

CVS Group plc

Final Results
Year to 30 June 2010



October 2010

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Highlights

- Revenue growth + 12%
- *Like for Like Sales*
 - *1st Quarter 2010/2011* (1.4)%
 - *4th Quarter 2009/2010* (2.8)%
- EBITDA (adjusted) growth + 5%
- PBT (adjusted) growth + 11%
- EPS (adjusted) growth + 4%
- £12.6m of cash generated from operations + 2%
- Acquisition growth, 41 surgeries and 1 laboratory. Of these acquired sites, 40 were completed in the last four months of the year.



Overview of CVS

- UK's largest National operator and consolidator of veterinary practices
- Market leading position and reputation making CVS the acquirer of choice
- Consistent delivery of growth year on year, however in 2009/2010 we have experienced a more challenging operating environment (weather and economy)
- Complementary businesses build on growing network of practices to internalise margin and maximise revenues

2,200 employees

500 vets

211 surgeries nationwide

6 diagnostic laboratories

1 crematorium & cemetery

1 online dispensary



Financial Highlights

	Year Ended		% change
	30 June 2010	30 June 2009	
Revenue	£85.5m	£76.6m	+12%
EBITDA (adjusted)	£13.1m	£12.5m	+ 5%
PBT	£3.8m	£ 4.4m	- 14%
PBT (adjusted)	£9.3m	£ 8.4m	+11%
Cashflow from operations	£12.6m	£12.4m	+ 2%
EPS (adjusted)	11.9p	11.5p	+ 4%
EPS (Basic)	5.7p	5.9p	- 2%



Profit & Loss

£000s	% change	Year Ended	
		30 June 2010	30 June 2009
Revenue	+11.6%	85,527	76,605
Cost of Sales		(51,176)	(45,657)
Administrative Expenses		(21,286)	(18,452)
EBITDA (adjusted)	+4.5%	13,065	12,496
<i>EBITDA margin</i>		15.3%	16.3%
Depreciation & Amortisation		(6,290)	(5,368)
Share option expense/transaction costs		(1,086)	(117)
Finance expenses		(1,850)	(2,567)
Profit before tax	-13.6%	3,839	4,444
Income tax		(781)	(1,406)
Profit after tax	+0.7%	3,058	3,038



Cashflow

£000s	% change	Year Ended	
		30 June 2010	30 June 2009
EBITDA (adjusted)	+0.3%	13,065	12,496
Transaction costs		(530)	-
Net working capital movement		89	(116)
Cash generated from operations	+2.0%	12,624	12,380
Interest		(1,921)	(2,597)
Taxation		(1,907)	(828)
Capex		(2,042)	(1,581)
Repayment of bank loan and finance leases		(1,922)	(56)
Proceeds from share issue/bank funding/sale of investment		8,650	3,385
Cash available to fund acquisitions		13,482	10,703
Acquisitions (including debt repayment)		(16,430)	(8,303)
Net Cash Movement		(2,948)	2,400



Balance Sheet Extracts

£000s	30 June 2010	30 June 2009	30 June 2008
Intangible assets	56,695	41,886	37,272
Property, plant and equipment	8,835	7,467	6,757
Financial instruments/Investments	74	67	1,012
Current assets (excl. cash)	9,055	7,403	6,937
Cash	109	2,792	392
Total assets	74,768	59,615	52,370
Current liabilities (excl. debt)	(12,675)	(9,621)	(8,326)
Borrowings	(42,005)	(43,568)	(40,460)
Net deferred tax	(5,755)	(4,487)	(4,779)
Financial instruments	(2,284)	(1,463)	-
Total liabilities	(62,719)	(59,139)	(53,565)
Net assets/(liabilities)	12,049	476	(1,195)



Financing

- £44m bank facilities now fully drawn down. Net debt of £42m at year end
- Debt repayment of £1.9m in the year (see appendices for schedule of repayment profile)
- Interest charge £2.0m (2009: £2.6m)
- All acquisitions since December 2008 have been funded by cash generated from existing operations, except share placing of £8.6m (net) in March 2010 partially funded the 'Pet Doctors' acquisition
- £2m working capital facility available
- Significant headroom on financial covenants (see appendices for schedule of year end covenant ratios)



