For Immediate Release **27 September 2018**

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

Preliminary Results for the year ended 30 June 2018

CVS, one of the UK's leading providers of veterinary services, is pleased to announce its preliminary results for the year ended 30 June 2018.

Financial Highlights

	Year ended 30 June 2018	Year ended 30 June 2017	Change[4] %
Revenue (£m)	327.3	271.8	+20.4
Adjusted EBITDA (£m)[1]	47.6	42.1	+13.3
Adjusted profit before income tax (£m)[2]	36.0	33.5	+7.1
Adjusted earnings per share (pence)[3]	42.4	42.8	-0.9
Operating profit (£m)	17.7	17.2	+2.8
Profit before income tax (£m)	14.1	14.5	-3.2
Basic earnings per share (pence)	16.0	18.5	-13.5
Proposed dividend (pence)	5.0	4.5	+11.1

- Revenue up 20.4% to £327.3m
- Like-for-like sales growth for the Group of +4.9% [5]
- Healthy Pet Club members up 18.3% to 362,000
- Adjusted EBITDA up 13.3% to £47.6m
- Adjusted earnings per share down 0.9% to 42.4 pence per share
- Acquired and integrated 52 surgeries during the year
- 16 surgeries acquired after the year end
- Now operate 491 surgeries

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

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

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

[4] Percentage changes have been calculated throughout this document based on the underlying values.

[5] Like for like sales are as defined in the Summary of significant accounting policies

The annual report and accounts will be available on the Group's website www.cvsukltd.co.uk together with this announcement from 27 September and will be posted to shareholders in due course.

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

Contacts:

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

N+1 Singer – Nominated Adviser & Broker
Aubrey Powell / Jen Boorer 020 7496 3000

Chairman's statement

A Strong Group Performance

Results

I am delighted to report a strong performance by CVS with another record year for revenue and operating profits across the Group. Strong like-for-like growth of 4.9% was enhanced by further acquisitions in our Veterinary Practices Division. We continued to increase our investment in equipment, premises, our services and our staff.

Revenue grew by 20.4% to £327.3m (2017: £271.8m). Adjusted EBITDA increased by 13.3% to £47.6m (2017: £42.1m). Adjusted EPS fell slightly to 42.4p (2017: 42.8p) as a consequence of the placing in February, as the timing of acquisitions has not yet fully offset the increase in shares from the placing in February.

Operating profit rose by 2.8% to £17.7m (2017: £17.2m), cash generated from operations increased 30.4% to £46.8m (2017: £37.2m) and profit before tax fell by 3.2% to £14.1m (2017: £14.5m). Basic EPS fell by 13.5% to 16.0p (2017: 18.5p) in part due to the slight fall in profit before tax but primarily as a consequence of the placing.

Business initiatives

In 2018 we acquired 52 surgeries, following on from the 62 acquired in 2017. In total these businesses are expected to generate revenue of over £40.0m per annum. Subsequent to the year end a further 16 surgeries have been acquired.

Of particular note are the acquisitions of Troytown GreyAbbey Equine Veterinary Services and Gilabbey Veterinary Hospital, our first acquisitions in the Republic of Ireland. Troytown GreyAbbey is one of the largest and most renowned equine practices in Ireland. Together with the other equine acquisitions this will significantly develop our equine business.

Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England. This acquisition adds significant credibility to our farm business and should assist in its further expansion. We also acquired Vet Direct, which provides veterinary supplies other than medicines. This acquisition will allow us to further consolidate our buying and reduce costs.

Our referrals business strategy progressed further with the acquisition of Weighbridge Referrals and Lumbry Park now being cash generative, less than three years after opening.

Like-for-like sales grew by 4.9% (2017: 6.3%) with growth in all areas, in particular Animed Direct, which continued to perform exceptionally. Like-for-like sales were adversely impacted by about 0.3% due to the harsher than usual snow at the start of March and this reduced sales by an estimated £1.0m.

Our Healthy Pet Club scheme continued its strong growth with a membership increase of 56,000 (+18.3%) members over the year.

The Laboratories Division again grew very strongly with revenue increasing by 10.2% to £17.9m (2017: £16.3m). The Crematoria Division increased revenue by 4.7% to £6.6m (2017: £6.3m) and Animed Direct by almost 45% to £18.8m (2017: £13.0m).

In August 2017, we launched our own brand pet insurance under the name of MiPet Cover. This is the only pet insurance in the UK that is designed by vets. It provides top of the range cover at a competitive price. Reaction from customers and our own staff, who were involved in its design, has been very positive. Sales have been promising but it is expected to be a couple of years before the business is profitable.

In February 2018 we raised £58.9m in net proceeds through the placing of shares to fund future acquisitions. Since then we have spent £55.0m on acquisitions, but most of this was subsequent to the year end and only a small benefit from these acquisitions is reflected in the results for the year ended 30 June 2018. As a consequence, the placing has had a dilutive impact on earnings per share in 2018; however, we expect substantial benefit from these and further acquisitions to flow into the results in the year ending 30 June 2019.

On 21 September 2018 the Group increased its facility with the existing banking syndicate to £190.0m comprising a £95.0m loan and a revolving credit facility of £95.0m. This increase will provide further funds for acquisitions and general business development.

Our people

The Group now employs over 6,150 staff (2017: 5,150), including 1,570 vets (2017: 1,270). Our staff have continued to develop the business at the same time as meeting the challenge of integrating the high volume of acquisitions. I would like to thank them all, including those new to CVS, for their efforts and for their expertise and professionalism in providing the best possible care and service to all our customers and their animals.

The development of our staff and of our clinical and non-clinical training continues to be a priority. In January we increased the salaries of some vets and nurses by substantially more than inflation in order to improve retention and recruitment. Since then there has been a noticeable improvement in vacancy rates, in particular for nurses. We continue to develop our internal training programmes, both clinical and managerial, and believe that this benefits our customers, our staff and the business.

