# CVS Group plc

## Interim report for the six months ended 31 December 2016

# CVS Group plc

## Financial highlights

| | Six months ended 31 December 2016 (Unaudited) | Six months ended 31 December 2015 (Unaudited) | Change[4] % |
|---|---|---|---|
| Revenue (£m) | **129.4** | 100.7 | 28.5 |
| | | | |
| Adjusted EBITDA (£m) [1] | **20.7** | 14.6 | 42.4 |
| Adjusted profit before income tax (£m) [2] | **16.5** | 11.2 | 47.1 |
| Adjusted earnings per share (pence) [3] | **21.5** | 14.7 | 46.3 |
| | | | |
| Operating profit (£m) | **9.5** | 5.4 | 75.3 |
| Profit before income tax (£m) | **8.0** | 4.3 | 86.4 |
| Basic earnings per share (pence) | **10.4** | 5.6 | 85.7 |

- Sales growth of 28.5%
- Like-for-like sales increase of 7.2%
- Adjusted EBITDA up at £20.7m (42.4%)
- Adjusted EPS 21.5p (46.3%)
- Net debt £68.0m (June 2016: £93.1m)
- £29.6m (after expenses) raised through an equity placing in December 2016
- 13 practice surgeries acquired during the period and 20 after the period end

[1] Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items.

[2] Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.

[3] Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue during the period.

[4] Percentage increases have been calculated throughout this document based on the underlying values.

# CVS Group plc

# Chairman's statement

**Introduction**

I am pleased to announce the results of CVS Group plc for the six month period ended 31 December 2016. The Group has delivered another strong set of results showing further growth in revenue and underlying profit, generated both organically and through acquisitions. The period saw a continuing high level of acquisition activity and the successful raising of £30.2m cash through a placing of equity in December 2016 has provided a strong financial base on which the Group can continue to grow, both through acquisitions and other developments.

**Results**

Group revenue was £129.4m in the half year, growing by 28.5% (2015: £100.7m). Whilst a substantial proportion of the increase came from acquisitions, like-for-like sales grew strongly by 7.2%.

Adjusted EBITDA rose by 42.4% to £20.7m (2015: £14.6m).

Operating profit increased by 75.3% to £9.5m (2015: £5.4m) reflecting the increase in adjusted EBITDA. Adjusted profit before tax, which excludes the amortisation of intangible assets, increased by 47.1% to £16.5m (2015: £11.2m). Basic earnings per share rose from 5.6p to 10.4p (again due to the significant increase in adjusted EBITDA) and adjusted earnings per share rose from 14.7p to 21.5p.

Cash generated from operations increased to £19.3m (2015: £17.5m) due to improved trading. As a result of the £29.6m (net of costs) raised through the placing of shares, net debt fell to £68.0m (June 2016: £93.1m) after funding £12.0m (including debt acquired) of acquisitions in the period.

**Acquisitions**

The six months to 31 December 2016 continued the high pace of acquisition activity of the previous year. 20 surgeries were acquired including four in The Netherlands as shown below:

| Practice name | No. of sites | Main locations | Business |
|---|---|---|---|
| Davidson Veterinary Care | 3 | Nottingham | Small animal |
| Buttercross Veterinary Care | 3 | Nottingham | Small animal |
| Church Walk Vets | 2 | Ulverston, Barrow-In-Furness | Small animal |
| Batheaston Veterinary Clinic | 1 | Bath | Small animal |
| Deveron Veterinary Surgeons | 2 | Turriff & Macduff | Small animal, large animal & equine |
| Haven Veterinary Surgeons | 1 | Great Yarmouth | Small animal |
| Forrest House Vets | 3 | Bedale, Northallerton, Masham | Small animal, large animal & equine |
| Kliniek voor Gezelschapsdieren Dieren | 3 | Dieren, Brummer, Velp (The Netherlands) | Small animal |
| Dierenziekenhuis Drachten BV | 1 | Drachten (The Netherlands) | Small animal |
| O'Reilly & Fee Veterinary Surgery | 1 | Armagh, Northern Ireland | Small animal, large animal & equine |

A total of £12.0m (including debt acquired) was paid for the acquisitions in the period. Based on the last set of accounts publicly available for each business, the aggregate historical annualised turnover and EBITDA of these businesses was approximately £10.2m and £1.6m respectively.

Subsequent to 31 December 2016, the Group acquired a further 13 surgeries as set out below:

| Practice name | No. of sites | Main locations | Business |
|---|---|---|---|
| Zuid-West Friesland BV | 2 | Lemmer, Emmelord, (The Netherlands) | Small animal, large animal & equine |
| Bell Equine Veterinary Clinic | 1 | Mereworth | Equine |
| Valley Veterinary Group | 2 | Kilmarnock | Small animal |
| Pennine Vets | 2 | Bolton, Bury | Small animal |
| Ambivet Veterinary Group | 5 | Aspley, Heanor, Ilkeston Ripley Woollaton, | Small animal |
| Willow Veterinary Clinic Norwich | 1 | Norwich, Norfolk | Small animal |

The provisional cash consideration for these acquisitions is approximately £17.0m.