Acquisition Activity 2009/2010

- Acquired and successfully integrated 41 surgeries and a laboratory during the year. Of these acquired sites, 40 were completed in the last four months of the year
- Historic annualised turnover acquired c £21m, of which £6m in 2009/2010 year (Historic annualised EBITDA (adjusted) c £2.4m, of which £1m in 2009/2010)
- Pet Doctors was a strategically important acquisition with 27 surgeries, a referrals business and a laboratory
 - provides complimentary geographical presence
 - removes a competitor
 - provides a further barrier to entry for another consolidator to enter the market place
 - enhances the group's buying power
 - significant increase in size of business in one transaction



Vet Surgeries

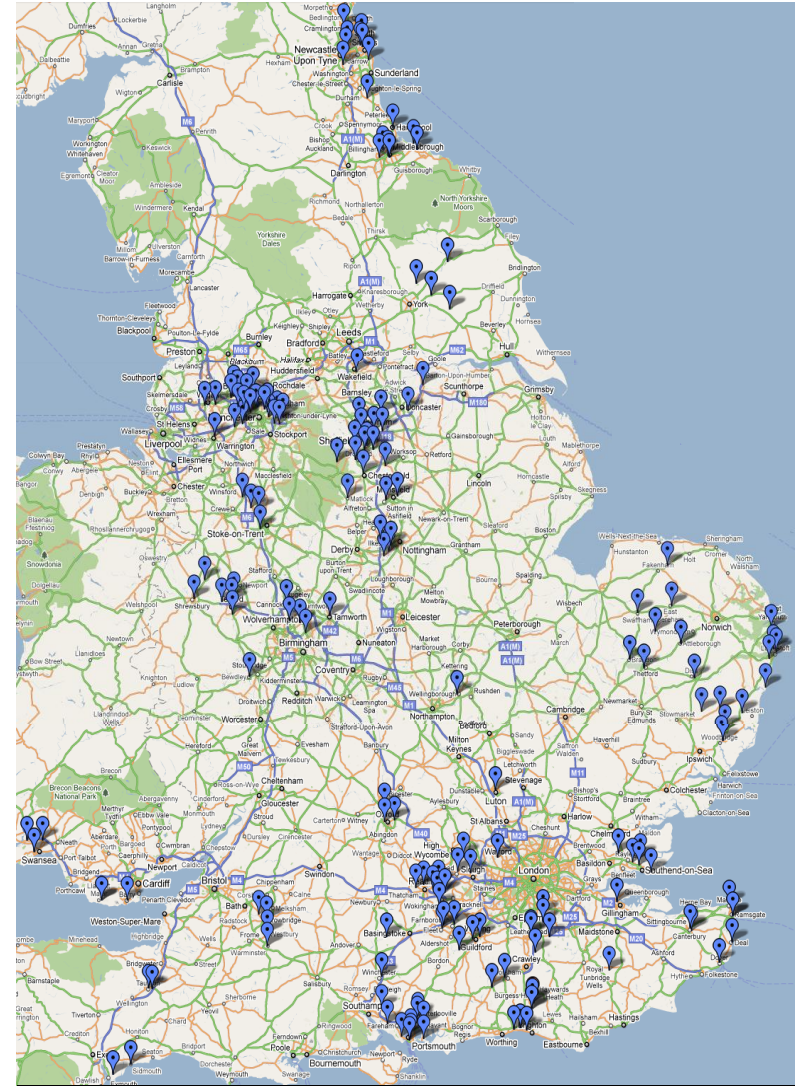
Surgery locations

- Wide geographical spread across England
- Initial presence in Scotland and Wales
- Small animal practices – urban areas
- Ripple effect
- Share of UK market by surgeries:

	U.K.	CVS	%
Small animals	2,103	210	9.9
Mixed*	1,635	-	-
Larger animals	60	-	-
Equine	134	1	0.7
Total	3,932	211	5.4

