For Immediate Release **24 September 2020**

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

Final Results for the year ended 30 June 2020

CVS, one of the UK's leading providers of integrated veterinary services, is pleased to announce its final results for the year ended 30 June 2020. The financial statements have been prepared under the requirements of IFRS 16 – 'Leases' for the first time. To aid comparability with the prior period, adjusted financial information (which is shown before the impact of IFRS 16) is also shown in the table below. The impact of IFRS 16 on the Group financial statements has been to decrease underlying profit before tax by £1.8m.

Financial Highlights

	2020 Post- IFRS 16	2020 Pre- IFRS 16	2019 Pre-IFRS 16	Change %[4] Pre-IFRS 16
Revenue (£m)	**427.8**	427.8	406.5	5.2%
Adjusted EBITDA[1] (£m)	**71.0**	55.3	54.5	1.5%
Adjusted profit before tax[2] (£m)	**38.2**	40.1	41.4	(3.1%)
Adjusted earnings per share[3] (p)	**42.0**	44.1	46.7	(5.6%)
Operating profit (£m)	**18.5**	16.2	15.6	3.8%
Profit before tax (£m)	**9.9**	11.7	11.7	-
Basic earnings per share (p)	**8.1**	10.0	11.6	(13.8%)

- Revenue up 5.2% to £427.8m
- Like-for-like sales[5] growth for the Group in the first 8 months was 7.9%, reducing to 0.7% for the full year due to a significant reduction in revenue during the Covid-19 pandemic
- Healthy Pet Club members up 3.5% to 415,000
- Pre-IFRS 16 Adjusted EBITDA up 1.5% to £55.3m
- Pre-IFRS 16 Operating profit up 3.8% to £16.2m and post-IFRS 16 up 18.6% to £18.5m
- Pre-IFRS 16 Adjusted earnings per share decreased 5.6% to 44.1 pence per share
- Pre-IFRS 16 Cash generated from operations up 46.8% to £76.5m
- Leverage of 1.14x at 30 June 2020

Notes

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

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

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 year.

4 Percentage changes have been calculated throughout this document based on the unrounded values.

5 Like-for-like sales are defined as revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2018, revenue is included in the like-for-like calculations in September 2019. This shows the underlying growth in revenue across all divisions, excluding the impact of current year acquisitions.

The annual report and accounts will be made available on the Group's website, www.cvsukltd.co.uk, together with this announcement from 24 September 2020 and will be posted to shareholders in due course.

This announcement is released by CVS Group plc and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 ("MAR"), encompassing information relating to trading for the Company's current financial year, and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is being made on behalf of the Company by the directors named below.

Contacts:

CVS Group plc Richard Fairman, Chief Executive Officer Robin Alfonso, Chief Financial Officer Ben Jacklin, Chief Operating Officer	01379 644 288
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Chairman's statement

"We emerge strong from the initial COVID-19 pandemic, ready to explore further growth opportunities"

Introduction

On behalf of the Board I would like to take this opportunity to thank all CVS employees who have worked tirelessly throughout the COVID-19 pandemic, often in challenging circumstances and with less support than usual. I would also like to thank those employees who agreed to be placed on furlough. The continued dedication and professionalism of our employees has helped to protect the business whilst enabling us to provide urgent and emergency care to our clients and our patients during this very difficult period. Detailed business planning and actions taken have enabled our continuing focus on customer experience and patient care. These combined factors give the Group a greater resilience in the face of previously unseen challenges.

Financial performance

We generated revenue for the year of £427.8m, a 5.2% increase over the prior year (2019: £406.5m). This increase reflects a focus on our core business and organic growth opportunities coupled with robust like-for-like sales growth of 0.7% for the Group as a whole (2019: 5.2%).

Adjusted EBITDA pre-IFRS 16 increased by 1.5% to £55.3m (2019: £54.5m) with the strong growth in the first eight months of the year partially offset by the initial phase of COVID-19. Adjusted EPS pre-IFRS 16 decreased by 5.6% to 44.1p (2019: 46.7p).

Cash generated from operations pre-IFRS 16 increased by 46.8% to £76.5m (2019: £52.1m) primarily due to the deferral of VAT payments to March 2021. Pre-IFRS 16 profit before tax remained constant at £11.7m (2019: £11.7m). This reflects an increase in exceptional costs mainly from impairment of assets and provisions of £4.3m following the decision to close 33 of our smaller branch sites, representing less than 1% of overall Group revenue, which were marginal or loss making; partially offset by a reduction in acquisition costs from both reduced activity and deferred payments. Basic EPS pre-IFRS 16 decreased by 13.8% to 10.0p (2019: 11.6p).

CVS finished the year with net debt of £62.1m (2019: £102.0m) and leverage of 1.14x (2019: 2.08x).

