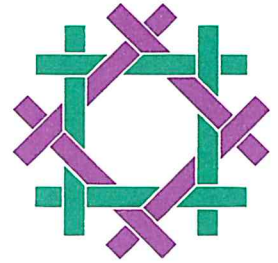


SYNSTRAT NEWS



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VETERINARY NEWSLETTER

November 2016

Is Vetshare Turning the Corner?

Vetshare Ltd recorded a loss of \$313,499 for the year ended 30 June 2016, but \$266,977 of this occurred in the first half, so the loss in the second half was modest and the company claims the second half was cash flow positive.

It's a mite early to break out the champagne, but there is at least hope that despite having accumulated losses of \$3,779,883 over the past four years, which has reduced contributed equity from \$4,993,000 to \$1,213,117 at 30 June 2016, the company exhibits confidence that it may be entering a period of modest profitability. However, at best it is likely to be years before it absorbs accumulated losses, let alone be in a position to pay dividends. It would have been nice if it could have provided guidance as to trading in the first quarter of the current financial year with the release of its annual report on 17 October 2016. Vetshare could certainly improve on information flow to its shareholders.

The company directors received a modest grant of 25,000 shares each in lieu of directors' fees.

As at 30 June 2016, the asset backing is 20.35 cents per share and that is the price of record at that date. However, the true underlying share value is difficult to assess, as:

- On the one hand if the company is truly on the way to profitability, even though it may take years to absorb losses, it realistically has a value well above asset backing per share, i.e. goodwill value; but
- If the move to positive cash flow late in the 2016 financial year turns out to be false dawn and financial losses continue, it realistically has nil or negligible value because in a wind-up situation costs rocket and realisable asset values shrink.

It is therefore a case of Vetshare having to demonstrate that it can generate profits through the 2017 financial year and if it can, Synstrat would be delighted on behalf of its clients who are shareholders.

Veterinary Divorce

A practice valuation from a valuer jointly agreed by both parties assists in achieving speedy and cost efficient settlement. Less than 2% of family law property settlement matters are settled by going to court. Synstrat has provided many valuations for couples that have speeded up the settlement process.

Cenversa Limited

Cenversa Limited is many times larger than Vetshare and is vying with two foreign owned veterinary supply businesses, Provet and Lyppard for market share. It has clearly been following a reform path. Following discussions with CEO Lionel Bloom, board member Jason Phillips and company secretary Danny Putica, we note that there has been significant growth recently with the company maintaining double digit sales growth in the recent quarter to 30 September, 2016 compared with the corresponding period last year. Quarterly sales were \$36.2m up 17.3% compared to the previous corresponding period. Sales growth was also strong in 2016 compared with 2015 up from \$106 million to \$131 million.

Profit remains low as the company has assigned priority to creating business opportunities and has also purified its balance sheet with a write off of various intangible assets in the form of business trademarks purchased prior to 2013. The company said this would not interfere with the payment of dividends. It's a balance sheet adjustment, not a cash adjustment.

We regard Cenversa as being a long term growth opportunity for veterinarians particularly practice owners that deal with it and also own shares in it. Currently it has 285 shareholders and it is likely that it will increase the shareholder base with a further share issue in 2017. That would provide an opportunity for additional shareholders to join the register as well as for existing shareholders to expand their holding. No detail is available as yet and we would advise veterinarians who are interested to register their contact details with company secretary Danny Putica.

The companies short term goal is to grow to 400 shareholders. That would create the opportunities of seeking listing on the Australian Securities Exchange if that is what the company eventually seeks to do. It will need to boost profit prior to listing which will mean a switch from a fast growth strategy at some point.

The most recent transaction involving the purchase and sale of Cenversa shares was at 75 cents per share.

There is an old business rule which indicates that in any particular mature market, the main providers of goods or services to that market being the top 2, 3 or 4 companies will between them provide about 90% of the market with the remainder of the smaller players making up the other 10%. In this case Lyppard, Provet and Cenversa are likely to be the 3 long term players maintaining the largest share of the market.

Cenversa has the characteristics of a company which is shaking off the problems of the past and pursuing a reform path.

In my opinion it is yet to unveil its full potential.

Practice Ownership Model

Cenversa has indicated an interest in buying veterinary practices but points out that it is not trying to be a veterinary consolidator like others in the market. Rather in situations where an older veterinarian would like to involve younger vets in ownership of the practice but the younger vets do not have the money at present. Cenversa sees this role as purchasing part of the practice and assisting in the changeover to future owners who in time would own up to about 70% of the practice.

Cenversa indicates that it is not interested in running the practices leaving it to vets, but assisting where necessary and of course providing it with supplies.

At this stage, the model is embryonic and we will reserve judgement.

Personal disclosure:

Graham Middleton as well as clients of the Synstrat Group own shares in both Vetshare Limited and Cenversa Limited.

More Information by Email

We periodically send out more information to vets than we can fit into the Veterinary Newsletter, but for you to receive that information you need to advise your email address to annie@synstrat.com.au and advise the postal address we currently send your newsletter to.

Are You Practicing in the Dark?

If you want accounting services supported by benchmarking data, and advice from people who speak to vets on a daily basis, telephone Graham Middleton or David Collins on 03 9843 7777.

Visit www.synstrat.com.au for more information on these topics.

High Rise Apartments

There has been huge development of these in Sydney, Melbourne and Brisbane. There is significant evidence indicating that this market will collapse over the next couple of years. Anyone buying off the plan at this stage of the cycle is just plain nuts. Take advice but not from property spruikers nor from sales staff working for developers.

We predict that apartments will be significantly cheaper in a couple of years as they get sold back into the secondary market when desperate vendors realise how low the net rental yields are and decide to sell, even at a loss.

We note that a very large development underway, adjacent to our offices, contains 240 future apartments but at present only 60% have been sold, meaning that there are approximately 96 apartments yet to sell. If that ratio is common across Melbourne, then there is indeed a large overhang in the market and inevitability of falling prices over the next couple of years are likely.

Synstrat Publications

For those vets up to the challenge of sustaining a veterinary career, Synstrat's two publications, ***50 Rules for Financial Success as a Veterinary Surgeon*** and ***Buying and Selling Veterinary Practices*** are available free of charge. Email your postal address to annie@synstrat.com.au and additionally, if you wish to receive our Vet Newsletter via email, please indicate.

Financial Planning and Life Insurance for Vets

Synstrat is experienced at providing financial plans for vets. These take into account veterinary practice profitability and benchmarks, as well as ownership of premises and other family assets and other financial issues. Telephone Graham Middleton, Cameron Darnley or Roger Armitage, each of whom are experienced financial planners, on 03 9843 7777. Cameron can also assist with life insurance. Synstrat Management Pty Ltd holds its own financial services licence. It is not obliged to recommend the products of a particular bank or insurance company.

THE SYNSTRAT GROUP ARE AUSTRALIA'S MOST EXPERIENCED VETERINARY PRACTICE BUSINESS ADVISERS, ACCOUNTANTS, PRACTICE VALUERS AND LICENCED FINANCIAL ADVISERS

For further information on these subjects, please call:

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Disclaimer

The information contained herein is of a general nature and no specific action should be taken without individual advice. Speak with Synstrat staff as appropriate.

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