Richard Fairman joined the Board on 1 August 2018. His wealth of experience in multi-site, consumer-facing, acquisitive organisations will bring significant benefit to the Group and we look forward to working with him going forward. Richard will replace Nick Perrin as Group Finance Director following the announcement of these results. I would like to thank Nick for his invaluable contribution to the Company over the past five and a half years. Nick has played an important part in driving the business forward and we wish him well in the future.

Dividends

It is proposed to pay a dividend of 5.0p per share in December 2018, a 11.1% increase on the 4.5p per share paid in 2017. 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 7 December 2018 to shareholders on the register on 23 November 2018. The ex-dividend date will be 22 November 2018.

Outlook

The Group's exposure to the potential impacts of Brexit appears to be limited. The greatest impact could be in the employment of European vets. We have not seen any significant impact on employment so far but, together with other major employers in the industry and the Royal College of Veterinary Surgeons, we are lobbying the UK Government to mitigate against any such potential adverse impacts. Clearly, Brexit issues create some uncertainty for the pace of growth in the UK economy over the next couple of years, but the Board believes that the characteristics of our business make it relatively resilient.

Like-for-like sales growth has remained robust since the year end. The acquisition pipeline remains strong and the recent acquisitions in the Republic of Ireland and in our farm business provide further avenues for development.

Initiatives such as the introduction of own brand products, the expansion of dedicated out-of-hours sites and the development of our referrals business are expected to continue to deliver benefits in 2019. We expect our Healthy Pet Club to continue to increase its membership and our MiPet Cover business to grow steadily. We will continue to launch a small number of greenfield sites and expect those recently opened to move towards profitability. Our laboratories will continue to expand their services through the increased sales of analysers and related consumables as well as growing the farm and equine testing. Animed Direct is expected to grow further.

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

Richard Connell

Non-Executive Chairman

27 September 2018

Business review

Excellent progress on our strategic priorities

Introduction

CVS Group is managed across four divisions: Veterinary Practices, Laboratories, Crematoria and Animed Direct. The Veterinary Practices Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2018.

Veterinary Practices Division

	2018	2017
	£m	£m
Practices excluding acquisitions	**240.9**	234.0
2017 acquisitions and greenfields	**37.5**	13.9
2018 acquisitions and greenfields	**19.1**	-
Total revenue	**297.5**	247.9
Adjusted EBITDA	**50.1**	44.7
EBITDA margin %	**16.9**	18.0

Revenue amounted to £297.5m (2017: £247.9m), an increase of 20.0% on the prior year; like-for-like sales grew by 3.0% for the year as a whole (2017: 5.2%). Adjusted EBITDA increased by 12.1% from £44.7m to £50.1m and profit before income tax increased from £28.1m to £29.3m. These increases include the impact of acquisitions in both 2017 and 2018.

In the year CVS acquired 52 surgeries operating as 32 businesses. These businesses contributed £18.9m of revenue and £1.6m of EBITDA in the year. Greenfield businesses in 2018 include two new sites (in Bracknell and Norwich) and the MiPet Cover insurance business, which together generated £0.2m of revenue. These businesses are expected to take two or three years to become profitable.

Adjusted EBITDA as a percentage of sales fell from 18.0% to 16.9%. Most of this reduction is due to the loss-making greenfield businesses (MiPet Cover and three greenfield sites) and lower than normal returns on acquisitions made in 2017 and 2018. A number of acquisitions have encountered the staffing challenges experienced in the wider business leading to a lower than anticipated level of sales. Conversely, some locations have taken on additional staff in anticipation of increased sales which have not materialised to the extent anticipated. Action has been taken to address the issues and the performance of the acquisitions is expected to recover to more normal levels in 2019. The slightly different nature of the business results in EBITDA percentage returns in the Netherlands being lower than in the UK (and this is taken into account in the price paid for these businesses).

Within the like-for-like practices the EBITDA percentage remained the same although it fell in the buying groups due to the increased sales of our own brand MiPet range which is at a lower margin than other buying group sales.

The development of our referrals business, and the expertise that this requires, has been and remains a key strategic priority for CVS. Lumbry Park, which opened in October 2015, developed strongly during the year and is now profitable. Manchester Veterinary Specialists, which opened in February 2017, is also trading profitably. We acquired Weighbridge Referrals during the year and anticipate we will continue to gradually expand our referrals capacity.

Our MiPet own brand range includes a number of prescription-only and non-prescription medicines. During the year we added Petalexin, a prescription-only antibiotic, and Easecto, a new generation oral tick and flea treatment. Further product launches are planned in the current year, including two further prescription-only medicines and a nutraceutical. Own brand equine products are also planned. The own brand range is supported well 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. Significant progress was made during the year in selling the MiPet range to our buying group members and this is expected to develop further.

The Healthy Pet Club loyalty scheme continued its exceptional growth in the year. Over 56,000 pets were added to the scheme increasing membership by 19.9% and bringing the total membership to 362,000. 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 £38.0m (2017: £32.5m). At the year end, the monthly run rate represented 13.0% (2017: 13.0%) of practice revenue; however, in the like-for-like practices the figure was 16.6% (2017: 16.9%), 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 19 emergency out-of-hours sites. These reduce our reliance on third parties for the 24-hour cover that vets are required to provide to their customers. Satisfying the requirement ourselves significantly improves the experience of our customers and their pets and all of our out-of-hours centres are profitable. We continue to perform out-of-hours work for other veterinary practices and will seek to develop further centres as our growing density in an area makes this effective.

Our acquisitions during the year and subsequent to the year end further developed our geographic spread and continued the development of the different business areas. We now have 22 surgeries in the Netherlands covering small animal, equine and farm animals. Of particular note were the acquisitions of Troytown GreyAbbey Equine Veterinary Services and Gilabbey Veterinary Hospital, our first acquisitions in the Republic of Ireland. Troytown GreyAbbey is one of the largest and most renowned equine practices in Ireland. Together with the other equine acquisitions this will significantly develop our equine business. Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England. This acquisition adds significant credibility to our farm business and should assist in its further expansion. We also acquired Vet Direct, which provides veterinary supplies other than medicines. This acquisition will allow us to further consolidate our buying and reduce costs.

