

11 August 2015

Greencross FY2015 full year result
45% increase in underlying revenue
77% increase in underlying NPAT

Highlights

– Revenue	up 75% to \$644.5 million
– Underlying Revenue	up 45% to \$644.5 million
– Group LFL Sales Growth	up 20bps to 6.2%
– Outlet Numbers	up 35% to 332
– Underlying Gross Margin (%)	up 50bps to 55.3%
– Underlying EBITDA	up 60% to \$86.8 million
– EBITDA Margin (%)	up 130bps to 13.5%
– NPAT	up 118% to \$19.1m
– Underlying NPAT ¹ (post minorities)	up 77% to \$38.2 million
– Underlying EPS ¹	up 43% to 34.3 cents
– Annual Dividends	up 36% to 17.0 cents per share

Summary of Financial Performance

\$ million	FY2015 ¹	FY2014 ²	Increase
Revenue	\$644.5m	\$368.9m	75%
Underlying Revenue	\$644.5m	\$445.5m	45%
Underlying Gross Margin %	55.3%	54.8%	50bps
Underlying EBITDA	\$86.8m ¹	\$54.3m ¹	60%
Underlying EBITDA Margin %	13.5%	12.2%	130bps
NPAT ³	\$19.1m	\$(127.8)m	118%
Underlying NPAT ³	\$38.2m	\$21.6m	77%
Underlying EPS	34.3 cents	24.0 cents	43%
Annual Dividends	17.0 cents	12.5 cents	36%

1. Underlying numbers are adjusted to exclude one off items including acquisition and integration costs in line with previous guidance
2. Underlying numbers are reported as if the merger occurred on July 1, 2013 and adjusted to exclude acquisition and integration costs and one off impairment charge of \$130 million
3. Post minorities

Greencross' Chief Executive Officer, Jeffrey David said "FY2015 has been another year of substantial growth for Greencross. We increased the size of our network by 35% extending our reach to more Australasian pet owners with our integrated pet care platform. I am delighted to report that we delivered another year of strong LFL sales from our existing clinics and stores whilst leveraging our scale to improve our EBITDA margin. In FY2015 we not only delivered a 77% increase in underlying NPAT, we strengthened our foundations for another year of strong revenue and earnings growth in FY2016."

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Results Overview

Greencross today announced a FY2015 result underpinned by strong LFL sales growth and network expansion. Revenue increased by 45% to \$644.5 million driven by growth in same store sales, new store openings and vet clinic acquisitions.

Gross margin increased by 46% to \$356.2 million and gross margin (%) increased by 50bps to 55.3%. Retail gross margin (%) increased by 160bps to 47.8% as a consequence of procurement benefits and increased penetration of private label sales. Veterinary services gross margin (%) improved by 90bps to 76.7% as a result of an increased contribution from higher margin specialty and emergency services and the impact of the harmonisation of procurement terms.

EBITDA increased by 60% to \$86.8 million, reflecting economies of scale, improvement in gross margin and the benefits derived from its integrated Pet Care Model.

Underlying NPAT (post minorities) of \$38.2 million delivered underlying EPS of 34.3 cents per share which is within previous EPS guidance and represents 43% growth in underlying EPS.

LFL Sales Growth

Group LFL sales growth was 6.2% for FY2015 compared to 6.0% in FY2014 and management estimated industry growth of 4%.

LFL sales growth in the veterinary services business increased to 6.1% reflecting growth in cross referrals (both from retail stores to vet clinics and from vet clinics to the specialty and emergency business) and increasing Healthy Pets Plus wellness program membership. LFL sales growth in the retail business was 6.2% driven by growth in foot traffic and increased demand for premium pet products. Australian retail LFL sales growth of 5.8% was complemented by strong retail LFL sales growth of 8.0% in New Zealand.

LFL sales growth	FY2015	FY2014
Group	6.2%	6.0%
Retail	6.2%	6.2%
Vet	6.1%	5.0%

Network – Delivering Scale Benefits and Expanding Customer Reach

During FY2015 Greencross expanded its retail store network by 65 stores to 200 stores (Australia 173 stores and New Zealand 27 stores). Greencross acquired 42 City Farmers stores in July 2014 and the integration of these stores into the existing network has been completed on time and on budget.

