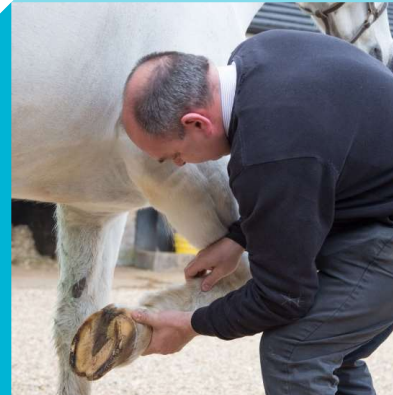


CVS Group PLC

**Interim results
For the six months ended
31 December 2017**

Simon Innes – Chief Executive Officer

Nick Perrin – Finance Director



Agenda

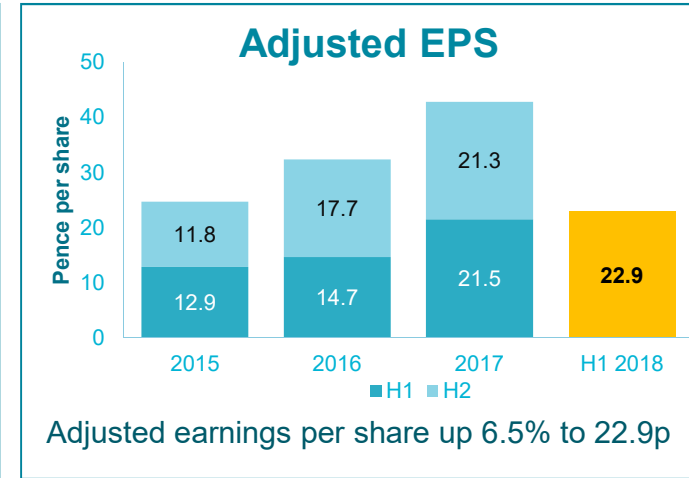
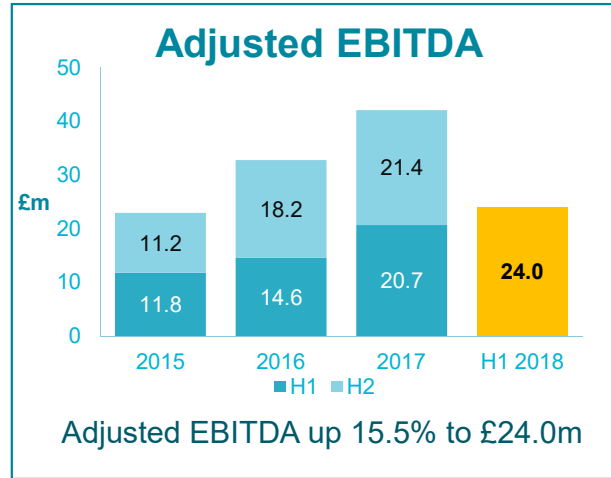
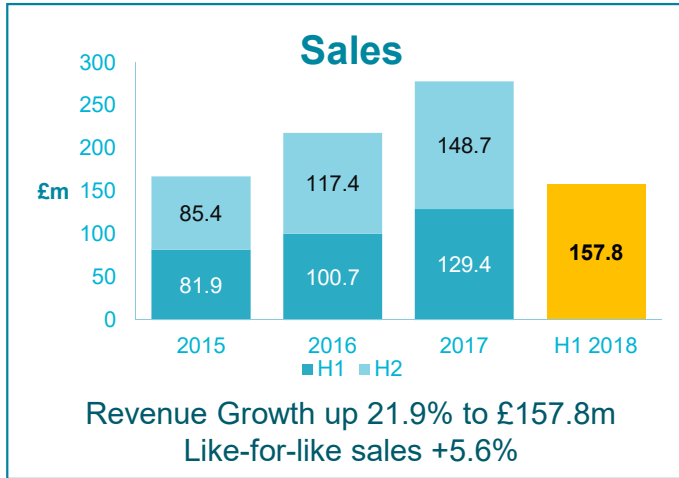
- Highlights
- Strategy
- Business Review
 - - Practices
 - - Laboratories
 - - Crematoria
 - - Animed Direct
- Financial review
- Outlook
- Appendices

Highlights



	Six months ended 31 Dec. 2017 (£m)	Six months ended 31 Dec. 2016 (£m)	% change	Year ended 30 June 2017
Revenue (£m)	157.8	129.4	+21.9%	271.8
Adjusted EBITDA (£m)	24.0	20.7	+15.5%	42.1
Adjusted profit before income tax (£m)	18.3	16.5	+10.8%	33.5
Adjusted earnings per share (pence)	22.9	21.5	+ 6.5%	42.8
Operating profit (£m)	8.1	9.5	-14.1%	17.2
Profit before income tax (£m)	6.2	8.0	-21.3%	14.5
Basic earnings per share (pence)	7.8	10.4	-25.0%	18.5

H1 2018 Results: Highlights



Acquisitions

Further significant acquisitions:

- 30 surgeries in H1
- 4 to date in H2
- 6 surgeries in the Netherlands

Referrals

Significant development of referrals business:

- Significant progress at Lumbry Park
- Manchester Veterinary Specialists growing
- Chestergates refurbishment

Other

- Greenfield sites opened in Norwich & Bracknell, following Smethwick in 2017
- Healthy Pet Club (HPC) members up over 11% to 340,000 as at 31 December 2017
- MiPet Cover launched August 2017

Industry Update **



CVS owns 457 surgeries and is the largest integrated provider of veterinary services to animal owners in the UK .
CVS has 15 surgeries in the Netherlands.

