

21 February 2017

## **FY2017 Interim Result - Greencross delivers double digit revenue and earnings growth**

### **Highlights**

– Revenue	up 14% to \$412.3 million
– Gross margin (%)	strong at 55.6%
– EBITDA	up 14% to \$51.4 million
– Underlying EBITDA	up 11% to \$53.9 million
– NPAT	up 17% to \$21.9 million
– Underlying NPAT	up 9% to \$23.0 million
– EPS	up 15% to 19.0 cents
– Underlying EPS	up 7% to 19.9 cents
– Interim dividend	up 6% to 9.5 cents per share
– Net debt	down \$5.1 million to \$222.8 million

Greencross' Chief Executive Officer, Martin Nicholas said *"The FY2017 interim result is a strong endorsement of our integrated petcare strategy, which has delivered double digit growth in revenue and earnings.*

*We achieved 4.3% LFL sales growth across the Group supported by a 23% increase in cross shoppers over the past 12 months.*

*Our retail network continues to grow strongly making our offer easily accessible to more and more Australasian pet owners. We added another 16 stores in the half, including the opening of our 200<sup>th</sup> Australian retail store at Neutral Bay in Sydney, and we remain confident we can meet our long term target of 350 stores in Australia and New Zealand. We had a good Christmas with strong growth in services revenue and record sales in our core dog and cat food categories driving 4.0% Group Retail LFL sales growth.*

*I am particularly delighted with our veterinary division which achieved industry leading 5.3% LFL sales growth driven by the rapid ramp up in visits to our in-store clinics and continued cross referrals from our retail stores. We are the only vet business in Australasia bringing new employment and new, state of the art, full service clinics to the market. Our in-store clinics offer pet owners a modern, integrated, petcare experience with value, range, and quality advice in a convenient one stop shop. In addition to delighting our customers, in-store clinics deliver superior economic returns compared to rolling up clinics. We have now opened 25 in-store clinics and a significant organic growth runway lies ahead with clear sight to over 120 in-store clinics. We also remain vigilant in the acquisition market and will pursue quality veterinary practices in a disciplined manner.*

*The vet sector continues to attract significant amounts of capital globally and the strong asset pricing reflected in recent M&A activity only reinforces the strategic value of our portfolio of over 160 veterinary clinics and animal hospitals.*

*Another period of robust cashflow generation delivered a \$5 million reduction in net debt, and a further decrease in our leverage to 2.1x.*

*After a strong first half we remain confident that our integrated petcare model is the winning strategy and that there are outstanding growth opportunities for our business in the fast growing ANZ pet care market”.*

#### Summary of Financial Performance

\$m unless otherwise stated	H1 FY2017 (\$m) <sup>1</sup>	H1 FY2016 (\$m)	Increase %
Revenue	412.3	362.7	14%
Gross Margin	229.4	201.6	14%
Gross Margin (%)	55.6%	55.6%	-
EBITDA	51.4	45.1	14%
Exceptional Items	2.5	3.4	(26%)
Underlying EBITDA <sup>2</sup>	53.9	48.5	11%
NPAT (post minorities)	21.9	18.7	17%
Underlying NPAT (post minorities) <sup>2</sup>	23.0	21.2	9%
EPS	19.0	16.5	15%
Underlying EPS (cents) <sup>2</sup>	19.9	18.7	7%
Interim Dividend (cents)	9.5	9.0	6%

1. H1 FY2017 result includes 27<sup>th</sup> week. Week 27 included 3 public holidays and contributed \$13.5 million in revenue, \$1.1 million in EBITDA and \$0.24 million in NPAT (post minorities). All LFL sales are shown on a 26 weeks versus 26 weeks basis.
2. Underlying results exclude exceptional items which are removed to facilitate year on year comparison.

#### Results Overview

Revenue increased by 14% to \$412.3 million driven by solid LFL sales growth and continued network expansion.

Gross margin increased by 14% to \$229.4 million and gross margin % was maintained at 55.6%. Australian retail gross margin increased by 20bps to 47.7%. Retail margins were impacted by our increased sales of food as a % of total sales and a changed mix of promotional tactics, offset by distribution cost savings. Australian veterinary services gross margin remained broadly steady at 77.6%. New Zealand gross margin increased by 70bps from 47.8% to 48.5% as a result of an increased contribution from higher margin veterinary services and improved retail margins.

EBITDA increased by 14% to \$51.4 million and underlying EBITDA increased by 11% to \$53.9 million. Strong cashflow generation facilitated a \$5.1 million reduction in net debt to \$222.8 million and a decrease in leverage to 2.1x. EBITDA cashflow conversion was 95% reflecting well controlled inventory and cashflow management. Greencross' supply chain delivered 95% in-store availability of the top 1,000 lines while average inventory per store decreased.

NPAT (post minorities) increased by 17% to \$21.9 million and underlying NPAT (post minorities) increased by 9% to \$23.0 million

### Revenue and LFL Sales Growth

	Sales Revenue (\$m)	Sales Revenue Growth (%)	LFL Sales Growth <sup>3</sup> (%)
Group	412	14%	4.3%
Australian Retail	256	12%	3.7%
Australian Vet	108	12%	5.3%
New Zealand	48	25%	5.7%

3. All LFL sales are shown on a 26 weeks versus 26 weeks basis.

The Group delivered total sales revenue growth of 14% and LFL sales growth of 4.3%.

