Providing great care to our patients

CVS Group plc
Annual Report and Financial Statements
for the year ended 30 June 2023

Thank You

Our vision is to be the veterinary company people most want to work for and our colleagues are the heart of our business. They are focused on giving the best possible care to animals. It is their commitment and dedication to doing the right thing that has enabled CVS to continue to deliver against our plans and we greatly appreciate their support.

Just a few of the amazing achievements of our colleagues in 2023:

Rosemullion Veterinary Practice

was Quality Improvement Champion in the 2023 RCVS Knowledge Awards

White Lodge Veterinary Surgery

was Antimicrobial Stewardship Champion in the 2023 RCVS Knowledge Awards

Seymour Vets

was awarded Outstanding for both diagnostic imaging and client service by the RCVS

Eight veterinary nurses

from CVS Netherlands successfully completed training to become Supervisory Radiation Protection colleagues. They are the first vet nurses in the Netherlands with this diploma

Care at our heart

CVS Group plc is the UK listed veterinary group and one of the leading providers of veterinary services, with practices in the UK, Australia, the Netherlands and the Republic of Ireland.

Operational highlights

> We have continued to increase investment in our facilities and equipment, investing £45.7m in 2023, an increase of £21.2m vs 2022, including completing 21 refurbishment and relocation projects in the year

> We have acquired 11 practices (16 practice sites)

> We have increased the average number of vets we employ by 6.5%

> We introduced sustainability targets across our Sustainability working groups, read more on pages 32 to 46

> Since the year end we have entered the Australian veterinary market with the acquisition of five practices (five practice sites). Read more about this exciting development on page 13

Strategic Report

Corporate Governance

The Directors' Report

Financial Statements

Highlights

Financial highlights[1]

> Revenue increased by 9.8%, to £608.3m from £554.2m, with strong Group like-for-like[2] growth of 7.3% (2022: 8.0%) driven by a continued focus on providing high-quality clinical care

> The Group delivered adjusted EBITDA growth of 13.0%, to £121.4m from £107.4m, as a result of the above revenue growth, the continued investment in our colleagues and the recognition of research and development expenditure tax credit

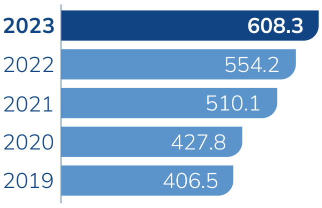
> Profit before tax increased by 49.7% to £53.9m from £36.0m

> Leverage[3] increased to 0.73x from 0.40x as a result of increased investment in existing practices and acquisitions, partly offset by increased EBITDA

> Cash generated from operations increased by 15.9%, to £107.9m from £93.1m, primarily as a result of the increase in adjusted EBITDA

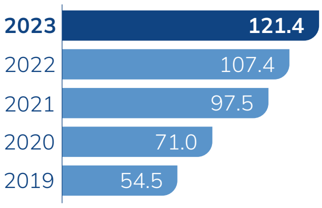
Revenue (£m)

£608.3m
+9.8%



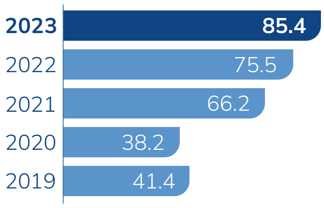
Adjusted EBITDA[4] (£m)

£121.4m
+13.0%



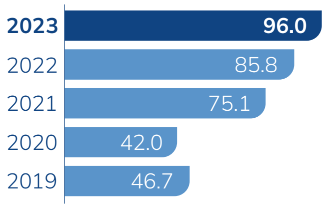
Adjusted profit before tax[5] (£m)

£85.4m
+13.1%



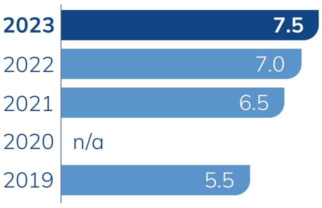
Adjusted earnings per share[6] (p)

96.0p
+11.9%



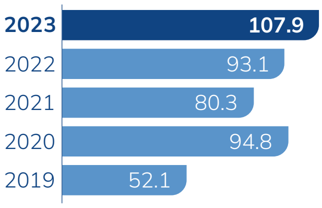
Proposed dividend per share (p)

7.5p
+7.1%



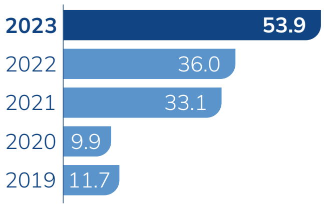
Cash generated from operations (£m)

£107.9m
+15.9%



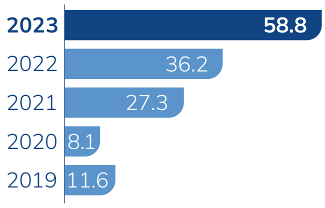
Profit before tax (£m)

£53.9m
+49.7%



Basic earnings per share (p)

58.8p
+62.4%



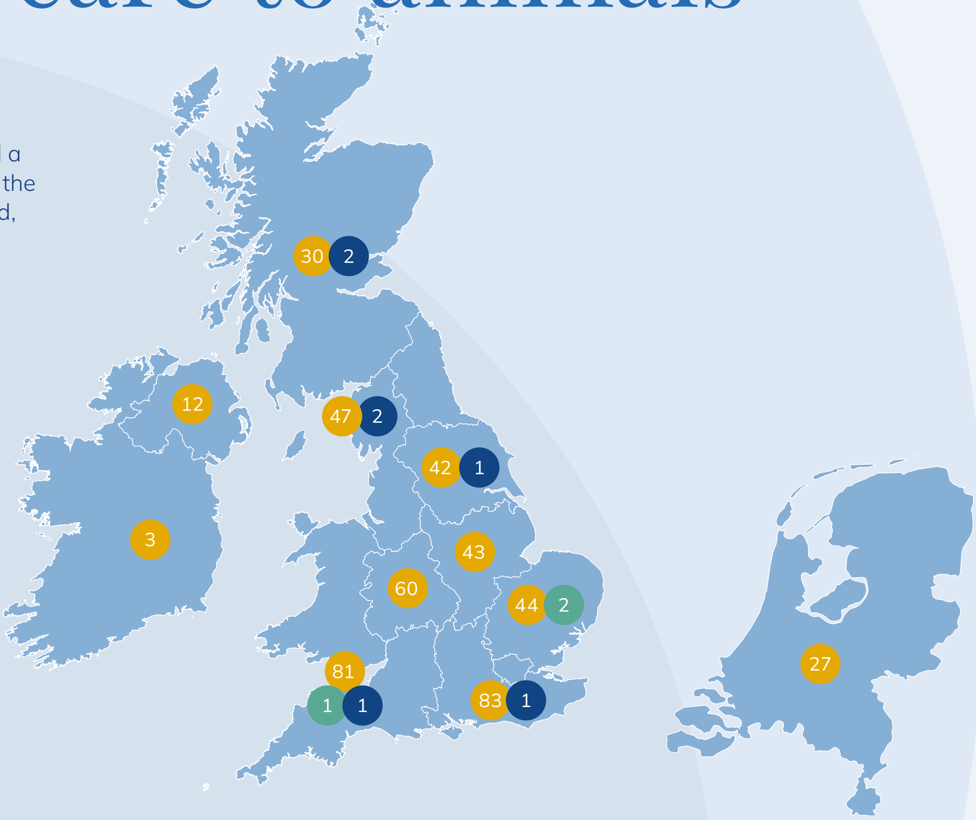
1. Adjusted financial measures (adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("adjusted EBITDA"), adjusted profit before tax and adjusted earnings per share) are defined below, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 115 and 133. IFRS 16 has been applied prospectively and, therefore 2019 is stated before the impact of IFRS 16.
2. 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.
3. 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.
4. Adjusted EBITDA is profit before tax adjusted for interest (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.
5. Adjusted profit before tax is calculated as profit before amortisation, taxation, costs relating to business combinations and exceptional items.
6. 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.

Our people focused strategy delivers the best possible care to animals

Our locations

We have locations across the UK and a presence in both the Netherlands and the Republic of Ireland. Since the year end, we have expanded into Australia*.



Key

- Veterinary practices (472)
- Laboratories (3)
- Crematoria (7)

* Map of Australia not shown.

85.9%*

Veterinary Practices

Our first-opinion and referral practices provide specialist treatment for companion, equine and farm animals. We provide high-quality healthcare either when required, or through our preventative healthcare schemes: the Healthy Pet Club (HPC) and Horse Health Programme (HHP)**. We also operate buying groups and a veterinary consumable business, "Vet Direct", and we supply a number of own-brand medicines and products.

4.6%*

Laboratories

Our laboratories provide diagnostic services to CVS veterinary practices and third parties. We offer an extensive range of tests with the ability to tailor specific profiles to our customers' needs. Our team of pathologists and experts specialise in a variety of disciplines in all areas of the laboratory and their aim is to offer a level of service and expertise beyond our customers' expectations.

1.7%*

Crematoria

Our crematoria provide pet cremation and clinical waste services to CVS practices and third-party practices, and cremations to animal owners. We offer a range of services to help our clients remember and say goodbye to their pets.

7.8%*

Online Retail Business

Our online retail business, "Animed Direct", sells prescription and non-prescription medicines, premium pet foods and an ever-increasing range of pet care products, which can be delivered directly to our customers' doors.

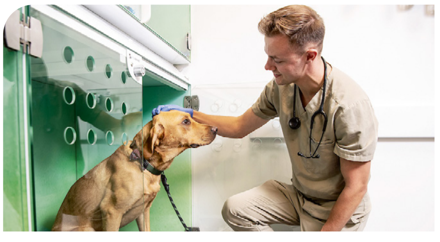
Discover more about our operations and the market in which we operate on pages 14 to 17

* Revenue share before intercompany sales between Veterinary Practices and other divisions.

** Throughout this report, references to Healthy Pet Club are inclusive of Healthy Pet Club and Horse Health Programme.

Multiple opportunities to build on our strong foundations

CVS is a AIM-listed veterinary group positioned well for both organic and acquisitive growth



Market

- We continue to operate in a growing market with increasing demand and scope for growth in our market share
- c.6% market growth

Discover more about our market on pages 14 to 17

Sector

- A favourable sector with continued humanisation of pets and appetite for innovation
- c.5,300 veterinary practices in the UK
- c.3,500 veterinary practices in Australia

Discover more in our Operational Review on pages 47 to 54

Strategy

- Clear, people-focused strategy of organic growth, supported by investment in our facilities and equipment, and augmented by inorganic growth through investment in greenfield sites and selective acquisitions
- £45.7m capital expenditure in 2023

Discover more about our strategy on pages 22 and 23

Management

- Strong management team with a broad range of experience and expertise, which has a proven track record of delivering growth even during periods of economic adversity
- Four of seven members of our Executive Committee are veterinary clinicians

Discover more about our Board of Directors on pages 70 and 71

Business model

- Fully integrated veterinary services model, with first-opinion practices supported by specialist-led multi-disciplinary referral hospitals, laboratories, crematoria and an online retail business
- 39 out-of-hours sites supporting our busy veterinary practices
- Nine specialist referral hospitals

Discover more about our business model on pages 18 and 19

Growth opportunities

- Alongside consistent organic growth through our fully integrated veterinary model, there are opportunities for further acquisitive growth both in areas of the UK where CVS has limited presence and other markets globally, such as Australia
- Eleven acquisitions completed in 2023
- Seven acquisitions completed post year end, including five in Australia

Discover more in our Chief Executive Officer's Review on pages 8 to 10 and our Capital Allocation Review on page 12

Our clear strategy supports resilience and growth

Our purpose

To give the best possible care to animals

Our vision

To be the veterinary company people most want to work for

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"

Discover more about our sustainability and ESG strategy on pages 32 to 38

Our values

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

Building on our strong foundations to deliver continued high-quality clinical care and investment in growth

Richard Connell
Chair

"I would like to take this opportunity to thank all CVS colleagues for their continued professionalism and commitment in providing great care for our clients and their animals."

Introduction

I am delighted to introduce our 2023 Annual Report and Financial Statements and to report on another successful year in which we have increased investment in future growth, as well as announcing our entry into the Australian veterinary services market post the year end.

We have previously set out our clear strategy for growth underpinned by our purpose to give the best possible care to animals and our vision to be the veterinary company people most want to work for. In November 2022, we outlined our updated five-year plan in support of this strategy with continued focus on organic growth and through investment in people, practice facilities, clinical equipment and technology and further acquisitions in the UK and overseas.

Whilst we are in the early stages of this five-year plan, we have made a positive start with increased investment and eleven practice acquisitions completed in the financial year.

I would like to take this opportunity to thank all CVS colleagues for their continued professionalism and commitment in providing great care for our clients and their animals.

Improved financial performance

We have delivered another strong set of financial results with increased revenue and earnings, strong operating cash conversion and improved balance sheet strength. This positions CVS well to deliver investment in future growth.

Revenue for the financial year increased by 9.8% to £608.3m (2022: £554.2m) reflecting our continued focus on providing the best possible clinical care to animals. We continue to see robust client demand for our high-quality services with long term drivers of a growing pet population, improvements in animal healthcare and the humanisation of pets.

Adjusted EBITDA increased by 13.0% to £121.4m (2022: £107.4m) through revenue growth, our continued discipline in managing costs and recognition of net Research and Development Expenditure Tax Credit of £9.6m.

Profit before tax increased by 49.7% to £53.9m (2022: £36.0m) with adjusted EPS increasing by 11.9% to 96.0p (2022: 85.8p) and basic EPS increasing by 62.4% to 58.8p (2022: 36.2p).

Improved financial performance continued

CVS continues to be highly cash generative with the improved revenue and earnings resulting in cash generated from operations increasing by 15.9% to £107.9m (2022: £93.1m). In accordance with our strategy, we have increased our investment in our people, our facilities and our equipment to further aid growth and, as a result, net debt increased to £70.7m (2022: £35.3m) and leverage increased to 0.73x, from 0.40x.

We successfully refinanced our bank debt facilities in February 2023, with £350.0m of total facilities now available comprising a term loan of £87.5m and a £262.5m revolving credit facility. The margin under these facilities remained unchanged. Financial covenants also remained unchanged with considerable headroom at 30 June 2023 under both financial covenants. We also have access to a £5.0m overdraft, renewable annually.

Discover more about our financial performance on pages 55 to 59

Strategic progress

Our strategy, purpose and vision are underpinned by our four strategic pillars: to recommend and provide the best clinical care every time; to be a great place to work and have a career; to provide great facilities and equipment; and to take our responsibilities seriously.

As outlined at our Capital Markets Day in November 2022, we have increased investment in practice facilities, clinical equipment and technology to drive growth with capital expenditure of £45.7m in the financial year (2022: £24.5m). We completed 21 property relocation and refurbishment projects in the year.

We acquired 11 veterinary practices (comprising 16 practice sites) in the year for initial cash consideration of £54.6m.

In July 2023 we announced our entry into the Australian veterinary services market with our first acquisitions of veterinary practices. Having explored a number of new potential markets we identified Australia as a particularly attractive market given the relatively low levels of corporate consolidation, favourable market dynamics and strong similarities with the UK, including highly trained veterinary surgeons, shared language and culture, and the Group's experience with UK vets working between Australia and the UK.

At the heart of our growth ambitions is our vision to be the veterinary company people most want to work for. We have taken further positive steps in the year to provide additional support to our colleagues with a number of new and enhanced employee benefits introduced. These include a health care cash plan enabling colleagues to cover the cost of a range of medical services and support available to colleagues across a variety of health-related life events, including fertility, pregnancy loss, major surgery and hospitalisation.

CVS introduced a new Equity, Diversity and Inclusion (EDI) strategy in 2022 and we have developed this in the past financial year. New policies have been introduced covering bullying, harassment and incivility and we introduced an EDI training course for all CVS colleagues. We have also introduced a regular survey question measure of whether our colleagues feel equally included at work, and in June 2023 83.6% of colleagues responded positively. Nearly 625 learners have enrolled in our Equity, Diversity and Inclusion training course which raises awareness of bias and prejudice in the workplace and recommends actions to consciously improve.

Discover more about our strategy on pages 22 to 23

Governance and the Board

We remain committed to the highest levels of corporate governance and, as an AIM-listed group, we voluntarily adopt the UK Corporate Governance Code 2018.

We continue to review the composition of the Board in order to ensure that we have the right balance of skills and experience. Joanne Shaw was appointed as a new Non-Executive Director with effect from 1 July 2023. Joanne brings a wealth of healthcare experience from her current roles as Trustee and Audit Committee Chair at Cancer Research UK and Chair at the Royal College of Paediatrics and Child Health, in addition to her previous roles as Non-Executive Director at NHS England, Chair of NHS Direct, Non-Executive Director at Kensington and Chelsea Primary Care Trust and Chair of the British Equestrian Association.

Ben Jacklin was promoted to a newly created role of Deputy Chief Executive Officer on 1 July 2023 reflecting Ben's significant contribution over the past few years in his Chief Operating Officer role. Ben retains responsibility for overseeing the Group's operations in this new role.

Discover more about our governance on pages 69 to 93

Dividends

In light of the continued growth of the Group and its positive operating cash generation, the Board is recommending a continuation of our progressive dividend policy, with the payment of a final dividend of 7.5p per Ordinary share (2022: 7.0p).

Shareholder engagement

The Board continues to engage actively with existing and potential new shareholders. Our Capital Markets Day in November 2022 was well attended in person and through a live stream of the event. We outlined our growth ambitions over the next five years and investors and analysts attending in person had the opportunity to tour two of our veterinary practices and experience practical demonstrations.

The Executive Directors attended a number of investor conferences in the UK, the US and Europe during the financial year and all Directors make themselves available to meet with investors on request.

We continue to host a sell-side analysts and institutional investors' webcast at our interim and full-year results, including a question and answer session, with a replay facility provided on our investor website.

Discover more about our stakeholders on pages 28 to 31

Outlook

The financial performance achieved in the past financial year, and our clear strategy for future growth, positions CVS well to benefit from the sizeable and growing veterinary services market and continued humanisation of pets.

I look forward to reporting on further success in the future.

Richard Connell
Chair
21 September 2023

A focus on

CVS introduces pioneering clinical improvement projects to achieve outstanding levels of patient care

"We aim to recommend and provide the best care every time." This requires us to continually improve the quality of our services. Our quality improvement programme includes the way we support learning, collaboration and the sharing of best practice, empower teams to make change; and prioritise areas for improvement. To this end we have introduced nine pioneering clinical improvement projects to support colleagues in achieving outstanding levels of patient care within our small animal practices.

The projects focus on improving first-opinion clinical standards in dental radiography, ear cytology, endoscopy and endosurgery, fine needle aspiration, hypertension, lameness investigation, ophthalmology, radiography and radiology, and ultrasound.

Each project is designed to help practices identify where they may be able to improve their standard of clinical care; detect any barriers which may be preventing them from achieving it; ascertain if colleagues have associated learning and development needs; offer practices a suite of clinical learning and support materials; and provide colleagues with the tools to report and evaluate their project achievements.

To provide support to colleagues, every project has its own dedicated clinical quality improvement library on CVS's unique *Knowledge Hub* virtual learning platform. These learning, education and development materials include webinars, training videos, clinical frameworks, handy checklists and client resources. In addition, each project has a virtual discussion board, creating a shared space to discuss issues, co-create and share ideas for improvement.

CVS's unique Clinical leadership team supports each one of its practices in achieving the highest clinical standards, and helps them to implement clinical quality improvements. The experienced veterinary surgeons work in CVS's clinical leadership nationwide, the only veterinary team of it's kind in the UK.

Continuing our focus of providing the best possible care to our clients and their animals

Richard Fairman
Chief Executive Officer

Introduction

As a business whose purpose is to provide the best possible care to animals, the passion and care of our colleagues are at the heart of our success. I would like to begin by thanking each and every one of our colleagues for their hard work and support over the past year in delivering great care to our clients and their animals.

In November 2022, we hosted a Capital Markets Day which included tours of two of our small animal veterinary practices. At this event, we announced our 5-year plan and the six strategic targets underpinning this plan:

> organic revenue growth of 4%–8% per annum;

> adjusted EBITDA[1] margins of between 19% and 23% through investment in our facilities;

> investment in practice facilities, clinical equipment and technology to deliver additional organic growth;

> acquisitions subject to disciplined criteria for returns and earnings accretion;

> operating cash conversion of more than 70%; and

> leverage[1] on a bank test basis remaining below 2.0x.

This year's Annual Report sets out our progress to date against these strategic targets.

A clear capital allocation strategy

We have a clear strategic focus to provide high-quality clinical care to animals, and key to the delivery of this is investment in our existing practice facilities, clinical equipment and technology, and expanding our Group through strategically aligned acquisitions subject to disciplined criteria.

In support of this planned increase in investment, we successfully refinanced our debt facilities in February 2023, increasing the available funds to £350.0m, comprising:

> a £87.5m term loan, repayable via bullet payment in February 2027; and

> a £262.5m revolving credit facility.

1. Defined within financial highlights on page 1.

"I am proud of the achievements of our team of colleagues over the past year."

The interest margin and covenants for the facility remain unchanged, with maximum leverage of 3.25x and interest cover no less than 4.5x. We obtained commercial terms with increased flexibility to support our growth ambitions, and welcomed Barclays, JP Morgan, Lloyds Bank, Virgin Money and Danske Bank to our banking syndicate, alongside long-term partners HSBC, NatWest and AIB.

In the financial year to June 2023, we invested £45.7m and completed 21 practice refurbishments and relocation projects. We are pleased with the returns to date from this investment, with higher-quality facilities and enhanced technology allowing us to provide high-quality care to our clients and their animals.

This investment included a brand new greenfield site, Southport Vets, which opened in December 2022. This 3,000 sq ft building comprises four consulting rooms together with an operating theatre and specialist dental suite, plus an in-house laboratory and digital x-ray facilities.

Alongside this investment, we invested initial cash consideration of £54.6m in acquiring 11 practices (16 practice sites) in the financial year, and it has been a pleasure to welcome our new colleagues to CVS.

Financial performance

In terms of financial performance during the full year ended 30 June 2023 we have delivered:

> continued organic revenue growth with a 7.3% increase in like-for-like sales (2022: 8.0%), consistent with the Group's organic revenue growth ambition of between 4% and 8%;

> adjusted EBITDA margin expansion of 60bps to 20.0%, within our stated ambition of margins between 19% and 23%;

> continued investment in our facilities and equipment to support growth, with total capital expenditure of £45.7m (2022: £24.5m), within the Group's capital expenditure ambition of £30m to £50m investment per annum;

> investment of £54.6m in 11 practice acquisitions (comprising 16 practice sites) (2022: £8.4m in three practice acquisitions (comprising four practice sites)), in line with the guidance of £50m+ investment per annum; and

> operating cash conversion of 70%, broadly in line with our stated ambition of 70%. In light of the increased investment made in the financial year, leverage increased to 0.73x at 30 June 2023 (30 June 2022: 0.40x), but remained well below our stated target of less than 2.0x leverage as set out in our Capital Markets Day ambitions.

Strategy

Our purpose is to give the best possible care to animals and our vision is to be the veterinary company people most want to work for and these are underpinned by our four clear strategic pillars: to recommend and provide the best clinical care every time; to be a great place to work and have a career; to provide great facilities and equipment; and to take our responsibilities seriously.

In order to recommend and provide the best clinical care every time we continue to invest in research and development towards improved clinical standards. In 2022 we launched our Clinical Research Awards and to date we are supporting 16 research projects, with more funds to be made available in the coming year. These awards facilitate colleagues to be able to undertake high-quality and impactful research, as well as work collaboratively with universities and research institutions to continue to break new ground in veterinary care.

Our vision to be the veterinary company people most want to work for is underpinned by our strategic pillar to be a great place to work and have a career. During the year, we launched a range of new benefits and policies. Among these is a zero-tolerance policy towards abusive clients to put colleague safety in practices at the forefront and this can result in veterinary services being terminated for abusive clients. The BVA published data in 2021 which showed six out of ten vets had reported feeling intimidated by clients' language or behaviour in the previous year. We hope this policy helps our colleagues in handling difficult situations with the confidence that the Group is in support of their welfare.

We have increased investment in our practice facilities, equipment and technology in the past year so that we can achieve a minimum practice facility standard. This standard includes optimal layout of clinical spaces, increasing the number of consult rooms and operating theatres, installing improved technology such as dental x-ray and advanced imaging facilities, and improving colleague areas such as kitchens and office spaces.

Chief Executive Officer's review continued

Strategy continued

As a veterinary business, taking our responsibilities seriously is in our DNA. We work closely with industry bodies to ensure we are improving standards of care and we fully embrace the RCVS Practice Standards Scheme (PSS). In June 2023, the RCVS added a Sustainability Award to its PSS whose requirements range from having a written environmental sustainability policy, to demonstration of techniques to minimise anaesthetic gas usage and annual waste surveys being undertaken with demonstrable action as a result. We are encouraging our practices to participate in this new award.

Discover more about our strategy on pages 22 to 23

Focus on our people

To enable us to provide great care we have invested in employing an additional 6.5% vets and 8.4% nurses on average in the financial year to 30 June 2023 in comparison to the previous financial year. We continue to increase the number of clinical colleagues we employ at a significantly faster rate than the growth of the population of practising vets in the UK.

We are pleased that the RCVS has seen a rise in the number of EU vets registering to work in the UK for the first year post Brexit, with a 30% increase in 2022. Meanwhile, the arrangements that allow graduates from European Association of Establishments for Veterinary Education (EAEVE)-accredited schools to be recognised by the RCVS have been extended for another year.

Although these structural improvements are positive, our ability to attract and retain colleagues is significantly enhanced by our focus on our people and on being a great place to work and have a career. We measure employee Net Promoter Score (eNPS) monthly, and this score has increased consistently each year since we first began to measure it. At June 2023 our eNPS was 14.6 (2022: 4.8) with the increase a reflection of our efforts in improving the satisfaction of our colleagues.

We continue to focus on the wellbeing of our colleagues with over 300 first aiders for mental health trained, considerable awareness built across CVS and regular initiatives to promote positive wellbeing. 100 practice teams have utilised our new "What matters to us?" framework, which helps colleagues feel empowered to make local changes to improve their wellbeing. Some 400 managers across CVS have undertaken a new course developed on supporting the wellbeing of their teams.

Developing a culture where everybody can contribute

Our values are customer focus, commitment to excellence, success through our people, and honesty and integrity. In our 2022 Annual Report, we introduced our Group-wide culture survey, in which we sought feedback from colleagues across the business on their experiences of inclusion, support and fairness within CVS.

During 2023, we have developed actions in response to the results of this survey, with our main focus being on developing an Equity, Diversity and Inclusion programme that enables all our colleagues to feel included and psychologically safe. We developed a psychological safety course to give leaders practical knowledge and skills for creating a psychologically safe team environment. By the end of June 2023, 372 leaders had completed the course, with positive feedback on its impact in the workplace.

Read more about this in our People and Culture Report on pages 20 to 21

Sustainability

We published our first Sustainability Report in 2022 and we have concentrated our focus in the past year on six key areas, namely Energy and Carbon, Waste, One Health, People Development, Wellbeing and EDI.

During the year, we introduced our new network of Environment Champions. These are volunteers from across the business supporting us to reduce our impact on the environment, improve the way we deal with our waste and cut our carbon footprint. Our aim is for each practice or building to have an Environment Champion, forming a network of CVS Group colleagues who volunteer to help raise energy and environmental awareness.

Discover more about our sustainability on pages 32 to 46

Australia market entry

Since the year end, in July 2023 we announced our entry into the Australian veterinary services market and we have now completed five first-opinion small animal practices (comprising five sites) with a strong pipeline of additional opportunities.

We identified Australia as an attractive market and I am delighted to welcome our new colleagues in Australia to CVS.

Competition and Markets Authority (CMA) review

On 7 September 2023, the CMA announced a Market Review of the Veterinary sector for household pets in the UK. The review is carried out under the CMA's general review function which allows it to obtain, compile and keep under review information relating to the CMA's functions. The Market Review is voluntary and we will work closely with the CMA in support. The CMA have stated they will provide a further update in early 2024.

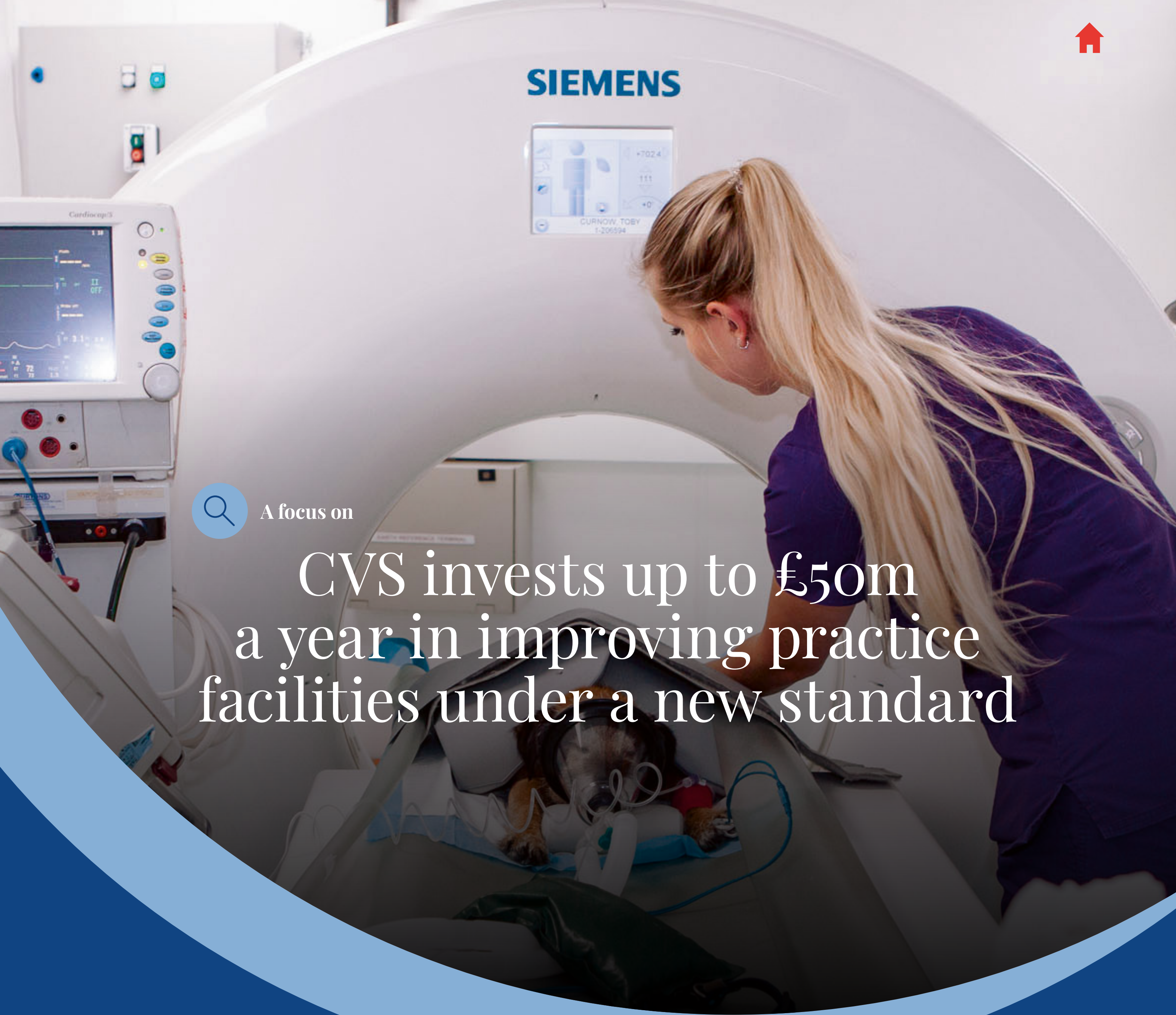
Outlook

I am proud of the achievements of our team of colleagues over the past year, as reflected in another set of strong financial results.

We set out a clear five-year plan at our Capital Markets Day in November 2022 and the achievements in the past year, the refinancing of our bank facilities and balance sheet all position us well to deliver against this ambition. Whilst we continue to be mindful of inflationary pressures on household incomes, we are confident that our strategy for growth focused on high-quality clinical care and investment in facilities and technology positions us well to deliver further growth over the coming years.

With the continued support of our outstanding colleagues, I look forward to sharing further success in 2024 and beyond.

Richard Fairman
Chief Executive Officer
21 September 2023



A focus on

CVS invests up to £50m a year in improving practice facilities under a new standard

CVS has pledged to spend up to £50m a year to upgrade and relocate current practices and to open new practices to a new minimum practice facility standard.

The new CVS standard has been designed by its veterinary surgeons, nurses, practice managers, receptionists and patient care assistants. Colleagues in practices across the Group came together to outline what a good practice looked like. From this, a new practice facility standard was developed.

The new standard has been designed around colleagues and the way they work. It includes well laid out clinical spaces, including multiple consultation rooms, spacious operating theatres, central preparation areas, specialist dental suites, in-house laboratories and digital x-ray facilities. In addition isolation wards, separate dog and cat hospital wards and new walk-in kennels are incorporated for larger dog breeds.

Creating a fantastic work environment was also instrumental to the standard. The new practice design includes modern office spaces, ample kitchen and food preparation facilities, proper rest areas where colleagues can take a break, and staff showers and lockers.

In addition, the practice standard is designed to make clients and their pets feel comfortable. New and relocated sites have been selected with ample parking which is accessible to all. Building layouts incorporate large and welcoming reception areas with separate waiting areas for cats and dogs to keep stress to a minimum, along with easy access to consultation rooms for clients and patients. It also includes using modern building materials, more efficient lighting and other options that lower our carbon footprint such as solar energy.

We have a disciplined approach to deploying capital

Introduction

We have a clear, people-focused strategy with our purpose to provide the best possible care to animals and our vision to be the veterinary company people most want to work for, underpinned by four strategic pillars. This strategy and vision are focused on our passionate team of colleagues delivering great clinical care to our clients and their animals.

In November 2022, we held a Capital Markets Day in which we outlined our plans over the next five years with six key elements underpinning this five-year plan:

> organic revenue growth of 4%–8% per annum;

> adjusted EBITDA margins between 19% and 23%;

> investment of £30m–£50m per annum in practice facilities, clinical equipment and technology to deliver additional organic growth;

> investment of £50m per annum plus in selective acquisitions subject to disciplined criteria for returns and earnings accretion;

> operating cash conversion at or above 70%; and

> maintaining leverage on a bank test basis below 2.0x.

The Group has developed a clear capital allocation policy in support of the investment planned over the next five years.

Any investment, whether capital expenditure or an acquisition, has a minimum hurdle of a 10.0% Internal Rate of Return (IRR) which more than covers the Group's post-tax weighted average cost of capital. All investment is aimed at improving our business and should deliver enhanced EBITDA and cash flow.

Availability of capital

The Group has a clear track record of generating cash from operations. In 2023 £107.6m was generated from operations (2022: £93.1m) in support of our capital investment.

In February 2023, we successfully refinanced our debt facilities with total facilities of £350.0m now available through to 21 February 2027. Margins and covenants remained unchanged. The facility comprises the following elements:

> a fixed term loan of £87.5m, repayable on 21 February 2027 via a single bullet repayment; and

> a four-year revolving credit facility of £262.5m, available to 21 February 2027.

This new facility provides important funding in support of our five-year plan.

Leverage was 0.73x at 30 June 2023 (2022: 0.40x) and hence remained comfortably below our 2.0x guidance.

Capital allocation

Strong balance sheet and growing free cash flow underpins opportunity for disciplined investment in growth

Strong balance sheet and growing free cash flow	Committed facilities of £350m to February 2027 Leverage 0.73x	Strong balance sheet and growing free cash flow	Growing Free Cash Flow
Investment opportunities and dividends	Investment Capex c.£30m – £50m pa	UK and International acquisitions £50m pa subject to timing	Shareholder returns Progressive Dividend policy
Disciplined approach	Leverage < 2.0x	Disciplined Investment IRR of > c.10.0%	Shareholder returns Progressive Dividend policy

Australian market entry

Market size

A$5bn

(13.5% CAGR 2016–2022)

Number of practices

c.3,500

Consolidation

c.15%

Number of pets

c.29m

"I am delighted with our entry into the Australian veterinary services market. At our Capital Markets Day in November 2022, we set out our plans and ambition over the next five years through a continued focus on organic growth and with acquisitions in the UK and overseas. Our entry into the Australian market is consistent with these plans and we are excited by the opportunity."

Richard Fairman, CEO

In July 2023, CVS entered the Australian veterinary services market with five acquisitions completed since the year end, and a strong pipeline of additional opportunities.

CVS's expansion into Australia is in accordance with its growth objectives, outlined in the five-year plan at the Group's Capital Markets Day in November 2022, to execute on scalable international consolidation opportunities, subject to maintaining its disciplined acquisition criteria.

The Group had been exploring opportunities in Germany, France, Spain and Australia. The Board has identified Australia as particularly attractive given the relatively low levels of corporate consolidation, favourable market dynamics and strong similarities with the UK, including highly trained veterinary surgeons, shared language and culture, and the Group's experience with UK vets working between Australia and the UK.

Attractive features of the Australia market

The Australian veterinary services market has relatively low levels of consolidation with two major established competitors, VetPartners and Greencross, collectively owning c.11% of the market. With c.3,500 practices there is a significant potential opportunity for CVS to build scale.

The Australia market has similar characteristics to the UK with an increasing pet population post the COVID-19 pandemic, humanisation of pets and consumers willing to invest in veterinary care for their animals.

There is a history of UK and Australian vets spending time working in the two markets and the approach to clinical care is similar.

CVS's purpose to give the best possible care to animals and its vision to be the veterinary company people most want to work for fit well with the Australian market and we are excited by the opportunity. Our expansion into Australia will also provide career progression opportunities for UK vets and nurses who may wish to gain experience in Australia.

Acquisition pipeline

As at the date of this report, we have completed on five acquisitions (consisting of five practice sites) along with exchanging purchase agreements on a further two practices (four practice sites).

The Group has identified a strong pipeline of opportunities and its focus will be on acquisition opportunities in major urban conurbations, including Sydney, Melbourne, Brisbane, Perth, Canberra, Newcastle and Adelaide.

We are confident in our ability to make further acquisitions in the UK as well as Australia and our ambition is to spend over £50m per annum on acquisitions, as outlined at the Capital Markets Day.

Management of Australia practices

The Group has established an Australian-based senior management team to support acquired practices and continue to develop the pipeline of new acquisition opportunities. This team includes a highly experienced Operations Director with seven years' service at CVS on secondment from our UK Veterinary Practices division, and an Acquisitions Director with extensive experience of the Australian veterinary market. Members of the CVS Executive Committee will continue to spend appropriate time in Australia to support the establishment of our new operations.

Value creation

Our focus is on acquiring high-quality small animal practices with good facilities and strong management teams. We will work closely with these management teams in supporting the growth of their practices and in generating value from our Australia presence.

Whilst acquisition multiples in Australia are lower than in the UK, practice margins are similar. However, the internal rate of return is expected to be similar to the UK as synergies have not been included initially, and the rate of corporation tax is higher at 30% in Australia.

The Group expects gradually to benefit from additional advantages of scale as it further expands in Australia, including improved drug purchasing terms, revenue growth and margin enhancement with a focus on high-quality clinical care and developing a market leading employee experience.

The veterinary market values high-quality clinical care now more than ever

Increased pet ownership continues to be a trend within the UK market. Many dog and cat owners are first-time pet owners and treat their animals as beloved family members.

Market size (£bn)[1]

c.5,300
veterinary practices in the UK[3]

472
veterinary practices operated by CVS Group

Geographical markets

The Group operates veterinary practices in the UK, the Netherlands, the Republic of Ireland and, since July 2023, Australia.

The UK companion animal market remains our largest market and goes from strength to strength. CVS is well placed to benefit from favourable market trends.

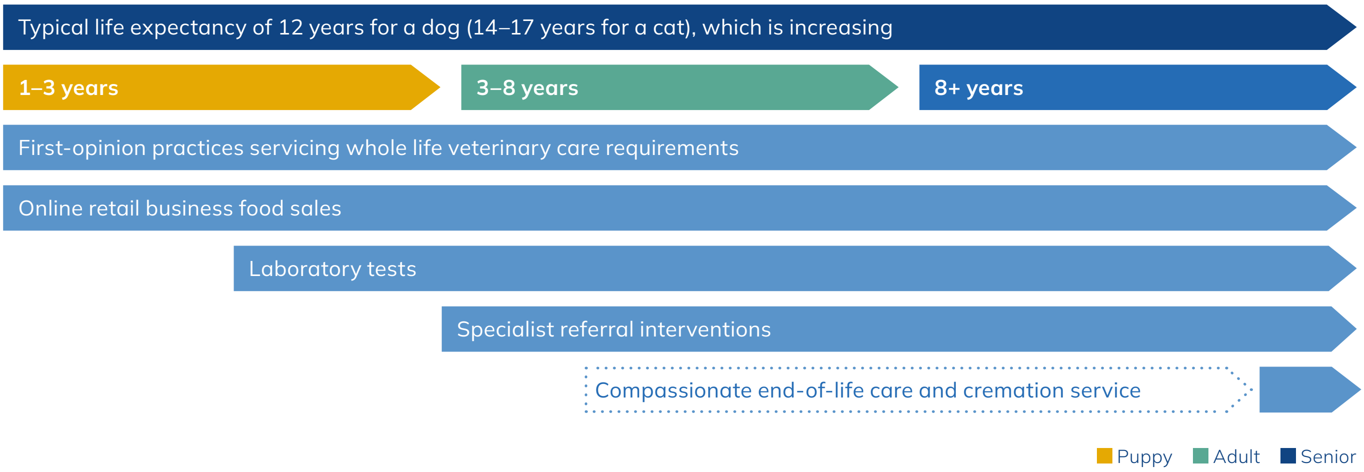
£9.9bn
spent on pets and related products in the UK in 2022[1]

Care at our heart

According to a recent market report[2], 51% of dog owners and 45% of cat owners decided to purchase their pet to make themselves happy, with over a third saying they provide companionship, love and affection. This often means pet owners place a high importance on the health and longevity of their pet to ensure the continued companionship and stability of the family or household. For this reason, pet owners are increasingly prioritising veterinary care notwithstanding rising inflation.

1. https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/timeseries/uvjk/ct
2. PDSA Animal Wellbeing (PAW) Report 2023
3. findavet.rcvs.org.uk.

We provide integrated care throughout the life cycle



The resilience of our integrated veterinary model

Over the past three years, we have seen a steady upwards curve in the UK pet population.

The Group's focus on high-quality care and on employing and retaining clinicians who truly place care at the heart of their work has supported the inherent resilience demonstrated through our continued revenue growth.

Australia

In July 2023, CVS entered the Australian veterinary services market. More information on this market is on page 13.

"Having worked as a vet in Australia earlier in my career, I know well its high standards of clinical care and the dedication of the highly talented veterinary professionals that work there. As a company dedicated to giving the best possible care to animals, I see a fantastic opportunity for us to enter this growing market, with low levels of corporate consolidation, and execute our vision of being the veterinary company people most want to work for. I have spent significant time in Australia over the last twelve months, including meeting a significant number of fantastic veterinary practices, and it is clear we have a significant opportunity."

Ben Jacklin, Deputy CEO

Market drivers and responses

A growing pet population

- The UK pet population has continued to gradually grow. Although not a dramatic jump, approximately 8 million pets have been acquired since March 2020[1]. This gradual increase in the pet population is a helpful market driver, not just in the short term when kittens and puppies require vaccinations, initial check-ups and in some cases neutering, but significantly in the medium and longer term as they become mature animals requiring more veterinary intervention.

Our approach

- We continue to expand our network of high-quality facilities, accessible across the UK, the Netherlands, the Republic of Ireland and Australia, for all species of companion animals.
- We provide access to preventative care through our successful Healthy Pet Club scheme which provides preventative healthcare including regular check-ups, annual vaccinations and regular flea and worming treatments.
- We also provide advice to clients on the appropriate choice of pet for their individual circumstances and we offer puppy socialisation classes in a number of our first-opinion practices.

Link to strategy

Read more on pages **22 and 23**

1 2 3

Advances in veterinary care

- Continued scientific research leads to further advances in veterinary care offering pet owners a variety of treatments for their animals. This, along with improvements in technology, has advanced the offering of telemedicine and remote specialist diagnostic image interpretation and advice.

Our approach

- We continue to invest in our clinicians, offering them industry-leading clinical training, and we provide a culture of recommending the most appropriate treatment to our clients. Our Chester Veterinary Training Centre continues to expand the range of qualifications offered, and in 2023 we opened a second nurse training centre at The Grove in Norfolk.
- We are striving to have a positive impact on the veterinary care sector as a whole, through investing in research projects designed to better understand and improve veterinary care. These projects are studying topics relating to animal health, clinical practices and the environment.
- We provide support for medical imaging and interpretation through our VetOracle™ business. Our VetOracle™ specialists are able to review images remotely and provide advice on clinical treatments for first-opinion vets within CVS and third-party owned practices.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

Availability of vets to perform services

- There is a continued shortage of veterinary surgeons and, to a lesser extent, nurses across our markets. We are working with our regulators and veterinary schools to increase the number of vets entering the profession, along with promoting the right work being performed by the right role in order to enhance job satisfaction.

