7 February 2020

CVS Group plc

("CVS" or the "Company" and, together with its subsidiaries, the "Group")

Trading Update

CVS, one of the UK's leading providers of integrated veterinary services, provides the following update on headline trading in respect of the financial half year ended 31 December 2019 ("H1 2020"). The Company will announce its interim results, for the six months ended 31 December 2019, on 27 March 2020.

Overview

The Board is pleased to announce that the improved trading performance delivered in the second half of the financial year to 30 June 2019, and the encouraging start to the new financial year, as announced at the time of our Annual General Meeting on 28 November 2019, has continued for the remainder of the half year to 31 December 2019.

H1 2020 Performance

In H1 2020, the Group's total sales increased by 15.0% and like-for-like sales[1] ("LFL") increased by 8.4%, in each case compared to the financial half year ended 31 December 2018 (H1 2019).

Within the Group's core Practice division, total sales increased by 13.7% and Practices LFL[2] sales increased by 7.4%, in each case compared to H1 2019.

Gross margins[3] for the Group in H1 2020 were 76.0% compared to 76.2% in H1 2019. This slight reduction primarily results from strong sales growth for Animed Direct, our online dispensary, for which margins are lower and which accounted for 6.3% of Group sales in H1 2020 (H1 2019: 5.3%). Practice division gross margins improved to 78.3% in H1 2020 from 77.8% in H1 2019. Within the Practice division, the growth in total and LFL sales and the improvement in gross margin largely reflect the continuing focus on high quality clinical work, including increased volume and value of referrals within the Group, and the benefit of modest price increases previously described in our November 2019 update.

Employment costs for the Group in H1 2020 were 51.0% of total sales, compared to 51.6% in H1 2019. This reduction stems from a continued focus on the retention of clinical staff and the Group is pleased to announce that its veterinary surgeon vacancy rate averaged 7.8% in H1 2020 (H1 2019: 8.7%).

As a result of the above, CVS expects to report H1 2020 Adjusted EBITDA[4] that is materially above that delivered in H1 2019. This is in line with management expectations and is attributed to the better performance in H1 2020 as well as the weaker comparative in H1 2019.

Outlook

As previously stated, the comparatives become more challenging in the second half of the current financial year, given the improved performance seen in H2 2019. The continuing positive trends in key performance indicators provide further assurance that the Group is trading in line with management's expectations for the full year.

Bank Facility Renewal

The Group is also pleased to announce that it has arranged a renewal of its bank facilities previously repayable on 23 November 2021, including an extension of the facilities to 31 January 2024. As part of this renewal, the Group has reduced its total bank facilities from £195 million to £175 million, reflecting the continued focus on organic growth and the strong operating cash generation of the Group. The new syndicated facilities are provided by four banks (Nat West, HSBC, Bank of Ireland and AIB) and comprise the following elements:

- A fixed term loan of £85 million, repayable on 31 January 2024 via a single bullet repayment; and
- A four year Revolving Credit Facility ("RCF") of £85 million to 31 January 2024.

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

The two financial covenants associated with these facilities remain unchanged and will continue to be calculated based on the Group's accounting policies applicable at 30 June 2019 for the duration of the facilities.

As at 31 December 2019, CVS had net bank borrowings of £97.3m and leverage on a bank test basis[5] of 1.71x. (30 June 2019: £102.8m and 2.08x respectively). Interest cover[6] measured at the end of the first half was 16.2x (compared to 14.6x at the end of the prior half, being H2 2019). These metrics remain in line with management expectations, reflecting the Group's strong operating cash generation and our ongoing investment in people, processes and sites to provide a resilient platform for further growth.

Acquisitions

With the continued focus on organic growth from its integrated model, the Group has not completed any further acquisitions since the three reported in the year-end results release on 27 September 2019 and the trading update on 28 November 2019. The Group remains focused on identifying and targeting acquisitions that are value enhancing and that complement its existing business.

<u>Notes</u>

1 Like-for-like sales represents revenue generated from all operations compared to the prior year excluding revenue from acquisitions made in the current financial year and pro rata of revenue from acquisitions made in the previous financial year

2 Practices LFL growth stated is for core Small Animal, Referrals, Equine and Farm practices and excludes Buying Groups & Other and intra-group elimination

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

4 Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items. Adjusted EBITDA is based on the Group's accounting policies and principles which applied at 30 June 2019. The Group will adopt IFRS 16 in its interim results for the six months to 31 December 2019 and will provide a full reconciliation in those results in order to enable investors to understand the impact of IFRS 16

5 Leverage on a bank test basis is tested quarterly, calculated as Net bank borrowings divided by Adjusted EBITDA, prior to the adoption of IFRS 16, annualised for the effect of acquisitions and including costs relating to business combinations and exceptional items

6 Interest cover is tested quarterly and calculated as Adjusted EBITDA, prior to the adoption of IFRS 16, annualised for the effect of acquisitions and including costs relating to business combinations and exceptional items, divided by Interest expense

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