Culture, values and strategy

Our purpose is to give the best possible care to animals and our vision is to be the veterinary company people most want to work for. This is supported by our four strategic pillars. During the year under review, considerable work has been done in this area through engagement with our employees, by management and the Board. Find out more on our strategy in the Chief Executive Officer's Statement below.

CVS now employs 6,758 staff (2019: 6,548) including 1,859 veterinary surgeons (2019: 1,829) and 2,367 nurses (2019: 2,376).

Our colleagues are at the heart of our business and we are committed to investing in their continued development and wellbeing. Last year we announced the launch of our new wellbeing and mental health awareness programme in support of our colleagues with on-site support provided through trained mental health workplace champions. In November 2019 we signed the Time to Change Mental Health Pledge in recognition of our commitment in this area.

One of the key structural issues facing the veterinary profession in the UK has been the shortage of vets and nurses. CVS continues to take a number of actions and we are encouraged by the improvement seen in the vet vacancy rates, averaging 6.9% for the year to 30 June 2020 (2019: 9.1%). We will continue to invest in our people and our existing practices in order to position CVS as the employer of choice.

Governance

We are committed to ensuring we have the right balance of skills and experience within the Board. During the year we made changes to the Board, promoting Richard Fairman to Chief Executive Officer in November 2019 replacing Simon Innes. Ben Jacklin joined the Board as Chief Operating Officer and Robin Alfonso as Chief Financial Officer in November 2019.

Post year-end we also appointed a new Non-Executive Director, Richard Gray, in July 2020.

Dividends

Having taken advantage of government support during the COVID-19 pandemic, and in line with the approach taken by many other companies, the Board does not intend to recommend the payment of a final dividend.

Shareholder engagement

Prior to COVID-19, the Directors regularly held one-to-one meetings and calls with shareholders. Although the Directors temporarily suspended issuing guidance due to COVID-19, we continue our regular interactions with shareholders.

Outlook

CVS operates in a sector with favourable market and consumer trends, with pet owners who remain willing to spend money on their pets and medical enhancements increasing the range of services we can offer.

COVID-19 severely impacted our business in the last quarter of this financial year, reducing our revenues. CVS was eligible for, and successfully accessed, the Coronavirus Job Retention Scheme and placed over half of all employees on furlough. CVS also accessed support from taxation authorities in the UK and the Netherlands. I am pleased to say that post year-end, all of our employees have now returned from furlough leave.

As described more fully in the CEO's statement, trading in the first two months has been encouraging.

Despite continued uncertainty over Brexit, I am confident that CVS is well positioned to avoid significant adverse impacts from the UK's decision to exit the EU. Pharmaceutical manufacturers and wholesalers are increasing their stock levels in order to reduce the risk of supply shortages and, following the acquisition of Vet Direct in 2018, CVS now controls more directly its equipment and consumables supplies.

Looking ahead, we welcome the positive environment for acquisitions and are well placed to take advantage of growth opportunities.

The pace of growth in the UK economy may be impacted by Brexit and COVID-19 uncertainty, but the veterinary sector has proven to be resilient in past periods of economic downturn and the Board believes that CVS is well-positioned to withstand any potential future downturn.

Richard Connell

Chairman

24 September 2020

Chief Executive Office’s statement

“Well positioned for future growth”

Introduction

I am pleased to share our 2020 Annual Report, my first as Chief Executive Officer of CVS Group plc. The past financial year reflects two distinct periods: the first eight months in which we delivered strong financial performance across all our business areas; and the final four months in which we experienced unprecedented disruption to our business as a result of the COVID-19 pandemic and the lockdown restrictions imposed.

Throughout the past financial year, the dedication, hard work and professionalism of all CVS colleagues has enabled us to continue to provide the highest levels of veterinary care to our clients and our patients. This has been particularly evident in the final four months of the financial year with colleagues working tirelessly to maintain services, often in challenging circumstances and with less support than normal, whilst others have supported in a different way through agreeing to be placed on furlough. I would like to thank all CVS colleagues for their outstanding contribution in the past financial year.

Through the efforts of all colleagues and the outstanding leadership provided by managers across our business in taking timely and, at times, difficult decisions, the Group finished the year with revenues recovering to pre COVID-19 levels and with leverage reduced. As we enter a new financial year, the Group is well positioned to deliver further organic growth through the provision of outstanding clinical care, to invest in our people and facilities and to consider opportunities for additional growth through acquisition.

Our COVID-19 impact and response

On 23 March 2020, strict lockdown measures were introduced by the UK government. The Royal College of Veterinary Surgeons (“RCVS”) and the British Veterinary Association (“BVA”) immediately issued a joint statement, restricting the work of veterinary surgeons to maintaining the food supply chain and carrying out urgent and emergency veterinary work only in practices. Similar restrictions were introduced by government and regulatory bodies in our non-UK territories.