Our approach

- Our vision is to become the veterinary company people most want to work for and our focus on achieving this vision has enabled us to outperform the market in recent years.
- In 2023 we saw an increase in the number of clinicians we employ, with the average number of vets increasing by 6.5% and nurses increasing by 8.4%.
- We continue to monitor our KPIs along with tracking colleague satisfaction through employee Net Promoter Score and colleague attrition. We continue to achieve positive trajectories in these metrics.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

1. PDSA Animal Wellbeing (PAW) Report 2023.

Online retail

- Increasingly, our customers are switching to shopping online for their pet food, driven by convenience and product range. Whilst the majority of our clients purchase drugs in our practices, they can also obtain a prescription from our practices and then purchase drugs online.

Our approach

- We continue to explore opportunities within our online platform, increasing our website capabilities and ensuring we have sustainable competitive pricing.
- We have installed two pharmacy robots to revolutionise our veterinary pharmacy, improving logistics and fulfilment, increasing productivity and improving quality control.

Link to strategy
Read more on pages **22 and 23**
1 3

Consolidated market

- The veterinary market continues to consolidate and in our largest market it is estimated that c.55% of the UK practices are under corporate ownership. We recognise the importance of privately owned independent practices. However, we can see significant runway for further consolidation in the market, from review of other successful consolidated markets. Where private practice owners are looking to sell, we are well positioned to acquire and provide benefits to owners, colleagues and patients.

Our approach

- We support independent practices through our buying groups, our laboratories, our referral specialists, our VetOracle™ service and our crematoria, all of which offer services to non-CVS practices as well as our own.
- In the year, we acquired 11 practices.
- Post year end, we have entered the Australian veterinary services market, which has similar dynamics to the UK with lower levels of consolidation, providing an increased runway for the future growth of the Group.

Link to strategy
Read more on pages **22 and 23**
1 2 3 4

Humanisation of pets

- The veterinary sector has benefited from the humanisation of pets in recent years as pets are treated increasingly as companions and seen as an important part of family and home life, as well as positive contributors to improved mental and physical health.

Our approach

- We continue to prioritise high-quality clinical care and can provide all-round animal care, from first-opinion, specialist referrals, diagnostic testing, accessories and pet food and consumables, to end of life care and crematoria.
- We understand the emotional bond between our customers and their pets and the wider social benefits of pet ownership. With advances in clinical care, and our model, we can support our clients throughout their pets' lives.

Link to strategy
Read more on pages **22 and 23**
1 2 3 4

Leveraging the strength of our veterinary services model

Our inputs

Passionate people
We employ dedicated professionals who are committed to excellent clinical care.

8,520
Employees

2,215
Veterinary surgeons

Financial strength
We continue to deliver growth in revenue, adjusted EBITDA and underlying cash generated from operations.

£608.3m
Revenue

£121.4m
Adjusted EBITDA

£107.9m
Cash generated from operations

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

472
Practices including:

9
Referral hospitals

150
PSS Awards

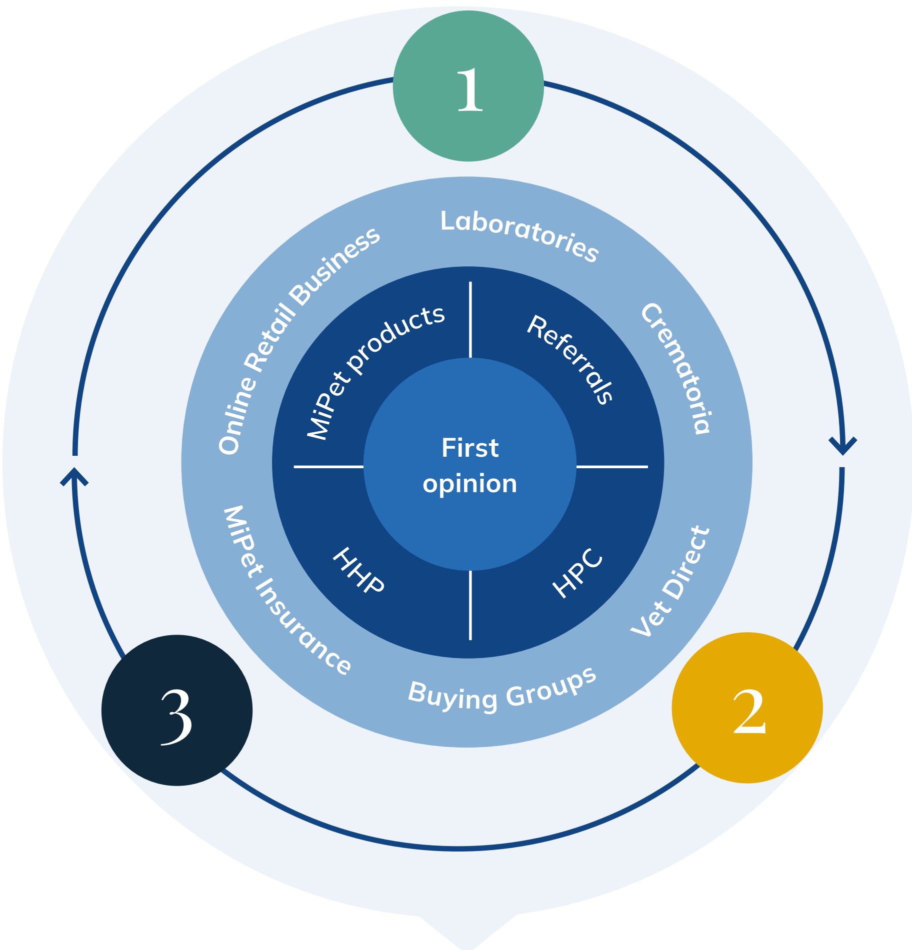
Customer focused
Our colleagues are dedicated to providing a quality service with the highest levels of customer and clinical care.

489,000
Healthy Pet Club members

73.0
Client Net Promoter Score

Veterinary platform

We have first-opinion veterinary practices at the core of our business, supported by specialist-led, multi-disciplinary referral hospitals, our own diagnostic laboratories, our network of crematoria and our online retail business for pet food, medicines and pet care products. Through our fully integrated model, we can provide high-quality end-to-end care to our patients and their owners.



Underpinned by our sustainability focus, "Care at Our Heart"

Discover more about our operations and the markets in which we operate on pages 14 to 17

1. Veterinary practices at our core

- Strong barriers to entry
- High-quality integrated clinical care
- Scale benefits

2. Operating in a sizeable and growing market with resilient characteristics

- Increased population of pets
- Humanisation of pets with consumers willing to spend on care
- Recurring robust revenues

3. Supplemented by prudent capital allocation

- Investment in new facilities and equipment, and increase in clinical specialists, to drive organic growth
- Opportunity for accretive acquisitions
- Progressive dividend policy

Discover more about our capital allocation on page 12

Stakeholder value creation

Our employees

- Supporting colleagues' wellbeing and performing regular check-ins
- Equity, Diversity and Inclusion (EDI) working group driving change
- Providing career progression and learning and development opportunities including continued professional development and access to top-tier clinical expertise
- Maintaining high standards of clinical governance
- Industry-leading graduate programme, including graduate camps
- A culture of open dialogue and learning
- Offering competitive rewards and benefits

Our customers

- Ensuring customers have access to end-to-end care through our first-opinion practices, our specialist-led, multi-disciplinary referral hospitals, our diagnostic laboratories and, at the end of an animal's life, our compassionate cremation services
- Demonstrating consistently high clinical standards
- Prioritising animal welfare
- Providing regular check-ups and routine treatments (e.g. vaccines and flea and worming treatments)
- Maintaining high standards of pain management, particularly in surgical patients
- All our first-opinion companion animal practices have sign access to allow deaf clients access to veterinary care
- Providing an equine out-of-hours service

Our investors (Shareholders)

- Delivering sustained financial performance
- Open dialogue and communication with our shareholders
- Capital Markets Day held in November 2022
- Recording of analyst results presentations
- Adherence to reporting requirements, including task force on climate-related financial disclosures and streamlined energy and carbon reporting
- Preparing for the implementation of BEIS Corporate Governance Regime to ensure trust
- Long-Term Incentive Plan (LTIP) awards are linked to total shareholder returns and targets are aligned with shareholder interests. Executive Directors are subject to two-year holding period on LTIP awards
- Annual bonus targets for Executive Committee members including both financial and non-financial measures linked to sustainability

Our profession (Industry bodies)

- Regular contact with the Royal College of Veterinary Surgeons (RCVS) and other industry bodies
- Participation in RCVS Practice Standards Scheme by all CVS practices, including actively seeking accreditation under the new Sustainability Award
- Full engagement with RCVS as part of its recent consultation on proposed reforms of the Veterinary Surgeons Act 1966 with written submission from CVS into this consultation
- Publication of annual Quality Improvement report to promote improvements across the profession
- Liaison with RCVS on wellbeing and ESG matters

Discover more about our people and culture on pages 20 and 21

Our community

- Focus on One Health to ensure a reduction in the impact of the veterinary industry on the wider environment, including antimicrobial stewardship
- Outreach to community groups including schools
- Regular liaison with industry bodies including the RCVS, the British Veterinary Association and the British Veterinary Nursing Association
- Donations to charity, including sponsorships and annual Vetlife charity donations

Discover more about our sustainability on pages 32 to 46

Our suppliers

- Fair trading terms with our suppliers which promote the collective interest of CVS and our supplier base
- Building relationships with suppliers through sponsorships and attendance at conferences (including inviting suppliers to our annual conference)
- Regular meetings with senior management teams to ensure interests are aligned
- Suppliers continue to benefit from the growth of CVS organically and through our strategic acquisitions
- Engagement on ESG matters to ensure collective improvement

Discover more about our stakeholders on pages 28 to 31

Developing a culture where everyone can contribute

Our approach

Our culture and values reflect our purpose to give the best possible care to animals and our vision to be the veterinary company people most want to work for.

In 2022, we completed a Group-wide culture survey in which our colleagues fed back their experiences of inclusion, support and fairness within CVS. We formed our Equity, Diversity and Inclusion (EDI) working group and set a six-point strategy to achieve our objective to be the veterinary company people most want to work for, regardless of who they are, how they identify, or their background.

1. Establish a demographic understanding of our workforce and regular measures for EDI goals.
2. Foster an inclusive culture with behaviours that support EDI.
3. Ensure leaders understand, role model and promote EDI within their teams.
4. Promote attraction, recruitment, selection and succession practices that are equitable and inclusive.
5. Deliver targeted development and support of diverse talent.
6. Improve engagement and retention of diverse workforce through addressing inequities, improving experiences and meeting needs.

Psychological safety

An inclusive-culture is reliant on teams experiencing consistent psychological safety; where they can express their ideas, ask for help, raise questions, challenge opinions and admit mistakes without fear. Psychological safety enables an inclusive culture in a number of ways. It leads to team members feeling more engaged and motivated, because they feel that their perspectives will be listened to. It can create better decision-making, as people feel more comfortable voicing their opinions and concerns. It supports to continuous learning and improvement, as team members feel comfortable sharing their mistakes and learning from them.

Our approach is to develop an EDI programme that enables all our colleagues to feel included and psychologically safe. It includes development opportunities for all and the empowerment of colleague groups to deal with obstacles themselves. To help us understand whether we are achieving these aims we survey our colleagues regularly about how included they feel.

Our culture in numbers

14.6
Employee Net Promoter score

372
Active Wellbeing Champions

625
Learners enrolled into our dedicated EDI course

5
EDI working groups

Our values

Customer focus
Our dedication to our customers is at the heart of our business and we are focused on our customers' and their animals' needs. We treat our customers with warmth and respect, we make them feel welcome and we keep our commitments.

Commitment to excellence
We constantly strive to achieve the highest possible standards in the quality of services and products we provide. We look for better ways of working, both individually and in teams, and we encourage colleagues to be innovative to improve the way we work.

Success through our people
We aim to attract, develop and retain the best people. We foster a collaborative and mutually supportive working environment, and we assist all our colleagues in achieving their career aspirations, with progressive learning and development opportunities.

Honesty and integrity
We treat our colleagues and customers with honesty and respect. We strive to ensure safety and accessibility in all areas of our business. We act with integrity in all that we do, being fair, transparent and accessible to all. We are open to feedback, and we own up to our mistakes.

How we demonstrate our values

We are committed to the highest possible standards
Our unique clinical leadership team supports each one of its practices in achieving the highest clinical standards and helps them to implement clinical quality improvements. Each CVS small animal practice selected one to two clinical improvement projects to focus on during the following year. The team then provided the support and training needed to help practices achieve their goals. Data was supplied to show their starting position and updated monthly, giving timely feedback for sites and demonstrating the impact of changes made.

We achieve success through our people
We have developed and launched a new Extra-Mural Studies (EMS) placement online booking system to help veterinary students find suitable placements. It is the first large-scale EMS online booking system of its type in the veterinary profession and will hopefully save students time contacting individual practices. We are fully committed to supporting the education and development of vet students, to support our current and future colleagues to achieve success.

A clear strategy for growth

1 We recommend and provide the best clinical care every time

Our strategic objectives

- To have a culture of recommending the best possible treatments to our clients.
- To deliver industry-leading clinical training.
- To be committed to evidence-based medicine and have a robust quality improvement framework.
- To ensure our clinicians have access to the right medicines at the right time.

Our achievements in the year

- We have placed particular emphasis on research and development to support the progression of the profession. A series of pioneering clinical improvement projects have been commissioned to achieve outstanding levels of patient care. This year, we launched nine projects focused on improving first-opinion clinical standards in a range of fields including dental radiography, lameness investigation and ultrasound.
- We published our fifth annual Quality Improvement report in June 2023, featuring some of the important work we did as a company to improve the quality of our care. This year's report focused on the themes of research and development, our culture (including Equity, Diversity and Inclusion (EDI), empowerment and continuous improvement), learning, education and development, and engaging with the Royal College of Veterinary Surgeons (RCVS) Practice Standards Scheme (PSS).
- In September 2022, Paul Higgs was appointed to the role of Chief Veterinary Officer. In this role, Paul oversees all clinical quality improvement work in our first-opinion and referrals divisions to help us enhance the care we provide to animals. Prior to his current role, Paul was Clinical Director at CVS's Highcroft Referrals Hospital in Bristol, where he still practises as a European Veterinary Specialist in internal medicine.

Outlook

- As a business, we pride ourselves on our contribution to the veterinary industry, including significant contributions to clinical research. This focus on driving forward standards within the profession will continue into future years.
- Our Hub Clinical Lead team continues to review opportunities for further research and development in areas where requests for help are frequently received. Due to the success of the nine clinical improvement projects launched during the year, we will be launching further projects.
- Our Clinical Research Awards continue, and there are now 16 projects being funded by this programme. We continue to take applications for further clinical veterinary research that aims to benefit the animals under our care, and research that supports the veterinary profession in providing the best possible care to animals.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care;
- availability of vets to perform services; and
- humanisation of pets.

Link to KPIs

Read more on pages **24 to 27**

A B C D E F G H I J K L

Link to risks

Read more on pages **60 to 68**

1 2 3 4 6 7 9 11 12 13 14

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

Our strategic objectives

- To create opportunities for our people to have diverse and rewarding careers.
- To be as flexible as possible in all our roles.
- To have the best leaders within our businesses.
- To offer the best learning, education and development in the profession.

Our achievements in the year

- During the year, we conducted a full review of our employment policies and benefits and launched a range of new benefits. Our new benefits include a health cash plan enabling colleagues to opt in to reclaim the cost of a range of medical services, including mental health services. We have also added policies related to fertility investigations and treatments, pregnancy loss, and significant health-related life events including major surgery, hospitalisation and procedures related to gender transition.
- In the year ended 30 June 2023 we employed an average of 2,215 veterinary surgeons (2022: 2,079). This is a 6.5% increase from 2022 to 2023, despite workforce shortages in the veterinary industry, demonstrating the success of our people-focused strategy.
- Our employee Net Promoter Score (eNPS), which tracks colleague engagement across our business, increased by over 100% to 14.6 from 2022 to 2023.
- We have introduced a zero-tolerance policy to protect against intrusive, offensive, violent or aggressive behaviour from clients. This policy will empower colleagues to take action against such behaviour, protect our colleagues' safety and wellbeing, and support our practice teams in not having to tolerate such behaviour.

Outlook

- Our vision is to be the veterinary company people most want to work for and therefore being a great place to work and have a career is, and will continue to be, a high priority. We monitor vet and nurse vacancy rates, attrition and eNPS monthly and seek actionable feedback from colleagues in relation to changes in these metrics.
- We will remain focused on colleague recruitment and retention, seeking further initiatives to improve colleague satisfaction.
- Over the past two years we have developed and communicated a clear EDI strategy and we are taking steps towards achieving a fully inclusive culture. Using the results of regular colleague surveys, we are identifying priorities to work on. For example, during the year we introduced a psychological safety course for leaders, and an EDI course raising awareness of bias and prejudice for all colleagues. Over 500 colleagues have enrolled in these training courses, and we continue to publicise these.
- Our industry-leading learning, education and development (LED) platform, the Knowledge Hub, goes from strength to strength, with 267 courses now available.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care;
- availability of vets to perform services; and
- humanisation of pets.

Link to KPIs

Read more on pages **24 to 27**

A B C D E F G H J K L

Link to risks

Read more on pages **60 to 68**

1 2 3 4 6 11 12 13

3 We provide great facilities and equipment

Our strategic objectives

- To ensure all our practices meet the Royal College of Veterinary Surgeons (RCVS) Practice Standards Scheme (PSS) accreditation standards, and to aspire to achieve further RCVS awards.
- To invest in our estate to ensure all our facilities meet excellent standards.
- To expand our network with high-quality facilities.
- To develop new ways to serve our clients and our patients.

Our achievements in the year

- During the year, we introduced our capital allocation plan where we have identified an opportunity to invest in approximately half of our sites and have made a commitment to invest up to £50.0m per annum to bring as many of those sites up to a new minimum "CVS Standard" of quality of practice facilities and equipment as possible.
- During 2023, we completed 21 practice relocations and refurbishments, investing £45.7m in property improvements across our estate.
- We acquired 11 veterinary practices in 2023, with a focus on ensuring acquired practices have high-quality facilities which meet the expectations of a CVS practice for both our colleagues and clients. Where acquired practice facilities do not meet our usual standard, we factor in the costs of improving the practice facilities and equipment to our purchase consideration.

Outlook

- We have committed to invest up to £50.0m per annum over five years on refurbishing or relocating up to half of our existing practices.
- The quality of our existing facilities, and the acquisition of high-quality veterinary practices, is a key component of our growth ambition.
- In June 2023, the RCVS introduced a new Sustainability Award within the Practice Standards Scheme accreditation standards. We have been preparing our practices for participation in this award and look forward to the first inspections taking place.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care;
- availability of vets to perform services; and
- consolidated market.

Link to KPIs

Read more on pages **24 to 27**

A B C D E F G H J K L

Link to risks

Read more on pages **60 to 68**

1 2 3 4 5 6 8 9 11 12 13 14 15

4 We take our responsibilities seriously

Our strategic objectives

- To make our Group as environmentally sustainable as possible.
- To implement the best levels of health and safety in the profession.
- To prioritise the wellbeing of our people.
- To engage with the veterinary profession and support its interests.

Our achievements in the year

- One of our key responsibilities is ensuring the upkeep of high clinical standards within the profession. We engage actively with regulatory bodies and continue to increase the amount of investment in projects aimed to improve the industry through research and development, outreach, and engagement with veterinary professionals.
- CVS has a specially designed health and safety system, the Safety Hub, which has divisionally specific documentation, guidance, check sheets and more. We also have an online health and safety manual. During the year, we rolled out a new mandatory "Control of Substances Hazardous to Health (COSHH)" training course to all colleagues in the business. Our Knowledge Hub learning, education and development platform allows us to roll out such training and monitor completion rates, which are tracked by divisional management.
- We have published our second annual Sustainability Report, providing detailed updates on the Group's strategy and progress towards a more sustainable future. Within this report we have disclosed financially material sustainability-related data under the SASB Standards.
- The wellbeing of our colleagues continues to be a key priority. This year, we have been focusing on the impact of work on our colleagues' wellbeing, with a goal to increase the percentage of colleagues answering that work has an overall positive effect on their wellbeing in a quarterly survey. Since the beginning of the survey in August 2022, we have seen a five percentage point increase in the proportion of positive responses.

Outlook

- We have increased the amount of investment in clinical research and development projects in recent years, with our Clinical Research Awards, both internally and externally, and our internal clinical improvement projects. We are looking forward to receiving the results of some of these projects and identifying ways to implement improvements, both in our clinical work and across the wider industry.
- Our sustainability efforts continue to grow, and with the publication of our annual Sustainability Report and the development of internal monitoring and reporting frameworks which has taken place over the last year, we are looking forward to making a real difference to our stakeholders and environment through the actions we are taking. We have set targets within our Sustainability working groups which will support us to work towards a more sustainable future.

Market drivers

This pillar is impacted by:

- availability of vets to perform services; and
- humanisation of pets.

Link to KPIs

Read more on pages **24 to 27**

A B C D E F G H J K L

Link to risks

Read more on pages **60 to 68**

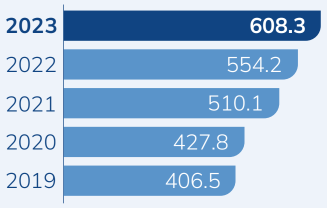
1 2 4 5 6 7 9 10 11 12 13 14 15 16

Financial KPIs

Ensuring we track and monitors the correct KPIs, both financial and non-financial, is key in measuring our success.

A Revenue (£m)

£608.3m
+9.8%



Why it's a KPI

Revenue is a key measure of performance across all divisions of the Group and demonstrates our ability to attract and retain customers.

2023 performance

- Overall revenue has increased by £54.1m.
- Like-for-like sales, including intercompany revenue eliminations, increased by £40.3m (7.3%) as a result of investments in our people, facilities and clinical equipment.
- Acquisitions in the year and the full-year impact of prior year acquisitions generated additional revenue of £13.8m.

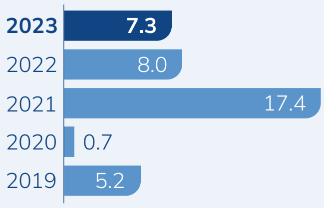
Link to strategy

Read more on pages **22 and 23**

1 2 3 4

B Like-for-like sales (%)

7.3%
-0.7ppt



Why it's a KPI

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. This shows the underlying growth in revenue across all divisions, excluding the impact of acquisitions.

2023 performance

- Like-for-like performance reflects growth in both price and volume compared to the previous year.
- Pricing approach reflects the impact of cost inflation and our focus on delivering high-quality care to our clients and patients.
- Performance has been supported by an increase in clinical staff and our continuing investment in our facilities and equipment.

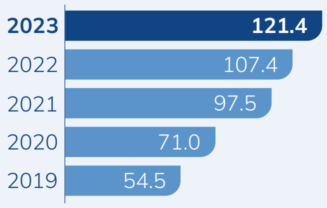
Link to strategy

Read more on pages **22 and 23**

1 2 3 4

C Adjusted EBITDA[1] (£m)

£121.4m
+13.0%



Why it's a KPI

Adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) excludes costs relating to business combinations and exceptional items and assists in understanding the underlying performance of the Group.

2023 performance

- The improvement in adjusted EBITDA reflects the improvement in like-for-like sales and improvement in gross margin before clinical staff costs, as we continue to deliver our purpose to give the best possible care to animals.
- Adjusted EBITDA includes £9.6m (2022: £2.0m) of net Research and development expenditure Tax Credits; offsetting utility inflation, investment in people and to a lessor extent wage inflation.
- This increase has contributed to the improvement in like-for-like adjusted EBITDA of £11.0m, with acquisitions in the year and the full-year impact of prior year acquisitions generating additional EBITDA of £3.0m.

Link to strategy

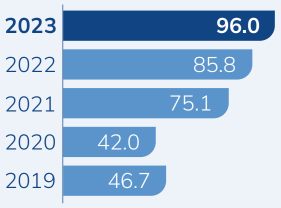
Read more on pages **22 and 23**

1 2 3 4

1. Adjusted financial measures (adjusted EBITDA, adjusted profit before tax and adjusted earnings per share) are defined in note 1 to the financial statements, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 115 and 133.

D Adjusted EPS[1] (pence)

96.0p
+11.9%



Why it's a KPI
This is profit before tax adjusted for: amortisation; costs relating to business combinations; and exceptional items net of the notional tax impact of these, divided by the weighted average number of shares.

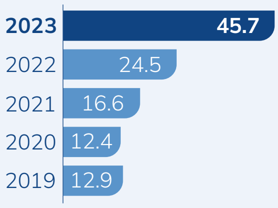
2023 performance
> The increase reflects the increase of £9.9m in the year in adjusted profit before tax[1] partially offset by the increase in the UK rate of corporation tax.

> Issued share capital has increased only by the number of shares required to satisfy the Group's Long-Term Incentive Plan and Save As You Earn schemes.

Link to strategy
Read more on pages **22 and 23**
1 2 3 4

E Total capex (£m)

£45.7m
+86.5%



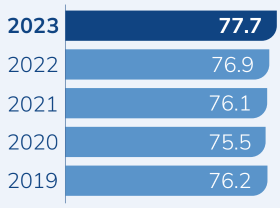
Why it's a KPI
This is the total amount spent by the Group on capital expenditure ("capex"). Capex is incurred on refurbishment and relocation of practice facilities and investment in new equipment and clinical facilities. Investing in our practices and clinical equipment is key to achievement of our strategic goal of providing great facilities and equipment and our Capital Markets Day ambition of investment to deliver additional organic growth in practice facilities and technology.

2023 performance
> Total capex has increased by £21.2m, consisting of a £0.6m increase in maintenance capex, and a £20.6m increase in development capex with the focus on improving client experience and growing our business. Refer to the Financial Review on pages 55 to 59 for further detail.

Link to strategy
Read more on pages **22 and 23**
1 2 3 4

F Gross margin before clinical staff costs (%)

77.7%
+0.8ppt



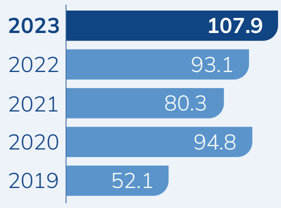
Why it's a KPI
Gross margin represents revenue after deducting the cost of drugs, laboratory fees and cremation fees, and other goods sold or used by the business, expressed as a percentage of total revenue. Gross margin is a KPI because it helps us to monitor and measure our ability to purchase drugs at the best possible price whilst ensuring the highest quality.

2023 performance
> The increase in gross margin is principally due to our focus on providing great clinical care and successfully recruiting more vets and nurses whilst also benefiting from a change in mix.

Link to strategy
Read more on pages **22 and 23**
1 2 3 4

G Cash generated from operations (£m)

£107.9m
+15.9%



Why it's a KPI
Cash generated from operations shows the cash inflows before: payments of taxation and interest; business combinations; purchases of property, plant and equipment and intangible assets; repayment of right-of-use assets; payments of dividends; debt issuance costs; increase/repayment of bank loans; and proceeds from issue of shares. Delivery of increased cash generated from operations allows us to invest in further growth opportunities across our business.

2023 performance
> Cash generated from operations has increased due to the increase in profit for the year offset by adverse working capital, with an increase in inventories of £1.8m, increase in trade and other receivables of £4.6m and a reduction in trade payables of £0.8m.

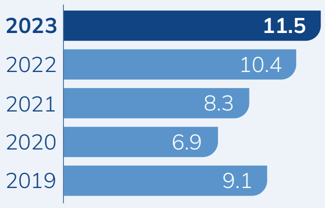
Link to strategy
Read more on pages **22 and 23**
1 2 3 4

Non-financial KPIs

Tracking our non-financial measures allows us to monitor our performance against our core strategic goals.

H Vet vacancy rate (%)

11.5%
+1.1ppt



Why it's a KPI

The vet vacancy rate is calculated as the average number of live vet vacancies divided by the total number of vets by headcount plus vacancies. This shows the average level of vet vacancies for the Group during the period. This links to our strategic goal of being the veterinary company people most want to work for.

2023 performance

> The vet vacancy rate has increased in 2023, as we continue to advertise for a number of new positions to support our growth due to increasing demand for our services.

> During 2023, we on average employed 6.5% more veterinary surgeons than in 2022.

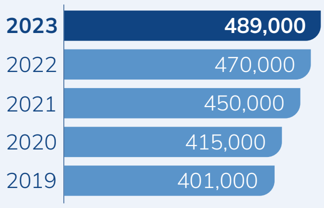
Link to strategy

Read more on pages **22 and 23**

1 2 3 4

I Healthy Pet Club members

489,000
+4.0%



Why it's a KPI

Healthy Pet Club is our preventative care scheme. It provides CVS with a robust and regular revenue stream, as well as improving customer loyalty.

2023 performance

> The number of Healthy Pet Club members has increased by 4.0% in the year.

> This demonstrates the increased humanisation of pets and desire for our clients to invest in their pets' futures through preventative care.

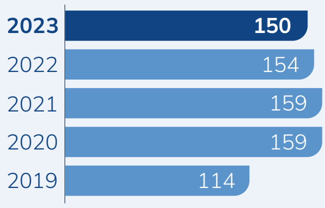
Link to strategy

Read more on pages **22 and 23**

1

J Number of RCVS awards*

150
-2.6%



Why it's a KPI

This shows the number of RCVS Practice Standards Scheme (PSS) Awards across the Group. These awards promote and maintain the highest standards of veterinary care across a range of different criteria including client experience and clinical governance. Monitoring the number of RCVS Awards helps us achieve our strategic goal of taking our responsibilities seriously.

2023 performance

> In June 2023, the RCVS introduced a new award for sustainability. During the year we have been preparing to apply for these awards at many of our sites and are looking forward to welcoming the assessors to our practices.

> Of our 150 PSS Awards, 103 relate to client service, highlighting our focus on exceptional client service.

* During COVID-19 new awards were put on hold. Award assessments resumed in the year and assessors are working through the backlog.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

K Employee NPS[1, 2]

14.6
+204.2%

Why it's a KPI

Employee Net Promoter Score (eNPS) is a measure of how likely our colleagues are to recommend the Group as a place to work as reported on anonymous surveys. Monitoring eNPS shows the level of colleague satisfaction across the Group and helps us to ensure we are a great place to work and have a career.

2023 performance

> We have seen significant improvements in colleague engagement; our focus on colleague recruitment and retention supports us in our vision to be the veterinary company people most want to work for.

> We care about the wellbeing of our colleagues and continue to look for ways to support them in their roles with continued pastoral support roles in practices, and utilising our Wellbeing Champions across the business.

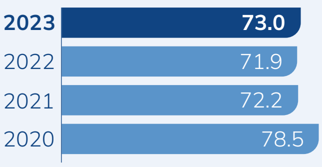
Link to strategy

Read more on pages **22 and 23**

1 2 3 4

L Client NPS[1, 2]

73.0
+1.5%



Why it's a KPI

Client Net Promoter Score (NPS) is a measure of the level of our clients' satisfaction with their experiences with the Group via anonymous reporting of the likelihood that clients would recommend the Group for our services. Monitoring NPS helps us to ensure we recommend and provide the best clinical care every time.

2023 performance

> Client engagement has remained consistent with the prior year, at very high levels.

> We continue to focus on high-quality clinical care and investment in our practice facilities to provide a safe and comfortable environment for our clients and exceptional care of their treasured animals.

Link to strategy

Read more on pages 22 and 23

1 3 4

1. These non-financial KPIs align with our strategy; however, data is only available for four years.
2. Net Promoter Score measures customer and colleague experience using the answer to a key question, "how likely is it that you would recommend CVS?", with a 0–10 scale. Responses are analysed using a weighted calculation to yield a score between a low of -100 to a high of 100.

Continuing to deliver value for our stakeholders

Section 172(1) Statement

Our Section 172(1) Statement sets out how the Board has given regard to the matters set out in Sections 172(1)(a)–(f) of the Companies Act 2006 (s172) in performing its duties over the course of the year. The Company's purpose, vision and strategy are reviewed and discussed annually by the Board to ensure that these continue to promote the long-term success of the Company for the benefit of its members as a whole, whilst also having regard to the matters set out in s172.

Purpose, vision and strategy

Our purpose is to give the best possible care to animals and our vision is to be the veterinary company people most want to work for. This purpose and vision are in alignment with the long-term interests of our customers, our colleagues, and other stakeholders in the delivery of high-quality, sustainable clinical care for animals.

Stakeholder engagement

The Board has identified six key stakeholders who are essential to the delivery of the Company's strategy and long-term success, details of which are set out in the following pages. Our colleagues, customers, shareholders, community, industry bodies and suppliers are at the heart of what we do; it is of the highest importance to us that we engage with all of our stakeholders meaningfully to inform decision making and ensure that we provide value in all areas of our business. We promote an ongoing dialogue with all of our stakeholders to enable us to act on feedback and foster a culture of honesty and integrity.

Consideration of s172 factors by the Board

The following table sets out some key decisions taken by the Board during the year and how s172 factors and engagement with stakeholders have been discussed and taken into consideration.

The Board has a duty to act for the benefit of its members as a whole whilst having regard to the matters set out s172:

a. the likely consequences of any decision in the long term;

b. the interests of the Company's employees;

c. the need to foster the Company's business relationships with suppliers, customers and others;

d. the impact of the Company's operations on the community and the environment;

e. the desirability of the Company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the Company.

Board decision	s172 considerations
Dividend The Board approved a final dividend of 7.0p per Ordinary share of the Company for the year ended 30 June 2022. **Links to s172: a, c and f**	The Board considered the Company's capital position and performance and agreed the continuation of its progressive dividend policy which is based on growing the dividend per Ordinary share over time. The Board also considered whether it was appropriate to return capital to shareholders through the use of special dividends and share buybacks, but taking into consideration the long-term investment needs of the business, the Board decided to reinvest capital in supporting delivery of long-term growth.
Appointment of additional Non-Executive Director During the course of the year, the Board conducted a search for an additional Non-Executive Director to join the Board, increasing the independence of the Board. **Links to s172: a, e and f**	The Board considered the independence of the Board along with female representation and in the year conducted a search for an additional Non-Executive Director. After a search and robust interview process, Joanne Shaw was appointed from 1 July 2023. In making this appointment, the Board has recognised the requirements of stakeholders on ensuring a diverse Board with increased clinical expertise.
Australian market entry During the course of the year, the Board reviewed the opportunity to enter a new territory and approved the entry of the Australia veterinary services market. **Links to s172: a, b and c**	The Board considered the entry into a new market as a further growth opportunity for the Group. After the initial identification of Germany, France, Spain and Australia as markets to review, it was determined Australia to be the most attractive market and approved the acquisition of the first tranche of high-quality small animal veterinary practices. Subsequent to the year end, the Group completed a number of acquisitions of veterinary practices in Australia.
Re-finance bank facilities The Board approved entering new bank facilities that run to February 2027, whilst also increasing the facilities to £350.0m from £170.0m. **Links to s172: a, b and d**	The Board approved entering into a new bank facility in February 2023 for a four-year term. The Board considered the growth opportunities available with its capital allocation plans and agreed that by having the capital available, it could continue its refurbishment and relocation plan, benefiting its employees and the care for animals, whilst providing growth for the longer term through entering a new market.

Our colleagues

Why we engage
Our vision is to be the veterinary company people most want to work for. By engaging with our colleagues, we can understand their motivations and work with them to maximise colleague engagement and welfare. Our focus is continuing to provide our colleagues with the flexibility and support they need to develop their careers.

How we engage
We issue Group-wide correspondence in the form of weekly emails, a monthly magazine and regular live video briefings, which are issued in English and Dutch with subtitles, to improve accessibility. We host an annual conference where clinical colleagues from across our divisions can engage with other members of the business.

We actively monitor our colleague satisfaction via our employee Net Promoter Score (eNPS), which is updated monthly. The score is broken down on a divisional basis, and business leaders seek feedback in response to changes in the score.

Although much of our day-to-day engagement with colleagues is delegated to local teams, a Non-Executive Director regularly meets with our colleagues to discuss key matters.

Outcomes
During the year, we introduced a zero-tolerance policy for abusive behaviour towards colleagues, other customers or animals, under which colleagues are supported to deal with abusive behaviour.

We introduced a range of new benefits and policies to support our colleagues, acting on feedback to introduce policies relating to significant health-related and life events.

Our colleague eNPS score increased to 14.6 from 4.8 in 2022.

We have launched new training packages aimed at increasing colleague wellbeing in the workplace, including a "What matters to you?" framework, psychological safety training and additional support for leaders to improve their impact on their colleagues' wellbeing.

Our patients and their owners (customers)

Why we engage
Customers rightly expect the highest quality care for their animals. Our model enables us to deliver high clinical standards and quality facilities.

We engage with our customers to ensure we are meeting their high expectations, and to identify opportunities to improve client service.

How we engage
Alongside contact within our practices, we regularly communicate with our customers through a variety of channels such as social media, email and direct mail, promoting animal wellbeing in addition to discounts and benefits.

We seek feedback from customers enabling us to measure our client Net Promoter Score.

Our practice teams engage most closely with customers, and these colleagues are encouraged to provide regional and central management with feedback on key issues identified in conversations during consultations and other in-practice interactions.

Outcomes
Client NPS has increased to 73.0 from 71.9 in 2022.

We are undertaking a programme of investment in our veterinary practices, including changes designed to improve the experience for customers.

In order to support our customers with pressures on household incomes we offer a comprehensive preventative healthcare scheme, the Healthy Pet Club, which also includes discounts on various products and services. We have also introduced measures to support our customers with unexpected vet bills.

Section 172(1) statement and stakeholder engagement continued

Our investors (shareholders)

Why we engage
We actively engage with our shareholders, highlighting our investment case and communicating our future plans, to ensure the Group's strategy is aligned to the interests of its shareholders.

Our shareholders hold us accountable for doing the right thing, and by engaging with them we can understand and act on their expectations, enabling us to drive the business forward, deliver sustainable growth in shareholder returns and attract additional investors to support the business.

How we engage
We engage with our shareholders through our Annual General Meeting (AGM), broker conferences, one-to-one meetings and investor roadshows. We have an ongoing dialogue with our shareholders and value their feedback, which is regularly discussed at Board meetings.

We keep the investor section of our website up to date to provide timely updates about CVS and its activities.

Individual shareholders are encouraged to contact Directors on all matters relating to governance and strategy via the Company Secretary. Our Executive Directors take part in live webcasts of our interim and preliminary results announcements, including live question and answer sessions with analysts.

Outcomes
At the 2022 AGM, 100.0% of resolutions were passed with all resolutions achieving over 90.0% votes for, other than the re-appointment of Richard Gray which achieved 80.1%.

In November 2022, we hosted a Capital Markets Day in the north of England. During this event we outlined the key elements behind our ambition to double EBITDA over five years and provided attendees with an opportunity to tour two practices and take part in interactive demonstrations.

During the year, we paid £5.0m in dividends relating to the year ended 30 June 2022, representing 7.0p per share. In 2023, we are proposing a dividend of 7.5p per share.

Our communities

Why we engage
We regularly engage with local communities in which our practices operate, communities of pet owners and animal carers, and the communities to which our colleagues belong, in order to understand how we can support them.

By engaging with our communities, we can find ways to contribute positively to the environments in which we work, promote employment satisfaction within our operations and support our communities to achieve common goals, such as the advancement of clinical care.

How we engage
Our practices engage within their local communities, providing key care to animals for local charities or individuals who identify animals in need.

We have a charity of the year, which is chosen by our colleagues; in 2022–23 this was Pet Blood Bank. Throughout the year we held regular fundraising events from bake sales in local practices to Group-wide promoted events. In 2023–24 we look forward to supporting Guide Dogs, which has been chosen by our colleagues.

We are active within the veterinary community, engaging with industry bodies on topical subjects, and supporting veterinary professionals to advance the profession, for example through our Clinical Research Awards. We also support charities, such as Vetlife, which support individuals and their families in the veterinary community.

Outcomes
Our colleagues raised nearly £19,000 in 2023 for our charity of the year, Pet Blood Bank, which was matched by CVS in a donation to Vetlife.

We are piloting a student outreach Equity, Diversity and Inclusion initiative. This project is about creating equity for all students regardless of their background who might like a career in our industry, raising awareness of the opportunities the veterinary industry offers and encouraging students to take up a veterinary career.

Our profession (Industry bodies)

Why we engage

We actively engage with our industry bodies, including the Royal College of Veterinary Surgeons (RCVS), the British Veterinary Association (BVA) and the British Veterinary Nurses Association (BVNA), to promote innovation and advancement within the veterinary industry.

How we engage

We engage with our regulators over a wide range of issues.

Where appropriate, we hold meetings with industry bodies, such as the RCVS, BVA, BVNA and Veterinary Defence Society, to discuss key issues and share initiatives and improvements across the industry.

Appropriate colleagues attend update calls and webinars with regulatory bodies to understand upcoming regulatory changes, such as the implementation of the addition of ESG measures to the RCVS Practice Standards Scheme (PSS) which began in 2023.

Outcomes

In June 2023, we again published our annual Quality Improvement report. An organisation that is committed to quality improvement should be prepared to share its results, celebrate progress and recognise success in learning, which is what we aim to achieve with this report.

We launched our clinical improvement projects to support our colleagues and also drive continuous improvement within the industry as a whole.

We plan to put forward a number of our practices to be assessed for the new RCVS Sustainability Award.

Our suppliers

Why we engage

We are proud to have long-term relationships with our wholesalers and manufacturers, regularly communicating with them to promote positive relationships. Through these relationships we can generate consistent custom for our suppliers, in return achieving mutually favourable terms on purchases.

We engage with our suppliers to deliver ongoing benefits to our businesses, collaboratively finding operational and sustainable improvements and delivering improved value.

We have shared sustainability goals with some of our key suppliers. We recognise that through working together we can reduce our impact on the environment.

How we engage

We regularly communicate with our suppliers to review contract terms and identify mutually beneficial opportunities.

Our suppliers are invited to attend our annual conference to understand our business, engage with other key stakeholders and ask any questions they may have.

We attend industry conferences and events which are also attended by our existing suppliers, as well as other suppliers that we may work with in the future. We actively engage at these events to understand where our goals might be aligned to those of suppliers.

Outcomes

During the year, we completed a full review of our supplier policies, including due diligence, code of conduct and labour force, with the engagement of existing suppliers. During this process we aimed to add more rigour to the due diligence process to ensure long-term relationships can be maintained with suppliers and added additional questions about sustainability and environmental impact.

We continue to nurture our strong working relationships with some of our key suppliers, including attendance at conferences, inviting suppliers to host stands at our annual colleague conference, and inviting suppliers to be involved in charity initiatives such as our annual CVS Team Distance Challenge, which four of our suppliers were involved with including sponsorship.

Sustainability is a key priority for both us and many of our suppliers, and we are working with a number of suppliers to implement initiatives including trials of reusable equipment, improved waste disposal, and promoting bulk buying and scheduled orders to reduce freight emissions.

Driving change for the future

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

Our sustainable future and therefore our ESG strategy is built upon our need to care about:

The Board has identified seven key stakeholders who are essential to the delivery of the Company's strategy and long-term success. Alongside building positive working relationships with these stakeholders, we care about driving positive change, behaviours and actions within these key stakeholder groups and the environment.

Our patients and their owners	Our colleagues	Our communities	Our profession (Industry bodies)	Our investors	Our suppliers	Our environment
Our customers are at the heart of what we do – they are the reason our Company exists	Our colleagues make CVS – without them we could not run our Company	Our communities give us a social licence to operate, which is required to be a trusted veterinary services provider	Our industry bodies help set the course of the profession, train veterinary professionals of the future, and give us unique first-hand insight into environmental and social issues	Our investors provide us with the capital we need to run our Company and we are focused on delivering enhanced shareholder value	Our suppliers provide us the materials we need to provide great clinical care	Our long-term success depends on the sustainable use of the planet's resources

"Our goal is to build a more sustainable business, driving increased standards and a better working environment for our colleagues."

