CVS Group plc

Interim report for the six months ended 31 December 2021

For Immediate Release **24 March 2022**

CVS Group plc
("CVS" or the "Company" and, together with its subsidiaries, the "Group")

Interim results for the six months ended 31 December 2021

Well positioned for further growth with care at our heart

CVS, the AIM-quoted veterinary group and one of the UK's leading providers of integrated veterinary services, is pleased to announce its unaudited interim results for the six months ended 31 December 2021 ("H1 2022") and provide an update on year-to-date trading. Comparative data is provided for the six months ended 31 December 2020 ("H1 2021"), unless otherwise stated.

Financial Highlights

£m except where stated	**H1 2022 (unaudited)**	H1 2021 (unaudited)	Change[6] %	FY 2021 (audited)
Revenue	**273.7**	245.6	11.4%	510.1
Group like-for-like ("LFL") sales growth[1] (%)	***9.6%***	*7.8%*	*+1.8 ppts*	*17.4%*
Adjusted EBITDA[2]	**52.0**	45.1	15.5%	97.5
Adjusted EBITDA[2] margin (%)	***19.0%***	*18.4%*	*+0.6 ppts*	*19.1%*
Adjusted profit before income tax[3]	**36.2**	29.7	21.9%	66.2
Adjusted earnings per share[4] (p)	**41.5**	33.3	24.6%	75.1
Operating profit	**26.3**	18.4	42.9%	40.1
Profit before income tax	**22.9**	14.8	54.7%	33.1
Basic earnings per share (p)	**24.7**	16.0	54.4%	27.3
Net bank borrowings[5]	**63.2**	44.4	42.3%	51.3

Notes

1. Like-for-like sales are defined as revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2020, revenue is included in the like-for-like calculations from September 2021.
2. Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations, and exceptional items. Adjusted EBITDA is used as a financial metric that removes the cost of debt, costs relating to depreciation and amortisation and one-off costs to achieve a normalised earnings figure that is not distorted by irregular items or structural investment. Alternative performance measures ("APM") are defined in note 2 to the financial statements.
3. Adjusted profit before income tax is calculated as profit before amortisation, taxation, costs relating to business combinations, and exceptional items. APM are defined in note 2 to the financial statements.
4. 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 the year. APM are defined in note 2 to the financial statements.
5. Net bank borrowings is drawn bank debt less cash at bank.
6. Percentage increases and decreases are calculated based on the underlying values throughout this document.
7. CVS acquired Quality Pet Care Ltd, a small group of eight first-opinion practices in the UK trading as 'The Vet', in August 2021 for consideration of £20.4m. The financial statements of Quality Pet Care Ltd, filed at Companies House for its financial year ended 31 March 2021, show that these eight practices generated combined revenue of £11.3m for that financial year. Quality Pet Care Ltd is treated as an investment as described in note 11, and is not included in the consolidated figures throughout this document.

Operational Highlights

- **Organic growth continues:**

  - 9.6% increase in like-for-like sales[1]
  - 11.3% increase in underlying like-for-like sales (this underlying measure excludes the prior year impact of one-off COVID-19 testing in our laboratories and Healthy Pet Club revenue deferred from FY20 to FY21)
  - Membership of our affordable preventative healthcare scheme, Healthy Pet Club ("HPC"), has increased to 461,000, up 2.7% since the 2021 financial year-end (+7.6% vs. 31 December 2020)

- **Continued focus on high quality clinical care supported by investment in our facilities:**
  - Our focus on quality clinical care in our first-opinion practices continues to be supported by our diagnostic laboratories, our specialist-led multi-disciplinary referral hospitals, our out-of-hours centres and our crematoria
  - We have continued to invest in our facilities and equipment to support growth, with 19 practice refurbishments and relocations completed in H1 2022 and capital investment of £10.6m

- **Increase in clinical resource with *c.*9% more vets employed on average in calendar year 2021 vs 2020, as we continue to create new roles to support growth:**
  - 116 new permanent veterinary surgeon roles created during H1 2022
  - Vet vacancy rate remains stable averaging at 10.3% for H1 2022
  - Employee net promotor score increased to 3.7 (H1 2021: 1.3), reflecting improved colleague satisfaction in light of our focus on, and investment in, our highly skilled and dedicated team

Current Trading & Outlook

- Like-for-like sales[1] growth for the Group in the first eight months of 10.0% and 11.4% on an underlying basis (28 February 2021: 8.2%), total sales growth of 11.5% (28 February 2021: 8.7%)
- Adjusted EBITDA margin improved to 18.6% (28 February 2021: 18.1%)
- Stable vet vacancy rate, averaging 10.3% for the first eight months (28 February 2021: 7.5%)
- Healthy Pet Club membership increased to 466,000 members
- Well positioned for future growth, with increased investment in facilities, equipment and a pipeline of further acquisition opportunities
- We remain on course to deliver full year results in line with management expectations

Richard Fairman, Chief Executive Officer, commented:

"I am pleased to report on another strong set of results which reflect the commitment, dedication and professionalism of our colleagues. I would like to take this opportunity to thank them all for their outstanding contribution.

We continue to focus on providing high quality care to our clients and their animals, through our evidence-based clinical approach. Our integrated model ensures that we can provide end-to-end, joined-up and continuous care.

Demand for our services continues to increase as consumers seek the best possible care for their animals. Our ongoing strategy of investment in our people, in our practice and other facilities, and in our clinical equipment is generating beneficial returns through organic growth. We will continue to augment this organic growth through acquisitions.

The positive trading momentum in H1 2022 has continued into the first two months of our second half, and with a strongly cash generative model we remain well placed to continue to invest and acquire to deliver future growth."

Results webcast

Management will host a live webcast and Q&A for analysts and investors at 9am GMT this morning. Those wishing to join should email CVSGroup@mhpc.com for the registration details. For those unable to join, there will be a playback facility available on the CVS website later.

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About CVS Group plc (www.cvsukltd.co.uk)
CVS Group is an AIM-quoted fully-integrated provider of veterinary services in the UK, with practices in the Netherlands and the Republic of Ireland. CVS is focused on providing high quality clinical services to its customers and their animals, with outstanding and dedicated clinical teams and support colleagues at the core of its strategy.

The Group has *c.*500 veterinary practices across its three markets, including eight specialist referral hospitals and 35 dedicated out-of-hours sites. Alongside the core Veterinary Practices division, CVS operates Laboratories (providing diagnostic services to CVS and third-parties), Crematoria (providing pet cremation and clinical waste disposal for CVS and third-party practices), Buying Groups and the Group's online retail business ("Animed Direct").

The Group employs *c.*7,900 personnel, including *c.*2,100 veterinary surgeons and *c.*2,800 nurses.

Introduction
The Board is pleased to announce another strong set of results, with continued growth in both revenue and underlying profit.

The focus of our highly skilled and dedicated team on first-class standards of clinical care, delivered through our fully integrated model, has driven the strong H1 performance, with an increase in like-for-like sales[1] of 9.6% (11.3% on an underlying basis), leading to a 0.6 ppt improvement in adjusted EBITDA[2] margin to 19.0%.

