CVS Group plc

("CVS", the "Company" or the "Group")

Interim report for the six months to 31 December 2017

CVS, one of the UK's leading providers of integrated veterinary services, is pleased to announce its interim results for the six months ended 31 December 2017.

Financial highlights

	Six months ended 31 December 2017 (Unaudited)	Six months ended 31 December 2016 (Unaudited)	Change[4] %
Revenue (£m)	**157.8**	**129.4**	21.9
Adjusted EBITDA (£m) [1]	**24.0**	**20.7**	15.5
Adjusted profit before income tax (£m)[2]	**18.3**	**16.5**	10.8
Adjusted earnings per share (pence) [3]	**22.9**	**21.5**	6.5
Operating profit (£m)	**8.1**	**9.5**	(14.1)
Profit before income tax (£m)	**6.2**	**8.0**	(21.3)
Basic earnings per share (pence)	**7.8**	**10.4**	(25.0)

- Sales growth of 21.9%
- Like-for-like sales increase of 5.6%
- Adjusted EBITDA up at £24.0m (15.5%)
- Adjusted EPS 22.9p (6.5%)
- Net debt £116.9m (June 2017: £100.0m)
- 30 practice surgeries acquired during the period and 4 after the period end

[1] Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items.

[2] Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.

[3] Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue during the period.

[4] Percentage increases have been calculated throughout this document based on the underlying values.

A copy of this announcement and the interim results report are available on the Company's website at www.cvsukltd.co.uk.

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Chairman's statement

Introduction

I am pleased to announce the results of CVS Group plc for the six month period ended 31 December 2017. The Group has delivered another strong set of results showing further growth in revenue and underlying profit, generated both organically and through acquisitions.

Results

Group revenue was £157.8m in the half year, growing by 21.9% (2016: £129.4m). Whilst a substantial proportion of the increase came from acquisitions, like-for-like sales grew strongly by 5.6% (adjusted for one less day trading in the period compared to the prior half year).

Adjusted EBITDA rose by 15.5% to £24.0m (2016: £20.7m).

Operating profit was lower at £8.1m (2016: £9.5m) reflecting the increase in adjusted EBITDA offset by the amortisation of intangible assets, deferred consideration and the costs of acquisitions. Adjusted profit before tax, which excludes the amortisation of intangible assets, increased by 10.8% to £18.3m (2016: £16.5m) and adjusted earnings per share rose by 6.5% from 21.5p to 22.9p due to the significant increase in adjusted EBITDA. The earnings per share figures have not increased by as much as profit after tax due to the share placing in December 2016 which increased the number of shares in issue. The placing raised additional funds for acquisitions but the full impact of that expenditure has not yet fed through into the results.

Basic earnings per share fell from 10.4p to 7.8p reflecting the higher EBITDA but also the increased amortisation of intangible assets, the costs of deferred consideration, the cost of acquisitions and the higher number of shares in issue.

Cash generated from operations increased to £26.5m (2016: £19.3m) due to improved trading. Net debt increased to £116.9m (June 2017: £100.0m) after funding £30.2m (including debt acquired) of acquisitions in the period.

Acquisitions

The six months to 31 December 2017 continued the high pace of acquisition activity of the previous year. 30 surgeries were acquired including six in The Netherlands as shown below:

Practice name	Sites	Main locations	Region & Country	Business
Cundall & Duffy	1	Scarborough	N.E. England	Small & farm animal
Strule Vet Services	2	Omagh and County Tyrone	Northern Ireland	Small & farm animal
Dierenkliniek Wolvega	1	Wolvega	The Netherlands	Small animal
B & W Equine	5	Breadstone, Cardiff, Failand, Stretcholt and Willesley	S.W. England; S. Wales	Equine
Aire	1	Leeds	N England	Small animal, farm animal & equine
Dierenkliniek Emmeloord	1	Emmeloord	The Netherlands	Equine

All Creatures Veterinary Centre	1	Warrington	N.W. England	Small animal
Acorn Veterinary Centre	1	Studley	C. England	Small animal
Three Valleys Veterinary	2	Fivemiletown, Irvinestown	Northern Ireland	Small & farm animal
Dierenkliniek Vrieselaar	1	Lemmer	The Netherlands	Small animal
Buchan Vets	3	Strichen, Peterhead, Fraserburgh	Scotland	Small animal, farm animal & equine
Ashburn Veterinary Centre	1	Knighton	S. Wales	Small & farm animal
MS Vets	1	Reading	S.E. England	Small animal
Ruddington Vets	2	Ruddington, East Leake	E. Midlands	Small animal
Victoria Veterinary Clinic	1	Bristol	S.W. England	Small animal
Dierenartsenpraktijk NordOostpolder	1	Emmeloord	The Netherlands	Farm animal, small animal & equine
Beacon	2	Aspatria, Silloth	N.W. England	Farm animal, small animal & equine
Wessex Equine	1	Thornhill	S.W. England	Equine
Dierenkliniek Sneek	2	Sneek, St. Nicolaasga	The Netherlands	Small animal

A total of £30.2m (including debt acquired) was paid for the acquisitions in the period. Based on the last set of accounts publicly available for each business, the aggregate historical annualised turnover and EBITDA of these businesses was approximately £22.1m and £2.5m respectively.