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Greencross added 21 veterinary clinics to its network in FY2015 increasing the size of the network to 132 clinics. The vet acquisitions completed in FY2015 are expected to deliver over \$31 million in annualised revenue. Highlights of the vet network expansion in FY2015 include the establishment of 2 co-located clinics at Kawana and Castle Hill, the commencement of a joint venture with Animal Referral Hospital, one of Australia’s leading speciality and emergency practices located at Homebush in Sydney, and Greencross’ entry into the New Zealand veterinary services market through the acquisition of 3 clinics in Wellington.

Stores and Clinics	FY2014	FY2015	Increase
Retail	135	200	48%
Vet	111	132	19%
Total	246	332	35%

CEO Jeffrey David noted that *“Greencross currently has a ~8% share of the fast growing \$8.7 billion Australasian pet care market and our aim is to achieve 20% market share. We estimate that 59% of Australian families have easy access to at least one of our retail, grooming and veterinary service offerings. A key element of our strategy is to extend our customer reach by expanding our store and clinic network and developing our digital offering so as to increase the number of pet owners who can conveniently access our products and services.”*

Integrated Pet Care Model

In FY2015 Greencross has made further progress in realising the benefits that come from its integrated pet care model. An analysis of the shopping outcomes from a year of Greencross customer data, shows that a retail customer who expands their engagement with our integrated pet care platform to include grooming and vet services in addition to their retail shopping, spends 5 times as much as a customer that only shops in the retail store. Further a Greencross vet customer who expands their engagement with the Group to include grooming and retail spends 2.2 times as much as they do solely in the vet clinic.

CEO Jeffrey David commented *“Completing a review of a year of customer shopping data confirms the benefit of our integrated pet care model. Extending our reach and using all of our retail and service offerings to gain trusted advisor status with our customers will enable us to provide them with the very best in affordable, holistic pet care along with enabling strong company value creation. A ‘win/win’ for our customers and our shareholders.”*

Greencross established 2 co-located clinics at Kawana and Castle Hill in FY2015 and a further 2 co-located clinics have already been retrofitted into retail stores in FY2016YTD. The financial performance of these co-located clinics has exceeded management expectations and supports

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Greencross' strategy to maximise engagement with pet owners by providing customers with convenient access to a full spectrum of pet services and products.

CEO Jeffrey David commented *"Having already successfully established 5 co-located clinics, the retrofitting of co-located clinics in our existing retail stores will form a key platform of our future network expansion strategy as we seek to extend the reach of our offering to pet consumers in Australia and New Zealand."*

Cross referrals of new vet clients from retail stores have continued to gain traction, providing further evidence of the tie up benefits of Greencross' integrated retail and veterinary services business model.

City Farmers – Integration Complete

Greencross completed the acquisition of 42 City Farmers stores on 17 July 2014. The integration of these City Farmers stores has been finalised on time and on budget.

City Farmers' offices in Perth and Melbourne have been closed to eliminate duplication of head office costs and the 16 City Farmers stores outside Western Australia have now been rebranded as Petbarn stores.

Greencross has now implemented a common range, including private label, across the entire store network. As a result of range optimisation and increasing private label sales, retail gross margin in City Farmers stores has improved and is now converging on gross margin for the remainder of the retail fleet.

Despite challenging market conditions for the 26 stores acquired in Western Australia, City Farmers delivered in-year revenue of \$117 million and EBITDA of \$19 million in FY2015.

Loyalty – Targeting the Offer

In FY2015 Greencross grew its retail loyalty program, Friends for Life by over 25% to 2.9 million members. Over 80% of purchases in Greencross retail stores are made on a loyalty card, which provides Greencross with a high level of insight into its customers spending habits and demand trends.

The Healthy Pets Plus proactive pet wellness program added over 13,000 members in FY2015 to reach a total of over 43,000 members, representing a penetration rate of approximately 20%.

During H1 FY2016 Friends for Life will be expanded to become a combined loyalty program covering all of Greencross' veterinary services and retail formats and management are confident that this will help further improve customer loyalty and increase the level of cross shopping across the Greencross network.

