



## CITI Micro Cap Conference

April 2013



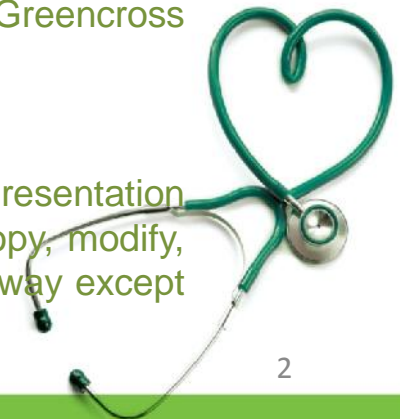
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## Agenda

- Industry Overview and Acquisitions
- Greencross Overview and Business Optimisation
- Financial Performance and Outlook





## Industry Overview: The Opportunity

- Industry remains fragmented in FY 2013 with 2,659 practice locations and 1,865 businesses<sup>1</sup>
- Industry turnover increased 1.6% in the year to 30 June 2012 to \$2.5bn<sup>1</sup>
- Average annualised real growth rate estimated at 2.7% over the next 5 years to 30 June 2018<sup>1</sup>
- Companion animal income expected to account for 78% of total turnover in 2012 -2013
- 63% of households own a pet with 53% of households owning a dog or cat<sup>1</sup>
- Number of registered Veterinarians have grown by 73% over the decade with numbers to exceed 11,000 in FY 2013.
- 350 veterinary graduates per year recently increased to 550 graduates per year with three universities opening veterinary schools in recent years

