CVS Group plc

Preliminary Results for the year ended 30 June 2016

For Immediate Release **23 September 2016**

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

Preliminary Results for the year ended 30 June 2016

CVS, one of the UK's leading providers of veterinary services, is pleased to announce its preliminary results for the year ended 30 June 2016.

Financial Highlights

	Year ended 30 June 2016	Year ended 30 June 2015	Increase[4] %
Revenue (£m)	218.1	167.3	+30.4
Adjusted EBITDA (£m)[1]	32.8	23.0	+42.5
Adjusted profit before income tax (£m)[2]	24.9	18.2	+36.2
Adjusted earnings per share (pence)[3]	32.4	24.7	+31.2
Operating profit (£m)	11.8	9.8	+20.0
Profit before income tax (£m)	9.1	8.5	+6.0
Basic earnings per share (pence)	11.6	11.6	-
Proposed dividend (pence)	3.5	3.0	+16.7

- Revenue up 30.4% to £218.1m
- Like-for-like sales growth for the Group of +4.8%
- Healthy Pet Club members up 18% to 253,000
- Adjusted EBITDA up 42.5% to £32.8m
- Adjusted earnings per share up 31.2% to 32.4 pence per share
- Acquired and integrated 67 surgeries during the year
- 3 surgeries acquired after the year end
- Now operate 363 surgeries
- Acquired 3 crematoria during the year

[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 2016 will be uploaded to the Company's website, www.cvsukltd.co.uk, later today.
This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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Chairman's statement

An outstanding Group performance

Results

I am delighted to report an outstanding performance by CVS with a record year for revenue and operating profits across the Group. Organic growth was enhanced by further acquisitions in our Veterinary Practice and Crematoria Divisions. We increased investment in the development of our services, our staff and our premises, and further improved our customer service in all areas.

Revenue grew by 30.4% to £218.1m (2015: £167.3m). Adjusted EBITDA increased by 42.5% to £32.8m (2015: £23.0m) and adjusted EPS grew by 31.2% to 32.4p (2015: 24.7p).

Operating profit rose by 20.0% to £11.8m (2015: £9.8m), cash generated from operations increased 51.1% to £33.6m (2015: £22.2m) and profit before tax increased by 6.0% to £9.1m (2015: £8.5m). Basic EPS was unchanged at 11.6p (2015: 11.6p) due to the increase in the number of Ordinary shares in issue.

Business initiatives

In 2016 we acquired 67 surgeries, three crematoria, the VetShare buying group and the VETisco instrumentation business. This is much more than we have ever completed in a year before. In total these businesses are expected to generate revenue of approximately £50.0m per annum. The acquisitions included the Highcroft business which includes a strong and rapidly developing referrals business in Bristol, and the Dovecote referral centre in Castle Donington. These, together with the opening of our state of the art Lumbry Park referral centre in October 2015 moved our referral strategy forward significantly.

Subsequent to the year end a further 3 surgeries have been acquired.

Like-for-like sales grew by 4.8% (2015: 6.8%) with growth in all areas except Animed Direct which had a difficult year.

Our "MiPet" own brand label is unique in the veterinary industry and as well as giving us a pricing advantage it helps to bond our customers to our practices. The launch of our own brand flea and worming treatments in the spring of 2015 significantly improved our margins in the Practice Division. Further products have been added under the MiPet name including pet food and waiting room retail accessories. These additional products are lower volume than the flea and worming treatments and so will not improve the margin to the same extent.

Our Healthy Pet Club scheme continued its strong growth with an additional 40,000 (18.8%) members over the year.

The Laboratory Division grew very strongly for a second consecutive year with revenue increasing by 12.8% to £14.8m (2015: £13.1m).

The acquisition of three crematoria in Larkhall, Durham and Scunthorpe has improved our geographic coverage greatly. This will allow us to improve the service to customers and to achieve greater benefits of scale.

Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 4,300 staff as at today (2015: 3,400), including around 1,040 vets (2015: 822). It is a credit to all of our people that they have delivered the increased scale of acquisitions and, at the same time, continued to develop the like–for-like business. I would like to thank them all, including those new to CVS, for their expertise and professionalism in providing the best possible care and service to all our customers and their 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 3.5p per share in December 2016, a 16.7% increase on the 3.0p per share paid in 2015. Our pipeline of acquisitions remains strong and the Board believes that there remain significant opportunities for organic growth. 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 9 December 2016 to shareholders on the register on 25 November 2016. The ex-dividend date will be 24 November 2016.

Outlook

The Group's exposure to the potential impacts of "Brexit" appears to be limited 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.

Investment in a number of longer term initiatives will have a slightly negative impact on our profits in the short term before generating positive returns. These include the development of a small number of greenfield sites, the introduction of our own brand insurance and the introduction of an additional layer of management in the Veterinary Practice Division in order to enhance the support of the practices and maximise their potential.

Like-for-like sales growth in the second half of the year ending 30 June 2016 was strong and pleasingly this has continued into the early part of 2017. Initiatives such as the benefits arising from the introduction of our own brand products, the expansion of out-of-hours sites and the development of Lumbry Park, will continue to deliver benefits in 2017. In addition the acquisition pipeline remains buoyant.

