



Group Plc  
*Your pets, our priority*

CVS Group plc  
Interim results  
for the 6 months ended  
31 December 2015

Simon Innes – Chief Executive Officer  
Nick Perrin – Finance Director



# Agenda

- Highlights
- Industry update
- Business review
  - Practices
  - Laboratories
  - Animed Direct
  - Crematoria
- Outlook
- Financial review
- Appendices



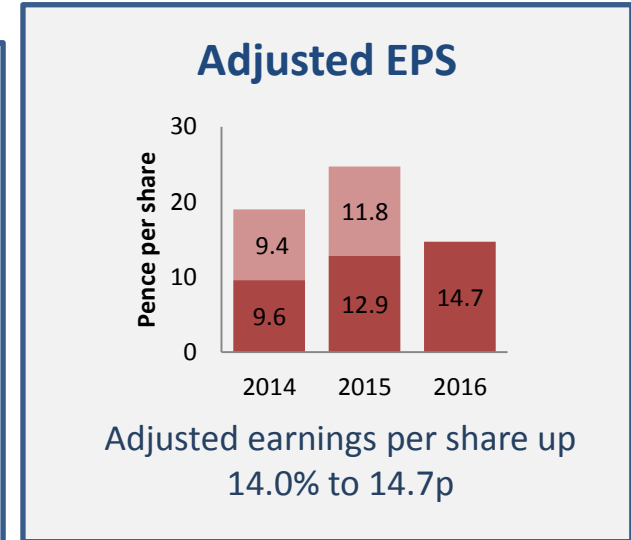
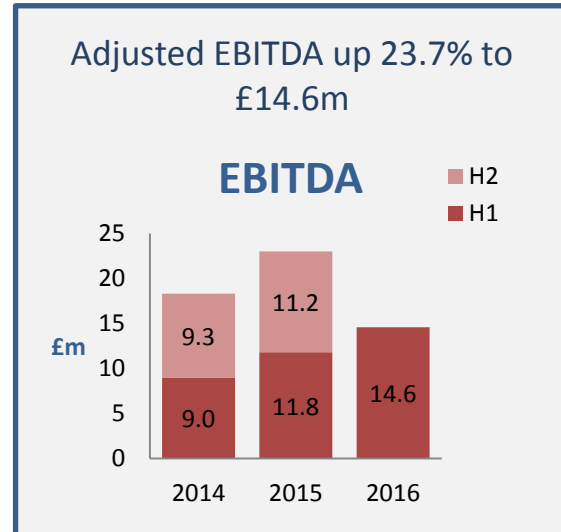
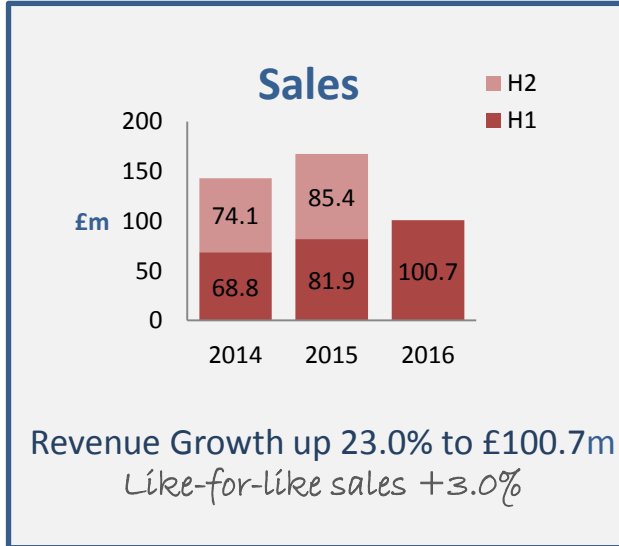
# Highlights

	31 December 2015	31 December 2014	Increase %	Year ended 30 June 2015
Revenue (£m)	100.7	81.9	23.0	167.3
Adjusted EBITDA (£m)	14.6	11.8	23.7	23.0
Adjusted profit before income tax (£m)	11.2	9.5	17.9	18.2
Adjusted earnings per share (pence)	14.7	12.9	14.0	24.7
Operating profit (£m)	5.4	5.8	(6.9)	9.8
Profit before income tax (£m)	4.3	5.2	(17.3)	8.5
Basic earnings per share (pence)	5.6	7.0	(20.0)	11.6

See appendix for definition of 'adjusted' items

Percentage increases have been calculated throughout this document based on the underlying values

# Highlights



## Acquisitions

Record number of acquisitions in six months:

- 42 surgeries
- 2 Crematoria
- Vetshare buying group
- VETisco instrumentation business

## Referrals

Significant development of referrals business:

- Lumbry Park
- Highcroft
- Dovecote

# Industry update

**CVS owns 342 surgeries and is the largest provider of veterinary services to pet owners in the UK**

	CVS	Vets4 Pets	IVC	Medivet	Goddards	Vets Now	August	Sovereign
Surgeries	342	390	222	123	49	2	53	2
Referral sites	6	2	2			2		2
Laboratories	5			1	1		1	
Crematoria	6						1	
Dedicated out-of-hours	7					54		
Buying group	2							
Instruments business	1							
On-line	1		1					

Most surgeries are small animal except for CVS and August

# Industry update

## Referral centres:

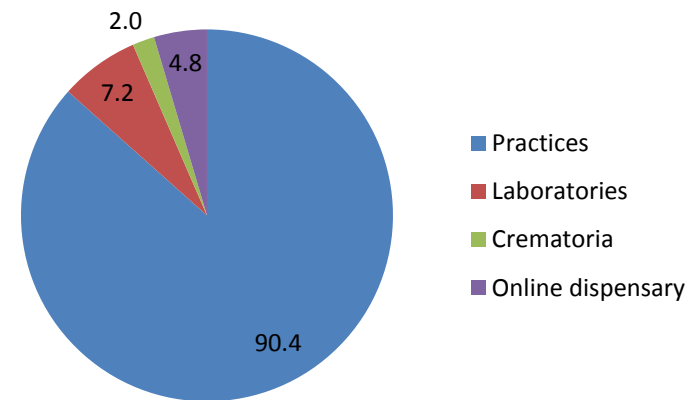
- Vets4Pets
  - North West Surgeons
  - Anderson Moores
- IVC
  - Croft
  - Southern Counties
- Sovereign
  - Willows
  - North Downs
- VetsNow
  - Swindon
  - Glasgow