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

We have continued to invest significantly in our surgeries. We opened new sites in Norwich and Bracknell during the year as well as one in Smethwick in January 2017. We continue to relocate sites that have outgrown their existing locations and our major relocations during the year of Springfield and Okeford have performed well since their relocation.

In addition to refurbishments, we spent £7.6m on new equipment in our practices. This equipment continues to improve our diagnostic capability and our ability to serve our customers in a professional environment.

Our MiPet Cover insurance business was launched in August 2017. This is the only own brand pet insurance in the UK which has been developed by a veterinary business. Our own staff were closely involved in and contributed to its development. The product is high quality and excellent value and is now established in our practices. We expect it to take two or three more years until the business is profitable.

We continue to place significant emphasis on staff training and career opportunities. Uptake in our apprenticeship programme continues to increase within the business. We currently have over 155 active learners, with a further 85 who have started in September 2018. The majority of our apprentices are student veterinary nurses completing their level 3 diploma. We were also involved in the trailblazer group to transfer the veterinary nursing apprenticeship framework into a new approved standard. This ensures the future of veterinary nursing studies through apprenticeship frameworks as the government intends to phase out all frameworks by 2020.

The graduate programme has also evolved in line with the demands of the business and the needs of our graduates. We now offer three full clinical streams, small animal, equine and large animal. Equine and large animal have five dedicated clinical days run by CVS experts. The equine programme provides a highly practical environment in which to learn and practise new skills. Our large animal programme focuses on five species, while the well established small animal programme continues to provide robust clinical skills. We have increased the number of days from 13 to 20 over the two-year programme as well as the number of graduates we have taken on demonstrating our commitment to their learning. We have taken on board feedback from our graduates to incorporate professional skills as well as to ensure we help build resilience, consultation skills and communication.

With the support of our experts and feedback from our graduates, we ensure that this ever evolving programme provides a high level of practical clinical training, as well as the right mix of professional skills and mentoring, to support our graduates as they embark on their career with CVS.

We also sponsor further qualifications for vets such as RCVS Advanced Veterinary Practitioner Certificates and Diplomas. Increasingly, this training is carried out in house by our own experts and bringing more of this in house will be an area of focus over the next year.

Laboratory Division

	2018	2017
	£m	£m
Revenue	**17.9**	16.3
Adjusted EBITDA	**3.9**	3.6
EBITDA margin %	**21.9**	22.1

The Laboratories Division generated revenue of £17.9m, a 10.2% increase on the prior year figure of £16.3m. Adjusted EBITDA grew by 9.0% from £3.6m to £3.9m and profit before tax increased from £2.9m to £3.3m.

The diagnostics testing business has grown steadily during the year. The acquisition of Bell Equine in the previous year created the opportunity to develop equine testing and revenue has grown strongly, although from a small base, with increases in both internal and external sales. Farm diagnostics have also shown good growth from a small base. Both these areas are expected to grow in importance.

The sales of analysers and related consumables grew strongly during the year. The business installs its analysers in new and acquired CVS practices; however, third-party sales have continued to develop well. Because the analyser machines have an economic life of several years, the sale of the machines leads to consumable sales for several further years.

The Laboratories Division gross margin percentage fell marginally from 65.4% in 2017 to 65.0% primarily because the faster growing analyser business has a lower gross margin percentage. EBITDA as a percentage of sales fell slightly from 22.1% to 21.9%.

Crematoria Division

	2018	2017
	£m	£m
Revenue	**6.6**	6.3
Adjusted EBITDA	**2.3**	2.1
EBITDA margin %	**34.6**	32.8

The Crematoria Division had a good year with sales growing by 4.7%. The Crematoria Division benefits from becoming the supplier to veterinary practices that we have acquired in both the current and prior year but loses business when other corporates acquire practices that are our customers and switch them to their usual supplier. The high net growth level reflects the high standard of service and the consequent ability to attract new customers. The division has continued to see a market shift to individual cremations, which generate higher revenue.

Adjusted EBITDA grew by 10.3% to £2.3m (2017: £2.1m). EBITDA as a percentage of sales improved from 32.8% to 34.6%, primarily due to a small improvement in employment costs. Profit before tax remained at £1.9m.

Animed Direct

	2018	2017
	£m	£m
Revenue	**18.8**	13.0
Adjusted EBITDA	**1.2**	0.7
EBITDA margin %	**6.4**	5.6

Animed Direct, our on-line dispensary and retailer, focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business performed excellently during the year, with revenue growing by 44.9% to £18.8m (2017: £13.0m) and adjusted EBITDA rose 66.3% to £1.2m (2017: £0.7m). The new website was launched late in the year and this will allow the business more flexibility in providing a range of offers to customers and is expected to provide the opportunity for further growth.

The gross margin percentage improved slightly from 17.4% to 17.9%.

The business now has an active customer database of over 204,000 (2017: over 170,000) people, with the average value of each purchase during the year up to £46.00 (2017: £40.00). Profit before tax increased from £0.6m to £1.2m

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £9.9m (2017: £9.0m), representing 3.0% of revenue (2017: 3.3%).

The significant growth and development of the Group requires continued additional investment to maintain an appropriate level of control and to support further growth over the next few years. All central functions have taken on additional staff to assist with the integration of acquisitions, including those in the Netherlands and the Republic of Ireland, and the ongoing management of the enlarged business. Ensuring that we maintain control of the business is a priority and as part of that aim we have replaced our outdated accounting system. We continue to base support staff in the regions where they can more easily provide the close support that the operations teams require.

Simon Innes

Chief Executive Officer

27 September 2018

Finance review

Continued growth in revenue and operating profit

Financial highlights

CVS has continued to deliver growth in revenues and operating profit. Key financial highlights are shown below:

	2018	2017	Change %
Revenue (£m)	**327.3**	271.8	20.4
Adjusted EBITDA (£m)*	**47.6**	42.1	13.3
Adjusted profit before tax (£m)*	**36.0**	33.5	7.1
Adjusted earnings per share (p)*	**42.4**	42.8	-0.9
Operating profit (£m)	**17.7**	17.2	2.8
Profit before tax (£m)	**14.1**	14.5	-3.2
Basic earnings per share (p)	**16.0**	18.5	-13.5

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

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and hence assist in understanding the performance of the Group. These terms are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures.