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

Richard Connell

Non-Executive Chairman

23 September 2016

Business review

Excellent progress on our strategic priorities

Introduction

CVS Group is managed across four divisions: Veterinary Practice, Laboratory, Crematoria and Animed Direct, our on-line dispensary and retailer. The Veterinary Practice Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2016.

Veterinary Practices

	2016 £m	2015 £m
Like-for-like revenue	148.1	139.8
2015 acquisitions	22.7	7.7
2016 acquisitions	25.9	-
Total revenue	**196.7**	147.5
Adjusted EBITDA £m	35.6	25.3
EBITDA margin %	18.1	17.1

Revenue amounted to £196.7m (2015: £147.5m), an increase of 33.4% on the prior year. Adjusted EBITDA increased by 40.9% from £25.3m to £35.6m and profit before income tax increased from £15.4m to £21.3m. These increases include the impact of acquisitions in both 2015 and 2016.

In the year CVS acquired 67 surgeries operating as 18 practices as well as the VetShare buying group and the VETisco instrumentation business. These businesses contributed £25.9m of revenue and £4.1m of EBITDA in the year.

Adjusted EBITDA as a percentage of sales increased by 1.0% from 17.1% in 2015 to 18.1% in 2016. This was primarily due to an improvement in the gross margin percentage, from 83.8% to 84.7%, which was particularly helped by the introduction of the MiPet own brand range of treatments.

Like-for-like sales grew by 5.4% for the year as a whole (2015: 5.6%), with the second half showing significantly higher growth than in the first 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. Revenue is developing steadily with referrals being obtained from both CVS and third-party practices.

Early in the year we acquired the Dovecote referral centre in Castle Donington and, in December 2015, the acquisition of the Highcroft business with its rapidly developing referral centre in Bristol. These new locations provide us with excellent teams and facilities to service our customers' needs rather than referring them to specialists outside of CVS. As a medium term objective the Group will be seeking other locations around the UK in which to establish further referral centres. The refit of our Chestergates referral site is planned for 2017 as is the opening of Manchester Veterinary Surgeons. These developments will further enhance our referral abilities in the North West of England.

In the last quarter of 2015 we extended our "MiPet" own brand range to include high volume flea and worm treatments. With other smaller own brand medicines launched around the 2016 year end we now have fourteen own brand medicines. This had a beneficial impact on our margins after drugs costs. We began the roll out of our own brand pet food and waiting room retail range during the year and will complete this in the first half of 2017. 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. It both protects our margins and helps us retain our competitiveness by limiting price increases.

The Healthy Pet Club loyalty scheme continued its excellent growth in the year. Over 40,000 pets were added to the scheme increasing membership by over 18.8% and bringing the total membership to 253,000. 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 £24.0m (2015: £18.8m). At the year end, the monthly run rate represented 12.3% (2015: 13.0%) of practice revenue; however in the like-for-like practices the figure was 16.3% (2015: 13.5%), 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 8 out-of-hours sites and plan to open several more during 2017. 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, except for the most recently opened site, all of our out-of-hours centres are now 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 helped us further develop our large animal and equine businesses. In particular, the Alnorthumbria practice has substantial large animal and equine custom and Valley Equine, in Lambourn, will link well with our existing Scott Dunns practice near Wokingham.

Our investment in our surgeries was at record levels

during the year. In addition to the £3.3m spent on fitting out Lumbry Park, we have spent £1.4m on new practice sites and £3.6m refurbishing and maintaining sites. We opened two small surgeries at Beccles (part of the Coastline practice) and Lawley (part of the Haygate practice). Both are trading well. Amongst many other developments, we extended the Beaumont site at Kidlington and the Nine Mile site at Wokingham and completely redeveloped the Oaklands equine and small animal site in Yarm providing it with a state of the art equine theatre and stabling.

In addition to refurbishments, we spent £2.2m on new equipment in our practices, including expenditure on installation of a CT scanner at Beechwood Doncaster, a further 50 installations of digital x-ray equipment and further installations of in-house analysers. This equipment improves our diagnostic capability and our ability to serve our customers in a professional environment.

The development of our buying group has been dramatically enhanced by the acquisition of VetShare as part of the Albavet group acquisition. Since completing this acquisition, we have already negotiated additional annual rebates for members of over £0.3m and have begun to sell our own brand products to members. VetShare provides the opportunity for us to offer members a two tier buying group with MiVetClub being somewhat more restrictive, in that it requires members to adhere to our dedicated and preferred list of medicines, but providing a greater return to members. MiVetClub also now has the ability to allow its members to purchase from two wholesalers.

Our strategy in the Veterinary Practice Division is dependent on our team which will always be one of our most valuable assets and one that we aim to continue to develop. The growth of the Veterinary Practice Division has necessitated the further development of its management structure in order to enhance the support of the practices and maximise their potential. This will lead to some additional fixed costs although in the medium term these will be offset by the available margin opportunity and will better support the further expansion of the Practice Division. The new structure has been substantially recruited through promotion of our own staff previously working in practice.

