For Immediate Release **29 September 2017**

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

Preliminary Results for the year ended 30 June 2017

CVS, one of the UK's leading providers of veterinary services, is pleased to announce its preliminary results for the year ended 30 June 2017.

Financial Highlights

	Year ended 30 June 2017	Year ended 30 June 2016	Increase[4] %
Revenue (£m)	271.8	218.1	+24.6
Adjusted EBITDA (£m)[1]	42.1	32.8	+28.2
Adjusted profit before income tax (£m)[2]	33.5	24.9	+34.8
Adjusted earnings per share (pence)[3]	42.8	32.4	+32.1
Operating profit (£m)	17.2	11.8	+46.2
Profit before income tax (£m)	14.5	9.1	+58.4
Basic earnings per share (pence)	18.5	11.6	+59.5
Proposed dividend (pence)	4.5	3.5	+28.6

- Revenue up 24.6% to £271.8m
- Like-for-like sales growth for the Group of +6.3%
- Healthy Pet Club members up 20.9% to 306,000
- Adjusted EBITDA up 28.2% to £42.1m
- Adjusted earnings per share up 32.1% to 42.8 pence per share
- Acquired and integrated 62 surgeries during the year
- 10 surgeries acquired after the year end
- Now operate 432 surgeries

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

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

[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.

The Company's annual report and financial statements for the year ended 30 June 2017 will today be uploaded to the Company's website, www.cvsukltd.co.uk.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Contacts:

CVS Group plc
Simon Innes, Chief Executive
Nick Perrin, Financial Director
01379 644 288

N+1 Singer – Nominated Adviser & Broker
Aubrey Powell / Liz Yong
020 7496 3000

Chairman's statement

An outstanding Group performance

Results

I am delighted to report a further outstanding performance by CVS with another record year for revenue and operating profits across the Group. Strong like-for-like growth of 6.3% was enhanced by further acquisitions in our Veterinary Practice Division. We increased our investment in equipment, premises, our services and our staff.

Revenue grew by 24.6% to £271.8m (2016: £218.1m). Adjusted EBITDA increased by 28.2% to £42.1m (2016: £32.8m) and adjusted EPS grew by 32.1% to 42.8p (2016: 32.4p).

Operating profit rose by 46.2% to £17.2m (2016: £11.8m), cash generated from operations increased 10.8% to £37.2m (2016: £33.6m) and profit before tax increased by 58.4% to £14.5m (2016: £9.1m). Basic EPS increased by 59.5% to 18.5p (2016: 11.6p).

Business initiatives

In 2017 we acquired 62 surgeries, following on from the 67 acquired in 2016. In total these businesses are expected to generate revenue of approximately £38.0m per annum. Subsequent to the year end a further ten surgeries have been acquired.

Of particular note were our first acquisitions in the Netherlands, which give us a foothold to develop a business similar to that which we have in the UK. In the UK, our equine business expanded strongly with the acquisitions of Bell Equine during the year and B&W Equine subsequent to the year end. Severn Edge Veterinary Group gives CVS a strong presence in Shropshire in small animal and farm animal and further expands our equine capability.

We have continued to progress our strategy in our referrals business. After some challenges, our state-of- the-art multi-disciplinary referral centre at Lumbry Park improved its performance significantly and is now close to breaking even. Manchester Veterinary Specialists opened in February 2017 and is already profitable. The substantial refurbishment at Chestergates Veterinary Specialists was completed in September 2017 and now has the capacity to significantly grow its business.

Like-for-like sales grew by 6.3% (2016: 4.8%) with growth in all areas, in particular Animed Direct which performed exceptionally.

It is pleasing to note that the new Veterinary Practice Division management team introduced at the end of 2016 has settled in well and has driven performance of the business forward.

Our Healthy Pet Club scheme continued its strong growth with an additional 53,000 (20.9%) members over the year.

The Laboratory Division again grew very strongly with revenue increasing by 10.2% to £16.3m (2016: £14.8m).

Following the acquisition of three crematoria in 2016, the Crematoria Division has increased revenue by 27.1% to £6.3m.

In August 2017, we launched our own brand pet insurance under the name of MiPet Cover. This is the only pet insurance in the UK that is designed by vets. It provides top of the range cover at a competitive price. Whilst it is too early to fully assess the response from customers, their initial reaction and that from our own staff, who were involved in its design, has been very positive.

Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 5,150 staff as at today (2016: 4,300), including around 1,270 vets (2016: 1,040). Yet again, our staff have risen to the challenge of delivering and integrating the high volume of acquisitions whilst continuing to develop the business. I would like to thank them all, including those new to CVS, for their efforts and for their expertise and professionalism in providing the best possible care and service to all our customers and their animals.

The development of our staff and of our clinical and non-clinical training continues to be a priority. No other veterinary group has the knowledge, expertise and ability to provide so much training internally and this is an area where CVS distinguishes itself from our competition.

Dividends

It is proposed to pay a dividend of 4.5p per share in December 2017, a 28.6% increase on the 3.5p per share paid in 2016. The increased scale and growth of our business can support a meaningful increase in the level of dividend whilst retaining sufficient funds to continue to grow the business.

If approved at the Annual General Meeting, the dividend will be paid on 8 December 2017 to shareholders on the register on 24 November 2017. The ex-dividend date will be 23 November 2017.

Outlook

The Group's exposure to the potential impacts of Brexit appears to be limited. The greatest impact could be in the employment of European vets. We have not seen any significant impact on employment so far but, together with other major employers in the industry and the Royal College of Veterinary Surgeons, we are lobbying the UK Government to ensure that there are no adverse impacts. Clearly, Brexit issues create some uncertainty for the pace of growth in the UK economy over the next couple of years, but the Board believes that the characteristics of our business make it relatively resilient.

Like-for-like sales growth has remained robust since the year end. The acquisition pipeline remains strong and the recent acquisition of B&W Equine will allow for further developments in our equine business. Further acquisitions in the Netherlands will continue the development of our business in Europe.

