

# Greencross Limited

## The Pet Company

### FY2016 FULL YEAR RESULTS PRESENTATION



# Strategy and Results Overview



# Our strategy

**In FY2016 our strategy continued to deliver and we extended our position as Australasia's leading integrated pet care company**

- **Optimising the current business**

- Strong cash conversion and inventory efficiency
- Improved gross margin and expanded private label

- **Expanding our footprint**

- Added 21 stores, 23 clinics (including 14 in-store clinics) and 14 grooming salons
- Confident in network runway with strong pipeline for retail stores and especially in-store clinics
- Price discipline held in overheated vet acquisition market

- **Delivering integrated model**

- 17 in-store clinics performing well ahead of plan and rollout being accelerated
  - strong customer acceptance driving profitability
  - improved efficiency in utilisation of existing store footprint, improving sales per square metre
- Group Loyalty rolled out nationally and loyalty card holders across ANZ represent >85% of retail sales
- Customers cross shopping across multi formats in Australia increased by 36% to ~136,000
- Profitable online model working well – online revenue up 83%

# Results overview

## ■ Revenue and earnings growth

- Group revenue up 14% to \$733.7 million
- Group LFL sales growth +4.4%
- Gross margin % up 130bps to 55.7%
- EBITDA up 38% to \$87.1 million
- Underlying EBITDA up 12% to \$97.5 million
- NPAT up 82% to \$34.6 million
- Underlying NPAT up 10% to \$42.1 million
- Underlying EPS up 8% to 37.0 cents
- Annual dividends up 9% to 18.5 cents

## ■ Continued strong cashflow generation

- Strong EBITDA cash conversion of 108%
- Net debt decreased by \$6.4 million to \$228.0 million

# Summary financials

	FY2016 (\$m)	FY2015 (\$m)	Change (\$m)	Change %
Revenue	733.7	644.5	89.2	+14%
Gross margin	408.7	350.5	58.2	+17%
Gross margin (%)	55.7%	54.4%		+130bps
EBITDA	87.1	63.3	23.8	+38%
Underlying EBITDA <sup>1</sup>	97.5	86.8	10.7	+12%
Underlying EBITDA margin (%) <sup>1</sup>	13.3%	13.5%		-20bps
EBITDA cash conversion (%)	108%	55%		+53%
NPAT	34.6	19.1	15.5	+82%
Underlying NPAT <sup>1</sup>	42.1	38.2	3.9	+10%
Underlying EPS (cents) <sup>1</sup>	37.0	34.3		+8%
Annual Dividends (cents)	18.5	17.0		+9%

1. Excludes exceptional and non comparable items. See appendix for further details

# Sales revenue

## Group sales revenue up 14% to \$734 million

### Sales revenue by segment

- Solid sales growth across all business segments and regions
- Australian retail revenue up 11% to \$458 million with ongoing weakness in WA and more targeted promotions
- Australian vet revenue up 17% to \$194 million, benefitting from full year of ARH & increased cross referrals
- NZ revenue up 22% to \$81 million, reflecting store fleet expansion, vet acquisitions and strong LFL sales

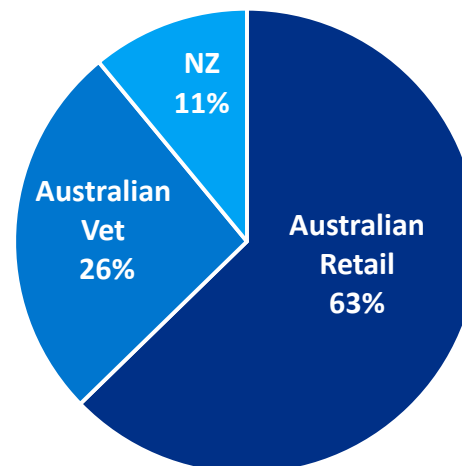
### LFL sales

- Group LFL sales growth of 4.4%
- Australian Retail LFL sales growth of 3.4%. Solid east coast performance. H2 LFL sales impacted by late arrival of winter and more targeted promotions
- Australian Vet GP LFL sales growth of 3.6% primarily reflected an increase in GP visits assisted by cross referrals
- Outstanding NZ LFL sales growth of 7.5% with small format regional stores performing well

### Sales revenue growth by segment

Revenue (\$m)	FY2016	FY2015	Change
<b>Group</b>	734	645	+14%
<b>Australian Retail</b>	458	412	+11%
<b>Australian Vet</b>	194	166	+17%
<b>New Zealand</b>	81	66	+22%

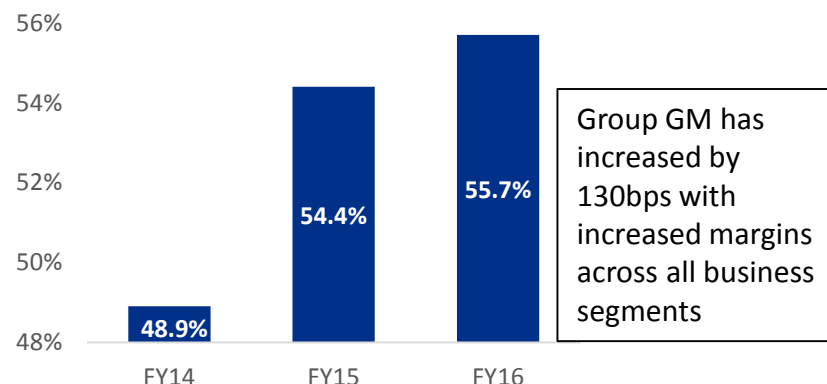
### Sales revenue by segment (%)



