

Date of issue

08.09.08

## Company Update

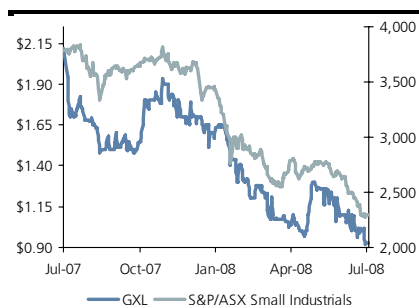
### INVESTMENT DATA

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

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



### 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.

**Martin Pretty**

■ mpretty@bellpotter.com.au

<b>Greencross (GXL)</b>						Share price: \$0.900																																											
As at 8/09/2008						Market cap: \$22.3m																																											
						<b>Recommendation: Buy</b>																																											
<b>Income Statement</b>						<b>Valuation Data</b>																																											
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																																												
<b>Reported net profit</b>		<b>0.06</b>	<b>2.40</b>	<b>3.12</b>	<b>4.39</b>	<b>Profitability Ratios</b>																																											
<b>Adjusted net profit</b>		<b>0.18</b>	<b>2.53</b>	<b>3.26</b>	<b>4.39</b>	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%																																							
<b>Cashflow</b>						<b>Liquidity &amp; Leverage</b>																																											
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	<b>DCF Valuation</b>																																											
Other		0.00	0.00	0.00	0.00																																												
Net operating cashflow		0.62	5.65	5.37	7.43																																												
<b>Investing cashflow</b>																																																	
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																																												
<b>Financing activities</b>																																																	
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																																												
<b>Net change in cash held</b>		<b>2.72</b>	<b>-0.22</b>	<b>-0.19</b>	<b>1.12</b>																																												
<b>Balance Sheet</b>																																																	
Year end June 30	2006A	2007A	2008A	2009F	2010F																																												
<b>Assets</b>																																																	
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																																												
<b>Total assets</b>		<b>32.36</b>	<b>41.06</b>	<b>47.19</b>	<b>61.37</b>																																												
<b>Liabilities</b>																																																	
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																																												
<b>Total liabilities</b>		<b>17.52</b>	<b>22.20</b>	<b>23.43</b>	<b>25.85</b>																																												
<b>Net assets</b>		<b>14.84</b>	<b>18.85</b>	<b>23.75</b>	<b>35.53</b>																																												
<b>Equity</b>																																																	
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																																												
<b>Total equity</b>		<b>14.84</b>	<b>18.85</b>	<b>23.75</b>	<b>35.53</b>																																												
Diluted shares on issue		23.53	24.74	26.46	36.74																																												
Weighted ave diluted shares		2.52	23.78	25.69	30.58																																												
						<table border="1"> <thead> <tr> <th colspan="2"></th> <th colspan="2">S/share</th> </tr> </thead> <tbody> <tr> <td>Cost of equity = 13.1%</td> <td></td> <td>Discounted cash flow</td> <td>0.70</td> </tr> <tr> <td>Terminal growth = 3.0%</td> <td></td> <td>Terminal value</td> <td>0.83</td> </tr> <tr> <td></td> <td></td> <td><b>Total</b></td> <td><b>1.53</b></td> </tr> </tbody> </table>							S/share		Cost of equity = 13.1%		Discounted cash flow	0.70	Terminal growth = 3.0%		Terminal value	0.83			<b>Total</b>	<b>1.53</b>																							
		S/share																																															
Cost of equity = 13.1%		Discounted cash flow	0.70																																														
Terminal growth = 3.0%		Terminal value	0.83																																														
		<b>Total</b>	<b>1.53</b>																																														
<b>Comparisons</b>																																																	
						<table border="1"> <thead> <tr> <th rowspan="2">Company/sector</th> <th colspan="2">P/E</th> <th colspan="2">EV/EBITDA</th> </tr> <tr> <th>FY09</th> <th>FY10</th> <th>FY09</th> <th>FY10</th> </tr> </thead> <tbody> <tr> <td>VCA Antech (Nasdaq)</td> <td>17.9x</td> <td>16.8x</td> <td>10.2x</td> <td>9.6x</td> </tr> <tr> <td>Emerging Health Care Sector</td> <td>13.1x</td> <td>11.0x</td> <td>6.9x</td> <td>6.5x</td> </tr> <tr> <td>Emerging Industrials</td> <td>14.3x</td> <td>12.0x</td> <td>7.4x</td> <td>7.0x</td> </tr> <tr> <td>Average</td> <td>15.1x</td> <td>13.3x</td> <td>8.2x</td> <td>7.7x</td> </tr> <tr> <td>Median</td> <td>14.3x</td> <td>12.0x</td> <td>7.4x</td> <td>7.0x</td> </tr> <tr> <td><b>Greencross</b></td> <td><b>8.5x</b></td> <td><b>7.1x</b></td> <td><b>6.9x</b></td> <td><b>5.3x</b></td> </tr> </tbody> </table>					Company/sector	P/E		EV/EBITDA		FY09	FY10	FY09	FY10	VCA Antech (Nasdaq)	17.9x	16.8x	10.2x	9.6x	Emerging Health Care Sector	13.1x	11.0x	6.9x	6.5x	Emerging Industrials	14.3x	12.0x	7.4x	7.0x	Average	15.1x	13.3x	8.2x	7.7x	Median	14.3x	12.0x	7.4x	7.0x	<b>Greencross</b>	<b>8.5x</b>	<b>7.1x</b>	<b>6.9x</b>	<b>5.3x</b>
Company/sector	P/E		EV/EBITDA																																														
	FY09	FY10	FY09	FY10																																													
VCA Antech (Nasdaq)	17.9x	16.8x	10.2x	9.6x																																													
Emerging Health Care Sector	13.1x	11.0x	6.9x	6.5x																																													
Emerging Industrials	14.3x	12.0x	7.4x	7.0x																																													
Average	15.1x	13.3x	8.2x	7.7x																																													
Median	14.3x	12.0x	7.4x	7.0x																																													
<b>Greencross</b>	<b>8.5x</b>	<b>7.1x</b>	<b>6.9x</b>	<b>5.3x</b>																																													
						<table border="1"> <thead> <tr> <th colspan="2">GXL on peers' FY09 P/E</th> </tr> </thead> <tbody> <tr> <td>EPS</td> <td>12.70c</td> </tr> <tr> <td>P/E</td> <td>12.0x</td> </tr> <tr> <td>Valuation per share</td> <td>\$1.52</td> </tr> </tbody> </table>					GXL on peers' FY09 P/E		EPS	12.70c	P/E	12.0x	Valuation per share	\$1.52																															
GXL on peers' FY09 P/E																																																	
EPS	12.70c																																																
P/E	12.0x																																																
Valuation per share	\$1.52																																																
						<table border="1"> <thead> <tr> <th colspan="2">GXL on peers' FY09 EV/EBITDA</th> </tr> </thead> <tbody> <tr> <td>EBITDA</td> <td>\$6.40m</td> </tr> <tr> <td>EV/EBITDA target</td> <td>7.0x</td> </tr> <tr> <td>Enterprise value</td> <td>\$44.82m</td> </tr> <tr> <td>- net debt</td> <td>-\$12.01m</td> </tr> <tr> <td>Valuation per share</td> <td>\$1.33</td> </tr> </tbody> </table>					GXL on peers' FY09 EV/EBITDA		EBITDA	\$6.40m	EV/EBITDA target	7.0x	Enterprise value	\$44.82m	- net debt	-\$12.01m	Valuation per share	\$1.33																											
GXL on peers' FY09 EV/EBITDA																																																	
EBITDA	\$6.40m																																																
EV/EBITDA target	7.0x																																																
Enterprise value	\$44.82m																																																
- net debt	-\$12.01m																																																
Valuation per share	\$1.33																																																
						<p>* consensus estimates used where Bell Potter estimates are unavailable</p>																																											
<b>Company Description</b>																																																	
<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>																																																	

