Greencross Limited (GXL)

CEO on FY2012 Outlook & Strategy

13 October 2011 - CEO and MD: Dr Glen Richards

In this Open Briefing®, CEO and MD Dr Glen Richards discusses:

- At least 15 per cent EPS growth in FY2012
- Upward trend in EBITDA margin
- Outlook for acquisitions and company strategy

ShareThis Download PDF

Greencross Limited (ASX: GXL) is an Australian-based veterinary services company growing through the acquisition and integration of 67 practices around the country. GXL is focused on consolidating the fragmented veterinary services industry in Australia. GXL's veterinary clinics and animal hospitals cover areas in Brisbane, the Gold Coast, North Queensland, Victoria, New South Wales and Adelaide.

openbriefing.com

Greencross Limited (ASX: GXL), after acquiring the Hurstbridge Veterinary Clinic & Hospital ('Hurstbridge') in Victoria, has expanded its portfolio to 67 veterinary practices, with ten practices acquired in the first three months of FY2012. At this rate, you would acquire about 30 practices in FY2012, well in front of your intention to acquire "at least 12" clinics during the year. This suggests some upside versus your target of achieving EPS growth of 15 percent in FY2012. Can you comment?

CEO Glen Richards

The target for Greencross is to acquire at least 12 million dollars in revenue through new acquisitions. This equates to approximately 12 practices acquired in the year. Acquisitions in the first three months included the Toowoomba and Wollongong joint venture in which Greencross has a majority stake. On a year to date basis we've acquired ten clinics and this represents approximately nine and a half million in revenue, so we are on target to deliver acquisitions as we promised. We will continue to target at least 15 per cent earnings per share growth in 2012 and we to aim to deliver at least a 7 cent dividend per share in the 2012 financial year.

openbriefing.com

In light of consumers' higher levels of saving and restrained discretionary spending, how have your markets been impacted? What has been the performance of your underlying business so far in FY2012?

CEO Glen Richards

The veterinary industry is resilient and we have seen positive revenue growth in the first three months of this year on a like for like basis. We are not totally bullet proof and have felt some impact from worldwide economic conditions with revenue growth softer than we would like. Despite this, with the excellent internal controls we have implemented over the last two years via our Area Managers and Practice Managers, we will deliver on our earnings expectation.

openbriefing.com

For the year ending June 2011, revenue was $61.2 million, up 21.0%, from the previous year. EBITDA margin was 13.5%, up from 12.4% in FY2010. To what extent did acquisitions contribute to the improvement in margins? Where do you expect EBITDA margin to trend in FY2012?

CEO Glen Richards

EBITDA on a like for like basis improved 6.7 per cent in FY2011. We also saw an increase in margins through acquisitions. The number of acquisitions made during FY11 helped us leverage our corporate overheads and we saw a flow on effect of better company margins. We expect a slow trend upwards in EBITDA margin as we acquire more practices and successfully integrate them.

openbriefing.com

Greencross booked operating cash flow of $6.1 million in FY2011. Free cash outflow was $2.7 million after investments, including acquisitions, of $8.8 million. What is the outlook for operating cash flow in FY2012? When do you expect the business to reach critical mass whereby it can cover growth investment via internally generated funds?

CEO Glen Richards

Operating cash flow will continue to expand with acquisitions and organic growth. Our growth plans will continue to be funded via a combination of debt, free cash flow and deferred vendor payments. We expect that to continue for at least the next three years as per our internal business plan. Deferred vendor payments are a useful management tool to assist us in vendor and personnel management. We prefer deferred settlements as they create time for vendors to transition out of their practices, and for us to transition in new personnel.

It will be some time away before we can completely cover growth investment via internally generated funds. There are two and a half thousand veterinary practices in the industry and we have a portfolio of sixty seven, so we are still in the early stages of a long projected growth phase. Therefore, we expect to continue as is, using debt, free cash flow, and deferred vendor payments.

