

# CVS Group plc

**Interim Results**

**6 months to 31 December 2010**



# Highlights

- Revenue growth + 21.7%
- Like for Like Sales - 2.1%
- EBITDA (adjusted) + 0.5%
- PBT - 23.4%
- EPS (adjusted) - 12.5%
- £8.8m of cash generated from operations + 32.5%
- Net debt reduction of £4.1m since June 2010
- Acquisition growth, Animal Hospital and 2 branch surgeries. A further surgery has been purchased in January 2011. All from internally generated cash.



# Interim Results - Profit & Loss

	Six months ended 31 December 2010 (Unaudited) £'000	Six months ended 31 December 2009 (Unaudited) £'000	Year ended 30 June 2010 (Audited) £'000
<b>Revenue</b>	50,502	41,482	85,527
Cost of sales	<u>(30,632)</u>	<u>(24,334)</u>	<u>(51,176)</u>
<b>Gross profit</b>	19,870	17,148	34,351
Administrative expenses	<u>(16,639)</u>	<u>(13,360)</u>	<u>(28,662)</u>
<b>Operating profit</b>	3,231	3,788	5,689
Net finance expenses	<u>(1,080)</u>	<u>(980)</u>	<u>(1,850)</u>
<b>Profit before income tax</b>	2,151	2,808	3,839
Income tax expense	<u>(690)</u>	<u>(790)</u>	<u>(781)</u>
<b>Profit for the period attributable to the equity shareholders</b>	<u>1,461</u>	<u>2,018</u>	<u>3,058</u>
<b>Earnings per ordinary share</b>			
- Basic and diluted	2.6p	3.9p	5.7p
- Adjusted	6.3p	7.2p	11.9p

- Revenue growth +22%, mainly acquisitions
- 2.1% like for like decline including adverse weather (£0.4m est. lost sales)
- Like-for-like sales decline has resulted in a drop in profit margins owing to high operating margins and the relatively fixed nature of the cost base

	GP	COS	Emp Costs
H1 10/11	39.3%	14.1%	46.6%
FY 09/10	40.2%	14.4%	45.4%
H1 09/10	41.3%	14.9%	43.8%

- Operating profit up 1% after adjusting for the non cash charges of depreciation, amortisation and share option expense
- Effective tax rate 32% due to disallowable expenses; mainly share based payments, amortisation and tax rate change effect on deferred tax brought forward balances



# Interim Results - Cashflow

	Six months ended 31 December 2010 (Unaudited) £'000	Six months ended 31 December 2009 (Unaudited) £'000	Year ended 30 June 2010 (Audited) £'000
<b>Cash flows from operating activities</b>			
<b>Cash generated from operations</b>	8,802	6,644	12,624
Taxation paid	(531)	(280)	(1,907)
Interest received	10	16	29
Interest paid	(721)	(994)	(1,950)
Net cash generated from operating activities	7,560	5,386	8,796
<b>Cash flows from investing activities</b>			
Acquisition of business	(2,307)	(650)	(2,146)
Acquisition of subsidiaries (net of cash acquired)	(152)	-	(11,855)
Purchase of property, plant and equipment	(831)	(779)	(1,965)
Purchase from sale of property, plant and equipment	(70)	(47)	(97)
	17	19	20
Net cash used in investing activities	(3,343)	(1,457)	(16,043)
<b>Cash flows from financing activities</b>			
Finance lease principal payments	-	(7)	(9)
Repayment of bank loan	(3,151)	(640)	(4,342)
Proceeds from issue of ordinary share capital (net of issue costs)	-	-	8,650
Net cash from financing activities	(3,151)	(647)	4,299
<b>Net increase/(decrease) in cash and cash equivalents</b>	1,066	3,282	(2,948)
Cash and cash equivalents at start of period	(156)	2,792	2,792
<b>Cash and cash equivalents at end of period</b>	910	6,074	(156)

- Significant increase in cash generation from operations H1 2010/11 vs 2009/10 at +33%. See slide 22 for analysis
- Acquired St David's Veterinary Hospital for £1.6m in November 2010 from internally generated cash
- Increase in cash position since June 2010 of £1.1m after paying the following amounts;
  - Repayment bank loan £3.2m
  - Acquisition costs £2.5m
  - Capex, Int and Tax £2.0m



