CVS GROUP PLC

Passionate about animal care

Annual Report and Financial Statements

For the year ended 30 June 2019

Contents

Strategic report

Governance

Financial statements

"We are committed to providing the highest levels of clinical care to our patients and their owners through our integrated veterinary model."

Revenue (£m)

£406.5m
+24.2%

19	406.5
18	327.3
17	271.8
16	218.1

Adjusted EBITDA[1] (£m)

£54.5m
+14.5%

19	54.5
18	47.6
17	42.1
16	32.8

Adjusted profit before tax[2] (£m)

£41.4m
+15.0%

19	41.4
18	36.0
17	33.5
16	24.9

Adjusted earnings per share[3] (p)

46.7p
+10.1%

19	46.7
18	42.4
17	42.8
16	32.4

Proposed dividend per share (p)

5.5p
+10.0%

19	5.5
18	5.0
17	4.5
16	3.5

Cash generated from operations (£m)

£52.1m
+11.6%

19	52.1
18	46.7
17	37.2
16	33.6

Profit before tax (£m)

£11.7m
-17.0%

19	11.7
18	14.1
17	14.5
16	9.1

Basic earnings per share (p)

11.6p
-27.5%

19	11.6
18	16.0
17	18.5
16	11.6

Adjusted financial measures are defined below and reconciled to the financial measures defined by International Reporting Standards ("IFRS") on page 38 and 89 (adjusted profit before tax and adjusted earnings per share).

1. Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, and exceptional items.
2. Adjusted profit before tax is calculated as profit 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 in the year.
4. Percentage increases have been calculated throughout this document based on the unrounded values.
5. Adjusted EBITDA is used as a financial metric that removes the cost of debt, cost relating to assets and one off costs to get a normalised number that is not distorted by irregular items or structural investment.

We are continuing to expand our European coverage with further acquisitions in the Netherlands and in the Republic of Ireland

The Group has four main business areas:

Veterinary Practices

First-opinion and referral practices providing specialist treatment for companion animals, equine and farm animals.

Our business in action

We aim to meet all of our customers' needs so that we can ensure a consistent high quality of treatment. Our practices are increasingly providing their own night services rather than them being provided by a third party and we are rapidly developing our referral centres so that our own experts provide all our veterinary service to our customers' animals. Our veterinary practices provide preventative healthcare either as and when required or through our preventative care schemes called Healthy Pet Club ("HPC") and Healthy Horse Programme ("HHP"). We also have a number of own brand MiPet medicines and products.

P20 Veterinary Practices review

Laboratories

Our laboratories provide diagnostic services to CVS veterinary practices and third parties.

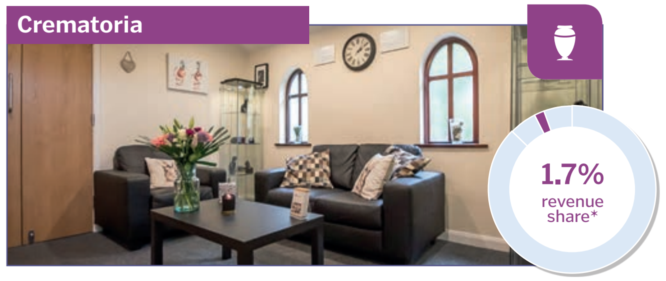
Our business in action

We pride ourselves in our outstanding customer service, fast turnaround times and scientific excellence. We employ a team of experts specialising in a variety of veterinary disciplines, each bringing a unique and highly respected set of skills to the table.

Our Laboratories Division offers an extensive range of tests, with the ability to tailor specific profiles to our customers' needs. Our pathologists specialise in all areas of the laboratory and their aim is to offer a level of service and expertise beyond our customer expectations.

P21 Laboratories review

Crematoria



Our crematoria provide pet cremation and clinical waste services to our practices and third-party practices and directly to pet owners.

Our business in action

We aim to provide our clients with a dignified and personal service. We offer a range of services to help our clients in remembering and saying goodbye to their pets.

P22 Crematoria review

Animed Direct

Our on-line pharmacy and retail business sells prescription and non-prescription medicines, pet food and other animal related products.

Our business in action

We aim to ensure our customers receive great quality products at the best prices available. We can do this because we are the biggest seller of animal medicines to pet owners in the UK.

Save for MiPet products which are exclusively sold in practice, we offer products available from veterinary practices but at significantly lower prices. We deliver prescription and non-prescription medicines, premium pet foods and an ever increasing range of pet care products directly to our customers' door, saving them time as well as money.

P23 Animed review

* Revenue share before intercompany sales between practice and other divisions.

Our geographical coverage (as at the date of this report)

Our acquisitions have further strengthened our geographical coverage in 2019.

x510 x7 x4

1 Scotland & North East
- 61 veterinary practices
- 3 crematoria

2 Northern Ireland
- 13 veterinary practices

3 North West
- 44 veterinary practices
- 2 crematoria

4 Yorkshire
- 22 veterinary practices

5 East Midlands
- 42 veterinary practices

6 West Midlands
- 43 veterinary practices

7 East of England
- 46 veterinary practices
- 1 laboratory

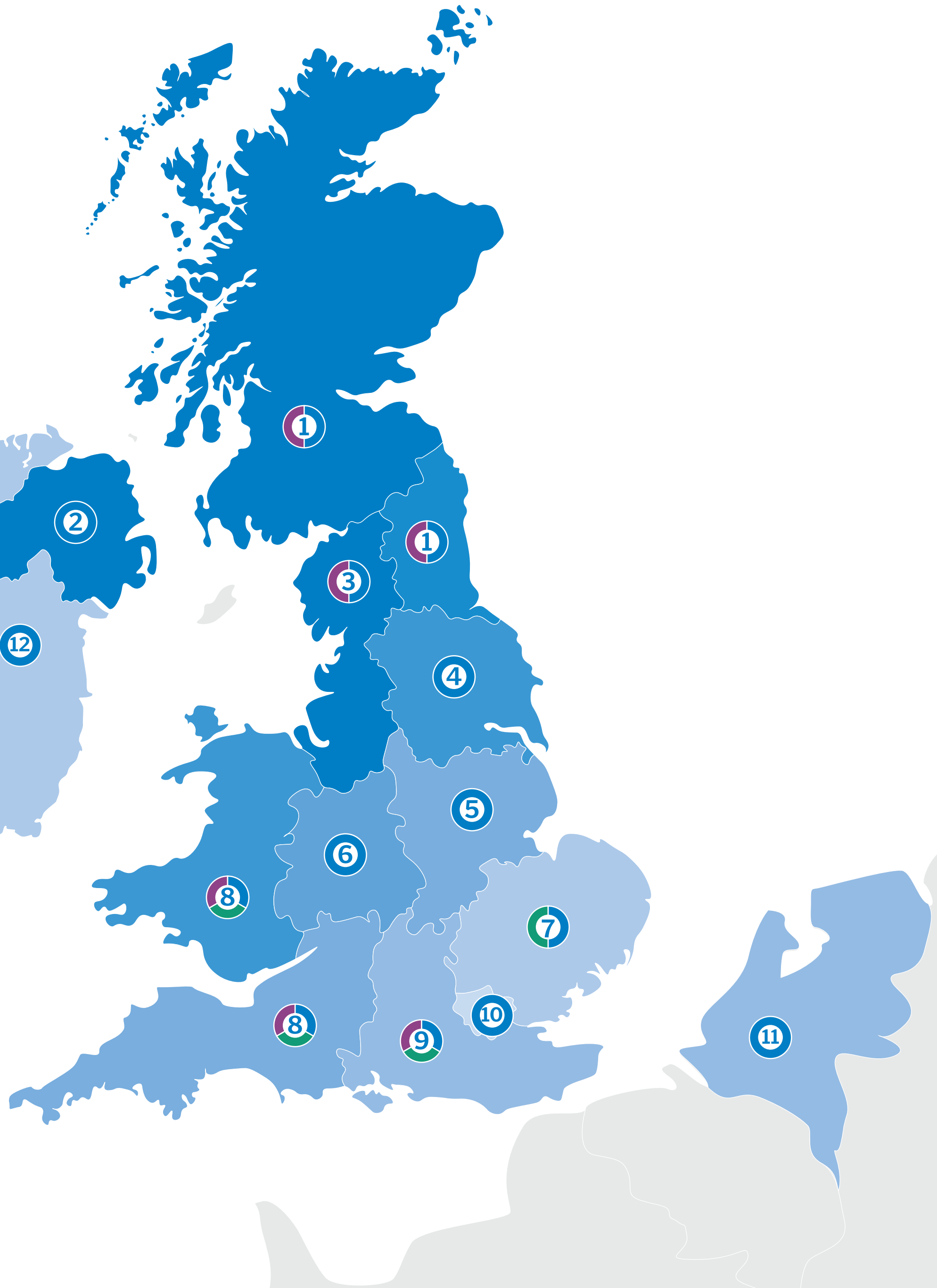
8 South West & Wales
- 75 veterinary practices
- 1 crematorium
- 1 laboratory

9 South East
- 131 veterinary practices
- 1 crematorium
- 2 laboratories

10 London
- 2 veterinary practices

11 The Netherlands
- 25 veterinary practices

12 The Republic of Ireland
- 6 veterinary practices



A significant improvement in half two performance

Richard Connell
Non-Executive Chairman

Highlights

Our integrated veterinary platform gives CVS a strong base on which to deliver future growth

Organic growth from our existing business will be supported by selective acquisitions where the board is confident that appropriate returns can be achieved

£52.1m
cash generated from operations

£406.5m
revenue in 2019

The Group delivered a significant improvement in financial performance in the second half of the financial year following a disappointing first half. A number of actions have been taken to address performance and I am confident that CVS is well positioned for future growth and a continued restoration of shareholder value.

Financial performance

We generated revenue for the year of £406.5m, a 24.2% increase over the prior year (2018: £327.3m). This increase reflected a number of acquisitions in the first half of the financial year coupled with robust like-for-like sales growth of 5.2% for the Group as a whole (2018: 4.9%) and 4.3% in our veterinary Practices (2018: 3.0%).

Adjusted EBITDA increased by 14.5% to £54.5m (2018: £47.6m) reflecting a stronger second half of the year. Adjusted EPS increased by 10.1% to 46.7p (2018: 42.4p).

Cash generated from operations increased by 11.6% to £52.1m (2018: £46.7m). Profit before tax decreased by 17.0% to £11.7m (2018: £14.1m) due to increased amortisation. Basic EPS decreased by 27.5% to 11.6p (2018: 16.0p).

CVS finished the year with net debt of £102.0m (2018: £69.0m) and leverage of 2.08x (2018: 1.44x).

Strategic priorities and growth initiatives

We have a number of opportunities to develop the business and generate enhanced shareholder value as set out on pages 12 and 13 'Our market', pages 14 and 15 'Our business model' and pages 16 and 17 'Our strategic priorities'. Risks which we have identified and our approach to mitigating these are set out on pages 32 to 36.

The Board remains confident that our business model is resilient and sustainable.

Our integrated veterinary platform gives CVS a strong base from which to deliver future growth. Our core first opinion and referrals practices enable us to provide the highest levels of end to end clinical care. We have seen significant growth in the financial year from our Referrals business with revenues increasing by 21.6% to £22.5m (2018: £18.5m). This reflects our success in recruiting a number of additional specialists and in increasing the number of referral cases. We are focused on delivering further growth in our referrals business in the coming year. We have launched a new referrals website to make it easier for first opinion veterinary surgeons to refer cases by putting them in touch with our growing list of specialists and allowing them access the most appropriate specialist care.

We will continue to promote our Healthy Pet Club as a means to providing the highest levels of preventative medicine. We had 401,000 members at 30 June 2019 an increase of 10.8% in the year (2018: 362,000). We have also launched a Healthy Horse Programme which had 7,000 members at 30 June 2019 (2018: 3,000).

Through the above focus in both our first opinion and referrals practices we are able to offer our clients and patients an increasing level of clinical care. This naturally results in advanced clinical procedures, better outcomes for our patients and a resulting increase in average transaction values.

We have 22 specialist out-of-hours centres in operation following the opening of three new sites in the financial year. We have plans in place to open a further eight sites in the next twelve months to provide dedicated round the clock care to both CVS and private practices.

We launched our own brand MiPet medicines for small animal practices in 2013 and these now account for 25% of our small animal drug sales. We also launched our first own label Equine product in July 2019. We are investing in a new warehouse management system at our Diss offices which will go live in the second half of the new financial year. This will

facilitate a further increase in our ability to undertake direct supply of drugs to our practices and will allow us to further expand our own brand drug range.

Revenue from Animed Direct, our on-line dispensary and retailer, increased by 24.3% in the year to £23.3m (2018: £18.8m). The new warehouse management system will also support the further expansion of our product range in Animed Direct and help deliver improvements in margins.

Our Laboratory division continues to focus on the provision of in-house analysers and re-agents to CVS and private practices and in the provision of a full range of pathology tests on samples taken from patients. New equine and farm tests are being developed in support of our first opinion practices. We continue to invest in our pet Crematoria division with a new Equine cremator being installed in our Whitley Brook crematorium and a planned redevelopment of our Greenacres crematorium in order to increase capacity. We will continue to seek opportunities to acquire further laboratory and crematoria businesses in support of our non-UK businesses in Ireland and the Netherlands.

In August 2018 we acquired Vet Direct, an equipment and consumables supply business which provides a one-stop shop for CVS and private practices. We will seek to expand the Vet Direct product range and have now folded our existing Vetisco instruments business into Vet Direct.

Organic growth from our existing businesses will be supported by selective acquisitions where the Board is confident that appropriate returns can be achieved. We continue to maintain a pipeline of acquisition opportunities.

Our people

CVS now employs 6,548 staff (2018: 6,150) including 75 specialists (2018: 57), 1,829 veterinary surgeons (2018: 1,460) and 2,376 nurses (2018: 2,041).

Our staff are at the heart of our business and we are committed to investing in their continued development and well being. Our culture and values drive our business and success through our people is a core value. Further details on our culture and values are set out on page 30.

We recruited Professor Renate Weller in October 2018 to lead our learning, education and development programme with our goal being to ensure that all staff have access to the clinical and non-clinical training and support they need. We are committed to providing all staff with opportunities to progress, whether in advancing their clinical education and experience, or in developing leadership opportunities within the business.

> "Our staff are at the heart of our business and we are committed to investing in their continued development and well being."

Our people *continued*

We have launched a new wellbeing and mental health awareness programme in support of our staff with on-site support provided through trained mental health workplace champions.

One of the key structural issues facing the veterinary profession in the UK has been the shortage of vets and nurses, as illustrated with CVS vet vacancy rates peaking at 12.5% in the previous financial year. We are pleased that the Home Office has accepted the Migration Advisory Committee's proposal to reinstate the veterinary surgeon on the UK's Shortage Occupation List and this should in time improve the supply of overseas vets in the UK. CVS has taken a number of actions to improve its own vacancy rate and we are encouraged by the improvement seen in the second half of the financial year with vet vacancy rates averaging 8.4% in that period. We will continue to invest in our people and our existing practices in order to position CVS as the veterinary employer of choice.

Board Governance

We review the Board composition and effectiveness regularly and are committed to ensuring we have the right balance of skills and experience within the Board.

During the year we made one change with Richard Fairman joining the Board in August 2018 and replacing Nick Perrin as Chief Financial Officer at the end of September 2018.

In September 2018 we adopted the FRC's UK Corporate Governance Code and will continue to promote best practice.

Shareholder engagement

The Board as a whole, and the Chairs of the Audit and Remuneration Committees continue to consult with shareholders on key matters. We were delighted to host a number of our major shareholders at our Lumbry Park referral hospital in July 2019.

Dividends

It is proposed to pay a dividend of 5.5p per share in December 2019, a 10.0% increase on the 5.0p per share paid in 2018. The financial performance of the business and its strong cash generation support an increase in dividends whilst enabling the Group to retain sufficient funds for further investment in the business.

Outlook

CVS operates in a sector with favourable market and consumer trends, with pet owners increasingly willing to spend money on their pets and medical enhancements increasing the range of services we can offer.

Despite continued uncertainty over Brexit with the potential for a "hard" Brexit increasingly likely, the Board is confident that CVS is well positioned to avoid significant adverse impacts from the UK's decision to exit the EU. Pharmaceutical manufacturers and wholesalers are increasing their stock levels in order to reduce the risk of supply shortages and following the acquisition of Vet Direct, CVS now controls more of its equipment and consumables supplies.

The pace of growth in the UK economy may be impacted by Brexit uncertainty, but the veterinary sector has proven to be resilient in past periods of economic downturn and the Board believes CVS is sufficiently resilient to withstand any potential future downturn.

The performance of the business was considerably improved in the second half of the financial year and the Board is confident that the Group is well placed to deliver further enhancement in shareholder value in the forthcoming financial year.

I would like to thank all of our colleagues for their contribution to the past financial year. Their professionalism, dedication and commitment to providing the highest levels of clinical care to our customers and their animals forms the heart of our business. I look forward to working with them to continue the successful growth of CVS in the future.

Richard Connell
Non-Executive Chairman
27 September 2019

We have introduced our new education strategy

CVS increases focus on Learning, Education and Development through the launch of a new Framework

Professor Renate Weller
Director of Education

Professor Renate Weller, RCVS Specialist in Diagnostic Imaging, joined CVS as Director of Education in 2018. She and her Learning, Education and Development ("LED") team have built a LED framework that supports seamless individualised professional development for all of our colleagues.

The multi-path framework is based on the principle of structured options that enable colleagues to choose a progressive pathway that works for them personally as well as for CVS commercially.

Consisting of three skill tiers: Essentials, Intermediate and Advanced, the framework accommodates individuals at a level appropriate to their current experience. This gives us the flexibility to tailor a programme to meet individuals' learning needs and makes it easy for people to integrate with CVS regardless of their background and experience. Its structure also supports those returning to work following a career break.

The framework includes eight topical pathways based on the skills, knowledge and attributes needed to build a successful veterinary business. This means colleagues can focus on different areas that they wish to explore. Our topical pathways are: Clinical Care, Business Management, Customer Care, Learning, Education and Development, Pastoral Care, Quality Improvement and Support Services.

At CVS, we believe that effective leadership is key to success and we offer the opportunity to develop leadership skills alongside whichever topical pathway colleagues choose to follow.

Learning opportunities are packaged in modules to ensure we deliver a dynamic offering that adapts to evolving needs, both in terms of personal and professional development of the individual and the changing demands of our business too, while providing a clearly structured and sustainable approach. This enables effective career and talent management on a personal basis while fulfilling the requirements of the business.

Delivery of learning opportunities follow a blended model approach by employing a combination of face-to-face and mobile learning. CVS's existing face-to-face course portfolio will be expanded and augmented by a new purpose built virtual learning platform that will go live in autumn 2019. This will allow CVS colleagues to not only choose from a range of topics but to personalise how they learn to suit their circumstances too. In addition to maximising learner engagement this will ultimately optimise learning outcomes to the benefit of the learner, the business and importantly, the animals under our care.

Celebrating 20 years of CVS

1999
Company was established

1999


First surgery: Barton Veterinary Hospital, Canterbury

2002


First laboratory: Finn Pathologists, Norfolk

Finn Pathologists
The Veterinary Pathologists

2006


First dedicated equine practice: Scott Dunn's Equine Clinic, Berkshire

Scott Dunn's Equine Clinic

2007


100th surgery: Regan Veterinary Group, Manchester

Regan Veterinary Group

2008


Second laboratory: Axiom Veterinary Laboratories, Devon

First crematorium: Rossendale Pet Crematorium, Lancashire

AXIOM Veterinary Laboratories Ltd

Rossendale Pet Crematorium and Memorial Gardens

2010


Commenced on-line trading: Animed Direct

Third laboratory: Greendale Veterinary Diagnostics, Surrey

Major acquisition: Pet Doctors

200th surgery: Cedar Veterinary Group, Hampshire

Animed direct
Cutting the cost of pet care

Pet Doctors

2012


Second crematorium: Valley Pet Crematorium, Devon

Valley Pet Crematorium

2014


Third crematorium: Silvermere Haven, Surrey

silvermere haven
pet cemetery and crematorium

2015


Fourth crematorium: Whitley Brook, Cheshire

Major acquisition: YourVets

Fourth referral centre: Dovecote, Castle Donington

Launched: MiPet own brand products

Whitley Brook
Pet & Equine Crematorium

YourVets

MiPetFood

2016


Greenfield referral centre: Lumbry Park, Hampshire

Major acquisitions: Alnorthumbria, Highcroft and Albavet

Fifth and sixth crematoria: The Pet Crematorium, Durham and Lanarkshire

LUMBRY PARK
Veterinary Specialists

The Pet Crematorium

2017


Major acquisition: Severn Edge Veterinary Group

New referral centre: Manchester Veterinary Specialists

Launched: own brand pet insurance in August 2017

MiPetCover

2018


Major acquisitions: B&W Equine, Troytown GreyAbbey (Republic of Ireland)

b&w equine vets

2019
Major acquisitions: Slate Hall, Poultry Vets Vet Direct

20 years of CVS

20 Celebrating 20 years of CVS 1999 - 2019

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

Our market opportunities

Market opportunities

- Increasing consumer spend on veterinary care
- Continued consolidation by corporate operators
- Significant investment in veterinary services market
- Advancement of corporate model in the Netherlands and the Republic of Ireland

Our strategic response

- Continue to provide the highest levels of clinical care
- Organic growth from our existing business
- Continue to acquire practices where they meet our criteria
- Further expansion in the Netherlands and the Republic of Ireland

Maximising revenues

- Opportunities to extend service offering to meet all of our customers' needs, for example further expansion of our specialist out-of-hours services
- Continued expansion of our referral centres

Our strategic response

- Continue to maintain strong cash flow and a healthy Consolidated and Company statement of financial position to support development and growth
- Further investment in core business activities

Our integrated services model

- In the UK the small animal market is advanced in terms of corporate consolidation
- Integrated model is at an early stage of development in the Netherlands and the Republic of Ireland

Our strategic response

- Continuing development of referral services
- Introduction of more own brand products
- Growth and development of the Healthy Pet Club and Healthy Horse programme
- Development of greenfield locations and relocations of existing practices

Industry update

- Consolidation of the UK veterinary market continues apace
- Consolidation of the Netherlands market is in its early stages
- CVS continues to be the largest integrated provider of veterinary services
- CVS continues to develop its range of services, including own brand products and insurance
- CVS continues to expand its European coverage

What sets us apart?

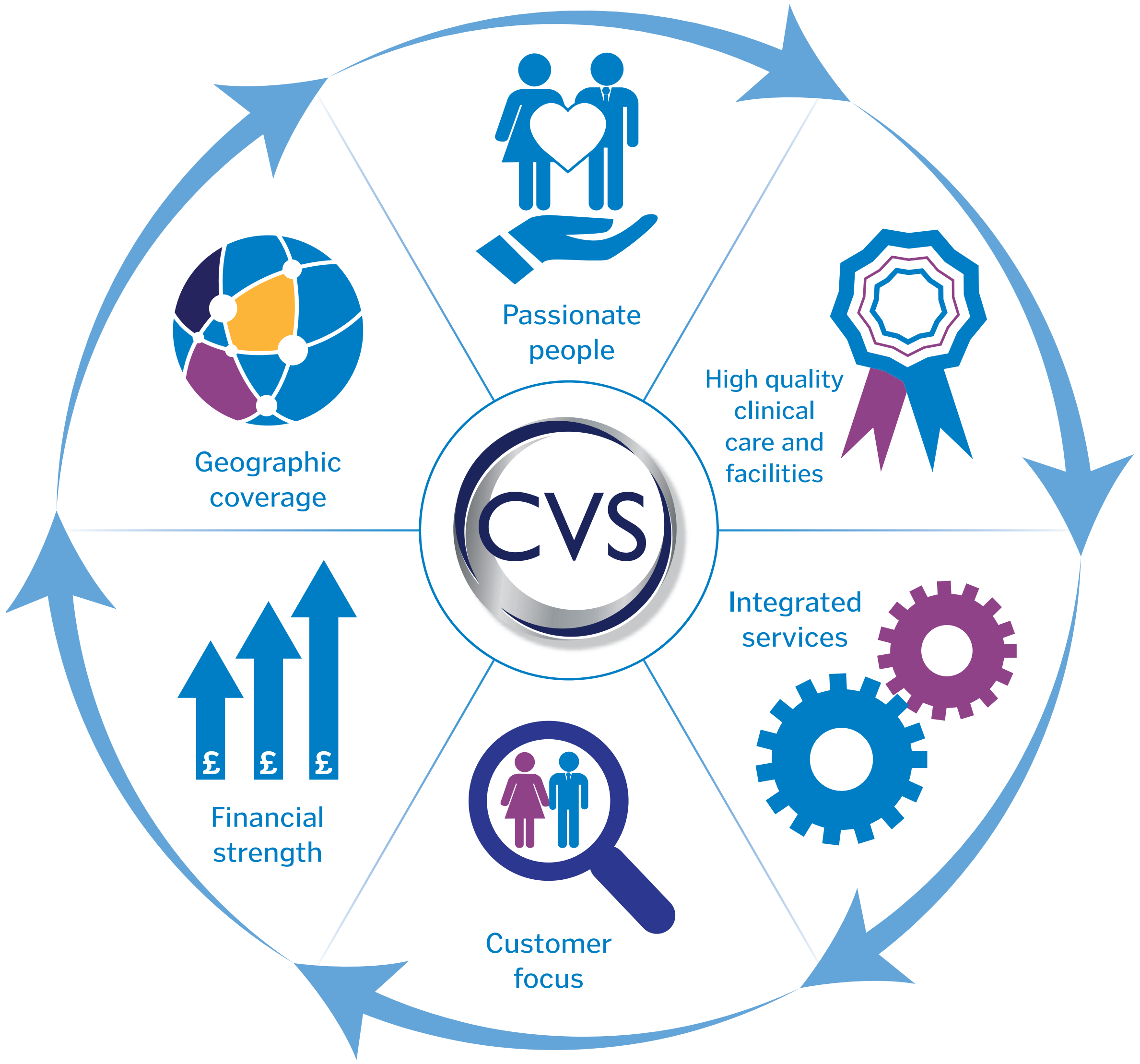
Our commitment is to provide the highest levels of clinical care to our patients and their owners through our integrated model, together with expanding our opportunities in the Netherlands and the Republic of Ireland, whilst providing increasing returns to our shareholders.

We continue to deliver our vision through like-for-like growth and the acquisition of veterinary practices, diagnostic laboratories, pet crematoria and further expansion of Animed Direct, whilst using our expertise to expand our own brand products range and pet insurance. Our business model focuses on creating value through the provision of integrated services and the best customer care.

