

CVS Group PLC

Interim Results

Period ended 31 December 2018

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1. Introduction

- CVS is the leading integrated provider of veterinary services in the UK:
 - First opinion services across companion animal, equine and farm species
 - Leading referral services provided by a highly skilled team of specialists
 - Laboratories offering UK wide coverage across farm, equine and companion animal
 - Crematoria services for companion and equine clients
 - Animed Direct, a rapidly growing online pharmaceutical, food and accessory retailer
 - MiPet Insurance, a nascent complementary business
- CVS has newer businesses in the Republic of Ireland and the Netherlands providing opportunity for future growth
- This paper sets out the Group's interim results for the six month period to 31 December 2018, recent trading and management's focus for the future

2. Investment Case

We continue to have strong fundamentals upon which to continue to grow CVS and deliver sustainable shareholder returns

Scale Benefits	CVS operates over 500 veterinary practices across the UK, Republic of Ireland and the Netherlands across all species
Integrated Model	CVS is the leading integrated veterinary services provider in the UK with first opinion practices covering companion animal, equine and farm specialisms, referral hospitals, laboratories, crematoria, buying groups and Animed Direct, an online pharmaceutical retailer
Referral Expertise	CVS has significant referral expertise, with eight referral hospitals covering all specialities and led by a highly qualified team of specialists including 68 diploma holders
Barriers to Entry	The Group's integrated model, scale, expertise and UK nationwide coverage provide significant barriers to entry. HPC also makes up c.40% of our small animal client base tying customers into our practices
Excellent Clinical Standards	CVS prides itself on delivering the highest clinical standards. The Group's clinical standards are under continuous development with over 100 practices having gained RCVS Practice Standard Awards for clinical excellence
Experienced Leadership Team	The senior leadership team has considerable industry experience and clinical experience with a track record of success
Resilient Sector	The veterinary sector is attractive having proven resilient in past economic downturns

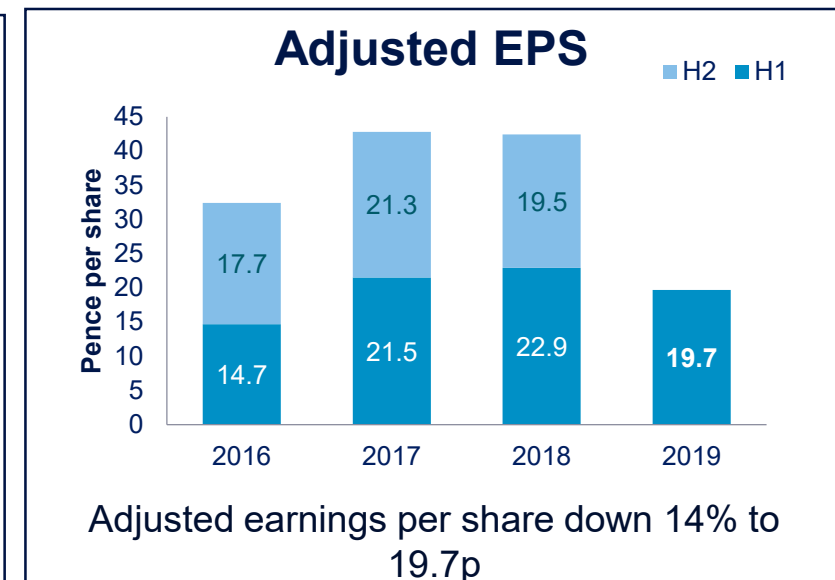
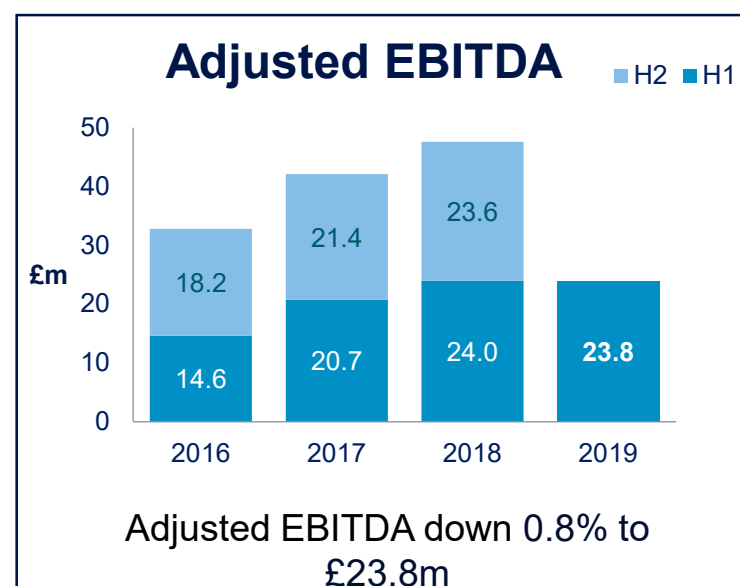
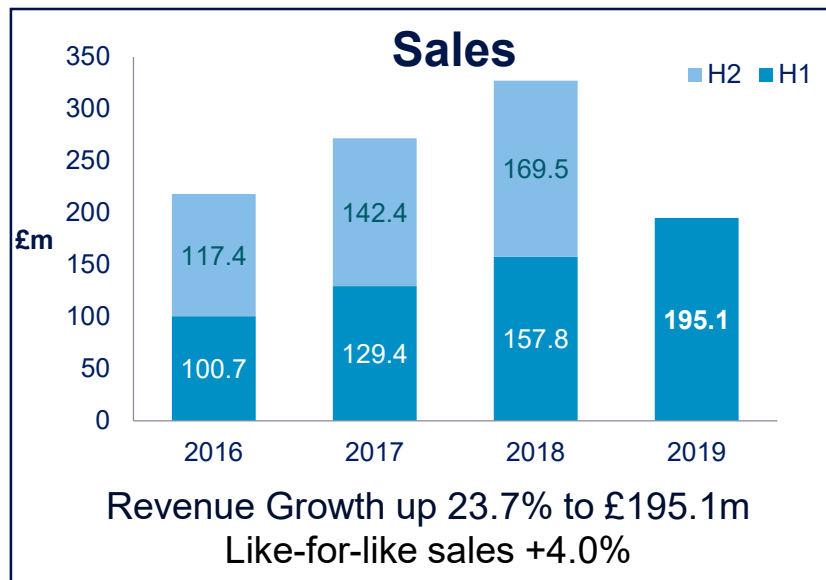
3. Interim Results Summary

