

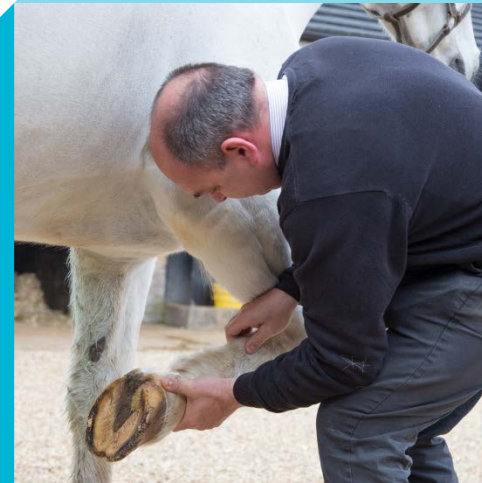
CVS Group plc

Annual Results

For the year ended 30 June 2017

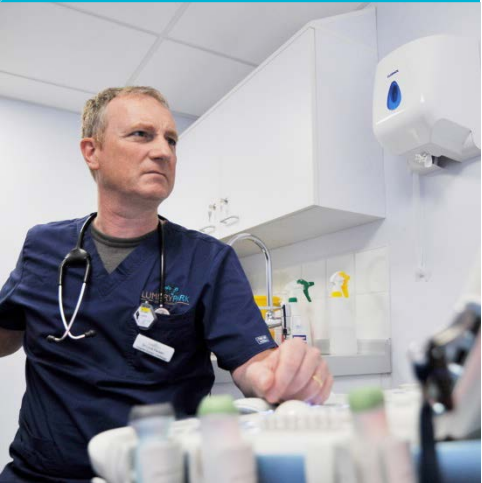
Simon Innes – Chief Executive Officer

Nick Perrin – Finance Director



Agenda

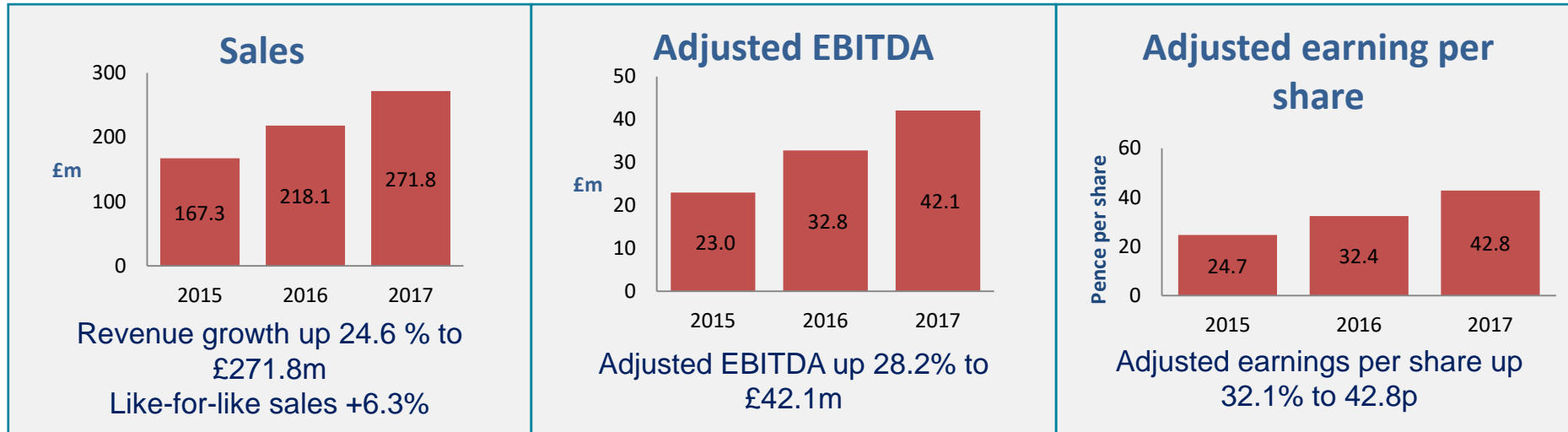
- Highlights
- Strategy
- Business Review
 - - Practices
 - - Laboratories
 - - Crematoria
 - - Animed Direct
- Financial review
- Outlook
- Appendices



Highlights

	Year ended 30 June 2017	Year ended 30 June 2016	Increase %
Revenue (£m)	271.8	218.1	24.6
Adjusted EBITDA (£m)	42.1	32.8	28.2
Adjusted profit before income tax (£m)	33.5	24.9	34.8
Adjusted earnings per share (pence)	42.8	32.4	32.1
Operating profit (£m)	17.2	11.8	46.2
Profit before income tax (£m)	14.5	9.1	58.4
Basic earnings per share (pence)	18.5	11.6	59.5
Proposed dividend (pence)	4.5	3.5	28.6

Highlights



Acquisitions

Significant number of acquisitions in year:

- 62 surgeries
- Including 9 in Holland and 2 in Northern Ireland

This has continued post year end with significant acquisitions including B&W Equine

Referrals

Significant development of referrals business:

- MVS
- Chestergates refurbishment

Other

- Greenfield site opened in Smethwick
- £29.6m raised through equity placing
- Healthy Pet Club (HPC) members up 20.9% to 306,000
- MiPet Cover Insurance launched in July 2017

Highlights

Industry update

CVS owns 432 surgeries and is the largest integrated provider of veterinary services to animal owners in the UK and the Netherlands.

	CVS	Vets4 Pets	IVC	Medivet	Goddards	Vets Now	August	Sovereign
Surgeries	432	444	440	199	49	3	181	54
Referral sites*	7	4	5			3	1	4
Laboratories	4			1	1		1	
Crematoria	7						11	
Dedicated out-of-hours*	14					56		
Buying group	2							
Instruments business	1							
On-line	1		1				1	

Strategy

Vision

To continue to be the largest & most comprehensive provider of veterinary services to animal owners in the UK whilst delivering a growing return to our shareholders.