The Group took swift and decisive action to maintain effective social distancing and safe working practices, with the primary focus on providing a safe environment for our employees and our clients. In line with the temporary relaxation by the RCVS of remote prescribing rules, we launched a new teleconsultation service for clients with patients requiring non-urgent / non-emergency services. Operationally, action was taken to protect our employees and the business, with teams split and shift patterns altered. Wherever possible we have promoted working from home. We enhanced the level of communication to all employees and maintained effective feedback mechanisms for all our staff. Individual risk assessments were carried out with local site employee consultation, appropriate measures implemented and “Staying COVID-19 Secure” posters displayed. In addition, appropriate Personal Protective Equipment (“PPE”) was made available. Throughout the crisis the health, safety and wellbeing of our employees has been our key priority and we continue to work collaboratively with our employees to ensure they have a safe environment to work in.

As would be expected, the result of the restrictions was a significant reduction in our revenue streams in our small animal first opinion practices, our specialist referral centres, our associated integrated services and in our Equine Division. Farm practices were less impacted due both to the requirement to protect the food chain and the ambulatory nature of the veterinary work. Reflecting the reduced activity levels, we took swift action to temporarily close half of our small animal practices by number, representing approximately a third of our capacity by caseload. During this period, we undertook a detailed review of all of our practices and made a decision not to re-open 33 sites.

The Group was eligible for, and successfully accessed, the Coronavirus Job Retention Scheme (“CJRS”) and placed over half of all employees on furlough. CVS also accessed support from taxation authorities in the UK and the Netherlands, in the form of tax payment deferrals, with the majority of UK VAT deferred until 31 March 2021, previously due to be paid in April 2020. Furthermore, the Group took action to preserve cash including, but not limited to, the reduction of non-essential spend, agreements with major suppliers to defer payments and voluntary temporary reductions in Director and senior manager salaries.

Our performance

In light of the strong performance in the first eight months of the financial year, and the gradual recovery in revenues post the initial impact of COVID-19, we delivered Revenue of £427.8m representing year-on-year growth of 5.2%, and adjusted EBITDA pre-IFRS 16 of £55.3m. The Group had like-for-like growth for the first eight months of the year of 7.9%, which reduced to 0.7%

for the full year as a result of COVID-19. In addition, revenue of £18.3m was generated from current year acquisitions and the annualisation of prior year acquisitions.

We continue to see improvements in our leverage, driven by our improved cash generation across our operations and close control of working capital. Notwithstanding the impact of COVID-19, our leverage reduced to 1.14x at June 2020. Our improved balance sheet strength provides a strong platform for future growth in the coming year.

Strategy

CVS continues to operate an integrated veterinary platform, with veterinary practices and specialist referral hospitals at the core of our business, supported by a range of complementary services from Laboratories, Crematoria, Buying Groups, Vet Direct and Animed Direct. This platform will enable us to continue to provide outstanding service to our clients through the provision of the best possible care to our patients.

CVS is a people business with our outstanding and dedicated Clinical teams and support staff at the core of our strategy. We are committed to continue positioning CVS as the veterinary company people most want to work for.

We will continue to drive organic growth through recommending and providing the best possible clinical treatments to our clients. We continue to provide industry leading clinical training, with a commitment to evidence-based medicine whilst ensuring our clinicians have access to the right medicines at the right time. We also operate a robust quality improvement framework and were the first corporate to publish an annual Quality Improvement Report, evidencing our commitment to ensuring continuous learning and development.

We are committed to making CVS a great place to work and have a career in the profession. Our integrated model and scale provide an opportunity for our staff to have a diverse and varied career, whether in clinical roles or in leadership positions within the business. We provide flexibility to our employees wherever possible and we offer the best learning education and development in the profession.

We continue to invest in our practice facilities and equipment with investments made in the year including the relocation of our Buttercross veterinary practice and the opening of a shared service centre in Wetherby. We are committed to ensure that all our practices meet RCVS Practice Standards Scheme (“PSS”) accreditation and are proud that 159 of our practices have achieved “outstanding” awards under this scheme. We continue to invest in our estate to ensure our facilities meet an excellent standard with leading clinical equipment to support our commitment to providing the best clinical care.

Wellbeing and mental health

We are committed to providing support to our colleagues in order to promote their positive wellbeing and positive mental health, I chair our wellbeing and mental health committee, which meets regularly. We have made considerable progress over this past year and trained over 243 Mental Health Champions which are active at a local level sharing mental health awareness initiatives, providing support to colleagues and signposting resources**.** In May we launched the ‘going home’ checklist to coincide with Mental Health Awareness Week and our working safely initiative which landed during the COVID-19 pandemic. This enabled us to encourage more awareness of the importance of self-care.

SignVideo Service

In February 2020, we were delighted to launch our new SignVideo service to make it easier for deaf pet owners who use British Sign Language (“BSL”) to contact our practices and access veterinary advice and facilitate wider pet ownership. The new service allows deaf clients who use BSL to make telephone calls to CVS veterinary practices and attend in-practice consultations using fully qualified BSL interpreters via video calls and is shown to markedly improve the customer experience.