Source: Royal College of Veterinary Surgeons (“RCVS”) 2007 Annual Report

* Elements of small animals surgeries contained in “Mixed”



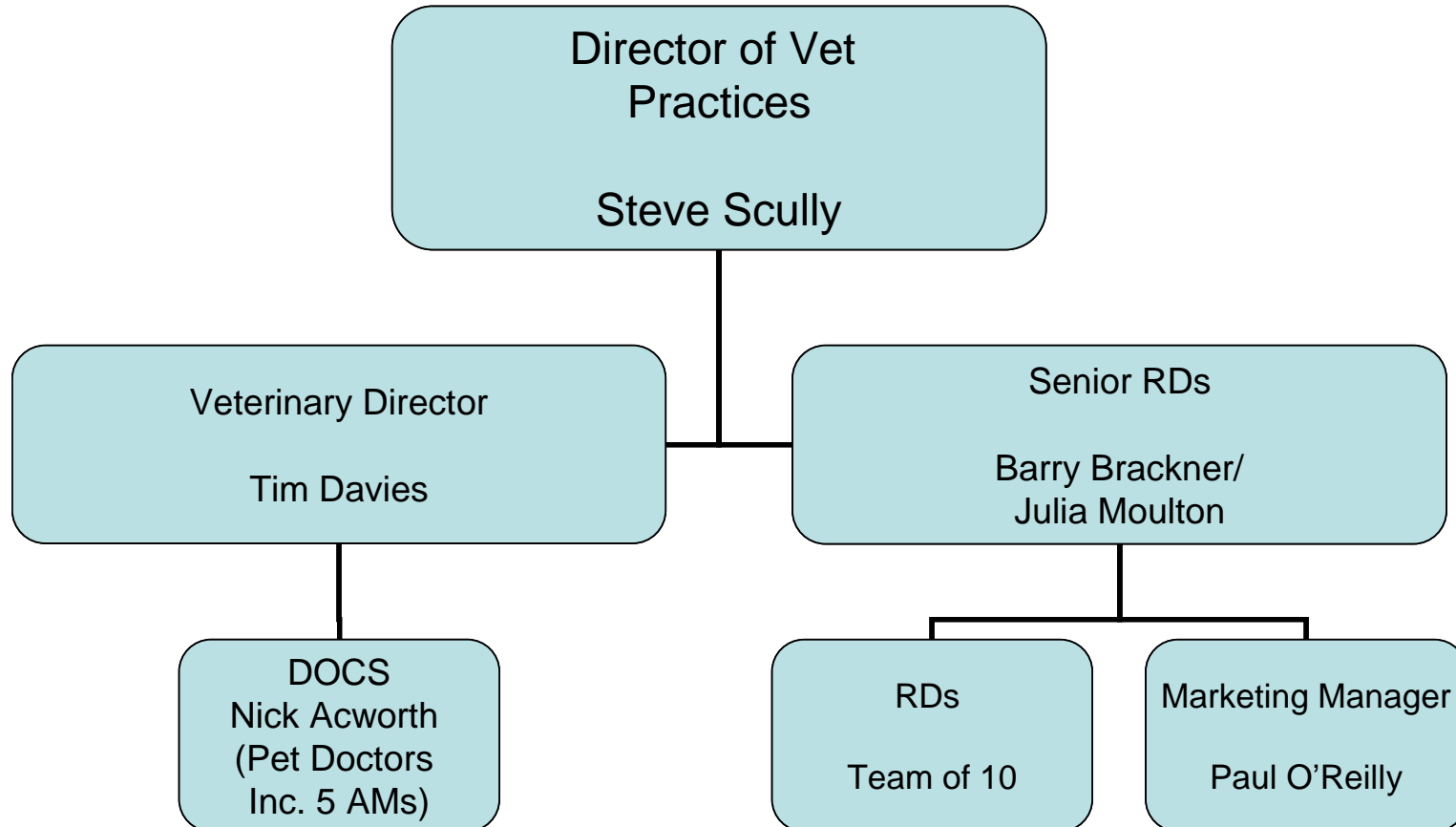
Practices



- Practices contributed £79.1m of revenue and £15.9m of EBITDA (increase of £1.5m) in FY to 30 June 10
- The 210 small animal and 1 equine surgery offer a full range of veterinary services including referral expertise from a number of sites
- Enhanced margin rates of return driven by better buying terms
- Activity to counter the challenging operating environment:
 - Growth of Healthy Pet Club Scheme
 - Aggressive pricing initiatives in selected sites
 - Marketing campaigns/database utilisation
- Core element of the business from which complementary services have and can be developed (laboratories, crematorium, online dispensary...)



Practice Operations Structure



Laboratories



- Laboratories contributed £7.9m of revenue and £1.1m of EBITDA (decrease of £0.2m) in FY to 30 June 10
- The laboratories offer a wide range of diagnostic services including histopathology, microbiology and clinical chemistry
- 25% of business done by labs is intra-group and 75% is for outside customers
- Strong visibility on intra-group earnings due to guaranteed referrals
- Internalisation of margin and improvement of service offering to end customer
- Recently enhanced sales team to drive growth



Crematorium



- Rossendale Pet Crematorium acquired in October 2008
- Internalisation of margin and increased range of service offering
- Contributed £0.7m of revenue (2009: £0.4m) and £0.3m of EBITDA in FY 10
- 26% of business done by crem is intra-group and 74% is for outside customers
- High ROIC and substantial group synergies



On Line Dispensary



- Selling prescription, non prescription drugs and pet products to the UK animal owning population
- Secure market share in the ever increasing amount of veterinary products being sold on-line
- Broadens the Group's offering and range of products
- Superior buying power of CVS compared to other website operators
- Website went live 27 July 2010
- Performing in line with expectation
- See for yourself at www.animeddirect.co.uk