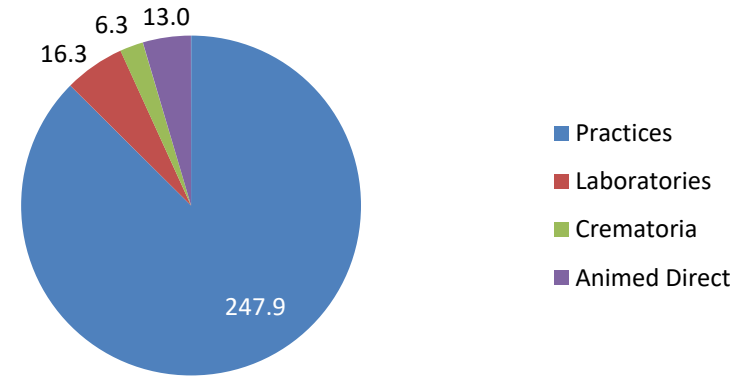
Meeting all our customers' needs	High quality clinical care and excellent customer service
Providing services to other veterinary practices	Expanding our business through acquisitions

Business review - Results by division

Four main business areas

- Veterinary practices
- Diagnostic laboratories
- Pet crematoria
- Animed Direct online dispensary

Turnover by business area
£m (before intra-group eliminations)



% of Revenue per Business Area

	Practices	Laboratories	Crematoria	Animed Direct
2017	87.4%	5.7%	2.3%	4.6%
2016	86.9%	6.6%	2.2%	4.3%
2015	85.0%	7.6%	1.5%	5.9%

The above reflects sales prior to the inter-company elimination between the practice division and other divisions.

Results by division

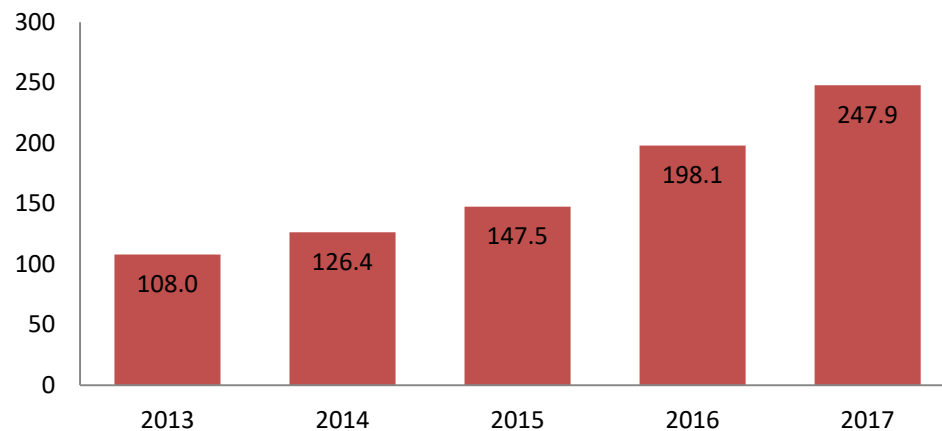
Year ended 30 June 2017	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	247.9	16.3	6.3	13.0	(11.7)	271.8
EBITDA (£m)	44.7	3.6	2.1	0.7	(9.0)	42.1
Gross margin after materials %	80.1	65.4	81.7	17.4	-	79.7
EBITDA %	18.0	22.4	32.7	5.6	-	15.5

Year ended 30 June 2016	*Restated Practices	Laboratories	Crematoria	*Restated Animed Direct	Head Office	Group
Revenue (£m)	198.1	14.8	5.0	8.4	(8.2)	218.1
EBITDA (£m)	35.6	3.1	1.7	0.3	(7.9)	32.8
Gross margin after materials %*	79.8	66.2	80.6	20.8	-	79.6
EBITDA %	18.1	20.9	34.2	3.2	-	15.0

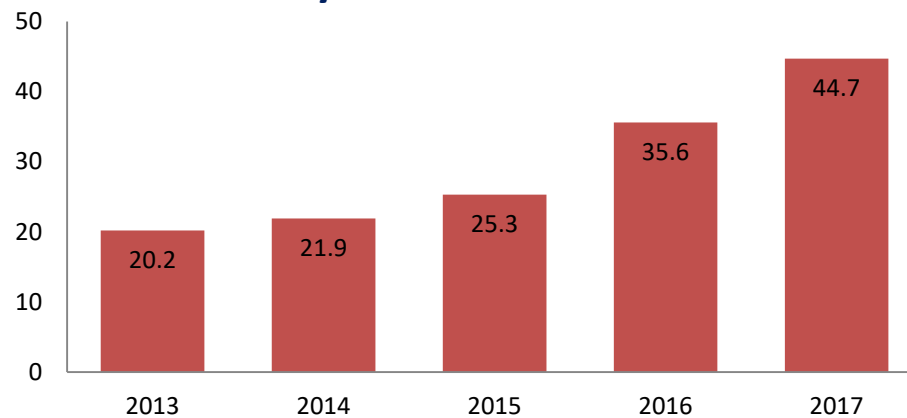
* The prior year comparatives have been restated to reflect the reclassification of the Group's logistics and warehousing operations from Animed Direct to the Veterinary Practice Division. Revenue in the Animed Division decreased by £1.4m and there was a corresponding increase in the revenue of the Veterinary Practice Division. Divisional EBITDA was unaffected by the change. The reclassification had no impact on Group revenue.

Business review - Veterinary Practices

5 Year revenue £m



5 year EBITDA £m



Practice revenue split

	2017 £m	2016 £m
Like-for-like revenue	182.8	172.2
2016 acquisitions	51.7	25.9
2017 acquisitions	13.4	-
Total revenue	247.9	198.1

Like-for-like sales +5.2%



Business review – Veterinary Practices

432 surgeries across the UK and the Netherlands - 62 surgeries acquired in the year in the following locations:

Acquisitions during the year	Location	Business
GB Practices:		
Severn Edge Group	Shropshire	Small, farm animal & equine
Deveron	Aberdeenshire	Small & farm animal
Forrest House	North Yorkshire	Small & farm animal
Bell Equine	Kent	Equine
Nottingham Vet Care	Nottinghamshire	Small animal
Buttercross	Nottinghamshire	Small animal
Church Walk	Cumbria	Small animal
Batheastern	Somerset	Small animal
Haven	Norfolk	Small animal
Valley Vets	Ayrshire	Small animal
Pennine	Lancashire	Small animal
Ambivet	Derbyshire & Nottinghamshire	Small animal
Smethwick (Green field)	West Midlands	Small animal

Acquisitions during the year	Location	Business
Willow	Norfolk	Small animal
Champion	Glasgow & Falkirk	Small animal
Eagle	Suffolk	Small animal
Animed Whitstable	Kent	Small animal
Phoenix Vets	Surrey & Berkshire	Small animal
Shannon Lodge	Nottinghamshire	Small animal
Medina	Isle of Wight	Small animal
Northern Ireland Practices:		
O'Reilly & Fee	County Armagh, NI	Small & farm animal
All Creatures Veterinary Healthcare	Limavady, NI	Small animal

