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**For Immediate Release** **19 September 2014**

**CVS GROUP plc**
**("CVS", the "Company" or the "Group")**

**Final Results for the year ended 30 June 2014**

CVS, one of the UK's leading providers of veterinary services, is pleased to announce its final results for the year ended 30 June 2014. The Annual Report for the year ended 30 June 2014 will be published today on the Company's website at www.cvsgroupplc.com.

The Annual Report and Notice of Annual General Meeting will be posted to shareholders in due course.

## Financial Highlights

| | Year ended 30 June 2014 | Year ended 30 June 2013 | Increase[4] % |
|---|---|---|---|
| Revenue (£m) | 142.9 | 120.1 | 19.0 |
| Adjusted EBITDA (£m)[1] | 19.7 | 16.5 | 19.7 |
| Adjusted profit before income tax (£m)[2] | 14.3 | 12.1 | 17.8 |
| Adjusted earnings per share (pence)[3] | 19.0 | 16.2 | 17.3 |
| Operating profit (£m) | 7.5 | 6.7 | 12.3 |
| Profit before income tax (£m) | 6.3 | 5.5 | 14.5 |
| Basic earnings per share (pence) | 8.3 | 7.1 | 16.3 |
| Proposed dividend (pence) | 2.5 | 2.0 | 25.0 |

- Revenue up 19.0% to £142.9m
- Like-for-like[5] sales growth for the Group of +6.9%
- Animed Direct revenue up 74.3% to £8.5m
- Healthy Pet Club members up over 45% to 162,000
- Adjusted EBITDA up 19.7% to £19.7m
- Adjusted earnings per share up 17.3% to 19.0 pence per share
- Acquired and integrated 18 surgeries during the year
- 6 surgeries acquired after the year end
- Now operate 268 surgeries
- Acquired Silvermere Haven Crematorium

[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, share option expense 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 in the period.
[4] Percentage increases have been calculated throughout this document based on the underlying values.
[5] See note 1 of the financial information for definition of like-for-like sales.

**Contacts:**


| | |
|---|---|
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# Chairman's statement

## Further strong progress in all business areas

### Results

I am very pleased to report that CVS has made further strong progress in all business areas during the year. All divisions delivered good organic growth and this was enhanced by further acquisitions in our Veterinary Practice and Crematoria Divisions. We continued to invest in the development of our services, our staff and our premises, providing improved customer service.

Revenue grew by 19.0% to £142.9m (2013: £120.1m) and like-for-like sales increased by 6.9%. Adjusted EBITDA increased by 19.7% to £19.7m (2013: £16.5m). Operating profit rose to £7.5m (2013: £6.7m). Adjusted EPS grew by 17.3% to 19.0p (2013: 16.2p) and cash generated from operations increased to £20.7m (2013: £16.7m).

### Business initiatives

For many years much of the Group's growth has come from acquisitions. Whilst this has remained important during the year, and will continue to be so, the Group's scale and geographic density increasingly allows us to build on strengths as is demonstrated by the like-for-like sales increase of 6.9%. Our initiatives on our Healthy Pet Club scheme, increased focus on referral work, carrying out more of our own out-of-hours work and, most importantly, our passion for excellent customer service have enabled us to maximise the benefit from the increase in confidence in the UK economy. We will develop all of these areas further in 2015 and beyond.

I am particularly pleased with the expansion of our referrals business. John Innes has made excellent progress during the year in developing the existing referral centres and the acquisition of Lumbry Park in July 2014 for fitting out as a first-class multi-disciplinary referral centre is an exciting step forward. This fit out will take some time and we expect to see the benefit in our 2016 financial year.

We continued to invest in acquisitions. During the year we spent £12.4m to acquire 18 surgeries, through the acquisition of 10 practices, and our third crematorium. Subsequent to the year end we achieved the milestone of our 100th practice acquisition, West End Vets (three surgeries in Edinburgh) as well as acquiring Riversbrook (two surgeries in Ipswich) and Anrich (one surgery in Huddersfield).

In a further broadening of the Group's offering many of our practice acquisitions now include some element of equine or large animal business and, whilst these businesses are quite different in nature from small animal business, we are increasingly confident that they should form a core part of the Group.

Our increase in scale will allow us to fund more acquisitions in future years and there appears to remain a large number of independent businesses that recognise the benefits of becoming part of a larger specialist group.

### Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 2,780 staff today, including around 640 vets. Our people are our most important asset and enable the Group to deliver its strategy. I would like to thank them all, including those new to CVS, for their expertise and professionalism in providing the best possible care and service to all our customers and their pets.

We continue to focus on the development of our staff and to improve our clinical and non-clinical training. As we employ an increasing number of experts in their fields we are able to provide more and more of this training internally. Our focus on excellent customer service will remain a key element.

### Dividends

It is proposed to pay a dividend of 2.5p per share in December 2014 – a 25% increase on the 2.0p per share paid in 2013. With a strong pipeline of acquisitions, as well as significant opportunities for organic growth, the Board believes that shareholder value can best be grown by reinvesting the majority of operational cash flow back into the business. However, the increased scale and growth of our business can also support a meaningful increase in the level of dividend.

If approved at the Annual General Meeting, the dividend will be paid on 22 December 2014 to shareholders on the register on 5 December 2014. The ex-dividend date will be 4 December 2014.

### Outlook

The outlook for CVS is very promising with signs of a return to more favourable market conditions. The initiatives we progressed in 2014 will serve us well in the current year, leading us to expect further growth in all divisions.

The Board is optimistic about the Group's future. It estimates that CVS only has an 11% share of the UK small animal veterinary market and a negligible share of the equine and large animal veterinary market. This demonstrates the major opportunity for further growth and consolidation and we expect to make further practice acquisitions.

**Richard Connell**

Non-Executive Chairman

19 September 2014

# Business review

## Focused on customer service

### Introduction

CVS Group is managed across four divisions: Veterinary Practices, Laboratories, Crematoria and Animed Direct, our on-line dispensary and retailer. Veterinary Practices are the core of our business but all areas grew substantially during 2014.

### Veterinary practices

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| Like-for-like revenue | **108.3** | 103.8 |
| 2013 acquisitions | **11.6** | 4.2 |
| 2014 acquisitions | **6.5** | - |
| **Total revenue** | **126.4** | 108.0 |
| | | |
| **Adjusted EBITDA £m** | **24.7** | 20.1 |
| **EBITDA margin %** | **19.6** | 18.7 |

Revenue amounted to £126.4m (2013: £108.0m), an increase of 17.1% on the prior year. Adjusted EBITDA increased by 22.7% from £20.1m to £24.7m. These increases include the impact of acquisitions in both 2013 and 2014.

In the year CVS acquired 10 practices operating from 18 locations. These practices contributed £6.5m of revenue and £1.5m EBITDA in the year. The acquisitions were a mixture of small animal, large animal and equine surgeries, reflecting our increasing knowledge and understanding of the differing characteristics of these businesses and our ability to manage them.

