# Annual Results Presentation

Year ended 30 June 2023

FY 2023

CEO
Richard Fairman

Deputy CEO
Ben Jacklin

CFO
Robin Alfonso

CVS Group

# CMA market review of veterinary services for household pets in the UK

**CMA's different approaches:**

| | Market Review | Market Study | Market Investigation |
|---|---|---|---|
| Time Period | No legal time frame<br><br>Findings expected early 2024 | 12 months | 18 months |
| Status | Voluntary | Mandatory | Mandatory |

- Voluntary review under section 5 of the Enterprise Act 2002
- Industry wide, not specifically aimed at CVS
- We and our colleagues will support the CMA review. We have appointed a magic circle law firm to advise us
- CMA have indicated that they will announce their findings in early 2024
- The CMA have used voluntary market reviews in other sectors to better understand those sectors
- We will meet with the CMA over the coming weeks to provide information to them to help them better understand the market

# Agenda

1 Introduction

2 Financial Review

3 Strategic and Operational Update

4 Outlook

CVS Group

# 1
# Introduction

CVS Group

# We have a clear strategy and focus of providing the best possible care to animals and are tracking well against our six strategic targets

| | Ambition | FY 2023 Performance |
|---|---|---|
| 1 | **Organic revenue growth** of 4% - 8% per annum | **7.3%** Like-for-like sales growth |
| 2 | **Margin expansion through investment** – Adjusted EBITDA margins 19% to 23% | **20.0%** Adjusted EBITDA margin |
| 3 | **Investment** in practice facilities, clinical equipment and technology to deliver organic growth | **£45.7m** Invested in Capex to improve practice and clinical facilities, improve technology, support the retention and recruitment of vets and ultimately to deliver great clinical care |
| 4 | **Acquisitions** subject to disciplined criteria for returns and earnings accretion | **11** Acquisitions completed in the financial year for combined consideration of £54.6m |
| 5 | Organic **operating cash conversion** of > 70% for the full year | **70.0%** for the full year |
| 6 | **Leverage** remaining < 2.0x | **0.73x** Leverage as at 30 June 2023 |

# Our clear strategy for growth remains unchanged...

Our purpose

**To give the best possible care to animals**

Our vision

**To be the veterinary company people most want to work for**

**Four strategic pillars…**

1. We recommend and provide the best clinical care every time
2. We are a great place to work and have a career
3. We provide great facilities and equipment
4. We take our responsibilities seriously

**Organic growth**

- High-quality end-to-end care
- Recruitment, retention and development of our highly skilled clinicians

**Supported by**

- Investment in our practice facilities
- Investment in our clinical equipment
- Investment in technology

**Augmented by inorganic growth**

- Investment in accretive acquisitions
- Greenfield investment in areas where client demand is currently under-served

# We continue to make accretive acquisitions in the UK and have entered the Australian Veterinary Services Market

- Entry into the Australian Veterinary Services Market in July 2023 with five completed acquisitions year to date and a further two where contracts have been exchanged
- Two further acquisitions in the UK completed in September 2023, with a further one where contracts have been exchanged
- UK acquisitions following briefing papers submitted to the CMA prior to their announcement of the market review
- Responses from the CMA to our briefing papers received after the announcement of their market review leaving us free to complete these acquisitions
- Total consideration for acquisition year to date of £30.4m

- McDowall Vets
- Queensland acquired July '23
- 4 consult rooms and 9 Vets

- Warner Vets
- Queensland acquired July '23
- 4 consult rooms and 4 Vets

- Brunker Road Vets
- New South Wales acquired August '23
- 6 consult rooms and 10 Vets

- North Road Vets
- Melbourne acquired August '23
- 2 consult rooms and 9 Vets

- Happy Pets Vets
- Queensland acquired Aug '23
- 2 consult rooms and 5 Vets

- Bridge Vets*
- Wroxham acquired September '23
- 4 consult rooms and 7 Vets

- Masefield Vets*
- Malvern acquired September '23
- 2 consult rooms and 3 Vets

* Acquisitions made following submission of briefing papers to the CMA

# The Australian market is attractive with relatively low levels of corporate consolidation, favourable market dynamics and strong similarities with the UK

- Significant potential opportunity for CVS to **build scale** with only two major established competitors, VetPartners and Greencross collectively owning c.11% of the market
- Similar characteristics to the UK
  - Increasing pet population
  - Humanisation of pets
  - High standards of clinical care
- **Strong pipeline of opportunities** with focus on major urban areas
- Established Australian-based senior management team with extensive experience
- Returns are in line with our disciplined approach to capital deployment

