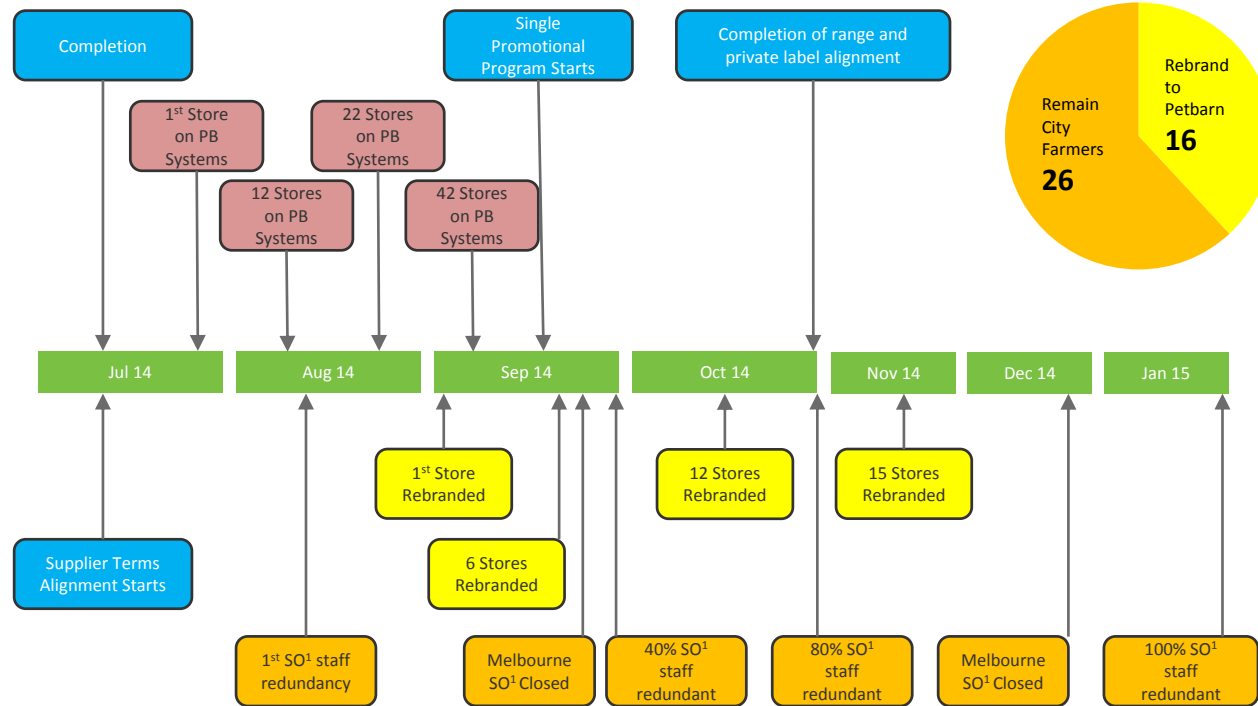
Regional clustering of general practices, specialty and emergency centres, grooming salons, behaviour and training centres and vertical integration with pathology, diagnostic imaging and pet funeral business

For personal use only

# The integration of City Farmers is proceeding on plan

- Acquisition completed on 17 July 2014
- Integration and synergies progressing well
  - Integration will be substantially complete by December 2014, with majority of activities completed earlier
  - Synergy achievability reconfirmed
- Key Initiatives implemented
  - All stores now cutover to Petbarn systems
  - 80% of rebranding complete
  - Common range, including private label agreed and roll out underway
  - One head office in Sydney – City Farmers’ Melbourne office premises closed, Perth office will be closed by December 2014
- The ACCC informal market review continues. Greencross continues to provide support where requested.

