



Group Plc
Your pets, our priority

CVS Group plc Annual Results for the year ended 30 June 2016

Simon Innes – Chief Executive Officer
Nick Perrin – Finance Director



Agenda

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



Highlights

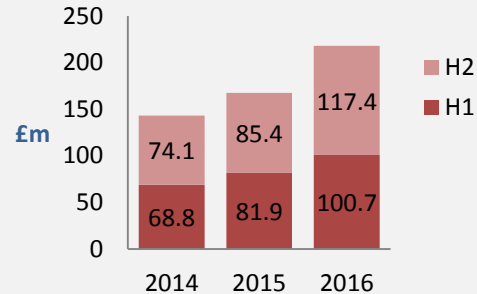
	Year ended 30 June 2016	Year ended 30 June 2015	Increase %
Revenue (£m)	218.1	167.3	30.4
Adjusted EBITDA (£m)	32.8	23.0	42.5
Adjusted profit before income tax (£m)	24.9	18.2	36.2
Adjusted earnings per share (pence)	32.4	24.7	31.2
Operating profit (£m)	11.8	9.8	20.0
Profit before income tax (£m)	9.1	8.5	6.0
Basic earnings per share (pence)	11.6	11.6	-
Proposed dividend (pence)	3.5	3.0	16.7

See appendix for definition of 'adjusted' items

Percentage increases have been calculated throughout this document based on the underlying values

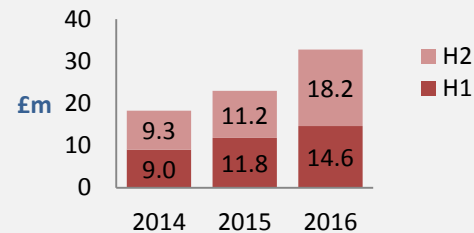
Highlights

Sales



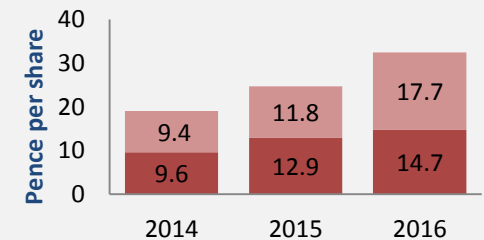
Revenue growth up 30.4% to £218.1m
Like-for-like sales +4.8%

EBITDA



Adjusted EBITDA up 42.5% to
£32.8m

Adjusted earnings per share



Adjusted earnings per share up
31.2% to 32.4p

Acquisitions

Record number of acquisitions in year:

- 67 surgeries
- 3 crematoria
- Vetshare buying group
- VETisco instrumentation business

Referrals

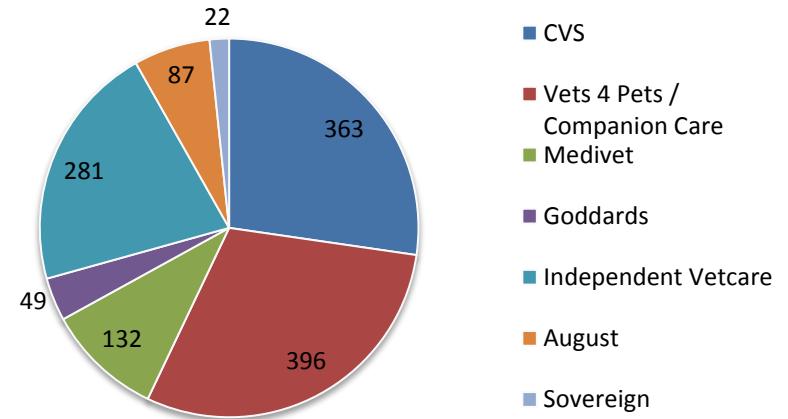
Significant development of referrals business:

- Lumby Park
- Highcroft
- Dovecote

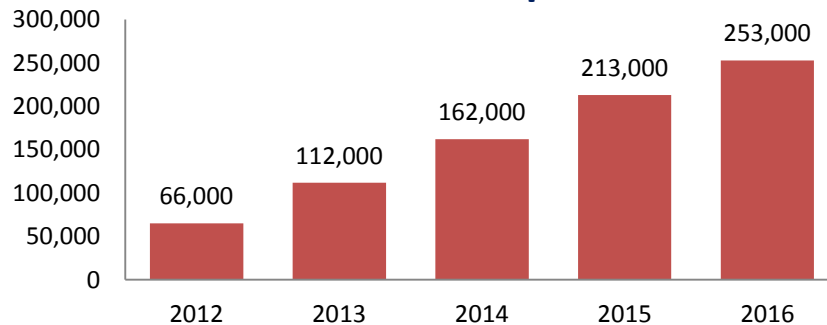
Highlights

Industry landscape

CVS owns 363 surgeries and is the largest integrated provider of veterinary services to animal owners in the UK



HPC membership numbers



Healthy Pet Club (HPC) members up 18.8% to 253,000

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

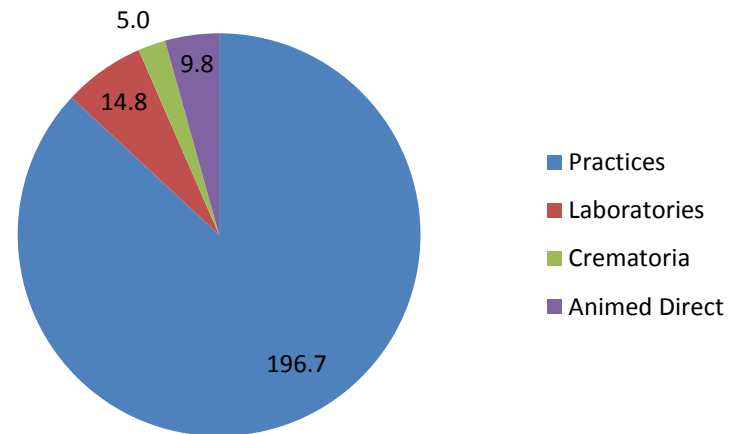
Expanding our business through acquisitions