Adjusted EBITDA as a percentage of sales improved in the year from 18.7% in 2013 to 19.6% in 2014. This was despite a small fall in the margin after drugs percentage from 84.9% to 84.6% and reflects the increasing productivity of our practices.

Like-for-like sales grew by 4.1%, supported by a number of successful initiatives.

Our first five own brand products were launched in the year. Whilst the current product range is sold in relatively small volumes those in the pipeline for 2015 are larger volume products. These products have been well received by both our customers and our staff. The own brand label is available only in our surgeries and those of our MiVetClub members. The introduction of own brand differentiates CVS in the market and protects our margins.

The Healthy Pet Club loyalty scheme has continued to show tremendous growth in the year. Over 55,100 pets were added to the scheme increasing membership by over 45% and bringing the total membership to 162,000. The scheme provides preventative medicine to our customers' pets as well as a range of discounts and benefits. We gain from improved customer loyalty, encouraging clinical compliance, protecting revenue generated from drug sales, and bringing more customers into our surgeries. Monthly subscription revenue generated in the year increased to £13.9m (2013: £9.5m) and the year end run rate represented 12.0% of practice revenue. The development and extension of the Healthy Pet Club scheme will remain a focus for the division.

All vets are required to provide 24 hour cover for their customers. The Veterinary Practice Division does this partly through our own vets but also through third parties. Providing this service ourselves significantly improves the experience of our customers and their pets. In areas where we have a high density of surgeries it is also more efficient and effective to provide this through our own vets.

During 2014 we established four dedicated emergency out-of-hours centres. Whilst the majority of work in these centres is to existing customers whose emergency cover was being provided by third parties, we are also performing out-of-hours work for other veterinary practices. There are a small number of other regions where we have sufficient density of practices to establish emergency out-of-hours centres and we will be doing so during 2015. We will also be seeking to extend our service to third party veterinary practices.

We have continued to develop the practice management systems of the Veterinary Practice Division during the year. The only practices not now using the Robovet system are some of those that were acquired during 2014. The data available at practice and vet level helps us to identify improvements by highlighting opportunities to improve the service to our customers. There is no doubt that this helps us to improve our results. The next stage in the development of this system is to improve the linking of data from all practices so that we can perform analysis at divisional level and further improve our understanding and management of the business.

On 1 July 2013, Professor John Innes joined us as Referrals Director to run and expand our referrals business. John has been a leading figure in the academic and animal orthopaedic worlds for many years; most recently he has been closely involved in developing clinical services at the University of Liverpool. John brings his own orthopaedic expertise to the Group and has begun to improve our referrals business elsewhere. He has already introduced two new diploma holders with specialisms in cardiology and small animal surgery and we will recruit more in the future.

The development of our referrals business is a key priority for CVS. In July 2014 we acquired Lumbry Park in Alton, Hampshire and our aim is to develop this 13,000 square foot site into a first-class, multi-disciplinary referrals centre. It will provide a full range of specialisms on one site, using the most modern equipment including both a CT ("Computed Tomography") and an MRI ("Magnetic Resonance Imaging") scanner. The level of our expertise and technology will provide a base for exceptional service to our customers. It is likely that the site will start to operate late in our 2015 financial year. As a medium term objective we will be seeking other locations around the UK in which to establish further referral centres.

We continued to invest strongly in our surgeries, spending over £1.7m on refurbishing a number of premises including Springfield in Rotherham, Norton Mills in Taunton, Carrick Vets in Chesterfield and completion of The Grove in Fakenham. Overall we have spent £3.3m on capital expenditure at our practices, demonstrating our commitment to improving our ability to serve our customers and provide a professional environment in which to do so.

MiVetClub, our buying group, was established in the autumn of 2013. During 2014 we supplied drugs to six surgeries for two customers with whom we share our buying power. We are in discussions with a number of other potential customers to do the same as well as aiming to provide other services such as health and safety expertise and administering loyalty club schemes. Whilst currently small, the business adds modestly to our profitability and we believe that it has significant long term potential.

Our own recruitment business, Pet Medic Recruitment (www.petmedicrecruitment.com), has focussed on providing locums for the Veterinary Practice Division. This initiative is helping to deliver our continuing aims of improving service and reducing costs. The business also provides locums to third parties and sources permanent staff.

Our team within the Veterinary Practice Division will always be one of our most valuable assets and one that we aim to continue to develop. The two essential skills of retail management experience and clinical expertise are combined through our Director of Practice Operations being supported by our Director of Clinical Services and Director of Referrals. They are supported by regional and local practice managers. Many of the regional managers are vets with many years' experience of operating in practice.

The development of the team is a constant focus within the division from the day people join us. Our graduate training scheme is well known by graduates and highly respected in the universities providing veterinary degrees. This scheme is designed to assist the newly qualified vet make the challenging transition from University to day-to-day practice. 35 graduates were recruited and went through this scheme during 2014 and a total of 67 have now gone through the scheme in the past two years. We have developed a senior manager Aspirational Leadership Programme to develop the management and business abilities of our vets, practice managers and head nurses. A further 30 people attended these courses during 2014 bringing the total to 54 and the programme is now an established part of our training. Clinical development remains a core aspect of our training. All of our vets and nurses are provided with a wide range of training on surgical procedures, nutrition and drugs both through in-house expertise and external courses. We also sponsor further qualifications for vets such as certificates and diplomas. Increasingly this training is carried out in-house by our own experts.

### Laboratories

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| Like-for-like revenue | **10.0** | 9.1 |
| Analyser business | **0.6** | - |
| **Total revenue** | **10.6** | 9.1 |
| | | |
| **Adjusted EBITDA £m** | **1.3** | 1.1 |
| **EBITDA margin%** | **12.3** | 12.0 |

The Laboratory Division generated revenue of £10.6m, a 16.5% increase on the prior year figure of £9.1m. Adjusted EBITDA increased by 18.7% from £1.1m to £1.3m. The adjusted EBITDA of the laboratory testing business improved during the year but as a percentage of sales it fell slightly reflecting the price pressures in this market. This fall was offset by the higher EBITDA percentage on the new analyser business.

Like-for-like revenue in the laboratory testing business increased by 10.2% following a 7.6% increase in the previous year. The competitive price pressures within the industry abated slightly during the year and the margin after materials costs fell only slightly from 77.7% to 76.5%, the majority of this fall being in the first half of the year.

The business continues to focus on prompt and reliable customer service to drive growth. The enhancement of the sales team in 2013 continued to drive benefits in 2014. A bespoke reporting system and a standard set of analysers have now been established across all laboratories allowing tests performed at one location to be analysed by our expert pathologists wherever they are in the country. This results in a quicker service to customers and a more efficient work force.