**c.£3bn**

Market size, veterinary services

**c.3,500**

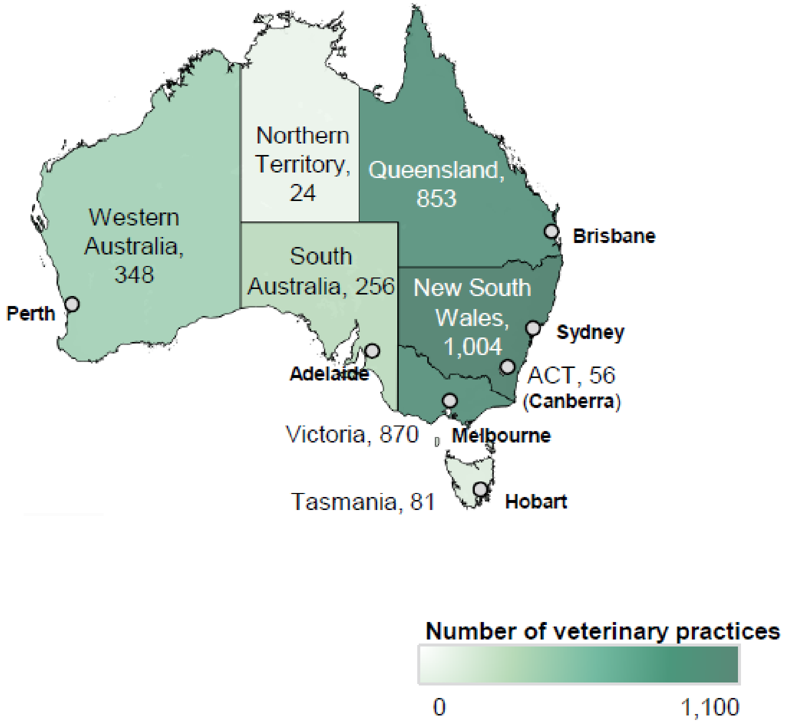
Practices

**15%**

Corporate Consolidation

**Veterinary practice distribution**

Australia, 2022



# 2
# Financial Review

CVS Group

# Financial Summary

| | FY 2023 | FY 2022 | Variance |
|---|---|---|---|
| **Revenue** | **£608.3m** | **£554.2m** | **+9.8%** |
| Like-for-like sales growth[1] | +7.3% | +8.0% | -0.7ppts |
| **Adjusted EBITDA[1]** | **£121.4m** | **£107.4m** | **+13.0%** |
| Adjusted EBITDA Margin[1] | 20.0% | 19.4% | +0.6ppts |
| Operating cash conversion | 70.0% | 65.1% | +4.9ppts |
| Free cash flow | £62.9m | £52.3m | +£10.6m |
| Net bank borrowings | £74.0m | £36.0m | +£38.0m |
| Leverage[1] | 0.73x | 0.40x | +0.33x |
| **Adjusted EPS[1]** | **96.0p** | **85.8p** | **+10.2p** |
| Capital expenditure | £45.7m | £24.5m | +£21.2m |
| Consideration for acquisitions[2] | £54.6m | £8.4m | +£46.2m |
| Final dividend | 7.5p | 7.0p | +0.5p |

- **Strong +7.3% like-for-like sales growth** from our focus on high-quality clinical care, within our 4% - 8% ambition
- **Adjusted EBITDA growth of +13.0%** despite inflationary cost pressures
- **Operating cash conversion** in line with our ambition of 70%
- Good operating cash generation and free cash flow has enabled us to increase investment for future growth whilst maintaining **leverage below 2.0x at 0.73x**
- **Capital expenditure** increased in line with our growth ambitions and commitment to invest between £30m - £50m per annum
- **11 UK acquisitions completed** in the period for consideration of £54.6m. **Expansion into the Australian market** in July 2023 in line with our ambition to enter a new market

[1] Financial measures are defined on slide 29
[2] Excludes the acquisition of Quality Pet Care Ltd in the prior year

# Revenue growth demonstrates continued delivery of high-quality care…

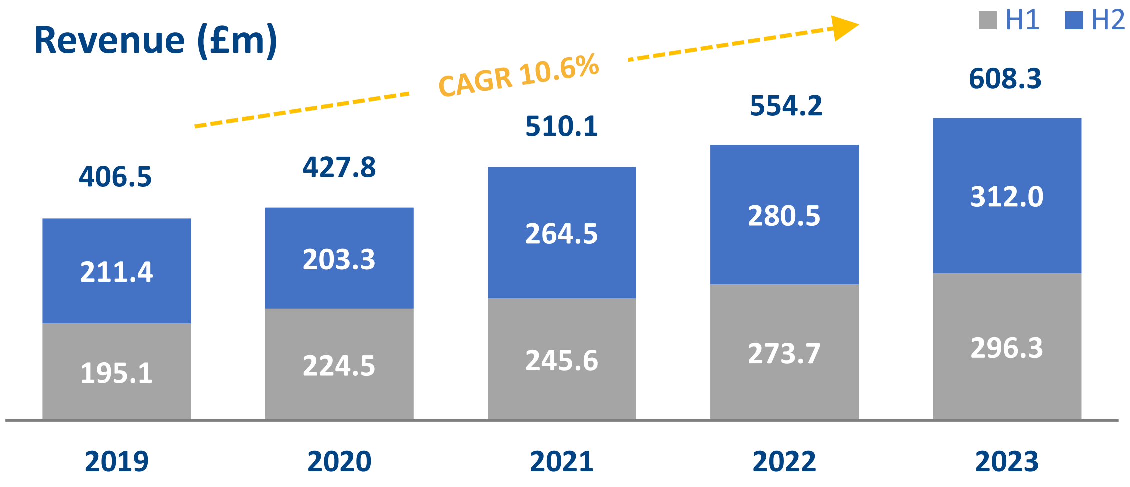
### Continued revenue growth

- FY 2023 revenue of £608.3m up 9.8% from £554.2m
- Strong LFL sales growth of +7.3% (FY 2022: +8.0%) which is at the upper end of our ambition as set out at the Capital Markets Day