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

	2018 £m	2017 £m
Operating profit as reported	**17.7**	17.2
Adjustments for:		
Amortisation and depreciation	**26.4**	21.9
Costs of business acquisitions	**3.5**	3.0
Adjusted EBITDA	**47.6**	42.1

The £5.5m (13.2%) improvement in adjusted EBITDA compared with the prior year arises primarily from the underlying organic growth within the Veterinary Practices Division (£1.3m), the Laboratory Division (£0.3m), the Crematoria Division (£0.2m), the Animed Direct Division (£0.5m), acquisitions and greenfield development during the year (£1.1m) and the full year effect of previous year acquisitions and greenfield development (£3.0m), offset by an increase in central administration costs (£0.9m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) decreased from 15.5% in 2017 to 14.6%. This was principally driven by lower short-term margins in the Veterinary Practices Division greenfield developments and some of the recent acquisitions. It is expected that these acquisitions will achieve normal levels of performance in 2019 and beyond.

Profit before tax for the year decreased from £14.5m to £14.1m (-3.2%). The decrease in profit before tax is due to the £1.8m increase in amortisation costs as a result of the full year impact of prior year acquisitions. Basic EPS decreased 13.5% to 16.0p (2017: 18.5p) due to the higher number of shares in issue following the share placing in February 2018.

Adjusted profit before tax showed a 7.1% increase in the year from £33.5m to £36.0m. Adjusted EPS (as defined in note 10 to the financial statements) marginally decreased 0.9% to 42.4p (2017: 42.8p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets and business combination costs.

Long-term growth

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

	2018	2013	CAGR %
Revenue (£m)	**327.3**	120.1	22.2
Adjusted EBITDA (£m)	**47.6**	15.8	24.7
Adjusted profit before tax (£m)	**36.0**	12.1	24.3
Adjusted EPS (p)	**42.4**	16.2	21.2

Bank facilities

On 21 September 2018 the Group increased its total bank facility through the exercise of the accordion. Total bank facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

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

Cash flow

Cash flow from operating activities was £46.7m (2017: £37.2m). The increase reflects the growth in EBITDA.

Net debt decreased by £31.0m to £69.0m (2017: £100.0m) largely as a consequence of the successful placing of Ordinary shares during the year which generated net proceeds of £58.9m. The movement in net debt is explained as follows:

	2018 £m	2017 £m
Cash generated from operations	**46.7**	37.2
Capital expenditure - maintenance	**(7.6)**	(5.9)
Taxation paid	**(6.2)**	(5.4)
Interest paid	**(3.1)**	(2.1)
Free cash flow	**29.8**	23.8
Capital expenditure - development	**(3.1)**	(7.9)
Acquisitions	**(52.6)**	(48.4)
Proceeds from Ordinary shares	**61.0**	30.6
Purchase of own shares	**-**	(2.1)
Dividends paid	**(2.9)**	(2.1)
Debt issuance costs movement	**(0.4)**	(0.8)
Acquired finance leases	**(0.8)**	
Decrease/(Increase) in net debt	**31.0**	(6.9)

Cash available for discretionary expenditure ("free cash flow") increased from £23.8m to £29.8m due to increased capital expenditure on maintenance.

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

Development capital expenditure included £0.4m on the new surgery site at Norwich, £0.5m on relocations of the Springfield and Okeford practices, £0.3m on the refurbishment work at Chestergates and £0.7m on expansion of the Head Office site at Diss.

£52.3m was paid (including £2.0m repayment of acquired bank debt) for the 52 surgeries acquired during 2017. £1.1m of consideration was payable at 30 June 2018 in respect of completion net asset adjustments. In addition to £52.3m paid for businesses acquired in the year, £0.3m was paid in respect of completion net asset adjustments for business acquired in the 30 June 2017 financial year.

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 £3.1m was higher than last year (£2.1m) reflecting the higher average net debt during the financial year.

Proceeds from Ordinary shares arose due to the placing of 5,581,395 shares in February 2018 and the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three-year period and benefit from increases in the Group's share price over that time.

The movement in debt issue costs was £0.4m, which represents the amortisation of costs during the year.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2018	2017
	£m	£m
Borrowings repayable:		
within one year	**0.5**	3.3
after more than one year	**83.5**	103.5
Total borrowings	**84.0**	106.8
Cash in hand and at bank	**(15.0)**	(6.8)
Net debt	**69.0**	100.0

The total borrowings principally consist of:

- £67.5m term loan (gross of unamortised issue costs). The term loan is repayable in one bullet payment in 2021; and
- £17.0m drawn down under the RCF (gross of unamortised issue costs). The RCF is available until 2021.

£68.0m of the RCF remained unutilised at 30 June 2018. 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 2018 it was 15.35.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.0, although it is not the Group's intention to operate at this level. The gearing ratio reduced during the year from 2.26 at 30 June 2017 to 1.44 at 30 June 2018. This reduction in the ratio reflects the benefit of the share placing in February 2018 and a combination of organic EBITDA growth and the realisation of the full benefits of recent acquisitions. The Group aims to continue to expand the business, and has a strong acquisition pipeline and sufficient capacity to fund it. The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

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

Going concern

At the balance sheet date the Group had cash balances of £15.0m and an unutilised overdraft facility of £5.0m. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £95.0m and a RCF of £95.0m. The Directors consider that the £5.0m overdraft and the £190.0m facility enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

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

Taxation

The Group's effective tax rate was 24.1% (2017: 20.8%). A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

	£m	%
Profit before tax	**14.1**	
Expected tax at standard rate of tax	**2.7**	19.0
Expenses not deductible for tax	**0.6**	4.2
Adjustments to prior year tax charge	**0.7**	4.9
Benefit of tax rate change	**(0.6)**	(4.0)
Actual charge/ effective rate of tax	**3.4**	24.1

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

The tax charge has increased by £0.4m to £3.4m (2017: £3.0m) whilst profit before taxation has decreased £0.4m from £14.5m to £14.1m.