Business review - Veterinary Practices

Acquisitions during the year	Location	Business
<i>Dutch practices:</i>		
Dierenziekenhuis Drachten	Drachten, NL	Small animal
Kliniek voor Gezelschapsdieren Dieren	Dieren, NL	Small animal
Dierenartsenpraktijk Zuid-West Friesland	Lemmer NL, Emmeloord NL	Small & farm animal & equine
Radis Veterinary Group	Zwolle NL, Hengelo NL, Amersfoort NL	Small animal

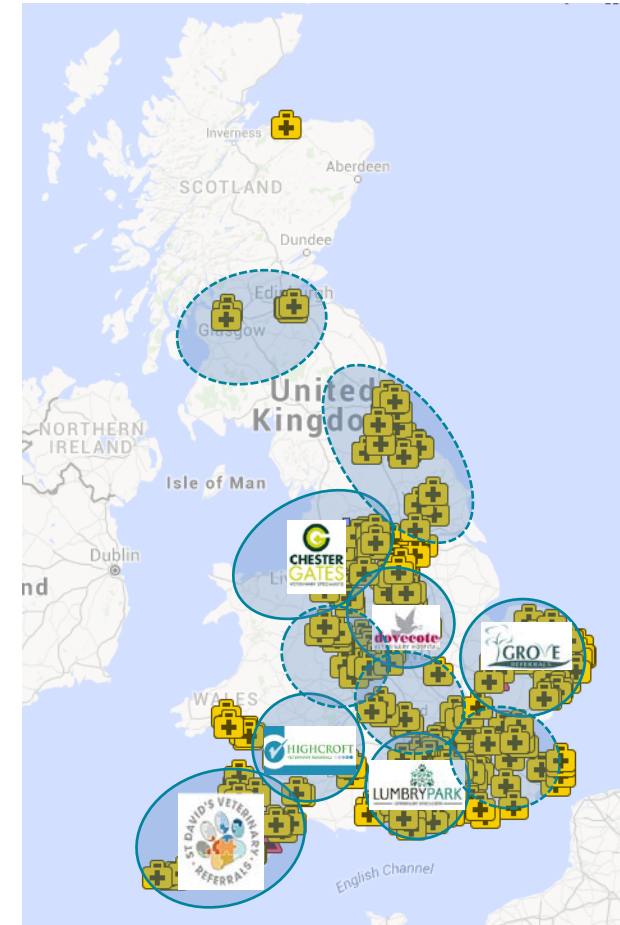
10 surgeries acquired post year end in the following locations:

Acquisitions after the year end	Location	Business
Cundall & Duffy	Scarborough	Small & farm animal
Strule Vet Services	Omagh and County Tyrone, Northern Ireland	Small & farm animal
Dierenkliniek Wolvega	Wolvega, Netherlands	Small animal
B & W Equine	Breadstone, Cardiff, Failand, Stretcholt and Willesley	Equine
Aire	Leeds	Small animal

Business review – Veterinary Practices

Referrals

- Significant development of the referrals network:
 - Lumbry Park in Alton, significantly improved in second half of the year.
 - MVS opened in February 2017 and trading well
 - Chestergates refurbishment completed in 2017. CT scanner and new MRI scanner.
- 46 diploma holders now at CVS with a wide range of specialisms



Business review – Veterinary Practices

Own Brand

- High quality products
- Distributed by CVS Logistics
- Now have 15 own brand medicines representing 25% of practice spend
- Lower prices and better margins
- Own brand pet food now 32% of total life-stage practice sales



Out-of-hours

- 14 established dedicated emergency out-of-hours centres
- Planning to open another out-of-hours centre in 2018

Healthy Pet Club

- Over 20% increase in membership to 306,000
- At end August 2017 membership was just over 317,000
- HPC revenue
 - All practices – 13.4% of total revenue (2016: 12.3%)
 - Like-for-like practices – 16.9% (2016: 13.7%)
- Healthy Horse Programme relaunched.

www.cvsukltd.co.uk



Business review – Veterinary Practices - Buying Group



www.mivetclub.co.uk



www.vetshare.co.uk

	MiVetClub	VetShare
Member sites	10	396
Restricted to CVS dedicated & preferred goods	Yes	No
Wholesaler	NVS and Henry Schein	Any
CVS own brand products available	Yes	Yes
Use of laboratories offered	CVS	CVS, Idexx, NWL
Use of crematoria offered	CVS	CVS, PCS
Other services from CVS	Training, H&S, MiHealthyPet, Discount from VETisco	MiHealthyPet, Discount from VETisco

Business review – Veterinary Practices - Training

New Graduate Programme

- 375 graduates have gone through the scheme in the past three years.
- Designed to assist newly qualified vets make the challenging transition from university to day-to-day practice.

Advanced Practitioner Programme

- 136 vets have been put through this programme.

