CVS Group plc

Interim report for the six months ended 31 December 2018

CVS Group plc

Financial highlights

	Six months ended 31 December 2018 (Unaudited)	Six months ended 31 December 2017 (Unaudited)	Change[4] %
Revenue (£m)	**195.1**	**157.8**	23.7
Adjusted EBITDA (£m)[1]	**23.8**	**24.0**	(0.8)
Adjusted profit before income tax (£m)[2]	**17.4**	**18.3**	(4.9)
Adjusted basic earnings per share (pence)[3]	**19.7**	**22.9**	(14.0)
Operating profit (£m)	**3.4**	**8.1**	(58.0)
Profit before income tax (£m)	**1.6**	**6.2**	(74.2)
Basic earnings per share (pence)	**1.2**	**7.8**	(84.6)

- Sales growth of 23.7%
- Like-for-like sales increase of 4.0%
- Adjusted EBITDA down at £23.8m (0.8%)
- Adjusted EPS down to 19.7p (14.0%)
- Net debt as at 31 December 2018 of £116.8m (30 June 2018: £69.0m)
- 23 practice surgeries acquired during the period

[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 and decreases have been calculated throughout this document based on the underlying values.

Chairman's statement

Introduction
This is my first opportunity to write to shareholders since our trading statement at the end of January.

We have been active in addressing a number of the key issues which contributed to the underperformance in the first half and the Board is pleased to see significant improvement in many areas where we had been experiencing operational and cost pressures.

Both our veterinary surgeon and nurse vacancy rates have been reduced with an accompanying saving in the cost of locums. Our Vet vacancy rate has fallen from 12.2% in February 2018 to 8.3% in February 2019. Our Nurse vacancy rate has also fallen from 7.2% in February 2018 to 4.0% in February 2019.

We have seen further growth in our like for like sales and for the first eight months of the financial year to date our Group sales are 5.0% above the equivalent eight-month period in the prior year and our Practice Division sales are 3.7% above prior year. The Board believes this will lead to a full-year outcome better than anticipated in our January announcement.

We have spent time talking to shareholders in recent weeks and have been confirming our concentration on enhancing shareholder value in a number of areas – some of these are evident, such as our reluctance to pursue acquisitions at multiples that feel too high. Others are less evident such as the progress being made in profit improvement at individual practices and an even stronger push to encourage cross-selling within our network.

We still have a strong pipeline of potential acquisitions and an interesting platform into Europe through our Netherlands and Republic of Ireland business. We will continue to manage everything within our control to improve the performance of the business and to maintain its strong cashflows.

The Board considers that the current market value ascribed to the business does not reflect its strengths and prospects for growth and continued progress from a number of our initiatives should support the further restoration of shareholder value.

Results summary
This interim report sets out the results of CVS Group plc for the six-month period ended 31 December 2018.

Group revenue was £195.1m in the interim period, an increase of 23.7% over the prior year (2017: £157.8m). Like-for-like sales grew by 4.0% for the Group (adjusted for trading days in the period).

Adjusted EBITDA for the half year was £23.8m, a decrease of 0.8% (2017: £24.0m).

Operating profit reduced to £3.4m (2017: £8.1m) reflecting depreciation of £4.6m (2017: £3.8m), amortisation of £11.3m (2017: £9.3m), costs relating to business combinations of £4.2m (2017: £2.8m) and exceptional costs incurred in respect of the change in Finance Director of £0.3m (2017: £Nil).

Adjusted profit before tax, which excludes the amortisation of intangible assets, costs relating to business combinations and exceptional items, reduced to £17.4m (2017: £18.3m). Adjusted earnings per share reduced to 19.7p (2017: 22.9p).

Basic earnings per share fell to 1.2p in the period (2017: 7.8p).

Cash generated from operations was £19.6m (2017: £26.5m) with the reduction reflecting the decrease in Operating profit as noted above and a reduction in trade and other payables balances at 31 December 2018. Net debt increased to £116.8m (June 2018: £69.0m) after funding £52.2m (net of cash acquired) of acquisitions in the period.

Divisional performance

Practice Division

Practice revenues of £178.5m were generated in the six-month period to 31 December 2018, an increase of 24.7% on the £143.1m achieved in the prior period. Like-for-like sales growth was 3.2% in the period (2017: 2.8%).