Market trends
CVS continues to operate in a growing market with favourable consumer trends. Whilst there is a lack of definitive data available, the population of pets has increased in the UK since the start of the first lockdown in March 2020, with a survey by the Pet Food Manufacturers' Association showing 3.2 million UK households having bought a pet since the start of lockdown restrictions.

Whilst we do not assume a further increase in the pet population, we are yet to see the full benefit of this past increase. Spend on veterinary services increases in line with the age of pets, with older cats and dogs needing greater levels of clinical care. Hence, we expect the full benefit of the increase in the pet population to be seen in the next five to ten years as the puppies and kittens born in the past two years reach their mature later years.

CVS is well placed to provide high standards of clinical care throughout a pet's life, with our first-opinion practices supported by our specialist-led multi-disciplinary hospitals, our out-of-hours centres and our diagnostic laboratories. Our crematoria also provide a compassionate cremation service at the end of an animal's life and this is an important offering given that clients who lose a pet often buy a replacement.

Strategic focus
We have focused on delivering strong organic growth in recent years, demonstrating the Group's resilience and ability to increase revenues despite the challenges faced during the COVID-19 pandemic over the past two years. This is clearly reflected in our underlying like-for-like sales growth in H1 2022 of 11.3%, which is adjusted for one-off HPC revenue recognition and the benefit of COVID-19 testing in H1 2021.

In light of the increase in the pet population and the continued humanisation of pets, demand for our high quality veterinary services has increased. We have consciously increased our investment in our people, in the relocation and refurbishment of our existing practices, and in clinical equipment, to service this increased demand. Whilst we are encouraged by the returns from this investment to date, we also recognise the opportunity to establish new practices through greenfield sites. We have now commenced work at our new greenfield multi-disciplinary referral hospital in Bristol, we have established four greenfield farm practices in the past two years, and we are exploring opportunities for greenfield companion animal practices in areas of the UK which are currently underserved of which we have identified 10 possible locations with some progressing as near-term opportunities.

We continue to look for selective synergistic acquisitions to complement our growth. The recent Competition and Markets Authority (“CMA”) phase one decision on our acquisition of Quality Pet Care Ltd (discussed below) provides insight as to how the CMA determines local competition among first opinion small animal practices, in particular its assessment that a combined share of over 30% of FTE (full-time equivalent) vets employed in the catchment area immediately surrounding a practice indicates a potential for substantial lessening of competition. This will help inform our future acquisitions strategy enabling us to focus on the significant areas of the UK where CVS has minimal existing presence and, even in areas where we have existing practices, there will be acquisition opportunities which would not result in a combined local market share reaching the 30% threshold.

The Group has a pipeline of future acquisition opportunities in the UK, and will continue to explore new opportunities in Europe. Following the end of the period, the Group has completed the acquisition of a small, single-site companion animal veterinary practice in the Netherlands.

The Board has a clear strategy, focusing on four strategic pillars which underpin the Group’s purpose to give the best possible care to animals and its vision to be the veterinary company people most want to work for, enabling the Group to deliver consistent growth and shareholder value.

1. We recommend and provide the best clinical care every time

The Group’s preventative healthcare scheme, Healthy Pet Club, provides peace of mind for pet owners through high standards of preventative healthcare. The scheme provides an annual vaccination, regular flea and worming treatments and six-monthly health checks. These regular checks ensure any clinical issues are highlighted early, often leading to improved clinical care and less invasive intervention being required subsequently. Membership of the scheme has increased 2.7% since 30 June 2021, to 461,000 members as at 31 December 2021.

Our Vet Oracle™ business, a virtual specialist hospital, provides industry-leading veterinary diagnostic services directly to vets across the globe. This currently comprises five specialisms: telemedicine, teleradiology, telecardiology, teleoncology and teledermatology. Although Vet Oracle is nascent, it continues to grow with an 84% increase in the total number of cases received in H1 2022 versus H1 2021. Through Vet Oracle we are helping to improve standards of healthcare worldwide, illustrating our continuous strive to improve the level of service, support and expertise available to our clinical teams and our clients.

We continue to support the profession in clinical quality improvement, and have continued to lead on this front with our internationally recognised work on clinical auditing. This has included reducing our prescription of the highest priority critically important antibiotics (“HPCIA"), and reducing the number of neutering post-operative complications requiring medical interventions below published national benchmarks.

2. We are a great place to work and have a career

In 2021, we implemented a number of initiatives to support our colleagues and to thank them for their continued contribution. These initiatives include increased holiday allowance with an additional day of holiday for every completed year of service up to a maximum of five. In addition, our latest Save-As-You-Earn equity incentive scheme, granted in November 2021, saw *c.*18% of colleagues participate, taking advantage of the 20.0% discount to the market share price, in accordance with HMRC rules.

We continue to provide resources and implement working practices designed to improve our colleagues' wellbeing and work/life balance. This includes improved out-of-hours cover and the expansion of our dedicated Vet Oracle telemedicine services, providing advice and support to CVS vets.

We continue to provide industry leading career development opportunities for our colleagues, including: our advanced clinical services network; our Learning, Education and Development department, which has enrolled over 800 colleagues onto apprenticeships and created 256 learning webinars which have had *c.*10,000 views; and *c.*50% of both our executive committee and senior leadership group are clinicians who have developed into leadership roles.

As a result of these initiatives, the Group is pleased to see continued stability in vacancy rates for veterinary surgeons at 10.3% in H1 2022 compared to 8.3% at 30 June 2021 (H1 2021: 7.4%) and attrition broadly stable with early signs we are making some improvements, following the significant improvement made in 2019.

Due to increasing client demand for the best quality veterinary services, we are increasing the number of vets and nurses we employ with on average *c.*9% more vets employed and *c.*12% more nurses employed in calendar year 2021 vs 2020, with the Group having created 116 new permanent veterinary surgeon roles in the first half alone. Our 'refer-a-friend' programme resulted in over 200 successful appointments in H1 2022, almost three times the number of referrals made in H1 2021. We recognise there are tailwinds that will improve the availability of vets in the medium term, including the increase in graduate intake amongst existing and new veterinary schools.

We continue our monthly tracking of our employee engagement with our Employee Net Promoter Score ("eNPS"), which increased to 3.7 at the end of H1 2022, from 2.9 at 30 June 2021 (H1 2021: 1.3).

3. We provide great facilities and equipment

Providing superior quality facilities and state-of-the-art equipment supports our colleagues to deliver the best clinical care, as well as providing our clients and patients with a high-quality, comfortable and enjoyable experience when visiting our veterinary practices. Having resumed face-to-face consultations, we take pride in welcoming our clients and their pets into our practices.

All our practices participate in the voluntary RCVS Practice Standards Scheme ("PSS"), because we are keen to support improvement in standards across the veterinary profession. Updates to PSS awards, which were delayed during the COVID-19 pandemic, have now resumed; we currently hold 159 PSS awards and we look forward to the result of the upcoming reviews.

During the period, we invested £10.6m in facilities, equipment and software, an increase of £4.4m versus H1 2021, including 14 refurbishments and 5 relocations. We are encouraged by the returns being seen from this investment. We plan to ramp up this investment with approximately half of our UK practices representing clear opportunities for enhanced growth through further investment and we currently have 54 sites in which we are at the design, planning, tender or construction stage, with some of these developments due to complete in H2 2022. We have a number of other sites where we can improve clinical services and drive increased revenue through better facilities, and hence we plan to invest additional capital over the next five years to support quality enhancements and further growth.