	CVS	Vets4 Pets	IVC	Medivet	Goddards	Vets Now	August	Sovereign
Surgeries	457	472	494	211	47		239	66
Referral sites*	7	4	7		3	3	1	4
Laboratories	3			1	1		1	
Crematoria	7						11	
Dedicated out-of-hours*	14			16		55		
Buying group	2							
Instruments business	1							
On-line	1		1				1	

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Most surgeries are small animal only, except for CVS and August.

*Included within surgeries

** Management estimates based on a review of the limited publicly available data

Strategy

Vision

To continue to be the largest & most comprehensive provider of veterinary services to animal owners in the UK whilst delivering a growing return to our shareholders.

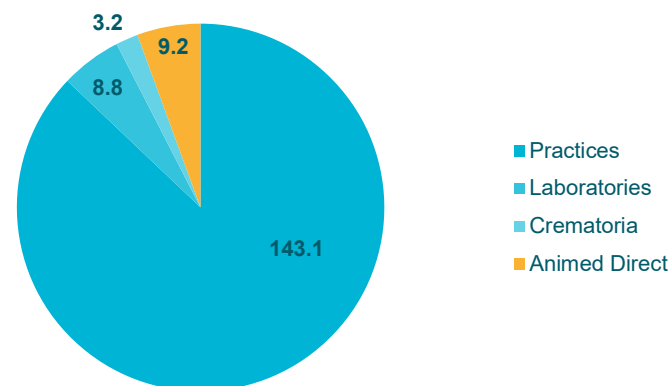
Meeting all our customers' needs	High quality clinical care and excellent customer service
Providing services to other veterinary practices	Expanding our business through acquisitions

Business review - Results by division

Four main business areas

- Veterinary practices
- Diagnostic laboratories
- Pet crematoria
- Animed Direct online dispensary

Revenue per Segment 2018 – H1 (£m)



% of Revenue per Business Area

	Practices	Laboratories	Crematoria	Animed Direct
2018 – H1	87.1%	5.3%	2.0%	5.6%
2017 – H1	87.6%	5.8%	2.4%	4.2%
2016 – H1	87.3%	6.9%	1.9%	3.9%

The above reflects sales prior to the inter-company elimination between the practice division and other divisions.

Financial Results: by Division



Period ended 31 December 2017	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	143.1	8.8	3.2	9.2	(6.5)	157.8
Adjusted EBITDA (£m)	25.0	1.9	1.1	0.6	(4.6)	24.0
Gross Margin after materials %	80.6	64.6	80.6	18.8	-	79.5
Adjusted EBITDA %	17.5	21.5	34.0	6.7	-	15.2
Period ended 31 December 2016	Practices*	Laboratories	Crematoria	Animed Direct	Head Office*	Group
Revenue (£m)	118.4	7.8	3.3	5.6	(5.7)	129.4
Adjusted EBITDA (£m)	22.0	1.7	1.1	0.2	(4.3)	20.7
Gross Margin after materials %	80.3	65.6	82.4	17.4	-	80.3
Adjusted EBITDA %	18.6	21.4	34.5	4.5	-	16.1

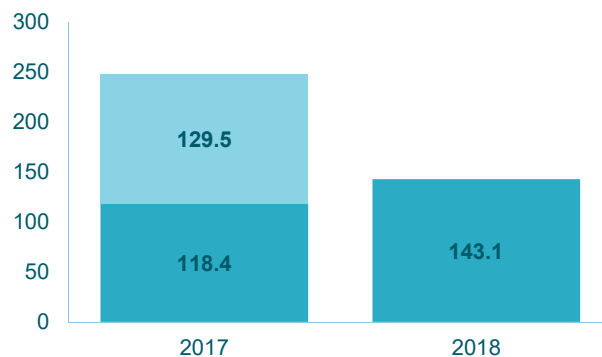
Practices EBITDA margin flat in lfl businesses. Overall fall due to start up losses of greenfield sites & MiPet Cover and recent acquisitions not yet reached medium term performance expectations.

*EBITDA has been adjusted by £0.2m to switch costs of MiPet Cover into the Practices Division

Business review - Veterinary Practices



Revenue £m – H1



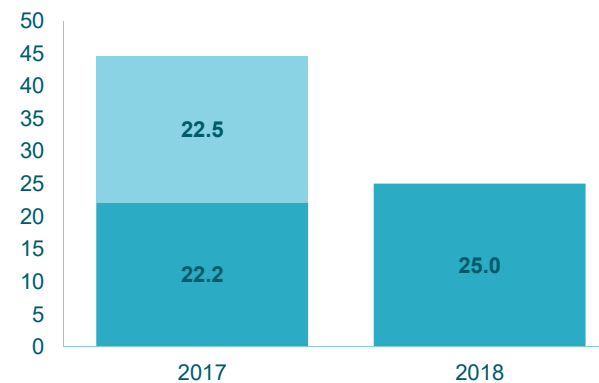
Like-for-like sales +2.8%

(

Practice revenue split

	2018 – H1 £m	2017 – H1 £m
Like-for-like revenue	119.7	117.0
2017 acquisitions	18.7	1.4
2018 acquisitions	4.7	-
Total revenue	143.1	118.4

EBITDA £m – H1



Business review – Veterinary Practices

453 surgeries across the UK and the Netherlands at 31 December 2017

30 surgeries acquired in the half year to 31 December 2017 in the following locations:



Acquisitions during the year	Location	Business
GB Practices:		
Cundall & Duffy	Scarborough	Small & farm animal
B & W Equine	Breadstone, Cardiff, Failand, Stretcholt and Willesley	Equine
Aire	Leeds	Small animal
All Creatures Veterinary Centre	Warrington	Small animal
Acorn Veterinary Centre	Studley	Small animal
Buchan Vets	Strichen, Peterhead, Fraserburgh	Small animal, farm animal & equine
Ashburn Veterinary Centre	Knighton	Small & farm animal
MS Vets	Reading	Small animal
Ruddington & East Leake Veterinary Centre	Ruddington, East Leake	Small animal
Victoria Veterinary Clinic	Bristol	Small animal
Beacon	Aspatria, Silloth	Farm animal, small animal & equine
Wessex Equine	Thornhill	Equine

Acquisitions during the year	Location	Business
Northern Ireland Practices:		
Strule Vet Services	Omagh and County Tyrone, N.I	Small & farm animal
Three Valleys Veterinary	Fivemiletown, Irvinestown (N.I.)	Small & farm animal
Dutch practices:		
Dierenkliniek Wolvega	Wolvega, Netherlands	Small animal
Dierenkliniek Emmeloord	Emmeloord, Netherlands	Equine
Dierenkliniek Vrieselaar	Lemmer, Netherlands	Small animal
Dierenartsenpraktijk NordOostpolder	Emmeloord	Farm animal, small animal & equine
Dierenkliniek Sneek	Sneek, St. Nicolaasga	Small animal

Business review - Veterinary Practices



3 acquisitions post year end adding 4 surgeries in the following locations:

Acquisitions post year end	Location(s)	Business
Ashman Jones	Bath	Small animal
The Equine Veterinary Centre	Doncaster	Equine
Thompsons Veterinary Surgery	Sutton-in-Ashfield	Small animal

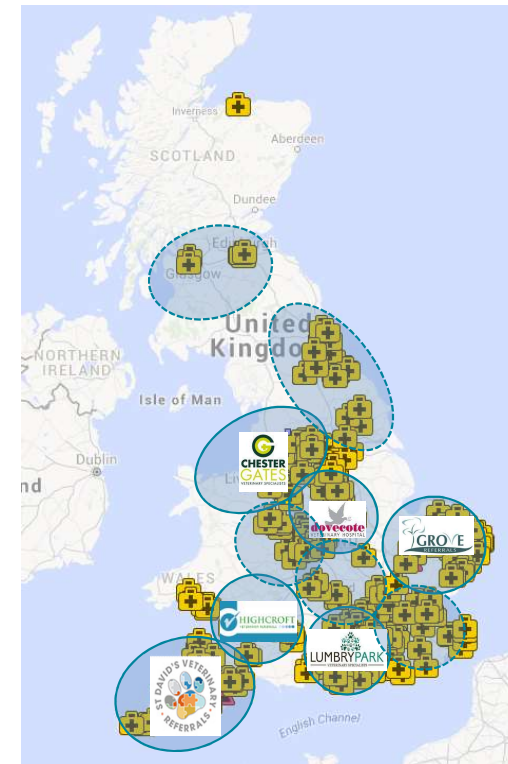
Current number of surgeries: 457



Business review – Veterinary Practices

Referrals

- Significant development of the referrals network:
 - Lumbry Park in Alton shown significant improvement
 - MVS opened in February 2017 shown excellent progress
 - Chestergates refurbishment completed in September 2017 including the installation of a CT scanner and new MRI scanner.
- 46 diploma holders now at CVS with a wide range of specialisms



Business review – Veterinary Practices

Own Brand

- High quality products
- Distributed by CVS Logistics
- Now have 15 own brand medicines
- Lower prices and better margins
- Own brand life-stage pet food

Out-of-hours

- 14 established dedicated emergency out-of-hours centres
- Planning to open another out-of-hours centre in 2018

Healthy Pet Club

- Over 11% increase in membership over a 6 month period to 340,000
- HPC revenue
 - All practices – 13.1% of total revenue (2017 – H1: 13.4%)
 - Like-for-like practices – 15.4% (2017 – H1: 16.9%)
- Healthy Horse Programme relaunched.

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Business review – Veterinary Practices - Buying Group



www.mivetclub.co.uk



www.vetshare.co.uk

	MiVetClub	VetShare
Member sites	14	383
Restricted to CVS dedicated & preferred goods	Yes	No
Wholesaler	NVS and Henry Schein	Any
CVS own brand products available	Yes	Yes
Use of laboratories offered	CVS	CVS, Idexx, NWL
Use of crematoria offered	CVS	CVS, PCS
Other services from CVS	Training, H&S, MiHealthyPet, Discount from VETisco	MiHealthyPet, Discount from VETisco

Business review – Veterinary Practices

- Training



New Graduate Programme

- 422 graduates have gone through the scheme in the past three years.
- Designed to assist newly qualified vets make the challenging transition from university to day-to-day practice.

Advanced Practitioner Programme

- 155 vets have been put through this programme.

