CVS Group plc
("CVS" or the "Group")
Interim results for the six months ended 31 December 2019

CVS, one of the UK's leading provider of integrated veterinary services, is pleased to announce its interim results for the six months' ended 31 December 2019 ('H1 2020'), and to provide updates on year-to-date trading and on its response to the COVID-19 pandemic.

Interim Results

	Six months ended 31 December 2019	Six months ended 31 December 2019	Six months ended 31 December 2018	Change %
	Post IFRS 16 (Unaudited)	Pre IFRS 16 (Unaudited)	Pre IFRS 16 (Unaudited)	Pre IFRS 16
Revenue (£m)	**224.5**	224.5	195.1	15.1%
Adjusted EBITDA (£m) [1]	**37.5**	30.1	23.8	26.5%
Adjusted profit before income tax (£m) [2]	**20.5**	22.4	17.4	28.7%
Adjusted basic earnings per share (pence) [3]	**23.4**	25.6	19.7	30.0%
Operating profit (£m)	**11.1**	10.7	3.4	214.7%
Profit before income tax (£m)	**6.7**	8.7	1.6	443.8%
Basic earnings per share (pence)	**7.0**	9.1	1.2	658.3%

- Sales growth of 15.1%
- Like-for-like sales increase of 8.4%
- Adjusted EBITDA pre IFRS 16 increased to £30.1m (26.5%)
- Adjusted EPS pre IFRS 16 increased to 25.6p (30.0%)
- Statutory net debt as at 31 December 2019 of £96.8m (30 June 2019: £102.0m)
- Three acquisitions during the period comprising five practice surgeries

Impact of IFRS 16
The financial statements for H1 FY20 have been prepared under the requirements of IFRS 16 – 'Leases' for the first time. To aid comparability with the prior period, adjusted financial information (which is shown before the impact of IFRS 16) is also shown in the table above. This will be presented throughout FY20 until the transition to IFRS 16 is complete. The impact of IFRS 16 on the Group interim financial statements has been to decrease underlying profit before tax by £2.0m, and is shown in further detail in note 3 to the financial statements below.

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

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

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

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

[5] Adjusted EBITDA is used as a financial metric that removes the cost of debt, costs relating to assets and one off costs to get a normalised number that is not distorted by irregular items or structural investment.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014. The person responsible for arranging for the release of this announcement on behalf of CVS is Richard Fairman, CEO.

This announcement and the interim results report are available on the Company's website at www.cvsukltd.co.uk. The interim report will shortly be posted to shareholders.

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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 2019. The Group delivered a strong set of results in H1 2020 following the recovery in H2 2019, with further growth in revenue and underlying profit generated predominantly organically.

COVID-19
Our primary focus is to protect the health and wellbeing of our staff and our clients, whilst continuing to provide essential care to our patients.

We continue to apply guidance from health authorities in the UK, the Netherlands and Ireland. We are also liaising closely with our industry regulator, the Royal College of Veterinary Surgeons ('RCVS'), the British Veterinary Association ('BVA') and other representative bodies to apply latest guidance. This changed significantly following the Government's announcement on 23 March 2020, in light of which RCVS/BVA announced that veterinary practices should only remain open for urgent and emergency care, with non-urgent and non-emergency cases handled through teleconsultation. We have worked with the BVA and RCVS Major Employers Group, of which we are a member, to develop additional guidance for all practices on what constitutes urgent and emergency cases.

Whilst the full impact of the COVID-19 impact is unknown, the new RCVS/BVA guidance is resulting in a significant reduction in both small animal billable visits and revenue. In light of this we are taking actions to temporarily close half of our small animal practices during the Government lock down period with these closures representing approximately one third of our capacity in this area of operation. All clients will continue to be able to access practices for urgent and emergency care within a 40 minute drive.

Teleconsultations will continue to be offered to clients with non-urgent or non-emergency cases and these will be charged for at normal consultation rates. The RCVS has relaxed the rules on remote prescribing in support.

All of the Group's referral hospitals, laboratories and crematoria will remain open in order to provide essential patient care and for clinical waste collection.

We have 40% of our small animal client base as members of our Healthy Pet Club and this provides some degree of protection and revenue visibility. Animed Direct, our online business, remains fully operational and is seeing record levels of food and medicine sales.

We have taken measures to secure our supply chain operation and to ensure that appropriate stock levels are held should the impact from Covid-19 become further protracted.

We have maintained significant headroom in our recently renewed and extended bank facilities, with undrawn borrowings at 29 February 2019 of £79.0m. Further details on our gearing are contained in the Financial Review below. Close attention is being paid to cash management through daily cash forecasting and internal reporting, and we are taking a number of actions to maintain cash during this period of increased uncertainty. These include furloughing of a number of under-utilised employees, practice closures in order to reduce variable costs and to protect employees, and the cessation of discretionary spend.

We will also take advantage of support from the taxation authorities in the UK, the Netherlands and Ireland under which we can defer VAT and other tax payments.