4. We take our responsibilities seriously

Our responsibilities span more than just legal and regulatory requirements as we aim to create value for all of our stakeholders, from our colleagues, to our local communities, to our investors.

In an industry first, we have partnered with the British Small Animal Veterinary Association ("BSAVA") to provide all CVS colleagues with access to a range of the latest BSAVA Library online resources. This gives our colleagues even better support, with up-to-date resources to ensure they can provide the right advice and treatment.

We continue to train mental health first aiders throughout our business, who champion and promote positive mental health within their teams, and provide an essential resource for peers. Our employee assistance programme provides additional support for those who need it, and we continue to work with and provide funding to Vetlife, a charity providing support to the veterinary community, to ensure all our veterinary colleagues and their families have 24/7 access to support.

We acknowledge the opportunity to innovate and boost clinical knowledge, and are pleased to be the first corporate to earmark a fund for both CVS and non-CVS clinicians to apply for Clinical Research Awards, designed to fund clinical research and quality improvement projects in collaboration with academics from universities in the United Kingdom, Republic of Ireland and the Netherlands. We made our first awards under this scheme in March 2022.

We are delighted to announce that our Vet Oracle Clinical Director, Laurent Garosi, has been awarded the prestigious BSAVA 'Bourgelat Award' for truly outstanding international contributions to the field of small animal practice. Laurent's work on both cerebrovascular disease, and phenotypic classification and clinical characteristics of movement disorders in dogs, has progressed the respective fields immeasurably, and this award is recognition of that extraordinary contribution.

Environmental, Social and Governance ("ESG")

We frame our approach to ESG around the concept of having Care at our Heart, because our commitment to doing the right thing, in the right way, is at the very core of our business. For ESG to be fully embedded, we have integrated sustainability analysis, priority setting and data collection into seven working groups across our business. They are responsible for setting their own terms of reference, timelines and targets, to avoid a top-down approach and to allow them to propose and deliver genuinely impactful work.

We are in the process of taking advice on remuneration linked to ESG targets, and have started to engage with suppliers around the impact of our wider value chain. Our work with them could include digital-only purchasing and fewer deliveries to practices.

We are expanding our KPIs and have a new workstream devoted to how best to report our data and our progress, and are analysing how we report against global standards such as SASB. We will be launching our first stand-alone ESG report this summer, and look forward to sharing more news with you at that point.

In the first half of FY22 we have continued to implement measures designed to reduce the environmental impact of our activities. We planted over 4,000m^2 of native British woodland through our National Trust initiative, to plant one square metre for every pet received directly for individual cremation throughout 2021. In addition, Vet Direct has vastly reduced its printing of catalogues and, by carbon balancing the paper used, helped protect almost 5,000m^2 of critically threatened tropical forest.

Future acquisition strategy

Whilst we are naturally disappointed with the recent CMA decision following their investigation into our August 2021 acquisition of Quality Pet Care Ltd, (trading as 'The Vet'), we have offered undertakings to dispose of Quality Pet Care Ltd and all eight of its sites in order to resolve any potential competition concerns. The CMA announced on 4 March 2022 their provisional acceptance of these undertakings and we will continue to work with the CMA in securing an appropriate buyer to the CMA's satisfaction. The financial statements of Quality Pet Care Ltd, filed at Companies House for its financial year ended 31 March 2021, show that these eight practices generated combined revenue of £11.3m for that financial year. Quality Pet Care Ltd is treated as an investment as described in note 11, and is not included in the consolidated figures throughout this document.

The CMA decision outlined how they assessed local competition among first opinion small animal practices based on the customer catchment area and resulting drive time surrounding the relevant practice (reflecting 80% of the practices' customers) and the share of full time equivalent ("FTE") vets on a combined post-acquisition basis. The CMA's decision was that a share of more than 30% of vet FTE in this catchment area gives rise to the possibility of a substantial lessening of competition.

Whilst we do not fully agree with the CMA's approach, their decision is helpful in our assessment of a number of future acquisition opportunities in the UK. There are *c.*5,300 veterinary practices in the UK of which it is estimated *c.*55% are in corporate ownership and therefore there remains a runway for consolidation. There are considerable parts of the UK where we have no existing practices or limited existing presence and synergies remain accessible regardless of location. Hence, our ability to make further acquisitions in these areas should not be impacted. Furthermore, there are other practice acquisition opportunities where, even if the target practice is close to our existing sites, we will not reach the 30% vet FTE threshold.

Our strategic focus over the past three years has been to drive organic growth through a focus on our people and the provision of high quality clinical care, augmented by selective acquisitions. We are confident in our ability to continue this approach with further UK acquisitions supporting continued organic growth.

We also operate practices in Europe, with 26 practices in the Netherlands and six in Ireland. We recognise an opportunity to further expand our business in mainland Europe and have previously appointed advisers to review European markets and to help us assess their attractiveness. We continue to monitor markets such as Germany, France and Spain which are opening up to consolidation and we are confident these markets will present opportunities for CVS in due course.

Capital allocation
We continue to generate strong operating cash flows and our leverage (net debt / adjusted annualised EBITDA) remains comfortably below 1.0x as a result. We have substantial committed but undrawn bank facilities and hence are well placed to increase organic and inorganic investment in support of future growth.

Our capital allocation priorities include the following:

- Continued investment in our people through appropriate training, support and career development opportunities;
- Increased investment in our practice facilities to support exceptional standards of clinical care with 54 capital projects in our current pipeline;
- Increased investment in our clinical equipment, for example we are investing £1.2m in a state-of-the-art stereotactic linear accelerator in our new Bristol Veterinary Specialists referral hospital, which will be the first of its kind in the UK veterinary sector and will support advanced treatment of cancer in pets;
- Increased investment in technology in support of our colleagues and the clinical care we can provide;
- Continued investment in acquisitions; and
- Investment in greenfield sites to support growth across our practice division.

Notwithstanding the significant investment opportunities outlined above, we also recognise the opportunity to develop a more efficient capital structure through a selective share buy-back programme. Some major shareholders have expressed their support for selective share buy-back programmes, which we will keep under consideration.

Financial Review
CVS delivered a robust performance for H1 2022, continuing to deliver organic growth across all business areas, whilst investing in our existing veterinary practice portfolio in support of our strategic priority to provide the best clinical care for animals.

Group revenue was £273.7m in the period, an increase of 11.4% over the prior year (H1 2021: £245.6m). Like-for-like[1] ("LFL") sales grew by 9.6% (adjusted for the number of trading days in the period) (H1 2021: 7.8%) with underlying LFL sales increasing by 11.3% (adjusted for the prior period benefits of £3.0m of HPC revenue deferred from FY20 and £0.9m of revenue from COVID-19 testing).

Gross margin before clinical staff costs increased to 77.1% (H1 2021: 75.8%). Employment costs as a percentage of sales increased to 50.4% (H1 2021: 48.9%) as we invested in our people in support of organic growth. With our continued focus on clinical staff retention, our vet vacancy rate remains stable at 10.3%, reflecting the increased number of roles being advertised to meet client demand (H1 2021: 7.4%, prior to new roles being advertised).