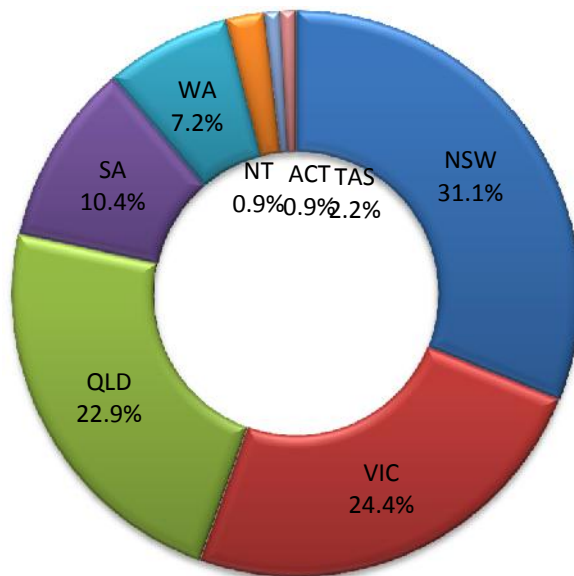


<sup>1</sup> IBISWorld 08640 – September 2012

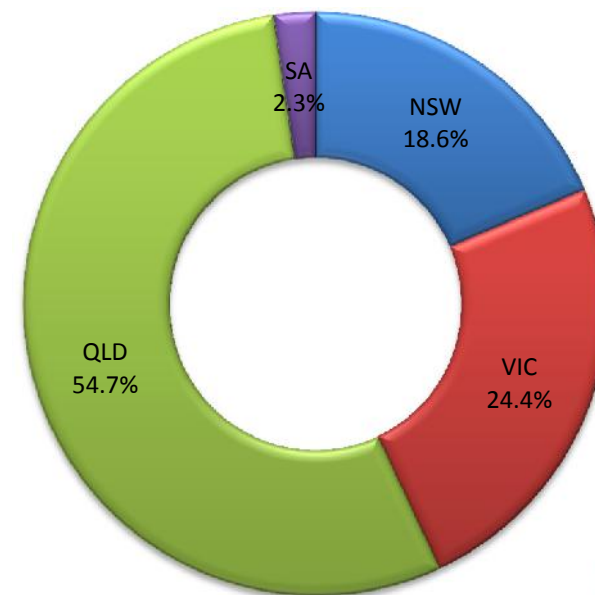


## Industry Overview: Locations

**Industry Business Locations per State**



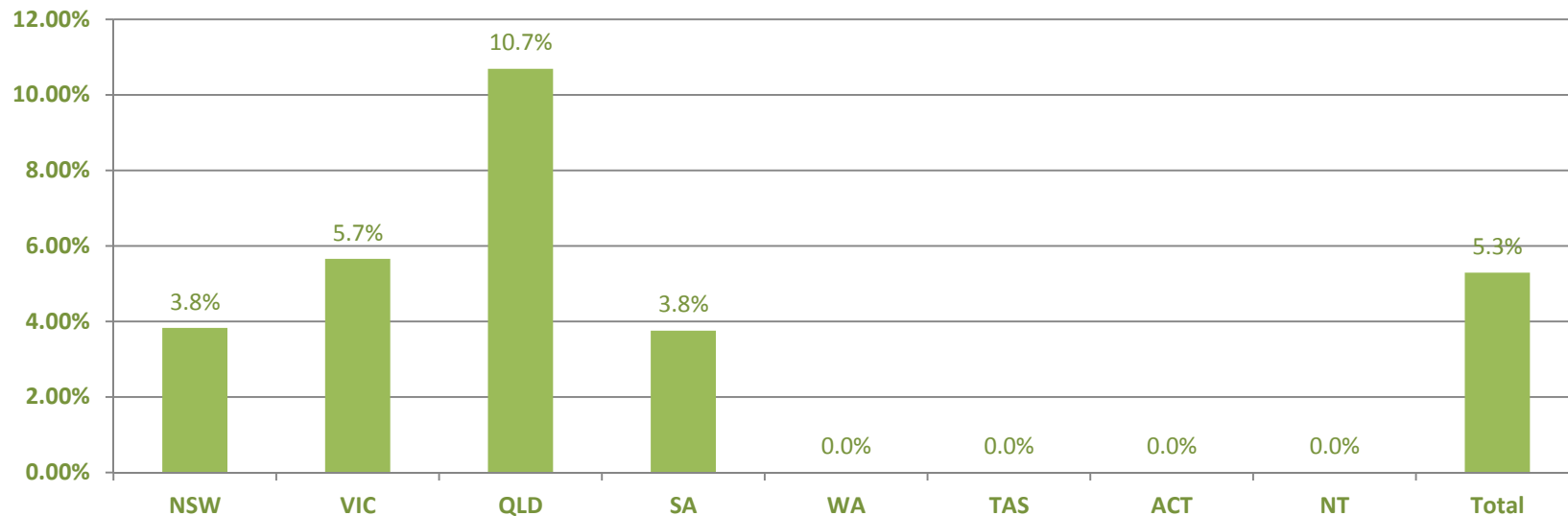
**GXL Business Locations per State**





## Industry Overview: Greencross Market Share

### GXL Market Share - Companion Animal Revenue by State



- Greencross has a 4% market share of the Veterinary Services Industry in Australia, while specifically within the companion animal market Greencross has grown its share to 5%
- Greencross has a 11% market share of companion animal revenue in Queensland. In the bigger pet markets of NSW and VIC, Greencross' market share of companion animal revenue is only 4% and 6% respectively





## Industry Overview: Acquisitions Continue

- Greencross is an important succession option for aging “baby boomer” vets as traditional succession options diminish
- Fair valuation methodology typically 3-4.5 times historical maintainable earnings for veterinary practices
- Average practice size acquired in the last 12 months was \$1.7M in turnover
- Greencross will continue to target 1-2 practices per month or \$12m-\$15m in aggregate revenue per annum
- 20%-30% consideration subject to earn out with carrot and stick clauses (not linked to employment)
- Inbound enquiries continue to number greater than 30 veterinary hospitals in the acquisitions pipeline at any one time
- Acquisitions, integrations and regional management teams expanded to accommodate a timely acquisitions program
- Acquisition funding will continue through a mix of debt, free cash and vendor deferred payments





