20 August 2018

Greencross FY18 Full Year Results Announcement
Underlying EBITDA of $97.6 million – in line with guidance
Statutory NPAT of $20.7 million
Final fully franked dividend of 5.5 cents per share

FY18 operational highlights

- New executive leadership team in place, with the skills and capability to leverage the strength of our integrated pet care platform
- Strong sales momentum which has continued into FY19 – 7.5% top line growth and 4.9% like-for-like (LFL) sales growth
- Integrated sites delivering superior results
  - 8.5% LFL sales growth
  - 17 in-store vet clinics added (15 in Australia and 2 in NZ)
  - 22% of retail stores have an in-store clinic
- Strong and growing loyalty program – over 1.9 million active members accounting for over 90% of retail sales
- Private label sales increased to over $115 million and private label food sales in Australia have increased by 25%
- Lowered vet turnover and vacancy rates
- Online sales up 70% to over $20 million, driven by click & collect

FY18 financial overview

$ million	FY18 52 weeks	FY17 53 weeks	Change
Sales revenue	878.7	817.5	7%
LFL sales growth (52 v 52-week basis)	4.9%	4.5%	40 bps
Before exceptional items			
Gross margin	56.3%	55.4%	90bps
Underlying EBITDA	97.6	104.2	(6%)
Underlying NPAT attributable to GXL shareholders	37.2	43.0	(14%)
Underlying EPS	31.5	37.0	(15%)
Dividends per share	15.5	19.0	(18%)
Exceptional items			
Recognised in EBITDA	22.8	4.5	n.c.
Recognised in depreciation	1.4	-	-
After exceptional items			
EBITDA	74.8	99.8	(25%)
Statutory NPAT attributable to GXL shareholders	20.7	42.1	(51%)
Statutory EPS	17.5	36.2	(52%)

Commenting on the results, Managing Director and CEO Simon Hickey said: *“FY18 was a year of substantial change for Greencross. The strength of our business model is clearly evident from* *the excellent like-for-like sales growth that was delivered. Our Australian retail business reported a strong top line result driven by like-for-like sales growth of 5.1%, underpinned by 3.1% like-for-like transaction growth. Greencross is the leading specialist pet care provider in the $10 billion Australian and New Zealand pet care market. We have an unrivalled integrated pet care platform and the new management team is excited by the opportunities to grow market share by leveraging our unique retail, vet care and service offering and our 1.9 million active loyalty members. Having reset the business, we believe Greencross is well positioned to deliver against our five strategic priorities and grow revenue and earnings in FY19."*

Integrated pet care sites delivered 8.5% LFL sales growth

A key element of Greencross' strategy is expanding its integrated pet care model, by growing the number of retail stores with in-store services. Greencross has made a significant capital investment in executing this strategy in FY18 through the addition of 17 in-store clinics. Greencross now has 54 integrated sites (retail stores with in-store clinics) representing 22% of its retail store network. These integrated sites delivered LFL sales growth of 8.5% in FY18 compared to 3.8% for standalone sites. The Company has built 37 integrated sites over the past two years which are yet to reach maturity and are expected to support future earnings growth.

"*Our integrated sites represent a unique service offering in an emotionally engaged segment. The outstanding like-for-like sales growth being delivered at our integrated sites gives us confidence in our strategy to grow our integrated network organically. As these sites mature, we expect them to deliver higher operating leverage and earnings,"* Mr Hickey said.

Group Retail achieved strong LFL sales growth and higher gross margin

Group Retail, which comprises over 70% of Group Revenue, delivered 5.1% LFL sales growth in FY18. Sales of private label products increased to over $115 million and now represent 23% of Australian retail product sales. Australian retail gross margin increased by 70bps to 47.9%.

"Our Australian and New Zealand retail businesses have continued to perform well. Ongoing growth in private label sales is particularly pleasing, both in terms of margin uplift and its impact on customer loyalty and visit frequency. During the year we expanded our private label offering. We will continue to broaden our range across different products and extend our private label offering into premium categories like fresh and frozen. We also intend to explore opportunities to take our private label products into international markets, including Asia," Mr Hickey said.

Excellent customer engagement with record membership of loyalty and wellness programs

The number of Friends for Life loyalty program members who shopped with us over the past 12 months, has grown to over 1.9 million customers, representing over 90% of retail sales revenue. In addition, Greencross now has over 60,000 members in its Healthy Pets Plus (HPP) wellness program. HPP members visit more frequently and, on average, spend more than twice as much as non-members. They represent approximately one quarter of Greencross' active GP vet client base, but more than 40% of GP revenue.

"I am delighted by the growing number of customers choosing to join our loyalty and wellness programs. This is a key strength of Greencross' business model and we have an enormous opportunity to leverage this growing and engaged membership base. By investing in digital and omnichannel, and leveraging our loyalty database, we will increase our capability to deliver highly personalised customer offers in a channel agnostic manner. We are preparing to launch pet wellness programs this financial year that will provide our customers with cost effective

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access to our products, vet care and other services through annual subscription packages tailored to meet the needs of their pet. Our strategy is to differentiate our business by competing on value, expertise and quality of care and service," Mr Hickey noted.