### Underlying growth across all divisions

- **Veterinary practice** benefitting from:
  - Increased number of Vets and Nurses within the Group
  - Continued growth of Healthy Pet Club scheme to 489,000 members (FY 2022: 470,000)
  - Continued focus on high-quality clinical care
  - Investment in acquisitions
- **Laboratories** have increased volume of in-house analysers and diagnostic testing further supporting clinical care
- **Crematoria** continues its growth of the Direct Pet Cremation service
- **Online Retail Business** benefitted from increased website visits in the year

## Revenue (£m)



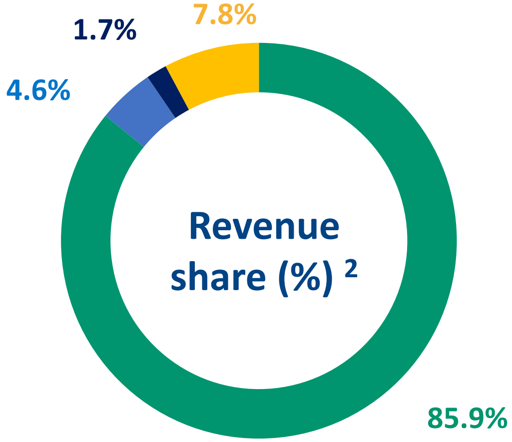

## Revenue Growth (%) [1]

**+10.1%** Veterinary Practices

**+7.7%** Laboratories

**+14.7%** Crematoria

**+5.4%** Online Retail Business

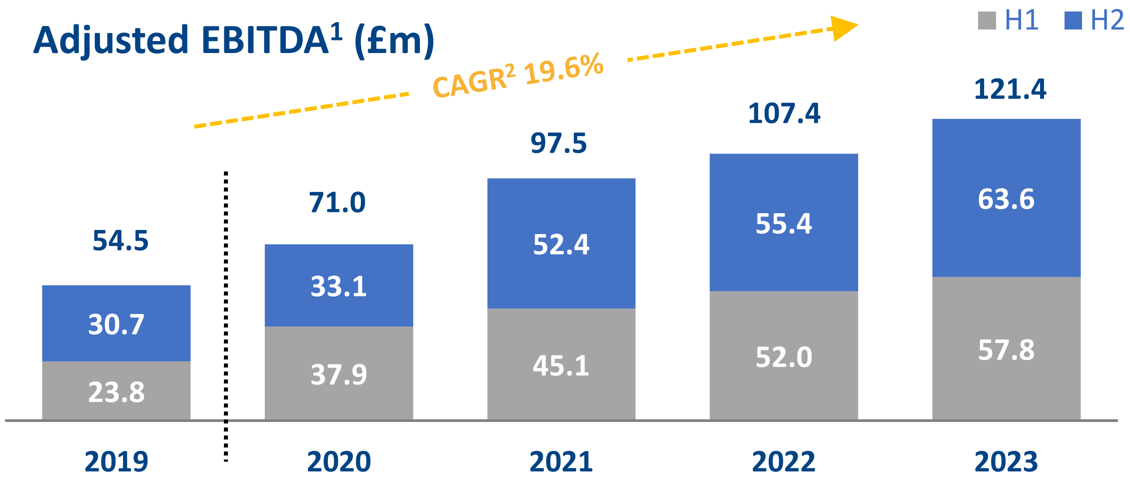



Note:
[1] Versus FY 2022
[2] Revenue percentages stated gross of intercompany elimination

# Our continued investment in people, practice facilities and equipment underpins our growth in EBITDA

- FY 2023 revenue +9.8% to £608.3m main driver for EBITDA growth
- Adjusted EBITDA margin improvement of +0.6ppts to 20.0% (FY 2022: 19.4%) with continued focus on investing in property and facilities and our people
- Gross margin stated before clinical staff costs improved to 77.7% (FY 2022: 76.9%) benefitting from a change in mix
- Employment cost as a percentage of revenue increased to 51.4% (FY 2022: 50.4%)
  - additional investment to support our colleagues in the delivery of revenue growth, including in our support functions
  - the Group employed on average 6.5% more veterinary surgeons during the year
- Other costs as a percentage of revenue stable at 6.4% (FY 2022: 7.1%) with a significant increase in utility costs and continued investment in support functions offset by an increase in net Research and Development Expenditure Credit (RDEC) income