## Greencross Overview: Relevant to the Veterinary Industry

- Over 200,000 active clients with 270,000 patients visiting our hospital with 308,000 primary visits per year
- 1,100 team members (full time, part time and casual), with over 350 Veterinarians and 600 Nurses and support team members
- Annualised employee retention rates of 80% for Veterinarians and 79% for receptionists and nurses across the company
- Ability to leverage client visitations with cross referrals into full service hospitals, Pet Centres of Excellence, and Specialty and Emergency centers
- Greencross branding reflects 'best practice' accreditation of veterinary practices
- World class clinical and business education programs implemented in the veterinary workplace delivered nationally and regionally every two to three months to drive personal, professional and company growth





## Greencross Overview: Integrated Opportunities

**Specialist Centres**

**Full Service General Practices**

**Emergency Centres**

**Retail Centres & Online**

On line pharmacy  
& targeted retail

**Wellness & Behaviour**

Healthy Pets Plus  
Training & Behaviour  
programs

**Laboratories**

Specialised vet  
pathology

**Boarding, Grooming, etc**

Centres linked to  
vet enterprises

*The Australian pet industry presents a wide market of opportunities*





# Greencross Overview: Relevant to Employees

## 1970's

## 2013

90% male vets



50% female vets,  
with 83% female  
graduates

Male vets  
desiring  
practice  
ownership



Current graduates  
little desire for  
practice ownership

Simple  
procedures  
with low  
technology



Advanced  
procedures with  
vets desiring highly  
technologically  
advanced  
equipment

Low barriers  
to entry



Relatively high  
barriers to entry

## Greencross Model

- ✓ Flexible working arrangements, enhanced career path
- ✓ Exceptional human resource support and industry leading remuneration and reward programs
- ✓ Business Access Program for Veterinary Directors and Practice Managers
- ✓ Technologically advanced superior patient care
- ✓ World class internal workshops, training and professional development delivered by a dedicated education team
- ✓ Accreditation system and equipment upgrades ensures medically advanced environments for teams to work in





## Greencross Overview: Relevant to Pets

- Paradigm Shift...from being reactive to proactive, and moving towards a 'human-like' system of prevention.
- Pets examined and screened regularly to enable early detection, diagnosis, and treatment; with the goal of pets living happier, healthier and longer lives.
- HPP is a healthcare plan which allows easy access to veterinary care and discounts on food, medication and additional services
- Pet owners visit more frequently and evolve into exceptional pet owners
- HPP members increase their average annual spend on sickness, wellness, nutrition and preventative products and services





## Greencross Overview: Business Optimisation

- Centralised Data base facilitates reporting and analysis on a daily, weekly and monthly basis

	Result	Target	Median	Rank	Trend	Benchmark
<b>FINANCE</b>						
Gross Sales	\$150,085	\$146,092.24	\$97,732	22/78		
Fees per Visit	489\$/visit	450\$/visit	313\$/visit	1/78		
Professional Fees/Exam	268\$/visit	216.86\$/visit	173\$/visit	2/78		
Professional Fees/Gross Sales	54.8%	58.5%	54.55%	38/78		
Laboratory/Sales	15.8%	9%	8.8%	3/78		
Professional Fees	\$82,321	\$69,393.81	\$50,854	23/78		
Ancillary/Sales	0%	2%	0.2%	53/78		
Laboratory	\$23,650	\$13,148.30	\$8,946	10/78		
Ancillary Services	\$55	\$2,921.84	\$159	52/78		
Visits	307	320	282	37/78		
<b>STANDARDS OF CARE</b>						
Progress Exam/Visits	25%	25%	19.5%	22/78		
Diagnostics/Visits	74%	50%	36%	1/78		
Dentals/Visits	12%	10%	4%	2/78		
Fluids/Visit	27%	20%	11%	1/78		
Vaccinations/Visits	57%	51%	54.5%	25/78		
Wellness	12%	8%	4%	1/78		
Hospital Stays/Visit	18%	25%	8.5%	5/78		
Vaccinations	174	163.2	161	35/78		
Progress Exams	78	80	65.5	30/78		
Diagnostics	227	160	109.5	14/78		