Adjusted EBITDA for the half-year was £52.0m, an increase of 15.5% (H1 2021: £45.1m). This is primarily due to the increase in top line revenue, but is also supported by the recognition of £2.0m Research and Development Expenditure Tax Credits.

Operating profit increased to £26.3m (H1 2021: £18.4m) after depreciation of tangible and right-of-use assets of £12.4m (H1 2021: £11.8m), amortisation of £11.3m (H1 2021: £10.6m) and costs relating to business combinations of £2.0m (H1 2021: £4.3m).

Adjusted profit before income tax, which excludes amortisation, costs relating to business combinations and exceptional items, increased to £36.2m (H1 2021: £29.7m). Adjusted earnings per share increased to 41.5p (H1 2021: 33.3p).

Basic earnings per share for the period increased to 24.7p (H1 2021: 16.0p).

Cash generated from operations was £37.9m (H1 2021: £52.3m) with the reduction reflecting bonus payments of *c.*£10m and the prior year having benefitted from a working capital uplift from Q4 FY20 (severely impacted by COVID-19 restrictive measures) into Q1 FY21.

Net bank borrowings increased to £63.2m (30 June 2021: £51.3m) after funding £0.4m of acquisitions (net of cash acquired) and £19.7m of other investments in the period (reflecting our acquisition of The Vet), along with £10.6m of capital expenditure, up from £6.2m in the comparative period. This increase reflects our continuing focus on investment in our practice portfolio to drive organic growth through high quality clinical care.

Divisional performance

Veterinary Practices division
Our Veterinary Practices division comprises *c.*500 veterinary practices across three markets, including eight specialist referral hospitals and 35 dedicated out-of-hours sites, as well as our buying groups, Vet Direct and MiPet insurance. Veterinary Practice division revenues of £243.3m were generated in the six-month period to 31 December 2021, an increase of 11.5% on the £218.2m achieved in the prior period (underlying revenue growth 13.1%). Like-for-like sales growth was 9.4% in the period (H1 2021: 5.5%), reflecting the ongoing success of our focus on organic growth within our veterinary practices.

Gross margin before clinical staff costs in the Veterinary Practice Division improved slightly to 79.8% (H1 2021: 78.2%).

Adjusted EBITDA for the Veterinary Practice division increased to £52.1m (H1 2021: £45.8m). Adjusted EBITDA margin was stable at 21.4% (H1 2021: 21.0%). This improved EBITDA margin reflects our improved gross margin, whereas the prior period benefitted from net £3.0m of HPC income delayed from the previous year.

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. Revenue of £13.3m was generated in the period (H1 2021: £13.9m). This 4.3% decrease is as a result of the one-off COVID-19 testing for CVS and third-parties in the prior period. On an underlying basis, revenue grew 2.4%. Adjusted EBITDA was stable at £4.0m (H1 2021: £4.1m) with underlying EBITDA increasing 3.9%.

Crematoria division
Our Crematoria division provides pet cremation and clinical waste disposal for CVS and third-party practices. Revenue was £4.8m in the period (H1 2021: £3.9m) reflecting the success of the Direct Pet Cremation project and the National Trust native woodland programme. Adjusted EBITDA increased to £1.7m (H1 2021: £1.4m).

Online retail business
We have continued to expand our Online retail business, Animed Direct, with revenue increasing to £22.7m (H1 2021: £19.7m), benefitting from increased product lines. Adjusted EBITDA was £1.7m (H1 2021: £1.4m).

Central administration
Central administration costs were £7.5m (H1 2021: £7.6m) after the recognition of £2.0m of Research and Development Expenditure Tax Credits ("RDEC"). Expressed as a percentage of Group revenue, excluding RDEC, these costs increased to 3.5% (H1 2021: 3.1%). The increase primarily relates to salary costs for new roles to support the continued growth of the Group.

Cash flow and funding position
CVS had borrowings of £85.0m at 31 December 2021 with cash on the balance sheet of £21.8m, bringing net bank borrowings to £63.2m (H1 2021: £44.4m). The Group had leverage (net debt / adjusted annualised EBITDA) of 0.76x as of 31 December 2021 (30 June 2021: 0.68x), comfortably below 1.0x and providing considerable headroom to support organic investment and targeted acquisitions.

The Group has total facilities of £175.0m to 31 January 2024, provided by a syndicate of four banks: NatWest, HSBC, Bank of Ireland and Allied Irish Banks, and comprising the following elements:
- a fixed term loan of £85.0m, repayable on 31 January 2024 via a single bullet repayment;
- a four-year Revolving Credit Facility of £85.0m, that runs to 31 January 2024;
- a £5.0m overdraft facility, renewable annually; and
- an envisaged, but not committed, accordion facility of up to £100.0m, that runs to 31 January 2024.

The Group is subject to two financial covenants associated with its existing facilities which are based on the ratios of net debt to EBITDA and EBITDA to interest. EBITDA for this purpose is based on adjusted EBITDA annualised for the effect of acquisitions, including costs relating to business combinations and excluding share option costs, prior to the adoption of IFRS 16.

The covenant levels allow a maximum Group net debt to EBITDA ratio ("gearing") of 3.25x, although it is not the Group's intention to operate at this level. The gearing ratio has increased during H1 2022, to 0.76x (30 June 2021: 0.68x). This increase is primarily due to an increase in net debt following increased investment for future growth. The EBITDA to interest ratio must not be less than 4.5x. As of 31 December 2021, the ratio was 38.2x.

Bank covenants are tested quarterly and the Group has considerable headroom in both financial covenants and in its undrawn but committed facilities as at 31 December 2021.

Dividends
A dividend of 6.5p (December 2020: £nil) per share was paid in December 2021 in respect of the year ended 30 June 2021. The Board will continue to review its dividend policy and anticipates the payment of a final dividend in respect of the current financial year in December 2022. In line with our customary practice, the amount of this dividend will be dependent on the outcome of the full year and the growth capital needs of the business.

Current trading & outlook
The Board is pleased to report that the demand for our high-quality veterinary services remains strong and the positive performance of H1 2022 has continued into the first two months of the second half. Like-for-like sales[1] growth in the eight-month (year-to-date) period is 10.0% for the Group, 11.4% on an underlying basis. Our veterinary surgeon vacancy rate has remained stable at 10.3%, with the success of our recruitment and retention initiatives.

We completed the acquisition of Dierenkliniek Leloup Olst-Wijhe on 1 February 2022, a single site companion animal practice based in the Netherlands, increasing the number of our practices in the Netherlands to 26.

The Group continues to generate underlying cash flows and leverage reduced to 0.60x as at 28 February 2022 (31 December 2021: 0.76x; 30 June 2021: 0.68x).

Outlook

The veterinary market continues to grow, with an increasing demand for exceptional quality clinical care, including preventative healthcare. We continue to provide the highest standards of end-to-end clinical care and a broad range of services to meet our clients' needs throughout their animals' lives.

We will continue our investment in organic growth through investment in our people, technology, our existing facilities and our clinical facilities in order to drive continued organic growth. This will be supplemented by investment in further acquisitions and greenfield sites in order to augment this organic growth.