I would like to take this opportunity to thank Julie Rutter, an Animal Nursing Assistant whose enormous efforts and outstanding dedication have been instrumental in the launch of this new service. Julie gave a compelling presentation on deaf access to the CVS Equality, Diversity and Inclusion working party in the summer of 2019 and presented her proposals at our annual staff conference in November 2019.

Julie, a pet owner, who has been deaf since birth, explained the challenges that deaf people face in day-to-day life including the difficulties accessing veterinary services. As a result, CVS is the first veterinary group in the UK to deliver the SignVideo service at our 449 UK practices.

The service is available in CVS UK small animal, equine, farm and referral practices between the hours of 8am-6pm Monday-Friday (excluding bank holidays).

Sustainability
We take our responsibilities seriously and that extends to ensuring CVS is a sustainable business across the areas of Environmental Protection, Economic Viability and Social Equality. During the year, we have reviewed our sustainability strategy and created a new internal Sustainability Group to continue to drive the sustainability of CVS.

Our stakeholders
We continue to engage with stakeholders across our business, maintaining effective communication with our key stakeholders. A key focus during the height of the COVID-19 pandemic was ensuring regular and effective communication with our employees, industry bodies and our wider stakeholders. This focus enabled us to adapt rapidly to changing guidelines.

Outlook
Through the actions taken during the COVID-19 pandemic, and the support and professionalism of our colleagues, CVS is well positioned to withstand any future Brexit or COVID-19 disruption and deliver future growth.

We saw a continuing strong recovery from the close of the last financial year, which was faster than expected to reach pre COVID-19 levels. Trading for the first two months of this year are ahead of budget and up 3.5% on the prior year, with LFL sales similarly up 3.9%. Adjusted EBITDA was also comfortably ahead of that seen in the prior year (+6.4%). This primarily reflects continued clinical care and increased referrals. Cash generation remained strong in the first two months and leverage further reduced to 0.8x creating a further buffer against business disruption and the ability to invest in future growth.

I look forward to delivering our new strategy and sharing further success in the future.

Richard Fairman

Chief Executive Officer

24 September 2020

Operational review

"Developing our operations"

Over the last twelve months I am proud to say we have made great progress across our operations, and our businesses have performed well thanks to the hard work and dedication of all our teams. Central to that progress has been our commitment to creating a great environment to recruit, motivate and ultimately retain our talented people. We are a people business and our unrelenting focus on our employees has begun to reap significant rewards.

Our vision to become the veterinary company people most want to work for has permeated all our activities, and driven much of our success. Our vet vacancy rates have fallen significantly over the year to 6.9% (30 June 2019: 9.1%), as our attrition rates have continued to fall and our hiring rates improve. In November 2019, we became the first large veterinary employer in the UK to offer enhanced maternity pay for our colleagues, and this is one of many key steps in our effort to ensure talented veterinary staff can join CVS and have a long and flexible career with us.

Outstanding leadership driving improved clinical care

We continue to pride ourselves on the provision of the very best clinical advice, diagnostics and treatment to our patients. Alongside £12.4m investment in our equipment and facilities we have invested in a new clinical leadership structure across our veterinary practices, and we now boast some of the best clinical leaders in the profession across a range of roles including Clinical Directors, Hub Clinical Leads and Regional Directors. This improved leadership team has empowered our clinical teams in the delivery of the best possible clinical care. Our team of Hub Clinical Leads is formed of experienced veterinary surgeons and delivers guidance, support and training across all areas of clinical practice. Specific projects during the year have included driving higher levels of cytology and bacteriology in cases of ear infections, to ensure we are minimising excess use of antibiotics at the same time as giving patients the very best treatments. Similarly, we have rolled out our laparoscopic "keyhole" neutering expertise across large areas of our Small Animal Division, to ensure our clients have access to the latest technology in clinical care. By focusing on helping all our teams deliver better clinical care, we can improve the retention of clinical staff, improve our client satisfaction and most importantly do the very best for our patients.

We have expanded our MiNightVet services, and now operate 29 practices across the Group (30 June 2019: 22 practices). This enables us to outsource night work from our first opinion small animal vets, creating a great place for first opinion vets to work, whilst internalising that work within our Group. This allows us to retain revenues and crucially to have governance of the standard of clinical work offered to our clients and patients out of hours.

Commitment to continuous improvement

We have continued to lead the profession in all areas of quality improvement and clinical governance as reflected in our annual Quality Improvement Report. Specific areas of focus during the year have included a large scale project on the use of protected antimicrobials, which saw a 30% decrease for dogs and a 42% decrease for cats in the use of antimicrobials during the project period. Clinical governance and critical incident reporting is embedded within our practice operations and is an essential part of ensuring we continue to find new ways in which we can improve patient outcomes.

Acquisitions

We also made four acquisitions (seven surgeries) during the year which were all performing favourably to expectations prior to the onset of COVID-19 restrictions. Our increased focus on integration, as well as aligning our Operations and Acquisitions teams on practice selection, leaves us well placed to integrate future acquisitions successfully should opportunities arise.

