CVS Group PLC

Annual Results Presentation
for the year ended 30 June 2019

27 September 2019

CVS Group
Passionate about animal care

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Agenda

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CVS Overview

We remain the UK's leading integrated provider of veterinary services focused on delivering the highest levels of clinical outcomes and care…

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- Integrated model provides end to end veterinary services and experience to our clients:
    - First opinion services across companion animal, equine and farm species
    - 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 animal and equine clients
    - Animed Direct, a rapidly growing online pharmaceutical, food and accessory retailer
    - MiPet Insurance, a nascent complementary business
- CVS has expanded into the Republic of Ireland and the Netherlands providing new opportunities for future growth
- The group ensures robust clinical and operational governance across the business, adopting the RCVS Practice Standards scheme in all practices and monitoring performance through an industry leading Quality Improvement process

Highlights

Considerable improvement in the second half

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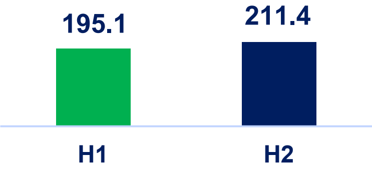
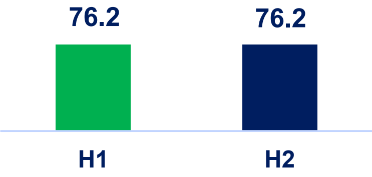
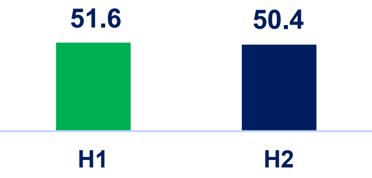
Revenue (£m)



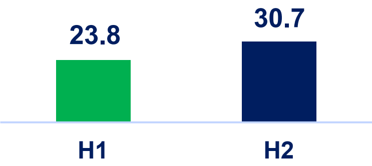
Gross Margin (%)



Empl. Costs (%)



Adj. EBITDA (£m)



- Revenue of £406.5m, +24.2% (2018: £327.3m)
  - Group LFL Revenue Growth 5.2% (2018: 4.9%)
  - Practice LFL Growth[1] of 4.3% (2018: 2.9%)
- Gross Margin reduced YoY to 76.2% (increased Farm mix and acquisition of Slate Hall)
  - Gross margin excluding Slate Hall of 79.0% (2018: 79.6%)
- Employment costs reduced to 50.9% (2018: 51.9%)
  - Veterinary surgeon vacancy rate reduced to 8.4% in H2 2019 (vs 12.5% peak, April 2018)
- Adjusted EBITDA of £54.5m, 14.5% above prior year (2018: £47.6m)
- Adjusted EPS of 46.7p, 10.1% above prior year (2018: 42.4p)

1. Practices LFL growth stated is for core Small Animal, Referrals, Equine and Farm practices and excludes Buying Groups & Other and intra-group elimination. This basis will be used going forwards as a fairer reflection of Practices growth

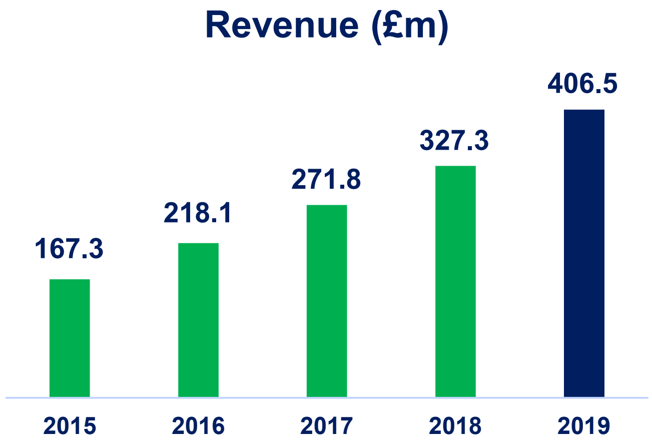
Highlights (continued)

Continued cash generation and strong trading 2020 YTD

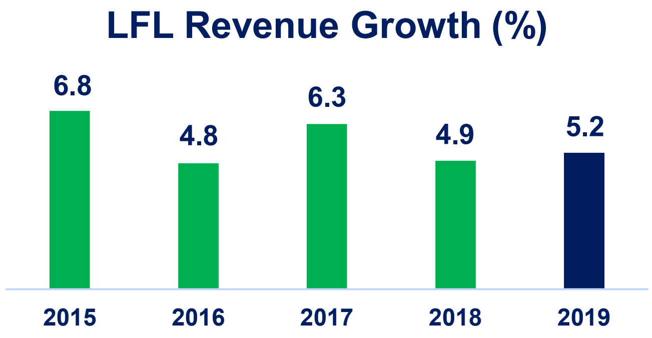
- Proposed 10% increase in dividend to 5.5p (2018: 5.0p)
- Leverage of 2.08x at 30 June 2019 (31 December 2018: 2.40x, 30 June 2018: 1.44x)
- Continued good cash conversion with Free Cash Flow of £32.5m (2018: £29.8m)
- Continuing H2 improvements with strong YTD trading in FY 2020