The gross margin in the Practice Division reduced to 77.1% (2017: 80.6%) due to the increase in the proportion of Farm business where gross margins are lower (Farm practice revenues comprise a lower proportion of veterinary fees and a higher proportion of drug sales than our small animal, equine and referral practices). Farm revenues accounted for 9% of total practice division sales in the period compared to 3% in the prior year.

Adjusted EBITDA for the Practice Division increased marginally to £25.1m (2017: £25.0m). The adjusted EBITDA margin reduced to 14.1% (2017: 17.5%). This EBITDA margin decrease reflects the reduction in the gross margin as noted above, increased employment costs from clinical staff salary increases and increased locum costs, and lower margins from the newer Farm, Equine and Netherlands divisions. We did see improvement in both our veterinary and nurse locum rates and these have continued in the second half (covered in the section on Half Two and Year-to-Date performance below).

The Group operates a Healthy Pet Club scheme for companion animals, offering discounted products and services with the aim to improve clinical compliance levels amongst members and to protect practice sales by bonding pet owners to their local CVS surgery. The scheme had 386,614 members as at 31 December 2018 a 16.0% increase over the prior year (2017: 333,200 members). A new Healthy Horse Programme was launched in 2018 and this had 5,000 members as at 31 December 2018.

We continue to develop our referrals business through the expansion of our service offering and the continued investment in our referral hospitals. Revenue from our referrals division in the six-month period to 31 December 2018 increased by 20.8% in comparison to the same period in 2017.

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 8,050 policies in force as at 31 December 2018, a 192% increase from the prior year (2017: 2,753 policies in force). The 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 £9.3m was generated in the period

(2017: £8.8m). Adjusted EBITDA was £1.8m (2017: £1.9m) with the reduction largely due to an increase in employment costs.

Crematoria Division
Crematoria revenues were £3.6m in the period (2017: £3.2m) reflecting an increase in the mix of higher value individual cremations. Adjusted EBITDA increased to £1.2m (2017: £1.1m) as a result.

Animed Direct
We have continued to expand Animed Direct, our on-line dispensary, with revenue increasing to £10.7m (2017: £9.2m). Adjusted EBITDA was £0.6m (2017: £0.6m).

Central administration
Central administration costs were £4.9m (2017: £4.6m). Expressed as a percentage of Group revenue, these costs reduced to 2.5% (2017: 2.9%). We will continue to make appropriate investment in people, systems and controls in support of the further expansion of the Group. We plan to launch our new warehouse system prior to the current financial year end and this will facilitate a further increase in our white label MiPet Products used in practices and will enable us to achieve direct supply to further improve our cost prices.

Cash flow and funding position
CVS had Borrowings of £129.5m at 31 December 2018 and with cash on balance sheet of £12.7m, Net Debt was £116.8m (see note 12). The Group had leverage (net debt / adjusted annualised EBITDA) of 2.40x at 31 December 2018.

The Group refinanced its bank facilities in September 2018, with the committed facilities increasing by £37.5m to the following:

- Term Loan of £95m (bullet repayment on 23 November 2021)
- Revolving Credit Facility of £95m (bullet repayment on 23 November 2021)
- Overdraft facility of £5m

As part of this refinancing, the leverage covenant increased to a maximum of 3.25x (from 3.00x previously). The Group is also subject to an interest cover covenant (EBITDA / Net Interest Paid) which remained unchanged at a minimum of 4.50x.

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 2018.

Dividends
A dividend of 5.0p (2017: 4.5p) per share was paid in December 2018 in respect of the year ended 30 June 2018 (see note 13). The Board will continue to review its dividend policy and a final dividend in respect of the current financial year will be paid in December 2019. In line with our customary practice, the amount of this dividend will be determined in due course in light of the full year results.

Focus on Organic Growth
In light of the disappointing financial performance in the period to 31 December 2018, the Group will focus on the delivery of organic growth from its existing business through a combination of revenue growth, gross margin improvement and a review of the cost base.

Within the Practices division, like for like revenue growth will focus on appropriate price increases, an increase in the number of in-house referrals to CVS's experienced team of specialists and the continued promotion of the Group's Healthy Pet Club, which provides preventative animal care through a monthly subscription model.

Certain practice acquisitions made in the previous two financial years have delivered returns which are below our original expectations and a number of actions have been taken to address performance. Whilst there are early signs of performance improvement, we will remain focused on successfully integrating these practices.