MiNurse Academy

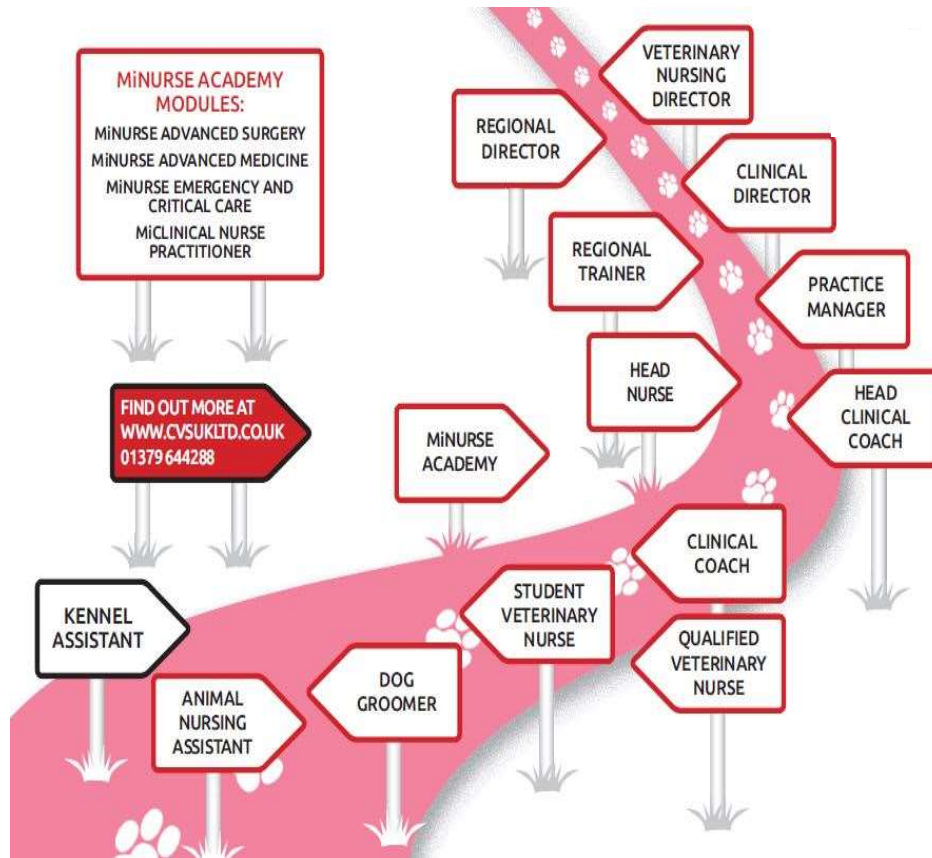
- In house clinical training program – launched January 2015.
- Now over 300 nurses learning specialist skills since launch.
- The academy provides nurses with advanced training in one of four areas: medicine, surgery, emergency and critical care, and clinical nursing.
- Designed to fill a gap which exists across the profession in the post-qualification training of nurses.

Leadership programmes

- Aspire – 6 day management programme for practice managers – 9 people went through this programme in the last 6 months.
- Leap – 6 day management programme for managers – 22 people went through this programme in the last 6 months.
- Senior Leadership Programme- 8 people went through this programme in the last 6 months.

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Business review – Veterinary Practices - Careers



- Larger group gives enhanced opportunities
- Careers that are new to the whole veterinary industry
- Careers suitable for part-time workers
- Roles for small animal, large animal and equine

Business review –



- Designed by vets
- Launched August 2017
- Well received by staff
- Initial customer response is promising
- High quality, good value, easy to understand
- CVS not underwriting

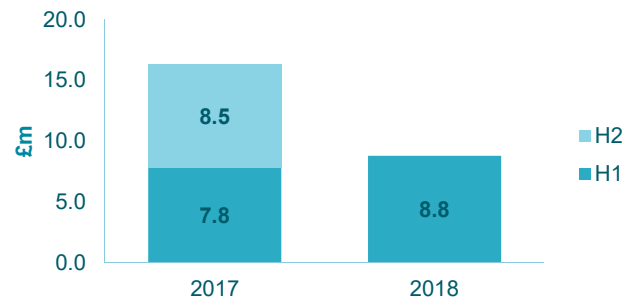
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Business review – Laboratories



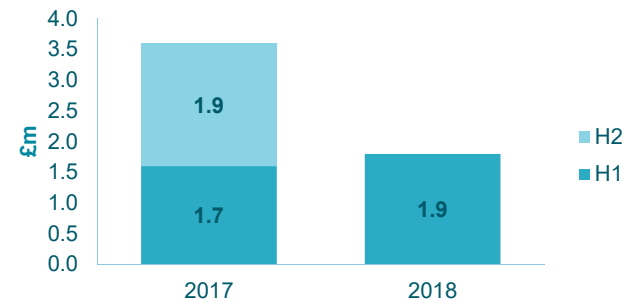
Revenue £m



- Revenue growth of 12.6% to £8.8m (all like-for-like) for the six months ended 31 December 2017

- EBITDA improved to £1.9m (2017 – H1: £1.7m)