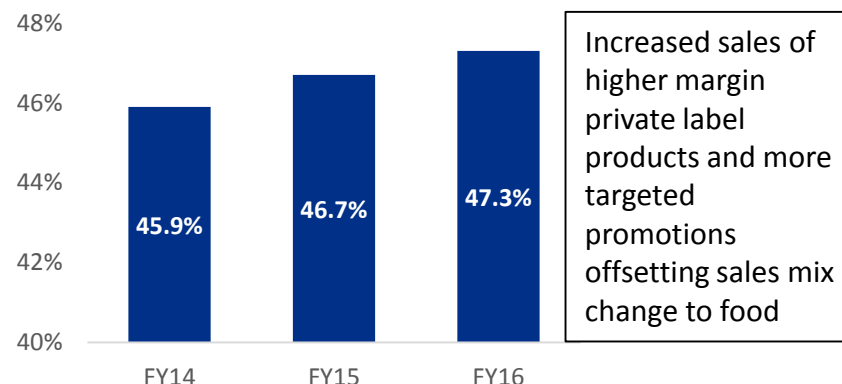
# Gross margin

Group gross margin % increased by 130 bps to 55.7%

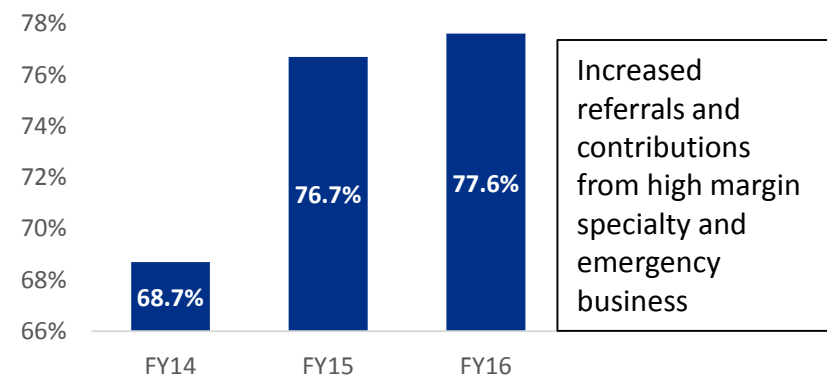
Group – Gross Margin %<sup>1</sup>



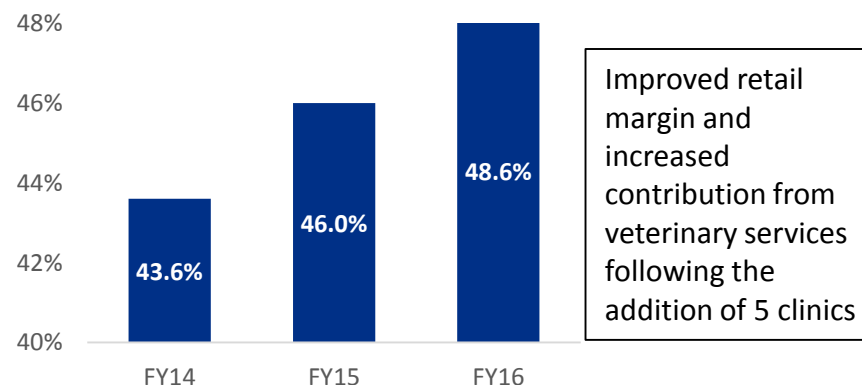
Australian Retail – Gross Margin %



Australian Vet – Gross Margin %



New Zealand – Gross Margin %



1. FY2014 gross margin reflects 5 month contribution of veterinary services revenue and 12 month contribution of retail revenue in accordance with AASB3 which treated the merger as an acquisition of Greencross Vet by Mammoth