	Six months ended 31 Dec. 2018 (£m)	Six months ended 31 Dec. 2017 (£m)	% change	Year ended 30 June 2018
Revenue (£m)	195.1	157.8	23.7%	327.3
Adjusted EBITDA (£m)	23.8	24.0	(0.8%)	47.6
Adjusted profit before income tax (£m)	17.4	18.3	(4.9%)	36.0
Adjusted earnings per share (pence)	19.7	22.9	(14.0%)	42.4
Operating profit (£m)	3.4	8.1	(58.0%)	17.7
Profit before income tax (£m)	1.6	6.2	(74.2%)	14.1
Basic earnings per share (pence)	1.2	7.8	(84.6%)	16.0

The reduction in operating profit reflects increased investment in fixed assets and hence depreciation (£1m) as part of the organic growth plan in the small animal division. A significant increase in amortisation (£2m) driven by our acquisition programme over the past two years. Lastly, additional acquisition expenses (£1m) have been incurred in the period. With this reduced profit, and the share issue in the prior period, earnings per share has fallen.

3. Interim Results Summary

- Whilst a significant proportion of our revenue growth of 23.7% in the period was driven by acquisitions, like for like sales increased by 4.0% for the Group as a whole and by 3.2% within the practice division
- However, a reduction in gross margin from increasing Farm mix, significant pressures on employment costs and early disappointing performance from new business areas of Farm, Equine and the Netherlands resulted in EBITDA which is broadly flat
- Correspondingly our adjusted EPS reduced to 19.7 pence



3. Interim Results Summary

There are three key issues impacting our interim results...