A number of farm animal tests were introduced during 2014 and whilst the level is currently small we aim to grow the volumes of those tests as well as to introduce a wider range of tests. This will help us to provide a more comprehensive service to our customers.

Our in-practice analyser business was launched in the first half of the year. Our focus has been to install Fuji and Boule analysers in our own practices; hence, the majority of the £0.6m of revenue is internal to the Group. We expect to have completed our internal rollout in the next few months and we will then switch our efforts to third party sales.

### Crematoria

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| Like-for-like revenue | **1.4** | 1.0 |
| Silvermere Haven | **0.2** | - |
| **Total revenue** | **1.6** | 1.0 |
| | | |
| **Adjusted EBITDA £m** | **0.5** | 0.5 |
| **EBITDA margin%** | **31.2** | 41.3 |

The Crematoria Division delivered revenue of £1.6m (2013: £1.0m) an increase of 58.1%. Like-for-like sales were 35.3% higher. About two thirds of this increase arose from the higher internal sales as the division took on more of the waste management and cremation work from our own surgeries that was previously performed by third parties.

Adjusted EBITDA increased by 19.4% but remained at a rounded figure of £0.5m. The increase in turnover led to only a small increase in adjusted EBITDA because of a negligible contribution from Silvermere Haven and the lower level of profitability of the increased internal work of Valley (when compared to Rossendale).

The acquisition of Silvermere Haven, based in Cobham, in January 2014, is an important step in the strategic development of the Crematoria Division. The acquisition improves our geographic coverage and will allow almost all of our veterinary surgeries to be serviced internally, both for cremations and waste collection. The transfer of this work from our current third party provider has begun and is expected to be completed in the summer of 2015.

After taking on our internal work Silvermere Haven will have sufficient remaining capacity to expand our external sales to other veterinary practices and individual customers in its area.

## Animed Direct

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| **Revenue** | **8.5** | 4.9 |
| **Adjusted EBITDA £m** | **0.3** | 0.2 |
| **EBITDA margin%** | **3.6** | 3.4 |

Animed Direct, our on-line dispensary and retailer, had another excellent year. Revenue was £8.5m, a 74.3% increase on the prior year figure of £4.9m. Adjusted EBITDA increased by 80.2% from £0.2m to £0.3m. Whilst the business currently provides a relatively small contribution to the Group it is now well established and clearly has potential for significant further growth.

The business focusses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business now has a customer database of over 210,000 people. The average value of each purchase during the year was £29.91 (2013: £28.34) an increase of 5.5%.

The business has continued to expand its revenue by developing its search engine optimisation, on-line advertising and prompt customer service.

In the first half of 2014 significant effort was expended on installing racking and reorganising the warehouse to enable Animed Direct to distribute our own brand products and reagents for analysers to practices. Significant costs were incurred to achieve this and profitability reduced. The second half saw the business return to similar profitability levels as in 2013.

The development of local language websites for European countries, selling in euros, has taken longer than hoped. The plethora of different regulations and medicine licences across Europe has created a number of challenges that we have almost overcome. We expect our first local language website in France to be launched within the next couple of months and a German site to follow before the end of the financial year. It is likely that these European sales will initially not generate any additional profit and we broadly aim to breakeven in the first few years of trading on these sites.

## Central administration

Central administration costs include those of the Veterinary Practice Division regional management support structure and Healthy Pet Club administration as well as central finance, IT, human resource and purchasing functions. Total costs for the central administration segment were £7.1m (2013: £5.4m), representing 5.0% of revenue (2013: 4.5%).

The continued growth of the Group has required increased costs to support it and to establish a firm foundation on which the Group can grow over the next few years. The Group now expects these costs to fall as a percentage of sales.

The increased scale of the business has required growth in the support structure in the Veterinary Practice Division regional management and Healthy Pet Club teams. At the same time the human resources function has recruited additional staff regionally, rather than at the Diss head office, to provide closer support to the operations teams. The finance function was reorganised during the year and additional expertise brought on board to provide more in-depth financial analysis. The IT function has taken on additional staff to upgrade the practice management system and infrastructure across the estate.

**Simon Innes**

Chief Executive Officer

19 September 2014

# Finance review

## Continuing growth and a healthy balance sheet

### Financial highlights

CVS has continued to deliver growth in revenues, profits and earnings per share. Key financial highlights are shown below:

| | **2014** | 2013 | Change % |
|---|---|---|---|
| Revenue (£m) | **142.9** | 120.1 | 19.0 |
| | | | |
| Adjusted EBITDA (£m) | **19.7** | 16.5 | 19.7 |
| Adjusted profit before tax (£m) | **14.3** | 12.1 | 17.8 |
| Adjusted earnings per share (p) | **19.0** | 16.2 | 17.3 |
| | | | |
| Operating profit (£m) | **7.5** | 6.7 | 12.3 |
| Profit before tax (£m) | **6.3** | 5.5 | 14.5 |
| Basic earnings per share (p) | **8.3** | 7.1 | 16.3 |

Management uses Adjusted EBITDA and Adjusted earnings per share ("EPS") as the basis for assessing the underlying financial performance of the Group. These figures exclude certain non-recurring and non-trading items and hence assist in understanding the underlying performance of the group. These terms are not defined by International Financial Reporting Standards and therefore may not be directly comparable with other companies' adjusted profit measures.

An explanation of the difference between the reported operating profit figure and Adjusted EBITDA is shown below:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Operating profit as reported | **7.5** | 6.7 |
| | | |
| Adjustments for: | | |
| Amortisation and depreciation | **10.1** | 8.7 |
| Share option expense | **1.4** | 0.7 |
| Costs of business acquisitions | **0.7** | 0.4 |
| Adjusted EBITDA | **19.7** | 16.5 |

The 19.7% improvement in the Adjusted EBITDA figure compared with the prior year arises primarily from the underlying growth within Veterinary Practices (£1.8m), acquisitions during the year (£1.5m) and the full year effect of previous year acquisitions (£1.3m) offset by an increase in central administration costs (£1.7m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) was 13.8%, the same as in 2013. This reflects three main factors: a substantial increase in the margin in the Veterinary Practice Division due to improved productivity; the lower inherent margins of Animed Direct and the Laboratory Division and the growth in those businesses; and an increase in central costs as we invested to establish a base for future growth.

Adjusted earnings per share (as defined in note 11 to the financial statements) increased 17.3% to 19.0p (2013: 16.2p). Basic earnings per share were 16.3% higher than prior year at 8.3p (2013: 7.1p).

Profit before tax for the year increased from £5.5m to £6.3m. Adjusted profit before tax excludes the impact of amortisation of intangible assets and one off transaction costs. We believe this more fairly reflects the underlying performance of the business and shows a 17.8% increase in the year from £12.1m to £14.3m.