Full Year Results
Revenue Growth +24.2% and LFL Growth +5.2%

Continuing track record of significant revenue growth with improving LFL growth



- Strong organic growth of £32.2m in addition to growth from acquisitions in the year which generated revenue of £47.0m (and which performed in line with plan)
- Practice Division continues to generate c.88% of Group revenue
- Farm revenues have increased significantly to 9.5% of Group revenue(2018: 3.9%)

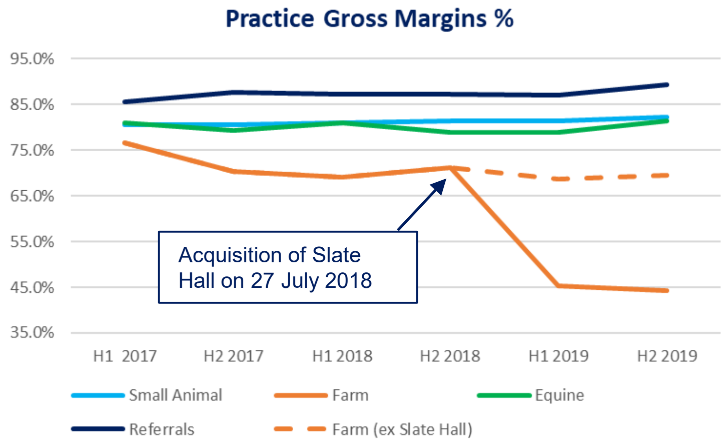


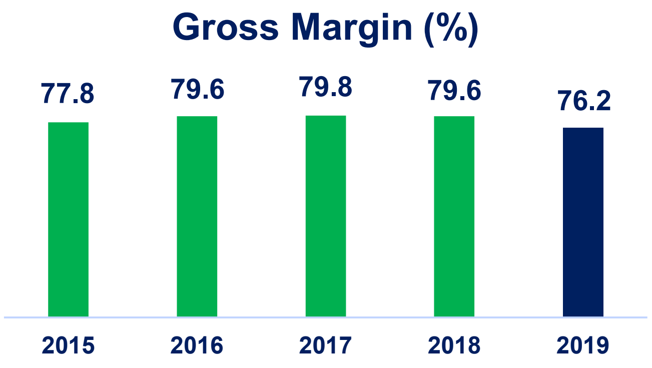
- Group LFL revenue growth improved significantly in H2 2019 to 6.4%
- Practices Division Growth[1.] of 4.3% for the full year and 5.3% in H2 2019

1. Practices LFL growth stated is for core Small Animal, Referrals, Equine and Farm practices and excludes Buying Groups & Other and intra-group elimination

Gross Margin

Gross margin increased in majority of business
Increased mix from Farm practices where margin lower

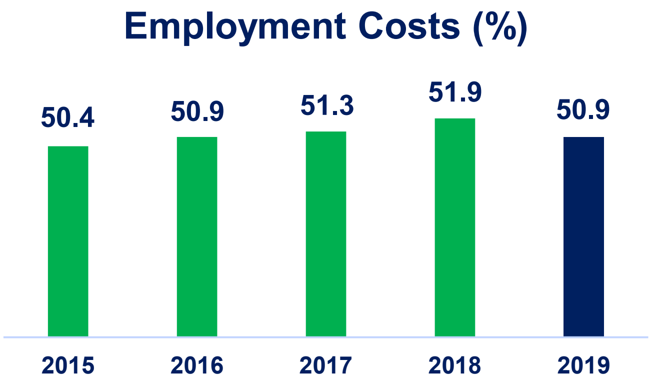




- Gross Margins in Small Animal, Referrals and Equine improved
- Increase of Farm to 9.5% of Group Revenue in 2019 (2018: 3.9%) where margins naturally lower
- Multiples paid for Farm practices are lower

Employment Costs Reduced

Employment costs down to 50.9% for the full year, with reduced clinical vacancy rates in H2 also contributing to improved profitability

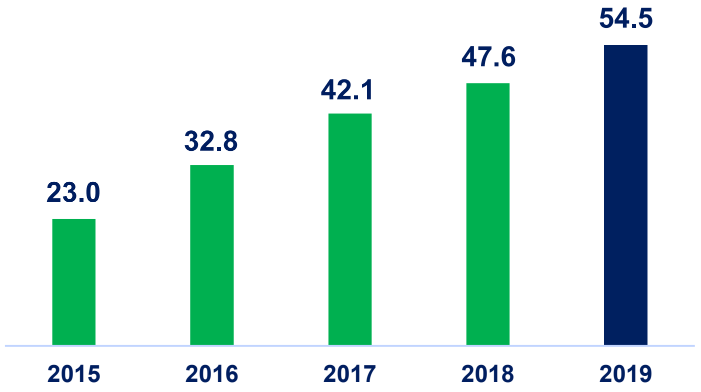


- Employment costs reduced in 2019 to 50.9%, a 1ppt reduction from prior year
- The upward trend in the previous financial years had been driven by a shortage of veterinary surgeons and nurses, leading to salary inflation and increased use of locums
- Veterinary surgeon vacancy rate successfully managed down:
  - Reflects a number of actions taken
  - Average of 8.4% in H2 (vs. peaked of 12.5% April 2018)
- H2 2019 employment costs reduced to 50.4% primarily as a result of:
  - Improved retention of clinical staff
  - Improved operational disciplines around use of Locums