Business review - Results by division

Turnover by business area £m
(before intra-group eliminations)

Four main business areas

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



% of Revenue per Business Area

	Practices	Laboratories	Crematoria	Animed Direct
2016	86.9%	6.6%	2.2%	4.3%
2015	85.0%	7.6%	1.5%	5.9%
2014	85.9%	7.2%	1.1%	5.8%

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

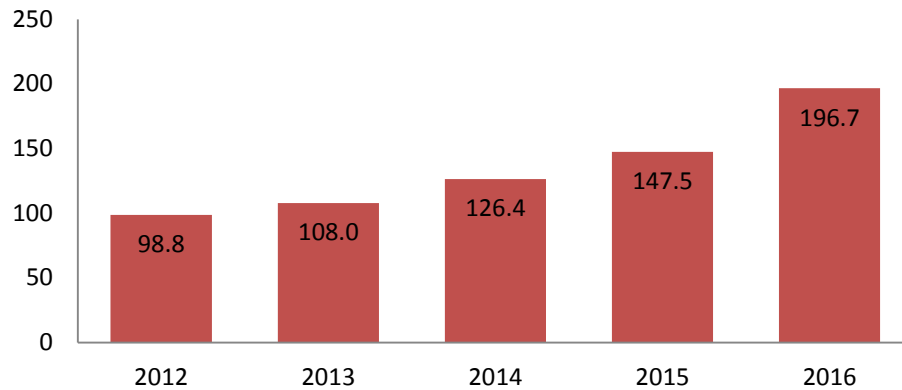
Results by division

Year ended 30 June 2016	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	196.7	14.8	5.0	9.8	(8.2)	218.1
EBITDA (£m)	35.6	3.1	1.7	0.3	(7.9)	32.8
Gross margin after materials %	84.7	73.3	80.6	21.3	-	84.2
EBITDA %	18.1	20.9	34.2	3.2	-	15.0

Year ended 30 June 2015	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	147.5	13.1	2.6	10.3	(6.2)	167.3
EBITDA (£m)	25.3	2.2	0.8	0.5	(5.8)	23.0
Gross margin after materials %	83.8	73.4	79.3	17.9	-	82.0
EBITDA %	17.1	17.0	29.6	4.8	-	13.8

Business review - Veterinary Practices

5 Year revenue £m

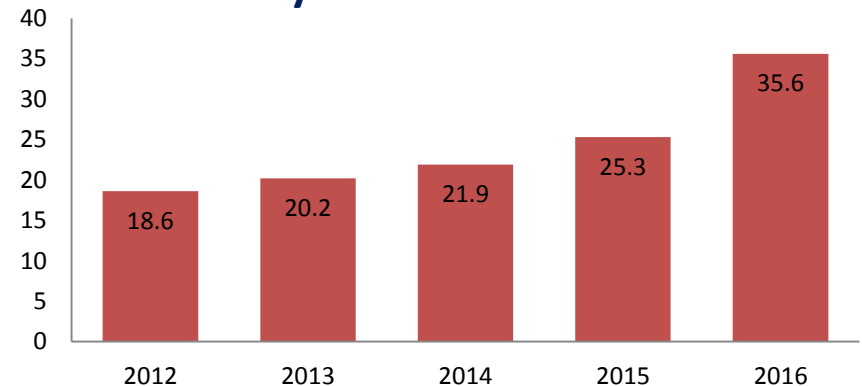


Practice revenue split

	2016 £m	2015 £m
Like-for-like revenue	148.1	139.8
2015 acquisitions	22.7	7.7
2016 acquisitions	25.9	-
Total revenue	196.7	147.5

Like-for-like sales +5.4%

5 year EBITDA £m



Business review – Veterinary Practices

363 surgeries across the UK

Major acquisitions during the year	Location	Business
Highcroft	Bristol	Referrals and small animal
Dovecote	Castle Donington	Referrals
Albavet - practices	Fife, Glasgow, Stoke, Nottingham, Wallington	Small animal
Albavet – Vetshare		Buying group
Albavet - VETisco		Instrumentation sales
Alnorthumbria	Northumberland	Small animal, large animal & equine
Valley Equine	Lambourn	Equine
Cromlyn House Veterinary Hospital	Hillsborough Northern Ireland	Small animal

- 67 surgeries acquired in the year
- 3 surgeries acquired post year end

New surgeries opened in the year	Location	Business
Lumbry Park	Hampshire	Referrals
Coastline Beccles	Suffolk	Small animal
Haygate Lawley	Shropshire	Small animal

Acquisitions after the year end	Location	Business
Nottingham Vet Care	Nottingham	Small animal