### Long term growth

The group has generated consistent growth in the scale of its business and profits over recent years. A summary of the compound annual growth rates ("CAGR") over the past five years in key financial figures is as follows:

| | **2014** | 2009 | CAGR % |
|---|---|---|---|
| Revenue (£m) | **142.9** | 76.6 | 13.3 |

| | | | |
|---|---|---|---|
| Adjusted EBITDA (£m) | **19.7** | 12.5 | 9.5 |
| Adjusted profit before tax (£m) | **14.3** | 7.7 | 13.2 |
| Adjusted earnings per share (p) | **19.0** | 10.7 | 12.3 |

### Cash flow and net debt

Cash generated from operations was £20.7m (2013 £16.7m). The increase reflects the growth in EBITDA and an improvement in working capital. The growth of the Veterinary Practice Division and Animed Direct result in an improvement in working capital as these businesses receive payment from customers before they have to pay their suppliers.

Net debt increased slightly to £31.3m (2013: £30.0m). The cash generated was used as follows:

| | **2014** **£m** | 2013 £m |
|---|---|---|
| Cash generated from operations | **20.7** | 16.7 |
| Capital expenditure | **(5.3)** | (4.1) |
| Acquisitions | **(12.4)** | (7.7) |
| Taxation paid | **(2.5)** | (2.1) |
| Interest paid | **(1.2)** | (1.2) |
| Proceeds from ordinary shares | **0.5** | 0.1 |
| Dividends paid | **(1.1)** | (0.8) |
| (Increase)/reduction in net debt | **(1.3)** | 0.9 |

Capital expenditure included £1.7m spent on the refurbishments across the Group, £1.7m was spent on maintaining and improving equipment, £0.9m on laboratory analysers, and £0.9m on IT systems development.

£12.4m was paid for the 18 surgeries and one pet crematoria which were acquired during 2014. These businesses have been integrated into the Group and are trading as expected.

Taxation paid increased in line with the profits of the Group. The interest payment of £1.2m was similar to last year and reflects both stable interest rates and the overall debt levels of the Group.

Proceeds from ordinary shares were primarily from the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three year period and benefit from increases in the Group's share price over that time.

The Group's net debt comprises the following:

| | **2014** **£m** | 2013 £m |
|---|---|---|
| Borrowings repayable: | | |
| within one year | **3.6** | 2.2 |
| after more than one year | **29.9** | 33.6 |
| Total borrowings | **33.5** | 35.8 |
| Cash in hand and at bank | **(2.2)** | (5.8) |
| Net debt | **31.3** | 30.0 |

The £33.5m of borrowings is the outstanding amount of a £36.0m loan drawn down in 2011. £3.6m of the borrowings are to be repaid in the year ending 30 June 2015 and £4.0m in the following year. The balance of the loan is repayable in September and December of 2016.

On 20 September 2013 the Group signed a Revolving Credit Facility agreement to borrow up to a further £10.0m. The facility runs to December 2016 - the same date as the £36.0m loan. This facility is on broadly the same terms and under the same covenants as that loan.

The additional £10.0m was unutilised at 30 June 2014 but is available to fund further acquisitions. The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth. The opportunities for acquisitions in all areas of the Group's business remain strong.

The Board considers that maintaining a reasonably leveraged balance sheet is appropriate for the Group, given the strong, stable and improving nature of its cash flows and the opportunities to acquire businesses that enhance profitability. Whilst the loan agreements allow a borrowings to EBITDA ratio of up to 3.0 times the Board generally seeks to operate within a ratio of 2.5 times EBITDA.

The Group manages its banking arrangements centrally. The Group sweeps funds daily from its various bank accounts into deposit accounts to optimise interest generation.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. The bank facility agreement requires that at least 60% of the interest rate exposure on the loan is hedged and the hedge has been maintained at 60% throughout the year.

### Taxation

The Group's effective tax rate was 24.5% (2013: 26.7%). A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

| | £m | % |
|---|---|---|
| Profit before tax | **6.3** | |
| | | |
| Expected tax at standard rate of tax | **1.4** | 22.5 |
| Expenses not deductible for tax | **0.2** | 3.0 |
| Adjustments to prior year tax charge | **0.2** | 3.1 |
| Benefit of tax rate change | **(0.3)** | (4.1) |
| Actual charge/ Effective rate of tax | **1.5** | 24.5 |

All of the Group's revenues and the majority of expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged in the financial statements.

The tax charge of £1.5m is the same as for the prior year despite an increase in profitability. This is due to the reduction in the standard rate of corporation tax which not only reduces the corporation tax charge for the year but has led to a one off reduction in the deferred tax liability to reflect the reduced rate.

### Share price performance

At the year end the market capitalisation was £190.5m (327p per share) compared to £107.2m (188p per share) at the previous year end.

### Key contractual arrangements

The directors consider that the Group has only one significant third party supplier contract which is for the supply of veterinary drugs. In the event that this supplier ceased trading the Group would be able to continue in business without any disruption in trading by purchasing from alternative suppliers.

### Forward looking statements

Certain statements in this Announcement are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

## Key performance indicators ('KPIs')

The Directors monitor progress against the Group strategy by reference to the following financial KPIs. Performance during the year is set out in the table below

| KPI | **2014/** 2013 | **Definition** | **Changes in 2014** |
|---|---|---|---|
| Revenue | **£142.9m**<br>£120.1m | Total revenue of the Group. | Acquisitions in the year and the annualisation of the prior year's acquisitions generated additional revenue of £14.1m.<br>Other significant factors were as for like-for-like sales performance noted below. |

| | | | |
|---|---|---|---|
| Like-for-like sales performance | **6.9%**<br>3.4% | Revenue generated from all operations compared to prior year on a pro-forma basis (i.e. including unaudited pre-acquisition revenues in respect of acquisitions in the current and comparative periods). | The percentage increase was helped by the growth in Healthy Pet Club membership, the development of Animed Direct and higher volumes in the Laboratories. Significant competitive pressures continued at some locations, reducing their revenue. |
| Healthy Pet Club revenue | **11.8%**<br>8.0% | Revenue received from Healthy Pet Club members as a percentage of total revenue for the year. | The growth of Healthy Pet Club membership from 111,900 to 162,000 led to the increase for the year. The end of year run rate for this percentage had risen to approximately 12%. |
| Gross margin after materials percentage | **82.9%**<br>84.3% | Gross margin after deducting the cost of drugs and other goods sold or used by the business from revenue expressed as a percentage of total revenue. | The fall in this percentage primarily reflects the higher level of growth of the Animed Direct and other businesses compared to the Veterinary Practice Division. As these businesses have a relatively low margin the average for the Group has fallen. |
| Adjusted EBITDA | **£19.7m**<br>£16.5m | Earnings before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and share option expense. | A £4.6m increase in adjusted EBITDA in the Practice Division and smaller increases in the other divisions has been partly offset by increased central costs incurred to build a foundation for further development of the Group. |
| Adjusted EPS | **19.0p**<br>16.2p | Earnings, adjusted for amortisation, costs relating to business combinations and non-recurring tax credits net of the notional tax impact of the above, divided by the weighted average number of issued shares. | The increase primarily reflects the improvement in the adjusted EBITDA. |
| Cash generated from operations | **£20.7m**<br>£16.7m | | The increase primarily reflects the improvement in EBITDA of the business. |
| Return on investment on acquisitions made during the year | **20.9%**<br>20.7% | Annualised adjusted EBITDA relating to acquisitions during the year compared to the consideration paid. | The limited change in the figure indicates that the Group continues to be able to make acquisitions at similar EBITDA multiples as in the past. |