The recent launch of our MiPet Cover insurance is an exciting development which has significant long term potential, although it is not expected to generate a profit in the current financial year.

Initiatives such as the introduction of own brand products, the expansion of out-of-hours sites and the development of our referrals business are expected to continue to deliver benefits in 2018.

The Board therefore believes that the outlook for CVS remains very promising.

Richard Connell

Non-Executive Chairman

29 September 2017

Business review

Excellent progress on our strategic priorities

Introduction

CVS Group is managed across four divisions: Veterinary Practice, Laboratories, Crematoria and Animed Direct. The Veterinary Practice Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2017.

Veterinary Practices Division

	2017 £m	*Restated 2016 £m
Practices excluding acquisitions	**182.8**	172.2
2016 acquisitions	**51.7**	25.9
2017 acquisitions	**13.4**	-
Total revenue	**247.9**	198.1
Adjusted EBITDA	**44.7**	35.6
EBITDA margin %	**18.0**	18.0

*Refer to note 2 Segmental Reporting

Revenue amounted to £247.9m (2016: £198.1m), an increase of 25.1% on the prior year. Adjusted EBITDA increased by 25.5% from £35.6m to £44.7m and profit before income tax increased from £21.3m to £28.1m. These increases include the impact of acquisitions in both 2016 and 2017.

In the year CVS acquired 62 surgeries operating as 25 businesses. These businesses contributed £13.4m of revenue and £2.1m of EBITDA in the year.

Adjusted EBITDA as a percentage of sales remained constant at 18.0%.

Like-for-like sales grew by 5.2% for the year as a whole (2016: 5.4%), with the first half showing significantly higher growth than the second half.

The development of our referrals business, and the expertise that this requires, has been and remains a key strategic priority for CVS. In October 2015 we opened Lumbry Park. This 13,000 square foot greenfield development is a state-of-the-art major multi-disciplinary referral centre in Alton, Hampshire, providing a full range of specialisms, using the most modern equipment including both a CT ("Computerised Tomography") and an MRI ("Magnetic Resonance Imaging") scanner. Whilst there were a number of challenges through most of the year, significant improvements were made towards the year end and revenue grew strongly. The business is not yet trading profitably but we expect it to become so on a run-rate basis during the current financial year.

Manchester Veterinary Specialists opened in February 2017 and its performance has been excellent. Revenue has exceeded expectations and it is already trading profitably. The refurbishment of Chestergates Veterinary Specialists was completed in September 2017. More space has been created for expansion, and a new modern MRI scanner and a CT scanner has been installed for the first time. The site will now be able to grow its business further.

During the year we extended our MiPet own brand range to include two further medicines and MiPetFood treats. Dual language packaging (English and Dutch) has begun to be introduced so that we can also sell our own brand products in the Netherlands. The roll out of our own brand pet food and waiting room retail range was completed during the year. Further product launches are planned.

The own brand range has been well received by both our customers and our staff. MiPet products are available only in our surgeries and those of our buying group members and hence they differentiate CVS in the market. The MiPet range both protects our margins and helps us retain our competitiveness by limiting price increases.

The Healthy Pet Club loyalty scheme continued its exceptional growth in the year. Over 53,000 pets were added to the scheme increasing membership by 20.9% and bringing the total membership to 306,000. The scheme provides preventative medicine to our customers' pets as well as a range of discounts and benefits. We gain from improved customer loyalty, the encouragement of clinical compliance, protecting revenue generated from drug sales, and bringing more customers into our surgeries. Monthly subscription revenue generated in the year increased to £32.5m (2016: £24.0m). At the year end, the monthly run rate represented 13.4% (2016: 12.3%) of practice revenue; however, in the like-for-like practices the figure was 16.9% (2016: 16.3%), demonstrating the potential for further subscription revenue within the more recently acquired practices into which Healthy Pet Club is also being introduced.

We now have 14 emergency out-of-hours sites. These reduce our reliance on third parties for the 24-hour cover that vets are required to provide to their customers. Satisfying the requirement ourselves significantly improves the experience of our customers and their pets and all of our out-of-hours centres are profitable. We continue to perform out-of-hours work for other veterinary practices and will seek to develop further centres as our growing density in an area makes this effective.

Our acquisitions during the year particularly helped us develop our geographic spread of surgeries (including into the Netherlands and in Northern Ireland) and expand our equine business significantly. We now have ten sites in the Netherlands (nine acquired during the year and one since the year end) and expect to acquire more in the short term. This will provide us with a base from which to establish an integrated business in the Netherlands in a similar way to our UK business. In Northern Ireland we acquired three surgeries bringing the total to four. Two of these acquisitions were of mixed practices.

Our equine business has grown well over the past year. The acquisition of Bell Equine, a practice with an excellent reputation, in January 2017 was a significant start. The acquisition of Severn Edge, a large mixed practice with substantial equine revenue, in April 2017 was followed by the acquisition of B&W Equine after the year end. B&W Equine is one of the largest equine practices in the UK, with an excellent reputation. These acquisitions provide us with equine capability along almost the length of the M5 to add to our practices along the M4 and in the North East.

The development of our buying group was dramatically enhanced by the acquisition of VetShare in 2016. We have negotiated additional annual rebates for members and sell our own brand products to them. We expect the membership of veterinary buying groups in the UK to fall as the number of practices in corporate hands, and therefore not members of buying groups, increases. Our own buying groups face this challenge but by adding in new services our objective is to develop the best buying group in the market.

Our investment in our surgeries again reached record levels during the year. We opened a new site in Smethwick in January 2017 and two further greenfield sites, in Norwich and Bracknell, are under development. We continue to relocate sites that have outgrown their existing locations and our major relocations during the year of Gorleston, Stetchford and Carrick have performed strongly since their relocation.

In addition to refurbishments, we spent £2.3m on new equipment in our practices. This equipment continues to improve our diagnostic capability and our ability to serve our customers in a professional environment.