MiNurse Academy

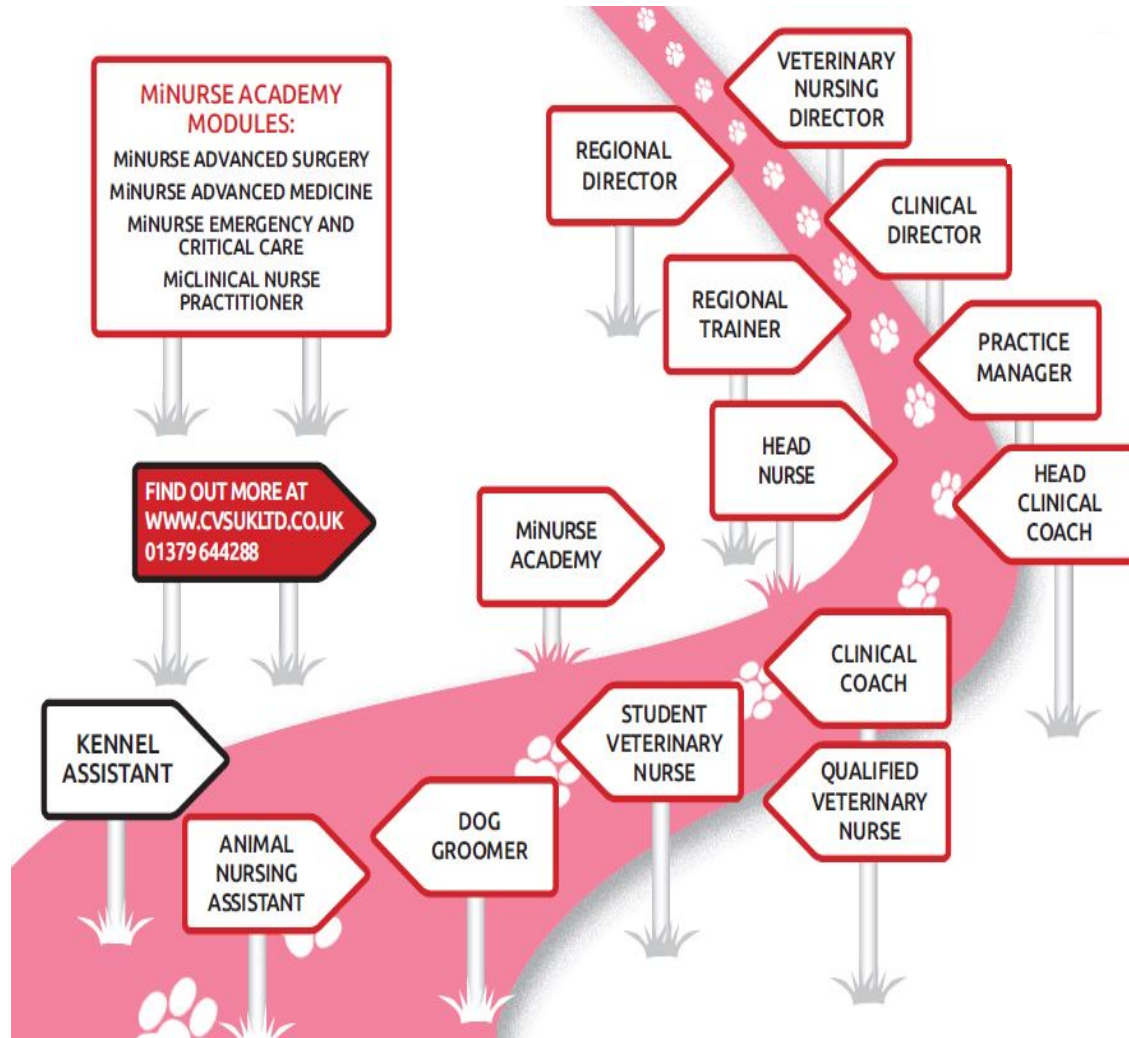
- In house clinical training program – launched January 2015.
- Now over 300 nurses learning specialist skills since launch.
- The academy provides nurses with advanced training in one of four areas: medicine, surgery, emergency and critical care, and clinical nursing.
- Designed to fill a gap which exists across the profession in the post-qualification training of nurses.

Leadership programmes

- Aspire – 6 day management programme for practice managers – 22 people went through this programme this year.
- Leap – 6 day management programme for managers – 34 people went through this programme this year.



Business review – Veterinary Practices - Careers



- Larger group gives enhanced opportunities
- Careers that are new to the whole veterinary industry
- Careers suitable for part-time workers
- Roles for small animal, large animal and equine

Business review –



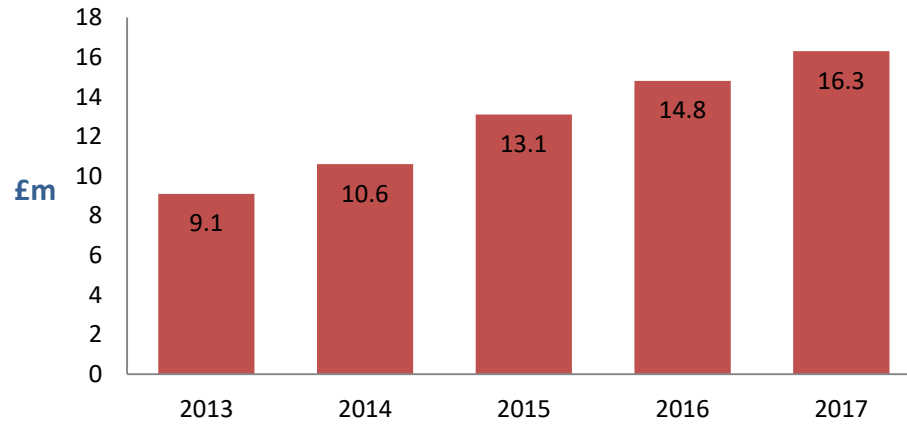
- Designed by vets
- Launched July 2017
- Well received by staff
- Initial customer response is promising
- High quality, good value, easy to understand
- CVS not underwriting

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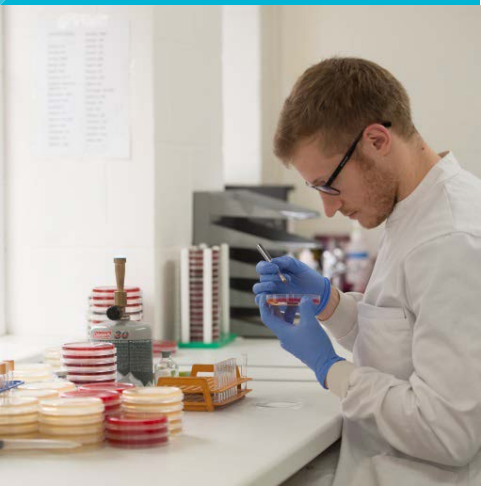


Business review – Laboratories

5 year revenue £m

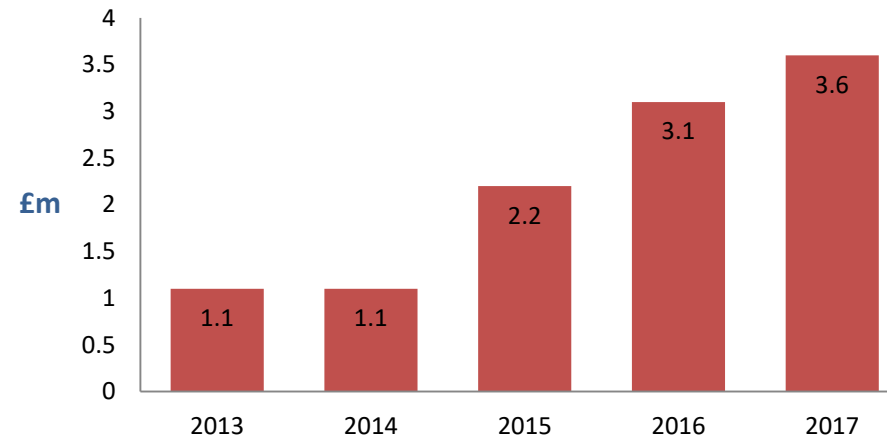


- Revenue growth of 10.2% to £16.3m (all like-for-like)