Subsequent to 31 December 2017, the Group acquired a further 4 surgeries as set out below:

Practice name	**Sites**	**Main locations**	**Region & Country**	**Business**
Ashman Jones	2	Bath, Widicombe	S.W. England	Small animal
The Equine Veterinary Centre	1	Doncaster	N.E. England	Equine
Thompsons Veterinary Surgery	1	Sutton-in-Ashfield	E. Midlands	Small animal

The provisional cash consideration for these acquisitions is approximately £3.5m.

The acquisition of further practices in the UK has continued the geographic development of the Group across the country and has further developed the large animal and equine as well as the small animal businesses. The acquisitions in Northern Ireland bring our total number of sites there to 8 whilst the acquisitions in the Netherlands bring our total there to 15. Of particular note is the development of the equine business with the acquisition of B&W Equine in the UK and of Dierenkliniek Emmeloord, our first equine business in the Netherlands.

The pipeline of acquisitions remains strong and CVS expects to continue to complete acquisitions in the UK and the Netherlands throughout this year and beyond. Our diverse, integrated model means that acquired businesses not only contribute towards our continuing success, but also benefit from being part of a larger integrated group better able to serve customers' needs.

Divisional performance

Practice Division

At the half year, the Practice Division operated 453 veterinary surgeries (June 2017: 423), 438 across the UK and 15 in The Netherlands. Subsequent to the half year this has increased to a total of 457 (442 in the UK and 15 in The Netherlands). The surgeries operate under a number of well-established local brands, primarily focused on the small animal market. We estimate that CVS has in excess of a 14% share of the UK small animal veterinary market.

Practice revenues were £143.1m, a 20.8% increase on the £118.4m achieved in the prior period. Like-for-like sales growth of 2.8% generated about £2.7m of additional revenue; the annualisation impact of prior year acquisitions and greenfield sites added £17.3m and current period acquisitions and greenfield sites added a further £4.7m.

The gross margin in the practices increased from 80.3% to 80.6% with improvements being in the like-for-like business and reflecting an increase in the proportion of sales of services compared to drugs.

Adjusted EBITDA for the Practice Division grew by 13.7% from £22.0m to £25.0m. The adjusted EBITDA margin fell from 18.6% to 17.5%. The EBITDA percentage was broadly flat in the like-for-like practices; however, the overall percentage was reduced by recent acquisitions which have not yet reached their potential and the greenfield sites and MiPet Cover business which are not yet profitable.

The Healthy Pet Club schemes have grown significantly with membership at 31 December 2017 of approximately 340,000 pets, an increase of over 11% over the six month period. Income from Healthy Pet Club schemes represented 13.1% of the income of the division for the six month period down from 13.4% in the comparable period. In the like-for-like practices the percentage decreased from 16.9% to 15.4%. The fall in these percentages reflect the relatively high level of acquisitions of equine businesses where the Healthy Pet Club membership as a proportion of sales is much lower than for small animal practices. The schemes offer discounted products and services aiming to improve clinical compliance levels amongst members and to protect practice sales by bonding pet owners to their local CVS surgery.

The Group continues to develop and improve its estate. We have now opened five new small animal sites. In January and February 2016 two small sites were opened in Beccles and Lawley and both became profitable after about one year. We have now opened three larger greenfield sites (Smethwick in January 2017, Norwich in November 2017 and Bracknell in December 2017) and will be monitoring their progress closely. Further opportunities for a small number of new sites will be sought in order to gain experience in their development.

Our referrals business has developed strongly in the period: following some change in management and the recruitment of additional specialists, trading at Lumbry Park has shown a marked improvement; Manchester Veterinary Specialists, which opened in February 2017, has shown excellent progress; and in September 2017 a major refurbishment was completed at Chestergates, including the installation of a CT scanner and a new MRI machine.

MiPet Cover, our own insurance product, was launched in August 2017. The product has been designed by vets and aims to bond our customers even more closely to our practices. The Group does not take on any insurance underwriting risk. The insurance has been well received by our staff and customers. The business is expected to take some time to develop as it currently makes a small loss.

