

22 August 2017

## FY2017 Full Year Result

### Integrated petcare delivers double digit revenue and earnings growth

#### Highlights

- Revenue up 11% to \$817 million
- EBITDA up 15% to \$100 million
- Underlying EBITDA up 9% to \$104 million
- NPAT up 21% to \$42 million
- Underlying NPAT up 7% to \$43 million
- EPS up 19% to 36.2 cents
- Underlying EPS up 4% to 37.0 cents
- EBITDA cash conversion 96%
- Annual dividends 19.0 cents per share

#### Summary of Financial Performance

\$m unless otherwise stated	FY2017 53 weeks <sup>1</sup>	FY2016 52 weeks <sup>2</sup>	Change
Revenue	817	734	+11%
LFL sales growth (52 week basis)	+4.5%	+4.4%	+0.1%
Gross Margin	453	409	+11%
Gross Margin (%)	55.4%	55.7%	-30bps
EBITDA	100	87	+15%
Underlying EBITDA <sup>3</sup>	104	95	+9%
NPAT	42	35	+21%
Underlying NPAT <sup>3</sup>	43	40	+7%
EPS (cents)	36.2	30.4	+19%
Underlying EPS (cents) <sup>3</sup>	37.0	35.6	+4%

1. 53 week period ending 2 July 2017.

2. 52 week period ending 26 June 2016.

3. Underlying results exclude exceptional costs and income items in order to facilitate year on year comparison. Underlying EBITDA is reported after excluding acquisition and restructuring costs, but now includes ongoing share based payments and site closure costs. For comparison FY2016 is now reported on this consistent basis. FY2016 underlying EBITDA of \$97.5 million, NPAT of \$42.1 million and EPS of 37.0 cents were previously reported after adding back share based payments and site closures. Underlying NPAT excludes the benefit of one off tax loss recognition in FY2017 results.

Greencross' Chief Executive Officer, Martin Nicholas said

*"FY2017 was a pleasing year of growth against a downbeat consumer backdrop. We have made good progress in rolling out our convenient integrated petcare offering and are committed to rewarding our customers' loyalty.*

*We are making pet ownership more affordable, accessible, convenient and above all fun. In 2017 we expanded our store and clinic network to over 400 locations and more than doubled our number of state of the art in-store vet clinics to 37. We expanded our specialist and emergency business and enhanced and relaunched our award winning, "Friends for Life" Group Loyalty program. We successfully introduced click and collect (which has proved a real hit with customers) and are proud to have partnered with Petcloud to offer dog walking and pet sitting services.*

*As a result, I am delighted to report that as well as double digit top line growth, 26% of our revenue now comes from pet owners shopping across our multiple offerings – be it retail, grooming or vet. They come more often and spend more. In terms of opportunity they make up 11% of our customer base and we have plenty of scope to increase this via our Group Loyalty initiatives and further rollout of in-store clinics and other pet services.*

*Each division also performed well in its own right.*

*Group Retail achieved 4.4% LFL sales growth with our core categories of dog food +7.4% and cat food +7.0% performing particularly strongly. Online grew by 55%, underpinned by our successful click and collect launch, but we have so much more to offer in this channel and remain underweight. We are committed to staying competitive, and rewarding our loyal customers, so in H2 we increased our investment in the consumer explicitly via our enhanced Friends for Life Group Loyalty program. Pleasingly, after a softer start to H2, we saw stronger sales from April to June and this momentum has continued into FY2018.*

*Our Australian Veterinary division also delivered robust 4.8% LFL sales growth, with particularly strong growth in our outstanding speciality and emergency hospitals and our start-up in-store clinics that continue to outperform expectations. We are committed to leading the Australasian veterinary industry and, with increased competition for both vets and clinics, we invested in increasing our veterinarian remuneration and focused on build vs buy in our vet clinic expansion.*

*Continued strong cashflow generation has enabled us to again fund this outlet expansion (43 stores and clinics this year) and our online capabilities whilst still reducing leverage to 2.2x.*

*Our strong Q4 sales momentum has continued into the start of FY2018."*

## Results Overview

Revenue increased strongly across all divisions growing 11% to \$817 million driven by strengthening growth in LFL sales and continued network expansion. The result this year was also boosted by an extra week in the financial year compared to the previous period, but that is not factored into our LFL sales calculation which remains a 52 week on 52 week comparison.