Improved Profitability

Adjusted EBITDA of £54.5m representing 14.5% growth on prior year…

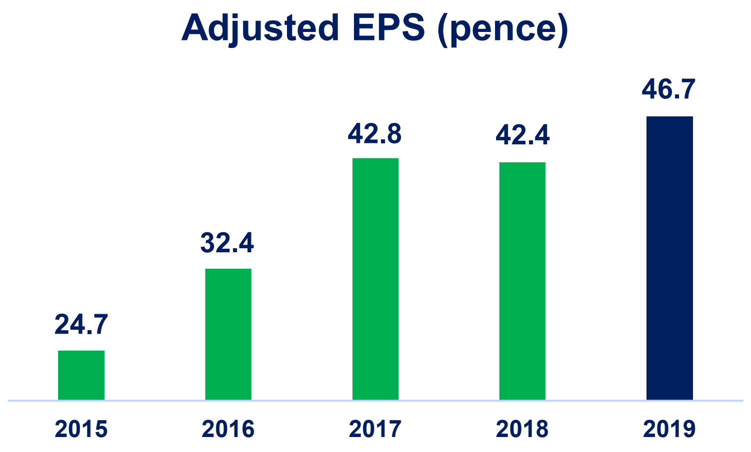
Adjusted EBITDA (£m)

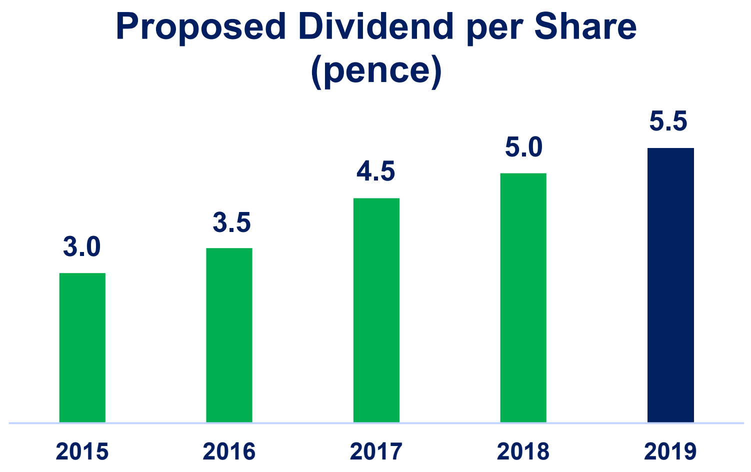


- Continued growth in Adjusted EBITDA
- 2019 Adjusted EBITDA of £54.5m, 14.5% above prior year
- EBITDA margin of 13.4% for the financial year, a reduction of 1.1ppts from the prior year of 14.5%
- EBITDA margin in H2 2019 was 14.5%
- Acquisitions in the year generated EBITDA of £5.5m (in line with plan)

Increase in Shareholder Returns

10.1% increase in Adjusted Earnings Per Share



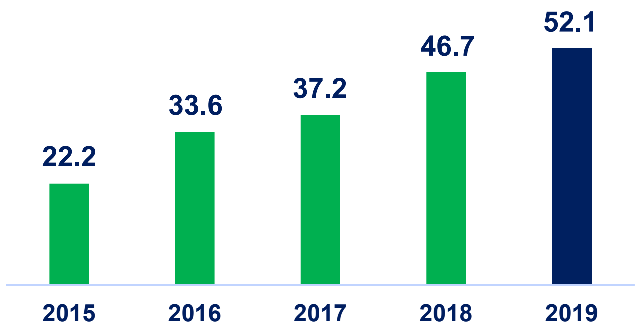


- Return to Adjusted EPS growth in 2019
- Result of actions taken on revenue growth and cost control

- Proposed 10% dividend per share increase to 5.5p reflects:
  - Improved operating & financial performance in H2
  - Resulting improved EPS performance
  - Significant reduction in acquisitions
- Dividend to be payable on 6 December 2019 based on share register as at 22 November 2019

