

Date of issue

08.09.08

Company Update

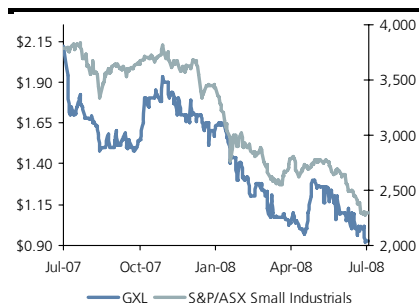
INVESTMENT DATA

Share Price	\$0.90
Issued Capital	
Ordinary shares	22.7m
Options/other	2.0m
Fully diluted	24.7m
Market Capitalisation	\$22.3m
52-week low/high	\$0.9 / \$1.95
Valuation	\$1.53
Price Target (12 months)	\$1.53
Return on Equity (FY08f)	15.0%

The top 20 shareholders owned 61% of shares on issue (as of August 26, 2008)

Year end Jun	07pf	08f	09f	10f	
Revenue	\$m	29.7	34.7	42.1	52.3
EBITDA	\$m	4.3	5.0	6.4	8.5
NPAT (adj)	\$m	n/a	2.5	3.3	4.4
EPS (adj)	¢	n/a	10.6	12.7	14.4
EPS growth	%	n/a	n/a	19.8	13.4
PER	x	n/a	8.5	7.1	6.3
EV/EBITDA	x	n/a	6.9	5.3	3.9
DPS	¢	n/a	0.0	0.0	3.6
Yield	%	n/a	0.0	0.0	4.0
Franking	%	n/a	n/a	100	100

Note: EPS is normalised for tax and one-off items, FY07 figures are company pro-forma estimates



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Greencross (GXL)

Buy

Higher margins & acquisition rate the FY09 agenda

Veterinarian group GXL has reported \$2.4m NPAT on \$34.4m operating revenue for FY08, its first full year of operations. This is in-line with June 27 guidance of \$33.5m-\$34m revenue and \$2.4m to \$2.6m NPAT; and slightly above our \$2.3m NPAT forecast.

Operating cash flow was a healthy \$5.6m and net debt stood at \$8.7m, with another \$3.4m in deferred settlements to come for adjusted net debt of \$12.0m.

Top line growth delivers

GXL's IPO was conducted in June 2007 (priced at \$1 a share) and the prospectus guidance was for \$32.1m revenue, \$4.39m EBITDA and \$2.0m NPAT. These numbers were well exceeded, with some assistance from the part-year contributions acquisitions provided (reported to be \$0.39m NPAT or 16% of the reported result).

On a like-for-like basis, revenue was slightly ahead of the prospectus forecast at \$32.3m, and NPAT was in-line at \$2.0m. If we compare the final results with our pre-profit warning estimates (made in April 2008), revenue was 0.9% lower and EBITDA 8.1% lower.

We understand the EBITDA margin ended up lower than anticipated primarily due to an increase in pay roll costs, with GXL reporting a 3% increase in salaries and also moving to increase provisioning for leave entitlements.

Taking action on the cost side

Despite the consumer slow-down in the June quarter, GXL achieved revenue that met or exceeded all guidance, demonstrating the resilience of veterinarian businesses to economic slow-downs. It was costs that varied from expectations and are the subject of scrutiny.

GXL has been active over the past few months in renegotiating professional staff salaries in order to reflect prevailing conditions, typically tying salary growth to billings growth. We note also that GXL has been successful during FY08 in cutting costs elsewhere, negotiating deals with suppliers that reflect the buying power of the combined 39 practices.

Acquisitions to flow in FY09

GXL acquired six practices during FY08—on a pro-forma basis its reported FY08 NPAT would have been \$3.5m—and has invested time in setting up its centralised systems, including IT, financial controls, practice standards and key supplier relationships.

GXL has stated that it expects strategic acquisitions will increase in FY09. It has also flagged an intention to develop new regional "clusters" beyond its current geographical focal points on the Gold Coast, in Brisbane, Townsville and Melbourne.

Earnings forecasts adjusted, Buy recommendation retained

Management has been coy on providing specific guidance, having provided guidance in March 2008 that proved too optimistic when in subsequent months consumer spending slowed (GXL's revenue growth fell to 3% year-on-year from a rate of circa-10% up to March and a prospectus target of 8%). But the company has stated that it expects to "deliver an improved result".

We have made little change to our revenue estimate for FY09 but have lifted margin assumptions, raising our EBITDA and adjusted EPS estimates by 4%. We now expect 19.8% EPS growth to \$0.127 for a P/E of 7.1x (at \$0.90 a share). Buy retained.