- EBITDA improved to £3.6m (2016: £3.1m)

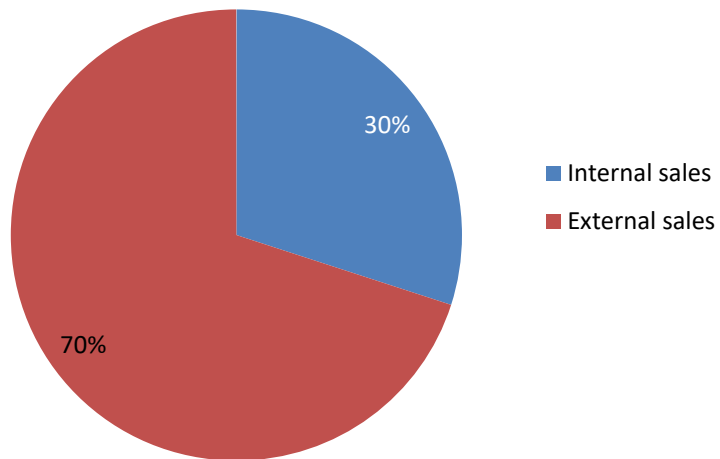
5 year EBITDA £m



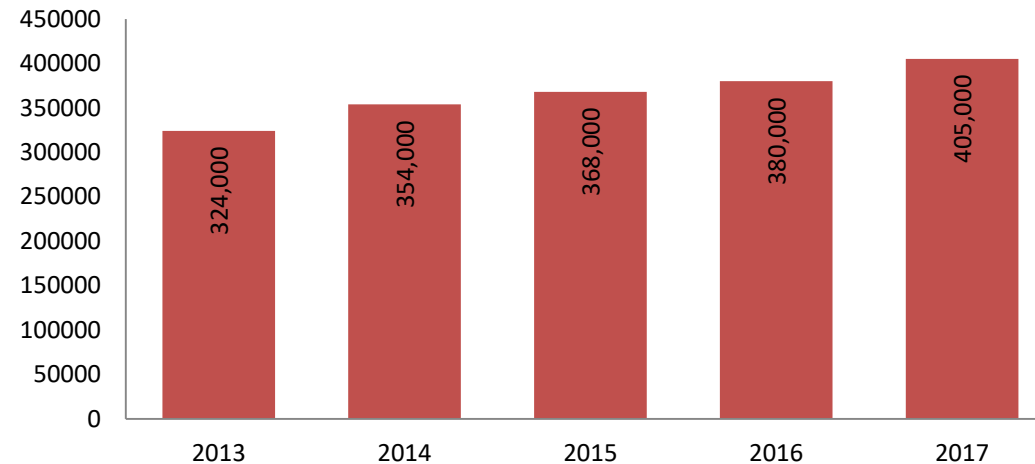
Business review – Laboratories

- Analyser business growing steadily
- Some increase in price pressures on diagnostics business
- Internal partnering with Bell on Equine testing.
- Our laboratory (Axiom) that deals with large animal work achieved ISO 17025 accreditation in March 2017 – as a result, farm diagnostics will be an area of growth for this division
- PCR testing now profitable