## Principal risks and uncertainties

The Group's businesses are subject to a wide variety of risks. Some of the most significant risks are explained below together with details of actions that have been taken to mitigate these risks.

| Risk | Description | Mitigating factors |
|---|---|---|
| Economic environment | A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line | The recent improvement in the UK economy has helped the business to improve revenue and profitability but the Group seeks to become more resilient to future downturns in economic conditions. |

| | | |
|---|---|---|
| | services. | The expansion of the Group’s business to provide a broader based service including referrals, out-of-hours, equine and large animal services spreads the risk of a downturn in any one business.<br><br>The Veterinary Practice Division has continued to grow its Healthy Pet Club loyalty schemes during the year as one way of mitigating this risk. The scheme has the significant benefits of stimulating customer loyalty, ensuring clinical compliance in preventive medicine, protecting revenue from drug sales, and bringing customers into the surgery.<br><br>The further development of an own brand product range will help to reduce the risk of customers buying drugs on-line, whilst the growth of Animed Direct protects the Group further as customers switching to buying on-line will still be buying from CVS. |
| Competition | The Group is exposed to risk through the actions of competitors. | The geographic spread of the Group’s businesses and the fragmented nature of the market mean that the Directors do not consider this to be a significant risk. Furthermore, the expansion of the Group’s Healthy Pet Club loyalty schemes, the expansion into other business areas and the growth of Animed Direct, our on-line dispensary and pet shop, provide further mitigation against the risk of competition. |
| Adverse weather | In common with many businesses the Group’s revenue is adversely affected during sustained periods of severe winter weather. | The increasing proportion of income through the Healthy Pet Club and on-line through Animed Direct reduces the risk of lost income through poor weather. As the Group widens its geographical presence the exposure to this risk will be further mitigated. |
| Key personnel | The Group has limited risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons. | The Group is committed to the development of its employees and will continue to recruit specialist and qualified professionals to promote its services. Our graduate recruitment scheme is recognised across the industry and our Aspirational Leadership Programme helps to develop and retain senior staff. The involvement of senior personnel is encouraged through the operation of the Group’s LTIP scheme. An annual SAYE scheme, available to all staff, aids the retention of other staff. |
| Clinical standards | If clinical standards expected by customers, industry forums and regulatory authorities are not maintained the Group is at risk of losing revenue. | The Group has established a formal organisation structure such that clinical policies and procedures are developed by veterinary experts. Day-to-day monitoring and staff training ensures compliance. The Group has further mitigated risk by ensuring that suitable insurance policies are taken out at both an individual and corporate level. |
| Adverse publicity | Adverse publicity could result in a reduction in customer numbers and in revenue. | The Group has policies and procedures in place to ensure that high standards of customer service and clinical excellence are maintained. The individual branding of our practices reduces the risk of publicity at one practice impacting on another. |
| Changes in veterinary regulations | Changes in veterinary regulations could impact on the work we are allowed to perform and the way we work. | No significant proposed changes are known. Any changes are likely to impact on our competitors in the same way they impact on the Group. |
| Changes in taxation | Most changes in taxation cannot be predicted and the impact of any change can be variable. | The only changes in taxation that have been proposed and impact on the Group is a reduction in the corporation tax rate from 21% to 20% from 1 April 2015. This will benefit the Group.<br><br>Changes in taxation are likely to impact on our competitors in the same way they impact on the Group. |
| Reliance on one supplier of medicines | The majority of medicines are purchased through one wholesaler. | A two year supply agreement was signed in May 2013 to secure the provision of medicines. Three wholesalers can supply most medicines; hence supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur. |

## Consolidated income statement for the year ended 30 June 2014

| | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| **Revenue** | 2 | **142.9** | 120.1 |
| Cost of sales | | **(96.3)** | (78.2) |
| **Gross profit** | | **46.6** | 41.9 |
| Administrative expenses | | **(39.1)** | (35.2) |
| **Operating profit** | | **7.5** | 6.7 |
| Net finance expense | | **(1.2)** | (1.2) |
| **Profit before income tax** | 2 | **6.3** | 5.5 |
| Income tax expense | 3 | **(1.5)** | (1.5) |
| **Profit for the year attributable to owners of the Parent** | | **4.8** | 4.0 |
| **Earnings per ordinary share for profit attributable to owners of the Company (expressed in pence per share) (“EPS”)** | | | |
| Basic | 4 | **8.3p** | 7.1p |
| Diluted | 4 | **8.0p** | 6.8p |

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 and share option expense.

| **Non-GAAP measure: Adjusted EBITDA** | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| Profit before income tax | 2 | **6.3** | 5.5 |
| Adjustments for: | | | |
| Net finance expense | | **1.2** | 1.2 |
| Depreciation | | **2.8** | 2.5 |
| Amortisation | | **7.3** | 6.2 |
| Share option expense | | **1.4** | 0.7 |
| Costs relating to business combinations | | **0.7** | 0.4 |
| **Adjusted EBITDA** | 2 | **19.7** | 16.5 |

## Statement of consolidated comprehensive income for the year ended 30 June 2014

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Profit for the year** | **4.8** | **4.0** |
| **Other comprehensive income** | | |
| Cash flow hedges: | | |
| Fair value gains | **0.2** | **0.2** |

| | | |
|---|---|---|
| Other comprehensive income for the year, net of tax | **0.2** | **0.2** |
| **Total comprehensive income for the year attributable to owners of the Parent** | **5.0** | **4.2** |