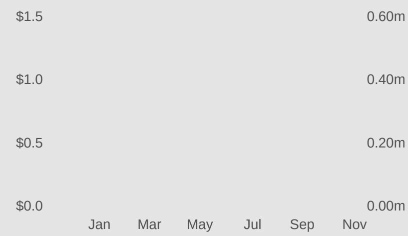
Greencross Vets

Location: Brisbane, Australia

Market Cap: $35 million

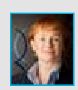
Sector: Health Care

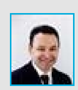
Share Price & Volume

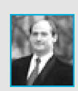


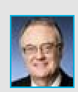
View Company Website

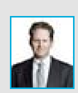
Recent Open Briefings in Health Care


Bionomics Limited
CEO on BNC105 Update and Outlook


Circadian Technologies Limited
CEO on FY12 Outlook and VGX-100 Progress


Pro Medicus Limited
CEO on Outlook


Biota Holdings Limited
CEO on FY Results, BARDA Contract


Ansell Limited
CEO & CFO on FY11 Results & Outlook

More in Health Care

openbriefing.com
The total cost of the ten practices acquired in the first three months of FY2012 is around $7.2 million. Given net debt of $17.6 million and gearing of 58.0 percent as at the end of June, are you still on track to maintain your targeted gearing level of 57 percent to 62 percent and targeted interest cover of 5 to 5.5 times in FY2012?

CEO Glen Richards
In the short term we expect to stay between a targeted gearing range of 57 percent to 62 percent. In the medium term, being one to two years, we know gearing will trend over 62 percent. On a longer term basis we have a goal to get gearing below 50 percent. As we are a free cash flow business, our capability to service debt is a more important ratio then gearing. Debt to EBITDA is our key ratio and this is currently around 2.4 times. Our long term goal is to get this below 2 times.

openbriefing.com
GXL paid a fully franked final dividend for FY2011 of 3.0 cents per share, taking your full year dividend to 6 cents, fully franked. The pay-out ratio was 50 percent and you offered a dividend reinvestment plan (DRP) at a 2.5 percent discount. Given the step-up in your acquisition activity, can you maintain the pay-out at this level? How important is the DRP in your growth funding model?

CEO Glen Richards
Our DRP, with a portion underwritten, helps us manage cash flow. We will continue with our stated dividend payout ratio of 50 percent, with at least 50 percent of this underwritten. Shareholders can elect to reinvest and maximize the growth in their shareholder value. Shareholders can also elect to take the full dividend in cash but they will have to accept a small amount of dilution. This is the strategy that the board has agreed to and I am comfortable that it will help with the execution of our internal business plan.

openbriefing.com
What will be the strategic focus for GXL over FY2012?

CEO Glen Richards
Our focus is to grow shareholder value through improving earnings per share and return on equity. Our priorities to support shareholder growth and value will continue to be through acquisitions and the successful integration of those acquisitions. We will continue to target at least 12 acquisitions per year, 15 percent earnings per share growth and return to shareholders by way of a dividend payout ratio of 50 percent.

Some of our operational strategies for 2012 include expanding organic revenue via proactive health care for pets and expanding our education programs and thereby up skilling our vets and nurses to deliver better standards of care for pet owners.

We'll also expand our reward and recognition programs, promote our business associate program to key vet directors and practice managers and use online technology to improve new employee and clinic induction programs.

openbriefing.com
Thank you Glen.

For more information about Greencross, please visit www.greencrossvet.com.au or call Glen Richards on (+61 7) 3435 3535

DISCLAIMER: Orient Capital Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.

More Open Briefings from Greencross Limited

Greencross Limited (GXL)

CEO on FY11 Guidance and Outlook
04 Jul 2011 - In this Open Briefing®, CEO and MD and Dr Glen Richards discusses

- Confirms earnings and dividend guidance for FY11

Greencross Limited (GXL)

CEO on Acquisition Strategy and Outlook for 2011
03 Mar 2011 - In this Open Briefing®, CEO and MD and Dr Glen Richards discusses

- Acquisition strategy and succession plan for the veterinary industry