## Wholesalers & buying groups:

- CVS owns 2 buying groups:
  - MiVetClub
  - Vetshare
- Centaur owns 2 buying groups:
  - VetsWest
  - St Francis

# Results by division

Turnover by business area £m



## Four main business areas

- Veterinary practices
- Diagnostic laboratories
- Pet Crematoria
- Online dispensary

% of Turnover per Business Area

	Practices	Laboratories	Crematoria	Animed Direct
2016 - H1	86.6%	6.9%	1.9%	4.6%
2015 - H1	84.9%	7.4%	1.4%	6.3%
2014 - H1	86.8%	7.0%	0.9%	5.3%

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

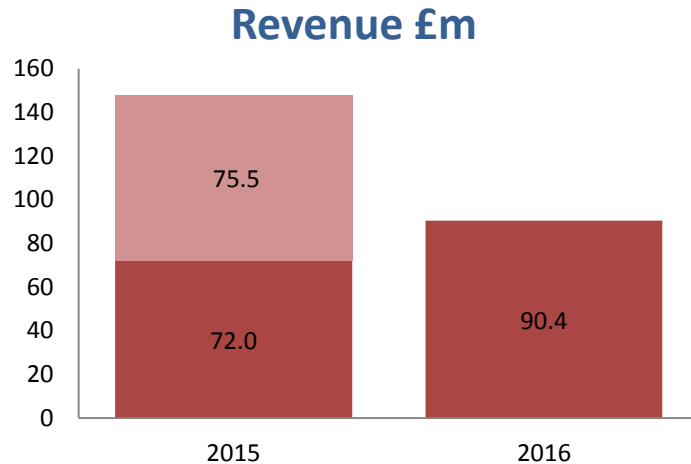
# Results by division

Period ended 31 December 2015	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	90.4	7.2	2.0	4.8	(3.7)	100.7
EBITDA (£m)	16.0	1.6	0.6	0.2	(3.8)	14.6
Gross Margin after materials %	84.0	80.7	80.3	21.0	-	83.8
EBITDA %	17.7	21.6	32.4	5.0	-	14.5

Period ended 31 December 2014	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	72.0	6.3	1.2	5.3	(2.9)	81.9
EBITDA (£m)	13.2	1.0	0.3	0.2	(2.9)	11.8
Gross Margin after materials %	83.6	74.3	78.1	15.3	-	81.4
EBITDA %	18.3	15.8	26.5	2.8	-	14.3



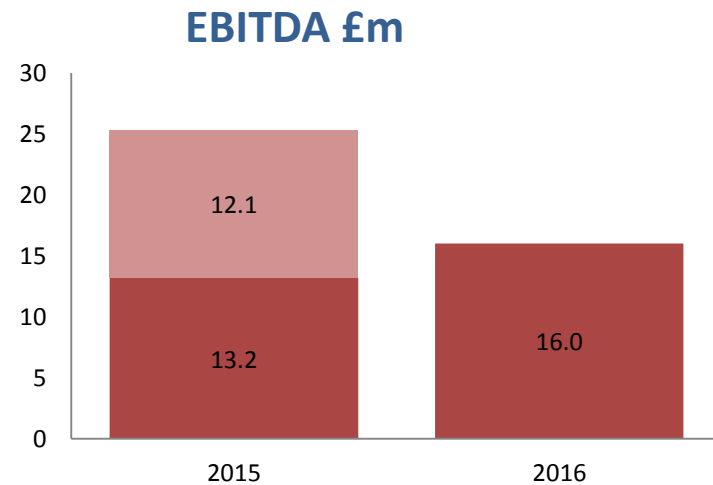
# Veterinary practices - results



Practice revenue up 25.5% to £90.4m

EBITDA growth of 21.2% to £16.0m

Like-for-like sales growth of 3.0%



# Veterinary practices - acquisitions

During the year	Location	No of surgeries	Business
Dovecote Veterinary Hospital	Castle Donington	1	Small animal referral
Rosemullion	Falmouth	3	Small & large animal
Torbridge Veterinary Hospital	Bideford	3	Small animal
Alnorthumbria	Northumberland	9	Small & large animal & equine
Okeford Veterinary Centre	Okehampton	2	Small animal
Highcroft Pet Care	Bristol & Bath	13	Small animal & referral
Albavet - surgeries	Fife, Glasgow, Stoke, Nottingham, Wallington	11	Small animal
Albavet – Vetshare and VETisco			Buying group & instrumentation sales