## Continued strong cashflow generation resulting in \$6.4 million reduction in net debt

Statutory cash flow	FY2016 (\$m)	FY2015 (\$m)	Change (\$m)
<b>EBITDA</b>	<b>87.1</b>	<b>63.3</b>	<b>23.9</b>
Net working capital movement	6.6	(28.7)	35.2
<b>Ungeared, pre-tax operating cash flows</b>	<b>93.7</b>	<b>34.6</b>	<b>59.1</b>
<b>Cash conversion %</b>	<b>108%</b>	<b>55%</b>	<b>53%</b>
Net interest and finance costs paid	(13.9)	(11.1)	(2.8)
Income taxes paid	(1.1)	(8.8)	7.7
<b>Net cash from operating activities</b>	<b>78.6</b>	<b>14.7</b>	<b>63.9</b>
Purchase of City Farmers	-	(159.0)	159.0
Expansionary capex	(38.6)	(51.4)	12.8
Underlying capex	(21.7)	(24.1)	2.4
<b>Net cash used in investing activities</b>	<b>(60.3)</b>	<b>(234.5)</b>	<b>174.2</b>
<b>Free cash flow</b>	<b>18.4</b>	<b>(219.8)</b>	<b>238.2</b>
Net proceeds from issues of shares	0.3	18.6	(18.3)
Net proceeds from borrowings	25.3	110.6	(85.3)
Dividends paid	(10.9)	(0.4)	(10.5)
<b>Net cash used in financing activities</b>	<b>14.6</b>	<b>128.8</b>	<b>(114.1)</b>
<b>Net increase/(decrease) in cash</b>	<b>33.0</b>	<b>(91.1)</b>	<b>124.0</b>

- 108% cash conversion reflects an on going focus on effective working capital management
- Net debt reduced to \$228.0 million and leverage decreased to 2.3x
- Reduced expansionary capex of \$38.6 million
- Key underlying capex items were store maintenance, investment in omni channel and supply chain projects
- \$10.9 million cash dividend paid in March 2016
- Free cashflow of \$18.4 million and on track for sustained self funded expansion by end of FY2018
- Lending covenants comfortably met with reduced leverage
- \$120 million of headroom on Australian senior debt facilities providing flexibility to fund future growth opportunities including acquisitions

	FY2016 (\$m)	FY2015 (\$m)
<b>Debt metrics</b>		
<b>Net debt</b>	228.0	234.4
<b>Leverage - bank basis</b>	2.3x	2.5x



# Balance sheet

Key movements reflect effective working capital management and continued investment in growth

Balance sheet	FY2016 (\$m)	FY2015 (\$m)	Change (\$m)
<b>Assets</b>			
Cash and cash equivalents	62.6	29.6	33.0
Inventories	92.0	85.8	6.2
Other	10.2	19.2	(9.0)
<b>Total current assets</b>	<b>164.8</b>	<b>134.7</b>	<b>30.1</b>
Intangibles	554.7	527.8	26.9
Property, plant and equipment	155.4	131.4	24.0
Other	16.3	19.7	(3.4)
<b>Total non-current assets</b>	<b>726.4</b>	<b>678.9</b>	<b>47.5</b>
<b>Total assets</b>	<b>891.2</b>	<b>813.6</b>	<b>77.6</b>
<b>Liabilities</b>			
Trade and other payables	92.7	79.7	13.0
Borrowings	290.5	264.0	26.5
Tax and other provisions	55.0	50.7	4.3
<b>Total liabilities</b>	<b>438.2</b>	<b>394.5</b>	<b>43.7</b>
<b>Net assets</b>	<b>453.0</b>	<b>419.1</b>	<b>33.9</b>

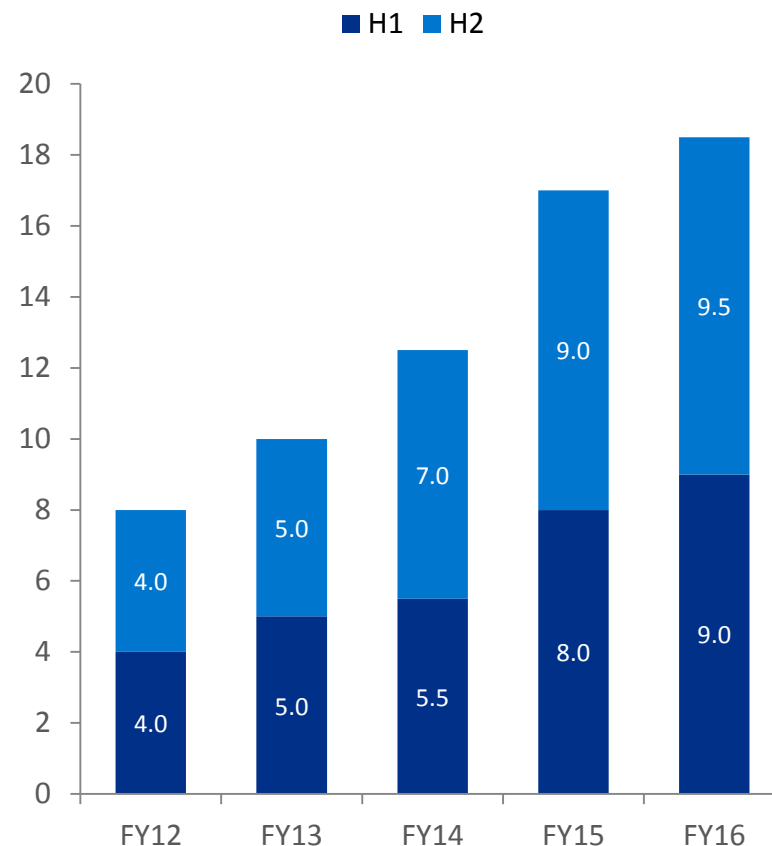
- Average in-store inventory levels for Australian retail stores decreased by 8% to \$314k per store
- Increase in total inventory reflects 21 new stores and the impact of direct supplier delivery to GXL. Store inventory has decreased as a result of improved warehouse management, forecasting and replenishment systems
- Supply chain delivered improved top 1000 on shelf availability (96%) and increased inventory turns with smooth transition of major Sydney DC to in house operation
- Increase in intangibles due to business purchases
- Increase in PP&E primarily reflects ongoing capital expenditure in new and refurbished stores and clinics