Laboratory Division

Our laboratories provide diagnostic services and in-practice laboratory analysers to third party owned veterinary surgeries as well as our own practices. Diagnostic services are offered via post and courier allowing complete coverage of the UK.

Total revenues grew by 12.6% to £8.8m (2016: £7.8m). The gross margin percentage fell from 65.6% to 64.6% reflecting the growing contribution of our in-house analyser business which has a lower gross margin than the diagnostics business. Adjusted EBITDA increased by 13.1% to £1.9m (2016: £1.7m).

Crematoria Division

Crematoria revenues fell marginally to at £3.2m (2016: £3.3m) as the business lost of a number of customers when they were acquired by other corporate veterinary practices. Costs were contained and overall the Crematoria Division maintained its adjusted EBITDA at £1.1m (2016: £1.1m).

Animed Direct

Animed Direct, our on-line dispensary, continued to make excellent progress with revenues increasing by 63.9% to £9.2m (2016: £5.6m). Adjusted EBITDA improved to £0.6m (2016: £0.2m).

The recruitment of a more experienced team has improved our ability to drive sales on the internet and the introduction of a delivery fee and free delivery threshold has shown positive impacts on both sales and the gross margin.

Central administration

Central administration costs were £4.6m (2016: £4.3m) and as a percentage of revenue fell from 3.3% to 2.9% for the half year.

The scale of growth of the Group continues to require the investment in additional staff in all functions and the development and strengthening of our systems and processes. A new recruitment system and website has been launched and a new locum system is under development. These initiatives reflect the Group's focus on addressing the industry's recruitment challenges. Our accounting and warehouse systems are also being upgraded to ease the future growth of the business. The Group is conscious of the need to maintain good control of all acquisitions as they are integrated and has taken on the necessary resources to ensure that this is achieved. This includes the development of an internal audit function.

Cash flow and funding position

Net debt stood at £116.9m at 31 December 2017 (see note 12), an increase of £16.9m from 1 July 2017. In the period £30.2m was spent on acquisitions (including £2.4m of debt acquired) (2016: £12.0m), £5.6m on capital expenditure (2016: £6.1m) and £2.8m on dividends (2016: £2.1m).

Capital expenditure included £1.7m on site refurbishments and relocations and £3.9m on equipment and IT systems and development.

Dividends

A dividend in respect of the year ended 30 June 2017 of 4.5p per share was paid in December 2017. The Board will continue to review its dividend policy and expects that a final dividend will be paid in

December 2018, which, in the absence of any unforeseen change in trading conditions, will be at least equal in value to that of 2017.

Our people

All of our people are key in enabling the Group to deliver these excellent results and I would like to thank all of them for their skill and professionalism in providing the best possible care and service to our customers and their animals.

Uptake in our apprenticeship programme continues to increase within the business. We have over 125 active learners, 95 of which have enrolled since September 2017. The majority of our apprentices are student veterinary nurses completing their level 3 diploma. Interest in the variety of other apprenticeships is gathering a strong momentum across the business as we explore additional possibilities. This will provide exciting development opportunities and valuable skills for our existing employees and new recruits, whilst supporting the growth of our business. We are also involved in the trailblazer group to transfer the veterinary nursing apprenticeship framework into a new approved standard. This will ensure that the apprenticeship can continue to exist as the government intends to phase out all frameworks by 2020.

The graduate program has also evolved in line with the demands of the business and the needs of our graduates. We now offer three full clinical streams, small animal, equine and large animal. Equine and Large animal have five dedicated clinical days run by CVS experts. The equine programme provides a highly practical environment in which to learn and practise new skills. Our large animal programme focuses on five species, while the well-established small animal programme continues to provide robust clinical skills. We have increased both the number of days from 13 to 20 over the two year programme as well as the number of graduates we have taken on demonstrating our commitment to their learning. We have taken on board feedback from our graduates to incorporate professional skills as well to ensure we help build resilience, consultation skills and communication.

With the support of our experts and feedback from our graduates, we ensure that this ever evolving programme provides a high level of practical clinical training as well as the right mix of professional skills and mentoring, to support our graduates as they embark on their career with CVS.

The Group continues to be the largest employer in the UK veterinary profession with close to 5,500 staff. Our aim is to ensure that we are the employer of choice in the profession by providing the best career paths, training and development for our people.

The Board

I am delighted to welcome Deborah Kemp to the Board as a Non-Executive Director. She brings a wealth of experience in consumer-facing, multi-site businesses, including in the areas of investment, estate management and M&A. Her broad operational and organisational expertise will enable her to provide valuable input to the next phase of development for the Group.