After much research and planning, our MiPet Cover insurance was launched in August 2017. This is the only own brand pet insurance in the UK which has been developed by a veterinary business. Our own staff were closely involved in and contributed to its development. The product is high quality and excellent value. Our initial plan is to establish the product in our practices before considering its wider marketing. The launch has been exceedingly well received by our own staff. Whilst it is too early to fully assess the reaction of customers, the initial response has been encouraging. The product will take some time to establish and accordingly we do not expect trading to be profitable in the current financial year.

We have continued to develop our staff training and career opportunities. Our MiNurse Academy, successfully launched in January 2015, is now well into its third year with a further 43 nurses learning specialised skills, bringing the total since its launch to over 300. The academy provides nurses with advanced training in one of four areas: medicine, surgery, emergency and critical care, and clinical nursing. It is designed to fill a gap which exists across the profession in the post-qualification training of nurses.

Our vet graduate training scheme continues to grow and 375 graduates have gone through the scheme in the past three years. The scheme is designed to assist newly qualified vets make the challenging transition from university to day-to-day practice.

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 RCVS Advanced Veterinary Practitioner Certificates and Diplomas, to which two of our vets passed during the year. Increasingly, this training is carried out in-house by our own experts.

Laboratory Division

	2017	2016
	£m	£m
Revenue	**16.3**	14.8
Adjusted EBITDA	**3.6**	3.1
EBITDA margin %	**22.1**	21.2

The Laboratory Division generated revenue of £16.3m, a 10.2% increase on the prior year figure of £14.8m. Adjusted EBITDA grew by 15.0% from £3.1m to £3.6m and profit before tax increased from £2.5m to £2.9m.

We are pleased that our Laboratory Division achieved ISO 17025 accreditation in March 2017 and as a result of achieving this status, our Laboratories are able to undertake the farm diagnostic testing which was previously delivered by the government's Animal and Plant Health Agency. Farm diagnostics are expected to be another area of growth for the business. The acquisition of Bell Equine during the year created the opportunity for the development of equine testing and the two businesses have already begun to work together.

The sales of analysers and related consumables grew strongly during the year. Whilst the business installs its analysers in new CVS practices, its main focus is now on third party sales and these have grown strongly during the year. Because the analyser machines have an economic life of several years, the sale of the machines leads to consumable sales for several further years.

The Laboratory Division gross margin percentage fell from 66.5% in 2016 to 65.4%. EBITDA as a percentage of sales showed growth from 21.2% to 22.1%. These changes are primarily due to the higher growth in the immature analyser business, which has a lower gross margin percentage but a higher EBITDA percentage

Crematoria Division

	2017	2016
	£m	£m
Like-for-like revenue	**4.4**	3.9
2016 and 2017 acquisitions	**1.9**	1.1
Total revenue	**6.3**	5.0
Adjusted EBITDA	**2.1**	1.7
EBITDA margin %	**32.8**	34.2

The Crematoria Division had another strong year with like-for-like sales growing by 14.4%. The Crematoria Division benefits from becoming the supplier to veterinary practices that we have acquired in both the current and prior year' but loses business when other corporates acquire practices that are our customers and switch them to their usual supplier. The high net growth level reflects the high standard of service and the consequent ability to attract additional customers. The division has also seen a continuing market shift to individual cremations, which generate higher revenue.

Adjusted EBITDA grew by 21.9% to £2.1m (2016: £1.7m). EBITDA as a percentage of sales fell slightly from 34.2% to 32.8%, primarily due to a small increase in manpower costs as the structure required to run the enlarged division was established. Profit before tax increased from £1.4m to £1.9m.

Animed Direct

	2017 £m	*Restated 2016 £m
Revenue	**13.0**	8.4
Adjusted EBITDA	**0.7**	0.3
EBITDA margin %	**5.6**	3.3

*See note 2 Segmental reporting

Animed Direct, our on-line dispensary and retailer, focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business performed excellently during the year bouncing back strongly from the weaker performance in 2016. Revenue grew by 53.6% to £13.0m (2016: £8.4m) and adjusted EBITDA rose to £0.7m (2016: £0.3m). The new management team, introduced at the start of the year, has reviewed all aspects of the business and brought in further expertise in online businesses. In March 2017 the business relocated to a much larger warehouse in Diss allowing for further growth and expansion of the product range. A new website will be launched later in the calendar year.

The gross margin percentage decreased from 20.8% to 17.4%. In May 2017 a delivery fee was introduced and a free delivery threshold was introduced in the second half of the year. This has seen positive improvement on the gross margin percentage since its introduction.

The business now has a customer database of over 410,000 (2016: over 335,000) people, with the average value of each purchase during the year up at £38.00 (2016: £31.00). Profit before tax increased from £0.3m to £0.6m.

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £9.0m (2016: £7.9m), representing 3.3% of revenue (2016: 3.6%).

The significant growth and development of the Group requires continued additional investment to maintain an appropriate level of control and to support further growth over the next few years. All central functions have taken on additional staff to assist with the integration of acquisitions, including those in the Netherlands, and the ongoing management of the enlarged business. Ensuring that we maintain control of the business is a priority and we have continued to strengthen our IT systems and enhance our management reporting. During the year we also established an internal audit function. An increasing number of support staff are now based in the regions where they can more easily provide the close support that the operations teams require.

Simon Innes

Chief Executive Officer

29 September 2017

Finance review

Growth in revenue, profits and earnings per share

Financial highlights

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

	2017	2016	Change %
Revenue (£m)	**271.8**	218.1	24.6
Adjusted EBITDA (£m)*	**42.1**	32.8	28.2
Adjusted profit before tax (£m)*	**33.5**	24.9	34.8
Adjusted earnings per share (p)*	**42.8**	32.4	32.1
Operating profit (£m)	**17.2**	11.8	46.2
Profit before tax (£m)	**14.5**	9.1	58.4
Basic earnings per share (p)	**18.5**	11.6	59.5

* Adjusted financial measures are defined on page 1 of the Annual Report and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS").

