



**14 November 2013**

**Greencross to merge with Mammoth to create Australasia's largest integrated consumer facing pet care company**

- Greencross Limited ("Greencross") has agreed to merge with Mammoth Pet Holdings Pty Limited ("Mammoth") by acquiring 100% of the equity in Mammoth in exchange for c.52.6 million shares in Greencross ("Merger").
- A leading specialty pet care retailer in Australasia,<sup>i</sup> Mammoth offers a broad range of products and services to pet owners through its store and online platforms. Mammoth operates under the Petbarn brand in Australia and the Animates brand in New Zealand.
- The Merger will create Australasia's largest integrated consumer facing pet care company, providing an array of veterinary services, as well as pet care retailing through its network of 124 stores and 100 vet clinics across Australia and New Zealand.
- The Merger is a company transforming transaction for Greencross shareholders – the combined company is forecast to generate over \$440 million of revenue and over \$50 million of EBITDA in FY14F.
- The Merger will provide Greencross with a leading market position in the Australian pet care and pet services industry which has a combined addressable market of c.\$7bn<sup>ii</sup>.
- Greencross will issue c.52.6 million shares to Mammoth shareholders, representing 58.25% of the merged company's issued securities.
- The Merger is expected to be earnings per share ("EPS") accretive in FY14F on a pro forma basis and deliver double digit EPS accretion in FY15F relative to a market consensus EPS estimate of \$0.286 per share.<sup>iii</sup>
- The Merger is subject to shareholder approval by ordinary resolution (>50%) at a general meeting ("Meeting") expected to be held in late January 2014.
- An Independent Board Committee ("IBC") has been established to consider the Merger. The Directors who are entitled to vote on the Merger have unanimously<sup>iv</sup> resolved to recommend the transaction, subject to a favourable report from the Independent Expert ("IE")<sup>v</sup>.

## **Overview**

Greencross today announces that it has reached agreement to merge with Mammoth via the acquisition of 100% of the issued shares in Mammoth from the Mammoth shareholders in exchange for Greencross shares,<sup>vi</sup> bringing the total number of ordinary shares post-Merger to 90.3 million.<sup>vii</sup>

## **About Mammoth**

Mammoth is a leading specialty pet care retailer in Australasia, operating under the Petbarn brand in Australia and the Animates brand in New Zealand.

Petbarn opened its first store in Sydney's western suburbs over 30 years ago. By 2005, Petbarn had expanded to 10 stores in Sydney when it was acquired by Mammoth. In 2007, Mammoth partnered with Masterpet (now a subsidiary of EBOS Group Limited) to acquire 4 stores in New Zealand. Mammoth has been transformed into a network of 124 "big box" format pet specialty stores:

- 100 in Australia trading as Petbarn; and
- 24 in New Zealand trading as Animates in a 50:50 joint venture with EBOS Limited

Mammoth has a strong track record of growth delivered via consistent like-for-like sales growth<sup>viii</sup> and a strategic store rollout program. Over the past three years, Mammoth has achieved a 22.6% revenue CAGR and a 25.4% EBITDA CAGR, and in FY13 like-for-like sales growth for Petbarn was 8.5%.

Mammoth is expected to generate \$312 million of revenue and \$34 million of EBITDA in FY14F. Mammoth's long term goal is to grow its existing c.4% share of the pet care and pet services market (excluding veterinary services) in Australia to 20%.

Mammoth's key shareholders comprise:

- Jeff David, co-founder of Mammoth and current Greencross Director;
- Paul Wilson, co-founder of Mammoth;
- Glen Richards, Managing Director of Greencross;
- TPG Growth, part of a global funds management group, focussed on middle market and growth equity transactions with deep experience in pet retailing; and
- PetCo, one of the world's largest pet care specialty retailers, with over 1,200 stores in the United States.

### **Strategic and financial rationale for the Merger**

The Merger is a company transforming transaction which will create Australasia's largest integrated consumer facing pet care company and benefit Greencross by strengthening client and customer engagement, expanding its product and service offering and creating cross-selling opportunities.

Commenting on the Merger, Andrew Geddes, the current Chairman of Greencross said, "The proposed merger is a landmark transaction for the company which, if approved, will transform Greencross into Australasia's leading pet care provider and create a powerful platform for future growth."