As a result of this appointment, the Board of CVS now comprises two Executive Directors and two independent Non-Executive Directors, as well as myself as Non-Executive Chairman, reflecting our commitment to attaining high standards of corporate governance.

Further business development and outlook

The Board is pleased to report that trading since the half year end is in line with expectations. The first half of the year saw a higher level of volatility in sales than in the past, but recent months have appeared more regular. With our wide range of organic opportunities, healthy cash generation and a strong acquisition pipeline, the Board looks forward with confidence to the remainder of the year and beyond.

The Board believes that the UK veterinary sector will continue to provide opportunities for further consolidation and strategic acquisitions across each of the small animal, equine and farm animal segments. It is pleasing to note that, even following an extended period of exceptionally high activity, the Group's pipeline of potential acquisitions remains very strong, both in the UK and in the Netherlands.

The Group will continue to build on the many strengths of its existing business: the development of the referral businesses; the expansion of our range of own brand products; further development of out-of-hours centres; the development of our greenfield and relocated sites; and the growth of MiPet Cover, our own brand pet insurance. The Group will also seek to continue to improve its operating efficiency whilst ensuring that resources remain adequate to successfully integrate acquisitions and to develop the business.

Richard Connell
Chairman
16 February 2018

Consolidated income statement for the six month period ended 31 December 2017 (unaudited)

	Note	**31 December 2017 (Unaudited) £m**	Restated 31 December 2016 (Unaudited) £m	Year ended 30 June 2017 (Audited) £m
Revenue	4	**157.8**	**129.4**	271.8
Cost of sales		**(84.5)**	**(68.5)**	(147.3)
Gross profit		**73.3**	**60.9**	124.5
Administrative expenses		**(65.2)**	**(51.4)**	(107.3)
Operating profit		**8.1**	**9.5**	17.2
Other finance expense	5	**(1.9)**	**(1.5)**	(2.7)
Profit before income tax		**6.2**	**8.0**	14.5
Income tax expense	8	**(1.3)**	**(1.7)**	(3.0)
Profit for the period attributable to owners of the Parent Company		**4.9**	**6.3**	11.5
Basic	6	**7.8p**	**10.4p**	18.5p
Diluted	6	**7.6p**	**10.2p**	18.2p

The 31 December 2016 comparatives for cost of sales and administration expenses have been restated to reclassify courier costs relating to the laboratory division.

The following table is provided to show the comparative earnings before interest, tax, depreciation and amortisation ("EBITDA") after adjusting for costs relating to business combinations.

Non-GAAP measure: Adjusted EBITDA	Note	**£m**	£m	£m
Profit before income tax		**6.2**	**8.0**	14.5
Adjustments for:				
Net finance expense	5	**1.9**	**1.5**	2.7
Depreciation	9	**3.8**	**2.7**	5.9
Amortisation	9	**9.3**	**7.6**	16.0
Costs relating to business combinations		**2.8**	**0.9**	3.0
Adjusted EBITDA		**24.0**	**20.7**	42.1

Statement of consolidated comprehensive income for the six month period ended 31 December 2017 (unaudited)

	£m	£m	£m
Profit for the period	**4.9**	**6.3**	11.5
Other comprehensive income			
Cash flow hedges: Fair value gains	**0.1**	-	0.2
Other comprehensive income for the period, net of tax	**0.1**	-	0.2
Total comprehensive income for the period attributable to owners of the Parent Company	**5.0**	**6.3**	11.7

Consolidated balance sheet as at 31 December 2017 (unaudited)

	Note	**31 December 2017 (Unaudited) £m**	Restated 31 December 2016 (Unaudited) £m	Restated 30 June 2017 (Audited) £m
Non-current assets				
Intangible assets	9	**185.7**	**137.4**	167.2
Property, plant and equipment	9	**47.0**	**36.3**	43.0
Investments		**0.1**	**0.1**	0.1
Deferred income tax assets		**1.5**	**1.6**	2.1
Derivative Financial Instrument		**0.2**	**-**	0.1
		234.5	**175.4**	212.5
Current assets				
Inventories		**13.5**	**11.1**	12.5
Trade and other receivables		**34.7**	**24.6**	30.9
Cash and cash equivalents		**10.3**	**6.5**	6.8
		58.5	**42.2**	50.2
Total assets	4	**293.0**	**217.6**	262.7
Current liabilities				
Trade and other payables		**(54.7)**	**(43.3)**	(48.2)
Current income tax liabilities		**(3.1)**	**(2.8)**	(2.9)
Borrowings		**(3.9)**	**(0.2)**	(3.3)
		(61.7)	**(46.3)**	(54.4)
Non-current liabilities				
Borrowings	12	**(123.3)**	**(74.3)**	(103.5)
Deferred income tax liabilities		**(16.6)**	**(15.3)**	(16.8)
		(139.9)	**(89.6)**	(120.3)
Total liabilities	4	**(201.6)**	**(135.9)**	(174.7)
Net assets		**91.4**	**81.7**	**88.0**
Shareholders' equity				
Share capital		**0.1**	**0.1**	0.1
Share premium		**38.2**	**39.3**	38.1
Capital redemption reserve		**0.6**	**0.6**	0.6
Revaluation reserve		**0.1**	**0.1**	0.1
Merger reserve		**(61.4)**	**(61.4)**	(61.4)
Retained earnings		**113.8**	**103.0**	110.5
Total equity		**91.4**	**81.7**	88.0