These are unprecedented times and the Board is working tirelessly to ensure that our business continuity planning is comprehensive. We have developed further contingency plans to escalate measures to protect the Company's business and its people, should the impact from Covid-19 become extended and more protracted. A further overview of our current plans is contained within the investor presentation accompanying these results which is being made available on our website, http://www.cvsukltd.co.uk/investor-centre/investor-presentation/. The status of current trading for our divisions is also summarised below.

Interim Results

This interim report sets out the results of CVS Group plc for the six-month period ended 31 December 2019.

IFRS 16 – 'Leases', which was adopted from 1 July 2019, applies to these interim results and a full reconciliation to IFRS 16 is therefore provided in note 3. Comparative data below has not been restated.

Group revenue was £224.5m in the interim period, an increase of 15.1% over the prior year (2018: £195.1m). Like-for-like sales ("LFL") grew by 8.4% for the Group (adjusted for trading days in the period).

Gross margin remained broadly stable at 76.0% (2018: 76.2%). Further divisional consideration of margins is included below.

Adjusted EBITDA for the half year was £30.1m pre IFRS 16, an increase of 26.5% (H1 2019: £23.8m). This reflects lower employment costs as a percentage of sales, at 51.0% (H1 2019: 51.6%), a product of our core and continuing focus on clinical staff retention which improved: vet vacancy rates in the first half were 7.8% (H1 2019: 8.8%).

Operating profit increased to £11.1m (2018: £3.4m) after depreciation of £5.5m (2018: £4.6m), depreciation of right-of-use asset under IFRS 16 of £7.1m (2018: Nil), amortisation of £11.0m (2018: £11.3m), costs relating to business combinations of £2.1m (2018: £4.2m) and exceptional costs incurred in respect of the change in senior leadership of £0.7m (2018: £0.3m).

Adjusted profit before income tax, which excludes the amortisation of intangible assets, costs relating to business combinations and exceptional items, increased to £20.8m (2018: £17.4m). Adjusted basic earnings per share increased to 23.7p (2018: 19.7p).

Basic earnings per share increased to 7.0p in the period (2018: 1.2p).

Cash generated from operations was £39.3m (2018: £19.6m) with the improvement reflecting the increase in Operating profit as noted above and a favourable movement of £7.4m due to the effect of IFRS 16 in reclassifying this cash outflow to investing activities at 31 December 2019. Cash conversion continued to be strong with free cash flow of £17.6m (2018: £11.0m), there being no impact from IFRS 16 on resultant net cash flow. Net debt decreased to £96.8m at period end (30 June 2019: £102.0m) after funding £7.0m (net of cash acquired) of acquisitions in the period and payment of the £3.9m final dividend for FY19 in December. This gearing reduction reflects our continuing focus on the operational performance and organic growth, informed by better management information, enhanced systems, reporting and controls and careful control of expenditure.

Divisional performance

Veterinary Practice Division

Practice revenues of £203.5m were generated in the six-month period to 31 December 2019, an increase of 14.0% on the £178.5m achieved in the prior period. Like-for-like sales growth was 7.4% in the period (2018: 3.2%).

The gross margin in the Practice Division improved slightly to 77.6% (2018: 77.1%).

Adjusted EBITDA for the Practice Division increased to £37.7m (2018: £25.1m). The adjusted EBITDA margin increased to 18.6% (2018: 14.1%). This EBITDA margin reflects the improvement in the gross margin, lower inflationary pressure on employee costs and an uplift of £7.3m due to the recognition of the right-of-use asset under IFRS 16.

The Group operates a Healthy Pet Club scheme for companion animals, offering discounted products and services for a regular monthly fee, with the aim to improve clinical compliance in preventative health by members and to protect practice sales by bonding pet owners to their local CVS surgery through regular communications and visits. The scheme had 415,000 members as at 31 December 2019 a 7.5% increase against the same time point in 2018 (387,000 members) and an increase of 3.5% since 30 June 2019. The Healthy Horse Programme was launched in 2018 and this had 8,000 members as at 31 December 2019 (31 December 2018: 5,000 members; 30 June 2019: 7,000 members). The Group launched the Healthy Pet Club in the Netherlands in 2019 and at 31 December 2019 has 1,000 members.

We continue to develop our referrals business through the expansion of our service offering, the recruitment of further specialists and the continued investment in our referral hospitals. Revenue from our referrals division in the six-month period to 31 December 2019 increased by 24.0% in comparison to the same period in 2018.

We launched our own insurance product, MiPet Cover, in August 2017. CVS does not take any underwriting risk and receives a commission on the sale and renewal of each policy. We had 10,000 policies in force as at 31 December 2019, a 25.0% increase from the prior year (2018: 8,000 policies in force). As previously stated, this line of business will take time to develop fully and made a small loss in the period.

Laboratory Division

Our laboratories division provides diagnostic services and in-practice laboratory analysers to CVS practices and third party owned veterinary surgeries. Diagnostic services are offered via post and courier allowing complete coverage of the UK. Revenue of £10.9m was generated in the period (2018: £9.3m). Adjusted EBITDA was £2.7m (2018: £1.8m).