There is a compelling strategic rationale for a merger of the Greencross and Mammoth businesses:

- Provides a clear point of differentiation from competitors with an integrated complementary retail and services model – established precedents in the US and UK markets which have had a successful track record of network expansion and earnings growth;
- Broadens Greencross' potential customer base with Petbarn having c.1.1m "Friends for Life" members to which Greencross' services can be targeted;
- Establishes a leading market position in the pet care and pet services industry with a combined addressable market of c.\$7bn in Australia;

- Increases opportunities for growth given the highly fragmented nature of the Australasian pet care market;
- Potential for significant synergies to be achieved following the Merger; and
- Expands existing collaboration activities already undertaken by the parties.

The Merger is expected to be EPS accretive for Greencross in FY14F on a pro forma basis and deliver double digit EPS accretion in FY15F relative to consensus market estimates.

The Greencross Board of Directors (“Board”) believes that significant cost and revenue synergies are achievable as a result of the Merger from the following areas:

- Leveraging shared services (finance, property, product, supply chain and marketing);
- Harmonising procurement terms on selected products (Greencross margins on certain products expanding to Mammoth margins);
- Driving margin improvements from increased scale and private label products;
- Targeted marketing to encourage Mammoth’s “Friends for Life” loyalty program members to use Greencross services;
- Targeted marketing to encourage Greencross’ clients (including “Healthy Pets Plus” wellness program members) to use Mammoth services;
- Co-locating Greencross clinics in existing and new Petbarn stores;
- Offering Greencross products and services in Petbarn stores;
- Utilising Mammoth’s retailing competency to enhance Greencross’ merchandise offering; and
- Utilising Greencross vet capabilities and brand to extend Petbarn’s product and service offering.

The Board believes that pro forma FY14 annualised cost synergies of \$1.5m are realisable, with significant further potential upside from both cost and revenue synergies in future years.

Greencross CEO Glen Richards said, “Combining Mammoth’s expertise in pet specialty retailing with Greencross’ market-leading veterinary services will create a unique offering for pets and pet parents in Australasia. This is a well-established business model in the US and UK and one which we believe will benefit our customers as well as our shareholders.”

#### **Proposed changes to the management and Board as a result of the Merger**

Greencross is pleased to announce the following senior executive appointments, conditional and effective upon completion of the Merger:

- Jeff David, currently the Executive Chairman of Mammoth and Non-Executive Director of Greencross, will assume the role of Chief Executive of Greencross;
- Glen Richards, currently the Managing Director of Greencross, will assume the role of Managing Director, Veterinary Services and will remain on the Board; and
- Paul Wilson, currently the Managing Director of Mammoth, will assume the role of Managing Director, Pet Care Retailing and will be appointed to the Board.

Greencross post merger will draw on the experience and expertise of both Greencross and Mammoth leadership teams.

In addition, Andrew Geddes will step down as Chairman of Greencross but will remain on the Board as a Non-Executive Director. Stuart James, currently a Non-Executive Director of Greencross, has agreed to take on the role as Chairman and oversee Greencross as it delivers the benefits of this transformational Merger.

In announcing his intention to step down as Chairman of Greencross, Andrew Geddes said:

“I am delighted that Stuart James has agreed to take on the role of Chairman of Greencross. Since first being appointed as a Director of the company in October 2009, Stuart has proven himself to be a valuable and insightful member of the Board. Stuart’s experience as an executive within the financial and healthcare sectors, and his past 4 years as a Director of Greencross, make him the ideal candidate to Chair Greencross as it embarks on this exciting time in its development.”

On the proposed appointment of Jeff David as Chief Executive Officer of Greencross, Stuart James said:

“I am convinced that Jeff’s thorough knowledge and understanding of the pet care industry, his intimate knowledge of Greencross and Mammoth and his passionate commitment to establishing Australasia’s leading specialty pet care company will enable him to successfully combine and grow our two businesses and deliver value for shareholders.”

Conditional and effective upon completion of the Merger, the Board of Greencross will comprise:

- Stuart James (Non-Executive Chairman);
- Jeff David (Chief Executive Officer);
- Glen Richards (Managing Director, Veterinary Services);
- Paul Wilson (Managing Director, Pet Care Retailing);
- Andrew Geddes (Non-Executive Director);
- Matt Hobart (Non-Executive Director); and
- Scott Gilberston (Non-Executive Director).