The interim financial information in this announcement was approved by the Board of Directors on 16 February 2017.

Consolidated statement of changes in equity for the six month period ended 31 December 2017 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 July 2017	**0.1**	**38.1**	**0.6**	**0.1**	**(61.4)**	**110.5**	**88.0**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**4.9**	**4.9**
Other comprehensive income:							
Cash flow hedges: Fair value losses	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**5.0**	**5.0**
Transactions with owners:							
Credit to reserves for share-based payments	**-**	**-**	**-**	**-**	**-**	**0.8**	**0.8**
Deferred tax relating to share-based payments	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Dividends to equity holders of the Company	**-**	**-**	**-**	**-**	**-**	**(2.8)**	**(2.8)**
Shares issued in the year	**-**	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Transactions with owners	**-**	**0.1**	**-**	**-**	**-**	**(1.7)**	**(1.6)**
At 31 December 2017	**0.1**	**38.2**	**0.6**	**0.1**	**(61.4)**	**113.8**	**91.4**

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 July 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6
Profit for the period	-	-	-	-	-	6.3	6.3
Other comprehensive income:							
Cash flow hedges: Fair value gains	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	6.3	6.3
Transactions with owners:							
Credit to reserves for share-based payments	-	-	-	-	-	0.8	0.8
Deferred tax relating to share-based payments	-	-	-	-	-	0.5	0.5
Dividends to equity holders of the Company	-	-	-	-	-	(2.1)	(2.1)
Shares issued in the year	-	29.6	-	-	-	-	29.6
Transactions with owners	-	29.6	-	-	-	(0.8)	28.8
At 31 December 2016	0.1	39.3	0.6	0.1	(61.4)	103.0	81.7

Consolidated statement of cash flows for the six month period ended 31 December 2017 (unaudited)

	Note	**31 December 2017 (Unaudited) £m**	31 December 2016 (Unaudited) £m	Year ended 30 June 2017 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	11	**26.5**	**19.3**	37.2
Taxation paid		**(3.0)**	**(2.2)**	(5.4)
Interest paid		**(1.7)**	**(1.2)**	(2.1)
Net cash generated from operating activities		**21.8**	**15.9**	29.7
Cash flows from investing activities				
Acquisitions (net of cash)	10	**(27.8)**	**(11.8)**	(46.9)
Purchase of property, plant and equipment		**(5.6)**	**(6.1)**	(13.3)
Purchase of intangible assets		**-**	**-**	(0.5)
Net cash used in investing activities		**(33.4)**	**(17.9)**	(60.7)
Cash flows from financing activities				
Dividends paid	13	**(2.8)**	**(2.1)**	(2.1)
Proceeds from issue of ordinary shares		**0.1**	**29.6**	30.6
Debt issuance costs		**(0.3)**	-	-
Purchase of own shares		**-**	-	(2.1)
Increase in borrowings		**20.0**	-	6.5
Repayment of borrowings		**(1.9)**	**(25.7)**	(1.8)
Net cash from financing activities		**15.1**	**1.8**	31.1
Net (decrease) / increase in cash and cash equivalents		**3.5**	**(0.2)**	0.1
Cash and cash equivalents at start of period		**6.8**	**6.7**	6.7
Cash and cash equivalents at end of period		**10.3**	**6.5**	6.8

Notes to the interim consolidated financial information

1. General information

The principal activities of the Group are to operate companion and large animal and equine veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary business.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales and its shares are quoted on the AIM Market of the London Stock Exchange.

The address of the registered office is CVS House, Owen Road, Diss, Norfolk, IP22 4ER and the registered number of the Company is 06312831.

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of CVS Group plc in respect of the year ended 30 June 2017 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Forward looking statements

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2017. It is unaudited and has been prepared in accordance with the AIM Rules for Companies and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2017, which have been prepared in accordance with IFRSs adopted by the European Union.