Crematoria Division

Crematoria revenues were £3.8m in the period (2018: £3.6m) reflecting an increase in the mix of higher value individual cremations. Adjusted EBITDA increased to £1.3m (2018: £1.2m) as a result.

Animed Direct

We have continued to expand Animed Direct, our on-line dispensary, with revenue increasing to £14.7m (2018: £10.7m). Adjusted EBITDA was £1.2m (2018: £0.6m).

Central administration
Central administration costs were £5.4m (2018: £4.9m). Expressed as a percentage of Group revenue, these costs decreased to 2.4% (2018: 2.5%).

Cash flow and funding position
CVS had Borrowings of £103.7m at 31 December 2019 and with cash on balance sheet of £6.9m, Net Debt was £96.8m (see note 14). The Group had leverage (net debt / adjusted annualised EBITDA) of 1.71x at 31 December 2019.

The Group renewed and extended its bank facilities in January 2020. The Group has reduced the total facilities from £195.0m to £175.0m, a reduction of £20.0m, to reflect the continued focus and greater emphasis on organic growth and strong operating cash generation of the Group. The facilities are provided by a syndicate of four banks, NatWest, HSBC, BOI and AIB, and comprise the following elements:

- A fixed term loan of £85.0m, repayable on 31 January 2024 via a single bullet repayment;
- A four year Revolving Credit Facility ("RCF") of £85.0m, that runs to 31 January 2024;
- In addition, the Group has a £5.0m overdraft facility renewable annually.

The two financial covenants associated with these facilities remain unchanged and will continue to be calculated based on the Group's accounting policies applicable at 30 June 2019 for the duration of the facilities (i.e. pre-IFRS 16).

Bank covenants are tested quarterly and the Group has considerable headroom in both financial covenants and in its undrawn but committed facilities as at 31 December 2019.

Dividends
A dividend of 5.5p (2018: 5.0p) per share was paid in December 2019 in respect of the year ended 30 June 2019 (see note 15). The Board will continue to review its dividend policy and a decision on the amount of a final dividend in respect of the current financial year will be made in due course, in line with our customary practice and in light of the full year results and prevailing operating conditions.

Focus on Organic Growth
The Group has continued to focus on its core business and organic growth since H2 2019 and has invested to support this.

Acquisitions in the Interim Period
In the six months to 31 December 2019, 3 practices were acquired (see appendix). A total of £7.0m (net of cash acquired) was paid for the acquisitions in the period. Based on the last set of accounts available for each business, the aggregate historical annualised turnover and EBITDA of these businesses was approximately £6.3m and £0.9m respectively.

Our people
CVS has a passionate team of highly skilled people who are committed to providing the highest standards of clinical care.

We continue to focus on improved retention of our existing clinical staff through the provision of diverse clinical experience from our broad practice specialisms, continued support in studying for enhanced professional qualifications and through the opportunity for clinical staff to undertake leadership roles in the business. While non-essential training is necessarily postponed during the Covid-19 pandemic, we firmly intend to resume this focus when normal conditions return.

CVS has further invested in its people and is proud to announce both the introduction of enhanced maternity and paternity pay from 29 November 2019 and "a time to change" employer pledge, committing CVS to help our colleagues work in ways that promote positive mental wellbeing.

With these initiatives the Group is pleased that the vacancy rates for veterinary surgeons fell further, reducing to 7.8% in H1 2020 versus 8.8% in H1 2019. Vacancy rates for nurses have increased marginally to 5.2% in H1 2020 versus 5.6% in H1 2019.

Our objective remains to continue to invest in the highest levels of employee training and development and in providing appropriate career pathways in order to position CVS as the employer of choice in the sector, and we will resume doing so as soon as practicably possible once the effects of the Covid-19 pandemic have ameliorated.

The response to the Covid-19 pandemic from our staff has been extremely professional, with many ideas and much feedback provided to help us find safe and better ways of working in these challenging times.

I would like to thank all of our staff for their efforts in the period and for their professionalism and dedication in recent weeks as the Covid-19 pandemic has unfolded. It is the efforts of our colleagues that make CVS the great company that it is and the Board is extremely grateful for their commitment.

Brexit

Whilst there is ongoing uncertainty in relation to Brexit and the transition period, the Board is confident that the Group can, if required, withstand the impact of a hard Brexit outcome. Manufacturers and wholesalers are increasing their stock holdings by an additional three months' supply and the Group has increased its own stock holding in order to protect against short term business disruption. Both of these factors have proven helpful more recently in ensuring medicine and instrumentation supply during the Covid-19 pandemic. Whilst we believe it unlikely that additional post-Brexit import tariffs will be applied to animal drugs, any such increases would necessarily be passed onto our customers offset by efficiency improvements made.