P30 Our culture and values

Our business model is underpinned by our core values

- Customer focus
- Success through our people
- Commitment to excellence
- Honesty and integrity



Geographic coverage
510 surgeries

As at the date of this report we have 510 surgeries, four laboratories and seven crematoria providing coverage of England, Scotland, Wales, the Netherlands, Northern Ireland and the Republic of Ireland.

High quality clinical care and facilities
57 veterinary diploma holders

All of our practices are registered with the RCVS Practice Standards Scheme and are committed to investing in and using modern diagnostic techniques. We invest in clinical training and advanced qualifications.

Customer focus
401,000 Healthy Pet Club Members

Our staff are dedicated to providing a quality service with the highest levels of customer and clinical care.

Passionate people
6,548 staff

We employ dedicated and trained professionals who are committed to excellent clinical care.

Integrated services
22 specialist out-of-hours services

We deliver first-opinion treatments, complex referral procedures, laboratory diagnostic testing, out-of-hours services, cremations, on-line dispensary, own brand medicines, Healthy Pet Club and insurance.

Financial strength
£54.5m Adjusted EBITDA

We continue to deliver growth in revenues, adjusted EBITDA and operating cash flow.

Forming relationships with and creating value for...

Customers

We aim to meet all our customers' needs with an increased focus in both our first opinion and referral practices we are able to offer our clients and patients an increasing level of clinical care.

Shareholders

We continue to focus on the creation of shareholder value.

Colleagues

Development of our staff and of our clinical and non-clinical training continues to be a priority. We continue to develop our internal training programmes, both clinical and managerial, and believe this benefits our customers, our staff and the business.

Suppliers

We aim to foster successful long term relationships with our key suppliers built on a foundation of trust.

Community

Our nominated charities of the year for 2019 are Street Vet and Redwings Horse Sanctuary. We encourage our practices to engage with the community to support both our nominated charities of the year and local charities which helps foster relationships between us and the local communities.

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

We are progressing towards our goals

358 graduate vets in three years

31 clinical pathologists employed

510 surgeries

401,000 members of HPC scheme

i) Excellent customer service and care

How we performed

- 57 of our vets are diploma holders, the highest recognised qualification
- A further 153 vets have been recruited in our graduate programme during the year bringing the total to 358 over a three-year period. A further 104 have already signed up for the 2019/20 course
- 180 nurses have enrolled on our new Nursing Excellence Award run by the Royal Veterinary College
- 31 clinical pathologists are employed in our Laboratories Division

Our focus

- Customer service is one of our core values. It underpins all of our training and development
- Clinical development remains a core aspect of our training
- We launched a new well-being and mental health awareness programme and have recruited Professor Renate Weller to lead our learning, education and development programme.
- We also sponsor further qualifications for our vets such as RCVS Advanced Veterinary Practitioner and Diplomas

Links to key performance indicators **P18** Key performance indicators	A B D E F G
Links to risks **P32** Principal risks and uncertainties	1 4 5 6 7 8 9 10

ii) Meeting all of our customers' needs

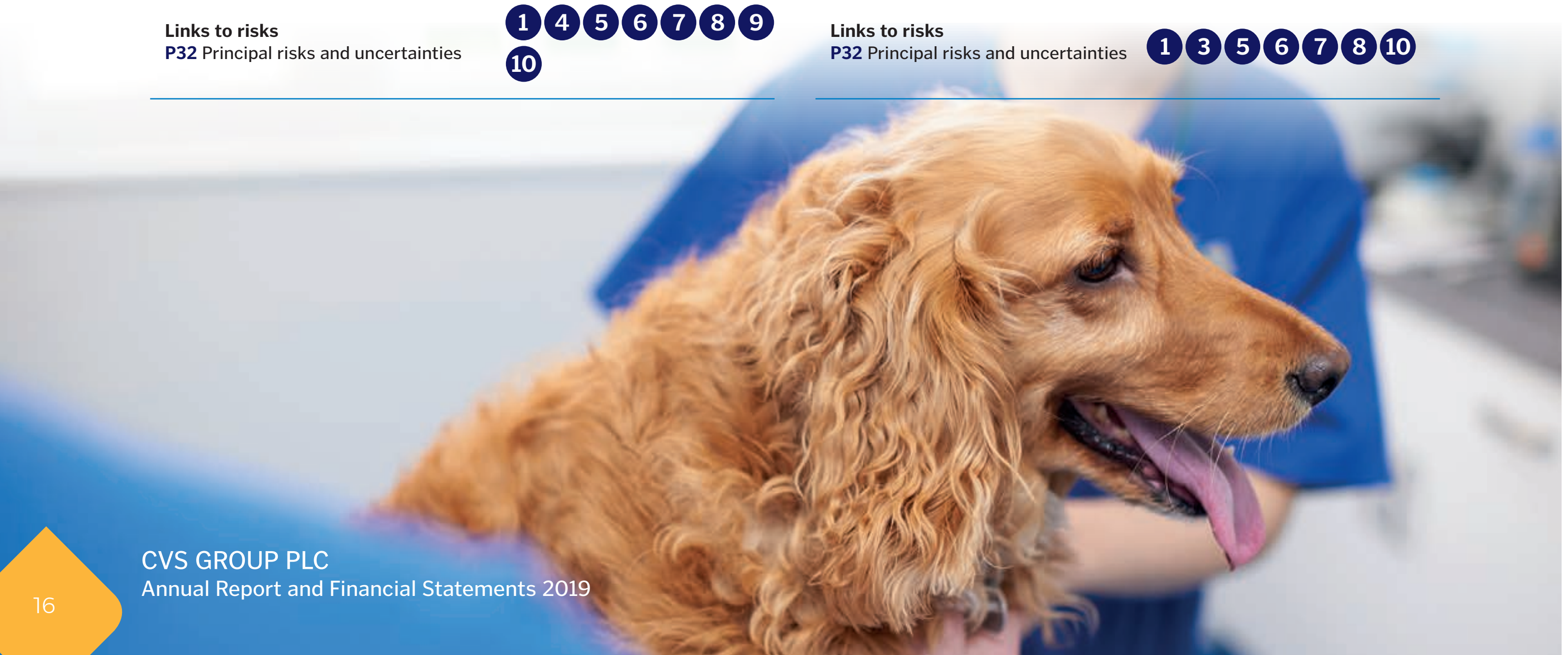
How we performed

- We own 510 surgeries across the UK (479), the Netherlands (25) and the Republic of Ireland (6) four laboratories and seven crematoria
- There are 401,000 members in our HPC scheme
- We invested £3.6m in relocating and developing our surgeries to improve facilities
- We operate eight specialist referral centres, including the Gilabbey Veterinary Hospital in the Republic of Ireland
- We opened another three out-of-hours centres during the year bringing the total to 22

Our focus

- Further expansion of our referrals business
- Development of additional complex testing capability at our diagnostic laboratories
- Investment in our crematoria business to increase capacity
- Expansion of our own out-of-hours centres, thereby reducing reliance on third-party providers
- Further development and expansion of our MiPet brand of products
- Launch of peripatetic service
- Development of our own brand pet insurance, MiPet Cover

Links to key performance indicators **P18** Key performance indicators	A B C D E F G
Links to risks **P32** Principal risks and uncertainties	1 3 5 6 7 8 10



34 surgeries acquired in the year

4 surgeries acquired since the year end

18 high quality own brand products

247,000 tests performed by our labs for third parties

iii) Expanding our business

How we performed

- 34 surgeries acquired during the year
- 4 surgeries acquired since the year end

Our focus

- We aim to continue to grow our business through organic growth, selective acquisitions and greenfield development sites
- We will consider acquisitions of crematoria and laboratories where they fit a geographical or knowledge gap
- We aim to continue our expansion into the Netherlands and the Republic of Ireland

Links to key performance indicators **P18** Key performance indicators	A B C D E F G
Links to risks **P32** Principal risks and uncertainties	1 2 3 4 5 6 7 8 9 10 11

iv) Building on our strengths to provide services to external practices

How we performed

- Our laboratories performed 433,000 tests in 2019, of which 247,000 were for third parties
- Our crematoria performed 149,000 cremations, of which 75,000 were for third parties
- 18 high quality own brand MiPet products available through HPC and MiVetClub
- Healthy Pet Club available to buying group members

Our focus

- Development of external sales of our laboratory analyser units
- Expansion of the service offering of our buying groups. Our aim is not only to allow practices to benefit from our buying power but also through providing other services such as health and safety expertise, administering loyalty club schemes and access to MiPet products

Links to key performance indicators **P18** Key performance indicators	A B D E F G
Links to risks **P32** Principal risks and uncertainties	1 2 3 4 5 6 8 9 10 11

Key performance indicators

A Revenue
B Like-for-like sales performance
C Healthy Pet Club revenue
D Gross margin before clinical staff cost
E Adjusted EBITDA
F Adjusted EPS
G Cash generated from operations

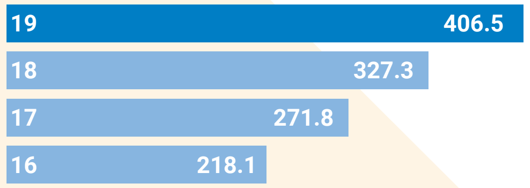
Risks

1 Key staff
2 Economic environment
3 Competition
4 Adverse publicity
5 Information technology
6 Ability to source pharmaceutical supplies
7 Ability to source and integrate acquisitions
8 Maintain appropriate insurance
9 Compliance with legal and regulatory requirements
10 Changes in laws and regulations impact our operations and margins
11 Change in UK pet population

Monitoring our progress against the Group's strategy by reference to the following financial KPIs

Revenue (£m)

a) £406.5m



Definition

Total revenue of the Group.

Changes in 2019

- Total revenue increased by £79.2m.
- Revenue before the impact of prior year and current year acquisitions was £339.2m, a £17.8m increase compared with 2018. Factors contributing to the increase are noted in the like-for-like sales performance.
- Acquisitions in the year and the full year impact of the prior year's acquisitions generated revenue of £82.3m, an increase of £63.2m.
- Intercompany sales eliminated on consolidation were £14.9m, an increase of £1.8m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2018 and 2019, in addition to our internal equipment and instrument sales.

Links to strategy i ii iii iv
P16 strategy

Like-for-like sales (%) performance

b) 5.2%

Definition

Revenue generated from like-for-like operations compared to the prior year. Revenue for 2019 is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year; for example for a practice acquired in September 2017, revenue is included from September 2018 in the like-for-like calculation.

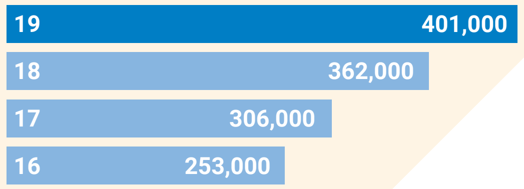
Changes in 2019

- The like-for-like performance reflects strong performances in all divisions.

Links to strategy i ii iii iv
P16 strategy

Healthy Pet Club members

c) 401,000



Definition

Number of members in our Healthy Pet Club Scheme

Changes in 2019

- Healthy Pet Club membership increased from 362,000 to 401,000 members.

Links to strategy i ii iii iv
P16 strategy

Gross margin before clinical staff costs (%)

d) 76.2%

Definition

Gross margin which represents revenue after deducting the cost of drugs, laboratories' fees and cremation fees, and other goods sold or used by the business, expressed as a percentage of total revenue.

Gross margin was £168.9m, after deducting £140.9m of clinical staff costs.

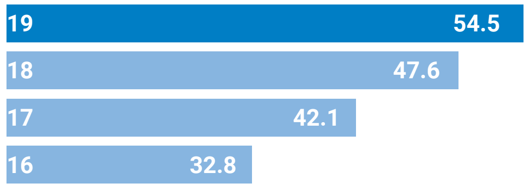
Changes in 2019

- The decrease in the gross margin is principally due to the increase in our farm animal division, which operates at a lower margin to our small animal division.

Links to strategy i ii
P16 strategy

Adjusted EBITDA (£m)

e) £54.5m



Definition

Earnings before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items. The reconciliation to profit before tax is on page 66.

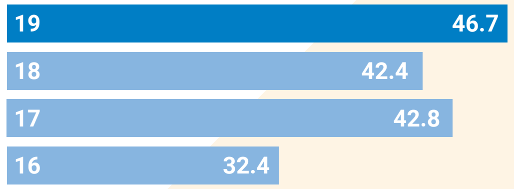
Changes in 2019

- The improvement in adjusted EBITDA is explained by the full year impact of prior year acquisitions (£1.8m) and acquisitions in the current year (£5.4m), partly offset by a £0.3m increase in central costs incurred to build a foundation for further development and expansion of the Group.

Links to strategy i ii iii iv
P16 strategy

Adjusted EPS (p)

f) 46.7p



Definition

Earnings, adjusted for amortisation, costs relating to business combinations, exceptional items and non-recurring tax credits, net of the notional tax impact of the above, divided by the weighted average number of issued shares.

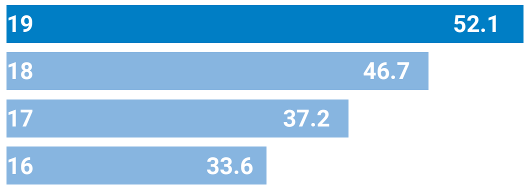
Changes in 2019

- The increase reflects the increase in adjusted profit before tax of £5.4m

Links to strategy i ii iii iv
P16 strategy

Cash generated from operations (£m)

g) £52.1m



Definition

Cash inflow before payments of taxation and interest; acquisitions; purchases of property, plant and equipment and intangible assets; payments of dividends; debt issue costs; increase/repayment of bank loans; and proceeds from issue of shares.

Changes in 2019

- The increase primarily reflects the improvement in EBITDA of the business, together with the decrease in other receivables partially offset by the increase in stock reflecting the growth of the Group.

Links to strategy i ii iii iv
P16 strategy

Our strategic priorities

- i Excellent customer service and care
- ii Meeting all of our customers' needs
- iii Expanding our business
- iv Building on our strengths to provide services to external practices

Veterinary practices

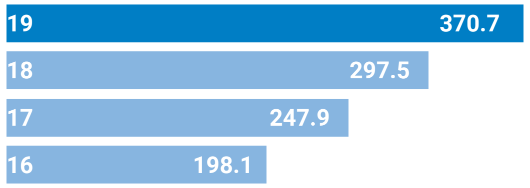
Our Veterinary Practices Division is the heart of our business. We added a further 34 surgeries during the year and 4 since the year end.

Our services

- 510 first-opinion and referral surgeries across the UK, the Netherlands and the Republic of Ireland, trading under locally established brand names
- HPC and HHP loyalty schemes
- MiPet own brand products
- MiVetClub and VetShare buying groups, using our buying strength to provide a unique offering to third-party practices
- Vet Direct providing surgical kits and instruments for our own and third-party practices
- MiPet Cover own brand insurance

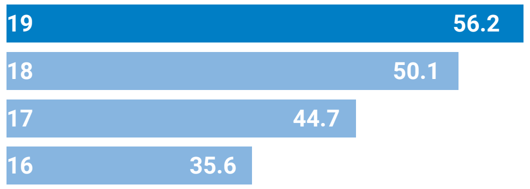
Revenue (£m)

£370.7m
+24.6%



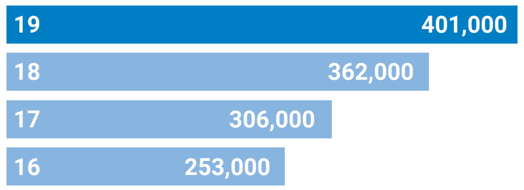
Adjusted EBITDA (£m)

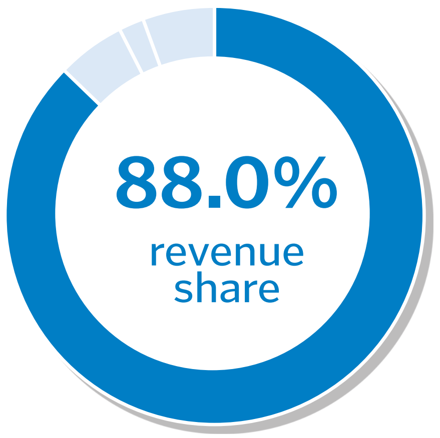
£56.2m
+12.2%



HPC Customers

401,000
+10.8%





Laboratories

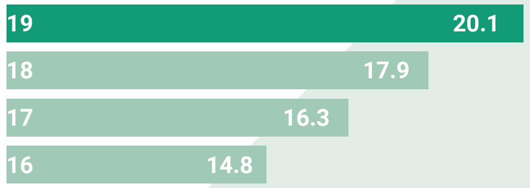
Our laboratories provide diagnostic services to CVS veterinary practices and third parties. Over 433,000 tests were performed in 2019, of which 247,000 were for third parties.

Our services

- Four diagnostic laboratories covering the UK
- Biochemistry, haematology, histology, serology and advanced allergy testing
- Large animal ISO 17025 accredited
- Equine testing
- In-house laboratory equipment and consumable supplier

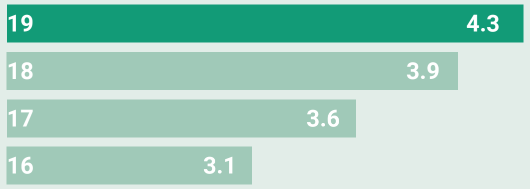
Revenue (£m)

£20.1m
+12.4%



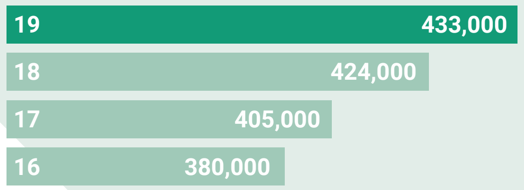
Adjusted EBITDA (£m)

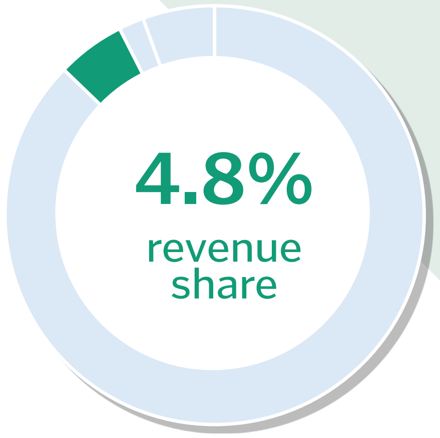
£4.3m
+10.3%



Lab tests performed

433,000
+2.1%





Crematoria

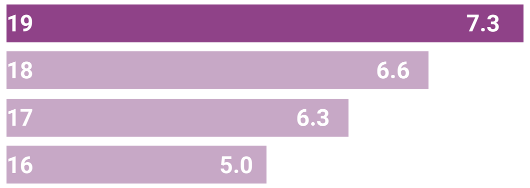
Our crematoria provide pet cremation services and clinical waste collection for veterinary practices and pet owners. Over 149,000 cremations were performed in 2019 of which 75,000 were for third parties.

Our services

- Seven crematoria covering the UK
- Pet cemeteries and memorial gardens at the Rossendale and Silvermere Haven sites
- Clinical waste collection services
- Small animal and equine cremations

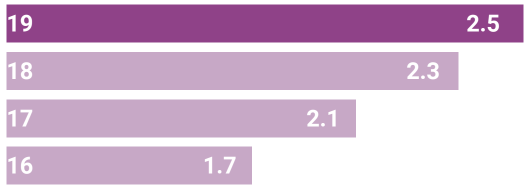
Revenue (£m)

£7.3m
+10.1%



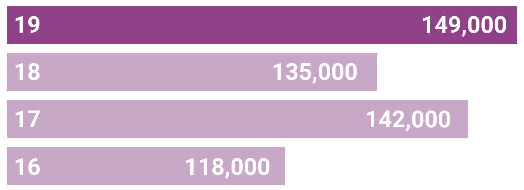
Adjusted EBITDA (£m)

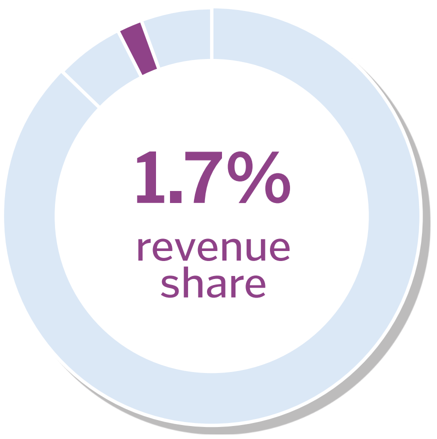
£2.5m
+8.8%



Cremations

149,000
+10.4%





Animed Direct

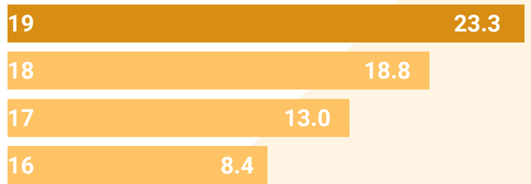
Animed Direct sells prescription and non-prescription drugs, pet food and other animal related products via its website.

Our services

- On-line retailer serving UK pet owning population
- Full prescription medicine delivery service

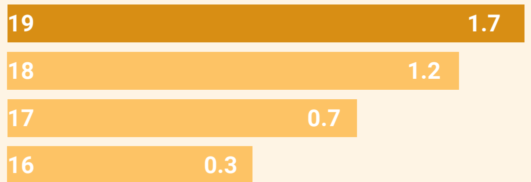
Revenue (£m)

£23.3m
+24.3%



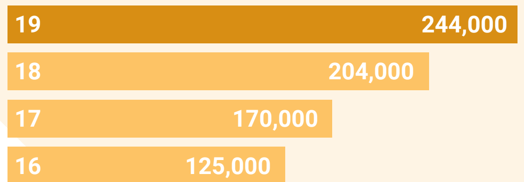
Adjusted EBITDA (£m)

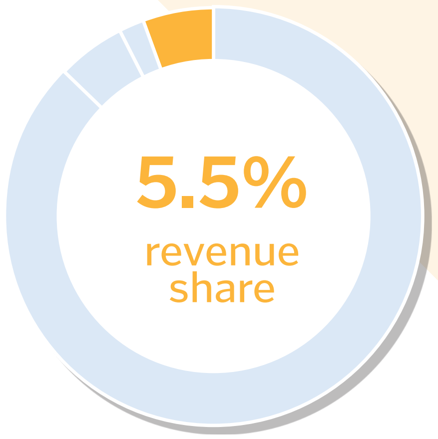
£1.7m
+40.0%



Unique customers

244,000
+19.6%





We introduced independent accreditation as a standard

In 2019 all CVS UK practices were accredited by the Royal College of Veterinary Surgeons Practice Standards Scheme (“PSS”).

The Practice Standards Scheme is a voluntary initiative to accredit veterinary practices in the UK. Through setting standards and carrying out regular assessments by independent assessors, the Scheme aims to promote and maintain the highest standards of veterinary care. Practices are assessed across a range of different criteria encompassing areas such as client experience and clinical governance. In addition to the PSS accreditations, practices can apply to be assessed for optional awards, to demonstrate where they excel. Practices may be designated as ‘Good’ or ‘Outstanding’ within each award.

As part of CVS’s drive to continuously improve clinically in all practices, they have been encouraged to undertake the new RCVS PSS Awards run by the scheme. At 30 June 2019 118 CVS practices have been awarded “Outstanding” and CVS now has approximately 35% of the total PSS awards, leading the veterinary industry in this field.

The scheme provides a clear pathway to improvement for all types of practice and is a means for practices to demonstrate where they excel through awards.

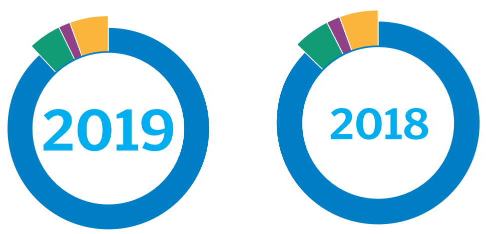
A similar scheme has been introduced by CVS for its practices in the Netherlands, even though no official scheme exists there, enabling all CVS practices to achieve the same consistent high standards.

We continue to invest in our practices and people to achieve our strategic priorities

Simon Innes
Chief Executive

CVS Group operates an integrated veterinary platform with our Veterinary Practices division at the core of the business. This is integrated with a range of complementary supporting services to internalise services and improve margins, with these services provided from our Laboratories, Crematoria and Animed Direct divisions.

Revenue by division £m



	30 June 2019 £m	30 June 2018 £m
Veterinary Practices	**370.7**	297.5
Laboratories	**20.1**	17.9
Crematoria	**7.3**	6.6
Animed Direct	**23.3**	18.8
Head Office - intercompany	**(14.9)**	(13.5)
Total Group	**406.5**	327.3

Like for like revenue	2019	2018	Growth (%)
Group revenue	406.5	327.3	
Adjustments for acquisitions	(62.2)		
Underlying Group Revenue	**344.3**	**327.3**	**5.2%**

Highlights

Revenue from our four key practice areas increased by 23.6%

Continued growth in Healthy Pet Club

Continued excellent growth in Animed Direct

Veterinary Practices Division

	2019 £m	2018 £m
Revenue	**370.7**	297.5
Adjusted EBITDA	**56.2**	50.1
EBITDA margin %	**15.2**	16.9

*This includes all businesses owned throughout the years ended 30 June 2018 and 2019.

The Veterinary Practices division comprises the four key veterinary practice areas of Small Animal, Referrals, Equine and Farm plus ancillary areas such as MiPet Insurance, Vet Direct and our buying groups. Like-for-like growth from the four key veterinary practice areas, prior to intercompany sales elimination, was 4.3% for the year (2018: 2.9%).

Revenue for these four key areas amounted to £360.2m (2018: £291.4m) an increase of 23.6%. Total revenue for the veterinary practice division amounted to £370.7m (2018: £297.5m), an increase of 24.6% on the prior year. Like-for-like sales for the practices division as a whole increased by 3.7% (2018: 3.0%).

The mix of revenue within the veterinary practices division changed in the year reflecting growth from the newer Farm practices which accounted for 10.4% of veterinary practice division revenue in the year (2018: 4.3%). Revenue from Farm practices comprises a higher proportion of drug sales and a lower proportion of veterinary fees, than that in small animal practices. The acquisition of Slate Hall, a specialist poultry practice, further impacted this change. Both the increase in the mix of Farm revenue, and the proportion of this revenue generated from drug sales, resulted in a decrease in the overall Gross margin achieved (before the deduction of employment costs) in the veterinary practice division which reduced to 77.4% for the year (2018: 80.8%).