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Services – Ongoing Rollout

Greencross has continued the rapid expansion of grooming and dog wash services in stores to enhance the breadth of the customer proposition, drive foot traffic and increase cross shopping activity. Since 30 June 2014, Greencross has added 9 grooming salons and 47 dog wash units to existing retail stores which means Greencross now operates a total of 40 grooming salons and 104 dog wash units across the retail network. In addition, grooming services are offered in 18 vet clinics.

Services in retail stores	FY2014	FY2015	Increase
Grooming salons	31	40	29%
DIY dog washes	57	104	82%

On line – Increasing Customer Access

Greencross recognises that its customers want flexibility in how they can gain access to its products and services. Traffic and visits to Group websites continued to increase during the period. While online sales only represent ~1% of Australian retail sales, the business continues to grow rapidly with online LFL sales growth for FY2015 at 80%.

In FY2015, Greencross introduced a repeat delivery subscription service to provide its customers with the flexibility to either pick up their orders in store or to have products delivered directly to their home.

Following the commencement of a national on line appointment system in July 2015, vet appointments can now be booked through the Greencross Vets website and this is expected to drive further transactions in both clinics and retail stores.

Balance Sheet – Expansion Funding Available

Greencross remains well positioned to fund its expansion plans with comfortable headroom under its banking covenants and balance sheet capacity to deliver on its growth strategy. Net debt as at 30 June 2015 was approximately \$234 million with \$260 million of debt drawn under a \$350 million Australian bank facility. Greencross' current leverage ratio (net debt/EBITDA) of 2.5 times reflects the rapid expansion during FY2015 including the purchase and integration of City Farmers. Greencross' gearing (net debt/net debt + equity) is 36%.

The Group's underlying cashflow conversion rate will improve with the maturation of the fleet and, with a more normal year of expansion, Greencross' leverage ratio is expected to improve over the course of FY2016 as the group moves towards self-funded expansion.

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Dividend

The Directors have declared a fully franked final dividend of 9.0 cents per share, which represents a dividend payout ratio of approximately 50%.

The record date for the dividend will be 19 August 2015 and the dividend will be paid on 18 September 2015

The Company will provide shareholders with the opportunity to reinvest their dividends through the dividend reinvestment plan ("DRP"). Shares subject to the DRP will be issued to participating shareholders at a 2.5% discount to the volume weighted average price for Greencross shares traded over the DRP Pricing Period and will rank equally with all other shares. Greencross intends to have the DRP underwritten.

Greencross has declared fully franked dividends for the full year totalling 17.0 cents per share, a 36% increase over the prior year.

The Directors intend to maintain Greencross' dividend payout ratio at 50%.

Trading Update and Future Outlook

Notwithstanding subdued consumer confidence, Greencross has had a positive start to the year.

In the first 5 weeks of FY2016, Greencross has achieved total revenue growth of 19%.

LFL sales growth for the Group in FY2016YTD is 6.2% (comprising Veterinary 5.5%, Australian retail 5.0% and NZ retail 9.3%). Australian retail LFL sales reflect the reshaping of Greencross promotional activity in Australia. Retail gross margin remains strong.

In FY2016, Greencross expects to deliver strong organic led network growth by:

- opening 20 new retail stores (5 stores opened and a further 14 leases secured in FY2016 YTD)
- establishing 12 co-located clinics (2 co-located clinics established and a further 8 under construction in FY2016 YTD)
- making vet acquisitions representing \$20 million of annualised revenue (2 vet acquisitions completed in FY2016 YTD)

Greencross expects to deliver strong revenue and earnings growth in FY2016 and has the funding in place to deliver its growth plans.

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Results Briefing – Teleconference Details

The teleconference details for today's results briefing for analysts and institutional investors at 10.30am (AEST) are set out below:

Participant passcode: 207 740 81

	Direct	Toll Free
Australia	(02) 8029 4105	1800 036 268
New Zealand		0800 480 362
Hong Kong	852 3018 6851	
Singapore	65 6408 9900	
United Kingdom		0800 085 5171
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