# Interim Results - Balance Sheet

	31 December 2010 (Unaudited) £'000	31 December 2009 (Unaudited) £'000	30 June 2010 (Audited) £'000
<b>Non-current assets</b>			
Intangible assets	55,692	40,286	56,695
Property, plant and equipment	8,597	7,634	8,835
Investments	76	75	74
Deferred income tax assets	736	621	1,321
	<b>65,101</b>	<b>48,616</b>	<b>66,925</b>
<b>Current assets</b>			
Inventories	2,521	1,957	2,453
Trade and other receivables	6,786	5,071	6,602
Cash and cash equivalents	910	6,074	109
	<b>10,217</b>	<b>13,102</b>	<b>9,164</b>
<b>Total assets</b>	<b>75,318</b>	<b>61,718</b>	<b>76,089</b>
<b>Current liabilities</b>			
Trade and other payables	(13,420)	(7,752)	(12,101)
Current income tax liabilities	(925)	(2,223)	(574)
Borrowings	(3,956)	(4,334)	(5,350)
	<b>(18,301)</b>	<b>(14,309)</b>	<b>(18,025)</b>
<b>Non-current liabilities</b>			
Borrowings	(34,709)	(38,634)	(36,655)
Deferred income tax liabilities	(6,421)	(4,460)	(7,076)
Derivative financial instruments	(1,912)	(1,697)	(2,284)
	<b>(43,042)</b>	<b>(44,791)</b>	<b>(46,015)</b>
<b>Total liabilities</b>	<b>(61,343)</b>	<b>(59,100)</b>	<b>(64,040)</b>
<b>Net assets</b>	<b>13,975</b>	<b>2,618</b>	<b>12,049</b>

- Significant reduction in net debt from June 2010
  - Dec 10 £37.8m
  - Jun 10 £41.9m
- Debt facilities of £46m
  - £44m loan facility fully drawn down
  - £2m working capital facility available
- Debt repayment £5.2m in 2010/11
  - £3.2m repaid in H1
  - Full repayment schedule (slide 24)
  - Continued reduction in gearing (slide 25)
- Headroom on Financial Covenants (slide 26)



# Practices – Overview



- Revenue generation of £47.1m (93.3% of Group total) and £8.6m of EBITDA (increase of £0.5m compared to H1 2009/2010)
- The 213 small animal and 1 equine surgery offer a full range of veterinary services including referral expertise from a number of sites
- Core element of the business from which complementary services have and can be developed (laboratories, crematorium, online dispensary...)
- Principal operating initiatives to combat the challenging economic and competitive environment include growing the Group's Healthy Pet Club scheme and the launch of the Group's online dispensary



# Practices – Revenue Analysis

- Like for like decline in sales -1.9% (£0.9m revenue)
    - Decline in footfall - invoice numbers down by circa 5%
    - Average price increases
      - fees + 4%
      - drugs + 3%
    - Average transaction value increase + 0.4%
    - Product purchase volumes
      - Prescription medicines decline by 4%
      - Veterinary diet decline by 12%
      - Others decline by 3%
- Average decline of 4.7%
- Fee:drug ratio in region of 65:35
  - This equates to a loss of product revenue in the region of £0.7m in the period
  - The on line dispensary mitigated some of the loss in product revenue of £0.2m, and is expected in the future to generate more product sales than we will lose from our surgeries



# Practices – Healthy Pet Club

- Key objectives
  - Increase ATV
  - Bonding clients/loyalty
  - Protect against on-line threat
  - To attain 100% of clients on scheme
- Customer loyalty scheme where client pays a monthly DD contribution (mostly £8-£15 per month) and receives
  - 2 half yearly consultations - free of charge
  - Vaccinations, flea and worming treatments - free of charge
  - 20% off wide range of lifetime care drugs
  - 10% off all other products and services



# Practices – Healthy Pet Club

- HPC clients on average spend a minimum of 15% more than non HPC client
- HPC revenue accounts for 2.1% of divisional revenue
- Pet membership – 2010/11
  - 1<sup>st</sup> July 17,234
  - 31<sup>st</sup> December 21,022 (+22%)
  - 28<sup>th</sup> February 22,019 (+28%)



# Practices – E Commerce

## On Line Dispensary

- Animed direct, our online pharmacy, commenced trading at the end of July 2010
- General data (as at end Feb 2011)
  - 2,700 product lines
  - Average order value £34.24
  - 90 orders placed per day
  - 8,700 customers
  - Conversion rate 11.7%
  - Turnover – Annual equivalent £1.2m
  - Now profitable
- Future
  - Amazon offering
  - Range expansion
  - Marketing – London Pet Show



# Practices – E Commerce

## On-line shops

- Pet Doctors on-line shop
  - Relaunching shop
  - Home delivery
  - Promotions/Marketing
- Roll out of on-line shops for all CVS practices (should Pet Doctors trial be successful)