We have continued to develop our staff training and career opportunities. Our Nurse Academy, successfully launched in January 2015, is now well into its second year with a further 270 nurses learning specialised skills. 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 240 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 Advanced Veterinary Practitioner and diplomas. Increasingly, this training is carried out in-house by our own experts.

Laboratory

	2016 £m	2015 £m
Revenue	**14.8**	13.1
Adjusted EBITDA £m	**3.1**	2.2
EBITDA margin %	**20.9**	17.0

The Laboratory Division generated revenue of £14.8m, a 12.8% increase on the prior year figure of £13.1m. Adjusted EBITDA grew by close to 40.0% from £2.2m to £3.1m and profit before tax increased from £1.7m to £2.5m. In the past two years EBITDA has nearly trebled.

The growth reflects both further development of the diagnostics business and the introduction of the in-house analyser business in 2014. During the year the diagnostic business introduced polymerase chain reaction testing and aims to grow this business substantially. Work has also progressed towards obtaining the ISO accreditations necessary to allow us to substantially increase the amount of large animal testing performed. The sales of analysers and related consumables to third parties grew strongly during the year, albeit from a low base, and further progress is anticipated in 2017.

The Laboratories gross margin percentage remained stable at 73.3% (2015: 73.4%). EBITDA as a percentage of sales showed growth from 17.0% to 20.9%, reflecting the greater rate of growth in the in-house analyser business, which has a higher EBITDA percentage than the diagnostics business.

Crematoria

	2016 £m	2015 £m
Like-for-like revenue	**3.2**	2.5
2015 and 2016 acquisitions	**1.8**	0.1
Total revenue	**5.0**	2.6
Adjusted EBITDA £m	**1.7**	0.8
EBITDA margin %	**34.2**	29.6

The Crematoria Division almost doubled revenue from £2.6m in 2015 to £5.0m. The acquisition of four crematoria in the space of twelve months has considerably enhanced the geographic coverage of the Division with important new locations at Larkhall, near Glasgow, Durham and Scunthorpe. This has allowed collection routes to be organised more efficiently between locations. Like-for-like sales growth of 26.6% arises not only from higher third-party sales but from the benefit of our Crematoria Division becoming the supplier to veterinary practices that we have acquired in both the current and prior year.

The full benefits of this expansion are yet to be seen, with the two Pet Crematorium sites, at Larkhall and Durham, acquired in December 2015 and the Green Acres crematorium at Scunthorpe just a few days prior to the year end.

Adjusted EBITDA more than doubled in the year to £1.7m (2015: £0.8m) and it has increased fourfold in the last two years. EBITDA as a percentage of sales improved from 29.6% to 34.2% as the leverage of the increased revenue continued. Profit before tax increased from £0.7m to £1.4m.

Animed Direct

	2016 **£m**	2015 £m
Revenue	**9.8**	10.3
Adjusted EBITDA £m	**0.3**	0.5
EBITDA margin %	**3.2**	4.8

Animed Direct, our on-line dispensary and retailer, had a tough year. Revenue fell by 4.6% to £9.8m (2015: £10.3m) and adjusted EBITDA fell to £0.3m (2015: £0.5m). Profit before tax fell from £0.5m to £0.3m. Sales have suffered due to the poor performance of our website on mobile phones and tablets while transactions shifted rapidly to these channels. Our website will be relaunched and further developed during 2017.

The business focusses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business now has a customer database of over 335,000 (2015: over 322,000) people, with the average value of each purchase during the year up at £31.00 (2015: £28.94).

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £7.9m (2015: £5.8m), representing 3.6% of revenue (2015: 3.5%).

The significant growth and development of the Group requires additional investment to maintain an appropriate level of control and to support further growth over the next few years. Our head office was relocated into larger premises in Diss during 2016 and Animed Direct will relocate to the same site, which includes a 50,000 sq. ft. warehouse, in the current year.

All central functions have taken on additional staff to assist with the integration of acquisitions and the ongoing management of the enlarged business. More support staff are being based in the regions, where they can more easily provide the close support that the operations teams require. Focus has remained on developing our support systems to improve efficiency, effectiveness and resilience.

Development of our planned own brand insurance offers exciting potential for the Group. The central administration costs include a small amount of initial set up costs for our proposed insurance business. The detailed specification of products and systems is in progress and we hope to launch our own brand insurance in 2017.

Simon Innes

Chief Executive Officer

23 September 2016

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:

	2016	2015	Change %
Revenue (£m)	**218.1**	167.3	30.4
Adjusted EBITDA (£m)*	**32.8**	23.0	42.5
Adjusted profit before tax (£m)*	**24.9**	18.2	36.2
Adjusted earnings per share (p)*	**32.4**	24.7	31.2
Operating profit (£m)	**11.8**	9.8	20.0
Profit before tax (£m)	**9.1**	8.5	6.0
Basic earnings per share (p)	**11.6**	11.6	-

* Adjusted financial measures are defined on page 1 of this Annual Report and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") below and on page 56 (adjusted profit before tax and adjusted earnings per share.