In the first half of the financial year the veterinary practices division faced increased employment costs due to an industry wide structural shortage of veterinary surgeons and nurses in the UK. The Group had previously awarded above inflationary salary increases to veterinary surgeons and nurses on 1 January 2018 and these resulted in clinical salaries in the six month period to 31 December 2018 being c. 8.0% higher than in the equivalent six month period to 31 December 2017.

The Group has taken a number of proactive steps to address this issue including an increased focus on clinical recruitment, further investment in learning, education and development, the introduction of more flexible working and the award of an additional day's holiday per annum for employees with five years' CVS service. In light of these actions the Group has seen a reduction in its veterinary surgeon vacancy rate, with an average vacancy rate of 8.4% in the second half of the financial year ended 30 June 2019 compared to a peak of 12.5% in April 2018. This reduction, along with additional controls and visibility over the use of locum vets, has resulted in reduced locum spend in the second half of the financial year to 30 June 2019. The Group has also seen a reduction in its nurse vacancy rate with an average of 4.3% in the second half of the financial year compared to a peak of 8.8% in January 2018. In light of the reduced veterinary surgeon and nurse vacancy rates and the reduced reliance on locums, the Group's employment costs reduced to 50.4% of revenue in the second half of the financial year ended 30 June 2019 in comparison to 51.7% in the first half of the financial year.

The Group welcomed the review of the Shortage Occupation List ("SOL") published by the Migration Advisory Committee in May 2019 in which it was recommended that veterinary surgeons be reinstated on the SOL. The Home Office subsequently confirmed that it was implementing this recommendation and the Group believes this will have a positive impact on its future ability to recruit veterinary surgeons from outside of the European Union.

The expansion of the veterinary services division to newer Farm, Equine and Netherlands based practices led to certain practices, acquired in the previous two financial years, delivering returns in the first half of the financial year which were below expectations. A number of steps were taken in the financial year to improve performance in these practices and these actions resulted in improvements being seen in the second half.

In the full financial year, the veterinary practices division acquired 34 surgeries operating as 26 businesses. These businesses contributed £47.0m of revenue and £5.5m of EBITDA in the year. Practices acquired during the year and after the year end are set out in note 14. The Group is focused on delivering organic growth from its veterinary practices division, with this growth supported by future acquisitions where multiples are considered acceptable and where returns will be accretive. In light of this, the Group's rate of acquisitions slowed considerably in the second half of the financial year with only two of the acquisitions in the year completing in the second half.

Adjusted EBITDA for the Group as a whole, as a percentage of sales, fell from 16.9% to 15.2%. This reduction is due to the increased mix of Farm revenues at naturally lower gross margins, increased employment costs in the first half of the financial year and the impact of certain acquisitions in the first half as noted above.

The veterinary services division generated significant growth from its specialist Referrals practices which provide the most sophisticated levels of clinical care across all referral specialisms. Revenue from Referral practices increased by 21.6% in the financial year to £22.5m (2018: £18.5m). This growth was achieved through increased referrals from CVS first opinion practices and the recruitment of additional leading referral specialists, a number of whom, joined CVS from our direct competitors. The further development of our referrals business, and the recruitment of further specialist resource, remains a key strategic priority for CVS.

Our preventative medicine scheme, the Healthy Pet Club, continued to prove popular with our clients with total membership increasing by 10.8% in the year to 401,000 pets covered by the scheme at 30 June 2019 (2018: 362,000). The scheme provides preventative medicine to our customers' pets as well as a range of discounts and benefits. CVS benefits from improved customer loyalty, the encouragement of clinical compliance, protecting revenue generated from drug sales, and bringing more customers into our surgeries. Monthly subscription revenue generated in the year increased to £45.4m (2018: £38.0m). We also launched a new Healthy Horse Programme in the previous year with 7,000 equine clients covered by the scheme at 30 June 2019.

We continue to expand our specialist MiNight Vet centres which provide out-of-hours and emergency support to both CVS and private practices. We now have 22 centres with three new sites opened in the year, including the UK's first dedicated equine out-of-hours service, called Equicall. The Group will seek further expansion of dedicated out-of-hours centres with a further eight centres planned to open in the next twelve to eighteen months. Our strategic objective is to become self-sufficient in the provision of out-of-hours cover over the medium term.

Our MiPet own brand range continues to expand and now represents c.25.0% of our small animal practice drug sales. The range is well supported by both our customers and our staff. MiPet products are only available in our surgeries and to our buying group members and hence they differentiate CVS in the market. Significant progress was made during the year in selling the MiPet range to our buying group members and this is expected to develop further. Further discounts were secured in the second half of the financial year on Endectrid, a flea treatment, and Milbeworm, a worming treatment and these will help to improve margins. We have recently launched our first Equine product and our new warehouse management system, which will go live in the new financial year, will facilitate further expansion of our product range.

We are focused on the internalisation of spend within the Group and in August 2018 we acquired Vet Direct, a consumables and equipment supply business. We have now incorporated Vetisco into Vet Direct to provide a "one stop shop" for both CVS and private practices to purchase all their equipment and consumable needs from one place and we will look to deliver further growth from Vet Direct in the future.

> "We continue to invest significantly in our existing practices"

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

We continue to invest in our existing practices with £2.9m of capital expenditure incurred in the financial year in the relocation of existing surgeries and a further £0.7m of capital expenditure incurred in refurbishing existing sites. We are committed to delivering the highest levels of clinical care and we invested a further £1.0m of capital expenditure in new clinical equipment in the financial year. Investment will continue in appropriate capital expenditure projects which facilitate the delivery of high clinical standards and drive increased average transaction values and hence revenues in practices. We will continue to invest in greenfield sites and practice relocations where we are confident that appropriate financial returns will be achieved.

We launched our own insurance product, MiPet Cover, in August 2017. CVS does not take any underwriting risk and receives a commission on the sale and renewal of each policy. We had 9,000 policies in force as at 30 June 2019, a 173.0% increase from the prior year (2018: 3,000). The business will take time to develop fully and made a small loss in the year.

CVS continues to support the RCVS Practice Standards Scheme with all CVS practices participating and 118 "Outstanding" awards received under the scheme. The Group's Springfield practice has achieved outstanding awards in all six categories. We are focused on providing the highest levels of clinical care and we continue to invest in clinical audits of practices to monitor compliance. We will continue to promote the Vetsafe scheme to capture and learn from significant events/near misses.

The Group believes that the highest levels of patient care can be provided through face to face consultations in its practices or through its ambulatory teams. The Group will explore opportunities to provide remote consultations through telemedicine provision where it is confident that services can be provided in an effective manner without compromising its high standards of clinical patient care.

CVS continues to place significant emphasis on staff training and career opportunities. We are focused on improved staff retention through the provision of diverse clinical experience from our broad practice specialisms, continued support in studying for enhanced professional qualifications and through the opportunity for clinical staff to undertake leadership roles in the business. The Group recruited a record number of graduate veterinary surgeons in September 2018 and our leading graduate induction and support programme will continue to evolve. This will ensure that all of our graduates are best equipped to fulfil their future careers from a combination of industry leading clinical training alongside communication, resilience and customer service training. Professor Renate Weller will oversee the development of the Group's clinical training for veterinary surgeons and nurses and has a wealth of experience in this area.

CVS has been campaigning for our highly skilled Qualified Nurses to be better recognised by the professional bodies and for them to be allowed to undertake additional clinical work currently preserved for veterinary surgeons. We will continue to campaign for this much needed change in the sector which will allow our Nurses to have increased career opportunities whilst reducing pressure on scarce veterinary surgeon resource.

We will continue to invest in the highest levels of employee training and development and in providing appropriate career pathways in order to position CVS as the employer of choice in the sector.

Laboratories Division

Our laboratories division provides diagnostic services and in-practice laboratory analysers to CVS practices and third party owned veterinary surgeries. Diagnostic services are offered via post and courier allowing complete coverage of the UK.

	2019 £m	2018 £m
Revenue	**20.1**	17.9
Adjusted EBITDA	**4.3**	3.9
EBITDA margin %	**21.4**	21.9

The Laboratories Division generated revenue of £20.1m, a 12.4% increase on the prior year figure of £17.9m. Adjusted EBITDA grew by 9.8% from £3.9m to £4.3m and profit before tax increased from £3.3m to £3.7m.

Revenue from the analysers business (analysers and related consumables) increased in the year, driven by increased reagent (consumables) sales. Analysers are installed in newly acquired CVS owned practices and independent practices and since the analyser machines have an economic life of several years, the sale of the machines leads to consumable sales for several further years.

Revenue from the diagnostics testing business increased steadily during the year. Further Equine and Farm tests are being developed and these are expected to deliver further growth in the future.

EBITDA as a percentage of sales fell slightly from 21.9% to 21.4%.

Crematoria Division

Our Crematoria division provides individual and communal cremation services for companion animal and equine clients and clinical waste disposal services for CVS and independently owned practices.

	2019 £m	2018 £m
Revenue	**7.3**	6.6
Adjusted EBITDA	**2.5**	2.3
EBITDA margin %	**34.2**	34.6

Revenue in our Crematoria division increased by 10.1% to £7.3m (2018: £6.6m). The Crematoria Division benefits from becoming the supplier to veterinary practices that we acquire.

Adjusted EBITDA grew by 8.8% to £2.5m (2018: £2.3m). EBITDA as a percentage of sales slightly decreased from 34.6% to 34.2%.

Animed Direct

Animed Direct, is the Group's on-line dispensary and pet food and equipment retailer. Animed Direct focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive.

	2019 £m	2018 £m
Revenue	**23.3**	18.8
Adjusted EBITDA	**1.7**	1.2
EBITDA margin %	**7.2**	6.4

The business performed well during the year, with revenue growing by 24.3% to £23.3m (2018: £18.8m) and with adjusted EBITDA increasing by 39.9% to £1.7m (2018: £1.2m). The EBITDA margin percentage improved slightly from 6.4% to 7.2%. The business now has an active customer database of over 244,000 people (2018: over 204,000 people).

Head Office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £10.2m (2018: £9.9m), representing 2.5% of revenue (2018: 3.0%).

Whilst the increased scale of the Group's operations requires additional investment in support functions, the Group is able to benefit from economies of scale with Head Office costs reducing to 2.5% of revenue in the financial year. Continued investment will be made in support areas to ensure that CVS continues to have appropriate systems and controls and to ensure the divisions receive appropriate support. The Group will continue to base support staff in the regions where they can more easily provide the close support that the operations teams require.

Simon Innes
Chief Executive
27 September 2019

Case Study - Lowestoft

We continue to invest in our practices

In March 2019 our Lowestoft surgery relocated into its new 10,000 square foot home. Our open day was attended by over 600 people and the site was opened by our CEO Simon Innes.

The project was delivered in 40 weeks at a total cost of just over £2.0m and the investment secured the future for the practice and provided the space and facilities required to allow continued expansion.

The new site provides an additional 3 consultation rooms, 1 theatre, separate cat and dog wards, separate isolation, large waiting area with designated cat and dog waiting areas, on site parking and disabled access for clients, an imaging suite, designated office spaces, a groomers and a large conference room. There is on site accommodation also available for visiting clinical staff and training.

The additional facilities and new equipment have enabled the clinical team to increase the number and availability of appointments as well as the range and complexity of procedures offered. The site also includes a radioiodine treatment unit for treating Hyperthyroid cats which will open later in the year and provide this referral service to other practices across East Anglia.

The facilities have also been a huge benefit to the practice team who are all enjoying seeing the new site reach its full potential.

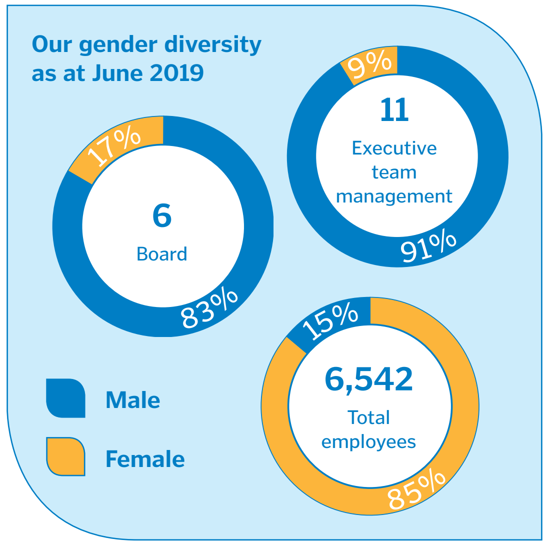
STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

Culture and values are at the heart of our business

At CVS we employ guiding principles that underpin our approach to how we work. These behaviours embed the CVS values in our everyday working lives, and support delivery of our vision to continue to be the most comprehensive and integrated provider of veterinary services to animal owners in the UK.

The board is satisfied that the policies, practices and behaviour throughout the business is aligned with our culture and values and our strategy.

Individual attitudes and behaviours are key to our success. These values not only make us different, they also provide us with a sense of direction for consistent behaviour. They act as a foundation for our evolving culture as well as a guide describing what we can expect of each other and what our employees, customers and the communities in which we work can expect of us. Our values are at the heart of how we work and they provide the inextricable link that ties all of these things together.



Customer focus

- We value our customers and treat them with warmth and respect
- We communicate with our customers appropriately
- We keep our commitments
- We understand and manage customer expectations
- We are focused on our customers' and their animals' needs
- We make our customers feel welcome
- We appreciate and act upon feedback

Our dedication to our customers is at the heart of our business

Success through our people

- New starters have a full induction and we give staff annual appraisals
- We train everybody to do their job and provide progressive learning and development opportunities
- We advertise all vacancies internally
- We provide employees with the correct tools/resources to do their job
- We value employee feedback via our consultation groups and surveys
- We foster a collaborative and mutually supportive working environment for our staff
- We assist all our employees in achieving their career aspirations

We attract, develop and retain the best people for our profession

Commitment to excellence

- We get things right first time
- We encourage employees to be innovative to improve the way we work
- We accept feedback in a positive way and act upon it
- We deliver a high quality service that differentiates us from others
- We hold accreditations for our high standards of quality
- We strive to find better ways of working, both individually and in teams
- We demonstrate professionalism at all times

We constantly strive to achieve the highest possible standards

Honesty and integrity

- We are accessible to all
- We are fair and transparent
- We act with integrity in all we do
- We ensure a safe workplace
- We are open to feedback
- We keep our commitments
- We trust each other to do a good job and give praise and encouragement
- We value long-term relationships with our customers and suppliers
- We own up to our mistakes

We treat our employees and customers with honesty and respect

We acquired Slate Hall Poultry Vets in July 2018

What influenced the decision to sell Slate Hall to CVS?

Slate Hall is one of the largest poultry veterinary businesses in the UK providing specialist veterinary care and veterinary medicines to all areas of the poultry industry including hatcheries, breeders, broilers layers, ducks and game birds.

Established in 1996 and having been grown by its four Partners, it was clear by 2017 that to continue to expand, the business needed to seek funding from external investors or acquirers.

CVS were one of a number of parties who expressed interest and following initial discussions it was decided to look more closely at the opportunity to work with CVS. Whilst CVS had a significant number of companion animal practices, they had more recently expanded in to the farm animal sector and Slate Hall would be their first acquisition in the poultry sector. This gave the Partners confidence that they would retain a strong influence over the direction of the business whilst benefiting from the scale of the CVS group.

What worried you at the time?

Slate Hall has strong client relationships, built up over many years and an excellent practice team. The Partners were keen that the business should be able to maintain its identity, provide confidence to clients that they would continue to get the same excellent service and that staff would feel secure under new ownership.

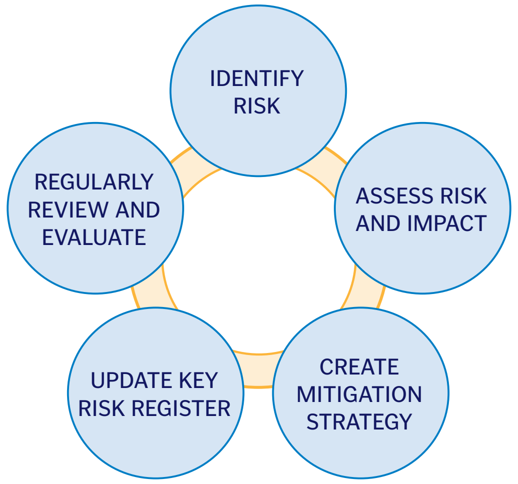
It is good to report that post sale all of these aims were met.

What is the vision for the future?

The poultry sector continues to grow however this is mirrored by an increasingly competitive market. Slate Hall intends to continue to be the leading veterinary provider of poultry services, working alongside our clients to help them address market challenges. It will seek to expand its services and product offerings within the sector, building on the footprint of CVS to have a wider geographical presence and to act as a catalyst for further acquisitions in the poultry sector. As evidence of this it will be shortly be opening its new practice in Yorkshire.

Daniel Parker
Original Partner

Our risk management framework



The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The day-to-day identification, management and mitigation of risk is delegated to the Group's executive management.

The board has undertaken a robust assessment of the group's emerging and principal risks. An annual review on the effectiveness of the group's internal controls and risk management is undertaken. Further details are set out below including mitigating actions which are being taken.

Risk registers are prepared which evaluate the risks most likely to impact the Group. Staff across the business are involved in the process to ensure all potential areas of risk are adequately identified and recorded. Controls that are currently in place are assessed in order to determine the extent to which they mitigate risk and actions are determined where it is considered appropriate to reduce risk further.

The Group's businesses are subject to a wide variety of risks. Some of the most significant risks are explained below together with details of actions that have been taken to mitigate these risks.

↔ No change in risk | ↓ Reducing risk | ↑ Increasing risk

Our strategic priorities

- i Excellent customer service and care
- ii Meeting all of our customers' needs
- iii Expanding our business
- iv Building on our strengths to provide services to external practices

RISK	DESCRIPTION	MITIGATING FACTORS
1 Key staff ↓ Links to strategy P16 strategy: 1 2 3 4	The Group is exposed to risk in relation to its ability to attract and retain key staff, in particular appropriately qualified veterinary surgeons and specialists. The market for veterinary surgeons is highly competitive and there are insufficient UK veterinary surgeons and nurses to fill all positions with a resulting reliance on foreign nationals. Furthermore, there are other changes in the industry such as, the increasing feminisation of veterinary surgeons which may have an impact in due course. As a result of the above factors there has been an increase in the veterinary surgeon and nurse vacancy rates in the UK and an increased reliance on locums. This has resulted in increased salary cost inflation.	The Group is committed to maintaining salaries for its employees which are competitive in the marketplace and regular benchmarking is undertaken. The Group maintains close relationships with UK veterinary schools and has a market leading graduate induction programme in place in order to attract and develop leading graduates. The training and development of the Group's employees is a key focus and Professor Renate Weller was recruited during the year to lead the Group's Learning Education and Development programme. The Group has developed a range of training programmes for its employees which include clinical, customer service and management training. The Group has focused on providing more flexible working for its employees and increased wellbeing support. The retention of senior employees is encouraged through a Group LTIP scheme. An annual SAYE scheme is in place to incentivise all staff and help improve retention. Staff surveys and exit interviews are undertaken and the feedback from these is used to address any common issues or concerns. A highly qualified recruitment team is in place to facilitate the recruitment of employees from the UK and overseas. The group's veterinary surgeon vacancy rate and nurse vacancy rate are both internal performance indicators which are reported to the Board each month. The Home Office has recently confirmed that it supports the Migration Advisory Committee's recommendation that the role of veterinary surgeon should be reinstated on the UK Shortage Occupation List and the Board welcomes this as a positive step in helping to address the UK shortage of veterinary surgeons.

RISK	DESCRIPTION	MITIGATING FACTORS
2 Economic environment ↔ Links to strategy P16 strategy: 3 4	The continued Brexit uncertainty and a decline in the UK economy could result in a reduction in consumer confidence and spending on veterinary services.	The veterinary sector has proven to be resilient in times of past economic downturn and the Board believes that the characteristics of our business make it relatively resilient to future economic fluctuations. The Group has diversified the business and provides a wide range of integrated veterinary services to small animal, equine and farm patients and clients in the UK, Republic of Ireland and the Netherlands. The Group continues to focus on providing the best levels of clinical care and its preventative healthcare schemes serve to bond clients to the Group. The Group now has 401,000 members of its Healthy Pet Club and has recently launched a Healthy Horse Programme. These schemes, and the Group's ability to provide end to end veterinary services, bond clients to the Group and increase retention. The range of businesses within the Group, and our geographic expansion, reduces the risk of the impact of any economic downturn. The small animal, equine and farm veterinary markets have slightly different characteristics and the Group's expansion of its equine and farm divisions reduces its risk. The Group's Animed Direct business protects the Group against an increase in customers who may switch to purchasing pharmaceuticals online. The Group's own brand products are only available in practices and are not available to customers online. The impact from a future Brexit on the Group's business remains uncertain. The Board believes that the main risks from Brexit are from short term disruption to its key supplies and from a subsequent reduction in economic growth. The Group has taken a number of steps to reduce the impact from disruption to its supplies including working with manufacturers and wholesalers to ensure they increase stocks, the development of a new warehouse management system and through short term stock building. The Board believes that the veterinary industry is relatively resilient to economic downturns and hence the impact from Brexit is likely to be less than for many industries. Brexit uncertainty has already impacted on the availability of veterinary surgeons and nurses in the UK and the Board believes that future Brexit certainty will help to improve its ability to attract and retain employees from the EU.
3 Competition ↔ Links to strategy P16 strategy: 1 2 3 4	Increasing corporate consolidation and acquisition of independent veterinary practices by our competitors results in a loss of clients to the Group. Independent practices which currently procure services from the Group are likely to switch their business post acquisition by a corporate competitor thereby resulting in lost revenue to the Group. Increasing acquisition multiples being paid by competitors increases the value of potential acquisition targets and reduces the margins available and the Group's ability to successfully acquire and integrate acquisitions. Increased price competition may limit the Group's ability to pass on increases in employment, pharmaceutical and other costs and result in reduced margins.	The Group focuses on providing the best levels of clinical care and customer service to its clients. The Group's integrated veterinary platform allows it to provide the full range of veterinary services to our clients. The Group provides referral services, out of hours provision, buying group membership discounts, laboratory and crematoria services and these help bond clients to the Group. The Group continues to invest in high class facilities and equipment to provide appropriate clinical service. Employees pride themselves on providing the highest levels of clinical care and excellent customer service. New peripatetic services are being launched to facilitate greater access to specialist care in local practices in order to improve customer access to local care. The Group assesses each acquisition opportunity on its own merits and against a clear set of criteria. The Group will only make acquisitions at acceptable multiples and where it is confident that it will achieve appropriate returns. The Group regularly reviews the pricing of its products and services and seeks to remain competitive in each of the business areas in which it operates.

RISK	DESCRIPTION	MITIGATING FACTORS
4 Adverse publicity ↔ Links to strategy P16 strategy 1 2 3 4	Adverse publicity could result in a reduction in customer numbers, revenue and earnings and in our ability to attract and retain key staff.	The Group aims to provide the highest levels of clinical care and has policies and procedures in place to monitor delivery. The Group's practices participate in the RCVS Practice Standards Scheme and the Group has to date attained 118 outstanding awards. The Group is committed to an ongoing programme of Quality Improvement ('QI') and has been awarded the RCVS Knowledge QI Champion award. The Group operates clinical advisory committees to promote and set appropriate clinical standards and drugs lists across the Group. An independent clinical team monitors practice standards and makes recommendations for future improvement where appropriate. The individual branding of our practices reduces the risk of any adverse publicity at one practice impacting on another or on the wider Group. The Group has a Marketing/communication team in place which can respond swiftly to any adverse publicity. Within the veterinary industry, the Group aims to be prominent in its representation on national bodies and at industry events so as to continue to build its reputation and influence within the industry.
5 Information technology ↔ Links to strategy P16 strategy 1 2 3 4	The Group is dependent on secure and reliable IT technology for the continued operation of its business.	The Group has a number of policies in place that are aimed at ensuring the stability and security of our networks and systems, whilst at the same time supporting the growth of the business. The IT service desk have agreed a number of operational KPIs with the business aimed at ensuring the systems are reliable with minimum down time. Access to networks, applications and data is limited to those who require it. Where possible, physical access to equipment is restricted. Access to networks and applications is restricted by passwords which are changed regularly. Permissions are set so that access within networks and applications are limited as appropriate. Network security is regularly enhanced with external reviews being performed periodically to identify areas of risk. Networks and equipment are automatically monitored to identify risks and issues and failover systems are in place in key areas. A scheduled programme of equipment and software replacement takes place to help ensure that the latest security features are available. Procedures are in place over the development of systems. These require full testing on test platforms and, where relevant on a number of test sites, before the full implementation of any changes. Systems are regularly backed up to the cloud and the recovery of those systems is tested. The main system used by operations is the practice management system in our surgeries. One well established and well maintained practice management system is primarily used. Each practice system is independent of others and most practices can operate for a short period of time without access to the internet. This reduces the risk of any issues impacting on the business. This system is periodically developed to meet the needs of the business.