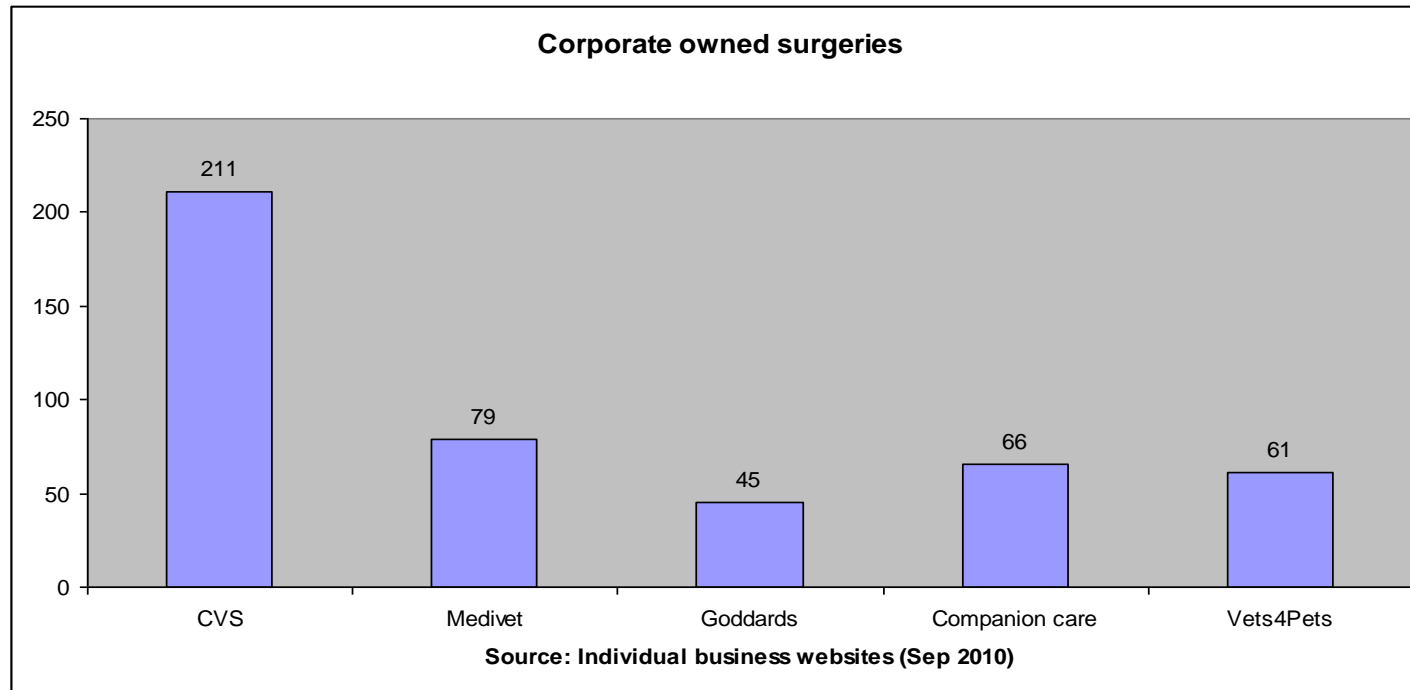
Veterinary Market

- Highly fragmented UK market of approx 4,000 surgeries
 - Five largest corporates currently own just 22% of small animal surgeries
 - CVS is currently the largest operator with 211 surgeries
- Over 50% households owning a pet
- Pet population remaining stable
- Advances in medical interventions increasing average spend per visit and requirement for veterinary care
- Ageing human population leading to higher demand for companions
- Growth in pet insurance increases frequency of visits to vets and complexity of procedures undertaken



Corporate Owned Surgeries

- Corporate ownership currently represents just 22% of small animal surgeries
- CVS is the only corporate with a strong nationwide presence



CVS is the recognised national consolidator in the market



Growth Strategy

Existing Business

- Ability to continue revenue and margin growth:
 - Operational initiatives
 - Enhanced buying power
 - Development of clinical services within each practice
- Existing portfolio of support services has further growth potential both from group and external practice clients

Acquisitions

- Any acquisition activity is expected to be funded from internally generated cash
- Large opportunity with still only 10% market share in small animal sector
- Attractive purchase multiples



Summary

- Largest operator and consolidator, highly respected within profession
- Consistent delivery of growth
- Continue to show some resilience to the challenging operating environment