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and hence assist in understanding the performance of the Group. These terms are not defined by IFRS 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:

	2017 £m	2016 £m
Operating profit as reported	**17.2**	11.8
Adjustments for:		
Amortisation and depreciation	**21.9**	18.9
Costs of business acquisitions	**3.0**	2.1
Adjusted EBITDA	**42.1**	32.8

The £9.3m (28.6%) improvement in adjusted EBITDA compared with the prior year arises primarily from the underlying organic growth within the Veterinary Practice Division (£2.2m), the Laboratory Division (£0.5m), the Crematoria Division (£0.1m), the Animed Direct Division (£0.4m), acquisitions during the year (£2.1m) and the full year effect of previous year acquisitions (£5.1m), offset by an increase in central administration costs (£1.1m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) increased from 15.0% in 2016 to 15.5%. This was driven by an increased margin in the Laboratory Division and Animed Direct Division and a reduction in head office costs as a percentage of revenue.

Profit before tax for the year increased from £9.1m to £14.5m (58.4%). Basic EPS increased 59.5% to 18.5p (2016: 11.6p).

Adjusted profit before tax showed a 34.8% increase in the year from £24.9m to £33.5m. Adjusted EPS (as defined in note 10 to the financial statements) increased 32.1% to 42.8p (2016: 32.4p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets and business combinations costs.

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:

	2017	2012	CAGR %
Revenue (£m)	**271.8**	108.7	20.1
Adjusted EBITDA (£m)	**42.1**	15.1	22.8
Adjusted profit before tax (£m)	**33.5**	9.7	28.1
Adjusted EPS (p)	**42.8**	12.8	27.3

Bank facilities

In July 2017 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £152.5m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB, and comprise the following elements:

a fixed term loan of £67.5m, repayable on 23 November 2021 via a single bullet repayment; and

a six-year revolving credit facility ("RCF") of £85.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

Cash flow

Cash flow from operating activities was £37.2m (2016: £33.6m). The increase reflects the growth in EBITDA.

Net debt increased by £6.9m to £100.0m (2016: £93.1m) largely as a consequence of higher acquisition activity and continued investment in the business. The successful placing of Ordinary shares during the year generated net proceeds of £29.6m. The movement in net debt is explained as follows:

	2017 £m	2016 £m
Cash generated from operations	**37.2**	33.6
Capital expenditure - maintenance	**(5.9)**	(5.1)
Taxation paid	**(5.4)**	(3.3)
Interest paid	**(2.1)**	(2.4)
Free cash flow	**23.8**	22.8
Capital expenditure - development	**(7.9)**	(6.4)
Acquisitions	**(48.4)**	(61.3)
Proceeds from Ordinary shares	**30.6**	0.2
Purchase of own shares	**(2.1)**	-
Dividends paid	**(2.1)**	(1.8)
Debt issuance costs movement	**(0.8)**	(0.4)
Increase in net debt	**(6.9)**	(46.9)

Cash available for discretionary expenditure ("free cash flow") increased from £22.8m to £23.8m due to increased capital expenditure on maintenance.

The analysis of capital expenditure in the table above reflects a broad split between expenditure that we expect to increase profit and that which we believe will primarily maintain profit. This split can only ever be approximate. Development capital expenditure includes expenditure on new sites, relocations, significant extensions and significant new equipment. All other expenditure is included as maintenance.

Development capital expenditure included £2.3m on the relocations of The Veterinary Hospital Gorleston and the Carrick Chesterfield practice, £1.1m on a new surgery at Smethwick and £3.0m on major refurbishments at Chestergates and Pet Medics.

£47.0m was paid (including £1.5m repayment of acquired bank debt) for the 62 surgeries acquired during 2017. £0.2m of consideration was payable at 30 June 2017 in respect of completion net asset adjustments. The acquired businesses are trading as expected. In addition to £47.0m was paid for businesses acquired in the year, £0.4m was paid in respect of completion net asset adjustments for business acquired in the 30 June 2016 financial year and £1.0m deferred consideration was paid in respect of the acquisition of Highcroft Pet Care.

No corporation tax relief is received on the majority of the amortisation and transaction costs which are deducted in arriving at the unadjusted profit before taxation figure. Therefore, taxation paid increases broadly in line with the adjusted profit before tax of the Group. The interest payment of £2.1m was lower than last year (£2.4m) reflecting the benefit of the cash generated from the share placing and the lower cost of borrowing as a result of the debt refinancing in December 2015.

Proceeds from Ordinary shares arose due to the placing of 3,019,500 shares in December 2016 and 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 movement in debt issue costs was £0.8m, which represents the amortisation of costs during the year. The prior year movement of £0.4m reflects the amortisation of costs partially offset by the capitalisation of costs associated with the November 2015 refinancing.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2017 £m	2016 £m (*restated)
Borrowings repayable:		
within one year	**3.3**	0.3
after more than one year	**103.5**	99.5
Total borrowings	**106.8**	99.8
Cash in hand and at bank	**(6.8)**	(6.7)
Net debt	**100.0**	93.1

* The prior year comparatives have been restated to classify the Group's RCF as repayable after more than one year. Please refer to note 7 for further details.

The £106.8m of borrowings principally consists of:

- £67.5m term loan (net of unamortised issue costs). The term loan is repayable in one bullet payment in 2021;
- £3.0m loan notes repayable in 2018; and
- £37.0m drawn down under the RCF (net of unamortised issue costs). The RCF is available until 2021.