Continued investment

We have made major strides over the past year in the effective operation of our business areas, through continued training and development of our Leadership teams in our front line businesses and empowering them to succeed. In the coming year we will continue to invest in these efforts, ensuring we give our front line teams the appropriate environment to deliver the best possible patient care, as well as doing everything we can to continue our progress towards being the veterinary company people most want to work for.

Ben Jacklin
Chief Operating Officer
24 September 2020

Financial review

“Resilient financial performance and strengthened balance sheet”

Financial highlights

Despite the impact of COVID-19 CVS has continued to deliver growth in revenue and adjusted EBITDA with revenue by the financial year-end returning to pre COVID-19 levels. From 1 July 2019, CVS has adopted IFRS 16 Leases and utilised the cumulative catch up approach for initial recognition of assets and liabilities. Therefore, historic numbers remain unchanged. To aid comparability commentary on performance is initially on a pre-IFRS 16 basis and where applicable the impact of IFRS 16 is separately disclosed.

Key financial highlights are shown below:

	2020 Post-IFRS 16	2020 Pre-IFRS 16	2019 Pre-IFRS 16	Change % Pre-IFRS 16
Revenue (£m)	**427.8**	427.8	406.5	5.2%
Adjusted EBITDA (£m)*	**71.0**	55.3	**54.5**	1.5%
Adjusted profit before tax (£m)*	**38.2**	40.1	**41.4**	(3.1%)
Adjusted earnings per share (p)*	**42.0**	44.1	**46.7**	(5.6%)
Operating profit (£m)	**18.5**	16.2	**15.6**	3.8%
Profit before tax (£m)	**9.9**	11.7	**11.7**	-
Basic earnings per share (p)	**8.1**	10.0	**11.6**	(13.8%)

* Adjusted financial measures are defined on page 3 of the Annual Report and reconciled to the financial measures defined by International Financial Reporting Standards (“IFRS”) below and on page 110 of the annual report (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 exceptional items 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:

	2020 Post-IFRS 16 £m	2020 Pre-IFRS 16 £m	2019 Pre-IFRS 16 £m
Operating profit	**18.5**	16.2	15.6
Adjustments for:			
Amortisation and depreciation	**46.4**	32.9	31.4
Costs of business acquisitions	**0.7**	0.7	7.2
Exceptional items	**5.4**	5.5	0.3
Adjusted EBITDA	**71.0**	55.3	54.5

Pre-IFRS 16 performance

Revenue increased by 5.2% from £406.5m to £427.8m with the strong Group like-for-like growth in the first 8 months of 7.9% and subsequent recovery towards the end of the year offsetting the significant reduction in revenue streams experienced in the final 4 months during lockdown. Revenue in the year was also adversely impacted by the deferment of Healthy Pet Club (“HPC”) revenue recognition from this financial year into the next as the ability to service performance obligations under the customer contracts during lockdown was restricted.

Adjusted EBITDA increased by 1.5% from £54.5m to £55.3m. As a percentage of revenue adjusted EBITDA decreased from 13.4% to 12.9% with the margin impacted by additional bad debt provision, increased share options costs and impact of deferring HPC revenue recognition. During the period CVS accessed the CJRS scheme with the £8.2m grant income included within employment costs.

Adjusted profit before tax decreased 3.1% from £41.4m to £40.1m with the increase in adjusted EBITDA, offset by a one-off increase in interest from the loan fee write off following the refinancing in January and increase in depreciation. Adjusted EPS (as defined in note 2 to the financial statements) marginally decreased 5.6% to 44.1p from 46.7p. Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets, business combination costs and exceptional items.

Pre-IFRS 16 profit before tax for the year remained constant at £11.7m. This reflects the movement in adjusted profit before tax, an increase in exceptional costs, offset partially by a reduction in acquisition costs from both reduced activity and deferred payments. Exceptional costs mainly arise from impairment of assets totalling £4.3m following the decision to close 33 of our smaller branch sites, representing less than 1.0% of overall Group revenue, which were marginal or loss making. Basic EPS decreased 13.8% to 10.0p from 11.6p.

Impact of IFRS 16

On 1 July 2019 the Group adopted IFRS 16 which replaced IAS 17 Leases and became effective for annual periods beginning on or after 1 January 2019. IFRS 16 effectively removes the distinction between finance and operating leases for lessees putting all lease arrangements onto the statement of financial position. On adoption the Group recognised right-of-use assets of £107.8m and lease liabilities of £105.8m in respect of leased properties, vehicles and equipment. In the income statement the charge for lease rentals, previously included within adjusted EBITDA, is replaced by a finance charge on the lease liability and a depreciation charge in respect of the right-of-use assets. Profit before tax is adversely impacted from the finance charge on lease liabilities being higher in early years than in later years. The net impact of IFRS 16 is to reduce the profit before tax from £11.7m pre-IFRS 16 to £9.9m post-IFRS 16. A full reconciliation of pre and post IFRS 16 measures are shown note 34 of the financial statements.