## Consolidated balance sheet as at 30 June 2014

| | Note | **Group 2014 £m** | Group 2013 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **58.8** | **53.5** |
| Property, plant and equipment | | **14.5** | **11.4** |
| Investments | | **0.1** | **0.1** |
| Deferred income tax assets | | **1.1** | **0.6** |
| | | **74.5** | **65.6** |
| **Current assets** | | | |
| Inventories | | **4.6** | **3.5** |
| Trade and other receivables | | **13.8** | **12.4** |
| Cash and cash equivalents | | **2.2** | **5.8** |
| | | **20.6** | **21.7** |
| **Total assets** | 2 | **95.1** | **87.3** |
| **Current liabilities** | | | |
| Trade and other payables | | **(25.7)** | **(21.6)** |
| Current income tax liabilities | | **(1.0)** | **(0.9)** |
| Borrowings | 7 | **(3.6)** | **(2.2)** |
| | | **(30.3)** | **(24.7)** |
| **Non-current liabilities** | | | |
| Borrowings | 7 | **(29.9)** | **(33.6)** |
| Deferred income tax liabilities | | **(3.7)** | **(4.1)** |
| Derivative financial instruments | | **-** | **(0.2)** |
| | | **(33.6)** | **(37.9)** |
| **Total liabilities** | 2 | **(63.9)** | **(62.6)** |
| **Net assets** | | **31.2** | **24.7** |
| **Shareholders' equity** | | | |
| Share capital | | **0.1** | **0.1** |
| Share premium | | **9.2** | **8.7** |
| Capital redemption reserve | | **0.6** | **0.6** |
| Revaluation reserve | | **0.1** | **0.1** |
| Merger reserve | | **(61.4)** | **(61.4)** |
| Retained earnings | | **82.6** | **76.6** |
| **Total equity** | | **31.2** | **24.7** |

The financial information comprising the consolidated income statement, the statement of consolidated comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement and the related notes, were authorised for issue by the Board of Directors on 19 September 2014 and were signed on its behalf by:

**Nick Perrin**
**Director**
**Company registered number: 06312831**

**Simon Innes**
**Director**

# Consolidated statement of changes in equity for the year ended 30 June 2014

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Revaluation reserve £m | Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 July 2012 | 0.1 | 8.6 | 0.6 | 0.1 | (61.4) | 72.3 | 20.3 |
| Profit for the year | - | - | - | - | - | 4.0 | 4.0 |
| **Other comprehensive income** | | | | | | | |
| Cash flow hedges: | | | | | | | |
| Fair value gains | - | - | - | - | - | 0.2 | 0.2 |
| **Total other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **0.2** | **0.2** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **4.2** | **4.2** |
| **Transactions with owners** | | | | | | | |
| Issue of ordinary shares | - | 0.1 | - | - | - | - | 0.1 |
| Credit to reserves for share-based payments | - | - | - | - | - | 0.7 | 0.7 |
| Deferred tax relating to share-based payments | - | - | - | - | - | 0.2 | 0.2 |
| Dividends to equity holders of the Company | - | - | - | - | - | (0.8) | (0.8) |
| **Transactions with owners** | **-** | **0.1** | **-** | **-** | **-** | **0.1** | **0.2** |
| **At 30 June 2013** | **0.1** | **8.7** | **0.6** | **0.1** | **(61.4)** | **76.6** | **24.7** |

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Revaluation reserve £m | Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 July 2013 | 0.1 | 8.7 | 0.6 | 0.1 | (61.4) | 76.6 | 24.7 |
| Profit for the year | - | - | - | - | - | 4.8 | 4.8 |
| **Other comprehensive income** | | | | | | | |
| Cash flow hedges: | | | | | | | |
| Fair value gains | - | - | - | - | - | 0.2 | 0.2 |
| **Total other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **0.2** | **0.2** |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **5.0** | **5.0** |
| **Transactions with owners** | | | | | | | |
| Issue of ordinary shares | - | 0.5 | - | - | - | - | 0.5 |
| Credit to reserves for share-based payments | - | - | - | - | - | 1.4 | 1.4 |
| Deferred tax relating to share-based payments | - | - | - | - | - | 0.8 | 0.8 |
| Deferred tax relating to financial instruments | - | - | - | - | - | (0.1) | (0.1) |
| Dividends to equity holders of the Company | - | - | - | - | - | (1.1) | (1.1) |
| **Transactions with owners** | **-** | **0.5** | **-** | **-** | **-** | **1.0** | **1.5** |
| **At 30 June 2014** | **0.1** | **9.2** | **0.6** | **0.1** | **(61.4)** | **82.6** | **31.2** |

# Consolidated cash flow statement for the year ended 30 June 2014

| | Note | **Group 2014 £m** | Group 2013 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Cash generated from operations** | 8 | **20.7** | 16.7 |
| Taxation paid | | **(2.5)** | (2.1) |
| Interest paid | | **(1.2)** | (1.2) |
| **Net cash generated from operating activities** | | **17.0** | 13.4 |
| **Cash flows from investing activities** | | | |
| Acquisitions (net of cash acquired) | 5 | **(12.4)** | (7.7) |
| Purchase of property, plant and equipment | | **(4.9)** | (3.6) |
| Purchase of intangible assets | | **(0.4)** | (0.5) |
| **Net cash used in investing activities** | | **(17.7)** | (11.8) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(1.1)** | (0.8) |
| Proceeds from issue of ordinary shares | | **0.5** | 0.1 |
| Repayment of bank loan | | **(2.3)** | - |
| **Net cash used in financing activities** | | **(2.9)** | (0.7) |
| **Net increase in cash and cash equivalents** | | **(3.6)** | 0.9 |
| Cash and cash equivalents at beginning of year | | **5.8** | 4.9 |
| **Cash and cash equivalents at end of year** | | **2.2** | 5.8 |

# Notes to the consolidated financial statements for the year ended 30 June 2014

## 1. Summary of significant accounting policies

**Statement under s498 – publication of non-statutory accounts**

The financial information set out in this announcement does not constitute statutory financial statements for the years ended 30 June 2014 or 2013, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2014, on which the Group's auditors have given an unqualified report which does not contain statements under Section 498(2) or (3) of the Companies Act 2006, will be filed with the Registrar of Companies subsequent to the Group's next annual general meeting. Statutory financial statements for 2013 have been filed with the Registrar of Companies. The Group's auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

**Basis of preparation**

The consolidated financial statements, from which this announcement is derived, have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value. The Group has operated within the levels of its current debt facility and complied with both the financial and non-financial covenants contained in the facility agreement therein throughout the year under review and to the date of the approval of the financial statements. The Group is forecasting that it will continue to operate within the levels of its current facility and comply with the financial and non-financial covenants contained in the facility agreement. On this basis the Directors consider it appropriate to prepare the consolidated financial statements on the going concern basis.

Whilst the financial information included in this announcement has been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRS. Other than as stated below, the accounting policies applied in preparing this financial information are consistent with the Group's financial statements for the year ended 30 June 2014.

**Use of non-GAAP measures**

*Adjusted EBITDA and Adjusted Profit Before Tax ("Adjusted PBT")*

The Directors believe that adjusted EBITDA and adjusted PBT provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. Adjusted EBITDA and Adjusted PBT are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. These are not intended to be a substitute for, or superior to, IFRS measurements of profit. Adjusted EBITDA is calculated by reference to profit/(loss) before income tax, adjusted for interest (net finance expense), depreciation, amortisation, share option expense and costs relating to business combinations. Adjusted PBT is calculated by reference to profit/(loss) before income tax, adjusted for share option expense and costs relating to business combinations.