1. Gross Margin Reduction

- Gross margin in our practice division reduced to 77.1% in the period (2017: 80.6%) driven by an increase in mix of Farm business which accounted for 9% of group sales in the period (2017: 3%) – Farm margins are lower due to the higher mix of pharmaceutical sales and lower mix of veterinary fees
- Margins in our small animal division increased slightly to 81.3% (2017: 80.9%)

2. Employment Costs

- Average veterinary surgeon salaries were c.8% higher in the interim period (in comparison to the comparative period in the previous financial year) reflecting salary increases awarded in January 2018
- Nurse average salaries also increased by c.8%
- Locum costs have increased by c.15% - locums are less productive than employed staff and significantly more expensive with locum day rates now in excess of £300 per day

3. Newer Divisions

- Our newer Farm, Equine and Netherlands divisions did not deliver the expected returns with the Netherlands division generating a small loss in the period
- The performance in these areas was impacted by a combination of higher employment costs and lower gross margins, due to both in-complete compliance with our preferred and dedicated drugs lists and limited support from pharmaceutical companies

3. Interim Results Summary

Period ended 31 December 2018	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	178.5	9.3	3.6	10.7	(7.0)	195.1
Adjusted EBITDA (£m)	25.1	1.8	1.2	0.6	(4.9)	23.8
Gross margin after materials %	77.1	64.4	80.9	17.2	-	76.1
EBITDA %	14.1	19.7	33.6	5.5	-	12.2

Period ended 31 December 2017	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	143.1	8.8	3.2	9.2	(6.5)	157.8
Adjusted EBITDA (£m)	25.0	1.9	1.1	0.6	(4.6)	24.0
Gross margin after materials %	80.6	64.6	80.6	18.8	-	79.5
EBITDA %	17.5	21.5	34.0	6.7	-	15.2

This EBITDA margin decrease reflects the reduction in the gross margin as noted on the previous slide, increased employment costs from clinical staff salary increases and increased locum costs, and lower margins from the newer Farm, Equine and Netherlands divisions.

3. Interim Results Summary

	2019 – H1	2018 – H1	Year ended 30 June 2018
	£m	£m	£m
Revenue	195.1	157.8	327.3
Cost of sales	(113.2)	(84.5)	(175.7)
Gross profit	81.9	73.3	151.6
Administrative expenses	(78.5)	(65.2)	(133.9)
Operating profit	3.4	8.1	17.7
Net finance expenses	(1.8)	(1.9)	(3.6)
Profit before income tax	1.6	6.2	14.1
Income tax expense	(0.8)	(1.3)	(3.4)
Profit after income tax	0.8	4.9	10.7
Earnings per ordinary share			
- Basic	1.2p	7.8p	16.0p
- Adjusted	19.7p	22.9p	42.4p

3. Interim Results Summary

	31 December 2018 £m	31 December 2017 £m	Year ended 30 June 2018 £m
Cash generated from operations	19.6	26.5	46.7
Taxation paid	(3.1)	(3.0)	(6.2)
Net interest paid	(1.5)	(1.7)	(3.1)
Capital expenditure - maintenance	(4.0)	(3.9)	(7.6)
Free cash flow	11.0	17.9	29.8
Capital expenditure - development	(2.0)	(1.7)	(3.1)
Acquisitions	(52.9)	(30.1)	(52.6)
Dividend paid	(3.5)	(2.8)	(2.9)
Proceeds from issue of Ordinary shares	0.2	0.1	61.0
Purchase of own shares	-	-	-
Acquired finance leases	(0.3)	-	(0.8)
Debt issuance costs movement	(0.3)	(0.3)	(0.4)
Decrease/(Increase) in net debt	(47.8)	(16.9)	31.0

Net debt at 31 December 2018
£116.8m (2017: £116.9m)

4. Half Two Performance to Date

We have taken a number of actions to improve performance and have made encouraging progress in the second half year to date (January and February 2019)

Like for Like Sales Growth (8 month YTD compared to same period in the previous financial year)

- Group sales LFL +5.0%
- Practice sales LFL +3.7%

Clinical Vacancy Rates (in February 2019)

- Veterinary surgeon vacancy rate reduced to 8.3%
- Nurse vacancy rate reduced to 4.0%

Leverage (as at 28 February 2019)

- Reduced to **2.31x**

We are focused on delivering organic growth through a combination of revenue growth, gross margin improvement and a review of our cost base, as set out in the following section.

