

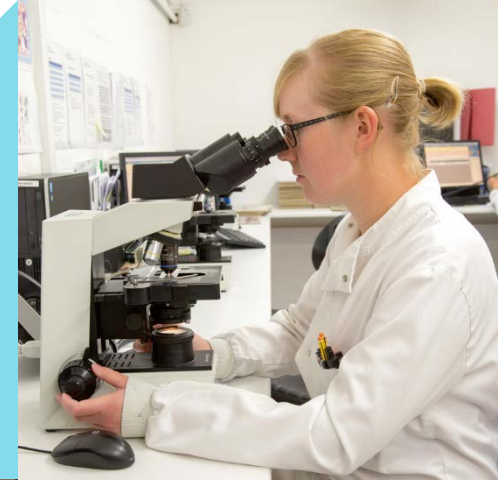
CVS Group plc

Annual Results

For the year ended 30 June 2018

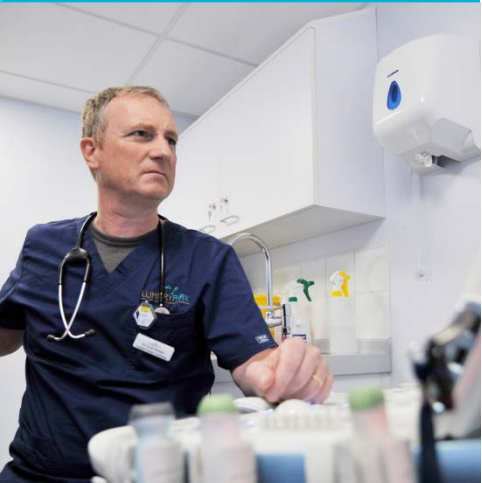
Simon Innes – Chief Executive Officer

Richard Fairman – Group Finance Director



Agenda

- Highlights
- Strategy
- Business review
 - Practices
 - Laboratories
 - Crematoria
 - Animed Direct
- Financial results
- Outlook
- Appendices

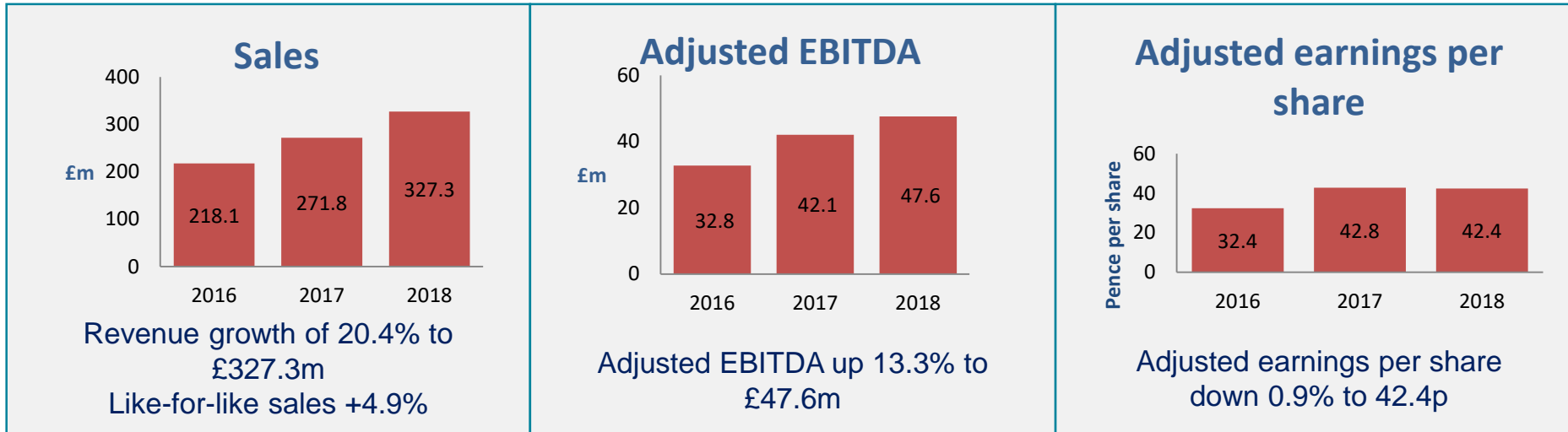


Highlights

	Year ended 30 June 2018	Year ended 30 June 2017	Change %
Revenue (£m)	327.3	271.8	20.4
Adjusted EBITDA (£m)*	47.6	42.1	13.3
Adjusted profit before income tax (£m)*	36.0	33.5	7.1
Adjusted earnings per share (pence)*	42.4	42.8	(0.9)
Operating profit (£m)	17.7	17.2	2.8
Profit before income tax (£m)	14.1	14.5	(3.2)
Basic earnings per share (pence)	16.0	18.5	(13.5)
Proposed dividend (pence)	5.0	4.5	11.1

* Adjusted items defined on page 33

Highlights



Acquisitions

Significant number of acquisitions in year:

- 52 surgeries
- Including 12 in The Netherlands and 2 in Republic of Ireland

This has continued post year end including the significant acquisitions including Slate Hall and Vet Direct.

Referrals

Continuing development of referrals business:

- Lumbry Park now profitable
- Weighbridge referrals acquired in the year

Other

- Two Greenfield sites opened in Norwich and Bracknell
- £58.9m raised through equity placing
- Bank facilities increased September 2018 to £190m (£37.5m increase)
- Healthy Pet Club (HPC) members up 18.3% to 362,000
- 19 Out of hours surgeries now open

Highlights

- UK's largest integrated provider and consolidator of veterinary practices
- Market leader, making CVS the acquirer of choice
- Consistent growth in a more challenging environment
- Complementary businesses to internalise margins and maximise revenues
- Practices division covers Small animal, Referrals, Large animal and Equine

6,150	Employees
1,570	Vets of which: 57 Diploma holders 117 Certificate holders
2,053	Nurses
491	Surgeries nationwide
19	Dedicated out of hours
7	Crematoria
4	Diagnostics laboratories
2	Instrument businesses
1	On-line dispensary
1	Own brand insurance

Strategy

Vision

To continue to be the largest and most comprehensive provider of veterinary services to animal owners in each of CVS's territories of operation whilst delivering a growing return to our shareholders.