## Annual dividends of 18.5 cents per share, in line with target payout ratio of 50%

### Final dividend of 9.5 cents

- The directors have declared a fully franked final dividend of 9.5 cents per share
- Annual dividends for FY2016 of 18.5 cents, 9% higher than FY2015
- Key dates
  - Ex dividend date – 30 August 2016
  - Record date – 31 August 2016
  - Dividend payment date – 23 September 2016
- DRP has been re-activated for final dividend with a discount of 2.5%
- Greencross intends to have the DRP underwritten

### Greencross dividend history (cents per share)





Operational Highlights

# FY2016 highlights

Network	Continued rapid network expansion – added 44 stores and clinics
In-store clinics	Accelerated roll out strategy – opened 14 in-store clinics in FY2016 and they are performing extremely well
Private label	Launched Leaps & Bounds and increased private label sales to 20% of Australian retail revenue
Customer Engagement	Introduced Group Loyalty and increased the number of customers who shop at more than 1 of our formats by 36% to over 136,000 <sup>1</sup>
Supply chain	Improved supply chain metrics and successfully transitioned Sydney DC to in house
Pet Foundation	Saved the lives of over 6,000 animals and raised more than \$2.5 million for the RSPCA, Seeing Eye Dogs Australia and our other charity partners

1. Actual Greencross customer data for Australia for the 12 months ending 30 June 2016. Active customers are customers who have shopped at Greencross in the last 12 months.

# Store and clinic network

**Greencross added 44 stores and clinics to its network in FY2016 bringing the total number of stores and clinics to 376**

## FY2016 network expansion

- Added 21 stores<sup>1</sup> increasing total store numbers to 221
- Added 23 clinics increasing clinic numbers to 155
  - Added 14 in-store clinics bringing total to 17
  - Completed 9 vet acquisitions in FY2016 which are expected to deliver annualised revenue of ~\$7 million

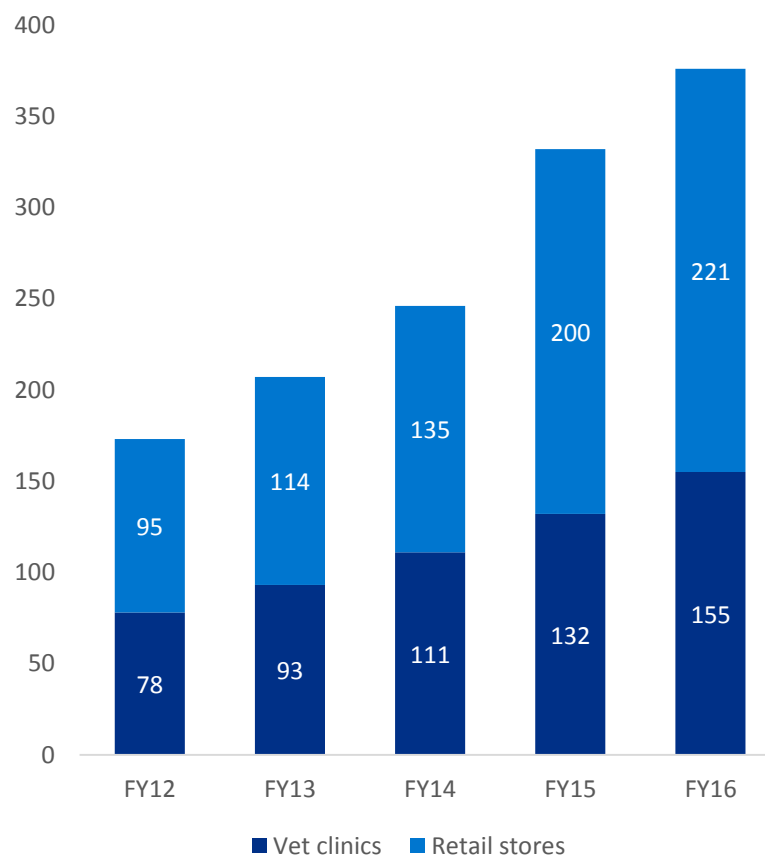
## FY2017 YTD network expansion

- Strong start to the year
- Added 7 stores at Hawthorn (VIC), Deeragun (QLD), Mackay (QLD), Melrose Park (SA), East Victoria Park (WA), Masterton (NZ) and Kilbirnie (NZ)
- Acquired 2 veterinary clinics which are expected to deliver annualised revenue of ~\$2.5 million
- 6 in-store clinics already under construction, with DA's in process for a further 20
- Targeting to open 15 in-store clinics in FY2017

## Network runway

- Remain confident in network runway given strong performance of regional and smaller format stores