Cash Flow

CVS remains highly cash generative



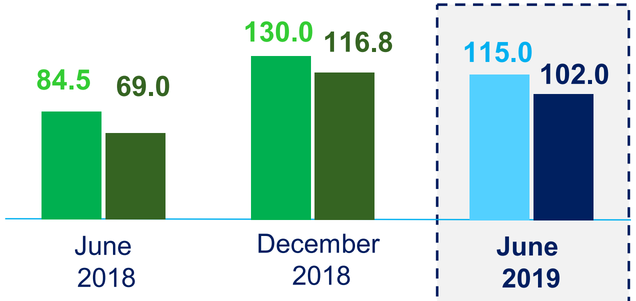
Free Cash Flow	2019 £m	2018 £m
Adjusted EBITDA	**54.5**	**47.6**
Working Capital Movements	1.4	0.9
Deferred Consideration on past acquisitions	(3.8)	(1.8)
Cash Flow generated from Operations	**52.1**	**46.7**
Capital Expenditure - Maintenance	(8.9)	(7.6)
Business Operating Cash Flow	**43.2**	**39.1**
Operating Cash Conversion (%)	*79%*	*82%*
Taxation paid	(7.3)	(6.2)
Net interest paid	(3.4)	(3.1)
Free Cash Flow	**32.5**	**29.8**

- Continued increase in Cash Flow generated from Operations
- 2019 Cash Flow generated from Operations of £52.1m is 11.6% above prior year
- Internal metric: Business Operating Cash Flow (Operating cash flow post maintenance Capex)
  - Business Operating Cash Conversion of 79% (2018: 82%)
  - Reduction due to higher deferred consideration payments and increase in maintenance capex
- Free Cash Flow increased to £32.5m, 9.1% above prior year

Leverage and Funding Headroom

Leverage of 2.08x at 30 June 2019
Considerable headroom in bank facilities and covenants

Gross and Net Bank Debt (£m) [1]



	June 2018	December 2018	**June 2019**
Leverage[2]	**1.44x**	**2.40x**	**2.08x**
Interest Cover[3]	**15.34x**	**15.60x**	**14.55x**

- Gross Bank Debt, Net Debt & Leverage all reduced in H2 2019 (YoY increase due to acquisition spend of £56.6m, primarily H1 2019)
- Committed facilities to November 2021 (non amortising):
  - Term Loan £95m
  - RCF £95m
  - Overdraft £5m
- Leverage of 2.08x at 30 June 2019
- Significant headroom in facilities and covenants:
  - Facility: RCF £75m undrawn plus £5m Overdraft
  - Leverage covenant: maximum 3.25x vs actual of 2.08x
  - Interest Cover: minimum 4.5x vs actual of 14.55x

[1] Left and right hand bars respectively
[2] Net Debt / Adjusted annualised EBITDA
[3] Adjusted annualised EBITDA / Net Interest

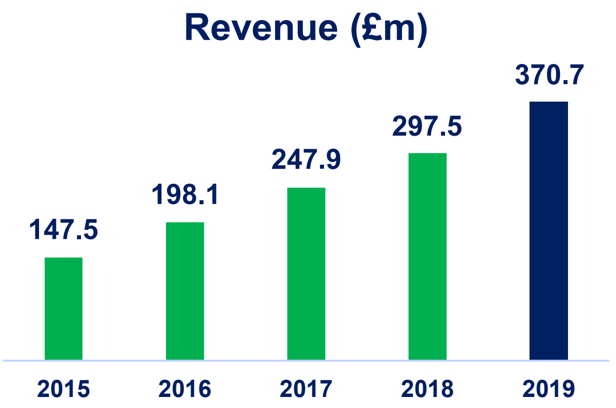
Divisional Updates – Practices

Veterinary practices remain the core of our business, with a culture of achieving great clinical outcomes

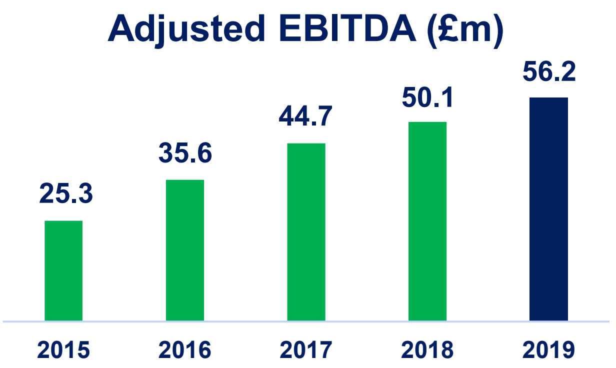
- 510 Surgeries currently, of which 8 are referral hospitals:
  - 479 in The UK
  - 25 in the Netherlands
  - 6 in Ireland
- Over 1,600 veterinary surgeons, including 75 Specialists across all disciplines
- Over 2,300 nurses
- Small Animal, Referrals, Equine and Farm
- Robust clinical governance standards
  - All practices participate in the RCVS Practice Standards Scheme (118 'Outstanding' awards)

Divisional Updates – Practices (continued)

Revenue of £370.7m +24.6% vs. prior year, LFL growth of 4.3%[1]