Business review – Veterinary Practices

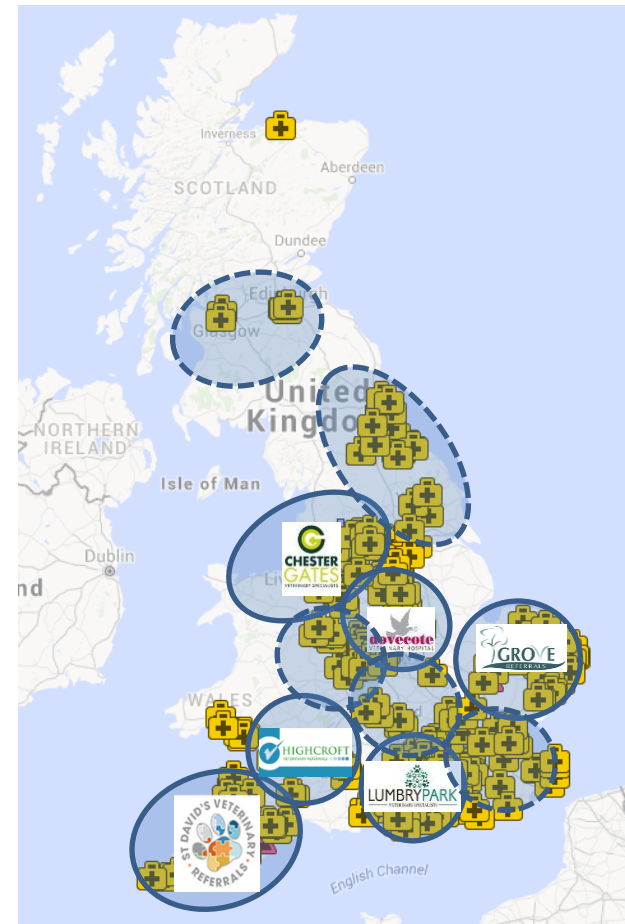
Other acquisitions during the year	Location	Business
Rosemullion	Falmouth	Small & large animal
Torbridge Veterinary Hospital	Bideford	Small animal
Okeford Veterinary Centre	Okehampton	Small animal
Dart Vale Veterinary Group	Dartmouth	Small & large animal
Burghfield & Goring Veterinary Group	Burghfield, Goring	Small animal
Clifton Villa Veterinary Services	Newquay, Truro, Cambourne	Small & large animal
Fern Cottage Veterinary Surgery	Sittingbourne	Small animal
Claremont Veterinary Group	Bexhill	Small animal
Lamorna House Veterinary Centre	Cambourne	Small animal
Roebuck Veterinary Group	Stevenage	Small animal
Seymour Vets	Totnes	Small & large animal & equine
Putlands Veterinary Surgery	Paddock Wood	Small & large animal & equine



Business review – Veterinary Practices

Referrals

- Significant development of the referrals network:
 - Lumbry Park in Alton, opened in October 2015
 - Dovecote acquired
 - Highcroft acquired
- Planned developments in FY 2017
 - Manchester Veterinary Specialists to open
 - Refurbishment & reorganisation of Chestergates including new MRI scanner
- 18 diploma holders now at CVS with a wide range of specialisms



Business review – Veterinary Practices

Own Brand

- 14 major, high quality products
- Distributed via Animed Direct
- Lower prices and better margins
- Completed roll out of own brand pet food and waiting room retail

Out-of-hours

- 8 established dedicated emergency out-of-hours centres
- More planned for 2017



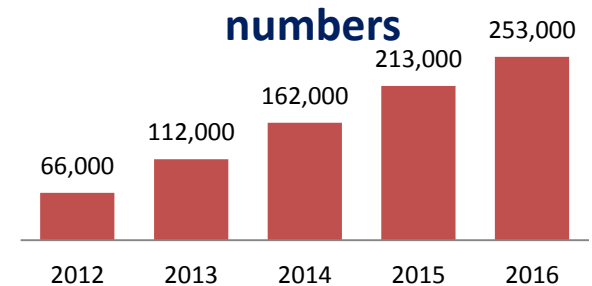
Business review – Veterinary Practices

Healthy Pet Club

- 18.8% increase in membership to 253,000
- HPC revenue
 - All practices – 12.3% of total revenue (2015: 13.0%)
 - Like-for-like practices – 16.3% (2015: 13.5%)
- 1 January 2016 price increased by £1 / month



HPC membership



MiGroomers

- 13 MiGroomer sites have now opened
- Minimal capex
- Incremental sales from grooming and veterinary work
- Training offered to staff who wish to train in this area



Veterinary Practices – Buying Group



www.mivetclub.co.uk



www.vetshare.co.uk

	MiVetClub	Vetshare
Member sites	10	500+
Restricted to CVS dedicated & preferred goods	Y	N
Wholesaler	NVS and Henry Schein	Any
CVS own brand products available	Y	Y
Use of Laboratories offered	CVS	CVS, Idexx, NWL
Use of Crematoria offered	CVS	CVS, PCS
Other services from CVS	Training, H&S, HPC	

- Over £0.6m p.a. of rebates for VetShare customers generated since acquisition
- Small quantities of own brand products now being sold to both buying groups

Business review – Veterinary Practices

Pet Medic Recruitment

- Provides 70% of locum requirements
- Saving costs & delivering better quality
- Some permanent hires and third party work