# Laboratories



- Laboratories contributed £4.3m of revenue and £0.5m of EBITDA (decrease of £0.2m compared to H1 2009/10)
- The laboratories offer a wide range of diagnostic services including histopathology, microbiology and clinical chemistry
- 26% of business is intra-group and 74% 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



- Rossendale Pet Crematorium acquired in October 2008
- Internalisation of margin and increased range of service offering
- Contributed £0.4m of revenue (2009: £0.3m) and £0.2m of EBITDA in HY to 31 December 2010
- 33% of business is intra-group and 67% is for outside customers
- High ROIC and substantial group synergies



# Support Services

- Operational management
  - Led by Director of practice operations and Director of Laboratories
  - 12 regional directors sharing management information to drive practice performance and local strategy
  - KPIs to assist decision making – e.g. ATVs, vet productivity etc
  - P&Ls for each practice
  
- Central support
  - Centralised functions to provide operational support and remove local complexity and administrative burden
    - Purchasing
    - HR, payroll and training
    - Property and legal
    - Finance
    - Marketing
    - IT
    - Health and safety



# Systems Development

- Central systems development to improve efficiency and reporting
  - Current reporting systems are robust but labour intensive
  - Management information software being specified
  - HR and payroll system to be implemented in 2011
  - Financial processing software being trialled – scanning & POP
  - Capital expenditure c. £150k
- Key benefits of systems investment
  - Streamline manual processes
  - Improve timeliness of reporting
  - Broaden scope of reporting



# Systems Development

- Operational systems development to rationalise and standardise
  - One Practice Management System by 2015
  - One Laboratory System by 2012
  - Development of a Crematoria system in 2011
- Key benefits of systems investment
  - Standardised operations
  - Operating cost savings
  - Facilitates central control
  - Phased approach complemented by central systems development



# Outlook

## Existing Business

- Increasing operational efficiencies
- Healthy Pet Club
- E Commerce
- Systems Development

## Growth through selective acquisitions

- Continue to acquire Practices and Crematoria
- Large opportunity with still only 10% market share in small animal sector

## Finance

- Continuing strong cash flow
- Continue to invest in core business
- Repay debt reducing overall borrowings



# Appendices



# 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 we continue to experience a more challenging operating environment
- Complementary businesses build on growing network of practices to internalise margin and maximise revenues