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

Share price performance

At the year end the market capitalisation was £795.5m (1,131p per share), compared to £804.5m (1,259p per share) at the previous year end.

Key contractual arrangements

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

Forward-looking statements

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

Key Performance indicators

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

KPI	**2018/**2017	**Definition**	**Changes in 2018**
Revenue	**£327.3m** £271.8m	Total revenue of the Group.	Total revenue increased by £55.5m. Revenue before the impact of prior year and current year acquisitions was £284.1m, a £14.7m increase compared with 2017. 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 £46.2m. Intercompany sales eliminated on consolidation increased by £1.8m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2017 and 2018.
Like-for-like sales % performance	**4.9%** 6.3%	Revenue generated from like-for-like operations compared to the prior year. Revenue for 2018 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 2016, revenue is included from September 2017 in the like-for-like calculation.	The like-for-like performance reflects strong performances in all divisions with an exceptional performance by Animed Direct. The like-for-like sales performance compared with 2017 was slightly impacted by about 0.3% due to harsher than normal snow at the start of March which reduced sales by approximately £1.0m.
Healthy Pet Club revenue	**13.0%** 13.0%	Revenue received from Healthy Pet Club members as a percentage of total practice revenue for the year.	The growth of Healthy Pet Club membership from 306,000 to 362,000 led to an increase in revenue for the year but the percentage of sales remained constant.
Gross margin before clinical staff costs	**79.6%** 79.8%	Gross margin after deducting the cost of drugs, laboratories' fees and cremation fees, and other goods sold or used by the business from revenue, expressed as a percentage of total revenue. Gross margin was £152.4m, after deducting £108.2m of clinical staff costs.	The marginal decrease in the gross margin is principally due to the short-term impact of greenfield development, the impact of the farm animal work and the lower margin in our Dutch practices.

Adjusted EBITDA	**£47.6m** £42.1m	Earnings before income tax, net finance expense, depreciation, amortisation and costs relating to business combinations.	The improvement in adjusted EBITDA is explained by like-for-like growth (£2.3m) together with the full year impact of prior year acquisitions (£3.0m) and acquisitions in the current year (£1.1m), partly offset by a £0.9m increase in central costs incurred to build a foundation for further development and expansion of the Group.
Adjusted EPS	**42.4p** 42.8p	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 slight decrease reflects the slight decrease in profit before tax and the effects of the share issue of 5,581,395 new shares in February 2018 to raise £58.9m in net proceeds.
Cash generated from operations	**£46.7m** £37.2m	Cash inflow before payments of taxation and interest; acquisitions; purchases of property, plant and 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, together with the decrease in other receivables partially offset by the increase in stock reflecting the growth of the Group.

Principal risks and uncertainties

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

Our risk management framework

The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The day-to-day identification, management and mitigation of risk is delegated to the Group's executive management. This process is overseen by the Group Internal Audit Manager.

Risk registers are prepared which evaluate the risks most likely to impact the Group. Staff across the business are involved in the process to ensure all potential areas of risk are adequately identified and recorded. Controls that are currently in place are assessed in order to determine the extent to which they mitigate risk and actions are determined where it is considered appropriate to reduce risk further.

Risk	Description	Mitigating factors
Key staff	The Group is exposed to risk in relation to the ability to attract and retain key staff, in particular appropriately qualified veterinary surgeons. The market for veterinary surgeons is highly competitive.	The Group is committed to maintaining salaries for its staff that are competitive in the marketplace. To this end, salary increases significantly in excess of inflation were given to a number of categories of veterinary surgeons and nurses during the year. Remuneration is benchmarked against industry data. The retention 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. The training and development of the Group's employees is a key focus. This covers not only technical, e.g. veterinary skills, but also management skills. Our graduate recruitment scheme is recognised across the industry and a wide and increasing range of other courses helps to develop and retain senior staff. Staff surveys and exit interviews are carried out, through which the Group identifies common reasons for staff leaving the business and allows the Group to address relevant matters. A highly qualified, central recruitment team is in place to assist in recruitment of staff from the UK and from overseas.
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 Board believes that the characteristics of our business make it relatively resilient to economic fluctuations. The Group seeks to become more resilient to future downturns in economic conditions and to the actions of competitors through the diversification of its services and by bonding customers to them. The range of businesses within the Group, and our geographic expansion, reduces the risk of the impact of any economic downturn. The small animal, farm animal and equine veterinary markets have slightly different characteristics. Similarly, there will be differing economic cycles in different countries. The growth of Animed Direct protects the Group further as customers switching to buying on-line may still be buying from CVS. The impact of Brexit, and therefore of the Group's exposure to the potential impacts, remains uncertain. The Board believes that the main risk to the Group of Brexit stems from any reduction in economic growth. Since the veterinary industry appears to be relatively resilient to economic downturns the Board believes that the impact of, and economic downturn as a result of, Brexit is likely to be less than for many industries.
Competition	The actions of competitors are aimed to divert customers to their businesses rather than those of the Group.	The actions of competitors are constantly monitored and actions are taken to mitigate them. The expansion of the Group's business to provide all of the veterinary services required by our customers acts to bond them to the practice. These services include referrals,