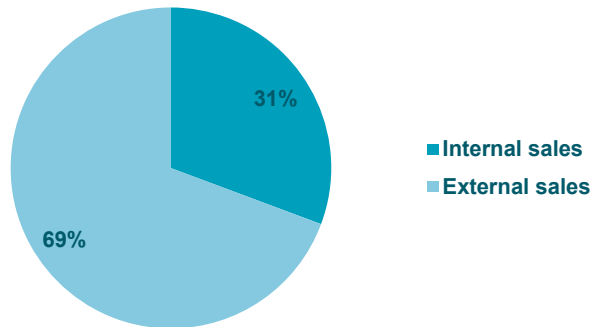
EBITDA £m



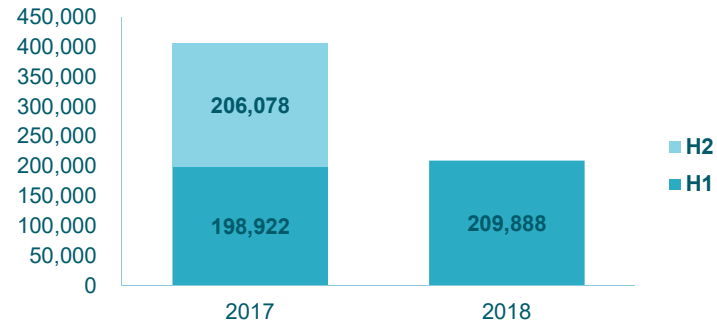
Business review – Laboratories

- Analyser business growing steadily
- Internal partnering with Bell on Equine testing.
- Our laboratory (Axiom) that deals with large animal work achieved ISO 17025 accreditation in March 2017 – as a result, farm diagnostics will be an area of growth for this division
- PCR testing now profitable

Internal vs External sales



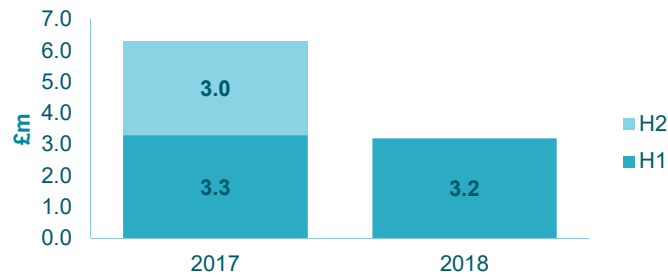
Number of Laboratory tests performed



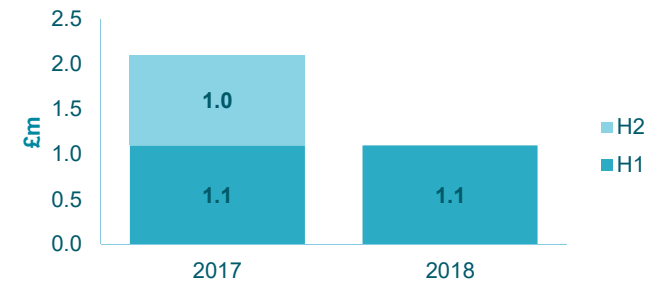
Business review – Crematoria



Revenue £m



EBITDA £m

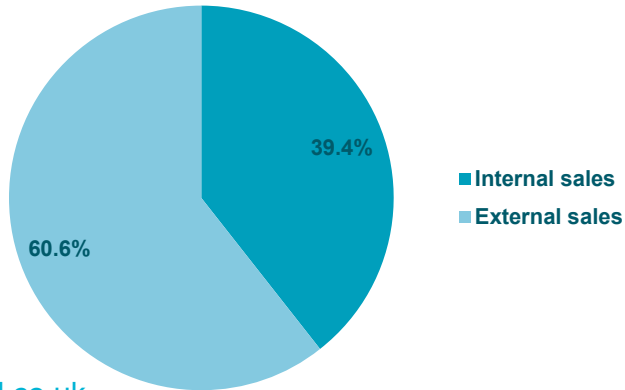
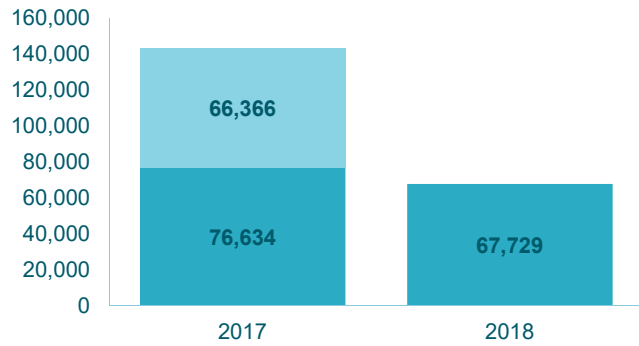


Crematoria revenue split

	2018 – H1 £m	2017 – H1 £m
Like-for-like revenue	3.1	3.1
Acquisitions	0.1	0.2
Total revenue	3.2	3.3

Business review – Crematoria

Number of cremations

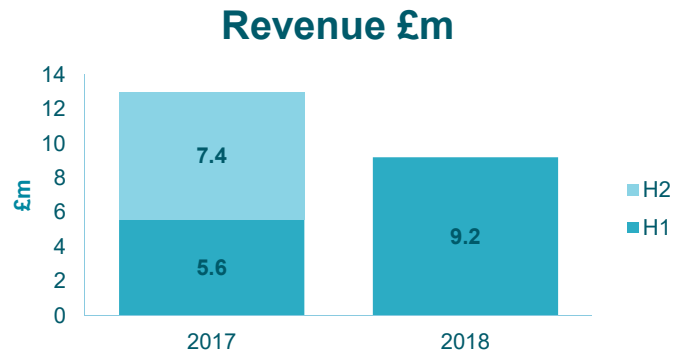


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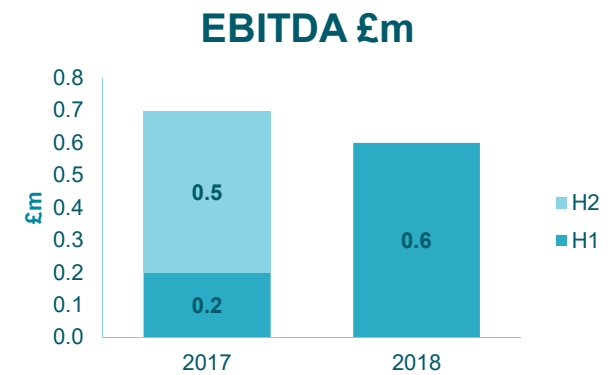
The Crematoria Division Coverage Map