- High historic ROIC, strong gross and net margins, resilient like for like sales performance
- Cost efficiencies and continually improving buying power
- Growth potential – limited competition and strong acquisition pipeline



Appendices



Margin Analysis

	Years ended 30 June					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Revenue	12.9	20.2	39.0	62.2	76.6	85.5
EBITDA	1.3	2.4	5.1	9.6	12.5	13.1
% of sales	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Practices Gross Margin	78.7	79.7	80.4	82.2	83.7	84.9
Laboratories Gross Margin	89.1	87.8	87.2	74.0	68.6	70.5
Head Office	6.6	6.3	5.4	4.5	4.5	5.0
EBITDA margin (%)	10.3	12.1	13.1	15.5	16.3	15.3



Debt Repayment Profile

Year End	Repayment £m	Balance £m
30 June 2010		42.1
September 2010	2.1	
December 2010	1.0	
March 2011	1.0	
June 2011	1.0	<u>(5.2)</u>
30 June 2011		36.9
September 2011	1.0	
December 2011	1.0	
March 2012	1.0	
June 2012	1.0	<u>(4.0)</u>
30 June 2012		32.9
September 2012	1.0	
December 2012	0.7	
March 2013	0.6	
June 2013	0.7	<u>(3.0)</u>
30 June 2013		29.9
September 2013	29.9	



Bank Covenants

- The key financial banking covenants are:
 - Debt leverage to net debt must be <4.25 x run rate EBITDA
 - Interest cover to run rate EBITDA must be >3.0 x interest paid
 - Debt service cover to cash generated must be >1 x interest/capital repayments
- At 30 June 2010 our covenant ratios (unaudited) were:
 - Debt leverage: 2.83
 - Interest cover: 7.91
 - Debt service cover: 2.03
 - These are tested quarterly on a 12 month rolling basis