The Board remains confident that the full year results will be in line with management expectations. We look forward to welcoming investors and analysts to our planned capital markets day in June 2022.

The Board would like to acknowledge and thank all members of the CVS team for their continued dedication and professionalism. With their continuing support and commitment, we look forward to sharing further success in the future.

Richard Connell
Chairman
24 March 2022

Condensed consolidated income statement for the six-month period ended 31 December 2021 (unaudited)

	Note	**Six months ended 31 December 2021 (Unaudited) £m**	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Revenue		**273.7**	245.6	510.1
Cost of sales		**(159.3)**	(140.2)	(288.2)
Gross profit		**114.4**	105.4	221.9
Administrative expenses		**(88.1)**	(87.0)	(181.8)
Operating profit		**26.3**	18.4	40.1
Finance expense	5	**(3.4)**	(3.6)	(7.0)
Profit before income tax		**22.9**	14.8	33.1
Income tax expense	8	**(5.4)**	(3.5)	(13.8)
Profit for the period attributable to owners of the Parent		**17.5**	11.3	19.3
Earnings per Ordinary share (expressed in pence per share) (“EPS”)				
Basic		**24.7p**	16.0p	27.3p
Diluted		**24.5p**	15.9p	27.1p

All activities derive from continuing operations.

Reconciliation of adjusted financial measures

The Directors believe that an adjusted profit measure, being adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”), 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 EBITDA after adjusting for costs relating to business combinations, impairment and exceptional items.

Non-GAAP measure: Adjusted EBITDA	Note	**£m**	£m	£m
Profit before income tax		**22.9**	14.8	33.1
Adjustments for:				
Finance expense	5	**3.4**	3.6	7.0
Depreciation and impairment of tangible and right-of-use assets	9,10	**12.4**	11.8	24.3
Amortisation	9	**11.3**	10.6	23.8
Costs relating to business combinations*		**2.0**	4.3	9.3
Adjusted EBITDA		**52.0**	45.1	97.5

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

Condensed consolidated statement of comprehensive income for the six-month period ended 31 December 2021 (unaudited)

	Six months ended 31 December 2021 (Unaudited) £m	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Profit for the period	**17.5**	11.3	19.3
Other comprehensive income – items that will or may be reclassified to profit or loss in future periods			
Cash flow hedges:			
Net movement on cash flow hedge	**1.0**	0.1	0.9
Cost of hedging reserve	**(0.1)**	(0.1)	(0.4)
Deferred tax on cash flow hedge and available-for-sale financial	**(0.2)**	-	(0.1)
Exchange differences on translation of foreign operations	**(0.5)**	0.1	(0.7)
Other comprehensive income/(loss) for the period, net of tax	**0.2**	0.1	(0.3)
Total comprehensive income for the period attributable to owners of the parent	**17.7**	11.4	19.0

Condensed consolidated statement of financial position as at 31 December 2021 (unaudited)

	Note	**31 December 2021 (Unaudited) £m**	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m
Non-current assets				
Intangible assets	9	**217.2**	231.1	228.4
Property, plant and equipment	9	**61.9**	53.0	57.4
Right-of-use assets	10	**98.9**	98.5	97.2
Investments	11	**17.1**	0.1	0.1
Derivative financial instruments		**0.5**	-	-
Deferred income tax assets	8	**-**	2.2	-
		395.6	384.9	383.1
Current assets				
Inventories		**22.6**	19.6	19.5
Trade and other receivables		**49.5**	44.2	48.1
Current income tax receivable	8	**2.4**	0.3	0.1
Cash and cash equivalents		**21.8**	40.6	33.7
		96.3	104.7	101.4
Total assets		**491.9**	489.6	484.5
Current liabilities				
Trade and other payables	12	**(77.4)**	(100.8)	(86.0)
Provisions	13	**(3.0)**	(4.5)	(3.9)
Lease liabilities	14	**(8.6)**	(9.0)	(8.6)
		(89.0)	(114.3)	(98.5)
Non-current liabilities				
Borrowings	16	**(84.1)**	(83.7)	(83.9)
Lease liabilities	14	**(92.4)**	(90.4)	(90.2)
Derivative financial instruments		**-**	(0.9)	(0.4)
Deferred income tax liabilities		**(21.1)**	(20.9)	(20.4)
		(197.6)	(195.9)	(194.9)
Total liabilities		**(286.6)**	(310.2)	(293.4)
Net assets		**205.3**	179.4	191.1

Condensed consolidated statement of financial position as at 31 December 2021 (unaudited)

	31 December 2021 (Unaudited) £m	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m
Shareholders' equity			
Share capital	**0.1**	0.1	0.1
Share premium	**103.3**	101.9	103.1
Capital redemption reserve	**0.6**	0.6	0.6
Treasury reserve	**-**	(0.2)	-
Cash flow hedge reserve	**0.5**	(1.3)	(0.5)
Cost of hedging reserve	**-**	0.4	0.1
Merger reserve	**(61.4)**	(61.4)	(61.4)
Retained earnings	**162.2**	139.3	149.1
Total equity	**205.3**	179.4	191.1

The interim financial information above is reproduced from that on pages 11 to 28 of the Group's Interim Report which was approved by the Board of Directors on 24 March 2022.

Condensed consolidated statement of changes in equity for the six-month period ended 31 December 2021 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Treasury reserve	Cash flow hedge reserve	Cost of hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 July 2021	**0.1**	**103.1**	**0.6**	**-**	**(0.5)**	**0.1**	**(61.4)**	**149.1**	**191.1**
Profit for the period	-	-	-	-	-	-	-	**17.5**	**17.5**
Other comprehensive income:									
Cash flow hedges: Fair value gains/(losses)	-	-	-	-	**1.0**	**(0.1)**	-	-	**0.9**
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	**(0.5)**	**(0.5)**
Deferred tax on cash flow hedge	-	-	-	-	-	-	-	**(0.2)**	**(0.2)**
Total other comprehensive income	-	-	-	-	**1.0**	**(0.1)**	-	**(0.7)**	**0.2**
Total comprehensive income	-	-	-	-	**1.0**	**(0.1)**	-	**16.8**	**17.7**
Transactions with owners:									
Credit to reserves for share-based payments	-	-	-	-	-	-	-	**1.3**	**1.3**
Deferred tax relating to share-based payments	-	-	-	-	-	-	-	**(0.4)**	**(0.4)**
Issue of ordinary shares	-	**0.2**	-	-	-	-	-	-	**0.2**
Dividends to equity holders of the Company	-	-	-	-	-	-	-	**(4.6)**	**(4.6)**
Transactions with owners	-	**0.2**	-	-	-	-	-	**(3.7)**	**(3.5)**
At 31 December 2021	**0.1**	**103.3**	**0.6**	**-**	**0.5**	**-**	**(61.4)**	**162.2**	**205.3**