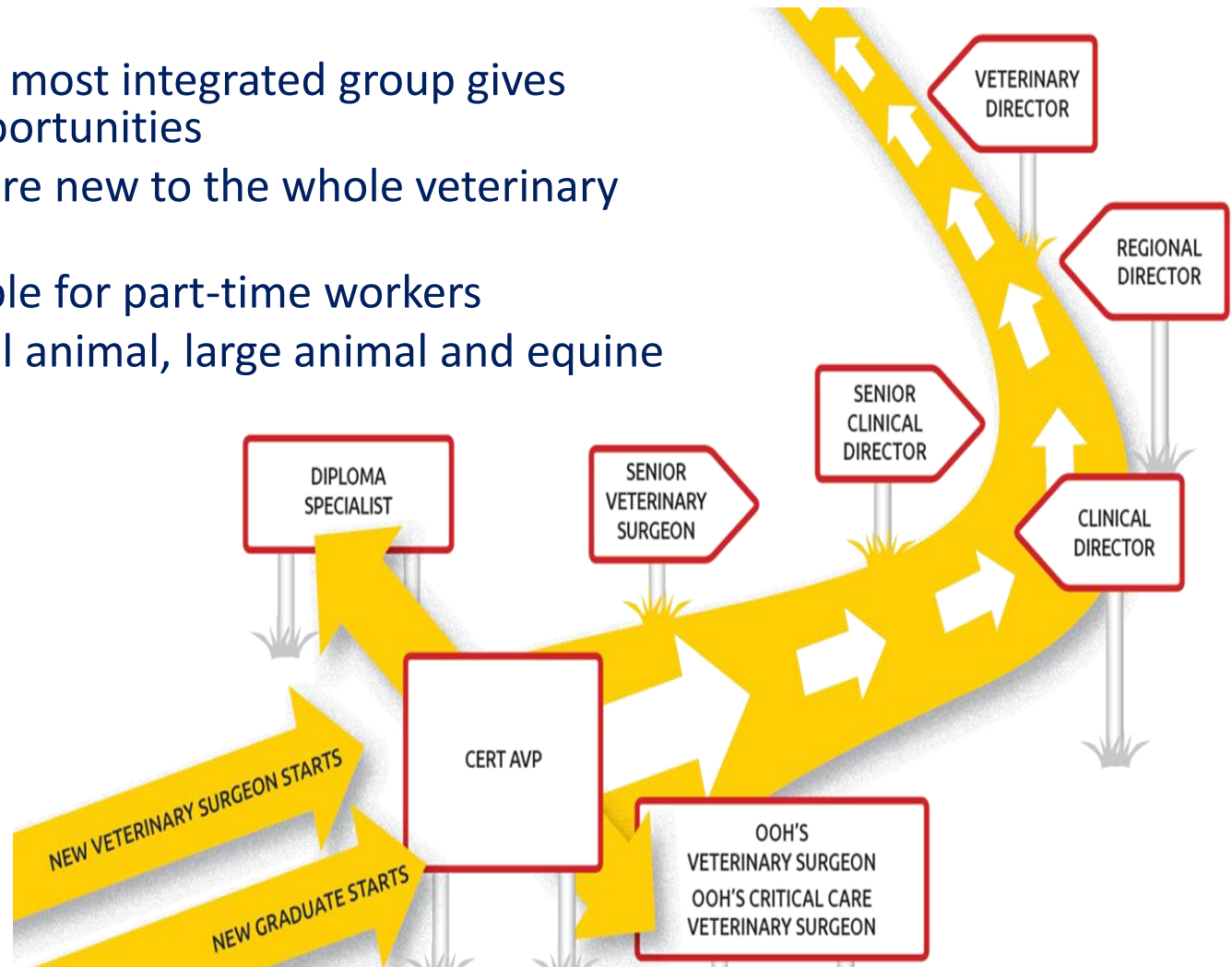
Veterinary practices - Training

- **New Graduate Program**
 - 240 graduate vets in last 3 years
- **Advanced Practitioner Program**
 - 60-70 vets at any one time
- **MiNurse Academy**
 - In house clinical training program - now in 2nd year
 - Further 270 nurses learning specialist skills
 - Modular courses, day courses, practical courses
- **Leadership program**
 - 8 day program for 12 candidates



Veterinary practices - careers

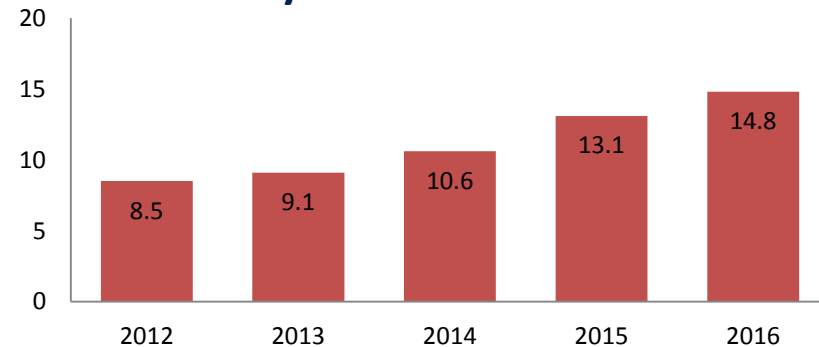
- UK's largest & most integrated group gives enhanced opportunities
- Careers that are new to the whole veterinary industry
- Careers suitable for part-time workers
- Roles for small animal, large animal and equine