£10.0m of the RCF remained unutilised at 30 June 2017. As noted earlier, on 3 July 2017 the Group agreed a £37.5m increase to its existing RCF through the utilisation of the accordion clause contained within the facility agreement. The margin payable on the facility increased by 50 basis points. 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 two main financial covenants associated with the Group's bank facilities are based on Group borrowings to EBITDA and Group EBITDA to interest ratios. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during that period. The EBITDA to interest ratio must not be less than 4.5. At 30 June 2017 it was 16.4.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.5 until 31 December 2017 and 3.0 thereafter, although it is not the Group's intention to operate at this level. The gearing ratio reduced during the year from 2.6 at 30 June 2016 to 2.3 at 30 June 2017. This reduction in the ratio reflects the benefit of the share placing in December 2016 and a combination of organic EBITDA growth and the realisation of the full benefits of recent acquisitions. The Group aims to continue to expand the business, and has a strong acquisition pipeline and sufficient capacity to fund it. The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2017, the Group entered into a three-year interest rate fixed rate swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduces to £40.0m on 1 March 2018, followed by a further reduction to £35.0m on 1 March 2019.

Going concern

At the balance sheet date the Group had cash balances of £6.8m and an unutilised overdraft facility of £5.0m. Following the increase to the Group's RCF, total facilities of £152.5m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £67.5m and a RCF of £85.0m. The Directors consider that the £5.0m overdraft and the £152.5m facility enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Taxation

The Group's effective tax rate was 20.8% (2016: 23.1%). The principal reason for the decrease is the impact of the reduction in the rate of corporation tax to 17% from April 2020. 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	**14.5**	
Expected tax at standard rate of tax	**2.9**	19.8
Expenses not deductible for tax	**0.4**	2.5
Adjustments to prior year tax charge	**0.2**	1.6
Benefit of tax rate change	**(0.5)**	(3.1)
Actual charge/ effective rate of tax	**3.0**	20.8

All of the Group's revenues and the majority of its 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 has increased by £0.9m to £3.0m (2016: £2.1m) whilst profit before taxation has increased £5.4m from £9.1m to £14.5m.

The benefit of the tax rate change reflects the impact of the future reduction in corporation tax rates on the deferred tax liabilities in respect of intangible assets.

Share price performance

At the year end the market capitalisation was £804.5m (1,259p per share), compared to £467.7m (782p 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 significant disruption in trading by purchasing from alternative suppliers.

Forward-looking statements

Certain statements in this Annual Report 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

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	**2017/**2016	**Definition**	**Changes in 2017**
Revenue	**£271.8m** £218.1m	Total revenue of the Group.	Total revenue increased by £53.7m. Revenue before the impact of prior year and current year acquisitions was £216.5m, a £17.3m increase compared with 2016. Factors contributing to the increase are noted in the like-for-like sales performance. Acquisitions in the year and the full year impact of the prior year's acquisitions generated additional revenue of £39.9m. Intercompany sales eliminated on consolidation increased by £3.5m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2016 and 2017.
Like-for-like sales % performance	**6.3%** 4.8%	Revenue generated from like for like operations compared to the prior year. Revenue for 2017 is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year; for example for a practice acquired in September 2015, revenue is included from September 2016 in the like-for-like calculation. This measure is calculated using a measure of Group revenue after deducting revenue from current year acquisitions and greenfield developments (£14.2m) and after adjusting for prior year acquisitions such that revenue is included for a comparable number of months with 2016 (£29.7m).	The like-for-like increase reflected strong performances in all divisions with a particular improvement in Animed Direct against a difficult comparative period. The improved like-for-like sales growth compared with 2016 was due to the significant growth in the first half of the year (7.2% compared with 3.0% in 2016).
Healthy Pet Club revenue	**13.0%** 12.0%	Revenue received from Healthy Pet Club members as a percentage of total practice revenue for the year.	The growth of Healthy Pet Club membership from 253,000 to 306,000 led to the increase for the year.
Gross margin before clinical staff costs	**79.8%** 79.6% 2015 – 77.8%	Gross margin after deducting the cost of drugs, laboratories fees and cremation fees, and other goods sold or used by the business from revenue, expressed as a percentage of total revenue. Gross margin was £124.5m, after deducting £90.0m of clinical staff costs.	The increase in the gross margin is principally due to improvements in the Veterinary Practice Division, but slightly offset by the fall in the Laboratory Division due to the higher growth in the analyser business, which has a lower margin, and also Animed Direct, which has started to improve following the introduction of a delivery fee.

Adjusted EBITDA	**£42.1m** £32.8m	Earnings before income tax, net finance expense, depreciation, amortisation and costs relating to business combinations.	The improvement in adjusted EBITDA is explained by like-for-like growth (£3.2m) together with the full year impact of prior year acquisitions (£5.0m) and acquisitions in the current year (£2.2m), partly offset by a £1.2m increase in central costs incurred to build a foundation for further development and expansion of the Group.
Adjusted EPS	**42.8p** 32.4p	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 and the effects of the share issue of 3,019,500 new shares in December 2016 to raise £30.2m in gross proceeds.
Cash generated from operations	**£37.2m** £33.6m	Cash inflow before payments of taxation and interest; acquisitions; purchase of property; plant, equipment and intangible assets; payments of dividends; debt issue costs; increase/repayment of bank loans and the proceeds from issue of shares.	The increase primarily reflects the improvement in EBITDA of the business, partially offset by increases in other receivables reflecting the growth of the Group.

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.

Our risk management framework

The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The day-to-day identification and management of risk is delegated to the Group's Executive Committee. During the year the Group established an internal audit function, which is currently embedding itself within the CVS Group and ensuring the processes and controls are appropriate for a public company of CVS's size.