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:

	2016 £m	2015 £m
Operating profit as reported	**11.8**	9.8
Adjustments for:		
Amortisation and depreciation	**18.9**	12.0
Costs of business acquisitions	**2.1**	1.2
Adjusted EBITDA	**32.8**	23.0

The £9.8m (42.5%) improvement in the adjusted EBITDA figure compared with the prior year arises primarily from the underlying organic growth within Veterinary Practices Division (£4.0m) and Laboratory Division (£0.9m), acquisitions during the year (£4.5m) and the full year effect of previous year acquisitions (£2.5m), offset by an increase in central administration costs (£2.1m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) increased from 13.8% in 2015 to 15.0%. This was driven by an increased margin in the Veterinary Practice Division but there were also increases in the Laboratory and Crematoria Divisions.

Profit before tax for the year increased from £8.5m to £9.1m (6.0%). Basic earnings per share was unchanged at 11.6p (2015: 11.6p) due to the increase in Ordinary Shares in issue.

Adjusted profit before tax showed a 36.2% increase in the year from £18.2m to £24.9m. Adjusted earnings per share (as defined in note 11 to the financial statements) increased 31.2% to 32.4p (2015: 24.7p). Adjusted profit before tax and adjusted earnings per share exclude the impact of amortisation of intangible assets and business combinations costs.

The increase in profit before tax is relatively small compared to the substantial increase in the adjusted figure. This reflects the increase in the amortisation of intangible assets due to the acquisitions during the year. The amortisation charge also includes the write off of £0.7m of intangible assets in respect of one underperforming business acquired in 2013.

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:

	2016	2011	CAGR %
Revenue (£m)	**218.1**	101.5	16.5
Adjusted EBITDA (£m)	**32.8**	14.1	18.4
Adjusted profit before tax (£m)	**24.9**	7.9	25.8
Adjusted earnings per share (p)	**32.4**	14.0	18.3

New bank facility

In November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115.0m 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. They replace the existing banking arrangements on more favourable terms, including a lower interest rate, 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 £47.5m 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 £33.6m (2015: £22.2m). The increase reflects the growth in EBITDA.

Net debt increased by £46.9m to £93.1m (2015: £46.2m)

largely as a consequence of higher acquisition activity and continued investment in the business. The movement in net debt is explained as follows:

	2016 £m	2015 £m
Cash generated from operations	**33.6**	22.2
Capital expenditure - maintenance	**(5.1)**	(4.4)
Taxation paid	**(3.3)**	(2.3)
Interest paid	**(2.4)**	(1.3)
Free cash flow	**22.8**	14.2
Capital expenditure - development	**(6.4)**	(2.1)
Acquisitions	**(61.3)**	(25.3)
Proceeds from ordinary shares	**0.2**	0.3
Dividends paid	**(1.8)**	(1.5)
Debt issuance costs movement	**(0.4)**	(0.5)
Increase in net debt	**(46.9)**	(14.9)

Cash available for discretionary expenditure ("free cash flow") increased from £14.2m to £22.8m.

The analysis of capital expenditure in the table 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 included £3.3m spent on the fit out of the Lumbry Park major multi-disciplinary referral centre, £0.9m on two new surgeries at Beccles and Lawley, £0.5m on a new site under development at Smethwick, £1.4m on major refurbishments including at Kidlington, Nine Mile and Oaklands.

£61.3m was paid (including £7.8m repayment of acquired bank debt) for the 67 surgeries, the VetShare buying group and three pet crematoria which were acquired during 2016. £2.3m of consideration is payable at 30 June 2016 in respect of completion net asset adjustments and deferred consideration. The acquired businesses are trading as expected.

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 £2.4m was higher than last year (£1.3m) reflecting the overall higher debt levels of the Group due primarily to the higher level of acquisitions.

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

£1.3m of costs were incurred to raise the new bank facility (see below). £0.4m of debt issuance costs were amortised during the year.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2016 £m	2015 £m
Borrowings repayable:		
within one year	**30.4**	14.1
after more than one year	**69.4**	35.1
Total borrowings	**99.8**	49.2
Cash in hand and at bank	**(6.7)**	(3.0)
Net debt	**93.1**	46.2

The £99.8m of borrowings principally consists of:

- the £67.5m term loan (net of unamortised issue costs) and £2.5m loan notes. The term loan is repayable in one bullet payment in 2021 and the loan notes in 2018; and
- £30.5m drawn down under the RCF (net of unamortised issue costs). The RCF is available until 2021.

£17.0m of the RCF remained unutilised at 30 June 2016 but is available to fund business development including further acquisitions. The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth. The opportunities for acquisitions in all areas of the Group's business remain strong.

The 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 2016 it was 13.5.