Richard Fairman
Chief Executive Officer

1. Our patients and their owners (customers)

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
All of the animals that we treat and their owners	Our customers are at the heart of what we do – they are the reason our Company exists	> Access to end-to-end care through our first-opinion practices, our specialist-led, multi-disciplinary referral hospitals, our diagnostic laboratories and, at the end of an animal's life, our compassionate cremation services > Out-of-hours services > Consistently high clinical standards > The prioritisation of animal welfare > Regular check-ups and routine treatments (e.g. vaccines, flea treatments and worming) > High standards of pain management, particularly in surgical patients	> A healthy pet population > Outstanding clinical expertise > The best possible service for pet owners and their animals	> Our client Net Promoter Score has increased to +73.0 (2022: +71.9) > Membership of our preventative healthcare scheme, Healthy Pet Club, has increased to 489,000 (2022: 470,000) > Patient Care Index, our measure of quality within our practices, has decreased by 1.5ppts

2. Our colleagues

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
Everyone who is directly employed by CVS	Our colleagues make CVS – without them we could not run our Company	> Supporting their wellbeing > Creating an equitable, diverse and inclusive working environment > Provision of career progression, learning and development opportunities including continued professional development (CPD) and access to top-tier clinical expertise > Maintenance of high standards of clinical governance > Having a culture of open dialogue and learning > Offering competitive rewards and benefits > Offering an industry-leading graduate programme	> Becoming the veterinary company people most want to work for > Fulfilled vets and nurses who have the equipment and support to provide the best possible care for animals > Equal opportunities for all colleagues > A healthy and safe workspace > Having the best Learning, Education and Development (LED) platform in the industry	> Employee Net Promoter Score has increased to +14.6 (2022: +4.8) > The average number of colleagues we employ has increased by 7.7% > Expenditure on training and development per employee has increased by 8.0% > Female representation on the Board is 25.0% and Executive Committee is 28.6% > Female representation in all other roles is 87.0% > Ethnic minority representation on the Board is 12.5% and Executive Committee is 14.3% > Ethnic minority representation in all other roles is 2.8%

3. Our communities

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
Those who live in areas where we have practices and sites	Our communities give us a social licence to operate, which is required to be a trusted veterinary services provider	> Focus on quality improvement including antimicrobial stewardship > Outreach to schools > Donations to relevant charities	> Reduce inappropriate or unnecessary use of antimicrobials > Increasing the socio-economic diversity of qualified veterinary surgeons and nurses in CVS and the wider profession > Raising money for relevant charities	> Prescriptions of highest priority, critically important antibiotics have decreased by 20% over the past two years > In 2023, we donated £19,000 to Pet Blood Bank which was matched by the Group in a donation to Vetlife

4. Our profession (Industry bodies)

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
The veterinary profession, colleges, associations and schools	Our industry bodies help set the course of the profession, train veterinary professionals of the future, and give us unique first-hand insight into environmental and social issues	> Regular liaison with industry bodies including the Royal College of Veterinary Surgeons, British Veterinary Association, British Veterinary Nursing Association, and more > Support of veterinary schools with intra-mural studies and extra-mural studies	> Investment in the veterinary profession > Raising standards across the industry > Increasing the numbers of high flying graduate veterinary professionals	> Involvement in setting strategy and policy, collaborative projects, meetings and events > Tracking the numbers of veterinary and nurse students we have supported with training

5. Our investors (shareholders)

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
Individuals or organisations which invest in CVS through shares	Investors provide us with the capital we need to run our Company	> Deliver sustained financial performance > Have open dialogue and communication with our shareholders > Adhere with reporting requirements including Streamlined Energy and Carbon Reporting (SECR) > Link shareholder returns and targets to Long-Term Incentive Plan (LTIP) awards for Executive Directors > Link annual bonus targets for Executive Committee members to non-financial measures including sustainability	> Sustainable shareholder value and long-term growth > Shareholder consultation on key issues raised through AGM voting or through regular meetings > Shareholders have access to senior management and receive appropriate communications	> At the year end the Company's market capitalisation was £1.4bn (1,970p per share), compared to £1.2bn (1,656p per share) at the previous year end > Attendance at broker conferences > Engagement with investors

6. Our suppliers

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
Organisations that provide us products and services	Without our suppliers, we would not have the materials we need to provide great clinical care	> Responsible sourcing, including sustainable packaging > Introduction of greener deliveries > Recycling of packaging > Support on tackling new illnesses and diseases	> Collaborative initiatives that reduce plastic, packaging and delivery emissions	> Work with our suppliers to reduce waste entering via our supply chain and create environmental supplier standards to set out our expectations and promote good environmental practice from our partners > Reduce the volume of products we use that generate large amounts of waste

7. Our environment

Who are they?	Why do they matter to us?	What do they expect from us?	What are the desired outcomes?	What are our KPIs?
Our natural environment	Our long-term success depends on the sustainable use of the planet's resources	> Responsible sourcing, including sustainable packaging > Waste reduction initiatives and the analysis of waste collection data > Use of 100% renewable electricity in veterinary practices > Introduction of a greener vehicle fleet	> Monitoring and reducing our environmental impact > Reduced waste > Reduced emissions > Reduced carbon footprint > Partnership with National Trust and tree-planting initiative > Launch of CVS Print Hub to reduce environmental impact of printing > Reduction in Vet Direct catalogue printing	> Our energy consumption has fallen by 12.3% and our total emissions has fallen by 11.1% > 577 tonnes of medical waste and 1,090 tonnes of non-medical waste were produced in 2023 (590 and 1,009 in 2022) > In 2023, 36.1% of medical waste was disposed via landfill (2022: 32.8%), 33.1% via incineration (2022: 33.0%) and 30.8% via reuse as refuse derived fuel (2022: 34.2%)

We developed our ESG strategy which involved at the outset forming executive-led working groups to focus on six programmes that are most important to our stakeholders:

> Energy and Carbon;
> Waste;
> One Health;
> People Development;
> Wellbeing; and
> Equity, Diversity and Inclusion.

For more information on our work programmes, please see our 2023 Sustainability Report

Our Energy and Carbon Programme

Our challenge
Our long-term success depends on the sustainable use of the planet's resources.

Climate crisis
Global greenhouse gas (GHG) emissions are now at their highest levels in history. Climate change is already affecting the way we live today through extreme weather and rising temperatures and sea levels. A 1.5°C temperature rise also puts up to 30% of wildlife at risk of extinction.

How this relates to CVS
Climate change has the potential to impact our business in a number of ways, including extreme weather and water scarcity. Reducing our emissions helps to minimise these risks and builds trust with our stakeholders – including clients, colleagues and communities. It may also help to drive efficiencies and cost savings in the longer term, making our business more cost effective.

How we are responding
Caring for animals goes hand in hand with caring for the natural environment. We care about doing our job in a way that is sustainable and that does not compromise the natural environment. Our aim is to minimise our impact on the planet in a way that supports and develops our services and clinical expertise.

Our approach
As a leading UK veterinary company, we know we must play our part.

We are investing in a range of interventions to conserve energy, increase energy efficiency and reduce the carbon footprint of our own operations and those within our wider supply chain.

Our Energy and Carbon Reduction workstreams have targeted three specific areas:

1. user awareness and consumption management;
2. enhancing construction, maintenance and property leasing activities; and
3. capital expenditure in energy saving.

As part of our adoption of Streamlined Energy and Carbon Reporting (SECR), we have undertaken work to reduce our Scope 1, 2 and 3 emissions, as well as broadening the extent of our reporting to include details of greenhouse gas emissions (including anaesthetics which are not covered by SECR).

Our Waste Programme

Our challenge
Veterinary medicine generates substantial amounts of environmental waste which includes medical and non-medical waste, for example packaging. Managing the waste has an environmental impact depending on whether it is recycled, goes to landfill or is incinerated. This impact is reduced if it is managed well.

Our approach
Our approach is to Reduce, Reuse and Recycle our waste wherever possible. These strands can be broken down further into the following three key areas.

Reduce
> Optimise waste segregation to divert waste to a suitable stream with the lowest carbon footprint.
> Provide sites with accessible waste data to allow them to monitor and track their progress.
> Work with our suppliers to reduce waste entering via our supply chain and create environmental supplier standards to set out our expectations and promote good environmental practice from our partners.
> Reduce the volume of products we use that generate large amounts of waste.
> Replace with products that generate less waste whilst maintaining high clinical standards.

Reuse
> Identify and evaluate reusable product alternatives.
> Avoid single-use items where possible.

Recycle
> Increase the amount of waste disposed of via standard dry, mixed recycling through improved waste segregation.
> Identify and trial dedicated schemes for harder to recycle items such as soft plastics.
> Work with suppliers to create and share resources to promote recycling of packaging where possible.

Our One Health Programme

Our challenge

To protect the environment and public health while balancing our primary responsibility for animal welfare, we are focused on the risks caused by:

Antimicrobial resistance – Reducing misuse and overuse of antimicrobials is an important area for continuous improvement in the battle against antimicrobial resistance (AMR), to reduce the development of drug resistant pathogens. The inappropriate disposal of antimicrobials also risks environmental contamination, which can contribute to AMR.

Parasiticides – The use and disposal of medicines that could get into the environment. Some of our products such as topical parasiticides, whilst important for animal health and welfare, are potentially damaging to our environment. Where possible, we want to balance this risk and are systematically looking at how we can minimise our environmental impact whilst maintaining animal welfare.

Anaesthetic gases – The use of anaesthetic gases that could contribute to global warming through depletion of the ozone layer. Our aim is to continue to meet the physiological needs of our patients undergoing anaesthesia and avoid the overdelivery of anaesthetic gases during their procedure, which will act to reduce our carbon footprint.

Our approach

We use a data driven approach where we seek to understand the problem and then respond to it. Where we can measure the effects of our interventions, that's exactly what we do.

Whether or not we have data, we use feedback to guide the repeated quality improvement process. Through integrating our experience with data collection and analysis, we understand our progress and enable demonstrable improvement.

We empower our people to make change locally. By giving people closest to the issues the resources they need we provide support that enables local change driven and achieved by all our practice teams.

Our People Development Programme

Our challenge

Our long-term success in providing the highest standards of veterinary care in part depends on the capabilities of our colleagues.

Why it matters

Significant advances continue to be made in veterinary medicine. These include: a greater emphasis on preventative programmes; more effective diagnostic tools; the availability of minimally invasive treatments; the more selective use of antimicrobials; and improved cancer treatments.

How this relates to CVS

Our purpose is to give the best possible care to animals by providing the highest standards of progressive veterinary medicine. To achieve this we need to offer our colleagues high-quality learning opportunities, alongside excellent facilities and resources.

How we are responding

Our vision is to be the veterinary company people most want to work for. We aim to attract, develop and retain the very best people. We want to be a great place to work and have a long-term fulfilling career. So we have developed an environment which supports learning, education and development (LED), ensures we collaborate and share best practice, and gives access to top tier clinical expertise.

Our approach

Our People Development strategy has three objectives:

1. to develop our people in their current roles, including career pathways and preparation for future roles;
2. to build our relationships with major stakeholders, to enhance our recruitment pipeline and raise the standard of new colleagues; and
3. to support broader society with community outreach, school engagement and client education.

Our workstreams fall under four key pillars:

1. to deliver industry-leading training;
2. to offer the best LED in the profession;
3. to have the best leaders in our business; and
4. to engage with the veterinary profession and support its interests.

1. 2019-2021, RCVS Workforce Summit 2021
2. https://www.rcvs.org.uk/news-and-views/publications/rcvs-diversity-and-inclusion-group-strategy/
3. https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/bulletins/ethnicgroupenglandandwales/census2021#:~:text=the%20%22Asian%2C%20or%20Asian%20British,was%2081.0%25%20(45.8%20million)
4. https://commonslibrary.parliament.uk/research-briefings/cbp-7540/#:~:text=There%20were%209.58%20million%20people,598%2C000%20from%20the%20year%20before

Our Wellbeing Programme

Our challenge

Workforce shortages – Workforce shortages are a key challenge. There has been a decline in people joining the UK veterinary profession in recent years[1]. The issue has been exacerbated by a drop in new EU registrants post Brexit and an increase in demand for vets, driven by a surge in pet ownership.

In RCVS's recent workforce survey, 9% stated they intended to leave the profession within five years, for reasons other than retirement. The most common reasons were poor work–life balance (60%), not feeling rewarded or valued (55%), chronic stress (49%), long or unsocial hours (48%), and pay (44%)[1].

How this relates to CVS

Our purpose is to give the best possible care to animals and our vision is to be the veterinary company people most want to work for. We aim to attract, develop and retain the best people and to create a healthy, motivated and stable workforce in the long term.

How we are responding

We take our responsibilities seriously and continue to prioritise the wellbeing of our people. We are taking significant steps to reduce work-based stress, create a healthy and safe workspace, support good mental health and wellbeing, and protect our colleagues. We aim to have fulfilled vets and nurses who have both the resources and support they need.

Our approach

During the year the Group employed on average 8,520 colleagues, including 2,215 vets and 3,125 nurses. Their continued efforts help us to deliver our purpose of providing the best possible care to animals.

As a leading UK veterinary company, we take our responsibilities seriously in continually bettering conditions for the colleagues who work for us.

We are investing in a range of initiatives and programmes to protect colleagues and increase wellbeing in the workplace.

Our wellbeing workstreams focus on three specific areas:

1. *individual:* providing support and resources to enable individual colleagues to look after their own wellbeing;
2. *leadership:* supplying leaders with the relevant tools, training and role modelling to enable them to support the wellbeing of their teams; and
3. *community: fostering wellbeing across our teams using our network, activities and events.*

Our Equity, Diversity and Inclusion (EDI) Programme

Our challenge

Equity, Diversity and Inclusion (EDI) is important for the long-term success of our Group.

Diversity in the veterinary profession

Only 3.5% of the UK veterinary profession are Black, Asian or of Ethnic Minority backgrounds[2], despite 19% of the working age UK population identifying as such[3]. There is under-representation of people with disabilities. 6.7% of vets and 7.4%[2] of nurses identify as having a disability. In the working age population this is 23%[4]. The sector needs to improve its diversity. The veterinary sector is highly feminised with 58% of vets, 97% of nurses[2], and the majority of receptionists being female. This influences the profession's gender pay gap. We want to close this gap by ensuring women have fulfilling careers and equal opportunities to succeed at the highest level.

How this relates to CVS

To increase the levels of diversity we first need to ensure that we are fostering an inclusive and equitable workplace environment.

Continuous clinical improvement relies on cultivating a "just culture" where learning is continuous, diverse perspectives are invited, challenges are welcomed and people feel psychologically safe to speak up.

There is a correlation between colleagues feeling included and how positive they feel about our Company. This reduces attrition and will improve the sustainability of our workforce.

Our approach

Nurturing an inclusive culture takes conscious effort over time. So we have set out a ten-year plan:

Year 1: Awareness (2021–22);

Year 2: Foundational understanding (2022–23);

Years 3–5: Growing competence (2023–26); and

Years 5–10: Inclusion fluency.

During our first "Awareness" year we increased our organisation's self-knowledge and set up EDI structures. We established five Colleague EDI Groups (ability and neurodiversity, ethnicity, gender, LGBTQ+ and social mobility), introduced systems to capture diversity data, and started a survey to inform our EDI approach.

Last year's "Foundational understanding" phase has built a good level of EDI understanding and includes actions within all six of our EDI strategy pillars:

1. understanding our workforce;
2. inclusive culture;
3. inclusive leadership;
4. addressing inequalities and meeting diverse needs;
5. inclusive recruitment; and
6. developing diverse talent.

Sustainability continued

Looking ahead

As we look ahead to 2024 we have some clear priorities outlined which will enable the continued delivery of our sustainability focus:

<table>
<tr><th>Programme</th><th>The Outcome – 2023</th><th>Our target – 2024 and beyond</th><th>E S G</th></tr>
<tr><td>Our Energy & Carbon Programme</td><td>Reduced our business energy use by 12.3%.

Reduced our operational carbon footprint by 11.1%.</td><td>Reduce our business energy use by 5%.

Reduce our operational carbon footprint by 3%.</td><td>E

E</td></tr>
<tr><td>Our Waste Programme</td><td>In the last year we achieved an 1.85% reduction in our annual medical waste that is incinerated. This is the category of waste that has the highest environmental impact.

We also reduced our total volume of medical waste by 2.2% in the twelve-month period.</td><td>We aim to reduce our medical waste by a further 5%.

We will also aim to reduce the medical waste that is incinerated by 5%.</td><td>E

E</td></tr>
<tr><td>Our One Health Programme</td><td>CVS has seen a consistent decrease of 20% in the prescriptions of Highest Priority Critically Important Antibiotics (HPCIAs) by all companion animal practices in the last twenty-four months.

The introduction of the practice-specific dashboard has also encouraged practices to pursue their own individual improvement projects.

We have eliminated the use of Nitrous Oxide in practices.</td><td>Our aim is to promote responsible use of antibiotics and reduce their use in a way that is consistent with animal welfare.

To understand better the impact of topical parasiticides on the environment and insect life in particular.

To end the use of Nitrous Oxide, which has been achieved at the end of the period, and to reduce the overuse of commonly used anaesthetic gases.</td><td>E S

E S

E S</td></tr>
<tr><td>Our People Development Programme</td><td>Reduced attrition.

Reduced vet attrition.

Increased the average number of vets employed by 6.5% (against a 1% market growth).

Achieved 200 graduate vets employed (20-25% of the available UK pool).

Achieved an improvement in our Employee Net Promoter Score (eNPS).</td><td>Increase our eNPS score by 5%.

Reduce attrition rates by 5%.</td><td>S

S</td></tr>
<tr><td>Our Wellbeing Programme</td><td>Overall, our eNPS reflects the number of people who would recommend us as a good place to work. During the last twelve months our eNPS has increased to +14.6 from +4.8. We have also:
increased the number of colleagues saying our wellbeing resources are relevant and useful – from 63.0% in August 2022 to 66.4% in June 2023; and
increased the number of colleagues saying work has had an overall positive effect on their wellbeing – from 40.5% in August 2022 to 45.4% in June 2023.</td><td>Ensure that our colleagues are having regular check-ins where their wellbeing is a key topic of conversation.

Increase the % of colleagues saying we provide relevant and helpful wellbeing resources to 70%.

Ensure that our colleagues are having regular team meetings.</td><td>S

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<tr><td>Our Equity, Diversity and Inclusion (EDI) Programme</td><td>We have embedded Foundational Understanding of EDI through; policy implementation, supportive training resources, and initiatives that address the needs of under-represented groups.

The proportion of colleagues reporting they feel equally included at work has risen from 75% (Culture Survey, Feb 2022) to 83.6% (Jun 2023).

The proportion of colleagues reporting they feel safe to present themselves at work, saw a rise from 73% (Feb 2022) to 84.6% (Jun 2023) following the launch of our Psychological Safety training (Aug 2022).

Steps we've made have contributed to an increased eNPS score and a reduction in colleague attrition levels.</td><td>Within three years of the launch of our EDI programme in June 2022, our targets are to:
Increase the % of colleagues saying they feel equally included at work to 85%.
Attain the below workforce data completion rates:
<table>
<tr><th>Workforce data completion rates</th><th>Target 3 years</th></tr>
<tr><td>Ethnicity</td><td>80%</td></tr>
<tr><td>Sexual Orientation</td><td>65%</td></tr>
<tr><td>Disability</td><td>65%</td></tr>
<tr><td>Gender identity</td><td>50%</td></tr>
<tr><td>Social Mobility</td><td>30%</td></tr>
</table>
Achieve the following workforce representation:
<table>
<tr><th>Workforce representation Goals</th><th>Veterinary sector benchmark (RCVS 2021)</th><th>Within 3 years</th></tr>
<tr><td>Ethnic Diversity (Black, Asian, & other Ethnic Minority backgrounds</td><td>Vets 3.5%
Nurses 1.9%</td><td>Vets: 4%
Nurses: 2.4%
Other: 4%
Overall: 4%</td></tr>
<tr><td>Disability representation</td><td>Vets 6.7%
Nurses 5.2%</td><td>Vets: 6%
Nurses: 7%
Other: 6.5%
Overall: 6.5%</td></tr>
</table></td><td>All S</td></tr>
</table>

A focus on

Rosemullion Veterinary Hospital in Falmouth recognised for outstanding work

Our Rosemullion Veterinary Practice in Falmouth has achieved six "outstanding" accreditations from the Royal College of Veterinary Surgeons (RCVS) in its Practice Standards Scheme Awards (PSS).

Rosemullion Veterinary Hospital received "outstanding" accreditations for its hard work and exceptional standards in patient consultation service, diagnostic service, emergency and critical care service, in-patient service, client service, and team and professional responsibilities.

Launched in 2015, the RCVS Practice Standards Scheme Awards is a voluntary scheme, enabling vets to accredit their practices in a range of specific areas. It is done via an external inspection and assessment by an inspector from the Royal College of Veterinary Surgeons which normally lasts two days. The practice is awarded points against set criteria and the number of points accumulated determines if they achieve a "good" or "outstanding" rating. It is unusual for a practice to apply for so many awards at the same time and few achieve all six awards.

Susan Hawkins, Practice Manager at Rosemullion Veterinary Hospital, said:

"I'm exceptionally proud of our 80 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."

In July 2023, the RCVS issued a further award for sustainability, so practices will have the opportunity to achieve up to seven awards in the future.

Preparing for the potential impacts of climate change

Caring for animals goes hand in hand with caring for the natural environment, so climate-related risks and opportunities are a key factor of consideration in the short, medium and long-term strategic planning of the Group. Our aim is to minimise our impact on the planet in a way that supports and develops our services and clinical expertise.

In 2022, we applied the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for the first time, to begin the journey of understanding our impact on the environment. This year, we developed our climate-related scenario analysis, gathering an understanding of the potential climate scenarios in our future, the impacts of these on our business, and the strategic steps we can take to ensure we are prepared.

Over the following pages we have applied the TCFD recommendations, including:

> scenario analysis which includes a global warming scenario as well as a net zero scenario;

> setting targets for short, medium and long-term to lessen harmful environmental impacts of our business and increase environmentally friendly activities; and

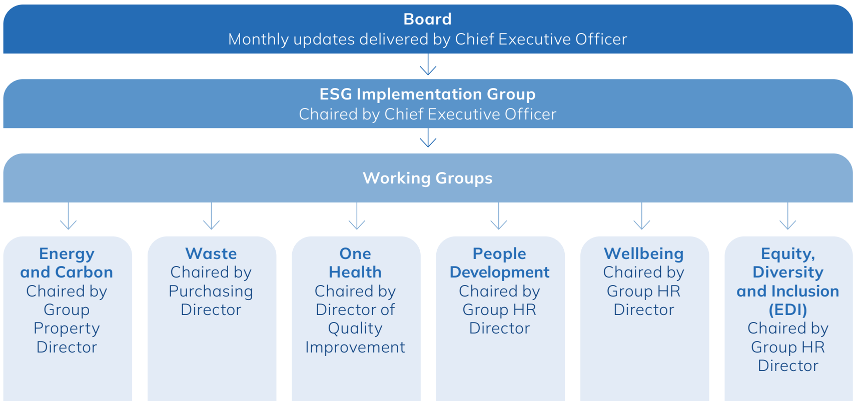
> reviewing and improving our processes around monitoring our environmental impact and managing climate-related risks.

To ensure open communication with stakeholders on progress, we have chosen to early adopt the disclosure recommendations of the TCFD in this Annual Report. In the table below, we have set out our progress against the eleven recommended disclosures.

The Group has included climate-related financial disclosures as required by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (SI 2022/31).

Governance

Disclosure requirement	Our progress	Find out more
Describe the Board's oversight of climate-related risks and opportunities	The Board has overall responsibility for ensuring risk is appropriately managed across the Group, including risks relating to Environmental, Social and Governance (ESG) matters and climate change. The composition of the Board, and the members' expertise, enables substantial coverage across risk management, governance & legal, operations, technological and strategy, as set out on pages 70 and 71. This ensures a balanced and extensive consideration to climate-related risks and opportunities that impact the Group. In 2021, the Group formed an ESG Implementation Group, chaired by the Chief Executive Officer (CEO), to assist the Board in identifying the risks and opportunities arising as a result of climate change and sustainability. Addressing the climate challenge is a key part of our wider ESG strategy. Sustainability and ESG, including climate-related issues, are discussed as a standing agenda item in Board meetings, with the CEO presenting the activities of the ESG Implementation Group with key findings and metrics reviewed against set criteria and targets. In 2023 there were 11 Board meetings. The Group has increased the volume and regularity of its climate-related reporting, with the publication of our second annual Sustainability Report in 2023, which again includes data under the Sustainability Accounting Standards Board (SASB) standards. The Group has made significant efforts to ensure this reporting is fair, balanced, and understandable, for example by adapting metrics and, where necessary, providing supporting discussion to explain sources of data or calculation methods. The Board feels that the business is prepared for potential short-term climate-related issues which are discussed later in this report, due to the strength of its integrated model.	**2023 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/investor-centre/* **2023 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68* **2023 Annual Report:** Remuneration Committee report *on pages 83 to 93*

Disclosure requirement	Our progress	Find out more
Describe management's role in assessing/ managing climate-related risks and opportunities	The ESG Implementation Group, chaired by the CEO, has assisted in the identification of climate-related risks and opportunities, and helped to set climate-related targets across the Group.  Within CVS, working groups have been formed to monitor, assess, and understand our impact on areas including energy, carbon and waste. These groups are led by senior management, and are already making good progress, having developed their own terms of reference, and set work in motion to ensure that we are doing the right thing, and to challenge us to go further. For example, the Waste working group has developed key objectives to segregate waste appropriately for effective recycling, to replace single-use items with reusable items where possible and to engage with suppliers around their sustainability policies. The Group has been able to diversify its climate-related assessments and monitoring with the working groups spanning across the business from colleagues in our practices to the support office which provides a wider remit of input to be gained with relevant and innovative measures. This enables monthly information and monitoring to be reported back to our CEO, the chair of the ESG Implementation Group, with progress reports and improvement areas across the Group which is subsequently fed back to the Board as part of the standing agenda item. The Group intends to introduce further ESG targets and KPIs, including climate-related targets, against which progress can be reported to the Board to ensure consistent and comparable information is available to support decision-making.	

Business model and strategy

Disclosure requirement	Our progress	Find out more
Describe the climate-related risks and opportunities identified in the short, medium, and long term	The Group's continued long-term success depends on the social and environmental sustainability of its operations. There is a risk that potential climate-related issues can have an adverse effect on financial or operational performance, including our ability to fulfil operational activities, disruption of supply chain, cost of production, and demand for services. The Group's strategy, long-term sustainability and growth potential also rely on how the Group assesses risks and opportunities and takes action to reduce the environmental impact of operations. Below we have detailed some of the key climate-related risks and opportunities we have identified. As an AIM-listed business, risks and opportunities which will impact our financial performance are considered financially material as these are likely to impact the decision-making of our investors and potential investors, particularly our financial Key Performance Indicators (KPIs) as disclosed on pages 24 and 25. Therefore, the Board considers that those risks that are likely to impact these metrics the most significantly are the most financially material to the Group. A scenario analysis has been performed, taking into account three climate scenarios. Using the research and models produced by the Network for Greening the Financial System (NGFS), we identified scenarios across the spectrum of transition risks and physical risks. The Divergent Net Zero scenario has high transition risks and low physical risks; the Net Zero 2050 scenario has low transition risks and low physical risks; and the Current Policies scenario has low transition risks and high physical risks.	**2023 Quality Improvement report** *published on our website www.cvsukltd.co.uk/wp-content/uploads/2023/06/QI-Report-2022-23-V6.pdf* **2023 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68*

Business model and strategy continued

Disclosure requirement	Our progress	Find out more
Describe the climate-related risks and opportunities identified in the short, medium, and long term *continued*	Based on guidance from the TCFD, we have analysed the driving forces of each scenario and whether these represent risks or opportunities. We considered the potential impacts on our stakeholders, particularly our suppliers and customers as the stakeholders with the most material impact on the business. We have analysed the potential financial impacts on assets, revenue, costs, and other financial metrics and used a probability-impact matrix to assign a RAG rating to each risk or opportunity considering the Political, Economic, Social, Technological, Legal and Environmental (PESTLE) landscapes. This brought 36 potential financially impacting risks and opportunities in which we have broken down into Short-to-Medium-Term (0-5 years), Medium-to-Long-Term (5-10 years) and Long Term (10+ years). This subset is then categorised into its RAG status based on its impact to the Group's financial position. Finally, we considered the strategic options for the business to take in order to address the risks and optimise the opportunities posed by climate change. Based on this detailed assessment, we remain confident in the strength of our people-focused strategy and fully-integrated veterinary services business model in addressing the risks and opportunities of climate change. We will continue to review the scenario analysis annually. **Divergent Net Zero** The Divergent Net Zero scenario reaches net zero by 2050 but with higher costs due to divergent policies introduced across sectors and a quicker phase out of fossil fuels. We identified a range of risks and opportunities in this scenario, including: > an opportunity for CVS to continue to differentiate as a high-quality brand with a transparent approach to carbon reporting; > a risk that supply chains relying on less developed countries who decarbonise less successfully than more developed countries, results in poor brand image; whereas profit margins could be adversely impacted by moving supply chains to more developed countries and therefore reducing the environmental impact of the business and its supply chains; > a risk that declining crop yields and increased raw material prices cause growing inflation, reducing disposable income and putting increased cost-of-living pressure on households. This may reduce demand for veterinary services due to a reduction in pet population; and > a risk that carbon tax schemes are introduced, including border taxes which affect supply chains and cause significant economic disruption. **Net Zero 2050** Reaching net zero global CO_2 emissions by 2050 will require an ambitious transition across all sectors of the economy. This scenario emphasises the importance of decarbonising the electricity supply, increasing electricity use, increasing energy efficiency, and developing new technologies to tackle hard-to-abate emissions. Risks and opportunities identified in this scenario include: > risks that some customers and business areas will be significantly impacted by changing lifestyles, such as an increase in meat-free diets significantly reducing the Farm animal veterinary market; > opportunities arising from behavioural changes towards reduced international travel and increased leisure time, which are likely to see increases in pet populations and a demand for preventative veterinary care; > despite global warming being limited to 1.5 degrees, environmental risks remain such as more intense monsoon seasons in Asia disrupting food production, and longer and hotter UK summers causing operational challenges; > significant policy changes such as the ban on the sale of new petrol and diesel cars causing risks such as reduced household income and increased taxes; and > risks arising from a slowing of global economic growth and rising carbon prices.	

Disclosure requirement	Our progress	Find out more
Describe the climate-related risks and opportunities identified in the short, medium, and long term *continued*	**Current Policies** While many countries have started to introduce climate policies, they are not yet sufficient to achieve official commitments and targets. If no further measures are introduced, 3 °C or more of warming could occur by 2100. This would likely result in deteriorating living conditions in many parts of the world and lead to some irreversible impacts like sea-level rise. Physical risks to the economy could result from disruption to ecosystems, health, infrastructure and supply chains. > The current temperatures are the highest they have been for 12,000 years and if there isn't sufficient changes to current policy then extreme temperature changes could be expected throughout the 21st century. > On the current trajectory, with the highest emissions of greenhouse gasses since the industrial revolution, global warming of 1.5°C could be reached in the 2030s, 2°C around 2050 and 3°C in the 2090s.	
Describe the impact of climate-related risks and opportunities on the Group's businesses, strategy and financial planning	As part of the scenario and risk analysis described on pages 41 to 43 ("Describe the impact of climate-related risks and opportunities the Group's businesses, strategy and financial planning"), we have considered the impact of the identified climate-related risks and opportunities on the business' assets, revenue, costs, and other financial metrics. We identified through this analysis a requirement to monitor the valuation of assets for the possible impact of climate-related risks which may result in impairment of those assets. For example, a significant decline in demand for meat and other animal-derived products as a social impact of the Net Zero 2050 scenario could reduce the market for veterinary care for farm animals; as a result, the Group may be required to impair assets in the Farm division. The Group will continue to monitor KPIs including revenue, EBITDA margin, energy costs and salary costs to ensure the business model remains appropriate to cope with the potential impacts of future climate-related scenarios, including: > increased energy costs as Carbon, Capture and Storage (CCS) and Carbon Dioxide Removal (CDR) technologies are implemented and costs passed on to consumers; > increased costs of consumables due to environmental impacts on the supply chain, including moving supply to more developed countries which are less impacted by climate change; > a reduction in disposable income as a result of inflation in raw material costs, declining crop yields, and other factors, increasing pressure on colleague's salaries; and > potential fiscal measures such as carbon tax schemes, border taxes and government support schemes increasing the Group's tax expense. Conversely, the Group's diversified business and integrated veterinary services model positions it well to benefit from climate-related opportunities, including: > reduced international travel and the resulting increased domestic leisure time increasing the demand for pets and therefore the pet population and number of clients for our Companion Animal veterinary division; > a more holistic understanding of prosperity increases customers' desire for quality services and leisure time, increasing the demand for our preventative healthcare services to ensure longevity and good health of pets; and > the share of online sales increasing due to a reduction in travel or during extreme weather events providing enhanced opportunities for our online retail business. In preparing this Annual Report, the Group has, where possible, considered the impact of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning. Consideration has been made as to the impairment of tangible and intangible assets held at the end of the year, in line with the Group's annual impairment review. As a result of the impairment review undertaken this year, there were no tangible or intangible assets which required impairment on the grounds of climate-related impact and carbon emissions. In future years, the Group's accounting policies and impairment reviews will feature climate-related criteria which will be empirical and quantifiable of which the Groups assets will be reviewed against. At the present time, no changes were made to the Group's accounting policies, estimates or judgements. In line with developments in climate change, the related reporting thereof and the climate-related initiatives we have put in place, we expect these disclosures to evolve in future years.	**2023 Annual Report:** Sustainability on *pages 32 to 46* **2023 Annual Report:** Financial statements Accounting Policies *on pages 115 to 124*

Non-financial and sustainability information statement continued

Business model and strategy continued

Disclosure requirement	Our progress	Find out more
Describe the resilience of the Group's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	As part of the scenario and risk analysis described on pages 41 to 43 ("Describe the impact of climate-related risks and opportunities the Group's businesses, strategy and financial planning"), we have considered the impact of the identified climate-related risks and opportunities on the business' strategy. In order to manage the climate-related risks and opportunities identified in the scenarios considered, we have highlighted some strategic options to consider in future business planning. The Group's current strategy for growth includes organic growth through capital investment in existing and new facilities, and inorganic growth through synergistic acquisitions. This strategy enables the Group to be flexible in deciding where to deploy capital, therefore climate-related issues such as mass migration as a result of rising sea levels, can be adapted into our strategy, for example by choosing alternative sites in which to invest. Further, we have identified strategic points to monitor and focus on, including: > continuing to increase transparency and accuracy of carbon and climate-related reporting in order to maintain positive brand alignment with "green" goals; > maintaining focus on high-quality clinical care and preventative veterinary care to appeal to the conscientious customer and increasing demand for quality and decline of "throw-away" culture; and > maintaining strong relationships with suppliers whilst auditing and monitoring supply chains to reduce supply disruption, increased costs resulting from carbon taxes, and the likelihood of "greenwashing" scandals within the supply chain.	**2023 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68* **2023 Annual Report:** Market overview *on pages 14 to 17*

Risk management

Disclosure requirement	Our progress	Find out more
Describe the Group's processes for identifying and assessing climate-related risks	As an AIM-listed business, risks and opportunities which will impact our financial performance are considered financially material as these are likely to impact the decision-making of our investors and potential investors, particularly our financial Key Performance Indicators (KPIs) as disclosed on pages 24 and 25 of this Annual Report. Therefore, the Board considers that those risks that are likely to impact these metrics the most significantly are the most financially material to the Group. As described on pages 41 to 43 ("Describe the impact of climate-related risks and opportunities the Group's businesses, strategy and financial planning"), we have completed a detailed scenario analysis which includes a risk and opportunities assessment, rating the probability and impact of the identified risks.	**2023 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68*

<table>
<tr><th>Disclosure requirement</th><th>Our progress</th><th>Find out more</th></tr>
<tr>
<td>Describe the Group's process for managing climate-related risks</td>
<td>
The Board regularly undertakes assessments of the emerging and principal risks facing the Group, including climate-related risks and climate-related impacts on other risks. The ESG Implementation Group and members of senior management monitor these risks on a day-to-day basis, reporting changes to the Board where necessary.
The Group has identified a range of climate-related risks, both transitional and physical.
<table>
<tr><th>Transition Risks ↑ / Physical risks →</th><th></th></tr>
<tr>
<td>Disorderly
Assume significant climate action but with delays or regional tensions. The two associated narratives within this category are the Divergent Net Zero scenario, which reaches net zero by 2050, but where action only commences in 2030, and the Divergent Transition scenario, where different regions pursue uncoordinated policies of transition. These scenarios both result in around 1.5° of warming in 2100, respectively, but with much more severe economic disruption.

Scenarios: Divergent Net Zero, Delayed Transition</td>
<td>Too little, too late
Assume that a late transition fails to limit physical risks. No scenarios have been specifically designed for this purpose. This space can be explored by assuming higher physical risk outcomes for the disorderly scenarios.</td>
</tr>
<tr>
<td>Orderly
Assume global climate action occurs steadily and efficiently. The two associated narratives within this category are the Net Zero 2050 scenario, which limits end-of-century warming to below 1.5°C, and the Below 2°C scenario, a slightly less ambitious pathway that results in below 2°C of warming in 2100.

Scenarios: Net Zero 2050, Below 2°C</td>
<td>Hot house world
Assume limited additional climate action is taken, and physical damages from climate change continue to mount. In the more optimistic narrative, countries fulfil their Nationally Determined Contributions (NDCs) but nothing more, leading to warming of over 2.5°C in 2100. The more pessimistic narrative (termed "Current Policies") assumes climate policies are not strengthened, leading to warming of over 3°C by 2100.

Scenarios: Current Policies, Nationally Determined Contributions (NDCs)</td>
</tr>
</table>
We have not identified any risks which we currently expect could have a significant or critical impact on the Group.
Within this process, we have also considered the strategic actions which can be taken to mitigate these risks, as described on page 44 ("Describe the resilience of the Group's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario").
The Directors have assessed the prospects of the Group in line with the "Going concern" provision for a period of five years, as disclosed in the Directors' Report on pages 94 to 97, and have concluded the business is viable and will remain viable up to at least 30 June 2028.
Sustainability and climate change are key considerations of the Group, and the potential impacts have therefore been built into the Group's going concern and viability assessment.
This assessment is reconsidered on at least an annual basis, and any significant signals that climate-related issues are likely to have an impact on this assessment would be identified by the working groups responsible for monitoring and assessing matters relating to sustainability and ESG. These working groups feed back to the ESG Implementation Group, which provides a report to the Board at each Board meeting as a standing agenda item.
</td>
<td>2023 Annual Report:
Principal Risks and Uncertainties on pages 60 to 68

2023 Annual Report:
Directors' Report on pages 94 to 99</td>
</tr>
<tr>
<td>Describe how processes for identifying, assessing and managing climate-related risks are integrated into the Group's overall risk management</td>
<td>
The Group's overall risk management approach is described in the Principal Risks and Uncertainties report on pages 60 to 68. One of the principal risks identified by the Board is Sustainability and climate change.
The impact and probability of this risk is reviewed on at least a bi-annual basis, including review of the mitigating factors in place, and any changes since the last review.
The Group has also developed a framework for assessing climate-related risks using a scenario analysis, which is described on above.
</td>
<td>2023 Annual Report:
Principal Risks and Uncertainties on pages 60 to 68</td>
</tr>
</table>

Metrics and targets

Disclosure requirement	Our progress	Find out more
Disclose the metrics used by the Group to assess climate-related risks and opportunities in line with its strategy and risk management process	The Group has a standalone ESG strategy, "Care at Our Heart", which underpins the Group's overall strategy and business model. To support the delivery of this strategy, our working groups in energy and carbon, waste, One Health, people development, wellbeing and EDI monitor and assess our impact in these areas. Each group has its own terms of reference and targets, within which climate-related challenges can be identified and managed. In addition, we publish an annual Sustainability Report in which we produce a full disclosure report under the Sustainability Accounting Standards Board (SASB) standards. This reporting framework was selected to provide reliable data on financially material sustainability factors which is comparable and consistent, thereby assisting investors to make better investment and voting decisions. SASB standards are industry specific, and under the current classification system used by SASB, there is no single industry framework that would be fully aligned with the indicators relevant to a veterinary business. To maximise the transparency and suitability of our reporting, we decided to report against two industry-specific sets of standards within SASB: "Health Care Delivery", and "Multiline and Speciality Retailers & Distributors". In some cases, the metrics within the SASB standards were adapted to suit the Group's business and markets. We were advised and supported in the selection of the SASB framework, and the reporting of this data, by an external expert which also advised in the creation of our Care at Our Heart strategy. In most cases, the data required to report against SASB metrics is available internally. This is with the exception of some energy and carbon data, for which we use an external energy consultancy which also supports us in the delivery of our Streamlined Energy and Carbon Reporting (SECR) in our Annual Report. The Board is aware that the Group has runway to improve in a range of sustainability and climate-related metrics. One of the key intentions when publishing the Sustainability Report and SASB data is to ensure accountability across the Group in delivering improvements to these metrics. The creation of our ESG working groups helps to disaggregate responsibility for delivering progress in the Group's sustainability and readiness for climate-related risks and opportunities. Whilst SASB standards are for the purpose of a holistic reporting of sustainability, there is limited climate-related metrics. The Group reports alternative climate-related metrics within the SASB section of our 2023 Sustainability Report, however there are not currently specific timelines for improvement of these metrics.	**2023 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/ investor-centre/* **2023 Annual Report:** Streamlined Energy and Carbon Reporting *on pages 98 to 99*
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	The Group's Scope 1, Scope 2 and Scope 3 emissions and the methodology for calculating these are disclosed in the SECR report within our 2023 Annual Report on pages 98 to 99. The SECR lays out the total emissions, as well as the methodology applied. An internal carbon price is calculated to normalise year-on-year data, by calculating the emissions in tonnes of CO_2 per £m of revenue resulting in an intensity ratio. This allows for more effective year-on-year comparison which represented a 18.9% reduction from 21.2 to 17.2 tCO_2e per £m revenue from 2022 to 2023.	**2023 Annual Report:** Streamlined Energy and Carbon Reporting *on pages 98 to 99*
Describe the targets used by the Group to manage climate-related risks and opportunities and performance against targets	The Group has initiatives in place to reduce its impact on the environment, which are disclosed in our Sustainability Report. Our purpose is to give the best possible care to animals and, to be able to deliver this purpose, the Group must be able to continue in operation despite climate-related risks. Therefore, the Board is overseeing the implementation of specific targets relating to climate resilience. We have set sustainability-related targets in bonuses for Directors and other Senior Management, for the financial year to 30 June 2023, as a strategy to incentivise the achievement of climate-related targets. These are included in the non-financial components of the bonus entitlement which represent 20% of the available bonus. These are set out in our Remuneration Committee Report on page 85 and specified below. The five non-financial components each present 4% of the bonus entitlement: > Patient Care Index – an increase of one percentage point. Actual Patient Care Index reduced in the year by 1.5ppts and therefore this target was not met. > Attrition – 10.0% reduction. Attrition fell by 17% in the year and therefore this target was met. > eNPS – 50.0% improvement in employee net promoter score. eNPS increased by 204.2% in the year and therefore this target was met. > Clinical waste – 5.0% reduction in total clinical waste (measured across existing CVS sites and excluding acquisitions in year). Total clinical waste reduce 5.6% and therefore this target was met. > Client NPS – 5.0% improvement in client net promoter score. Client NPS increased by 1.5% in the year and therefore this target was not met.	**2023 Sustainability Report** *available on our Investor Website www. cvsukltd.co.uk/ investor-centre/* **2023 Annual Report:** Remuneration Committee Report *on pages 83 to 93*

Continuing to attract great talent to deliver the best possible care for our patients and their owners

Ben Jacklin
Deputy Chief Executive Officer

I am once again proud to present a review of our operations, on behalf of all our dedicated colleagues across each of our divisions. In an inflationary environment which has been challenging for consumers and businesses across many other industries, we have seen another successful year characterised by investment in our core businesses. These investments further our pursuit of the best possible care for our patients and working environments that attract the very best veterinary talent. They are a testament to the continued resilience of clients in the veterinary sector and, particularly for CVS, their ongoing desire to give their pets the very best care they can.

We launched our strategy back in 2019: a purpose to give the best possible care to animals, which we will deliver through our vision to be the veterinary company people most want to work for. Underlying our purpose and vision are our four strategic pillars:

> we recommend and provide the best clinical care every time;

> we are a great place to work and have a career;

> we provide great facilities and equipment; and

> we take our responsibilities seriously.

We continue to demonstrate that through delivery of this strategy we achieve strong and sustainable growth.

Our clinical leadership teams continue to work with our colleagues and practices delivering clinical development and quality improvement. During the year we executed a number of clinical improvement projects, developed by our clinical leadership teams. In 105 of our first-opinion companion animal practices we launched a project to increase screening for hypertension (high blood pressure) in older cats. Up to 40% of cats over seven years old will have hypertension, many of which are undiagnosed. Undiagnosed hypertension can lead to serious disorders affecting the brain, heart and kidneys, including weight loss, retinal disease and renal failure amongst other serious complications. However, early diagnosis can lead to significantly better outcomes for each patient.

> "During the year we executed a number of clinical improvement projects, developed by our clinical leadership teams."

This project led to 5,984 additional blood pressure measurements to screen cats for hypertension, and 444 more cats being diagnosed and treated in the participating sites. This is just one example of the difference we can make to all stakeholders with clinical projects such as these. First and foremost we can improve outcomes for patients, while improving the experience and outcome for clients and ultimately generating revenues from the accurate diagnosis and treatment of clinical cases.

Being a great place to work and have a career is our ambition for all of our colleagues, not just vets. Our veterinary nurses perform a vital role in practice and during the year we took time to understand why nurses leave their roles and the sector, and what factors predict those who will leave. The study used multivariable logistic regression analysis to identify that higher quality property facilities were predictive of nurses choosing not to leave, underlining the importance and benefit of investment in our facilities.

The data used for the study was from 2021, and since then we have seen a continued reduction in attrition within our nursing population and across the Company, probably in part due to the investments we have made in facilities across CVS. During the year we completed 21 major property projects, including 15 major relocations, 5 refurbishments and a new greenfield site in Southport. Alongside those facilities investments we have continued to invest in developing career pathways and new employee benefits, and improving wellbeing and engagement, all of which move us towards our vision.

We have opened a second nurse training school, based in Norfolk, which is in addition to our existing school at Chestergates. This enables us to train more of our own student veterinary nurses and help them to qualify as Registered Veterinary Nurses, as well as offering training to some external students. Such career development opportunities are critical to those colleagues aspiring to become veterinary nurses, and being able to train nurses in house is a significant benefit.