RISK	DESCRIPTION	MITIGATING FACTORS
6 Ability to source pharmaceutical supplies ↓ Links to strategy P16 strategy 1 2 3 4	The Group's operations require it to acquire and supply significant quantities of pharmaceutical products at appropriate prices. The majority of medicines are purchased through one wholesaler and any operational issues within that supplier could have an adverse impact on the Group. The Group has expanded its operations into equine and farm species and also into the Netherlands and the Republic of Ireland and there is a risk that the Group fails to achieve appropriate prices for pharmaceutical products in these new areas.	The Group has an appropriate supply agreement in place with its major wholesaler to secure supplies. Other wholesalers can supply most medicines and hence the Group is confident that supplies will be available should the existing CVS wholesaler withdraw. CVS has direct relationships with many manufacturers which would enable direct supply should any difficulties occur. The Group has developed an increasing range of own brand medicines which are supplied directly to our warehouse in Diss for onward supply to our practices. These own brand medicines now account for c.25% of small animal first opinion practice drug sales. The Group has developed a new warehouse management system which is expected to go live in the new financial year and this will facilitate further growth in direct distribution. The Group undertakes regular reviews with manufacturers on drug prices and compares pricing for small animal products in the UK, the Netherlands and the Republic of Ireland to identify anomalies in pricing. Similarly the Group reviews equine and farm drug prices in comparison to small animal. Brexit uncertainty may lead to an adverse impact on the availability of drugs in the UK. The Group continues to monitor the position. The main wholesaler and manufacturers are building stocks in advance of a possible Brexit and the Group will also consider increasing its own stock levels to mitigate any risk of supply disruption from Brexit.
7 Ability to source and integrate acquisitions ↓ Links to strategy P16 strategy 1 2 3	The Group has completed a number of veterinary practice and related business acquisitions in recent years and these have driven significant growth in revenue and earnings. Acquisition multiples being paid in the industry have increased and there is a risk that the Group is unable to make further acquisitions at acceptable multiples, or fails to integrate them successfully with its existing operations.	The Group continues to consider opportunities to acquire practices that provide veterinary services to small animal, equine and farm clients, where the Group is confident that they can be acquired at acceptable multiples and can be integrated effectively. In the UK each of these parts of the veterinary industry are at different stages of consolidation with a relatively low level of consolidation in the equine and farm sectors. In recent years the Group has also acquired practices in the Netherlands and in the Republic of Ireland. Both of these markets, whilst smaller than the UK market, are substantially less consolidated and together provide opportunities for further growth through acquisition. The Group may consider entering other geographic markets in due course where they are considered attractive. The Group has developed a robust approach to assess acquisition opportunities against a clear list of criteria and offers are only made where practices meet these criteria and where the Group is confident that we can generate appropriate returns post acquisition and successfully integrate the acquisition target with our existing operations. The Operations teams, who will be responsible for managing the acquisition target post a successful acquisition process, are fully involved in the acquisition process before any offers are made. The Group employs professional advisers to ensure a robust due diligence process is undertaken prior to acquisition and formal business cases are presented to the Board for approval. These business cases clearly set out the rationale for the proposed acquisition, the process by which the acquisition target will be integrated with the Group, the key priorities immediately post acquisition and the expected financial returns. Post acquisition, the results of acquisitions are reported and monitored separately by the Operations teams, by the Executive Committee and by the Board. Any learnings to be gained from previous acquisitions are used to refine the acquisition process and approach.
8 Maintaining appropriate insurance ↔ Links to strategy P16 strategy 1 3 4	The Group's operations expose it to a range of risks which, depending on the circumstances applicable to each one, can be avoided, reduced, accepted or where considered appropriate transferred through the means of insurance. If the Group's insurance arrangements are not appropriate there is a risk that the Group incurs loss as a result.	The Group engages a leading insurance broker to help it consider its risks and to procure appropriate insurance where it decides that it is appropriate and cost effective to transfer risk to a third party insurer. Regular reviews of the Group's insurance requirements are undertaken and amendments to insurance policies, premiums, claims limits and excesses are made where it is considered appropriate. The Group works closely with its insurance Broker and its end insurers to minimise claims arising, to appropriately manage existing claims and to learn lessons from past cases. The Group engages with the Veterinary Defence Society ('VDS') to help reduce clinical risks and to provide support to its clinical staff in managing and defending any claims from customers such as accusations of professional misconduct. The Group pays an annual premium to the VDS to cover both the advice service for its clinical staff, and to cover the premium for providing clinical staff with insurance. The Group's Clinical team work closely with the VDS to review claims and any near misses and in order to ensure that lessons are learned. The Group works closely with its clinical staff in this process in order to ensure they receive appropriate support.

RISK	DESCRIPTION	MITIGATING FACTORS
9 Compliance with legal and regulatory requirements Links to strategy P16 strategy 1 2 3 4	The Group is subject to a wide range of legislation and regulations. Non compliance with laws and regulations could lead to limitations on certain areas of the business or ultimately fines, penalties and the suspension of certain operations.	The Group is subject to general legislation in the same way as other businesses (e.g. on corporate governance, health and safety and employment law). The Group has clearly defined policies in all relevant areas which are communicated to staff and on which staff are trained as appropriate. Suitably qualified experts are employed, checks on compliance are carried out and policies and practices are updated as new legislation and regulations are introduced. The Group obtains professional advice from third party experts where appropriate. Specific regulations apply to different parts of the business. Policies and procedures are maintained in all areas as appropriate. In particular, the practices are subject to various clinical regulations. An experienced Director of Clinical Governance is responsible for ensuring that policies and procedures are in place and that appropriately high standards are maintained. Every practice employs an individual responsible for clinical governance. The Group's Company Secretary is an experienced data practitioner and manages compliance with GDPR requirements and legislation. The Group operates as an Appointed Representative of its pet insurance provider and hence is subject to regulation by the Financial Conduct Authority. The Group employs suitably qualified individuals to ensure compliance with appropriate FCA legalisation and works closely with its insurance provider in this regard.
10 Changes in laws and regulations impact our operations and margins Links to strategy P16 strategy 1 2 3 4	The Group's operations are subject to a number of laws and regulations and changes in these could have a material adverse impact to the Group. For example, the RCVS is debating changes which could allow telemedicine providers to prescribe medicine remotely and this could have a material impact on the Group.	The Group operates under a number of laws and regulations and operations teams in each area of the business have procedures in place to monitor compliance and also to monitor developments and proposed changes. The Group engages closely with regulatory and legislative bodies to promote best practice in veterinary care and to maintain awareness of any proposed changes and to lobby for changes where considered appropriate. For example, the Group believes that its highly skilled veterinary nurses should be able to undertake further clinical work and continues to lobby for this change. The Group has lobbied in recent years for the veterinary surgeon to be added back to the UK Shortage Occupation list and is delighted that the Home Office have now agreed to that change.
11 Change in UK pet population Links to strategy P16 strategy 3	Pet ownership levels in the UK have remained relatively static in recent years but we may see a future decline in the event of an economic downturn or in light of changing lifestyles.	The Group is focused on providing excellent clinical care and choice to our customers. The Group's integrated veterinary model allows it to provide end to end veterinary care including first opinion services, preventive medicine, out of hours provision, specialist referral procedures, pet insurance and online purchasing of drugs, food and equipment. The Group prices it services appropriately in order to compete effectively in the markets in which it operates and believes it is well placed to compete. The Group continues to invest in new facilities, equipment and clinical services in order to promote higher clinical standards and to deliver enhanced clinical work leading to additional revenue per client. The Group's preventative medicine scheme, the Healthy pet Club, now has over 401,000 members and this helps bond customers to the Group. The Group continues to invest in facilities and customer service and has developed a new range of peripatetic services to provide specialist treatments in local practices. The Group monitors practice visits and advanced clinical care as two internal KPIs and hence any adverse trends in these measures would be identified so that appropriate action can be taken in response.

We introduced our first Quality Improvement Report

CVS introduced its first Quality Improvement report in 2018/19 and was the first veterinary corporate group to do so in the UK.

The programme was led by Richard Killen.

Quality Improvement (QI) is a new area for the veterinary industry which CVS practices have embraced and CVS is recognised as one of the world leading groups in this field. The company has introduced a Quality Improvement Strategy and strives to continuously improve clinical standards based on clinical audits and learning from clinical error.

CVS has introduced a Significant Event Reporting System across all practices to help identify areas requiring improvement and to provide support to practices in implementing systems of care. It is recognised that these systems must be continuously examined for effectiveness so that they can evolve to ensure that patient safety is paramount.

All practices have a Head of Quality Improvement to help local implementation with comprehensive training provided. A team of eight Hub Clinical Leads were introduced to all CVS hubs during the spring of 2019. They are all experienced vets, often with further qualifications, whose role it is to visit practices and provide guidance in the provision of the highest clinical standards. They have already made significant improvements in areas such as pain relief and responsible use of antibiotics.

CVS has been working with numerous organisations, including the University of Liverpool and Small Animal Veterinary Surveillance Network (SAVSNET), on promoting appropriate use of antibiotics in Small Animal practices and RCVS Knowledge in promoting QI throughout the veterinary profession.

CVS is committed to ensuring that high clinical standards, providing the best patient care and supporting our colleagues is at the heart of everything we do. We are passionate about promoting and developing Quality Improvement and Clinical Governance within all CVS practices to achieve this.

Continued growth in revenue, adjusted EBITDA and cashflow from operations

Richard Fairman
Chief Financial Officer

Financial highlights

CVS has continued to deliver growth in revenues.

	2019 £m	2018 £m	Change %
Revenue (£m)	**406.5**	327.3	24.2
Adjusted EBITDA (£m)*	**54.5**	47.6	14.5
Adjusted profit before tax (£m)*	**41.4**	36.0	15.0
Adjusted earnings per share (p)*	**46.7**	42.4	10.1
Operating profit (£m)	**15.6**	17.7	(11.9)
Profit before tax (£m)	**11.7**	14.1	(17.0)
Basic earnings per share (p)	**11.6**	16.0	(27.5)

* Adjusted financial measures are defined on page 3 of this Annual Report and Financial Statements and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") below, on page 66 of the annual report (adjusted EBITDA) and on page 89 (adjusted profit before tax and adjusted earnings per share).

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and exceptional items and hence assist in understanding the performance of the Group. These terms are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures.

An explanation of the difference between the reported operating profit figure and adjusted EBITDA is shown below:

	2019 £m	2018 £m
Operating profit as reported	**15.6**	17.7
Adjustments for:		
Amortisation and depreciation	**31.4**	26.4
Costs of business acquisitions	**7.2**	3.5
Exceptional items	**0.3**	-
Adjusted EBITDA	**54.5**	47.6

Adjusted EBITDA increased by 14.5% from £47.6m to £54.5m.

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) decreased from 14.5% in 2018 to 13.4%. This reduction largely reflects performance in the first half of the financial year within the veterinary practices division with an increasing mix of lower margin Farm revenues, higher employment costs and performance from certain acquisitions being below expectations.

Profit before tax for the year decreased from £14.1m to £11.7m (-17.0%). The decrease in profit before tax is primarily due to the £3.8m increase in amortisation costs as a result of the full year impact of prior year acquisitions. Basic EPS decreased 27.5% to 11.6p (2018: 16.0p).

Adjusted profit before tax increased by 15.0% in the year from £36.0m to £41.4m. Adjusted EPS (as defined in note 10 to the financial statements) increased 10.1% to 46.7p (2018: 42.4p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets, business combination costs and exceptional items.

> "Adjusted EBITDA increased by 14.5% from £47.6m to £54.5m."

Long-term growth

The Group has generated consistent growth in the scale of its business and profits over recent years. A summary of the compound annual growth rates ("CAGR") over the past five years in key financial figures is as follows:

	2019 £m	2015 £m	Change %
Revenue (£m)	**406.5**	167.3	24.9
Adjusted EBITDA (£m)	**54.5**	23.0	24.1
Adjusted profit before tax (£m)	**41.4**	18.2	22.8
Adjusted earnings per share (p)	**46.7**	24.7	17.3

Bank facilities

Total bank facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

Cash flow

Cash flow from operating activities was £52.1m (2018: £46.7m). The increase reflects the growth in adjusted EBITDA.

Net debt increased by £33.0m to £102.0m (2018: £69.0m).

The movement in net debt is explained as follows:

	2019 £m	2018 £m
Cash generated from operations	**52.1**	46.7
Capital expenditure - replacement	**(8.9)**	(7.6)
Taxation paid	**(7.3)**	(6.2)
Interest paid	**(3.4)**	(3.1)
Free cash flow	**32.5**	29.8
Capital expenditure - development	**(4.0)**	(3.1)
Acquisitions	**(58.1)**	(52.6)
Proceeds from Ordinary shares	**0.6**	61.0
Dividends paid	**(3.5)**	(2.9)
Debt issuance costs amortisation	**(0.5)**	(0.4)
Acquired finance leases	**-**	(0.8)
(Increase)/decrease in net debt	**(33.0)**	31.0

Cash available for discretionary expenditure ("free cash flow") increased from £29.8m to £32.5m due to improvement in cash generated from operations.

The analysis of capital expenditure in the table above reflects a broad split between expenditure that we expect to increase profit and that which we believe will primarily maintain profit. This split can only ever be approximate. Development capital expenditure includes expenditure on new sites, relocations, significant extensions and significant new equipment. All other expenditure is included as replacement.

£62.0m was paid (including £1.5m repayment of acquired bank debt) for the 34 surgeries acquired during 2019. £1.0m of consideration was payable at 30 June 2019 in respect of completion net asset adjustments. In addition to £62.0m paid for businesses acquired in the year, £0.1m was paid in respect of completion net asset adjustments for business acquired in the 30 June 2018 financial year.

No corporation tax relief is received on the majority of the amortisation and transaction costs which are deducted in arriving at the unadjusted profit before taxation figure. Therefore, taxation paid increases broadly in line with the adjusted profit before tax of the Group. The interest payment of £3.4m was higher than last year (£3.1m) reflecting the higher average net debt during the financial year.

Proceeds from Ordinary shares arose due to the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three-year period and benefit from increases in the Group's share price over that time.

The movement in debt issue costs was £0.2m, which represents the £0.5m amortisation of costs during the year, which is partly offset by the capitalisation of costs £0.3m associated with the September 2018 refinance.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2019 £m	2018 £m
Borrowings repayable:		
within one year	**0.3**	0.5
after more than one year	**114.2**	83.5
Total borrowings	**114.5**	84.0
Cash in hand and at bank	**(12.5)**	(15.0)
Net debt	**102.0**	69.0

The total borrowings principally consist of:

- £95.0m term loan (gross of unamortised issue costs). The term loan is repayable in one bullet payment in 2021; and
- £20.0m drawn down under the RCF (gross of unamortised issue costs). The RCF is available until 2021.

£75.0m of the RCF remained unutilised at 30 June 2019. The Board remains committed to expanding the Group through organic growth and selective acquisitions.

Net debt and borrowing covenants *continued*

The two financial covenants associated with the Group's bank facilities are based on Group borrowings to EBITDA and Group EBITDA to interest ratios. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during that period. The EBITDA to interest ratio must not be less than 4.5. At 30 June 2019 it was 14.55.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.25x, although it is not the Group's intention to operate at this level. The gearing ratio increased during the year from 1.44x at 30 June 2018 to 2.08x at 30 June 2019. This increase in the ratio reflects the increase in borrowings to fund the current year acquisitions. The Group aims to continue to expand the business, and has an acquisition pipeline and sufficient capacity to fund it. The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2018, the Group entered into a three-year interest rate fixed rate swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduced to £35.0m on 1 March 2019.

> "The Board remains committed to expanding the Group through organic growth and selective acquisitions."

Going concern

At the Consolidated and Company statement of financial position date the Group had cash balances of £12.5m and an unutilised overdraft facility of £5.0m. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £95.0m and a RCF of £95.0m. The Directors consider that the £190.0m facility and the £5.0m overdraft enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

After consideration of market conditions including Brexit, the Group's financial position (including the level of headroom available within the bank facilities), financial forecasts for the three-year period to June 2022, its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Taxation

The Group's effective tax rate was 29.9% (2018: 24.1%). A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

	£m	%
Profit before tax	11.7	-
Expected tax at standard rate of tax	2.2	19.0
Expenses not deductible for tax	0.5	4.2
Adjustments to prior year tax charge	0.5	4.2
Impact of tax rate change	0.3	2.5
Actual charge/effective rate of tax	3.5	29.9

All of the Group's revenues and the majority of its expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged in the financial statements.

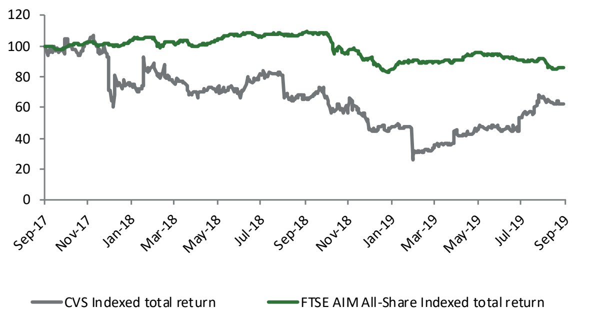
The tax charge has increased by £0.1m to £3.5m (2018: £3.4m) whilst profit before taxation has decreased £2.4m from £14.1m to £11.7m.

The benefit of the tax rate change reflects the impact of the future reduction in corporation tax rates on the deferred tax liabilities in respect of intangible assets.

Share price performance

At the year end the market capitalisation was £511.1m (724p per share), compared to £795.5m (1,131p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All-Share index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 September 2017 to 30 September 2019.

Indexed Total Return (Indexed to 100)



Key contractual arrangements

The Directors consider that the Group has only one significant third-party supplier contract which is for the supply of veterinary drugs. In the event that this supplier ceased trading the Group would be able to continue in business without significant disruption in trading by purchasing from alternative suppliers.

Forward-looking statements

Certain statements in this Annual Report and Financial Statements are forward looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Strategic Report on pages 3 to 41 was authorised by the Board of Directors on 27 September 2019 and was signed on its behalf by:

Richard Fairman
Chief Financial Officer
27 September 2019

Case Study - Our culture and values

We increased our focus on flexible working

Flexing to fit with colleagues' changing needs delivers dynamic long term working partnerships.

We truly believe that, for CVS to fulfil our potential, it is essential that we further advance equality and increase diversity throughout our organisation.

Fundamental to providing equal opportunity to all employees to achieve their maximum potential at work, without discrimination, is enabling them to work flexibly to accommodate their personal circumstances wherever practical.

Supporting greater flexibility also underpins our work to promote gender equality within CVS, in particular, addressing the loss of women across the career pipeline and to encourage promotion of women into senior roles.

Svandis Sigjonsdottir joined Alver Veterinary Group as an administrator, progressed to Practice Administrator and is now Practice Manager. Single mum Svandis explains "While I work a full 40 hour week, CVS has made it easy for me to accommodate child care needs by enabling me to work flexibly. This makes my work/life balance easier to maintain, the result being I enjoy a fulfilling work and home life.

CVS has supported me in my desire for career progression too, they have provided both the encouragement and training that I needed to develop my skills and take on more responsibility in a managerial role."

Svandis Sigjonsdottir
Practice Manager

Richard Connell (64)
Non-Executive Chairman

Appointment to the Board
Richard Connell was appointed to the Board in September 2007.

Career and experience
Richard Connell is a Chartered Accountant and worked in investment management with 3i Group, Invesco and HSBC. In addition to his role with CVS, he is chairman of a number of other companies and was previously chairman of Dignity plc, Mercury Pharma and Ideal Stelrad Group.

Committee membership
Richard is Chairman of the Audit Committee.

Mike McCollum (52)
Non-Executive Director

Appointment to the Board
Mike McCollum was appointed to the Board in April 2013.

Career and experience
Mike McCollum is chief executive officer of Dignity plc, a FTSE listed provider of funeral services. Like CVS, this is a multi-site, acquisitive service business. As Finance Director he was a prime mover in the 2002 leveraged buyout, the whole-business securitisation in 2003 and the IPO in 2004. He became Chief Executive in 2009. Mike is a solicitor and holds an MBA from the University of Warwick.

Committee membership
Mike is Chairman of the Remuneration Committee.

Deborah Kemp (58)
Non-Executive Director

Appointment to the Board
Deborah Kemp was appointed to the Board in January 2018.

Career and experience
Deborah Kemp has a background of demonstrable commercial success, operating in a variety of CEO roles in the consumer and hospitality sector where she was a FTSE100 main Board Director at Punch Taverns PLC. Her career started at Bass PLC as a Chartered Surveyor, subsequently holding key strategic roles in the evolution and growth of Punch Taverns pub company. Following a period in private equity and a trade sale of Laurel Funerals, she is now a Director of Vennco Limited, a consultancy and interim specialist in the consumer-facing retail and hospitality sector, and assists multi-site businesses through growth change and transformation.

Committee membership
Deborah is Chairman of the Nominations Committee.

Simon Innes (59)
Chief Executive

Appointment to the Board
Simon Innes was appointed as chief executive in January 2004.

Career and experience
Prior to this role Simon Innes was chief executive of Vision Express from 2000 to 2004, over which time he built the business up to £220.0m turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. Prior to Vision Express, Simon was on the board of Hamleys PLC as operations director and gained ten years' management experience at Marks & Spencer. He also served seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

Richard Fairman (52)
Chief Financial Officer

Appointment to the Board
Richard Fairman was appointed as Director in August 2018 and was appointed as Chief Financial Officer with effect from 1 October 2018.

Career and experience
Richard spent six and a half years at the RAC Group, including as CFO since 2016. Prior to this, Richard qualified as a Chartered Accountant at Ernst & Young, later working at PricewaterhouseCoopers, following which Richard held roles including Finance Director of Virgin Money, CFO of Central Trust and Finance Director of Virgin Money Giving.

David Harris (57)
Company Secretary

Appointment
David Harris was appointed as Company Secretary in April 2019.

Career and experience
David Harris has a background in commercial litigation and was a partner in a long-established Norfolk law firm. In recent years David has undertaken roles involving corporate governance as Monitoring Officer at Broads Authority, Company Secretary for Whitlingham Trust and is a Board member of and sits on the Audit and Risk Committee of Norfolk and Norwich Association for the Blind. David studied at the University of East Anglia and College of Law Guildford and is a practising solicitor. David also holds qualifications as a Certificated Mediator and recently qualified as a Data Practitioner in GDPR. David is particularly interested in corporate governance and risk management.

David Harris
Company Secretary

Principles of corporate governance

The Directors are committed to maintaining high standards of corporate governance. In September 2018, the Directors elected to adopt the FRC UK Corporate Governance Code ("the Code"). The purpose of this report is to provide our shareholders and stakeholders with information on how the Company is managed, the roles of the Directors and the Committees and to set out the Company's compliance with the Code. The report also sets out the Group's internal management controls while risk management details are available on pages 32 to 36.

It should be noted that the Code was adopted part way through the year.

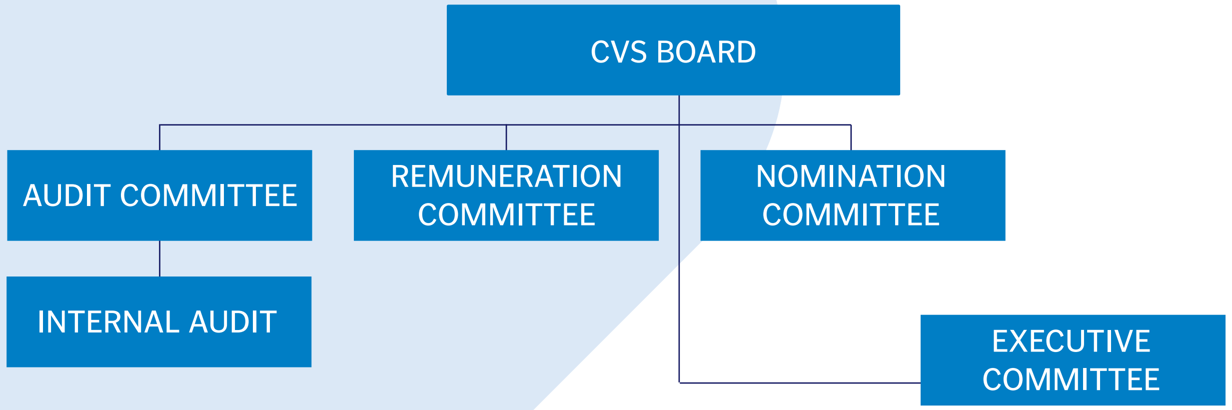
This Annual Report and Financial Statements should, overall, provide information that enables shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006 to promote the effectiveness of the Company.

Compliance statements

During the year to 30 June 2019, the Company has complied with the principles set out in the Code save as reported within this Annual Report in detail in this section. Where the Company feels that it has not complied completely with the principles or the provisions, a full explanation is provided. The following paragraphs consist of Compliance statements.

The purpose of the Company is to provide comprehensive, integrated veterinary services with excellent customer service and care for the health needs of our clients' animals across the small animal, large animal and equine specialisms.

Board of Directors - Leadership and division of responsibilities



AUDIT COMMITTEE

Key responsibilities:

- Review and monitor financial reporting
- Internal control and risk management
- Whistle blowing procedures
- Monitor internal and external audit arrangements

REMUNERATION COMMITTEE

Key responsibilities:

- Review Executive Director performance
- Monitor and review Executive remuneration
- Makes recommendations regarding LTIP awards

NOMINATION COMMITTEE

Key responsibilities:

- Monitor and review the Board composition
- Co-ordination of annual evaluation of the Board and committees
- Make recommendations on all Board appointments and succession planning

Board of Directors – Leadership and division of responsibilities

At the 30 June 2019 the Board of Directors consisted of five members, including a Non-Executive Chair and two other Non-Executive Directors. The Board presents a wide range of experience including customer-facing multi-site companies, mergers and acquisitions, financial, operational and organisational, and no one individual or small group of individuals dominates the Board's decision-making process.

The Company achieves shareholder returns through growth both organically and through the acquisition of practices, laboratories and crematoria.

The Code requires the Annual Report and Financial Statements to identify each non-executive director it considers to be independent.

The Company considers the Chair and both non-executive directors to be independent, those being respectively Richard Connell, Mike McCollum and Deborah Kemp and that all three have been so since appointment.

During the year on 1 October, Richard Fairman took over as Chief Financial Officer, replacing Nick Perrin. Richard has brought a wealth of experience to the Group, acquired during senior financial positions for RAC, Virgin Money and Central Trust Plc.

The business of the Company and its subsidiaries is the combined responsibility of the Board, which is responsible for controlling and leading the Group. The Board's responsibilities include:

- setting the strategy of the Group and making major strategic decisions;
- approving other significant operational matters;
- agreeing annual budgets and monitoring results;
- monitoring funding requirements and forecasting;
- reviewing the risk profile of the Group and ensuring adequate internal controls are in place;
- approving acquisitions of more than £1.0m and all major capital expenditure; and
- proposing dividends to shareholders.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive updates on the duties and responsibilities of being a director of a listed company. This covers legal, accounting and tax matters, as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £50.0m for any one claim.

The Board identifies Mike McCollum as the Senior Independent Non-Executive Director and he is available to shareholders to discuss any matters relating to the Chair. Although Richard Connell has served as Chair for more than ten years, he continues to act in an independent manner and to challenge the Executive Directors.

Richard Connell was appointed on 1 September 2007 and has accordingly served more than 10 years. The Code indicates that one of several examples which may affect independence is if a Non-Executive Director has served for more than nine years from the date of appointment. It also recognises that the period can be extended for a limited time, particularly in those cases where the chair was an existing Non-Executive director on appointment. The Non-Executive Directors continue to review the Chair's performance of his roles and responsibilities and believe that the skills, knowledge and experience that Richard Connell brings to the role mean he is suitable to continue as Chair of the Board. The Board has concluded that Richard Connell continues to demonstrate objective judgment and promotes a culture of openness and debate. The ongoing review of the Chair's performance and independence will continue throughout the current financial year.

The Non-executive directors confirm that they have sufficient time to devote to meet their board responsibilities. In addition to the 11 scheduled board meetings and committee meetings, the Non-executive directors make themselves available for ad-hoc meetings and board calls to deal with specific projects or matters arising during the year.