Particularly exciting is the start of our operations in The Netherlands. We are delighted to have acquired six excellent sites across the country. It is intended that these acquisitions are the start of the development of a business in The Netherlands on a similar basis to the CVS Group in the UK. Whilst most of these acquisitions are of small animal businesses, Zuid-West Friesland is a mixed practice and we expect to continue to acquire a range of different business in the Netherlands.

The UK acquisitions made further strides forward in our strategy, expanding our geographical coverage across the UK. Of particular note are the acquisitions of Bell Equine, a large and well respected Equine practice in Kent, and O'Reilly & Fee in Armagh, which brings the number of our surgeries in Northern Ireland to three.

**Divisional performance**

*Practice Division*

At the half year, the Practice Division operated 380 veterinary surgeries (June 2016: 360), 376 across the UK and four in The Netherlands. Subsequent to the half year this has increased to a total of 394 (388 in the UK and six in The Netherlands). The surgeries operate under a number of well-established local brands, primarily focused on the small animal market. We estimate that CVS has a 13% share of the UK small animal veterinary market.

Practice revenues were £118.4m, a 30.2% increase on the £91.1m achieved in the prior period. Like-for-like sales growth of 7.0% generated about £5.8m of additional revenue; the annualisation impact of prior year acquisitions added £18.4m and current period acquisitions added a further £1.4m.

The gross margin in the practices increased from 79.1% to 80.2% with improvements being generated by the new and strengthened divisional management team. The margin improvement reflects an increase in the proportion of sales of services compared to drugs.

Adjusted EBITDA for the Practice Division grew by 38.7% from £16.0m to £22.2m and the adjusted EBITDA margin improved from 17.6% to 18.7%

The expansion of our own brand range of medicines and accessories has continued during the period with the introduction of two new products in the summer of 2016. Benazapet, is used for the treatment of heart failure in dogs and kidney disease in cats and Meloxaid used for pain relief and inflammation post-surgery. These are smaller volume products than those already launched, but they will further support our margins. Our range of MiPet waiting room retail products and pet food is now fully rolled out across the division.

The Healthy Pet Club schemes have grown significantly with membership at 31 December 2016 in excess of 285,000 pets, an increase of over 12% over the six month period. At the end of February 2017 the membership stood at 291,000. Income from Healthy Pet Club schemes represented 13.4% of the income of the division for the six month period up from 12.6% in the comparable period. In the like-for-like practices the percentage increased from 15.2% to 16.4%. The schemes offer discounted products and services aiming to improve clinical compliance levels amongst members and to protect practice sales by bonding pet owners to their local CVS surgery.

The Group continues to develop and improve its estate. Following other successful relocations in recent years, in January 2017 we relocated the YourVets site in Stechford to allow its expansion. Results are already showing a marked improvement. In February 2017 we opened a new YourVets site in Smethwick, Birmingham and a further site in Norwich is under development. These two new sites follow the opening of smaller new locations in Beccles and Lawley in 2016, both of which are trading well. Further opportunities for a small number of new sites will be sought in order to gain experience in their development.

Our referrals business has continued to develop but there remain significant challenges in the market for specialists. Revenue from the Dovecote and Highcroft referral acquisitions in 2015/6 has been strong but our Lumbry Park site has not developed as quickly as we would have liked. The senior management team has been strengthened to help address this matter. We opened our new Manchester Veterinary Specialists site in February 2017 and initial results are promising. The significant refurbishment of the Chestergates site should be completed before the end of the current financial year. This will create more space and a more efficient working environment. Our commitment to providing an excellent working environment and facilities for our vets is demonstrated by with the inclusion of new CT scanners at Chestergates and Manchester Veterinary Specialists and a higher specification MRI scanner at Chestergates.

The VetShare Buying Group has progressed strongly since its acquisition in December 2016. Over £0.6m of additional rebates per annum have been negotiated for Buying Group members. In March 2017 we commenced the administration of a Healthy Pet Club type scheme for Buying Group members.

*Laboratory Division*

Our laboratories provide diagnostic services and in-practice laboratory analysers to third party owned veterinary surgeries as well as our own practices. Diagnostic services are offered via post and courier allowing complete coverage of the UK.

Total revenues grew by 8.3% to £7.8m (2015: £7.2m). The gross margin percentage fell from 69.2% to 67.9% reflecting the growing contribution of our in-house analyser business which has a lower gross margin than the diagnostics business. Adjusted EBITDA increased slightly to £1.7m (2015: £1.6m).

*Crematoria Division*
Crematoria revenues increased by 58.3% to £3.3m (2015: £2.0m). Like-for-like sales grew by 21.5% reflecting the existing sites taking on work from acquired practices as well as third party growth. Overall the Crematoria Division delivered an adjusted EBITDA of £1.1m (2015: £0.6m).
*Animed Direct*
Following its difficulties in the prior year, Animed Direct, our on-line dispensary, made excellent progress with revenues increasing by 36.6% to £5.6m (2015: £4.1m). Adjusted EBITDA improved slightly but remained at £0.2m when the figure is rounded.