Taxation

The Group's effective tax rate was 42.3% (2019: 29.9%). 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	**9.9**	
Expected tax at UK standard rate of tax	**1.9**	19.0%
Expenses not deductible for tax purposes	**1.0**	10.3%
Adjustments in respect of previous year's tax charge	**(1.1)**	(11.2%)
Effect of tax rate change on opening deferred tax balances	**2.4**	24.2%
Actual charge / effective rate of tax	**4.2**	42.3%

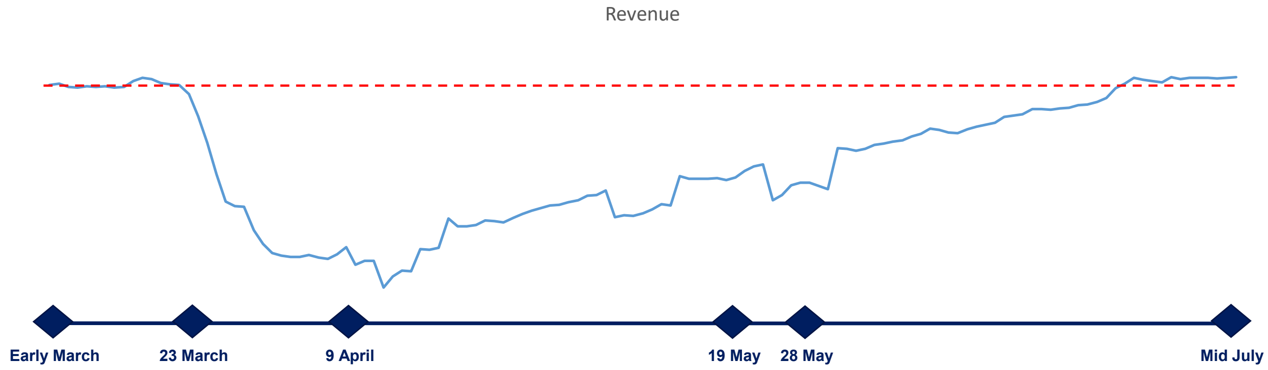
All of the Group's revenues and the majority of its expenses are subject to corporation tax. The main expenses that are not deductible for tax purposes are costs relating to acquisitions and depreciation on fixed assets that do not qualify for tax relief. Tax relief for some expenditure, mainly fixed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

The tax charge has increased by £0.7m from £3.5m to £4.2m whilst profit before taxation has decreased by £1.8m from £11.7m to £9.9m post IFRS 16. The increase in the tax charge is predominantly due to the re-measurement of deferred tax balances in respect of UK jurisdictions from 17.0% to 19.0% following the UK announcement to repeal the 17.0% rate from April 2020.

Financial impact of COVID-19

The impact of COVID-19 and lockdown was a significant reduction in our revenue streams. The chart below shows the rolling seven day average revenue in our GBR small animal practices relative to the level seen in early March 2020, prior to the UK lockdown and the guidance from RCVS and BVA. The data excludes recurring HPC revenue. Clearly, the initial impact of COVID-19 on the Group's revenue was swift and sharp. However, from the low point in the early part of April 2020, the gradual easing of lockdown and amended RCVS/BVA guidance, together with the adaptations we have made to our working regime, have resulted in a steady increase in revenues which have now recovered to pre-COVID-19 levels.

To mitigate the impact of reduced revenue, action was taken to preserve cash and reduce operating costs to protect adjusted EBITDA and financial covenants. Measures taken included, but were not limited to, access to CJRS, deferment of VAT payments and reduction in non-essential spend.



Timeline

• On 9 April 2020, the RCVS issued new guidance to allow more work to be undertaken whilst continuing to minimise contact and reduce the spread of COVID-19.

• On 19 May 2020, the RCVS issued further revised guidance removing the reference to consider whether treatment could be delayed for two months without causing patient welfare issues. In light of this, on 28 May 2020 the BVA issued updated guidance with the intention to "support veterinary practices to make the transition to providing a more normal range of veterinary services".

Statement of financial position

	2020 Post IFRS 16 £m	2020 Pre-IFRS 16 £m	2019 Pre-IFRS 16 £m
Intangible assets	**229.8**	229.8	244.5
Property, plant and equipment	**51.6**	51.6	51.4
Right-of-use assets	**98.1**	-	-
Other non-current assets	**1.2**	1.2	0.4
Current assets	**83.6**	86.3	81.1
Current liabilities	**(102.0)**	(95.0)	(78.9)
Non-current liabilities	**(195.7)**	(105.9)	(135.4)
Equity	**166.6**	168.0	163.1

Pre-IFRS 16 performance

As at 30 June 2020 intangible assets amount to £229.8m (2019: £244.5m) primarily consisting of Patient data records and goodwill in relation to business combinations, in addition to £1.9m computer software. The net reduction of £14.7m relates primarily to further business combinations of £7.2m net of amortisation in the year of £22.2m.

