

26 July 2019

**CVS Group plc**  
("CVS" or the "Group")

**Trading Update**

CVS, the UK's leading provider of integrated veterinary services, is pleased to release the following update on trading in respect of the financial year ended 30 June 2019. The Group will announce its full year results on Friday 27 September 2019.

**Overview**

The Group generated total revenue for the financial year ended 30 June 2019 of £406.5m, an increase of £79.2m (+24.2%) over the revenue of £327.3m generated in the previous financial year. On a like-for-like basis the Group achieved revenue growth of 5.2 per cent. in the period and like-for-like revenue growth of 3.8 per cent. in its core Practices division.

The Group expects to report adjusted EBITDA<sup>1</sup> performance for the financial year which is in line with the recently upgraded market expectations (as revised following the trading update issued on 28 June 2019).

**Gross Margins**

The Group generated improved gross margins in each of its small animal, equine and referrals businesses in H2 2019 in comparison to H1 2019.

Total Gross Margin for the financial year ended 30 June 2019 reduced to 76.2% (from 79.6% in the previous year) due to both an increase in the proportion of revenues from the farm division which represented 9.5 per cent. of Group revenue in the year ended 30 June 2019 (2018: 3.9 per cent.) and a reduction in farm Gross Margin following the acquisition of Slate Hall (a lower margin poultry business) on 27 July 2018. Gross margins in our farm division also improved in H2 when Slate Hall is excluded.

Lower gross margins in farm practices reflect the lower proportion of veterinary fees and higher proportion of pharmaceutical sales in comparison to small animal, and are reflected in lower acquisition multiples paid for farm practices.

**Employment Costs**

The Group has seen a reduction in its veterinary surgeon vacancy rate with an average vacancy rate of 8.4 per cent. in the second half of the financial year ended 30 June 2019 compared to a peak of 12.5% in April 2018. This reduction, along with additional controls and visibility over the use of locum vets, has resulted in reduced locum spend in the second half of the financial year to 30 June 2019. The Group has also seen a reduction in its nurse vacancy rate with an average of 4.3 per cent. in the second half of the financial year compared to a peak of 8.8% in January 2018.

In January 2018 the Group awarded above inflation salary increases to veterinary surgeons and nurses and these resulted in clinical salaries in the six month period to 31 December 2018 being c. 8 per cent. higher than in the equivalent six month period to 31 December 2017). The Group is confident that it is now providing attractive levels of remuneration and does not see a requirement for further above inflationary increases at the current time.

In light of the reduced veterinary surgeon and nurse vacancy rates and the reduced reliance on locums the Group's employment costs reduced to 50.4 per cent. of revenue in H2 in comparison to 51.7 per cent. in H1.

The Group welcomed the review of the Shortage Occupation List ('SOL') published by the Migration Advisory Committee in May 2019 in which it was recommended that veterinary surgeons be reinstated on the SOL. If the recommendation is implemented by the Home Office the Group

believes this will have a positive impact on its ability to recruit veterinary surgeons from outside of the European Union.

### **Cost Savings**

The Group previously announced that it was targeting cost savings of £1.2m in the second half of the financial year to 30 June 2019 and we are pleased to confirm that these targeted savings have been achieved. The Group remains keenly focused on operational efficiency and is closely monitoring expenditure and performance metrics closely across its business.

### **Newer Divisional Performance**

In its 29 January 2019 announcement, the Group stated that it was disappointed with the early performance from its newer divisions of The Netherlands, Farm and Equine with financial results falling short of initial expectations. The Group is pleased to report that, as a result of actions taken, the performance of all three divisions has improved in the second half of the financial year. The Netherlands business has generated a monthly profit since February 2019 and exceeded budgeted EBITDA in the last two months of the year. In the Farm and Equine divisions both revenues and EBITDA margins increased in the second half of the financial year.

### **Capital Expenditure**

The Group incurred capital expenditure of £14.1m in the year ending 30 June 2019 comprising maintenance capital expenditure of £8.9m and investment capital expenditure of £5.2.

### **Leverage**

The Group had gross bank debt of £115m at 30 June 2019. In light of its closing cash at 30 June 2019 and its expected full year EBITDA, the Group expects to report Leverage at 30 June 2019 of 2.08x, a reduction from 2.40x at 31 December 2018.

### **Further Value Creation from Organic Growth**

The Group operates in a favourable market with medical advancements, increased willingness of owners to spend more on their pets and greater access to specialist procedures all driving an increase in average spend on pets. The veterinary sector has also proven resilient in past economic downturns.