70% growth in online sales, driven by click & collect

Australian online retail sales grew by 70% to over $20 million in FY18, underpinned by continued growth in click & collect transactions that now represent over 50% of Greencross' online transactions.

Mr Hickey commented: *"Looking forward, we are prioritising our focus on integrating technology into Greencross' retail and veterinary businesses, including omnichannel, digital assets and data analytics. These initiatives will drive sales growth both online and across our portfolio of 440 retail stores and veterinary clinics."*

Standalone GP clinic performance has stabilised, and initiatives are in place to drive visitation and improve operating performance

"The performance of our veterinary business during FY18 was disappointing. However, like-for-like sales in standalone GP clinics stabilised in the fourth quarter. Several initiatives are now in place to improve the performance of our veterinary division including a comprehensive marketing program to introduce retail customers to our Healthy Pets Plus wellness program, better labour rostering and the introduction of a new vet incentive program. To improve customer convenience, we are also taking the first steps in modernising the delivery of our vet services through implementing extended hours, mobile vet, telemedicine and team-based medicine. We will continue to grow our network both organically and through strategic acquisitions. We are the largest veterinary business in Australia and New Zealand and we are well placed to leverage our scale and expertise to grow our market share," Mr Hickey said.

Results overview

Revenue increased across all divisions driven by LFL sales growth and continued network expansion. The Group grew revenue by 7.5% to $878.7 million and delivered LFL sales growth of 4.9%. Gross margin increased by 90 bps to 56.3% due to higher gross margin across all divisions. Group underlying EBITDA decreased by 6.4% to $97.6 million and Group underlying EBITDA margin decreased by 170bps to 11.1%.

NPAT attributable to shareholders decreased by 51% to $20.7 million and included $24.2 million of exceptional items which were primarily non-cash.

Strong EBITDA cash conversion of 101% was driven by favourable working capital performance.

Exceptional items

The Company incurred $24.2 million of exceptional items in FY18, which include $21.8 million of non-cash impairments and provisions which were foreshadowed in the trading update of 9 May 2018. A further $2.4 million of items relate to provisions and acquisition and restructuring costs incurred in H1 FY18 ($1.6 million) and acquisition costs incurred in H2 FY18. The impact of exceptional items on FY18 EBITDA was $22.8 million, with the balance of $1.4 million recognised in depreciation. Further detail of these items is shown in Appendix 1.

Divisional performance

Revenue	FY18 52 weeks	FY17 53 weeks	Change
Australian Retail	532.3	505.1	5%
Australian Vet	240.8	214.4	12%
New Zealand	105.6	98.0	8%
New Zealand – NZD	*114.5*	*103.5*	*11%*
Group Revenue ($m)	**878.7**	**817.5**	**7.5%**

Underlying EBITDA	FY18 52 weeks	FY17 53 weeks	Change
Australian Retail	74.4	70.9	5%
Australian Vet	24.6	29.6	(17%)
New Zealand	13.4	13.5	(1%)
New Zealand – NZD	*14.5*	*14.2*	*2%*
Unallocated corporate costs	(14.9)	(9.7)	54%
Group Underlying EBITDA ($m)	**97.6**	**104.2**	**(6%)**

We have reported our FY18 divisional EBITDA excluding unallocated corporate costs to improve transparency of our divisional financial performance. Unallocated costs exclude support service costs which have been allocated to the divisions.

Australian Retail revenue increased by 5% driven by strong LFL sales growth of 5.1% which was underpinned by 3.1% LFL transaction growth and higher basket size. Revenue growth was supported by strong sales in key categories of dog food (9%) and cat food (8%). Australian retail gross margin improved to 47.9% supported by increased promotional effectiveness and higher sales of private label products. Growth in underlying EBITDA of 5% was primarily driven by retail stores LFL sales growth.

Australian Vet revenue increased by 12% driven by network expansion in specialist and emergency, vet acquisitions and in-store clinic roll out. Australian Vet delivered 4.3% LFL sales growth with strong LFL sales growth at specialist hospitals and in-store clinics offset by a 2.2% decline in LFL sales in standalone GP clinics, reflecting lower visit numbers. LFL sales at our standalone GP clinics stabilised in the fourth quarter.

The $5 million decline in Australian Vet Underlying EBITDA was attributable to a $0.6 million short term earnings impact of the rollout of our immature in-store clinics which will deliver increased operating leverage and earnings as they mature, a $2.6 million impact associated with higher labour costs in our Animal Referral Hospital joint venture (of which only 50% or $1.3 million is attributable to GXL shareholders) and a $1.8 million impact from start-up losses in new emergency clinics and lower than planned standalone GP clinic traffic in the first three quarters of FY18.