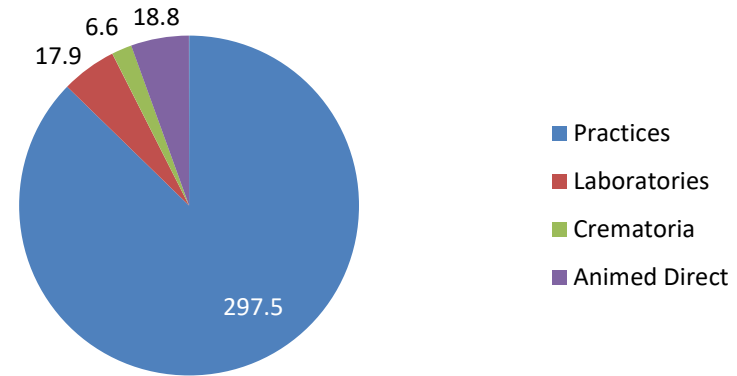
Meeting all our customers' needs	High quality clinical care and excellent customer service
Providing services to other veterinary practices	Expanding our business through acquisitions

Business review - Results by division

Four main business areas

- Practices
- Diagnostic laboratories
- Crematoria
- Animed Direct online dispensary

Turnover by business area
£m (before intra-group eliminations)



% of Revenue per Business Area

	Practices	Laboratories	Crematoria	Animed Direct
2018	87.3%	5.3%	1.9%	5.5%
2017	87.4%	5.7%	2.3%	4.6%
2016	86.9%	6.6%	2.2%	4.3%

The above reflects sales prior to the inter-company elimination between the practice division and other divisions.

Business review - Results by division

Year ended 30 June 2018	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	297.5	17.9	6.6	18.8	(13.5)	327.3
Adjusted EBITDA (£m)	50.1	3.9	2.3	1.2	(9.9)	47.6
Gross margin after materials %	80.6	65.0	81.5	17.9	-	79.5
EBITDA %	16.9	21.8	34.8	6.4	-	14.5

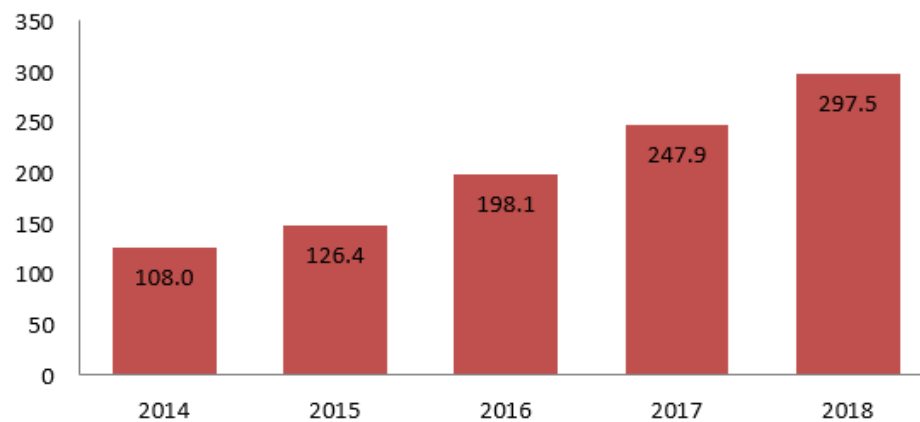
Year ended 30 June 2017	Practices	Laboratories	Crematoria	Animed Direct	Head Office	Group
Revenue (£m)	247.9	16.3	6.3	13.0	(11.7)	271.8
Adjusted EBITDA (£m)	44.7	3.6	2.1	0.7	(9.0)	42.1
Gross margin after materials %	80.1	65.4	81.7	17.4	-	79.7
EBITDA %	18.0	22.4	32.7	5.6	-	15.5

Reduction in practices EBITDA % is due to lower EBITDA margin for acquisitions and greenfield sites (both showing improving performance over time). Like for like practices EBITDA % has remained unchanged at 18.6%.

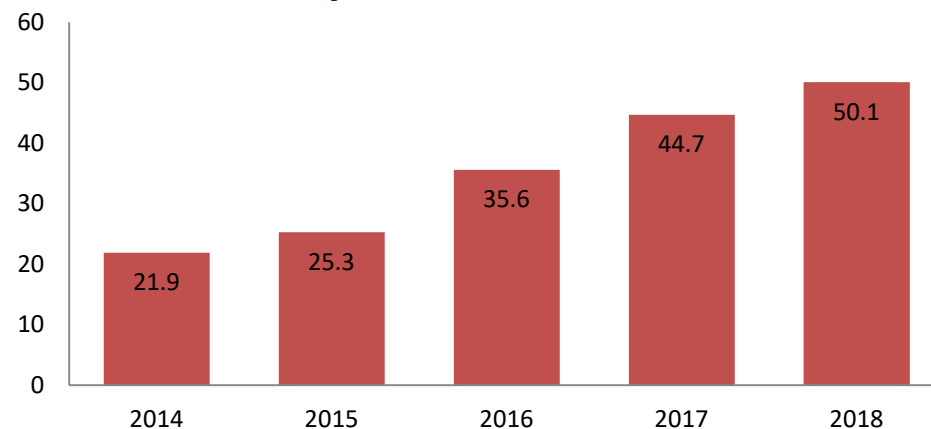
Business review – Practices



5 Year revenue £m



5 year EBITDA £m



Practice revenue split

	2018 £m	2017 £m
Like-for-like revenue	240.9	234.0
2017 acquisitions	37.5	13.9
2018 acquisitions	19.1	-
Total revenue	297.5	247.9

Like-for-like sales +3.0%

Business review – Practices

491 surgeries across the UK, The Netherlands and Republic of Ireland
- 52 surgeries acquired in the year from the following acquisitions:

Acquisitions during the year	Location	Business
<i>UK practices:</i>		
Cundall & Duffy	Scarborough	Small & farm animal
B & W Equine	Breadstone, Cardiff, Failand, Stretcholt and Willesley	Equine
Aire	Leeds	Small animal
All Creatures Veterinary Centre	Warrington	Small animal
Acorn Veterinary Centre	Studley	Small animal
Buchan Vets	Strichen, Peterhead, Fraserburgh	Small animal, farm animal & equine
Ashburn Veterinary Centre	Knighton	Small & farm animal
MS Vets	Reading	Small animal
Ruddington & East Leake Veterinary Centre	Ruddington, East Leake	Small animal
Victoria Veterinary Clinic	Bristol	Small animal

Acquisitions during the year	Location	Business
Wessex Equine	Thornhill	Equine
Beaconvet	Aspatria, Silloth	Farm animal, small animal & equine
Ashman Jones	Bath	Small animal
The Equine Veterinary Centre	Doncaster	Equine
Thompsons Veterinary Surgery	Sutton-in-Ashfield	Small animal
Weighbridge Referral Services	Swansea	Referral
Western Counties Equine Hospital	Cullompton	Equine
Bennett Williams	Gaerwen	Small animal
Robert Jones Veterinary Surgery	Blackpool	Small animal
Yoredale Vets	Leyburn, Ripon	Small animal