## Adjusted EBITDA[1] (£m)



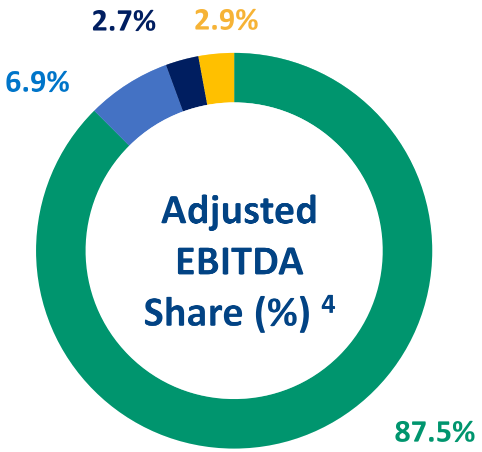

## Adjusted EBITDA Growth (%) [3]

**+7.2%** Veterinary Practices

**+10.8%** Laboratories

**+5.9%** Crematoria

**+11.4%** Online Retail Business




Note:
[1] 2019 based on pre IFRS 16 numbers
[2] From 2020 post IFRS 16
[3] Versus FY 2022
[4] Divisional EBITDA growth before head office costs

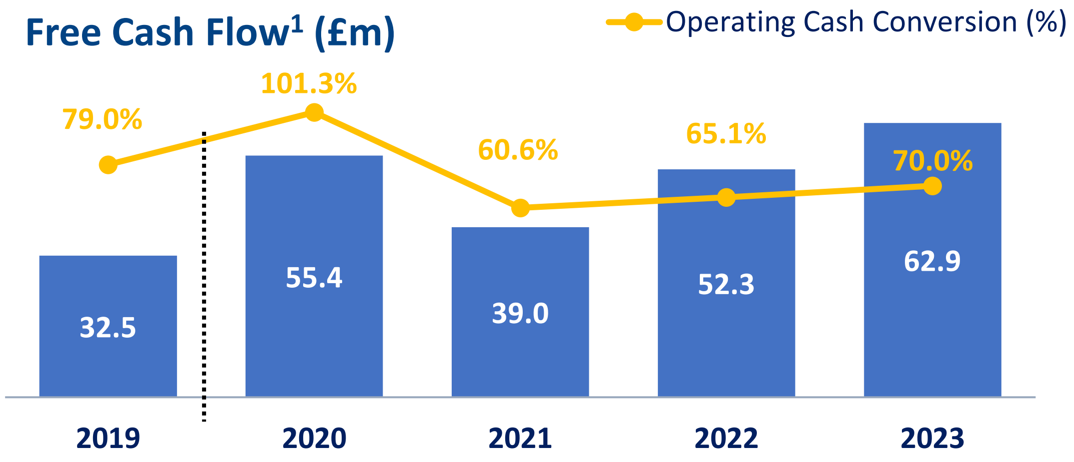
# Continued improvement in Free cash flow underpins investment ambition...

## Free Cash Generation

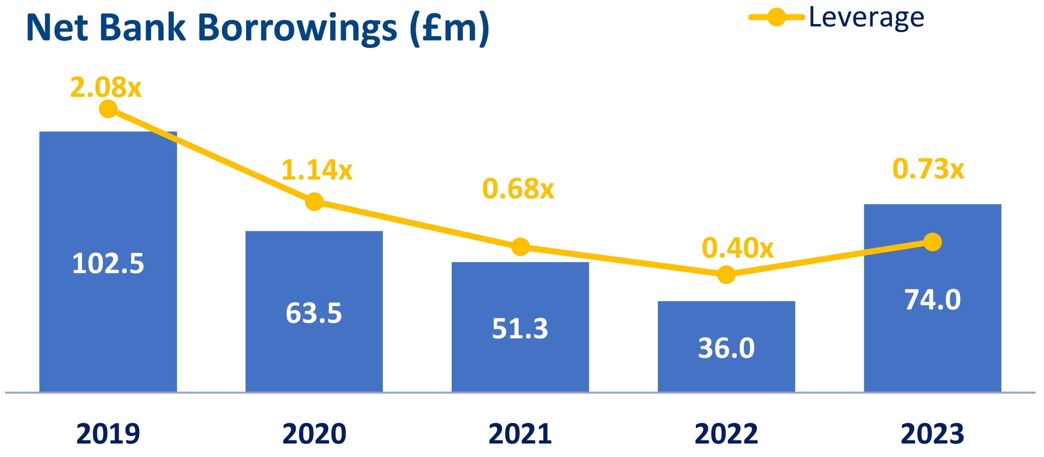
- Free cash flow increased to £62.9m benefitting from:
  - Adjusted EBITDA increase of £14.0m; partially offset by
  - Increased tax payments following an increase in profit before tax and an increase in corporation tax rate in April 23 to 25% (from 19%)
- Operating cash conversion in line with capital markets day ambition of 70%

## Net Cash Flow

- Net cash outflow of £38.0m (FY 2022: £15.3m inflow) is after:
  - £54.6m (FY 2022: £20.8m) consideration for acquisitions / and other investments
  - £34.3m (FY 2022: £13.7m) investment capex
  - £5.0m (FY 2022 : £4.6m) dividend payment
- Net bank borrowings increased to £74.0m from £36.0m at FY22
- Leverage increased to 0.73x from 0.40x at FY22 following increased investment




[1] 2019 based on pre IFRS 16 numbers



# Successful refinancing of bank facilities in February 2023 and growing free cash flow underpins opportunity for disciplined investment in growth

## Strong balance sheet + growing free cash flow

- Committed facilities of **£350m** to Feb 2027
  Leverage **0.73x**
- Operating cash conversion **c70%**
- **Growing Free Cash Flow**