- Continued track record of strong growth
- Referral revenue increased by 22% following the recruitment of new specialists and increased in-house referrals
- Farm Revenue trebled in the year to £38.5m, largely driven by the acquisition of Slate Hall in July 2018
- Acquisitions in year generated revenue of £47m

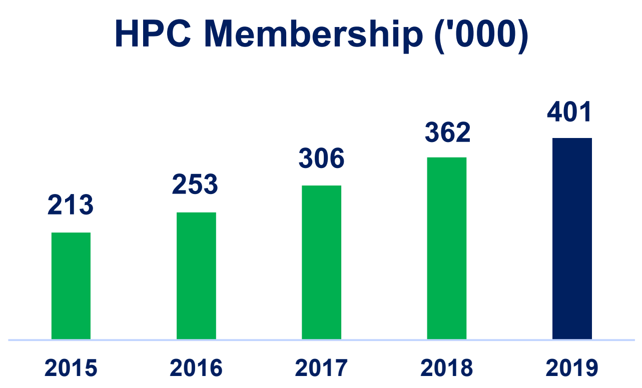


- Adjusted EBITDA increased by 12.2% to £56.2m
- Adjusted EBITDA margin reduced to 15.2% from 16.8% in prior year due to increase in Farm business at lower margin and employment cost pressures in H1 2019

1. Practices LFL growth stated is for core Small Animal, Referrals, Equine and Farm practices and excludes Buying Groups & Other and intra-group elimination

Divisional Updates – Practices (continued)

Continuing significant growth in HPC (preventative medicine loyalty scheme)



- Membership growth of 10.8% in the year
- Preventative medicine scheme promotes wellbeing in our patients and which leads to a stable (predictable) recurring revenue stream
- Price increases (c.12%) applied from February 2019 to reflect growing package of benefits
  - to roll through the book over following 12 months
- Healthy Horse Programme launched in January 2018
  - growth to 7,000 members at year end (2018: 3,000)

Divisional Updates – Practices (continued)

We still have untapped organic opportunities from a number of initiatives

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MiNightVet
Emergency Care

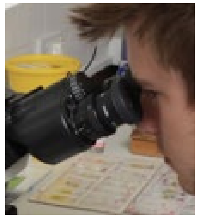
- 22 out of hours specialist centres providing support services to CVS and third party independent practices
- Three new sites opened in 2019, further eight new sites in pipeline

- Continued expansion of MiPet products
  - currently 25% of small animal practice sales
  - first Equine product launched
- New warehouse management system in FY2020 to facilitate further growth and margin enhancement

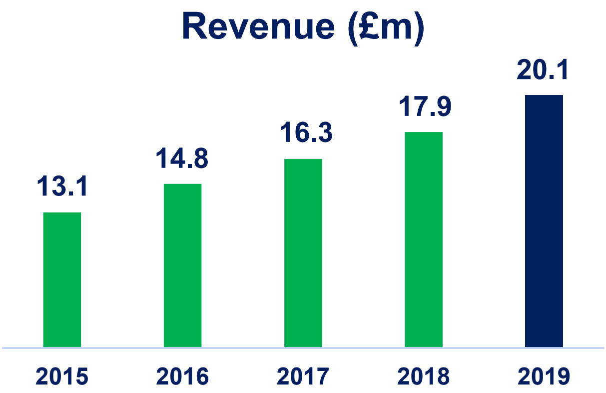
- Increased Referral offering
  - new specialists recruited to improve clinical outcomes
- New Peripatetic Referral service launched
  - offers greater coverage & local accessibility of specialist expertise

Divisional Updates – Laboratories

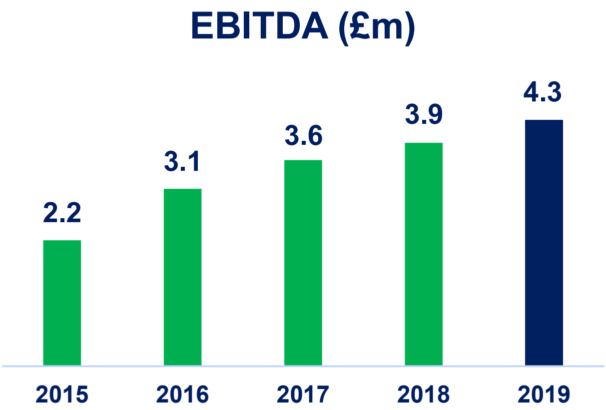
Laboratory Revenue and EBITDA continue to increase



- In-house Laboratories support better clinical outcomes with overnight testing across an increasing range of laboratory tests



- Revenue growth of 12.4% in the year
- Price increases applied January 2019
- Reagent revenue increased by 21% in the year
- Further diagnostic tests available