## Store and clinic network



1. Net of store closures

## Operational highlights

- Opened 17 new stores and added 7 grooming salons
- Launched Group Loyalty program to deliver value to customers and encourage cross shopping
- Continued program of retrofitting in-store services to drive foot traffic and customer loyalty
- Customer engagement remains strong with record loyalty club membership representing 86% of sales
- Invested over 150,000 hours into training and education
- Profitably grew online sales by 83% and expanded online range to over 4,000 products including prescription food
- Recipient of “Inside Retail” awards for best in-store theatre and best loyalty program
- Average Transaction Value (ATV) increased by 1.7%

Australian Retail	FY2016	FY2015
Revenue (\$m)	458	412
Stores	189	173
Grooming salons	47	40
% of transactions on a loyalty card	79%	78%
% of sales revenue on a loyalty card	86%	85%
ATV	\$51.12	\$50.26





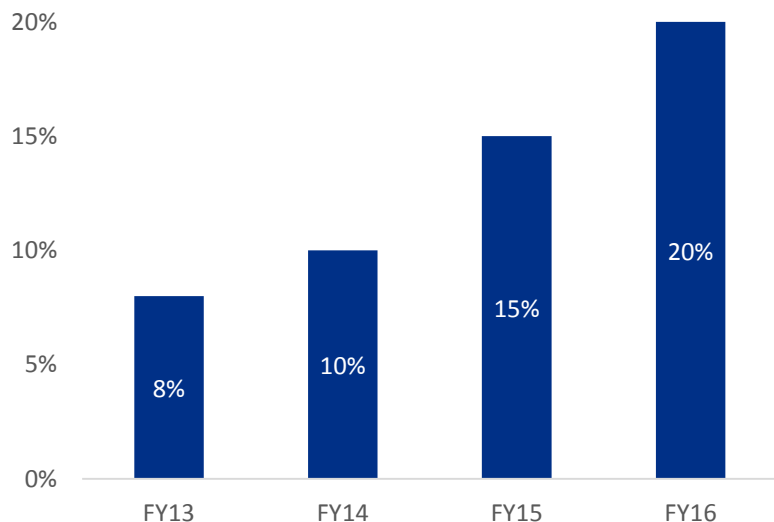
# Private label sales

Private label sales have reached 20% of Australian retail sales. Our medium term target for private label sales is 25%.

## Leaps & Bounds

- Greencross launched its own private label *Leaps & Bounds* dog food in June 2016
- 100% natural essential dog food
- Australian made
- Customer response has been extremely positive, with over \$1 million of sales in the first 10 weeks

## Private label sales as a % of Australian retail sales





# Supply chain

## Supply chain performing well with >96% in stock for top 1000 items

- Top 1000 (80% sales) in-stocks are being maintained at > 96%, whilst improving inventory turns
- Greencross has engaged in direct supply arrangements with all major suppliers and exited wholesale food supply arrangements
- Extended DC operations from Sydney, Melbourne and Perth to Brisbane (March) to enable regional distribution capability of our fastest lines
- Greencross has taken direct control of its supply chain operations at Eastern Creek in Sydney and transition has been seamless



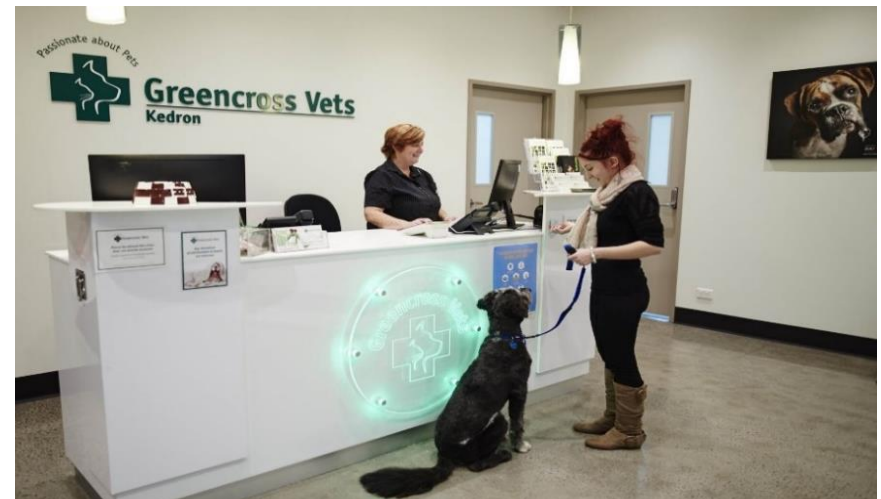
# Australian Veterinary Services

## Operational highlights

- GP visit numbers increased by 5% supported by cross referral
- Completed Group Loyalty national roll out in December 2015
- Opened 13 in-store clinics and made 5 clinic acquisitions<sup>2</sup>
- Entered WA market
- In-store clinics grew to 8% of vet GP revenue
- Largest employer of vets in Australia
- 35 vet graduates recruited into training program
- Invested over 30,000 hours into training and education
- Membership of HPP Wellness Program increased by 25% to over 54,000, helping to drive customer loyalty and pet welfare