The new covenant levels allow a maximum Group borrowings to EBITDA ratio of 3.5 until 31 December 2017 and 3.0 thereafter. The high level of larger acquisitions during the 2015 calendar year increased the level of debt and this gearing ratio significantly. At 30 December 2015 the ratio was 2.9 but reduced to 2.5 at 30 June 2016. Without further acquisitions we expect the gearing ratio to moderate through a combination of organic growth and the realisation of the full benefits of recent acquisitions. However, we aim to continue to expand the business, have a strong acquisition pipeline and sufficient capacity to fund it. If the level of acquisitions remains high, appropriate action will be taken to reduce the gearing level.

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.

Taxation

The Group's effective tax rate was 23.3% (2015: 20.1%). The principal reason for the significant increase is the high level of acquisitions during the year leading to a high level of acquisition costs that are not an allowable deduction for

corporation tax. 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	**9.1**	
Expected tax at standard rate of tax	**1.8**	20.0
Expenses not deductible for tax	**0.4**	4.4
Adjustments to prior year tax charge	**0.1**	1.1
Benefit of tax rate change	**(0.2)**	(2.2)
Actual charge/ Effective rate of tax	**2.1**	23.3

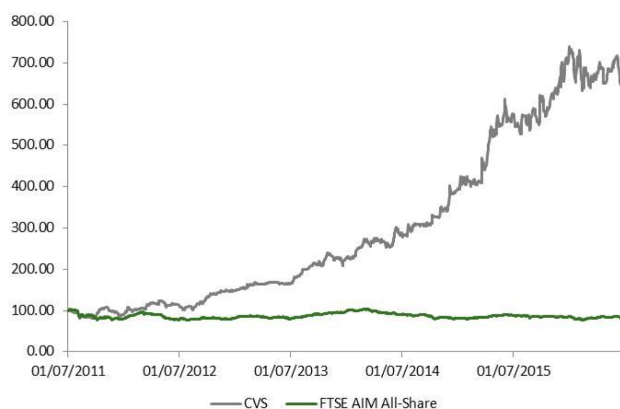
All of the Group's revenues and the majority of expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged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

The tax charge has increased by £0.4m to £2.1m (2015: £1.7m) whilst profit before taxation has increased £0.6m from £8.5m to £9.1m.

The benefit of the tax rate change reflects the impact of the reduction in corporation tax rates from 20.0% to 19.0% in April 2017 on the intangible assets deferred tax liabilities.

Share price performance

At the year end the market capitalisation was £467.1m. (782p per share) compared to £382.5m (646p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All Share index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 July 2010 to 30 June 2016.



Key contractual arrangements

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

Forward looking statements

Certain statements in this 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	**2016/**2015	**Definition**	**Changes in 2016**
Revenue	**£218.1m** £167.3m	Total revenue of the Group.	Total revenue increased £50.8m. Revenue before the impact of prior year and current year acquisitions was £175.8m, a £10.2m increase compared with 2015. 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 £42.6m. Inter-company sales eliminated on consolidation increased by £2.0m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2015 and 2016.
Like-for-like sales performance	**4.8%** 6.8%	Revenue generated from like for like operations compared to prior year. Revenue for 2016 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 2014, revenue is included from September 2015 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 (£28.1m) and after adjusting for prior year acquisitions such that revenue is included for a comparable number of months with 2015 (£15.3m).	The like for like increase reflected strong performances in all divisions except Animed Direct. It was helped by the growth in referrals work and Healthy Pet Club membership, the development of the Crematoria business and higher volumes in the Laboratory Division. Significant competitive pressures continued at some locations, reducing their revenue. The lower like for like sales % increase in 2016 compared with 2015 was due to the sales growth being at more customary levels in the first half of the 2016 financial year (3%) compared with 2015 (10%).
Healthy Pet Club revenue	**19.0%** 13.0%	Revenue received from Healthy Pet Club members as a percentage of total revenue for the year.	The growth of Healthy Pet Club membership from 213,000 to 253,000 led to the increase for the year.
Gross margin after materials percentage	**84.2%** 82.0%	Gross margin after deducting the cost of drugs and other goods sold or used by the business from revenue, expressed as a percentage of total revenue. Gross margin was £106.3, after deducting £66.6m of clinical staff costs and £10.8m of laboratory and cremation costs. Gross margin after materials but before clinical staff costs was £183.7m.	The increase in the gross margin is principally due to improvements in the Veterinary Practice Division which was particularly helped by the introduction of the MiPet own brand range of treatments.

Adjusted EBITDA	**£32.8m** £23.0m	Earnings before income tax, net finance expense, depreciation, amortisation and costs relating to business combinations.	The improvement in adjusted EBITDA is explained by organic underlying growth (£4.9m) together with the full year impact of prior year acquisitions (£2.5m) and acquisitions in the current year (£4.5m), partly offset by £2.1m increase in central costs incurred to build a foundation for further development of the Group.
Adjusted EPS	**32.4p** 24.7p	Earnings, adjusted for amortisation, costs relating to business combinations and non-recurring tax credits net of the notional tax impact of the above, divided by the weighted average number of issued shares.	The increase primarily reflects the improvement in the adjusted EBITDA.
Cash generated from operations	**£33.6m** £22.2m	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 proceeds from issue of shares.	The increase primarily reflects the improvement in EBITDA of the business.
Return on investment on acquisitions made during the year	**15.0%** 18.7%	Annualised adjusted EBITDA relating to acquisitions during the year compared to the consideration paid.	The reduction in Return on Investment ("ROI") is reflective of the higher average EBITDA multiples being paid for acquisitions.

