

Greencross Ltd

Earnings Update

FY08 guidance lowered, but still ahead of prospectus

- GXL issued revised earnings guidance for FY08 following a weaker than expected second half. GXL was unable to sustain the strong 1H08 performance which led to an upgrade to prospectus forecasts in March.
- The revised forecasts are still ahead of prospectus, with EPS expected at 11-12 cents, compared to prospectus forecast of 9.4 cents.
- Earnings in 2H08 were affected by a decrease in revenue and a rise in salary costs. Full year organic revenue growth is expected to be 3% vs 8% expected initially.

Changes to earnings

- Veritas had previously revised estimates (12 June), citing a softening consumer demand environment. GXL's earnings are generally resilient however some marginal expenditure on ancillary services and pet retail is highly discretionary.
- GXL's revised guidance is for revenue of \$33.5-\$34m, EBITDA of \$4.5-\$4.8m, NPAT of \$2.4-\$2.6m and EPS of 11.00-12.00 cents.
- We reduce our FY08 EBITDA forecast by 6% to \$4.7m however our NPAT remains unchanged at \$2.3m due to lower interest expense assumptions.
- Our adjusted NPAT, which excludes a non cash deferred payments expense, is unchanged at \$2.7m.
- Our FY09 and FY10 EBITDA forecasts are reduced by 8.4% and 8.2% respectively. EPS forecasts are reduced by 8.6% for FY09 9.5% for FY10.

GXL remains on track for outstanding result

- GXL's revised guidance places it on track to deliver an outstanding result for its first year as a listed company. FY08 guidance for EPS of 11.00-12.00 cents is 17-27% ahead of prospectus guidance.
- Since acquiring 31 practices on listing in June 2007, GXL has successfully consolidated those practices and acquired a further seven.
- GXL is establishing itself as a dominant player in the growing pet healthcare/retail market, especially in the regions where it has established significant operating hubs. GXL is well placed to achieve strong earnings growth over the next three years through organic revenue growth, operating leverage and acquisitions.
- Our forecasts assume the acquisition of 10 practices in each of FY09 and FY10. Maintain BUY and \$1.90 tp.

GXL.ASX

BUY

Monday 30 June, 2008

| | |
|-------------------------|--------|
| Price | \$1.02 |
| Target valuation | \$1.90 |
| DCF valuation | \$1.98 |
| Target valuation method | PER |

| | | |
|----------------------------|-------------------|------|
| GICS sector | Consumer Services | |
| Avg monthly t/o | m | na |
| Diluted mkt capitalisation | \$m | 25.2 |
| Shares on issue | m | 22.7 |
| Enterprise value | \$m | 36.4 |
| Previous rating | BUY | |

| Year Ended June 30 | | 08E | 09E | 10E |
|--------------------|-----|-------|-------|-------|
| Sales revenue | \$m | 33.8 | 44.2 | 58.2 |
| EBITDA | \$m | 4.7 | 6.6 | 9.0 |
| EBITDA margin | % | 14.0% | 15.0% | 15.5% |
| EBIT | \$m | 4.3 | 5.9 | 8.3 |
| EBIT margin | % | 12.9% | 13.4% | 14.3% |
| Adjusted NPAT | \$m | 2.7 | 3.3 | 4.7 |

| | | | | |
|------------------------|----|------|------|------|
| EPS adj | c | 11.6 | 12.7 | 17.0 |
| EPS adj growth | % | nm | 9% | 34% |
| DPS | c | 0.0 | 0.0 | 0.0 |
| Franking | % | na | na | na |
| PER | x | 8.8 | 8.0 | 6.0 |
| PER rel Ex-100 ex Fins | | 61% | 67% | 59% |
| Dividend yield | % | na | na | na |
| NTA | \$ | na | na | na |

| | | | | |
|-----------------------|---|-------|-------|-------|
| EV/EBITDA | x | 7.7 | 5.5 | 4.0 |
| P/OCF | x | 6.8 | 6.5 | 4.6 |
| ROA | % | 8.6% | 9.2% | 10.4% |
| ROE | % | 11.9% | 14.2% | 15.6% |
| Interest cover (EBIT) | x | 7.5 | 4.8 | 5.3 |

GXL vs Small Ords



Source: IRESS

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Profit & Loss (\$m)

| Year ending June | 2008E | 2009E | 2010E |
|---------------------------|------------|------------|------------|
| Revenue: | | | |
| No. of Practices | 38 | 48 | 58 |
| Average Rev per practice | 0.97 | 1.02 | 1.09 |
| Revenue | 33.8 | 44.2 | 58.2 |
| Expenses | 29.0 | 37.6 | 49.2 |
| EBITDA | 4.7 | 6.6 | 9.0 |
| D&A | -0.4 | -0.7 | -0.7 |
| EBIT | 4.3 | 5.9 | 8.3 |
| Net interest expense | 0.6 | 1.2 | 1.6 |
| EBT | 3.4 | 4.7 | 6.7 |
| Tax | 1.1 | 1.4 | 2.0 |
| Reported NPAT | 2.3 | 3.3 | 4.7 |
| Deferred payments expense | 0.4 | 0.0 | 0.0 |
| Adjusted NPAT | 2.7 | 3.3 | 4.7 |

