

CVS Group plc

Full Year Results

30 June 2012



September 2012

Highlights

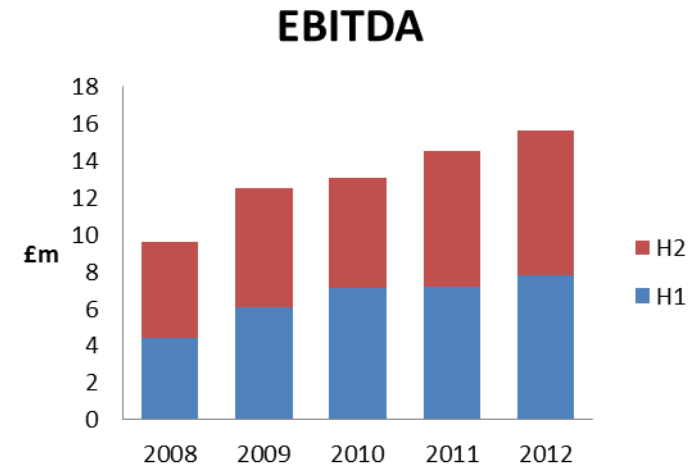
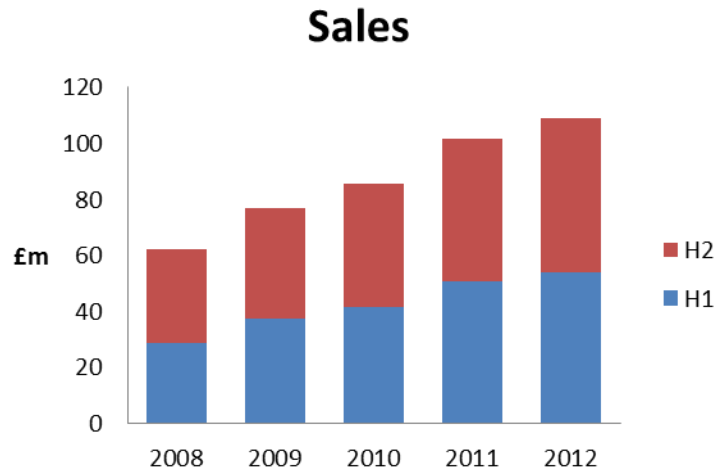
Revenue growth	+ 7.1% to £108.7m
<i>Like-for-Like Sales</i>	+ 2.9%
EBITDA (adjusted)	+ 7.9% to £15.7m
Operating profit	+ 6.7% to £6.8m
EPS (adjusted)	+ 12.9% to 15.8p
Proposed dividend*	+ 50.0% to 1.5p

* Subject to approval at AGM

- Increase in loyalty scheme members from 28,000 to 65,000 during the year
- Significant growth of e-commerce activities with revenue of £3.0m for the year (2011: £0.9m)
- Net debt reduced by £2.6m to £30.9m, despite spending £3.8m on acquisitions
- Secured new bank funding, maturing December 2016, including a 2 year capital repayment holiday
- Acquired and successfully integrated 8 surgeries, bringing the total number of sites at the year end to 231 surgeries



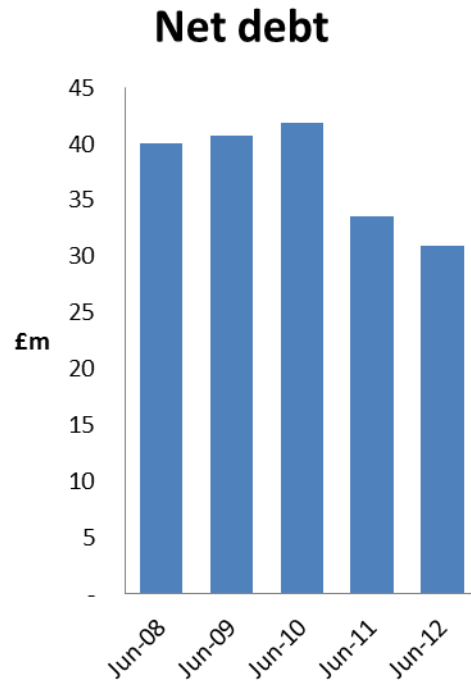
Key Performance Trends



Continued delivery of significant revenue and profit growth, combined with material reduction in borrowings



Key Performance Trends



Significant reduction in net debt:

- June 12 £30.9m
- June 11 £33.5m
- June 10 £41.9m

Net debt:EBITDA

- June 12 1.98
- June 11 2.31
- June 10 3.21

Significant reduction in borrowings



Initiatives

New initiatives delivered:

- Locum agency
- Practice on-line shops
- Loyalty scheme expansion
- Leadership programme

Planned new initiatives

- Buying group/ vet club
- Own brand product range



Practices – Overview



- 231 veterinary practices across the UK with 8 added in the year
- Revenue of £101.8m (93.6% of Group total) and £18.7m of EBITDA
- Property redevelopments:
 - The Grove (£1m project)
 - Regans (£200k project)
 - Hartlepool (£100k project)
 - Emmview (early stages; £25k to date)
 - Chichester (£60k project)
 - Seaford (£45k project)
- Property relocations:
 - Lake (£130k spent in year)
 - Regans, Bury Road (commenced in August 2012)



Practice Division – Customer loyalty schemes

- Healthy Pet Club revenue – 5.1% of divisional revenue in the year
- Pet membership growing strongly

	Adult	Puppy/ Kitten	Horse	Rabbit	Total
30 June 2011	24,568	3,631	191	-	28,390
30 June 2012	36,062	28,934	303	191	65,490
31 August 2012	38,578	34,087	325	217	73,207



Practice Division – Customer loyalty schemes

- Average pet spend per year:
 - HPC client 80% higher than non-HPC client
- Developments:
 - Enhanced scheme offering
 - Wellness element
 - Standardised pricing
 - Loyalty scheme manager appointed
 - Link to on-line shops
- HPC website - link to and from Kennel Club website



Practice Division – E-Commerce

On-line Dispensary

- Strong performance and significant growth opportunities
- Generated sales of £3.0m for the year (2011: £0.9m); current annual run-rate in excess of £4m
- Key data
 - 2,997 product lines
 - Average order value of £31.28
 - 464 orders placed per day
 - 76,546 customers
 - Conversion rate 16.95%
 - Increased profitability
- Launched new in-house developed website in March 2012
- Planned expansion of trading into Europe



Practice Division – E-Commerce

Online shops

- 7 on-line shops now operational (representing 32% of surgeries):
 - Pet Doctors
 - Nine Mile
 - Regans
 - Firstvets
 - Bridge
 - Springfield
 - Active Vetcare
- Continued roll-out of on-line shops, alongside web development
- Linked to HPC
- Free home delivery
- Animed Direct logistics



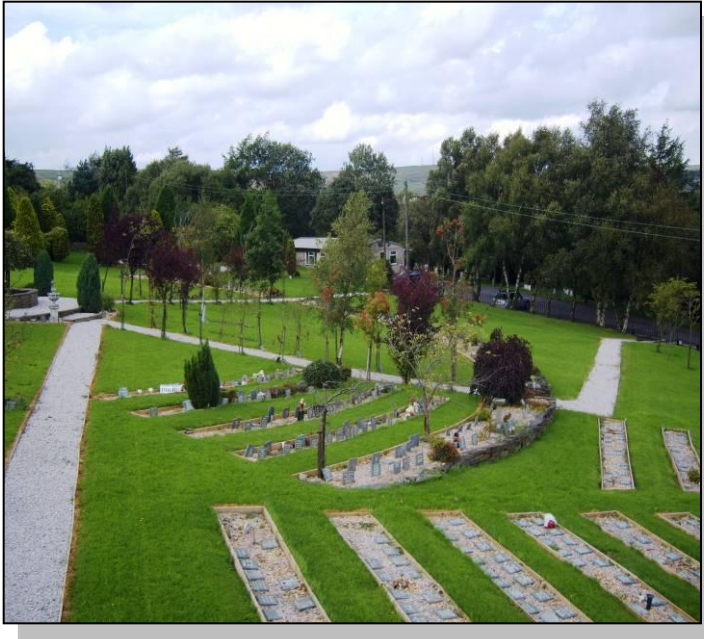
Laboratories



- Strong divisional performance during the year, like for like sales +5.9% to £9.1m of revenue despite loss of rabies work
- Growth due to new sales initiatives and enhanced sales team
- EBITDA £1.1m, up 15% on prior year
- Laboratories offer wide range of diagnostic services including histopathology, microbiology and clinical chemistry
- Intra-group sales 32%; external 68%



Crematorium (Rossendale)



- Delivered £0.9m of revenue (2011: £0.8m) and £0.4m of EBITDA (2011: £0.3m)
- Intra-group sales 36%; external 64%
- High ROIC and substantial group synergies