As previously discussed, Brexit uncertainty has already had an impact on the recruitment of overseas clinical staff with fewer EU veterinary surgeons and nurses willing to come to the UK after the 2016 referendum vote and some EU employees returning home. The Group welcomes government and RCVS proposals to facilitate the recruitment of skilled workers from outside the EU post Brexit and to reduce the current level of visa costs which are an obstacle to improving the immigration of such talent. Overall uncertainties from Brexit have led to strengthening of our business analysis and mitigation plans, which are proving valuable across the Group in the currently constrained environment. We are confident that there are benefits from having enhanced operating systems and protocols for our integrated business, once the opportunity to resume more normal growth arises.

Second Half and Year-to-Date Performance

The Board is pleased to report that the performance of H1 has continued in the first two months of the second half. Like-for-like growth in the eight month (year-to-date) period is 7.9% for the Group and 7.1% for the Practice Division. We have seen our veterinary surgeon vacancy rate remain flat at 7.9%.

In light of the above, trading since the half-year end remained in line with management's expectations for the first two months and into March. However, in the more recent weeks we have seen a reduction in small animal revenues, reflecting the increasing restrictions on physical movement and reduced visits as a result of the required focus in providing urgent and emergency care in practice at the current time.

The table below summarises the nature of the impact of the pandemic on our business by division:

Practices:	**Remain open for urgent and emergency cases**
First opinion	▪ Practices open for emergency and urgent care only in small animal first opinion practices, during current Government restrictions. This is in line with industry guidance (BVA, RCVS) ▪ Small animal billable visits have reduced significantly as a result
Teleconsultation	▪ Offered at normal charge rates for non-urgent care; vets are now able to write prescriptions based on telephone /video-linked consultations under temporarily relaxed RCVS remote prescribing rules
Healthy Pet Club	▪ Accounts for 40% of the small animal client base on our database and monthly subscription provides some revenue protection and forward visibility
Referrals Hospitals	▪ All specialist hospitals remain open for provision of urgent and emergency care
Farm	▪ Increased demand for drugs from owners stocking up (including in Slate Hall/poultry)
Equine	▪ Impact from racing suspension and guidance to leisure riders to cease, but urgent and emergency services available in hospitals and the field under appropriate precautions
Laboratories	**Remain open, reduction in caseload reflecting lower volume of small animal practices; continuation of tests deemed essential for animal welfare**
Crematoria	**Some volume reduction but remain open for both waste collection and cremations (deemed essential services)**
Animed Direct (Online Platform)	
Drug Sales	▪ Increased levels of sales on some – believed to be stocking up plus restriction on travel
Food Sales	▪ Record levels of sales – similar drivers
Supplies	
Medicines	▪ Uninterrupted supply continues ▪ Assurance from manufacturers that three months' supply is available
Medical equipment	▪ Continuing supply ▪ Potential future NHS requests for ventilators/ monitors, but not yet observed
Food products	▪ Some popular lines seeing outages but substitute products available ▪ Staple items seen as essentials and expected to be resilient

Given the current uncertainty as to the magnitude and duration of the effects of the pandemic, the Company is temporarily refraining from giving guidance to analysts in relation to the financial year 2020.

Since the half-year end we have completed on one acquisition, Stewart Vets, a two site small animal practice based in Dudley.

The Group continued to generate underlying cash flows and leverage reduced to 1.61x as at 29 February 2020 (31 December 2019: 1.71x; 30 June 2019: 2.08x).

Key accounting policy changes
From 1 July 2019, CVS has adopted IFRS 16 – 'Leases'. This has resulted in operating leases being recorded on the balance sheet as right-of-use assets. This has impacted our EBITDA favourably by £7.4m. The reconciliation to pre IFRS 16 financial numbers can be found in note 3.

Outlook
CVS is the leading integrated provider of veterinary services in the UK which is a sector with considerable resilience.

Whilst the full impact of the COVID-19 pandemic is unknown, the Board is confident that it is taking all appropriate steps in order to protect its employees, maintain business operations, preserve cash and income streams and continue to provide essential patient care.

Richard Connell
Chairman
27 March 2020

Consolidated income statement for the six month period ended 31 December 2019 (unaudited)

	Note	**31 December 2019 (Unaudited) £m**	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Revenue		**224.5**	195.1	406.5
Cost of sales		**(142.5)**	(113.2)	(237.6)
Gross profit		**82.0**	81.9	168.9
Administrative expenses		**(70.9)**	(78.5)	(153.3)
Operating profit		**11.1**	3.4	15.6
Other finance expense	5	**(4.4)**	(1.8)	(3.9)
Profit before income tax		**6.7**	1.6	11.7
Income tax expense	8	**(1.8)**	(0.8)	(3.5)
Profit for the period attributable to owners of the Parent Company		**4.9**	0.8	8.2
Basic		**7.0p**	1.2p	11.6p
Diluted		**7.0p**	1.2p	11.6p

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		**6.7**	1.6	11.7
Adjustments for:				
Net finance expense		**4.4**	1.8	3.9
Depreciation	9	**5.5**	4.6	9.2
Depreciation – right-of-use asset		**7.1**	-	-
Amortisation	9	**11.0**	11.3	22.2
Costs relating to business combinations		**2.1**	4.2	7.2
Exceptional items		**0.7**	0.3	0.3
Adjusted EBITDA		**37.5**	23.8	54.5