	Share capital	Share premium	Capital redemption reserve	Treasury reserve	Cash flow hedge reserve	Cost of hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 July 2020	0.1	101.9	0.6	(0.3)	(1.4)	0.5	(61.4)	126.6	166.6
Profit for the period	-	-	-	-	-	-	-	11.3	11.3
Other comprehensive income:									
Cash flow hedges: Fair value gains/(losses)	-	-	-	-	0.1	(0.1)	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	0.1	0.1
Total other comprehensive income	-	-	-	-	0.1	(0.1)	-	0.1	0.1
Total comprehensive income	-	-	-	-	0.1	(0.1)	-	11.4	11.4
Transactions with owners:									
Credit to reserves for share-based payments	-	-	-	-	-	-	-	1.0	1.0
Deferred tax relating to share-based payments	-	-	-	-	-	-	-	0.3	0.3
Disposal of treasury reserve	-	-	-	0.1	-	-	-	-	0.1
Transactions with owners	-	-	-	0.1	-	-	-	1.3	1.4
At 31 December 2020	0.1	101.9	0.6	(0.2)	(1.3)	0.4	(61.4)	139.3	179.4

Condensed consolidated statement of cash flows for the six-month period ended 31 December 2021 (unaudited)

	Note	**Six months ended 31 December 2021 (Unaudited) £m**	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	15	**37.9**	52.3	80.3
Taxation paid		**(5.5)**	(6.3)	(13.0)
Interest paid		**(3.2)**	(3.9)	(7.1)
Net cash generated from operating activities		**29.2**	42.1	60.2
Cash flows from investing activities				
Business combinations (net of cash acquired)		**(0.4)**	(10.6)	(19.4)
Purchase of other investments	11	**(19.7)**	-	-
Purchase of property, plant and equipment	9	**(10.3)**	(6.0)	(16.1)
Proceeds from sale of property, plant and equipment		**0.1**	-	0.6
Purchase of intangible assets	9	**(0.3)**	(0.2)	(0.5)
Net cash used in investing activities		**(30.6)**	(16.8)	(35.4)
Cash flows from financing activities				
Dividends paid		**(4.6)**	-	-
Proceeds from issue of Ordinary shares		**0.2**	-	1.2
Proceeds from sale of Treasury shares		**-**	0.1	0.3
Repayment of obligation under right-of-use asset		**(6.1)**	(6.2)	(13.0)
Repayment of borrowings	16	**-**	(0.1)	(1.1)
Net cash used in financing activities		**(10.5)**	(6.2)	(12.6)
Net (decrease)/increase in cash and cash equivalents		**(11.9)**	19.1	12.2
Cash and cash equivalents at the beginning of period		**33.7**	21.5	21.5
Cash and cash equivalents at end of the period		**21.8**	40.6	33.7

Notes to the interim consolidated financial information

1. General information

The principal activity of the Group is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online retail business.

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 the AIM Market of the London Stock Exchange.

The address of the registered office is CVS House, Owen Road, Diss, Norfolk, IP22 4ER and the registered number of the Company is 06312831.

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of CVS Group plc in respect of the year ended 30 June 2021 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Forward looking statements

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. Save as required by regulation or law, we undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2021. It is unaudited and has been prepared in accordance with the AIM Rules for Companies and with IAS 34, 'Interim Financial Reporting'. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2021, which have been prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

The interim consolidated financial information has been prepared on a going concern basis.

Use of non-GAAP measures

Adjusted EBITDA, adjusted profit before income tax ("adjusted PBT") and adjusted earnings per share ("adjusted EPS")

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on the Group's underlying performance. These measures are used by the Board and management for planning and internal reporting and are aligned to our strategy and KPIs. A subset is also used by management in setting Director and management remuneration. The measures are also used in discussions with the investment analyst community. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. They are not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

Adjusted EBITDA is profit before income tax adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, and exceptional items.

Adjusted PBT is calculated as profit before amortisation, taxation, costs relating to business combinations and exceptional items.

Adjusted EPS is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue during 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 adjusted for the number of working days; for example, for a practice acquired in September 2020, revenue is included from September 2021 in the like-for-like sales calculation.

Net bank borrowings
Net bank borrowings is calculated as bank borrowings less gross cash and unamortised borrowing costs.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those set out on pages 100 to 109 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2021 (which are available upon request from the Company's registered office or on the Company's website).

The policy for recognising and measuring income taxes in the interim period is described in note 8.

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 significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty, were the same as those described in the last annual financial statements, except for as set out below.

Accounting estimate: fair value measurement of investment in Quality Pet Care Ltd
The Group has recognised an equity investment in relation to the 100% ownership of Quality Pet Care Ltd, in line with IFRS 9, 'Financial instruments', because the Group does not have control over the entity. Fair value has been measured in accordance with IFRS 9 and IFRS 13, 'Fair value measurement'. As a result of the ongoing CMA investigation, there are information barriers in place preventing management from performing a detailed fair value measurement. Management has therefore concluded that cost is an appropriate estimate of fair value, as there are no indications that fair value may be different to cost.

4. 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.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, operating segments, is 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.

Geographical segments
The business operates predominantly in the UK. As at 31 December 2021, it has 25 veterinary practices in the Netherlands and six in the Republic of Ireland. It performs a small amount of laboratory and teleradiology work for Europe-based clients, and a small amount of teleradiology work for clients based in the rest of the world. In accordance with IFRS 8, 'Operating segments', no segment results are presented for trade with clients in Europe or the rest of the world as these are not reported separately for management reporting purposes, and are not considered material for separate disclosure.

Revenue comprises £195.5m of fees and £78.2m of goods (31 December 2020: £172.7m and £72.9m respectively). Revenue from contracts totalled £33.0m in the period (31 December 2020: £31.0m).

Operating segments

The Group is split into four operating segments (Veterinary Practices, Laboratories, Crematoria and Online Retail Business) 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.

Six-months ended 31 December 2021	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Online Retail Business £m**	**Head Office £m**	**Group £m**
Revenue	**243.3**	**13.3**	**4.8**	**22.7**	**(10.4)**	**273.7**
Profit/(loss) before income tax	**30.2**	**3.6**	**1.5**	**1.6**	**(14.0)**	**22.9**
Adjusted EBITDA	**52.1**	**4.0**	**1.7**	**1.7**	**(7.5)**	**52.0**
Total assets	**428.2**	**32.3**	**17.7**	**10.9**	**2.8**	**491.9**
Total liabilities	**(163.0)**	**(2.2)**	**(1.1)**	**(14.8)**	**(105.5)**	**(286.6)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**30.2**	**3.6**	**1.5**	**1.6**	**(14.0)**	**22.9**
Finance expense	**2.1**	**-**	**-**	**-**	**1.3**	**3.4**
Depreciation and impairment of tangible and right-of-use assets	**11.6**	**0.4**	**0.2**	**-**	**0.2**	**12.4**
Amortisation	**7.2**	**-**	**-**	**0.1**	**4.0**	**11.3**
Costs relating to business combinations	**1.0**	**-**	**-**	**-**	**1.0**	**2.0**
Adjusted EBITDA	**52.1**	**4.0**	**1.7**	**1.7**	**(7.5)**	**52.0**