Gross margin % declined marginally by 30bps due to Australian Retail where we reinvested in consumers as part of our Group Loyalty relaunch in Q4. Margins in Australian Veterinary improved by 10bps to 77.7% with particularly strong performance from the specialty and emergency business. New Zealand gross margin increased by 50bps from 48.6% to 49.1% as a result of an increased contribution from higher margin veterinary services and higher private label retail sales.

EBITDA increased by 15% to \$100 million driven by sales growth. Underlying EBITDA, after adding back acquisition, due diligence and restructuring costs, increased by 9% to \$104 million. Underlying EBITDA excluding planned start up losses from immature in-store clinics was \$105 million.

NPAT increased by 21% to \$42 million while underlying NPAT (excluding abnormal items) increased by 7% to \$43 million.

EBITDA cashflow conversion was 96% reflecting well controlled inventory and cashflow management. Supply chain is performing well with in-store availability of the top 1,000 lines at 95% while average inventory per store again decreased. Leverage (net debt/EBITDA) decreased to 2.2x with covenants again comfortably met.

## Revenue and LFL Sales Growth

	Sales Revenue (\$m)	Sales Revenue Growth <sup>4</sup>	LFL Sales Growth <sup>5</sup>
Australian Retail	505	10%	4.3%
Australian Vet	214	10%	4.8%
New Zealand	98	21%	4.9%
Group Total	817	11%	4.5%

4. Comparison of sales for 53 week period ending 2 July 2017 with sales for 52 week period ending 26 June 2016.

5. LFL sales are shown on a 52 week versus 52 week basis. LFL sales growth measures same site sales growth for all stores and clinics that have been open for 53 weeks and makes no adjustment for cannibalisation or competition.

The Group delivered total sales revenue growth of 11% and LFL sales growth of 4.5%.

Australian Retail delivered sales revenue growth of 10%. LFL sales were 4.3%, with strong performances in key dog food +7.4% and cat food +7.0% categories highlighting the resilience of demand for staple products which comprise 66% of retail product sales. Online sales revenue grew by over 55% following the successful launch of click & collect in February 2017. Click & collect transactions now represent over 40% of daily online sales.

Australian Vet delivered 10% sales growth assisted by continued ramp up in in-store clinic sales. LFL sales growth of 4.8% reflected a strong performance from the specialist and emergency business and increased cross referrals.

New Zealand achieved outstanding 21% sales growth driven by network expansion, with 7 stores and 8 clinics opened over the past 12 months and LFL sales growth of 4.9%. New Zealand is expected to face a more competitive backdrop in the coming year, but our integrated petcare model should prove resilient.

## Network

Stores and Clinics	FY2017	FY2016	Increase
Retail stores	239	221	8%
GP clinics	147	126	17%
<i>Of which in-store</i>	<i>37</i>	<i>17</i>	<i>118%</i>
Specialist and emergency	33	29	14%
Total	419	376	11%

Greencross added 18 stores in FY2017 bringing the network to 239 stores.

In addition, Greencross added 21 GP clinics and 4 specialist and emergency practices to the network.

CEO Martin Nicholas said *"After another strong year of network expansion in FY2017, we remain confident in our network runway and the continued growth of the ANZ petcare market. In FY2018 we are targeting to begin the refurbishment of our fleet, open new stores and add 20 in-store clinics to the network. We are also currently in advanced discussions in relation to a number of vet acquisitions."*

## In-store Clinics

Greencross continued to accelerate the roll out of in-store clinics in FY2017 through the addition of 20 in-store clinics, bringing the total number of in-store clinics to 37. A further 2 in-store clinics have been opened in FY2018 YTD.

In-store clinics continue to perform well, with revenue and EBITDA margins in line with management's expectations. In-store clinics contributed \$14 million of revenue in FY2017 and represented 9% of total GP clinic revenue. Our customers have embraced the convenience of obtaining expert medical treatment and advice for their pets at veterinary clinics located inside our retail stores. While loss incurring in the initial ramp up phase, these in-store clinics utilise existing real estate and will generate superior margins to standalone clinics as they mature, which will boost overall margin for the Veterinary division.

15% of retail stores now have an in-store clinic and Greencross is targeting to increase this to 60% of stores. Start up losses in FY2018 from immature clinics are expected to increase from \$0.8 million to \$2.2 million.