Following the establishment of the internal audit function, significant progress has been made in the development of a risk register for each segment of the business. These registers have evaluated the risks most likely to impact the Group. staff across the business have been involved in the process to ensure all potential areas of risk were adequately identified and recorded, along with the controls currently in place. This presented the opportunity to strengthen controls already in place and implement new controls

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 services.	The Group seeks to become more resilient to future downturns in economic conditions through further diversification of its services. The Group's exposure to the potential impacts of Brexit are still being assessed and, whilst the referendum vote to leave the EU creates some uncertainty for the pace of growth in the UK economy over the next couple of years, the Board believes that the characteristics of our business make it relatively resilient. The expansion of the Group's business to provide a broader-based service including referrals, out-of-hours, equine and farm animal services spreads the risk of a downturn in any one business. 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. 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 may 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 help mitigate this 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, provide further mitigation against the risk of competition.
Key staff	The Group is exposed to 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 organisational 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 behaviours promoting excellent customer care and clinical standards are embedded within our core values. 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.
Reliance on one supplier of medicines	The majority of medicines are purchased through one wholesaler.	A two-year supply agreement was signed in April 2017 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.

Nick Perrin

Finance Director

29 September 2017

Consolidated income statement for the year ended 30 June 2017

	Note	2017 £m	*Restated 2016 £m
Revenue	2	**271.8**	218.1
Cost of sales		**(147.3)**	(112.2)
Gross profit		**124.5**	105.9
Administrative expenses		**(107.3)**	(94.1)
Operating profit		**17.2**	11.8
Net finance expense		**(2.7)**	(2.7)
Profit before income tax	2	**14.5**	9.1
Income tax expense	3	**(3.0)**	(2.1)
Profit for the year attributable to owners of the Parent		**11.5**	7.0
Earnings per ordinary share for profit attributable to owners of the Company (expressed in pence per share) (“EPS”)			
Basic	4	**18.5p**	11.6p
Diluted	4	**18.2p**	11.3p

*The prior year comparatives have been restated to reclassify £0.4m of administration expenses to cost of sales.

Reconciliation of adjusted financial measures

The Directors believe that adjusted profit provides additional useful information for shareholders on performance. This is used for internal performance analysis. This measure is not defined by IFRS and is not intended to be a substitute for, or superior to, IFRS measurements of profit. 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	2017 £m	2016 £m
Profit before income tax	2	**14.5**	9.1
Adjustments for:			
Finance expense		**2.7**	2.7
Depreciation		**5.9**	5.2
Amortisation and impairment of intangible assets		**16.0**	13.7
Costs relating to business combinations		**3.0**	2.1
Adjusted EBITDA	2	**42.1**	32.8

Statement of consolidated comprehensive income for the year ended 30 June 2017

	2017 £m	2016 £m
Profit for the year	**11.5**	7.0
Other comprehensive income – items that will or may be reclassified to loss in future periods		
Cash flow hedges:		
Fair value gains	**0.2**	—
Other comprehensive income for the year, net of tax	**0.2**	—
Total comprehensive income for the year attributable to owners of the parent	**11.7**	7.0

Consolidated balance sheet as at 30 June 2017

	Note	Group 2017 £m	*Restated Group 2016 £m
Non-current assets			
Intangible assets		**167.2**	131.5
Property, plant and equipment		**43.0**	32.8
Investments		**0.1**	0.1
Deferred income tax assets		**2.1**	1.8
Derivative financial instruments		**0.1**	-
		212.5	166.2
Current assets			
Inventories		**12.5**	9.7
Trade and other receivables		**30.9**	23.8
Cash and cash equivalents		**6.8**	6.7
		50.2	40.2
Total assets	2	**262.7**	206.4
Current liabilities			
Trade and other payables		**(48.2)**	(43.0)
Current income tax liabilities		**(2.9)**	(2.3)
Borrowings	7	**(3.3)**	(0.3)
		(54.4)	(45.6)
Non-current liabilities			
Borrowings	7	**(103.5)**	(99.5)
Deferred income tax liabilities		**(16.8)**	(14.6)
Derivative financial instruments		**-**	(0.1)
		(120.3)	(114.2)
Total liabilities	2	**(174.7)**	(159.8)
Net assets		**88.0**	46.6
Shareholders' equity			
Share capital		**0.1**	0.1
Share premium		**38.1**	9.7
Capital redemption reserve		**0.6**	0.6
Revaluation reserve		**0.1**	0.1
Merger reserve		**(61.4)**	(61.4)
Retained earnings		**110.5**	97.5
Total equity		**88.0**	46.6

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 29 September 2017 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 2016

	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 2015	0.1	9.5	0.6	0.1	(61.4)	90.2	39.1
Profit for the year	-	-	-	-	-	7.0	7.0
Other comprehensive income							
Cash flow hedges:							
Fair value losses	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	7.0	7.0
Transactions with owners							
Issue of ordinary shares	-	0.2	-	-	-	-	0.2
Credit to reserves for share-based payments	-	-	-	-	-	1.3	1.3
Deferred tax relating to share-based payments	-	-	-	-	-	0.8	0.8
Dividends to equity holders of the Company	-	-	-	-	-	(1.8)	(1.8)
Transactions with owners	-	0.2	-	-	-	0.3	0.5
At 30 June 2016	**0.1**	**9.7**	**0.6**	**0.1**	**(61.4)**	**97.5**	**46.6**

	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 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6
Profit for the year	-	-	-	-	-	11.5	11.5
Other comprehensive income							
Cash flow hedges:							
Fair value gains	-	-	-	-	-	0.2	0.2
Total other comprehensive income	-	-	-	-	-	0.2	0.2
Total comprehensive income	-	-	-	-	-	11.7	11.7
Transactions with owners							
Issue of Ordinary shares	-	30.5	-	-	-	-	30.5
Purchase of own shares	-	(2.1)	-	-	-	-	(2.1)
Credit to reserves for share-based payments	-	-	-	-	-	1.5	1.5
Deferred tax relating to share-based payments	-	-	-	-	-	1.9	1.9
Dividends to equity holders of the Company	-	-	-	-	-	(2.1)	(2.1)
Transactions with owners	-	28.4	-	-	-	1.3	29.7
At 30 June 2017	**0.1**	**38.1**	**0.6**	**0.1**	**(61.4)**	**110.5**	**88.0**