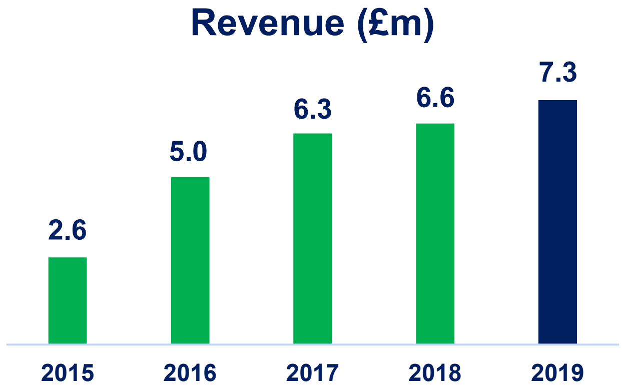


- EBITDA growth of 10.3% in the year
- EBITDA margin of 21.4% (2018: 21.9%)

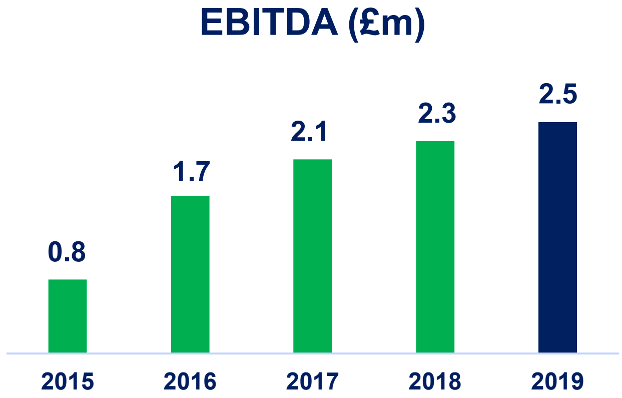
Divisional Updates – Crematoria

Continuing to generate Revenue and EBITDA growth

- Crematoria business continues to provide a premium offer, responding to the demand for higher value individual cremations



- Revenue growth of 10.1% in the financial year
- Increased volume of cremations (+10.4% vs. prior year)



- EBITDA growth to £2.5m, +8.8% vs prior year
- EBITDA margin flat at 34.2%
  - opportunity to increase through a shift in mix towards higher value individual cremations

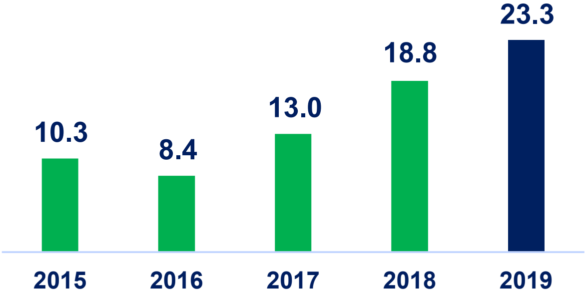
Divisional Updates – Animed Direct

Revenue growth of 24%, EBITDA growth of 40%

Animed
Cutting the cost of pet care

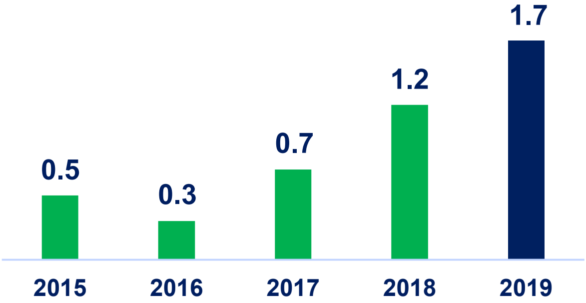
- Online retail business complements our first opinion practices

Revenue (£m)



- Revenue growth of 24.3% in the financial year
- Driven by a continued increase in
  - Unique customer numbers (+19.6% vs prior year); and

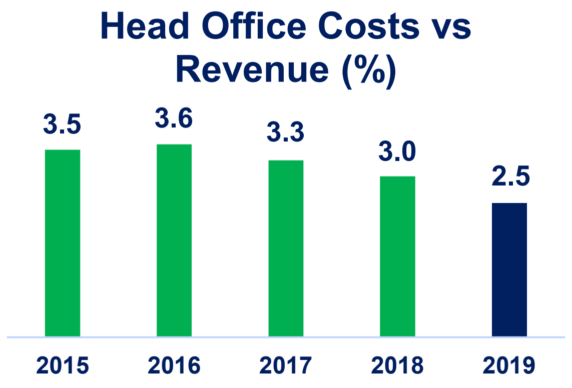
EBITDA (£m)



- EBITDA increased to £1.7m, 40% above prior year from higher average transaction values
- EBITDA margin increased to 7.2% (2018: 6.4%)

Head Office Costs

Continuing to obtain efficiencies in Head Office costs, down to 2.5% of Revenue



- Head office costs continue to be closely managed and reduced to 2.5% of revenue in 2019
- Reflects both efficiency improvements and cost savings delivered in H2 2019
  - A third of the £1.2m cost savings generated in H2 2019 were in Head Office costs
- Head Office support to Ireland and Netherlands based practices will evolve with increased scale
  - Towards localised support and away from current reliance on third parties