Business review – Practices

Acquisitions during the year	Location	Business
<i>Northern Ireland practices:</i>		
Strule Vet Services	Omagh and County Tyrone, N.I	Small & farm animal
Three Valleys Veterinary	Fivemiletown, Irvinestown (N.I.)	Small & farm animal
Ballygawley (Keown O'Neill) Veterinary Centre	Dungannon	Small animal
<i>Republic of Ireland practices:</i>		
Troytown GreyAbbey Equine Veterinary Services	Kildare	Equine & small animal

Acquisitions during the year	Location	Business
<i>The Netherlands practices:</i>		
Dierenkliniek Wolvega	Wolvega	Small animal
Dierenkliniek Emmeloord	Emmeloord	Equine
Dierenkliniek Vrieselaar	Lemmer	Small animal
Dierenartsenpraktijk NordOostpolder	Emmeloord	Farm animal, small animal & equine
Dierenkliniek Sneek	Sneek, St. Nicolaasga	Small animal
Dierenkliniek Schildwolde	Schildwolde	Farm animal, small animal & equine
Dierenkliniek Arnhem	Arnhem	Small animal
Dierenkliniek De Tweesprong	Borne	Small animal

Business review - Practices

16 surgeries acquired post year end from the following acquisitions:

Acquisitions after the year end	Location	Business
Gilabbey	Republic of Ireland	Small animal
Slate Hall	Cambridgeshire, Lincolnshire, Herefordshire, Shropshire	Farm animal (Poultry)
Corner House Equine Clinic	Warwick and Worcestershire	Equine
Endell Veterinary Group	Salisbury	Equine, farm and small animal
Beechwood Veterinary Centre	Leeds	Small animal
Towy Vets	Carmathen	Small animal
Dierenkliniek Fischer Bolsward	Bolsward, Netherlands	Small animal
Arbury Road Veterinary Centre	Cambridge	Small animal
Briar Dawn Veterinary Centre	Manchester	Small animal

Vet Direct - a Consumables, Instrument and Equipment supply business was acquired in August 2018



Business review – Practices

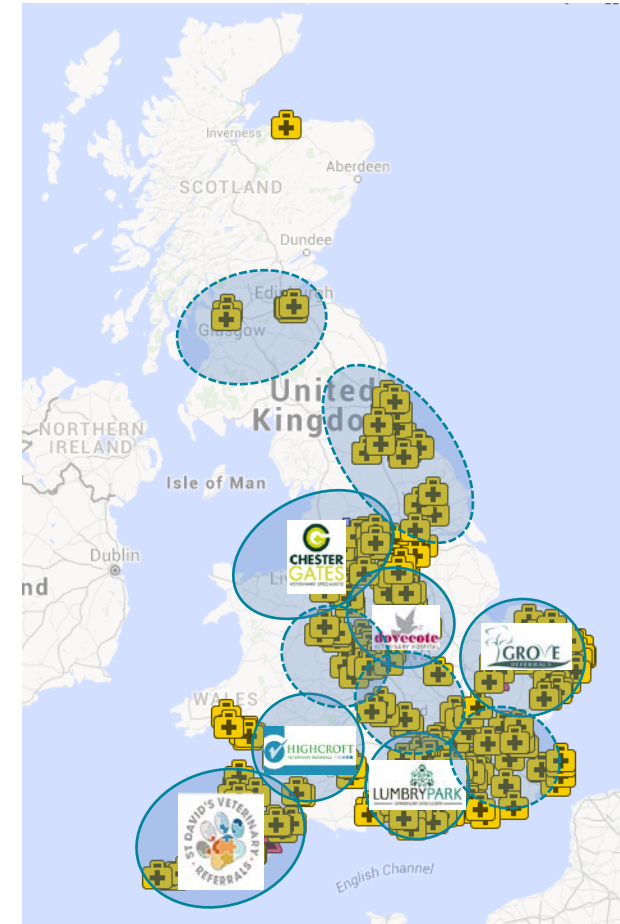
Referrals – key updates

New sites

- Chester Gates referral hospital further developed in February 2018
- Acquisition of Weighbridge Referrals in the year to increase our referral offering in the South West
- Since the year end we have continued to expand our referral offering with the acquisition of Gilabbey in the Republic of Ireland. This is a leading small animal referral business based in Cork

Training and our specialism

- 57 diploma holders now at CVS with a wide range of specialisms
- In-house neurology and surgical residency programmes
- Innovative partnership with Keele University and Harper Adams to train future veterinary professionals



Business review – Practices

Own Brand

- High quality products
- Distributed by CVS logistics
- Now have 14 own brand medicines representing 26% of practice spend
- Lower prices and better margins
- Own brand pet food now 34% of total life-stage practice sales
- Two new products launched in year: Petalexin and Easecto
- Two products being replaced by market leading products with imminent launch
- Further product launches planned in current year, including 2 further prescription medicines and a nutraceutical.
- Own brand equine products are also planned.



Out-of-hours

- 19 established dedicated emergency out-of-hours centres
- Planning to open other out-of-hours centres in 2018/19

Healthy Pet Club

- Over 18.3% increase in membership to 362,000
- At end August 2018 membership was just over 371,000
- HPC revenue
 - All practices – 13.0% of total revenue (2017: 13.0%)
 - Like-for-like practices – 16.6% (2017: 16.9%)
- Healthy Horse Programme relaunched



Business review – Practices

Buying group

- Sales increased by 51% in the year to £8.7m
- Own brand product MiPet selling well to buying group members

Buying – Equipment/Instruments

- Vetisco providing more of our practice requirements for instruments and implants internally. Sales have increased 204.8% in the year
- Post year end we have acquired Vet Direct to further centralise our non-drug buying for our practices. This will give us the ability to fulfil all requirements of our practices and buying group members across all species



www.vetshare.co.uk



www.mivetclub.co.uk



www.vet-direct.com



Business review – Practices

New Director of Clinical Training

- In November 2018 Professor Renate Weller joins CVS. She will develop our clinical training programmes to enhance support for our vets and nurses

New Graduate Programme

- 478 graduates have gone through the scheme in the past four years
- Designed to assist newly qualified vets make the challenging transition from university to day-to-day practice.
- Now developing a scheme to cater for equine, small animal and referral vets