Australian Retail delivered sales growth of 12%. Australian Retail LFL sales growth of 3.7% was boosted by a strong trading performance over Christmas. Pleasingly, we achieved record sales of dog food and cat food, which are the primary trip drivers for customers in our retail stores. Retail conditions in Western Australia remain difficult.

Australian Veterinary Services delivered 12% sales growth, supported by increased visit numbers and improved work up rates. The level of acquisitions in the first half remained relatively low as the business maintained its price discipline in a competitive market and retained its focus on the roll out of in-store clinics. LFL sales growth was 5.3%, as a result of continued strength in cross referrals and a faster than expected ramp up in visit numbers in our in-store clinics.

New Zealand achieved outstanding 25% sales growth assisted by network expansion, with 5 stores and 2 clinics opened in the first half. An increased contribution from immature stores and a lift in retail basket size helped drive excellent LFL sales growth of 5.7%. Smaller format regional stores continued to perform well.

## Network

Stores and Clinics	H1 FY2017	H1 FY2106	Increase
Retail stores	237	211	12%
Vet clinics	164	149	10%
Total	401	360	11%

The first half was a busy period for retail expansion as Greencross added 16 retail stores, bringing the network to 237 stores.

CEO Martin Nicholas said *“Having increased the size of the retail network by 12% over the last 12 months, we remain extremely confident in our network runway and the continued growth of the ANZ petcare market. Our strategy is to provide our customers with convenient access to all of our products and services and we are making good progress towards our target of over 350 retail stores in Australia and New Zealand. Following a strong first half, Greencross has upgraded its FY2017 full year network expansion target to 21 stores”*.

Greencross opened 10 GP vet clinics in the first half, increasing the size of the network to 164 clinics. This included 3 vet clinic acquisitions which are expected to deliver \$3.5 million in annualised revenue. Following the addition of 7 in-store clinics in the first half plus one in-store clinic in the second half, Greencross now has 25 veterinary clinics inside retail stores. Currently only 10% of our retail stores have an in-store clinic and a significant organic growth runway remains. Greencross believes that its current retail store network alone will support 120 in-store clinics.

In-store clinics performed ahead of expectations in the first half, contributing over \$6 million in revenue. Australian in-store clinics now represent 8% of Australian GP vet clinic revenue.

Greencross CEO Martin Nicholas said *“The opening of world class vet clinics in existing and new stores is a key driver of our expansion strategy. We will complement this with targeted quality acquisitions and remain in a number of conversations with potential vendors. Our key focus is on organic growth bringing new clinics and employment to the market delivering an attractive return on capital. I am pleased to confirm that Greencross has now upgraded its FY2017 full year expansion target to 16 in-store clinics”*.

Specialty and emergency, which represents 30% of Australian Vet revenue, also performed well and Greencross expects to expand its existing facility in West Gosford and add a new facility in Brisbane in the second half.

### In-store services

The expansion of in-store services (including grooming, dog wash and obedience training) forms a key part of Greencross' strategy to deliver customer convenience through a one stop shop for pet products and services. Greencross, which is ANZ's largest provider of grooming services, operates 74 grooming salons. Over 30% of our retail stores have a grooming salon.

### Online

Greencross' unmatched Pet Owner database offers a significant advantage in the online market. First half online sales revenue increased by 45%, profitably, with our average online basket increasing by over 8%, following enhancements to our website and the continued expansion of our online range to over 4,100 product lines. The national rollout of click & collect was completed in February 2017, giving our customers the flexibility to order online and pick up products in store Australia wide.

### Customer Engagement

Shoppers 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 our successful Group Loyalty and targeted cross referral programs, the number of customers in Australia who shop at more than one format (retail, online, veterinary services, grooming and dogwash) has increased by 23% to over 158,000 customers over the past 12 months. Cross shoppers now represent 10% of Greencross' active customer base, and account for 23% of total revenue and 27% of gross margin.

Greencross' loyalty club membership includes over 3 million Friends for Life members. Over 80% of purchases in Petbarn, City Farmers and Animates retail stores are made on a loyalty card, and these customers represent more than 87% of retail sales revenue. In addition, our Healthy Pets Plus proactive pet wellness program has reached almost 55,000 members.

### Private Label Sales

Sales of private label and exclusive brand products have increased to over 21% of Australian retail product sales. The customer response to the launch of our private "Leaps & Bounds" dog food has been overwhelming with \$2.9 million of sales in the first half.

### Dividend

The Directors have declared an interim dividend of 9.5 cents per share, which represents a dividend payout ratio of approximately 50%. The record date for the interim dividend will be 1 March 2017 and the interim dividend will be paid on 24 March 2017. The Company will provide shareholders with the opportunity to reinvest their dividends through the dividend reinvestment plan ("DRP"). Shares subject to the DRP will be issued to participating shareholders at a 2.5% discount to the volume weighted average price of Greencross shares traded over the DRP Pricing Period and will rank equally with all other shares. Greencross intends to have the DRP underwritten.

## FY2017 Outlook and Trading Update

As at week 32, Greencross has achieved:

- Group LFL sales growth of 4.3%
- Australian Vet LFL sales growth of 5.7%
- Group Retail LFL sales growth of 3.8%

Greencross continues to expect strong cashflow conversion in FY2017 with underlying EBITDA and NPAT growth at similar levels to FY2016.

## 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: 5809 3006**

	Direct	Toll Free
Australia	612 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

## For further information please contact:

Robert Wruck  
Investor Relations, Greencross Limited  
Phone (02) 8595 3313  
[rwruck@gx ltd.com.au](mailto:rwruck@gx ltd.com.au)