We continue to work towards our strategic objective of expanding our referrals business to provide national coverage across all disciplines. To this end, we have recently recruited a number of leading specialists including Laurent Garosi and Nuria Corzo-Menedez, leading Teleradiologists, and Colin Driver and Jeremy Rose, leading Neurosurgeons. We expect to be able to comment on further new specialist recruits at the financial year-end. CVS continues to differentiate its offering to customers by seeking to provide best-in-class care.

CVS has 22 specialist MiNight Vet centres providing out-of-hours support to both CVS and private practices. The Group will seek further expansion of dedicated out-of-hours centres with a further seven centres planned to open in the next twelve to eighteen months. Our strategic objective is to become self-sufficient in the provision of out-of-hours cover.

The Group's Laboratory division will continue to provide in-house analysers to CVS and independent practices whilst developing further laboratory tests for Farm and Equine clients. The Group's Crematoria division will focus on growth from higher value individual cremations for both Companion Animal and Equine clients. Opportunities exist for the development of further Laboratory and Crematoria sites in Ireland and the Netherlands in order to complement our existing practices.

Animed Direct will further expand its product lines with the launch of the new warehouse management system providing the platform for further growth in product lines. This system will enable the Group to exploit its existing unused warehouse capacity, will facilitate further expansion in our own label MiPet product range and enable us to achieve better cost prices across the pharmaceutical range in areas such as consumables, human drugs and supplements

The Group will continue to internalise its practice spend and Vet Direct, our recent acquisition, will focus on increased sales to CVS practices and independent clients.

Gross margins have reduced due to the increase in the mix of Farm revenue and the naturally lower margins in Farm practices. The Group will target an improvement in gross margins from a further increase in MiPet products which currently account for c.25% of small animal practice pharmaceutical sales. The new warehouse management system will facilitate this and also enable CVS to distribute certain product lines to its Farm, Equine and Netherlands practices.

The Group operates preferred and dedicated drugs lists for all practice areas which are kept under regular review. Further enhancements in compliance are anticipated in Farm, Equine and the Netherlands which will improve margins in those divisions.

The Group is proactively addressing the industry wide structural shortage of veterinary surgeons and nurses in the UK through increased focus on clinical recruitment, further investment in learning, education and development and flexible working. Employment costs in the Practice Division have increased by an underlying c.10% from a combination of salary increases awarded to veterinary surgeons and nurses in January 2018, increased locums costs and additional managerial resource. The Group expects more modest increases in the next twelve months with salary increases of c.3% and reduced locum usage.

The Group continues to see a reduction in clinical vacancy rates with veterinary surgeon vacancy rates of 8.8% and nurse vacancy rates of 5.6% in December 2018 and these improvement have resulted in reduced locum spend.

The Group is targeting cost savings in all areas of third party spend and is renegotiating supply contracts wherever possible. We remain on course to deliver savings of c.£1.2m identified and reflected in management's expectations for the second half of the financial year.

Investment will continue in appropriate capital expenditure projects including new equipment and refurbishments to improve the customer experience in practices, continue the delivery of high clinical standards and drive increased average transaction values and hence revenues in Practices. We will invest in practice relocations where the Board is confident that appropriate financial returns will be achieved.

Acquisitions in the Interim Period

In the six months to 31 December 2018, 23 practices were acquired (see appendix). The Group also acquired a veterinary consumables, instrument and equipment supply business, Vet Direct. A total of £52.2m (net of cash 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 £48.6m and £5.6m respectively.

Future Acquisitions & Greenfield Development

As noted above, a key focus of the Group will be on organic growth, on improving performance from individual practices, and on margin improvements in Farm, Equine and the Netherlands divisions.

The Board does not see significant opportunity for accretive shareholder returns at the current time from the acquisition of further small animal practices or referral centres in the UK. Whilst this is the current position, there may be some limited opportunities in the market place of which we can take advantage positively impacting returns. The Group will however explore opportunities to expand these areas through opening additional greenfield sites in areas where we can concentrate our out-of-hours services, where we can feed increased referrals and where we do not currently have presence. This approach reflects the encouraging performance to date from the handful of existing greenfield first opinion and small animal referral sites.