## Investment opportunities + dividends

- Investment Capex
  **c.£30m - £50m pa**
- UK and International M&A
  **> £50m pa** subject to timing
- Shareholder returns
  **Progressive Dividend policy**

## Disciplined approach

- Leverage **< 2.0x**
- Disciplined Investment
  **IRR of > 10%**
- Shareholder returns
  **Progressive Dividend policy**

# 3

# Strategic and Operational Update

CVS Group

# Strategic pillar 1 – We recommend and provide the best care every time

We continue to focus on providing access to the best possible care

- Use of diagnostics to help achieve better patient outcomes
- Investment in clinical research in conjunction with UK academics
- Engagement with RCVS
  - Support to RCVS knowledge
  - All CVS practices embrace the RCVS Practice Standards Scheme
- Healthy Pet Club membership scheme
  - Improved compliance with flea, worming and vaccinations
  - Discounts on other veterinary procedures and drugs
- We introduced nine pioneering clinical improvement projects to support colleagues in achieving outstanding levels of patient care
  - Dental radiography, Ear cytology, Endoscopy and endosurgery, Fine needle aspiration, Hypertension, Lameness investigation, Ophthalmology, Radiography and radiology and Ultrasound
- CVS's unique Clinical Leadership team supports each one of our practices in achieving the highest clinical standards and implements quality clinical improvements

## Rosemullion Veterinary Hospital Recognised by RCVS for Outstanding work

*"I'm exceptionally proud of our eighty colleagues for this achievement. We aim to offer the best possible care to animals and to do this we always strive to work to the highest standards. In addition we try to create a supportive team culture within the practice to make it a great place to work. So we are thrilled that our hard work over many months has now been recognised as 'outstanding' by the RCVS."*

***Susan Hawkins, Practice Manager at Rosemullion Vets***

# Strategic pillar 2 - We are a great place to work and have a career

## We continue to invest in our people across a range of areas

- Salary reviews at least annually
- Commitment to always pay 3% above National Minimum Wage / National Living Wage
- Enhanced colleague reward and benefits in the past year
  - CVS Refresh
  - Health care cash plans
  - New Electric vehicle salary sacrifice scheme
  - New Exceptional health-related event leave
- Pastoral support vets
- SAYE share ownership scheme
- Access to clinical support in the consulting room
  - Vet Oracle
  - Access to over 300 clinical webinars through in-house technical library
  - Access to BSAVA clinical library
- Wellbeing support
- Work / Life balance. Majority of our small animal vets are not on call for evenings and weekends
- Clinicians remunerated through salary and a small in-practice bonus scheme which is driven by clinical outcomes and is not revenue based
  - No incentives for referring internally – Vets have freedom to refer externally based on clinical need
- Leading Learning, Education and Development platform
  - Over 1,000 Apprenticeships
  - 269 courses available
  - Funding of between £1,000 to £2,600 per vet for CPD
- Career progression opportunities at both clinical and leadership level

# Strategic pillar 2 - We are a great place to work and have a career (continued)

**This focus on our people is helping us to continue to recruit more clinical colleagues:**

- We employed +6.5% more vets on average compared to 2022
- We employed +8.4% more nurses on average compared to 2022

**Our colleague satisfaction continues to improve:**

- Our employee net promoter score increased to +14.6, up from +4.8 in 2022
- We introduced a zero-tolerance policy to protect colleagues from intrusive, offensive, violent, or aggressive behaviour
- We have introduced a dedicated Equity, Diversity and Inclusion course

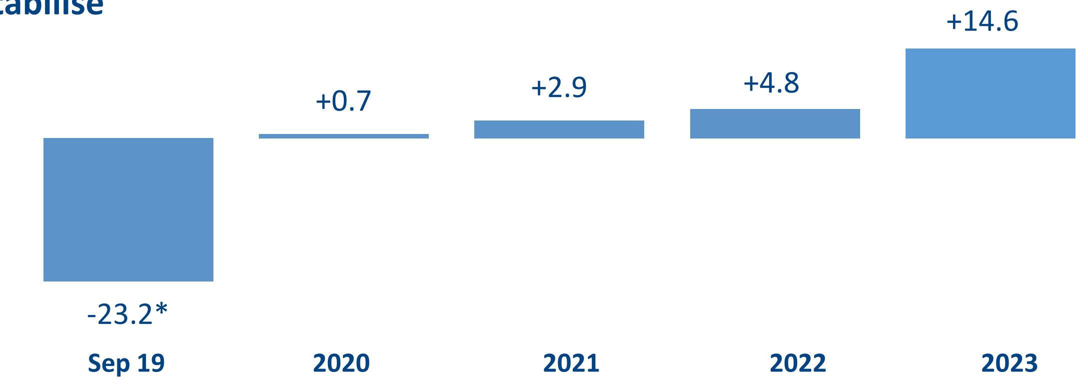
**We continue to focus on developing our clinicians:**

- Support to Universities through EMS placements
- We had our record year of graduate vet intake
- We have opened a new dedicated veterinary nurse training school

