CEO on $11m Placement

Greencross Vets

Open Briefing interview with CEO Glen Richards

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Greencross Limited (ASX: GXL) is a veterinary services company 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.

In this Open Briefing®, Glen discuss:

- Placement secures funding for larger-sized acquisitions, allows continuation of traditional acquisitive growth model
- Balance sheet strengthened, with gearing less than 65 percent
- Maintains long-term EPS growth target of 15 pct plus

Record of interview:

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Greencross Limited (ASX: GXL) today announced the successful completion of a placement to institutional and professional investors of 3.28 million shares at $3.40 per share to raise $11.164 million. You plan to use the funds to pay for a number of acquisitions, including the purchase of a larger Sydney veterinary hospital. What is the rationale for this acquisition?

CEO Glen Richards
We'll continue to focus on acquiring one to two veterinary clinics per month. These will be funded via debt, vendor deferred payments and free cash flow. Typically, the target clinic under this model turns over $1 million to $2 million. Our acquisitions program and funding model has allowed disciplined and acquisitive growth without over-stretching our balance sheet.

Larger sized acquisitions including grouped practices and larger standalone hospitals are still on our acquisitions radar for the Company, though they are fairly uncommon in the Australian Veterinary Industry. In fact, we would like to be able to acquire, manage and operate more of these larger format operations subject, of course, to maintaining the financial disciplines we've always demonstrated on our acquisition metrics. The opportunity to acquire such a robust and well established business on appropriate financial terms is very pleasing.

The funds raised as part of this placement, will be used to fund this acquisition. With the pipeline of acquisition opportunities we see in front of us, and with the opportunity to introduce several new domestic and international institutional investors to the shareholder register, the Directors believed it was prudent to undertake this capital raising.

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As at 30 June 2012, Greencross had net debt of $28.1 million and gearing of 78.6 percent. How will gearing levels be impacted by the placement and will the higher level of shareholders' funds have any impact on your facility with the Commonwealth Bank of Australia (CBA)?

CEO Glen Richards
Gearing is expected to come back to our short term target of less than 65 percent. This will have no impact on our current facility with the CBA or our ability to continue to acquire clinics using a mix of debt, vendor deferred payments and free cash flow.

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Greencross is set to pay $5 million for the Sydney acquisition, and expects the assets to deliver annualised revenue and EBIT of $5.4 million and $1.1 million respectively. The EBIT-to-sales margin is around 19 per cent, considerably higher than the 12 to 14 per cent of your traditional, smaller acquisitions. What is the reason for this variance, are the margins sustainable in this practice, and could the earnings model have applications across the Greencross network?

CEO Glen Richards
The Sydney practice is an excellent business and has developed to a size that allows some scale. Many of our current Greencross general practices deliver EBIT margin similar or better. We expect this business to continue to generate excellent earnings in the Greencross network.

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Following the completion of the Sydney transaction, which is expected on 27 February, you'll have another $5 million remaining from the placement. Is another similar sized acquisition in the wings?

CEO Glen Richards
We're currently involved in numerous conversations in relation to acquisitions. Given the confidential nature of such negotiations, we can't provide further information at this stage. However, we'll ensure we clearly communicate to shareholders relevant information about the size and nature of practices as we acquire them.

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In light of the increase in the number of shares on issue post placement, do you remain on track to achieve your FY2013 guidance of EPS growth of at least 15 percent? How might larger acquisitions impact the longer term growth outlook for the company?

CEO Glen Richards
We reiterate that we still expect underlying EPS to grow by at least 15 percent.

Post placement, we'll continue to target EPS growth of 15 percent per annum, as a minimum, over the long term.

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Thank you Glen.

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

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