Statement of consolidated comprehensive income for the six month period ended 31 December 2019 (unaudited)

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Profit for the period	**4.9**	0.8	8.2
Other comprehensive income			
Cash flow hedges: Fair value losses	**(0.1)**	-	(0.1)
Exchange differences on translation of foreign operations	**0.4**	-	0.2
Other comprehensive income for the period, net of tax	**0.3**	-	0.1
Total comprehensive income for the period attributable to owners of the Parent Company	**5.2**	0.8	8.3

Consolidated balance sheet as at 31 December 2019 (unaudited)

	Note	**31 December 2019 (Unaudited) £m**	31 December 2018 (Unaudited) £m	30 June 2019 (Audited) £m
Non-current assets				
Intangible assets	9	**240.1**	251.2	244.5
Property, plant and equipment	9	**52.6**	49.9	51.4
Right-of-use asset	10	**111.7**	-	-
Investments		**0.1**	0.1	0.1
Deferred income tax assets		**-**	0.6	0.2
Derivative Financial Instrument		**-**	0.2	0.1
		404.5	302.0	296.3
Current assets				
Inventories		**19.1**	15.9	17.0
Trade and other receivables		**42.8**	45.5	51.6
Cash and cash equivalents		**6.9**	12.7	12.5
		68.8	74.1	81.1
Total assets		**473.3**	376.1	377.4
Current liabilities				
Trade and other payables	11	**(79.7)**	(63.0)	(73.7)
Current income tax liabilities	8	**(2.1)**	(2.0)	(4.9)
Borrowings	14	**(0.2)**	(0.4)	(0.3)
		(82.0)	(65.4)	(78.9)
Non-current liabilities				
Trade and other payables	11	**(103.3)**	-	-
Borrowings	14	**(103.5)**	(129.1)	(114.2)
Deferred income tax liabilities		**(19.3)**	(26.3)	(21.2)
		(226.1)	(155.4)	(135.4)
Total liabilities		**(308.1)**	(220.8)	(214.3)
Net assets		**165.2**	155.3	163.1
Shareholders' equity				
Share capital		**0.1**	0.1	0.1
Share premium		**100.1**	99.2	99.7
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		**125.7**	116.7	124.0
Total equity		**165.2**	155.3	163.1

The interim financial information above is reproduced from that on pages 6 to 21 of the Group's Interim Report which was approved by the Board of Directors on 27 March 2020.

Consolidated statement of changes in equity for the six month period ended 31 December 2019 (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 2019	**0.1**	**99.7**	**0.6**	**0.1**	**(61.4)**	**124.0**	**163.1**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**4.9**	**4.9**
Other comprehensive income:							
Cash flow hedges: Fair value losses	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**0.4**	**0.4**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**5.2**	**5.2**
Transactions with owners:							
Credit to reserves for share-based payments	**-**	**-**	**-**	**-**	**-**	**0.5**	**0.5**
Deferred tax relating to share-based payments	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Dividends to equity holders of the Company	**-**	**-**	**-**	**-**	**-**	**(3.9)**	**(3.9)**
Shares issued in the year	**-**	**0.4**	**-**	**-**	**-**	**-**	**0.4**
Transactions with owners	**-**	**0.4**	**-**	**-**	**-**	**(3.5)**	**(3.1)**
At 31 December 2019	**0.1**	**100.1**	**0.6**	**0.1**	**(61.4)**	**125.7**	**165.2**

	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 2018	0.1	99.1	0.6	0.1	(61.4)	119.2	157.7
Profit for the period	-	-	-	-	-	0.8	0.8
Other comprehensive income:							
Cash flow hedges: Fair value gains	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	0.8	0.8
Transactions with owners:							
Credit to reserves for share-based payments	-	-	-	-	-	0.3	0.3
Deferred tax relating to share-based payments	-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders of the Company	-	-	-	-	-	(3.5)	(3.5)
Shares issued in the year	-	0.1	-	-	-	-	0.1
Transactions with owners	-	0.1	-	-	-	(3.3)	(3.2)
At 31 December 2018	0.1	99.2	0.6	0.1	(61.4)	116.7	155.3

Consolidated statement of cash flows for the six month period ended 31 December 2019 (unaudited)