5. Organic Growth – Practices

Within the practice division, organic growth will be focused on a number of key areas:



- Further increase in membership (386,614 as at 31 December 2018)
- Price increases introduced from 1 February 2019 which will roll through the membership base over the course of the next 12 months
- Promotion of our Healthy Horse Programme (launched Q3 2018) with 5,000 members to date
- We plan to expand our dedicated small animal out-of-hours (OOH) centres from the 22 operating currently – these specialist centres provide services to both CVS and private practices, thereby enhancing revenues for the group whilst limiting OOH rotas for CVS day practice staff
- Seven new centres to be opened in the next 12-18 months
- Our ultimate aim is to be self sufficient in the provision of OOH cover (currently 71% self sufficient)

5. Organic Growth – Practices



- Vet Direct now incorporates Vetisco and provides a “One Stop Shop” for all CVS practice needs for equipment, orthopaedic implants, work wear and consumables – we aim to internalise spend where possible
- Vet Direct sales to CVS increased by 75% in the first four months of ownership
- Opportunity for further growth as product portfolio is increased and refined



- Own brand medicines to be further expanded from the current range with three further small animal products being launched in H2 – we currently have 16 products representing c.25% of companion animal practice spend
- Own brand equine products being launched in June 2019
- Our new warehouse management system will facilitate expansion of the product range and will drive better cost prices across the full pharmaceutical product range

5. Organic Growth – Practices



- CVS Referrals will continue to expand its service offering – a number of new specialists have recently joined CVS including Laurent Garosi and Nuria Corzo-Menendez, both leading Teleradiologists, Colin Driver and Jeremy Rose, both well regarded neurosurgeons joining from Fitzpatrick “super-vet” referrals and James Pratt, an experienced orthopaedic specialist. We expect to announce further new recruits in the coming months
- Internal referrals from CVS practices will be increased through greater collaboration with first opinion practices
- Our coverage across the UK will be enhanced through the use of peripatetic specialists visiting our existing practices and ultimately through the greenfield development of new referral hospitals
- We will continue to grow our policy size (8,050 policies in force as at 31 December 2018)
- Product offering and pricing being refreshed in H2 2019
- We will promote our insurance offer to our existing customer databases in our Healthy Pet Club and in Animed Direct

MiPetCover
insurance designed by vets

5. Organic Growth – Laboratories



CVS Laboratories will continue to provide a range of services with full UK coverage including:

- Histopathology and Cytology – Comprehensive and detailed analysis of tissues and cytological material by UK, US and European board-certified pathologists
- Small, Large and Exotic animals – comprehensive diagnostic services covering all species with additional Equine and Farm animal tests being developed growing rapidly
- Haematology and Biochemistry – comprehensive veterinary biochemical and haematological testing with full veterinary interpretation options
- Microbiology – Bacterial and fungal cultures, antimicrobial sensitivity, parasite screening and environmental monitoring services

In addition to tests performed in our specialist laboratories, we will continue to provide in-house analysers and reagents to both CVS and independent practices

5. Organic Growth – Crematoria



Our seven pet crematoria will continue to provide UK nationwide coverage across the following services:

- Compassionate cremation services to individual clients:
 - We continue to promote higher value individual cremations and have recently launched a new Gold Leaf Service which provides a priority home collection service, with individual cremation and the return of ashes within three working days
 - We also offer communal cremations with ashes collected and scattered in our grounds
- We will continue to offer clinical waste collection services to the CVS Group and to independent practices

5. Organic Growth – Animed Direct



- Animed Direct is continually developing its product lines and provides a full range of pharmaceutical, diet & nutrition, healthcare and animal accessory products
- The product range is expanding and the business continues to drive increased web traffic and customer numbers
- The launch of the new warehouse management system in H2 will provide further scope for expansion
- New opportunities are being explored including the launch of a Healthy Pet Club online shop and Animed Direct into Europe

5. Organic Growth – Investment in People



Professor Renate Weller joined CVS in November 2018 to develop our clinical training programmes and to enhance support for our veterinary surgeons and nurses. Renate is driving a number of new initiatives:

- Learning, Education & Development – four-phase, progressive LED framework launched in order to promote individual career development
- Leadership Programme – three-part programme developed including Build-a-Practice Training, Client Conundrum Training and Inspiring Leadership Training aimed at driving improvements in sales, employment costs and practice contribution
- Front of house focus – launch of customer service specialist apprenticeships, an accredited programme for our front of house staff. Training also being provided in Customer Care & Handling Challenging Situations, HPC, Calls Matter and for over 500 receptionists
- Pastoral care – first cohort of employees enrolled in the Wellbeing Instructor training programme as a first step to establish our in-house network of wellbeing champions offering mental health support
- Investment in clinical training in both new graduate and experienced clinicians. New framework to extend this training for recent graduates to support their diversification into more specialist areas. Long term goal to bring clinical training in house

5. Organic Growth – Cost Savings



A number of cost saving initiatives are underway across all areas of third party spend