Strategic opportunities to acquire small animal practices in the Republic of Ireland and the Netherlands will be considered in due course where stringent criteria are met, multiples are at an acceptable level and where the Board is confident that they will deliver appropriate financial returns.

Opportunities to expand through acquisition of Farm and Equine practices will be considered where acquisition multiples are acceptable and where the Board is confident that they can be integrated successfully with our existing operations in order to deliver increased scale and improved financial performance in these divisions.

Continued acquisitions in the Netherlands, Republic of Ireland, Farm and Equine is strategically important as these divisions will benefit significantly from increased scale in terms of margins, efficiency and cross referral.

Our people
CVS has a passionate team of highly skilled people who are committed to providing the best standards of clinical care. I would like to thank all of them for their efforts in the period and look forward to working with them in delivering future growth.

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. The Group recruited a record number of graduate veterinary surgeons in September 2018 and our leading graduate induction and support programme will continue to evolve, to ensure that all our graduates are best equipped to fulfil their future careers from a combination of industry leading clinical training alongside communication, resilience and customer service training. Professor Renate Weller will oversee the development of the Group's clinical training for veterinary surgeons and nurses and has a wealth of experience in this area.

CVS has been campaigning for our highly skilled Qualified Nurses to be better recognised by the professional bodies and for them to be allowed to undertake additional clinical work currently preserved for veterinary surgeons. We will continue to campaign for this much needed change in the sector which will allow our Nurses to have increased career opportunities whilst reducing pressure on scarce veterinary surgeon resource.

We will 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.

Brexit
Whilst there is ongoing uncertainty in relation to Brexit, the Board is confident that the Group can 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. Whilst we believe it unlikely that additional import tariffs will be applied to animal drugs, any such increases would be passed onto our customers alongside efficiency improvements made.

Brexit uncertainty has already had a detrimental impact on the recruitment of overseas clinical staff with less EU veterinary surgeons and nurses willing to come to the UK afresh post the referendum vote and some EU employees returning home. The Group welcomes proposals to facilitate the recruitment of skilled workers from outside the EU post Brexit and to reduce the current burdensome visa costs.

Half Two and Year-to-Date Performance
The Board is pleased to report improved sales growth in the first two months of the second half. Like for like growth in the eight month (year-to-date) period has increased to 5.0% for the Group and 3.7% for the Practice Division. We have seen a further reduction in our veterinary surgeon vacancy rate to 8.3% and in our nurse vacancy rate to 4.0% and this has resulted in reduced locum spend.

In light of the above, trading since the half-year end is above management's expectations (as revised at the time of the trading statement issued on 29 January 2019).

No acquisitions have been undertaken since the half-year end.

The Group continues to generate underlying cash flows and leverage reduced to 2.31x as at 28 February 2019.

Outlook
CVS is the leading integrated provider of veterinary services in the UK and, through the actions being taken, the Board is confident that the Group is positioned to deliver enhanced shareholder value in the future.

I am pleased to announce that CVS will be holding an investor day at our Lumbry Park referral hospital in July 2019 in order for investors to gain a better understanding of the business and to provide an opportunity for us to provide further insight into our future strategy. Further details will be provided in due course.

Richard Connell
Chairman
29 March 2019

Consolidated income statement for the six month period ended 31 December 2018 (unaudited)

	Note	**31 December 2018 (Unaudited) £m**	31 December 2017 (Unaudited) £m	Year ended 30 June 2018 (Audited) £m
Revenue		**195.1**	**157.8**	327.3
Cost of sales		**(113.2)**	**(84.5)**	(175.7)
Gross profit		**81.9**	**73.3**	151.6
Administrative expenses		**(78.5)**	**(65.2)**	(133.9)
Operating profit		**3.4**	**8.1**	17.7
Other finance expense		**(1.8)**	**(1.9)**	(3.6)
Profit before income tax		**1.6**	**6.2**	14.1
Income tax expense		**(0.8)**	**(1.3)**	(3.4)
Profit for the period attributable to owners of the Parent Company		**0.8**	**4.9**	10.7
Basic		**1.2p**	**7.8p**	16.0p
Diluted		**1.2p**	**7.6p**	15.9p

