

ASX ANNOUNCEMENT: March 5th, 2012**CEO on Half Year Results and
Outlook**

Open Briefing with Greencross Limited CEO and
MD, Dr Glen Richards



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Greencross Limited (ASX: GXL) is focused on consolidating the fragmented veterinary services industry in Australia. Earnings growth is expected to be generated via improved efficiencies at individual practices and via further active acquisition of established practices.

Market Capitalisation: \$52 million

In this Open Briefing®, CEO and MD and Dr Glen Richards discusses

- Expects FY2012 EPS growth of between 20 and 30 percent
- Revenue and EBIT margins to trend up in FY2012
- Outlook for acquisition strategy and milestones for FY2012

Open Briefing interview:**openbriefing.com**

Greencross Limited (ASX: GXL) reported net profit of \$2.49 million for the first half ended December 2011, up 25.7 percent from the previous corresponding period (pcp), on revenue of \$39.4 million, up 32.0 percent. EBITDA was \$5.76 million, up 31.6 percent and EBITDA margin was 14.6 percent, unchanged from the pcp. Where do you expect revenue and EBITDA margin to trend over the remainder of FY2012?

CEO Glen Richards

We expect revenue to trend up, mainly supported by acquisitions, and we also expect to see EBITDA margins trending up. We've seen excellent profit in our practices over the last six months and that will continue. We expect EBITDA margins to improve as we've had no major changes in our corporate overhead but we have continued to make acquisitions.

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GXL now operates 73 veterinary practices. To what extent was earnings growth in the first half attributable to acquisitions and to what extent to growth in the existing business? What were the drivers of organic growth?

CEO Glen Richards

Like for like revenue was fairly flat and the industry was affected by a flat retail environment. Despite this, the effects of our cost controls came through and like for like EBITDA improved by around 2 percent. Over the current second half we're focused on revenue growth and have launched new initiatives and marketing programmes to achieve this. We launched an Australia wide customer service education programme called Passionate about Service, led by our practice managers in each location. All Greencross staff members will take part in this programme focusing on customer service and engaging with clients better.

Our other initiative is Healthy Pets Plus which is a wellness programme for pets where clients subscribe to our veterinary clinic programmes to keep their pets healthy, rather than just coming in when their pets are sick. Healthy Pets Plus is a month by month subscription programme. The response to it has been exciting and we expect clients to continue using this on a regular basis.

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Your acquisition of 13 practices in the first half is well ahead of your stated intention to acquire 12 to 13 clinics during the year. Does this imply upside to your EPS growth target of at least 15 percent in FY2012?

CEO Glen Richards

Our organic growth initiatives are seeing good returns but the powerhouse for Greencross's growth is our acquisition strategy. We're happy to announce that we expect EPS to grow 20 to 30 percent to be between 15 to 16 cents in FY2012.

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Greencross acquired the Maitland Veterinary Hospital and Rutherford Veterinary Clinic in New South Wales in February. Cash consideration, including deferred payments, for the acquisition is \$2.8 million. You expect Maitland to be EPS accretive in FY2012 and contribute annualised revenue of \$3.3 million and EBIT of \$650,000, implying an EBIT return of 23 percent. How do these investment return metrics compare with the company's historical levels?

CEO Glen Richards

The return metrics are quite similar to historical levels and the acquisition multiples we target are around 3 to 4 times EBIT. We expect this to continue in the future. The Maitland acquisition has been structured to lock in the vendor for two years and also includes a transitional earn-out payment over three years.

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At December 31, net debt was \$22.5 million and gearing (net debt/shareholders' equity) was 67.8 percent. This is up from net debt of \$17.6 million and gearing of 57.9 percent at June 2011. Total debt to EBITDA was 4.3 times, unchanged from the pcp. Do you intend to continue funding acquisitions solely through debt? What level of debt can the business sustain? How long do you expect to operate outside your targeted gearing level of 57 percent to 62 percent?

CEO Glen Richards

We'll continue to fund our acquisitions through a combination of debt funding via our bankers, deferred settlement from our vendors as well as free cashflow. In the next 12 months we'll see a bigger contribution from free cash and less from debt funding. We expect gearing to creep up over the next six months and in the medium to longer term start to reduce as we fund more acquisitions through free cash and less debt.