**Our attrition is falling:**

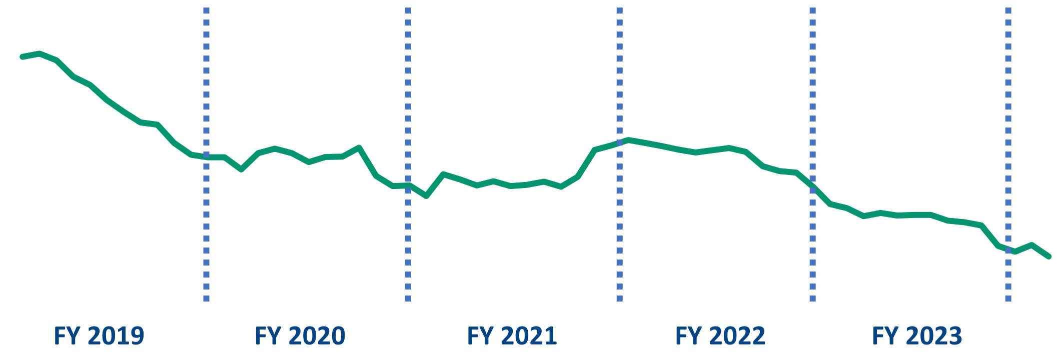
- Our focus of people is paying dividends with a 17% reduction in attrition in the year
- Our Director of Research conducted a study on why nurses leave their roles, based on data from 2021, which we subsequently implemented improvements from and have seen a fall in nurse attrition since this date

## Employee Net Promoter Score - significant improvement and expected to stabilise




*First measured in September 2019

## Attrition continues to improve



# Strategic pillar 3 – We provide great facilities and equipment

**£45.7m**

FY23 Capex

**21**

Completed refurbishments and relocation projects

We see benefits of refurbishing and relocating our practices

- Improved clinical care
- Improved colleague retention
- Improved client experience

We plan to continue this investment

- Returns from 2022 and 2023 refurbishments in line with business cases
- Investment of £30m - £50m in Capex in FY24
- Pipeline of investment opportunities is strong

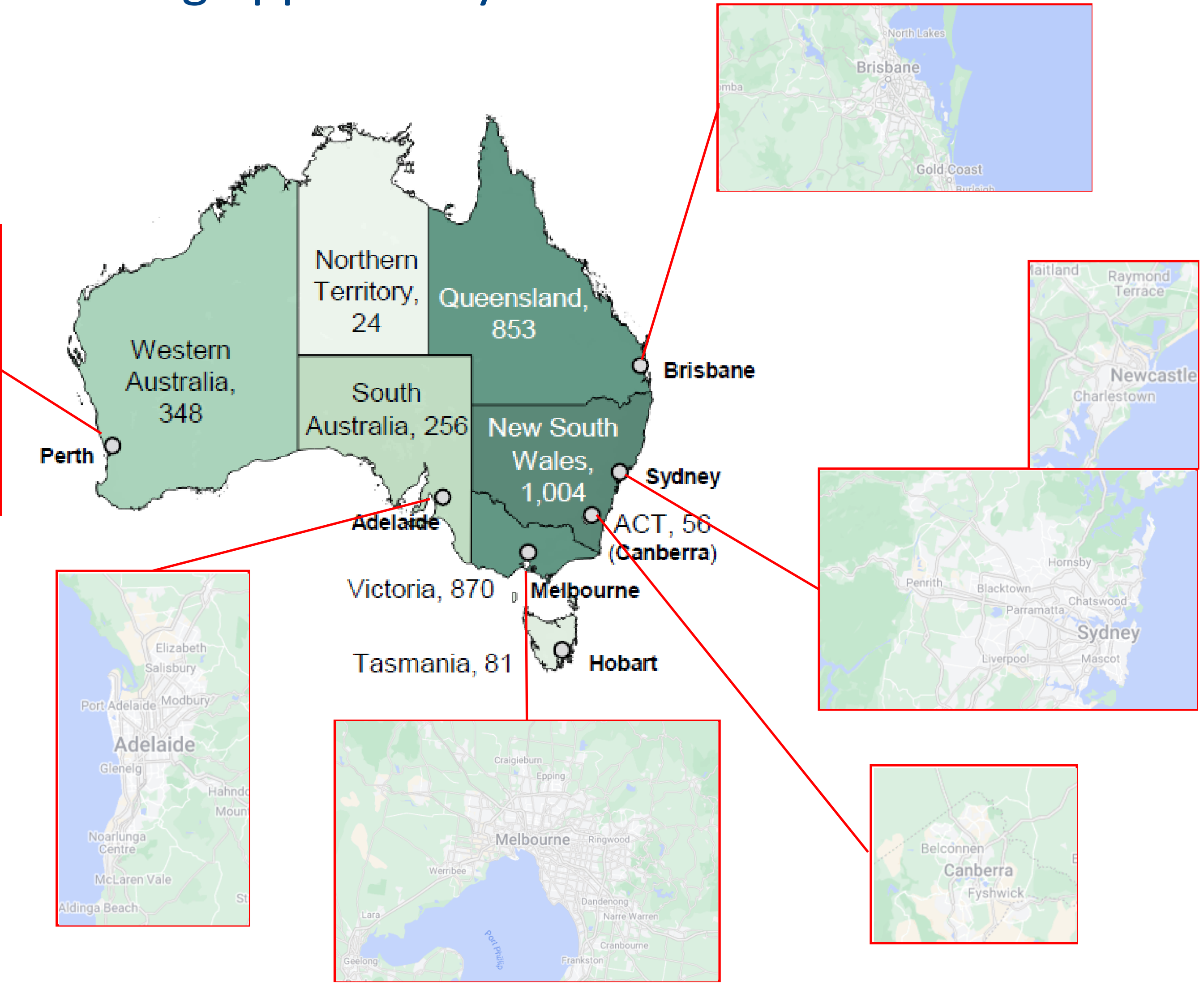
## Bishop Auckland, UK relocation, £1.3m