- New procedures are in place to improve efficiencies in the use of locum staff
- Third party contracts are being renegotiated wherever possible and terms amended to ensure CVS continues to receive full value for money
- Purchasing of pharmaceutical spend will continue to be led by the Director of Product, Buying and Logistics with significant CEO support
- An Exec member has increased responsibility in a new support services procurement role to lead the negotiation of improved terms on all non-pharmaceutical spend
- We will continue to internalise all spend wherever possible and Vet Direct will play a key part in this

6. Funding and Covenant Headroom

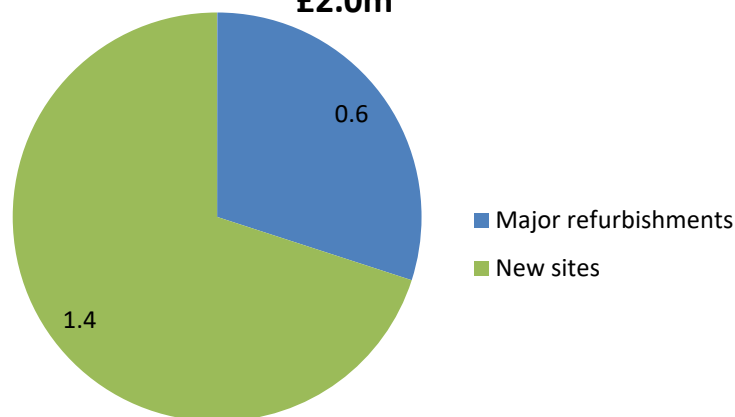
- Bank facilities were refinanced in September 2018 and comprise the following:
 - Term Loan of £95m
 - Revolving Credit Facility of £95m
 - Overdraft of £5m
 - Total £195m
- The facilities are provided by a syndicate of three leading banks (RBS, HSBC and AIB), are non-amortising and have a bullet repayment on 23 November 2021
- We had borrowings of £129.5m at 31 December 2018 and with cash on balance sheet of £12.7m, Net Debt was £116.8m
- Hence, we have considerable headroom in committed but undrawn facilities
- We also have considerable headroom under our two financial covenants at 31 December 2018:
 - Leverage (Net Debt / EBITDA) **2.40x** (covenant is maximum of 3.25x)
 - Interest Cover (EBITDA / Net Interest Payable) **15.60x** (covenant is minimum of 4.50x)

7. Capital Expenditure

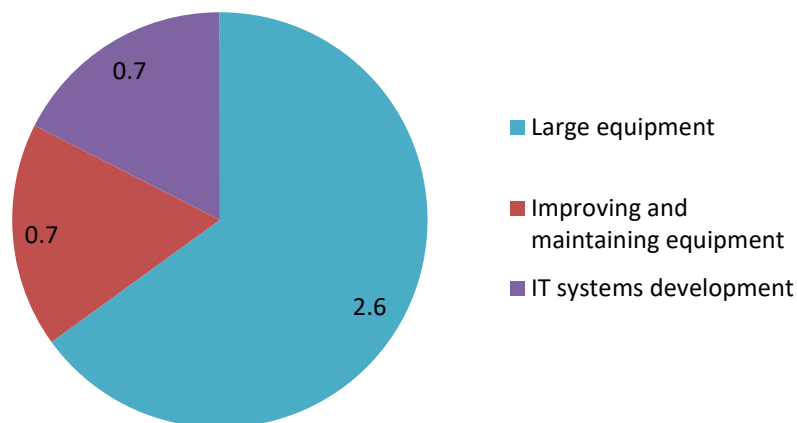
- We continue to invest in appropriate capital expenditure projects

Fixed assets - Development expenditure

£2.0m



Fixed assets - Maintenance expenditure £4.0m



Total capital expenditure in the year amounted to £6.0m with investment made in the following key initiatives:

New sites & relocations:

- Lowestoft
- Springfield

Major refurbishments:

- Greenacres Pet crematorium
- Selsdon & Warlingham

Other investment:

- Microsoft Dynamics Navision financial system

8. Future Acquisitions and Greenfield Development

- In light of our interim financial performance, and notwithstanding the improvements seen in the second half year to date, we are rightly focused on delivering organic growth
- No acquisitions have been made since 6 December 2018
- We do not see significant opportunity for accretive shareholder returns at the current time from the acquisition of further small animal practices or referral centres in the UK. Whilst this is the current position, there may be some limited opportunities in the market place of which we can take advantage positively impacting returns. We will continue to invest in the refurbishment and relocation of existing small animal practices where appropriate to drive increases in organic revenue and we will seek opportunities for further greenfield development given encouraging results from the handful of greenfield sites opened to date
- Strategic opportunities to acquire small animal practices in the Republic of Ireland and the Netherlands will be considered where stringent criteria are met, where multiples are at an acceptable level and where we are confident that appropriate financial returns will be achieved
- Opportunities to expand through acquisition of Farm and Equine practices will be considered where acquisition multiples are acceptable and where the Board is confident that they can be integrated successfully with our existing operations in order to deliver increased scale and improved financial performance in these divisions.

9. Investor Day

An investor day will be held on 26 July 2019 at our Lumbry Park referrals hospital to provide shareholders with an opportunity to gain greater insight into our business and to provide us with an opportunity to present further details on our future strategy



The itinerary for the day will include:

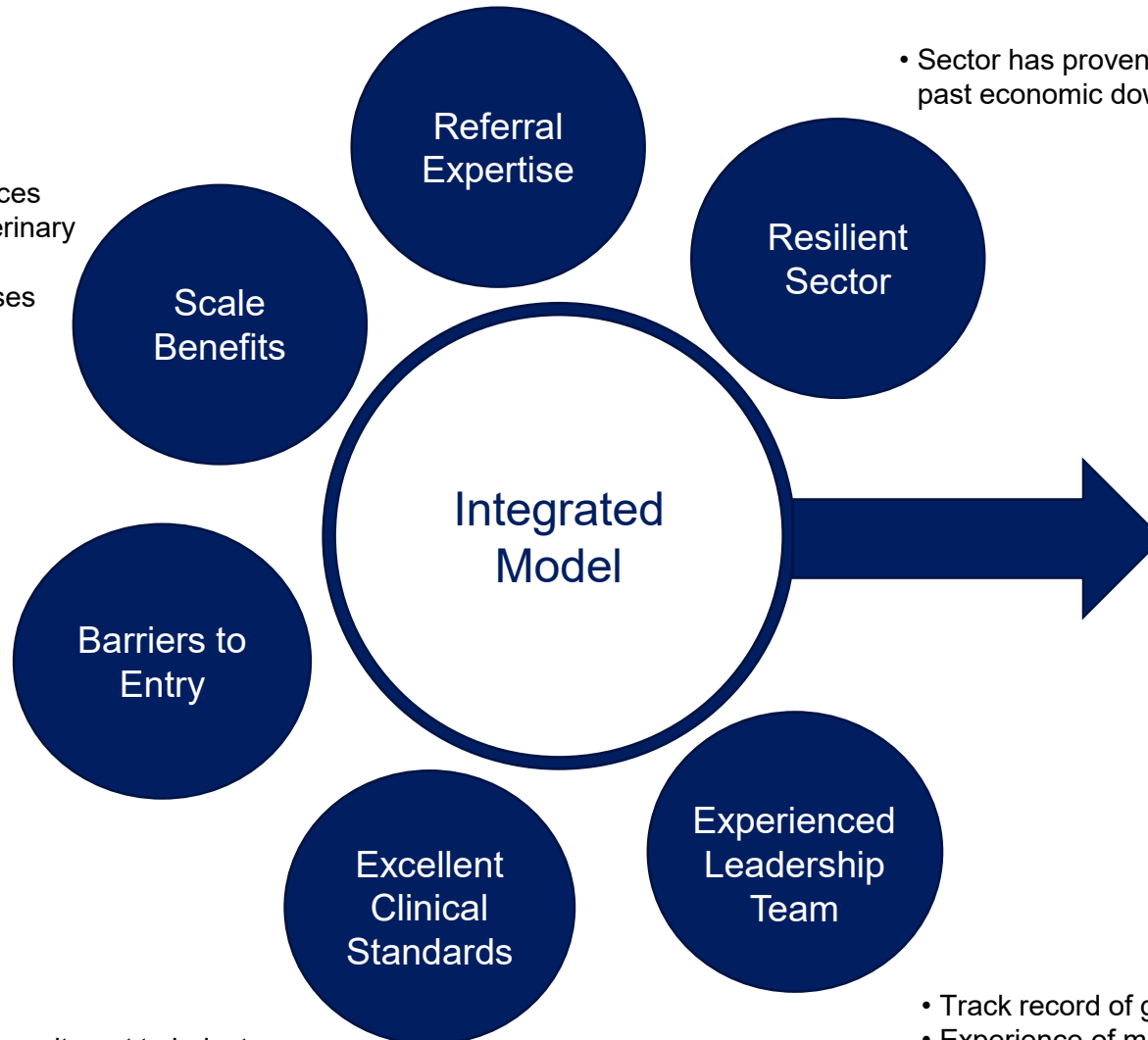
- Welcome and Introduction, Simon Innes
- Full year trading update, Richard Fairman
- Referrals division presentation, John Innes
- Companion animal presentation, Ben Jacklin
- Site Tour
- Strategy Update, Simon Innes
- Q&A

