

20 February 2018

## **FY2018 Interim Result**

### **9% growth in Group Revenue**

### **11% growth in Group underlying NPAT**

#### **Highlights<sup>1</sup>**

– Revenue	up 9% to \$433.3 million
– Gross margin (%)	up 70bps to 56.4%
– EBITDA	up 9% to \$54.4 million
– Underlying EBITDA	up 8% to \$56.0 million
– NPAT	up 9% to \$23.2 million
– Underlying NPAT	up 11% to \$24.4 million
– EPS	up 7% to 19.7 cents
– Underlying EPS	up 8% to 20.7 cents
– Interim dividend	up 5% to 10.0 cents

Greencross' Chief Executive Officer, Martin Nicholas said *"In H1 FY2018, Greencross has achieved 9% revenue growth and 4.5% LFL sales growth, driven by strong performances from our retail business (especially online), in-store GP clinics and specialist and emergency hospitals. Pleasingly, this top line growth has translated directly to the bottom line, delivering an 11% increase in underlying NPAT to \$24.4 million. This has enabled us to declare a fully franked interim dividend of 10 cents per share.*

*Our Australian Retail division achieved 6% revenue growth and LFL sales growth of 4.0%. Excellent trading over the Christmas period, higher premium food sales and growth in online were all key contributors to a good retail result. First half retail gross margin of 47.4% was particularly pleasing given that it was achieved in a period where we saw higher promotional intensity from our competitors and Amazon launched its Australian platform.*

*Our Veterinary division achieved 14% revenue growth and delivered 5.9% LFL sales growth, with in-store GP clinics and specialist and emergency hospitals being the key growth drivers.*

*I am confident that our one stop shop approach to petcare and the scope, and quality, of our full service veterinary offering are key points of differentiation from our competitors which are highly attractive to pet consumers and will enable us to further grow our market share in Australia and New Zealand."*

1. Growth compares H1 FY2018 results with H1 FY2017 Proforma results being the 26 weeks ending 1 January 2017 date to allow a 26 week versus 26 week comparison.

## Summary of Financial Performance

	H1 FY2018 (26 weeks) <sup>2</sup>	Pro forma H1 FY2017 (26 weeks) <sup>2,3</sup>	Change %
Revenue	433.3	398.3	9%
Gross margin	244.3	221.7	10%
Gross margin (%)	56.4%	55.7%	70bps
EBITDA	54.4	50.0	9%
Exceptional items	1.6	2.1	(20%)
Underlying EBITDA	56.0	52.1	8%
NPAT (post minorities)	23.2	21.3	9%
Underlying NPAT (post minorities)	24.4	22.1	11%
EPS (cents)	19.7	18.4	7%
Underlying EPS (cents)	20.7	19.1	8%
Interim dividend (cents)	10.0	9.5	5%

2. Underlying results exclude exceptional items which are removed to facilitate year on year comparison. H1 FY2017
3. Pro forma reflects the 26 week period ending 1 January 2017 to allow a 26 week versus 26 week comparison.

## Results Overview

Revenue increased by 9% to \$433.3 million driven by 4.5% Group LFL sales growth and network expansion. Our integrated platform (stores co-located with in-store GP vets, other services and online) now represents a significant and growing proportion of Group revenue. Online, in-store GP clinics and specialist and emergency were the key drivers of revenue growth.

Gross margin increased by 10% to \$244.3 million and gross margin % increased by 70bps to 56.4%. Australian retail gross margin decreased marginally by 30bps to 47.4% with favourable sales mix, private label sales and supplier co-operation balancing an increasing level of promotional intensity across the industry.

Australian veterinary services gross margin increased by 150bps to 79.0% as a result of a higher contribution from specialist and emergency.

EBITDA increased by 9% to \$54.4 million and underlying EBITDA increased by 8% to \$56.0 million. Group EBITDA % declined by 20bps to 12.9% reflecting the accelerated investment in start-up in-store GP clinics, expansion in accident and emergency and the impact of inflationary pressures on energy costs.

Leverage at the end of the half remained steady at 2.2x with EBITDA cashflow conversion of 106% 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.

Top line growth in the first half translated directly into bottom line growth. NPAT (post minorities) increased by 9% to \$23.2 million and underlying NPAT (post minorities) increased by 11% to \$24.4 million.

#### Revenue and LFL Sales Growth

	Sales Revenue (\$m)	Sales Revenue Growth (%)	LFL Sales Growth <sup>4</sup> (%)
Group	433	9%	4.5%
Australian Retail	263	6%	4.0%
Australian Vet	119	14%	5.9%
New Zealand	51	11%	4.5%

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

The Group delivered total sales revenue growth of 9% and LFL sales growth of 4.5%.