Advanced Practitioner Programme

- 107 vets currently enrolled on this programme

Nursing Excellence Award

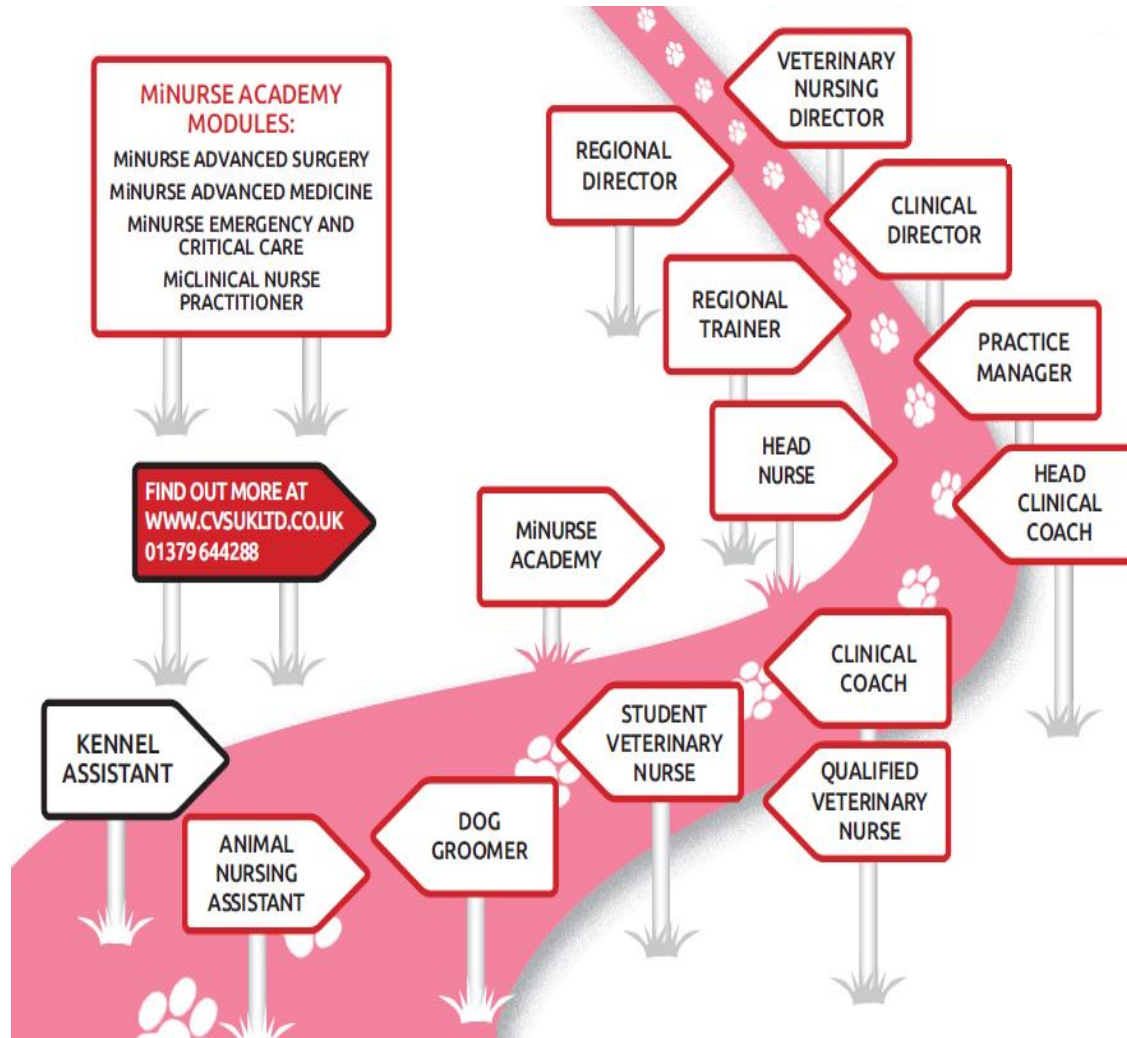
- 168 nurses have enrolled in our new award
- New partnership with Royal Veterinary College, University of London to deliver accredited CPD for nurses.
- Designed to fill a gap which exists across the profession in the post-qualification training of nurses.

Leadership programmes

- Aspire – 6 day management programme for practice managers
- Leap – 6 day management programme for managers



Business review – Practices



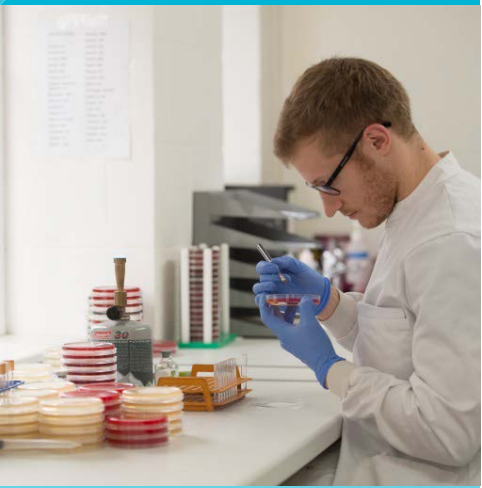
- Salary increases for practice nurses have improved retention and reduced vacancy rates - nurse attrition fallen 7% compared to the prior year
- Larger group gives enhanced opportunities
- Careers that are new to the whole veterinary industry
- Careers suitable for part-time workers
- Roles for small animal, large animal and equine

Business review – Practices

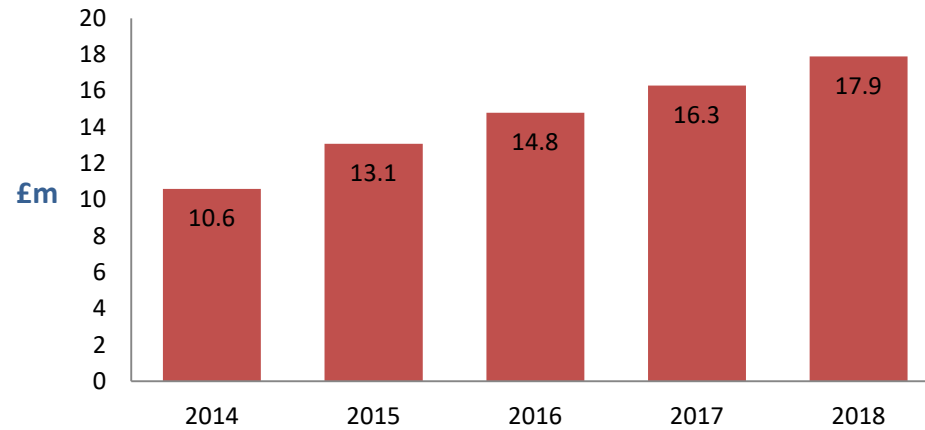
- Insurance designed by vets
- Launched July 2017
- Well received by staff and customers
- High quality, good value, easy to understand
- CVS not underwriting
- Policy numbers increasing steadily, 7,135 at August 2018
- Average premium £210
- Over 90% retention rate to date