## Specialist and Emergency

Greencross is the largest owner of specialist and emergency hospitals in Australia with over 30 practices. Our specialist and emergency business has had another excellent year of sales driven by high standards of professional care and increased referrals from our GP network. The ongoing trend towards the humanisation of pets amid rising expectations of animal healthcare standards and increased subscription rates for pet insurance are positive tailwinds for this business.

By revenue, specialist and emergency now represents over 30% of our Australian Veterinary division. This year we have further expanded our footprint by opening two specialist and emergency hospitals in Brisbane and acquiring two specialist and emergency practices in Adelaide

## Group Loyalty

We have 1.8 million active customers across Australia and New Zealand and over 87% of purchases are made on a loyalty card issued under our award-winning Friends for Life Group Loyalty Program. The program enables our customers to earn and spend points in Petbarn, City Farmers and Animates stores and Greencross vet clinics. The success of Friends for Life means we understand the shopping habits of our customers and can tailor our product and service offering to suit their needs.

This year we made the decision to re-invest in our customers through an enhancement and refreshment of the Group Loyalty Program.

It now includes three membership tiers, a range of complimentary upfront benefits and rewards premium food purchases. Store based experiences like free dog wash, health checks with our veterinary professionals and grooming upgrades encourage our customers to visit our stores and clinics more frequently. To date, it has been a resounding success with a

pleasing uplift in LFL sales and increased shopping activity from our members. It has also allowed us to welcome back a number of lapsed shoppers to our stores and clinics.

### One Stop Shop

The success of our Group Loyalty Program and our focus on cross referrals has continued to have a positive impact on the number of customers who shop across more than one of our formats. This year, the number of cross shopping customers in our Australian business increased by 38% to over 188,000. In Australia, these customers now represent 11% of our active customers, 26% of revenue and 30% of gross margin. An increase in cross shopping activity is significant for our business as the average annual spend for a customer who shops in vet, grooming and retail (\$1,445) is five times higher than the annual spend for a customer who only shops in retail.

### Services

Greencross has continued the rapid expansion of grooming and dog wash services in stores to enhance the breadth of the customer proposition, drive foot traffic and increase cross shopping activity.

Greencross is the single largest provider of grooming services in Australia and New Zealand, with over 140,000 grooms completed in the past 12 months. We now operate 80 grooming salons across Australia and New Zealand and 33% of our retail stores have a grooming salon.

We also announced our partnership with Petcloud, which gives pet owners the opportunity to book online to access a variety of petcare services across Australia including dog minding, dog walking, pet taxis and obedience training.

Petbarn pet insurance was recognised by Canstar as a winner for outstanding value pet insurance in the accident, illness and routine care categories.

### Private Label Sales

Sales of private label and exclusive brand products continue to grow and have reached 21% of total Australian retail product sales. In June 2016, Greencross successfully launched its own private label "Leaps & Bounds" dog food. Customer response has been overwhelming with \$6 million of sales in the year since launch, making it our #2 selling product in its category. A grain free version has now been introduced and we now have plans to launch additional private label products in wet dog and dry cat in FY2018.

### Dividend

The Directors have declared a fully franked final dividend of 9.5 cents per share, which represents a dividend payout ratio of approximately 50%. The record date for the final dividend will be 8 September and the final dividend will be paid on 6 October 2017. Greencross has declared fully franked dividends for the full year totalling 19.0 cents per share. The Directors intend to maintain Greencross' dividend payout ratio at 50%.

## FY2018 Outlook and Trading Update

As at week 7:

- Total sales growth 10%
- Group LFL sales growth 4.9%
- Australian Retail LFL sales growth 5.0%
- Australian Veterinary LFL sales growth 5.8%
- New Zealand LFL sales growth 2.7%

In FY2018, Greencross expects ongoing execution of its integrated petcare strategy will drive continued top and bottom line growth. Greencross will continue to invest in organic growth through the roll out of stores, in-store clinics and services and store refurbishment.

Greencross will maintain a disciplined approach to acquisitions.

The Company expects leverage will be maintained at around current levels.

### Results Briefing – Teleconference Details

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

**Conference ID: 6267 6249**

	Direct	Toll Free
Australia	+61 2 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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