Internal vs external sales



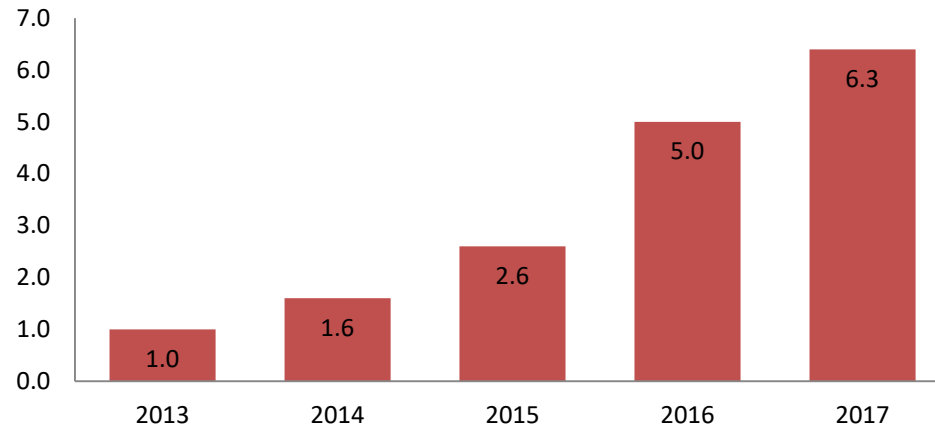
Number of tests performed



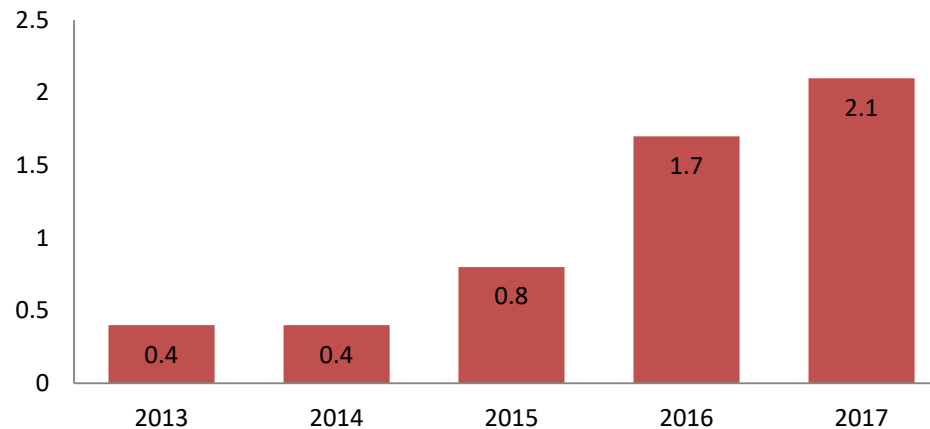
Business review – Crematoria



5 year revenue £m



5 year EBITDA £m



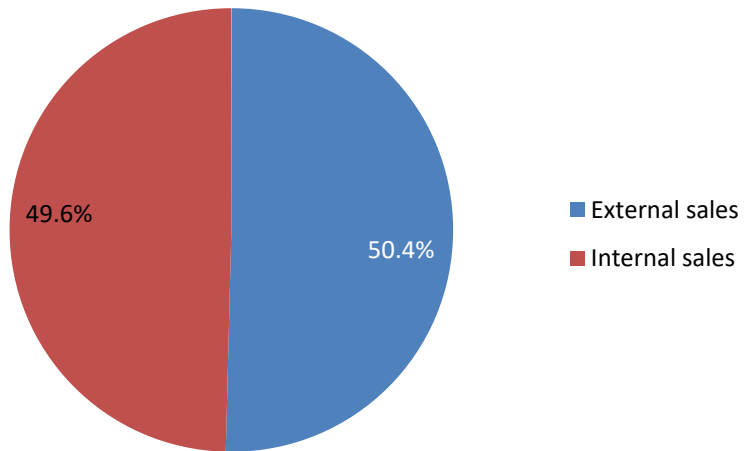
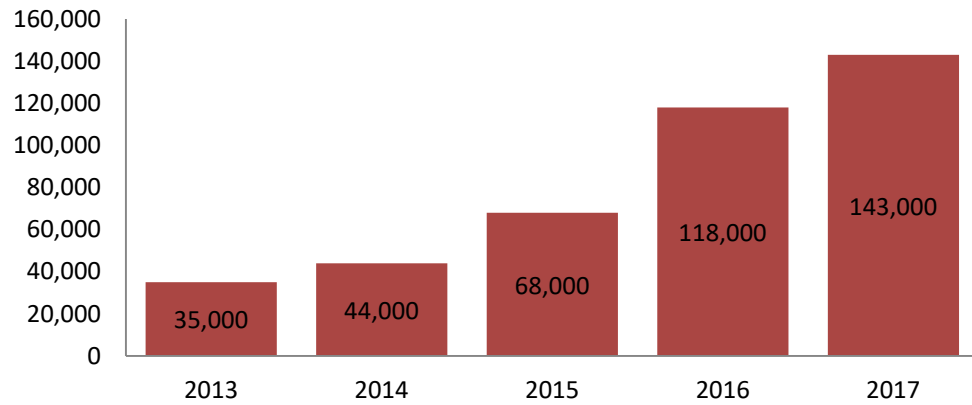
Crematoria revenue split

	2017 £m	2016 £m
Like-for-like revenue	4.4	3.9
Acquisitions	1.9	1.1
Total revenue	6.3	5.0

Like-for-like sales +14.4%

Business review – Crematoria

Number of cremations



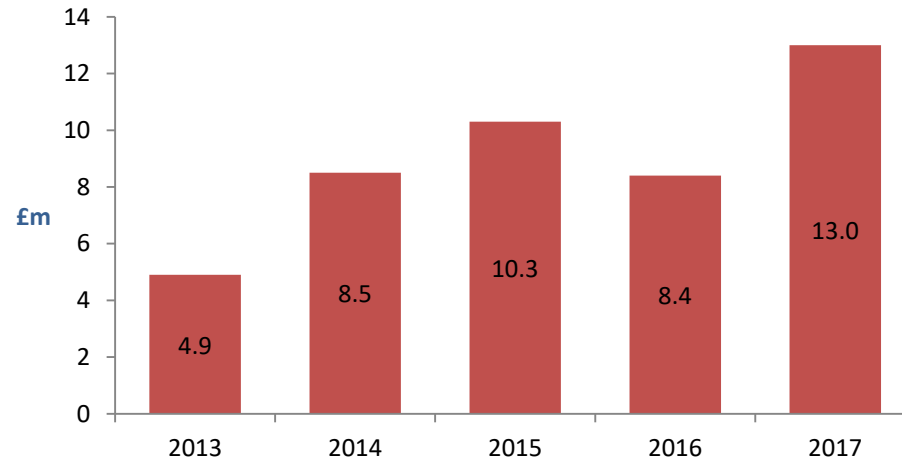
The Crematoria Division Coverage Map



Business review – Animed Direct

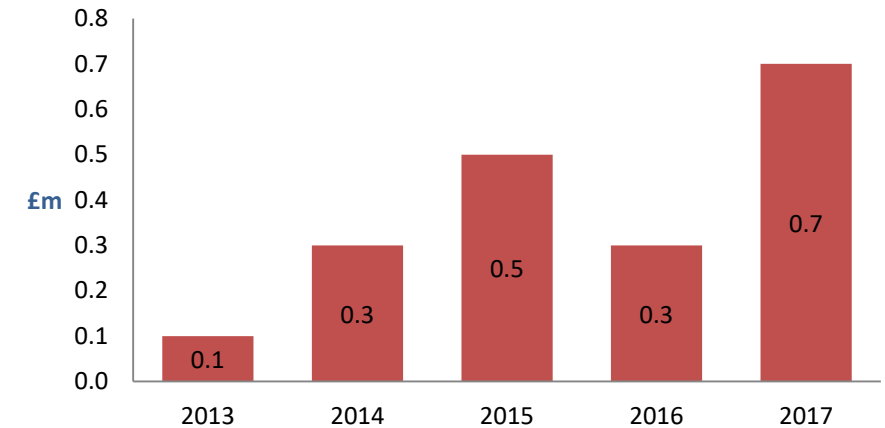


Animed Direct revenue £m



Revenues increased by 53.6% to £13.0m

Animed Direct EBITDA £m



Adjusted EBITDA rose to £0.7m

	2017	2016
Number of product lines	4,240	3,500
Monthly website visits	237,000	160,000
Average order value	£38.00	£31.00
No of customers	410,000	335,000

- New management in place
- Significant recovery of sales
- Further development of website planned
- Moved to larger warehouse
- Delivery fee was introduced in May 2017 and free delivery threshold in the second half of the year.

Business review – Head Office

- Costs 3.3% of sales compared to 3.6% in the prior year
- General increase in staffing levels
 - Reflecting business growth
 - To maintain control of acquisitions
- Internal audit function commenced
- Additional Head Office building acquired



Financial results – Profit & Loss

	Year ended 30 June 2017	Restated* Year ended 30 June 2016
	£m	£m
Revenue	271.8	218.1
Cost of sales	(147.3)	(112.2)
Gross profit	124.5	105.9
Administrative expenses	(107.3)	(94.1)
Operating profit	17.2	11.8
Net finance expenses	(2.7)	(2.7)
Profit before income tax	14.5	9.1
Income tax expense	(3.0)	(2.1)
Profit after income tax	11.5	7.0
Earnings per ordinary share		
- Basic	18.5p	11.6p
- Adjusted	42.8p	32.4p
Dividend	4.5p	3.5p

* The prior year comparatives have been restated to reflect the reclassification of the Group's logistics and warehousing operations from Animed Direct to the Veterinary Practice Division. Revenue in the Animed Division decreased by £1.4m and there was a corresponding increase in the revenue of the Veterinary Practice Division. Divisional EBITDA was unaffected by the change. The reclassification had no impact on Group revenue.