The business produced \$4.4 million in operating cash flow in the first half, an increase of 52.2 percent from the pcp. The business produces a lot of cash and a key metric we focus on is our ability to service debt. Annualised debt to EBITDA is at a level we're very comfortable with and sitting well inside our bank covenants.

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Cash outflow on property plant and equipment was \$0.6 million in the first half, down from \$0.9 million in the pcp. Cash outflow on acquisitions, including payments for deferred settlements, was \$9.4 million, up from \$5.8 million. How are you balancing need for maintenance capital for your existing practices with the need to fund acquisitions?

CEO Glen Richards

The higher spend on practices last year reflected upgrades to our facilities in a number of locations to bring them to Greencross accredited standards. We expect our spending on our practices to continue at the level of the first half of this financial year.

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What are your criteria for acquisitions in the short to medium term and are there major differences in practices across different regions?

CEO Glen Richards

The veterinary industry is quite fragmented and we'll continue following our core acquisition strategy focused on major regional centres and capital cities. Our strategy is to target financially healthy companion animal hospitals with at least two to three vets and a minimum of \$1 million in turnover. While this remains our core business, we recently made some acquisitions in smaller regional centres, we still have flexibility if the right opportunity emerges like our Maitland and Morewell acquisitions.

We're well represented in Queensland and currently focused on expansion in New South Wales and Victoria. Previously we didn't have Sydney and Melbourne General Area Managers on location and it was more difficult to get involved in those markets. We now have General Area Managers in both regions and have stepped up our discussions in these markets. With integration and management support now available, we'll spend more time targeting Sydney and Melbourne practices, talking to prospective vendors and the industry about succession plans in those locations.

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What is your current veterinary services market share and what is your long term market share target?

CEO Glen Richards

Our industry is highly fragmented: there are about 2,500 vet practices in Australia and we have 73, which represents about 3.8 percent of the market. Our long term target is to achieve a market share of at least 10 percent. We expect to continue acquisitions for quite some time, with at least 200 practices joining the Greencross network of hospitals in coming years.

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Do you foresee any challenges to your acquisition strategy? Given a fragmented market with the potential for growth, why aren't any other significant competitors adopting your acquisition strategy?

CEO Glen Richards

We don't foresee major challenges. We have five years' experience, an excellent senior management team and a corporate office well experienced in integrating practices into the network. We also have the funding to continue at this pace and acquire at least one practice every month.

No other company is as active as us in relation to acquiring practices. Over the last two years we've moved to a strong position and have the people and strategies to efficiently acquire and manage practices. We've put in place the right corporate services, HR platform, remuneration strategy, IT platform and people to manage our practices. We have a close relationship with the Commonwealth Bank of Australia which is actively supporting our drive to acquire at a faster pace.

There are a lot of aging practice owners looking for an active succession plan and at the other end of our industry there are a large number of female Gen Y veterinarians coming into the industry who don't want to own their own practice. The timing is right for Greencross and we have a lot of potential because our funding and management models are well established. Practice owners join our network because they know we're serious about looking after their practices, their pet owning clients and their team members.

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You have declared a fully franked interim dividend of 4 cents per share, up from 3 cents last year and in line with your policy of paying out 50 percent of earnings. What is the outlook for dividends in FY2012 and can you sustain this level of payout while continuing your active acquisition strategy?

CEO Glen Richards

We expect our final dividend to be in the order of 3.5 to 4 cents and expect to maintain a payout policy of 50 percent of earnings. At the same time, we've developed a dividend reinvestment plan, which is generally partially or fully underwritten, and which gives us the ability to apply more cash into the business if need be.

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What milestones do you expect to achieve over the remainder of FY2012?

CEO Glen Richards

We will continue to review the pipeline of acquisitions and expect to acquire at least one practice a month. We will continue to develop programmes around being the employer of choice in the industry and we are expanding our online and clinic education programmes to develop the skills and capabilities to be best practice.

We have also invested in facilities and equipment and have developed well structured remuneration strategies around our business associate program and providing appropriate rewards for performance at the clinical level. We're focused on customer service and building customer relationships and delivering beyond expectations to our pet owners.

Apart from this, we'll further develop our Healthy Pets Plus wellness programme so that Greencross will be positioned to maintain pet health as well as provide responsive animal health care.

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Thank you Glen.

For more information about Greencross, please visit www.greencrossvets.com.au or call Glen Richards on (+61 7) 3435 3535

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