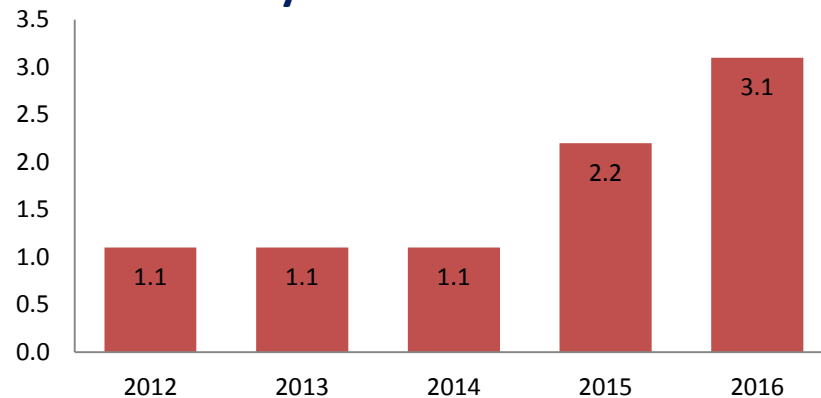
Business review - Laboratories



5 year revenue £m



5 year EBITDA £m

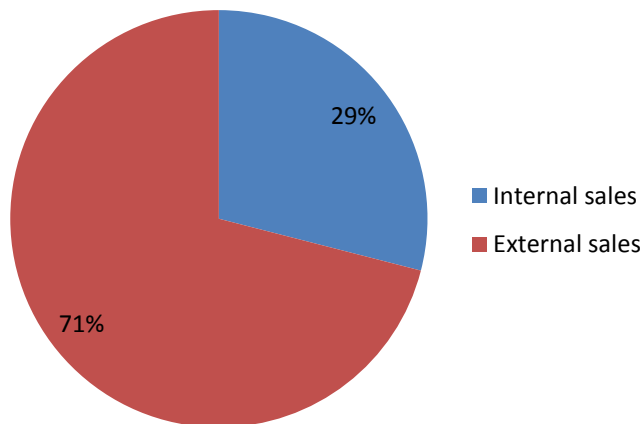


- Revenue growth of 12.8% to £14.8m
- Like-for-like sales +12.8%
- EBITDA improved to £3.1m (2015: £2.2m)

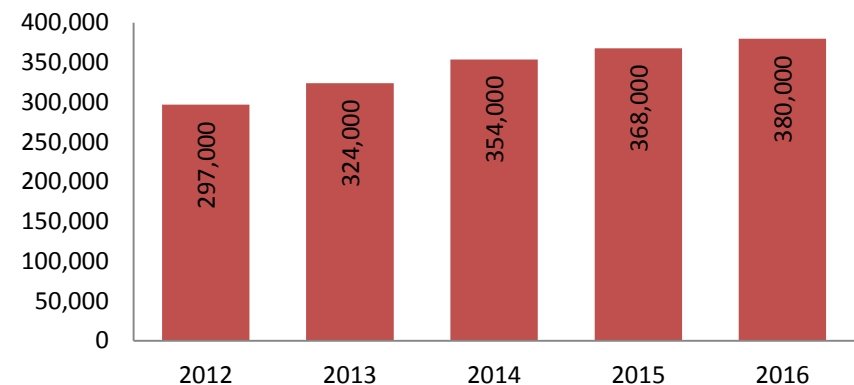
Business review – Laboratories

- Sales of analysers & reagents to third parties progressing
- Accreditations in progress to expand large animal testing
- PCR testing introduced in January 2016

Internal vs External sales

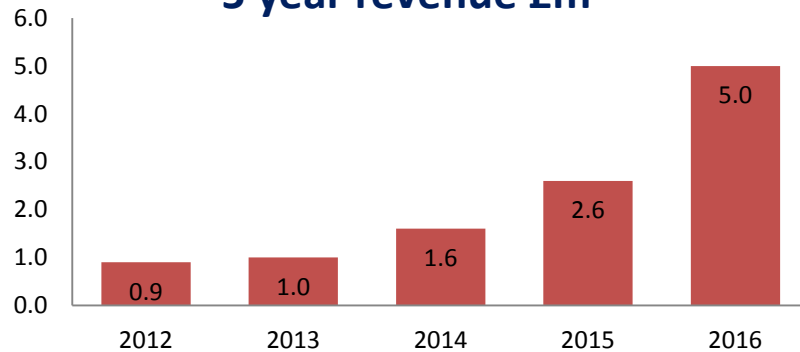


Number of laboratory tests performed

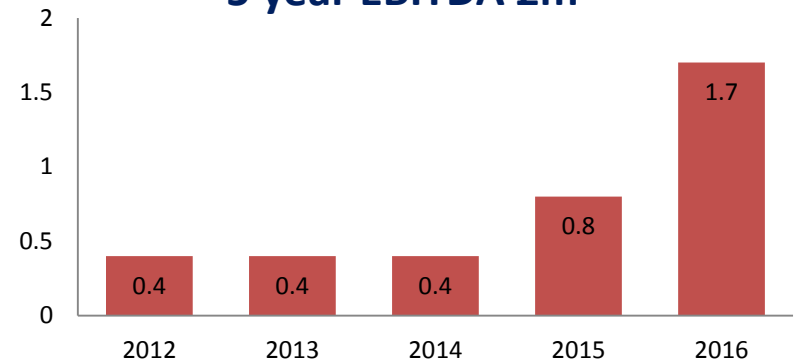


Business review - Crematoria

5 year revenue £m



5 year EBITDA £m



Crematoria revenue split

	2016 £m	2015 £m
Like-for-like revenue	3.2	2.5
Acquisitions	1.8	0.1
Total revenue	5.0	2.6

Like-for-like sales +26.6%



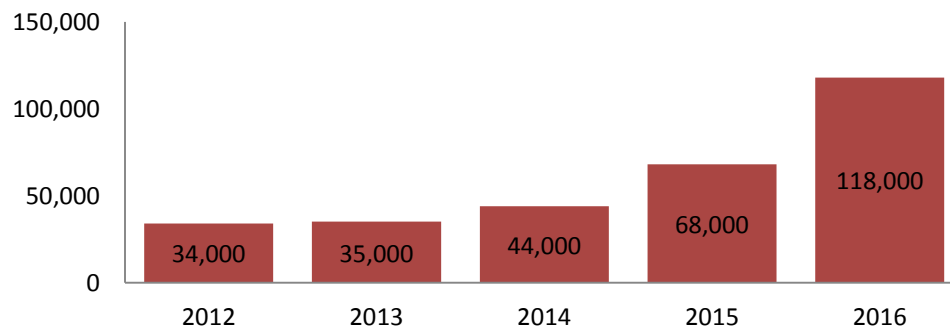
Business review – Crematoria

- +26.6% like-for-like sales growth reflects:
 - Increase in 3rd party sales
 - Impact of practice acquisitions
- National coverage following acquisitions of:
 - The Pet Crematoria (Larkhall & Durham)
 - Green Acres (Scunthorpe)