Principal risks and uncertainties

The Group's businesses are subject to a wide variety of risks. 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. The Group is currently establishing an Internal Audit function.

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 improvement in the UK economy in the last few years has helped the business to improve revenue and profitability but the Group seeks to become more resilient to future downturns in economic conditions. The Group's exposure to the potential impacts of 'Brexit' appears to be limited 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 large 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.
Adverse weather	In common with many businesses the Group's revenue is adversely affected during sustained periods of severe winter weather.	The increasing proportion of income through the Healthy Pet Club and on-line through Animed Direct reduces the risk of lost income through poor weather. As the Group widens its geographical presence the exposure to this risk will be further mitigated.
Key personnel	The Group has limited risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons.	The Group is committed to the development of its employees and will continue to recruit specialist and qualified professionals to promote its services. Our graduate recruitment scheme is recognised across the industry and our Aspirational Leadership Programme helps to develop and retain senior staff. The involvement of senior personnel is encouraged through the operation of the Group's LTIP scheme. An annual SAYE scheme, available to all staff, aids the retention of other staff.
Clinical standards	If clinical standards expected by customers, industry forums and regulatory authorities are not maintained the Group is at risk of losing revenue.	The Group has established a formal 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.
Changes in taxation	Most changes in taxation cannot be predicted and the impact of any change can be variable.	The only changes in taxation that have been proposed and impact on the Group is a reduction in the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% in 2020. This will benefit the Group. Changes in taxation are likely to impact on our competitors in the same way they impact on the Group.
Reliance on one supplier of medicines	The majority of medicines are purchased through one wholesaler.	A two year supply agreement was signed in April 2015 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

23 September 2016

Consolidated income statement for the year ended 30 June 2016

	Note	**2016 £m**	2015 £m
Revenue	2	**218.1**	167.3
Cost of sales		**(111.8)**	(88.2)
Gross profit		**106.3**	79.1
Administrative expenses		**(94.5)**	(69.3)
Operating profit		**11.8**	9.8
Net finance expense		**(2.7)**	(1.3)
Profit before income tax	2	**9.1**	8.5
Income tax expense	3	**(2.1)**	(1.7)
Profit for the year attributable to owners of the Parent		**7.0**	6.8
Earnings per ordinary share for profit attributable to owners of the Company (expressed in pence per share) ("EPS")			
Basic	4	**11.6p**	11.6p
Diluted	4	**11.3p**	11.3p

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	**2016 £m**	2015 £m
Profit before income tax	2	**9.1**	8.5
Adjustments for:			
Finance expense		**2.7**	1.3
Depreciation		**5.2**	3.5
Amortisation and impairment of intangible assets		**13.7**	8.5
Costs relating to business combinations		**2.1**	1.2
Adjusted EBITDA	2	**32.8**	23.0

Statement of consolidated comprehensive income for the year ended 30 June 2016

	2016 £m	2015 £m
Profit for the year	**7.0**	6.8
Other comprehensive income – items that will or may be reclassified to profit/(loss) in future periods		
Cash flow hedges:		
Fair value (losses)/gains	**—**	(0.1)
Other comprehensive income for the year, net of tax	**—**	(0.1)
Total comprehensive income for the year attributable to owners of the parent	**7.0**	6.7

Consolidated balance sheet as at 30 June 2016

	Note	**Group 2016 £m**	Group 2015 £m
Non-current assets			
Intangible assets		**131.5**	79.2
Property, plant and equipment		**32.8**	20.0
Investments		**0.1**	0.1
Deferred income tax assets		**1.8**	1.8
		166.2	101.1
Current assets			
Inventories		**9.7**	5.8
Trade and other receivables		**23.8**	17.1
Cash and cash equivalents		**6.7**	3.0
		40.2	25.9
Total assets	2	**206.4**	127.0
Current liabilities			
Trade and other payables		**(43.0)**	(30.4)
Current income tax liabilities		**(2.3)**	(1.7)
Borrowings	7	**(30.4)**	(14.1)
		(75.7)	(46.2)
Non-current liabilities			
Borrowings	7	**(69.4)**	(35.1)
Deferred income tax liabilities		**(14.6)**	(6.5)
Derivative financial instruments		**(0.1)**	(0.1)
		(84.1)	(41.7)
Total liabilities	2	**(159.8)**	(87.9)
Net assets		**46.6**	39.1
Shareholders' equity			
Share capital		**0.1**	0.1
Share premium		**9.7**	9.5
Capital redemption reserve		**0.6**	0.6
Revaluation reserve		**0.1**	0.1
Merger reserve		**(61.4)**	(61.4)
Retained earnings		**97.5**	90.2
Total equity		**46.6**	39.1