Consolidated cash flow statement for the year ended 30 June 2017

	Note	**Group 2017 £m**	Group 2016 £m
Cash flows from operating activities			
Cash generated from operations	8	**37.2**	33.6
Taxation paid		**(5.4)**	(3.3)
Interest paid		**(2.1)**	(2.4)
Net cash generated from operating activities		**29.7**	27.9
Cash flows from investing activities			
Acquisitions (net of cash acquired)	5	**(46.9)**	(53.5)
Purchase of property, plant and equipment		**(13.3)**	(11.3)
Purchase of intangible assets		**(0.5)**	(0.2)
Net cash used in investing activities		**(60.7)**	(65.0)
Cash flows from financing activities			
Dividends paid		**(2.1)**	(1.8)
Proceeds from issue of ordinary shares		**1.0**	0.2
Proceeds from share issue		**29.6**	-
Debt issuance costs		**-**	(1.3)
Purchase of own shares		**(2.1)**	-
Increase in borrowings		**6.5**	51.9
Repayment of borrowings		**(1.8)**	(8.2)
Net cash used in financing activities		**31.1**	40.8
Net increase in cash and cash equivalents		**0.1**	3.7
Cash and cash equivalents at beginning of year		**6.7**	3.0
Cash and cash equivalents at end of year		**6.8**	6.7

Notes to the consolidated financial statements for the year ended 30 June 2017

1. Summary of significant accounting policies

Statement under s498 – publication of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory financial statements for the years ended 30 June 2017 or 2016, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2017, 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 2015 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 preliminary 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 preliminary 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 2016.

Use of non-GAAP measures

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

The Directors believe that adjusted EBITDA, adjusted PBT 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.

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 tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the period.

Like-for-like sales

Like-for-like sales comprise the revenue generated from all operations compared to the prior year. Revenue is included in the like for like calculation with effect from the month in which it was acquired in the previous year; for example for a practice acquired in September 2015, revenue is included from September 2016 in the like for like revenue calculation.

2. Segmental reporting

The operating segments are based on the Group's management and internal reporting structure and monitored by the Group's chief operating decision maker (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 and are not considered material for separate disclosure.

Operating segments

The Group is split into four operating segments (Veterinary Practice Division, Laboratory Division, Crematoria Division 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 is managed separately as each segment requires different specialisms, marketing approaches and resources. Intra-group sales eliminations are included within the Head Office segment. Head Office includes costs relating to the employees, property and other overhead costs associated with the centralised support function together with finance costs arising on the Group’s borrowings.

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

Year ended 30 June 2016	*Restated Veterinary Practice £m	Laboratory £m	Crematoria £m	*Restated Animed Direct £m	Head Office £m	Group £m
Revenue	198.1	14.8	5.0	8.4	(8.2)	218.1
Profit/(loss) before income tax	21.3	2.5	1.4	0.3	(16.4)	9.1
Adjusted EBITDA	35.6	3.1	1.7	0.3	(7.9)	32.8
Total assets	184.5	9.8	6.7	3.8	1.6	206.4
Total liabilities	(52.9)	(2.1)	(1.4)	(3.1)	(100.3)	(159.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	21.3	2.5	1.4	0.3	(16.4)	9.1
Finance expense	—	—	—	—	2.7	2.7
Depreciation	4.1	0.6	0.3	—	0.2	5.2
Amortisation	9.4	—	—	—	4.3	13.7
Costs relating to business combinations	0.8	—	—	—	1.3	2.1
Adjusted EBITDA	35.6	3.1	1.7	0.3	(7.9)	32.8

* The prior year comparatives have been restated to reflect the reclassification of the Group’s logistics and warehousing operations from Animed Direct to the Veterinary Practice Division. Revenue in the Animed Division decreased by £1.4m and there was a corresponding increase in the revenue of the Veterinary Practice Division. Divisional EBITDA was unaffected by the change. The reclassification had no impact on Group revenue.

3. Income tax expense

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

	2017 **£m**	2016 £m
Current tax expense		
UK corporation tax	**4.8**	3.5
Adjustments in respect of previous years	**(0.1)**	(0.1)
Total current tax charge	**4.7**	3.4
Deferred tax expense		
Origination and reversal of temporary differences	**(1.6)**	(1.3)
Adjustments in respect of previous years	**0.3**	0.2
Effect of tax rate change on opening deferred tax balance	**(0.4)**	(0.2)
Total deferred tax credit	**(1.7)**	(1.3)
Total income tax expense	**3.0**	2.1

Factors affecting the current tax charge

UK corporation tax is calculated at 19.8% (2016: 20.0%) of the estimated assessable profit for the year.

(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:

	2017 **£m**	2016 £m
Profit before tax	**14.5**	9.1
Effective tax charge at 19.8% (2016: 20.0%)	**2.9**	1.8
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.4
Effect of tax rate change on opening deferred tax balance	**(0.5)**	(0.2)
Adjustments to deferred tax charge in respect of previous years	**0.3**	0.2
Adjustments to current tax charge in respect of previous years	**(0.1)**	(0.1)
Total income tax expense	**3.0**	2.1

The main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the balance sheet date and, therefore, it is reflected in these financial statements.

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.

	2017	2016
Earnings attributable to Ordinary shareholders (£m)	**11.5**	7.0
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Basic earnings per share (pence per share)	**18.5**	11.6

(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 and SAYE 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.

	2017	2016
Earnings attributable to Ordinary shareholders (£m)	**11.5**	7.0
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Adjustment for contingently issuable shares – Long term incentive plans	**398,654**	681,294
Adjustment for contingently issuable shares – SAYE schemes	**549,732**	726,215
Weighted average number of Ordinary shares for diluted earnings per share	**63,053,805**	61,143,945
Diluted earnings per share (pence per share)	**18.2**	11.3

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.