		out-of-hours (provided internally), MiPet Cover insurance and the Healthy Pet Club preventative medicine scheme. Our own brand product range, only available in surgeries, helps to reduce the risk of customers buying drugs on-line. The Group aims to maintain its properties as a welcoming environment for customers and we train our staff to provide an excellent customer experience.
Adverse publicity	Adverse publicity could result in a reduction in customer numbers and in revenue or in the number of people wishing to work for the Group.	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. Within the veterinary industry, the Group aims to be prominent in its representation on national bodies and at industry events so as to continue to build its reputation and credibility within the industry.
Information technology	The Group is dependent on various aspects of IT technology for the continued operation of its business. These primarily relate to the security of data and the continuing availability of systems.	The Group has a number of policies in place that are aimed at ensuring the stability and security of our networks and systems, whilst at the same time supporting the growth of the business. Access to networks, applications and data is limited to those who require it. Where possible, physical access to equipment is restricted. Access to networks and applications are restricted by passwords which are changed regularly. Permissions are set so that access within networks and applications are limited as appropriate. Network security is regularly enhanced with external reviews being performed periodically to identify areas of risk. Networks and equipment are automatically monitored to identify risks and issues and failover systems are in place in key areas. A scheduled programme of equipment and software replacement takes place to help ensure that the latest security features are available. Procedures are in place over the development of systems. These require full testing on test platforms and, where relevant on a number of test sites, before the full implementation of any changes. Systems are regularly backed up to the cloud and the recovery of those systems is tested. The main system used by operations is the practice management system in our surgeries. One well established and well maintained practice management system is primarily used. Each practice system is independent of others and most practices can operate for a short period of time without access to the internet. This reduces the risk of any issues impacting on the business. This system is continually developed to meet the needs of the business.
Changes in regulations	The Group is subject to a wide range of legislation and regulations. Non-compliance with regulations could lead to limitations on certain areas of the business or fines and penalties.	The Group is subject to general legislation in the same way as other businesses (e.g. on corporate governance, health and safety and employment law). The Group has clearly defined policies in all relevant areas which are communicated to staff and on which staff are trained as appropriate. Suitably qualified experts are employed, checks on compliance are carried out and policies and practices are updated as new legislation and regulations are introduced. Specific regulations apply to different parts of the business. Policies and procedures are maintained in all areas as appropriate. In particular, the practices are subject to various clinical

		regulations. An experienced Director of Clinical Governance is responsible for ensuring that policies and procedures are in place and that appropriately high standards are maintained. Every practice employs an individual responsible for clinical governance.
Reliance on one supplier of medicines	The majority of medicines are purchased through one wholesaler.	A two-year supply agreement was signed in April 2017 to secure the provision of medicines. Three wholesalers can supply most medicines; hence, supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur.
Ability to source and integrate acquisitions	The growth of the Group at the pace seen in recent years has, in part, been due to the acquisition of businesses, in particular veterinary practices. To continue this pace of growth will require further acquisitions to be made and successfully integrated.	The Group is actively acquiring veterinary practices that provide services for small, equine and farm animals. In the UK each of these parts of the veterinary industry are at different stages of consolidation with a low level of consolidation in the equine and farm sectors. CVS made its first acquisition in the Netherlands in 2016 and recently made its first acquisitions in the Republic of Ireland. Both of these markets, whilst smaller than the UK market, are substantially less consolidated and together provide significant scope for further growth through acquisition. The Group will consider entering other geographic markets where they are considered attractive. CVS has continued to increase the resources that it has both to make and to integrate acquisitions and will increase them further if necessary to ensure that acquisitions can be pursued and successfully integrated. During the year a number of roles have been developed so that they are dedicated to the various stages of the acquisition and integration process, rather than them being involved in other aspects of the business. The results of acquisitions are reported and monitored separately at Board level.

Nick Perrin

Finance Director

27 September 2018

Consolidated income statement for the year ended 30 June 2018

	Note	**2018 £m**	2017 £m
Revenue	2	**327.3**	271.8
Cost of sales		**(175.7)**	(147.3)
Gross profit		**151.6**	124.5
Administrative expenses		**(133.9)**	(107.3)
Operating profit		**17.7**	17.2
Net finance expense		**(3.6)**	(2.7)
Profit before income tax	2	**14.1**	14.5
Income tax expense	3	**(3.4)**	(3.0)
Profit for the year attributable to owners of the Parent		**10.7**	11.5
Earnings per ordinary share for profit attributable to owners of the Company (expressed in pence per share) (“EPS”)			
Basic	4	**16.0p**	18.5p
Diluted	4	**15.9p**	18.2p

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	**2018 £m**	2017 £m
Profit before income tax	2	**14.1**	14.5
Adjustments for:			
Finance expense		**3.6**	2.7
Depreciation		**8.0**	5.9
Amortisation and impairment of intangible assets		**18.4**	16.0
Costs relating to business combinations		**3.5**	3.0
Adjusted EBITDA	2	**47.6**	42.1

Statement of consolidated comprehensive income for the year ended 30 June 2018

	2018	2017
	£m	£m
Profit for the year	**10.7**	11.5
Other comprehensive income – items that will or may be reclassified to loss in future periods		
Cash flow hedges:		
Fair value gains	**0.1**	0.2
Other comprehensive income for the year, net of tax	**0.1**	0.2
Total comprehensive income for the year attributable to owners of the parent	**10.8**	11.7

Consolidated balance sheet as at 30 June 2018

	Note	**Group 2018 £m**	Group 2017 £m
Non-current assets			
Intangible assets		**203.5**	167.2
Property, plant and equipment		**47.9**	43.0
Investments		**0.1**	0.1
Deferred income tax assets		**0.6**	2.1
Derivative financial instruments		**0.2**	0.1
		252.3	212.5
Current assets			
Inventories		**13.5**	12.5
Trade and other receivables		**38.2**	30.9
Cash and cash equivalents		**15.0**	6.8
		66.7	50.2
Total assets	2	**319.0**	262.7
Current liabilities			
Trade and other payables		**(53.9)**	(48.2)
Current income tax liabilities		**(3.6)**	(2.9)
Borrowings	7	**(0.5)**	(3.3)
		(58.0)	(54.4)
Non-current liabilities			
Borrowings	7	**(83.5)**	(103.5)
Deferred income tax liabilities		**(19.8)**	(16.8)
		(103.3)	(120.3)
Total liabilities	2	**(161.3)**	(174.7)
Net assets		**157.7**	88.0
Shareholders' equity			
Share capital		**0.1**	0.1
Share premium		**99.1**	38.1
Capital redemption reserve		**0.6**	0.6
Revaluation reserve		**0.1**	0.1
Merger reserve		**(61.4)**	(61.4)
Retained earnings		**119.2**	110.5
Total equity		**157.7**	88.0