All CVS work now performed internally

Number of cremations



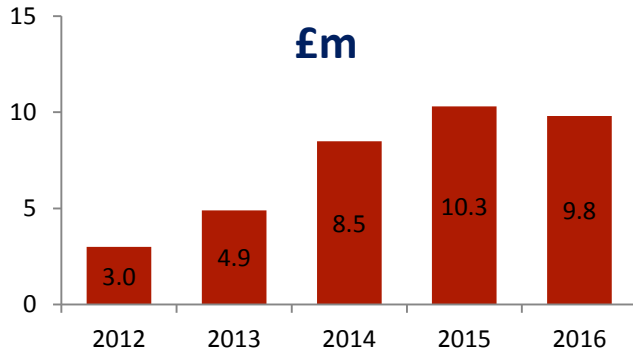
Crematoria Division coverage

- A The Pet Crematorium – Larkhall
- B The Pet Crematorium – Durham
- C Rossendale Pet Crematorium and Memorial Gardens
- D Green Acres Pet Crematorium
- E Whitley Brook Pet & Equine Crematorium
- F Valley Pet Crematorium
- G Silvermere Haven Pet Cemetery & Crematorium



Business review – Animed Direct

Animed Direct Revenue
£m

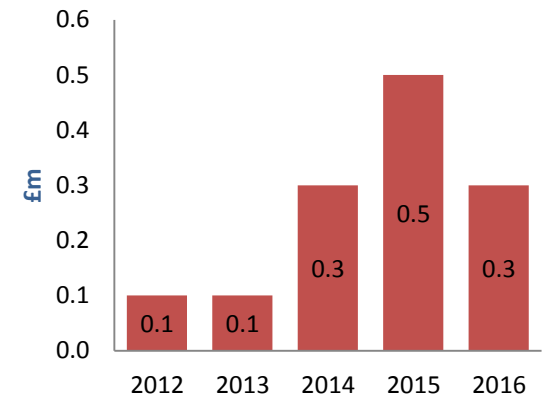


www.animeddirect.co.uk

- Revenues fell by 4.6% to £9.8m
- Adjusted EBITDA fell to £0.3m



Animed Direct EBITDA
£m



	2016	2015
Number of product lines	3,500	4,200
Monthly website visits	160,000	150,000
Average order value	£31.00	£28.90
No of customers	335,000	322,000

- Positive cash contribution
- Investment in operations, logistics and distribution
- New e-commerce platform and websites launching Q2 FY17

Business review – Head office

- Costs increased from 3.5% of sales to 3.6% in the year
- Investment during the year in:
 - More resources to manage integration of new acquisitions and scale of business
 - More resources to develop new initiatives such as pet insurance, internal distribution, launching CVS in Netherlands
 - Central recruitment team
 - Field based HR, finance and IT staff
- Head office move took place in October 2015
- Development of Practice Division management team
- CVS Insurance launch expected in FY 2017 H2



Financial results - Profit & loss

	Year ended 30 June 2016	Year ended 30 June 2015
	£m	£m
Revenue	218.1	167.3
Cost of sales	(111.8)	(88.2)
Gross profit	106.3	79.1
Administrative expenses	(94.5)	(69.3)
Operating profit	11.8	9.8
Net finance expenses	(2.7)	(1.3)
Profit before income tax	9.1	8.5
Income tax expense	(2.1)	(1.7)
Profit after income tax	7.0	6.8
Earnings per ordinary share		
- Basic	11.6p	11.6p
- Adjusted	32.4p	24.7p
Dividend	3.5p	3.0p

Financial results – Balance sheet

	30 June 2016 £m	30 June 2015 £m
Non-current assets		
Intangible assets	131.5	79.2
Property, plant and equipment	32.8	20.0
Investments	0.1	0.1
Deferred income tax assets	1.8	1.8
	<u>166.2</u>	<u>101.1</u>
Current assets		
Inventories	9.7	5.8
Trade and other receivables	23.8	17.1
Cash and cash equivalents	6.7	3.0
	<u>40.2</u>	<u>25.9</u>
Total assets	<u>206.4</u>	<u>127.0</u>
Current liabilities		
Trade and other payables	(43.0)	(30.4)
Current income tax liabilities	(2.3)	(1.7)
Borrowings	(30.4)	(14.1)
	<u>(75.7)</u>	<u>(46.2)</u>
Non-current liabilities		
Borrowings	(69.4)	(35.1)
Deferred income tax liabilities	(14.6)	(6.5)
Derivative financial instruments	(0.1)	(0.1)
	<u>(84.1)</u>	<u>(41.7)</u>
Total liabilities	<u>(159.8)</u>	<u>(87.9)</u>
Net assets	<u>46.6</u>	<u>39.1</u>