*Like-for-like sales*

Like-for-like sales comprise the revenue generated from all operations compared to the prior year (on a pro forma basis, i.e. including pre acquisition revenues in respect of acquisitions in the current and comparative periods), after adjusting for sites under refurbishment and discontinued operating activities.

## 2. Segmental reporting

The operating segments are based on the Group's management and internal reporting structure and monitored by the Group's CODM. 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/liabilities, costs relating to business combinations and head office salary and premises costs.

The business operates predominantly in the UK. It performs a small amount of laboratory work for European based clients and Animed Direct Limited distributes a small quantity of goods to European countries. 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 four operating segments (veterinary practices, laboratories, crematoria and Animed Direct) and a centralised support function for business segment analysis. In identifying these operating segments, management generally follows the group's services lines representing its main products and services.

Each of these operating segments are managed separately as each segment requires different specialisms, marketing approaches and other resources.

| **Year ended 30 June 2014** | **Veterinary practices £m** | **Laboratories £m** | **Crematoria £m** | **Animed Direct £m** | **Head Office £m** | **Group £m** |
|---|---|---|---|---|---|---|
| Revenue | **126.4** | **10.6** | **1.6** | **8.5** | **(4.2)** | **142.9** |
| Profit/(loss) before income tax | **16.1** | **1.1** | **0.4** | **0.3** | **(11.6)** | **6.3** |
| Adjusted EBITDA | **24.7** | **1.3** | **0.5** | **0.3** | **(7.1)** | **19.7** |
| Total assets | **81.2** | **6.4** | **2.3** | **3.0** | **2.2** | **95.1** |
| Total liabilities | **(23.0)** | **(1.7)** | **(0.6)** | **(2.8)** | **(35.8)** | **(63.9)** |
| **Reconciliation of adjusted EBITDA** | | | | | | |
| Profit/(loss) before income tax | **16.1** | **1.1** | **0.4** | **0.3** | **(11.6)** | **6.3** |
| Net finance expense | **-** | **-** | **-** | **-** | **1.2** | **1.2** |
| Depreciation | **2.3** | **0.2** | **0.1** | **-** | **0.2** | **2.8** |
| Amortisation | **6.1** | **-** | **-** | **-** | **1.2** | **7.3** |
| Share option expense | **-** | **-** | **-** | **-** | **1.4** | **1.4** |
| Costs relating to business combinations | **0.2** | **-** | **-** | **-** | **0.5** | **0.7** |
| Adjusted EBITDA | **24.7** | **1.3** | **0.5** | **0.3** | **(7.1)** | **19.7** |

| **Year ended 30 June 2013** | Veterinary practices £m | Laboratories £m | Crematoria £m | Animed Direct £m | Head office £m | Group £m |
|---|---|---|---|---|---|---|
| Revenue | [2]108.0 | [2]9.1 | 1.0 | 4.9 | [1](2.9) | 120.1 |
| Profit/(loss) before income tax | 13.0 | 0.7 | 0.4 | 0.2 | (8.8) | 5.5 |
| Adjusted EBITDA | 20.1 | 1.1 | 0.5 | 0.2 | (5.4) | 16.5 |
| Total assets | 76.3 | 5.4 | 1.7 | 2.4 | 1.5 | 87.3 |
| Total liabilities | (20.4) | (1.4) | (0.3) | (2.2) | (38.3) | (62.6) |
| **Reconciliation of adjusted EBITDA** | | | | | | |
| Profit/(loss) before income tax | 13.0 | 0.7 | 0.4 | 0.2 | (8.8) | 5.5 |
| Net finance expense | - | - | - | - | 1.2 | 1.2 |
| Depreciation | 2.1 | 0.1 | 0.1 | - | 0.2 | 2.5 |
| Amortisation | 5.0 | 0.3 | - | - | 0.9 | 6.2 |
| Share option expense | - | - | - | - | 0.7 | 0.7 |
| Costs relating to business combinations | - | - | - | - | 0.4 | 0.4 |
| Adjusted EBITDA | 20.1 | 1.1 | 0.5 | 0.2 | (5.4) | 16.5 |

[1]Inter-segment revenue representing Laboratory sales and Crematoria fees to Veterinary Practices eliminated on consolidation.

**[2]** In prior years revenue between Laboratories and between Veterinary Practices was eliminated within the Central Administration division. This elimination is now made within each division and comparatives have been restated.

## 3. 3. Income tax expense

### a) Analysis of income tax expense recognised in the income statement

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Current tax expense** | | |

| | | |
|---|---|---|
| UK corporation tax | **2.3** | 2.2 |
| Adjustments in respect of previous years | **0.2** | (0.1) |
| Total current tax charge | **2.5** | 2.1 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **(0.7)** | (0.9) |
| Adjustments in respect of previous years | **-** | 0.4 |
| Effect of tax rate change on opening deferred tax balance | **(0.3)** | (0.1) |
| Total deferred tax credit | **(1.0)** | (0.6) |
| **Total income tax expense** | **1.5** | 1.5 |

*Factors affecting the current tax charge*

UK corporation tax is calculated at 22.5% (2013: 23.8%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 23% to 21% with effect from 1 April 2014.

**(b) Reconciliation of effective income tax charge**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | **2014** **£m** | 2013 £m |
|---|---|---|
| **Profit before tax** | **6.3** | 5.5 |
| Effective tax charge at 22.5% (2013: 23.8%) | **1.4** | 1.3 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **0.2** | - |
| Effect of tax rate change on opening deferred tax balance | **(0.3)** | (0.1) |
| Adjustments to deferred tax charge in respect of previous years | **-** | 0.4 |
| Adjustments to current tax charge in respect of previous years | **0.2** | (0.1) |
| **Total income tax expense** | **1.5** | 1.5 |

The Chancellor of the Exchequer has stated his intention to reduce the main rate of corporation tax from 21% to 20% from 1 April 2015. This change has not been substantively enacted at the balance sheet date and, therefore, is not reflected in these financial statements. Had this change been enacted, then the cumulative effects would have been to decrease the net deferred tax liability provided at the balance sheet date by £0.2m.