Vet Services	FY2016	FY2015
Revenue (\$m)	194	166
In-store clinics	16	3
Clinics (including in-store clinics)	147	129
Professional vet staff <sup>1</sup>	586	498
Visits to all GP clinics (000's)	1,065	1,013
HPP members (000's)	54	43

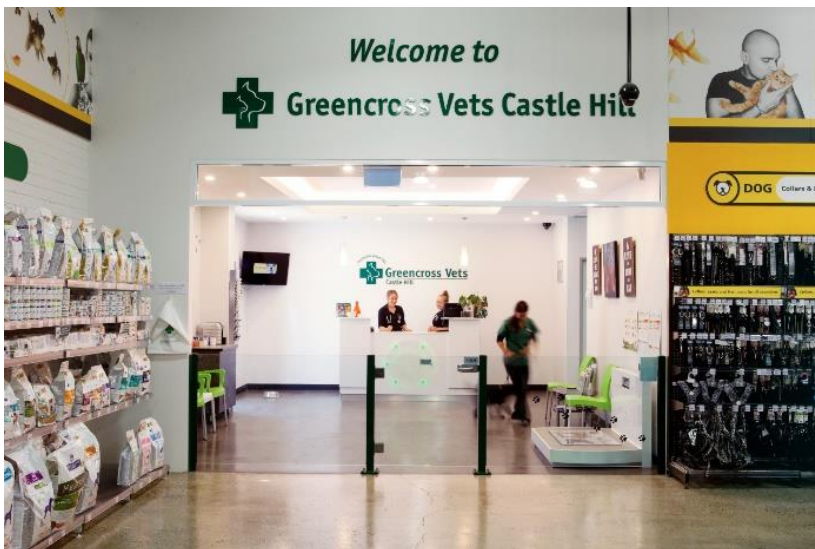
1. Includes full time, part time and casual staff
2. Australia only. Excludes NZ.



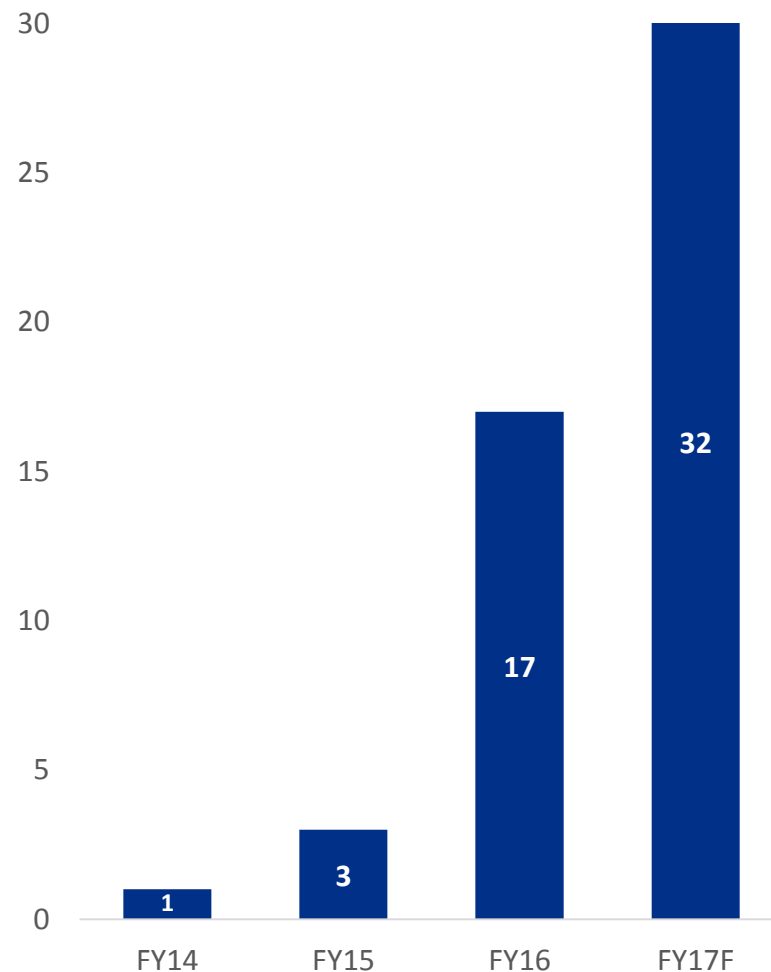
# Successful roll out of in-store clinics

**Greencross added 14 in store-clinics in FY2016 and is on track to have 32 by the end of FY2017**

- Outstanding consumer acceptance of format
- Clinics are ramping up ahead of expectations
- In-store clinics now represent 8% of Australian vet GP revenue
- 10 of 17 in-store clinics are already making a positive EBITDA contribution
- Increase profitability per m<sup>2</sup> and deliver superior ROIC
- Driving cross shopping and ATV
- Approximately half of the existing store fleet can accommodate an in-store clinic