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		**1.6**	**6.2**	14.1
Adjustments for:				
Net finance expense		**1.8**	**1.9**	3.6
Depreciation		**4.6**	**3.8**	8.0
Amortisation		**11.3**	**9.3**	18.4
Costs relating to business combinations		**4.2**	**2.8**	3.5
Exceptional items		**0.3**	**-**	-
Adjusted EBITDA		**23.8**	**24.0**	47.6

Statement of consolidated comprehensive income for the six month period ended 31 December 2018 (unaudited)

	£m	£m	£m
Profit for the period	**0.8**	**4.9**	10.7
Other comprehensive income			
Cash flow hedges: Fair value gains	-	**0.1**	0.1
Other comprehensive income for the period, net of tax	-	**0.1**	0.1
Total comprehensive income for the period attributable to owners of the Parent Company	**0.8**	**5.0**	10.8

Consolidated balance sheet as at 31 December 2018 (unaudited)

	Note	**31 December 2018 (Unaudited) £m**	31 December 2017 (Unaudited) £m	30 June 2018 (Audited) £m
Non-current assets				
Intangible assets		**251.2**	**185.7**	203.5
Property, plant and equipment		**49.9**	**47.0**	47.9
Investments		**0.1**	**0.1**	0.1
Deferred income tax assets		**0.6**	**1.5**	0.6
Derivative Financial Instrument		**0.2**	**0.2**	0.2
		302.0	**234.5**	252.3
Current assets				
Inventories		**15.9**	**13.5**	13.5
Trade and other receivables		**45.5**	**34.7**	38.2
Cash and cash equivalents		**12.7**	**10.3**	15.0
		74.1	**58.5**	66.7
Total assets		**376.1**	**293.0**	319.0
Current liabilities				
Trade and other payables		**(63.0)**	**(54.7)**	(53.9)
Current income tax liabilities		**(2.0)**	**(3.1)**	(3.6)
Borrowings		**(0.4)**	**(3.9)**	(0.5)
		(65.4)	**(61.7)**	(58.0)
Non-current liabilities				
Borrowings		**(129.1)**	**(123.3)**	(83.5)
Deferred income tax liabilities		**(26.3)**	**(16.6)**	(19.8)
		(155.4)	**(139.9)**	(103.3)
Total liabilities		**(220.8)**	**(201.6)**	(161.3)
Net assets		**155.3**	**91.4**	157.7
Shareholders' equity				
Share capital		**0.1**	**0.1**	0.1
Share premium		**99.2**	**38.2**	99.1
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		**116.7**	**113.8**	119.2
Total equity		**155.3**	**91.4**	157.7

The interim financial information on pages 9 to 20 was approved by the Board of Directors on 29 March 2019.

Consolidated statement of changes in equity for the six month period ended 31 December 2018 (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 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 losses	-	-	-	-	-	-	-
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**

	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 gains	-	-	-	-	-	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

Consolidated statement of cash flows for the six month period ended 31 December 2018 (unaudited)

	Note	**31 December 2018 (Unaudited) £m**	31 December 2017 (Unaudited) £m	Year ended 30 June 2018 (Audited) £m
Cash flows from operating activities				
Cash generated from operations		**19.6**	26.5	46.7
Taxation paid		**(3.1)**	(3.0)	(6.2)
Interest paid		**(1.5)**	(1.7)	(3.1)
Net cash generated from operating activities		**15.0**	21.8	37.4
Cash flows from investing activities				
Acquisitions (net of cash)		**(52.2)**	(27.8)	(50.3)
Purchase of property, plant and equipment		**(6.0)**	(5.6)	(10.2)
Purchase of intangible assets		**(0.2)**	-	(0.5)
Net cash used in investing activities		**(58.4)**	(33.4)	(61.0)
Cash flows from financing activities				
Dividends paid		**(3.5)**	(2.8)	(2.9)
Proceeds from issue of ordinary shares		**0.2**	0.1	61.0
Debt issuance costs		**(0.3)**	(0.3)	(0.3)
Purchase of own shares		**-**	-	-
Increase in borrowings		**45.0**	20.0	-
Repayment of borrowings		**(0.3)**	(1.9)	(26.0)
Net cash from financing activities		**41.1**	15.1	31.8
Net (decrease) / increase in cash and cash equivalents		**(2.3)**	3.5	8.2
Cash and cash equivalents at start of period		**15.0**	6.8	6.8
Cash and cash equivalents at end of period		**12.7**	10.3	15.0