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 27 September 2018 and were signed on its behalf by:

Nick Perrin
Director
Company registered number: 06312831

Simon Innes
Director

Consolidated statement of changes in equity for the year ended 30 June 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total Equity £m
At 1 July 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6
Profit for the year	-	-	-	-	-	11.5	11.5
Other comprehensive income							
Cash flow hedges:							
Fair value gains	-	-	-	-	-	0.2	0.2
Total other comprehensive income	-	-	-	-	-	0.2	0.2
Total comprehensive income	-	-	-	-	-	11.7	11.7
Transactions with owners							
Issue of Ordinary shares	-	30.5	-	-	-	-	30.5
Purchase of own shares	-	(2.1)	-	-	-	-	(2.1)
Credit to reserves for share-based payments	-	-	-	-	-	1.5	1.5
Deferred tax relating to share-based payments	-	-	-	-	-	1.9	1.9
Dividends to equity holders of the Company	-	-	-	-	-	(2.1)	(2.1)
Transactions with owners	-	28.4	-	-	-	1.3	29.7
At 30 June 2017	**0.1**	**38.1**	**0.6**	**0.1**	**(61.4)**	**110.5**	**88.0**

	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 2017	**0.1**	**38.1**	**0.6**	**0.1**	**(61.4)**	**110.5**	**88.0**
Profit for the year	-	-	-	-	-	10.7	10.7
Other comprehensive income							
Cash flow hedges:							
Fair value gains	-	-	-	-	-	0.1	0.1
Total other comprehensive income	-	-	-	-	-	0.1	0.1
Total comprehensive income	-	-	-	-	-	10.8	10.8
Transactions with owners							
Issue of Ordinary shares	-	61.0	-	-	-	-	61.0
Credit to reserves for share-based payments	-	-	-	-	-	1.3	1.3
Deferred tax relating to share-based payments	-	-	-	-	-	(0.5)	(0.5)
Dividends to equity holders of the Company	-	-	-	-	-	(2.9)	(2.9)
Transactions with owners	-	61.0	-	-	-	(2.1)	58.9
At 30 June 2018	**0.1**	**99.1**	**0.6**	**0.1**	**(61.4)**	**119.2**	**157.7**

Consolidated cash flow statement for the year ended 30 June 2018

	Note	**Group 2018 £m**	Group 2017 £m
Cash flows from operating activities			
Cash generated from operations	8	**46.7**	37.2
Taxation paid		**(6.2)**	(5.4)
Interest paid		**(3.1)**	(2.1)
Net cash generated from operating activities		**37.4**	29.7
Cash flows from investing activities			
Acquisitions (net of cash acquired)	5	**(50.3)**	(46.9)
Purchase of property, plant and equipment		**(10.2)**	(13.3)
Purchase of intangible assets		**(0.5)**	(0.5)
Net cash used in investing activities		**(61.0)**	(60.7)
Cash flows from financing activities			
Dividends paid		**(2.9)**	(2.1)
Proceeds from issue of ordinary shares		**1.9**	1.0
Proceeds from share issue		**59.1**	29.6
Debt issuance costs		**(0.3)**	-
Purchase of own shares		**-**	(2.1)
Increase in borrowings		**-**	6.5
Repayment of borrowings		**(26.0)**	(1.8)
Net cash used in financing activities		**31.8**	31.1
Net increase in cash and cash equivalents		**8.2**	0.1
Cash and cash equivalents at beginning of year		**6.8**	6.7
Cash and cash equivalents at end of year		**15.0**	6.8

Notes to the consolidated financial statements for the year ended 30 June 2018

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 2018 or 2017, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2018, 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 2017 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 2017.

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 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 2016, revenue is included from September 2017 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 Europe-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 (Head Office) 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 2018	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	**297.5**	**17.9**	**6.6**	**18.8**	**(13.5)**	**327.3**
Profit/(loss) before income tax	**29.3**	**3.3**	**1.9**	**1.2**	**(21.6)**	**14.1**
Adjusted EBITDA	**50.1**	**3.9**	**2.3**	**1.2**	**(9.9)**	**47.6**
Total assets	**283.0**	**14.9**	**10.0**	**8.5**	**2.6**	**319.0**
Total liabilities	**(67.2)**	**(2.2)**	**(1.1)**	**(6.6)**	**(84.2)**	**(161.3)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**29.3**	**3.3**	**1.9**	**1.2**	**(21.6)**	**14.1**
Net finance expense	**0.1**	**-**	**-**	**-**	**3.5**	**3.6**
Depreciation	**6.8**	**0.6**	**0.4**	**-**	**0.2**	**8.0**
Amortisation	**12.2**	**-**	**-**	**-**	**6.2**	**18.4**
Costs relating to business combinations	**1.7**	**-**	**-**	**-**	**1.8**	**3.5**
Adjusted EBITDA	**50.1**	**3.9**	**2.3**	**1.2**	**(9.9)**	**47.6**

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

3. Income tax expense

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

	2018 **£m**	2017 £m
Current tax expense		
UK corporation tax	**5.9**	4.8
Adjustments in respect of previous years	**(0.1)**	(0.1)
Total current tax charge	**5.8**	4.7
Deferred tax expense		
Origination and reversal of temporary differences	**(2.5)**	(1.6)
Adjustments in respect of previous years	**0.7**	0.3
Effect of tax rate change on opening deferred tax balance	**(0.6)**	(0.4)
Total deferred tax credit	**(2.4)**	(1.7)
Total income tax expense	**3.4**	3.0

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2017: 19.8%) 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:

	2018 **£m**	2017 £m
Profit before tax	**14.1**	14.5
Effective tax charge at 19.0% (2017: 19.8%)	**2.7**	2.9
Effects of:		
Expenses not deductible for tax purposes	**0.6**	0.4
Effect of tax rate change on opening deferred tax balance	**(0.6)**	(0.5)
Adjustments to deferred tax charge in respect of previous years	**0.8**	0.3
Adjustments to current tax charge in respect of previous years	**(0.1)**	(0.1)
Total income tax expense	**3.4**	3.0

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

4. Earnings per Ordinary share

(a) Basic

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

	2018	2017
Earnings attributable to Ordinary shareholders (£m)	**10.7**	11.5
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Basic earnings per share (pence per share)	**16.0**	18.5

(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.