Cashflow (\$m)

| | 2008E | 2009E | 2010E |
|--------------------------------|-------|-------|-------|
| EBITDA | 4.7 | 6.6 | 9.0 |
| Change in Working Capital | -1.2 | -0.4 | -0.3 |
| Net Interest paid | -0.3 | 1.2 | 1.6 |
| Income taxes paid & other | 0.4 | 1.4 | 2.0 |
| Cashflow from operations | 3.4 | 3.6 | 5.1 |
| Capex | -8.5 | -9.0 | -9.0 |
| Total free cashflows | -5.1 | -5.4 | -3.9 |
| Other investing cashflows | 0.0 | 0.0 | 0.0 |
| Proceeds/(repay) of borrowings | 4.6 | 4.0 | 4.5 |
| Equity raisings/(buybacks) | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 |
| Net change in cash | -0.6 | -1.4 | 0.6 |

Balance Sheet (\$m)

| | 2008E | 2009E | 2010E |
|--------------------------------------|-------------|-------------|-------------|
| Cash | 2.1 | 0.7 | 1.3 |
| Debtors | 0.5 | 0.7 | 0.9 |
| Other current assets | 1.6 | 2.1 | 2.7 |
| Current assets | 4.2 | 3.4 | 4.8 |
| PPE | 3.6 | 3.5 | 3.4 |
| Intangibles | 30.9 | 40.1 | 50.3 |
| Other non-current assets | 0.8 | 0.8 | 0.8 |
| Non-current assets | 35.3 | 44.4 | 54.5 |
| Total assets | 39.5 | 47.9 | 59.3 |
| Payables | 6.0 | 6.2 | 6.7 |
| Short term borrowings | 0.0 | 0.0 | 0.0 |
| Other current liabilities | 1.3 | 1.3 | 0.5 |
| Total current liabilities | 7.3 | 7.5 | 7.2 |
| Long term borrowings | 13.3 | 17.3 | 21.8 |
| Total non-current liabilities | 13.3 | 17.3 | 21.8 |
| Total liabilities | 20.5 | 24.8 | 29.0 |
| Net assets | 19.0 | 23.1 | 30.4 |

Market Measures

| Year ending June | | 2008E | 2009E | 2010E |
|-----------------------------|------------|-------------|-------------|-------------|
| EPS reported | cps | 10.8 | 12.7 | 17.0 |
| EPS adjusted | cps | 11.6 | 12.7 | 17.0 |
| EPS growth | % | nm | 9% | 34% |
| PE multiple | x | 8.8 | 8.0 | 6.0 |
| PE relative (ex-100) | % | 61% | 67% | 59% |
| EBITDA per share | cps | 20.8 | 27.2 | 34.3 |
| EBITDA growth | % | nm | 40% | 36% |
| P/OCF | x | 6.8 | 6.5 | 4.6 |
| FCF per share | \$ | -0.23 | -0.24 | -0.17 |
| DPS | cps | 0.0 | 0.0 | 0.0 |
| Dividend yield | % | 0.0% | 0.0% | 0.0% |
| Franking | % | na | na | na |
| Enterprise value | \$m | 36.4 | | |
| EV/EBITDA | x | 7.7 | 5.5 | 4.0 |

Profitability & Liquidity Ratios

| Year ending June | | 2008E | 2009E | 2010E |
|---------------------|----|-------|-------|-------|
| ROE | % | 11.9% | 14.2% | 15.6% |
| ROA | % | 8.6% | 9.2% | 10.4% |
| NPAT/sales | % | 6.7% | 7.4% | 8.1% |
| EBITDA/sales | % | 14.0% | 15.0% | 15.5% |
| Interest cover | x | 7.5 | 4.8 | 5.3 |
| Gearing (ND/[ND+E]) | % | 37% | 42% | 40% |
| NTA/share | \$ | nm | nm | nm |

Valuation

| | \$m | \$/share |
|-------------------|-------|----------|
| NPV of Cash Flows | 111.2 | 1.20 |
| Terminal Value | 83.2 | 0.90 |
| Net Cash (Debt) | -11.1 | -0.12 |
| Total | 183.2 | 1.98 |

| | |
|----------------------------------|--------|
| Price target* | \$1.90 |
| Upside/downside | 86% |
| *PE methodology - 16 x FY08E EPS | |

WACC

| | |
|--------------------------|--------------|
| Risk free rate of return | 6.0% |
| Post-tax cost of debt | 5.6% |
| Equity risk premium | 5.5% |
| Beta target | 1.00 |
| Cost of Equity | 11.5% |
| Terminal Growth Rate | 3.0% |
| WACC | 10.4% |

Company Statistics

| | | |
|-------------------------------|------|--------|
| Current share price | \$ps | 1.02 |
| Ordinary shares | m | 22.7 |
| Options | m | 2.0 |
| Diluted market capitalisation | \$m | \$25.2 |

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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