Matt Hobart is currently a Non-Executive Director of Mammoth. Both he and Scott Gilbertson are Partners at TPG Growth, a key Mammoth shareholder.

Conditional and effective upon completion of the Merger, key Mammoth shareholders<sup>ix</sup> representing c.38.3% of Greencross post-Merger, have indicated that they would not undertake any dealings in their shareholdings during the period which ends upon the release of the merged company’s FY14 results.<sup>x</sup>

### **Implementation of the Merger**

To give effect to the Merger, Greencross and Mammoth have entered into a share sale agreement (“the SSA”). Under the SSA, certain conditions must be satisfied prior to completion of the Merger, including obtaining:

- Foreign Investment Review Board approval;
- Greencross shareholder approval at the Meeting; and
- Certain change of control consents.

The SSA includes certain exclusivity and break fee arrangements.

#### **Indicative transaction timetable and corporate governance**

The Merger is subject to shareholder approval by ordinary resolution (>50%) at the Meeting scheduled to take place in late January 2014. Certain parties will be excluded from voting.

A Notice of Meeting and an Explanatory Memorandum (“EM”), which will include an Independent Expert’s Report, will be sent to shareholders in December.

Jeff David and Glen Richards, current Directors of Greencross, both hold significant shareholdings in Mammoth. Accordingly, in line with corporate governance best practice, the Greencross Board established an IBC consisting of the Greencross Directors Stuart James, John Odum and Andrew Geddes, to consider the Merger. The IBC has unanimously resolved to recommend the Merger to shareholders, subject to the IE opining that the merger is fair and reasonable or not fair but reasonable.

A high level summary of the proposed Merger timetable is outlined below:

| Key event   | Expected date                     |
|---|-----------------------------------|
| Distribution of EM and Notice of Meeting to Greencross shareholders | Early December 2013 <sup>xi</sup> |
| Meeting and shareholder vote  | Late January 2014                 |
| Transaction completion  | 31 January 2014 <sup>xii</sup>    |

## Further information

Shareholders are advised to refer to the investor presentation released to the ASX for further details of the Merger. It is proposed that the Notice of Meeting, together with the EM, will be available in early December 2013.

Greencross is being advised by Rothschild and Clayton Utz.

Mammoth is being advised by Allier Capital, Macquarie Capital and Herbert Smith Freehills.

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<sup>i</sup> Australasia refers to Australia and New Zealand.

<sup>ii</sup> Management estimates. Addressable market refers to the annual revenue opportunity available for the products and services offered by Greencross and Mammoth.

<sup>iii</sup> EPS accretion calculated on a pro-forma basis. The pro forma FY14F calculation includes a full year contribution from both Greencross and Mammoth and a full year cost synergy contribution, as though the merger was effected on 1 July 2013. Payments relating to integration costs and transaction costs have been excluded from the pro-forma income statement, although debt funded costs increase the forecast interest expense. Consensus estimate for Greencross standalone EPS in FY15F is 28.6 cents per share (Source: Bloomberg as at 12 November 2013). Acquisition accounting adjustments have not yet been undertaken, and as such pro forma EPS accretion is before any amortisation on intangibles identified as part of this process.

<sup>iv</sup> Several of the Meeting resolutions are subject to voting restrictions imposed by the Corporations Act and ASX Listing Rules. Each Director who is entitled to vote on a Meeting resolution recommends that shareholders vote in favour of that resolution.

<sup>v</sup> A favourable report will be one that concludes the transaction is fair and reasonable or not fair but reasonable.

<sup>vi</sup> Ordinary shares ranking pari passu with existing Greencross ordinary shares.

<sup>vii</sup> On a fully diluted basis.

<sup>viii</sup> Year-on-year same store growth.

<sup>ix</sup> Key Mammoth shareholders comprise Jeff David, Paul Wilson, Glen Richards, TPG Growth and Petco.

<sup>x</sup> Jeff David, Glen Richards and Paul Wilson's intention relates to the merged company's shares they will receive in exchange for their Mammoth shares when the Merger is implemented. In respect of Glen Richards these shares represent approximately half of his total holding in the merged company and in respect of Jeff David and Paul Wilson the vast majority of their holding.

<sup>xi</sup> Subject to review by ASX and ASIC.

<sup>xii</sup> Subject to Greencross shareholder approval and regulatory approvals.