342 surgeries across the UK

42 Surgeries acquired in the first half of the year

8 Surgeries acquired after the half year

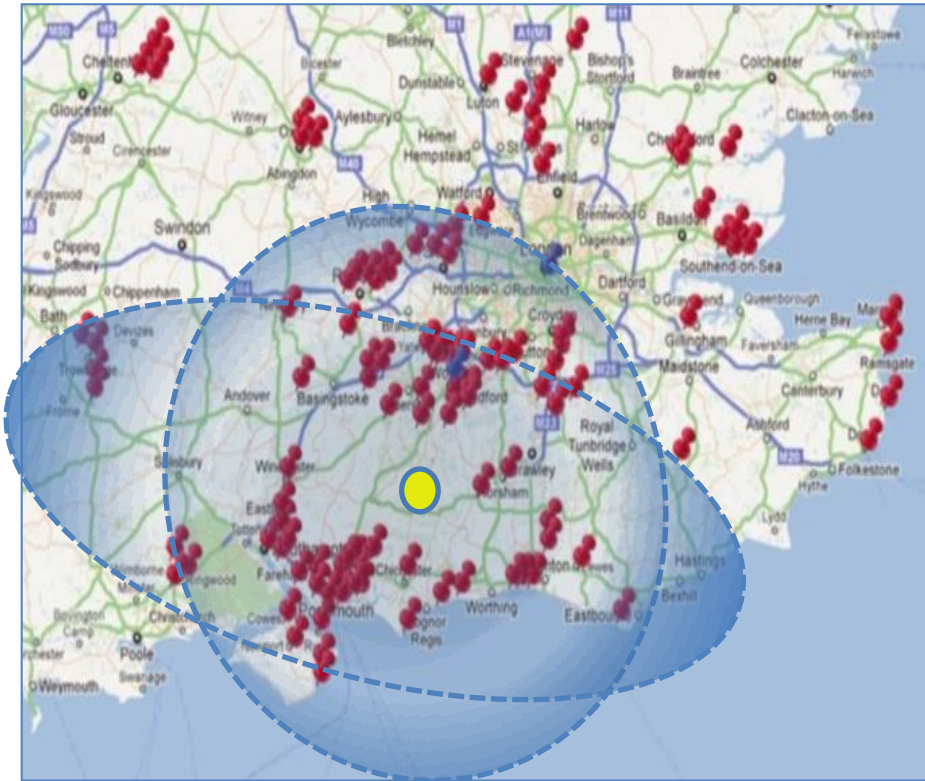
After the year end	Location	No of surgeries	Business
Dart Vale Veterinary Group	Dartmouth	6	Small & large animal
Burghfield	Reading	2	Small animal

# Veterinary practices - referrals

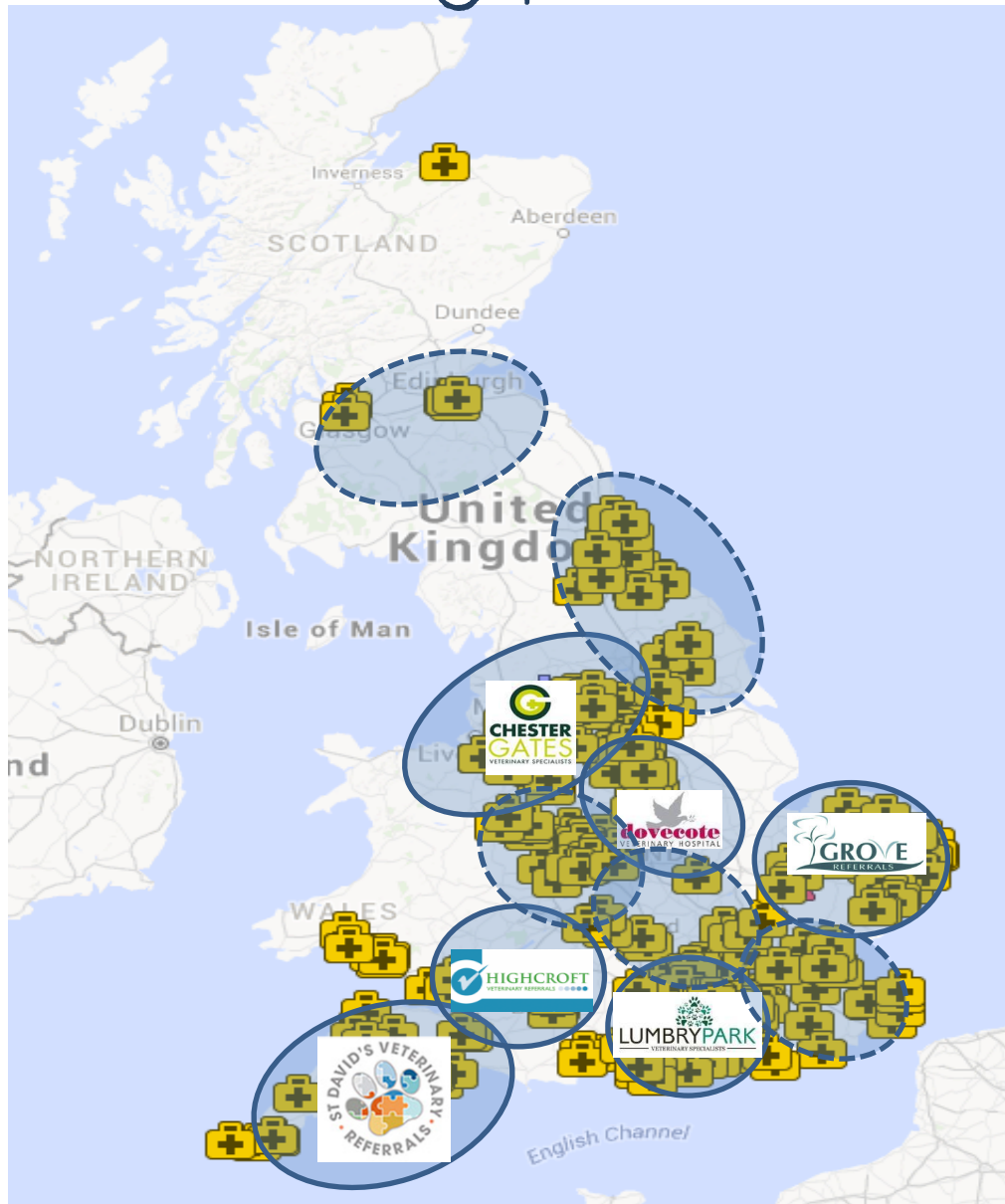
- Lumbry Park, our major multi-disciplinary referral centre in Alton, opened October 2015.
- Referral centres acquired in Castle Donington (Dovecote) and Bristol (Highcroft).
- Chestergates refit being planned. MRI & CT scanner in 2016/17.
- 25 diploma holders now at CVS with a wide range of specialisms