## Greencross Overview: Business Optimisation

- Highly developed benchmarking and coaching tools support improvement in performance of individual practices and team members





# Greencross Overview: Business Optimisation

- Over 40 KPIs monitored including:
  - Customer and Employee Net Promoter Score
  - Productivity and Efficiency Parameters
  - Clinical Standards of Care KPIs
  - Systems, Procedures and Administrative functions





## Greencross Overview: Business Optimisation

- Regional clustering of General Practices aids development of allied veterinary businesses, including pathology, diagnostic imaging , specialty and emergency centres to drive greater returns to shareholders
- Branding and accreditation program, and customer service and best practice clinical training programs improve quality of medicine and quality of business
- Improved core ranging, merchandising, supply chain margin, reward programs and modular retail execution targeted to improve profitability, market share and retail spend in pet food and preventative categories





## Greencross Overview: Business Optimisation

- Increase in average spend per visit related to “Best Care Standards,” Healthy Pets Plus Wellness program and advanced medical procedures
- Economies of scale in relation to supplier terms and agreements
- Leverage capex, education and marketing spend through regional approach
- Veterinary Directors and Practice Managers (Clinic Team Leaders) and Group Area Managers supported by the corporate team across multiple business disciplines to optimise support for “the local veterinary team”
- National Brand Development, New Client Acquisition program and Nationally Coordinated Campaign Calendar drives foot traffic to Greencross Businesses





## Greencross Overview: Relevant to Investors

- Largest provider of veterinary services in Australia with 92 animal hospitals, clinics and laboratories focused primarily on companion animal care
- Industry turnover of \$2.5bn – Annual growth 2008 - 2013 of 1.6% with an estimated growth rate of 2.7% between 2013-2018<sup>1</sup>
- Resilient earnings profile and strong cash flow generation
- Consistent and proven performance in acquisitions, integrations, and the management of multi-site veterinary hospitals
- First mover in the highly fragmented veterinary services industry – 2,659 practice locations and 1,865 enterprises nationally
- Demographic shift favours acquisition strategy – genuine need for succession strategies for existing practice owners versus diminishing desire for practice ownership by new industry entrants



<sup>1</sup> IBISWorld 08640 – September 2012



## H1 FY2013 – Results Summary

Six Months Ended 31 <sup>st</sup> December 2012	Amount	Change
Revenue	\$51.2m	29.8%
Underlying EBITDA*	\$7.8m	32.2%
Underlying NPAT*	\$3.5m	34.6%
Underlying EPS *	10.7cps	23.6%
Dividend	5.0cps	31.3%
Weighted Average Shares On Issue	32.2m	6.49%

*\* Underlying figures exclude adjustments for deferred purchase payments, one-off acquisition costs and set up costs in relation to the new VEPA pathology business.*