The interim consolidated financial information has been prepared on a going-concern basis.

Use of non-GAAP measures

Adjusted EBITDA, adjusted EPS and like-for-like sales

The Directors believe that adjusted EBITDA and adjusted EPS provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. It is 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 income tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.
Adjusted EPS is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue during the period.

Like-for-like sales comprise the revenue generated from all operations compared to the prior year. New surgeries are included from the anniversary of their acquisition or opening and discontinued activities are included up to the date of their sale or closure.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those set out on pages 53 to 58 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2017 (which are available upon request from the Company's registered office or on the Company's website).

4. Segmental reporting

Segmental 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. Inter-segment pricing is determined on an arm's length basis.

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, taxation related assets and liabilities, costs relating to business combinations and central administration salary and premises.

Geographical segments

The business operates predominantly in the UK. It performs a small amount of laboratory work and sells a small quantity of goods on-line for European based clients. Since November 2017 the business has operated practices in The Netherlands. In accordance with IFRS 8 "Operating segments" no segmental results are presented for trade with European clients as these are not reported separately for management reporting purposes.

Operating segments

The Group is split into five operating segments for business segment analysis; veterinary practices, laboratories, crematorium, Animed Direct and a centralised administration function.

Six month period ended 31 December 2017	**Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Central administration £m**	**Group £m**
Revenue	**143.1**	**8.8**	**3.2**	**9.2**	**(6.5)**	**157.8**
Profit/(loss) before income tax	**14.0**	**1.6**	**0.9**	**0.6**	**(10.9)**	**6.2**
Adjusted EBITDA	**25.0**	**1.9**	**1.1**	**0.6**	**(4.6)**	**24.0**
Total assets	**262.8**	**13.1**	**8.8**	**6.9**	**1.4**	**293.0**
Total liabilities	**(66.7)**	**(2.0)**	**(1.0)**	**(5.6)**	**(126.3)**	**(201.6)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**14.0**	**1.6**	**0.9**	**0.6**	**(10.9)**	**6.2**
Net finance expense	**0.1**	**-**	**-**	**-**	**1.8**	**1.9**
Depreciation	**3.2**	**0.3**	**0.2**	**-**	**0.1**	**3.8**
Amortisation	**5.9**	**-**	**-**	**-**	**3.4**	**9.3**
Costs relating to business combinations	**1.8**	**-**	**-**	**-**	**1.0**	**2.8**
Adjusted EBITDA	**25.0**	**1.9**	**1.1**	**0.6**	**(4.6)**	**24.0**

4. Segmental reporting (continued)

Six month period ended 31 December 2016	***Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	***Central administration £m**	**Group £m**
Revenue	**118.4**	**7.8**	**3.3**	**5.6**	**(5.7)**	**129.4**
Profit/(loss) before income tax	**14.3**	**1.3**	**1.1**	**0.2**	**(8.9)**	**8.0**
Adjusted EBITDA	**22.0**	**1.7**	**1.1**	**0.2**	**(4.3)**	**20.7**
Total assets	**192.9**	**10.4**	**7.6**	**4.8**	**1.9**	**217.6**
Total liabilities	**(54.5)**	**(1.6)**	**(1.2)**	**(4.1)**	**(74.5)**	**(135.9)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**14.3**	**1.3**	**1.1**	**0.2**	**(8.9)**	**8.0**
Net finance expense	**-**	**-**	**-**	-	**1.5**	**1.5**
Depreciation	**2.3**	**0.4**	**-**	-	**-**	**2.7**
Amortisation	**4.9**	**-**	**-**	-	**2.7**	**7.6**
Costs relating to business combinations	**0.5**	**-**	**-**	-	**0.4**	**0.9**
Adjusted EBITDA	**22.0**	**1.7**	**1.1**	**0.2**	**(4.3)**	**20.7**

*The prior year comparative has been restated to reflect the reclassification of the Group's MiPet Insurance costs from Head Office to the Veterinary Practice Division

Year ended 30 June 2017	**Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Central administration £m**	**Group £m**
Revenue	247.9	16.3	6.3	13.0	(11.7)	271.8
Profit/(loss) before income tax	28.1	2.9	1.9	0.6	(19.0)	14.5
Adjusted EBITDA	44.7	3.6	2.1	0.7	(9.0)	42.1
Total assets	232.6	13.8	8.0	6.0	2.3	262.7
Total liabilities	(59.7)	(4.2)	(1.3)	(5.1)	(104.4)	(174.7)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	28.1	2.9	1.9	0.6	(19.0)	14.5
Net finance expense	-	-	-	-	2.7	2.7
Depreciation	4.7	0.7	0.2	0.1	0.2	5.9
Amortisation	10.1	-	-	-	5.9	16.0
Costs relating to business combinations	1.8	-	-	-	1.2	3.0
Adjusted EBITDA	44.7	3.6	2.1	0.7	(9.0)	42.1