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 2018 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 2018. 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 56 to 61 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2018 (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 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)

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

Year ended 30 June 2018	Veterinary practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Central administration £m	Group £m
Revenue	297.5	17.9	6.6	18.8	(13.5)	327.3
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6
Total assets	283.0	14.9	10.0	8.5	2.6	319.0
Total liabilities	(67.2)	(2.2)	(1.1)	(6.6)	(84.2)	(161.3)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Net finance expense	0.1	-	-	-	3.5	3.6
Depreciation	6.8	0.6	0.4	-	0.2	8.0
Amortisation	12.2	-	-	-	6.2	18.4
Costs relating to business combinations	1.7	-	-	-	1.8	3.5
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6

5. Finance expense

	31 December 2018 (Unaudited) £m	31 December 2017 (Unaudited) £m	Year ended 30 June 2018 (Audited) £m
Interest expense, bank loans and overdraft	**1.5**	1.7	3.2
Amortisation of debt arrangement fees	**0.3**	0.2	0.4
Net finance expense	**1.8**	**1.9**	3.6

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 2018 (Unaudited)	31 December 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**0.8**	4.9	10.7
Weighted average number of Ordinary shares in issue	**70,478,222**	63,914,453	66,369,383
Basic earnings per share (pence per share)	**1.2**	7.8	16.0

(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 2018 (Unaudited)	31 December 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**0.8**	4.9	10.7
Weighted average number of Ordinary shares in issue	**70,478,222**	63,914,453	66,369,383
Adjustment for contingently issuable shares - LTIPS	**145,883**	460,615	259,505
Adjustment for contingently issuable shares – SAYE	**(58,497)**	534,436	98,081
Weighted average number of Ordinary shares for diluted earnings per share	**70,565,608**	64,909,504	66,726,969
Diluted earnings per share (pence per share)	**1.2**	7.6	15.9

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 2018 (Unaudited) £m	31 December 2017 (Unaudited) £m	Year ended 30 June 2018 (Audited) £m
Earnings attributable to Ordinary shareholders	**0.8**	4.9	10.7
Add back taxation	**0.8**	1.3	3.4
Profit before taxation	**1.6**	6.2	14.1
Adjustments for:			
Amortisation	**11.3**	9.3	18.4
Costs relating to business combinations	**4.2**	2.8	3.5
Exceptional items	**0.3**	-	-
Adjusted profit before income tax	**17.4**	18.3	36.0
Tax on adjusted profit	**(3.5)**	(3.7)	(7.8)
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**13.9**	14.6	28.2
Weighted average number of Ordinary shares in issue	**70,478,222**	63,914,453	66,369,383
Weighted average number of Ordinary shares for diluted earnings per share	**70,565,608**	64,909,504	66,726,969
Adjusted earnings per share	**19.7p**	22.9p	42.4p
Diluted adjusted earnings per share	**19.6p**	22.5p	42.1p

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 16 October 2018, LTIP12 was issued with an option life of 3 years over 186,184 shares. The share price at the grant date was £8.07 with an exercise price of 0.2p.

During the six months to 31 December 2018, directors and employees exercised 146,000 (2017: 243,205) share options with a nominal value of £9.10 (2017: £10.30), in respect of the LTIP9 (LTIP8) scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £Nil due to the expectation that LTIPs will not vest (2017: £0.6m) and has been charged to administrative expenses in the prior period. National Insurance contributions amounting to £Nil (2017: £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.

SAYE11 scheme was opened for subscription in November 2018. 425,888 options were granted in November 2018, with the first salary deductions taking place in December 2018 and a contract start date of 1 January 2019. The exercise price was £8.30 - 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 (2017: £0.3m) 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 £m	Property, plant and equipment £m
Six months ended 31 December 2018		
Opening net book value at 1 July 2018	**203.5**	**47.9**
Additions arising through business combinations (note 10)	**-**	**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**
Six months ended 31 December 2017		
Opening net book value at 1 July 2017	167.2	43.0
Additions arising through business combinations	-	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

10. Business combinations

Provisional details of business combinations in the six-month period ended 31 December 2018 are set out below.