Financial results – Balance Sheet

	30 June 2017 £m	Restated * 30 June 2016 £m
Non-current assets		
Intangible assets	167.2	131.5
Property, plant and equipment	43.0	32.8
Investments	0.1	0.1
Deferred income tax assets	2.1	1.8
Derivative financial instruments	0.1	-
	212.5	166.2
Current assets		
Inventories	12.5	9.7
Trade and other receivables	30.9	23.8
Cash and cash equivalents	6.8	6.7
	50.2	40.2
Total assets	262.7	206.4
Current liabilities		
Trade and other payables	(48.2)	(43.0)
Current income tax liabilities	(2.9)	(2.3)
Borrowings	(3.3)	(0.3)
	(54.4)	(45.6)
Non-current liabilities		
Borrowings	(103.5)	(99.5)
Deferred income tax liabilities	(16.8)	(14.6)
Derivative financial instruments	-	(0.1)
	(120.3)	(114.2)
Total liabilities	(174.7)	(159.8)
Net assets	88.0	46.6

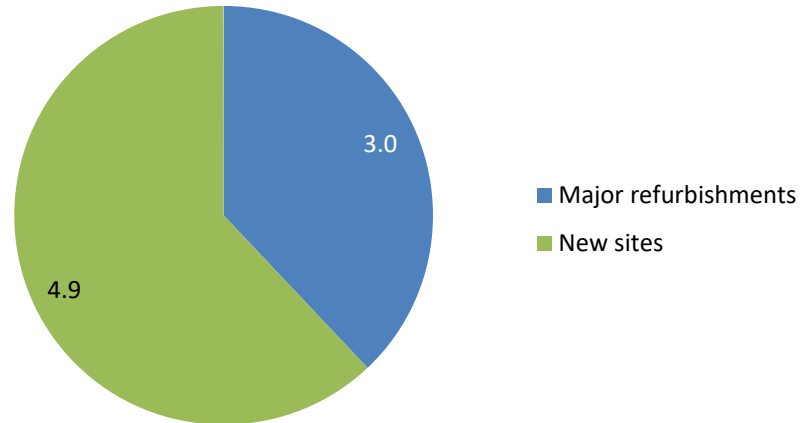
*Management has elected to change its accounting policy in relation to the classification of its revolving credit facility ("RCF") to reflect management's intention in relation to repayment rather than solely the legal form of the arrangement. The impact of this is that the £37.0m (2016: £30.5m) RCF has been disclosed as a non current liability. This change has also been reflected retrospectively to adjust the classification of the RCF from current liabilities to non current liabilities in the prior periods. This change in accounting policy has no impact on the income statement, earnings per share or any other key performance indicator.

Financial results – Change in Debt

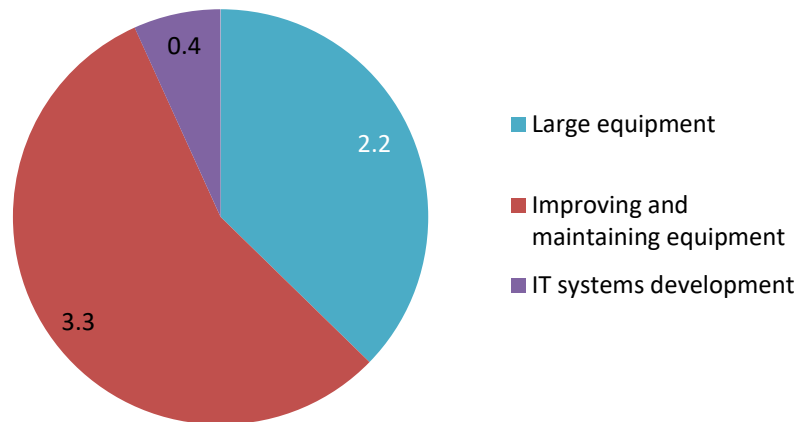
	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Cash generated from operations	37.2	33.6
Taxation paid	(5.4)	(3.3)
Net interest paid	(2.1)	(2.4)
Capital expenditure - maintenance	(5.9)	(5.1)
Free cash flow	23.8	22.8
Capital expenditure - development	(7.9)	(6.4)
Acquisitions	(48.4)	(61.3)
Dividend paid	(2.1)	(1.8)
Proceeds from issue of Ordinary shares	30.6	0.2
Purchase of own shares	(2.1)	-
Debt issuance costs movement	(0.8)	(0.4)
Increase in net debt	(6.9)	(46.9)

Financial results – Capital Expenditure

Fixed assets - Development expenditure £7.9m



Fixed assets - Maintenance expenditure £5.9m



Total capital expenditure in the year amounted to £13.8m

New sites & relocations:

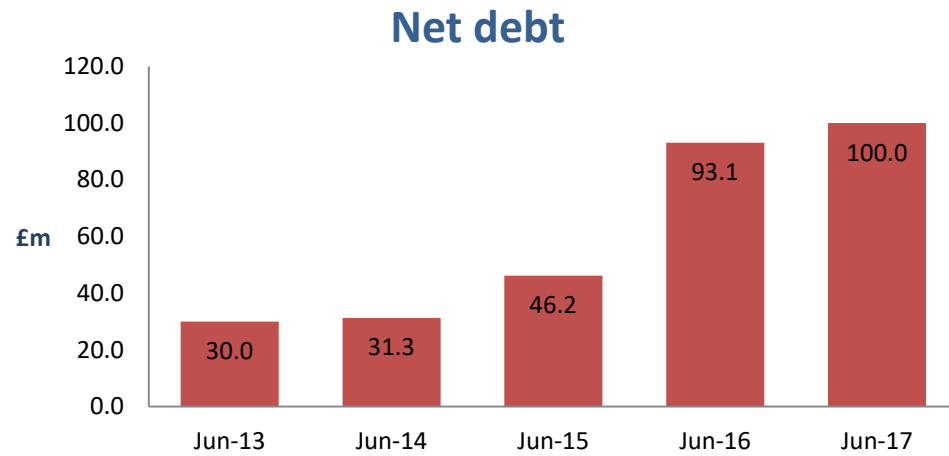
- Smethwick
- Stechford/Sheldon
- Gorleston
- West Vale
- Holywell House