# The pipeline in Australia is strong with an exciting opportunity ahead

- Low levels of consolidation, c15% with a **long pipeline of accepted offers**
- Practices we are focused on are of the **highest quality**
- Focused on metropolitan areas
- Favourable market dynamics and similarities with the UK
- We have an **experienced in-country management team** focused on acquisition and integration


**Pipeline to date**

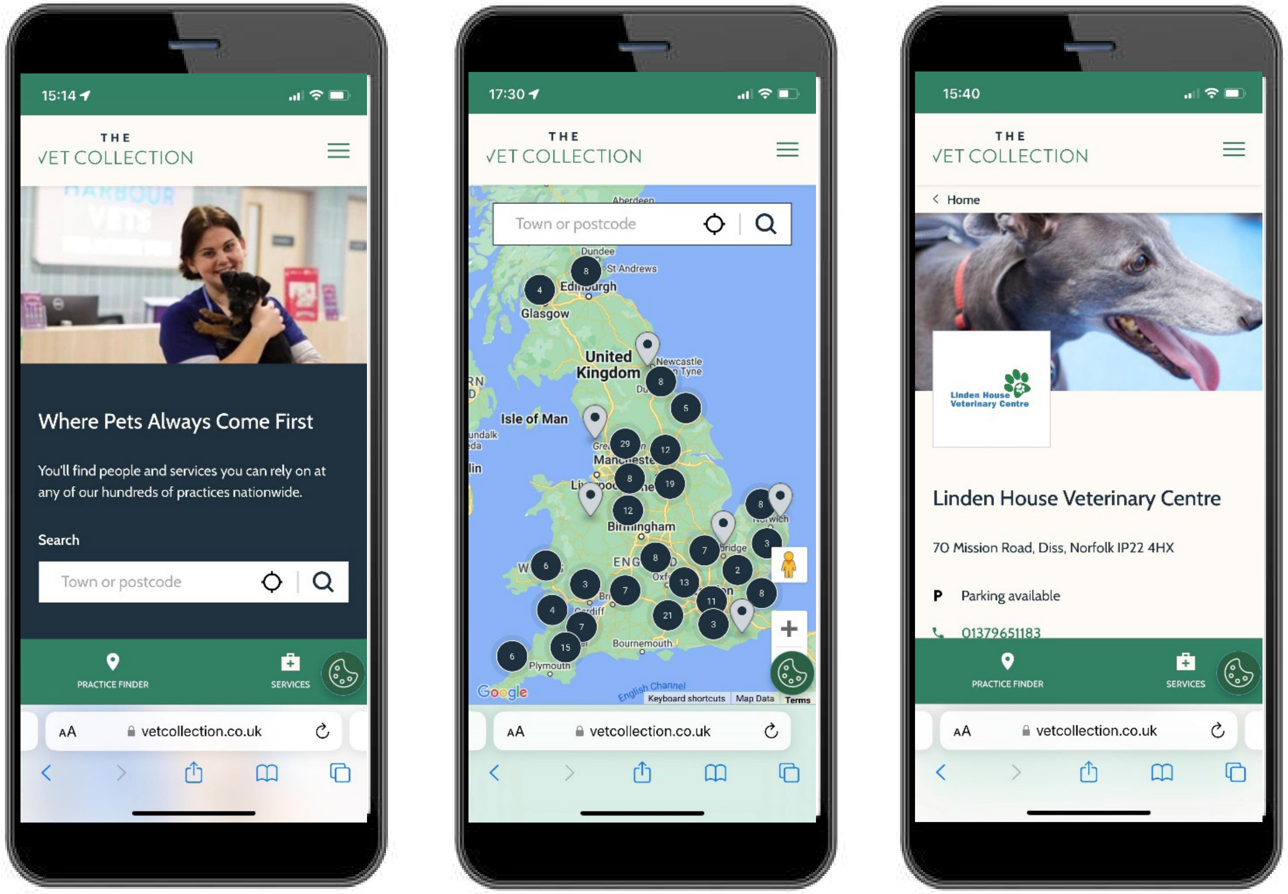
- Completed five
- Exchanged / signed two
- Accepted offers 16
- Under evaluation 20



# In August we launched the Vet Collection

THE
VET COLLECTION

- New client facing brand launched initially online
- Reconciles our national presence with local practice identities.
- Initial launch gives consumers the ability to:
  - Find a practice and register
  - See at a glance the clinical services we offer in a clear and standardised way
  - Read a selection of articles on conditions and what that means for their pet
  - Understand our range of services and products, e.g. Healthy Pet Club
- Future enhancements are planned to expand the website.