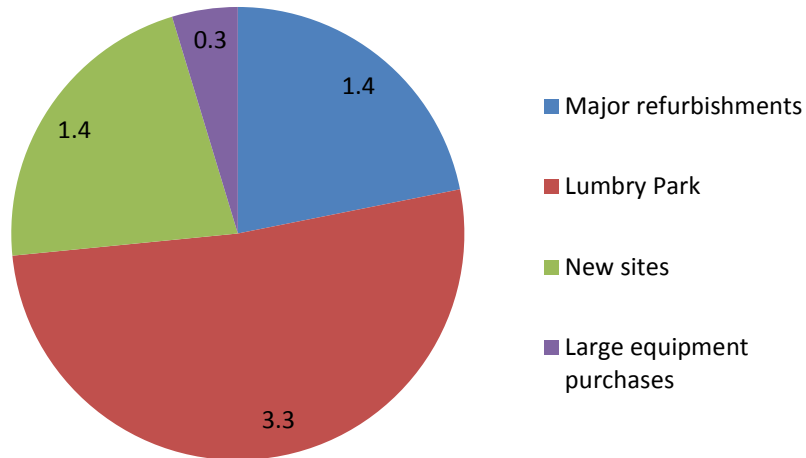


Financial results – change in debt

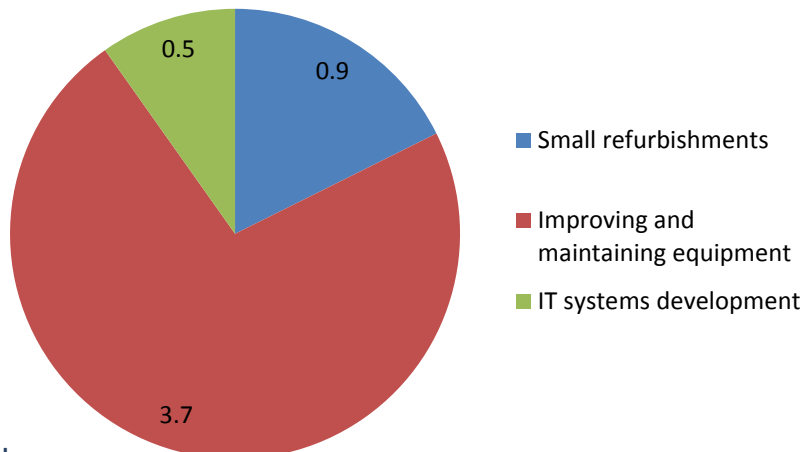
	Year ended 30 June 2016 £m	Year ended 30 June 2015 £m
Cash generated from operations	33.6	22.2
Taxation paid	(3.3)	(2.3)
Net interest paid	(2.4)	(1.3)
Capital expenditure - maintenance	(5.1)	(4.4)
Free cash flow	22.8	14.2
Capital expenditure - development	(6.4)	(2.1)
Acquisitions	(61.3)	(25.3)
Dividend paid	(1.8)	(1.5)
Proceeds from issue of Ordinary shares	0.2	0.3
Debt issuance costs movement	(0.4)	(0.5)
Increase in net debt	(46.9)	(14.9)

Financial results – Capital expenditure

Fixed assets - Development expenditure £6.4m



Fixed assets - Maintenance expenditure £5.1m



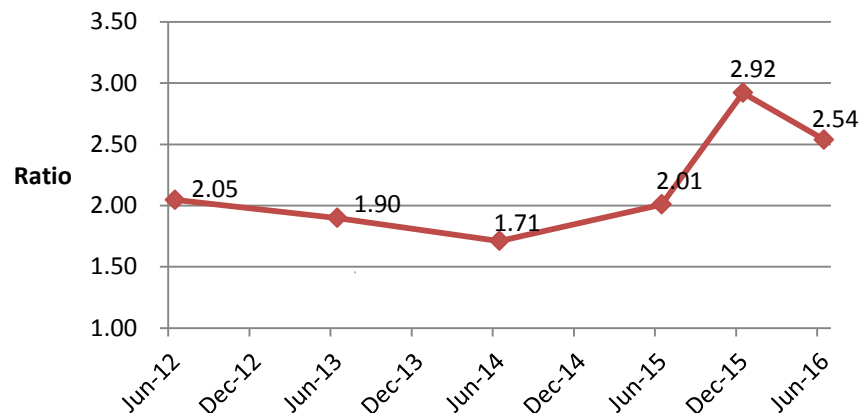
Total capital expenditure in the year amounted to £11.5m

- Major refurbishments
 - Oaklands
 - Nine Mile
 - Kidlington
- New sites
 - Beccles
 - Lawley
 - Gorleston
 - Smethwick

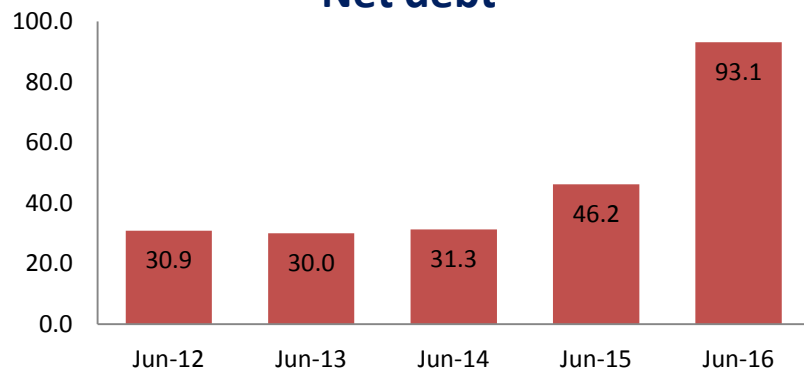
Financial results – Net debt

- New facility to allow high level of larger acquisitions
- Total available facilities:
 - £67.5m term loan to Nov 2021
 - £47.5m RCF to Nov 2021
 - £5.0m overdraft
- Syndicated facility (RBS, HSBC, AIB)
- Margins – better than previous facility
- Leverage covenant (Net debt / EBITDA *):
 - 3.5 to Dec 2017
 - 3.0 thereafter
- EBITDA : Interest covenant 4.5