The Group is well positioned for future growth and shareholder value creation through its integrated veterinary platform. The Group will continue to focus on organic growth initiatives across its divisions including:

- An emphasis on striving to provide the best clinical service to patients in our Practices division, which naturally facilitates increased numbers of clinical procedures and an increase in revenues
- Continued improvement of clinical standards:
  - The RCVS Practice Standards Scheme, with all practices participating (118 outstanding awards have already been received under this scheme, including in all six categories by the Group's Springfield practice)
  - Clinical audits to monitor compliance and the promotion of the Vetsafe scheme to learn from significant events /near misses
- Increased referrals from first opinion practices to in-house specialist referral hospitals, having successfully increased the number of leading specialists employed by CVS
- Additions to the current team of 75 specialist clinicians and the launch of a new peripatetic referral service through which specialists are able to perform procedures in local practices for client convenience whilst promoting higher standards in practices
- Promotion of preventative medicine through our healthy pet club scheme (400,000 companion animal patients were covered by the scheme as at 30 June 2019) and continued growth also of our Healthy Horse Programme (6,800 horses covered)
- The application of appropriate price increases from time to time
- Expansion of our existing footprint of 22 dedicated out-of-hours centres, with a further eight

planned to open in the financial year to June 2020

- Further provision of all aspects of the Group's integrated services on an in-house basis, including further expansion from the Vet Direct business acquired on 29 August 2018
- Delivery of laboratory and cremation services to both CVS owned and independent practices, with additional expansion opportunities in Ireland and The Netherlands through acquisition
- Additions to the Animed Direct product range, facilitated by a new warehouse management system going live in the first half of the current financial year, and continuing investment in online marketing in order to increase site visits at an acceptable cost per acquired customer
- Exploration of opportunities to invest in new facilities, to provide greater access to clinical procedures and to drive increased revenue
- Investment in the refurbishment or relocation of existing practices to maintain standards or optimise utilisation and sales of our integrated services
- Selected investment in further greenfield sites where the Group is confident that appropriate returns can be generated over time
- The Group believes that the highest levels of patient care can be provided through face to face consultations in our practices or through our ambulatory teams. The Group will explore opportunities to provide remote consultations through telemedicine provision where we are confident that services can be provided in an effective manner without compromising our high standards of clinical patient care.

Simultaneously, the Group will continue to invest in people and practices and remains focused on recruiting the best graduates, clinicians and specialist staff, with personnel development and support initiatives including:

- A new and progressive learning education and development programme to provide both clinical and other skills based training
- New career pathways and salary bandings in our Practices division to provide increased transparency and to incentivise promotion and development within the business
- A new wellbeing / mental health awareness programme under which we are providing on-site support to employees through a team of trained workplace champions
- The award of an additional day's holiday to contracted employees for every five years' service to promote and reward loyalty to the CVS Group

### **Acquisitions and Greenfield Sites**

The Group announced on 29 March 2019 that it had re-evaluated its approach to acquisitions and that it would only consider acquisitions at acceptable multiples and where the group was confident the acquisitions could be integrated successfully, in order to deliver both increased scale and improved financial performance.

The Group completed two targeted acquisitions in the second half of the financial year to 30 June 2019:

- Coen Dierenarts, Hengelo, Netherlands – single site small animal practice employing 3 vets, completed on 2 April 2019
- Cinderhill, West Sussex, UK – single site equine practice with 6 vets, completed 24 June 2019

Upon completion of these acquisitions, the Group had 506 surgeries at 30 June 2019 including 8 referral hospitals.

Whilst the Group continues to explore its pipeline of further opportunities against its stated criteria, no acquisitions have been completed since the year end.

No additional Greenfield sites have been opened in the financial year to 30 June 2019 or in the period post year end to date.

### **Investor Presentation**

The Group is hosting a presentation to institutional investors and analysts later today at its Lumbry

Park referral hospital. The presentation is available to all investors on the CVS Group plc investor website <https://www.cvsukltd.co.uk/investor-centre/investor-presentation/>.

Commenting on the trading update Richard Connell, Chairman, said:

*"I am pleased that we are able to report improved performance in the second half of the financial year. A number of actions have been taken to both address the key issues which contributed to the underperformance in the first half and to position the Group for future growth.*

*The Board remains confident of the strengths of the business and the opportunities from a number of initiatives and is confident these will support continued restoration of shareholder value.*

*The Group employs a highly skilled and committed team of clinical and non-clinical staff. On behalf of the Board I would like to take this opportunity to thank them for their continued dedication to our patients, clients and the Group."*

#### Notes

- 1 Adjusted EBITDA is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items.
- 2 Leverage is defined as Net Debt (gross debt less cash balances) divided by Adjusted EBITDA (annualized for the effect of acquisitions)

This announcement is released by CVS Group plc and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 ("MAR"), encompassing information relating to trading for the Company's expected results for the financial year ended 30 June 2019, and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is being made on behalf of the Company by the directors named below.

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