The new management team put in place early in the financial year has begun to address a number of matters and this is reflected in the significant improvement in sales. The business recently moved to the 50,000 sq. ft. warehouse in Diss and is continuing to develop its website. This is expected to provide improved access and functionality on tablets and mobiles as well as providing better management information and greater operational flexibility.

*Central administration*
Central administration costs were £4.5m (2015: £3.8m) and as a percentage of revenue fell from 3.8% to 3.5% for the half year.

The scale of growth of the Group continues to require the investment in additional staff in all functions. Our systems and processes are continually being strengthened and the improved management information developed over recent years is now being used by the operations teams. The Group is conscious of the need to maintain good control of all acquisitions as they are integrated and has taken on the necessary resources to ensure that this is achieved.

The development of CVS' own insurance product has continued. The product is being designed by vets and aims to bond our customers even more closely to our practices. The Group does not intend to take on any insurance underwriting risk.

**Cash flow and funding position**
Net debt stood at £68.0m at 31 December 2016 (see note 12), a reduction of £25.1m from 1 July 2016. In the period £12.0m was spent on acquisitions (including £0.2m of debt acquired and £0.7m on deferred consideration) (2015: £43.6m), £6.1m on capital expenditure (2015: £8.0m) and £2.1m on dividends (2015: £1.8m).

Capital expenditure included £4.8m on site refurbishments and relocations and £1.3m on equipment.

In December 2016 the Company successfully raised a total of £29.6m after expenses (£30.2m before expenses) by means of an accelerated bookbuild, which received very strong support from existing and new investors, and issued 3,019,500 new Ordinary Shares. The consequent reduction in net borrowings and gearing further strengthens the Group's balance sheet and provides a strong financial base on which the Group can continue to grow, both through acquisitions and other developments.

**Dividends**
A dividend in respect of the year ended 30 June 2016 of 3.5p per share was paid in December 2016. The Board will continue to review its dividend policy and expects that a final dividend will be paid in December 2017, which, in the absence of any unforeseen change in trading conditions, will be at least equal in value to that of 2016.

**Our people**
All of our people are key in enabling the Group to deliver these excellent results and I would like to thank all of them for their skill and professionalism in providing the best possible care and service to our customers and their animals.

Our continuing focus on our staff is reflected in the recent recruitment of senior managers with specific responsibilities for nurses and out-of-hours work. The veterinary industry has not historically provided strong careers for nurses and we are determined to improve that situation by providing training beyond the basic nursing qualification, ensuring that our nurses utilise their skills to the maximum and that they have rewarding roles. Out-of-hours work can be a particularly challenging aspect of a vet's work and we aim to develop the support and training that they receive to carry out this important function.

The Group continues to be the largest employer in the UK veterinary profession with close to 5,000 staff. Our aim is to ensure that we are the first choice employer in the profession by providing the best career paths, training and development for our people.

**Further business development and outlook**
The Board is pleased to report that trading since the half year end is in line with expectations. Like-for-like sales growth for January and February 2017 has returned to more normal levels, but that was to be expected given the strong comparatives for January and February 2016. With our wide range of organic opportunities, healthy cash generation and a strong acquisition pipeline, the Board looks forward with confidence to the remainder of the year and beyond.

The Board believes that the UK veterinary sector will continue to provide opportunities for further consolidation and strategic acquisitions across each of the small animal, equine and large animal segments. It is pleasing to note that, even following a period of exceptionally high activity, the Group's pipeline of potential acquisitions remains very strong.

The Group will continue to build on the many strengths of its existing business: the development of the Lumbry Park and Manchester Veterinary Specialists referral businesses; the expansion of our range of own brand products; further development of out-of-hours centres; the development of two new locations and of relocated sites; and the introduction of CVS' own brand pet insurance. The Group will also seek to continue to improve its operating efficiency whilst ensuring that resources remain adequate to successfully integrate acquisitions and develop the business.

**Richard Connell**
**Chairman**
**31 March 2017**

## Consolidated income statement for the six month period ended 31 December 2016 (unaudited)

| | Note | **31 December 2016 (Unaudited) £m** | 31 December 2015 (Unaudited) £m | Year ended 30 June 2016 (Audited) £m |
|---|---|---|---|---|
| **Revenue** | 4 | **129.4** | 100.7 | 218.1 |
| Cost of sales | | **(68.3)** | (55.4) | (111.8) |
| **Gross profit** | | **61.1** | 45.3 | 106.3 |
| Administrative expenses | | **(51.6)** | (39.9) | (94.5) |
| **Operating profit** | | **9.5** | 5.4 | 11.8 |
| Other finance expense | 5 | **(1.5)** | (1.1) | (2.7) |
| **Profit before income tax** | | **8.0** | 4.3 | 9.1 |
| Income tax expense | 8 | **(1.7)** | (0.9) | (2.1) |
| **Profit for the period attributable to owners of the Parent Company** | | **6.3** | 3.4 | 7.0 |
| Basic | 6 | **10.4** | 5.6p | 11.6p |
| Diluted | 6 | **10.2** | 5.4p | 11.3p |

The 31 December 2015 comparatives for cost of sales and administration expenses have been restated to reclassify salary costs relating to non-clinical staff and other employment costs to administrative expenses.