# 4
# Outlook

CVS Group

# CVS is in a strong position to deliver further growth

- Clear strategy for growth as outlined at the Capital Markets Day 2022
- New financial year has started well with trading year to date in line with market expectations
- Continued growth in number of vets employed
- Continued focus on providing great care to our clients and their animals
- We have already completed seven acquisitions in the UK and Australia in the current financial year for combined consideration of £30.4m
- Strong acquisition pipeline with continued focus on the UK and Australia
- Continued growth in Healthy Pet Club to 494,000 members at 31 August 2023
- Leverage remains less than 1x

✓ Growing market

✓ High-quality veterinary care

✓ Dedicated and passionate team of colleagues

✓ Cash generative with strengthened balance sheet

✓ Strong management team

# Appendices

# CVS at a glance

**Our purpose**

To give the best possible care to animals

**Our vision**

To be the veterinary company people

**Supported by four strategic pillars:**

1. We recommend and provide the best care every time
2. We are a great place to work and have a career
3. We provide great facilities and equipment
4. We take our responsibilities seriously

Underpinned by our ESG strategy, "Care at Our Heart"

**Our values**

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

# Care at our Heart

- Our Environmental, Social and Governance (ESG) strategy, "Care at our Heart", is based on our care for animals, people and the environment

- Second stand-alone sustainability and ESG report published September 2023

- Six working groups focused on:
  - Energy and carbon
  - Waste
  - One Health
  - People development
  - Wellbeing
  - EDI

Care at
our Heart

| Reconciliation of adjusted EBITDA (£m) | FY 2023 | FY 2022 | MVT | H1 2023 |
|---|---|---|---|---|
| **Adjusted EBITDA*** | **121.4** | **107.4** | **14.0** | **57.8** |
| Adjusted for: | | | | |
| Finance expense | (8.4) | (6.8) | (1.6) | (3.5) |
| Depreciation | (27.6) | (25.1) | (2.5) | (13.2) |
| Amortisation of intangible assets | (22.6) | (22.2) | (0.4) | (11.3) |
| Costs relating to business combinations | (6.6) | (4.9) | (1.7) | (1.8) |
| Exceptional items | (2.3) | (12.4) | 10.1 | - |
| **Profit before tax** | **53.9** | **36.0** | **17.9** | **28.0** |
| Amortisation of intangible assets | 22.6 | 22.2 | 0.4 | 11.3 |
| Costs relating to business combinations | 6.6 | 4.9 | 1.7 | 1.8 |
| Exceptional items | 2.3 | 12.4 | (10.1) | - |
| **Adjusted profit before tax*** | **85.4** | **75.5** | **9.9** | **41.1** |
| Tax on adjusted profit | (17.0) | (14.6) | (2.4) | (8.6) |
| Adjusted profit after tax | 68.4 | 60.9 | 7.5 | 32.5 |
| Weighted average number of shares (No.) | 71,272,880 | 70,926,977 | 345,903 | 71,215,385 |
| **Adjusted earnings per share* (p)** | **96.0** | **85.8** | **10.2** | **45.6** |

* Financial measures defined on page 29

| Summary | FY 2023 | FY 2022 | MVT | H1 2023 |
|---|---|---|---|---|
| Adjusted EBITDA* | 121.4 | 107.4 | 14.0 | 57.8 |
| Working Capital Movements | (10.9) | (14.0) | 3.1 | (12.2) |
| Capital Expenditure – Maintenance | (11.4) | (10.8) | (0.6) | (5.0) |
| Repayment of Right-of-use Liabilities | (14.1) | (12.7) | (1.4) | (6.5) |
| **Operating Cash Flow** | **85.0** | **69.9** | **15.1** | **34.1** |
| Operating Cash Conversion (%) | 70.0% | 65.1% | 4.9ppts | 59.0% |
| Taxation Paid | (14.9) | (11.2) | (3.7) | (7.2) |
| Net Interest Paid | (7.2) | (6.4) | (0.8) | (3.3) |
| **Free Cash Flow** | **62.9** | **52.3** | **10.6** | **23.6** |
| Capital Expenditure – Investment | (34.3) | (13.7) | (20.6) | (14.9) |
| Acquisitions/Other Investments – Investment | (54.6) | (20.8) | (33.8) | (24.4) |
| Contingent Consideration Payments[1] | (2.6) | (0.3) | (2.3) | (0.1) |
| Dividend | (5.0) | (4.6) | (0.4) | (5.0) |
| Other financing activities | (4.4) | 2.4 | (6.8) | (0.8) |
| **Net (Outflow) / Inflow** | **(38.0)** | **15.3** | **(53.3)** | **(21.6)** |
| Net Bank Borrowings* | (74.0) | (36.0) | (38.0) | (57.6) |

1. Contingent consideration has been included outside free cash flow

* Financial measures defined on page 29

# Definitions

**Like-for-like sales** shows 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 2021, revenue is included from September 2022 in the like-for-like calculations.

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

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

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

**Leverage** on a bank test basis is drawn bank debt less cash and cash equivalents, divided by 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.

**Net bank borrowings** is drawn bank debt less cash and cash equivalents.

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# Thank You

**CVS Group plc**

Owen Road, Diss, IP22 4ER

01379 644288 Company No. 06312831