# veterinary practices



# Veterinary practices - Referral



- National coverage
  - ‘Hub and spoke’
  - Blend of secondary and tertiary centres
  - Continuous evolution as the market develops
- To be the employer of choice for veterinary specialists

# Veterinary practices

## Own Brand

- High quality products
- Distributed via Animed Direct
- Now have 11 own brand medicines
- Lower prices and better margins
- Own brand pet food roll out to complete end of Q3
- Waiting room retail now in 133 practices with rollout to our other practices continuing – to complete end Q3



## Out-of-hours

- We now have 7 established dedicated emergency out-of-hours centres
- Planning to open 2 more out-of-hours centres in the summer

# Veterinary practices

## Healthy Pet Club

- Over 11% increase in membership to 238,000
- HPC revenue
  - All practices - 12.6% of total revenue (2015: 12.5%)
  - Like-for-like practices - 15.2% (2015: 12.8%)
- Direct mailing trial to be launched
- 1 January 2016 price increased by £1 / month



## MiGroomers

- 13 MiGroomer sites have now opened
- Minimal capex
- Incremental sales from Grooming and veterinary work
- Training offered to staff who wish to train in this area

# Veterinary practices - Buying Group



[www.mivetclub.co.uk](http://www.mivetclub.co.uk)



[www.vetshare.co.uk](http://www.vetshare.co.uk)

	MiVetClub	Vetshare
Member sites	10	500+
Restricted to CVS dedicated & preferred goods	Y	N
Wholesaler	NVS	Any
CVS own brand products available	Y	Y
Use of Labs offered	CVS	Idexx, NWL
Use of Crems offered	CVS	PCS
Other services from CVS	Training, H&S, HPC	

Commitment to CVS dedicated and preferred list generates greater rebates from manufacturers



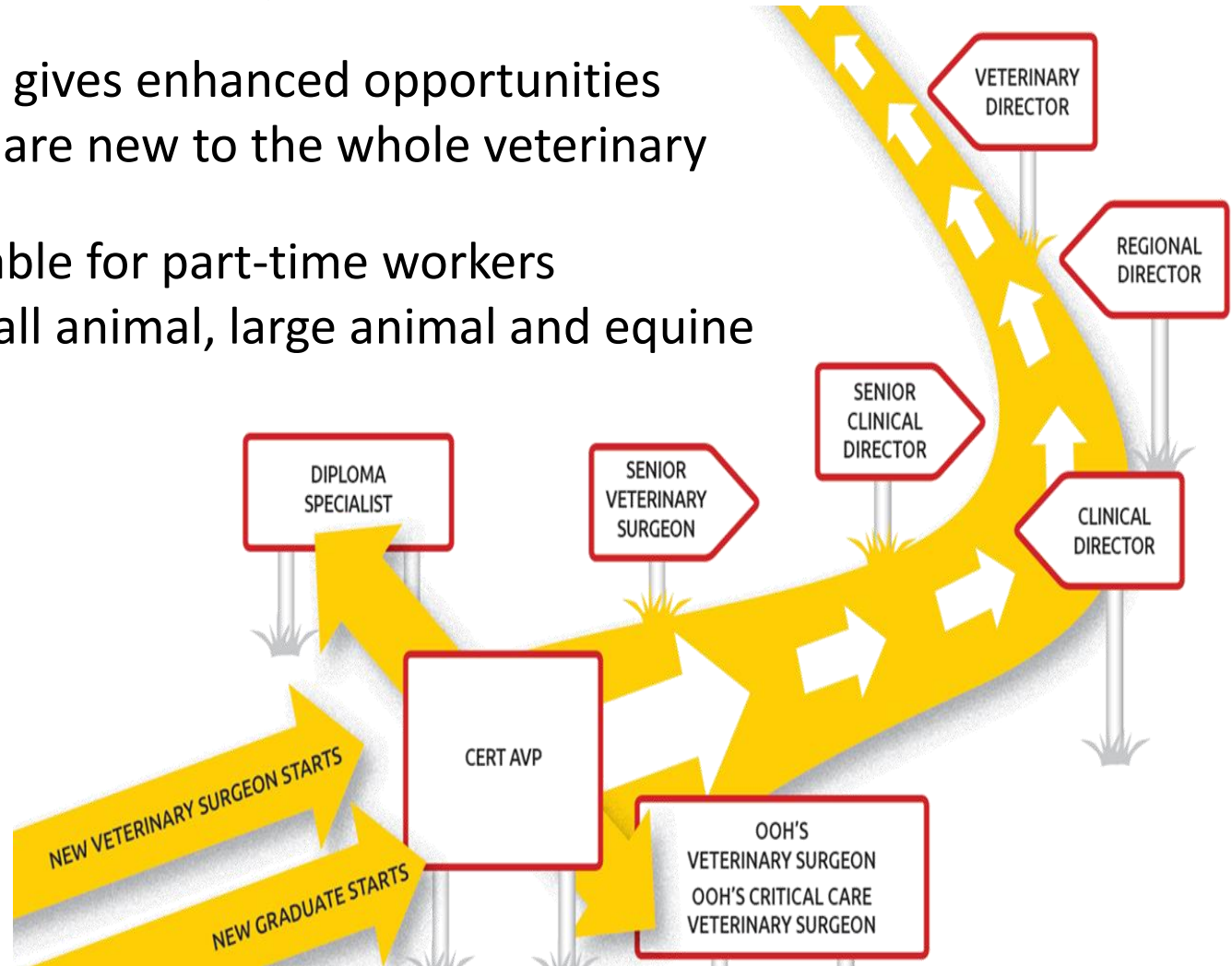
# Veterinary practices - Training

- **New Graduate Program**
  - 90 new graduates in 2015
- **Advanced Practitioner Program**
  - 60-70 at any one time
- **MiNurse Academy**
  - > 150 nurses enrolled in 2015
  - In house clinical training program
  - Modular courses, day courses, practical courses
- **Leadership program**
  - 8 day program for 12 candidates