The following table is provided to show the comparative earnings before interest, tax, depreciation and amortisation ("EBITDA") after adjusting for costs relating to business combinations.

| **Non-GAAP measure: Adjusted EBITDA** | Note | **£m** | £m | £m |
|---|---|---|---|---|
| Profit before income tax | | **8.0** | 4.3 | 9.1 |
| Adjustments for: | | | | |
| Net finance expense | 5 | **1.5** | 1.1 | 2.7 |
| Depreciation | 9 | **2.7** | 2.3 | 5.2 |
| Amortisation | 9 | **7.6** | 5.7 | 13.7 |
| Costs relating to business combinations | | **0.9** | 1.2 | 2.1 |
| **Adjusted EBITDA** | | **20.7** | 14.6 | 32.8 |

## Statement of consolidated comprehensive income for the six month period ended 31 December 2016 (unaudited)

| | **£m** | £m | £m |
|---|---|---|---|
| **Profit for the period** | **6.3** | 3.4 | 7.0 |
| **Other comprehensive income** | | | |
| Cash flow hedges: Fair value gains/(losses) | **-** | - | - |
| Other comprehensive income for the period, net of tax | **-** | - | - |
| **Total comprehensive income for the period attributable to owners of the Parent Company** | **6.3** | 3.4 | 7.0 |

# CVS Group plc

## Consolidated balance sheet as at 31 December 2016 (unaudited)

| | Note | **31 December 2016 (Unaudited) £m** | Restated 31 December 2015 (Unaudited) £m | Restated 30 June 2016 (Audited) £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 9 | **137.4** | 118.1 | 131.5 |
| Property, plant and equipment | 9 | **36.3** | 33.0 | 32.8 |
| Investments | | **0.1** | 0.1 | 0.1 |
| Deferred income tax assets | | **1.6** | 1.8 | 1.8 |
| | | **175.4** | 153.0 | 166.2 |
| **Current assets** | | | | |
| Inventories | | **11.1** | 7.8 | 9.7 |
| Trade and other receivables | | **24.6** | 22.7 | 23.8 |
| Cash and cash equivalents | | **6.5** | 9.6 | 6.7 |
| | | **42.2** | 40.1 | 40.2 |
| **Total assets** | 4 | **217.6** | 193.1 | 206.4 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(43.3)** | (41.8) | (43.0) |
| Current income tax liabilities | | **(2.8)** | (2.3) | (2.3) |
| Borrowings | | **(0.2)** | (0.3) | (0.2) |
| | | **(46.3)** | (44.4) | (45.5) |
| **Non-current liabilities** | | | | |
| Borrowings | 12 | **(74.3)** | (94.1) | (99.6) |
| Deferred income tax liabilities | | **(15.3)** | (12.9) | (14.6) |
| Derivative financial instruments | | - | (0.1) | (0.1) |
| | | **(89.6)** | (107.1) | (114.3) |
| **Total liabilities** | 4 | **(135.9)** | (151.5) | (159.8) |
| **Net assets** | | **81.7** | 41.6 | **46.6** |
| **Shareholders' equity** | | | | |
| Share capital | | **0.1** | 0.1 | 0.1 |
| Share premium | | **39.3** | 9.5 | 9.7 |
| Capital redemption reserve | | **0.6** | 0.6 | 0.6 |
| Revaluation reserve | | **0.1** | 0.1 | 0.1 |
| Merger reserve | | **(61.4)** | (61.4) | (61.4) |
| Retained earnings | | **103.0** | 92.7 | 97.5 |
| **Total equity** | | **81.7** | 41.6 | 46.6 |

The interim financial information on pages 7 to 18 was approved by the Board of Directors on 31 March 2017.

# Consolidated statement of changes in equity for the six month period ended 31 December 2016 (unaudited)

| | Share capital | Share premium | Capital redemption reserve | Revaluation reserve | Merger reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 July 2016 | **0.1** | **9.7** | **0.6** | **0.1** | **(61.4)** | **97.5** | **46.6** |
| Profit for the period | - | - | - | - | - | **6.3** | **6.3** |
| **Other comprehensive income:** | | | | | | | |
| Cash flow hedges: Fair value losses | - | - | - | - | - | - | - |
| **Total other comprehensive income** | - | - | - | - | - | - | - |
| **Total comprehensive income** | - | - | - | - | - | **6.3** | **6.3** |
| **Transactions with owners:** | | | | | | | |
| Credit to reserves for share-based payments | - | - | - | - | - | **0.8** | **0.8** |
| Deferred tax relating to share-based payments | - | - | - | - | - | **0.5** | **0.5** |
| Dividends to equity holders of the Company | - | - | - | - | - | **(2.1)** | **(2.1)** |
| Shares issued in the year | - | **29.6** | - | - | - | - | **29.6** |
| **Transactions with owners** | - | **29.6** | - | - | - | **(0.8)** | **28.8** |
| **At 31 December 2016** | **0.1** | **39.3** | **0.6** | **0.1** | **(61.4)** | **103.0** | **81.7** |