**2,224** employees

**513** vets

**214** surgeries nationwide

**6** diagnostic laboratories

**1** crematorium & cemetery

**1** online dispensary



# Vet Surgeries



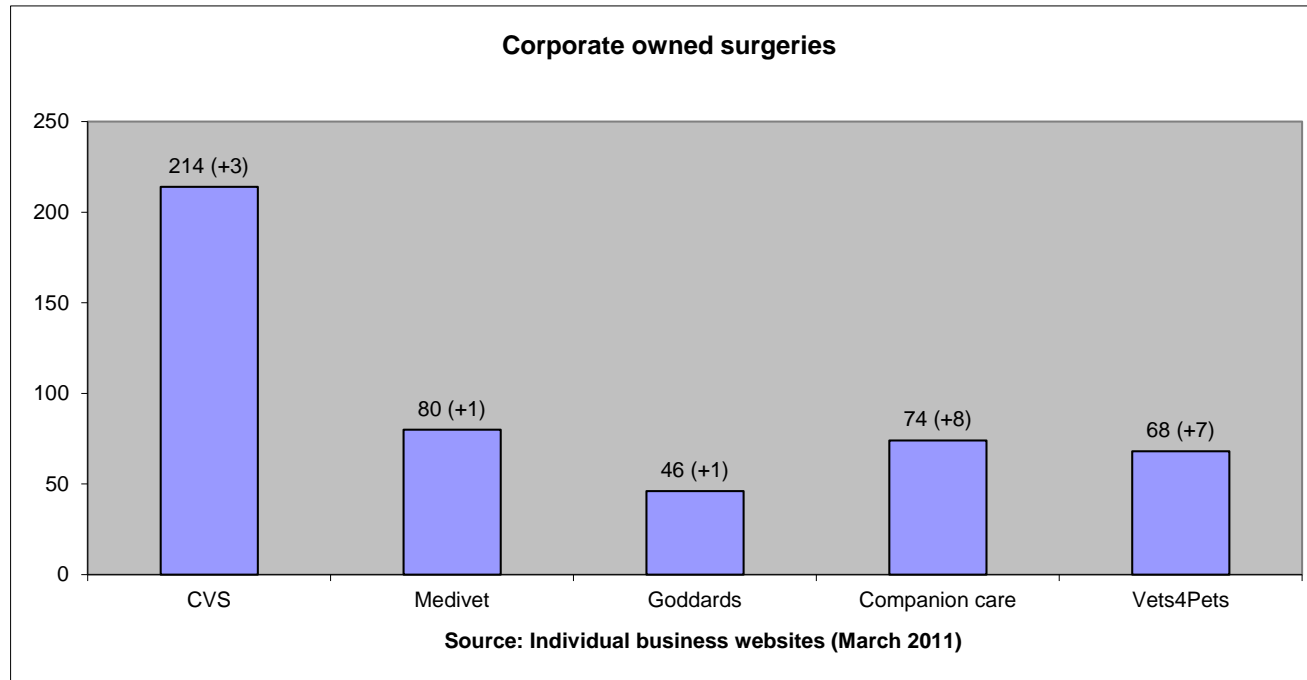
## Surgery locations

- Wide geographical spread across England
- Initial presence in Scotland and Wales
- Small animal practices – urban areas
- Ripple effect



# Corporate Owned Surgeries

- Corporate ownership currently represents just 23% of small animal surgeries
- CVS is the only corporate with a strong nationwide presence



**CVS is the recognised national consolidator in the market**



# Cash generated from operations

	Six months ended 31 December 2010 (Unaudited) £'000	Six months ended 31 December 2009 (Unaudited) £'000	Year ended 30 June 2010 (Audited) £'000
Profit for the period	1,461	2,018	3,058
Taxation	690	790	781
Total finance costs	1,090	996	1,879
Investment income	(10)	(16)	(29)
Amortisation of intangible assets	2,623	2,052	4,385
Depreciation of property, plant and equipment	1,108	909	1,905
Profit on disposal	(6)	(2)	-
(Increase)/decrease in inventories	(163)	15	(22)
(Increase)/decrease in trade and other receivables	(184)	360	(642)
Increase/(decrease) in trade and other payables	2,034	(766)	753
Share option expense	159	288	556
<b>Total cash flows from operating activities</b>	<b>8,802</b>	<b>6,644</b>	<b>12,624</b>



# EBITDA Margin Analysis

	Years ended 30 June					6 months to
	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	31/12/2010 £m
Revenue	20.2	39.0	62.2	76.6	85.5	50.5
EBITDA	2.4	5.1	9.6	12.5	13.1	7.2
% of sales	%	%	%	%	%	%
Gross Margin						
- Practices	79.7	80.4	82.2	83.7	84.9	84.3
- Laboratories	87.8	87.2	74.0	68.6	70.5	79.2
- Crem	0.0	0.0	0.0	90.2	86.4	84.3
Head Office	6.3	5.4	4.5	4.5	5.0	4.1
<b>EBITDA margin (%)</b>	<b>12.1</b>	<b>13.1</b>	<b>15.5</b>	<b>16.3</b>	<b>15.3</b>	<b>14.2</b>



# Debt Repayment Profile

Year End	Repayment £m	Balance £m
<b>1 January 2011</b>		38.7
March 2011	1.0	
June 2011	1.0	<u>(2.0)</u>
<b>30 June 2011</b>		36.7
September 2011	1.0	
December 2011	1.0	
March 2012	1.0	
June 2012	1.0	<u>(4.0)</u>
<b>30 June 2012</b>		32.7
September 2012	1.0	
December 2012	0.6	
March 2013	0.6	
June 2013	0.6	<u>(2.8)</u>
<b>30 June 2013</b>		29.9
September 2013	29.9	



# Gearing

## Gearing Calculation based on Shareholders Funds

	31/12/2010 £'000	30/06/2010 £'000	31/12/2009 £'000
<b>Non current borrowings</b>	<b>34,709</b>	<b>36,655</b>	<b>38,634</b>
<b>Equity shareholders funds</b>	<b>13,975</b>	<b>12,049</b>	<b>2,618</b>
<b>Gearing ratio</b>	<b>248.4%</b>	<b>304.2%</b>	<b>1475.7%</b>



# Bank Covenants

- The key financial banking covenants are:
  - Debt leverage to net debt must be  $<4.25 \times$  run rate EBITDA
  - Interest cover to run rate EBITDA must be  $>3.0 \times$  interest paid
  - Debt service cover to cash generated must be  $>1 \times$  interest/capital repayments
- At 31 December 2010 our covenant ratios (unaudited) were:
  - Debt leverage: 2.69
  - Interest cover: 7.50
  - Debt service cover: 1.19
  - These are tested quarterly on a 12 month rolling basis