The research into nurse attrition was led by our Group Director of Clinical Research, and recognised by publication in the "Vet Record", a leading peer-reviewed scientific journal in the profession.

Alongside the continued opportunities to invest in and grow our organic business, we continue to see significant opportunity for acquisitions in the UK and further afield. We continue to follow the guidance issued by the Competition and Markets Authority and have successfully completed 11 acquisitions of 16 practice sites in the year. Continuing the discipline of acquisitions applied over the last few years these are high-quality practices that fit with our provision of the best possible care, and I warmly welcome these new colleagues to CVS.

Sustainability remains at the heart of what we do, and I am pleased that we continue to focus on a wide variety of initiatives that we feel are material to CVS and its stakeholders. Outlined in our 2022 Quality Improvement report, published during the year, we shared that our data driven approach reduced the use of Highest Priority Critically Important Antibiotics (HPCIA) by 20% in twelve months.

Further information on our sustainability focus can be found on pages 32 to 46

Veterinary Practices division

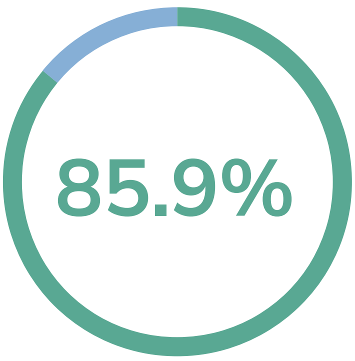
Supporting our colleagues to deliver the best possible clinical care

Revenue
£541.6m

HPC customers
489,000

Revenue growth
10.1%

Veterinary Practices revenue share*



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

Our Veterinary Practices division comprises our companion animal, referrals, farm animal and equine veterinary practices, as well as our buying groups, veterinary wholesaler "Vet Direct", and MiPet Insurance.

The division has performed well during the financial year with like-for-like sales growth of 7.3%, contributing to total revenue growth of 10.1%. Adjusted EBITDA increased 7.2%. We made 11 acquisitions during the financial year, adding 16 practice sites to the Group.

Since the year end, a further seven practice sites have been acquired, including five in Australia following CVS's entry into that market.

Companion Animal

Our Companion Animal division forms the majority of our Veterinary Practices division. The focus of our Companion Animal division on delivering the best possible care for our patients continues, and benefits from a growing market as customers continue to seek out veterinary care for their pets.

We have placed particular emphasis on research and development to support the progression of the profession. A series of clinical excellence projects has been launched to provide a greater range of clinical services with each project designed to help practices identify where they may be able to improve the standard of clinical care. More information is available on page 7.

We continue to focus on the recruitment, retention and development of our highly skilled and dedicated colleagues. We employed an average of 6.5% more vets in 2023 vs 2022 reflecting a further reduction in attrition, a record graduate vet intake and the ongoing recruitment of some of the best talent in the profession.

Veterinary Practices division continued

Referrals
Our Referrals operations have continued to grow, benefiting from the leadership of a new management team. We continue to support our colleagues with their careers, supporting them through their specialist exams. We have also integrated our advance clinical services network into our Referrals division, to aid collaboration across our teams.

Equine
Our Equine operations have seen good top-line revenue growth, despite being the one area of our Veterinary Practices division more susceptible to macroeconomic pressures. During the year we have expanded our Equicall dedicated out-of-hours service, which benefits both CVS and third-party practices. This not only provides vital specialist out-of-hours care to our patients but removes the need for onerous out-of-hours rotas in practices, providing a better work–life balance for colleagues.

Due to the ambulatory nature of this division, we are trialling a diary optimisation tool, to help efficiently meet our clients' needs, and improve collaboration between our practice sites.

Farm
Our Farm operations consists of 14 farm animal practice locations and a large specialist poultry veterinary business. During the year we have introduced the procurement of drugs for all of our Farm division through our Pharmsure practice, to deliver best price and secure supply.

We have continued our investment in advanced breeding work, with Castle Farm Vets expanding its advanced breeding programme. In addition, we have introduced recruiting Approved Tuberculin Testers to undertake tuberculosis testing across England, allowing vets to focus on clinical work.

CVS data driven approach reduces use of Highest Priority Critically Important Antibiotics (HPCIAs) by 20%
The Group's continuous improvement in antimicrobial stewardship and promoting the appropriate use of HPCIAs is outlined in its new Quality Improvement Report 2022.

Reducing misuse and overuse of antimicrobials is an important area for continuous improvement in the battle against antimicrobial resistance (AMR), to reduce the development of drug resistant pathogens. The inappropriate disposal of antimicrobials also risks environmental contamination, which can contribute to AMR.

To grow a culture of continuous improvement, CVS's approach was to focus on HPCIAs, as these are most important to human health. CVS first updated its Group-wide prescribing guidelines for antibiotics. It then created a digital dashboard for every practice to enable the Company to deliver prescribing data direct to each site on a monthly basis. This provided each practice team with an opportunity to reflect on their decision-making, to monitor trends and to measure their progress.

As a result, the Group has seen a consistent decrease of 20% overall in the prescriptions of HPCIAs by all of its practices in a two year period. The introduction of the practice-specific dashboard has also encouraged practices to pursue their own individual improvement projects.

International

Our International division comprises 27 practices in the Netherlands and three practices in the Republic of Ireland. These include companion animal, equine and farm practices.

During the year we continued to focus on our people and their careers. We have supported our colleagues through further training with eight veterinary nurses from CVS Netherlands successfully completing their training to become Supervisory Radiation Protection colleagues, the first veterinary nurses in the Netherlands with this qualification. In addition, we have focused on attracting further clinical colleagues to ensure we can continue to service client demand across our practices.

As we continue to review and ensure we are able to meet the high standards of service and clinical care across our practices, during the year we made the difficult decision to close our Gilabbey site in Cork, Republic of Ireland. The existing facilities required major investment and a protracted renovation to meet both our high clinical standards and the very highest standards of health and safety that we set ourselves. Accordingly the best course of action was to close the site and in the interests of our patients and clients, transition client services to neighbouring competitor practices.

Since the year end, the Group has entered the Australian veterinary services market. Having explored a number of new potential markets, the Board has identified Australia as particularly attractive given the relatively low levels of corporate consolidation, favourable market dynamics and strong similarities with the UK, including highly trained veterinary surgeons, shared language and culture, and the Group's experience with UK vets working between Australia and the UK. The practices that have joined us are of the highest quality, and with a long pipeline of accepted offers we expect to grow our Australian business strongly over the coming years. Read more about Australia on page 13.

Healthy Pet Club

As well as offering first class care to sick or injured animals, we continue to offer preventative healthcare through our Healthy Pet Club scheme, which offers routine flea and worming treatments and vaccinations, as well as twice yearly health checks. These clients can spread the cost of accessing the best preventative healthcare, allowing our clinicians to identify diseases and recommend the best diagnostics and treatments. The scheme membership has grown by 4.0% over the past year to around 489,000 members, representing roughly 40% of our companion animal active client base.

MiPet products

We continue to enhance our own-brand range, MiPet, with a further four products planned to be added in the new financial year. Our own-brand spend consistently makes up c.39% of the UK practices' pharmaceutical spending in 2023 and 2022.

Vet Direct

We continue to see strong growth in Vet Direct, our equipment and consumables business, both from CVS and third-party practices. We introduced a dedicated marketing team to promote Vet Direct to third-party customers.

Outlook

As we continue to focus on delivery of high-quality clinical care alongside our people-focused strategy, we are optimistic that our Veterinary Practices division will continue to deliver year-on-year growth despite the economic uncertainties ahead. We operate in a resilient market and are comforted that the results we are publishing for 2023 demonstrate spend on high-quality veterinary care continues to be a priority for pet owners.

Our colleagues have always been and remain our biggest asset and I continue to admire the hard work and dedication across our clinical teams. We have seen attrition fall to its lowest level since we began recording it, and employee net promoter score peaked at its highest level during the year, ending strongly at 14.6.

Since the financial year end, the announcement of our entry into the Australia market represents more good news for CVS. As a company dedicated to giving the best possible care to animals, we see a fantastic opportunity for us to enter this growing market, with low levels of corporate consolidation, and execute our vision of being the veterinary company people most want to work for. Having spent time in Australia over the last twelve months, including meeting some fantastic veterinary practices, it is clear we have a significant opportunity. We are excited to build a significant CVS business in Australia with the same culture and values that have brought us success in the UK.

Laboratories division

Supporting clinical care through in-house analysers and nationwide coverage of diagnostic testing

Revenue
£29.3m

Laboratory tests performed
460,000

Revenue growth
7.7%

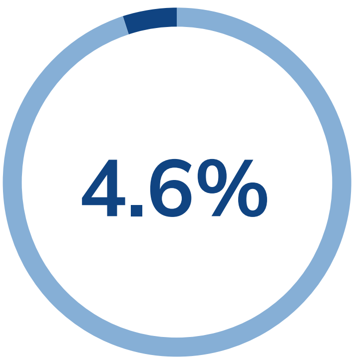
Our Laboratories division provides diagnostic services and in-practice desktop analysers to both CVS and third-party practices and employs a national courier network to facilitate the collection and timely processing of samples from practices across the UK. We continue to develop our capability to ensure we can support the wider Group focus on growing diagnostic care and introduced further tests in the year.

Revenue has increased 7.7% compared to the prior year and adjusted EBITDA increasing 10.8%, with strong case numbers contributing towards the rise. We saw approximately a 3% increase in case volume, with approximately 45% of diagnostic laboratory tests performed for CVS practices.

Outlook

The Laboratories division has remained resilient despite increasing consolidation in the veterinary sector. By increasing the speed and range of testing we offer in our laboratories, along with providing great client service, we are optimistic for growth in the years to come.

Laboratories revenue share*



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

Crematoria

Supporting clients to achieve a compassionate goodbye

Revenue
£10.9m

Relocations in the year
1

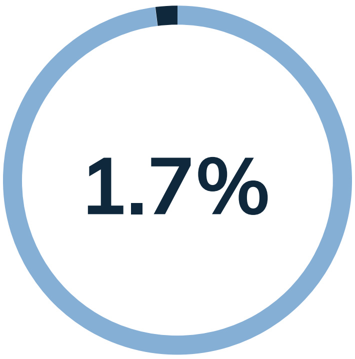
Revenue growth
14.7%

Our Crematoria division provides both individual and communal cremation services for companion animal and equine clients, as well as clinical waste disposal services for both CVS and third-party veterinary practices. The strong revenue and adjusted EBITDA growth in the division was driven by the Direct Pet Cremation service we introduced in 2021 and rolled out across all our sites during the year. Putting customers directly in contact with crematoria to make pet aftercare arrangements, and giving them more time to consider their range of options, has resulted in significant changes to customers' choices and generated improved customer care. We relocated our Valley Pet Crematoria to a new site and incorporated temperature and oxygen-controlled systems, which to date have only been used in human cremators, to minimise our environmental impact by delivering optimal combustion efficiency.

Outlook

The outlook for our Crematoria division remains strong, as owners continue to value the opportunity to remember their beloved pet and utilise the offering the Crematoria division provides in the experience of losing their pet, through our range of more premium offerings. Whilst Direct Pet Cremation has now been rolled out to all our CVS clinics, there are opportunities to broaden our premium range of services in due course.

Crematoria revenue share*



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

Online Retail Business

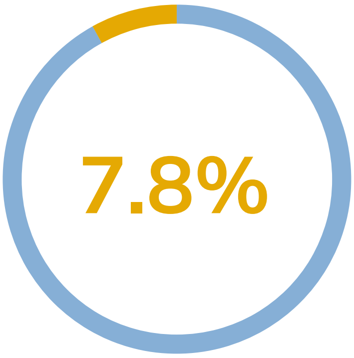
A trusted provider of your pets' food and pharmacy needs

Revenue
£49.1m

Website visits
8.1m

Revenue growth
5.4%

Online Retail Business revenue share*



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

Our online pet food and pharmacy retailer, "Animed Direct", focuses on supplying pet food and prescription and non-prescription medication, directly to customers. This is supported by the buying power of the Group as a whole, which ensures the business is able to provide the best value for customers.

During the financial year, our Online Retail Business division delivered revenue growth of 5.4% and adjusted EBITDA growth of 11.4% and an increase in visits to our website to 8.1m from 7.6m in 2022.

We have invested in two new pharmacy robots to bring efficiencies in warehouse space, increasing dispatch productivity along with improving quality control.

Outlook

During the year we continued the design and implementation of a new website. We continue to work on this and expect the new site to go live during 2024. Our improved website and warehouse systems will enable us to increase capacity, delivering future growth in online sales and improving customer satisfaction.

Ben Jacklin
Deputy Chief Executive Officer
21 September 2023

Central administration

Central administration costs include those of the central finance, IT, human resources, purchasing, legal, Board and property functions. Total costs were £11.9m (2022: £16.6m), representing 2.0% of revenue (2022: 3.0%). The decrease in central administration costs primarily relates to increase Research and development claims recognised centrally partially offset by increased spend on support functions.

Our continued opportunities for investment in growth underpin our strategy

Robin Alfonso
Chief Financial Officer

"We continue to focus on our strategy to invest in our business."

Financial highlights

As highlighted at our Capital Markets Day, we continue to focus on our strategy to invest in the growth of our business with a record investment of £45.7m in our facilities and equipment and £54.6m invested in acquisitions in the UK during the year.

With operating cash conversion of 70.0%, leverage remained low at 0.73x (2022: 0.40x).

We were also delighted to announce our entry into the Australian veterinary services market in July 2023. Our expansion into the Australian market is in line with our growth objectives outlined in our five-year plan and since entering the market in July we have successfully completed five acquisitions.

The Group continues to deliver its strategy, which translates and is supported by the financial highlights below.

Statutory financial highlights are shown below:

	2023	2022	Change %
Revenue (£m)	608.3	554.2	9.8%
Gross profit (£m)	262.3	239.1	9.7%
Operating profit (£m)	62.3	42.8	45.6%
Profit before tax (£m)	53.9	36.0	49.7%
Profit after tax (£m)	41.9	25.7	63.0%
Basic earnings per share (p)	58.8	36.2	62.4%

Adjusted* financial highlights

	2023 £m	2022 £m	Change %
Adjusted EBITDA (£m)	121.4	107.4	13.0%
Adjusted profit before tax (£m)	85.4	75.5	13.1%
Adjusted earnings per share (p)	96.0	85.8	11.9%

* Adjusted financial measures (adjusted EBITDA, adjusted profit before income tax and adjusted earnings per share) are defined in the financial statements, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 115 and 133 of the Annual Report. Management uses adjusted EBITDA and adjusted earnings per share ("adjusted EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and exceptional items and hence assist in understanding the performance of the Group. These terms are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures.

Financial review continued

Revenue

Total revenue increased 9.8% to £608.3m from £554.2m with CVS continuing to deliver high-quality clinical invention for an increasing pet population. There was good growth across each of our four divisions notwithstanding a challenging economic climate and cost of living crisis.

The Group continues to deliver against its strategy for sustainable growth. There was strong like-for-like revenue growth of 7.3% (2022: 8.0%), with the remaining revenue growth coming from acquisitions.

Our preventative Healthy Pet Club scheme saw membership continue to grow with membership at June 2023 of 489,000, a 4.0% increase year on year (2022: 470,000) and we are pleased to be able to highlight a 6.5% increase in the average number of vets employed in 2023 versus 2022.

We continue to invest in our practice facilities, clinical equipment and technology with total capital expenditure of £45.7m (2022: £24.5m). We are confident the investment creates an opportunity for us to further increase organic growth and like-for-like sales by facilitating better clinical care and providing our colleagues with a better working environment, which we believe will support attracting and retaining talent.

Gross profit/gross profit margin

Gross profit of £262.3m increased by 9.7% from £239.1m benefiting from revenue growth with gross profit margin flat at 43.1%. During the year, there was an improvement in gross margin before clinical staff costs to 77.7% from 76.9%; offset by an increase in clinical staff costs as we continue to invest in people. We continue to focus on ensuring we purchase drugs at the best possible price whilst maintaining the highest quality to enable us to focus on great clinical care.

Adjusted EBITDA and adjusted earnings per share

Adjusted EBITDA increased by 13.0% to £121.4m from £107.4m benefiting from an increase in gross profit and includes £9.6m (2022: £2.0m) of net Research and Development Expenditure Tax Credits; offsetting utility inflation, investment in people and to a lesser extent wage inflation.

Adjusted EBITDA margin increased to 20.0% from 19.4%, in line with our ambition from the Capital Markets Day for organic expansion of our margin from 19.0% to 23.0%.

Adjusted EPS (as defined in note 1 to the financial statements) increased 11.9%, to 96.0p from 85.8p. Adjusted EPS exclude the impact of amortisation of intangible assets, costs relating to business combinations and exceptional items.

Operating profit, profit before tax and basic earnings per share

Operating profit increased by 45.6% to £62.3m from £42.8m benefiting from the improvement in adjusted EBITDA and a reduction in exceptional items.

Profit before tax increased by 49.7% to £53.9m from £36.0m. Finance expense increased to £8.4m from £6.8m following an increase in SONIA rates and increased bank borrowings to support investment. Consequently, basic EPS increased 62.4%, to 58.8p from 36.2p.

A reconciliation between statutory operating profit and adjusted EBITDA is shown below:

	2023 £m	2022 £m
Operating profit	62.3	42.8
Adjustments for:		
Amortisation, depreciation, impairment and profit on disposal	50.2	47.3
Costs relating to business combinations	6.6	4.9
Exceptional items*	2.3	12.4
Adjusted EBITDA	121.4	107.4

* Exceptional items relate to the closure of Gilabbey Veterinary Hospital and include a trading loss for the year of £1.3m, loss of disposal of patient data records of £0.8m and impairment of right-of-use asset, net of reduction in lease liability, of £0.2m.

We believe the Group is well placed to continue to deliver further growth underpinned by our strategy and integrated business model. Our balance sheet further supports investment opportunities to deliver on our growth ambitions.

Taxation

The Group's tax charge for the year is £12.0m (2022: £10.3m), an increase of £1.7m at an effective tax rate of 22.2% (2022: 28.6%).

A reconciliation of the expected tax charge, at the standard rate, to the actual charge is shown below:

	£m	%*
Profit before tax	53.9	
Expected tax at UK standard rate of tax	11.1	20.5
Expenses not deductible for tax purposes	1.3	2.4
Adjustments to deferred tax in respect of previous periods	0.4	0.8
Adjustments to previous year tax charge	(2.3)	(4.3)
Impact of unrecognised losses	0.6	1.1
Effect of difference between closing deferred tax rate and current tax rate	0.9	1.7
Actual charge/effective rate of tax	12.0	22.2

* Percentage of profit before tax.

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

Financial position

	2023 £m	2022 £m	Change £m
Intangible assets	256.1	216.5	39.6
Property, plant and equipment	101.5	69.7	31.8
Right-of-use assets	102.9	101.7	1.2
Other non-current assets	—	2.4	(2.4)
Current assets	111.8	127.9	(16.1)
Current liabilities	(105.1)	(101.4)	(3.7)
Non-current liabilities	(210.6)	(199.4)	(11.2)
Equity	256.6	217.4	39.2

Intangible assets
The Group's intangible assets consist of goodwill, patient data records and computer software. The increase during the year is mainly from business combinations of £59.6m, partially offset by amortisation of £22.6m. In addition, £0.8m was impaired and treated as an exceptional item in respect of the closure of Gilabbey. The Group reviews goodwill for impairment and as at 30 June 2023 maintains significant headroom with no indications of impairment.

Plant, property and equipment
The Group's continued focus and commitment to investing in our facilities and equipment resulted in additions of £44.5m, (including business combinations) (2022: £23.7m), offset by a depreciation charge in the year of £12.6m (2022: £11.3m).

Other non-current assets
The Group maintains a cash flow hedge for the purpose of hedging interest rates; as at 30 June 2023 the fair value of this hedge was £2.1m which is now included within current assets as the hedge expires in February 2024 (2022: £2.3m). In addition, during the year available for sale investments with a carrying value of £0.1m were disposed.

Current assets
The net decrease in current assets of £16.1m to £111.8m from £127.9m is driven from the reduction in cash held to £21.5m from £49.0m; partially offset by an increase in working capital balances, including stock and debtors following the growth in revenue.

Equity
The net increase in equity of £39.2m is mainly attributable to profit for the year of £41.9m (2022: £25.7m), transactions related to share-based payments taken to reserves of £3.0m (2022: £3.3m), partially offset by annual dividends of £5.0m (2022: £4.6m).

Cash flow and movement in net debt
Net debt increased by £35.4m during the year from £35.3m to £70.7m following an increase in investment in our facilities and equipment of £45.7m from £24.5m and an increase in investment in acquisitions in the UK of £54.6m from £8.4m.

The movement in net debt is explained as follows:

	2023 £m	2022 £m
Adjusted EBITDA	121.4	107.4
Working capital movements	(10.9)	(14.0)
Capital expenditure – maintenance	(11.4)	(10.8)
Repayment of right-of-use liabilities	(14.1)	(12.7)
Operating cash flow	85.0	69.9
Operating cash conversion (%)	70.0%	65.1%
Taxation paid	(14.9)	(11.2)
Net interest paid	(7.2)	(6.4)
Free cash flow	62.9	52.3
Capital expenditure – investment	(34.3)	(13.7)
Business combinations (net of cash acquired)/other investments	(54.6)	(20.8)
Contingent consideration	(2.6)	(0.3)
Dividends paid	(5.0)	(4.6)
Other financing activities	(4.4)	2.4
Net (outflow)/inflow	(38.0)	15.3
Increase/(decrease) in unamortised borrowing costs	2.6	(0.4)
(Increase)/decrease in net debt	(35.4)	14.9

Cash flow and movement in net debt continued

The Group continues to remain highly cash generative with operating cash flow of £85.0m (2022: £69.9m). Negative working capital movements of £10.9m was mainly driven by an increase in stock and other receivables.

Operating cash conversion of 70.0% (2022: 65.1%) was in line with our capital markets day ambition of 70%.

Interest paid of £7.2m (2022: £6.4m) reflects the increasing SONIA rates from 1.1874% on 30 June 2022 to 4.9286% on 30 June 2023, together with increased bank borrowings following enhanced investment in capital expenditure and strategic acquisitions.

Maintenance capital expenditure of £11.4m (2022: £10.8m) reflects expenditure required in order to maintain the quality of our facilities and services.

Investment capital expenditure of £34.3m (2022: £13.7m) includes new sites, relocations, significant refurbishments and extensions and new equipment. We are pleased with the additional investment we have made in the year and continue to see further opportunities to grow organic revenue in line with our growth ambitions and commitment to spend between £30.0m and £50.0m per annum.

Business combinations of £54.6m (2022: £8.4m) consisted of 11 practices (comprising 16 practice sites). This investment in the year is again in line with our growth ambition set out at the Capital Markets Day in November 2022.

A dividend of £5.0m (2022: £4.6m) was paid in the year reflecting a final dividend for the prior year of 7.0p per share.

Other financing activities includes £3.6m of costs in respect of refinancing our facilities which were capitalised on the balance sheet.

Net debt and borrowing costs

The Group's net debt comprises the following:

	2023 £m	2022 £m
Borrowings repayable:		
Within one year	—	—
After more than one year:		
Term loan and revolving credit facility	95.5	85.0
Unamortised borrowing costs	(3.3)	(0.7)
Total borrowings	92.2	84.3
Cash and cash equivalents	(21.5)	(49.0)
Net debt	70.7	35.3

In February 2023, the Group successfully increased its loan facilities from £170.0m to £350.0m which comprises a £87.5m term loan and £262.5m revolving credit facility. This facility is supported by eight banks and for a four-year term. The facility has two key financial covenants:

> net debt to bank test EBITDA of no more than 3.25x; and

> bank-test EBITDA to interest ratio of no less than 4.5x.

Bank test EBITDA is based on the last twelve months' adjusted EBITDA performance annualised for the effect of acquisitions, deducting costs relating to business combinations and adding back share option expense, prior to the adoption of IFRS 16.

The increase in loan facilities supports the Group's ambition to continue to invest via both organic growth and acquisition opportunities in the future in line with our Capital Markets Day ambitions.

The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 28 February 2020, the Group entered into two four-year fixed interest rate swap arrangements to hedge fluctuations in interest rates on £70.0m of its term loan facility, which end on 31 January 2024. In the prior year the two hedge arrangements were transitioned from LIBOR to the SONIA benchmark rate; further information can be found in note 17.

The Group has a strong balance sheet with a leverage at 30 June 2023 of 0.73x, an increase from 0.40x at 30 June 2022. The Group has the ability to generate cash which enables it to effectively manage working capital. The Group targets a long-term net debt to EBITDA ratio of less than 2.0x and closely monitors this in line with acquisition investment opportunities.

Going concern and viability

At the 30 June 2023, the Group had cash balances of £21.5m and an unutilised overdraft facility of £5.0m. Total facilities of £350.0m, of which £254.5m were undrawn at 30 June 2023, are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £87.5m and an RCF of £262.5m. The Group is fully compliant with all covenants in respect of these facilities.

The Directors consider that the £5.0m overdraft and the £350.0m facility enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), financial forecasts for the five years to 30 June 2028, its profile of cash generation and the timing and amount of bank borrowings repayable, and principal risks, the Directors have a reasonable expectation that both the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the period. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

More information on the Group's Viability Statement can be found on page 95

Share price performance

At the year end the Company's market capitalisation was £1.4bn (1,970p per share), compared to £1.2bn (1,656p per share) at the previous year end.

Key contractual arrangements

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

Forward-looking arrangements

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

Robin Alfonso
Chief Financial Officer
21 September 2023

Focused approach to managing risk throughout the Group

Risk management structure

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

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

The Group's business operations are subject to a wide range of risks. Some of the most significant risks are explained on pages 61 to 68 together with details of actions that have been taken to mitigate these risks.

The key roles and delegated responsibilities

Executive Committee

Collectively responsible for managing risks.

Audit Committee

Assists the Board to fulfil its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and the risk management structure.

Internal audit

Holds meetings with risk owners across the business, assesses the risk ratings and documents the controls in place to mitigate each risk, and recommends improvements and correction actions.

Risk appetite

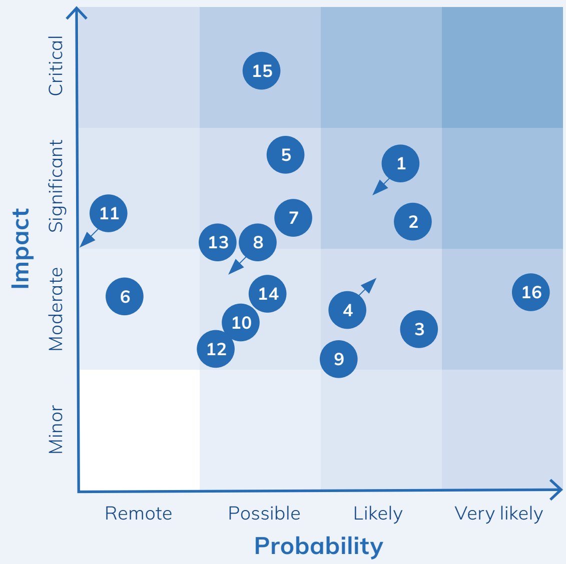
The effectiveness of the Group's risk management approach relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. The Group's appetite for risk is considered low; whilst some risk is accepted in order to develop the business and invest in future growth, the Group has no appetite for major risks which cannot be effectively mitigated through appropriate controls.

Assessment of principal risks

During the year, the Board undertook a robust, in-depth and comprehensive assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity. A summary of the principal risks and uncertainties that could impact the Group's performance is shown on pages 61 to 68.

Risk management framework

1. Key employees
2. Economic environment
3. Competition
4. Adverse publicity
5. Information technology
6. Changes in industry regulations
7. Sourcing pharmaceutical supplies
8. Sourcing and integrating acquisitions
9. Health and Safety legislation
10. Corporate legislation and regulatory requirements
11. Bank facilities
12. Future pandemic or lockdown
13. Sustainability and climate change
14. Epidemiology
15. Cyber attack
16. Competition and Markets Authority market review



1. Key employees

Description

Failure to retain and attract key staff, particularly veterinary surgeons due to structural shortages of qualified vets in the industry.

Potential impact

- Failure to be able to meet the increased demand from clients and their animals.
- Increased employment costs leading to adverse impact on financial performance of the Group.
- Failure to recruit may lead to increased locum fees leading to an adverse impact on financial performance.
- Increased pressure on our colleagues to cover vacancy gaps.

Mitigating factors

- Increasing number of veterinary schools and graduate intakes.
- Close relationship with UK veterinary schools.
- Market leading graduate induction programme.
- Summer and Winter Camps aid an increase in the number of graduate intake.
- Focused training programmes to cover clinical, customer service and management training.
- Appropriate reward and benefits.
- Maximum of up to five additional days annual leave for each year of service.
- Annual bonus scheme and a Group Long-Term Incentive Plan (LTIP) scheme for senior colleagues. An annual Save As You Earn (SAYE) scheme is in place for all colleagues.
- Regular feedback from colleagues to address common issues or concerns.
- Highly qualified recruitment team.
- Home Office reinstatement of veterinary surgeons on UK Shortage Occupation List.

Changes in the year

- We have increased the number of vets and nurses employed by 6.5% and 8.4% respectively.
- Vet attrition rates decreased and nurse attrition rates remained stable.
- eNPS scores improving at 14.6 vs 4.8 in 2022.
- Delivered our largest ever graduate intake of vets, taking a larger share of the population available.
- Commitment to pay 3.0% higher than the national minimum and national living.
- We have increased nurse utilisation, improving nurse job satisfaction and reducing pressure on vets.
- We have introduced a new health cash plan to cover a range of medical services including significant health-related and life events.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

No change to risk **Increasing risk** **Reducing risk** **New risk**

N

Principal risks and uncertainties continued

2. Economic environment

Description
Risk of potential further decline in the UK economy.

Potential impact
- Reduction in consumer confidence and spending on veterinary services.
- Rising costs impacting cost of product and adversely effecting margins.

Mitigating factors
- Diverse range and provision of services across the Group to a wide range of animals in the UK, the Netherlands, the Republic of Ireland and Australia.
- Strong year-on-year growth in the Healthy Pet Club (HPC) preventative healthcare scheme, which increased by 4.0% to 489,000 members (2022: 470,000 members).
- Online retail business protects the Group against changes in consumer spending habits.
- Ability to source supplies from a number of manufacturers. We have strong relationships with our suppliers and manufacturers.

Changes in the year
- A fixed-term energy contract is in place to protect the Group against increasing energy prices.
- Latest PDSA "PAW" report highlights a continued increase in the pet population.
- The Group closely monitors rising inflation.

Link to strategy
Read more on pages **22 and 23**

1 3 4

3. Competition

Description
Increased consolidation and acquisition of independent veterinary practices.

Potential impact
- Third-party practices choose to use other laboratories.
- Third-party practices choose to use other crematoria.

Mitigating factors
- The Group has a wide range of services to offer its clients.
- Continuous investment to maintain high-class facilities and equipment in order to provide excellent clinical service.
- Detailed assessment of acquisition opportunities measured against clear target criteria.
- Regular reviews of pricing of products and services to ensure we remain competitive.
- Healthy Pet Club (HPC) scheme offers clients access to preventative healthcare for their pets while spreading the cost.
- The Group has successfully entered the Australian Veterinary Market in July 2023 with a strong pipeline of opportunities.

Changes in the year
- Ongoing market consolidation.
- Steady increase in our HPC scheme.
- Growth in revenues in the year reflecting on focus to deliver organic growth.
- The number of registered veterinary practices in the UK steadily increasing to 5,371 (2022: 5,293).

Link to strategy
Read more on pages **22 and 23**

1 2 3

No change to risk | Increasing risk | Reducing risk | New risk

N

4. Adverse publicity

Description
Any adverse publicity on the Group, other corporate veterinary groups or the veterinary sector as a whole.

Potential impact
- Reduction in customer numbers leading to adverse revenue.
- Adverse impact on our ability to attract and retain key colleagues.

Mitigating factors
- Policies and procedures in place to monitor service delivery and ensure continued levels of high class veterinary care.
- Participation in the RCVS Practice Standards Scheme and RCVS Knowledge QI Champion accreditation.
- Established Clinical Advisory Committee to advise on clinical standards and drug lists across the Group.
- New online branding for all our practices under 'The Vet Collection' brand.
- Group marketing and communications teams to respond swiftly to any issues.
- Prominent representation on national bodies and at industry events to enhance the Group's reputation and credibility.
- Financial PR agency in place to support with media communication.
- Positive feedback from Summer and Winter Camp for Veterinary graduates.
- 2022 Quality Improvement report issued which outlines our approach to increasing clinical standards.
- Leading learning and Educational programme offering a wide range of continued professional development courses for our Vets and Nurses.

Changes in the year
- Increased media coverage regarding veterinary consolidation and the impact on end user pricing.
- Continued monitoring of our clinical standards against our quality improvement frameworks for clinicians and practices.
- We have continued to engage with third parties to further enhance reporting of important issues such as sustainability.
- Dedicated Communications Director.
- Launch of "The Vet Collection" branding in August 2023.
- Financial PR agency continues to offer an enhanced level of PR support.

Link to strategy
Read more on pages **22 and 23**

1 2 3 4

5. Information technology

Description
The Group is dependent on various aspects of Information Technology (IT) and support for its operations.

Potential impact
- Loss of connectivity and availability of systems across our network.
- A cyber-attack could result in loss of systems and potential loss of client data.

Mitigating factors
- Policies and procedures are in place to ensure stability and security of our networks and systems.
- Restricted access to systems, networks and applications wherever possible.
- Scheduled programme of network security enhancement with external reviews performed periodically.
- Full system testing of any developments prior to live deployment.
- Regular backups and testing of the recovery of those system backups.
- Established Practice Management System in place which is able to work without access to the internet for short periods of time.
- Appropriate training offered to all staff.

Changes in the year
- Strengthened IT team.
- Detailed review of policies and procedures undertaken during the year.
- Enhanced focus on key projects and timelines to delivery.
- Initial roll out of our new cloud based practice management system.

Link to strategy
Read more on pages **22 and 23**

3 4

6. Changes in industry regulations

Description
The industry is subject to a number of laws and regulations.

Potential impact
> Failure to adhere to these could have a material impact on the Group through damage to reputation and/or financial penalties.
> Changes in regulations could adversely impact the Group.

Mitigating factors
> Policies and procedures in place to monitor compliance and any developments or proposed changes.
> Regular engagement with regulatory and legislative bodies to promote best practice and lobbying for change where considered appropriate.
> Clinical Directors in place to ensure high standards are maintained.
> Chief Veterinary Officer (CVO) overseas all clinical quality improvement work to help enhance the care we provide to animals.

Changes in the year
> We continue to review and respond to evolving government and regulatory guidance and able to adapt our services accordingly (e.g. use of tele-consultations).
> Continued focus on delivery of CVS Clinical Governance framework led by CVO.
> "Under care review". The RCVS implemented new professional guidance regarding the requirements for a vet to bring an animal under their care in order to prescribe medication. These changes allow for remote prescribing of medications with the exception of antimicrobials and controlled drugs. No significant changes in working practices are anticipated.

Link to strategy
Read more on pages **22 and 23**

1 2 3 4

7. Sourcing pharmaceutical supplies

Description
Failure to source pharmaceutical products at the required price and quantity.

Potential impact
> Inability to treat patients with the required prescription and non-prescription medicines.
> Adverse revenue impact.
> Adverse impact on margins through having to source alternative supplies on less favourable terms.

Mitigating factors
> Supply agreements in place with multiple major wholesalers and manufacturers to cover stocking issues.
> Supply of own-brand products in Group warehouses for onwards supply.
> Regular pricing reviews with all major suppliers across all divisions for best possible pricing.
> Increase in direct supply of products.

Changes in the year
> Warehouse system fully implemented for monitoring stock levels accurately.
> Where possible, we have included price caps in supplier contracts to protect the Group from price increases.
> We are establishing relationships with manufacturers in Australia.

Link to strategy
Read more on pages **22 and 23**

1 4

No change to risk | Increasing risk | Reducing risk | New risk

N

8. Sourcing and integrating acquisitions

Description
Failure to attract, acquire and integrate acquisitions at the appropriate price with minimal disruption.

Potential impact
- Pressure that higher multiples reduce growth opportunities through acquisitions.
- Failure to integrate efficiently impacting actual performance versus business case.

Mitigating factors
- Dedicated team committed to sourcing acquisitions.
- Acquisitions Committee in place to ensure acquisitions are in line with business need.
- Clear list of criteria used to assess any potential acquisition targets.
- Multi-disciplined team communications in advance of acquisition to plan the integration.
- Use of professional advisors to ensure appropriate due diligence and legal advice are undertaken.
- Close monitoring of post-acquisition performance versus business plan.
- Liaise with Competitions and Mergers Authority (CMA) on acquisitions where appropriate.
- Full review of potential territories conducted before entering.

Changes in the year
- Risk-based approach to pre-acquisitions checklist.
- Strengthened acquisitions team.
- Clear guidelines set by CMA on how to assess local market competition.
- Group have announced entry into the Australian Veterinary Market in July 2023.

Link to strategy
Read more on pages **22 and 23**

3

9. Health and Safety legislation

Description
Failure to comply with health and safety legislation across our practices, laboratories, crematoria, warehouse and other sites.

Potential impact
- Colleagues, clients or the general public are injured.
- Required temporary closure of sites whilst any issues are addressed.
- Loss of revenue and potential claims against the Group.

Mitigating factors
- Robust health and safety procedures are in place ensuring full compliance with health and safety legislation.
- Mandatory employee training to ensure they can perform their duties safely.
- Appropriate protective equipment supplied to all employees in order for them to perform their duties safely.
- Specialist health and safety team which regularly reviews any risks and identifies areas for improvement.
- Participation in the RCVS Practice Standards Scheme to ensure the Group promotes the highest levels of clinical standards.
- Specialist and appropriately qualified third-party advisors undertake maintenance, inspections and property development.
- Health and Safety committee in place.
- Experienced Director of Property and Health and Safety in place.

Changes in the year
- Continued focus on health and safety in all practices.
- Emphasis on ensuring health and safety standards are at the forefront when considering property improvements.
- Facilitates Management outsourced to a market leading provider.
- Development of new mandatory training for employees.

Link to strategy
Read more on pages **22 and 23**

1 3 4

10. Corporate legislation and regulatory requirements

Description
Failure to comply with laws and regulations.

Potential impact
- The Group could face fines and penalties leading to financial loss.
- The Group could face suspension of certain operations.

Mitigating factors
- Appropriate training supplied to colleagues in the relevant areas required.
- Suitable experts employed to ensure compliance and to regularly update policies and procedures.
- Appropriate insurance cover and third-party professional advice used as required.

Changes in the year
- Strengthened corporate legal team during the year.
- Engage third parties to keep us informed of upcoming regulatory changes.
- Development of new mandatory training for employees.

Link to strategy
Read more on pages **22 and 23**

4

Principal risks and uncertainties continued

11. Bank facilities

Description	Mitigating factors	Changes in the year
Description Failure to comply with bank covenants and ability to secure future funding. **Potential impact** > Lack of availability of funding. > Increased borrowing costs.	> The Group maintains suitable facilities from a syndicate of leading banks with an appropriate term. > Existing facilities comprise term debt, revolving credit facility and an overdraft. > Regular reporting of headroom and compliance to the Board and Executive Committee. > Regular meetings with bank syndicate members to appraise performance. > Focus on maintaining relationships with main lenders and other banking parties. > Daily cash flow forecasts prepared and reviewed for a rolling three-month period to enable working capital requirements to be understood and to optimise bank drawings and interest costs. > The Group has the ability to de-lever quickly.	> New £350m loan facility with extended syndicate of eight members secured through to February 2027. > The Group is monitoring the changes in interest rates ahead of the expiry of the existing hedge, which is February 2024. > Strong cash generation continues; net debt and leverage remain low. **Link to strategy** Read more on pages **22 and 23** 1 2 3 4

12. Future pandemic or lockdown

Description	Mitigating factors	Changes in the year
Description Future uncertainty over COVID-19 or other pandemic and associated lockdowns. **Potential impact** > Future lockdowns affect our ability to service our clients if non-emergency services are unable to be undertaken.	> Multiple geographically-spread locations across the UK, Netherlands, Republic of Ireland and Australia protect the Group from any localised lockdowns. > The Group operates across a diverse number of operations with an online retail business and provides veterinary care across companion, equine and farm animal species. > The Farm Animal division is protected due to it being critical to the human food chain.	> We continue to maintain the highest levels of protection for our staff and customers. > We continue to offer flexible working where appropriate to promote safety across the Group as a whole. **Link to strategy** Read more on pages **22 and 23** 3 4

No change to risk | Increasing risk | Reducing risk | New risk N

13. Sustainability and climate change

Description
The Group's continued success depends on the social and environmental sustainability of its operations.

Potential impact
- Disruptions to our supply chain leading to stock shortage and financial loss.
- Adverse weather leading to a decline in our client demand.
- Changes in regulations increasing the cost of our operations.

Mitigating factors
- Sustainability and ESG is discussed as a standing agenda item in Board meetings.
- ESG working group formed which is chaired by the CEO. Supported by an additional six working groups in the following areas: (1) Energy and Carbon, (2) Waste, (3) One Health, (4) People Development, (5) Wellbeing (6) Equity, Diversity and Inclusion.
- Introduction of additional electric vehicles for the car fleet and use of energy from renewable sources.
- Focus on implementing targets to aim for net zero carbon emissions.
- ESG advisors help to assess our risks and to implement our ESG strategy, "Care at our Heart".

Changes in the year
- Sustainability Report published with SASB-compliant data.
- TCFD reporting in 2023 Annual Report.
- Risks and opportunities assessment and scenario analysis performed in relation to climate change.
- Non-financial targets linked to our sustainability strategy introduced for Executive Committee bonuses for 2023.

Link to strategy
Read more on pages **22 and 23**

1 2 3 4

14. Epidemiology

Description
There is a risk to the Group as a result of potential animal epidemics.

Potential impact
- New diseases entering the UK due to animal importation could lead to animal deaths, and loss of future revenues.
- Diseases transmitted from animals to humans may lead to operational disruption.

Mitigating factors
- The Group continues to invest in research and development and closely monitors trends and concerns through our well established Clinical Advisory Committee.
- Investment in ensuring we drive quality improvement and continue to publish our Quality Improvement report.
- Notification system implemented to aid tracking and resolution of issues arising.
- Focus on increased protection if suspected cases are identified.

Changes in the year
- We launched our Clinical Research Awards in 2022 and to date we are supporting 16 research projects, with more funds to be made available in the coming year to fund clinical research, including quality improvement, which are open to both internal and external applicants via collaboration with universities and research institutions.

Link to strategy
Read more on pages **22 and 23**

1 4

15. Cyber attack

Description	Mitigating factors	Changes in the year
Description Potential for a targeted breach of the Group's IT security. **Potential impact** > Loss of client data resulting in reputational damage. > Disruption to operations.	> The Group has a number of policies in place that are aimed at ensuring the stability and security of our networks and systems. > Network security is regularly enhanced with external reviews being performed periodically to identify areas of risk. A scheduled programme of equipment and software replacement takes place to help ensure that the latest security features are available. > The Group employs a Head of Cyber Security alongside third-party advisors where appropriate to ensure we maintain high standards of protection. > Systems are regularly backed up to the cloud and the recovery of those systems is tested. > Use of Antivirus software in place across the Group. > Password policies are in place encouraging use of strong passwords. Forced password changes on a regular basis and two factor authentication used where appropriate. > Fully encrypted payments terminals rolled out across the Group. > Restricted access to systems, networks and applications wherever possible.	> Head of Cyber Security and Head of Infrastructure in place. > The Group's has undertaken a review of key risks. > We switched provider of anti-virus software to mitigate potential threats arising from the changing political landscape in Europe in 2022. > We continue to review our equipment and software and regularly install updates. **Link to strategy** Read more on pages **22 and 23** 3 4

16. Competition and Markets Authority market review

Description	Mitigating factors	Changes in the year
Description The Competition and Markets Authority (CMA) has launched a review into the sector. **Potential impact** > Potential that CMA process leads to additional requirements for our practices – e.g. pricing transparency, customer comms/disclosures, etc. > Potential for review to lead to Market Investigation Reference (before or after a formal Market Study) under which CMA has a broad power/discretion to impose remedies which, whilst unlikely given the outcome of CMA reviews into other sectors, could theoretically include, at the extreme, forced divestment of practices or interference in pricing.	> Ability to expand in other territories. > Significant opportunities for organic growth with continued investment in our practices. > The Group has an integrated veterinary platform with laboratory services, crematoria services and an online platform. > Proactive engagement in CMA process to help shape outcome of the review.	> The Group has entered the Australian Veterinary Market and has opportunity to widen its geographical footprint globally. **Link to strategy** Read more on pages **22 and 23** 1 2 3 4 N

The Strategic Report is approved for issue by the Board of Directors.