# Veterinary practices - careers

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



# Laboratories - results

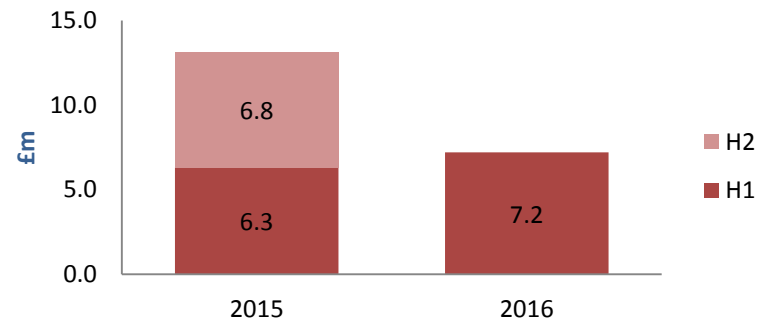


Revenue growth of 14.3% to £7.2m

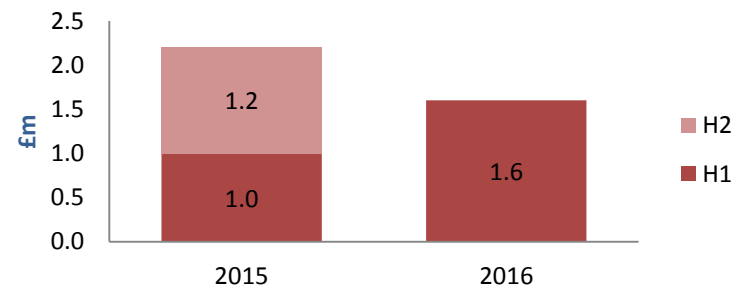
Like-for-like sales +8.0%

EBITDA rose to £1.6m

Revenue £m



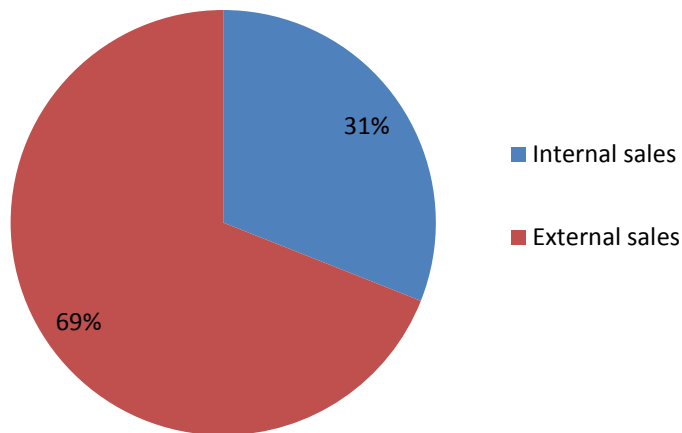
EBITDA £m



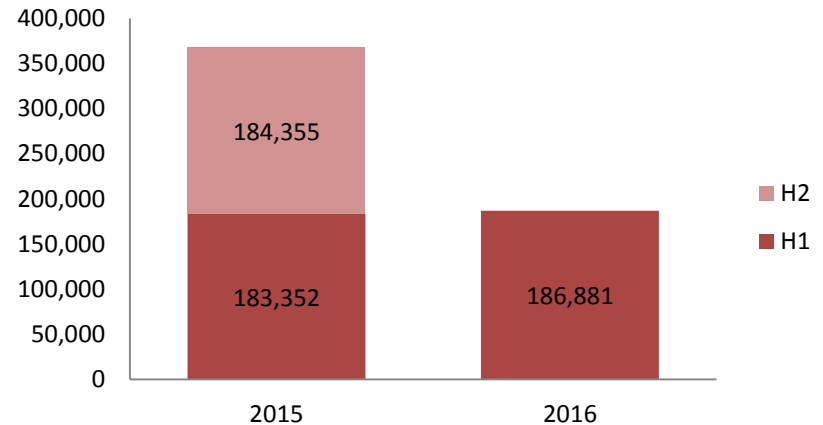
# Laboratories

- Sales increased by 14.3% to £7.2m
- Increased focus on selling analysers to third parties. Developing well with increased numbers
- Accreditations being sought to expand large animal testing
- PCR testing has started but is still very much in the early stages – tests to be validated before becoming money generating

## Internal vs external sales

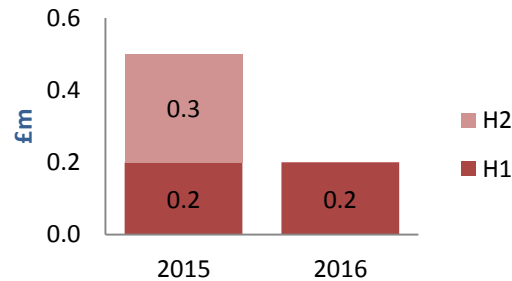


## Number of Laboratory tests performed



# Animed Direct

## EBITDA £m

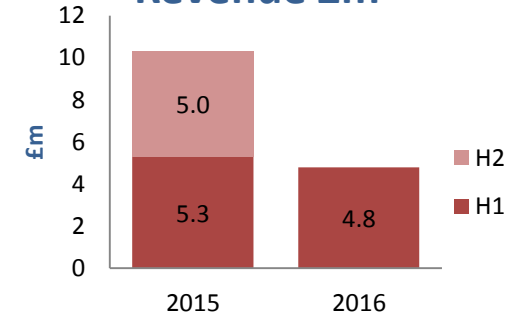


Revenues fell by 9.4% to £4.8m

Adjusted EBITDA same at £0.2m



## Revenue £m



[www.animeddirect.co.uk](http://www.animeddirect.co.uk)

	2016 – H1	2015 – H1
Number of product lines	4,200	4,200
Average order value	£32.53	£27.46
Orders placed per day	819	1,053
No of customers	275,000	241,000

