29 January 2019

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

Trading Update

CVS, the integrated veterinary services group, provides the following update on headline trading in respect of the financial half year ended 31 December 2018 (H1 2019).

H1 2019 Performance

In H1 2019, the Group's total sales increased by 23.7% and like for like sales ("LFL")[1] increased by 4.0% both compared to the financial half year ended 31 December 2017 (H1 2018).

Within the Practices Division, sales have increased by 23.9% and like-for-like sales have increased by 3.2% compared to H1 2018. In addition, Laboratory Division sales increased by 6.3%, Crematoria Division sales increased by 11.3% and Animed Direct sales increased by 16.2% compared to H1 2018.

Gross margins[2] for the Group in H1 2019 were 76.2% compared to 79.5% in H1 2018. This reduction is entirely due to an increased mix of Farm business for which margins are lower. Sales from Farm practices now represent 8.9% of group sales in H1 2019 compared to 3.2% in H1 2018. Gross margins in our small animal practices have increased to 81.3% in H1 2019 compared to 80.9% in H1 2018.

As a result of a number of actions taken, CVS continues to see a gradual improvement in clinical vacancy rates for both vets and nurses compared to the start of the financial year. However, as previously highlighted the Group remains heavily reliant on locum cover given the continuing industry-wide shortage of vets. Consequently, employment costs in H1 2019 are well above H1 2018 due to the increase in sales as noted above, combined with above inflation salary increases and a significant increase in market rates for locums.

Over the past two years, CVS has acquired 24 practices in The Netherlands and has diversified into Farm and Equine practices. Early performance from these newer divisions has been disappointing with financial results falling short of our expectations. In all these divisions, financial performance has been adversely impacted by the poor support of pharmaceutical companies and we continue to push for transparent and appropriate pricing.

In light of the above and certain other cost increases, the Group expects to announce EBITDA[3] for H1 2019 that is broadly flat compared to H1 2018.

As at 31 December 2018, CVS had net debt of £116.8m and bank covenant leverage[4] of 2.4x. The Group remains comfortably within its covenants and continues to generate positive operating cashflow.

Outlook

Given the financial performance in H1 2019, CVS now expects full year EBITDA to be materially below current market expectations.

A number of cost savings have been identified across the Group and these are expected to generate savings both in H2 2019 and in the remainder of calendar year 2019, with ongoing effect thereafter. In conjunction with cost savings, additional procedures have been implemented over the employment of locums in practices and the Group expects to see a reduction in locum costs in the remainder of the financial year as a result.

Acquisitions

Further to the Trading Update issued on 29 November 2018, the Group completed the acquisition of three further practices in the first week of December 2018, for combined consideration of £5.0m. No further acquisitions have been made since that time.

The Group believes that acquisition multiples being sought by practice owners are increasingly above levels which will deliver acceptable financial returns. Whilst the group has a further pipeline of acquisitions, for which terms have been agreed in principle, the Board is re-evaluating all acquisitions and particularly the multiples it is willing to pay.

Interim Results

The Group expects to announce its interim results, for the six months ended 31 December 2018, on 29 March 2019.

Notes

1 Like-for-like sales reflects revenue generated from all operations compared to the prior year excluding revenue from acquisitions made in the previous financial year

2 Gross Margin is after deducting the cost of drugs, laboratory fees and crematorium fees

3 Earnings before interest, tax, depreciation and amortisation

4 Bank covenant leverage defined as the ratio of net debt to adjusted EBITDA, annualised for the effect of completed acquisitions

Contacts:
CVS Group plc 01379 644288
Simon Innes, Chief Executive
Richard Fairman, Finance Director

N+1 Singer (Nominated Adviser & Broker) 020 7496 3000
Aubrey Powell (Corporate Finance)
Rachel Hayes (Corporate Broking)