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property plant and equipment	1.1	-	**1.1**
Patient lists / customer lists	3.2	33.7	**36.9**
Deferred tax liability	(0.2)	(6.4)	**(6.6)**
Inventory	2.6	-	**2.6**
Trade and other receivables	9.1	-	**9.1**
Trade and other payables	(11.7)	-	**(11.7)**
Loans	(0.8)	-	**(0.8)**
Total identifiable assets	3.3	27.3	**30.6**
Goodwill	-	21.6	21.6
Total initial consideration paid (net of cash acquired)			**52.2**

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.

11. Cash generated from operations

	31 December 2018 (Unaudited) £m	31 December 2017 (Unaudited) £m	Year ended 30 June 2018 (Audited) £m
Profit for the period	**0.8**	4.9	10.7
Add back:			
Taxation	**0.8**	1.3	3.4
Total finance costs	**1.8**	1.9	3.6
Amortisation of intangible assets	**11.3**	9.3	18.4
Depreciation of property, plant and equipment	**4.6**	3.8	8.0
Share option expense	**0.2**	0.9	1.3
(Increase)/decrease in working capital:			
Inventories	**0.2**	-	0.3
Trade and other receivables	**1.7**	1.8	(4.9)
Trade and other payables	**(1.8)**	2.6	5.9
Total cash flows from operating activities	**19.6**	26.5	46.7

12. Analysis of movement in net debt

	1 July 2018 £m	Cash flow £m	Non-cash movements £m	**31 December 2018 £m**
Cash and cash equivalents	15.0	(2.3)	-	**12.7**
Borrowings – current	(0.5)	-	0.1	**(0.4)**
Borrowings – non-current	(83.5)	(44.7)	(0.9)	**(129.1)**
Net debt	(69.0)	(47.0)	(0.8)	**(116.8)**

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.

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 this 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, net debt or any other key performance indicator.

13. Dividends

The dividends paid in December 2018, representing the final dividend payable for the year ended 30 June 2018, amounted to £3,515,793 (5.0 per share) (2017: £2,876,119; 4.5p per share).

Directors and advisers

Directors	R Connell (Chairman) M McCollum (Non-Executive Director) D Kemp (Non-Executive Director) S Innes (Chief Executive Officer) R Fairman (Finance Director)
Company Secretary	D Harris
Company number	06312831
Registered office	CVS House Owen Road Diss Norfolk IP22 4ER
Auditors	Deloitte LLP Deloitte House Station Place Cambridge CB1 2FP
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
Legal advisors	DLA Piper UK LLP 3 Noble Street London EC2V 7EE
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
Nominated Adviser and Broker	N+1 Singer One Bartholomew Lane London EC2N 2AX

Appendix – Acquisitions in the Interim Period

Practice Name	No of Sites	Main Locations	Region & Country	Business
Gilabbey Veterinary Hospital	1	Cork	Republic of Ireland	Referral
Slate Hall	4	Cambridgeshire	East, England	Poultry
Corner House Equine	2	Warwickshire & Romsley	West, England	Equine
Endell Veterinary Group	4	Wiltshire, Salisbury & Hampshire	West, England	Small Animal, Farm Animal & Equine
Beechwood Vets	1	East Sussex	South, England	Small Animal
Vet Direct	1	Newcastle-Upon-Tyne	North, England	Instruments
Towy Vets	1	Carmarthen	Wales	Small Animal
Fischer	1	Bolsward	The Netherlands	Small Animal
Arbury Road Vets	1	Cambridge	East, England	Small Animal
Briar Dawn Veterinary Centre	1	Oldham	North, England	Small Animal
Kirkby Vets	1	Liverpool	North, England	Small Animal
Camlas Pet Care Vets	1	Welshpool	Wales	Small Animal
Campsie Vet Centre	1	Omagh	Northern Ireland	Small Animal & Farm Animal
Spires Vet Clinic	1	Omagh	Northern Ireland	Small Animal
Harrier Vets	1	Southampton	South, England	Small Animal
St Elmo	1	Londonderry	Northern Ireland	Small Animal
Pinfold House	1	Doncaster	North, England	Small Animal
Bond Street	1	Macclesfield	North, England	Small Animal
Boundary Veterinary Clinic	1	Manchester	North, England	Small Animal
Ashfield Veterinary Surgery	1	Durham	North, England	Small Animal & Farm Animal
Schalekamp	1	Nordewolde	The Netherlands	Small Animal
Silverton	3	Devon	South, England	Small Animal
Beech House	1	Manchester	North, England	Small Animal