Systems Development

Practices

Single Practice Management System – phased upgrades (financed within normal capex budget)

- 45% of sites at 30 June 2012
- 73% expected by 30 June 2013
- Capex of circa £0.4m per annum

Laboratories and Crematoria

- Laboratory system to be upgraded by October 2012
- New Crematoria system went live July 2012

Central systems development

- New HPC direct debit system implemented and fully operational
- Business Intelligence tool now developed
- HR and payroll system to go live in December 2012

Improves efficiency, reporting and scalability



Results - Profit & Loss

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Revenue	108,745	101,491
Cost of sales	(69,584)	(64,817)
Gross profit	39,161	36,674
Administrative expenses	(32,376)	(30,316)
Operating profit	6,785	6,358
Net finance expenses	(1,442)	(2,104)
Exceptional finance expense	(1,569)	-
Profit before income tax	3,774	4,254
Income tax expense	(886)	(767)
Profit after income tax	2,888	3,487
Earnings per ordinary share		
- Basic	5.1p	6.2p
- Adjusted	15.8p	14.0p
Proposed dividend	1.5p	1.0p

- Revenue growth +7.1%
- 2.9% like-for-like increase (On-line pharmacy, loyalty schemes)
- Gross margin and operating margin (after adjusting for non-cash charges of depreciation, amortisation and share option expense) stable at 36% and 14% respectively
- Profit before income tax and Basic earnings per share are reported after an exceptional finance expense of £1.6m incurred as part of the successful and strategically important refinancing secured in December 2011



Results - Cashflow

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Cash flows from operating activities		
Cash generated from operations	15,546	17,639*
Taxation paid	(2,025)	(1,267)
Net interest paid	(1,214)	(1,816)
Exceptional finance expense in relation to hedge termination	(1,598)	-
Net cash generated from operating activities	10,709	14,556
Cash flows from investing activities		
Capital expenditure - acquisitions	(3,765)	(4,192)
Capital expenditure - other	(3,493)	(1,833)
Net cash used in investing activities	(7,258)	(6,025)
Cash flows from financing activities		
Dividend paid	(567)	-
Finance lease principal payments	(11)	(7)
Loan financing	(1,201)	(5,175)
Net cash from financing activities	(1,779)	(5,182)
Net increase in cash and cash equivalents	1,672	3,349
Cash and cash equivalents at start of year	3,193	(156)
Cash and cash equivalents at end of year	4,865	3,193

* Included one-off benefit of trade payables (see slide 26)

- Increase in cash position since June 2011 of £1.7m after paying the following amounts;
 - Capex, interest and tax £6.7m
 - Acquisition costs £3.8m
 - Exceptional finance expense £1.6m
 - Repayment of bank loan £1.0m
 - Dividend (maiden) £0.6m
- Acquisitions made from internally generated cash
 - Woolpack Veterinary Practice, Royston
 - Birch Heath, Tarporley
 - Brook House, Southampton
 - Pines, Maidenhead
 - Argyll, Barnstaple (3 surgeries)
 - Nute, Wadebridge



Results - Balance Sheet

	30 June 2012 £'000	30 June 2011 £'000
Non-current assets		
Intangible assets	52,538	54,486
Property, plant and equipment	9,570	8,465
Investments	53	77
Deferred income tax assets	459	697
	<u>62,620</u>	<u>63,725</u>
Current assets		
Inventories	3,177	2,633
Trade and other receivables	9,147	8,049
Cash and cash equivalents	4,865	3,193
	<u>17,189</u>	<u>13,875</u>
Total assets	<u>79,809</u>	<u>77,600</u>
Current liabilities		
Trade and other payables	(17,543)	(15,894)
Current income tax liabilities	(923)	(932)
Borrowings	(11)	(3,962)
	<u>(18,477)</u>	<u>(20,788)</u>
Non-current liabilities		
Borrowings	(35,772)	(32,777)
Deferred income tax liabilities	(4,759)	(5,795)
Derivative financial instruments	(448)	(1,669)
	<u>(40,979)</u>	<u>(40,241)</u>
Total liabilities	<u>(59,456)</u>	<u>(61,029)</u>
Net assets	<u>20,353</u>	<u>16,571</u>

- Continued reduction in net debt
 - Jun 12 £30.9m
 - Jun 11 £33.5m
 - Jun 10 £41.9m
- Debt facilities of £40m (new facility December 2011)
 - £36m loan facility fully drawn down
 - 5 year term
 - £4m working capital facility available
- Debt repayment holiday until December 2013
 - Full repayment schedule (slide 24)
- Headroom on Financial Covenants (slide 27)