**In-store clinics**

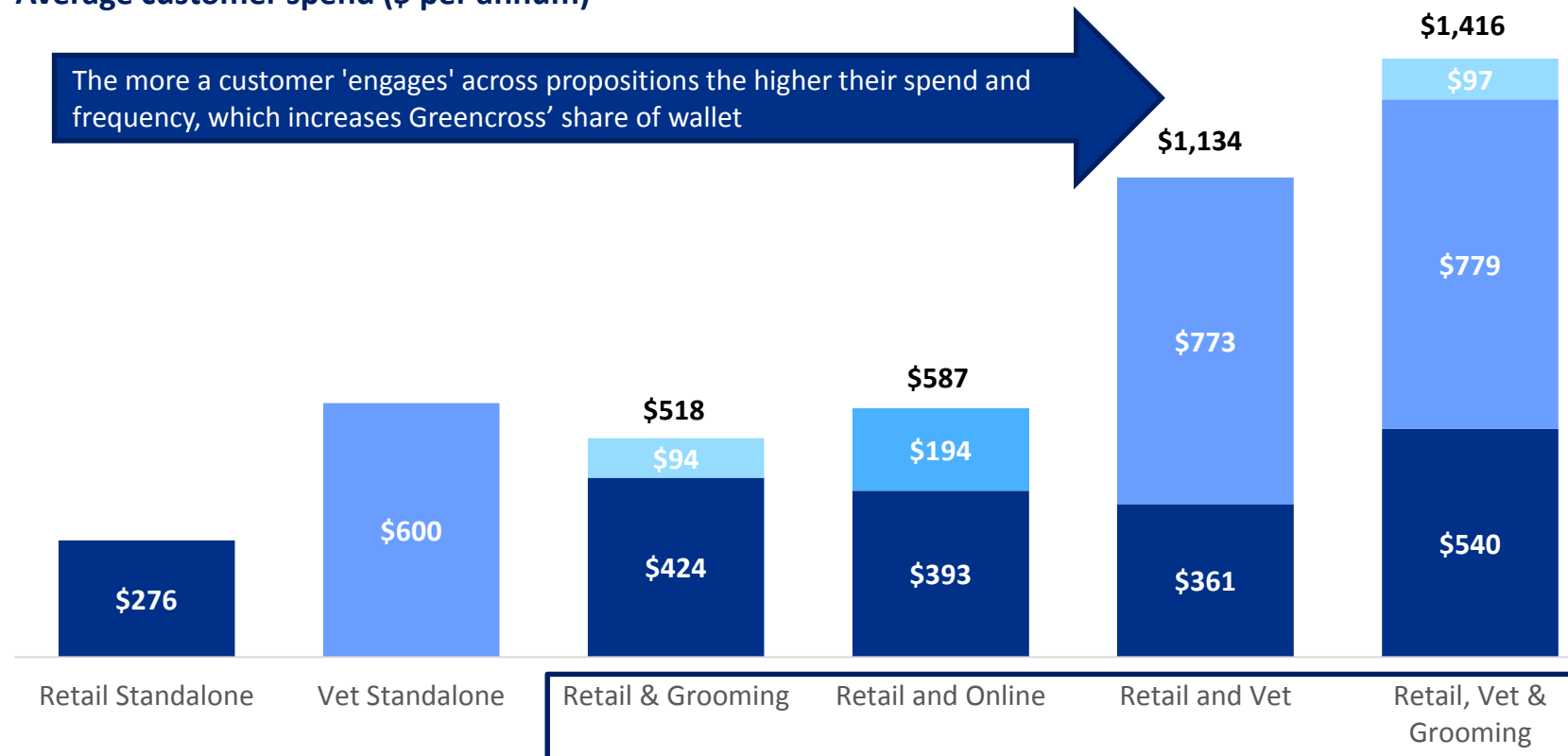


# Increased customer engagement

The number of customers who shop at more than 1 format has increased by 36% over the past 12 months to over 136,000. These customers now represent 21% of sales revenue.

## Average customer spend (\$ per annum)<sup>1</sup>

The more a customer 'engages' across propositions the higher their spend and frequency, which increases Greencross' share of wallet



These cross shopping customers currently represent 9% of active customers, 21% of total revenue and 23% of total gross margin<sup>1</sup>

1. Actual Greencross customer data for Australia for the 12 months ending 30 June 2016. Active customers are customers who have shopped at Greencross in the last 12 months.

## Operational highlights

### Group

- Launched Group Loyalty program to deliver value to customers and encourage cross shopping
- Ongoing program of retrofitting in-store services to drive foot traffic and customer loyalty

### Retail

- Opened 5 stores and added 7 grooming salons
- Completed refurbishment program for mature stores
- Strengthened footprint in Wellington metro region with the addition of Coastlands and Porirua stores
- Smaller format regional stores performed strongly
- Excellent customer engagement with loyalty card purchases representing 92% of sales
- Average Transaction Value (ATV) increased by 1.5%

### Veterinary Services

- Added 5 clinics (including 1 in-store clinic)
- Rolled out uniform branding as “The Vet Care Group”