## City Farmers integration – key milestones



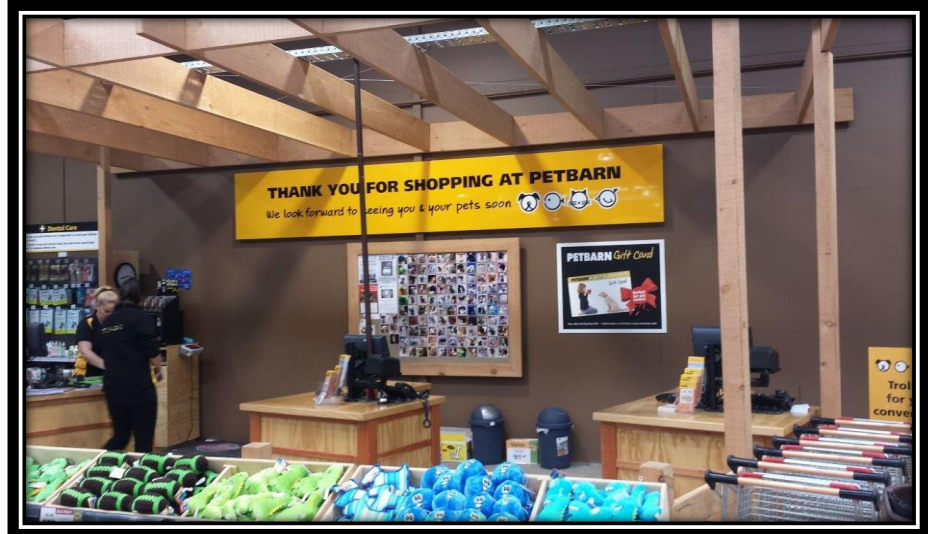
1. SO = Support office

For personal use only



# City Farmers – store format and rebranding

For personal use only



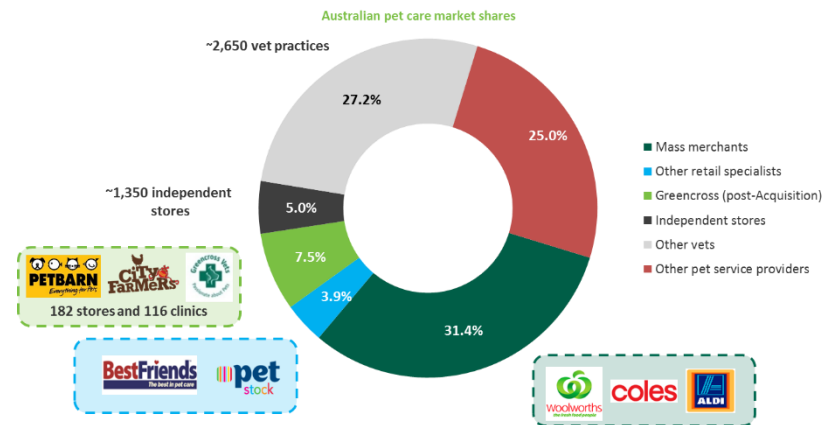
# Delivering 'Australasia's pet care specialist of choice'

Greencross' growth strategy is thoughtful, proven and determined. It is designed to build upon our market position in a sector growing at ~4 to 5% per annum

For personal use only

Activity	Delivering
<ul style="list-style-type: none"> <li>Increasing customer/client engagement within existing units                             <ul style="list-style-type: none"> <li>Service and range</li> <li>Services (grooming, training, etc.)</li> </ul> </li> <li>Lifting cross referrals between retail and vet</li> <li>Extending proactive health support by promoting membership in Healthy Pets Plus</li> <li>Broadening on-line</li> </ul>	Organic (LFL) Growth
<ul style="list-style-type: none"> <li>Increasing penetration of private label and exclusive brand products</li> <li>Introducing additional high value services                             <ul style="list-style-type: none"> <li>E.g. Pathology</li> </ul> </li> </ul>	Improved Gross Margin
<ul style="list-style-type: none"> <li>Additional outlets                             <ul style="list-style-type: none"> <li>Stores</li> <li>GP Clinics</li> <li>Emergency Centres</li> <li>Specialty Centres</li> </ul> </li> <li>Co-Locations</li> </ul>	Extending Market Reach

## Goal



To achieve 20% market share

The addressable market is comprised of the Australian veterinary services and pet care retailing markets, which management estimates as being valued at ~\$7 billion in Australia

# Current trading

## Strong Q1 trading; in line with expectations

- Good progress in FY2015 YTD
  - Q1 FY2015 total sales 45% ahead of pcp, in line with expectations
  
  - Petbarn LFL revenue growth in FY2015 YTD of 5.7%
  
  - During the transition period City Farmers, FY2015 YTD sales have been marginally below expectations (<3%)
  
  - Animates (NZ) LFL revenue growth in FY2015 YTD of 5.2%
  
  - Greencross Vet LFL revenue growth in FY2015 YTD of 4.8%
  
- Current net debt of \$200 million
  - >\$35 million of undrawn capacity under existing facilities

For personal use only



# EPS guidance of 36 cents for FY2015 reconfirmed

**Greencross expects to deliver Pro Forma EPS<sup>1</sup> of 36 cents in FY2015, a 50% increase on the 24 cents delivered in FY2014**

## **Veterinary Services**

- Targeting clinic acquisitions representing \$20 million of annualised revenue in FY2015
- Acquisitions representing \$4.1 million of annualised revenue already completed in FY2015 YTD
- Acquisition pipeline remains strong
- A search to replace the retiring Dr Richards has been completed and an appointment will be announced imminently

## **Retail**

- Targeting 20+ new stores by end of FY2015 (excluding the City Farmers stores already acquired)
- 6 stores already opened in FY2015 (including our newest store in Menai, NSW)
- 4 new stores expected to open by end of calendar 2014
- New store pipeline remains strong
- The delivery of synergies expected to be delivered from the acquisition of City Farmers remains on track

## **Confirmation of guidance**

- Expect to deliver FY2015 underlying EPS of 36 cents<sup>1</sup>
- Key risks to guidance are a deterioration in economic conditions or consumer sentiment leading to weaker consumer spending and delays in vet acquisitions

1. Delivered during FY2015 excluding the impact of transaction and integration costs relating to the acquisition of City Farmers and one off items