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 23 September 2016 and were signed on its behalf by:

Nick Perrin
Director

Simon Innes
Director

Company registered number: 06312831

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 2014	**0.1**	**9.2**	**0.6**	**0.1**	**(61.4)**	**82.6**	**31.2**
Profit for the year	-	-	-	-	-	6.8	6.8
Other comprehensive income							
Cash flow hedges:							
Fair value losses	-	-	-	-	-	(0.1)	(0.1)
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**6.7**	**6.7**
Transactions with owners							
Issue of ordinary shares	-	0.3	-	-	-	-	0.3
Credit to reserves for share-based payments	-	-	-	-	-	1.2	1.2
Deferred tax relating to share-based payments	-	-	-	-	-	1.2	1.2
Dividends to equity holders of the Company	-	-	-	-	-	(1.5)	(1.5)
Transactions with owners	**-**	**0.3**	**-**	**-**	**-**	**0.9**	**1.2**
At 30 June 2015	**0.1**	**9.5**	**0.6**	**0.1**	**(61.4)**	**90.2**	**39.1**

	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**

Consolidated cash flow statement for the year ended 30 June 2016

	Note	**Group 2016 £m**	Group 2015 £m
Cash flows from operating activities			
Cash generated from operations	8	**33.6**	22.2
Taxation paid		**(3.3)**	(2.3)
Interest paid		**(2.4)**	(1.3)
Net cash generated from operating activities		**27.9**	18.6
Cash flows from investing activities			
Acquisitions (net of cash acquired)	5	**(53.5)**	(21.1)
Purchase of property, plant and equipment		**(11.3)**	(6.1)
Purchase of intangible assets		**(0.2)**	(0.4)
Net cash used in investing activities		**(65.0)**	(27.6)
Cash flows from financing activities			
Dividends paid		**(1.8)**	(1.5)
Proceeds from issue of ordinary shares		**0.2**	0.3
Debt issuance costs		**(1.3)**	(0.5)
Increase/(Repayment) of borrowings		**43.7**	11.5
Net cash used in financing activities		**40.8**	9.8
Net increase in cash and cash equivalents		**3.7**	0.8
Cash and cash equivalents at beginning of year		**3.0**	2.2
Cash and cash equivalents at end of year		**6.7**	3.0

Notes to the consolidated financial statements for the year ended 30 June 2016

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 2016 or 2015, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2016, 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 2014, revenue is included from September 2015 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 2016	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	**196.7**	**14.8**	**5.0**	**9.8**	**(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**
Net 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**

Year ended 30 June 2015	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	147.5	13.1	2.6	10.3	(6.2)	167.3
Profit/(loss) before income tax	15.4	1.7	0.7	0.5	(9.8)	8.5
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0
Total assets	109.2	7.9	3.6	3.5	2.8	127.0
Total liabilities	(30.2)	(1.9)	(0.8)	(3.0)	(52.0)	(87.9)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	15.4	1.7	0.7	0.5	(9.8)	8.5
Net finance expense	-	-	-	-	1.3	1.3
Depreciation	2.6	0.5	0.1	-	0.3	3.5
Amortisation	6.9	-	-	-	1.6	8.5
Costs relating to business combinations	0.4	-	-	-	0.8	1.2
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0

3. Income tax expense

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

	2016 **£m**	2015 £m
Current tax expense		
UK corporation tax	**3.5**	2.6
Adjustments in respect of previous years	**(0.1)**	-
Total current tax charge	**3.4**	2.6
Deferred tax expense		
Origination and reversal of temporary differences	**(1.3)**	(0.5)
Adjustments in respect of previous years	**0.2**	(0.2)
Effect of tax rate change on opening deferred tax balance	**(0.2)**	(0.2)
Total deferred tax credit	**(1.3)**	(0.9)
Total income tax expense	**2.1**	1.7

Factors affecting the current tax charge

UK corporation tax is calculated at 20.0% (2015: 20.8%) 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:

	2016 **£m**	2015 £m
Profit before tax	**9.1**	8.5
Effective tax charge at 20.0% (2015: 20.8%)	**1.8**	1.8
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.3
Effect of tax rate change on opening deferred tax balance	**(0.2)**	(0.2)
Adjustments to deferred tax charge in respect of previous years	**0.2**	(0.2)
Adjustments to current tax charge in respect of previous years	**(0.1)**	-
Total income tax expense	**2.1**	1.7

The main rate of corporation tax will reduce from 20% to 19% from 1 April 2017. This change had been substantively enacted at the balance sheet date and, therefore, 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.

	2016	2015
Earnings attributable to Ordinary shareholders (£m)	**7.0**	6.8
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Basic earnings per share (pence per share)	**11.6**	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.

	2016	2015
Earnings attributable to Ordinary shareholders (£m)	**7.0**	6.8
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Adjustment for contingently issuable shares – Long term incentive plans	**681,294**	1,078,285
Adjustment for contingently issuable shares – SAYE schemes	**726,215**	624,663
Weighted average number of Ordinary shares for diluted earnings per share	**61,143,945**	60,517,735
Diluted earnings per share (pence per share)	**11.3**	11.3

4. Earnings per Ordinary share (continued)

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.