The Chairman and Non-executive directors meet from time to time as appropriate without the Executive Directors present.

The Non-executive directors also visit the practices, laboratories and crematoria independently to meet with the workforce and develop their understanding of the business operations and are invited to attend the annual conference and take the opportunity to meet colleagues.

The Board has appointed three Committees: the Audit Committee, the Remuneration Committee and the Nominations Committee. All operate within defined terms of reference. Details of the Committees are set out below.

Those attending (of the current Board) and the frequency of Board and Committee meetings held in the financial year were as follows: In addition to attendance at the Board and Committee meetings, the Board Directors make themselves available for ad-hoc Board calls to discuss, amongst other things, fundraising and proposed acquisitions. The Chair and the Non-Executive Directors are invited to attend the annual conference and are available to talk to colleagues from across the Group as well as visiting practices, crematoria and laboratories independently throughout the year. This additional exposure to the Group provides the Non-Executive Directors with invaluable experience enabling them to add value to their role on the Board and drive the strategy of the Group.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	2	2	1
Richard Connell	10	2	2	1
Simon Innes	10	2*	1*	1*
Richard Fairman[1]	9	2*	1*	1*
Mike McCollum	10	2	2	1
Deborah Kemp	9	2	2	1
Nick Perrin[2]	2	1	-	-

* In attendance by invitation of the respective Committee

[1] Richard Fairman was appointed to the Board on 1 August 2018

[2] Nick Perrin resigned from the Board on 28 September 2018

The Audit Committee

The Committee consists of three Non-Executive Directors, Richard Connell, Mike McCollum and Deborah Kemp. Richard Connell is a Chartered Accountant and Mike McCollum has worked previously as the CFO for a FTSE 250 business. Although the Chair of the Board is a member and Chair of the Audit Committee the board believe this to be appropriate given his significant financial experience and, given that as a smaller company, the Company is only required to have two members on the Audit Committee.

The Board considers that members of the Audit Committee have significant financial expertise.

The Audit Committee's duties primarily concern financial reporting, internal control and risk management systems, whistleblowing procedures and internal audit and external audit arrangements (including auditor independence).

The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, for meeting with the external auditor and for reviewing its reports relating to financial statements and internal control matters. The Chief Executive and the Chief Financial Officer are invited to attend such meetings, but the Committee also meets with the auditor without the Chief Executive and the Chief Financial Officer being present at least once annually. Other members of management are invited to present such reports as are required for the Committee to discharge its duties.

The agenda of each meeting is linked to the reporting requirements of the Group and the Group's financial calendar. Each Audit Committee member has the right to require reports on matters relevant to its terms of reference in addition to the regular items.

In the year ended 30 June 2019 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- reviewing the 2019 Annual Report and Financial Statements and the Interim Report issued in February 2019. As part of these reviews the Committee received a report from the external auditor on its audit of the annual financial statements;
- advising the Board that the Annual Report and Financial Statements is fair, balanced and understandable;
- reviewing the effectiveness of the Group's internal controls and reports received from the Group's internal audit function in respect of its programme of internal audit reviews;
- reviewing the Group's risk management framework;
- reviewing the external auditor's audit planning document, with particular reference to the audit approach, planned materiality, significant risks as detailed in the Independent Auditor's Report and the audit approach to these risks;
- reviewing the external auditor's audit findings memorandum, noting conclusions in respect of identified audit risks, materiality of adjusted and unadjusted misstatements, control observations and suggested improvements in the disclosure provided in the Annual Report and Financial Statements;
- considering papers prepared by the Chief Financial Officer to support the going concern basis of preparation;
- agreeing the fees to be paid to the external auditor for its audit of the 2019 financial statements; and
- reviewing the performance and independence of the external auditor.

The external auditor was appointed for the year ended 30 June 2019 and performance is assessed through discussion with and feedback from members of the senior finance team involved in the audit process. The appointment is reviewed and subject to a shareholder vote at the AGM on an annual basis. Details of the fees paid to Deloitte during the financial year are set out in note 6 to the Financial Statements.

The Audit Committee has a programme for reviewing its effectiveness.

Fair, balanced and understandable

The members of the Audit Committee have reviewed the financial statements and the content of the draft Annual Report and Financial Statements to ensure that it is fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the statement set out on page 57.

The Remuneration Committee

The Chair of the Remuneration Committee is Mike McCollum and its other members are Richard Connell and Deborah Kemp.

The Remuneration Committee has delegated responsibility for designing and determining remuneration for the Chair, Executive Directors and next level of senior management, as well as the Company Secretary.

The Chief Executive and the Chief Financial Officer are invited to attend meetings as appropriate but are not permitted to participate in discussions relating to their own remuneration.

The Remuneration Committee Report can be found on pages 48 to 55.

The Nominations Committee

The Chair of the Nominations Committee is Deborah Kemp and its other members are Richard Connell and Mike McCollum. It meets at least once annually. The Nominations Committee is responsible for reviewing the structure, size and composition, including skills, independence, knowledge and experience, of the CVS Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its Committees, and for ensuring appropriate succession plans are in place. Given the size of the group and the company's AIM listing, the board does not believe external evaluation of the board to be appropriate. All directors engage in the internal evaluation and appropriate action is taken in light of the assessment.

The committee is responsible for making recommendations to the CVS Board on all CVS Board appointments and on the succession plans for both Executive Directors and Non-Executive Directors.

During the year the Nominations Committee oversaw the appointment of Richard Fairman following an executive search and comprehensive interview process overseen by the Chairman and CEO.

The Nominations Committee scrutinises the performance of the Executive Directors taking into account the performance of the business against agreed plans. The Nomination Committee also considers the other commitments of directors and is satisfied that all directors devote appropriate time to the Company's affairs.

The board recognises the importance of a diverse board and workforce and encourages reviewing ways of working to ensure candidates from all backgrounds can apply. Each appointment of a board member or senior executive is made on merit and the best candidate will be appointed. The board recognises that further steps can be taken to improve the diversity of the group at all levels and across all business streams.

The Company Secretary

The Company Secretary is responsible for ensuring that board procedures are complied with, advising the board on all governance matters, supporting the Chair and helping the board and its committees to function efficiently.

The Company Secretary is also the Group's Data Protection Officer and is a qualified Data Practitioner.

Relations with shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders where requested and copies are available on the Group's website (www.cvsukltd.co.uk). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary also deals with correspondence as and when it arises throughout the year.

At the Annual General Meeting ("AGM") the shareholders are entitled to raise questions and queries, and the Chair, the Chief Executive and other Directors are available before and after the meeting for further discussions with shareholders.

The Chief Executive and the Chief Financial Officer have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Company held a successful Investors Day at its Lumbry Park Veterinary Hospital on 26 July 2019, which was well-attended.

The Chair and the Non-Executive Directors are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Company Secretary at company.secretary@cvsvets.com.

Audit, Risk and Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness on an ongoing basis.

The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key risk management processes and internal control procedures include the following:

- the close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;
- clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;
- a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from the budget and the prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;
- a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas;
- an independent internal audit function that reports to the Chairman of the Audit Committee;
- a central team that checks clinical, health and safety compliance in all parts of the Group; and
- the Company's Scheme of Delegation of Financial Authority, which has recently been reviewed and updated.

The Board is committed to maintaining high standards of business conduct and ethics, and has an ongoing process for identifying, evaluating and managing any significant risks in this regard.

The internal control procedures are delegated to the Executive Directors and senior management and are reviewed in light of the ongoing assessment of the Group's significant risks.

Internal audit

The internal audit team has implemented and refined the audit process focusing on financial and related procedure risks primarily across the Veterinary Practices Division. Performance of the internal audit function will continue to be reviewed during the current financial year to ensure it remains fit for purpose.

Remuneration

The Board considers that policies on executive remuneration should be transparent. They should be implemented in a manner which supports strategy and promotes long-term sustainable growth. In addition, remuneration should reflect both the performance of the Company as well as individuals. The Board has delegated to the Remuneration Committee responsibility for complying with these aspects of the Code and the work of the committee is reported in full elsewhere in this annual statement.

By order of the Board

David Harris
Company Secretary
27 September 2019

Mike McCollum
Remuneration Committee Chairman

Highlights

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19

CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

The information is unaudited

This report is for the period to 30 June 2019. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The information is unaudited.

Dear shareholder,

I am pleased to introduce the Directors' Remuneration Report for the 2019 financial year.

Remuneration policy

The design of remuneration policies structures and schemes is a crucial part of the remuneration committee's role. The remuneration policy in respect of Executive Directors is designed to ensure that the Group achieves its potential and increases long term shareholder value. In respect of basic salary, the objective is to ensure that the Group attracts and retains high calibre Executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and LTIPs are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance and align the interests of executive directors with shareholders over the long term. Performance conditions are selected to reflect the company's and shareholders' objectives. The policy also provides for post-retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car and life and medical insurance.

Performance and decisions on remuneration taken in 2018/19

Salaries are reviewed annually and benchmarked against similar listed companies with changes effective in January. With this in mind, the Remuneration Committee decided to increase the salary of the CEO by 2.0% to £420,240 and to increase the salary of the CFO by 2.0% to £255,000.

The annual bonus scheme in which the Executive Directors participate is based on the achievement of adjusted EBITDA performance. For 2018/19, the bonus maximum for the CEO was 100% of base pay and for the CFO was 75% of base pay. Due to more challenging conditions during the year, the targets were not met and no bonus will be payable to either the CEO or the CFO.

In October 2018 the Company granted awards under its LTIP to the CEO with a value of 125% of salary and to the Finance Director with a value of 100% of salary. As in previous years, these awards are subject to an adjusted EPS real growth performance condition measured over three years. Detail on the performance condition is set out later in this report.

Adjusted EPS for the year ended 30 June 2019 was 46.7p. This compares to adjusted EPS of 32.4p for the year ended 30 June 2016, a compound annual growth rate ("CAGR") of 9.71% above inflation. The target CAGR for threshold and full vesting of LTIPs issued in 2016 was 8% and 12% above inflation, respectively, and this target has partially been met and therefore only 66% of the options granted have vested.

Development of remuneration policy

The Remuneration Committee reviews the policy in light of market conditions, performance and developments in good corporate governance whilst taking account of the Company's status as a larger AIM company.

During the year, the Remuneration Committee reviewed the policy and decided to develop the policy in a number of areas. These changes are summarised below and in the summary policy table.

The Remuneration Committee sees that the existing remuneration policy supports the Group's strategy and objectives and fits the company's size and profile. CVS is committed to high standards of corporate governance and for this reason has adopted the FRC UK Corporate Governance Code 2018.

In this context, the Committee will make a number of changes to reflect developments in governance best practice and some changes to the structure and workings of its incentive arrangements to increase alignment with shareholders and ensure they remain appropriate and effective.

Changes in response to governance developments

The Committee has noted new guidance in respect of incentive schemes covering malus and clawback, to ensure a substantial list of specific circumstances in which the provisions apply and to ensure provisions are consistent across different incentive schemes, and to ensure that the Committee has discretion to vary pay-outs in the event of exceptional negative events and to override formulaic outcomes. The company will update the documentation under which annual bonus and long term incentives are operated and paid to develop these features – malus and clawback and broad Committee discretion.

Pension arrangements, including contribution rates, for new executive directors will be aligned with those of the majority of the UK workforce. The pension arrangements of the CEO and CFO will remain as they are.

The Remuneration Committee did consider whether to introduce a number of additional changes. We have decided not to go down these routes at this stage in order to maintain flexibility in view of the company's status as an AIM, not a Premium List, company. The Committee believes it appropriate to maintain a three-year performance period for its LTIP awards and with no additional holding period. It sees this three-year period as appropriate given that the company is quoted on AIM. The Committee sees that the implementation of post-employment holding periods would be cumbersome and inflexible and prefers to focus at this point on encouraging executives to build their shareholdings.

Commercial changes

The Remuneration Committee will not make substantial changes to the basic structure of remuneration, covering salary, pension, benefits, annual bonus and long-term incentives but will make a number of modest changes.

The maximum bonus opportunity of our CFO, Richard Fairman, who joined the company in August 2018, was 75% of salary in the year 2018/19. This will be increased to 100% of salary from 2019/20 so that it is competitive and effective. Annual bonus will remain subject 100% to an EBITDA performance condition.

To date, LTIP awards have been 100% subject to an EPS growth target. The Remuneration Committee proposes that awards made later in 2019 will be subject 50% to an EPS growth target and 50% to a relative TSR performance condition, the comparator group being FTSE 250 companies excluding investment trusts. The reason for making this change is to increase alignment with shareholders and to broaden the performance target structure. The Committee notes that many UK midcap companies have an element of comparative TSR in their LTIP performance conditions reflecting investors' expectations and preferences.

In light of the company's outlook and strategy, the Committee is considering the EPS growth target range which it will apply to awards made in 2019. Over the last four years, the target range has been the same each year. The Committee sees that its approach should be more flexible, to ensure that the targets are robust, achievable and demanding in view of the company's strategy and outlook at the point of award. In pitching targets, the Committee will bear in mind issues such as the anticipated forward acquisitions profile as well as the impact of share buy backs.

The Committee will consider and determine the pitching of this EPS performance condition, as well as the levels of award to be made to the CEO and the CFO, at the point of award and state the growth target in the award announcement and in the 2020 annual report. The Committee intends to consult with major shareholders on these points shortly before the awards are made.

A description of how the company has addressed the matters specified in Rule 41 of the FRC Code is set out under the policy table.

Moving forwards the remuneration committee will continue to adopt policies and procedures recommended by the code in particular we will seek to be innovative and to simplify remuneration structures in relation to performance based incentives plans and include a range of financial, non-financial and strategic measures to deliver value over the long term.

We were pleased that the advisory vote to approve the Directors' Remuneration Report at our 2018 AGM was supported by 99.31% of votes cast.

I hope that you find the report helpful and informative and I look forward to receiving further feedback from our investors on the information presented.

Mike McCollum
Remuneration Committee Chairman
27 September 2019

Executive Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company with regard to its Directors.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business. To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy.	Salaries are reviewed annually and benchmarked against similar listed companies with any changes effective from 1 January. The review takes into account: • Company performance and rapid increase in scale and complexity; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company.	The CEO's base salary was reviewed on 1 January 2019 (the prior review being in January 2018) and was increased by 2.0% to £420,240. The CFO's base salary was reviewed on 1 January 2019 (the prior review being on appointment on 1 August 2018) and was increased by 2.0% to £255,000	Not applicable.
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain Executive Directors.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive. Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.	The cost of providing these benefits varies year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain appropriately qualified Executive Directors.	The CEO participates in a defined contribution pension arrangement and also receives a payment in lieu of a full pension. The CFO receives a payment in lieu of a pension. Pension arrangements, including contribution rates, for new executive directors will be aligned with those of the majority of the UK workforce.	The CEO is entitled to a Company pension contribution of 15%. This is primarily taken as a payment in lieu of a pension. The CFO is entitled to a Company pension contribution of 12%. This is primarily taken as a payment in lieu of a pension. For the CEO, where a payment is taken in lieu of a pension it is reduced by the amount of the Company's liability to pay National Insurance on the contribution.	Not applicable.
Annual bonus			
To drive and reward exceptional performance	The Executive Directors are eligible to participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee. Bonuses are paid in cash based on audited financial results. Commencing financial year 2018/19, annual bonus payments will be subject to a clawback provision.	From 2018/19, for the Executive Directors, the maximum capped bonus potential is 100% of salary. In 2018/19 the maximum bonus opportunity of the CFO was 75% of salary. From 2019/20, it will be 100% of salary.	For the years ended 30 June 2019 and ending 30 June 2020, the targets are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year and exceptional items. The level of payment commences from zero at the threshold target increasing on a straight line basis to full payment at the maximum target.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Long Term Incentive Plan ("LTIP")			
To drive and reward exceptional performance. To align the interests of Executive Directors and shareholders.	The Executive Directors are entitled to be considered for the grant of awards under the LTIP. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable. Awards are released to participants after a performance period of three years, subject to certain performance and service conditions being met. 40% of awards vest at threshold performance for LTIP10 and 25% of awards vest at threshold performance for LTIP11, LTIP12 and later. The LTIP rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. Performance conditions are set by the Remuneration Committee at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period.	From 2018, the Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO and the Group CFO at 125% and 100% of salary, respectively. The maximum annual award permissible under the 2017 plan rules in exceptional circumstances is 200% of salary.	Up to and including 2018, an adjusted EPS CAGR real growth target is applied to awards. The adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations, income tax, and exceptional items. For 2019, awards will be subject 50% to an EPS grown target, as previously, and 50% subject to a relative TSR performance condition against the FTSE250 companies excluding investment trusts. In addition and irrespective of the targets, no award will vest unless, in the opinion of the Remuneration Committee, the underlying performance of the Group has been satisfactory over the measurement period. An amendment to the 2017 plan will be made in 2019 to ensure that the committee has a discretion to vary pay-outs in the event of exceptional negative events and to override formulaic outcomes.
Shareholding guideline			
To incentivise executives to achieve the Company's long term strategy and create sustainable shareholder value. To align with shareholder interests.	Target value to be achieved over five years: CEO – 100% of salary. CFO – 100% of salary. Executives may sell only 50% of vested awards (after selling sufficient to cover tax liabilities) until guideline is met.		

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each year. Under the 2019, 2018 and 2017 schemes the awards were made at a 10% discount to the closing mid-market price on the day preceding the date of invitation. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Directors' remuneration

The Chairman and the other Non-Executive Directors remuneration comprises only fees. They are reviewed annually with changes effective from 1 January each year. The Chairman's and the Non-Executive Directors' fees are approved by the Board on the recommendation of the CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration. The Chairman and the other independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees paid for 2019/20 are set out in the Annual Report on Remuneration.

The current fees are as follows:

Director	
R Connell	£113,081
M McCollum	£46,000
D Kemp	£46,000

Executive Directors' service agreements

S Innes entered into his service agreement on 4 October 2007, N Perrin entered into his on 1 January 2013 and ceased on 28 September 2018 and R Fairman entered into his service agreement on 19 July 2018. The CEO's agreement can be terminated by either the CEO or the Company on twelve months' notice. The CFO's agreement can be terminated by either the CFO or the Company on a six months' notice. As well as an annual salary, the service contracts also detail the provision of other benefits including performance related bonuses, medical and life insurance, a car allowance and contributions to personal pension plans.

Non-Executive Directors' letters of appointment

R Connell was appointed on 4 October 2007. His most recent service agreement is dated 24 September 2019 and is for a one-year term ending on 24 September 2020. M McCollum was appointed on 2 April 2013. His most recent service agreement is for a one-year term ending on 24 September 2020. These appointments can be terminated by the Company or directors by giving three months notice. D Kemp was appointed on 2 January 2018 for a three year term ending on 1 January 2021. Her appointment can be terminated by the Company or herself by giving six months' notice.

Further items specified under Rule 41 of the FRC Code

The Remuneration Committee believes remuneration is appropriate in the light of the skills and experience of the executives, the need for differentials between different levels of seniority and in the context of the amounts and structure of remuneration at comparable UK companies.

Mindful of provision 40 of the Code adopted during the year, the Remuneration Committee will continue to consider factors including clarity, simplicity, risk, predictability, proportionality and alignment to culture. The Remuneration Committee believes that the Company's remuneration practices are clear and simple, as laid out in this remuneration report. The committee has always been mindful of reputational and other risks in managing remuneration and taking decisions. Malus and clawback provisions and Remuneration Committee ability to exercise discretion within the policy support the mitigation of risks. The committee believes that the range of possible values of rewards is clearly identified and explained in this report, that rewards and potential rewards are proportionate and do not reward poor performance and that remuneration arrangements are aligned with company culture.

The Remuneration Committee believes that the policy operated as intended in terms of company performance and quantum during 2018/19. The Company did not engage with shareholders on remuneration during 2018/19 but engaged extensively with shareholders during 2017/18. The Committee did not engage with the work force in respect of executive remuneration during 2018/19. The Committee did not apply discretions in respect of the operation of annual bonus or LTIP during 2018/19.

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the period ended 30 June 2019.

Membership and role of the Remuneration Committee

The Remuneration Committee is appointed by the Board, and comprises M McCollum as Chairman, R Connell and D Kemp. The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long-term incentive awards and pension arrangements.

Advisors

During the year, the Company engaged h2glenfern, a remuneration advisory practice, to provide advice on the new LTIP and the overall development on Executive remuneration. Moving forward we will continue to assess against pay ratios and pay gaps. The board is satisfied that h2glenfern is independent and has no connection to any individual director.

Remuneration of the Executive Directors

Directors' emoluments

		Basic salary allowance and fees £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	Value of share LTIP awards vested during the year** £'000	**Total £'000**
Executive Directors							
S Innes	2019	416	38	44	-	282	**780**
	2018	406	38	43	-	398	**885**
N Perrin*	2019	89	12	9	-	208	**318**
*Resigned 28 September 2018	2018	264	19	28	-	206	**517**
R Fairman*	2019	232	9	28	-	-	**269**
*Appointed 1 August 2018	2018	-	-	-	-	-	**-**
Non-Executive Chairman							
R Connell	2019	113	-	-	-	-	**113**
	2018	113	-	-	-	-	**113**
Non-Executive Director							
M McCollum	2019	46	-	-	-	-	**46**
	2018	46	-	-	-	-	**46**
D Kemp*	2019	46	-	-	-	-	**46**
*Appointed 2 January 2018	2018	23	-	-	-	-	**23**

Benefits in kind include the provision of a company car and medical and life insurance for each Executive Director.

No Director waived emoluments in respect of the years ended 30 June 2019 or 30 June 2018.

**The value of the share LTIP awards vested during the year is calculated using the share price at date of grant and the number of shares vested.

The remuneration of the Executive Directors of CVS Group plc is borne by the subsidiary company, CVS (UK) Limited, without recharge to CVS Group plc.

		Bonus (% of salary)	**Range (adjusted EBITDA)**	**Actual £m**	**Payout £m**
Simon Innes	2019	100	£56.7m to £59.0m	54.5	-
Richard Fairman	2019	75	£56.7m to £59.0m	54.5	-

The remuneration committee has continued to operate a policy in line with the company performance, for example no bonus will be payable to the CEO or CFO in relation to the 2019 financial year as the company has not met the financial targets as set out in the bonus schemes above.

Due to the commercially sensitive nature of the proposed bonus targets, the committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to publish Annual Bonus targets in the Annual Report and Financial Statements for the year to June 2020.

Share scheme interests as at 30 June 2019

Details of plans at the reporting date that have not yet vested are set out below.

Award	Grant date	Vesting period	
LTIP10*	20 December 2016	3 years	The performance targets for LTIP10 are based on achieving adjusted EPS growth in excess of inflation as follows: • Less than 8.0% CAGR – no award • 8.0% to 12.0% CAGR – awarded on a straight line basis between 40% and 100% of total award • More than 12.0% CAGR – full award
LTIP11 LTIP 12	17 January 2018 12 October 2018	3 years 3 years	The performance targets for awards LTIP11 and LTIP12 are based on achieving adjusted EPS growth in excess of inflation as follows: • Less than 8.0% CAGR – no award • 8.0% to 12.0% CAGR – awarded on a straight line basis between 25% and 100% of total award • More than 12.0% CAGR – full award

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 27 September 2019 are as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting shares	Exercise price	Number of shares
S Innes					
LTIP10*	20 December 2016	1,067p	30 June 2019	0.2p	40,000
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	40,000
LTIP12	12 October 2018	807p	30 June 2021	0.2p	63,797
R Fairman					
LTIP12	12 October 2018	807p	30 June 2021	0.2p	30,969
SAYE12	30 November 2018	913p	1 January 2022	830p	737

*These awards have now partly vested.

Directors' interests in shares

The interests of the Directors when combined with their spouses holdings as at 30 June 2019 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	140,000
M McCollum	38,678
D Kemp	6,559
S Innes	265,334
R Fairman	11,450

Apart from the interests in shares and share options disclosed above, the Directors had no other interest in shares of Group companies.

At 30 June 2019, the market price of the Ordinary shares was 724p.

During the year shares lapsed as follows;

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting shares	Exercise price	Number of shares
N Perrin					
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	5,525
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	20,800
SAYE9	25 November 2016	875p	1 January 2020	790p	318

The following options have been exercised during the year:

	Scheme	Number of shares	Exercise date	Exercise price	Share price at exercise date
S Innes	LTIP9	57,000	2 November 2018	0.2p	910p
N Perrin	LTIP9	29,500	2 November 2018	0.2p	910p
	LTIP10	19,475	12 December 2018	0.2p	611p

Gains arising on the exercise of options for S Innes and N Perrin amounted to £518,586 and £387,403 respectively.

No options have been exercised for R Fairman.

Statement of voting

At the 2018 AGM, a motion was proposed to the shareholders to approve on an advisory only basis the Directors' Remuneration Report contained in the 2018 annual report. 99.31% of votes cast were in favour of the motion.

On behalf of the Remuneration Committee

Mike McCollum
Remuneration Committee Chairman
27 September 2019

Directors' report

The Directors present their Annual Report and Financial Statements together with the audited consolidated financial statements for the year ended 30 June 2019.

Principal activities and results

The principal activities of the Group are to operate animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line pharmacy and retail business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £8.2m (2018: £10.7m).

Business review

The information that fulfils the requirements of the business review, including details of the 2019 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 6 to 8), the Business Review (pages 26 to 29) and the Finance Review (pages 38 to 41) including key performance indicators (pages 18 and 19) and principal risks and uncertainties (pages 32 to 36).

Dividends

The Directors recommend the payment of a dividend of 5.5p per share (2018: 5.0p) amounting to £3.9m (2018: £3.5m). Subject to approval at the Annual General Meeting, the dividend will be paid on 6 December 2019 to shareholders on the register at the close of business on 22 November 2019. The aggregate dividends recognised as distributions in the year ended 30 June 2019 amounted to £3.5m (2018: £2.9m). No interim dividends (2018: £nil) have been paid during the year.

Dividend policy

The Group has established an ordinary dividend policy that is both progressive and sustainable, based on growing the ordinary dividend per share over time. The rate of growth of the ordinary dividend will be decided by the board in the light of the circumstances at the time. The board also gives due consideration to the return of capital through the use of special dividends or share buybacks.

The ability of the Group to pay a dividend is also subject to constraints including the availability of distributable reserves and the Group's financial and operating performance. Distributable reserves are determined as required by the Companies Act 2006 by reference to a Company's individual financial statements.