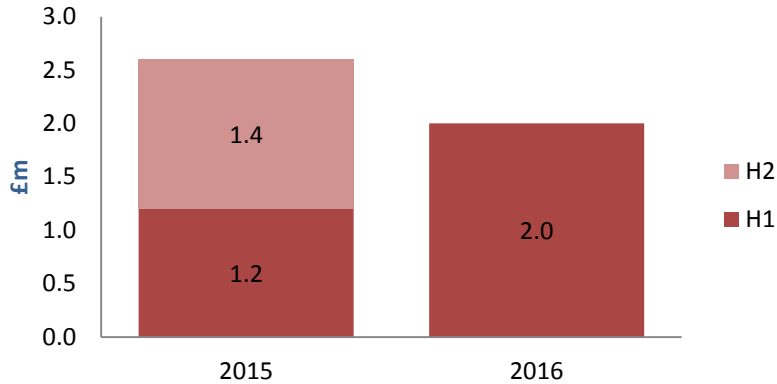
Positive cash contribution

Conversion rate 12%

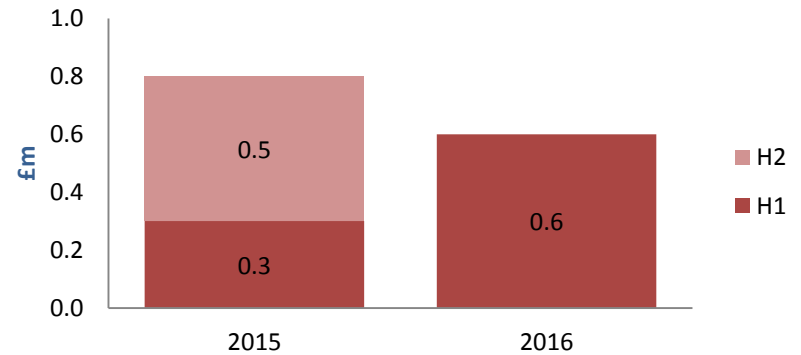
Launch of new website imminent

# Crematoria

## Revenue £m



## EBITDA £m



Like-for-like sales +32.3%

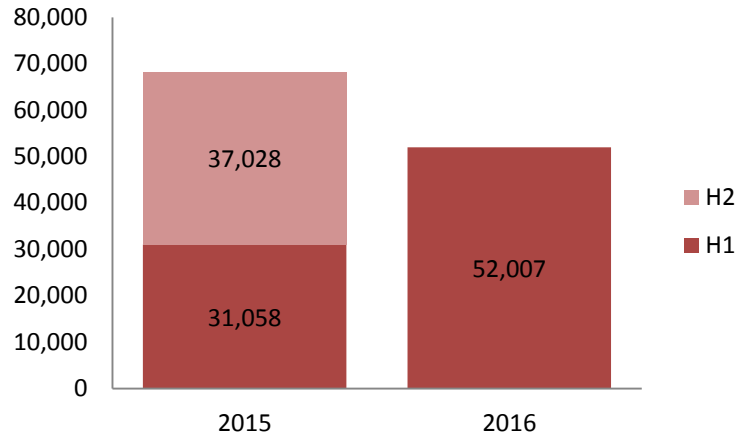
Crematoria revenue split

	2016 – H1 £m	2015 – H1 £m
Like-for-like revenue	1.5	1.2
Acquisitions	0.5	0.0
<b>Total revenue</b>	<b>2.0</b>	<b>1.2</b>



# Crematoria

## Number of cremations

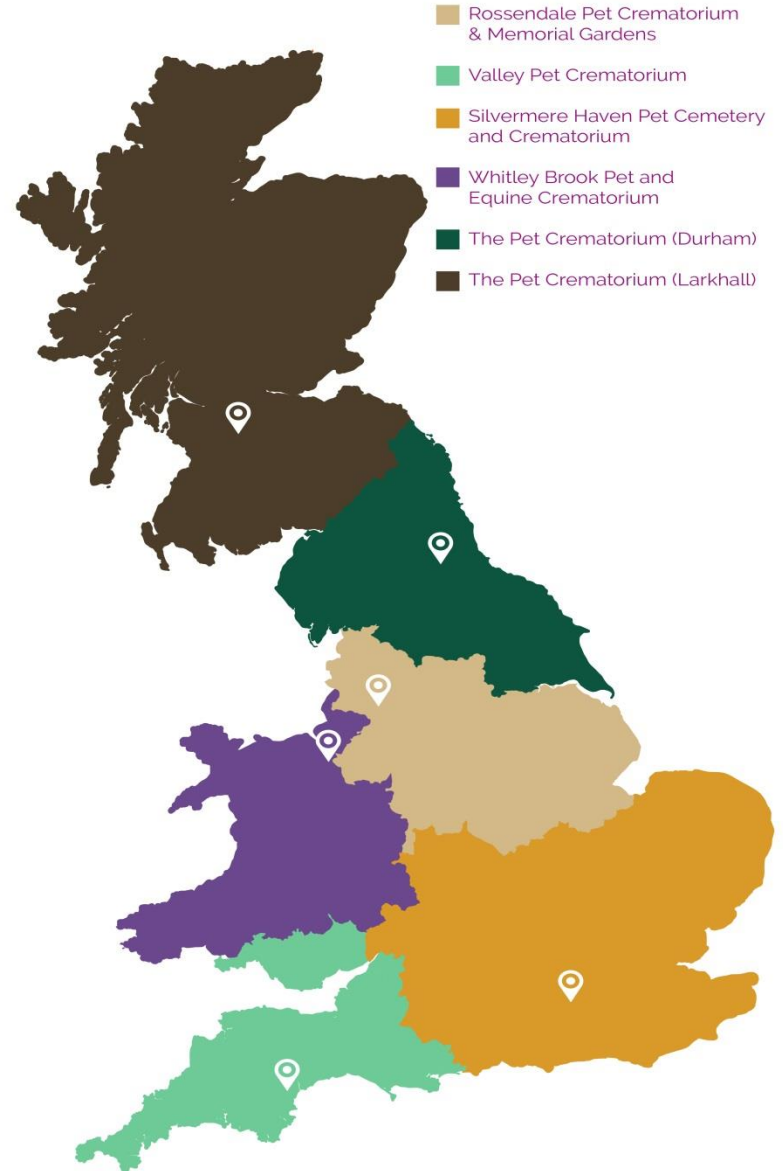


All CVS work now performed internally (except for Yourvets which is contracted until July 2016)