| | Share capital | Share premium | Capital redemption reserve | Revaluation reserve | Merger reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 July 2015 | 0.1 | 9.5 | 0.6 | 0.1 | (61.4) | 90.2 | 39.1 |
| Profit for the period | - | - | - | - | - | 3.4 | 3.4 |
| Other comprehensive income: | | | | | | | |
| Cash flow hedges: Fair value gains | - | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | - | 3.4 | 3.4 |
| Transactions with owners: | | | | | | | |
| Credit to reserves for share-based payments | - | - | - | - | - | 0.6 | 0.6 |
| Deferred tax relating to share-based payments | - | - | - | - | - | 0.3 | 0.3 |
| Dividends to equity holders of the Company | - | - | - | - | - | (1.8) | (1.8) |
| Transactions with owners | - | - | - | - | - | (0.9) | (0.9) |
| At 31 December 2015 | 0.1 | 9.5 | 0.6 | 0.1 | (61.4) | 92.7 | 41.6 |

## Consolidated statement of cash flows for the six month period ended 31 December 2016 (unaudited)

| | Note | **31 December 2016 (Unaudited) £m** | 31 December 2015 (Unaudited) £m | Year ended 30 June 2016 (Audited) £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 11 | **19.3** | 17.5 | 33.6 |
| Taxation paid | | **(2.2)** | (1.6) | (3.3) |
| Interest paid | | **(1.2)** | (1.0) | (2.4) |
| Net cash generated from operating activities | | **15.9** | 14.9 | 27.9 |
| **Cash flows from investing activities** | | | | |
| Acquisitions (net of cash) | 10 | **(11.8)** | (40.0) | (53.5) |
| Purchase of property, plant and equipment | | **(6.1)** | (8.0) | (11.3) |
| Purchase of intangible assets | | **-** | - | (0.2) |
| Net cash used in investing activities | | **(17.9)** | (48.0) | (65.0) |
| **Cash flows from financing activities** | | | | |
| Dividends paid | 13 | **(2.1)** | (1.8) | (1.8) |
| Proceeds from issue of shares | | **29.6** | - | 0.2 |
| Debt issuance costs | 12 | **-** | (1.3) | (1.3) |
| (Repayment) / increase of bank loan | 12 | **(25.7)** | 42.8 | 43.7 |
| Net cash from financing activities | | **1.8** | 39.7 | 40.8 |
| **Net (decrease) / increase in cash and cash** | | **(0.2)** | 6.6 | 3.7 |
| Cash and cash equivalents at start of period | | **6.7** | 3.0 | 3.0 |
| **Cash and cash equivalents at end of period** | | **6.5** | 9.6 | 6.7 |

# Notes to the interim consolidated financial information

## 1. General information

The principal activities of the Group are to operate companion and large animal and equine veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary business.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales and its shares are quoted on the AIM Market of the London Stock Exchange.

The address of the registered office is CVS House, Owen Road, Diss, Norfolk, IP22 4ER and the registered number of the Company is 06312831.

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of CVS Group plc in respect of the year ended 30 June 2016 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

**Forward looking statements**

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## 2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2016. It is unaudited and has been prepared in accordance with the AIM Rules for Companies and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2016, which have been prepared in accordance with IFRSs adopted by the European Union.

The interim consolidated financial information has been prepared on a going-concern basis.

**Use of non-GAAP measures**

*Adjusted EBITDA, adjusted EPS and like-for-like sales*

The Directors believe that adjusted EBITDA and adjusted EPS provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

Adjusted EBITDA is calculated by reference to profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.
Adjusted EPS is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue during the period.

Like-for-like sales comprise the revenue generated from all operations compared to the prior year. New surgeries are included from the anniversary of their acquisition or opening and discontinued activities are included up to the date of their sale or closure.

## 3. Summary of significant accounting policies

The accounting policies adopted are consistent with those set out on pages 45 to 51 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2016 (which are available upon request from the Company's registered office or on the Company's website).

## 4. Segmental reporting

Segmental information is presented in respect of the Group's business and geographical segments. The primary format, operating segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and associated costs, taxation related assets and liabilities, costs relating to business combinations and central administration salary and premises.

### Geographical segments

The business operates predominantly in the UK. It performs a small amount of laboratory work and sells a small quantity of goods on-line for European based clients. Since November 2016 the business has operated practices in The Netherlands. In accordance with IFRS 8 "Operating segments" no segmental results are presented for trade with European clients as these are not reported separately for management reporting purposes.