Directors

The following Directors held office during the year and up to the date of signing the financial statements unless otherwise stated:

R Connell
S Innes
M McCollum
D Kemp
N Perrin (resigned 28 September 2018)
R Fairman (appointed 1 August 2018)

Biographical details of the Directors are provided on pages 42 and 43.

Re-election of Directors

The Articles of Association of the Company require all Directors to be re-elected at intervals of not more than three years. The Board has decided that it is appropriate for all Directors to be reappointed each year, so in accordance with that decision all Directors will stand for re-election at the Annual General Meeting.

Directors' remuneration and interests

The Remuneration Committee Report is set out on pages 48 to 55. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Environment

The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with in addition to providing training to its employees to ensure compliance.

Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect.

Health and safety

The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our customers and employees is of paramount importance. The Group's operations are managed at all times in such a way as to ensure, as far as is reasonably practicable, the health, safety and welfare of all of our employees and all other people who may be attending our premises.

Corporate governance

The Board's Corporate Governance Statement is set out on pages 44 to 47.

Financial instruments

Details of the Group's financial risk management objectives and policies are included in note 3 to the financial statements.

Substantial shareholdings

	Numbers of shares	% of total issued
Canaccord Genuity Group Inc	5,766,044	8.16
JPMorgan Chase & Co	5,648,725	8.00
Octopus Investments Limited	5,586,750	7.91
The Goldman Sachs Group Inc	4,115,661	5.83
Connor, Clark & Lunn	4,021,492	5.69
Invesco	3,854,607	5.46
Ameriprise Financial	3,152,701	4.46
NN Group NV	2,992,020	4.23
Slater Investment	2,494,434	3.53
BlackRock Inc	2,316,597	3.28

Share capital and substantial shareholdings

Details of the share capital of the Company as at 30 June 2019 are set out in note 23 to the financial statements.

At 31 August 2019, the Company has been notified of the substantial shareholdings detailed in the table above comprising 3% or more of the issued Ordinary share capital of the Company.

The board is satisfied that no major shareholders presents a conflict of interest or exerts undue influence over the board's independent judgement.

Employees

Consultation with employees takes place through a number of regional meetings throughout the year and an annual staff survey. The aim is to ensure that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole. To enhance communication within the Group, a committee is in place which is constituted of regional members from all areas of the business with the aim of improving consultation and communication levels.

Deborah Kemp is the Board's dedicated non-executive director for employee engagement and Deborah consults with employees through attendance at our annual employee conference and through periodic visits to our businesses.

The group regularly consults with and seeks feedback from employees and the board monitors employee engagement.

Applications for employment by disabled people are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should be, as far as possible, identical to that of a person who does not have a disability.

The Group operates a Long Term Incentive Plan for Executive Directors and senior managers. Details are included in note 8. The Group also has a Save As You Earn scheme, now in its 11th year, under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 10% discount to the shares' market value at the date of invitation. The scheme is open to all UK Group employees, including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 48 to 55.

Directors' third-party indemnity provision

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the year and also at the Consolidated and Company statement of financial position date for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the annual report provides information necessary to enable shareholders to assess the company's position, performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this Annual Report and Financial Statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Resolutions concerning the re-appointment of Deloitte LLP as auditor and authorising the Audit Committee to set it's remuneration will be proposed at the AGM.

By order of the Board

David Harris
Company Secretary
27 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CVS GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of CVS Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated and company statement of cash flows; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – Healthy Pet Club • Approach to intangible valuation in acquisition accounting Our key audit matters are consistent with the prior year.
Materiality	The materiality that we used for the group financial statements was £1.3m (2018 - £1.05m), which was determined after considering revenue, pre-tax profit, adjusted pre-tax profit, adjusted EBITDA and net assets.
Scoping	Our audit comprised 5 full-scope audits and a further 11 components subject to audit procedures on specified account balances. The remainder of the group was subject to review procedures only.
Significant changes in our approach	There were no significant changes in our approach during the current year.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – Healthy Pet Club	
Key audit matter description	The group earns revenue via the Healthy Pet Club ("HPC") whereby customers sign up for a monthly or annual direct debit arrangement in exchange for a range of preventative products and treatments at a discount to the standalone selling price. The group recognised £45.4 million of HPC revenue during the year, and has 401,000 active members as at the year-end. The accrued revenue in respect of HPC as at the year-end is £8.6m. The revenue recognition for this scheme is complex since IFRS 15 Revenue from Contracts with Customers requires revenue to be recorded either at a point in time or over time according to when the performance obligation is satisfied. Revenue must also be adjusted for anticipated animal deaths (where outstanding fees will be waived) and irrecoverable debts. There is therefore a risk that the revenue accrual is not recorded in accordance with IFRS 15 Revenue from Contracts with Customers. The accounting policy for HPC revenue is to recognise revenue according to the cost profile associated to providing the services offered in the scheme, and is disclosed in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	Our audit procedures included a critical assessment of the appropriateness of management's revenue recognition policy with reference to the requirements of IFRS 15, and in particular, whether the profile of revenue recognition matches the timing of fulfilment of the performance obligation. We have challenged the cost assumptions and calculations used to determine the cost profile in the model by reference to terms and conditions of the scheme, supporting documentation for the product and service costs included and historical fact patterns. We also examined cancellation and animal death rates to ensure the deduction from the revenue accrual was appropriate.
Key observations	Based on the audit procedures performed, we have concluded that the key assumptions used by management are reasonable, and the revenue recognition in respect of HPC is appropriate under IFRS 15.

Acquisition fair value accounting	
Key audit matter description	The group acquired 26 veterinary practice businesses during the year for total consideration of £56.6 million. The book value of net assets acquired was £1.4 million, and management have recognised an additional £29.2 million in respect of separately identifiable patient data lists, net of deferred tax. Goodwill is therefore £26.3 million, after other fair value adjustments of £0.3 million. The valuation of the separately identifiable intangible assets (excluding goodwill) requires significant judgement and estimation, including application of a customer attrition rate and discount rate for customer list intangible assets. Details of the acquisitions are provided in the Strategic Review, on pages 26 to 28. Note 2 to the financial statements sets out the group's accounting policy for business combinations, and Note 14 to the financial statements provides a summary of assets acquired and acquisition intangibles recorded for all current year acquisitions.
How the scope of our audit responded to the key audit matter	We reviewed the acquisition accounting for all current year acquisitions and checked that a valuation exercise had been undertaken for all acquired businesses. We then engaged a valuation specialist to assess the completeness of assumptions included in the model, and provide sensitised valuations in instances where certain key inputs had not been included. We also benchmarked the key assumptions and assessed the appropriateness of management's customer attrition rate in the context of data on demographic mobility and average pet life. The discount rate was compared to a range determined by a valuation specialist.
Key observations	We found the valuation methodology adopted by management to be acceptable and key assumptions used by management fall within a reasonable range. The model does not incorporate certain key assumptions, including contributory asset charges (CACs), working capital and an assembled workforce, but the impact of these is immaterial at the primary statement level.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Key audit matter description	£1,300k (2018: £1,050k)	£1,287k (2018: £1,040k)
Basis for determining materiality	We considered pre-tax profit and revenue when determining materiality, as well as the growth of the business (as indicated by revenue growth) versus FY18. We also considered the materiality that might be adopted by reference to non-statutory measures adjusted pre-tax profit and adjusted EBITDA, and ultimately used a blend of these measures. Materiality represents 3.2% of adjusted pre-tax profit, and less than 1% of net assets.	Parent company materiality was determined based on 1% of net assets, and capped at 99% of group materiality.
Rationale for the benchmark applied	We have considered both statutory and adjusted pre-tax profit and net assets and reflected the metrics that are deemed to be of most importance to stakeholders.	As a holding company, net assets was considered the most relevant benchmark to users of the parent company financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £65k (2018: £53k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

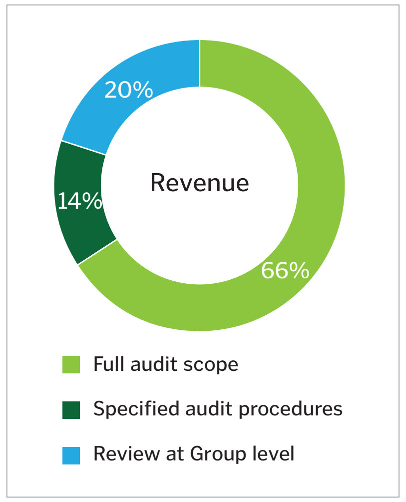
An overview of the scope of our audit

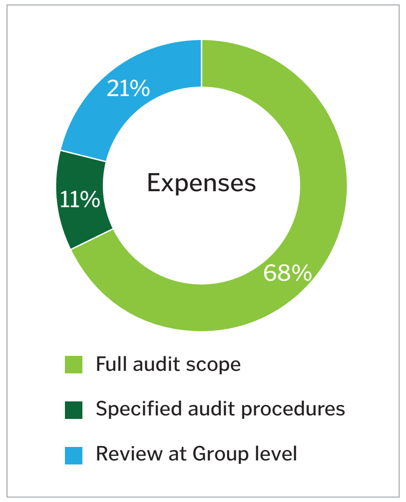
Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

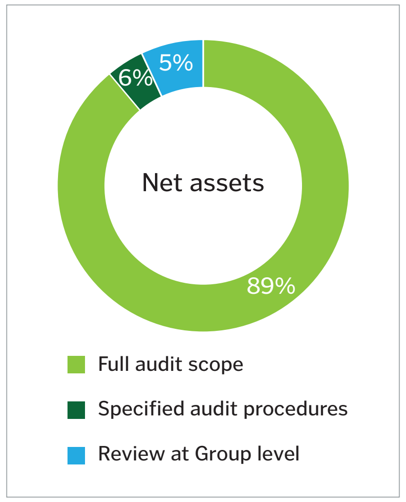
We have focused our work on the UK-based subsidiaries which account for the significant majority of the group's assets, liabilities and gains and losses. We have subjected 5 components to full-scope audits and a further 11 components to audits of specified account balances. The remainder of the group, including components located overseas, were subject to review procedures only.

All audit work was carried out by the UK engagement team, with no reliance of component auditors. Testing was performed to component materiality ranging from £455k to £1,100k.

The coverage achieved by this strategy is as follows:







Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Lee Welham FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
27 September 2019

Consolidated income statement
for the year ended 30 June 2019

	Note	2019 £m	2018 £m
Revenue	4	**406.5**	327.3
Cost of sales	6	**(237.6)**	(175.7)
Gross profit		**168.9**	151.6
Administrative expenses	6	**(153.3)**	(133.9)
Operating profit		**15.6**	17.7
Finance expense	5	**(3.9)**	(3.6)
Profit before income tax	4	**11.7**	14.1
Income tax expense	9	**(3.5)**	(3.4)
Profit for the year attributable to owners of the parent		**8.2**	10.7
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	10	**11.6p**	16.0p
Diluted	10	**11.6p**	15.9p

All activities derive from continuing operations.

Reconciliation of adjusted financial measures

The Directors believe that adjusted profit provides additional useful information for shareholders on performance. This is used for internal performance analysis. This measure is not defined by IFRS and is not intended to be a substitute for, or superior to, IFRS measurements of profit. 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, and exceptional items.

Non-GAAP measure: adjusted EBITDA	Note	2019 £m	2018 £m
Profit before income tax		**11.7**	14.1
Adjustments for:			
Finance expense	5	**3.9**	3.6
Depreciation	13	**9.2**	8.0
Amortisation of intangible assets	12	**22.2**	18.4
Costs relating to business combinations*	4	**7.2**	3.5
Exceptional items	4	**0.3**	-
Adjusted EBITDA	4	**54.5**	47.6

* Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.

Consolidated statement of comprehensive income
for the year ended 30 June 2019

	Note	2019 £m	2018 £m
Profit for the year		**8.2**	10.7
Other comprehensive income – items that will or may be reclassified to loss in future periods			
Cash flow hedges:			
Net movement on cashflow hedge	16	**(0.1)**	0.1
Exchange differences on translation of foreign operations		**0.2**	-
Other comprehensive income for the year, net of tax		**0.1**	0.1
Total comprehensive income for the year attributable to owners of the parent		**8.3**	10.8

Consolidated and Company statement of financial position

as at 30 June 2019

Company registration number; 06312831

	Note	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Non-current assets					
Intangible assets	12	**244.5**	203.5	**-**	-
Property, plant and equipment	13	**51.4**	47.9	**-**	-
Investments	15	**0.1**	0.1	**68.5**	68.4
Deferred income tax assets	22	**0.2**	0.6	**-**	-
Derivative financial instruments	16	**0.1**	0.2	**-**	-
		296.3	252.3	**68.5**	68.4
Current assets					
Inventories	18	**17.0**	13.5	**-**	-
Trade and other receivables	19	**51.6**	38.2	**85.8**	89.1
Cash and cash equivalents	26	**12.5**	15.0	**-**	-
		81.1	66.7	**85.8**	89.1
Total assets	4	**377.4**	319.0	**154.3**	157.5
Current liabilities					
Trade and other payables	20	**(73.7)**	(53.9)	**-**	-
Current income tax liabilities		**(4.9)**	(3.6)	**-**	-
Borrowings	21	**(0.3)**	(0.5)	**-**	-
		(78.9)	(58.0)	**-**	-
Non-current liabilities					
Borrowings	21	**(114.2)**	(83.5)	**-**	-
Deferred income tax liabilities	22	**(21.2)**	(19.8)	**-**	-
		(135.4)	(103.3)	**-**	-
Total liabilities	4	**(214.3)**	(161.3)	**-**	-
Net assets		**163.1**	157.7	**154.3**	157.5
Shareholders' equity					
Share capital	23	**0.1**	0.1	**0.1**	0.1
Share premium	25	**99.7**	99.1	**101.8**	101.2
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Revaluation reserve	24	**0.1**	0.1	**-**	-
Merger reserve		**(61.4)**	(61.4)	**-**	-
Retained earnings		**124.0**	119.2	**51.8**	55.6
Total equity		**163.1**	157.7	**154.3**	157.5

The Company reported a loss for the financial year ended 30 June 2019 of £0.4m (2018: £0.2m).

The notes on pages 72 to 104 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 104 were authorised for issue by the Board of Directors on 27 September 2019 and were signed on its behalf by:

Richard Fairman
Director

Simon Innes
Director

Consolidated statement of changes in equity

for the year ended 30 June 2019

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2018		0.1	99.1	0.6	0.1	(61.4)	119.2	157.7
Profit for the year		-	-	-	-	-	8.2	8.2
Other comprehensive income								
Cash flow hedges:								
Fair value loss		-	-	-	-	-	(0.1)	(0.1)
Exchange differences on translation of foreign operations		-	-	-	-	-	0.2	0.2
Total other comprehensive income		-	-	-	-	-	0.1	0.1
Total comprehensive income		-	-	-	-	-	8.3	8.3
Transactions with owners								
Issue of Ordinary shares	23	-	0.6	-	-	-	-	0.6
Credit to reserves for share-based payments	11	-	-	-	-	-	0.1	0.1
Deferred tax relating to share-based payments		-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders of the Company	23	-	-	-	-	-	(3.5)	(3.5)
Transactions with owners		-	0.6	-	-	-	(3.5)	(2.9)
At 30 June 2019		**0.1**	**99.7**	**0.6**	**0.1**	**(61.4)**	**124.0**	**163.1**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2017		0.1	38.1	0.6	0.1	(61.4)	110.5	88.0
Profit for the year		-	-	-	-	-	10.7	10.7
Other comprehensive income								
Cash flow hedges:								
Fair value gains		-	-	-	-	-	0.1	0.1
Total other comprehensive income		-	-	-	-	-	0.1	0.1
Total comprehensive income		-	-	-	-	-	10.8	10.8
Transactions with owners								
Issue of Ordinary shares		-	61.0	-	-	-	-	61.0
Credit to reserves for share-based payments	11	-	-	-	-	-	1.3	1.3
Deferred tax relating to share-based payments		-	-	-	-	-	(0.5)	(0.5)
Dividends to equity holders of the Company	23	-	-	-	-	-	(2.9)	(2.9)
Transactions with owners		-	61.0	-	-	-	(2.1)	58.9
At 30 June 2018		0.1	99.1	0.6	0.1	(61.4)	119.2	157.7

Company statement of changes in equity

for the year ended 30 June 2019

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2018		0.1	101.2	0.6	55.6	157.5
Total comprehensive loss for the year		-	-	-	(0.4)	(0.4)
Transactions with owners						
Issue of Ordinary shares	23	-	0.6	-	-	0.6
Credit to reserves for share-based payments	11	-	-	-	0.1	0.1
Dividends to equity holders of the Company	23	-	-	-	(3.5)	(3.5)
Transactions with owners		-	0.6	-	(3.4)	(2.8)
At 30 June 2019		**0.1**	**101.8**	**0.6**	**51.8**	**154.3**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2017		0.1	40.2	0.6	57.4	98.3
Total comprehensive loss for the year		-	-	-	(0.2)	(0.2)
Transactions with owners						
Issue of Ordinary shares		-	61.0	-	-	61.0
Credit to reserves for share-based payments	11	-	-	-	1.3	1.3
Dividends to equity holders of the Company	23	-	-	-	(2.9)	(2.9)
Transactions with owners		-	61.0	-	(1.6)	59.4
At 30 June 2018		0.1	101.2	0.6	55.6	157.5

Consolidated and Company statement of cash flow

for the year ended 30 June 2019

	Note	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Cash flows from operating activities					
Cash generated from operations	27	**52.1**	46.7	**2.9**	(58.0)
Taxation paid		**(7.3)**	(6.2)	**-**	-
Interest paid		**(3.4)**	(3.1)	**-**	-
Net cash generated from/(used in) operating activities		**41.4**	37.4	**2.9**	(58.0)
Cash flows from investing activities					
Acquisitions (net of cash acquired)	14	**(56.6)**	(50.3)	**-**	-
Purchase of property, plant and equipment	13	**(11.9)**	(10.2)	**-**	-
Purchase of intangible assets	12	**(1.0)**	(0.5)	**-**	-
Net cash used in investing activities		**(69.5)**	(61.0)	**-**	-
Cash flows from financing activities					
Dividends paid		**(3.5)**	(2.9)	**(3.5)**	(2.9)
Proceeds from issue of Ordinary shares	23	**0.6**	61.0	**0.6**	60.9
Debt issuance costs		**(0.3)**	(0.3)	**-**	-
Increase/(Repayment) of borrowings	26	**28.8**	(26.0)	**-**	-
Net cash generated/(used in) from financing activities		**25.6**	31.8	**(2.9)**	58.0
Net (decrease)/increase in cash and cash equivalents	26	**(2.5)**	8.2	**-**	-
Cash and cash equivalents at the beginning of the year		**15.0**	6.8	**-**	-
Cash and cash equivalents at the end of the year	26	**12.5**	15.0	**-**	-

Notes to the consolidated financial statements

for the year ended 30 June 2019

1. General information

The principal activity of the Group is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line pharmacy and retail business. The principal activity of the Company is that of a holding company.

CVS Group plc is a public limited company incorporated under the Companies Act 2006 and domiciled in England and Wales and its shares are quoted on AIM of the London Stock Exchange. It's company registration number is 06312851.

Companies in the consolidated financial statements

The trading subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Principal business
Albavet Limited	Veterinary services and buying club
Animed Direct Limited	On-line dispensary
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services
B&W Equine Group Limited	Veterinary services
Coen Dierenarts B.V.	Veterinary services
CVS (Ireland) Veterinary Services Limited	Holding company
CVS (Ireland) Veterinary Services No.2 Limited	Veterinary services
CVS (Netherlands) B.V.	Veterinary services
CVS Netherlands No2 B.V.	Veterinary services
CVS (UK) Limited	Veterinary and diagnostic services
Dierenartsenpraktijk NOP B.V.	Veterinary services
Dierenartsenpraktijk Zuid-West Friesland B.V.	Veterinary services
Dierenkliniek Schalekamp B.V.	Veterinary services
Dierenziekenhuis Drachten B.V.	Veterinary services
Diergeneeskundig Centrum Noord Nederland B.V.	Veterinary services
Endell Veterinary Group Limited	Veterinary services
Greenacres Pet Crematorium Limited	Animal cremation
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Highcroft Pet Care Limited	Veterinary services
Insight Laboratory Services Limited	Veterinary services
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services
MiVet Club Limited	Veterinary goods and services buying club
Okeford Veterinary Centre Limited	Veterinary services
Pet Doctors Limited	Veterinary services
Pet Medic Recruitment Limited	Recruitment services
Pet Vaccination Clinic Limited	Veterinary services
Pharmsure UK Limited	Veterinary services
Precision Histology International Limited	Veterinary diagnostic services
Rossendale Pet Crematorium Limited	Animal cremation and provision of burial grounds
Ruddington and East Leake Veterinary Centre Limited	Veterinary services
Severn Edge Equine Limited	Veterinary services
Severn Edge Farm Limited	Veterinary services
Severn Edge Veterinary Group Limited	Veterinary services
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Silverton Veterinary Practice Limited	Veterinary services

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Name of subsidiary	Principal business
Slate Hall Veterinary Practice Limited	Veterinary services
Slate Hall Veterinary Services Limited	Veterinary services
The Pet Crematorium Limited	Animal cremation
Valley Pet Crematorium Limited	Animal cremation
Vet Direct Services Limited	Veterinary instrumentation supply
VETisco Limited	Veterinary instrumentation supply
Whitley Brook Crematorium for Pets Limited	Animal cremation
Wyatt Poultry Veterinary Services Limited	Veterinary services

The dormant subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	
Aire Veterinary Centre Limited	Keown O'Neill Limited
Alcock Veterinary Services Limited	MSVets Limited
All Creatures Veterinary Centre Limited	Newlands Veterinary Group Limited
All Creatures Veterinary Health Centre Limited	Pet Vaccination UK Limited
Alnorthumbria Veterinary Practice Limited	Pinfold House Veterinary Clinic Limited
Ambivet Limited	Severn Edge Holdings Limited
Arbury Road Vets Limited	St Elmo Veterinary Clinic Limited
Artemis Veterinary Limited	Superstar Pets Limited
Ashburn Veterinary Centre Limited	Thompsons Vets Limited
Beaconvet Limited	Three Valleys Veterinary Limited
Beechwood Animalcare Limited	Total Veterinary Services Limited
Boundary Veterinary Clinic Limited	Vet Direct Holdings Limited
Briar Dawn Veterinary Centre Limited	Veterinary Enterprises & Trading Limited
BVCM Limited	Victoria Veterinary Clinic Limited
Camlas Petcare Vets Limited	Weighbridge Referral Service Limited
Campsie Veterinary Centre Limited	Wessex Equine Limited
Cinder Hill Equine Clinic Limited	Western Counties Equine Hospital Limited
Corner House Equine Clinic Limited	Yoredale Vets Limited
Cromlyn Vets Limited	Your Vets (Holdings) Limited
Gurka Animal Care Limited	

Apart from CVS (UK) Limited, all of the above subsidiaries are indirectly held by CVS Group plc. All companies are registered in England and Wales, with the exception of BVCM Limited, which is registered in Scotland, Cromlynvets Limited, All Creatures Veterinary Health Centre Limited, Campsie Veterinary Centre Limited, Keown O'Neill Limited and St Elmo Veterinary Clinic Limited, which are registered in Northern Ireland, CVS (Ireland) Veterinary Services Limited and CVS (Ireland) Veterinary Services No.2 Limited, which are registered in the Republic of Ireland, and CVS (Netherlands) B.V., CVS Netherlands No2 B.V., Kliniek voor Gezelschapsdieren Dieren B.V., Dierenartsenpraktijk NOP B.V., Dierenartsenpraktijk Zuid-West Friesland B.V., Dierenkliniek Schalekamp B.V., Dierenziekenhuis Drachten B.V., Coen Dierenarts B.V. and Diergeneeskundig Centrum Noord Nederland B.V. which are registered in the Netherlands.

100% of the Ordinary share capital is owned for all equity shareholdings and all are wholly owned.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

1. General information *continued*

The registered office for all United Kingdom registered subsidiary undertakings is CVS House, Owen Road, Diss, Norfolk IP22 4ER, with the exception of the following companies:

Name of subsidiary	
Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon, TQ12 4PB
BVCM Limited	19–21 High Street, Strichen, Fraserburgh AB43 6SQ
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
All Creatures Veterinary Health Centre Limited	14 Anderson Avenue, Limavady, County Londonderry BT49 0TF
Keown O'Neill Limited	11 Church Street, Ballygawley, Co. Tyrone BT70 2HA
Precision Histology International Limited	The School House, One Eyed Lane, Weybread, Diss, Norfolk IP21 5TT
Campsie Veterinary Centre Limited	25 Knocknamoe Road, Omagh, BT79 7LB
St Elmo Veterinary Clinic Limited	2 Skeoge Industrial Estate, Beraghmore Road, Londonderry BT48 8SE

The registered office for all Netherlands registered subsidiary undertakings is Postbus 176, 8300 AD Emmeloord. The registered office for all Republic of Ireland registered subsidiary undertakings is KPMG, Dockgate, Dock Road, Galway, H91 V6RR.

Parent Company Guarantee

The following wholly owned subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479A of the Act.

Name of subsidiary	
Greenacres Pet Crematorium Ltd	07877237
Greendale Veterinary Diagnostics Ltd	05138112
MiVet Club Ltd	08365201
Okeford Veterinary Centre Ltd	05984705
Rossendale Pet Crematorium Ltd	01409643
Ruddington and East Leake Veterinary Centre Ltd	04551334
Severn Edge Veterinary Group Ltd	09523786
Silvermere Haven Ltd	02187947
Silverton Veterinary Practice Ltd	08101117
The Pet Crematorium Ltd	03442460
Valley Pet Crematorium Ltd	04961306
Vet Direct Holdings Ltd	06746630
Vet Direct Services Ltd	05167635
Whitley Brook Crematorium for Pets Ltd	04734723

2. Summary of significant accounting policies

Basis of preparation

The consolidated and Company financial statements of CVS Group plc have been prepared in accordance with EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements. Further details are provided in the Corporate Governance Statement on pages 44 to 47. The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. The accounting policies which follow relate to the Group and are applied by the Company as appropriate.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates.

The directors do not consider there to be any critical accounting estimates or judgements required in preparing the financial statements.