	2016	2015
	£m	£m
Earnings attributable to Ordinary shareholders	**7.0**	6.8
Add back taxation	**2.1**	1.7
Profit before taxation	**9.1**	8.5
Adjustments for:		
Amortisation	**13.7**	8.5
Costs relating to business combinations (note 5)	**2.1**	1.2
Adjusted profit before income tax	**24.9**	18.2
Tax on adjusted profits	**(5.4)**	(3.7)
Adjusted profit after income tax and earnings attributable to owners of the parent	**19.5**	14.5
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Weighted average number of Ordinary shares for diluted earnings per share	**61,143,945**	60,517,735
	Pence	Pence
Adjusted earnings per share	**32.4p**	24.7p
Diluted adjusted earnings per share	**31.7p**	24.0p

5. Business combinations

Details of business combinations in the year ended 30 June 2016 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 2016:

	Book value of acquired assets £m	**Adjustments £m**	**Fair value £m**
Property plant and equipment	**6.8**	**-**	**6.8**
Patient data records and customer lists	**6.7**	**49.9**	**56.6**
Goodwill	**-**	**9.2**	**9.2**
Inventory	**2.4**	**-**	**2.4**
Deferred tax liability	**(0.3)**	**(9.9)**	**(10.2)**
Trade and other receivables	**10.3**	**-**	**10.3**
Trade and other payables	**(11.5)**	**-**	**(11.5)**
Loans	**(7.8)**	**-**	**(7.8)**
Net assets acquired	**6.6**	**49.2**	**55.8**
Total initial consideration paid (net of cash acquired)			**53.5**
Initial consideration payable			**1.3**
Deferred consideration payable			**1.0**
Total consideration payable			**55.8**

Post-acquisition revenue and post-acquisition EBITDA were £28.1m and £3.3m respectively. The post-acquisition period is from the date of acquisition to 30 June 2019. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2016 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 £1.3m for the year and are included within administrative expenses in the consolidated income statement.

Included within the table above are the acquisitions of Alnorthumbria Veterinary Practice Limited, Highcroft Pet Care Limited and Albavet 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.

5. Business combinations (continued)

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 2015.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the share capital of Nottingham Veterinary Care Limited, a three surgery small animal practice in Nottingham, on 30 August 2016 for initial cash consideration of £0.6m. Assets acquired comprised principally intangible patient data records and plant and equipment with a provisional fair value of £0.6m.

6. Dividends

	2016	2015
	£m	£m
Amounts recognised as distributions in the year in respect of:		
Ordinary shares	**1.8**	1.5

The Directors have proposed a final dividend of 3.5p (2015: 3.0p) per share (total £2.1m), payable on 9 December 2016 to shareholders on the register at the close of business on 25 November 2016. The dividend has not been included as a liability as at 30 June 2016. During the year a dividend of 3.0p per share amounting to £1.8m was paid.

7. Borrowings

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

Group	**2016**	2015
	£m	£m
Within one year or on demand	**30.4**	14.1
Between one and two years	**2.7**	32.6
Between two and three years	**66.7**	2.5
	99.8	49.2

The balances above are shown net of issue costs of £1.5m (2015: £0.6m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

On 23 November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115.0 million. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB. They replace the existing banking arrangement with RBS on more favourable terms, including a lower interest rate, and comprise the following elements:

- A fixed term loan of £67.5 million, repayable on 23rd November 2021 via a single bullet repayment; and
- A six year Revolving Credit Facility (“RCF”) of £47.5 million that runs to 23rd November 2021.

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

The previous bank facility provided by RBS was entered into on 28th March 2015. The facility was comprised of a fixed term loan of £32.0m and RCF of £48.0m. The refinancing has been accounted for as a modification of debt reflecting the substance of the transaction. The issue costs associated the RBS debt continues to be amortised. The refinancing was not a substantial modification; in accordance with IAS39 no gain or loss arose.

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 31st 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 12 months’ performance adjusted for the full year impact of acquisitions made during the period.

Undrawn committed borrowing facilities

At 30 June 2016 the Group has a committed overdraft facility of £5.0m (2015: £5.0m) and a RCF of £47.5m (2015: £48.0m). The overdraft facility was undrawn at 30 June 2016 and 30 June 2015. £17.0m of the RCF was undrawn at 30 June 2016 (2015: £33.0m).

8. Cash flow generated from operations

	2016 £m	2015 £m
Profit for the year	**7.0**	6.8
Taxation	**2.1**	1.7
Total finance costs	**2.7**	1.3
Amortisation of intangible assets	**13.7**	8.5
Depreciation of property, plant and equipment	**5.2**	3.5
(Increase)/decrease in working capital:		
Inventories	**(1.6)**	(0.6)
Trade and other receivables	**5.2**	(1.9)
Trade and other payables	**(2.0)**	1.7
Share option expense	**1.3**	1.2
Total net cash flow generated from operations	**33.6**	22.2