10. Summary

- Eight referral centres
- 68 diploma holders
- All specialities

- Over 500 practices
- Over 1,600 veterinary surgeons
- Over 2,000 nurses

- Sector has proven resilient in past economic downturns



- UK Nationwide coverage
- Significant expertise
- HPC

- Commitment to industry leading clinical standards

- Track record of growth
- Experience of multi-site retail / consumer
- Clinical expertise

Opportunity for value creation from

- Multiple organic growth initiatives
- Acquisitions where suitable (fit and scale)
- Increasing differentiation through service offer
- Highest clinical standards

Appendices

Cash Generated from Operations

	31 December 2018 £m	31 December 2017 £m	Year ended 30 June 2018 £m
Profit for the year	0.8	4.9	10.7
Taxation	0.8	1.3	3.4
Total finance costs	1.8	1.9	3.6
Amortisation of intangible assets	11.3	9.3	18.4
Depreciation of property, plant and equipment	4.6	3.8	8.0
Decrease/(increase) in inventories	0.2	-	0.3
Decrease/(increase) in trade and other receivables	1.7	1.8	(4.9)
(Decrease)/increase in trade and other payables	(1.8)	2.6	5.9
Share option expense	0.2	0.9	1.3
Total cash flows from operating activities	19.6	26.5	46.7

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

Acquisitions in the Interim Period

CVS now has 504 surgeries across the UK, The Netherlands and Republic of Ireland with 23 surgeries acquired in the period from the following acquisitions:

Acquisitions during the year	Location	Business
<i>UK practices:</i>		
Slate Hall	Cambridgeshire, Lincolnshire, Herefordshire, Shropshire	Farm animal (Poultry)
Corner House Equine Clinic	Warwick and Worcestershire	Equine
Endell Veterinary Group	Salisbury	Equine, farm and small animal
Beechwood Veterinary Centre	Leeds	Small animal
Towy Vets	Carmathen	Small animal
Arbury Road Veterinary Centre	Cambridge	Small animal
Briar Dawn Veterinary Centre	Manchester	Small animal
Kirkby Vets	Liverpool	Small animal

Acquisitions during the year	Location	Business
Harrier Veterinary Surgery	Southampton	Small animal
Pinfold House Veterinary Clinic	Doncaster	Small animal
Bond Street Veterinary Clinic	Macclesfield	Small animal
Boundary Veterinary Clinic	Manchester	Small animal
Ashfield Veterinary Surgery	Lanchester	Small & Farm Animal
Yew Tree Veterinary Surgery	Manchester	Small animal
Silverton Veterinary Practice	Torquay, Brixham, & Paignton	Small Animal
Beech House Veterinary Surgery	Radcliffe	Small Animal

Acquisitions in the Interim Period

CVS now has 504 surgeries across the UK, The Netherlands and Republic of Ireland with 22 surgeries acquired in the period from the following acquisitions:

Acquisitions during the year	Location	Business
<i>Northern Ireland practices:</i>		
Camlas Petcare Vets	Welshpool	Small Animal
Campsie	Omagh	Small & Farm Animal
St Elmo Veterinary Clinic	Londonderry	Small Animal
Spires Veterinary Clinic	Omagh	Small Animal
<i>Republic of Ireland practices:</i>		
Gilabbey Veterinary Hospital	Republic of Ireland	Small animal

Acquisitions during the year	Location	Business
<i>The Netherlands practices:</i>		
Dierenkliniek Fischer Bolsward	Bolsward, Netherlands	Small animal
Dierenkliniek Noordwolde	Noordwolde, Netherlands	Small animal

Thank You

Any Questions?