Changes in accounting policy and disclosure

Standards, adopted by the Group for the first time

A Number of new and revised standards, including IFRS 9 and 15, are effective for annual periods beginning on or after 1 January 2018. Adoption of these standards, on a modified retrospective basis, has not had an impact on the Group's financial statements, except the following:

- IFRS 9 Financial Instruments came into effect for the Group's period starting 1 July 2018 and impacted the rules relating to the classification, measurement and impairment of financial assets. The Group holds all financial assets with the intention of collecting the contractual cash flows and no contractual terms have failed the "solely payments of principal and interest" test. Moving from the "incurred credit loss" model to the "expected credit loss model" under IFRS 9 has not given rise to a material change in bad debt provision.
- IFRS 15 Revenue from Contracts with Customers came into effect for the Group's period starting 1 July 2018 replacing IAS 18 Revenue and related interpretations. It dealt with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers;. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group has carried out a review of existing contractual agreements as part of this process to identify the customer contracts, the performance obligations, the transaction price and when the performance obligation is satisfied, and has determined that there was no material impact on the Group's revenue streams as set out in note 4.

Standards and interpretations to existing standards (all of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2019 or later periods but which the Group has not early adopted:

- IFRS 9 Financial Instruments – Amendments to prepayment features with negative compensation (effective 1 January 2019)
- IFRS 16 Leases (effective 1 January 2019)
- IFRS 17 Insurance Contracts (effective 1 January 2021)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)

IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. The Group's accounting as a lessor will remain aligned to the current approach under IAS 17; however, for the lessee accounting there will no longer be a distinction between finance and operating leases. The transition approach adopted by the Group is estimated to result in the recognition of right-of-use assets and lease liabilities of approximately £111.5m in respect of leased properties, vehicles and equipment previously accounted for as operating leases; there will be no impact on shareholders' equity. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, the Group will recognise a finance charge on the lease liability and a depreciation charge on the right-of-use asset, whereas previously the Group included lease rentals within Administrative expenses.

The Group intends to take advantage of a number of exemptions within IFRS 16, including the election not to recognise a lease liability and a right-of-use asset for leases for which the underlying asset is of low value.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

2. Summary of significant accounting policies *continued*

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2019.

Subsidiaries are all entities over which the Group has control. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. They are deconsolidated from the date that control ceases. On acquisition of a company or business, all assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, which arise after the Group has gained control of the company or business, and that arise after the measurement period, are credited or charged to the post-acquisition income statement.

Intra-group transactions and profits are eliminated fully on consolidation. Accounting policies of subsidiaries have been aligned to ensure consistency with the policies adopted by the Group.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker ("CODM"). The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments. The Group has four operating segments: Veterinary Practices, Laboratories, Crematoria and Animed Direct. Further details of the Group's operating segments are provided in note 4 to the financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses. The assets' residual values and useful lives are reviewed annually, and adjusted as appropriate. Depreciation is provided so as to write off the cost of property, plant and equipment, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

Freehold buildings	2% straight line
Leasehold improvements	Straight line over the life of the lease
Fixtures, fittings and equipment	20%–33% straight line
Motor vehicles	25% straight line

Freehold land is not depreciated on the basis that it has an unlimited life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Intangible assets

Goodwill

With the exception of the acquisition of CVS (UK) Limited, which was accounted for using the principles of merger accounting, all business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisitions that have occurred since 1 July 2004 is stated after separate recognition of intangible assets and represents the difference between the fair value of the purchase consideration and the fair value of the Group's share of the identifiable net assets of an acquired entity. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill is carried at cost less accumulated impairment losses, and is subject to annual impairment testing.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three years and charged to administrative expenses. Costs associated with maintaining computer software programs are recognised as an administrative expense as incurred.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Patient data records, customer lists and trade names

Acquired patient data records, customer lists and trade names are recognised as intangible assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. The fair value attributable to these items acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted post-tax weighted average cost of capital for the Group. The residual values are assumed to be £nil. Patient data records, customer lists and trade names are reviewed for impairment if conditions exist that indicate a review is required. Amortisation is provided so as to write off the cost over the expected economic lives of the asset in equal instalments at the following principal rates:

Patient data records and customer lists	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

Impairment of non-current assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

As permitted by IAS 36 Impairment of Assets for the purposes of assessing impairment, individual cash-generating units ("CGUs") are grouped at a level consistent with the Group's operating segments. Recoverable amounts for CGUs are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being a one-year detailed forecast and extrapolated forecasts thereafter, the results of which are approved by the Board. The key assumptions for the value-in-use calculations are those regarding discount rates and growth rates.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value on a first in, first out basis. Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Where necessary, provision is made for obsolete, slow moving or defective inventory.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's Consolidated and Company statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade and other receivables is recognised if there is considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income Statement on page 66.

b) Investments

Gains and losses arising from changes in the fair value of available-for-sale investments in equity instruments that have a quoted market price are recognised directly in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the year.

In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The Group assesses at each Consolidated and Company statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

In the Company's financial statements, investments in subsidiary undertakings are initially stated at cost. Provision is made for any permanent impairment in the value of these investments.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

2. Summary of significant accounting policies *continued*

Financial instruments *continued*

c) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in profit or loss. A financial liability is derecognised only when the obligation is extinguished. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

d) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded as the proceeds received, net of associated transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the Consolidated and Company statement of financial position date.

e) Trade and other payables

Trade and other payables are not interest bearing and are stated at their amortised cost.

f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

g) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. The fair value of interest rate swap arrangements is calculated as the present value of the estimated future cash flows. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the income statement.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement where material. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement. The classification of the effective portion when recognised in the income statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less from inception. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Consolidated and Company statement of cash flow.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Current and deferred income tax

The tax expense represents the sum of the current tax payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated on the basis of tax laws and tax rates that have been enacted or substantively enacted by the Consolidated and Company statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Consolidated and Company statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Where the intrinsic value of a share option exceeds the fair value, the corresponding deferred tax on the excess is recognised directly in equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Revenue recognition

Revenue is measured in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, the Company determines whether enforceable rights and obligations have been created with the customer and recognises revenue based on total transaction price as estimated at the contract inception, being the amount which the Company expects to be entitled to and has present enforceable rights under contract. Revenue is allocated proportionately across the contract performance obligations and recognised either over time or at a point in time as appropriate.

Service revenue

Revenue represents sales of veterinary services, laboratory diagnostic services and crematoria services which are recognised in accordance with IFRS 15, at the point in time when the performance obligation is satisfied. Revenue is recognised when the laboratory test, veterinary consultation, veterinary procedure or a cremation is completed.

Members of customer loyalty schemes, for example Healthy Pet Club, pay annually or monthly subscription fees and receive preventative consultations and treatments over a twelve-month period. The monthly subscription fees are spread evenly over the twelve month period whereas the services and drugs provided to the customer do not evenly match this profile. Appropriate adjustments are made to revenue under IFRS 15 to recognise each of the individual performance obligations over the contract when the obligations has been met. The adjustments are made through deferred and accrued income and the contract asset for this is shown in note 19. Revenue is recognised net of a provision to reflect cancellations as a result of animal deaths due to our policy not to invoice our customers in such an event. The provision is calculated based on historical membership cancellation data. All other cancellations are accounted for as an impairment of receivables within administrative expenses.

Products

Revenue relating to the sale of veterinary products, is recognised according to the terms of sale, at the point in time when the performance obligations are satisfied.

Rebates received from manufacturers

Consistent with standard industry practice, CVS has agreements with suppliers whereby volume-related allowances and various other fees are received in connection with the purchase of goods from those suppliers in the form of rebates. Rebates received from drug and consumable manufacturers in respect of CVS purchases relating to inventories are held by CVS at the reporting date, the rebate is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

Rebates negotiated on behalf of our buying group members, MiVetClub and VetShare, are recorded on the Group's Consolidated and Company statement of financial position as a receivable and the corresponding liability for the rebate due to the member is recorded as a payable. The commission receivable by the Group is recorded as revenue in the income statement when all obligations attached to the rebate have been discharged and the rebate can be measured reliably based on the terms of the contract which is taken as at the point at which the buying group member purchases the drugs and consumables.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

2. Summary of significant accounting policies *continued*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Consolidated and Company statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful economic life of the asset and the lease term.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The fair values of equity-settled transactions are measured indirectly at the dates of grant using Black-Scholes option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value of share-based payments under such schemes is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted at each reporting date for the effect of non-market-based vesting conditions. The fair value of options awarded to employees of subsidiary undertakings is recognised as a capital contribution and recorded in investments on the Company statement of financial position.

Foreign currency translation

Functional and presentational currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements, rounded to the nearest £0.1m.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each Consolidated and Company statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the Consolidated and Company statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling-denominated assets and liabilities. Exchange differences arising are recognised in other comprehensive income.

Retirement benefit costs

The Group makes contributions to stakeholder and employee personal pension defined contribution schemes in respect of certain employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Financing costs

Financing costs comprise interest payable on borrowings, debt finance costs and gains and losses on derivative financial instruments that are recognised in the income statement.

Interest expense is recognised in the income statement as it accrues, using the effective interest method.

Use of non-GAAP measures

Adjusted EBITDA, adjusted profit before tax ("adjusted PBT") and adjusted EPS

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on 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 profit before income tax is calculated as profit before amortisation, taxation, costs relating to business combinations and exceptional items.

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 in the period.

Like-for-like sales

Like-for-like sales comprise the revenue generated from all operations compared to the prior year. Revenue is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year; for example, for a practice acquired in September 2017, revenue is included from September 2018 in the like-for-like revenue calculation.

Share premium

The share premium reserve comprises the premium received over the nominal value of shares issued.

Capital redemption reserve

Upon cancellation of redeemable Preference shares on redemption, a capital redemption reserve was created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

Merger reserve

The merger reserve resulted from the acquisition of CVS (UK) Limited and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

Loss for the financial year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The loss attributable to the Company is disclosed in the footnote to the Company's Consolidated and Company statement of financial position.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (being interest rate risk and other price risks), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to manage its exposure to interest rate movements. It is not the Group's policy to actively trade in derivatives.

Given the size of the Group, the Board monitors financial risk management. The policies set by the Board of Directors are implemented by the Group's finance department.

a) Market risk

i) Foreign exchange currency rate risk

The Group has limited exposure to foreign exchange risk as the majority of its transactions are denominated in the Company's functional currency of Sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Group management. The Group does not currently hedge any foreign currency transactions but continues to keep this policy under review.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

3. Financial risk management *continued*

Financial risk factors *continued*

a) Market risk *continued*

ii) Cash flow and fair value interest rate risk
The Group has interest-bearing assets and liabilities. The Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the year end, the Group had interest hedging arrangements in place covering £35.0m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.45% to 2.7% above LIBOR. The applicable interest rate is dependent upon the net debt to EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.76% above LIBOR.

At 30 June 2019, the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2019, if interest rates on Sterling-denominated borrowings had been 1% higher or lower, with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £1.2m (2018: £1.0m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk
IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on financial assets. The Group has no significant concentrations of credit risk. The Group's principal financial assets are cash and bank balances, and trade and other receivables. A large number of receivables are very small; therefore, there is not any concentration of credit risk in a single counterparty or group of counterparties with similar characteristics.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables which are not subject to the receivable sale arrangement.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. The Group also has in place procedures that require appropriate credit checks on potential customers before sales, other than on a cash basis, are made. Customer accounts are also monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

Group management monitors the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2019 gross trade receivables amounted to 7.1% of revenue for the year (2018: 6.6%). Of these gross trade receivables 49.3% (2018: 52.9%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2019 is the fair value of each class of receivable as disclosed in note 17 to the financial statements.

c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows, which include interest, analysed by contractual maturity. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The Group's revolving credit facility ("RCF") is usually utilised on 30-day terms; however, the RCF is available for utilisation until November 2021, and therefore the liability is included in due in more than two years but not more than three years.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

30 June 2019	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
Non-derivative financial liabilities						
Borrowings	21	**0.3**	**-**	**114.2**	**-**	**114.5**
Trade and other payables (excluding social security and other taxes)	20	**60.5**	**-**	**-**	**-**	**60.5**
		60.8	**-**	**114.2**	**-**	**175.0**

30 June 2018	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
Non-derivative financial liabilities						
Borrowings	21	0.5	0.1	-	83.4	84.0
Trade and other payables (excluding social security and other taxes)	20	43.1	-	-	-	43.1
		43.6	0.1	-	83.4	127.1

Capital risk management

The Group's policy is to maintain a strong capital base, defined as bank facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings.

The bank facilities include financial covenants and a number of general undertakings. There have been no breaches of the terms of the respective loan agreements, breaches of covenants or defaults during the current or comparative years.

Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/adjusted EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements.

	Note	**2019 £m**	2018 £m
Net debt	26	**102.0**	69.0
Adjusted EBITDA	4	**54.5**	47.6
Ratio		**1.87**	1.44

The ratio above is calculated based upon adjusted EBITDA disclosed in the Annual Report and Financial Statements. The actual ratio calculated for the bank covenants takes account of a twelve-month EBITDA adjustment for businesses acquired; therefore, the ratio for the purposes of the bank covenants is 2.08.

There were no changes to the Group's approach to capital management during the year.

The primary sources of funding for the Group are internally generated cash and syndicated borrowings. The Group's £5.0m working capital facility and £75.0m of the £95.0m revolving credit facility were undrawn at 30 June 2019.

Fair value measurement
The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2019 by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

		30 June 2019			30 June 2018		
	Note	**Level 1 £m**	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Assets							
Available-for-sale financial assets	15	**0.1**	**-**	**0.1**	0.1	-	0.1

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

4. Segmental reporting

The operating segments are based on the Group's management and internal reporting structure and monitored by the Group's CODM. 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 Head Office salary and premises costs.

The business operates predominantly in the UK. As at 30 June 2019, it has 24 veterinary practices in the Netherlands and three in the Republic of Ireland. It performs a small amount of laboratory work for Europe-based clients and Animed Direct Limited distributes a small quantity of goods to European countries. 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 and are not considered material for separate disclosure.

Revenue comprises £287.0m of fees and £119.5m of goods (2018: £240.5m and £86.8m respectively). Revenue from contracts totalled £4.5m in the year (2018: £38.0m).

Operating segments

The Group is split into four operating segments (Veterinary Practices Division, Laboratories Division, Crematoria Division and Animed Direct) and a centralised support function (Head Office) for business segment analysis. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services.

Each of these operating segments is managed separately as each segment requires different specialisms, marketing approaches and resources. Intra-group sales eliminations are included within the Head Office segment. Head Office includes costs relating to the employees, property and other overhead costs associated with the centralised support function together with finance costs arising on the Group's borrowings.

Year ended 30 June 2019	**Veterinary Practices £m**	**Laboratories £m**	**Crematorium £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	**370.7**	**20.1**	**7.3**	**23.3**	**(14.9)**	**406.5**
Profit/(loss) before income tax	**30.7**	**3.7**	**2.1**	**1.6**	**(26.4)**	**11.7**
Adjusted EBITDA	**56.2**	**4.3**	**2.5**	**1.7**	**(10.2)**	**54.5**
Total assets	**332.4**	**18.5**	**12.3**	**11.9**	**2.3**	**377.4**
Total liabilities	**(65.6)**	**(3.3)**	**(1.8)**	**(8.9)**	**(134.7)**	**(214.3)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**30.7**	**3.7**	**2.1**	**1.6**	**(26.4)**	**11.7**
Finance expense	**0.1**	**-**	**-**	**-**	**3.8**	**3.9**
Depreciation	**7.8**	**0.6**	**0.4**	**-**	**0.4**	**9.2**
Amortisation	**13.2**	**-**	**-**	**0.1**	**8.9**	**22.2**
Costs relating to business combinations	**4.4**	**-**	**-**	**-**	**2.8**	**7.2**
Exceptional items	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Adjusted EBITDA	**56.2**	**4.3**	**2.5**	**1.7**	**(10.2)**	**54.5**

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Year ended 30 June 2018	**Veterinary Practices £m**	**Laboratories £m**	**Crematorium £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	297.5	17.9	6.6	18.8	(13.5)	327.3
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6
Total assets	283.0	14.9	10.0	8.5	2.6	319.0
Total liabilities	(67.2)	(2.2)	(1.1)	(6.6)	(84.2)	(161.3)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Finance expense	0.1	-	-	-	3.5	3.6
Depreciation	6.8	0.6	0.4	-	0.2	8.0
Amortisation	12.2	-	-	-	6.2	18.4
Costs relating to business combinations	1.7	-	-	-	1.8	3.5
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6

5. Finance expense

	2019 £m	2018 £m
Interest expense, bank loans and overdraft	**3.4**	3.2
Amortisation of debt arrangement fees	**0.5**	0.4
Finance expense	**3.9**	3.6

6. Expenses by nature

	2019 £m	2018 £m
Amortisation and impairment of intangible assets	**22.2**	18.4
Depreciation of property, plant and equipment	**9.2**	8.0
Employee benefit expenses	**181.0**	148.5
Cost of inventories recognised as an expense (included in cost of sales)	**92.2**	62.6
Repairs and maintenance expenditure on property, plant and equipment	**4.8**	4.0
Trade receivables impairment charge	**0.8**	1.4
Operating lease rentals payable	**17.1**	14.3
Other expenses	**63.6**	52.4
Total cost of sales and administrative expenses	**390.9**	309.6

Services provided by the Company's auditor and associates

During the year the Group obtained the following services from the Company's auditor at costs as detailed below:

	2019 £'000	2018 £'000
Audit services		
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	**31**	31
The audit of the Company's subsidiaries pursuant to legislation	**252**	228
	283	259

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

7. Employee benefit expense and numbers

Group

Employee benefit expense for the Group	Note	2019 £m	2018 £m
Wages and salaries		**162.2**	133.4
Social security costs		**15.4**	12.0
Other pension costs	30	**3.3**	1.8
Share-based payments	11	**0.1**	1.3
		181.0	148.5

Employee benefit expense included within cost of sales is £140.9m (2018: £109.0m). The balance is recorded within administrative expenses.

The average monthly number of people employed by the Group (including Executive Directors) during the year, analysed by category, was as follows:

	2019 Number	2018 Number
Veterinary surgeons and pathologists	**1,640**	1,419
Nurses, practice ancillaries and technicians	**4,519**	3,956
Crematorium staff	**78**	78
Central support	**175**	189
	6,412	5,642

The Company has no employees, other than the Directors. The Directors received remuneration in respect of their services to the Company from a subsidiary company.

8. Directors' remuneration and key management compensation

	Highest paid Director		Directors' Emoluments	
	2019 £m	2018 £m	2019 £m	2018 £m
Salaries and other short-term employee benefits	**0.4**	0.4	**1.0**	0.9
Company contributions to money purchase schemes	**0.1**	0.1	**0.1**	0.1
	0.5	0.5	**1.1**	1.0

Retirement benefits are accruing to two Directors (2018: one) under a personal pension plan. The remuneration of the Executive Directors amounting to £0.8m (2018: £0.8m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.2m (2018: £0.2m) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Share options

Under the Company's SAYE schemes the Directors have the following options at the Consolidated and Company statement of financial position date:

	SAYE scheme	Date of grant	Earliest excercise date and vesting date	Excercise price	Number of shares
R Fairman	SAYE11	30 November 2018	1 January 2022	830p	737

Shares awarded to Executive Directors under the Long Term Incentive Plans ("LTIPs") as at the Consolidated and Company statement of financial position date are as follows:

	LTIP	Date of grant	Market price on date of grant	Earliest excercise date and vesting price	Number of shares
S Innes	LTIP9	24 September 2015	699p	30 June 2018	57,000
S Innes	LTIP10	20 December 2016	1,067p	30 June 2019	40,000
S Innes	LTIP11	17 January 2018	1,031p	30 June 2020	40,000
S Innes	LTIP12	12 October 2018	873p	30 June 2021	63,797
R Fairman	LTIP12	12 October 2018	873p	30 June 2021	30,969

The exercise price for all shares is 0.2p.

LTIP9 was exercised in the year; see the Remuneration Committee Report on page 55 for further details.

Further details of the above schemes are included in the Remuneration Committee Report on pages 48 to 55.

Key management compensation

Key management is considered to be those on the Executive Committee (being the Executive Directors and other senior management) and the Non-Executive Directors. The employment costs of key management are as follows:

	2019 £m	2018 £m
Salaries and other short-term employee benefits	**2.6**	2.0
Post-employment benefits	**0.2**	0.1
Share-based payments	**-**	0.9
	2.8	3.0

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

9. Income tax expense

a) Analysis of income tax expense recognised in the income statement

	Note	2019 £m	2018 £m
Current tax expense			
UK corporation tax		**7.0**	5.9
Adjustments in respect of previous years		**1.1**	(0.1)
Total current tax charge		**8.1**	5.8
Deferred tax expense			
Origination and reversal of temporary differences		**(4.2)**	(2.5)
Adjustments in respect of previous years		**(0.9)**	0.7
Effect of tax rate change on opening deferred tax balance		**0.5**	(0.6)
Total deferred tax credit	22	**(4.6)**	(2.4)
Total income tax expense		**3.5**	3.4

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2018: 19.0%) of the estimated assessable profit for the year.

b) Reconciliation of effective income tax charge

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019 £m	2018 £m
Profit before tax	**11.7**	14.1
Effective tax charge at 19.0% (2018: 19.0%)	**2.2**	2.7
Effects of:		
Expenses not deductible for tax purposes	**0.5**	0.6
Effect of tax rate change on opening deferred tax balance	**0.5**	(0.6)
Adjustments to deferred tax charge in respect of previous years	**(0.8)**	0.8
Adjustments to current tax charge in respect of previous years	**1.1**	(0.1)
Total income tax expense	**3.5**	3.4

The main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the Consolidated and Company statement of financial position date and, therefore, it is reflected in the deferred income tax in these financial statements.

10. 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 year.

	2019	2018
Earnings attributable to Ordinary shareholders (£m)	**8.2**	10.7
Weighted average number of Ordinary shares in issue	**70,506,476**	66,369,383
Basic earnings per share (p per share)	**11.6**	16.0

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

b) Diluted

Diluted earnings per 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 issuable shares under the Group's LTIP schemes and SAYE 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.

	2019	2018
Earnings attributable to Ordinary shareholders (£m)	**8.2**	10.7
Weighted average number of Ordinary shares in issue	**70,506,476**	66,369,383
Adjustment for contingently issuable shares – LTIPs	**88,379**	259,505
Adjustment for contingently issuable shares – SAYE schemes	**-**	98,081
Weighted average number of Ordinary shares for diluted earnings per share	**70,594,855**	66,726,969
Diluted earnings per share (p per share)	**11.6**	15.9

Non-GAAP measure: adjusted earnings per share

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

	Note	2019	2018
Earnings attributable to Ordinary shareholders		**8.2**	10.7
Add back taxation		**3.5**	3.4
Profit before taxation		**11.7**	14.1
Adjustments for:			
Amortisation	12	**22.2**	18.4
Costs relating to business combinations	4	**7.2**	3.5
Exceptional items	4	**0.3**	-
Adjusted profit before income tax		**41.4**	36.0
Tax charge amended for the above adjustments		**(8.5)**	(7.8)
Adjusted profit after income tax and earnings attributable to owners of the parent		**32.9**	28.2
Weighted average number of Ordinary shares in issue		**70,506,476**	66,369,383
Weighted average number of Ordinary shares for diluted earnings per share		**70,594,855**	66,726,969

	Pence	Pence
Adjusted earnings per share	**46.7p**	42.4p
Diluted adjusted earnings per share	**46.6p**	42.1p

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

11. Share-based payments

Long Term Incentive Plans ("LTIPs")

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 cost, vesting over a three-year performance period conditional upon the Group's earnings per share growth, as adjusted for amortisation of intangibles, exceptional items and fair value adjustments in respect of derivative instruments and available-for-sale assets over the same period. The LTIP scheme arrangements are equity settled.

Details of the share options outstanding during the year under the LTIP schemes are as follows:

	July 2018 scheme ("LTIP12") Number of share awards	July 2017 scheme ("LTIP11") Number of share awards	July 2016 scheme ("LTIP10") Number of share awards	July 2015 scheme ("LTIP9") Number of share awards
Outstanding at 1 July 2018	-	115,654	120,636	146,000
Granted during the year	187,113	-	-	-
Forfeited during the year	(6,314)	(28,880)	(15,303)	-
Exercised during the year*	-	-	(19,475)	(146,000)
Outstanding at 30 June 2019	**180,799**	**86,774**	**85,858**	**-**
Exercisable at 30 June 2019	**-**	**-**	**85,858**	**-**

* The weighted average share price at the date of exercise was £9.10.

Options are exercisable at 0.2p per share. The weighted average exercise price is 0.2p at the beginning and end of the period.

The options outstanding at the year-end under LTIP12, LTIP11 and LTIP10 have a weighted average remaining contractual life of two years, one year and nil years, respectively.

The share-based payment credit for the year in respect of the options issued under the LTIP schemes amounted to £0.2m (2018: £0.8m charge) and has been credited to administrative expenses. National Insurance contributions of £0.1m have been credited to administrative expenses (2018: £0.1m charged) in respect of the LTIP scheme transactions due to the fall in percentage vesting and are treated as cash-settled transactions.

Further details of the above schemes are included in the Remuneration Committee Report on pages 48 to 55.

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. The SAYE8 scheme was opened for subscription in December 2015 (with options granted in January 2016), the SAYE9 scheme was opened for subscription in December 2016 (with options granted in January 2017), the SAYE10 scheme was opened for subscription in December 2017 (with options granted in January 2018) and the SAYE11 scheme was opened for subscription in December 2018 (with options granted in January 2019). Under the SAYE schemes awards have been made at a 10% discount for SAYE8; SAYE9, SAYE10 and SAYE11 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. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE11 Number of share awards	SAYE10 Number of share awards	SAYE9 Number of share awards	SAYE8 Number of share awards
Outstanding at 1 July 2018	-	272,383	167,514	176,071
Granted during the year	423,494	-	-	-
Forfeited during the year	(37,821)	(92,470)	(31,593)	(62,193)
Exercised during the year*	-	-	-	(113,878)
Outstanding at 30 June 2019	**385,673**	**179,913**	**135,921**	**-**
Exercisable at 30 June 2019	**-**	**-**	**-**	**-**

* The weighted average share price at the date of exercise was £9.39.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Options are exercisable at 830p for the SAYE11 scheme, 1287p per share for the SAYE10 scheme and 790p per share for the SAYE9 scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £9.37 and end of the period was £9.39.

The options outstanding at the year-end under the SAYE11, SAYE10 and SAYE9 schemes have a weighted average remaining contractual life of two years and five months, one year and five months and nil years and five months, respectively.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.3m (2018: £0.5m) and has been charged to administrative expenses.