	Note	**31 December 2019 (Unaudited) £m**	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	13	**39.3**	19.6	52.1
Taxation paid		**(7.3)**	(3.1)	(7.3)
Interest paid		**(1.8)**	(1.5)	(3.4)
Net cash generated from operating activities		**30.2**	15.0	41.4
Cash flows from investing activities				
Acquisitions (net of cash)	12	**(7.0)**	(52.2)	(56.6)
Purchase of property, plant and equipment	9	**(6.5)**	(6.0)	(11.9)
Purchase of intangible assets	9	**(0.3)**	(0.2)	(1.0)
Net cash used in investing activities		**(13.8)**	(58.4)	(69.5)
Cash flows from financing activities				
Dividends paid	15	**(3.9)**	(3.5)	(3.5)
Proceeds from issue of ordinary shares		**0.4**	0.2	0.6
Debt issuance costs		**-**	(0.3)	(0.3)
(Repayment)/Increase of borrowings	14	**(11.1)**	44.7	28.8
Repayment of lease liabilities		**(7.4)**	-	-
Net cash (used in)/generated from financing activities		**(22.0)**	41.1	25.6
Net (decrease) in cash and cash equivalents	14	**(5.6)**	(2.3)	(2.5)
Cash and cash equivalents at start of period		**12.5**	15.0	15.0
Cash and cash equivalents at end of period	14	**6.9**	12.7	12.5

Notes to the interim consolidated financial information

1. General information

The principal activity of the Group is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary and retail 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 2019 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. Save as required by regulation or law, 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 2019. 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 2019, 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, adjusted PBT and adjusted EPS provide additional useful information for shareholders on 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 PBT is calculated as profit before amortisation, taxation, costs relating to business combinations and exceptional items.

Adjusted basic 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 74 to 81 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2019 (which are available upon request from the Company's registered office or on the Company's website).

Adoption of new International Financial Reporting Standards

The Group has adopted IFRS 16 Leases from 1 July 2019. The Group has used the cumulative catch up approach for initial recognition of assets and liabilities. The effect on the Consolidated Financial Statements is to recognise a lease liability equal to the present value of the minimum lease payments from 1 July 2019 onwards, and to recognise a right-of-use asset of equal value on the same date.

An incremental borrowing rate of 4.0% has been applied to the future minimum lease payments to calculate the present value of the lease liability. With the exception of the impact of discounting, there is no difference between the operating lease commitments as disclosed previously and the lease liability recognised on adoption of IFRS 16.

The impact of IFRS 16 on these financial statements is as follows;

Impact on Condensed Consolidated Income Statement

	Pre adoption of IFRS 16 (Unaudited) £m	Impact of adopting IFRS 16 (Unaudited) £m	As reported at 31 December 2019 (Unaudited) £m
Profit after tax	**6.5**	(1.6)	4.9
Income tax expense	**2.2**	(0.4)	1.8
Profit before income tax	**8.7**	(2.0)	6.7
Adjustments for:			
Net finance expense	**2.1**	2.3	4.4
Depreciation	**5.5**	-	5.5
Depreciation – right-of-use asset	**-**	7.1	7.1
Amortisation	**11.0**	-	11.0
Costs relating to business combinations	**2.1**	-	2.1
Exceptional items	**0.7**	-	0.7
Adjusted EBITDA	**30.1**	7.4	37.5

3. Summary of significant accounting policies (continued)

Impact on Condensed Consolidated Statement of Financial Position

	Pre adoption of IFRS 16 (Unaudited) £m	Impact of adopting IFRS 16 (Unaudited) £m	As reported at 31 December 2019 (Unaudited) £m
Non-current assets	**292.8**	111.7	404.5
Current assets	**68.8**	-	68.8
Current liabilities	**(72.1)**	(9.9)	(82.0)
Non-current liabilities	**(122.8)**	(103.3)	(226.1)
Net assets	**166.7**	(1.5)	165.2
Foreign currency translation reserve		(0.1)	
Retained earnings		(1.6)	

Impact on Condensed Consolidated Statement of Cash Flows

	Pre adoption of IFRS 16 (Unaudited) £m	Impact of adopting IFRS 16 (Unaudited) £m	As reported at 31 December 2019 (Unaudited) £m
Net cash flows generated from operating activities	**22.8**	7.4	30.2
Net cash flows used in investing activities	**(13.8)**	-	(13.8)
Net cash flows used in financing activities	**(14.6)**	(7.4)	(22.0)
Net decrease in cash and cash equivalents	**(5.6)**	-	(5.6)

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 2016 the business has operated practices in The Netherlands and in June 2018 The Republic of Ireland. 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, crematoria, Animed Direct and a centralised administration function.

Six-month period ended 31 December 2019	**Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Central administration £m**	**Group £m**
Revenue	**203.5**	**10.9**	**3.8**	**14.7**	**(8.4)**	**224.5**
Profit/(loss) before income tax	**15.1**	**2.3**	**1.1**	**1.2**	**(13.0)**	**6.7**
Adjusted EBITDA	**37.7**	**2.7**	**1.3**	**1.2**	**(5.4)**	**37.5**
Total assets	**428.5**	**20.7**	**13.2**	**8.0**	**2.9**	**473.3**
Total liabilities	**(182.2)**	**(3.1)**	**(1.3)**	**(3.8)**	**(117.7)**	**(308.1)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**15.1**	**2.3**	**1.1**	**1.2**	**(13.0)**	**6.7**
Net finance expense	**2.3**	**-**	**-**	**-**	**2.1**	**4.4**
Depreciation	**4.7**	**0.3**	**0.2**	**-**	**0.3**	**5.5**
Depreciation – right-of-use	**6.9**	**0.1**	**-**	**-**	**0.1**	**7.1**
Amortisation	**6.9**	**-**	**-**	**-**	**4.1**	**11.0**
Costs relating to business combinations	**1.8**	**-**	**-**	**-**	**0.3**	**2.1**
Exceptional items	**-**	**-**	**-**	**-**	**0.7**	**0.7**
Adjusted EBITDA	**37.7**	**2.7**	**1.3**	**1.2**	**(5.4)**	**37.5**