### Operating segments

The Group is split into five operating segments for business segment analysis; veterinary practices, laboratories, crematorium, Animed Direct and a centralised administration function.

| **Six month period ended 31 December 2016** | **Veterinary practices £m** | **Laboratories £m** | **Crematoria £m** | **Animed Direct £m** | **Central administration £m** | **Group £m** |
|---|---|---|---|---|---|---|
| Revenue | **118.4** | **7.8** | **3.3** | **5.6** | **(5.7)** | **129.4** |
| Profit/(loss) before income tax | **14.5** | **1.3** | **1.1** | **0.2** | **(9.1)** | **8.0** |
| Adjusted EBITDA | **22.2** | **1.7** | **1.1** | **0.2** | **(4.5)** | **20.7** |
| Total assets | **192.9** | **10.4** | **7.6** | **4.8** | **1.9** | **217.6** |
| Total liabilities | **(54.5)** | **(1.6)** | **(1.2)** | **(4.1)** | **(74.5)** | **(135.9)** |
| **Reconciliation of adjusted EBITDA** | | | | | | |
| Profit/(loss) before income tax | **14.5** | **1.3** | **1.1** | **0.2** | **(9.1)** | **8.0** |
| Net finance expense | **-** | **-** | **-** | **-** | **1.5** | **1.5** |
| Depreciation | **2.3** | **0.4** | **-** | **-** | **-** | **2.7** |
| Amortisation | **4.9** | **-** | **-** | | **2.7** | **7.6** |
| Costs relating to business combinations | **0.5** | **-** | **-** | **-** | **0.4** | **0.9** |
| Adjusted EBITDA | **22.2** | **1.7** | **1.1** | **0.2** | **(4.5)** | **20.7** |

## 4. Segmental reporting (continued)

| Six month period ended 31 December 2015 | Veterinary practices £m | Laboratories £m | Crematoria £m | Animed Direct £m | Central administration £m | Group £m |
|---|---|---|---|---|---|---|
| Revenue | 91.1 | 7.2 | 2.0 | 4.1 | (3.7) | 100.7 |
| Profit/(loss) before income tax | 8.4 | 1.2 | 0.4 | 0.2 | (5.9) | 4.3 |
| Adjusted EBITDA | 16.0 | 1.6 | 0.6 | 0.2 | (3.8) | 14.6 |
| Total assets | 172.8 | 9.0 | 5.8 | 4.0 | 1.5 | 193.1 |
| Total liabilities | (50.1) | (1.9) | (1.3) | (3.2) | (95.0) | (151.5) |
| **Reconciliation of adjusted EBITDA** | | | | | | |
| Profit/(loss) before income tax | 8.4 | 1.2 | 0.4 | 0.2 | (5.9) | 4.3 |
| Net finance expense | - | - | - | - | 1.1 | 1.1 |
| Depreciation | 1.8 | 0.3 | 0.1 | - | 0.1 | 2.3 |
| Amortisation | 5.5 | 0.1 | 0.1 | - | - | 5.7 |
| Costs relating to business combinations | 0.3 | - | - | - | 0.9 | 1.2 |
| Adjusted EBITDA | 16.0 | 1.6 | 0.6 | 0.2 | (3.8) | 14.6 |

| Year ended 30 June 2016 | Veterinary practices £m | Laboratories £m | Crematoria £m | Animed Direct £m | Central administration £m | Group £m |
|---|---|---|---|---|---|---|
| Revenue | 198.1 | 14.8 | 5.0 | 8.4 | (8.2) | 218.1 |
| Profit/(loss) before income tax | 21.3 | 2.5 | 1.4 | 0.3 | (16.4) | 9.1 |
| Adjusted EBITDA | 35.6 | 3.1 | 1.7 | 0.3 | (7.9) | 32.8 |
| Total assets | 184.5 | 9.8 | 6.7 | 3.8 | 1.6 | 206.4 |
| Total liabilities | (52.9) | (2.1) | (1.4) | (3.1) | (100.3) | (159.8) |
| **Reconciliation of adjusted EBITDA** | | | | | | |
| Profit/(loss) before income tax | 21.3 | 2.5 | 1.4 | 0.3 | (16.4) | 9.1 |
| Net finance expense | - | - | - | - | 2.7 | 2.7 |
| Depreciation | 4.1 | 0.6 | 0.3 | - | 0.2 | 5.2 |
| Amortisation | 9.4 | - | - | - | 4.3 | 13.7 |
| Costs relating to business combinations | 0.8 | - | - | - | 1.3 | 2.1 |
| Adjusted EBITDA | 35.6 | 3.1 | 1.7 | 0.3 | (7.9) | 32.8 |

## 5. Finance expense

| | 31 December 2016 (Unaudited) £m | 31 December 2015 (Unaudited) £m | Year ended 30 June 2016 (Audited) £m |
|---|---|---|---|
| Interest expense, bank loans and overdraft | **1.3** | **1.0** | 2.3 |
| Amortisation of debt arrangement fees | **0.2** | **0.1** | 0.4 |
| **Net finance expense** | **1.5** | **1.1** | 2.7 |

## 6. Earnings per Ordinary share

### (a) Basic

Basic earnings per Ordinary share is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the period.