New Zealand delivered 11% revenue growth. Underlying EBITDA growth was underpinned by LFL sales growth of 5.2% and a 90bps increase in gross margin from improved retail trading and growing maturity of in-store vet clinics.

The growth in unallocated corporate costs reflected the labour cost impact of the strategic review of IT projects ($4.2 million) and increase in share-based payment amortisation ($1.0 million). We completed our corporate restructure in June and this has realised $3.1 million of corporate cost savings. Unallocated corporate costs in FY19 are expected to be between $15 million and $16 million.

Renewed strategic focus

With a new management team in place, Greencross has identified the following key strategic priorities:

1. Expand our integrated pet care model
2. Invest in personalisation and omnichannel to leverage our loyalty data and customer intimacy
3. Differentiate our retail offering to deliver a unique customer experience
4. Improve vet operational performance and deliver a future vet model offering customers improved service and convenience
5. Focus on service excellence across all parts of the business.

Key achievements in FY18 against these strategic priorities, and our key areas of focus to advance these strategic priorities in FY19, are set out in our investor presentation. Delivery of these priorities will drive further growth in the business and increased earnings.

Capital management and dividends

The new management team has adopted a disciplined approach to capital management.

At 30 June 2018, the Company's leverage (Net debt/EBITDA) has increased to 2.8x, reflecting a decline in earnings, repayment of a short-term credit facility previously used to finance working capital and sub-optimal investment in technology resulting in asset impairments. It also includes natural leverage growth associated with the EBITDA maturity profile of our new in-store clinics built over the past two years as we expand our integrated site network.

The Company plans to reduce total capex in FY19 to $50 million without slowing the strategic expansion of our network through new stores, in-store clinics and strategic vet acquisitions. Greencross intends to add between 3 and 5 stores and between 10 and 15 in-store clinics to our network in FY19 and will continue to make strategic acquisitions and roll out services. Network investment will be focussed on optimising sales per square metre and piloting a smaller store format to lower capital cost and reduce payback period.

The Directors have declared a fully franked final dividend of 5.5 cents per share, bringing the total dividend for FY18 to 15.5 cents per share fully franked. The record date for the final dividend will be 28 August 2018 with a payment date of 12 October 2018. The Company's DRP will be activated with a 2.5% discount and will not be underwritten.

Trading Update and FY2019 outlook

Greencross has had a positive start to FY19, and is pleased to provide the following trading update as at week 6:

- 5.8% Group LFL sales growth
- 6.1% Group Retail LFL sales growth
- 5.2% Australian Vet LFL sales growth including negative LFL sales in standalone GP clinics of 0.5%
- 8.0% Group revenue growth

Greencross will adopt a disciplined approach to investment and capital management in FY19. The Company plans to reduce total capex in FY19 to approximately $50 million, without slowing the strategic expansion of our integrated network and our digital and omnichannel capabilities.

Following its strategic and operational business wide review, the Company reconfirms its annualised operating cost savings target of $10 million to $13 million, with $5.8 million realised to date.

Management's focus in FY19 will be on executing its strategic priorities to improve operational performance and deliver revenue and earnings growth.

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: 1098 726

	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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APPENDIX 1

SUMMARY OF EXCEPTIONAL ITEMS

$m	H1 FY18	H2 FY18	FY18
Acquisition & due diligence costs	0.6	0.8	1.4
Impairment of projects	-	10.7	10.7
Impairment of investments, store assets and provisions	0.8[1]	4.6	5.4
Provision for slow moving inventory	-	3.0	3.0
Restructuring costs	0.2	2.5	2.7
Change in useful life of intangible software assets	-	1.0	1.0
Exceptional Items	**1.6**	**22.6**	**24.2**
Recognised in EBITDA	*1.6*	*21.2*	*22.8*
Recognised in depreciation	-	*1.4*	*1.4*
Impact on Statutory NPAT attributable to GXL shareholders	**(1.2)**	**(15.3)**	**(16.5)**

1. Reported as restructuring costs in H1

APPENDIX 2

SUMMARY OF NETWORK CHANGES

Retail stores	**FY18**	**FY17**
Stores at beginning of period	239	221
New stores (net of closures)	8	18
Stores at end of period	247	239
Standalone clinics	**FY18**	**FY17**
Standalone GP clinics at beginning of period	110	109
New standalone GP vet clinics (net of closures and relocations)	(4)	1
Standalone GP clinics at end of period	106	110
In-store clinics	**FY18**	**FY17**
In-store clinics at beginning of period	37	17
New in-store clinics	17	20
Total in-store clinics at end of period	54	37
Specialist & Emergency	**FY18**	**FY17**
Practices at beginning of period	33	29
New practices	4	4
Practices at end of period	37	33
Grooming salons	**FY18**	**FY17**
Grooming salons at beginning of period	80	63
New grooming salons	26	17
Grooming salons at end of period	106	80