Scott Morrison
Company Secretary
21 September 2023

No change to risk **Increasing risk** **Reducing risk** **New risk**
N

Chair's introduction to governance

Appropriate governance and Board oversight of the Group's operations

Richard Connell
Chair

Dear Shareholders,

I am delighted to introduce our Corporate Governance Report for the year ended 30 June 2023 on behalf of the Board. This section of our Annual Report outlines the approach we have adopted in complying with the principles of the UK Corporate Governance Code (the "Code") over the year as well as outlining improvements we have made in our governance structure, including strengthening the Board. We outlined our five-year growth plan at our Capital Markets Day in November 2022 and we remain committed to ensuring an effective corporate governance regime in support of this five-year plan.

Board effectiveness and enhancement

During the year, I conducted a further rigorous internal evaluation to assess the effectiveness of the Board with input from our Company Secretary. Whilst I am satisfied that the Board remains effective in providing appropriate governance and control, we will continue to ensure sufficient time is set aside at Board meetings to review performance against our plans and to engage with the wider CVS employees. We held our annual CVS conference in October 2022 which was attended by the full Board, and this gave all Board members the opportunity to meet colleagues from all our business areas.

On 1 July 2023 Joanne Shaw joined the Board as an additional Non-Executive Director. Joanne, who qualified as a Chartered Accountant, has significant healthcare experience from a number of executive and non-executive roles and will add value to the Board. Joanne is a member of the Audit, Remuneration and Nomination Committees of the Board.

On 1 July 2023, we also promoted Ben Jacklin into a new role of Deputy CEO in recognition of his contribution over the past few years and to provide ultimate succession planning. Ben retains responsibility for overseeing the Group's operations in the UK and internationally.

Scott Morrison was appointed Company Secretary on 8 June 2023, replacing Jenny Farrer, who served as Company Secretary throughout the year until that date.

Equity, Diversity and Inclusion

Our Equity, Diversity and Inclusion (EDI) strategy supports our vision to be the veterinary company people most want to work for – regardless of who they are, how they identify or their background. We're working to foster a culture where everyone feels welcome and nurtured. In recognition that sustainable cultural change takes time, we have a ten-year strategy, which will evolve as we respond to what colleagues are telling us.

More detail about our people and culture is set out on pages 20 and 21

Section 172 and Stakeholder Engagement

I have held a number of meetings over the course of the year with our institutional shareholders. These meetings are helpful in understanding their priorities, and in discussing our strategic focus and capital allocation priorities and any key developments in the business.

Over my tenure as Chair, CVS has built a strong corporate culture with a focus on providing great care to our clients and their animals and on investing in and developing our people. We continue to invest in the development of our business, and we remain focused on attracting and retaining the very best talent. The Board considers the interests of all stakeholders when taking decisions and we have set out some examples of how the Board has fulfilled its Section 172 duties and engaged with stakeholders during the course of the year on pages 28 to 31.

Sustainability

Over the course of the year, the Board has received an update from the CEO at each Board meeting setting out the focus of our Sustainability and ESG working groups and updating on our progress.

We are delighted to publish our second annual Sustainability Report detailing the progress we are making and explaining how our ESG strategy is closely aligned to our purpose, vision and key strategic pillars.

Annual General Meeting

We will hold our 2023 AGM on Wednesday 29 November 2023 at 11:00 am. Full details including the resolutions to be proposed to shareholders will be set out in the Notice of AGM which will be made available in the Investor Centre on our website.

Outcomes of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the Company's website and the London Stock Exchange once the AGM has concluded.

Yours sincerely,

Richard Connell
Chair
21 September 2023

Board of Directors and Company Secretary

Our experienced Board with diverse skills and expertise

Richard Connell (68)
Non-Executive Chair

Appointment to the Board
Richard was appointed to the Board in October 2007.

Career and experience
Richard is a Chartered Accountant and worked in investment management with 3i Group, Invesco and HSBC. Previously he was Chair of Dignity plc, Mercury Pharma and Ideal Stelrad Group.

Committee membership
Richard is not a member of the Audit, Remuneration or Nomination Committees.

A R N

David Wilton (60)
Non-Executive Director

Appointment to the Board
David was appointed to the Board in September 2021.

Career and experience
David is a qualified Chartered Accountant with more than 30 years' post-qualification experience as a Chief Financial Officer, Non-Executive Director and consultant after many years in corporate finance, primarily in mid cap M&A with Rothschilds. He is the Chair of Frontier Developments plc and previously CFO of Sumo plc until October 2022. David has held roles in both public and private equity backed companies including as Group Finance Director of WYG plc and as Non-Executive Director and Chair of the Audit Committee of Sweett Group plc.

Committee membership
David is Chair of the Audit Committee, and is a member of all three Board Committees.

A R N

Deborah Kemp (62)
Non-Executive Director

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

Career and experience
Deborah has held a variety of Chief Executive Officer roles in the consumer and hospitality sector, including as a FTSE 100 main board Director at Punch Taverns plc. Following a period in private equity and a trade sale of Laurel Funerals, she is now Director of Vennco Limited a consultancy and interim specialist in the consumer-facing retail and hospitality sector, and assists multi-site businesses through growth, change and transformation.

Committee membership
Deborah is Chair of the Remuneration Committee. She is a member of all three Board Committees and is the Senior Independent Director.

A R N

Richard Gray (66)
Non-Executive Director

Appointment to the Board
Richard was appointed to the Board in July 2020.

Career and experience
Richard is a career investment banker who has extensive capital markets and corporate finance experience and has held senior positions. He is the Chair of CT Private Equity Trust plc and Director of Zeus Capital. He has previously worked with Panmure Gordon, Lazard, Charterhouse and UBS.

Committee membership
Richard is Chair of the Nomination Committee, and is a member of all three Board Committees.

A R N

Joanne Shaw (60)
Non-Executive Director

Appointment to the Board
Joanne was appointed to the Board in July 2023.

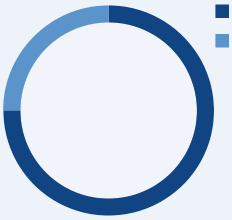
Career and experience
Joanne has significant healthcare experience from her current roles as Trustee and Audit Committee Chair at Cancer Research UK, Chair at the Royal College of Paediatrics and Child Health, and Deputy Chair at Vitality UK. She has held a number of previous non-executive roles over the past 17 years including as Non-Executive Director and Chair of the Audit and Risk Committee at NHS England and the National Audit Office, Chair of NHS Direct, Non-Executive Director at Kensington and Chelsea Primary Care Trust and Chair of the British Equestrian Association. Joanne, who qualified as a Chartered Accountant, was a former management consultant at Boston Consulting Group.

Committee membership
Joanne is a member of all three Board Committees.

Key skills

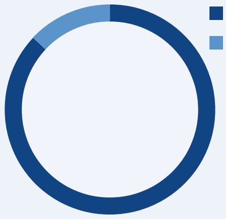
Committee membership
A Audit Committee
R Remuneration Committee
N Nomination Committee
Chair of Committee

Board gender diversity



Male	6
Female	2

Board ethnic diversity



White	7
Ethnic minority	1

Richard Fairman (56)
Chief Executive Officer

Appointment to the Board
Richard was appointed as a Director in August 2018, was appointed as Chief Financial Officer in October 2018, and became Chief Executive Officer in November 2019.

Career and experience
Richard spent six and a half years at the RAC Group, including as Chief Financial Officer from 2016. Prior to this, Richard qualified as a Chartered Accountant at EY, later working at PwC, following which Richard held roles including Finance Director of Virgin Money, CFO of Central Trust and Finance Director of Virgin Money Giving.

Ben Jacklin (39)
Deputy CEO

Appointment to the Board
Ben was appointed as a Director and Chief Operating Officer in November 2019 and became Deputy CEO in July 2023.

Career and experience
Ben is responsible for the leadership and management of our business operations, across all our territories. These include all our veterinary practices and our laboratories, crematoria and communication departments. Ben joined CVS in 2015 and, prior to his appointment to the Board in 2019, led the Veterinary Practices division across the CVS territories. Ben qualified as a Veterinary Surgeon from Cambridge University and is a European College of Veterinary Surgeons and Royal College of Veterinary Surgeons recognised specialist in equine surgery. Ben has previously worked in Australia as a veterinary surgeon.

Robin Alfonso (44)
Chief Financial Officer

Appointment to the Board
Robin was appointed as a Director and Chief Financial Officer in November 2019.

Career and experience
Robin spent eight years at the RAC Group, initially as Group Financial Controller and then as Divisional Finance Director of its largest commercial division and profit centre, Consumer Roadside and Marketing. Prior to this, Robin qualified as a Chartered Accountant at PwC, following which he moved to Aviva where he performed a technical accounting role.

Scott Morrison (53)
Company Secretary

Appointment
Scott was appointed as Company Secretary in June 2023.

Career and experience
Scott qualified as a solicitor in 1998, working at Eversheds for some years before moving into an in-house role, initially at Kwik Fit as Legal Director, and later joining Craegmoor Group Limited (a healthcare business) as General Counsel and RAC Motoring Services where he had the role of General Counsel and Company Secretary.

Key skills

Essential skills and experience our Board delivers:

- Strategy and leadership
- Brand and product development
- Operational expertise
- E-commerce, sales and marketing
- Technology development
- Risk management
- Financial
- Governance and legal
- Mergers and acquisitions

Scott Morrison
Company Secretary

Appropriate corporate governance in support of the Group's strategy

In this Corporate Governance Statement, we explain how the Company is managed, the roles of the Board, its Committees and Directors and the Group's compliance with the standards set out in the UK Corporate Governance Code 2018 (the "Code") for the financial year ended 30 June 2023. For more information about the Code set by the Financial Reporting Council (FRC), visit the FRC's website at **www.frc.org.uk**.

	Principles	Disclosure in the 2023 report	Pages
Board leadership and Company purpose	A, B, C, D and E	Chair's Statement	5 to 6
		Chief Executive Officer's Review	8 to 10
		Capital Allocation	12
		Business Model	18 and 19
		Our People and Culture	20 and 21
		Our Strategy	22 and 23
		Section 172(1) Statement and Stakeholder Engagement	28 to 31
		Chair's Introduction to Governance	69
		Corporate Governance Statement	72 to 77
		Audit Committee Report	78 to 80
		Nomination Committee Report	81 and 82
		Remuneration Committee Report	83 to 93
		Directors' Report	94 to 99
Division of responsibilities	F, G, H and I	Board of Directors and Company Secretary	70 and 71
		Corporate Governance Statement	72 to 77
		Nomination Committee Report	81 and 82
Composition, succession and evaluation	J, K and L	Chair's Introduction to Governance	69
		Corporate Governance Statement	72 to 77
		Nomination Committee Report	81 and 82
Audit, risk and internal control	M, N and O	Financial Review	55 to 59
		Principal Risks and Uncertainties	60 to 68
		Board of Directors and Company Secretary	70 and 71
		Corporate Governance Statement	72 to 77
		Audit Committee Report	78 to 80
		Directors' Report	94 to 99
Remuneration	P, Q and R	Board of Directors and Company Secretary	70 and 71
		Corporate Governance Statement	72 to 77
		Remuneration Committee Report	83 to 93

During the year to 30 June 2023, the Company has fully complied with the principles set out in the Code throughout the financial year and up to the date of this Annual Report and Accounts save from two exceptions which are explained on page 75 (independence) and 87 (pension alignment). The Corporate Governance Report explains how the Company has applied the principles and provisions of the Code and the guide below outlines where further information can be found within this report.

Our governance framework

The Group's governance framework includes a schedule of matters reserved to the Board and its Committees and clear terms of reference for each Committee. The Board has a delegated authority policy which ensures that decisions are made at appropriate levels within the Group:

The Board

Five Non-Executive Directors

Our five Non-Executive Directors (including our Chair) provide independent oversight and constructive challenge to the Executive Directors.

Three Executive Directors

Our CEO, Deputy CEO and CFO are appointed to the Board.

Board Committees

Audit Committee

Key responsibilities:

> reviewing and monitoring financial reporting;

> internal control and risk management;

> whistleblowing procedures; and

> monitoring internal and external audit arrangements (including auditor independence).

Membership:

David Wilton – Chair

Deborah Kemp

Richard Gray

Joanne Shaw (with effect from 1 July 2023)

Nomination Committee

Key responsibilities:

> making recommendations on all Board appointments and succession planning;

> monitoring and reviewing Board composition; and

> undertaking an annual evaluation of the effectiveness of the Board and its Committees.

Membership:

Richard Gray – Chair

Deborah Kemp

David Wilton

Joanne Shaw (with effect from 1 July 2023)

Remuneration Committee

Key responsibilities:

> assisting the Board in ensuring appropriate remuneration policies are in place for the Group;

> ensuring Executive Director remuneration is aligned to the strategic priorities of the Group and its performance; and

> making recommendations regarding Long-Term Incentive Plan terms and conditions, and awards.

Membership:

Deborah Kemp – Chair

David Wilton

Richard Gray

Joanne Shaw (with effect from 1 July 2023)

Executive Committee

The Executive Committee ("Exco") comprises the Group CEO, Deputy CEO and CFO, Group HR Director, Chief Veterinary Officer, Group Procurement Director and MD CVS International. The Exco assists the CEO in managing the Group's operations and in the implementation of strategy. The Exco meets on a weekly basis to set performance targets, monitor key objectives and commercial plans and evaluate opportunities and business initiatives. Executive Committee members report annually to the Board in person as well as providing monthly updates through the CEO, Deputy CEO and CFO Board reports.

Senior Leadership Group (SLG)

The SLG comprises the heads of major business units and key service functions. The SLG meets on a monthly basis to collaborate, review Group performance and discuss major plans and developments.

Corporate governance statement continued

Structure of the Board and Board Committees

At 30 June 2023, the Board of Directors consisted of seven members, including a Non-Executive Chair and three independent Non-Executive Directors. Joanne Shaw was appointed as an additional Non-Executive Director on 1 July 2023. Biographical details of the Directors as at the date of this report are set out on pages 70 to 71. The responsibilities of the Board members are set out in the chart below. The Board and its Committees have access to management and external advisors to assist them in discharging their duties. During the year ended 30 June 2023, the Board and Board Committees received sufficient, reliable and timely information in order for them to perform their responsibilities effectively.

Board activity during the financial year to 30 June 2023

Strategy, business and operational performance	> Overseeing the development of a new five-year strategic plan as communicated to shareholders at our November 2022 Capital Markets Day. > Reviewing and monitoring the Group's performance against the targets set out in the annual budget and five-year plan. > Reviewing and approving major investments in property, facilities, clinical equipment and acquisitions. > Monitoring trading and market conditions, competitor activity and regulatory requirements.
Financial performance	> Receiving Audit Committee reports on full and half year financial results. > Reviewing and approving the Group's annual budget and five-year strategic plan. > Considering the Company's dividend policy and approving the allocation of capital for investment.
Risk management and internal control	> Review of the Group's risk register. > Receiving reports from the Audit Committee on the effectiveness of internal controls. > Liaising with KPMG as internal auditor and reviewing internal audit reports from KPMG. > Receiving regular updates on legal and regulatory matters.
Board and Committee governance	> Receiving reports from the three Board Committees. > Reviewing terms of reference for Board Committees. > Adopting the Schedule of Matters Reserved to the Board. > Receiving corporate governance updates. > Conducting an annual review of Board effectiveness.

Roles and responsibilities

The roles and responsibilities of the Directors are agreed by the Board. There is a clear division of responsibilities between the Chair and the CEO, and all Board members have clearly defined roles and responsibilities as set out below. Board members have the range of skills and experience required to ensure the successful operation, growth and sustainability of the Group, as set out in their biographies on pages 70 and 71.

Role	Name	Responsibility
Chair	Richard Connell	> The Chair is responsible for leading the Board and for ensuring its overall effectiveness in directing the Company. The Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors. The Chair ensures that the Directors receive accurate, timely and clear information as well as overseeing the governance framework.
CEO	Richard Fairman	> The CEO is responsible for leading the Company's executives in managing the day-to-day operations of the Group. The CEO is accountable to and reports to the Board and is assisted in his role by the Group's Exco, all of whom report directly or indirectly to the CEO.
Deputy CEO	Ben Jacklin	> The Deputy CEO reports to the CEO and is responsible for overseeing and directing the day-to-day operations of the Group in addition to supporting the CEO with developing and implementing the Group's strategy. Ben was promoted to Deputy CEO from Chief Operating Officer with effect from 1 July 2023.
CFO	Robin Alfonso	> The CFO reports to the CEO and is responsible for the day-to-day management of the Group's finances, development and implementation of financial strategy as well as supporting the CEO with developing and implementing Group strategy.
Senior Independent Director	Deborah Kemp	> The Senior Independent Director (SID) provides advice and additional support and experience to the Chair.
Independent Non-Executive Directors	Richard Gray David Wilton Joanne Shaw*	> Non-Executive Directors provide constructive challenge, strategic guidance and specialist advice as well as holding management to account and being available to work with the Chair to resolve any contentious issues.
Company Secretary	Scott Morrison	> The Company Secretary acts as Secretary to the Board and its Committees and is responsible for ensuring that the Board has the policies, processes, information, time and resources it needs in order to function effectively and efficiently as well as supporting the Chair in developing and overseeing the governance framework.

* Joanne joined the Board on 1 July 2023.

Board and Committee meeting attendance

The Board meets formally eleven times a year and meetings are planned around key events in the corporate calendar including interim results, full year results and the Annual General Meeting (AGM). The Non-Executive Directors confirm that they have sufficient time to devote in order to effectively discharge their Board responsibilities. In addition to the eleven scheduled Board meetings and other Committee meetings, the Non-Executive Directors make themselves available for ad hoc meetings and Board calls to receive regular updates and to deal with specific projects or matters arising during the year.

The Chair and Non-Executive Directors meet from time to time as appropriate without the Executive Directors present and meet with the external auditor at least annually without the Executive Directors present.

The table below sets out attendance at Board meetings during the financial year ended 30 June 2023.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	11	3	4	4
R Connell	10	2*	4*	4*
D Kemp	11	3	4	4
R Gray	11	3	4	4
D Wilton	11	3	4	4
R Fairman	11	3*	4*	4*
R Alfonso	11	3*	4*	4*
B Jacklin	11	3*	4*	4*

* In attendance by invitation of the respective Committee.

Joanne Shaw was appointed as a Non-Executive Director on 1 July 2023 and hence did not attend any Board meetings in the year ended 30 June 2023.

Board processes and effectiveness

The Board maintains a formal schedule of matters reserved for its approval which includes matters of strategy, structure and capital, financial reporting and internal controls, major contracts, Board membership, remuneration, delegation of authority and corporate governance. Matters that fall outside of those reserved to the Board or its Committees fall within the responsibility and authority of the CEO, Deputy CEO and CFO and are either reserved to them or delegated further through the Group's Delegated Authorities Policy.

Board and Committee papers are circulated well in advance of meetings and Directors have access to a Board portal containing Board packs and reference materials from previous meetings as well as all Board policies and procedures. In addition to formally scheduled meetings, the Chair maintains regular contact with the Non-Executive Directors, CEO, Deputy CEO, CFO and Company Secretary in performing his duties leading the Board.

In light of the Company's AIM listing and regular Board meetings, the Board does not believe that external evaluation of the Board is appropriate. During December 2022, the Chair, assisted by the Company Secretary, carried out an internal review of Board effectiveness which included a review of the information provided to the Board, the composition of the Board, decision making processes and the Board's annual agenda.

Outcomes from the Board effectiveness review were:

> appointment of an additional Non-Executive Director to improve the gender diversity of the Board;

> creation of a new Deputy CEO role to ensure long-term succession planning;

> maintenance of a Board portal to support all Directors in reviewing Board papers and in creating a reference point for Board policies and procedures;

> maintaining an annual rolling agenda to facilitate interaction with Executive Committee members; and

> full Board attendance at the Group's annual conference to facilitate engagement with employees from across all areas of the business.

Board induction and training

New Directors appointed to the Board undertake an induction programme to assist in developing their understanding and awareness of the business, its governance framework, employees and Group policies and procedures. Induction is tailored to suit the requirements of each new Director and includes site visits to practices around the Group, meetings with the heads of Group functions and one-on-one meetings with fellow Board members, Executive Committee members and the Company's external advisors in addition to being provided with details of the Group's policies and procedures.

New Board members also receive appropriate training on AIM and the Market Abuse Regulation delivered by the Company's Nominated Advisor or external legal counsel.

Independence

Richard Connell has held the position of Chair of the Board since September 2007 and has therefore served on the Board for more than nine years. This is an example within the Code of a circumstance in which a Non-Executive Director's independence is likely to be, or could appear to be, impaired. The Board of Directors believes that Richard's knowledge of the veterinary sector and the Group's operations and his experience of transactions continue to be invaluable to the leadership of the Group.

Deborah Kemp, Richard Gray, David Wilton and Joanne Shaw are all considered to be independent by the Board. The independent Non-Executive Directors meet at least annually to appraise the Chair's performance.

All Directors will offer themselves for re-election at the 2023 AGM of the Company.

Corporate governance statement continued

Relations with shareholders

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

The CEO, Deputy CEO and CFO have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

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

Shareholder engagement activities

There has been considerable engagement with institutional and retail investors during the year ended 30 June 2023 including:

> preliminary results roadshow – September 2022;

> annual CVS employee conference – October 2022;

> Capital Markets Day – November 2022;

> Annual General Meeting – November 2022;

> interim results roadshow – February 2023; and

> US institutional investor roadshow – March 2023.

The Audit Committee

David Wilton chaired the Committee throughout the year under review. David has a wealth of experience in senior finance roles including in listed companies. All Non-Executive Directors other than the Chair of the Board were members of the Committee during the year, with Joanne Shaw joining the Committee from 1 July 2023 on her appointment to the Board.

The Board considers that members of the Audit Committee have recent and relevant financial expertise, and that the Committee as a whole has competence relevant to the sector in which the Company operates.

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

The Audit Committee Report can be found on pages 78 to 80.

The Nomination Committee

Richard Gray chaired the Nomination Committee throughout the year under review. All Non-Executive Directors other than the Chair of the Board were members of the Committee during the year, with Joanne Shaw joining the Committee from 1 July 2023 on her appointment to the Board.

The Nomination Committee is responsible for reviewing the structure, size and composition, including skills, independence, knowledge and experience, of the Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its Committees, and for ensuring appropriate succession plans are in place. Given the size of the Group and the Company's AIM listing, the Board does not believe external evaluation of the Board to be appropriate. All Directors engage in the internal evaluation and appropriate action is taken in light of the assessment.

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

The Nomination Committee Report can be found on pages 81 and 82.

The Remuneration Committee

Deborah Kemp chaired the Remuneration Committee throughout the year under review. All Non-Executive Directors other than the Chair of the Board were members of the Committee during the year, with Joanne Shaw joining the Committee from 1 July 2023 on her appointment to the Board.

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

The Chair of the Board, CEO, Deputy CEO and CFO are invited to attend meetings as appropriate but do not participate in discussions relating to their own remuneration.

The Remuneration Committee Report can be found on pages 83 to 93.

The Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are complied with, advising the Board on all governance matters, supporting the Chair and helping the Board and its Committees to function efficiently. All Directors have access to the advice of the Company Secretary.

Jenny Farrer served as Company Secretary during the year until 8 May 2023, when Scott Morrison was appointed Company Secretary as her successor following Board approval.

Annual General Meeting 2022 – voting results

In the 2022 Results of AGM announcement, the Board of CVS noted that all the resolutions had been passed with the requisite majority. During the course of the year, the Board of Directors has continued to actively engage with shareholders and to discuss and consider their feedback.

Whistleblowing

The Group's whistleblowing policy is reviewed by the Board annually. The policy sets out the procedures for employees or third parties to raise concerns about any suspected wrongdoing. Employees also have access to a wide range of alternative informal routes through which to raise concerns. This reflects the open culture and strong internal communication channels of the Group, in line with our strategy, and supports the formal whistleblowing policy we have in place.

The Board receives any whistleblowing reports at each Board meeting and will receive more detailed reports of any investigations that may take place. There were no major issues reported to the Board under the whistleblowing policy during the year.

Audit, risk and internal control

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

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

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

> the close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior colleagues from across the Group and a review of the monthly operational reports compiled by senior management;

> clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;

> a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from the budget and the prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;

> a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas;

> an independent internal audit function provided by KPMG that reports to the Chair of the Audit Committee;

> a central team that checks clinical and health and safety compliance in all parts of the Group; and

> the Company's Scheme of Delegation of Financial Authority.

The Board has satisfied itself that the Company's risk management and internal control systems are effective.

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

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

Remuneration

The Board considers that policies on executive remuneration should be transparent. They should be implemented in a manner which supports strategy and promotes long-term sustainable growth. In addition, remuneration should reflect both the performance of the Company as well as individuals. The Board has delegated to the Remuneration Committee responsibility for complying with these aspects of the Code and the work of the Committee is reported in full on pages 83 to 93 of this Annual Report. The Group's remuneration policies are fully in compliance with the principles and provisions of the Code save for pensions alignment per provision 38 as disclosed on page 87.

Annual General Meeting

The Annual General Meeting of the Company will take place on 29 November 2023. Full details of resolutions to be proposed to our shareholders will be set out in the Notice of AGM which will be made available in the Investor Centre on our website.

Outcomes of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the website of the Company and the London Stock Exchange once the AGM has concluded.

By order of the Board.

Scott Morrison
Company Secretary
21 September 2023

Governing a strong financial control framework

David Wilton
Audit Committee Chair

Key responsibilities:

- reviewing and monitoring financial reporting;
- ensuring an appropriate internal control and risk management framework;
- maintaining appropriate whistleblowing procedures; and
- monitoring internal and external audit arrangements (including auditor independence).

Committee composition during the year to 30 June 2023

	Attendance
David Wilton	
Deborah Kemp	
Richard Gray	

Joanne Shaw was appointed as a Non-Executive Director and Audit Committee member on 1 July 2023 and hence did not attend any Audit Committee meetings in the year ended 30 June 2023.

Responsibilities and terms of reference

The Committee is responsible for ensuring that the financial performance of the Group is properly controlled, monitored and reported, for liaising with the external auditor and for reviewing its reports relating to the Annual Report and Financial Statements, and for internal control matters. During the year under review the Committee Chair was David Wilton. All members of the Committee are Non-Executive Directors with considerable experience in senior roles and are deemed to have the necessary ability and experience to understand financial statements. The Chair, the Chief Executive Officer (CEO), the Deputy CEO (DCEO) and the Chief Financial Officer (CFO) are invited to attend such meetings, but the Committee also meets with the internal and external auditors without the CEO, DCEO and CFO being present at least once annually. Other members of senior management are invited to present such reports as are required for the Committee to discharge its duties. The internal auditor (KPMG) is also invited to attend and present at each meeting.

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

Summary of activity

In the year ended 30 June 2023 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- appointing KPMG to provide internal audit services to the Group;
- reviewing the Annual Report and Financial Statements and the Interim Report, including significant financial reporting judgements contained therein. As part of these reviews the Committee received a report from the external auditor on its audit of the 2023 annual financial statements;
- advising the Board that the Annual Report and Financial Statements are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- reviewing the acquisition of a veterinary practice from a related party;

- reviewing the effectiveness of the Group's internal controls and reports received from the Group's internal audit function in respect of its programme of internal audit reviews;
- reviewing the Group's risk management framework;
- reviewing the effectiveness of the Group's outsourced internal audit function;
- reviewing the external auditor's audit planning document, with particular reference to the audit approach, planned materiality, significant risks as detailed in the Independent Auditor's Report and the audit approach to these risks;
- reviewing the external auditor's audit findings memorandum, noting conclusions in respect of identified audit risks, materiality of adjusted and unadjusted misstatements, control observations and suggested improvements in the disclosure provided in the Annual Report and Financial Statements;
- considering papers prepared by the CFO to support the going concern basis of preparation of the Annual Report and Financial Statements;
- considering papers prepared by the CFO to support goodwill and cash-generating unit impairment review;
- reviewing the calculation, application and presentation of Alternative Performance Measures (APMs) in the Annual Report and Financial Statements;
- agreeing the fees to be paid to the external auditor for its audit of the 2023 financial statements; and
- reviewing the performance and independence of the external auditor.

Significant financial reporting risks and judgement areas considered during the year

Revenue recognition

During the year, we have reviewed the appropriateness of the revenue recognised according to the cost profile of delivering the performance obligations for our Healthy Pet Club scheme.

Management override

During the year, we have reviewed the appropriateness of controls around management override of controls, ensuring the controls in place are robust and, where appropriate, recommending areas for improvements.

Research and Development Expenditure Tax Credit (RDEC) income

During the year, we have reviewed the appropriateness of the income recognised in relation to RDEC, along with the associated accounting estimates and judgements.

In respect of the above significant financial reporting risks and judgement areas, we concluded that the Group's accounting treatment and/or controls in place were appropriate.

Going concern and viability assessment

In considering going concern and viability overall, the Committee reviewed the Group's forecasts with particular focus on the key assumptions in relation to revenue, gross margin and cash flow management. Sensitivities to these key assumptions were also reviewed based on the impact of the Group's key risks, as set out on pages 60 to 68.

Following a review of the detailed considerations set out above by the Committee and Executive Committee, the Committee is satisfied that it is appropriate for the Group to continue to adopt the going concern basis in preparing the Annual Report and Financial Statements of the Group and, further, that the going concern longer-term viability statement on page 95 is appropriate.

Related party transaction

During the year, the Group completed the purchase of 100.0% of the share capital of The Harrogate Vet Limited, a company registered in England and Wales, for initial cash consideration of £2.5m, plus deferred consideration of £0.1m and contingent consideration of £1.5m. This is a business comprising one small animal veterinary practice site in the UK. Prior to acquisition, the company was partially owned by the spouse of Ben Jacklin, the Deputy CEO, and as such the acquisition is considered a related party transaction. The terms of the acquisition, including consideration paid, were on an arm's length basis, where Ben Jacklin was not party to the discussions held, and consistent with acquisitions of other unrelated entities. Shareholder approval was granted at our 2022 AGM.

Internal audit

The outsourced internal audit function has a direct line of report into the Committee and is an important part of the independent assurance processes within the business. The Committee reviews and approves the internal audit plan for the year which is developed to address key risks across the business as well as reviewing core governance, financial and commercial processes.

KPMG attends each Committee meeting, updating on progress against the audit plan throughout the year, and reporting on any key control weaknesses identified and progress against mitigating actions.

Audit Committee report continued

Internal audit continued

Specific work performed during the year in our key risk areas included:

Risk area	Work undertaken
Strategic	> Assurance mapping (strategic risks). > IT governance, risk management and infrastructure (gap assessment/high level benchmarking).
Operational	> Cyber security gap assessment. > Practice Controls Self Assessment Questionnaire (CSAQ). > Acquisition and integration. > Payroll processing.
Financial	> Controls validation (key financial controls) focusing on the following key financial controls: accounts receivable; accounts payable; general ledger; staff expenses; and payroll.
Legal and regulatory compliance	> Recruitment (right to work). > Governance reform readiness assessment.

During the next financial year, the internal audit plan will include a mixture of risk-based, routine and requested internal audits to include: Cyber and IT controls review, BEIS progress review, supply chain and procurement, Australia – key finance and IT controls, controls validation (key financial controls, CSAQ and IR35.

External auditor

The external auditor was appointed with effect from the year ended 30 June 2017 giving a current tenure of seven years. A tender process was carried out prior to this change. From the year ended 30 June 2022, in line with guidance from the Auditing Standards Board, there has been an audit partner rotation and a new audit engagement partner has started working with the Committee. The appointment is reviewed and subject to a shareholder vote at the AGM on an annual basis. Details of the fees paid to Deloitte during the financial year are set out in note 6 to the financial statements.

The Audit Committee has primary responsibility for the supervision of the relationship with the external auditor, including overseeing its qualification, independence, expertise, performance and effectiveness, and the terms of its engagement and remuneration. The Committee is also responsible for ensuring the quality and efficiency of the external audit enabling the Committee to formally evaluate the effectiveness and quality of the auditor's output, which it does annually. After reviewing the external auditor's performance during the year, the Committee has concluded that it is satisfied with the effectiveness of the audit and the audit process, and that Deloitte remains effective in its role as external auditor. The Committee has therefore recommended to the Board that Deloitte be re-appointed for a further year and a resolution to this effect will be proposed at the AGM.

What we will do in 2024

During 2024, we will continue to build on our focus in 2023 and to discharge our responsibilities as set out in the terms of reference. We will continue to monitor emerging and maturing risks and will continue to develop and enhance the control environment of the Group. We will review the proposals set out by the Government in response to the Department for Business, Energy and Industrial Strategy (BEIS) corporate governance reform agenda along with monitoring progress of the Group's review of its internal controls framework and documentation. We will continue to monitor and build our fraud policy and carry out a fraud effectiveness review across the business. We are developing our audit and assurance policy in preparation for legislative requirements and continue to support the development of the Group's scenario planning and reporting in relation to the Task Force on Climate-Related Financial Disclosures (TCFD), specifically relating to new requirements and recommendations made by the FRC.

Approval

The members of the Audit Committee have reviewed the financial statements and the content of the draft Annual Report and Financial Statements to ensure that it is fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the Directors' Responsibilities Statement set out on pages 96 and 97.

David Wilton
Audit Committee Chair
21 September 2023

Ensuring an appropriate level of experience on the Board and maintaining corporate governance standards

Richard Gray
Nomination Committee Chair

Key responsibilities:

> making recommendations on all Board appointments and succession planning;

> monitoring and reviewing the Board composition; and

> undertaking an annual evaluation of the effectiveness of the Board and its Committees.

Following the appointment of Joanne Shaw as an additional Non-Executive Director on 1 July 2023, the Committee is comprised of the four independent Non-Executive Directors. The primary purpose of the Committee is to lead the process for Board appointments and to make recommendations to the Board to achieve the optimal composition of the Board having regard to:

> its size and composition;

> ensuring that it consists of individuals who are best able to discharge the responsibilities of Directors;

> potential conflicts of interest;

> the extent to which the required skills, experience or attributes are represented; and

> the need to maintain the highest standards of corporate governance.

Committee composition during the year to 30 June 2023

	Attendance
Richard Gray	
Deborah Kemp	
David Wilton	

Joanne Shaw was appointed as a Non-Executive Director on 1 July 2023 and hence did not attend any Committee meetings in the year ended 30 June 2023.

The Board recognises the importance of having a diverse Board and workforce and encourages reviewing ways of working to ensure candidates from all backgrounds can apply. Each appointment of a Board member or senior executive is made on merit and the best candidate will be appointed. The Board recognised that further steps could be taken to improve the diversity of the Group at all levels and across all business streams and continues to work towards this aim, with the appointment of Joanne Shaw on 1 July 2023 a positive step.

What we did in 2023:

> following an extensive search process, appointed Joanne Shaw as an additional Non-Executive Director;

> assessed Board composition and how it may be enhanced;

> reviewed and considered Board evaluation and effectiveness;

> reviewed the independence of the Non-Executive Directors;

> reviewed and considered Directors' conflicts of interest;

> recommended the promotion of Ben Jacklin to a newly created position of Deputy Chief Executive Officer;

> recommended the re-appointment of Richard Gray for a further term;

> recommended the appointment of Scott Morrison as Company Secretary;

> reviewed and considered executive succession plans; and

> reviewed the Committee's corporate governance obligations.

What we will do in 2024:

> continue to review Board composition and effectiveness;

> continue to keep succession planning under review;

> review corporate governance obligations and updates; and

> undertake a further Board evaluation.

Board appointments and resignations

The Nomination Committee oversaw the appointment of Joanne Shaw, Non-Executive Director, who joined the Board on 1 July 2023. Joanne has significant healthcare experience from her current roles as Trustee and Audit Committee Chair at Cancer Research UK, Chair at the Royal College of Paediatrics and Child Health, and Deputy Chair at Vitality UK. She has held a number of previous non-executive roles over the past 17 years including as Non-Executive Director and Chair of the Audit and Risk Committee at NHS England and the National Audit Office, Chair of NHS Direct, Non-Executive Director at Kensington and Chelsea Primary Care Trust and Chair of the British Equestrian Association. Joanne, a Chartered Accountant,

Board appointments and resignations continued

was a former management consultant at Boston Consulting Group and had previous executive roles at the Medicines Partnership, the Audit Commission and Coopers and Lybrand. Joanne became a member of all three Board Committees on her appointment.

Following a thorough and independent tender process, the Nominations Committee engaged a third-party recruitment specialist, Fletcher Jones, to support with the search for, and ultimate appointment of, Joanne Shaw. Fletcher Jones has no other relationships with the Company or any of the Directors, save for previously acting for Columbia Threadneedle Private Equity Trust plc, a company in which Richard Gray has an interest.

As part of its long-term succession planning, and in recognition of the significant contribution Ben Jacklin has made over the past few years, the Nomination Committee approved the recommendation of Ben Jacklin's promotion to Deputy Chief Executive Officer with effect from 1 July 2023.

The Nomination Committee considered and recommended the re-appointment of Richard Gray as Non-Executive Director with effect from 16 July 2023.

Committee terms of reference

The Nomination Committee's terms of reference were reviewed during the course of the year and were considered to be appropriate.

Board evaluation and effectiveness

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

In December 2022, the Nomination Committee evaluated the results of the internal Board effectiveness review conducted by the Chair and the Company Secretary and was satisfied that the Board remains effective and has the right balance of skills and experience to provide continued effective stewardship of the Group.

Succession planning

The Committee is responsible for ensuring that plans are in place for orderly succession to Board and executive positions, and to oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future. The Nomination Committee considered contingency and succession plans in April 2023.

The Committee is also responsible for keeping under review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively.

It is important that a diverse pipeline for succession is developed in line with the Company's strategy on pages 22 and 23. The gender balance of those in the senior management, which, in accordance with the Code, we consider to be the Executive Committee, is three women and four men.

The Committee is responsible for keeping up to date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates. The Group competes with a number of private equity backed veterinary businesses and, in order to respond appropriately to changing and increasing competition, and to successfully execute accretive acquisitions, it is considered important that the Board contains Executive and Non-Executive Directors with transaction experience.

Conflicts of interest

The Board has established robust procedures for monitoring conflicts of interest in accordance with the Group's Articles of Association and conflicts of interest policy. All Directors are required to make the Board aware of any other commitments and potential conflicts of interest are approved by the Board where appropriate, and recorded in the conflicts register. The Board has delegated authority to the Nomination Committee to keep under review any actual or potential conflict of interest situations authorised by the Board, and to determine whether it is appropriate for such matter(s) to remain so authorised. During the financial year to 30 June 2023, the Committee noted that none of the Directors have interests or external appointments which gave rise to material conflicts of interest, save as discussed below.

During the year, the Group completed the purchase of a business comprising one small animal veterinary practice site in the UK. Prior to acquisition, the company was partially owned by the spouse of Ben Jacklin, the Deputy CEO, and as such the acquisition is considered a related party transaction. The terms of the acquisition, including consideration paid, were on an arm's length basis and consistent with acquisitions of other unrelated entities. The Committee satisfied itself that Ben Jacklin had no involvement in the discussion or the decision to acquire this business.

Electing and re-electing Directors

The Committee has reviewed the independence of the Non-Executive Directors and the Non-Executive Chair and concluded that all have sufficient time to meet their Board responsibilities in accordance with the criteria set out in the UK Corporate Governance Code. The Committee has also satisfied itself that, save for the Chair, who has served for more than nine years and hence cannot be considered independent under the Code, all four other Non-Executive Directors are independent.

The Committee will recommend to the Board and the shareholders that all serving Directors should be submitted for re-election at the Company's 2023 AGM.

Ongoing review

Whilst the Committee will continue to review the composition of the Board, it is confident that the Board has the right balance of skills, experience and tenure at present to successfully steer the Group through the next stages of its growth and to respond appropriately to the strategic opportunities ahead.

The Group continues to deliver strong financial performance and has successfully refinanced its bank facilities in the year. The strengthened balance sheet and experienced management team position it well to take advantage of the strategic opportunities and to deliver further enhancements in shareholder value.

Richard Gray
Nomination Committee Chair
21 September 2023

Ensuring our remuneration policies are transparent and fully aligned with the delivery of long-term sustainable value

Deborah Kemp
Remuneration Committee Chair

Key responsibilities:

> assisting the Board in ensuring appropriate remuneration policies are in place for the Group;

> ensuring Executive Director remuneration is aligned to the strategic priorities of the Group and its performance; and

> making recommendations regarding Long-Term Incentive Plan (LTIP) terms and conditions, and awards.

Following the appointment of Joanne Shaw as an additional Non-Executive Director, the Remuneration Committee is now comprised of four independent Non-Executive Directors.

The Remuneration Committee meets frequently throughout the year to consider remuneration matters of the Group, to consider feedback from shareholders on remuneration matters and to make appropriate recommendations to the Board.

Terms of reference

The full terms of reference for the Committee are reviewed and approved annually. These were last updated on 21 September 2022.

Committee composition during the year to 30 June 2023

	Attendance
Deborah Kemp	
Richard Gray	
David Wilton	

Joanne Shaw was appointed as a Non-Executive Director on 1 July 2023 and hence did not attend any Committee meetings in the year ended 30 June 2023.

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

Remuneration policy

The Remuneration Committee seeks to develop the Company's executive remuneration arrangements appropriately taking due account of matters specified in the UK Corporate Governance Code and the Investment Association Principles of Remuneration in light of the Company's growth and its status as an AIM 50 company.

The Remuneration Committee considers it important that remuneration policies for Executive Directors are aligned to the Group's long-term strategy and that a meaningful portion of Executive Director reward is linked to long-term performance. In light of this, remuneration for Executive Directors is comprised of base salary, an annual bonus and a Long-Term Incentive Plan (LTIP) with performance criteria based on earnings per share and total shareholder return.

In respect of basic salary, the objective is to ensure that the Group attracts and retains high calibre executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. The annual bonus scheme is designed to reward exceptional performance with criteria aligned to the annual budget approved by the Board along with non-financial targets to align Directors' interests with the Group's Sustainability and ESG ambitions. Long-Term Incentive Plans are seen as an important part of Executive Directors' total remuneration and are designed to drive and reward exceptional performance aligned with shareholder returns over the long term.

The policy also provides for post-retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car and life and medical insurance.

A description of how the Company has addressed the matters specified in Rule 41 of the FRC Code is set out on page 89.

Development of remuneration policy in alignment with shareholder interests

The Remuneration Committee has introduced a number of changes over the past three years to better align Executive Director remuneration with shareholders' interests. These changes include the negotiation of new contracts of employment for each of the Executive Directors, the introduction of malus and clawback provisions for annual bonuses and LTIPs, the ability for the Remuneration Committee to oversee formulaic outcomes, the introduction of total shareholder return measures in the LTIP scheme, the introduction of a new two-year hold period for LTIP awards and the introduction of new non-financial measures within the annual bonus scheme aligned to shareholders' interests.

In 2022 the Remuneration Committee introduced a new formal shareholding guideline of 100% of salary for the three Executive Directors. The Executive Directors have agreed to increase this formal shareholding guideline to 200% with effect from 1 July 2023 with the expectation that Executive Directors will meet this requirement within five years of appointment. The CEO had met this target at 30 June 2023 and the DCEO and CFO continue to work to this target. Current shareholder interests are shown on page 93.

2023 financial performance and shareholder returns

CVS has delivered a strong financial performance in the financial year to 30 June 2023, with revenue increasing 9.8% to £608.3m (2022: £554.2m), growth in adjusted EBITDA of 13.0% to £121.4m (2022: £107.4m) and adjusted EPS increasing 11.9% to 96.0p (2022: 85.8p). These financial metrics are at the upper end of market expectations.

We have made notable steps forward in our ambitions outlined at our Capital Markets Day in November 2022 and in the year acquired eleven practices for £54.6m along with completing 21 refurbishments or relocation projects with capital investment of £45.7m.

We successfully refinanced and extended our bank facilities in February 2023, and as a result of the strong financial performance leverage remains comfortably below 2.0x at 0.73x (2022: 0.40x).

The Board is recommending the payment of a final dividend per share of 7.5p (2022: 7.0p) which represents a 7.1% increase.

In light of the above, the Remuneration Committee considers that the Group's remuneration policies are aligned with shareholders' interests.

Supporting our colleagues

CVS colleagues continue to work tirelessly to ensure CVS provides the best possible care to animals. In recognition of the dedication and professionalism of colleagues, during the year the Remuneration Committee in conjunction with the Board, made the following changes:

> the Remuneration Committee approved an average annual colleague pay review of 6.5% effective from 1 July 2023, with a further review planned for 1 July 2024;

> the Remuneration Committee approved salary increases in April 2023 for those colleagues subject to the National Living Wage/National Minimum Wage such that these colleagues earn 3% above the statutory minimums;

> the Remuneration Committee decided to increase the reward and benefits for colleagues to include a health cash plan, discounted critical illness and life insurance as well as promoting sustainable travel through a new salary sacrifice electric vehicle scheme;

> the Remuneration Committee approved the enhancement of sick pay to help colleagues with exceptional health-related events; and

> the Remuneration Committee decided to introduce a "CVS refresh" reward scheme where teams receive a weekly allowance to spend on boosting team morale.

In line with the applicable bonus scheme terms and conditions, colleague bonuses will also be payable for 2023 in line with the usual timetable.

The Remuneration Committee is pleased that the take-up of its SAYE15 scheme, where employees can save over a three-year period and have the option to buy shares in the Group at a 20% discounted option price, increased by 42.7% to 1,985 employees (SAYE14: 1,391 colleagues).

In light of the competitive landscape and the continued shortage of veterinary professionals in the UK, the Remuneration Committee will continue to consider reward and benefits across the Group to ensure that CVS remains well positioned to attract and retain talent.