## H1 FY2013 – Results Summary

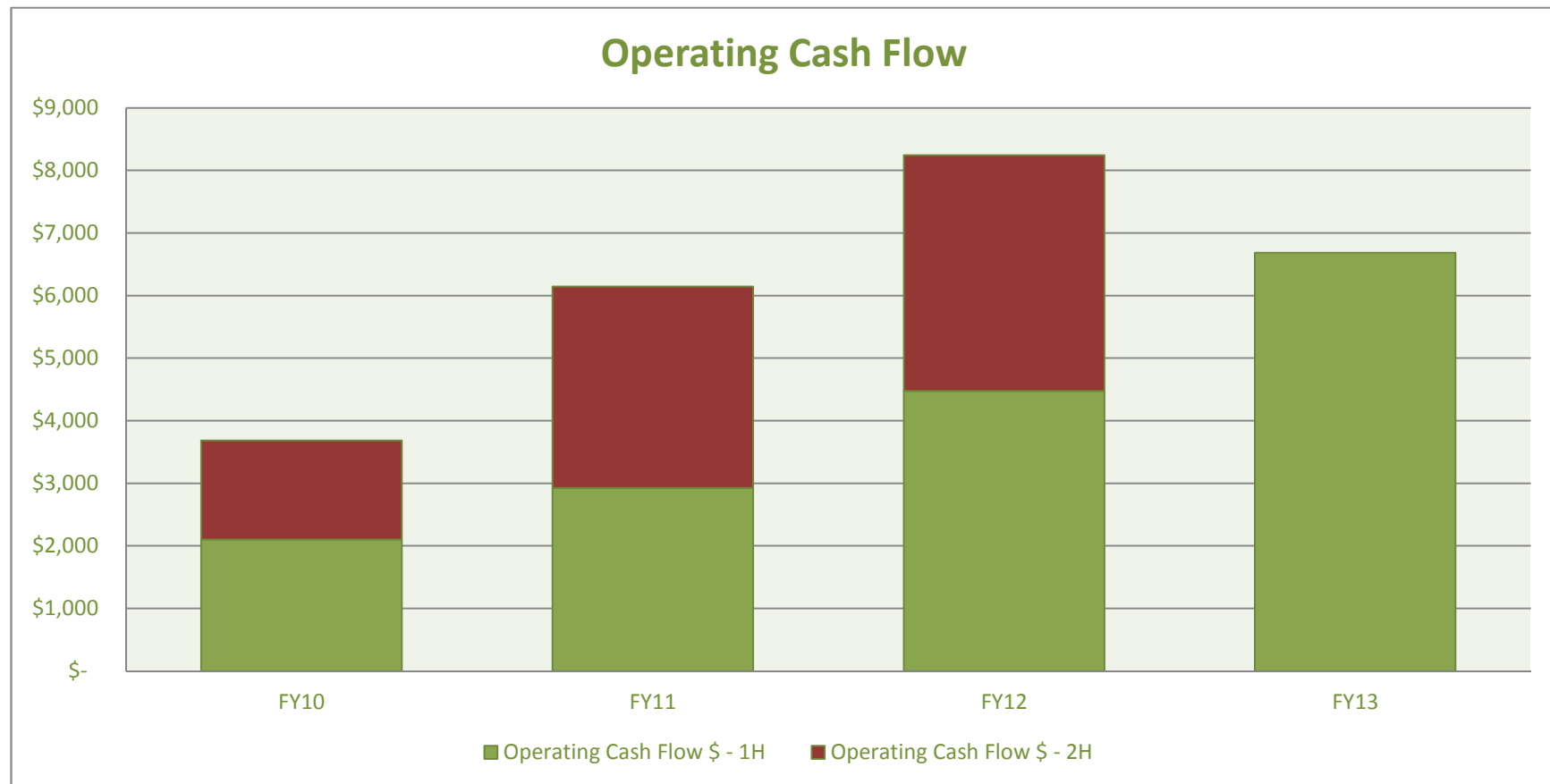
Six Months Ended 31 <sup>st</sup> December 2012	FY13	Change
Operating cashflow	\$6.7m	48.9%
Net debt	30.1m	7.3%
Net debt / equity	83.9%	3.9%
Dividend payout ratio*	50%*	

