

CVS Group plc

Investor Presentation

February 2010

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- National veterinary operator formed in 1999 – backed by Sovereign Capital managed funds
- Floated in October 2007 with a market capitalisation of c. £106m
- Largest national operator and consolidator of veterinary practices
- Market leading position and reputation making CVS an acquirer of choice
- Funding firepower positions the Group for future growth by acquisition
- Complementary businesses build on growing network of practices to optimise margin and maximise revenues
- Highly cash generative with low working capital requirements

- 44 surgeries, 3 laboratories and one pet crematorium acquired since IPO in Oct 2007
- Multiples paid remain attractive and earnings enhancing
- Proven integrator of acquired practices:
 - Provision of lower cost central services
 - Significant group purchasing power
 - Considerable EBITDA margin uplift post acquisition
- Previously funded from bank facilities and now internally generated cash flow, cash generated from operations £6.64m in H1
- Complementary businesses - attractive path for enhancing group ROIC

Existing Business

- Ability to continue revenue and margin growth via:
 - Development of clinical services within each practice
 - New product lines and other marketing initiatives to drive organic revenue growth
- Existing portfolio of support services further growth potential both from group and external practice clients

Acquisitions

- Large opportunity with still only 7% market share in small animal sector
- Demographic change in profession continues to drive acquisition model
- Willing vendors see CVS as acquirer of choice
- Attractive purchase multiples
- First mover advantage – increasing daylight between CVS and competitors
- Further opportunities to expand other services, including:
 - Laboratories
 - Crematoria

- Total revenue growth of 11.4% to £41.5m
- Underlying like-for-like sales of 1.5% (in five months to Nov 2009 - ignoring effects of adverse weather conditions in Dec), like-for-like sales growth of 0.5% for six month period
- Gross margin improved from 39.7% to 41.3%
- Adjusted EBITDA of £7.1m, margin improved from 16.3% to 17.2%
- Cash generated from operations up 18.9% to £6.64m
- Two practices acquired during the period, pre-CVS annualised turnover £1.7m
- Further acquisition opportunities in pipeline, with further acquisition activity expected
- Net debt at 31 Dec 2009 of £36.9m with £6.1m cash (30 Jun 2009 net debt: £40.8m)

Revenue	41,482	37,237	76,605
Cost of sales	<u>(24,334)</u>	<u>(22,459)</u>	<u>(45,657)</u>
Gross profit	17,148	14,778	30,948
Administrative expenses	<u>(13,360)</u>	<u>(11,362)</u>	<u>(23,937)</u>
Operating profit	3,788	3,416	7,011
Net finance expense	<u>(980)</u>	<u>(1,550)</u>	<u>(2,567)</u>
Profit before income tax	2,808	1,866	4,444
Income tax expense	<u>(790)</u>	<u>(623)</u>	<u>(1,406)</u>
Profit for the period attributable to equity shareholders	<u><u>2,018</u></u>	<u><u>1,243</u></u>	<u><u>3,038</u></u>
EPS			
Basic	3.9p	2.4p	5.9p
Diluted	3.9p	2.4p	5.8p

Non-current assets			
Intangible assets	40,286	41,416	41,886
Property, plant and equipment	7,635	7,387	7,467
Investments	74	72	67
Deferred income tax assets	621	659	455
	<u>48,616</u>	<u>49,534</u>	<u>49,875</u>
Current assets			
Inventories	1,957	1,947	1,972
Trade and other receivables	5,071	4,955	5,431
Cash and cash equivalents	6,074	1,212	2,792
	<u>13,102</u>	<u>8,114</u>	<u>10,195</u>
Total assets	<u>61,718</u>	<u>57,648</u>	<u>60,070</u>
Current liabilities			
Trade and other payables	(7,752)	(7,865)	(8,452)
Current income tax liabilities	(2,223)	(549)	(1,169)
Borrowings	(4,334)	(666)	(1,924)
	<u>(14,309)</u>	<u>(9,080)</u>	<u>(11,545)</u>
Non-current liabilities			
Borrowings	(38,634)	(42,872)	(41,644)
Deferred income tax liabilities	(4,460)	(5,443)	(4,942)
Derivative financial instruments	(1,697)	(1,797)	(1,463)
	<u>(44,791)</u>	<u>(50,112)</u>	<u>(48,049)</u>
Total liabilities	<u>(59,100)</u>	<u>(59,192)</u>	<u>(59,594)</u>
Net assets/(liabilities)	<u>2,618</u>	<u>(1,544)</u>	<u>476</u>