Business review – Laboratories



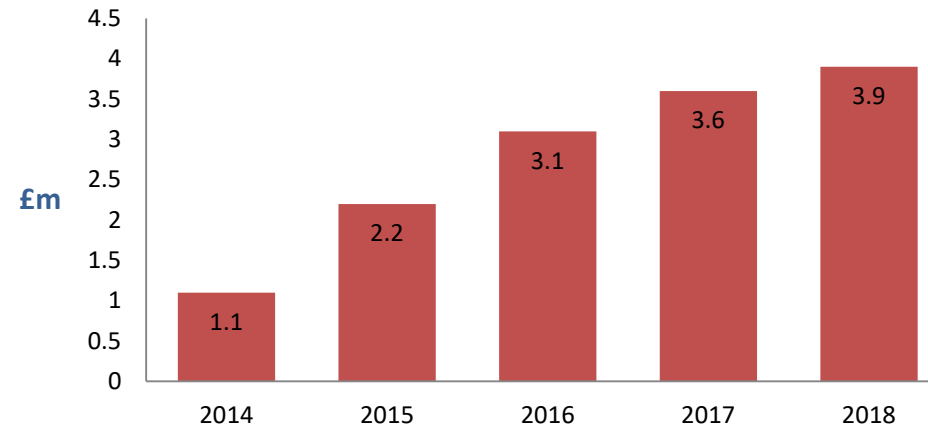
5 year revenue



- Revenue growth of 10.2% to £17.9m (all like-for-like)

- EBITDA improved to £3.9m (2017: £3.6m)

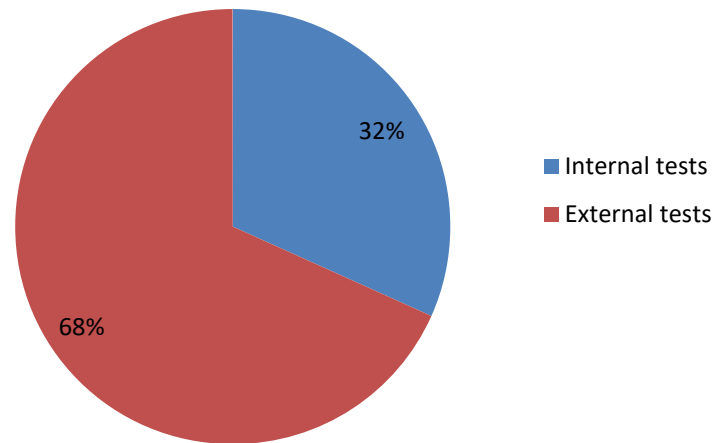
5 year EBITDA



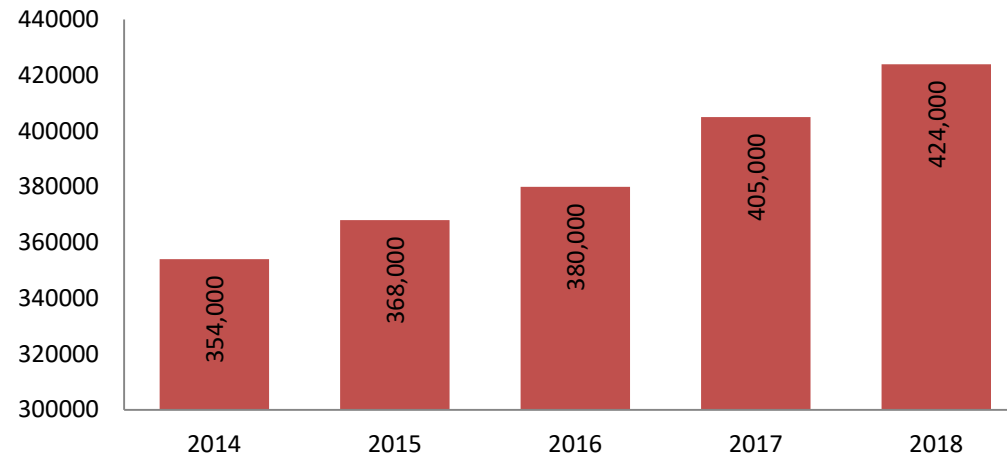
Business review – Laboratories

- Analyser business growing steadily
- Development of equine and farm testing revenue growing strongly
- New tests including accreditation continue to be added into the portfolio