Property plant and equipment of £51.6m (2019: £51.4m) relates to owner-occupied property, plant and equipment, vehicles and computer hardware across the Group. The net increase of £0.2m primarily relates to additions of £11.1m reflecting our continuing commitment to investing in our facilities net of depreciation in the year of £10.7m.

Other non-current assets primarily relate to investments and deferred tax assets totalling £1.2m (2019: £0.4m).

Current assets is £86.3m comprises inventories £18.7m (2019: £17.0m); trade and other receivables of £43.4m (2019: £51.6m); and cash and cash equivalents of £21.5m (2019: £12.5m). The reduction in trade and other receivables of £5.5m primarily relates to the HPC contract asset reducing from £8.5m to £6.0m.

Current liabilities are primarily comprised of trade and other payables of £87.7m (2019: £73.7m); provisions of £6.4m (2019: £nil); and current income tax liabilities of £0.8m (2019: £4.9m). The increase in trade and other payables is largely driven by VAT payment deferral of £15.0m. The increase in provisions of £6.4m is related to the closure of 33 underperforming sites. The reduction in corporation tax liability of £4.1m is a result of the move to the new quarterly instalment payment regime in the UK which brought forward an additional two quarters' payments which previously would have been paid in arrears.

Non-current liabilities of £105.9m (2019: £135.4m) is primarily comprised of borrowings of £83.5m (2019: £114.2m), deferred income tax liabilities of £21.5m (2019: £21.2m) and derivative financial instruments of £0.9m (2019: £nil).

Equity has increased by £4.9m to £168.0m mainly as a result of total comprehensive income of £6.9m, new shares issued and shares disposed from the EBT for £1.0m to settle obligations under the Group's SAYE scheme, transactions in relation to share based payments and associated deferred tax of £1.0m offset by the dividend payment of £3.9m.

Impact of IFRS 16

The impact of IFRS 16 is to recognise right-of-use assets of £98.1m (2019: £nil), current lease liabilities of £8.8m (2019: £nil) and non-current lease liabilities of £89.8m (2019: £nil), after adjusting for a property provision of £1.4m (2019: £nil). Corporation tax liability is also reduced by £0.4m and therefore equity reduces by £1.4m.

Bank facilities

The Group renewed and extended its bank facilities in January 2020. The facility was extended from ending on 23 November 2021 to 31 January 2024. The Group reduced the total facilities from £195.0m to £175.0m, a reduction of £20.0m, to reflect the continued focus and greater emphasis on organic growth and strong operating cash generation of the Group. The facilities are provided by a syndicate of four banks, NatWest, HSBC, BOI and AIB, and comprise the following elements:

- a fixed term loan of £85.0m, repayable on 31 January 2024 via a single bullet repayment;
- a four-year revolving credit facility ("RCF") of £85.0m, that runs to 31 January 2024;
- an envisaged, but not committed, accordion facility of up to £100.0m, which runs to 31 January 2024; and
- in addition, the Group has a £5.0m 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 i.e. pre-IFRS 16.

Cash flow and net debt movement

Net debt decreased by £39.9m from £102.0m in 2019 to £62.1m. The movement in net debt is explained as follows:

	2020 Post IFRS 16 £m	2020 Pre-IFRS 16 £m	2019 Pre-IFRS 16 £m
Cash generated from operations	**94.8**	76.5	52.1
Capital expenditure - maintenance	**(8.7)**	(8.7)	(8.9)
Taxation paid	**(9.5)**	(9.5)	(7.3)
Interest paid	**(7.0)**	(2.9)	(3.4)
Exceptional items	**(0.7)**	(0.7)	-
Free cash flow	**68.9**	54.7	32.5
Capital expenditure - development	**(3.7)**	(3.7)	(4.0)
Acquisitions	**(7.2)**	(7.2)	(58.1)
Proceeds from ordinary shares	**0.1**	0.1	0.6
Proceeds from sale of treasury shares	**0.9**	0.9	-
Dividends paid	**(3.9)**	(3.9)	(3.5)
Debt issuance costs' amortisation	**(1.0)**	(1.0)	(0.5)
Repayment of right–of-use liability	**(14.2)**	-	-
Decrease/(increase) in net debt	**39.9**	39.9	(33.0)

Pre-IFRS 16 performance

Cash flow from operating activities increased 46.8% from £52.1m to £76.5m. The increase primarily reflects growth in EBITDA and deferral of VAT payments. In addition, cash was collected on HPC contracts for which the recognition of revenue was deferred from this financial year into the next as we were unable to fully perform the performance obligations due to COVID-19.

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.