Supporting our customers and communities

Whilst not specifically a Remuneration Committee matter, throughout 2023, CVS continued to support our wider stakeholders, in particular our customers and communities:

> we donated £19,000 to Pet Blood Bank UK, the CVS colleagues' chosen charity of the year;

> we matched the above donation with a donation of £19,000 to Vetlife, which provides invaluable support to professionals within the veterinary sector;

> we introduced a formal payment plan offering for customers who need to spread the cost of emergency, one-off care for their pet; and

> we introduced a student outreach EDI initiative to encourage students from all backgrounds into the profession.

Gender pay gap

We published our Gender Pay Gap Report for the 5 April 2022. Our mean pay gap reduced, and our median pay gap increased marginally. Our bonus pay gap increased which was impacted by long term incentive plans and whilst this was a small number, more men than women were eligible to receive them.

A full copy of the Gender Pay Gap Report can be found here: www.cvsukltd.co.uk/careers/gender-pay-gap-report/

Directors' remuneration in respect of 2023

Our Directors' remuneration policy continues to ensure the alignment of long-term performance with remuneration of Executive Directors.

Base salary

Salaries are reviewed annually and are regularly benchmarked against similar AIM-quoted and other listed companies with changes effective annually in January. The Remuneration Committee decided to increase the salary of the Chief Executive Officer (CEO), Deputy CEO (DCEO) and Chief Financial Officer (CFO) by 6.5% with effect from 1 January 2023 in line with the average Company-wide increase. The CEO salary increased to £443,210, the DCEO salary increased to £332,408 and the CFO salary increased to £287,870.

Pension

There were no changes to the executive pension contributions in 2023.

Annual bonus

The annual bonus scheme in which the Executive Directors participate is based on the combination of financial and non-financial targets. 80% of the bonus is payable on achievement of adjusted EBITDA prior to share option costs, in comparison to the annual budget approved by the Board, and 20% is payable based on non-financial targets linked to our sustainability and ESG strategy.

For 2022/23, the maximum bonus for the CEO, DCEO and CFO was 100% of salary.

In light of the wider business and stakeholder context set out above, the Committee was comfortable that the formulaic outcome set out immediately below was fair and appropriate; therefore, no adjustments were made and no discretion was exercised in relation to that outcome. The bonus will be awarded in cash and is payable in September 2023.

- The adjusted EBITDA target range, excluding Executive Committee bonus accrual, was set between £109.0m for zero bonus and £119.8m for maximum bonus prior to acquisitions completed within the year (with targets increased to reflect acquisitions). Reflecting acquisitions, the target was adjusted to £111.7m for zero bonus and £122.5m for maximum bonus. Actual adjusted EBITDA was £121.4m and 98% of this bonus component was achieved.
- The five non-financial components each present 4% of the bonus entitlement:
  - **Patient Care Index** – an increase of one percentage point. Actual Patient Care Index reduced in the year by 1.5ppts and therefore this target was not met.
  - **Attrition** – 10.0% reduction. Attrition fell by 17% in the year and therefore this target was met.
  - **eNPS** – 50.0% improvement in employee Net Promoter Score. eNPS increased by 204.2% in the year and therefore this target was met.
  - **Clinical waste** – 5.0% reduction in total clinical waste (measured across existing CVS sites and excluding acquisitions in year). Total clinical waste reduced 5.6% and therefore this target was met.
  - **Client NPS** – 5.0% improvement in client Net Promoter Score. Client NPS increased by 1.5% in the year and therefore this target was not met.
  - Overall, three of the non-financial targets were met presenting 60% of this bonus component.
- In light of the above, the Remuneration Committee proposes that the CEO, DCEO and CFO achieve 90.4% of their bonus entitlement.

Long-Term Incentive Plan (LTIP)

LTIP awards

In October 2022, the Company granted awards under its LTIP scheme to the CEO with a value of 125% of salary, and to the DCEO and CFO with a value of 100% of salary. These awards are subject to an adjusted EPS real growth performance condition measured over three years in addition to total shareholder return benchmarked against the FTSE 250 index (excluding investment trusts) measured over three years. These awards are subject to a two-year hold period post vesting. Detail on the performance conditions is set out later in this report.

Directors' remuneration in respect of 2024

Base salary

Effective from 1 July 2023, Ben Jacklin was promoted to a newly created role of Deputy CEO. The Remuneration Committee has approved a new salary of £382,408 in recognition of his increased responsibility within this new role including overseeing the Group's operations in Australia.

The usual annual pay review will take place for the Executive and Non-Executive Directors effective from 1 January 2024. The Committee will continue to benchmark against relative market comparisons to ensure that the package is considered competitive and does not pose a risk to retention and succession planning whilst considering the salary increases in the context of the broader colleague population and business performance.

Pension

No changes are proposed to Executive Director pensions for 2024.

Annual bonus

The Remuneration Committee has also made an award to Executive Directors for the financial year to 30 June 2024 on a consistent basis. The targets for the financial element of the bonus are deemed commercially sensitive, and therefore the committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to retrospectively publish the annual bonus targets in the Annual Report and Financial Statements for the year to June 2024.

Long-Term Incentive Plan (LTIP)

The Remuneration Committee plans to make further awards in October 2023 on a consistent basis with those made in the 2022 financial year.

Directors' remuneration in respect of 2024 continued

Shareholder guideline

As noted above, the shareholding guidance for has been increased to 200% of salary with effect from 1 July 2023.

Ongoing review

The Remuneration Committee intends to keep remuneration policies under review and will continue to consider and develop its approach to remuneration on an ongoing basis. The Remuneration Committee will continue to review a number of further matters on remuneration, in particular bonus deferral and Director pension alignment with the workforce.

In relation to bonus deferral, the Remuneration Committee continues to see merit in a clear distinction between annual bonus and long-term incentives and does not propose this should be introduced at this point. The maximum annual bonus is capped at 100% of salary for each Executive Director.

The Remuneration Committee has received advice in relation to the matters outlined above and overall executive remuneration from h2glenfern Remuneration Advisory.

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

Deborah Kemp
Remuneration Committee Chair
21 September 2023

Executive Directors' remuneration policy

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

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business. To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Group's strategy.	Salaries are reviewed annually and benchmarked against similar AIM-quoted and listed companies with any changes effective from 1 January, save where a Director is promoted to a new role. The review takes into account: > Company performance and increase in scale and complexity; > the role, experience and performance of the individual Director; and > average workforce salary adjustments within the Company.	The CEO's base salary was reviewed on 1 January 2023 (the prior review being in January 2022) and was increased by 6.5% to £443,210. The then COO's base salary was reviewed on 1 January 2023 (the prior review being on 1 January 2022) and was increased by 6.5% to £332,408. The COO's base salary was increased to £382,408 on 1 July 2023 on his promotion to DCEO. The CFO's base salary was reviewed on 1 January 2023 (the prior review being on 1 January 2022) and was increased by 6.5% to £287,870.	Not applicable.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain Executive Directors.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive. Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.	The cost of providing these benefits varies year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain appropriately qualified Executive Directors.	The CEO and CFO participated in a defined contribution pension arrangement and received payments partly in lieu of pension. The DCEO receives payments in lieu of pension which is partly used for an enhanced company car contribution. Pension arrangements, including contribution rates, for any new Executive Directors will be aligned with those of the majority of the UK workforce.	The CEO is entitled to a Company pension contribution of 12%. This is partly taken as a payment in lieu of a pension. The DCEO is entitled to a Company pension contribution of 10%. This is partly taken as a payment in lieu of salary and partly as enhanced company car contribution. The CFO is entitled to a Company pension contribution of 8%. This is partly taken as a payment in lieu of a pension. Only basic salary is pensionable.	Not applicable.
Annual bonus			
To drive and reward exceptional performance.	The Executive Directors are eligible to participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee linked to the annual budget approved by the Board, with a proportion of the bonus linked to Sustainability and ESG targets. Bonuses are paid in cash based on audited financial results. Annual bonus payments are subject to malus and clawback provisions.	During the year under review, the maximum capped bonus potential for the CEO, DCEO and CFO is 100% of salary.	For the years ended 30 June 2023 and ending 30 June 2024, 80% of the bonus is payable on targets that are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year and exceptional items. The level of payment commences from zero at the threshold target increasing on a straight-line basis to full payment at the maximum target. The remaining 20% of the bonus is payable on non-financial targets linked to sustainability and ESG.

Executive Directors' remuneration policy continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Long-Term Incentive Plan (LTIP)			
To drive and reward exceptional performance over the medium term and to align the interests of Executive Directors and shareholders.	The Executive Directors are entitled to be considered for the grant of awards under the Group's LTIP scheme. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable. Awards are released to participants after a performance period of three years, subject to certain performance and service conditions being met. 25% of awards vest at threshold performance for each target, being adjusted EPS growth and total shareholder return, with a maximum award being 100%. If the minimum performance targets are not met then no awards will vest. The LTIP rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. The Remuneration Committee sets performance conditions at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period. For schemes granted from 2021, there will be a two-year holding period for LTIPs for Executive Directors, other than for settling related tax liabilities.	The Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO of 125% of salary and the DCEO and CFO of 100% of salary. The maximum annual award permissible under the 2017 plan rules in exceptional circumstances is 200% of salary.	From 2019, 50% of awards are subject to an adjusted EPS CAGR real growth target, where adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations and associated income tax and exceptional items, and 50% are subject to a relative total shareholder return performance condition against the FTSE 250 companies excluding investment trusts. In addition, and irrespective of the targets, no award will vest unless, in the opinion of the Remuneration Committee, the underlying performance of the Group has been satisfactory over the measurement period. An amendment to the 2017 plan was made in 2019 to ensure that the Committee has discretion to vary award vesting in the event of exceptional negative events and to override formulaic outcomes. Commencing in 2021, a two-year holding period applies to Directors for shares awarded under the LTIP schemes, other than the requirement to sell to settle associated tax liabilities.
Shareholding guideline			
To incentivise executives to achieve the Company's long-term strategy and create sustainable shareholder value. To align with shareholder interests.	Target value to be achieved over five years: CEO – 200% of salary. DCEO – 200% of salary. CFO – 200% of salary. Current shareholder interests are shown on page 93.	Not applicable.	Not applicable.

In relation to both annual bonus and LTIP awards, the Remuneration Committee may, in line with the UK Corporate Governance Code, exercise its discretion to override formulaic outcomes, including to reflect overall corporate performance and the experience of shareholders of the Company and if the business has suffered an exceptional negative event which have not been applied in the current year (2022: not applied). Malus and clawback provisions are effective for three years from the date bonuses are paid or LTIPs vest. Issues which may trigger malus and clawback include discovery of misstatement of the financial results or error in assessing the achievement of the performance conditions. Other circumstances include the individual being found guilty of misconduct.

Save As You Earn (SAYE)

The Group operates a savings scheme for all colleagues, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each calendar year. Under the SAYE15, SAYE14 and SAYE13 schemes, the awards were made at a 20% discount to the closing mid-market price of the day preceding the date of invitation. Under the SAYE12 scheme, the awards were made at a 10% discount. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Directors' remuneration

The Chair's and the other Non-Executive Directors' remuneration comprises only directorship fees. They are reviewed annually. The Chair's and the Non-Executive Directors' fees are approved by the Board on the recommendation of the CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration. The Chair and the other independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees payable for 2022/23 are set out in the Annual Report on Remuneration.

The current fees are as follows:

Director	
R Connell	£129,057
D Kemp	£52,318
R Gray	£49,548
D Wilton	£52,318
J Shaw	£46,335

Service contracts and letters of appointment

The service contracts and letters of appointment of the Directors include the following terms:

Executive Directors	Service agreement commencement	Most recent service agreement	Notice
R Fairman	1 August 2018	10 September 2020	12 months
B Jacklin	7 September 2015	18 September 2020	12 months
R Alfonso	8 July 2019	22 September 2020	12 months

Non-Executive Directors	Date of appointment	Most recent service agreement	Term	Notice
R Connell	4 October 2007	20 September 2023	1 year	3 months
D Kemp	2 January 2018	2 January 2021	3 years	3 months
R Gray	16 July 2020	16 July 2023	3 years	3 months
D Wilton	24 September 2021	24 September 2021	3 years	3 months
J Shaw	1 July 2023	1 July 2023	3 years	3 months

The Non-Executive Director base fee is currently £46,335 with additional fees for chairing the Audit and Remuneration Committees of £5,983 and for chairing the Nominations Committee of £3,213.

Further items specified under Rule 41 of the FRC Code

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

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

The Remuneration Committee believes that the policy operated as intended in terms of Company performance and quantum during 2022/23. The Committee continues to engage with the workforce in respect of remuneration and other matters. The Committee did not apply discretions in respect of the operation of annual bonus or LTIP during 2022/23.

Remuneration Committee report – unaudited continued

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the period ended 30 June 2023.

Membership and role of the Remuneration Committee

The Remuneration Committee is appointed by the Board, and comprises Deborah Kemp as Chair, Richard Gray, David Wilton and Joanne Shaw from the date of her appointment as a Non-Executive Director on 1 July 2023. The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long-term incentive awards and pension arrangements.

Advisors

During the year, the Company engaged h2glenfern Remuneration Advisory to provide advice on executive remuneration. h2glenfern Remuneration Advisory is a member of the Remuneration Consultants Group in relation to executive remuneration consulting in the United Kingdom. h2glenfern does not provide other services to the Group and has no other connection with the Company or individual Directors. The Board is satisfied that h2glenfern is independent and has no connection to any individual Director.

Remuneration of the Executive Directors – audited

Directors' emoluments

		Basic salary allowance and fees £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	Value of share LTIP awards vested during the year[2] £'000	Total £'000
Executive Directors							
R Fairman	2023	430	12	52	401	847	1,742
	2022	412	12	49	409	926	1,808
B Jacklin	2023	322	5	24	300	508	1,159
	2022	303	4	24	307	556	1,194
R Alfonso	2023	279	10	22	260	418	989
	2022	268	10	21	266	306	871
Non-Executive Chair							
R Connell	2023	125	—	—	—	—	125
	2022	116	—	—	—	—	116
Non-Executive Directors							
D Kemp	2023	51	—	—	—	—	51
	2022	47	—	—	—	—	47
R Gray	2023	48	—	—	—	—	48
	2022	45	—	—	—	—	45
D Wilton[1]	2023	51	—	—	—	—	51
	2022	38	—	—	—	—	38

1. D Wilton was appointed on 24 September 2021.
2. In respect of 2023, LTIP awards expected to vest by reference to the performance period ending 30 June 2023 value is based on: the estimated vesting outturn (100%) and the estimated share value at vesting calculated by using the three-month average share price up to the period ending 30 June 2023 (being £20.64) less the exercise price per share (0.2p). In the 2022 Remuneration Report, LTIP awards expected to vest by reference to a performance period ending 30 June 2022 value was based on: the estimated vesting outturn (100%) and the estimated value of a share at vesting calculated by reference to the three-month average share price up to 30 June 2022 (being £17.08) less the per share exercise price (0.2p). The values have been updated to reflect the share price on the date of vesting (19 December 2022), being £20.01. The value of these awards is not included in the table in note 8 to the financial statements.

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

No Directors waived emoluments in respect of the year ended 30 June 2023.

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

LTIP vesting

LTIP awards for the three-year performance period ended 30 June 2023 are due to vest in October 2023 (LTIP14). The vesting of these awards is subject to meeting adjusted EPS and total shareholder return targets as set out below:

Adjusted EPS

Adjusted EPS for the year ended 30 June 2023 was 96.0p. This compares to adjusted EPS of 42.0p for the year ended 30 June 2020, a compound annual growth rate (CAGR) of 23% above inflation. The target CAGR for threshold and full vesting of LTIPs issued in October 2020 was 5% and 10% above inflation, respectively. This target has been substantially exceeded and, therefore, 50% of the options granted have vested.

Total shareholder return

Total shareholder return for the three years to 30 June 2023 was 99.2%, and in the upper quartile when benchmarked against the FTSE 250 index (less investment trusts), measured over the same period. This target has been exceeded and, therefore, 50% of the options granted have vested.

In light of the adjusted EPS and total shareholder return targets having been achieved, 100% of the options granted have vested for LTIP 14.

Discretionary bonus

		Bonus (% of salary)	Payout £'000
R Fairman	2023[1]	90.4	401
	2022[2]	98.4	409
B Jacklin	2023[1]	90.4	300
	2022[2]	98.4	307
R Alfonso	2023	90.4	260
	2022[2]	98.4	266

1. 2023 bonus targets were adjusted EBITDA, excluding Executive Committee bonus accrual.
2. 2022 bonus targets were adjusted EBITDA, excluding Executive Committee bonus accrual, share option costs and associated employee national insurance.

The Remuneration Committee has considered the financial performance and non-financial KPIs of the year and considers it appropriate that the CEO, DCEO and CFO are paid 90.4% (2022: 98.4%) of their bonus entitlement.

Share scheme interests as of 30 June 2023

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

Award	Grant date	Vesting period	
LTIP 14	02 October 2020	3 years	The performance targets for award LTIP 14, LTIP 15 and LTIP 16 are based on achieving adjusted EPS growth in excess of inflation and total shareholder return in comparison to the FTSE 250 (excluding investment trusts).
LTIP 15	06 October 2021	3 years	
LTIP 16	30 September 2022	3 years	

50% of the awards will vest if adjusted EPS growth in excess of inflation, is achieved as follows:

LTIP 14 and LTIP 15

> Less than 5% CAGR – no award subject to this condition.

> 5% to 10% CAGR – awarded on a straight-line basis between 25% and 100% of total award subject to this condition.

> More than 10% CAGR – full award subject to this condition.

LTIP 16

> Less than 1% CAGR – no award subject to this condition.

> 1% to 6% CAGR – awarded on a straight-line basis between 25% and 100% of total award subject to this condition.

> More than 6% CAGR – full award subject to this condition.

50% of the awards will vest if total shareholder returns in comparison to the FTSE 250 index (excluding investment trusts) are achieved as follows:

> below median comparable performance – no award subject to this condition;

> median comparable performance – 25% of awards subject to this condition;

> median to upper quartile comparable performance – 25% to 100% of awards subject to this condition measured on a straight-line basis; or

> upper quartile comparable performance – 100% of awards subject to this condition.

Annual Report on Remuneration continued

Share scheme interests as of 30 June 2023 continued

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place on 21 September 2023 are as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
R Fairman					
LTIP 14	02 October 2020	1,219p	30 June 2023	0.2p	41,030
LTIP 15	06 October 2021	2,407p	30 June 2024	0.2p	21,188
LTIP 16	30 September 2022	1,690p	30 June 2025	0.2p	30,773
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	310
SAYE15	25 November 2022	1,515p	01 January 2026	1,515p	380
B Jacklin					
LTIP 14	02 October 2020	1,219p	30 June 2023	0.2p	24,618
LTIP 15	06 October 2021	2,407p	30 June 2024	0.2p	12,712
LTIP 16	30 September 2022	1,690p	30 June 2025	0.2p	18,464
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	570
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	310
SAYE15	25 November 2022	1,515p	01 January 2026	1,515p	403
R Alfonso					
LTIP 14	02 October 2020	1,219p	30 June 2023	0.2p	13,540
LTIP 14(b)	04 January 2021	1,485p	30 June 2023	0.2p	6,733
LTIP 15	06 October 2021	2,407p	30 June 2024	0.2p	11,009
LTIP 16	30 September 2022	1,690p	30 June 2025	0.2p	15,990
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	291
SAYE15	25 November 2022	1,515p	01 January 2026	1,515p	403

During the year, shares were exercised as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
R Fairman					
LTIP 13	19 December 2019	1,080p	30 June 2022	0.2p	46,296
B Jacklin					
LTIP 13	19 December 2019	1,080p	30 June 2022	0.2p	27,778
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709
R Alfonso					
LTIP 13	19 December 2019	1,080p	30 June 2022	0.2p	15,278
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709

No options have lapsed during the year.

Directors' interests in shares

The interests of the Directors when combined with their spouses' holdings as of 30 June 2023 in the shares of the Company were:

	Ordinary shares of 0.2p each Number	% of basic salary*
R Connell	169,000	N/A
D Kemp	8,013	N/A
R Gray	6,000	N/A
D Wilton	6,500	N/A
R Fairman	55,981	249%
B Jacklin	23,802	141%
R Alfonso	12,151	83%

* Calculated using closing share price on 30 June 2023 of 1,970p

Apart from the interests in shares and share options disclosed above, the Directors had no other interest in shares of Group companies. There have been no changes to the Directors' interests in shares between the year end and the date of this Annual Report.

On 30 June 2023, the market price of the Ordinary shares was 1,970p.

Statement of voting

At the Annual General Meeting on 23 November 2022, the total number of shares in issue with voting rights was 71,155,578. The resolution to approve the Remuneration Report received the following votes from shareholders:

To approve the Directors' Remuneration Report for the year ended 30 June 2022	
Votes for[1]	49,042,089
%[2]	95.4%
Votes against	2,365,389
%	4.6%
Votes total	51,407,478
% of issued share capital[3]	72.2%
Votes withheld[4]	3,342

1. Votes "for" include discretionary votes.
2. Percentage of votes are of votes made and are rounded to one decimal place.
3. Issued share capital at meeting date: 71,155,578.
4. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes "for" and "against" a resolution.

Annual General Meeting

Our Remuneration Report will be subject to an advisory vote at our AGM to be held on 29 November 2023.

Deborah Kemp
Remuneration Committee Chair
21 September 2023

Directors' report

The Directors present their Annual Report and Financial Statements together with the audited consolidated financial statements for the year ended 30 June 2023.

Principal activities and results

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

The Group made a profit after taxation of £41.9m (2022: £25.7m).

Particulars of events which have occurred since the end of the financial year have been disclosed in note 32 to the financial statements.

Business review

The information that fulfils the requirements of the business review, including details of the 2023 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chair's Statement (pages 5 to 6), the Chief Executive Officer's Review (pages 8 to 10), the Operational Review (pages 47 to 54) and the Financial Review (pages 55 to 59), including key performance indicators (pages 24 to 27) and principal risks and uncertainties (pages 60 to 68).

Dividends

In respect of the year under review, the Directors recommend a dividend payment of 7.5p, amounting to £5.3m (2022: £5.0m). The aggregate dividends recognised as distributions in the year ended 30 June 2023 amounted to £5.0m (2022: £4.6m). No interim dividends (2022: £nil) have been paid during the year.

Dividend policy

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

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

Directors

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

R Connell
D Kemp
R Gray
D Wilton
J Shaw (appointed 1 July 2023)
R Fairman
B Jacklin
R Alfonso

Biographical details of the Directors are provided on pages 70 to 71.

Re-election of Directors

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

Directors' remuneration and interests

The Remuneration Committee Report is set out on pages 83 to 93. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Environment

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

Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect. Details of the Group's approach to sustainability and ESG are set out on pages 32 to 46.

Health and safety

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

Corporate governance

The Board's Corporate Governance Statement is set out on pages 69 to 93.

Going concern

The Governance Code requires the Board to assess and report on the prospects of the Group and whether the business is a going concern. In considering this requirement, the Directors have taken into account the Group's forecast cash flows, liquidity, borrowing facilities and related covenant requirements and the expected operational activities of the Group.

As part of the going concern assessment, the Group modelled a base case scenario and undertook sensitivity analysis to stress-test the performance at which the Group would breach its covenants. This sensitivity analysis assessed the impact of a sustained reduction in revenues and directly related costs on cash and covenants, with reductions between 5% and 30% modelled. While the sensitivity analysis was modelled up to a sustained 30% decrease in revenue and directly related costs, it is considered that a reduction of 15% would be a realistic worst case scenario, given this was the short-term decrease in revenues experienced across the Group at the height of the COVID-19 pandemic. In the 15% decrease scenario, the Group would breach its covenants in June 2024, however this analysis excludes any reduction in costs and cash savings and in practice, the Group is confident that sufficient mitigating actions could be taken to remedy this. Additional details on the above scenario analysis can be found in the Viability statement.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to remain in operation until at least twelve months after the approval of these financial statements. The Board has therefore continued to adopt the going concern basis in preparing the consolidated financial statements.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than twelve months required by the "Going concern" provision. A period of five years is believed to be appropriate for this assessment since this is consistent with the Group's long term strategic planning, and other assessment periods included within the Annual Report, for example impairment reviews. The Group also finance debt on a 4 + 1 year period, which is also consistent with a five-year assessment period.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation to meet its liabilities, as they fall due, up to 30 June 2028.

The Directors' assessment has been made by reference to the Group's financial position as at 30 June 2023, its prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks, all of which are described in the Strategic Report. The assessment also considers scenario analysis over the key principal risks to the business, how the Group is resilient to those risks and how the Group can mitigate the effects of those risks.

The Directors' assessment of the Group's viability is underpinned by a paper prepared by management. The paper is supported by comprehensive and detailed analysis and modelling, containing financial projections for a detailed one-year plan and extended five-year period. The longer-term plan is reviewed each year by the Board as part of the strategy review process. Once approved by the Board, the plan is cascaded across the Group and provides the basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance.

The five-year plan provides a robust planning tool against which strategic decisions can be made. In making their viability assessment, the Board has taken into consideration that financing facilities are maintained for the duration of the forecast.

For the purposes of assessing the Group's viability, the Directors have reviewed the risks as detailed on pages 60 to 68, whilst all the risks identified could have an impact on the Group's performance, the specific risks which could potentially impact the Group's financial position include: a potential reduction in sales volumes through either failure to attract and retain key staff or future pandemic, failure to comply with bank facilities; and possible disruption due to the economic environment and inflation impacting the Group's revenue and profitability.

As part of the going concern assessment, the Group modelled a base case scenario and undertook sensitivity analysis to stress test the performance at which the Group would breach its covenants. The base case takes into account the latest run rate of performance of 3.0% growth year on year. The Group has two financial covenants associated with the Group's bank facilities, which are based on the ratios of net debt to EBITDA which must not exceed 3.25x and EBITDA to interest ratio which must not exceed 4.5x. Further details on the covenants, solvency and liquidity are included below.

Scenario analysis was completed to assess the required reduction in revenue and directly related costs that would lead to a breach of covenants before any mitigating actions. At a sustained 15% decrease in revenue, covenants would be breached by June 2024 due to the negative impact on EBITDA. This sustained decrease in revenue has been modelled around the impact of the first COVID-19 lockdown as the Directors' consider this to be an accurate representation of a potential worst-case scenario.

The scenario analysis assumes that no mitigating action is taken. However, the Group would be able to mitigate the impact of loss in revenue and directly related costs on covenant compliance through reductions in non-essential spending including locum vets and discretionary bonuses, and the deferment of non-essential capital expenditure.

Therefore, the Directors consider that under this worst case scenario, the Group would be able to meet their covenants and be able to secure future funding if required.

The Directors have considered other sources of risks and uncertainties that may impact the Group's ability to trade, and the controls in place to mitigate them on pages 60 to 68.

The Group has modelled a further scenario of no further revenue growth and under both the base case and the no growth scenario, there is more than sufficient headroom in both liquidity and covenants.

The outputs of the above scenario tests have been reviewed against the Group's current and projected future cash and liquidity position. At the year end, the Group had cash and cash equivalents of £21.5, a drawn term loan of £87.5m, an unutilised RCF of £254.5m and an unutilised overdraft facility of £5.0m.

During the viability period, on 21 February 2027, the term loan of £87.5m will expire. In addition the Group does have an option for a further one year extension until 21 February 2028. The Directors have considered the available cash, the undrawn overdraft facility and cash flow forecasts, and consider that the Group will be able to meet its liabilities in full as they fall due, including the repayment of the drawn term loan if not refinanced. The Group monitors cash flow on a daily basis, and maintains sufficient cash reserves to ensure both solvency and liquidity within the Group.

In making this assessment, the Board has assumed that there is no material adverse change in the legislative environment in the practice of veterinary medicine. The Group expects that legislative changes, such as the proposal by the RCVS to enable highly skilled nurses to undertake a broader range of procedures without veterinary surgeon supervision, will benefit the Group moving forwards. It is recognised however, that such future assessments are subject to a level of uncertainty that increases with time and therefore future outcomes cannot be guaranteed or predicted with certainty. In the scenario analysis, the Board has also assumed that a worst case scenario would not exceed the impact of the initial COVID 19 lockdown. On this basis and in conjunction with other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the five financial years used for its assessment.

Directors' report continued

Financial instruments

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

Share capital and substantial shareholdings

Shareholder	31 August 2023	% IC
BlackRock Inc	5,370,996	7.52
Global Alpha Capital Management	4,838,881	6.31
abrdn plc	4,830,125	6.83
Octopus Investments Limited	4,701,673	6.58
Grandeur Peak Global Advisors	4,650,558	6.51
Columbia Threadneedle Investments	3,135,317	4.46
Canaccord Genuity Wealth Management	2,592,707	3.75
Invesco	2,219,735	3.09
	32,339,992	45.05

Details of the share capital of the Company as at 30 June 2023 are set out in note 26 to the financial statements. Each share carries the right to one vote at general meetings of the Company.

At 31 August 2023, the Company has been notified (using TR1 standard form) of the substantial shareholdings detailed in the table above comprising 3.0% or more of the issued Ordinary share capital of the Company.

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

Employees

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

Deborah Kemp is the Board's dedicated Non-Executive Director for employee engagement and during the year Deborah has consulted with employees through online meetings with the Company's Senior Leadership Team, visits to our businesses and regular reviews of the Group's monthly employee Net Promoter Score. The business has further reviewed its monthly employee survey and additional questions have been added to this to obtain more detailed feedback from employees in addition to calculating the employee Net Promoter Score.

The Group regularly consults with, and seeks feedback from, employees and the Board monitors employee engagement.

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

The Group operates a Long-Term Incentive Plan for Executive Directors and senior managers. Details are included in note 11. The Group also has a Save As You Earn scheme, now in its 15th year, under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 20.0% discount to the shares' market value at the date of invitation. The scheme is open to all UK Group employees, including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 83 to 93.

Directors' third-party indemnity provision

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the year and also at 30 June 2023 for the benefit of each of the Directors in respect of liabilities incurred as a result of their office with the Company and any associated company to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors' and Officers' (D&O) liability insurance policy throughout the financial year.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with the United Kingdom adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. The Directors have also chosen to prepare the parent company financial statements under United Kingdom adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, International Accounting Standard 1 requires that Directors:

> properly select and apply accounting policies;

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

> provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

> make an assessment of the Company's ability to continue as a going concern.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

> the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

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

This responsibility statement was approved by the Board of Directors on 21 September 2023 and is signed on its behalf by:

Richard Fairman
Chief Executive Officer
21 September 2023

Robin Alfonso
Chief Financial Officer
21 September 2023

Disclosure of information to auditor

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

> so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

> the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

Approval

The Strategic Report on pages 1 to 68 was approved by the Board of Directors on 21 September 2023.

Authorised by order of the Board.

Scott Morrison
Company Secretary
21 September 2023

Streamlined Energy and Carbon Reporting (SECR)

The Group is required under the Streamlined Energy and Carbon Reporting (SECR) regulations to report how it manages its energy consumption and carbon emissions and has used a third-party consultant to advise on this and support with the preparation of this SECR report. Since 2020, we have published our direct greenhouse gas (GHG) emissions from sources that are controlled or owned by the Group ("Scope 1"), indirect GHG emissions from the Group's consumption of purchased electricity ("Scope 2") and all emissions the Group is indirectly responsible for across its value chain ("Scope 3").

Monitoring and reporting these emissions enables us to evaluate and minimise our impact on the natural environment, which supports us in our purpose to give the best possible care to animals. We have taken strong actions to increase our energy efficiency and reduce any adverse impact our business has on the planet.

Our energy efficiency actions

Our energy and carbon reduction sustainability work streams have targeted three specific areas:

1. User awareness and consumption management.
2. Enhancing construction, maintenance and property leasing activities.
3. Capital expenditure in energy saving.

Increasing energy efficiency in our facilities

One of our strategic goals is to provide great facilities and equipment, and a key part of this is to ensure our facilities and operations are as energy efficient as possible.

We have pledged to spend up to £50.0m a year to upgrade and relocate current practices and to open new practices to a new minimum practice facility standard.

As part of this we have developed a set of sustainability criteria for all new, relocated and refurbished practices. This includes;

- the use of sustainable building materials;
- installing building management systems in our new build projects;
- boiler upgrades and replacement to increase heating efficiency and reduce number;
- better insulation to retain building heat;
- more energy efficient LED lighting;
- a standard heating and cooling specification is for variable refrigerant flow to optimise energy efficiency and will actively pursue other solutions to avoid installing cooling systems where they do not impact on operational performance/clinical standards;
- passive infrared light sensor detectors;
- the fitting of smart meters; and
- the installation of solar panels and electric vehicle charging where possible.

We also plan to embed a sustainability support on future major projects to ensure whole life carbon emissions and impacts are carefully accounted for and elsewhere ongoing capital expenditure projects are rolling out LED lighting, efficient boilers, sensor detectors and smart meters into existing sites.

We are also continuing to secure Green Leases with our landlords. This includes an obligation for both parties to share building environmental performance data, and for no alterations or maintenance to be conducted which adversely impacts a building's environmental performance.

Moving forward, we will continue to conduct an infrastructure and equipment asset survey of Group's property portfolio. This will help us to improve future investment in energy monitoring and consumption.

We will also embed an 'environmental net gain' principle for our new developments so that they will be compliant with Local Planning Authority requirements in 2023 and beyond.

A greener approach to transport

We have a range of ultra-low emissions vehicles to our company car list, as well as more hybrid and electric vehicles (EV). All fossil fuel-reliant vehicles on the list are capped to 130g CO_2 emissions. We have also launched a salary-sacrifice electric vehicle scheme, further promoting a greener approach to transport. To support the future increase in EV and hybrid vehicles, we have installed several EV charging points at a range of our sites.

Using renewable sources

Since August 2021, all our veterinary practice sites across the UK, the Netherlands and the Republic of Ireland use electricity from 100% renewable sources.

Our UK and offshore energy usage and carbon emissions

	2023 tCO_2e	2022 tCO_2e	Change (%)	Comments
Scope 1	6,919	8,539	-19.0%	The decrease in these emissions arises from a reduction in travel. In addition emissions from gas have decreased by 25.4%.
Scope 2	2,919	2,619	11.5%	As we promote office working, we have seen an increase in electricity usage across our estate.
Scope 3	606	593	2.2%	Travel in employee-owned vehicles has remained consistent year on year.
Total emissions	10,444	11,751	-11.1%	
Total energy volume (kWh)	48,418,083	55,227,876	-12.3%	
Intensity ratio (tCO_2e per £m revenue)	17.2	21.2	-18.9%	The intensity ratio has decreased from the prior year, due to our reduction in total emissions despite revenue growth of the Group.

Methodology
The Group has taken guidance from the UK Government's Environmental Reporting Guidelines (March 2019), the Greenhouse Gas Protocol reporting standard, and the UK Government's Greenhouse Gas Conversion Factors for Company Reporting document for calculating carbon emissions.

Energy usage information (gas and electricity) has been obtained directly from the Group's energy suppliers and half-hourly automated meter reading (HH/AMR) data, where available, for those suppliers with HH/AMR meters. For suppliers where energy usage data was not available for a full twelve months, flat profile estimation techniques were used to calculate the annual consumption. With all landlord sites these have had to be estimated using similar-sized sites' usage for gas and electricity.

Transport mileage data was obtained from expense claims submitted for our company cars and grey fleet.

Exclusions
CO_2e emissions were calculated using the appropriate emission factors from the UK Government's UK Greenhouse Gas Conversion Factors and this is retained within the Group's data file for reference where required.

Normalisation
The Group has chosen to report gross Scope 1, 2 and 3 emissions tonnes of CO_2 equivalent (tCO_2e) per £m revenue as this is a common metric used in corporate GHG reporting.

Approval
Authorised by order of the Board.

Scott Morrison
Company Secretary
21 September 2023

Independent auditor's report

To the members of CVS Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

> the financial statements of CVS Group plc (the 'parent company') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2023 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;

> the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

> the consolidated income statement;

> the consolidated statement of comprehensive income;

> the consolidated and company statement of financial position;

> the consolidated statement of changes in equity;

> the company statement of changes in equity;

> the consolidated and company statement of cash flow; and

> the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: > Revenue Recognition – Healthy Pet Club > R&D Expenditure Credit ("RDEC") recognition Within this report, key audit matters are identified as follows: Newly identified Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £3.2m (FY22: £3.0m), which equates to 3.7% of adjusted pre-tax profit and was determined by reference to a range of income statement measures.
Scoping	Our audit comprised of two components subject to full-scope audits and a further eleven components subject to audit procedures on specified account balances. The remainder of the Group was subject to review procedures only.
Significant changes in our approach	We have identified an additional key audit matter in the current year in relation to RDEC recognition, due to the increased level of uncertainty and judgement in this area. Otherwise, there have been no significant changes to our audit approach in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

> assessment of the available financing facilities of £350m, including extended facilities available to group following the refinancing that occurred in February 2023, and evaluation of repayment terms and covenant requirements;

> evaluation of the assumptions used in the forecasts such as revenue growth, gross margin changes and cash flow movements, and whether these are appropriate in line with historical performance;

> assessment of the level of headroom in the financing facilities under the base case forecast;

> assessment of the arithmetical accuracy of the forecast model confirming consistent calculations are used throughout, using internal software;

> assessment of the historical accuracy of forecasts through comparing actual performance to forecast, to assess the historic accuracy of forecasts prepared by management;

> assessment of the reverse stress test scenario performed by management, and consideration of whether the adverse variance in cash flows required to produce a covenant breach represents a remote possibility; and

> assessment of the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

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

5.1. Revenue Recognition – Healthy Pet Club

Key audit matter description	The Group earns revenue via the Healthy Pet Club ("HPC") scheme whereby customers sign up for a monthly or annual direct debit arrangement in exchange for a programme of preventative products and treatments. The Group recognised £75.6m (FY22: £67.3m) of HPC revenue during the year and has approximately 489,000 (FY22: 470,000) active members as at the year-end. The revenue recognition for this scheme is judgemental since IFRS 15 "Revenue from Contracts with Customers" requires revenue to be recorded either at a point in time or over time according to when the performance obligation is satisfied, which in the case of HPC revenue is not aligned to the timing of cash receipts due to the weighting of treatments towards the earlier months of the scheme. Revenue must also be adjusted for anticipated animal deaths (whereby outstanding fees will be waived) and irrecoverable debts. Additional adjustments are also required where a customer does not receive their treatment during the scheduled month, due to various factors. The Group's accounting policy is to record revenue according to the cost profile associated with providing the services offered in the scheme, as disclosed in note 2 to the financial statements, and due to the complexities outlined above there is a risk that revenue recognition is not in accordance with IFRS 15 "Revenue from Contracts with Customers".

5. Key audit matters continued

5.1. Revenue Recognition – Healthy Pet Club continued

How the scope of our audit responded to the key audit matter	In response to the key audit matter, we performed the following procedures: > tested management's controls around HPC revenue recognition; > assessed the appropriateness of accruing revenue according to the cost profile of treatments offered, including adjustments to delay revenue recognition where treatments are missed, in line with the requirements of IFRS 15; > tested the accuracy and completeness of the membership data that drives the HPC revenue calculation; > tested the accuracy and completeness of the underlying data of the assumed cost profiles for the different types of pet that can be added to the scheme; > performed a reconciliation of amounts due from customers to cash receipts in bank statements, on a sample basis; > performed a recalculation of accrued revenue based on member data and assumed cost profiles; > performed a recalculation of revenue subsequently deferred due to missed treatments, based on operational and sales data used to estimate the level of missed treatments occurring across the Group; and > assessed assumptions around animal deaths and cancellations through comparison and benchmarking against direct debit collection rates and operational data around animal life expectancy.
Key observations	Based on the audit procedures performed, we concluded that revenue recognition in respect of the HPC is appropriate.

5.2. RDEC recognition

Key audit matter description	The Group continues to submit claims for RDEC arising from qualifying R&D expenditure, having previously submitted claims in respect of FY19 and FY20 and in the current year submitted claims for FY21 and FY22. The scheme rules are subjective and, for claims where the HMRC enquiry window has not yet elapsed, there remains the possibility of challenge. Significant judgement is therefore required when determining the extent of recognition of claims already submitted and the extent of discounting to apply to these claims. Judgement is further required when determining an estimate of amounts that should be accrued in respect of qualifying expenditure in FY23. RDEC recognition has been included as a new key audit matter in the current year due to the additional number of claims resulting in an increased quantum of possible outcomes in terms of amounts that will ultimately be recovered from HMRC. In the current year, the Group recognised £1.8m in respect of their estimated claim for FY23, £5.7m in respect of claims submitted for FY21 and FY22, and a further £4.0m in respect of earlier years following the expiry of enquiry windows for those claims. The total RDEC in the consolidated income statement is therefore £11.5m (FY22: £2.0m), which is presented in note 6 net of associated fees.
How the scope of our audit responded to the key audit matter	In response to the key audit matter, we performed the following procedures: > inspected documentation for claims made during the year and, through involvement of a tax specialist, considered the appropriateness of the underlying methodology against HMRC requirements; > assessed the level of discounting applied to claims where the enquiry window remains open, in the context of benchmarked peers; > inspected correspondence with HMRC in respect of historic claims, and considered the implications for the recoverability of future claims; > verified cash receipts in respect of claims fully paid to bank statements; > challenged the consistency of provisioning applied to claims relating to different financial years; and > considered, with the assistance of our internal tax specialist, wider context regarding HMRC's current approach to RDEC submissions
Key observations	Based on the audit procedures performed, we concluded that RDEC recognition is appropriate.

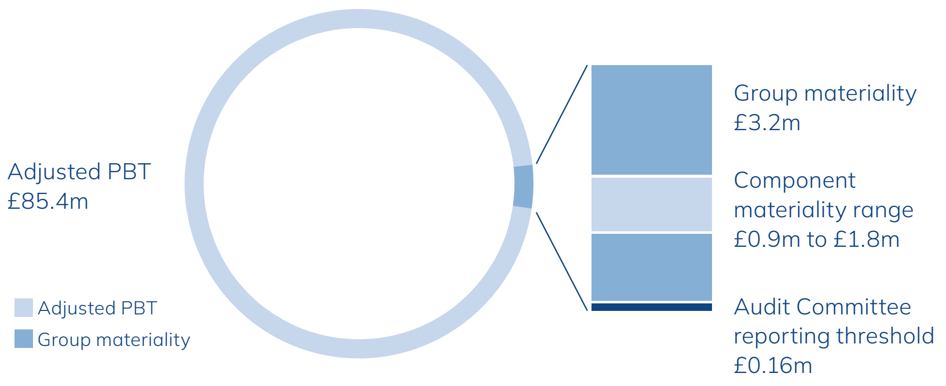
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£3.2m	£1.8m
Basis for determining materiality	3.7% of adjusted pre-tax profit	Parent company materiality equates to 1.2% of net assets, which is capped at 56% of group materiality
Rationale for the benchmark applied	We have considered both adjusted pre-tax profit of £85.4m and revenue of £608.3m, where adjusted pre-tax profit is calculated as profit before tax adjusted for amortisation, costs associated with business combinations and exceptional items. These are the metrics that are deemed to be of most importance to stakeholders, as dis-closed within Note 1.	As a holding company, net assets were considered the most relevant benchmark to users of the parent company financial statements.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (FY22: 70%) of Group materiality	70% (FY22: 70%) of parent company materiality
Basis and rationale for determining performance materiality	We have assessed the quality of the Group's overall control environment, as well as the low volume of corrected and uncorrected misstatements in the previous audit.	

6.3. Error reporting threshold

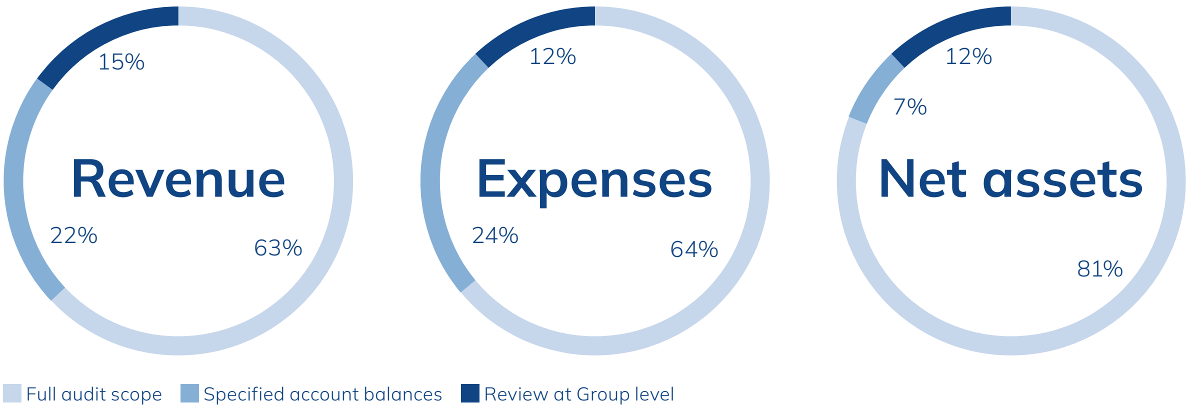
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 (FY22: £150,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

We have focused our work on the UK-based subsidiaries which account for the majority of the Group's revenue, expenses and net assets. We have subjected two components to full-scope audits and a further eleven components to audits of specified account balances, which covers 85% of revenue (FY22: 84%), 88% of expenses (FY22: 85%) and 88% of net assets (FY22: 91%). The remainder of the Group, including all components located overseas in the Republic of Ireland and the Netherlands, were subject to review procedures only. All audit work was carried out by the UK engagement team, with no involvement of component auditors. Testing was performed to component materiality ranging from £0.9m to £1.8m (FY22: £0.7m to £1.9m).