Six-month period ended 31 December 2020	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Online Retail Business £m**	**Head Office £m**	**Group £m**
Revenue	218.2	13.9	3.9	19.7	(10.1)	245.6
Profit/(loss) before income tax	22.2	3.7	1.2	1.4	(13.7)	14.8
Adjusted EBITDA	45.8	4.1	1.4	1.4	(7.6)	45.1
Total assets	434.1	27.4	15.5	10.4	2.2	489.6
Total liabilities	(203.1)	(3.6)	(1.4)	(4.4)	(97.7)	(310.2)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	22.2	3.7	1.2	1.4	(13.7)	14.8
Finance expense	2.0	-	-	-	1.6	3.6
Depreciation and impairment of tangible and right-of-use assets	10.9	0.4	0.2	-	0.3	11.8

Amortisation	6.9	-	-	-	3.7	10.6
Costs relating to business combinations	3.8	-	-	-	0.5	4.3
Adjusted EBITDA	45.8	4.1	1.4	1.4	(7.6)	45.1

Year ended 30 June 2021	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Online Retail Business £m**	**Head Office £m**	**Group £m**
Revenue	453.4	28.0	8.0	41.7	(21.0)	510.1
Profit/(loss) before income tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Adjusted EBITDA	98.4	9.1	2.8	2.9	(15.7)	97.5
Total assets	422.4	32.7	16.9	10.9	1.6	484.5
Total liabilities	(179.8)	(4.0)	(1.4)	(3.4)	(104.8)	(293.4)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Finance expense	4.1	-	-	-	2.9	7.0
Depreciation and impairment of tangible and right-of-use assets	22.7	0.7	0.4	-	0.5	24.3
Amortisation	14.0	-	-	0.2	9.6	23.8
Costs relating to business combinations	8.1	-	-	-	1.2	9.3
Adjusted EBITDA	98.4	9.1	2.8	2.9	(15.7)	97.5

5. Finance expense

	Six months ended 31 December 2021 (Unaudited) £m	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Interest expense on bank loans and overdraft	**1.1**	1.4	2.5
Interest expense on IFRS 16 lease liabilities	**2.1**	2.0	4.1
Amortisation of debt arrangement fees	**0.2**	0.2	0.4
Net finance expense	**3.4**	3.6	7.0

6. 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 period.

	Six months ended 31 December 2021 (Unaudited) £m	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Earnings attributable to Ordinary shareholders (£m)	**17.5**	11.3	19.3
Weighted average number of Ordinary shares in issue	**70,839,356**	70,654,959	70,685,939
Basic earnings per share (pence per share)	**24.7**	16.0	27.3

(b) Diluted

Diluted earnings per Ordinary 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 Long-Term Incentive Plan ("LTIP") schemes and Save-As-You-Earn ("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.

	Six months ended 31 December 2021 (Unaudited) £m	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Earnings attributable to Ordinary shareholders (£m)	**17.5**	11.3	19.3
Weighted average number of Ordinary shares in issue	**70,839,356**	70,654,959	70,685,939
Adjustment for contingently issuable shares – LTIP	**249,944**	180,786	237,307
Adjustment for contingently issuable shares – SAYE	**494,778**	118,729	246,533
Weighted average number of Ordinary shares for diluted earnings per share	**71,584,078**	70,954,474	71,169,779
Diluted earnings per share (pence per share)	**24.5**	15.9	27.1

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.

	Six months ended 31 December 2021 (Unaudited) £m	Six months ended 31 December 2020 (Unaudited) £m	Year ended 30 June 2021 (Audited) £m
Earnings attributable to Ordinary shareholders	**17.5**	11.3	19.3
Add back taxation	**5.4**	3.5	13.8
Profit before income tax	**22.9**	14.8	33.1
Adjustments for:			

Amortisation	**11.3**	10.6	23.8
Costs relating to business combinations	**2.0**	4.3	9.3
Adjusted profit before income tax	**36.2**	29.7	66.2
Tax charge amended for the above adjustments	**(6.8)**	(6.2)	(13.1)
Adjusted profit after income tax and earnings attributable to owners of the parent	**29.4**	23.5	53.1
Weighted average number of Ordinary shares in issue	**70,839,356**	70,654,959	70,685,939
Weighted average number of Ordinary shares for diluted earnings per share	**71,584,078**	70,954,474	71,169,779
Adjusted earnings per share (pence per share)	**41.5p**	33.3p	75.1p
Diluted adjusted earnings per share (pence per share)	**41.1p**	33.1p	74.6p

7. 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 schemes, awards are made at an effective nil cost, vesting over a three-year performance period conditional upon the Group's adjusted earnings per share growth and Total Shareholder Return ("TSR"). The LTIP scheme arrangements are equity-settled.

On 6 October 2021, LTIP15 was issued with an option life of 3 years over 74,174 shares. The share price at the grant date was £24.45 with an exercise price of 0.2p. On 17 December 2021, LTIP15b was issued with an option life of 3 years over 451 shares. The share price at the grant date was £22.85 with an exercise price of 0.2p.

During the six months to 31 December 2021, directors and employees exercised 97,491 share options (31 December 2020: nil) with a weighted average share price at the date of exercise being £24.22 (31 December 2020: £nil), in respect of the LTIP12 (31 December 2020: LTIP11) scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.8m (31 December 2020: £0.8m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.2m (31 December 2020: £0.2m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Save-As-You-Earn ("SAYE")
The Group operates an equity incentive scheme for all UK employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. Under the new SAYE14 scheme awards were made at a 20.0% discount (SAYE13 was made at a 20.0% discount and SAYE10, SAYE11 and SAYE12 scheme awards were made at a 10.0% discount) 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 schemes.

SAYE14 scheme was opened for subscription in November 2021. 215,022 options were granted in November 2021, with the first salary deductions taking place in December 2021 and a contract start date of 1 January 2022. The exercise price was £19.74, a 20.0% discount to the closing mid-market price on the date of invitation.

Options were valued using the Black–Scholes option pricing model and the share-based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £0.5m (31 December 2020: £0.2m) and has been charged to administrative expenses.

8. Income tax expense

The tax charge for the six months ended 31 December 2021 is recognised based on management's estimate of the weighted average annual effective tax rate expected for the full financial year, adjusted for the tax impact of any discrete items arising in the period. The estimated average annual tax rate used for the six months ended 31 December 2021 is 21.8% (31 December 2020: 23.2%).

The reported effective tax rate for the six months ended 31 December 2021 is 23.8% (31 December 2020: 23.5%). The reported effective tax rate has increased from the previous period by 0.3%; this is affected by a decrease in expenses not deductible for tax purposes, predominantly in respect of business acquisitions. In addition, as a result of the announced increase in the UK corporation tax rate to 25%, deferred tax balances were remeasured in the previous period.