## The Pet Crematorium Limited

- Acquired in December 2015
- Improved geographical coverage – 2 sites near Durham and Hamilton
- Crematoria division portfolio now 6 sites
- Further acquisitions planned

### The Crematoria Division Coverage Map (January 2016)



# Business review – Central administration

- Costs increased from 3.5% of sales to 3.8% in the year
- Investment during the year in:
  - More resources to manage integration of new acquisitions
  - Central recruitment team
  - Field based HR, finance and IT staff
- Head office move took place in October 2015





# Financial results - Profit & Loss

	6 months ended 31 December 2015 £'m	6 months ended 31 December 2014 £'m	Year ended 30 June 2015 £'m
<b>Revenue</b>	100.7	81.9	167.3
Cost of sales	(55.4)	(43.6)	(88.2)
<b>Gross profit</b>	45.3	38.3	79.1
Administrative expenses	(39.9)	(32.5)	(69.3)
<b>Operating profit</b>	5.4	5.8	9.8
Net finance expenses	(1.1)	(0.6)	(1.3)
<b>Profit before income tax</b>	4.3	5.2	8.5
Income tax expense	(0.9)	(1.1)	(1.7)
<b>Profit after income tax</b>	3.4	4.1	6.8
<b>Earnings per ordinary share</b>			
- Basic	5.6p	7.0p	11.6p
- Adjusted	14.7p	12.9p	24.7p

# Financial results – Balance sheet

	31 December 2015 £'m	31 December 2014 £'m	30 June 2015 £'m
<b>Non-current assets</b>			
Intangible assets	118.1	58.9	79.2
Property, plant and equipment	33.0	16.1	20.0
Investments	0.1	0.1	0.1
Deferred income tax assets	1.8	1.1	1.8
	<b>153.0</b>	<b>76.2</b>	<b>101.1</b>
<b>Current assets</b>			
Inventories	7.8	4.4	5.8
Trade and other receivables	22.7	15.4	17.1
Cash and cash equivalents	9.6	3.0	3.0
	<b>40.1</b>	<b>22.8</b>	<b>25.9</b>
<b>Total assets</b>	<b>193.1</b>	<b>99.0</b>	<b>127.0</b>
<b>Current liabilities</b>			
Trade and other payables	(41.8)	(27.6)	(30.4)
Current income tax liabilities	(2.3)	(1.6)	(1.7)
Borrowings	(25.4)	(3.9)	(14.1)
	<b>(69.5)</b>	<b>(33.1)</b>	<b>(46.2)</b>
<b>Non-current liabilities</b>			
Borrowings	(69.0)	(27.8)	(35.1)
Deferred income tax liabilities	(12.9)	(3.4)	(6.5)
Derivative financial instruments	(0.1)	(0.2)	(0.1)
	<b>(82.0)</b>	<b>(31.4)</b>	<b>(41.7)</b>
<b>Total liabilities</b>	<b>(151.5)</b>	<b>(64.5)</b>	<b>(87.9)</b>
<b>Net assets</b>	<b>41.6</b>	<b>34.5</b>	<b>39.1</b>

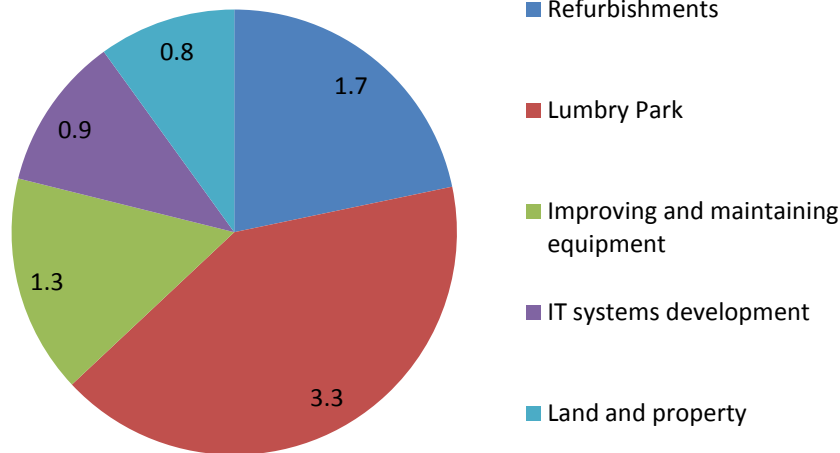


# Financial results – change in debt

	6 months ended 31 December 2015 £'m	6 months ended 31 December 2014 £'m	Year ended 30 June 2015 £'m
<b>Cash flows from operating activities</b>			
<b>Cash generated from operations</b>	17.5	12.9	22.2
Taxation paid	(1.6)	(1.0)	(2.3)
Net interest paid	(1.0)	(0.5)	(1.3)
Capital expenditure	(8.0)	(3.0)	(6.5)
Free cash flow	6.9	8.4	12.1
Acquisitions	(42.4)	(4.3)	(25.3)
Dividend paid	(1.8)	(1.5)	(1.5)
Proceeds from issue of Ordinary shares	-	-	0.3
Debt issuance costs	(1.3)	-	(0.5)
Increase in net debt	(38.6)	2.6	(14.9)