Six-month period ended 31 December 2018	**Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Central administration £m**	**Group £m**
Revenue	178.5	9.3	3.6	10.7	(7.0)	195.1
Profit/(loss) before income tax	12.6	1.5	1.0	0.6	(14.1)	1.6
Adjusted EBITDA	25.1	1.8	1.2	0.6	(4.9)	23.8
Total assets	339.1	16.1	11.1	9.8	-	376.1
Total liabilities	(54.5)	(1.9)	(0.9)	(7.3)	(156.2)	(220.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	12.6	1.5	1.0	0.6	(14.1)	1.6
Net finance expense	-	-	-	-	1.8	1.8
Depreciation	3.8	0.3	0.2	-	0.3	4.6
Amortisation	6.7	-	-	-	4.6	11.3
Costs relating to business combinations	2.0	-	-	-	2.2	4.2
Exceptional items	-	-	-	-	0.3	0.3
Adjusted EBITDA	25.1	1.8	1.2	0.6	(4.9)	23.8

4. Segmental reporting (continued)

Year ended 30 June 2019	Veterinary practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Central administration £m	Group £m
Revenue	370.7	20.1	7.3	23.3	(14.9)	406.5
Profit/(loss) before income tax	30.7	3.7	2.1	1.6	(26.4)	11.7
Adjusted EBITDA	56.2	4.3	2.5	1.7	(10.2)	54.5
Total assets	332.4	18.5	12.3	11.9	2.3	377.4
Total liabilities	(65.6)	(3.3)	(1.8)	(8.9)	(134.7)	(214.3)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	30.7	3.7	2.1	1.6	(26.4)	11.7
Net finance expense	0.1	-	-	-	3.8	3.9
Depreciation	7.8	0.6	0.4	-	0.4	9.2
Amortisation	13.2	-	-	0.1	8.9	22.2
Costs relating to business combinations	4.4	-	-	-	2.8	7.2
Exceptional items	-	-	-	-	0.3	0.3
Adjusted EBITDA	56.2	4.3	2.5	1.7	(10.2)	54.5

5. Finance expense

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Interest expense, bank loans and overdraft	**1.8**	1.5	3.4
Amortisation of debt arrangement fees	**0.3**	0.3	0.5
Interest on right-of-use assets	**2.3**	-	-
Net finance expense	**4.4**	1.8	3.9

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 2019 (Unaudited)	31 December 2018 (Unaudited)	Year ended 30 June 2019 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**4.9**	0.8	8.2
Weighted average number of Ordinary shares in issue	**70,654,009**	70,478,222	70,506,476
Basic earnings per share (pence per share)	**7.0**	1.2	11.6

(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 2019 (Unaudited)	31 December 2018 (Unaudited)	Year ended 30 June 2019 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**4.9**	0.8	8.2
Weighted average number of Ordinary shares in issue	**70,654,009**	70,478,222	70,506,476
Adjustment for contingently issuable shares - LTIPS	**40,985**	145,883	88,379
Adjustment for contingently issuable shares – SAYE	**20,278**	(58,497)	-
Weighted average number of Ordinary shares for diluted earnings per share	**70,715,272**	70,565,608	70,594,855
Diluted earnings per share (pence per share)	**7.0**	1.2	11.6

(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.

6. Earnings per Ordinary share (continued)

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Earnings attributable to Ordinary shareholders	**4.9**	0.8	8.2
Add back taxation	**1.8**	0.8	3.5
Profit before taxation	**6.7**	1.6	11.7
Adjustments for:			
Amortisation	**11.0**	11.3	22.2
Costs relating to business combinations	**2.1**	4.2	7.2
Exceptional items	**0.7**	0.3	0.3
Adjusted profit before income tax	**20.5**	17.4	41.4
Tax on adjusted profit	**(4.0)**	(3.5)	(8.5)
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**16.5**	13.9	32.9
Weighted average number of Ordinary shares in issue	**70,654,009**	70,478,222	70,506,476
Weighted average number of Ordinary shares for diluted earnings per share	**70,715,272**	70,565,608	70,594,855
Adjusted earnings per share	**23.4p**	19.7p	46.7p
Diluted adjusted earnings per share	**23.4p**	19.6p	46.6p

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. LTIP13 also has conditions around the achievement of Total Shareholder Return relative to the FTSE 250 index.

On 19 December 2019, LTIP13 was issued with an option life of 3 years over 143,036 shares. The share price at the grant date was £10.80 with an exercise price of 0.2p.