Options for both schemes were valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	LTIP12	**SAYE11**
Grant date	12 October 2018	30 November 2018
Share price at grant date	£8.07	£6.51
Fair value per option	£8.07	£1.27
Exercise price	0.2p	£8.30
Number of employees	43	1,174
Shares under option at date of grant	187,113	423,494
Vesting period/option life/expected life	3 years	3 years
Weighted average remaining contractual life	2 years	2 years 5 months
Expected volatility*	38.94%	38.94%
Expected dividends expressed as a dividend yield	0.54%	0.54%

* Expected volatility has been determined by reference to the historical share return volatility of CVS Group plc.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

12. Intangible assets

	Note	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2017		46.8	1.5	192.2	2.7	243.2
Additions arising through business combinations	14	21.0	-	33.2	-	54.2
Other additions		-	-	-	0.5	0.5
At 30 June 2018		67.8	1.5	225.4	3.2	297.9
Additions arising through business combinations	14	26.3	-	35.3	-	61.6
Fair value adjustments in respect of prior periods		0.6	-	-	-	0.6
Other additions		-	-	-	1.0	1.0
At 30 June 2019		**94.7**	**1.5**	**260.7**	**4.2**	**361.1**
Accumulated amortisation						
At 1 July 2017		-	1.0	73.1	1.9	76.0
Amortisation for the year*		(0.6)	0.2	18.4	0.4	18.4
At 30 June 2018		(0.6)	1.2	91.5	2.3	94.4
Amortisation for the year		-	0.2	21.4	0.6	22.2
At 30 June 2019		**(0.6)**	**1.4**	**112.9**	**2.9**	**116.6**
Net book amount						
At 30 June 2019		**95.3**	**0.1**	**147.8**	**1.3**	**244.5**
At 30 June 2018		68.4	0.3	133.9	0.9	203.5
At 1 July 2017		46.8	0.5	119.1	0.8	167.2

Amortisation expense is charged to administrative expenses.

The patient data records, customer lists and trade names were acquired as a component of business combinations. See note 14 for further details of current year acquisitions. It is not practical to disclose the carrying amount and remaining life of each intangible asset; however, material business combinations in the current year have been separately disclosed in note 14.

The components of goodwill are disclosed by the grouped cash-generating units ("CGUs") shown below. The Group changed the way in which it assesses each CGU. Although each practice, laboratory and crematorium is considered to be an individual CGU the Company monitors and tests for impairment on a group of CGUs that is no bigger than the operational segments.

* Amortisation in the year ended 30 June 2018 includes a credit of £0.6m in respect of negative goodwill arising on the bargain purchase of acquisitions.

Goodwill per operating segment

	2019 £m	2018 £m
Veterinary Practices	**90.2**	63.7
Laboratories	**2.1**	2.1
Crematoria	**2.6**	2.6
	94.9	68.4

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

Impairment tests

The pre-tax discount rate applied to the cash flow projections is derived from the Group's pre-tax weighted average cost of capital before adjusting for tax. The risks relating to each of the CGUs are considered to be the same as a result of the Group's operations being entirely focused in the veterinary market and, as such, the discount rate applied to each CGU is the same. The use of the Group's weighted average cost of capital is consistent with the valuation methodology used when determining the offer price for business combinations and therefore is considered an appropriate discount rate. The Directors consider the growth rate to be broadly consistent between CGUs; a 1.0% growth per annum in EBITDA has been assumed for the purposes of assessing net present value of future cash flows, with EBITDA used as an approximation to cash flow given the insignificant impact of working capital adjustments. The budget for the next financial year is used as a basis for the cash flow projections. The growth rate used in the impairment tests is based upon a prudent assessment of market-specific growth assumptions. Further details of the impairment tests are disclosed in note 2.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long-term average growth rates for the markets in which the CGU operates (estimated at 1.0%). The pre-tax discount rate used to calculate value in use is 11.3% at 30 June 2019 (2018: 13.4%). These discount rates are derived from the Group's pre-tax weighted average cost of capital.

Based on the results of the current year impairment review, no impairment charge has been recognised by the Group in the year ended 30 June 2019 (2018: £nil).

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such further impairment charges in the year ended 30 June 2019. The 1% growth rate is considered the worst case scenario given growth rates experienced in the veterinary market and therefore further sensitivity analysis is not required.

13. Property, plant and equipment

Group	Note	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost						
At 1 July 2017		13.5	23.1	33.2	2.0	71.8
Additions arising through business combinations	14	-	0.5	2.2	0.1	2.8
Additions		0.9	4.0	5.0	0.3	10.2
Disposals		-	(0.1)	-	(0.2)	(0.3)
At 30 June 2018		14.4	27.5	40.4	2.2	84.5
Additions arising through business combinations	14	-	0.1	1.8	0.1	2.0
Fair value adjustments in respect of prior periods		-	-	(0.2)	-	(0.2)
Additions		1.1	1.4	8.8	0.6	11.9
Disposals		(0.1)	(0.2)	(0.7)	(0.2)	(1.2)
At 30 June 2019		**15.4**	**28.8**	**50.1**	**2.7**	**97.0**
Accumulated depreciation						
At 1 July 2017		0.9	8.1	18.6	1.2	28.8
Charge for the year		0.3	2.2	5.3	0.2	8.0
Disposals		-	-	-	(0.2)	(0.2)
At 30 June 2018		1.2	10.3	23.9	1.2	36.6
Fair value adjustment in respect of prior periods		-	0.1	0.2	-	0.3
Charge for the year		0.3	2.9	5.6	0.4	9.2
Disposals		-	-	(0.3)	(0.2)	(0.5)
At 30 June 2019		**1.5**	**13.3**	**29.4**	**1.4**	**45.6**
Net book amount						
At 30 June 2019		**13.9**	**15.5**	**20.7**	**1.3**	**51.4**
At 30 June 2018		13.2	17.2	16.5	1.0	47.9
At 1 July 2017		12.6	15.0	14.6	0.8	43.0

Freehold land amounting to £0.2m (2018: £0.2m) has not been depreciated.

Included within the above classes of asset is £7.1m of assets under construction.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

14. Business combinations

Details of business combinations in the year ended 30 June 2019 are set out below, in addition to an analysis of post-acquisition performance of the respective business combinations, where practicable. The reason for each acquisition was to expand the CVS Group business through acquisitions in meeting our goals outlined on pages 16 and 17.

Name of business combination	Date of acquisition
Gilabbey Veterinary Hospital (trade and assets)	26 July 2018
Slate Hall Veterinary Group	27 July 2018
Corner House Equine Clinic Limited	31 July 2018
Endell Veterinary Group Limited	9 August 2018
Beechwood Animalcare Limited	23 August 2018
Vet Direct Holdings Limited	30 August 2018
Artemis Veterinary Limited	4 September 2018
Dierenkliniek Fischer (trade and assets)	6 September 2018
Arbury Road Vets Limited	19 September 2018
Briar Dawn Veterinary Centre Limited	26 September 2018
Gurka Animal Care Limited	11 October 2018
Camlas Petcare Vets Limited	23 October 2018
Campsie Veterinary Centre Limited	26 October 2018
Spires Vet Clinic (trade and assets)	29 October 2018
Harrier Veterinary Surgery (trade and assets)	5 November 2018
St Elmo Veterinary Clinic Limited	8 November 2018
Pinfold House Veterinary Clinic Limited	12 November 2018
Bond Street (trade and assets)	13 November 2018
Boundary Veterinary Clinic Limited	14 November 2018
Ashfield Veterinary Surgery (trade and assets)	16 November 2018
Yew Tree Veterinary Centre (trade and assets)	29 November 2018
Dierenkliniek Schalekamp B.V.	3 December 2018
Silverton Veterinary Practice Limited	5 December 2018
Alcock Veterinary Services Limited	6 December 2018
Coen Dierenarts B.V.	2 April 2019
Cinder Hill Equine Clinic Limited	24 June 2019

All businesses were acquired via 100% share purchase agreement unless indicated as such in the table above.

Given the nature of the veterinary surgeries acquired and the records maintained by such practices, it is not practicable to disclose the revenue or profit/loss of the combined entity for the year as though the acquisition date for all business combinations effected during the year had been at the beginning of that year.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

The table below summarises the total assets acquired in the year ended 30 June 2019:

	Note	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment		2.0	-	2.0
Patient data records and customer lists		-	35.3	35.3
Inventory		2.9	(0.3)	2.6
Deferred tax liability	22	(0.2)	(6.1)	(6.3)
Trade and other receivables		9.0	-	9.0
Trade and other payables		(10.8)	-	(10.8)
Loans		(1.5)	-	(1.5)
Total identifiable assets		1.4	28.9	30.3
Goodwill			26.3	26.3
Total initial consideration paid (net of cash acquired £5.4m)				56.6

Goodwill recognised represents the excess of purchase consideration over the fair value of the identifiable net assets. Goodwill reflects the synergies arising from the combination of the businesses; this includes cost synergies arising from shared support functions and buying power synergies. Goodwill includes the recognition of deferred tax in respect of the acquired patient data records and customer lists.

Post-acquisition revenue and post-acquisition adjusted EBITDA were £47.0m and £5.5m respectively. The post-acquisition period is from the date of acquisition to 30 June 2019. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2019 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

Goodwill and intangible assets recognised in the year relating to business combinations are not expected to be deductible for tax purposes.

The acquisition costs incurred in relation to the above business combinations amounted to £2.8m for the year and are included within other expenses in note 6 of the financial statements.

The director's consider the following acquisitions to be material to the group and are therefore separately disclosed.

Slate Hall Veterinary Group	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.3	-	0.3
Patient data records	-	9.9	9.9
Inventory	1.0	-	1.0
Deferred tax liability	(0.1)	(1.7)	(1.8)
Trade and other receivables	5.0	-	5.0
Trade and other payables	(7.6)	-	(7.6)
Total identifiable assets	(1.4)	8.2	6.8
Goodwill		4.1	4.1
Total consideration paid			10.9

Post-acquisition revenue and post-acquisition adjusted EBITDA for Slate Hall were £21.5m and £2.4m respectively. The post-acquisition period is from the date of acquisition to 30 June 2019.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

14. Business combinations *continued*

Vet Direct Holdings Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.1	-	0.1
Patient data records	-	2.8	2.8
Inventory	1.1	-	1.1
Deferred tax liability	-	(0.5)	(0.5)
Trade and other receivables	1.5	-	1.5
Trade and other payables	(0.9)	-	(0.9)
Total identifiable assets	1.8	2.3	4.1
Goodwill		1.2	1.2
Total consideration paid			5.3

Post-acquisition revenue and post-acquisition adjusted EBITDA for Vet Direct Holdings Limited were £6.0m and £0.4m respectively. The post-acquisition period is from the date of acquisition to 30 June 2019.

Endell Veterinary Group Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.3	-	0.3
Patient data records	-	2.8	2.8
Inventory	0.2	-	0.2
Deferred tax liability	-	(0.5)	(0.5)
Trade and other receivables	0.8	-	0.8
Trade and other payables	(0.8)	-	(0.8)
Loans	(0.4)	-	(0.4)
Total identifiable assets	0.1	2.3	2.4
Goodwill		2.4	2.4
Total consideration paid			4.8

Post-acquisition revenue and post-acquisition adjusted EBITDA for Endell Veterinary Group Limited were £3.9m and £0.2m respectively. The post-acquisition period is from the date of acquisition to 30 June 2019.

Business combinations in previous years

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2018.

Business combinations subsequent to the year end

Subsequent to the year end, the Group has made two acquisitions which are summarised as follows:

- the trade and assets of Lissenhall Veterinary Hospital, a three-site practice based in Dublin, Ireland, on 8 August 2019.
- the trade and assets of Dierenkliniek Gooiland, a single-site practice based in Weesp, Netherlands on 19 September 2019.

These acquisitions were purchased for a total cash consideration of £2.7m. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £2.7m.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

15. Investments

a) Available-for-sale financial assets

Available-for-sale financial assets, which are denominated in Sterling, consist of an investment in managed investment funds.

The Group holds an investment in managed investment funds which have a quoted market price in an active market and are accordingly measured at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or deemed to be impaired.

b) Shares in subsidiary undertakings

Company	Note	£m
Cost and net book amount		
At 1 July 2017		67.1
Options granted to employees of subsidiary undertakings	11	1.3
At 30 June 2018		68.4
Options granted to employees of subsidiary undertakings	11	0.1
At 30 June 2019		**68.5**

The principal subsidiary undertakings of CVS Group plc are set out in note 1.

16. Derivative financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and the mitigation of the market risk which would otherwise arise from movements in interest rates.

There was no ineffective portion of cash flow hedges in 2019 (2018: £nil).

Cash flow hedges

On 1 March 2017, the Group entered into an interest rate swap arrangement limiting the Group's exposure to interest rate increases. At 30 June 2019 £35.0m of debt was hedged (2018: £40.0m); the remainder of the debt was unhedged at the year end.

The Group classifies its interest rate swap arrangement as a cash flow hedge and utilises hedge accounting to minimise income statement volatility in relation to movements in the value of the swap arrangement.

The fair values of the Group's interest rate derivatives are established using valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair values of derivative financial instruments have been disclosed in the Group Consolidated and Company statement of financial position as follows:

	2019		2018	
Group	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	0.1	-	0.2	-

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2017	0.1
Fair value gain through reserves – hedged	0.1
At 30 June 2018	0.2
Fair value loss through reserves – hedged	(0.1)
At 30 June 2019	**0.1**

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

17. Financial instruments

Group - assets as per Consolidated and Company statement of financial position	Note	2019 Derivative instruments in designated hedge accounting relationships £m	2019 Loans and receivables £m	2019 Available for sale £m	2019 Total £m	2018 Derivative instruments in designated hedge accounting relationships £m	2018 Loans and receivables £m	2018 Available for sale £m	2018 Total £m
Available-for-sale financial assets		**-**	**-**	**0.1**	**0.1**	-	-	0.1	0.1
Trade and other receivables (excluding prepayments)	19	**-**	**42.3**	**-**	**42.3**	-	28.3	-	28.3
Cash and cash equivalents	26	**-**	**12.5**	**-**	**12.5**	-	15.0	-	15.0
Derivative financial instruments	16	**0.1**	**-**	**-**	**0.1**	0.2	-	-	0.2
		0.1	**54.8**	**0.1**	**55.0**	0.2	43.3	0.1	43.6

Company - assets as per Consolidated and Company statement of financial position	Note	2019 Loans and receivables £m	2019 Available for sale £m	2019 Total £m	2018 Loans and receivables £m	2018 Available for sale £m	2018 Total £m
Trade and other receivables (excluding prepayments)	31	**85.8**	**-**	**85.8**	89.1	-	89.1
		85.8	**-**	**85.8**	89.1	-	89.1

Group - liabilities as per Consolidated and Company statement of financial position	Note	2019 Derivative instruments in designated hedge accounting relationships £m	2019 Other financial liabilities £m	2019 Total £m	2018 Derivative instruments in designated hedge accounting relationships £m	2018 Other financial liabilities £m	2018 Total £m
Borrowings	21	**-**	**(114.5)**	**(114.5)**	-	(84.0)	(84.0)
Trade and other payables (excluding social security and other taxes)	20	**-**	**(60.5)**	**(60.5)**	-	(43.1)	(43.1)
		-	**(175.0)**	**(175.0)**	-	(127.1)	(127.1)

18. Inventories

All inventories are goods held for resale. The Directors do not consider the difference between the purchase price of inventories and their replacement cost to be material.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

19. Trade and other receivables

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Trade receivables:					
Within their due period		**19.3**	10.8	**-**	-
Past due (between one and six months old):					
Not impaired		**7.5**	6.3	**-**	-
Fully impaired		**5.0**	5.2	**-**	-
Total trade receivables		**31.8**	22.3	**-**	-
Less: provision for impairment of receivables		**(5.0)**	(5.2)	**-**	-
Trade receivables – net		**26.8**	17.1	**-**	-
Amounts owed by Group undertakings	31	**-**	-	**85.8**	89.1
Other receivables		**7.0**	4.6	**-**	-
Prepayments		**9.3**	9.9	**-**	-
Accrued income		**8.5**	6.6	**-**	-
		51.6	38.2	**85.8**	89.1

At 30 June 2019 there is a contract asset, recorded in accrued income relating to the "HPC" contract of £8.6m (2018: £6.6m) This contract is for a maximum term of 12 months therefore the entire asset brought forward has been recorded as revenue in the year.

Group

The carrying amount of trade and other receivables is deemed to be a reasonable approximation to fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in Sterling.

A provision for impairment is established based on credit risk. The amount of the provision was £5.0m (2018: £5.2m). Movements on the Group's provision for impairment of trade receivables are as follows:

	2019 £m	2018 £m
At the beginning of the year	**5.2**	3.2
Charged to the income statement within administrative expenses	**(0.8)**	(1.4)
Utilisation of the provision during the year	**0.6**	3.4
At the end of the year	**5.0**	5.2

Other receivables do not contain impaired assets.

Company

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

20. Trade and other payables

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Current				
Trade payables	**42.2**	31.3	**-**	-
Social security and other taxes	**13.2**	10.8	**-**	-
Other payables	**2.5**	2.8	**-**	-
Accruals	**15.8**	9.0	**-**	-
	73.7	53.9	**-**	-

21. Borrowings

Borrowings comprise bank loans and hire purchase agreements and are denominated in Sterling. The repayment profile is as follows:

Group	2019 £m	2018 £m
Within one year or on demand	**0.3**	0.5
Between one and two years	**-**	0.1
After more than two years	**114.2**	83.4
	114.5	84.0

The balances above are shown net of issue costs of £0.8m (2018: £1.0m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

In September 2018 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

The two financial covenants associated with these facilities are based on Group borrowings to EBITDA and Group EBITDA to interest. The Group borrowings to EBITDA ratio must not exceed 3.25. The Group EBITDA to interest ratio must not be less than 4.5. The facilities require cross guarantees from the most significant of the CVS Group's trading subsidiaries but are not secured on the assets of the Group. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during the period.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2017, the Group entered into a three-year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduced to £40.0m on 1 March 2018, followed by a further reduction to £35.0m on 1 March 2019.

At the Consolidated and Company statement of financial position date £35.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

Undrawn committed borrowing facilities

At 30 June 2019 the Group has a committed overdraft facility of £5.0m (2018: £5.0m) and an RCF of £95.0m (2018: £85.0m). The overdraft facility was undrawn at 30 June 2019 and 30 June 2018. £75.0m of the RCF was undrawn at 30 June 2019 (2018: £68.0m).

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

22. Deferred income tax

Deferred income tax assets comprised:

Group	2019 £m	2018 £m
Tax effect of temporary differences:		
Share-based payments	**0.2**	0.5
Losses	**-**	0.1
	0.2	0.6

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse.

Deferred income tax liabilities comprise the excess of carrying value over the tax base.

Group	2019 £m	2018 £m
Tax effect of temporary differences:		
Excess of qualifying depreciation and amortisation	**21.2**	19.8
	21.2	19.8

The movement in the net deferred income tax liabilities is explained as follows:

Group	At 1 July 2018 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2019 £m
Share-based payments	0.5	(0.2)	-	(0.1)	**0.2**
Unutilised tax losses carried forward	0.1	(0.1)	-	-	**-**
Excess of qualifying depreciation and amortisation over capital allowances	(19.8)	4.9	(6.3)	-	**(21.2)**
	(19.2)	4.6	(6.3)	(0.1)	**(21.0)**

Group	At 1 July 2017 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2018 £m
Share-based payments	2.0	(1.0)	-	(0.5)	0.5
Unutilised tax losses carried forward	0.1	-	-	-	0.1
Excess of qualifying depreciation and amortisation over capital allowances	(16.8)	3.4	(6.4)	-	(19.8)
	(14.7)	2.4	(6.4)	(0.5)	(19.2)

The deferred tax balance is non-current.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

23. Share capital

	2019 £m	2018 £m
Issued and fully paid		
70,635,940 (2018: 70,334,204) Ordinary shares of 0.2p each	**0.1**	0.1

During the year, 146,000 shares were issued for consideration of £292 in respect of the vesting of LTIP9, 19,475 shares were issued for consideration of £39 in respect of the vesting of LTIP10, and 113,878 shares were issued for consideration of £610,386 in respect of SAYE8, SAYE9 and SAYE10.

Details of shares under option are provided in note 11 to the financial statements.

The authorised share capital of the Company is 352,000,000 Ordinary shares of 0.2p each.

Dividends
The Directors have proposed a final dividend of 5.5p (2018: 5.0p) per share, total: £3.9m (2018: £3.5m), payable on 6 December 2019 to shareholders on the register at the close of business on 22 November 2019. The dividend has not been included as a liability as at 30 June 2019. During the year a dividend of 5.0p per share amounting to £3.5m was paid (2018: £2.9m).

EBT own shares
The group operates an EBT which holds 195,000 shares. These were bought at open market value for £2.1m in 2017.

24. Revaluation reserve

The revaluation reserve is used to record any surplus following a revaluation of property, plant and equipment. The revaluation reserve arose on the revaluation of a property in the subsidiary undertaking Precision Histology International Limited. The revaluation reserve is not a distributable reserve until realised.

25. Share premium

In the 2017 financial year the Group established an Employee Benefit Trust ("EBT") for the purposes of satisfying the exercise of certain share options vesting under the Group's LTIP and SAYE schemes. The Group has accounted for the purchase of the shares held by the EBT as treasury shares and has deducted these from reserves.

26. Analysis of movement in net debt

Group	At 1 July 2018 £m	Cash flow £m	Non-cash movement £m	At 30 June 2019 £m
Cash and cash equivalents	15.0	(2.5)	-	**12.5**
Borrowings – current	(0.5)	1.7	(1.5)	**(0.3)**
Borrowings – non-current	(83.5)	(30.5)	(0.2)	**(114.2)**
Net debt	(69.0)	(31.3)	(1.7)	**(102.0)**

Non-cash movements comprise amortisation of issue costs on bank loans, new finance lease obligations, bank debt acquired and transfers between categories of borrowings. Cash and cash equivalents comprise cash at bank and in hand.

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

27. Cash flow generated from operations

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Profit/(loss) for the year	**8.2**	10.7	**(0.4)**	(0.2)
Taxation	**3.5**	3.4	**-**	-
Total finance costs	**3.9**	3.6	**-**	-
Amortisation of intangible assets	**22.2**	18.4	**-**	-
Depreciation of property, plant and equipment	**9.2**	8.0	**-**	-
(Decrease)/increase in inventories	**(1.0)**	0.3	**-**	-
(Increase)/decrease in trade and other receivables	**(3.6)**	(4.9)	**3.3**	(59.1)
Increase in trade and other payables	**9.6**	5.9	**-**	-
Share option expense	**0.1**	1.3	**-**	1.3
Total net cash flow generated from operations	**52.1**	46.7	**2.9**	(58.0)

28. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2019 (2018: £nil).

Bank guarantees
The Company is a member of the Group banking arrangement, under which it is party to unlimited cross guarantees in respect of the banking facilities of other Group undertakings, amounting to £190.0m at 30 June 2019. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

29. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019			2018		
	Property £m	**Plant and machinery £m**	**Total £m**	Property £m	Plant and machinery £m	Total £m
Not later than one year	**12.3**	**1.3**	**13.6**	11.0	0.8	11.8
Later than one year and not later than five years	**27.8**	**2.1**	**29.9**	27.6	1.3	28.9
Later than five years	**14.3**	**0.1**	**14.4**	14.0	0.2	14.2
Total	**54.4**	**3.5**	**57.9**	52.6	2.3	54.9

Operating lease commitments primarily represent rentals payable by the Group in respect of its veterinary practices and office premises.

30. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £3.3m (2018: £1.8m). The amount outstanding at the end of the year included in trade and other payables was £0.8m (2018: £0.5m).

Notes to the consolidated financial statements *continued*

for the year ended 30 June 2019

31. Related party transactions

Directors' and key management's compensation is disclosed in note 8.

Company

During the year the Company had the following transactions with CVS (UK) Limited:

	2019 £m	2018 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(0.4)**	(0.2)
Cash advanced to fund payment of dividend	**(3.5)**	(2.9)

The following balances were owed by related companies:

	2019		2018	
	Receivable £m	**Payable £m**	Receivable £m	Payable £m
CVS (UK) Limited	**85.8**	-	89.1	-

Amounts owed by CVS (UK) Limited are unsecured and interest free and have no fixed date of repayment.

Transactions with Directors and key management

Annual market-based rent payable to the spouse of S Innes for the rental of premises amounts to £0.1m (2018: £0.1m), of which £0.1m (2018: £0.1m) was paid in the year.

During the year the following dividends were paid to the Directors: R Connell £3,594, D Kemp £328, M McCollum £1,934; S Innes £12,324; and N Perrin £14. Dividends were also paid to the spouse of S Innes of £152.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history - unaudited

for the year ended 30 June 2019

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue	**406.5**	327.3	271.8	218.1	167.3
Gross profit	**168.9**	151.6	124.5	105.9	79.1
Operating profit	**15.6**	17.7	17.2	11.8	9.8
Finance expense	**(3.9)**	(3.6)	(2.7)	(2.7)	(1.3)
Profit before tax	**11.7**	14.1	14.5	9.1	8.5
Income tax expense	**(3.5)**	(3.4)	(3.0)	(2.1)	(1.7)
Profit for the year	**8.2**	10.7	11.5	7.0	6.8
EBITDA					
Adjusted EBITDA	**54.5**	47.6	42.1	32.8	23.0
Adjusted profit before income tax	**41.4**	36.0	33.5	24.9	18.2
Cash generated from operations	**52.1**	46.7	37.2	33.6	22.2
Capital expenditure	**(12.9)**	(10.7)	(13.8)	(11.5)	(6.5)
Acquisitions	**(56.6)**	(50.3)	(46.9)	(53.5)	(21.1)
Loans and borrowings acquired through business combinations	**(1.5)**	(3.1)	(1.5)	(7.8)	(4.2)
Taxation paid	**(7.3)**	(6.2)	(5.4)	(3.3)	(2.3)
Interest paid	**(3.4)**	(3.1)	(2.1)	(2.4)	(1.3)
Amortisation of debt issue costs	**(0.5)**	(0.4)	(0.8)	(0.4)	(0.5)
Proceeds from Ordinary shares	**0.6**	61.0	30.6	0.2	0.3
Purchase of own shares	**-**	-	(2.1)	-	-
Dividends paid	**(3.5)**	(2.9)	(2.1)	(1.8)	(1.5)
(Increase)/reduction in net debt	**(33.0)**	31.0	(6.9)	(46.9)	(14.9)
Year-end net debt	**102.0**	69.0	100.0	93.1	46.2

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**11.6**	16.0	18.5	11.6	11.6
Adjusted basic earnings per share	**46.7**	42.4	42.8	32.4	24.7

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