Outlook

Existing Business

- Increasing operational efficiencies / standardisation
- Customer loyalty schemes
- E-Commerce
- Systems development
- Investment in growth initiatives across the business

Growth through selective acquisitions

- Continue to acquire Practices, Laboratories and Crematoria
- Large opportunity with still only 11% market share in small animal sector

Finance

- Continuing strong cash flow
- Continue to invest in core business
- Overall reduction in net debt
- Full year dividend expected December 2012



Appendices



Overview of CVS

- UK's largest National operator and consolidator of veterinary practices
- Market leading position and reputation making CVS the acquirer of choice
- Consistent delivery of growth year on year, however we continue to experience a more challenging operating environment
- Complementary businesses build on growing network of practices to internalise margin and maximise revenues

2,317 employees

545 vets

231 surgeries nationwide

6 diagnostic laboratories

1 crematorium & cemetery

1 on-line dispensary



Vet Surgeries



Surgery locations

- Wide geographical spread across England
- Initial presence in Scotland and Wales
- Small animal practices – urban areas
- Ripple effect



Business structure

The following diagram highlights the current operations undertaken by the Group (shown in black) with potential growth areas as identified in red:



Practice Division – Customer loyalty schemes

- Customer loyalty scheme payment by direct debit. Client benefits:
 - 2 or 3 health checks per year - free of charge
 - Vaccinations, flea and worming treatments - free of charge
 - 20% off wide range of lifetime care drugs
 - 10% off all other products and services
 - Discount on purchases from our online shop offering
- Key objectives
 - Increase revenue
 - Differentiate from other veterinary practices
 - Bonding clients/loyalty
 - Protect against online threat
 - To attain 100% of clients on scheme
- 4 loyalty schemes now in place, growing significantly
 - Adult Dogs and Cats
 - Horse
 - Puppy & Kitten
 - Rabbit (launched during the year)
- Introduced improved value standard pricing



active
vetcare

Save over **£235*** **Puppy & Kitten
Loyalty Scheme**

just **£9.99**
a month
(inc. VAT)

Included in your membership:

- Course of Initial Vaccinations- Including Kennel Cough for dogs only
- Flea control for 12 months
- Worming treatment for 12 months
- 20% Discount on Neutering
- Introductory Bag of Hills Puppy or Kitten Food
- Microchip
- 3 Health Checks during this 12 month period
- 20% Discount on Adaptil (Dap) and Feliway products (help to relieve fear and anxiety in pets)
- 10% Discount on Hills Pet Food + Buy 5 bags Get 1 Free
- Plus 10% off all other products and services today and everyday

Pets must be 8 months or younger to be eligible.
A similar scheme is available for adult pets

www.thehealthypetclub.co.uk

Summerleaze	Beeches	Marlow	Holtspur
01628 628121	01753 539353	01628 483213	01494 689992

www.activevetcare.co.uk

Offer 12 months from launch. See the website, Terms and conditions apply. Not to be used in conjunction with another offer. The savings shown are an average based on prices in our online shop. See our website for more details. Based on a 12 month period. Some restrictions apply. Offer not available for all products.



Bank refinancing

Improved banking facilities with RBS were signed on 6 December 2011:

- £36m term loan
- £4m overdraft
- Capital repayments commence December 2013
- Arrangement fees of £289k have been capitalised and will be amortised over the term of the loan

Hedging arrangements

- New arrangement put in place December 2011 – 5 year vanilla swap to hedge 60% of outstanding loan balance
- Previous cap and collar was terminated, resulting in a one-off payment of £1.6m



Debt Repayment Profile

Period End	Repayment £m	Balance £m
31 December 2011		36.00
December 2013	0.75	
March 2014	0.75	
June 2014	0.75	(2.25)
		<hr/>
30 June 2014		33.75
September 2014	0.75	
December 2014	1.00	
March 2015	1.00	
June 2015	1.00	(3.75)
		<hr/>
30 June 2015		30.00
September 2015	1.00	
December 2015	1.00	
March 2016	1.00	
June 2016	1.00	(4.00)
		<hr/>
30 June 2016		26.00
September 2016	1.00	
December 2016	25.00	(26.00)
		<hr/>
6 December 2016		0.00