7.2. Our consideration of the control environment

We obtained an understanding of the control environment, including the underlying key IT systems (Navision and Robovet), and general IT controls. The Navision IT system is the main financial reporting system adopted by the Group. The Robovet IT system is the Group adopted practice management software which reports all transactions within individual practices using the software.

We also obtained an understanding of, and tested, the relevant controls over the revenue cycle. We did not rely on the controls and note the Audit Committee's discussion of the controls environment in their report commencing page 78.

7.3. Our consideration of climate-related risks

We have obtained an understanding of management's process and related controls to consider and identify the impact of climate risks. The risks identified during the period are complete and consistent with our understanding of the Group's operations.

The key climate risks disclosed by management in the Principal Risks section of the Strategic Report include the following:

> disruptions to supply chain leading to stock shortage and financial loss;

> adverse weather conditions leading to a decline in client demand; and

> changes in regulations increasing the cost of operations.

Our audit included the following procedures in relation to climate change:

> consideration of the impact of climate issues on key audit matters;

> review and challenge of management's own climate risk assessment, and consideration of the impact of climate matters on other areas of the financial statements;

> evaluation of whether appropriate disclosures have been made in the financial statements; and

> read the climate disclosures in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 21 September 2022;
- results of our enquiries of management, internal audit, the Directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, financial instrument and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition – Healthy Pet Club and RDEC recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act, AIM listing rules, Corporate Governance code, pensions legislation and tax legislation.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.1. Identifying and assessing potential risks related to irregularities continued

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's compliance with the RCVS regulations applicable to all practices and qualified nurses, GDPR, Veterinary Surgeons Act 1966, Animal Welfare Act 2006, Veterinary Medicines Regulations 2013 and The Animal Act 1986.

11.2. Audit response to risks identified

As a result of performing the above, we identified Revenue Recognition – Healthy Pet Club and RDEC recognition as key audit matters related to the potential risk of fraud.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and meeting with internal audit, and reviewing correspondence with the Health and Safety Executive ("HSE") and the Royal College of Veterinary Services ("RCVS"); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 94 to 95;
- the Directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 94 to 95;
- the Directors' statement on fair, balanced and understandable set out on pages 96 to 97;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 60 and 68;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 78 to 80; and
- the section describing the work of the Audit Committee set out on page 80.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

> we have not received all the information and explanations we require for our audit; or

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Use of our report

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

Paul Schofield FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
21 September 2023

Consolidated income statement
for the year ended 30 June 2023

	Note	2023 £m	2022 £m
Revenue	4	608.3	554.2
Cost of sales		(346.0)	(315.1)
Gross profit		262.3	239.1
Administrative expenses		(200.0)	(196.3)
Operating profit		62.3	42.8
Finance expense	5	(8.4)	(6.8)
Profit before tax	4	53.9	36.0
Tax expense	9	(12.0)	(10.3)
Profit for the year		41.9	25.7
Earnings per Ordinary share (EPS)			
Basic	10	58.8p	36.2p
Diluted	10	58.5p	35.9p

All activities derive from continuing operations.

Reconciliation of alternative performance measures

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS, provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures.

Adjusted EBITDA is calculated by reference to profit before tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items. The following table provides the calculation of adjusted EBITDA:

Alternative performance measure: adjusted EBITDA	Note	2023 £m	2022 £m
Profit before income tax		53.9	36.0
Adjustments for:			
Finance expense	5	8.4	6.8
Amortisation of intangible assets	12	22.6	22.2
Depreciation of property, plant and equipment	13	12.6	11.3
Depreciation of right-of-use assets	14	15.2	14.1
Profit on disposal of property, plant and equipment and right-of-use assets		(0.2)	(0.3)
Costs relating to business combinations[1]	15	6.6	4.9
Exceptional items[2]	6	2.3	12.4
Adjusted EBITDA	4	121.4	107.4
Adjusted earnings per share (EPS):			
Adjusted EPS	10	96.0p	85.8p
Diluted adjusted EPS	10	95.5p	85.0p

1. Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.
2. Exceptional items relate to impairment and trading losses in respect of the Gilabbey Veterinary practice closure in the current year and the impairment of Quality Pet Care Ltd in the prior year. Further information is available in note 6.

Consolidated statement of comprehensive income
for the year ended 30 June 2023

	Note	2023 £m	2022 £m
Profit for the year		41.9	25.7
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		(0.2)	2.8
Cost of hedging reserve		—	(0.1)
Deferred tax on cash flow hedge and available-for-sale financial assets	25	—	(0.7)
Exchange differences on translation of foreign operations		(0.2)	(0.1)
Other comprehensive (expense)/income for the year, net of tax		(0.4)	1.9
Total comprehensive income for the year attributable to owners of the parent		41.5	27.6

Consolidated and Company statement of financial position
as at 30 June 2023

Company registration number: 06312831

	Note	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Non-current assets					
Intangible assets	12	256.1	216.5	—	—
Property, plant and equipment	13	101.5	69.7	—	—
Right-of-use assets	14	102.9	101.7	—	—
Investments	16	—	0.1	75.6	73.9
Amounts owed by Group undertakings	33	—	—	75.2	79.4
Derivative financial instruments	17	—	2.3	—	—
		460.5	390.3	150.8	153.3
Current assets					
Inventories	19	28.4	26.2	—	—
Trade and other receivables	20	58.1	52.7	—	—
Derivative financial instruments	17	2.1	—	—	—
Current tax receivable		1.7	—	—	—
Cash and cash equivalents	21	21.5	49.0	—	—
		111.8	127.9	—	—
Total assets	4	572.3	518.2	150.8	153.3
Current liabilities					
Trade and other payables	22	(91.1)	(86.6)	—	—
Provisions	23	(0.7)	(2.1)	—	—
Lease liabilities	14	(13.3)	(9.4)	—	—
Current tax liabilities		—	(3.3)	—	—
		(105.1)	(101.4)	—	—
Non-current liabilities					
Borrowings	24	(92.2)	(84.3)	—	—
Lease liabilities	14	(93.6)	(95.1)	—	—
Deferred tax liabilities	25	(24.8)	(20.0)	—	—
		(210.6)	(199.4)	—	—
Total liabilities	4	(315.7)	(300.8)	—	—
Net assets		256.6	217.4	150.8	153.3
Shareholders' equity					
Share capital	26	0.1	0.1	0.1	0.1
Share premium	27	107.0	105.4	107.0	105.4
Capital redemption reserve		0.6	0.6	0.6	0.6
Treasury reserve		—	—	—	—
Cash flow hedge reserve		1.4	1.6	—	—
Cost of hedging reserve		—	—	—	—
Merger reserve		(61.4)	(61.4)	—	—
Foreign exchange translation reserve		(0.2)	—	—	—
Retained earnings		209.1	171.1	43.1	47.2
Total equity		256.6	217.4	150.8	153.3

The Company reported a total comprehensive loss for the financial year ended 30 June 2023 of £0.8m (2022: £0.6m).
The notes on pages 115 to 155 are an integral part of these consolidated and Company financial statements.

The financial statements on pages 108 to 155 were authorised for issue by the Board of Directors on 21 September 2023 and were signed on its behalf by:

Richard Fairman
Director

Robin Alfonso
Director

Consolidated statement of changes in equity
for the year ended 30 June 2023

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total equity £m
At 1 July 2022		0.1	105.4	0.6	—	1.6	—	(61.4)	—	171.1	217.4
Profit for the year		—	—	—	—	—	—	—	—	41.9	41.9
Other comprehensive income and losses											
Cash flow hedges:											
Fair value loss		—	—	—	—	(0.2)	—	—	—	—	(0.2)
Deferred tax on cash flow hedge and available-for-sale financial assets		—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(0.2)	—	(0.2)
Total other comprehensive loss		—	—	—	—	(0.2)	—	—	(0.2)	—	(0.4)
Total comprehensive (loss)/income		—	—	—	—	(0.2)	—	—	(0.2)	41.9	41.5
Transactions with owners											
Issue of Ordinary shares	26	—	1.6	—	—	—	—	—	—	—	1.6
Purchase of Treasury Shares	26	—	—	—	(1.2)	—	—	—	—	—	(1.2)
Disposal of Treasury shares	26	—	—	—	1.2	—	—	—	—	(0.7)	0.5
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	—	1.7	1.7
Deferred tax relating to share-based payments	25	—	—	—	—	—	—	—	—	0.1	0.1
Dividends to equity holders of the Company		—	—	—	—	—	—	—	—	(5.0)	(5.0)
Total transactions with owners		—	1.6	—	—	—	—	—	—	(3.9)	(2.3)
At 30 June 2023		0.1	107.0	0.6	—	1.4	—	(61.4)	(0.2)	209.1	256.6

Consolidated statement of changes in equity continued

for the year ended 30 June 2023

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Foreign exchange translation reserve £m	Retained earnings £m	Total equity £m
At 1 July 2021		0.1	103.1	0.6	—	(0.5)	0.1	(61.4)	—	149.1	191.1
Profit for the year		—	—	—	—	—	—	—	—	25.7	25.7
Other comprehensive income and losses											
Cash flow hedges:											
Fair value income/(loss)		—	—	—	—	2.8	(0.1)	—	—	—	2.7
Deferred tax on cash flow hedge and available-for-sale financial assets		—	—	—	—	(0.7)	—	—	—	—	(0.7)
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	—	(0.1)	(0.1)
Total other comprehensive (loss)/income		—	—	—	—	2.1	(0.1)	—	—	(0.1)	1.9
Total comprehensive income/(loss)		—	—	—	—	2.1	(0.1)	—	—	25.6	27.6
Transactions with owners											
Issue of Ordinary shares	26	—	2.3	—	—	—	—	—	—	—	2.3
Disposal of treasury reserve	11	—	—	—	—	—	—	—	—	—	—
Credit to reserves for share-based payments		—	—	—	—	—	—	—	—	2.3	2.3
Deferred tax relating to share-based payments	25	—	—	—	—	—	—	—	—	(1.3)	(1.3)
Dividends to equity holders of the Company	26	—	—	—	—	—	—	—	—	(4.6)	(4.6)
Total transactions with owners		—	2.3	—	—	—	—	—	—	(3.6)	(1.3)
At 30 June 2022		0.1	105.4	0.6	—	1.6	—	(61.4)	—	171.1	217.4

Company statement of changes in equity
for the year ended 30 June 2023

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2022		0.1	105.4	0.6	47.2	153.3
Total comprehensive loss for the year		—	—	—	(0.8)	(0.8)
Transactions with owners						
Issue of Ordinary shares	26	—	1.6	—	—	1.6
Credit to reserves for share-based payments	11	—	—	—	1.7	1.7
Dividends to equity holders of the Company	26	—	—	—	(5.0)	(5.0)
Total transactions with owners		—	1.6	—	(3.3)	(1.7)
At 30 June 2023		0.1	107.0	0.6	43.1	150.8

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2021		0.1	103.1	0.6	50.1	153.9
Total comprehensive loss for the year		—	—	—	(0.6)	(0.6)
Transactions with owners						
Issue of Ordinary shares	26	—	2.3	—	—	2.3
Credit to reserves for share-based payments	11	—	—	—	2.3	2.3
Dividends to equity holders of the Company	26	—	—	—	(4.6)	(4.6)
Total transactions with owners		—	2.3	—	(2.3)	—
At 30 June 2022		0.1	105.4	0.6	47.2	153.3

Consolidated and Company statement of cash flow
for the year ended 30 June 2023

	Note	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Cash flows from operating activities					
Cash generated from operations	29	107.9	93.1	3.4	2.3
Taxation paid		(14.9)	(11.2)	—	—
Interest paid		(7.2)	(6.4)	—	—
Exceptional items		(1.3)	—	—	—
Net cash generated from operating activities		84.5	75.5	3.4	2.3
Cash flows from investing activities					
Business combinations (net of cash acquired)	15	(54.6)	(8.4)	—	—
Purchase of property, plant and equipment	13	(42.3)	(23.0)	—	—
Proceeds from sale of property, plant and equipment		0.3	0.2	—	—
Purchase of intangible assets	12	(3.4)	(1.5)	—	—
Purchase of other investments	16	—	(21.4)	—	—
Proceeds from sale of other investments	16	0.1	9.0	—	—
Net cash used in investing activities		(99.9)	(45.1)	—	—
Cash flows from financing activities					
Dividends paid	26	(5.0)	(4.6)	(5.0)	(4.6)
Proceeds from issue of Ordinary shares	26	1.6	2.3	1.6	2.3
Proceeds from sale of Treasury shares	26	0.5	—	—	—
Purchase of Treasury shares	26	(1.2)	—	—	—
Repayment of obligations under right-of-use assets		(14.1)	(12.7)	—	—
Debt issuance costs		(3.6)	—	—	—
Repayment of borrowings	28	(0.8)	(0.1)	—	—
Increase of borrowings	28	10.5	—	—	—
Net cash used in financing activities		(12.1)	(15.1)	(3.4)	(2.3)
Net (decrease)/increase in cash and cash equivalents		(27.5)	15.3	—	—
Cash and cash equivalents at the beginning of the year		49.0	33.7	—	—
Cash and cash equivalents at the end of the year		21.5	49.0	—	—

Notes to the consolidated financial statements
for the year ended 30 June 2023

1. General information
The principal activity of CVS Group plc, together with its subsidiaries ("the Group"), is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online pharmacy and retail business. The principal activity of CVS Group plc ("the Company") is that of a holding company.

CVS Group plc is a public limited company incorporated under the Companies Act 2006 and domiciled in England and Wales and its shares are quoted on AIM of the London Stock Exchange (CVSG). Its company registration number is 06312831 and registered office is CVS House, Owen Road, Diss, Norfolk IP22 4ER.

Use of alternative performance measures
Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), adjusted profit before tax (adjusted PBT) and adjusted earnings per share (adjusted EPS)

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS, provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by International Financial Reporting Standards (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 calculated by reference to profit before tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.

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

Adjusted EPS is calculated as adjusted PBT, less applicable tax, divided by the weighted average number of Ordinary shares in issue in the period.

The following table provides the calculation of adjusted EBITDA as defined above:

Alternative performance measure: adjusted EBITDA	Note	2023 £m	2022 £m
Profit before income tax		53.9	36.0
Adjustments for:			
Finance expense	5	8.4	6.8
Amortisation of intangible assets	12	22.6	22.2
Depreciation of property, plant and equipment	13	12.6	11.3
Depreciation of right-of-use assets	14	15.2	14.1
Profit on disposal of property, plant and equipment and right-of-use assets		(0.2)	(0.3)
Costs relating to business combinations[1]	15	6.6	4.9
Exceptional items[2]	6	2.3	12.4
Adjusted EBITDA	4	121.4	107.4
Adjusted earnings per share (EPS):			
Adjusted EPS	10	96.0p	85.8p
Diluted adjusted EPS	10	95.5p	85.0p

1. Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.
2. Exceptional items relate to impairment and trading losses in respect of the Gilabbey Veterinary Hospital closure in the current year and the impairment of Quality Pet Care Ltd in the prior year. Further information is available in note 6.

The reconciliations for adjusted PBT and adjusted EPS can be found in note 10.

1. General information continued

Net debt

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

	Note	2023 £m	2022 £m
Borrowings repayable after more than one year:			
Term loan and revolving credit facility		95.5	85.0
Unamortised borrowing costs		(3.3)	(0.7)
Total borrowings	24	92.2	84.3
Cash and cash equivalents	21	(21.5)	(49.0)
Net debt		70.7	35.3

For bank covenant reporting, an alternative calculation for net debt in used. This definition can be found in note 3.

Like-for-like sales

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.

2. Summary of significant accounting policies

Basis of preparation

The consolidated and Company financial statements of CVS Group plc have been prepared in accordance with United Kingdom adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006 and applicable law.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. The accounting policies which follow relate to the Group and are applied by the Company as appropriate.

Going concern

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value. At the year end the Group had cash balances of £21.5m and an unutilised overdraft facility of £5.0m. Total facilities of £350.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £87.5m and an RCF of £262.5m. The Group is fully compliant with all covenants in respect of these facilities. The Directors consider that the £5.0m overdraft and the £350.0m facility enable the Group to meet all current liabilities as they fall due. The Group is not reliant on any Government support. Since the year end, the Group has continued to trade profitably and to generate cash. After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), financial forecasts, its profile of cash generation and the timing and amount of bank borrowings repayable, principal risks, and considering the Task Force on Climate-Related Financial Disclosures (TCFD) scenario analysis conducted, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates.

Judgement: Leases

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term.

When determining the lease term in accordance with IFRS 16, 'Leases', paragraphs 18-21, management has applied the following policy for all leases:

a) for properties in contract, the lease term has been determined to be the period to the end of the contractual lease term;

b) for properties out of contract and therefore occupied on a rolling basis in accordance with legislation that permits this, the lease term has been determined to be 7.5 years from the end of the contractual lease term; and

c) for properties where management has committed to close the site, the lease term is determined to be until the next break clause. Refer to note 14 for additional disclosures related to leases.

2. Summary of significant accounting policies continued

Critical accounting estimates and judgements continued

Accounting estimate: Research and Development Expenditure Tax Credit (RDEC)

Certain companies within the Group may be entitled to claim tax credits in relation to the Research and Development Expenditure Tax Credit (RDEC) scheme in the UK. Tax credits receivable under this scheme are determined to have the substance of a government grant and accordingly these tax credits are accounted for under IAS 20. Further information can be found in the Government grants accounting policy.

The Group has recognised £1.8m in respect of their estimated claim for the current year, being 2023, which is after applying a discount of £5.2m to reflect uncertainty. The Group has also recorded £5.7m in respect of claims submitted for 2022 and 2021, after applying a discount of £5.7m, and a further £4.0m in respect of earlier years following the expiry of the enquiry windows for those claims.

The total RDEC in the consolidated income statement is therefore £11.5m (2022: £2.0m).

The Group has recognised £15.5m to date for claims already filed, or as estimates for claims yet to be made for qualifying expenditure that has already been incurred. Of this amount, £7.5m has an open enquiry window, and this would therefore be the maximum amount that could be disallowed in the event of challenge from HMRC. Alternatively, the maximum income that will be recorded in future periods in relation to R&D expenditure that has already taken place is estimated to be £11.0m, which would arise if all previously submitted claims were paid in full, and the estimate for 2023, which is yet to be submitted, was also recovered in full.

Management's policy remains to recognise the remainder of submitted claims when the uncertainty has been removed either via formal acceptance of the claims, or the expiry of the enquiry windows.

The net benefit of the RDEC scheme in the year was £9.6m after associated costs (2022: £2.0m).

Changes in accounting policies and disclosure

Standards adopted by the Group for the first time

Four new and revised standards, including the following, are effective for annual periods beginning on or after 1 January 2022:

> Amendment to IFRS 3 – Reference to the conceptual framework
> Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before intended use
> Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract
> Annual improvements to IFRS Standards 2018–2020

Adoption of these standards has not had an impact on the Group's financial statements.

Standards and interpretations to existing standards which are not yet effective and are under review as to their impact on the Group:

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2023 or later periods but which the Group has not early adopted:

> Amendments to IFRS 16 – Lease Liability in Sale and Leaseback (effective 1 January 2024)
> Amendments to IFRS 17 – Insurance Contracts (effective 1 January 2023)
> Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective 1 January 2023)
> Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies (effective 1 January 2023)
> Amendments to IAS 1 – Non-current Liabilities with Covenants (effective 1 January 2024)
> Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements (effective 1 January 2024)
> Amendments to IAS 8 – Definition of accounting estimates (effective 1 January 2023)
> Amendments to IAS 12 – International tax reform – Pillar two model rules (effective 1 January 2023)
> Amendments to IAS 12 – Deferred Tax related to assets and liabilities arising from a single transaction (effective 1 January 2023)

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2023.

Subsidiaries are all entities over which the Group has control. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. They are deconsolidated from the date that control ceases. Where the Group does not control a subsidiary, it is not consolidated. On acquisition of a company or business, all assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. Changes that arise during the measurement period that inform about conditions at the date of the acquisition are adjusted via goodwill, and changes that arise after the measurement period, are credited or charged to the income statement.

2. Summary of significant accounting policies continued

Basis of consolidation continued

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

Segment reporting

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

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group and liabilities incurred by the Group to the former owners of the acquiree. Acquisition related costs are recognised in the income statement as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the income statement as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent or deferred consideration arrangement, this additional consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent or deferred consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent or deferred consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, 'Financial Instruments: Recognition and Measurement', or IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in the income statement.

Property, plant and equipment

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

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

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

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

Intangible assets

Goodwill

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

Patient data records and trade names

Acquired patient data records and trade names are recognised as intangible assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment.

2. Summary of significant accounting policies continued

Intangible assets continued

Patient data records and trade names continued

The fair value attributable to these items acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted post-tax weighted average cost of capital for a market participant. The residual values are assumed to be £nil. Patient data records and trade names are reviewed for impairment if conditions exist that indicate a review is required. Amortisation is provided so as to write off the cost over the expected economic lives of the asset in equal instalments at the following principal rates:

Patient data records	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

Computer software

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

Impairment of non-current assets

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

As permitted by IAS 36, 'Impairment of Assets', for the purposes of assessing impairment, individual cash-generating units (CGUs) are grouped at a level consistent with the Group's operating segments. Recoverable amounts for CGUs are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being a one-year detailed forecast and extrapolated forecasts thereafter, the results of which are approved by the Board. The key assumptions for the value-in-use calculations are those regarding discount rates and growth rates. The Group has considered the Task Force on Climate-Related Financial Disclosures (TCFD) scenario analysis conducted in undertaking this assessment and concluded no changes were required to the Group's accounting policies, estimates or judgements in this area.

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

Inventories

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

Financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value through profit or loss (FVTPL) and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade and other receivables is recognised if there are considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the income statement within administration expenses.

Investments

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

In accordance with IFRS 9, available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The Group assesses at each year end whether there is objective evidence that a financial asset or a group of financial assets is impaired. Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

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

2. Summary of significant accounting policies continued

Financial instruments continued

Financial liabilities and equity

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

Interest-bearing borrowings

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

Trade and other payables

Trade and other payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

Derivative financial instruments and hedging activities

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

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

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

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

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

Cash flow hedging

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

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

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

Cash and cash equivalents

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

2. Summary of significant accounting policies continued

Current and deferred tax

The tax expense represents the sum of the current tax payable, deferred tax and any adjustments in respect of previous periods.

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

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities used in computation of taxable profits and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is also not accounted for if it arises from initial recognition of goodwill. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated and Company statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also recognised in other comprehensive income or equity respectively.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

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

Service revenue

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

Members of customer membership schemes, for example the Healthy Pet Club, pay annually or monthly subscription fees and receive preventative consultations and treatments over a twelve-month period, being the life of the contract. Annual subscription fees are received annually in advance and monthly subscription fees are received evenly over a twelve-month period. Revenue is recognised in line with the cost profile of individual performance obligations as they are completed in accordance with the contract and not in line with the receipt of subscription fees. For the majority of customers who pay monthly, this results in revenue recognised in advance of cash received as performance obligations are weighted towards the beginning of the twelve-month contract.

The adjustments are made through deferred and accrued income and the contract asset and contract liability for this are shown in note 20 and note 22, respectively. Revenue is recognised net of the provision to reflect cancellations as a result of animal deaths, due to our policy not to invoice our customers in such an event. The provision is calculated based on historical membership data. All other cancellations are accounted for as an impairment of receivables within administration expenses.

Products

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

2. Summary of significant accounting policies continued

Rebates received from manufacturers

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

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

Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

> fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

> variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

> the amount expected to be payable by the lessee under residual value guarantees;

> the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

> payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

> the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

> the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and

> a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

2. Summary of significant accounting policies continued

Leases continued

The Group as a lessee continued

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, plant and equipment policy on page 118.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in administration expenses in the income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the income statement in the period in which they become receivable.

Certain companies within the Group may be entitled to claim tax credits in relation to the Research and Development Expenditure Tax Credit (RDEC) scheme in the UK. Tax credits receivable under this scheme are determined to have the substance of a government grant and accordingly these tax credits are accounted for under IAS 20, 'Accounting for Government Grants', as described above. The tax credits are recognised within administration expenses within the income statement when there is reasonable assurance that the Group will comply with the relevant conditions and that the tax credits will be received.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). UK employees may also acquire shares in the Company through an HMRC-approved employee Save As You Earn scheme (SAYE), where the employee makes monthly savings over a three-year period and has the option to purchase shares at the end of the period.

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

Foreign currency translation

Functional and presentational currency

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

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

2. Summary of significant accounting policies continued

Foreign currency translation continued

Functional and presentational currency continued

Exchange differences are recognised in the income statement in the period in which they arise.

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

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

Research and Development

Costs in relation to research and development are expensed to the income statement as incurred.

Retirement benefit costs

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

Financing costs

Financing costs comprise interest payable on borrowings, debt finance costs, finance cost on the right-of-use lease liability, and gains and losses on derivative financial instruments that are recognised in the income statement. Interest expense is recognised in the income statement as it accrues, using the effective interest method.

Share premium

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

Treasury reserve

The treasury reserve comprises shares held by an Employee Benefit Trust (EBT) for the purposes of satisfying the exercise of certain share options vesting under the Group's Long-Term Incentive Plan (LTIP) and SAYE schemes.

Capital redemption reserve

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

Merger reserve

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

Loss for the financial year

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

3. Financial risk management

Financial risk factors

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

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

a) Market risk

i) Foreign exchange currency rate risk

The Group has limited exposure to foreign exchange risk as the majority of its transactions are denominated in the Company's functional currency of Sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Group management. For subsidiaries incorporated in the Netherlands and the Republic of Ireland, a natural hedge is applied where both revenue and expenditure is denominated in Euros. Aside from this, the Group does not hedge any foreign currency transactions but continues to keep this policy under review.

3. Financial risk management continued

Financial risk factors continued

a) Market risk continued

ii) Cash flow and fair value interest rate risk

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

At the year end, the Group had interest hedging arrangements in place covering £70.0m (2022: £70.0m) which expire in January 2024. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match a portion of the loan liability with a derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.45% to 2.70% above SONIA. The applicable interest rate is dependent upon the bank test net debt to bank test EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.45% above SONIA.

At 30 June 2023, the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2023, if interest rates on Sterling-denominated borrowings had been 1% higher or lower, with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £0.3m (2022: £0.9m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is calculated using the simplified approach as allowable under IFRS 9 and is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset.

Losses arising from impairment are recognised in the statement of comprehensive income in administrative expenses.

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

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. Sales made other than on a cash basis are limited to a small part of the Group's overall business, and within these business areas the Group has appropriate credit checking facilities and procedures in place. Customer accounts are also monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

The maximum exposure to credit risk at 30 June 2023 is the fair value of each class of receivable as disclosed in note 20 to the financial statements.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

3. Financial risk management continued

Financial risk factors continued

c) Liquidity risk continued

The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows, which include interest, analysed by contractual maturity. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

30 June 2023	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-derivative financial liabilities							
Borrowings		—	—	—	95.5	—	95.5
Trade and other payables (excluding social security and other taxes)	22	69.3	—	—	—	—	69.3
Lease liabilities	14	17.3	16.2	15.2	26.9	51.7	127.3
		86.6	16.2	15.2	122.4	51.7	292.1

30 June 2022	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-derivative financial liabilities							
Borrowings		—	85.0	—	—	—	85.0
Trade and other payables (excluding social security and other taxes)	22	68.2	—	—	—	—	68.2
Lease liabilities	14	13.2	15.5	14.6	26.1	56.6	126.0
		81.4	100.5	14.6	26.1	56.6	279.2

Capital risk management

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

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

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

	2023 £m	2022 £m
Bank test net debt	74.0	36.0
Bank test EBITDA	101.4	89.3
Ratio	0.73	0.40

The ratio above is calculated for the bank covenants as bank test net debt divided by bank test EBITDA.

Bank test net debt

Drawn bank debt less cash and cash equivalents which includes £nil held in escrow at 30 June 2023 (2022: £9.0m).

3. Financial risk management continued

Bank test EBITDA

Adjusted EBITDA annualised for the effect of acquisitions, deducting costs relating to business combinations and adding back share option costs, on an accounting basis prior to the adoption of IFRS 16. Refer to note 1 for the calculation of adjusted EBITDA.

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

The primary sources of funding for the Group are internally generated cash and syndicated borrowings. The Group's £5.0m overdraft facility was undrawn at 30 June 2023 (2022: undrawn) and £254.5m of the revolving credit facility was undrawn at 30 June 2023 (2022: £85.0m revolving credit facility fully undrawn).

Fair value measurement

The Group's financial assets and liabilities that are measured at fair value at 30 June 2023 by level of fair value hierarchy are:

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

The Group does not have available-for-sale financial assets (2022: level 1 available-for-sale financial assets of £0.1m). Refer to note 16 for further information.

4. Segment reporting

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 Chief Operating Decision Maker.

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, tax-related assets and liabilities, costs relating to business combinations, and Head Office salary and premises costs.

Revenue comprises £441.7m of fees and £166.6m of goods (2022: £398.1m and £156.1m respectively).

Operating segments

The Group is split into four operating segments (Veterinary Practices, Laboratories, Crematoria and Online Retail Business) and a centralised support function (Central administration) 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 Central administration segment. Central administration 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.

4. Segment reporting continued
Operating segments continued

Year ended 30 June 2023	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Central administration £m	Group £m
Revenue	541.6	29.3	10.9	49.1	(22.6)	608.3
Adjusted EBITDA	116.6	9.2	3.6	3.9	(11.9)	121.4
Profit/(loss) before tax	59.7	8.2	3.1	3.8	(20.9)	53.9
Total assets	471.9	44.0	23.9	19.4	13.1	572.3
Total liabilities	(171.3)	(5.3)	(3.2)	(15.5)	(120.4)	(315.7)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	59.7	8.2	3.1	3.8	(20.9)	53.9
Finance expense	4.2	—	—	—	4.2	8.4
Amortisation of intangible assets	22.5		—	0.1	—	22.6
Depreciation of property, plant and equipment	10.9	0.9	0.5	—	0.3	12.6
Depreciation of right-of-use assets	14.7	0.1	—	—	0.4	15.2
Profit on disposal of property, plant and equipment and right-of-use assets	(0.2)	—	—	—	—	(0.2)
Costs relating to business combinations	2.5	—	—	—	4.1	6.6
Exceptional items	2.3	—	—	—	—	2.3
Adjusted EBITDA	116.6	9.2	3.6	3.9	(11.9)	121.4

Year ended 30 June 2022	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Central administration £m	Group £m
Revenue	492.1	27.2	9.5	46.6	(21.2)	554.2
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4
Profit/(loss) before tax*	57.3	7.6	2.9	3.4	(35.2)	36.0
Total assets	426.0	38.6	20.1	27.9	5.6	518.2
Total liabilities	(170.6)	(5.1)	(2.2)	(18.6)	(104.3)	(300.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax*	57.3	7.6	2.9	3.4	(35.2)	36.0
Finance expense	4.1	—	—	—	2.7	6.8
Amortisation of intangible assets*	22.1	—	—	0.1	—	22.2
Depreciation of property, plant and equipment	9.9	0.6	0.5	—	0.3	11.3
Depreciation of right-of-use assets	13.7	0.1	—	—	0.3	14.1
Profit on disposal of property, plant and equipment and right-of-use assets	(0.3)	—	—	—	—	(0.3)
Costs relating to business combinations	2.0	—	—	—	2.9	4.9
Exceptional items	—	—	—	—	12.4	12.4
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4

* Amortisation of intangibles in the prior year of £7.5m has been re-allocated from Central administration to Veterinary Practices to better reflect the nature of the charge.

Geographical segments
The business operates predominantly in the UK. As at 30 June 2023, it has 27 veterinary practices in the Netherlands and three in the Republic of Ireland. It performs a small amount of laboratory work 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.

5. Finance expense

	2023 £m	2022 £m
Interest expense on bank loans and overdraft	3.1	2.2
Interest expense on lease liabilities	4.3	4.2
Amortisation of debt arrangement fees	1.0	0.4
Finance expense	8.4	6.8

6. Expenses/(income) by nature

	Note	2023 £m	2022 £m
Amortisation of intangible assets	12	22.6	22.2
Depreciation of property, plant and equipment	13	12.6	11.3
Depreciation of right-of-use assets	14	15.2	14.1
Employee benefit expenses	7	284.6	259.6
Cost of inventories recognised as an expense (included in cost of sales)		129.3	121.2
Repairs and maintenance expenditure on property, plant and equipment		7.6	4.9
Movement in provision for expected credit losses	20	1.0	(1.4)
Exceptional items[1]		2.3	12.4
RDEC income[2]		(9.6)	(2.0)
Other expenses		80.4	69.1
Total cost of sales and administrative expenses		546.0	511.4

1. During the year ended 30 June 2023, exceptional items relate to the closure of Gilabbey Veterinary Hospital and include a trading loss for the year of £1.3m, loss on disposal of patient data records of £0.8m and impairment of right-of-use asset, net of reduction in lease liability, of £0.2m. In the prior year, exceptional items related to impairment of the investment in Quality Pet Care Ltd, which was disposed of on 30 June 2022. The impairment of the practice closure and prior year investment is considered as exceptional and non-recurring due to the circumstances of the respective closure and sale. These costs are included within administration expenses and are shown above.
2. In the course of their ordinary work, our colleagues perform work which advances the overall knowledge in the veterinary field and seeks to resolve scientific and technological uncertainties. In the current year, claims were submitted in respect of the 2021 and 2022 financial year under the Research and Development Expenditure Credits (RDEC) scheme to HMRC. The amount of qualifying expenditure in relation to 2023 is yet to be determined, in part due to the uncertainty around all claims made to date, which is explained more fully in note 2, however an estimate has been recognised of £7.0m with a provision against this of £5.2m. The amount of research and development expenditure within cost of sales and administrative expenses is therefore not separately disclosed.

Services provided by the Company's auditor and associates

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

	2023 £'000	2022 £'000
Audit services		
Fees payable to the Group's auditor for:		
The audit of the parent company and consolidated financial statements	229	180
The audit of the Company's subsidiaries pursuant to legislation	448	352
	677	532

7. Employee benefit expense and numbers

Group

Employee benefit expense for the Group	Note	2023 £m	2022 £m
Wages and salaries		251.1	228.5
Social security costs		24.9	22.9
Other pension costs	31	6.7	5.9
Share-based payments*	11	1.9	2.3
		284.6	259.6

* In the current year share-based payments includes employers' NIC in respect of the share-based payment expense.

The employee benefit expense included within cost of sales is £200.9m (2022: £181.9m). The balance is recorded within administrative expenses.

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

	2023 Number	2022 Number
Veterinary surgeons and pathologists	2,215	2,079
Nurses, practice ancillaries and technicians	5,948	5,489
Crematoria staff	97	98
Central support	260	247
	8,520	7,913

Company

The average monthly number of people employed by the Company is four (2022: four), being the Non-Executive Directors. The Executive Directors received remuneration in respect of their services to the Company from a subsidiary company.

8. Directors' remuneration and key management compensation

	Highest paid Director		Directors' emoluments	
	2023 £m	2022 £m	2023 £m	2022 £m
Salaries and other short-term employee benefits	0.9	0.8	2.4	2.3
Company contributions to money purchase schemes	—	—	—	0.1
	0.9	0.8	2.4	2.4

Retirement benefits are accruing to two Directors (2022: one) under a personal pension plan. The remuneration of the Executive Directors, amounting to £2.1m (2022: £2.1m), is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors, amounting to £0.3m (2022: £0.3m), is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

Directors' remuneration is disclosed on an individual basis in the Remuneration Committee Report on pages 83 to 93.

8. Directors' remuneration and key management compensation continued

Share options

Under the Company's SAYE schemes the Directors have the following options at the year end:

	SAYE scheme	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
R Fairman	SAYE13	02 December 2020	01 January 2024	1,009p	606
B Jacklin	SAYE13	02 December 2020	01 January 2024	1,009p	570
R Alfonso	SAYE13	02 December 2020	01 January 2024	1,009p	606
R Fairman	SAYE14	25 November 2021	01 January 2025	1,974p	310
B Jacklin	SAYE14	25 November 2021	01 January 2025	1,974p	310
R Alfonso	SAYE14	25 November 2021	01 January 2025	1,974p	291
R Fairman	SAYE15	25 November 2022	01 January 2026	1,515p	380
B Jacklin	SAYE15	25 November 2022	01 January 2026	1,515p	403
R Alfonso	SAYE15	25 November 2022	01 January 2026	1,515p	403

Under the Company's Long-Term Incentive Plans (LTIP) the Directors have the following options at the year end:

	LTIP	Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
R Fairman	LTIP14	02 October 2020	1,219p	30 June 2023	41,030
B Jacklin	LTIP14	02 October 2020	1,219p	30 June 2023	24,618
R Alfonso	LTIP14	02 October 2020	1,219p	30 June 2023	13,540
R Alfonso	LTIP14(b)	04 January 2021	1,485p	30 June 2023	6,733
R Fairman	LTIP15	06 October 2021	2,407p	30 June 2024	21,188
B Jacklin	LTIP15	06 October 2021	2,407p	30 June 2024	12,712
R Alfonso	LTIP15	06 October 2021	2,407p	30 June 2024	11,009
R Fairman	LTIP16	30 September 2022	1,690p	30 June 2025	30,773
B Jacklin	LTIP16	30 September 2022	1,690p	30 June 2025	18,464
R Alfonso	LTIP16	30 September 2022	1,690p	30 June 2025	15,990

The exercise price for all shares awarded under LTIPs is 0.2p.

LTIP13 vested in the year; for further details of the above schemes see the Remuneration Committee Report on pages 83 to 93.

Key management compensation

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

	2023 £m	2022 £m
Salaries and other short-term employee benefits	3.8	3.5
Post-employment benefits	0.1	0.2
Share-based payments	0.6	1.1
	4.5	4.8

Notes to the consolidated financial statements continued
for the year ended 30 June 2023

9. Tax expense
a) Analysis of tax expense recognised in the income statement

	Note	2023 £m	2022 £m
Current tax			
Current tax on profits for the year		14.1	13.1
Adjustments in respect of previous years		(2.3)	—
Total current tax charge		11.8	13.1
Deferred tax			
Origination and reversal of temporary differences		(0.2)	(2.4)
Adjustments in respect of previous years		0.4	(0.4)
Total deferred tax charge/(credit)	25	0.2	(2.8)
Total tax expense		12.0	10.3

b) Reconciliation of effective tax charge
UK corporation tax rate is calculated using the blended standard rate of tax for the year of 20.5% (2022: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The total taxation charge for the year differs from the theoretical amount that would arise using the blended standard rate of UK corporation tax of 20.5% (2022: 19.0%) as explained below:

	2023 £m	2022 £m
Profit before tax	53.9	36.0
Effective tax charge at 20.5% (2022: 19.0%)	11.1	6.8
Effects of:		
Expenses not deductible for tax purposes	1.3	1.2
Loss on disposal of non-qualifying assets	—	2.3
Adjustments to deferred tax charge in respect of previous years	0.4	(0.4)
Adjustments to current tax charge in respect of previous years	(2.3)	—
Current year tax losses not recognised/utilisation of brought forward losses previously unrecognised	0.6	0.2
Effect of difference between closing deferred tax rate and current tax rate	0.9	0.2
Total tax expense	12.0	10.3

Factors affecting the current tax charge
UK corporation tax is calculated at 20.5% (2022: 19.0%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate on reported profits is 22.2% (2022: 28.6%) and has decreased from the prior year mainly due to the non-recurring impact in the prior year of the impairment and subsequent disposal of an investment, which resulted in tax losses of £13.4m.

Changes in tax rates
The UK corporation tax rate for the period up to 31 March 2023 was 19.0% and increased to 25.0% from 1 April 2023 (2022: 19.0%).

Uncertain tax position
The Group recognises taxation based on estimates of whether taxes will be due. No material uncertain tax positions existed at 30 June 2023 or 30 June 2022.

10. Earnings per Ordinary share

a) Basic

	2023	2022
Profit for the year (£m)	41.9	25.7
Weighted average number of Ordinary shares in issue	71,272,880	70,926,977
Basic earnings per share (pence)	58.8	36.2

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has potentially dilutive Ordinary shares, being the contingently issuable shares under the Group's LTIP schemes and SAYE schemes. For both share option schemes, 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.

	2023	2022
Profit for the year (£m)	41.9	25.7
Weighted average number of Ordinary shares in issue	71,272,880	70,926,977
Adjustment for contingently issuable shares – LTIPs	173,688	248,506
Adjustment for contingently issuable shares – SAYE schemes	205,853	377,056
Weighted average number of Ordinary shares for diluted earnings per share	71,652,421	71,552,539
Diluted earnings per share (pence)	58.5	35.9

Alternative performance measure: adjusted earnings per share

	Note	2023 £m	2022 £m
Profit before tax		53.9	36.0
Adjustments for:			
Amortisation of intangible assets	12	22.6	22.2
Costs relating to business combinations	4	6.6	4.9
Exceptional items	6	2.3	12.4
Adjusted profit before tax		85.4	75.5
Tax expense amended for the above adjustments		(17.0)	(14.6)
Adjusted profit after tax		68.4	60.9
Weighted average number of Ordinary shares in issue		71,272,880	70,926,977
Weighted average number of Ordinary shares for diluted earnings per share		71,652,421	71,552,539

	Pence	Pence
Adjusted earnings per share	96.0	85.8
Diluted adjusted earnings per share	95.5	85.0

11. Share-based payments

Long-Term Incentive Plans

The Group operates incentive schemes for certain senior executives, the CVS Group Long-Term Incentive Plans (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 a mixture of equity settled and cash settled. Cash-settled LTIP schemes are linked to a number of shares, the value of which is settled in cash upon exercise.

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

	July 2022 scheme (LTIP16/16(b)) Number of share awards	July 2021 scheme (LTIP15/15(b)) Number of share awards	July 2020 scheme (LTIP14/14(b)) Number of share awards	July 2019 scheme (LTIP13/13(b)) Number of share awards
Outstanding at 1 July 2022	—	69,643	123,819	128,914
Granted during the year	125,554	—	—	—
Lapsed during the year	—	—	—	—
Forfeited during the year	(11,533)	(7,259)	(10,003)	(9,930)
Exercised during the year	—	—	—	(118,984)
Outstanding at 30 June 2023	114,021	62,384	113,816	—
Exercisable at 30 June 2023	—	—	113,816	—

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

The options outstanding at the year end under LTIP16, LTIP16(b), LTIP15, LTIP15(b), LTIP14 and LTIP14(b) have a weighted average remaining contractual life of two years, two years, one year, one year, nil years and nil years, respectively.

The share-based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £0.7m (2022: £1.2m) and has been charged to administrative expenses. Employer's National Insurance contributions and dividend equivalent payments of £0.2m (2022: £0.2m) have been charged to administrative expenses in respect of the LTIP scheme transactions and are treated as cash settled transactions.

Further details of the above schemes, to the extent that they relate to statutory directors, are included in the Remuneration Committee Report on pages 83 to 93. Details of LTIP16(b) and LTIP16(c) are shown below:

During the year, the Group issued 5,915 options under an equity-settled LTIP scheme, LTIP16(b), where the only vesting condition is for an employee, who is not a Director, to remain employed until 30 September 2025.

During the year, the Group issued 5,915 options under a cash-settled LTIP scheme, LTIP16(c), which is linked to a number of shares, the value of which is settled in cash upon exercise.

Save As You Earn (SAYE)

The Group operates an incentive scheme for all UK employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE15 Number of share awards	SAYE14 Number of share awards	SAYE13 Number of share awards	SAYE12 Number of share awards	SAYE11 Number of share awards
Outstanding at 1 July 2022	—	201,530	310,191	222,227	35,463
Granted during the year	381,689	—	—	—	—
Forfeited during the year	(17,718)	(27,998)	(24,315)	(2,566)	—
Exercised during the year[1]	—	—	(1,372)	(209,684)	(35,463)
Outstanding at 30 June 2023	363,971	173,532	284,504	9,977	—
Exercisable at 30 June 2023	—	—	—	9,977	—

1. The weighted average share price at the date of exercise was £19.32.

11. Share-based payments continued

Save As You Earn (SAYE) continued

Further information on the SAYE schemes is shown in the table below:

	SAYE15	SAYE14	SAYE13	SAYE12
Date opened for subscription	November 2022	November 2021	December 2020	December 2019
Date options granted	January 2023	January 2022	January 2021	January 2020
Discount on closing mid-market price	20%	20%	20%	10%
Exercise price	£15.15	£19.74	£10.09	£8.63
Remaining contractual life	2 years 5 months	1 year 5 months	5 months	nil

All of the SAYE schemes vest over a three-year period. There are no performance conditions attached to the SAYE scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £12.11 and end of the period was £14.30.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £1.0m (2022: £1.1m) and has been charged to administrative expenses.