Net debt: EBITDA



Net debt



- Borrowing increased due to £61.3m spent on acquisitions
- Net debt: EBITDA ratio fallen from 2.92 to 2.54 since December despite £20m spent on acquisitions

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

Outlook

Existing Business

- Referral services: development of Lumby Park, Manchester Veterinary Services, integration of Highcroft & Dovecote
- Own brand products: further drugs to be added
- Buying groups: development of strategy, negotiation of further manufacturers' rebates, introduction of new services
- Animed direct: marketing of new website

Growth through selective acquisitions

- Acquisition pipeline is strong
- Large opportunity in small animal sector, large animal and equine sector

Finance

- Continuing to maintain strong cash flow and healthy balance sheet
- Further investment in core business activities

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 build on internalise margins and maximising revenues

4,350	employees
1,040	vets
363	surgeries nationwide
4	diagnostics laboratories
7	crematoria
1	On-line dispensary

EBITDA & Gross Margin trends

	Year ended 30 June				
	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Revenue	108.7	120.1	142.9	167.3	218.1
EBITDA	15.1	15.8	18.3	23.0	32.8
<hr/>					
<u>% of sales</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Gross margin					
- Group	36.0	34.9	45.6	47.3	48.7
- Practices	85.0	84.9	84.6	83.8	84.7
- Animed Direct	18.8	18.8	16.4	17.9	21.3
- Laboratories	79.3	77.7	75.2	73.4	73.3
- Crematorium	80.1	82.0	80.1	79.3	80.6
Central administration	4.8	5.2	3.8	3.5	3.6
<hr/>					
EBITDA margin (%)	13.9	13.0	12.8	13.8	15.0

Cash generated from operations

	Year ended 30 June 2016 £'m	Year ended 30 June 2015 £'m
Profit for the year	7.0	6.8
Taxation	2.1	1.7
Total finance costs	2.7	1.3
Amortisation of intangible assets	13.7	8.5
Depreciation of property, plant and equipment	5.2	3.5
(Increase) in inventories	(1.6)	(0.6)
Decrease/(Increase) in trade and other receivables	5.2	(1.9)
(Decrease)/increase in trade and other payables	(2.0)	1.7
Share option expense	1.3	1.2
Total cash flows from operating activities	33.6	22.2

Bank covenants

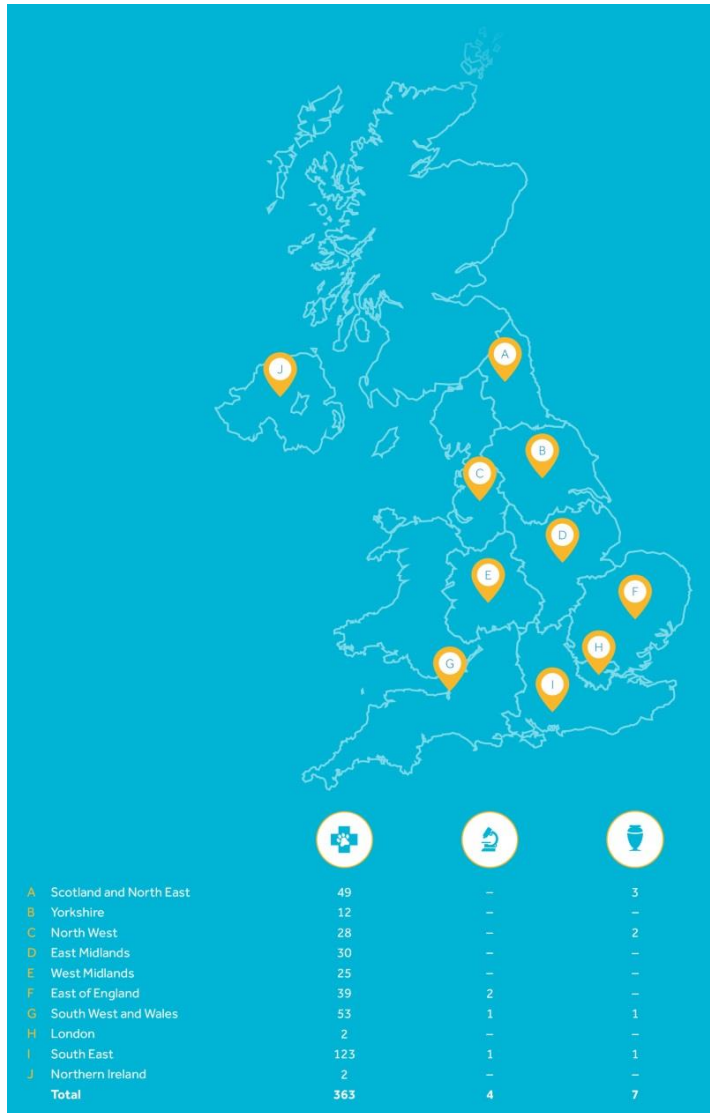
- The key financial banking covenants are:

Covenant	Ratio required	31 June 2016 (unaudited)
Net debt/EBITDA	Must not exceed <ul style="list-style-type: none"> 3.5:1 prior to 31/12/17 3.0:1 after 31/12/2017 	2.54:1
EBITDA / interest paid	At least 4.5:1	13.5:1

- Banking covenants are tested on a 12 month rolling basis
- EBITDA adjusted for annualised impact of acquisitions

Our locations

- 363 Surgeries across the UK
- 4 Laboratories
- 7 Crematoria



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.