EBITDA Margin Analysis

	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Revenue	39.0	62.2	76.6	85.5	101.5	108.7
EBITDA	5.1	9.6	12.5	13.1	14.5	15.7
<hr/>						
<u>% of sales</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Gross margin						
-Practices	80.4	82.2	83.7	84.7	84.2 *	83.0 *
-Laboratories	87.2	74.0	68.6	70.5	79.6	80.5
-Crematorium	0.0	0.0	90.2	86.4	81.7	80.2
Head office	5.4	4.5	4.4	5.0	4.4	4.1
EBITDA margin (%)	13.1	15.5	16.3	15.3	14.3	14.4

** The decline in gross margin percentage is due to the significant growth of our on-line business*



Cash generated from operations

	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Profit for the year	2,888	3,487
Taxation	886	767
Total finance costs	3,058	2,128
Investment income	(47)	(24)
Amortisation of intangible assets	5,655	5,348
Depreciation of property, plant and equipment	2,305	2,233
Contingent deferred consideration expensed in the year	175	45
(Profit)/loss on disposal	(1)	36
(Increase) in inventories	(444)	(115)
(Increase) in trade and other receivables	(1,198)	(1,127)
Increase in trade and other payables	1,641	4,426
Share option expense	628	435
Total cash flows from operating activities	15,546	17,639



Bank Covenants

- The key financial banking covenants are:

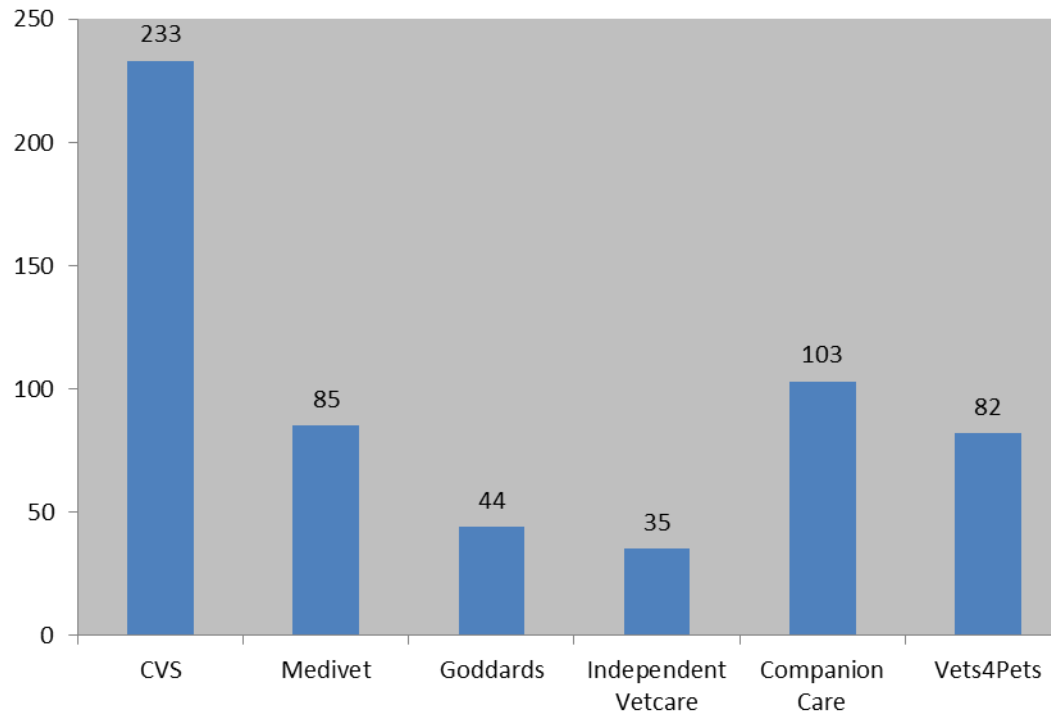
Covenant	Details	Ratio requirement	Actual – 30 June 2012 (unaudited)
Cashflow cover	Cashflow available for debt service: total finance payments	At least 1.0:1	3.75
Senior debt / EBITDA		Must not exceed 3.0:1	2.04
Senior interest cover	EBITDA / Senior interest paid	At least 4.5:1	13.14

- These are tested quarterly on a 12 month rolling basis



Corporate Owned Surgeries

- Corporate ownership currently represents circa 25% of small animal surgeries
- CVS is the only corporate with a strong nationwide presence



Source: Individual business websites (September 2012)

CVS is the recognised national consolidator in the market