Options for all schemes were valued using either the Monte Carlo or Black Scholes option pricing models. The fair value per option granted in the year and the assumptions used in the calculation are as follows:

	LTIP16	LTIP16(b)	LTIP16(c)	SAYE15
Grant date	30 September 2022	30 September 2022	12 October 2022	25 November 2022
Share price at grant date[1]	£16.90	£16.90	£17.53	£19.79
Fair value per option	£14.91	£17.13	£19.79	£8.21
Exercise price	0.2p	0.2p	0.2p	£15.15
Number of employees	36	1	1	1,985
Shares under option at date of grant	119,639	5,915	5,915	381,689
Vesting period/option life/expected life	3 years	3 years	3 years	3 years
Weighted average remaining contractual life	2 years	2 years	2 years	2 years 5 months
Expected volatility[2]	36.1%	—	—	40.4%
Expected dividends expressed as a dividend yield	—	—	—	0.4%
Settlement	Equity settled	Equity settled	Cash settled	Equity settled

1. Share price calculated at average of closing share price for preceding five days in line with scheme rules.
2. Expected volatility has been determined by reference to the historical share return volatility of CVS Group plc.

12. Intangible assets

Group	Note	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2021		113.9	1.5	271.2	6.0	392.6
Additions arising through business combinations		6.7	—	2.1	—	8.8
Other additions		—	—	—	1.5	1.5
At 30 June 2022		120.6	1.5	273.3	7.5	402.9
Additions arising through business combinations	15	42.1	—	17.3	—	59.4
Fair value adjustments in respect of prior periods		(0.2)	—	0.4	—	0.2
Other additions		—	—	—	3.4	3.4
Disposals		—	—	(1.5)	—	(1.5)
At 30 June 2023		162.5	1.5	289.5	10.9	464.4
Accumulated amortisation						
At 1 July 2021		—	1.5	158.1	4.6	164.2
Amortisation for the year		—	—	21.4	0.8	22.2
At 30 June 2022		—	1.5	179.5	5.4	186.4
Amortisation for the year		—	—	21.9	0.7	22.6
Disposals		—	—	(0.7)	—	(0.7)
At 30 June 2023		—	1.5	200.7	6.1	208.3
Net book amount						
At 30 June 2023		162.5	—	88.8	4.8	256.1
At 30 June 2022		120.6	—	93.8	2.1	216.5
At 1 July 2021		113.9	—	113.1	1.4	228.4

Amortisation is charged to administrative expenses in the income statement.

The patient data records and trade names were acquired as a component of business combinations. See note 15 for further details of current year acquisitions.

Intangible assets that are individually material to the financial statements are disclosed as follows:

Intangible category	Description	Carrying amount	Remaining life
Patient data records	Slate Hall Veterinary Group	£5.3m	5 years
Patient data records	YourVets	£1.9m	2 years

The components of goodwill are disclosed according to the group of CGUs to which they have been allocated. Due to the integrated nature of the Group, although each veterinary practice, laboratory and crematorium is considered to be an individual CGU, the monitoring of goodwill is performed on an aggregated basis for groups of CGUs that are no larger than the operating segments, as determined in accordance with IFRS 8.

The majority of other assets are tested at the CGU level, to the extent that an impairment review is triggered following identification of an indicator of impairment by management. A small number of assets (typically patient data records acquired in a business combination with multiple sites or locations) are shared between sub-groups of CGUs and are tested for impairment when there are indicators of impairment at that level.

Goodwill per operating segment

	2023 £m	2022 £m
Veterinary Practices	157.8	115.9
Laboratories	2.1	2.1
Crematoria	2.6	2.6
Total	162.5	120.6

12. Intangible assets continued

Impairment tests

The pre-tax discount rate applied to the cash flow projections is derived from the Group's pre-tax weighted average cost of capital. The risks relating to each of the CGUs are considered to be the same as a result of the Group's operations being entirely focused in the veterinary market and, as such, the discount rate applied to each CGU is the same. The use of the Group's weighted average cost of capital is consistent with the valuation methodology used when determining the offer price for business combinations and, therefore, is considered an appropriate discount rate. The Directors consider the growth rate to be broadly consistent between CGUs; a 7.0% growth per annum in adjusted EBITDA has been assumed for years one to five with a long-term growth rate of 2.0% per annum for the purposes of assessing net present value of future cash flows, with adjusted EBITDA, adjusted for an assumption of capital expenditure, used as an approximation to cash flows given the insignificant impact of working capital adjustments. The budget for the next financial year is used as a basis for the cash flow projections. The growth rate used in the impairment tests is based upon a prudent assessment of market-specific growth assumptions. Further details of the impairment tests are disclosed in note 2.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long-term average growth rates for the markets in which the CGU operates (estimated at 7.0% for years one to five and 2.0% long-term rate). The pre-tax discount rate used to calculate value in use is 12.1% at 30 June 2023 (2022: 11.3%).

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to the CGUs being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

13. Property, plant and equipment

Group	Note	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost						
At 1 July 2021		19.3	37.1	62.0	5.0	123.4
Additions arising through business combinations		—	—	0.7	—	0.7
Additions		3.2	8.8	9.0	2.0	23.0
Disposals		—	(0.1)	(0.2)	(0.3)	(0.6)
At 30 June 2022		22.5	45.8	71.5	6.7	146.5
Additions arising through business combinations	15	—	—	2.2	—	2.2
Additions		2.0	21.9	16.5	1.9	42.3
Disposals		—	—	(0.4)	(0.4)	(0.8)
At 30 June 2023		24.5	67.7	89.8	8.2	190.2
Accumulated depreciation						
At 1 July 2021		2.1	19.6	41.9	2.4	66.0
Depreciation for the year		0.4	2.9	6.9	1.1	11.3
Disposals		—	—	(0.2)	(0.3)	(0.5)
At 30 June 2022		2.5	22.5	48.6	3.2	76.8
Depreciation for the year		0.4	3.2	7.4	1.6	12.6
Disposals		—	—	(0.3)	(0.4)	(0.7)
At 30 June 2023		2.9	25.7	55.7	4.4	88.7
Net book amount						
At 30 June 2023		21.6	42.0	34.1	3.8	101.5
At 30 June 2022		20.0	23.3	22.9	3.5	69.7
At 1 July 2021		17.2	17.5	20.1	2.6	57.4

Freehold land amounting to £1.7m (2022: £1.7m) has not been depreciated.

Included within the above classes of assets is £18.8m (2022: £5.5m) of assets which are under construction, of which £16.0m was incurred in the year and £2.8m is carried forward from the previous year.

Notes to the consolidated financial statements continued

for the year ended 30 June 2023

14. Leases

Group as a lessee

The majority of the Group's veterinary practices, specialist referral centres and support offices are leased, with remaining lease terms of between one and 25 years. The Group also has a number of non-property leases relating to vehicle, equipment and material handling equipment, with remaining lease terms of between one and four years. Additions to right-of-use assets include new leases; extensions and amendments to existing lease agreements are disclosed as remeasurements.

Right-of-use assets

Group	Note	Property £m	Equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2021		120.8	1.7	2.9	125.4
Acquired through business combinations		1.0	—	—	1.0
Remeasurement of lease term		11.7	—	—	11.7
Additions		6.1	0.4	0.4	6.9
Disposals		(1.7)	—	(1.0)	(2.7)
At 30 June 2022 and 1 July 2022		137.9	2.1	2.3	142.3
Acquired through business combinations	15	4.3	—	—	4.3
Remeasurement of lease term		5.5	—	—	5.5
Additions		4.9	2.1	1.6	8.6
Disposals		(3.0)	—	(0.7)	(3.7)
At 30 June 2023		149.6	4.2	3.2	157.0
Accumulated depreciation					
At 1 July 2021		25.7	0.7	1.8	28.2
Depreciation for the year		13.0	0.3	0.8	14.1
Disposals		(0.7)	—	(1.0)	(1.7)
At 30 June 2022 and 1 July 2022		38.0	1.0	1.6	40.6
Depreciation for the year		13.7	0.8	0.7	15.2
Impairment		0.4	—	—	0.4
Disposals		(1.5)	—	(0.6)	(2.1)
At 30 June 2023		50.6	1.8	1.7	54.1
Net book amount					
At 30 June 2023		99.0	2.4	1.5	102.9
At 30 June 2022		99.9	1.1	0.7	101.7
At 1 July 2021		95.1	1.0	1.1	97.2

The impairment loss in the current year relates to Gilabbey Veterinary Hospital which was closed in the year. In line with IAS 36, the carrying value of this right-of-use asset was assessed for indicators of impairment and the closure was considered to be an indicator of impairment. The right-of-use asset was written down to its expected recoverable value and impairment costs of £0.4m were charged to exceptional items. No impairment loss was recognised in the prior year.

Lease liabilities

Group	2023 £m	2022 £m
Current	13.3	9.4
Non-current	93.6	95.1
Total discounted lease liabilities	106.9	104.5
Maturity analysis – contractual undiscounted lease payments		
Less than one year	17.3	13.2
Between one and five years	58.3	56.2
More than five years	51.7	56.6
Total undiscounted lease payments	127.3	126.0

Total cash outflow for leases is £18.4m (2022: £16.9m).

15. Business combinations

Details of business combinations in the year ended 30 June 2023 are set out below. The reason for each acquisition was to expand the CVS Group business through acquisitions aligned to our strategic goals.

Name of business combination	Date of acquisition
Werrington Vets Limited	27 July 2022
Woodlands Veterinary Clinic Limited	16 September 2022
Market Cross Veterinary Clinic Limited	18 October 2022
Seadown Veterinary Services Ltd	09 November 2022
The Harrogate Vet Limited	24 November 2022
AT Animal Care Limited	24 January 2023
Macqueen Veterinary Practice (trade and assets)	26 January 2023
Matt Smith Pet Care Limited	26 January 2023
East of England Veterinary Specialists Limited	28 February 2023
Brunswick Veterinary Practice (trade and assets)	31 March 2023
Top Vets Limited	25 May 2023

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

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

The table below summarises the total assets acquired through business combinations in the year ended 30 June 2023:

	Note	Book value of acquired assets £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	13	2.2	—	2.2
Patient data records	12	—	17.3	17.3
Right-of-use assets	14	4.3	—	4.3
Inventories		0.4	—	0.4
Deferred tax liability	25	(0.3)	(4.4)	(4.7)
Trade and other receivables		3.6	—	3.6
Trade and other payables		(2.8)	—	(2.8)
Loans		(0.8)	—	(0.8)
Lease liabilities		(4.3)	—	(4.3)
Total identifiable assets		2.3	12.9	15.2
Goodwill	12			42.1
Total consideration (net of cash acquired of £5.0m)				57.3
Initial consideration paid (net of cash acquired of £5.0m)				54.6
Deferred consideration payable				1.2
Contingent consideration payable				1.5
Total consideration (net of cash acquired of £5.0m)				57.3

The total consideration of, net of the cash, acquired £57.3m is prior to the agreement of the completion accounts. The amounts recognised are subject to adjustment in line with IFRS 3 for up to twelve months from acquisition, with goodwill being adjusted accordingly.

Contingent consideration payable relates to a business combination made in the year where consideration is payable over a three-year period based on the practice reaching certain adjusted EBITDA targets. This is held at fair value and it is expected that this will be payable.

15. Business combinations continued

Goodwill recognised represents the excess of purchase consideration over the fair value of the identifiable net assets. Goodwill reflects the synergies arising from the combination of the businesses; this includes cost synergies arising from shared support functions and buying power synergies. Goodwill includes the recognition of an amount equal to the deferred tax that arises on non-qualifying fixed assets acquired under a business combination.

Post-acquisition revenue and post-acquisition adjusted EBITDA were £10.7m and £2.4m respectively. The post-acquisition period is from the date of acquisition to 30 June 2023. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2023 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

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

Acquisition costs of £4.4m (2022: £4.9m) are included within other expenses in note 6 of the financial statements.

The Directors do not consider any individual in-year acquisition to be material to the Group and therefore have not separately disclosed these.

Business combinations in previous years

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2022. During the year £nil (2022: £0.4m) was paid to settle deferred consideration payable from the prior year.

Business combinations subsequent to the year end

Details of business combinations made subsequent to the year end are set out below. The reason for each acquisition was to expand the CVS Group business through acquisitions aligned to our strategic goals.

Name of business combination	% Share capital acquired	Date of acquisition	Country of incorporation
Vetright Pty Ltd*	75%	26 July 2023	Australia
McDowall Veterinary Hospital Pty. Ltd	100%	26 July 2023	Australia
Brunker Road Veterinary Centre Pty Limited	100%	17 August 2023	Australia
North Road Veterinary Centre	Trade and asset	23 August 2023	Australia
Cattle Dog Health Pty Ltd	100%	23 August 2023	Australia

The table below summarises the total assets acquired through business combinations subsequent to the year end:

	Book value of acquired assets £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	0.5	—	0.5
Patient data records	—	13.5	13.5
Right-of-use assets	1.1	—	1.1
Inventories	0.2	—	0.2
Deferred tax liability	—	(4.1)	(4.1)
Trade and other receivables	0.3	—	0.3
Trade and other payables	(0.8)	—	(0.8)
Loans	(0.2)	—	(0.2)
Lease liabilities	(1.1)	—	(1.1)
Total identifiable (liabilities)/assets	—	9.4	9.4
Goodwill			15.0
Total consideration (net of cash acquired of £0.5m)			24.4
Initial consideration paid (net of cash acquired of £0.5m)			23.8
Deferred consideration payable			0.6
Total consideration (net of cash acquired of £0.5m)			24.4

* On 26 July 2023, the Group acquired a 75% interest in Vetright Ptd Ltd (included on page 140) in Australia for initial cash consideration of £8.7m. The identifiable net assets at acquisition were valued at £5.7m, of which 25% will be attributed to Non-Controlling Interest (NCI). NCI are measured at the proportionate share of the identifiable net assets at the date of acquisition. The acquisition comprised net assets (being principally patient data records) with a fair value of £5.1m, resulting in goodwill of £5.3m.

15. Business combinations continued

Business combinations subsequent to the year end continued

The total consideration of £24.4m is prior to the agreement of the completion accounts. The amounts recognised are subject to adjustment in line with IFRS 3 for up to twelve months from acquisition, with goodwill being adjusted accordingly.

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

In addition to the above, the Group has made a further two acquisitions:

On 15 September 2023, the Group completed the purchase of 100.0% of the share capital of Bridge Veterinary Practice Limited, a company registered in England and Wales, for initial cash consideration of £3.5m. This is a business comprising one companion animal veterinary practice site in the UK. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £3.7m.

On 18 September 2023, the Group completed the purchase of 100.0% of the share capital of Masefield Veterinary Services Ltd, a company registered in England and Wales, for initial cash consideration of £3.1m, This is a business comprising one companion animal veterinary practice site in the UK. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £3.0m.

16. Investments

a) Available-for-sale financial assets

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

The Group no longer holds an investment in managed investments funds (2022: £0.1m). During the year, the Group disposed of its investment, which had a quoted market price in an active market and was accordingly measured at fair value. Gains and losses arising from changes in the fair value were recognised directly in equity.

b) Shares in subsidiary undertakings

Company	Note	£m
Cost and net book amount		
At 1 July 2021		71.6
Options granted to employees of subsidiary undertakings	11	2.3
At 30 June 2022		73.9
Options granted to employees of subsidiary undertakings	11	1.7
At 30 June 2023		75.6

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16. Investments continued

b) Shares in subsidiary undertakings continued

The principal subsidiary undertakings of CVS Group plc are set out below:

Name of subsidiary	Principal business	Country of incorporation
Albavet Limited	Veterinary services and buying club	Scotland
Animed Direct Limited	Online dispensary	England and Wales
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services	England and Wales
B&W Equine Group Limited	Veterinary services	England and Wales
CVS (Australia) Holdings Proprietary Limited	Holding company	Australia
CVS Vets (Australia) Proprietary Limited	Veterinary services	Australia
CVS (Ireland) Veterinary Services Limited	Holding company	Republic of Ireland
CVS (Ireland) Veterinary Services No.2 Limited	Veterinary services	Republic of Ireland
CVS (Netherlands) B.V.	Holding company	The Netherlands
CVS (UK) Limited	Veterinary and diagnostic services	England and Wales
Dierenziekenhuis Drachten B.V.	Veterinary services	The Netherlands
Diergeneeskundig Centrum Noord Nederland B.V.	Veterinary services	The Netherlands
East of England Veterinary Specialists Limited	Veterinary services	England and Wales
Endell Veterinary Group Limited	Veterinary services	England and Wales
Greenacres Pet Crematorium Limited	Animal cremation	England and Wales
Highcroft Pet Care Limited	Veterinary services	England and Wales
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services	The Netherlands
Mi Vet Club Limited	Veterinary goods and services buying club	England and Wales
Okeford Veterinary Centre Limited	Veterinary services	England and Wales
Pet Doctors Limited	Veterinary services	England and Wales
Pet Emergency Treatment Services Limited	Veterinary services	England and Wales
Pet Vaccination Clinic Limited	Veterinary services	England and Wales
Precision Histology International Limited	Veterinary diagnostic services	England and Wales
Rossendale Pet Crematorium Limited	Animal cremation and provision of burial grounds	England and Wales
Ruddington and East Leake Veterinary Centre Limited	Veterinary services	England and Wales
Severn Edge Equine Limited	Veterinary services	England and Wales
Severn Edge Farm Limited	Veterinary services	England and Wales
Severn Edge Veterinary Group Limited	Veterinary services	England and Wales
Silvermere Haven Limited	Animal cremation and provision of burial grounds	England and Wales
Silverton Veterinary Practice Limited	Veterinary services	England and Wales
Sustainable Developments (SW) Limited	Property development	England and Wales
The Harrogate Vet Limited	Veterinary services	England and Wales
The Pet Crematorium Limited	Animal cremation	England and Wales
Valley Pet Crematorium Limited	Animal cremation	England and Wales
Vet Direct Services Limited	Veterinary instrumentation supply	England and Wales
Werrington Vets Limited	Veterinary services	England and Wales
Whitley Brook Crematorium for Pets Limited	Animal cremation	England and Wales
Woodlands Veterinary Clinic Limited	Veterinary services	England and Wales

16. Investments continued

b) Shares in subsidiary undertakings continued

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

Name of subsidiary	Country of incorporation
Animal Health Centre Limited	England and Wales
Anton Vets Ltd	England and Wales
Ambivet Ltd	England and Wales
Astonlee Limited	England and Wales
AT Animal Care Limited	England and Wales
Charter Veterinary Hospital Group Limited	England and Wales
Cinder Hill Equine Clinic Limited	England and Wales
Corner House Equine Clinic Limited	England and Wales
Cromlynvets Limited	Northern Ireland
Darboe and Baily Limited	England and Wales
Enterprise Veterinary Services Limited	England and Wales
Greendale Veterinary Diagnostics Limited	England and Wales
Greensands Veterinary Clinic Limited	England and Wales
Gurka Animal Care Limited	England and Wales
Insight Laboratory Services Limited	England and Wales
Keown O'Neill Limited	Northern Ireland
Market Cross Veterinary Clinic Limited	Scotland
Matt Smith Pet Care Limited	England and Wales
Newlands Veterinary Group Limited	England and Wales
OCVC Limited	England and Wales
Pet Vaccination UK Limited	England and Wales
Pets Holding Limited	England and Wales
Pharmsure UK Limited	England and Wales
Polmont Veterinary Clinic Limited	Scotland
Seadown Veterinary Services LTD	England and Wales
Severn Edge Holdings Limited	England and Wales
Slate Hall Veterinary Practice Limited	England and Wales
Slate Hall Veterinary Services Limited	England and Wales
Superstar Pets Limited	England and Wales
Top Vets Limited	Scotland
Total Veterinary Services Limited	England and Wales
Vet Direct Holdings Limited	England and Wales
Veterinary Enterprises & Trading Limited	England and Wales
Weighbridge Referral Service Limited	England and Wales
Western Counties Equine Hospital Limited	England and Wales
White Lodge Veterinary Centre Ltd	England and Wales
Wyatt Poultry Veterinary Services Limited	England and Wales
Your Vets (Holdings) Limited	England and Wales

CVS Group plc owns 100% of the Ordinary share capital of CVS (UK) Limited, the remaining subsidiaries above are indirectly held by CVS Group plc.

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

16. Investments continued

b) Shares in subsidiary undertakings continued

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

Name of subsidiary	Registered office address
Albavet Limited	24 Nicol Street, Kirkcaldy, Fife KY1 1NY
Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon TQ12 4PB
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
Keown O'Neill Limited	11 Church Street, Ballygawley, Co. Tyrone BT70 2HA
Market Cross Veterinary Clinic Limited	18 Edinburgh Road, Dalkeith, Midlothian EH22 1JZ
Polmont Veterinary Clinic Limited	Boness Road, Polmont, Falkirk FK2 0XZ
Precision Histology International Limited	The School House, One Eyed Lane, Weybread, Diss, Norfolk IP21 5TT
Top Vets Limited	Riverside Vet Practise Howden South Lodge, Howden, Livingston EH54 6AD

The registered office for all Netherlands registered subsidiary undertakings is Postbus 176, 8300 AD Emmeloord. The registered office for all Republic of Ireland registered subsidiary undertakings is KPMG, Dockgate, Dock Road, Galway H91 V6RR. The registered office for all Australian subsidiary undertakings is BDO Offices – BDO Services Pty Ltd, Level 10, 12 Creek Street, Brisbane Queensland 4000.

17. Derivative financial instruments

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

The ineffective element of cash flow hedges in 2023 was immaterial (2022: immaterial).

Cash flow hedges

On 28 February 2020, the Group entered into an interest rate swap arrangement limiting the Group's exposure to interest rate increases. The arrangement exposed the Group to Sterling LIBOR within a cash flow hedge accounting relationship.

Following the proposed and subsequent discontinuance of Sterling LIBOR, the Group has adopted both Phase 1 and Phase 2 of Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). The Group debt was transitioned per agreement entered on 31 December 2021. On 31 December 2021, the Group transitioned its interest rate swaps. The revised arrangements amended exposures from Sterling LIBOR to the Sterling Overnight Index Average Rate (SONIA), plus a credit adjustment spread.

The Group has applied the practical expedient published by the IASB, allowing the Group to account for a change in the contractual cash flows of the debt required by the Interest Rate Benchmark Reform by updating the effective interest rate and applying any changes prospectively.

The Group has also applied the practical expedient to continue hedge accounting where changes to the hedging arrangement arise as a direct result of changes required by the reform. Therefore, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate and does not require reclassification into retained earnings.

The expedients can be applied by the Group because the transitioning of interest rate swaps and debt was necessary as a direct consequent of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

At 30 June 2023, £70.0m of debt was hedged (2022: £70.0m); the remainder of the debt was unhedged at the year end.

17. Derivative financial instruments continued

Cash flow hedges continued

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Cash flow hedge	Receive SONIA+ credit adjustment spread, pay Sterling fixed interest rate swaps	2024	£70.0m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

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

The fair values of the Group's interest rate derivatives are established using valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates (level 1).

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

	2023		2022	
Group	Current Assets £m	Liabilities £m	Non-current Assets £m	Liabilities £m
Interest rate swap arrangements – cash flow hedges	2.1	—	2.3	—

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2021	(0.4)
Fair value loss through reserves – hedged	2.7
At 30 June 2022	2.3
Fair value gain through reserves – hedged	(0.2)
At 30 June 2023	2.1

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in the income statement only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items.

The cost of hedging reserve includes the effects of the changes in fair value of the time value of option when only the intrinsic value of the option is designated as the hedging instrument.

The changes in fair value of the time value of an option in relation to a transaction-related hedged item accumulated in the cost of hedging reserve are reclassified to the income statement only when the hedged transaction affects profit or loss, or included as a basis adjustment to the non-financial hedged item. The changes in fair value of the time value of an option in relation to a time-period related hedged item accumulated in the cash flow hedging reserve are amortised to the income statement on a rational basis over the term of the hedging relationship.

Notes to the consolidated financial statements continued
for the year ended 30 June 2023

18. Financial instruments
Financial assets and liabilities

Group	Note	2023 FVTPL – derivatives designated in hedge relationships £m	2023 FVTPL – contingent consideration £m	2023 FVTOCI – designated £m	2023 Amortised cost £m	2023 Total £m	2022 FVTPL – derivatives designated in hedge relationships £m	2022 FVTPL – contingent consideration £m	2022 FVTOCI – designated £m	2022 Amortised cost £m	2022 Total £m
Investments	16	—	—	—	—	—	—	—	0.1	—	0.1
Trade and other receivables[1]	20	—	—	—	47.1	47.1	—	—	—	42.1	42.1
Cash and cash equivalents	21	—	—	—	21.5	21.5	—	—	—	49.0	49.0
Derivative financial instruments	17	2.1	—	—	—	2.1	2.3	—	—	—	2.3
Borrowings	24	—	—	—	(92.2)	(92.2)	—	—	—	(84.3)	(84.3)
Trade and other payables[2]	22	—	(3.5)	—	(63.6)	(67.1)	—	—	—	(68.2)	(68.2)
Lease liabilities	14	—	—	—	(106.9)	(106.9)	—	—	—	(104.5)	(104.5)
		2.1	(3.5)	—	(194.1)	(195.5)	2.3	—	0.1	(165.9)	(163.5)

1. Trade and other receivables excludes prepayments.
2. Trade and other payables excludes deferred income, social security and other taxes.

Company	Note	2023 £m	2022 £m
Amounts owed by Group undertakings	33	75.2	79.4

Amounts owed by Group undertakings are unsecured and interest-free and have no fixed date of repayment. Amounts owed by Group undertakings are measured at amortised cost.

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

20. Trade and other receivables

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Trade receivables:				
Within their due period	17.3	17.1	—	—
Past due:				
Not impaired	11.6	10.8	—	—
Fully impaired	3.5	3.9	—	—
Total trade receivables	32.4	31.8	—	—
Less: provision for impairment of receivables	(3.5)	(3.9)	—	—
Trade receivables – net	28.9	27.9	—	—
Other receivables	7.3	5.4	—	—
Prepayments	11.0	10.6	—	—
Accrued income	10.9	8.8	—	—
Total trade and other receivables	58.1	52.7	—	—

20. Trade and other receivables continued

Group

The carrying amount of trade and other receivables is deemed to be a reasonable approximation to fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above with the exception of prepayments which hold no credit risk. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in Sterling.

A provision for expected credit losses has been recognised at the reporting date through consideration of the ageing profile of the Group's trade receivables and the perceived credit quality of its customers reflecting net debt due. The carrying amount of trade receivables, net of expected credit losses, is considered to be an approximation to its fair value. The amount of the expected losses was £3.5m (2022: £3.9m). The Group has not disclosed the expected loss rate as this varies by type of customer. Aggregate movements on the Group's expected losses of trade receivables are as follows:

	2023 £m	2022 £m
At the beginning of the year	3.9	6.4
Charged/(credited) to the income statement within administrative expenses	1.0	(1.4)
Utilisation of the provision during the year	(1.4)	(1.1)
At the end of the year	3.5	3.9

Other receivables do not contain impaired assets.

At 30 June 2023, there is a contract asset recorded as accrued income of £10.9m (2022: £8.8m), relating to customer membership schemes including the Healthy Pet Club (HPC) contract. The contract asset arises from customers having received consultations and treatments which are weighted towards the beginning of the twelve-month scheme, in advance of cash payments, as detailed more fully in note 2. Due to the nature of the scheme, the accrued income amount brought forward has been fully utilised in the year.

21. Cash and cash equivalents

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash	21.5	40.0	—	—
Cash equivalents	—	9.0	—	—
Total cash and cash equivalents	21.5	49.0	—	—

Cash equivalents relate to funds held in an escrow account, which are available to the Group on demand.

22. Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Current				
Trade payables	41.5	40.4	—	—
Social security and other taxes	21.8	18.4	—	—
Other payables	5.8	6.0	—	—
Deferred income[1]	2.2	2.2	—	—
Accruals	19.8	19.6	—	—
Total trade and other payables	91.1	86.6	—	—

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

23. Provisions

	2023 £m	2022 £m
At the beginning of the year	2.1	3.9
Charged to the income statement within administration expenses	0.3	1.2
Utilised in the period	(1.7)	(3.0)
At the end of the year	0.7	2.1

Provisions relate to costs set aside for properties including site closures and other property maintenance obligations. It is anticipated these will be utilised in the next twelve months.

24. Borrowings

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

Group	2023 £m	2022 £m
Within one year or on demand	—	—
Between one and two years	—	84.3
After more than two years	92.2	—
	92.2	84.3

The balances above are shown net of issue costs of £3.3m (2022: £0.7m), which are being amortised over the term of the bank loan. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

The Group has total facilities of £350.0m to 21 February 2027, provided by a syndicate of eight banks: AIB, Barclays, Danske, HSBC, JP Morgan, Lloyds, NatWest and Virgin Money. The facility comprises the following elements:

> a fixed term loan of £87.5m, repayable on 21 February 2027 via a single bullet repayment;

> a four-year Revolving Credit Facility of £262.5m, available to 21 February 2027; and

> we retain our £5.0m overdraft facility, renewable annually.

The two financial covenants associated with these facilities are based on the ratios of bank-test net debt to bank-test EBITDA and bank-test EBITDA to interest. The bank-test net debt to bank-test EBITDA ratio must not exceed 3.25x. The bank-test EBITDA to interest ratio must not be less than 4.5x. The facilities require cross guarantees from the most significant of CVS Group's trading subsidiaries but are not secured on the assets of the Group.

Bank-test EBITDA is based on the last twelve months' adjusted EBITDA performance annualised for the effect of acquisitions deducting costs relating to business combinations and adding back share option expense, prior to the impact of IFRS 16.

Bank covenants are tested quarterly and the Group has considerable headroom in both financial covenants and in its undrawn but committed facilities as at 30 June 2023. More information can be found in note 3.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 28 February 2020, the Group entered into a four-year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £70.0m of its term loan.

At the year end £70.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged. Further information on the cash flow hedge can be found in note 17.

Undrawn committed borrowing facilities

At 30 June 2023, the Group has a committed overdraft facility of £5.0m (2022: £5.0m) and an RCF of £262.5m (2022: £85.0m). The overdraft was undrawn at 30 June 2023 (2022: undrawn) and the RCF was £8.0m drawn (2022: fully undrawn).

25. Deferred tax

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. Deferred tax balances are calculated using tax rates expected to apply in the period when the liability or asset is expected to be realised based on rates enacted or substantively enacted by the reporting date.

Deferred tax assets comprised:

Group	2023 £m	2022 £m
Tax effect of temporary differences:		
Share-based payments	1.5	1.5
Tax losses	0.2	0.2
Other	0.2	0.1
	1.9	1.8

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The recoverability of deferred tax assets is supported by the expected level of future profits. The Group believes that it is probable that there will be sufficient taxable profits against which the deferred tax assets will reverse.

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

Group	2023 £m	2022 £m
Tax effect of temporary differences:		
Excess of qualifying amortisation and intangible fixed assets acquired via a business combination	20.8	20.4
Derivative financial instruments	0.6	0.6
Capital allowances in excess of depreciation	5.3	0.8
	26.7	21.8

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

Group	At 1 July 2022 £m	Credited/ (charged) to income statement £m	Charged to other comprehensive income £m	Charged to statement of changes in equity £m	Acquisition of subsidiary and deferred tax recognised in goodwill £m	At 30 June 2023 £m
Share-based payments	1.5	(0.1)	—	0.1	—	1.5
Derivative financial instruments	(0.6)	—	—	—	—	(0.6)
Other temporary differences	0.1	0.1	—	—	—	0.2
Property, plant and equipment	(0.8)	(4.2)	—	—	(0.3)	(5.3)
Tax losses	0.2	—	—	—	—	0.2
Intangible fixed assets acquired via a business combination	(20.4)	4.0	—	—	(4.4)	(20.8)
	(20.0)	(0.2)	—	0.1	(4.7)	(24.8)

Notes to the consolidated financial statements continued

for the year ended 30 June 2023

25. Deferred tax continued

Group	At 1 July 2021 £m	Credited/ (charged) to income statement £m	Credited/ (charged) to other comprehensive income £m	Credited to statement of changes in equity £m	Acquisition of subsidiary and deferred tax recognised in goodwill £m	At 30 June 2022 £m
Share-based payments	2.6	0.2	—	(1.3)	—	1.5
Derivative financial instruments	0.1	—	(0.7)	—	—	(0.6)
Other temporary differences	0.1	—	—	—	—	0.1
Property, plant and equipment	0.2	(0.9)	—	—	(0.1)	(0.8)
Tax losses	0.1	0.1	—	—	—	0.2
Intangible assets and fixed assets acquired via a business combination	(23.5)	3.4	—	—	(0.3)	(20.4)
	(20.4)	2.8	(0.7)	(1.3)	(0.4)	(20.0)

The deferred tax balance is non-current.

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, the Group had a legally enforceable right to offset and the Group intends to settle the liability and realise the asset simultaneously.

The recoverability of deferred tax assets is supported by the expected level of future profits. The Group believes that it is probable that there will be sufficient taxable profits against which the deferred tax assets will reverse.

The Group has carried forward unutilised tax losses of £22.7m (2022: £20.6m) of which £0.7m expires on 30 June 2026, £1.5m expires on 30 June 2027, £2.0m expires on 30 June 2028 with the remaining losses available indefinitely for offsetting against future taxable profits of Group companies within the tax jurisdiction in which the losses arose. A deferred tax asset has been recognised of £0.2m (2022: £0.2m) in respect of some of these losses as it is probable that sufficient future taxable profits will arise against which the asset will reverse. This deferred tax asset has been offset against the deferred tax liability in respect of intangible assets. The Group has not recognised a deferred tax asset on remaining losses of £22.5m (2022: £18.9m) as it is not probable that sufficient future taxable profits will arise against which the losses can be utilised.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. The earnings are continually reinvested by the Group and there is no intention for these entities to pay dividends; no tax is expected to be payable on them in the foreseeable future.

26. Share capital

Company	2023 £m	2022 £m
Issued and fully paid		
71,423,902 (2022: 71,120,037) Ordinary shares of 0.2p each	0.1	0.1

During the year, shares were issued for a total consideration of £1.6m (2022: £2.3m) as follows:

	2023 shares	2022 shares
LTIP12	—	97,491
LTIP13	118,984	—
SAYE10	27	15,810
SAYE11	34,382	249,108
SAYE12	149,100	2,799
SAYE13	1,372	1,047
Total	303,865	366,255

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

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

26. Share capital continued

Dividends

The Directors have proposed a final dividend of 7.5p (2022: 7.0p) per share, giving a total of £5.4m (2022: £5.0m). During the year the 2022 final dividend totalling £5.0m was paid (2022: £4.6m).

EBT own shares

The Group operates an EBT which holds 384 shares (2022: 64 shares).

In the year ended 30 June 2017, the Group established an Employee Benefit Trust (EBT) for the purposes of satisfying the exercise of certain share options vesting under the Group's LTIP and SAYE schemes. The Group has accounted for the purchase of the shares held by the EBT as Treasury shares and has deducted these from reserves.

During the year, the EBT bought 60,944 shares at open market value for £1.2m (2022: no shares).

During the year, the EBT did not sell shares (2022: nil shares) to satisfy shares vesting under LTIP schemes. The EBT sold 60,584 shares (2022: 646 shares) to satisfy shares vesting under SAYE schemes for proceeds of £0.5m (2022: less than £0.1m).

27. Share premium

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

28. Analysis of movement in liabilities from financing activities

Group	At 1 July 2022 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	At 30 June 2023 £m
Lease liabilities	(104.5)	18.4	(18.4)	1.9	(4.3)	(106.9)
Bank loans	(84.3)	(9.7)	—	—	1.8	(92.2)
Total liabilities from financing activities	(188.8)	8.7	(18.4)	1.9	(2.5)	(199.1)

Group	At 1 July 2021 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	At 30 June 2022 £m
Lease liabilities	(98.8)	16.9	(19.6)	1.3	(4.3)	(104.5)
Bank loans	(83.9)	0.1	—	—	(0.5)	(84.3)
Total liabilities from financing activities	(182.7)	17.0	(19.6)	1.3	(4.8)	(188.8)

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

29. Cash flow generated from operations

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Profit/(loss) for the year	41.9	25.7	(0.8)	(0.6)
Tax expense	12.0	10.3	—	—
Finance expense	8.4	6.8	—	—
Amortisation of intangible assets	22.6	22.2	—	—
Depreciation of property, plant and equipment	12.6	11.3	—	—
Depreciation and impairment of right-of-use assets	15.2	14.1	—	—
Profit on sale of property, plant and equipment and right-of-use assets	(0.2)	(0.3)	—	—
Increase in inventories	(1.8)	(6.6)	—	—
(Increase)/decrease in trade and other receivables	(4.6)	(3.2)	4.2	2.9
Decrease in trade and other payables	(0.8)	(0.1)	—	—
Decrease in provisions	(1.4)	(1.8)	—	—
Share option expense	1.7	2.3	—	—
Exceptional items	2.3	12.4	—	—
Total net cash flow generated from operations	107.9	93.1	3.4	2.3

30. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2023 (2022: £nil).

Bank guarantees

The Company is a member of the Group's banking arrangement, under which it is party to unlimited cross-guarantees in respect of the banking facilities of other Group undertakings, amounting to £355.0m at 30 June 2023 (2022: £175.0m) The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

Contingent liabilities

A letter of support has been provided to certain subsidiaries indicating the intention of the Company to support them, if required, for a period of a minimum of twelve months from the date of signing their financial statements.

30. Guarantees and other financial commitments continued

Exemption from audit by parent company guarantee

The following wholly owned subsidiaries of the Company are covered by a guarantee provided by CVS Group plc and are consequently entitled to an exemption under Section 479A from the requirement of the Act relating to the audit of individual accounts. Under this guarantee, the Group will guarantee all outstanding liabilities of these entities. The Group has deemed it not practical to quantify the possible outflow and no liability is expected to arise under the guarantee. The entities covered by this guarantee are disclosed below.

Name of subsidiary	Company number
Albavet Limited	SC275059
Animed Direct Limited	07007357
AT Animal Care Limited	09311923
Axiom Veterinary Laboratories Limited	02526935
B & W Equine Group Limited	06777468
East of England Veterinary Specialists Limited	10722594
Endell Veterinary Group Limited	08078309
Greenacres Pet Crematorium Limited	07877237
Greendale Veterinary Diagnostics Limited	05138112
Highcroft Pet Care Limited	07238070
Matt Smith Pet Care Limited	11212628
Mi Vet Club Limited	08365201
Okeford Veterinary Centre Limited	05984705
Pet Doctors Limited	03769799
Pet Vaccination UK Limited	05391973
Pet Vaccination Clinic Limited	03252801
Pets Holding Limited	11161672
Pet Emergency Treatment Services Limited	03586933
Precision Histology International Limited	02161963
Rossendale Pet Crematorium Limited	01409643
Ruddington and East Leake Veterinary Centre Limited	04551334
Seadown Veterinary Services Ltd	05377692
Severn Edge Equine Limited	09524486
Severn Edge Farm Limited	09521408
Severn Edge Holdings Limited	09522086
Severn Edge Veterinary Group Limited	09523786
Silvermere Haven Limited	02187947
Silverton Veterinary Practice Limited	08101117
Sustainable Developments (SW) Limited	05174372
The Harrogate Vet Limited	11333183
The Pet Crematorium Limited	03442460
Valley Pet Crematorium Limited	04961306
Vet Direct Services Limited	05167635
Vet Direct Holdings Limited	06746630
Veterinary Enterprises & Trading Ltd	03495054
Werrington Vets Limited	11201583
Whitley Brook Crematorium for Pets Limited	04734723
Woodlands Veterinary Clinic Limited	11201583
Your Vets (Holdings) Limited	07071834

31. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £6.7m (2022: £5.9m). The amount outstanding at the year end included in trade and other payables was £1.3m (2022: £1.1m).

32. Events after the reporting period

Since the 30 June 2023, the Group has entered the Australian veterinary services market and completed five acquisitions comprising of five practice sites for initial cash consideration of £23.8m (Australian $46.8m), detailed below. This is aligned with the Group's strategic goals.

Name of business combination	% Share Capital acquired	Date of acquisition	Country of incorporation
Vetright Pty Ltd	75%	26 July 2023	Australia
McDowall Veterinary Hospital Pty. Ltd	100%	26 July 2023	Australia
Brunker Road Veterinary Centre Pty Limited	100%	17 August 2023	Australia
North Road Veterinary Centre	Trade and asset	23 August 2023	Australia
Cattle Dog Health Pty Ltd	100%	23 August 2023	Australia

In addition to the above, the Group completed the following two acquisitions of two practice sites in the UK.

On 15 September 2023, the Group completed the purchase of 100.0% of the share capital of Bridge Veterinary Practice Limited, a company registered in England and Wales, for initial cash consideration of £3.5m. This is a business comprising one companion animal veterinary practice site in the UK, aligned with the Group's strategic goals.

On 18 September 2023, the Group completed the purchase of 100.0% of the share capital of Masefield Veterinary Services Ltd, a company registered in England and Wales, for initial cash consideration of £3.1m. This is a business comprising one companion animal veterinary practice site in the UK, aligned with the Group's strategic goals.

Further information on these business combinations can be found in note 15.

In addition the Group has exchanged contracts in respect of the acquisition of an additional small animal first opinion veterinary practice in the UK, with completion expected by the end of September 2023. Consideration for this pending acquisition is £2.5m.

On 7 September 2023, the CMA announced a Market Review of the Veterinary sector for household pets in the UK. The review is carried out under the CMA's general review function which allows it to obtain, compile and keep under review information relating to the CMA's functions. The Market Review is voluntary and we will work closely with the CMA in support. The CMA have stated they will provide a further update in early 2024.

33. Related party transactions

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

Company

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

	2023 £m	2022 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	(0.8)	(0.6)
Cash advanced to fund payment of dividend	(5.0)	(4.6)

The following balances were owed by related companies:

	2023		2022	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	75.2	—	79.4	—

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

33. Related party transactions continued

Transactions with Directors and key management

On 24 November 2022, the Group completed the purchase of 100.0% of the share capital of The Harrogate Vet Limited, a company registered in England and Wales, for total consideration of £2.5m, plus deferred consideration of £0.1m and contingent consideration of £1.5m. This is a business comprising one animal veterinary practice site in the UK. Prior to acquisition, the company was partially owned by the spouse of one of the Executive Directors of the Group, and as such the acquisition is considered a related party transaction. The terms of the acquisition, including consideration paid, were on an arm's length basis and consistent with acquisitions of other unrelated entities.

Consideration of £1.6m remains payable to the related party, of which £1.5m is contingent on fixed EBITDA targets within the practice acquired. The related party remained in part-time employment within the Group and received a salary in 2023 of £8,400 which is on an arm's length basis.

The following dividends were paid to the Directors of the Group:

	2023 £	2022 £
R Connell	11,830	10,693
R Gray	420	325
D Kemp	561	426
D Wilton	455	—
R Fairman	1,381	1,158
B Jacklin	467	306
Spouse R Fairman	848	709
Spouse R Alfonso	243	130
Spouse B Jacklin	86	—

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history – unaudited

for the year ended 30 June 2023

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Revenue	608.3	554.2	510.1	427.8	406.5
Gross profit	262.3	239.1	221.9	170.1	168.9
Operating profit	62.3	42.8	40.1	18.5	15.6
Finance expense	(8.4)	(6.8)	(7.0)	(8.6)	(3.9)
Profit before tax	53.9	36.0	33.1	9.9	11.7
Tax expense	(12.0)	(10.3)	(13.8)	(4.2)	(3.5)
Profit for the year	41.9	25.7	19.3	5.7	8.2
Adjusted EBITDA	121.4	107.4	97.5	71.0	54.5
Adjusted profit before tax	85.4	75.5	66.2	38.2	41.4
Cash generated from operations	107.9	93.1	80.3	94.8	52.1
Taxation paid	(14.9)	(11.2)	(13.0)	(9.5)	(7.3)
Interest paid	(7.2)	(6.4)	(7.1)	(7.0)	(3.4)
Business combinations (net of cash acquired)	(54.6)	(8.4)	(19.4)	(7.2)	(56.6)
Loans and borrowings acquired through business combinations	(0.8)	(0.1)	(1.0)	—	(1.5)
Purchase of property, plant and equipment and intangible assets	(45.7)	(24.5)	(16.6)	(12.4)	(12.9)
Proceeds from sale of property, plant and equipment and intangible assets	0.3	0.2	0.6	—	—
Purchase of other investments	—	(21.4)	—	—	—
Proceeds from sale of other investments	0.1	9.0	—	—	—
Dividends paid	(5.0)	(4.6)	—	(3.9)	(3.5)
Proceeds from issue of Ordinary shares	1.6	2.3	1.2	0.1	0.6
Proceeds from the sale of Treasury shares	0.5	—	0.3	0.9	—
Purchase of Treasury shares	(1.2)	—	—	—	—
Repayment of obligations under right-of-use assets	(14.1)	(12.7)	(13.0)	(14.2)	—
Amortisation of debt issuance costs	(1.0)	(0.4)	(0.4)	(1.0)	(0.5)
Exceptional items	(1.3)	—	—	(0.7)	—
(Increase)/decrease in net debt	(35.4)	14.9	11.9	39.9	(33.0)
Year-end net debt	70.7	35.3	50.2	62.1	102.0

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	58.8	36.2	27.3	8.1	11.6
Adjusted basic earnings per share	96.0	85.8	75.1	42.0	46.7

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