	2017	2016
	£m	£m
Earnings attributable to Ordinary shareholders	**11.5**	7.0
Add back taxation	**3.0**	2.1
Profit before taxation	**14.5**	9.1
Adjustments for:		
Amortisation	**16.0**	13.7
Costs relating to business combinations (note 5)	**3.0**	2.1
Adjusted profit before income tax	**33.5**	24.9
Tax on adjusted profits	**(6.9)**	(5.4)
Adjusted profit after income tax and earnings attributable to owners of the parent	**26.6**	19.5
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Weighted average number of Ordinary shares for diluted earnings per share	**63,053,805**	61,143,945
	Pence	Pence
Adjusted earnings per share	**42.8p**	32.4p
Diluted adjusted earnings per share	**42.2p**	31.7p

5. Business combinations

Details of business combinations in the year ended 30 June 2017 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 2017:

	Book value of acquired assets £m	**Adjustments £m**	**Fair value £m**
Property plant and equipment	3.6	-	**3.6**
Patient data records and customer lists	5.1	29.9	**35.0**
Inventory	1.2	-	**1.2**
Deferred tax liability	(0.2)	(5.3)	**(5.5)**
Trade and other receivables	2.3	-	**2.3**
Trade and other payables	(4.9)	-	**(4.9)**
Loans	(1.5)	-	**(1.5)**
Total identifiable assets	5.6	24.6	**30.2**
Goodwill		15.7	**15.7**
Total consideration paid			**45.9**

£1.0m was paid in the year in respect of deferred consideration for which there was no performance criteria and was included in Patient Data Records last year.

£1.0m was paid in the year in respect of deferred consideration has been expensed to the income statement within employment costs. Deferred consideration is expensed to the income statement where payment is dependent upon the recipient being employed by CVS Group.

Goodwill recognised represents the excess of purchase consideration over the fair value of the identifiable net assets. Goodwill reflects the synergies arising from the combination of the businesses; this includes cost synergies arising from shared support functions and buying power synergies. Goodwill includes the recognition of deferred tax in respect of the acquired patient data records and customer lists.

Post-acquisition revenue and post-acquisition EBITDA were £13.4m and £2.1m respectively. The post-acquisition period is from the date of acquisition to 30 June 2017. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2017 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 £1.4m for the year and are included within administrative expenses in the statutory financial statements.

Included within the table above are the acquisitions of Bell Equine Limited, Ambivet Limited and Severn Edge Limited, which are each considered to be material for the purposes of the financial statements. Separate disclosure of these acquisitions is provided in the statutory financial statements.

The fair values of the assets and liabilities are provisional.

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 2016.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the trade and assets of Cundall and Duffy Veterinary surgeons, a one site practice in North Yorkshire on 1 August 2017, Maatschap Dierenliniek Wolvega a one site practice in the Netherlands on 3 August 2017 and Strule Veterinary Services a two site practice based in Northern Ireland on 22 August 2017, 100% of the ordinary share capital of B&W Equine Group, a five site practice based in Breadstone, Cardiff, Failand, Willesley and Stretcholt on 11 September 2017 and 100% of the ordinary share capital of Aire Veterinary Centre Ltd a one site practice based in Headingley, Leeds on 28 September 2017 for a total cash consideration of £13.5m. Assets acquired comprised principally intangible patient data records with a provisional fair value of £13.5m.

6. Dividends

	2017	2016
	£m	£m
Amounts recognised as distributions in the year in respect of:		
Ordinary shares	**2.1**	1.8

The Directors have proposed a final dividend of 4.5p (2016: 3.5p) per share total: £2.9m (2016: £2.1m), payable on 8 December 2017 to shareholders on the register at the close of business on 24 November 2017. The dividend has not been included as a liability as at 30 June 2017. During the year a dividend of 3.5p per share amounting to £2.1m was paid.

7. Borrowings

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

Group	**2017** **£m**	*Restated 2016 £m
Within one year or on demand	**3.3**	0.3
Between one and two years	**-**	2.7
Between two and three years	**103.5**	96.8
	106.8	99.8

The balances above are shown net of issue costs of £1.1m (2016: £1.5m), 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.

In July 2017 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £152.5m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB and comprise the following elements:

- A fixed term loan of £67.5m, repayable on 23 November 2021 via a single bullet repayment; and
- A six year Revolving Credit Facility ("RCF") of £85.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

The two main financial covenants associated with these facilities are based on Group borrowings to EBITDA and Group EBITDA to interest. The Group borrowings to EBITDA ratio must not exceed 3.5 for the period up to 31 December 2017 from when it must not exceed 3.0. The Group EBITDA to interest ratio must not be less than 4.5. The facilities require cross guarantees from the most significant of the CVS Group's trading subsidiaries but are not secured on the assets of the Group. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during the period.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2017, the Group entered into a 3 year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduces to £40.0m on 1 March 2018, followed by a further reduction to £35.0m on 1 March 2019.

At the balance sheet date £45.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

*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 £37.0m (2016: £30.5m) RCF has been disclosed as a non-current liability. This change has also been reflected retrospectively to adjust the classification of the RCF from current liabilities to non-current liabilities in the prior periods. This change in accounting policy has no impact on the income statement, earnings per share or any other key performance indicator.

Undrawn committed borrowing facilities

At 30 June 2017 the Group has a committed overdraft facility of £5.0m (2016: £5.0m) and an RCF of £47.5m (2016: £47.5m). The overdraft facility was undrawn at 30 June 2017 and 30 June 2016. £10.5m of the RCF was undrawn at 30 June 2017 (2016: £17.0m).

8. Cash flow generated from operations

	2017 **£m**	2016 £m
Profit for the year	**11.5**	7.0
Taxation	**3.0**	2.1
Total finance costs	**2.7**	2.7
Amortisation of intangible assets	**16.0**	13.7
Depreciation of property, plant and equipment	**5.9**	5.2
(Increase)/decrease in working capital:		
Inventories	**(1.5)**	(1.6)
Trade and other receivables	**(4.5)**	5.2
Trade and other payables	**2.6**	(2.0)
Share option expense	**1.5**	1.3
Total net cash flow generated from operations	**37.2**	33.6