| | 31 December 2016 (Unaudited) | 31 December 2015 (Unaudited) | Year ended 30 June 2016 (Audited) |
|---|---|---|---|
| Earnings attributable to Ordinary shareholders (£m) | **6.3** | **3.4** | 7.0 |
| Weighted average number of Ordinary shares in issue | **60,393,369** | **59,496,779** | 59,7336,436 |
| Basic earnings per share (pence per share) | **10.4** | **5.6** | 11.6 |

### (b) Diluted

Diluted earnings per Ordinary share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has potentially dilutive Ordinary shares being the contingently issueable shares under the Group's long term incentive plan schemes and Save As You Earn schemes. For share options, a calculation is undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 31 December 2016 (Unaudited) | 31 December 2015 (Unaudited) | Year ended 30 June 2016 (Audited) |
|---|---|---|---|
| Earnings attributable to Ordinary shareholders (£m) | **6.3** | **3.4** | 7.0 |
| Weighted average number of Ordinary shares in issue | **60,393,369** | **59,496,779** | 59,736,436 |
| Adjustment for contingently issuable shares - LTIPS | **327,006** | **999,456** | 681,294 |
| Adjustment for contingently issuable shares – SAYE | **849,016** | **765,431** | 726,515 |
| Weighted average number of Ordinary shares for diluted earnings per share | **61,569,391** | **61,261,666** | 61,143,945 |
| Diluted earnings per share (pence per share) | **10.2** | **5.4** | 11.3 |

## 6. Earnings per Ordinary share (continued)

### (c) Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per Ordinary share is calculated by dividing the profit for the period attributable to equity shareholders excluding amortisation, fair value adjustments in respect of financial assets and liabilities, costs relating to business combinations and exceptional costs (all net of tax), by the weighted average number of shares in issue during the period.

| | **31 December 2016 (Unaudited) £m** | 31 December 2015 (Unaudited) £m | Year ended 30 June 2016 (Audited) £m |
|---|---|---|---|
| Earnings attributable to Ordinary shareholders | **6.3** | 3.4 | 7.0 |
| Add back taxation | **1.7** | 0.9 | 2.1 |
| **Profit before taxation** | **8.0** | 4.3 | 9.1 |
| Adjustments for: | | | |
| Amortisation | **7.6** | 5.7 | 13.7 |
| Costs relating to business combinations | **0.9** | 1.2 | 2.1 |
| **Adjusted profit before income tax** | **16.5** | 11.2 | 24.9 |
| Tax on adjusted profit | **(3.5)** | (2.5) | (5.4) |
| **Adjusted profit after income tax and earnings attributable to ordinary shareholders** | **13.0** | 8.7 | 19.5 |
| Weighted average number of Ordinary shares in issue | **60,393,369** | 59,496,779 | 59,736,436 |
| Weighted average number of Ordinary shares for diluted earnings per share | **61,569,391** | 61,261,666 | 61,143,945 |
| **Adjusted earnings per share** | **21.5p** | 14.7p | 32.4p |
| **Diluted adjusted earnings per share** | **21.1p** | 14.3p | 31.7p |

## 7. Share-based payments

*Long Term Incentive Plans*

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan ("LTIP").

Under the LTIP scheme awards are made at an effective nil nominal cost (0.2p), vesting over a three year performance period conditional upon the Group's adjusted earnings growth. On vesting, the LTIP scheme awards are settled in equity.

On 20 December 2016, LTIP10 was issued with an option life of 3 years over 138,566 shares, of which 138,566 were outstanding at the period end. The share price at the grant date was £10.67 with an exercise price of 0.2p.

During the six months to 31 December 2016, directors and employees exercised 392,800 (2015: 634,900) share options with a nominal value of £785 (2015: £1,270), in respect of the LTIP7 scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.6m (2015: £0.5m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.3m (2015: £0.3m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

*Save As You Earn (SAYE)*

The Group operates the CVS Group Save As You Earn ("SAYE") plan, as an incentive scheme for all staff. The scheme is approved by HM Revenue and Customs. Under the SAYE schemes awards were made at a 20% discount of the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme.

SAYE9 scheme was opened for subscription in November 2016. 225,750 options were granted in November 2016, with the first salary deductions taking place in December 2016 and a contract start date of 1 January 2017. The exercise price was £7.90 - a 10% discount of the closing mid-market price on the date of invitation.

Options were valued using the Black–Scholes option pricing model and the share-based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £0.2m (2015: £0.1m) and has been charged to administrative expenses.

During the period the Company established an independently managed Employee Benefit Trust which is being utilised, as announced on 28$^{th}$ February 2017, to manage the impact of annual awards under the SAYE9 scheme through the purchase of CVS shares as the trustee deems appropriate.

## 8. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual statutory income tax rate expected for the full financial year as a percentage of taxable profit ("the effective tax rate").