New Zealand	FY2016	FY2015
Revenue (\$m)	81	66
Stores	32	27
In-store clinics	1	0
Clinics (including in-store clinics)	8	3
Grooming salons	16	9
% of transactions on a loyalty card	88%	91%
% of sales revenue on a loyalty card	92%	94%
ATV	\$52.21	\$51.44





## Greencross sponsored over 6,000 pet adoptions in FY2016 (that's over 6,000 lives saved!)

- The Pet Foundation was established in 2012 with a purpose of providing support for charity organisations, that dedicate their time and effort into caring for animals in need
- The Pet Foundation's mission is 'to enrich the lives of pets and people who love and need them' and to raise much needed funds for our charity partners
- We have facilitated over 6,000 adoptions in FY2016 and over 17,000 adoptions since our program was first introduced
- Over 100 Petbarn, Animates and City Farmers stores now have pet adoption centres to help save the lives of animals by finding them a loving home
- This year's donations have funded the training of 14 seeing eye dogs
- We have also raised over \$2.5 million this year for our charity partners



Pets Haven  
Foundation



SEEING EYE DOGS  
australia

Passionate about Pets



# Greencross Vets



Outlook



- **Continued execution of successful strategy**

- Optimise current business
- Expand network
- Integrated model

- **FY2017 network targets – strong start**

- 20 new stores – 7 opened YTD
- 15 new in-store clinics – 6 under construction YTD
- Price disciplined vet acquisitions – 2 completed YTD

- **FY2017 outlook**

- Greencross expects continued strong cashflow conversion in FY2017 with underlying EBITDA and NPAT growth at similar levels to FY2016
- We have started the year in line with these expectations.
  - Group Retail LFL sales growth was 2% in July and 4% in August
  - Vet GP clinic visits have increased by 5%, in line with FY2016 growth levels
  - Gross margins remain strong

# Appendix



# Network summary – FY2016

Stores	
Stores at beginning of period	200
New stores <sup>1</sup>	21
Stores at end of period	221
Clinics	
Vet clinics at beginning of period (including co-located clinics)	132
Acquired standalone vet clinics	9
New in-store vet clinics	14
Vet clinics at end of period (including in-store clinics)	155
In-store vet clinics at end of period	17
% of stores with an in-store vet clinic at end of period	8%
Grooming Salons	
Grooming salons at beginning of period	49
New grooming salons	14
Grooming salons at end of period	63
% of stores with a grooming salon at end of period	29%

1. Net of store closures

# Stores and clinics opened in FY2016

## Australian Retail

### + 16 stores

- Opened 17 new stores
  - Gladesville (NSW)
  - Rozelle (NSW)
  - Belrose (NSW)
  - Singleton (NSW)
  - Box Hill (VIC)
  - Burnside (VIC)
  - Sunbury (VIC)
  - Mentone (VIC)
  - Woden (ACT)
  - Robina (QLD)
  - Bundaberg (QLD)
  - Townsville (QLD)
  - Holden Hill (SA)
  - Mt Gambier (SA)
  - Rosny Park (TAS)
  - Busselton (WA)
  - Albany (WA)
- Closed 1 store at Northmead (NSW)

## Australian Veterinary Services

### + 18 clinics

- Acquired 5 clinics
  - Five Dock (NSW)
  - Maroochydore (QLD)
  - Townsville (QLD)
  - Mt Barker (SA)
  - Nedlands (WA)
- Opened 13 in-store clinics
  - Campbelltown (NSW)
  - North Parramatta (NSW)
  - Chatswood (NSW)
  - Box Hill (VIC)
  - Noosa (QLD)
  - Kenmore (QLD)
  - Mitchelton (QLD)
  - Browns Plains (QLD)
  - Bundaberg (QLD)
  - Kedron (QLD)
  - Townsville (QLD)
  - Holden Hill (SA)
  - Subiaco (WA)

## New Zealand

### +5 stores + 5 clinics

- Opened 5 new stores
  - Glen Innes
  - Porirua
  - Dunedin
  - Coastlands
  - Linwood
- Acquired 4 clinics
  - Pitama
  - Hokowhitu
  - Paraparaumu
  - Waikanae
- Opened 1 in-store clinic in Wellington

# Reconciliation of statutory and underlying results

	FY2016		FY2015	
	EBITDA	NPAT	EBITDA	NPAT
Reconciliation of underlying to statutory results	(\$m)	(\$m)	(\$m)	(\$m)
<b>Statutory</b>	<b>87.1</b>	<b>34.6</b>	<b>63.3</b>	<b>19.1</b>
Add back: acquisition costs & defence costs	3.4	2.7	9.5	9.5
Integration - range, brand and store harmonisation	3.4	2.5	7.6	5.3
Redundancy and restructuring costs	2.4	1.7	6.4	4.5
Share-based payments expense (non-comparable)	1.2	1.2	-	-
Effective tax rate adjustment	-	(0.6)	-	(0.2)
<b>Total adjustments</b>	<b>10.4</b>	<b>7.5</b>	<b>23.5</b>	<b>19.1</b>
<b>Underlying</b>	<b>97.5</b>	<b>42.1</b>	<b>86.8</b>	<b>38.2</b>

End