## 4. Earnings per Ordinary share

**(a) Basic**

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

| | **2014** | 2013 |
|---|---|---|
| Earnings attributable to Ordinary shareholders (£m) | **4.8** | **4.0** |
| Weighted average number of Ordinary shares in issue | **57,728,337** | **56,955,040** |
| Basic earnings per share (pence per share) | **8.3** | **7.1** |

**(b) Diluted**

Diluted earnings per 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. 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.

| | 2014 | 2013 |
|---|---|---|
| Earnings attributable to Ordinary shareholders (£m) | **4.8** | 4.0 |
| Weighted average number of Ordinary shares in issue | **57,728,337** | 56,955,040 |
| Adjustment for contingently issuable shares | **1,808,799** | 2,308,744 |
| Weighted average number of Ordinary shares for diluted earnings per share | **59,537,136** | 59,263,784 |
| Diluted earnings per share (pence per share) | **8.0** | 6.8 |

**Non-GAAP measure: Adjusted earnings per share**

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

| | 2014 | 2013 |
|---|---|---|
| | **£m** | £m |
| Earnings attributable to Ordinary shareholders | **4.8** | 4.0 |
| Add back taxation | **1.5** | 1.5 |
| Profit before taxation | **6.3** | 5.5 |
| Adjustments for: | | |
| Amortisation | **7.3** | 6.2 |
| Costs relating to business combinations (note 2) | **0.7** | 0.4 |
| **Adjusted profit before income tax** | **14.3** | 12.1 |
| Tax effect of the above adjustments at 22.5% (2013: 23.8%) | **(3.3)** | (2.8) |
| **Adjusted profit after income tax and earnings attributable to owners of the Parent** | **11.0** | 9.3 |
| Weighted average number of Ordinary shares in issue | **57,728,337** | 56,995,040 |
| Weighted average number of Ordinary shares for diluted earnings per share | **59,537,136** | 59,263,784 |
| | **Pence** | Pence |
| Adjusted earnings per share | **19.0p** | 16.2p |
| Diluted adjusted earnings per share | **18.5p** | 15.6p |

## 5. Business combinations

Details of business combinations in the year ended 30 June 2014 are set out below, in addition to an analysis of post acquisition performance of the respective business combinations, where practicable.

Given the nature of the veterinary surgeries acquired (mainly partnerships or sole traders) and the records maintained by such practices it is not practicable to disclose the revenue or profit/loss of the combined entity for the year as though the acquisition date for all business combinations effected during the year had been the beginning of that year. It is not practicable to disclose the impact of the business combinations on the consolidated cash flow statement as full ledgers were not maintained for each business combination in relation to all related assets and liabilities post acquisition.

The table below summarises the assets acquired in the year ended 30 June 2014:

| | **Book value of acquired assets £m** | **Adjustments £m** | **Fair value £m** |
|---|---|---|---|
| Property plant and equipment | **1.0** | **-** | **1.0** |

| | | | |
|---|---|---|---|
| Patient data records | **-** | **10.3** | **10.3** |
| Customer lists | **-** | **0.8** | **0.8** |
| Goodwill | **-** | **1.1** | **1.1** |
| Inventory | **0.3** | **(0.1)** | **0.2** |
| Deferred tax liability | **-** | **(0.8)** | **(0.8)** |
| Trade and other receivables | **0.4** | **-** | **0.4** |
| Trade and other payables | **(0.8)** | **-** | **(0.8)** |
| Net assets acquired | **0.9** | **11.3** | **12.2** |
| Consideration paid - cash | | | **12.2** |
| Deferred consideration paid in respect of prior year acquisitions | | | **0.2** |
| Total consideration paid in year – cash | | | **12.4** |

Post-acquisition revenue and post-acquisition EBITDA were £4.2m and £0.7m respectively. The post-acquisition period is from the date of acquisition to 30 June 2014. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2014 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

The acquisition costs incurred in relation to the above business combinations amounted to £0.4m for the year.

**Business combinations in previous years**

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2013.

**Business combinations subsequent to the year end**

Subsequent to the year end the Group acquired the trade and assets of Riversbrook, a veterinary practice based in Ipswich, on 28 July 2014, West End Vets, a veterinary practice based in Edinburgh and Anrich, a veterinary practice based in Huddersfield, for a total cash consideration of £1.5m. Assets acquired comprise intangible patient data records and customer lists with a provisional fair value of £1.5m. The businesses reported unaudited combined pre-tax profits of £0.5m for the years ended 30 April 2013 for both Anrich and West End Vets and 31 March 2014 for Riversbrook. Given the nature of the records maintained by the above practices it is not practicable to provide details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition.

## 6. Dividends

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| Amounts recognised as distributions in the year in respect of: | | |
| Ordinary shares | **1.1** | 0.8 |

The Directors have proposed a final dividend of 2.5p (2013: 2.0p) per share (total £1.4m), payable on 22 December 2014 to shareholders on the register at the close of business on 5 December 2014. The dividend has not been included as a liability as at 30 June 2014. During the year a dividend of 2.0p per share amounting to £1.1m was paid.

## 7. Borrowings

Borrowings comprise bank loans and are denominated in sterling. The repayment profile is as follows:

| **Group** | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| Within one year or on demand | **3.6** | 2.2 |
| Between one and two years | **4.0** | 3.7 |
| Between two and three years | **25.9** | 4.0 |
| Between three and four years | **-** | 25.9 |
| | **33.5** | 35.8 |

The balances above are shown net of issue costs of £0.2m (2013: £0.2m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

On 6 December 2011, the Group entered into a banking facility agreement with The Royal Bank of Scotland plc comprising a £36.0m term loan to refinance existing bank indebtedness, and a working capital facility of £4.0m. The term bank loan facility was subject to an initial 24 month capital repayment holiday and repayments amounting to £2.3m were made during the year commencing on 31 December 2013 in staged quarterly instalments. £3.6m of the borrowings are to be repaid in the year ending 30 June 2015 and £4.0m in the following year. The balance of the loan is repayable in September and December 2016.

On 20 September 2013, the Group entered into a Revolving Credit Facility agreement with The Royal Bank of Scotland plc which allows the group to borrow up to £10.0m under this facility. The facility terminates on 6 December 2016.The overdraft facility was increased to £5.0m on 20 September 2013.

The bank loans, revolving credit facility and overdraft are secured by a first debenture incorporating fixed and floating charges over the assets and undertakings of each Group company. The bank loans and overdraft are also secured on first legal mortgage charges over freehold property included in property, plant and equipment.

**Undrawn committed borrowing facilities**

At 30 June 2014 the Group has a committed working capital facility of £5.0m (2013: £4.0m) and a Revolving Credit Facility of £10.0m (2013: £nil). Both facilities were undrawn at 30 June 2014 and 30 June 2013 and are repayable on demand.

## 8. Cash flow generated from operations

| | **2014<br>£m** | 2013<br>£m |
|---|---|---|
| Profit for the year | **4.8** | 4.0 |
| Taxation | **1.5** | 1.5 |
| Total finance costs | **1.2** | 1.2 |
| Investment income | **-** | - |
| Amortisation of intangible assets | **7.3** | 6.2 |
| Depreciation of property, plant and equipment | **2.8** | 2.5 |
| (Increase)/decrease in working capital: | | |
| Inventories | **(0.9)** | (0.1) |
| Trade and other receivables | **(0.5)** | (3.2) |
| Trade and other payables | **3.1** | 3.9 |
| Share option expense | **1.4** | 0.7 |
| **Total net cash flow generated from operations** | **20.7** | 16.7 |