Cash flows from operating activities			
Cash generated from operations	6,644	5,588	12,380
Taxation paid	(280)	(54)	(828)
Interest received	16	49	61
Interest paid	(994)	(1,314)	(2,658)
Net cash generated from operating activities	5,386	4,269	8,955
Cash flows from investing activities			
Acquisition of businesses	(650)	(4,073)	(5,793)
Acquisition of subsidiaries (net of cash acquired)	-	(1,854)	(2,510)
Purchase of property, plant and equipment	(779)	(897)	(1,538)
Purchase of intangible assets	(47)	(17)	(45)
Proceeds from sale of property, plant and equipment	19	45	2
Proceeds from sale of available for sale investments	-	316	316
Net cash used in investing activities	(1,457)	(6,480)	(9,568)
Cash flows from financing activities			
Finance lease principal payments	(7)	(30)	(38)
Repayment of bank loan	(640)	(8)	(18)
Proceeds from long term borrowings	-	3,069	3,069
Net cash from financing activities	(647)	3,031	3,013
Net increase in cash and cash equivalents	3,282	820	2,400
Cash and cash equivalents at start of period	2,792	392	392
Cash and cash equivalents at end of period	6,074	1,212	2,792

- All acquisitions since December 2008 have been funded entirely by cash generated from existing operations - strong cash generation provides a viable and long-term source of finance

- £6.1m gross cash balance at 31 Dec 2009

- First repayment of £0.6m paid in Dec 2009, leaving £43m of bank debt

- £2m unutilised working capital facility

- Significant headroom on financial covenants

- Debt repayments are as follows:

2009/10	1.9	-	1.9
2010/11	2.6	2.5	5.1
2011/12	2.6	1.5	4.1
2012/13	2.6	0.4	3.0
Sep 2013	22.3	7.6	29.9
Total	32.0	12.0	44.0

- Proposed Acquisition of Veterinary Enterprises & Trading (“VET” or “Veterinary Enterprises”)
 - One of the largest owners of veterinary surgeries in the UK trading as Pet Doctors
 - 27 surgeries across the South East of England
 - One Laboratory (Greendale Veterinary Diagnostics)

- Enterprise Value of £12.2m consisting of
 - Cash offer for share capital equating to £9.9m consideration
 - £2.3m debt acquired and to be repaid

- Funding
 - Equity placing to raise a minimum of £9m
 - Balance of funding from existing cash resources

- **Background**
 - Founded in 1998 in Chichester
 - Competitor to CVS and one of the largest corporately owned chain of practices
 - One director will continue as a practising vet without a management role, the two other directors are leaving the business
- **Pet Doctors Ltd**
 - 27 small animal veterinary clinics
 - Operating in Surrey, W Sussex, E Sussex, Hants, Cambs and IoW
 - Grown mainly via acquisition
- **Greendale Veterinary Diagnostics Ltd**
 - Veterinary diagnostic laboratory based in Surrey
 - C. 25% of revenue generated via Pet Doctors Ltd
 - Over 500 customers
- **Wey Referrals**
 - Specialist service to frontline practices
 - Specialises in orthopaedics, soft tissue injury, neurology, internal medicine, cardiology, dermatology and dentistry
 - C. 25% of sales generated via Pet Doctors Ltd

- Increased presence in South East - good geographical fit
- Pet Doctors operations similar to CVS, excellent name
- Wey Referrals and Greendale Diagnostics to be merged into existing services
 - Increases capacity
 - Adds service capability
- Ability to significantly improve performance:
 - 27 sites represents a key acquisition
 - Rationalise central services
 - Two directors not transferring
 - Utilise CVS's lab services
 - Increase internal referrals to Veterinary Services lab and referral service
- Removal of competitor (and potential platform for any potential new entrants into the veterinary market)
- Expected to be earnings enhancing

Revenue		
Vet Services		
Pet Doctors	10,949	10,210
Wey Referrals	<u>1,131</u>	<u>1,375</u>
	12,080	11,585
Labs	956	1,010
Inter company	<u>(234)</u>	<u>(202)</u>
Total Sales	12,802	12,393
EBITDA	<u>809</u>	<u>777</u>
EBITDA margin	6%	6%
Net Debt	2,876	3,018
No of practices	27	27

Merger benefits

- Rationalise central services
- Two directors not transferring
- Utilise CVS's lab services
- Increase internal referrals to Veterinary Services lab and referral service
- Interest costs saving

- £9.0m raised to:
 - fund the acquisition of Veterinary Enterprises; and
 - facilitate further acquisition activity by retaining cash generated from operations
- Buoyant acquisition pipeline

Circular posted and Interim Results announced	19 February
General Meeting	10 March
Settlement date / Admission to trading / Completion	11 March

Simon Innes

- Chief Executive since 2004
- 2000-2004 Vision Express Group Chief Executive.
Turnover £160m → £220m. Store roll-out 140 → 205
- 1987-2000 senior management experience in retail sector with some of UK's leading retail brands

Paul Coxon

- Finance Director since 2003
- 1995-2003 Finance Director of £160m turnover subsidiary of Associated British Foods PLC
- Qualified as Chartered Accountant with KPMG in 1991