Business review – Animed Direct



Revenues increased by 63.9% to £9.2m



Adjusted EBITDA rose to £0.6m

	2018 – H1	2017 – H1
Number of product lines	4,206	3,900
Monthly website visits	310,000	196,000
Average order value	£38.04	£32.57
No of customers	464,500	360,693

- New management in place
- Further development of website planned
- Delivery fee was introduced in May 2017 and free delivery threshold in the second half of the year.

Business review – Head Office



- Costs 2.9% of sales compared to 3.3% in the prior year
- General increase in staffing levels
 - Reflecting business growth
 - To maintain control of acquisitions
- New recruitment system and website launched
- CVS Annex additional Head Office space build works completed February 2018
- Accounting and warehouse systems being updated

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Financial Results - Profit & Loss



	6 months ended 31 December 2017	*Restated 6 months ended 31 December 2016	Year ended 30 June 2017
	£'m	£'m	£'m
Revenue	157.8	129.4	271.8
Cost of sales	(84.5)	(68.5)	(147.3)
Gross profit	73.3	60.9	124.5
Administrative expenses	(65.2)	(51.4)	(107.3)
Operating profit	8.1	9.5	17.2
Net finance expenses	(1.9)	(1.5)	(2.7)
Profit before income tax	6.2	8.0	14.5
Income tax expense	(1.3)	(1.7)	(3.0)
Profit after income tax	4.9	6.3	11.5
Earnings per ordinary share			
- Basic	7.8p	10.4p	18.5p
- Adjusted	22.9p	21.5p	42.8p

* The 31 December 2016 comparatives for cost of sales and administration expenses have been restated to reclassify courier costs relating to the laboratory division.

- 5.6% LFL (3% ex Animed); effect of prior and current period acquisitions
- Gross margin (on a statutory basis after materials & practice staff) slightly improved.
- Higher admin expenses reflects:
 - Investment in central staff and systems/processes; recruitment system & website; new locum system; accounting & warehouse systems; internal audit
 - Higher amortisation of intangibles given pace of acquisitions
- Operating margin reflects recent acquisitions which have not yet reached their potential and greenfield sites pre-profit
- Reported EPS reflect increased greater amortisation of intangibles, deferred consideration costs, cost of acquisitions and share issue in Dec 16

Financial results – Balance Sheet

	31 December 2017 £m	Restated * 31 December 2016 £m
Non-current assets		
Intangible assets	185.7	137.4
Property, plant and equipment	47.0	36.3
Investments	0.1	0.1
Deferred income tax assets	1.5	1.6
Derivative financial instruments	0.2	-
	<u>234.5</u>	<u>175.4</u>
Current assets		
Inventories	13.5	11.1
Trade and other receivables	34.7	24.6
Cash and cash equivalents	10.3	6.5
	<u>58.5</u>	<u>42.2</u>
Total assets	<u>293.0</u>	<u>217.6</u>
Current liabilities		
Trade and other payables	(54.7)	(43.3)
Current income tax liabilities	(3.1)	(2.8)
Borrowings	(3.9)	(0.2)
	<u>(61.7)</u>	<u>(46.3)</u>
Non-current liabilities		
Borrowings	(123.3)	(74.3)
Deferred income tax liabilities	(16.6)	(15.3)
	<u>(139.9)</u>	<u>(89.6)</u>
Total liabilities	<u>(201.6)</u>	<u>(135.9)</u>
Net assets	<u>91.4</u>	<u>81.7</u>

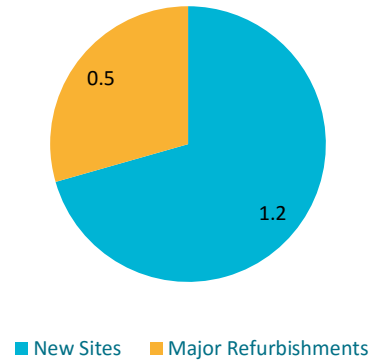
*Management has elected to change its accounting policy in relation to the classification of its revolving credit facility ("RCF") to reflect management's intention in relation to repayment rather than solely the legal form of the arrangement. The impact of this is that the £57.0m (2016: £5m) RCF has been disclosed as a non current liability. This change has also been reflected retrospectively to adjust the classification of the RCF from current liabilities to non current liabilities in the prior periods. This change in accounting policy has no impact on the income statement, earnings per share or any other key performance indicator.