Major refurbishments:

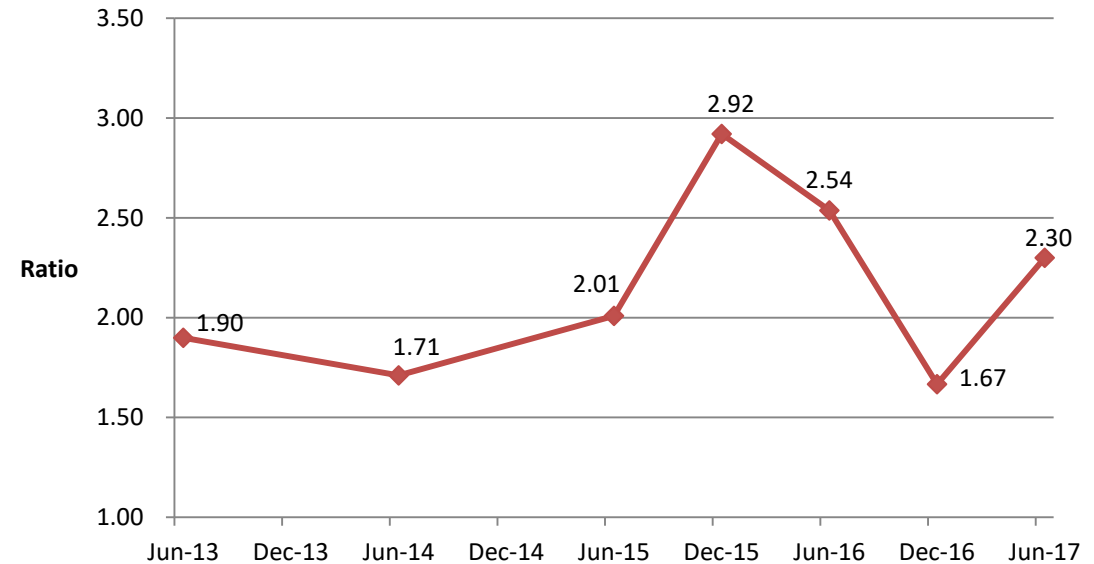
- Chestergates
- Pet Medics & MVS

Financial results – Net Debt

- Facility extended in July 2017 to allow high level of larger acquisitions
- Total available facilities:
 - £67.5m term loan to Nov 2021
 - £85.0m RCF to Nov 2021
 - £5.0m overdraft
- Syndicated facility (RBS, HSBC, AIB)
- Margins – increased by 0.5%
- Leverage covenant (Net debt / EBITDA *):
 - 3.5 to Dec 2017
 - 3.0 thereafter
- EBITDA : Interest covenant 4.5



Net debt: EBITDA



- Borrowing increased due to £48.5m spent on acquisitions
- Net debt: EBITDA ratio at 2.3, down from 2.54 at June 2016

*Trailing 12-month EBITDA, annualised for impact of acquisitions

Outlook

Existing Business

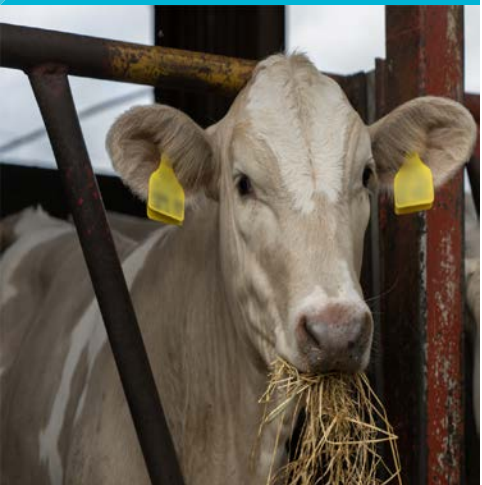
- Like-for-like sales continuing at more normal levels since the year end
- Referral services: development of MVS, Lumbry Park, Chestergates
- Development of new sites – Smethwick, Norwich, Bracknell
- Own brand products: further drugs to be added
- Out-of-hours centres development
- Animed Direct: further website improvements
- MiPet Cover

Growth through selective acquisitions

- Acquisition pipeline remains strong
- Large opportunity in small animal sector, large animal and equine sector – in UK & The Netherlands

Finance

- Strong cash flow and healthy balance sheet
- Further investment in core business activities



Appendices

Overview

- UK's largest integrated provider and consolidator of veterinary practices
- Market leader, making CVS the acquirer of choice
- Consistent growth in a more challenging environment
- Complementary businesses to internalise margins and maximise revenues

5,150	Employees
1,270	Vets
432	Surgeries nationwide
4	Diagnostics laboratories
7	Crematoria
1	On-line dispensary

EBITDA & Gross Margin Trends

	Year ended 30 June		
	2015 £m	2016 £m	2017 £m
Revenue	167.3	218.1	271.8
EBITDA	23.0	32.8	42.1
<hr/>			
<u>% of sales</u>	<u>%</u>	<u>%</u>	<u>%</u>
Gross margin after materials			
- Group	55.4	79.6	79.7
- Practices *	88.0	79.8	80.1
- Animed Direct *	17.9	20.8	17.4
- Laboratories *	71.0	66.5	65.4
- Crematorium	79.3	80.6	81.7
Central administration	3.6	3.6	3.3
EBITDA margin (%)	14.4	15.1	15.5

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Cash Generated from Operations

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Profit for the year	11.5	7.0
Taxation	3.0	2.1
Total finance costs	2.7	2.7
Amortisation of intangible assets	16.0	13.7
Depreciation of property, plant and equipment	5.9	5.2
(Increase) in inventories	(1.5)	(1.6)
Decrease/(Increase) in trade and other receivables	(4.5)	5.2
(Decrease)/increase in trade and other payables	2.6	(2.0)
Share option expense	1.5	1.3
Total cash flows from operating activities	37.2	33.6

Adjusted items definitions

- **Adjusted EBITDA** is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items.
- **Adjusted profit before income tax** is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.
- **Adjusted earnings per share** is calculated as adjusted profit before income taxation divided by the weighted average number of ordinary shares in issue in the year.



Thank you

Any questions?

Contact us

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