Internal vs external test



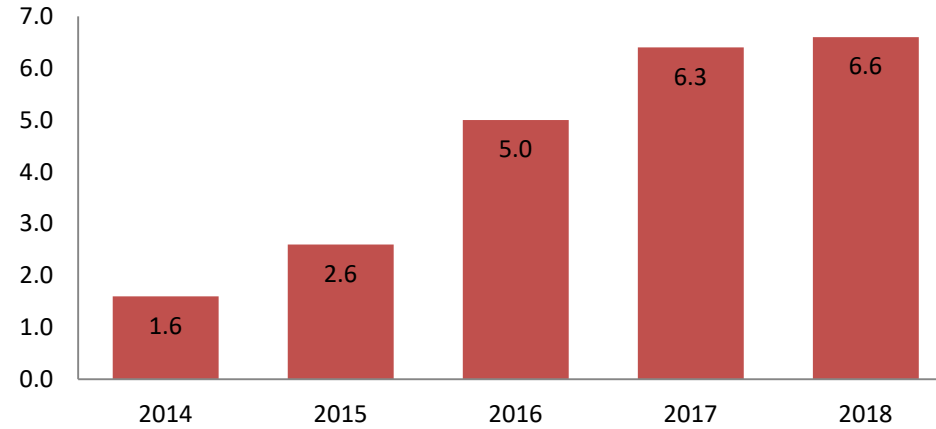
Number of tests performed



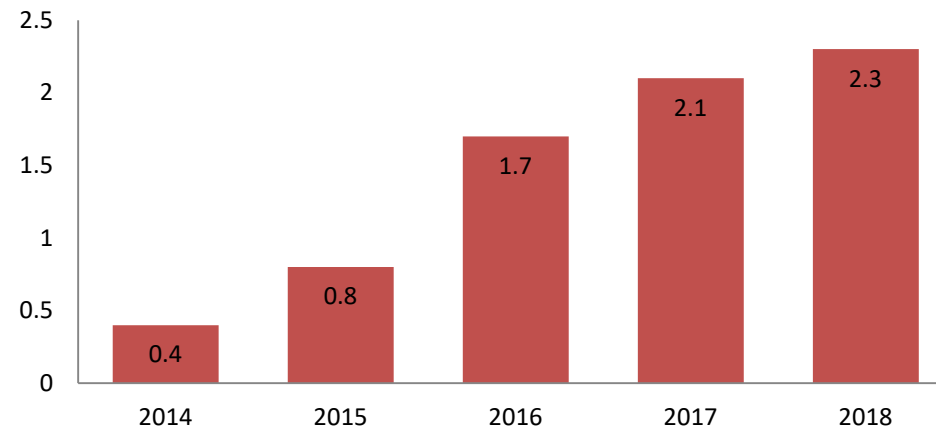
Business review – Crematoria



5 year revenue £m



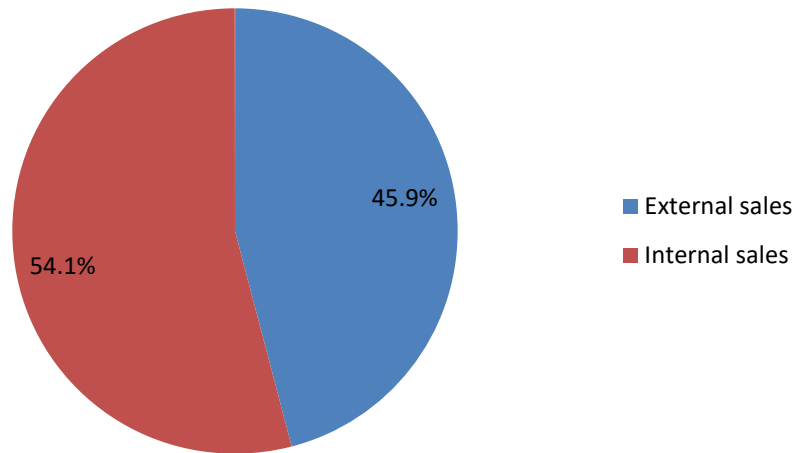
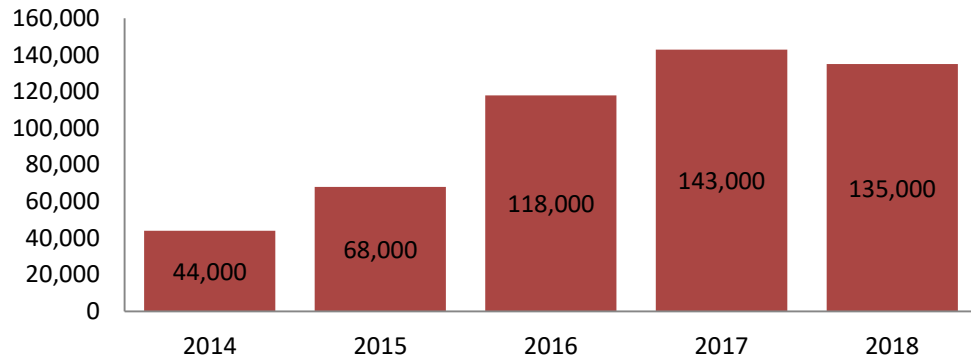
5 year EBITDA £m



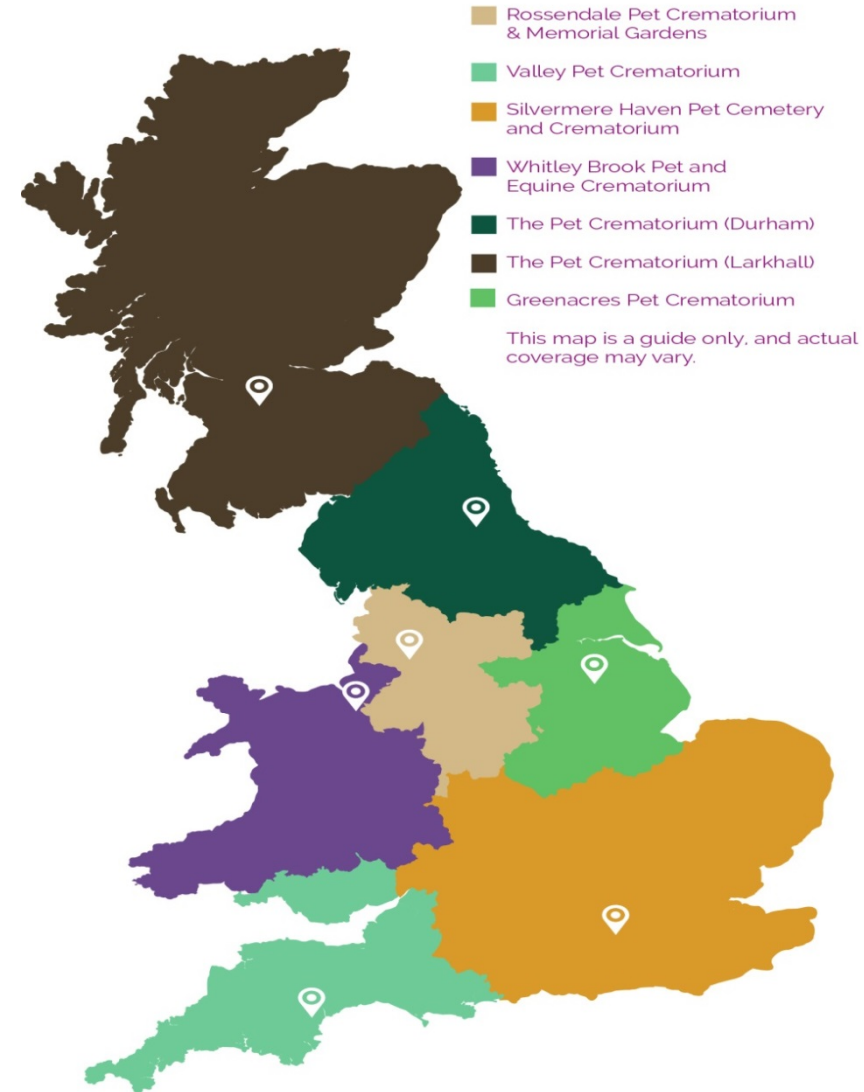
- Revenue growth 4.7% to £6.6m (all like-for-like)
- EBITDA improved to £2.3m (all like-for-like)
- Average cremation transaction value increase 8.5% to £38.44