Financial Results – Change in Debt

	6 months ended 31 Dec. 2017 £m	6 months ended 31 Dec. 2016 £m	Year ended 30 June 2017 £m
Cash generated from operations	26.5	19.3	37.2
Taxation paid	(3.0)	(2.2)	(5.4)
Net interest paid	(1.7)	(1.2)	(2.1)
Capital expenditure	(5.6)	(6.1)	(13.8)
Acquisitions	(30.1)	(12.0)	(48.4)
Dividend paid	(2.8)	(2.1)	(2.1)
Proceeds from issue of Ordinary shares	0.1	29.6	30.6
Purchase of own shares	-	-	(2.1)
Debt issuance costs movement	(0.3)	(0.2)	(0.8)
(Increase)/Decrease in net debt	(16.9)	25.1	(6.9)

Financial results - Capital Expenditure (H1 2018)

Fixed Assets - Development Expenditure £1.7m



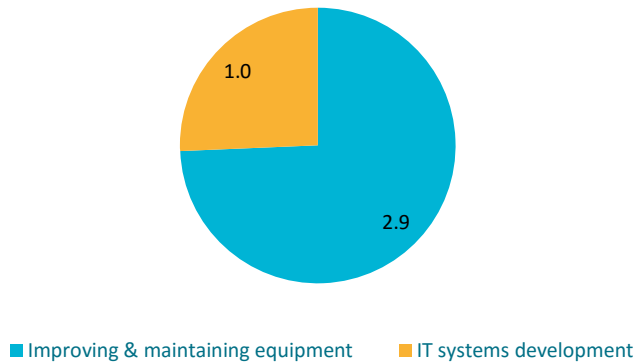
New sites & relocations:

- Norwich
- Bracknell
- Springfield

Major refurbishments:

- Chestergates
- Pet Medics & MVS

Fixed Assets - Maintenance Expenditure £3.9m



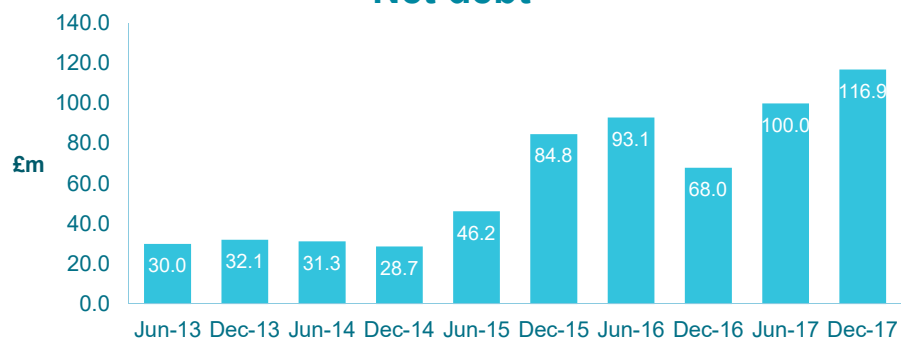
Total capital expenditure in H1 2018 amounted to £5.6m

Financial results – Net debt



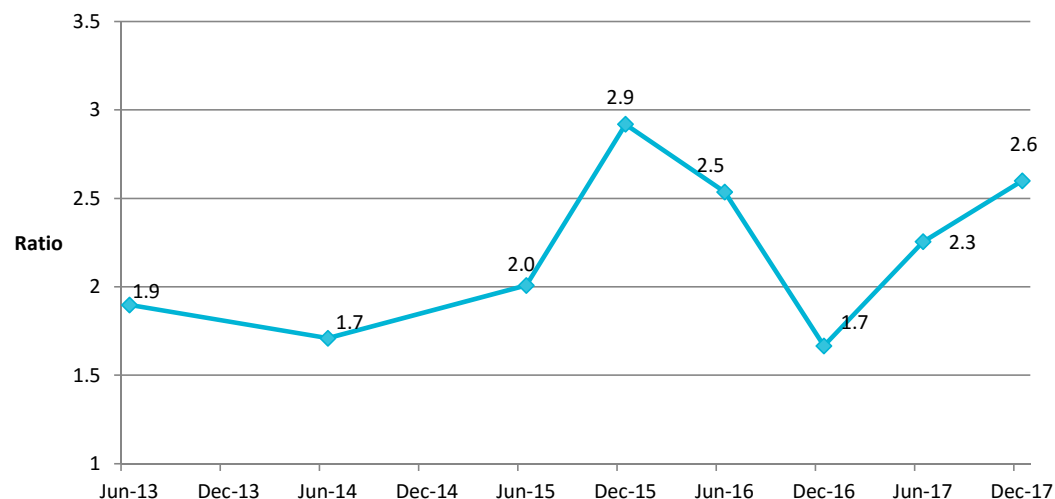
- Facility extended in July 2017 to allow higher level of larger acquisitions
- Total available facilities:
 - £67.5m term loan to Nov 2021
 - £85.0m RCF to Nov 2021
 - £5.0m overdraft
- Syndicated facility (RBS, HSBC, AIB)
- Margins – increased by 0.5%
- Leverage covenant (Net debt / EBITDA*):
 - 3.5 to Dec 2017
 - 3.0 thereafter
- EBITDA*/ Interest covenant 4.5

Net debt



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Net debt: EBITDA*



- As at 31 December 2017, net borrowing increased to £116.9m
- £30.2m spent on acquisitions in H1 including acquired debt
- Net debt: / EBITDA* ratio at 2.6 up from 2.3x at June 2017