During the six months to 31 December 2019, directors and employees exercised 56,350 (2018: 146,000) share options with a nominal value of £9.50 (2018: £9.10), in respect of the LTIP10 (LTIP9) scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.3m (2018: £Nil) and has been charged to administrative expenses. National Insurance contributions amounting to £0.1m (2018: £Nil) 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.

SAYE12 scheme was opened for subscription in November 2019. 280,454 options were granted in November 2019, with the first salary deductions taking place in December 2019 and a contract start date of 1 January 2020. The exercise price was £8.63 - 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 £0.2m (2018: £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 2019		
Opening net book value at 1 July 2019	**244.5**	**51.4**
Additions arising through business combinations (note 12)	**6.7**	**0.2**
Additions	**0.3**	**6.5**
Impairment	**(0.2)**	**-**
Fair value adjustment	**(0.2)**	**-**
Amortisation and depreciation	**(11.0)**	**(5.5)**
Closing net book value at 31 December 2019	**240.1**	**52.6**
Six months ended 31 December 2018		
Opening net book value at 1 July 2018	203.5	47.9
Additions arising through business combinations	-	1.1
Additions	59.0	6.0
Disposals	-	(0.4)
Fair value adjustment	-	(0.1)
Depreciation and amortisation	(11.3)	(4.6)
Closing net book value at 31 December 2018	251.2	49.9

10. Right-of-use assets

	Right-of-use asset £m
Six months ended 31 December 2019	
At 1 July 2019 – on transition	**116.5**
Impact of foreign exchange	**(0.6)**
Additions	**2.9**
Depreciation and amortisation	**(7.1)**
Closing net book value at 31 December 2019	**111.7**

11. Trade and other payables

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Trade payables	**148.4**	32.7	42.2
Social Security and other taxes	**14.0**	10.0	13.2
Other payables	**3.2**	2.5	2.5
Accruals	**17.4**	17.8	15.8
Total	**183.0**	63.0	73.7
Expected to be payable within one year	**79.7**	63.0	73.7
Expected to be payable in more than one year	**103.3**	-	-
Total	**183.0**	63.0	73.7

Included within trade and other payables is £113.6m in relation to lease liabilities recognised as a result of the Group adopting IFRS 16. The contractual maturity dates of lease liabilities are:

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Within 1 year	**10.3**	-	-
1 to 5 years	**36.8**	-	-
5 to 10 years	**66.5**	-	-
Total	**113.6**	-	-

12. Business combinations

Provisional details of business combinations in the six-month period ended 31 December 2019 are set out below.

	Book value of acquired assets £m	**Adjustments £m**	**Fair value £m**
Property plant and equipment	0.2	-	**0.2**
Patient lists / customer lists	-	4.0	**4.0**
Deferred tax liability	-	(0.7)	**(0.7)**
Inventory	0.2	-	**0.2**
Trade and other receivables	1.0	-	**1.0**
Trade and other payables	(0.4)	-	**(0.4)**
Total identifiable assets	1.0	3.3	**4.3**
Goodwill		2.7	**2.7**
Total initial consideration paid (net of cash acquired)			**7.0**

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.

13. Cash generated from operations

	31 December 2019 (Unaudited) £m	31 December 2018 (Unaudited) £m	Year ended 30 June 2019 (Audited) £m
Profit for the period	**4.9**	0.8	8.2
Taxation	**1.8**	0.8	3.5
Total finance costs	**4.4**	1.8	3.9
Amortisation of intangible assets	**11.0**	11.3	22.2
Depreciation of property, plant and equipment	**5.5**	4.6	9.2
Depreciation of right-of-use asset	**7.1**	-	-
Share option expense	**0.5**	0.2	0.1
(Increase)/Decrease in Inventories	**(1.8)**	0.2	(1.0)
Decrease/(Increase) in Trade and other receivables	**10.1**	1.7	(3.6)
(Decrease)/Increase in Trade and other payables	**(4.2)**	(1.8)	9.6
Total cash flows from operating activities	**39.3**	19.6	52.1

14. Analysis of movement in net debt

	1 July 2019 £m	Cash flow £m	Non-cash movements £m	**31 December 2019 £m**
Cash and cash equivalents	12.5	(5.6)	-	**6.9**
Borrowings – current	(0.3)	0.1	-	**(0.2)**
Borrowings – non-current	(114.2)	11.0	(0.3)	**(103.5)**
Net debt	(102.0)	5.5	(0.3)	**(96.8)**

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.

15. Dividends

The dividends paid in December 2019, representing the final dividend payable for the year ended 30 June 2019, amounted to £3.9m (5.5 per share) (2018: £3.5m; 5.0p per share).

Appendix – Acquisitions in the Interim Period

Practice Name	**No of Sites**	**Main Locations**	**Region**	**Business**
Lissenhall Veterinary Hospital	3	Dublin	Republic of Ireland	Small Animal
Dierenkliniek Gooiland	1	Weesp	The Netherlands	Small Animal
Newnham Court	1	Maidstone	Kent	Small Animal