Business review – Crematoria

Number of cremations

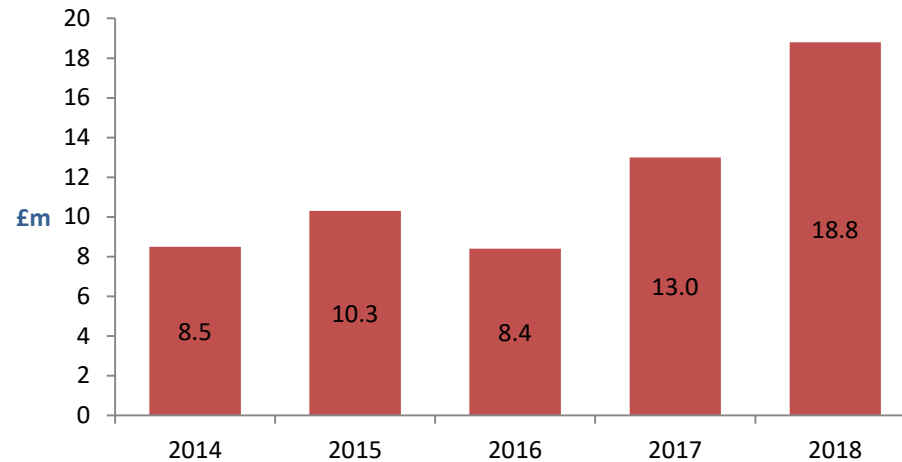


The Crematoria Division Coverage Map



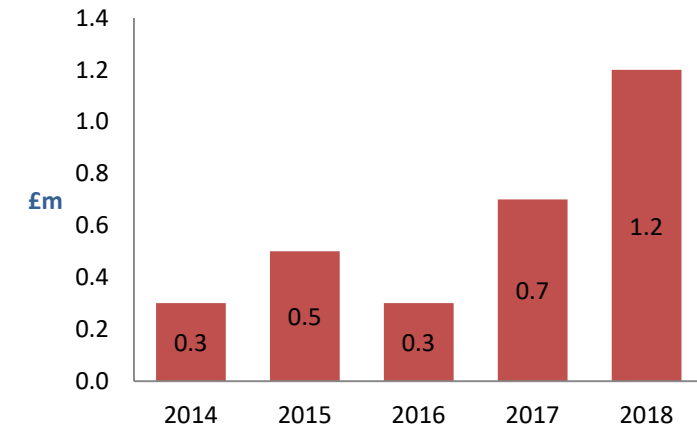
Business review – Animed Direct

Animed Direct revenue £m



Revenues increased by 44.9% to £18.8m

Animed Direct EBITDA £m



Adjusted EBITDA rose to £1.2m



	2018	2017
Number of product lines	4,140	4,240
Monthly website visits	305,000	237,000
Average order value	£46.00	£40.00
No of unique customers	204,000	170,000

- New website has the potential to deliver strong sales growth for 2019
 - More mobile friendly
 - Provides Animed greater flexibility in promoting to its customers
- Existing product lines rationalised in year. New lines being introduced in 2018/19

Business review – Head Office

- Costs 3.0% of sales compared to 3.3% in the prior year
- General increase in staffing levels
 - Reflecting business growth
 - To invest in new support initiatives;
 - Clinical training and support
 - Pet insurance
 - Site developments



Financial results – Profit & Loss

	Year ended 30 June 2018	Year ended 30 June 2017
	£m	£m
Revenue	327.3	271.8
Cost of sales	(175.7)	(147.3)
Gross profit	151.6	124.5
Administrative expenses	(133.9)	(107.3)
Operating profit	17.7	17.2
Net finance expenses	(3.6)	(2.7)
Profit before income tax	14.1	14.5
Income tax expense	(3.4)	(3.0)
Profit after income tax	10.7	11.5
Earnings per ordinary share		
- Basic	16.0p	18.5p
- Adjusted	42.4p	42.8p
Dividend	5.0p	4.5p

Financial results – Balance Sheet

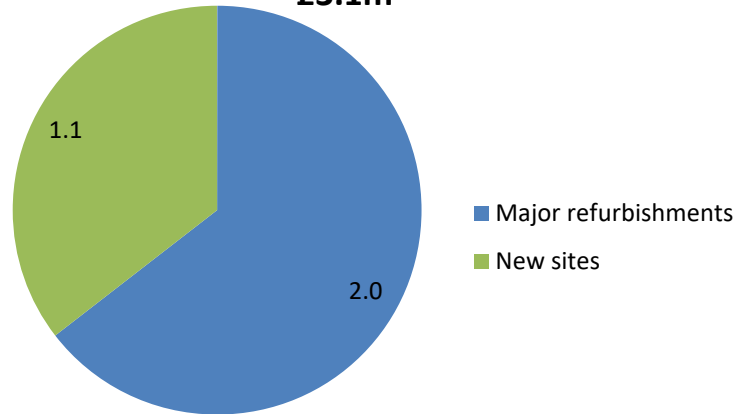
	30 June 2018 £m	30 June 2017 £m
Non-current assets		
Intangible assets	203.5	167.2
Property, plant and equipment	47.9	43.0
Investments	0.1	0.1
Deferred income tax assets	0.6	2.1
Derivative financial instruments	0.2	0.1
	<u>252.3</u>	<u>212.5</u>
Current assets		
Inventories	13.5	12.5
Trade and other receivables	38.2	30.9
Cash and cash equivalents	15.0	6.8
	<u>66.7</u>	<u>50.2</u>
Total assets	<u>319.0</u>	<u>262.7</u>
Current liabilities		
Trade and other payables	(53.9)	(48.2)
Current income tax liabilities	(3.6)	(2.9)
Borrowings	(0.5)	(3.3)
	<u>(58.0)</u>	<u>(54.4)</u>
Non-current liabilities		
Borrowings	(83.5)	(103.5)
Deferred income tax liabilities	(19.8)	(16.8)
Derivative financial instruments	-	-
	<u>(103.3)</u>	<u>(120.3)</u>
Total liabilities	<u>(161.3)</u>	<u>(174.7)</u>
Net assets	<u>157.7</u>	<u>88.0</u>

Financial results – Change in Debt

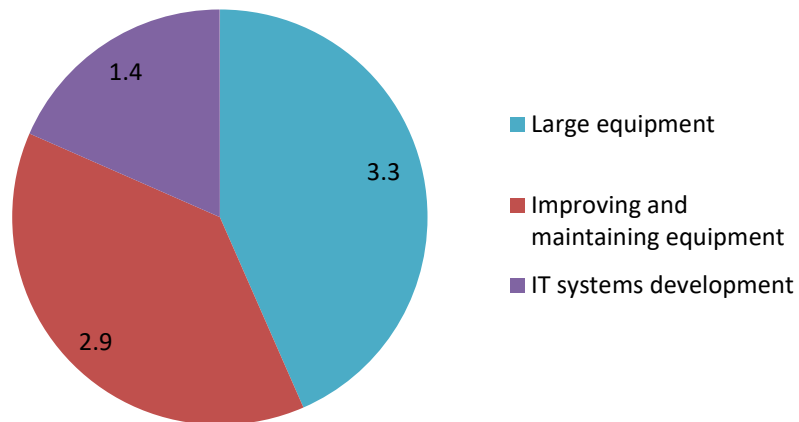
	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m
Cash generated from operations	46.7	37.2
Taxation paid	(6.2)	(5.4)
Net interest paid	(3.1)	(2.1)
Capital expenditure - maintenance	(7.6)	(5.9)
Free cash flow	29.8	23.8
Capital expenditure - development	(3.1)	(7.9)
Acquisitions	(52.6)	(48.4)
Dividend paid	(2.9)	(2.1)
Proceeds from issue of Ordinary shares	61.0	30.6
Purchase of own shares	-	(2.1)
Acquired finance leases	(0.8)	-
Debt issuance costs movement	(0.4)	(0.8)
Decrease/(Increase) in net debt	31.0	(6.9)