*Trailing 12-month EBITDA, annualised for impact of acquisitions

Outlook

Post period end trading is in line with market expectations

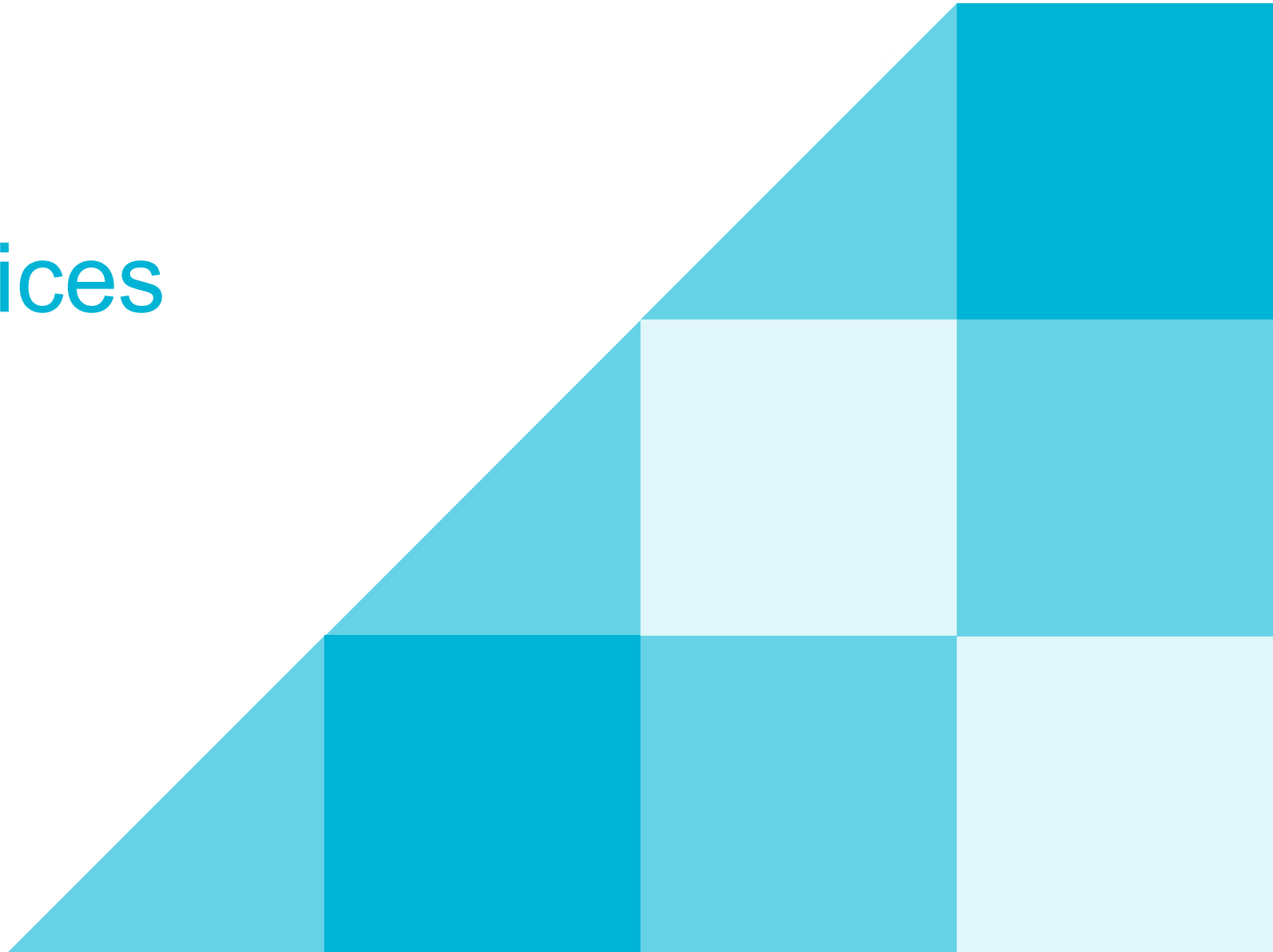
Continuing positive organic momentum:

- Earlier than expected improvement in Like-for-Like growth in late H1
- Effect of strong H1 Like-for-Like comparatives moderates in H2
- Referral services development of Lumbry Park, Chestergates & MVS
- Development of recent greenfield sites: Smethwick, Norwich, Bracknell
- Own brand products: further drugs to be added
- Out-of-hours development
- Animed Direct: further website improvements
- MiPet Cover: development of sales channels

Growth through selective acquisitions:

- Acquisition pipeline remains strong with opportunities in both the UK & the Netherlands and across small animal, equine and farm animal segments
- Integrated model generates further value in other areas of the Group as well as in the acquired businesses

Appendices



Overview



- UK's largest integrated provider and consolidator of veterinary practices
- Market leader, making CVS the acquirer of choice
- Consistent growth in a more challenging environment
- Complementary businesses to internalise margins and maximise revenues

5,557	Employees
1,395	Vets
457	Surgeries nationwide
4	Diagnostics laboratories
7	Crematoria
1	On-line dispensary

Cash Generated from Operations

	31 December 2017 £m	31 December 2016 £m	Year ended 30 June 2017 £m
Profit for the year	4.9	6.3	11.5
Taxation	1.3	1.7	3.0
Total finance costs	1.9	1.5	2.7
Amortisation of intangible assets	9.3	7.6	16.0
Depreciation of property, plant and equipment	3.8	2.7	5.9
(Increase) in inventories	-	(0.9)	(1.5)
Decrease/(Increase) in trade and other receivables	1.8	(0.5)	(4.5)
(Decrease)/increase in trade and other payables	2.6	0.1	2.6
Share option expense	0.9	0.8	1.5
Total cash flows from operating activities	26.5	19.3	37.2

Adjusted items definitions

- **Adjusted EBITDA** is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items.
- **Adjusted profit before income tax** is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.
- **Adjusted earnings per share** is calculated as adjusted profit before income taxation divided by the weighted average number of ordinary shares in issue in the year.



Thank you

Any questions?

Contact us

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