Capital Expenditure

Requirements remain modest, opportunities to invest in further growth

- Total Capex of £12.9m* in 2019 (2018: £10.7m)
- Maintenance Capex of £8.9m (2018: £7.6m)
- Investment Capex of £4.0m (2018: £3.1m)

* Excludes Capitalised amounts arising from acquisitions

Continuing Enhancement of Management and Controls

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Personnel additions, empowerment, better reporting, more internal KPIs and controls

- Adoption of FRC's UK Corporate Governance Code
- Strengthened management team:
  - Promotion of Ben Jacklin to Director of Practice Operations
  - Executive Committee strengthened with the appointment of Charlotte Pugh (Small Animal Director of Operations) and James Cahill (Operations Director International & Equine)
  - Improved management of The Netherlands practices
- Conscious change in management style empowering local practices
- Enhanced Exec and Board reporting
- New suite of daily and weekly KPIs to track and monitor performance
- Enhanced approach to acquisition appraisal and assessment
- New process to oversee and monitor Locum use
- New Capital Expenditure review and approval process
- Improved Cash Flow forecasting

Current Trading (FY2020 Year to Date) & Outlook

Strong start to the current year on key metrics (two months to 31 August 2019)

- Group LFL Revenue growth and Practices LFL Revenue growth[1] trending above FY19 levels

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- Gross Margin stable at just above the 76.2% in H2 2019

- Employment costs improvement vs. 50.4% in H2 2019
- Vet vacancy rate showing further improvement from H2 2019 level

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- Borrowings reduced to £110m as at 31 August 2019
- Leverage reduced to 1.94x as at 31 August 2019

Positive Outlook

- Encouraging start to the year and multiple growth opportunities
- Strong cash generation
- Resilient business – integrated model
- Mitigating actions for Brexit

1. Practices LFL growth stated is for core Small Animal, Referrals, Equine and Farm practices and excludes Buying Groups & Other and intra-group elimination. This basis will be used going forwards as a fairer reflection of Practices growth

Further Growth Opportunities

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1. Organic growth opportunities (untapped or extension of existing initiatives) include:

- Enhanced clinical work leading to better clinical outcomes and increased revenue
- Growth of preventative medicine schemes
- Extended out of hours provision from in-house specialists
- Increased own brand products
- Referrals growth (new specialist recruits, internal referrals and new Peripatetic services)
- Expanded Laboratory testing (Farm and Equine)
- New Gold leaf Cremation service
- Continued growth of Animed Direct (advertising, product range expansion)
- Margin enhancement (vertical integration, internalisation of supplies, efficiencies and cost savings)

Further Growth Opportunities (continued)

2. Promotion and continuous improvement of clinical excellence and service:

- Leading the industry in delivering best clinical outcomes and maintaining the highest standards is key to attracting and retaining the best vets
- Delivery of best customer service and care of animals to further enhance reputation
- Monitoring of performance to assure maintenance of standards / share best practice

3. Using free cash to invest in the business:

- People
- Practices
- Clinical Facilities
- Systems

4. Selective Acquisitions and investment in Greenfield sites:

- Where strategically and commercially attractive (Practices, Laboratories, Crematoria)

CVS Summary

Integrated veterinary model + culture of clinical excellence drives competitive advantage

Provides a strong platform for future growth

- Favourable market and customer trends
- Competitive advantage through integrated veterinary platform
- Year on year growth in key operational performance measures
- Multiple future organic growth opportunities
- Strong free cash to continue investing in people, specialists, facilities and clinical excellence
- Selective acquisitions where strategically compelling

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Any Questions?

Appendices

Robust Investment Case

Strong fundamentals and platform upon which to grow and deliver sustainable shareholder returns

Scale Benefits	CVS has good coverage across the UK, with an established operational platform in the Republic of Ireland and the Netherlands across all species, with over 500 veterinary practices
Integrated Model	CVS is the leading provider of integrated veterinary services 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
Barriers to Entry	The Group's integrated model, scale, expertise and UK nationwide coverage provide significant competitive advantage. HPC also makes up c.40% of our small animal client base bonding customers to our practices
Excellent Clinical Standards	CVS prides itself on delivering the highest clinical care and outcomes. The Group's clinical standards are under continuous development with 118 RCVS Practice Standard Outstanding 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 highly attractive having proven resilient in past economic downturns

Adjusted EBITDA, Adjusted PBT and Adjusted EPS

Reconciliations of key adjusted numbers are set out below…

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	2019 £m	2018 £m
Profit before income tax	11.7	14.1
Adjustments for:		
Finance expense	3.9	3.6
Depreciation	9.2	8.0
Amortisation	22.2	18.4
Costs relating to business combinations*	7.2	3.5
Exceptional items	0.3	0.0
Adjusted EBITDA	**54.5**	**47.6**

* Includes amounts paid in respect of acquisitions in prior year expensed to the income statement

