

16 February 2016

FY2016 H1 result - Strong revenue growth and robust cashflow generation

Highlights

- Revenue up by 18% to \$362.7 million
- Gross Margin up by 23% to \$201.6 million
- Gross Margin % up by 240bps to 55.6%
- EBITDA up by 105% to \$45.1 million
- Underlying EBITDA up by 17% to \$48.5 million
- EPS up by 587% to 16.5 cents
- Underlying EPS up by 9% to 18.7 cents
- Interim Dividend up by 13% to 9.0 cents
- Net Debt down by \$14.3 million

Results Overview

Greencross Limited today announced record first half result which was underpinned by strong revenue growth and robust cash generation.

Revenue increased by 18% to \$362.7 million, driven by network expansion and Group LFL sales of 5.1%. Gross margin increased by 23% to \$201.6 million and gross margin % increased by 240bps to 55.6%. EBITDA grew by 105% to \$45.1 million and underlying EBITDA increased by 17% to \$48.5 million reflecting sustained investment in growth capabilities and systems. Underlying NPAT of \$21.2 million delivered EPS of 18.7 cents per share. The Directors have declared an interim dividend of 9.0 cents per share.

EBITDA cashflow conversion increased to 116% reflecting well controlled inventory and cashflow management. Greencross' supply chain was key in delivering this result as in store availability of the top 1000 lines increased to over 95% while store inventory levels decreased. Off the back of this strong cashflow, net debt decreased by \$14.3 million to \$220.1 million and leverage decreased from 2.5x to 2.3x.

Greencross' Chief Executive Officer, Martin Nicholas said "GXL's first half performance validates the Board's view of the long term future value of the company and endorses the Board's response to recent opportunistic approaches which fundamentally undervalued Greencross. GXL has delivered 18% revenue growth, solid like-for-like sales growth, a 240 basis points gross margin improvement and strong cashflow. We are delivering on our strategic growth initiatives, adding 11 new stores and 17 new clinics (including 9 "in store" co-located clinics) to our expanding network. Greencross' integrated pet care model is proving successful with the number of cross shoppers who both shop at our retail stores and use our veterinary services increasing by 27% to almost 50,000 customers over the past 12 months. Our profitable online business recorded 70% revenue growth and is expected to reach \$10 million in annualised revenue by the end of FY2016."



Sales Growth

The Group delivered total sales growth of 18%. Australian veterinary services achieved 25% sales growth, driven by clinic acquisitions and the contribution of specialty & emergency. New Zealand contributed 20% sales growth off the back of store network expansion and outstanding LFL sales growth of 7.3%. Australian retail delivered sales growth of 15% notwithstanding the impact of WA, where sales grew by 8%. Excluding WA, which represents only 17% of Australian retail sales, the Australian retail business delivered LFL sales growth in excess of 6%.

	Sales Revenue (\$ million)	Sales Revenue Growth	LFL Sales Growth
Retail - Australia	228.0	15%	4.3%
Vet - Australia	96.3	25%	4.1%
New Zealand	38.4	20%	7.3%
Group Total	362.7	18%	5.1%

Co-located “in store” clinics

Greencross has added 9 “in store” clinics in H1 FY2016 bringing the total number of co-located clinics to twelve. Our “in store” clinics which opened in FY2015 are performing ahead of expectations and have reached profitability within the first twelve months. As a consequence, and having regard to competitive conditions in the vet acquisition market, Greencross now intends to accelerate its roll out of co-located clinics and is aiming to have 30 “in-store” clinics by the end of FY2017.

Cross Shopping

Greencross offers a unique integrated pet care solution in the Australian pet care market by providing our customers and their pets with a one stop shop to meet all of their needs. Greencross’ aim is to deepen our customer engagement by providing flexible and convenient access to our products and services both in our stores and via our online platform. Actual Greencross customer data for H1 FY2016 shows that customers who use our retail, veterinary and grooming services spend, on average, over five times as much as customers who shop in store only. As a result of the introduction of Group Loyalty in November 2015 and targeted cross referral programs, the number of customers who shop at our retail stores and use our veterinary services has increased by 27% to almost 50,000 customers over the past 12 months. Cross shoppers across all categories (including services) now represent 7% of Greencross’ active customer base, but account for 17% of total revenue and 19% of total margin.