Australian Retail delivered sales revenue growth of 6%. Australian Retail LFL sales growth of 4.5% reflected strong Christmas trading and solid growth in core categories of dog food, cat food, and flea & tick. Retail trading conditions in Western Australia have improved and we have now delivered 5 consecutive months of positive LFL sales in our Western Australian retail stores.

Our Australian veterinary business achieved sales revenue growth of 14% and LFL sales growth of 5.9%, underpinned by a strong performance from in-store GP clinics and our specialist veterinary business. Revenue from our Australian in-store GP clinics grew by over 40% to \$9.5 million as a result of a ramp up in visit numbers together and ongoing fleet expansion. Our specialist and emergency hospitals, which now represent 36% of the Australian veterinary division by revenue, achieved 31% revenue growth off the back of increased visits, improved levels of cross referrals from our GP clinics and contributions from new facilities. The performance of our standalone clinics was softer due to lower visit numbers. Initiatives are in place to drive higher visits through this through cross referrals, digital marketing and HPP sales.

New Zealand achieved 11% sales growth and 4.5% LFL sales growth driven by the growing maturity of the store and in-store GP clinic network.

## Network

Stores and Clinics	H1 FY2018	H1 FY2017
Retail stores	247	237
Standalone GP clinics	109	110
In-store GP clinics	43	24
Specialist & emergency hospitals	36	30
Total	435	401

Greencross opened 8 retail stores in the first half bringing the total number of stores to 247.

In addition, Greencross opened 8 GP vet clinics in the first half, increasing the size of the GP clinic network to 152 clinics. This included 2 vet clinic acquisitions which are expected to deliver \$1 million in annualised revenue. Following the addition of 6 in-store GP clinics in the first half and 2 in-store GP clinics in the second half, Greencross now has 45 veterinary clinics open inside retail stores.

In-store GP clinics performed in line with expectations in the first half. Australian in-store GP clinics contributed \$9.5 million in revenue and now represent 13% of Australian GP vet clinic revenue.

Specialty and emergency delivered 31% revenue growth with strong visit growth at ARH Sydney and the opening of new specialist and emergency facilities in Brisbane, Melbourne and Noosa.

## Online

Australian online sales increased by 92% to \$9 million and now represent 3.4% of Australian retail sales. Click & collect now comprises over 40% of online sales and ATV for click & collect transactions is over 50% higher than for in-store purchases. More than 80% of our online customers also visited one of our stores or clinics, suggesting that Greencross' "clicks and mortar" omnichannel offering is resonating with our customers.

## 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 96 grooming salons and 39% of our retail stores have a grooming salon. A 24/7 online booking system for both in-store GP vets and grooming is now in place.

### Private Label Sales

Sales of private label products and exclusive brands contributed over \$50 million in revenue in the first half and represented over 21% of total Australian retail product sales. First half sales of Leaps & Bounds dog food grew by 40% to \$4 million. Following the successful launch of Leaps & Bounds wet dog food range in the first half, Leaps & Bounds dry cat food range is expected to be launched in the second half.

### One stop shop and cross shopping

Customers who shop across all of our platforms (retail stores, online, veterinary clinics and grooming salons) spend, on average, over seven times as much as customers who shop in store only. The number of customers in Australia who shop at more than one platform has increased by 34% over the past 12 months to over 212,000 customers. These cross shoppers now represent 13% of Greencross' active customer base and account for 28% of total revenue and 32% of gross margin.

87% of purchases in Petbarn, City Farmers and Animates retail stores are made on a Friends for Life loyalty card. Membership of our Healthy Pets Plus proactive pet wellness program exceeds 57,000.

### Dividend

The Directors have declared an interim dividend of 10.0 cents per share. The record date for the interim dividend will be 28 February and the interim dividend will be paid on 23 March.

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:

- Total sales growth of 9%
- Group LFL sales growth of 4.2%
- Australian Retail LFL sales growth of 3.7%
- Australian Vet LFL sales growth of 5.2%
- New Zealand LFL sales growth of 4.8%

The business continues to perform in line with plan in FY2018 YTD and the Company remains comfortable with market consensus for the full year result.

The Company expects its effective tax rate for the full year FY2018 will be ~28%.

### 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: 1668508

	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  
Head of Investor Relations, Greencross Limited  
Phone (02) 8595 3313  
[rwruck@gxltd.com.au](mailto:rwruck@gxltd.com.au)