9. Intangible assets and property, plant and equipment

	Intangible assets £m	Property, plant and equipment £m
Six months ended 31 December 2021		
Opening net book value at 1 July 2021	**228.4**	**57.4**
Foreign currency translation	**(0.2)**	**-**
Additions	**0.3**	**10.3**
Disposals	**-**	**(0.1)**
Amortisation and depreciation	**(11.3)**	**(5.7)**
Closing net book value at 31 December 2021	**217.2**	**61.9**
Six months ended 31 December 2020		
Opening net book value at 1 July 2020	229.8	51.6
Foreign currency translation	(0.1)	-
Additions arising through business combinations	11.8	0.6
Additions	0.2	6.0
Amortisation and depreciation	(10.6)	(5.2)
Closing net book value at 31 December 2020	231.1	53.0

10. Right-of-use assets

	Right-of-use assets £m
Six months ended 31 December 2021	
At 1 July 2021	**97.2**
Foreign currency translation	**(0.3)**
Remeasurement of leases	**4.0**
Additions	**4.9**
Disposals	**(0.2)**

Depreciation	**(6.7)**
Closing net book value at 31 December 2021	**98.9**
Six months ended 31 December 2020	
At 1 July 2020	98.1
Foreign currency translation	(0.1)
Acquired through business combination	3.3
Remeasurement of leases	3.4
Additions	0.9
Disposals	(0.5)
Depreciation	(6.6)
Closing net book value at 31 December 2020	98.5

11. Investments

	31 December 2021 (Unaudited) £m	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m
Investments in equity instruments designated as fair value through other comprehensive income	**17.0**	-	-
Other investments	**0.1**	0.1	0.1
Total	**17.1**	0.1	0.1

The Group holds 100% of the ordinary share capital of Quality Pet Care Ltd, trading as "The Vet", an entity whose principal activity is the operation of veterinary clinics. The Group acquired Quality Pet Care Ltd on 19 August 2021, for total cash consideration of £20.4m, including £3.4m to settle associated liabilities, of which £0.7m was unpaid at the balance sheet date.

The Competition and Markets Authority ("CMA") served an initial enforcement order in relation to the acquisition in September 2021. Following the conclusion of their phase one review, the CMA announced on 18 February 2022 that they consider the acquisition may result in a substantial lessening of competition at five of the eight practice sites. CVS subsequently offered undertakings to divest The Vet, as it considers this the most effective way to address the CMA's concerns. The CMA provisionally accepted these undertakings on 4 March 2022. The Group has appointed an adviser to support this divestment in order to fully satisfy the CMA's concerns. A further update will be provided in due course.

The Directors do not consider that the Group is able to exercise control nor significant influence over Quality Pet Care Ltd given the entity is subject to an Initial Enforcement Order as noted above. The investment has been recognised at cost due to restriction of information available to perform a valuation during the CMA's investigation.

12. Trade and other payables

	31 December 2021 (Unaudited) £m	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m

Trade payables	**35.2**	42.9	40.3
Social security and other taxes	**16.7**	29.5	16.9
Other payables	**5.5**	5.9	12.7
Deferred income[1]	**2.3**	1.3	2.8
Accruals	**17.7**	21.2	13.3
Total	**77.4**	100.8	86.0

[1] Deferred income relates to the contract liability relating to the Healthy Pet Club ("HPC") contract.

13. Provisions

	31 December 2021 (Unaudited) £m	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m
At the beginning of the period	**3.9**	5.0	5.0
Charged to the income statement within administration expenses	**-**	-	0.9
Utilised in the period	**(0.9)**	(0.5)	(2.0)
At the end of the period	**3.0**	4.5	3.9

Provisions charged to the income statement relate to announced site closures and costs set aside for properties during previous financial years and satisfy the recognition criteria under IAS 37. Amounts utilised in the period include costs associated with announced site closures of £0.2m (31 December 2020: £0.2m) and costs set aside for properties of £0.7m (31 December 2020: £0.3m).

14. Lease liabilities

	31 December 2021 (Unaudited) £m	31 December 2020 (Unaudited) £m	30 June 2021 (Audited) £m
Current	**8.6**	9.0	8.6
Non-current	**92.4**	90.4	90.2
Total discounted lease liabilities	**101.0**	99.4	98.8
Maturity analysis – contractual undiscounted cash flows			
Less than one year	**12.4**	12.8	12.4
Between one and five years	**52.7**	50.0	51.1
More than five years	**57.7**	58.3	57.2
Total	**122.8**	121.1	120.7

15. Cash generated from operations

	Six months ended 31 December 2021	Six months ended 31 December 2020	Year ended 30 June 2021

	(Unaudited) £m	(Unaudited) £m	(Audited) £m
Profit for the period	**17.5**	11.3	19.3
Taxation	**5.4**	3.5	13.8
Total finance costs	**3.4**	3.6	7.0
Amortisation	**11.3**	10.6	23.8
Depreciation and impairment of property, plant and equipment and right-of-use assets	**12.4**	11.8	24.3
Share option expense	**1.3**	1.0	2.2
Increase in inventories	**(3.1)**	(0.6)	(0.4)
Decrease/(increase) in trade and other receivables	**2.0**	(0.3)	(3.4)
(Decrease)/increase in trade and other payables	**(11.4)**	11.9	(5.2)
(Decrease)/increase in provisions	**(0.9)**	(0.5)	(1.1)
Total cash flows from operating activities	**37.9**	52.3	80.3

16. Analysis of movement in liabilities from financing activities

	1 July 2021 £m	Cash flow £m	New leases £m	Liabilities on disposed items £m	Non cash movement £m	**31 December 2021 £m**
Right-of-use lease liabilities	(98.8)	8.2	(8.9)	0.2	(1.7)	**(101.0)**
Borrowings	(83.9)	-	-	-	(0.2)	**(84.1)**
Total liabilities from financing	(182.7)	8.2	(8.9)	0.2	(1.9)	**(185.1)**

	1 July 2020 £m	Cash flow £m	New leases £m	Liabilities on disposed items £m	Non cash movement £m	**31 December 2020 £m**
Right-of-use lease liabilities	(98.6)	8.2	-	-	(9.0)	**(99.4)**
Borrowings	(83.6)	0.1	-	-	(0.2)	**(83.7)**
Total liabilities from financing	(182.2)	8.3	-	-	(9.2)	**(183.1)**

Non-cash movements on right-of-use lease liabilities mainly comprise interest. Non-cash movements on borrowings mainly include amortisation of issue costs and bank debt acquired.

17. Dividends

The dividends paid in December 2021, representing the final dividend payable for the year ended 30 June 2021, amounted to £4.6m (6.5 pence per share) (31 December 2020: no dividends were proposed or paid).

18. Events after the reporting period

On 18 February 2022, the Competition and Markets Authority ("CMA") announced the results of its phase one investigation into the Group's acquisition of Quality Pet Care Ltd. Following this announcement, CVS offered to divest the entire Quality Pet Care Ltd business and the CMA provisionally accepted this undertaking on 4 March 2022. Therefore, as at the date when this interim report was authorised the investment was available for sale. Due to information barriers in place during the ongoing CMA investigation, a reliable estimate of the financial impact of this cannot be made at this time.

Directors and advisers

Directors	R Connell (Chairman) D Kemp (Non-Executive Director) R Gray (Non-Executive Director) D Wilton (Non-Executive Director) (appointed 24 September 2021) M McCollum (Non-Executive Director) (resigned 23 September 2021) R Fairman (Chief Executive Officer) B Jacklin (Chief Operating Officer) R Alfonso (Chief Financial Officer)
Company Secretary	J Farrer
Company number	06312831
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Auditors	Deloitte LLP 1 Station Square Cambridge CB1 2GA
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	HSBC Bank plc 8 Canada Square London E14 5HQ
	Bank of Ireland Group plc 40 Mespil Road Dublin 2 Republic of Ireland
	Allied Irish Banks plc 10 Molesworth Street Dublin 2 Republic of Ireland
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