## 9. Non-current assets

| | Intangible assets £m | Property, plant and equipment £m |
|---|---|---|
| **Six months ended 31 December 2016** | | |
| Opening net book value at 1 July 2016 | **131.5** | **32.8** |
| Additions arising through business combinations (note 10) | **13.1** | **0.5** |
| Additions | **-** | **6.1** |
| Fair value adjustment | **0.4** | **(0.4)** |
| Depreciation and amortisation | **(7.6)** | **(2.7)** |
| **Closing net book value at 31 December 2016** | **137.4** | **36.3** |
| **Six months ended 31 December 2015** | | |
| Opening net book value at 1 July 2015 | 79.2 | 20.0 |
| Additions arising through business combinations | 44.6 | 7.4 |
| Additions | - | 7.9 |
| Depreciation and amortisation | (5.7) | (2.3) |
| **Closing net book value at 31 December 2015** | 118.1 | 33.0 |

## 10. Business combinations

Provisional details of business combinations in the six month period ended 31 December 2016 are set out below.

| | Book value of acquired assets £m | Adjustments £m | Fair value £m |
|---|---|---|---|
| Property plant and equipment | 0.5 | - | **0.5** |
| Patient lists / customer lists | 1.0 | 11.9 | **12.9** |
| Goodwill | - | 0.2 | **0.2** |
| Deferred tax liability | - | (2.1) | **(2.1)** |
| Inventory | 0.5 | - | **0.5** |
| Trade and other receivables | 0.5 | - | **0.5** |
| Trade and other payables | (1.2) | - | **(1.2)** |
| Loans | (0.2) | - | **(0.2)** |
| Net assets acquired | 1.1 | 10.0 | **11.1** |
| Consideration paid - cash | | | **11.1** |
| Deferred consideration paid in respect of prior year acquisitions | | | **0.7** |
| Total consideration paid in year – cash | | | **11.8** |

Adjustments relate to the patient and customer data records acquired as part of acquisitions, goodwill on acquisitions and the deferred tax gross up of the patient data records acquired.

## 10. Business combinations (continued)

**Business combinations subsequent to the period end**

Subsequent to the 31 December 2016, the Group acquired 13 surgeries. A summary of these surgeries can be seen in the Chairman's Statement on page 3. The provisional cash consideration for these acquisitions is approximately £17.0m.

## 11. Cash generated from operations

| | **31 December 2016 (Unaudited) £m** | 31 December 2015 (Unaudited) £m | Year ended 30 June 2016 (Audited) £m |
|---|---|---|---|
| Profit for the period | **6.3** | 3.4 | 7.0 |
| Add back: | | | |
| Taxation | **1.7** | 0.9 | 2.1 |
| Total finance costs | **1.5** | 1.1 | 2.7 |
| Amortisation of intangible assets | **7.6** | 5.7 | 13.7 |
| Depreciation of property, plant and equipment | **2.7** | 2.3 | 5.2 |
| Share option expense | **0.8** | 0.6 | 1.3 |
| (Increase)/decrease in working capital: | | | |
| Inventories | **(0.9)** | (0.2) | (1.6) |
| Trade and other receivables | **(0.5)** | 0.7 | 5.2 |
| Trade and other payables | **0.1** | 3.0 | (2.0) |
| **Total cash flows from operating activities** | **19.3** | 17.5 | 33.6 |

## 12. Analysis of movement in net debt

| | Restated 1 July 2016 £m | Cash flow £m | Non-cash movements £m | **31 December 2016 £m** |
|---|---|---|---|---|
| Cash and cash equivalents | 6.7 | (0.2) | - | **6.5** |
| Borrowings – current | (0.2) | - | - | **(0.2)** |
| Borrowings – non-current | (99.6) | 25.7 | (0.4) | **(74.3)** |
| **Net debt** | (93.1) | 25.5 | (0.4) | **(68.0)** |

Non-cash movements relate to the amortisation of issue costs on bank loans and interest on loan notes. Cash and cash equivalents comprise cash at bank and in hand.

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 RCF has been disclosed as a non current liability in this interim report. 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.

## 13. Dividends

The dividends paid in December 2016, representing the final dividend payable for the year ended 30 June 2016, amounted to £2,113,748 (3.5p per share) (2015: £1,795,000; 3.0p per share).

# CVS Group plc

## Directors and advisers

| | |
|---|---|
| **Directors** | R Connell (Chairman)<br>M McCollum (Non-Executive Director)<br>S Innes (Chief Executive Officer)<br>N Perrin (Finance Director) |
| **Company Secretary** | R Cleal |
| **Company number** | 06312831 |
| **Registered office** | CVS House<br>Owen Road<br>Diss<br>Norfolk<br>IP22 4ER |
| **Auditors** | Deloitte House<br>Station Place<br>Cambridge<br>CB1 2FP |
| **Bankers** | NatWest Bank Plc<br>12 High Street<br>Southampton<br>SO14 2BF<br><br>Royal Bank of Scotland Plc<br>36 St Andrew Square<br>Edinburgh<br>EH2 2YB<br><br>HSBS Bank plc<br>8 Canada Square<br>London<br>EQ14 5HQ |
| **Legal advisors** | DLA Piper UK LLP<br>3 Noble Street<br>London<br>EC2V 7EE |
| **Registrars** | Neville Registrars Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen<br>B63 3DA |
| **Nominated Adviser and Broker** | N+1 Singer<br>One Bartholomew Lane<br>London<br>EC2N 2AX |