[www.bellpotter.com.au](http://www.bellpotter.com.au)

[info@bellpotter.com.au](mailto:info@bellpotter.com.au)

**TOLL FREE 133 788**

**ABN 25 006 390 772**

**AFS Licence No. 243480**

## BELL POTTER OFFICES

### ADELAIDE

LEVEL 6, DA COSTA BUILDING  
68 GRENFELL STREET  
ADELAIDE SA 5000  
TEL: 08 8224 2722  
FAX: 08 8224 2799

### BRISBANE

LEVEL 17, 10 EAGLE STREET  
BRISBANE QLD 4000  
TEL: 07 3295 2600  
FAX: 07 3295 2688

### CAIRNS

CNR SPENCE & MCLEOD STREETS  
CAIRNS QLD 4870  
TEL: 07 4047 4188  
FAX: 07 4047 4199

### GEELONG

LEVEL 1, 122 YARRA STREET  
GEELONG VIC 3220  
TEL: 03 5227 7000  
FAX: 03 5227 7099

### GOLD COAST

LEVEL 8, 50 CAVILL AVENUE  
SURFERS PARADISE QLD 4217  
TEL: 07 5554 4333  
FAX: 07 5554 4399

### HOBART

LEVEL 9, AMP BUILDING  
86 COLLINS STREET  
HOBART TAS 7000  
TEL: 03 6231 1677  
FAX: 03 6231 3744

### MACKAY

CITY COURT, 78 VICTORIA STREET  
MACKAY QLD 4740  
TEL: 07 4957 6996  
FAX: 07 4951 4114

### MELBOURNE

LEVEL 29, 101 COLLINS STREET  
MELBOURNE VIC 3000  
TEL: 03 9256 8700  
FAX: 03 9256 8787

### MORNINGTON

SUITE 1, 330 MAIN STREET  
MORNINGTON VIC 3931  
TEL: 03 5970 0101  
FAX: 03 5970 0199

### PERTH

LEVEL 37, EXCHANGE PLAZA  
2 THE ESPLANADE  
PERTH WA 6000  
TEL: 08 9326 7666  
FAX: 08 9326 7676

### SYDNEY

LEVEL 33, 225 GEORGE STREET  
SYDNEY NSW 2000  
TEL: 02 9255 7200  
FAX: 02 9255 7227

### TOOWOOMBA

3 DUGGAN STREET  
TOOWOOMBA QLD 4350  
TEL: 07 4638 5988  
FAX: 07 4639 2608

**Important Disclaimer—This may affect your legal rights:** Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives, a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the proper authority of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be consulted before any investment decision is made. While this document is based on the information from sources which are considered reliable, Bell Potter Securities Limited, its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document. This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. This is general investment advice only and does not constitute advice to any person.

**Disclosure of Interest:** Bell Potter Securities Limited receives commission from dealing in securities and its authorised representatives, or introducers of business, may directly share in this commission. Bell Potter Securities and its associates may hold shares in the companies recommended.

**Additional Disclosures:** Bell Potter Securities Limited acted as Lead Manager and Underwriter to the June 2007 Initial Public Offering of Greencross Limited and received fees for this service.