5. Finance expense

	31 December 2017 (Unaudited) £m	31 December 2016 (Unaudited) £m	Year ended 30 June 2017 (Audited) £m
Interest expense, bank loans and overdraft	**1.7**	**1.3**	2.3
Amortisation of debt arrangement fees	**0.2**	**0.2**	0.4
Net finance expense	**1.9**	**1.5**	2.7

6. Earnings per Ordinary share

(a) Basic

Basic earnings per Ordinary share is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the period.

	31 December 2017 (Unaudited)	31 December 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**4.9**	**6.3**	11.5
Weighted average number of Ordinary shares in issue	**63,914,453**	**60,393,369**	62,105,419
Basic earnings per share (pence per share)	**7.8**	**10.4**	18.5

(b) Diluted

Diluted earnings per Ordinary 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 long term incentive plan schemes and Save As You Earn schemes. For share options, 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.

	31 December 2017 (Unaudited)	31 December 2016 (Unaudited)	Year ended 30 June 2017 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**4.9**	**6.3**	11.5
Weighted average number of Ordinary shares in issue	**63,914,453**	**60,393,369**	62,105,419
Adjustment for contingently issuable shares - LTIPS	**460,615**	**327,006**	398,654
Adjustment for contingently issuable shares – SAYE	**534,436**	**849,016**	549,732
Weighted average number of Ordinary shares for diluted earnings per share	**64,909,504**	**61,569,391**	63,053,805
Diluted earnings per share (pence per share)	**7.6**	**10.2**	18.2

6. Earnings per Ordinary share (continued)

(c) Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per Ordinary share is calculated by dividing the profit for the period attributable to equity shareholders excluding amortisation, fair value adjustments in respect of financial assets and liabilities, costs relating to business combinations and exceptional costs (all net of tax), by the weighted average number of shares in issue during the period.

	31 December 2017 (Unaudited) £m	31 December 2016 (Unaudited) £m	Year ended 30 June 2017 (Audited) £m
Earnings attributable to Ordinary shareholders	**4.9**	**6.3**	11.5
Add back taxation	**1.3**	**1.7**	3.0
Profit before taxation	**6.2**	**8.0**	14.5
Adjustments for:			
Amortisation	**9.3**	**7.6**	16.0
Costs relating to business combinations	**2.8**	**0.9**	3.0
Adjusted profit before income tax	**18.3**	**16.5**	33.5
Tax on adjusted profit	**(3.7)**	**(3.5)**	(6.9)
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**14.6**	**13.0**	26.6
Weighted average number of Ordinary shares in issue	**63,914,453**	**60,393,369**	62,105,419
Weighted average number of Ordinary shares for diluted earnings per share	**64,909,504**	**61,569,391**	63,053,805
Adjusted earnings per share	**22.9p**	**21.5p**	42.8p
Diluted adjusted earnings per share	**22.5p**	**21.1p**	42.2p

7. Share-based payments

Long Term Incentive Plans

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan ("LTIP").

Under the LTIP scheme awards are made at an effective nil nominal cost (0.2p), vesting over a three year performance period conditional upon the Group's adjusted earnings growth. On vesting, the LTIP scheme awards are settled in equity.

On 17 January 2017, LTIP11 was issued with an option life of 3 years over 115,654 shares. The share price at the grant date was £10.63 with an exercise price of 0.2p.

During the six months to 31 December 2017, directors and employees exercised 243,205 (2016: 392,800) share options with a nominal value of £10.30 (2016: £7.85), in respect of the LTIP8 scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.6m (2016: £0.6m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.3m (2016: £0.3m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Save As You Earn (SAYE)

The Group operates the CVS Group Save As You Earn ("SAYE") plan, as an incentive scheme for all staff. Under the new SAYE schemes awards were made at a 10% discount of the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme.

SAYE9 scheme was opened for subscription in November 2017. 225,750 options were granted in November 2017, with the first salary deductions taking place in December 2017 and a contract start date of 1 January 2018. The exercise price was £12.87 - a 10% discount of the closing mid-market price on the date of invitation.

Options were valued using the Black–Scholes option pricing model and the share-based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £0.3m (2016: £0.2m) and has been charged to administrative expenses.

8. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual statutory income tax rate expected for the full financial year as a percentage of taxable.