Financial results – Capital Expenditure

Fixed assets - Development expenditure
£3.1m



Fixed assets - Maintenance expenditure £7.6m



Total capital expenditure in the year amounted to £10.7m

New sites & relocations:

- Additional head office building
- Springfield
- Okeford
- Norwich
- Bracknell

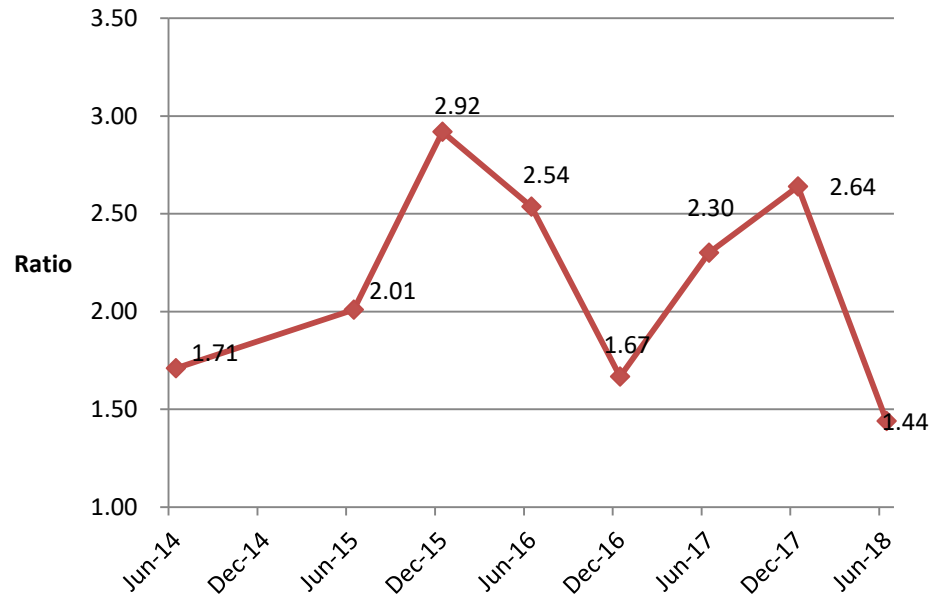
Major refurbishments:

- Chestergates
- Warlingham
- Diss Annexe

Financial results – Net Debt

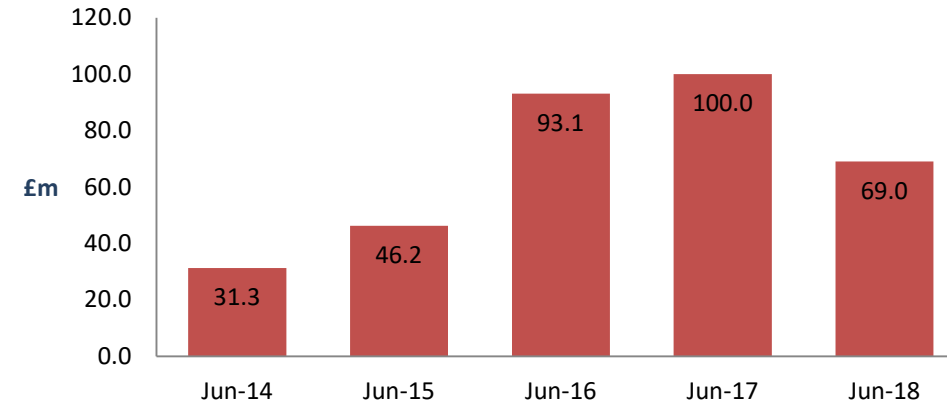
- **Net debt: EBITDA ratio at 1.44, down from 2.26 at June 2017**
- Borrowing reduced due to £58.9m placing and positive operating cash flows
- £52.6m spent on acquisitions

Net debt: EBITDA



*Trailing 12-month EBITDA, annualised for impact of acquisitions

Net debt



- Bank facility extended in September 2018
- Total available facilities:
 - £95.0m term loan to Nov 2021
 - £95.0m RCF to Nov 2021
 - £5.0m overdraft
- Syndicated facility (RBS, HSBC, AIB)
- Leverage covenant (Net debt / EBITDA *) maximum 3.25
 - As at June 2018: 1.44
- EBITDA: Interest covenant minimum 4.5
 - As at June 2018: 15.35

Outlook

Existing Business

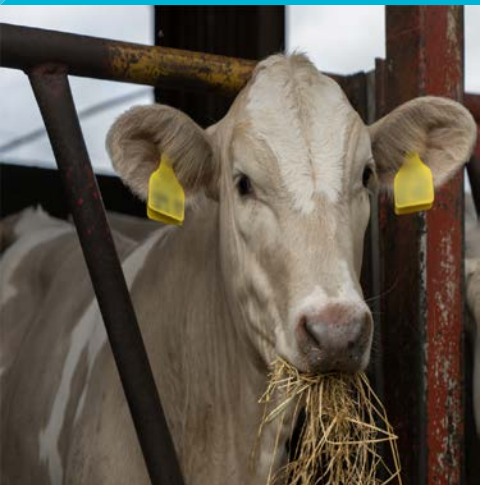
- Like-for-like sales continuing in line with recent trend
- Continuing focus on performance of acquired businesses
- Development of new sites - Smethwick, Norwich, Bracknell
- Own brand products - further drugs to be added
- Out-of-hours centres development
- Animed Direct: further improvements from new website
- MiPet Cover

Growth through selective acquisitions

- Acquisition pipeline remains strong
- Large opportunity in small animal sector, large animal and equine sector – in UK, The Netherlands and Republic of Ireland

Finance

- Strong cash flow and healthy balance sheet
- Further investment in core business activities



Appendices

Cash Generated from Operations

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m
Profit for the year	10.7	11.5
Taxation	3.4	3.0
Total finance costs	3.6	2.7
Amortisation of intangible assets	18.4	16.0
Depreciation of property, plant and equipment	8.0	5.9
Decrease/(increase) in inventories	0.3	(1.5)
Decrease/(increase) in trade and other receivables	(4.9)	(4.5)
(Decrease)/increase in trade and other payables	5.9	2.6
Share option expense	1.3	1.5
Total cash flows from operating activities	46.7	37.2

Adjusted items definitions

- **Adjusted EBITDA** is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items
- **Adjusted profit before income tax** is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items
- **Adjusted earnings per share** is calculated as adjusted profit before income taxation divided by the weighted average number of ordinary shares in issue in the year



Thank you

Any questions?

Contact us

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