	2019 £m	2018 £m
Earnings attributable to Ordinary shareholders	8.2	10.7
Add back taxation	3.5	3.4
Profit before taxation	11.7	14.1
Adjustments for:		
Amortisation	22.2	18.4
Costs relating to business combinations	7.2	3.5
Exceptional items	0.3	0.0
Adjusted PBT	**41.4**	**36.0**
Tax charge amended for the above adjustments	(8.5)	(7.8)
Adjusted profit after income tax and earnings attributable to Ordinary shareholders	32.9	28.2
Weighted average number of Ordinary shares in issue	70,506,476	66,369,383
Adjusted EPS	**46.7p**	**42.4p**

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 taxation, amortisation, costs relating to business combinations and exceptional items

Adjusted earnings per share is calculated as adjusted profit before income taxation less an appropriate tax charge to derive adjusted profit after taxation divided by the weighted average number of ordinary shares in issue in the year

Income Statement

CVS Group
Passionate about animal care

	2019 £m	2018 £m
Revenue	**406.5**	**327.3**
Cost of sales	(237.6)	(175.7)
Gross profit	**168.9**	**151.6**
Administrative expenses	(153.3)	(133.9)
Operating Profit	**15.6**	**17.7**
Finance expense	(3.9)	(3.6)
Profit before income tax	**11.7**	**14.1**
Income tax expense	(3.5)	(3.4)
Profit for the year	**8.2**	**10.7**
Earnings per ordinary share		
Basic	11.6p	16.0p
Diluted	11.6p	15.9p

Note:
Income tax expense is higher than the standard rate of 19% due to expenses not deductible for tax purposes, the effect of tax rate change on opening deferred tax balances and adjustments in respect of prior years

Statement of Financial Position

CVS Group
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	2019 £m	2018 £m
Non-current assets		
Intangible assets	244.5	203.5
Property, plant and equipment	51.4	47.9
Investments	0.1	0.1
Deferred income tax assets	0.2	0.6
Derivative financial instruments	0.1	0.2
	296.3	252.3
Current assets		
Inventories	17.0	13.5
Trade and other receivables	51.6	38.2
Cash and cash equivalents	12.5	15.0
	81.1	66.7
Total assets	**377.4**	**319.0**
Current liabilities		
Trade and other payables	(73.7)	(53.9)
Current income tax liabilities	(4.9)	(3.6)
Borrowings	(0.3)	(0.5)
	(78.9)	(58.0)
Non-current liabilities		
Borrowings	(114.2)	(83.5)
Deferred income tax liabilities	(21.2)	(19.8)
	(135.4)	(103.3)
Total liabilities	**(214.3)**	**(161.3)**
Net assets	**163.1**	**157.7**

Cash Flow Statement

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	2019 £m	2018 £m
Cash flows from operating activities		
Cash generated from operations	52.1	46.7
Taxation paid	(7.3)	(6.2)
Interest paid	(3.4)	(3.1)
Net cash generated from operating activities	**41.4**	**37.4**
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(56.6)	(50.3)
Purchase of property, plant and equipment	(11.9)	(10.2)
Purchase of intangible assets	(1.0)	(0.5)
Net cash used in investing activities	**(69.5)**	**(61.0)**
Cash flows from financing activities		
Dividends paid	(3.5)	(2.9)
Proceeds from issue of Ordinary shares	0.6	61.0
Debt issuance costs	(0.3)	(0.3)
Increase in borrowings	28.8	0.0
Repayment of borrowings	0.0	(26.0)
Net cash generated from financing activities	**25.6**	**31.8**
Net (decrease) / increase in cash and cash equivalents	**(2.5)**	**8.2**
Cash and cash equivalents at the start of the year	15.0	6.8
Cash and cash equivalents at the end of the financial year	**12.5**	**15.0**

Acquisitions 2020 YTD

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Two acquisitions completed in 2020 YTD…

- **Lissenhall Veterinary Hospital, Swords, Co Dublin, Ireland**
- Completed 8 August 2019
- Main site in Swords with two small branch clinics
- Small Animal only
- 4 Veterinary surgeons
- Exclusive quarantine centre for the Republic of Ireland

- **Dierenkliniek Gooiland B.V., Weesp, Amsterdam Area, Netherlands**
- Completed 19 September 2019
- Single site
- Predominantly Small Animal with limited Equine
- 4 Veterinary surgeons

Impact of IFRS 16

Implement required in FY 2020: significant impact on financial statements

- IFRS 16 Leases came in to effect on 1 January 2019 and hence will apply to CVS in FY 2020. The standard introduces significant changes in lease accounting and will have a material impact on amounts recognised in our income statement and statement of financial position
- The transition approach adopted by the Group will result in the recognition of right of use assets and lease liabilities of approximately £111.5m in respect of leased properties, vehicles and equipment previously accounted for as operating leases. There will be no impact on shareholders' equity
- The Group will recognise a finance charge on the lease liability and a deprecation charge on the right of use asset, whereas previously the Group included lease rentals within Administrative expenses

Thank You

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