Greencross CEO Martin Nicholas said *“These results are very encouraging and support our strategy of increasing the number of high value customers who shop with Greencross across multiple platforms by expanding our network, adding “in store” clinics and rolling out grooming and dog washing services.”*

Online Sales Growth

Online sales revenue growth was strong at 70%. Visits to the Petbarn website have increased to over 550,000 per month. After a record month in January, Greencross is now on target to reach \$10 million in annualised online sales revenue by the end of FY2016.

Greencross’ Chief Executive Officer, Martin Nicholas said *“We are committed to investing further in our digital and online platform to become the #1 player in the \$150 million Australian online pet market. Our store network actually provides us with a unique competitive advantage compared to pure online players, as it provides us with over 300 locations for click and collect. Pets at Home (UK) are now reporting that over 50% of online sales are collected by customers in store. Our digital strategy includes click and collect and endless aisle programs, together with our in store fulfilment model which enables us to minimise the cost of home delivery.”*

Gross Margin

Gross margin increased across all divisions in H1 FY2016. Overall, Group gross margin % increased by 240bps to 55.6% mainly due to an increased contribution from the higher margin veterinary services business, improvement in City Farmers margins and higher private label penetration.

Gross Margin %	H1 FY2016	H1 FY2015	Change
Retail - Australia	47.5%	45.8%	+170bps
Vet - Australia	77.7%	76.3%	+140bps
New Zealand	47.8%	44.2%	+360bps
Group Total	55.6%	53.2%	+240bps

Private Label Sales

Sales of private label and exclusive brand products continue to increase and now represent 18% of total Australian retail product sales.

Network

Greencross has added 11 retail stores to its network in H1 FY2016:

- opened 7 new stores in Australia (VIC 2, WA 2, SA 1, ACT 1, QLD 1)
- opened 5 new stores in New Zealand
- closed 1 store in Australia (NSW)

Greencross has added 17 clinics to its network in H1 FY2016:

- acquired 4 clinics in Australia (QLD 2, SA 1, NSW 1)
- acquired 4 clinics in New Zealand
- opened 8 co-located clinics in Australia (QLD 4, NSW 3, VIC 1)
- opened 1 co-located clinic in New Zealand

The vet acquisitions completed in H1 FY2016 are expected to deliver over \$6.5 million in annualised revenue.

Stores and Clinics	H1 FY2016	H1 FY2015	Change
Retail stores	211	189	22
Standalone clinics	137	119	18
In store clinics	12	1	11
Total	360	309	51

Dividend

The Directors have declared a fully franked interim dividend of 9.0 cents per share, which is 13% higher than the dividend for the previous corresponding period. The record date for the dividend will be 26 February 2015 and the dividend will be paid on 23 March 2015.

Greencross has suspended its dividend reinvestment plan (DRP) until further notice. Accordingly, the DRP will not apply in relation to the interim dividend.

Trading Update

As at week 32:

- Total sales revenue growth is 17.7%
- Group LFL sales growth is 5.1%
- WA is now delivering positive LFL sales
- Gross margin remains strong

Network Expansion Targets

Greencross expects to add 20 stores and to open 12 “in store” co-located clinics in FY2016.

The level of vet acquisition activity in H2 FY2016 is expected to be similar to H1.

The roll out of “in store” co-located clinics has been accelerated and Greencross now expects to have 30 co-located clinics by the end of FY2017.

Outlook

Greencross remains confident of delivering strong revenue and earnings growth supported by improving LFL sales growth, including WA, and continued network expansion. Robust cash flow conversion will further strengthen the balance sheet.

Results Briefing – Teleconference Details

The teleconference details for today’s results briefing for analysts and institutional investors at 10.30am (AEST) are set out below:

Conference ID: 4154 0530

	Direct	Toll Free
Australia	(02) 8038 5221	1800 123 296
New Zealand		0800 452 782
Canada		1855 5616 766
Hong Kong		800 908 865
Singapore		800 616 2288
United Kingdom		0808 234 0757
USA		1855 293 1544

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Appendix: Summary of Financial Performance

(\$ million)	H1 FY2016	H1 FY2015	Change (%)
Revenue	362.7	307.5	+18%
Gross margin	201.6	163.8	+23%
Gross margin (%)	55.6%	53.2%	+240bps
EBITDA	45.1	22.0	+105%
Exceptional items	3.4	19.5	-83%
Underlying EBITDA	48.5	41.6	+17%
Underlying EBITDA %	13.4%	13.5%	-10bps
Underlying NPAT post minorities	21.2	19.0	+12%
Underlying EPS	18.7	17.2	+9%
Interim dividend (cents)	9.0	8.0	+13%