# Financial results – Capital expenditure

## Capital expenditure

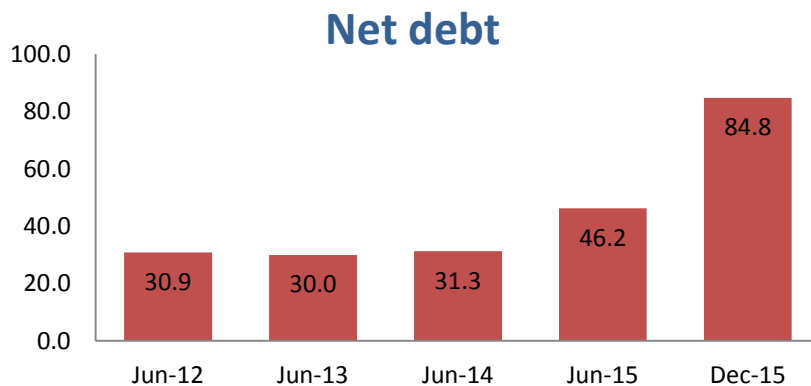


Total capital expenditure in the half year amounted to £8.0m

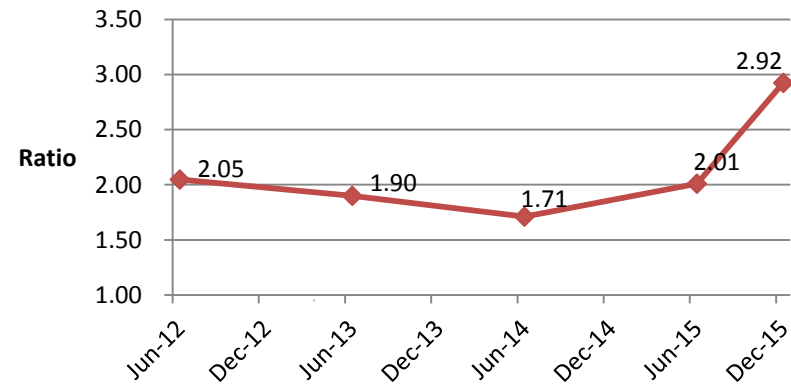
- Further expenditure at Lumbry Park
- Refurbishments at new head office in Diss, new labs at Axiom in Newton and work at YourVets at Nuneaton.
- Property purchases at Smethwick, West Midlands and Gorleston, Norfolk.

# Financial results – Net debt

- New facility to allow high level of larger acquisitions
- Available facilities:
  - £67.5m term loan to Nov 2021
  - £47.5m RCF to Nov 2021
  - £5m overdraft
- Syndicated facility (RBS, HSBC, AIB)
- Margins – better than previous facility
- Leverage covenant (Net debt / EBITDA \*):
  - 3.5 to Dec 2017
  - 3.0 thereafter
- EBITDA : Interest covenant – 4.5



## Net debt: EBITDA



- Borrowing increased due to £43.6m spent on acquisitions
- Cash generation will reduce net debt: EBITDA automatically if the level of acquisitions revert to historical levels

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

# Outlook

## *Existing Business*

- Referral services: development of Lumbry Park, integration of Highcroft & Dovecote
- Own brand products: further drugs to be added. Complete rollout of waiting room retail and food
- Buying groups: development of strategy, negotiation of further manufacturers' rebates, introduction of new services
- Animed direct: launch of new website

## *Growth through selective acquisitions*

- Acquisition pipeline is strong
- Large opportunity in small animal sector, large animal and equine sector

## *Finance*

- Continuing to maintain strong cash flow and healthy balance sheet
- Further investment in core business activities

# Appendices



# Overview

- UK's largest National operator and consolidator of veterinary practices
- Market leader, making CVS the acquirer of choice
- Consistent growth in a more challenging environment
- Complementary businesses to build on internalise margins and maximising revenues

4,075	employees
900	vets
342	Surgeries nationwide
4	Diagnostics laboratories
6	crematoria
1	On-line dispensary



# EBITDA & Gross Margin trends

	2014		2015		2016
	H1 £m	H2 £m	H1 £m	H2 £m	H1 £m
Revenue	68.8	74.1	81.9	85.4	100.7
EBITDA	9.5	8.8	11.8	11.2	14.6
<hr/>					
<u>% of sales</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Gross margin					
-Practices	84.1	85.1	83.6	84.0	83.8
-Animed Direct	14.9	17.6	15.3	20.7	21.0
-Laboratories	76.7	74.0	74.3	86.5	80.7
-Crematorium	79.7	80.4	78.1	80.2	80.3
Head office	3.4	4.2	3.5	3.4	3.8
<b>EBITDA margin (%)</b>	<b>12.7</b>	<b>12.4</b>	<b>14.0</b>	<b>12.2</b>	<b>13.3</b>

# Cash generated from operations

	6 months ended 31 December 2015 £m	6 months ended 31 December 2014 £m	Year ended 30 June 2015 £m
<b>Profit for the period</b>	<b>3.4</b>	<b>4.1</b>	<b>6.8</b>
Taxation	0.9	1.1	1.7
Total finance costs	1.1	0.6	1.3
Amortisation of intangible assets	5.7	4.0	8.5
Depreciation of property, plant and equipment	2.3	1.7	3.5
(Increase) in inventories	(0.2)	0.3	(0.6)
(Increase) in trade and other receivables	0.7	(1.6)	(1.9)
Increase in trade and other payables	2.9	2.2	1.7
Share option expense	0.7	0.5	1.2
<b>Total cash flows from operating activities</b>	<b>17.5</b>	<b>12.9</b>	<b>22.2</b>

# Bank covenants

- The key financial banking covenants are:

Covenant	Ratio required	31 Dec 2015 (unaudited)
Net debt/EBITDA	Must not exceed <ul style="list-style-type: none"> <li>3.5:1 prior to 31/12/17</li> <li>3.0:1 after 31/12/2017</li> </ul>	2.92
EBITDA / interest paid	At least 4.5:1	13.27

- Banking covenants are tested on a 12 month rolling basis
- EBITDA adjusted for annualised impact of acquisitions

# Adjusted items definitions

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