Greencross (GXL)						Share price: \$0.900																																											
As at 8/09/2008						Market cap: \$22.3m																																											
						Recommendation: Buy																																											
Income Statement						Valuation Data																																											
Year end June 30	2006A	2007A	2008A	2009F	2010F	Year end June 30	2007PF	2008A	2009F	2010F																																							
Revenue		\$2m	\$35m	\$42m	\$52m	Adjusted NPAT	1.68	2.53	3.26	4.39																																							
EBITDA		0.30	4.96	6.40	8.48	Adjusted EPS	7.1c	10.6c	12.7c	14.4c																																							
EBITA		0.28	4.56	5.70	7.42	EPS growth	n/a	n/a	19.8%	13.4%																																							
Amortisation		0.00	-0.25	-0.20	0.00	P/E ratio	12.7x	8.5x	7.1x	6.3x																																							
EBIT		0.28	4.31	5.50	7.42	OpCFPS (excl. abnormals)	n/a	23.8c	20.9c	24.3c																																							
Interest		-0.01	-0.80	-0.93	-1.02	Price/OpCFPS	n/a	3.8x	4.3x	3.7x																																							
Abnormals		-0.12	0.00	0.00	0.00	DPS	n/a	0.0c	0.0c	3.6c																																							
Pre-tax profit		0.16	3.52	4.57	6.39	Yield	n/a	0.00%	0.00%	3.99%																																							
Tax		-0.08	-1.01	-1.37	-1.92	EV/EBITDA	n/a	6.9x	5.3x	3.9x																																							
Equity-accounted profits		-0.01	-0.11	-0.08	-0.08																																												
Reported net profit		0.06	2.40	3.12	4.39	Profitability Ratios																																											
Adjusted net profit		0.18	2.53	3.26	4.39	Year end June 30	2007A	2008A	2009F	2010F																																							
(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)						EBITDA/sales	19.4%	14.3%	15.2%	16.2%																																							
						EBITA/sales	18.0%	13.1%	13.5%	14.2%																																							
						Return on assets (avg.)	0.9%	11.8%	12.5%	13.7%																																							
						Return on equity (avg.)	1.2%	15.0%	15.3%	14.8%																																							
						Dividend cover	n/a	n/a	n/a	4.x																																							
						Effective tax rate	52.3%	28.6%	30.0%	30.0%																																							
Cashflow						Liquidity & Leverage																																											
Year end June 30	2006A	2007A	2008A	2009F	2010F	Year end June 30	2007A	2008A	2009F	2010F																																							
Net profit		\$0.07m	\$2.51m	\$3.20m	\$4.47m	Net debt	\$11.94m	\$12.01m	\$11.78m	\$10.64m																																							
Amortisation		0.00	0.25	0.20	0.00	Net debt/equity	80.5%	63.7%	49.6%	30.0%																																							
Depreciation		0.02	0.40	0.70	1.06	Interest cover	42.7x	6.2x	6.9x	8.3x																																							
Change in working capital		0.53	2.48	1.27	1.90	DCF Valuation																																											
Other		0.00	0.00	0.00	0.00																																												
Net operating cashflow		0.62	5.65	5.37	7.43																																												
Investing cashflow																																																	
Sale/purchase of PPE		-0.08	-1.15	-0.97	-1.21																																												
Investments & acquisitions		-16.84	-9.27	-7.53	-4.34																																												
Other		0.00	0.00	0.00	0.00																																												
Net investing cash flow		-16.91	-10.42	-8.51	-5.54																																												
Financing activities																																																	
Issue of shares		10.50	-0.02	0.00	0.49																																												
Buy backs		0.00	0.00	0.00	0.00																																												
Dividends paid		0.00	4.57	0.00	-1.25																																												
Debt		8.50	0.00	2.94	-0.01																																												
Others		0.00	0.00	0.00	0.00																																												
Net financing cash flow		19.00	4.55	2.94	-0.77																																												
FX impact		0.00	0.00	0.00	0.00																																												
Net change in cash held		2.72	-0.22	-0.19	1.12																																												
Balance Sheet																																																	
Year end June 30	2006A	2007A	2008A	2009F	2010F																																												
Assets																																																	
Cash assets		\$2.71m	\$2.49m	\$2.29m	\$3.41m																																												
Receivables		0.38	0.61	0.74	0.92																																												
Inventories		1.31	1.19	1.45	1.80																																												
Other		0.21	1.81	1.81	1.81																																												
Total current assets		4.60	6.10	6.30	7.95																																												
Plant and equipment		2.31	3.93	5.33	7.95																																												
Investment		0.00	0.09	0.09	0.09																																												
Intangible assets		24.63	30.12	34.65	44.56																																												
Deferred tax assets		0.83	0.82	0.82	0.82																																												
Total non-current assets		27.77	34.96	40.89	53.42																																												
Total assets		32.36	41.06	47.19	61.37																																												
Liabilities																																																	
Debt & deferred payments		2.98	1.25	3.18	3.17																																												
Payables		2.16	3.41	4.14	5.14																																												
Current tax liabilities		0.00	1.01	1.37	1.92																																												
Provisions		0.41	0.70	0.85	1.06																																												
Total current liabilities		5.54	6.37	9.54	11.29																																												
Debt & deferred payments		11.67	13.25	10.89	10.88																																												
Deferred tax liabilities		0.13	0.12	0.12	0.12																																												
Provisions		0.19	2.47	2.88	3.56																																												
Total non-current liabilities		11.98	15.84	13.89	14.56																																												
Total liabilities		17.52	22.20	23.43	25.85																																												
Net assets		14.84	18.85	23.75	35.53																																												
Equity																																																	
Contributed equity		14.77	16.28	17.98	26.52																																												
Reserves & outside equity		0.01	0.11	0.18	0.26																																												
Retained earnings		0.07	2.47	5.59	8.74																																												
Total equity		14.84	18.85	23.75	35.53																																												
Diluted shares on issue		23.53	24.74	26.46	36.74																																												
Weighted ave diluted shares		2.52	23.78	25.69	30.58																																												
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<p>Greencross (ASX code: GXL) is the only listed veterinarian group in Australia, having raised \$11m in an IPO completed in June 2007. The proceeds were utilised primarily to complete the acquisition of 30 veterinary businesses located in Queensland and Victoria and 70% of a veterinary specialist centre located in South Australia. Fifteen of the 31 businesses have been operating under the "Greencross" brand since 2003. A further three practices currently utilise common operational and purchasing procedures. GXL plans to expand its specialist and emergency centres, creating a network of high quality veterinary businesses. Since listing GXL has acquired a further eight practices, bringing the total to 39.</p>																																																	

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