

**ASX Announcement :** 07 December 2012

## MD on Recent Acquisitions

Open Briefing interview with Managing Director Glen Richards

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### In this Open Briefing®, Glen discusses

- Recent acquisitions and geographic expansion strategy
  - Organic growth programs
  - Confirmation of 15 pct EPS growth guidance
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### Record of interview:

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Greencross Limited (ASX: GXL) recently acquired three veterinary businesses on the Gold Coast in Queensland. Total cash consideration for the acquisitions was \$1.4 million. Combined, they are expected to deliver annualised revenue and EBIT of \$2.7 million and \$0.35 million respectively, and be EPS accretive in FY2013. How do these acquisitions fit with your broader strategy?

#### MD Glen Richards

These acquisitions fit exceptionally well: they're well equipped; they're excellently run; they practice very high standards of veterinary medicine; and they have very competent teams that are very engaged. The vendors have entered into five year business associate agreements as they share our confidence in relation to Greencross' ability to continue to grow these practices.

These practices are also a very good strategic fit in a region where we're already well entrenched. Certainly they'll integrate well with our existing practices and will be able to refer all their emergency work to our emergency centre in the region. Our Group Area Manager on the Gold Coast is looking forward to inducting the new practices into the Greencross team.

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After the transaction, Greencross has 86 practices around Australia, with 3.6 percent of the market. In Queensland, your market share is 9.0 percent. Do you see further opportunity for Greencross in Queensland? What is your strategy to further penetrate markets in the other states and what are your longer-term market share targets?

#### MD Glen Richards

We currently have only approximately 5 percent of the Brisbane market. We have 20 to 25 percent of the Townsville and Gold Coast markets, but because of our low share of the Brisbane market, we think we can continue to expand our network of high quality veterinary practices in Queensland.

We're definitely looking to continue to expand into the other states. We'll continue our strategy of acquiring one to two good quality practices per month, with a major focus on New South Wales and Victoria.

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In FY2013 to date you've acquired eight clinics and you continue to target a minimum of 12 acquisitions per year. To what extent have the recent acquisitions been debt-funded and how does this compare with levels in the past? How do current gearing and debt/EBITDA levels compare with the 30 June levels of 79 percent and 2.6 times respectively?

**MD Glen Richards**

The recent acquisitions were funded by a mix of debt, free cash and vendor deferred payments. In the last few years we've debt-funded acquisitions at three times EBITDA, but for the recent acquisitions we've reduced our debt funding to 2.5 times EBITDA, and as such we've been using more free cash flow to help fund our acquisitive growth.

Our program of reducing the debt-funding requirements for future acquisitions and increasing the use of free cash will continue into the future and will lead to a reduction in our gearing levels. Nevertheless, our overall gearing levels will be relatively unchanged over the next six to eight months. Then in the medium term, with an increasing proportion of free cash and less debt applied to our transactions, we should see our gearing levels start to track downwards.

I'm asked frequently about vendor deferred payments; it should be noted that we'll continue to rely on vendor deferred payments as part of our funding strategy going forward. The total liability for vendor deferred payments to the end of November 2012 was approximately \$3.3 million. We expect to see this amount increase slightly over the next six months and then flatten out. We expect all vendor deferred payments to be settled out of free cash flow.

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In May you launched the Healthy Pets Plus (HPP) program, with over 7,000 pet owners as of October. What is the strategy behind the introduction of HPP and how is it tracking versus your goals for the program?

**MD Glen Richards**

The concept of HPP was developed to make pet ownership far easier and far more affordable for pet owners, and to help educate and transition an average pet owner into an exceptional pet owner. HPP definitely makes it easier for our clients to keep their pets healthy while also giving them access to unlimited consultations, discounts on professional services, pet food and parasite preventative products.

The number of people moving into the program is certainly very pleasing and is tracking within our expectations: we have over 8,500 pet owners enrolled in the program as of this week.

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You've indicated that for the first quarter of FY2013, revenue and EBITDA were tracking at levels more than 30 percent higher than the prior corresponding period, and that on a like-for-like basis, your practices had grown revenue by 2.6 percent and EBITDA by 10.4 percent. Do you see upside to your expectation that EPS will grow by at least 15 percent in FY2013? What are the risks to achieving your EPS growth target?

**MD Glen Richards**

We're happy to confirm that EPS will grow by at least 15 percent this financial year.

We operate in a resilient and robust industry, where fluctuating economic conditions only slow, rather than stop, our growth. To help combat the current economic conditions, we've initiated a number of programs designed to help increase the organic growth of the business, including HPP, and they're definitely contributing, with like-for-like revenue up 2.6 percent in the first quarter. We also have a strong internal program around engaging with our clients and our teams. Furthermore, we continue to work on productivity issues in our practices and that contributed to the 10.4 percent growth like-for-like EBITDA margins in the first quarter.

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What are Greencross' strategic priorities for 2013?

**MD Glen Richards**

One priority is to continue to expand our network of hospitals. As we keep stating, we're aiming to acquire at least one or two practices a month, so we'd expect to add at least \$12 million to group revenue every 12 months. Another priority is to continue to fine tune and promote our HPP program to our clients. Also, we'll be opening our new pathology lab in Queensland – which along with our lab in Victoria will give us two operating pathology labs – and so a priority will be to bring these new businesses into profitability as fast as we can. Lastly, we'll continue our organic programs: engaging with our teams, engaging with our clients and looking at productivity and efficiency programs to make sure the underlying business continues to be profitable and to grow.

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Thank you Glen.

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For more information about Greencross, visit [www.greencrossvet.com.au](http://www.greencrossvet.com.au) or call Glen Richards on (+61 7) 3435 3535.

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