	2018	2017
Earnings attributable to Ordinary shareholders (£m)	**10.7**	11.5
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Adjustment for contingently issuable shares – Long term incentive plans	**259,505**	398,654
Adjustment for contingently issuable shares – SAYE schemes	**98,081**	549,732
Weighted average number of Ordinary shares for diluted earnings per share	**66,726,969**	63,053,805
Diluted earnings per share (pence per share)	**15.9**	18.2

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.

	2018	2017
	£m	£m
Earnings attributable to Ordinary shareholders	**10.7**	11.5
Add back taxation	**3.4**	3.0
Profit before taxation	**14.1**	14.5
Adjustments for:		
Amortisation	**18.4**	16.0
Costs relating to business combinations (note 5)	**3.5**	3.0
Adjusted profit before income tax	**36.0**	33.5
Tax on adjusted profits	**(7.8)**	(6.9)
Adjusted profit after income tax and earnings attributable to owners of the parent	**28.2**	26.6
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Weighted average number of Ordinary shares for diluted earnings per share	**66,726,969**	63,053,805
	Pence	Pence
Adjusted earnings per share	**42.4p**	42.8p
Diluted adjusted earnings per share	**42.1p**	42.2p

5. Business combinations

Details of business combinations in the year ended 30 June 2018 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 2018:

	Book value of acquired assets £m	**Adjustments £m**	**Fair value £m**
Property plant and equipment	2.8	-	**2.8**
Patient data records and customer lists	3.8	29.4	**33.2**
Inventory	1.2	-	**1.2**
Deferred tax liability	(0.2)	(6.2)	**(6.4)**
Trade and other receivables	4.8	-	**4.8**
Trade and other payables	(4.0)	-	**(4.0)**
Loans	(2.3)	-	**(2.3)**
Total identifiable assets	6.1	23.2	**29.3**
Goodwill		21.0	**21.0**
Total consideration paid			**50.3**

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

Post-acquisition revenue and post-acquisition EBITDA were £18.9m and £1.6m respectively. The post-acquisition period is from the date of acquisition to 30 June 2018. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2018 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 £1.7m for the year and are included within administrative expenses in the statutory financial statements.

Included within the table above are the acquisitions of B&W Equine Group Limited, Keown O'Neil Limited and BVCM Limited which are each considered to be material for the purposes of the financial statements. Separate disclosure of these acquisitions is provided in the statutory financial statements.

The fair values of the assets and liabilities are provisional.

Business combinations in previous years

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2017.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the trade and assets of Gilabbey Veterinary Hospital, a one site practice in Cork, Republic of Ireland on 26 July 2018 and Dierenkliniek Fischer, a one site practice in the Netherlands on 6 September 2018, 100% of the ordinary share capital of Slate Hall Veterinary Group, a four site provider of services and medicines based in Cambridge, Hereford and Metheringham on 27 July 2018, 100% of the ordinary share capital of Corner House Equine Clinic Limited, a two site practice based in Warwickshire and Romsley on 31 July 2018, 100% ordinary share capital of Endell Veterinary Group Limited, a four site practice based in Wiltshire and Hampshire on 9 August 2018, 100% ordinary share capital of Beechwood Veterinary Practice Limited, a one site practice based in Seaford on 23 August 2018, 100% ordinary share capital of Vet Direct Holdings Limited (and its subsidiaries), a supplier of veterinary equipment and consumables based in Newcastle-Upon-Tyne on 30 August 2018, 100% ordinary share capital of Artemis Veterinary Limited, a one site practice in Carmarthen on 4 September 2018, 100% ordinary share capital of Arbury Road Vets Limited a one site practice based in Cambridge on 19 September 2018 and 100% of the ordinary share capital of briar Dawn Veterinary Centre Limited, a one site practice in Manchester on 26 September 2018 for a total cash consideration of £35.1m. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £35.1m.

6. Dividends

	2018	2017
	£m	£m
Amounts recognised as distributions in the year in respect of:		
Ordinary shares	**2.9**	2.1

The Directors have proposed a final dividend of 5.0p (2017: 4.5p) per share, total: £3.5m (2017: £2.9m), payable on 7 December 2018 to shareholders on the register at the close of business on 23 November 2018. The dividend has not been included as a liability as at 30 June 2018. During the year a dividend of 4.5p per share amounting to £2.9m was paid

7. Borrowings

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

Group	2018 £m	2017 £m
Within one year or on demand	**0.5**	3.3
Between one and two years	**0.1**	-
Between two and three years	**83.4**	103.5
	84.0	106.8

The balances above are shown net of issue costs of £1.0m (2017: £1.1m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

In September 2018 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

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

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

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

At the balance sheet date £40.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

Undrawn committed borrowing facilities

At 30 June 2018 the Group has a committed overdraft facility of £5.0m (2017: £5.0m) and an RCF of £85.0m (2017: £47.5m). The overdraft facility was undrawn at 30 June 2018 and 30 June 2017. £68.0m of the RCF was undrawn at 30 June 2018 (2017: £10.5m).

8. Cash flow generated from operations

	2018 **£m**	2017 £m
Profit for the year	**10.7**	11.5
Taxation	**3.4**	3.0
Total finance costs	**3.6**	2.7
Amortisation of intangible assets	**18.4**	16.0
Depreciation of property, plant and equipment	**8.0**	5.9
(Increase)/decrease in working capital:		
Inventories	**0.3**	(1.5)
Trade and other receivables	**(4.9)**	(4.5)
Trade and other payables	**5.9**	2.6
Share option expense	**1.3**	1.5
Total net cash flow generated from operations	**46.7**	37.2