*\*The company has a stated dividend payout ratio of 50% of underlying earnings*





## Operating Cash Flow

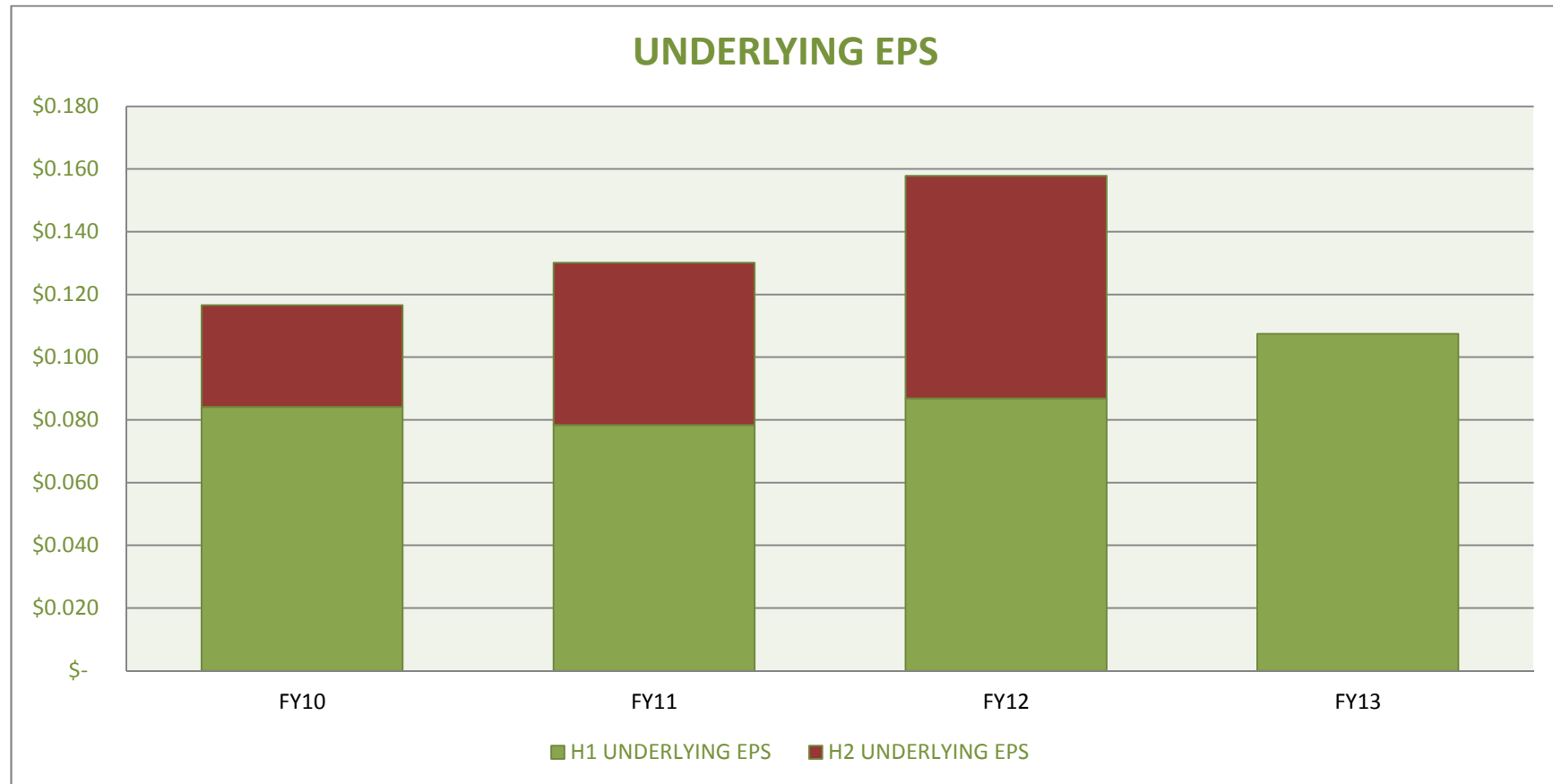


Operating cash flow continues to build from earnings contributions and tight working capital control





## Underlying Earnings Per Share



Earning per share continues to grow through tightly controlled and disciplined acquisitions and on the back of organic growth.





## Greencross Outlook

- Strong acquisitions pipeline
- Acquisitions continue as a key driver of growth with a target of at least one to two acquisitions per month on multiples of 3.0 to 4.5 times EBIT
- Gearing (Net debt to equity ratio) to trend below 65% as more acquisitions are funded through free cash and less debt
- Company Imperatives are reset every 90 days to ensure continual focus on integrating, managing and supporting the network of veterinary businesses across Australia
- Healthy Pets Plus targeted to grow to at least 15,000 members over the next six months
- FY13 EPS is expected to increase on PCP by at least 15%