9. Non-current assets

	Intangible assets	Property, plant and equipment
	£m	£m
Six months ended 31 December 2017		
Opening net book value at 1 July 2017	**167.2**	**43.0**
Additions arising through business combinations (note 10)	**-**	**2.2**
Additions	**27.8**	**5.6**
Fair value adjustment	**-**	**-**
Depreciation and amortisation	**(9.3)**	**(3.8)**
Closing net book value at 31 December 2017	**185.7**	**47.0**
Six months ended 31 December 2016		
Opening net book value at 1 July 2016	131.5	32.8
Additions arising through business combinations	13.1	0.5
Additions	-	6.1
Fair value adjustment	0.4	(0.4)
Depreciation and amortisation	(7.6)	(2.7)
Closing net book value at 31 December 2016	137.4	36.3

10. Business combinations

Provisional details of business combinations in the six month period ended 31 December 2017 are set out below.

	Book value of acquired assets	Adjustments	Fair value
	£m	£m	£m
Property plant and equipment	2.2	-	**2.2**
Patient lists / customer lists	2.3	18.1	**20.4**
Deferred tax liability	-	(2.4)	**(2.4)**
Inventory	1.0	-	**1.0**
Trade and other receivables	3.7	-	**3.7**
Trade and other payables	(2.4)	-	**(2.4)**
Loans	(2.3)	-	**(2.3)**
Total identifiable assets	4.5	15.7	**20.2**
Goodwill	-	7.6	7.6
Total initial consideration paid (net of cash acquired)			**27.8**

Adjustments relate to the patient and customer data records acquired as part of acquisitions, goodwill on acquisitions and the deferred tax gross up of the patient data records acquired.

10. Business combinations (continued)

Business combinations subsequent to the period end

Subsequent to the 31 December 2017, the Group acquired 4 surgeries. A summary of these surgeries can be seen in the Chairman's Statement. The provisional cash consideration for these acquisitions is approximately £3.5m.

11. Cash generated from operations

	31 December 2017 (Unaudited) £m	31 December 2016 (Unaudited) £m	Year ended 30 June 2017 (Audited) £m
Profit for the period	**4.9**	**6.3**	11.5
Add back:			
Taxation	**1.3**	**1.7**	3.0
Total finance costs	**1.9**	**1.5**	2.7
Amortisation of intangible assets	**9.3**	**7.6**	16.0
Depreciation of property, plant and equipment	**3.8**	**2.7**	5.9
Share option expense	**0.9**	**0.8**	1.5
(Increase)/decrease in working capital:			
Inventories	**-**	**(0.9)**	(1.5)
Trade and other receivables	**1.8**	**(0.5)**	(4.5)
Trade and other payables	**2.6**	**0.1**	2.6
Total cash flows from operating activities	**26.5**	**19.3**	37.2

12. Analysis of movement in net debt

	1 July 2017 £m	Cash flow £m	Non-cash movements £m	**31 December 2017 £m**
Cash and cash equivalents	6.8	3.5	-	**10.3**
Borrowings – current	(3.3)	-	(0.6)	**(3.9)**
Borrowings – non-current	(103.5)	(18.1)	(1.7)	**(123.3)**
Net debt	(100.0)	(14.6)	(2.3)	**(116.9)**

Non-cash movements relate to debt acquired on acquisitions, debt issue costs and the amortisation of issue costs on bank loans and interest on loan notes. Cash and cash equivalents comprise cash at bank and in hand.

Management has elected to change its accounting policy in relation to the classification of its revolving credit facility ("RCF") to reflect management's intention in relation to repayment rather than solely the legal form of the arrangement. The impact of this is that the RCF has been disclosed as a non current liability in these interim report. This change has also been reflected retrospectively to adjust the classification of the RCF from current liabilities to non current liabilities in the prior periods. This change in accounting policy has no impact on the income statement, earnings per share or any other key performance indicator.

13. Dividends

The dividends paid in December 2017, representing the final dividend payable for the year ended 30 June 2017, amounted to £2,876,119 (4.5p per share) (2016: £2,113,748; 3.5p per share).

Directors and advisers

Directors	R Connell (Chairman) M McCollum (Non-Executive Director) D Kemp (Non-Executive Director) S Innes (Chief Executive Officer) N Perrin (Finance Director)
Company Secretary	R Gilligan
Company number	06312831
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Bankers	NatWest Bank Plc 12 High Street Southampton SO14 2BF
	Royal Bank of Scotland Plc 36 St Andrew Square Edinburgh EH2 2YB
	HSBC Bank plc 8 Canada Square London EQ14 5HQ
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