- CVS has delivered on goals set at IPO:
 - Identification and completion of acquisitions
 - Integration of acquired businesses with significant margin uplift
 - Strict management of cashflow and available finance
 - High ROIC

Revenue	60.5	74.3	62.2	76.6
EBITDA (adjusted)	8.5	11.6	9.6	12.5
PBT (adjusted)	5.0	7.7	5.5	8.4
PAT (adjusted)	2.5	5.0	4.2	5.9
PAT (as reported)	(1.8)	1.5	(0.3)	3.0
EPS (GBp, adjusted)	4.9	9.6	8.0	11.5
EPS (GBp, as reported)	(3.5)	2.9	(0.7)	5.9
Net Debt	34.5	36.1	40.1	40.8

Notes

Sources: Panmure Gordon IPO research forecasts, consensus forecasts from research notes

Adjusted PBT before exceptional items and amortisation

Adjusted PAT before exceptional items and amortisation, normalised tax rate of 28%

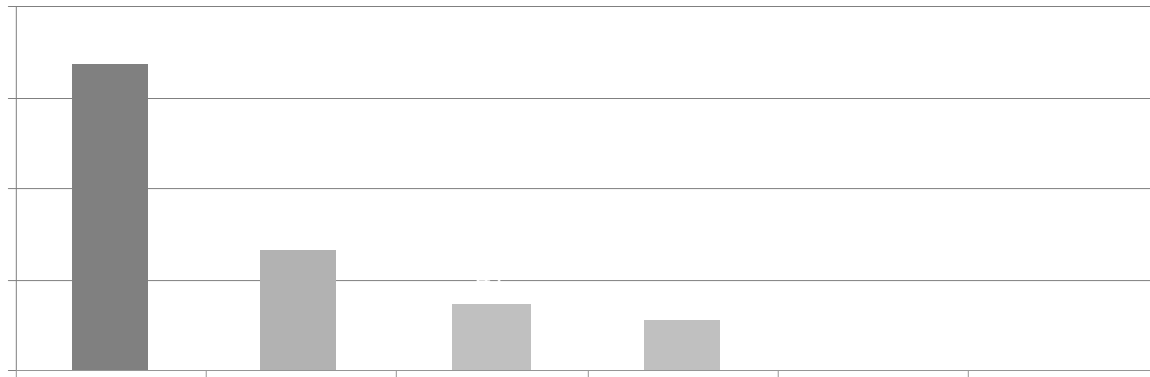
- Total of 170 surgeries including 2 acquired during six months to 31 Dec 09
- Surgeries contributed £37.14m of revenue (89.5% of total) and £8.12m of EBITDA in six months to 31 Dec 2009
- The 169 small animal and 1 equine surgeries offer a full range of veterinary services including referral expertise from a number of sites
- Enhanced margin rates of return driven by improved productivity and better buying terms
- Core element of the business from which complementary services have and can be developed (laboratories, crematorium, internet pharmacy...)

- Total of five labs
- Contributed £4.02m of revenue (9.7% of total) and £0.662m of EBITDA in six months to 31 Dec 2009
- Offer a wide range of diagnostic services including histopathology, microbiology and clinical chemistry
- 23% of lab revenue is intra-group and 77% 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

- Crematorium acquired in October 2008
- Internalisation of margin and increased range of service offering
- Contributed £0.32m of revenue (0.8% of total) and £0.14m of EBITDA in six months to 31 Dec 2009
- Proportion of referred business within CVS Group increasing – 23% in Dec 2009
- High ROIC and substantial group synergies

- Highly fragmented UK market of over 4,400 surgeries (of which 2,399 are small animal only)
 - Six largest corporates currently own just 17% of small animal surgeries
 - CVS is currently the largest operator with 170 surgeries
- Split into two main categories
 1. Small animal (i.e. pets) – CVS operates almost solely in this market
 2. Large animal (i.e. livestock and equine)
- Over 50% households owning a pet – CAGR of 4% since 2002
- 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 ownership currently represents just 17% of small animal surgeries
- CVS is the only corporate with a strong nationwide presence



CVS is the recognised national consolidator in the market

-Practices	78.1	78.7	79.7	80.4	82.2	83.7	84.4
-Laboratories	88.0	89.1	87.8	87.2	74.0	68.6	71.0
-Crematorium	0.0	0.0	0.0	0.0	0.0	90.2	86.1
Employment costs	48.9	47.3	45.1	43.8	43.2	42.9	42.8
Other costs	19.0	18.6	19.1	20.1	20.1	20.9	21.4
Head office	7.5	6.6	6.3	5.4	4.5	4.3	4.3
EBITDA	7.6	10.3	12.1	13.1	15.4	16.3%	17.2%