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 moves broadly in line with the adjusted profit before tax of the Group. The increase in taxation paid in the year is primarily as a result of the new quarterly instalment payment regime in the UK which required the Group to pay quarterly instalments for year ended 30 June 2020 four months earlier than in previous periods.

The interest payment of £2.9m was marginally lower than last year's £3.4m reflecting the lower average net debt during the financial year

Cash available for discretionary expenditure ("free cash flow") increased from £32.5m to £55.4m.

Development capital expenditure of £2.3m was incurred in the year on relocating practices and £1.4m on refurbishing existing sites. Acquisition costs of £7.2m was paid for the seven surgeries acquired during 2020 and £0.7m was paid in respect of completion net asset adjustments for businesses acquired in the 30 June 2019 financial year. In relation to the seven surgeries £nil consideration was payable at 30 June 2020 in respect of completion net asset adjustments.

Exceptional items of £0.7m were paid in relation to Board restructuring costs.

Proceeds from Ordinary shares and sale of treasury shares arose due to 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 £0.7m, which represents the £1.0m amortisation of costs during the year, which is partly offset by the capitalisation of costs of £1.7m associated with the January 2020 refinancing.

Impact of IFRS 16

The impact of IFRS 16 moves the cash flow in respect of lease rentals from cash generated from operations to repayment of the right-of-use liability.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2020	2019
	£m	£m
Borrowings repayable:		
Within one year	**0.1**	0.3
After more than one year		
Loan facility	**85.0**	115.0
Unamortised borrowing costs	**(1.5)**	(0.8)
Total borrowings	**83.6**	114.5
Cash in hand and at bank	**(21.5)**	(12.5)
Net debt	**62.1**	102.0

The total borrowings principally consist of:

- a £85.0m term loan (gross of unamortised issue costs) (2019: £95.0m). The term loan is repayable in one bullet payment in 2024; and

- £nil drawn down under the RCF (gross of unamortised issue costs) (2019: £20.0m). The RCF is available until 2024.

£85.0m of the RCF remained unutilised at 30 June 2020 (2019: £75.0m). The Board remains committed to expanding the Group through organic growth and selective acquisitions.

The two 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 4.5x. At 30 June 2020 it was 19.3x.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.25x, although it is not the Group's intention to operate at this level. The gearing ratio decreased during the year from 2.08x at 30 June 2019 to 1.14x at 30 June 2020. This decrease in ratio reflects the decrease in net debt. 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 28 February 2020, the Group entered into two four-year fixed interest rate swap arrangements to hedge fluctuations in interest rates on £70.0m of its term loan facility.

Going concern and viability

At the Statement of Financial Position date the Group had cash balances of £21.5m and an unutilised overdraft facility of £5.0m. Total facilities of £175.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £85.0m and an RCF of £85.0m. The Directors consider that the £5.0m overdraft and the £170.0m 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), financial forecasts for the three years to 30 June 2023, its profile of cash generation and the timing and amount of bank borrowings repayable, and principal risks, the Directors have a reasonable expectation that both the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over the period. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

The three year period is appropriate since it aligns to the forecasting period.

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:

	2020 Post IFRS 16	2020 Pre-IFRS 16	2016 Pre-IFRS 16	CAGR % Pre-IFRS 16
Revenue (£m)	**427.8**	427.8	218.1	18.3
Adjusted EBITDA (£m)	**71.0**	55.3	32.8	13.9
Adjusted profit before tax (£m)	**38.2**	40.1	24.9	12.7
Adjusted EPS (p)	**42.0**	44.1	32.4	8.0

Share price performance

At the year end the market capitalisation was £727.8m (1,030p per share), compared to £511.1m (724p 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 the 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.

Robin Alfonso

Chief Financial Officer

24 September 2020

Key performance indicators

Financial KPIs

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	**2020**/2019	Why it's a KPI	2020 performance
(A) Revenue	**£427.8m** £406.5m	Revenue is a measure of growth across all divisions of the Group. By measuring and comparing our revenue growth to the market, we are able to understand where we are gaining market share. **IFRS 16 impact** No impact.	- Overall revenue has increased by £21.3m. - Like-for-like revenue increased £4.8m, acquisitions in the year and the full year impact or prior year acquisitions generated additional revenue of £18.3m and intercompany sales elimination increased by £1.8m, principally due to the increased internal equipment and consumable sales. - COVID-19 has had a significant impact on revenue where a number of practices were closed due to the government restrictions in place and the nature of services were restricted. This is reflected in our like-for-like sales.
(B) Like-for-like sales % performance	**0.7%** 5.2%	Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year adjusted for the number of working days. For example, for a practice acquired in September 2018, revenue is included from September 2019 in the like-for-like calculations. This shows the underlying growth in revenue across all divisions, excluding the impact of current year acquisitions. **IFRS 16 impact** No impact.	- Like-for-like performance reflects the impact of COVID-19 where a significant number of practices were closed during March to June 2020 which has therefore limited growth. - Like-for-like performance for eight months prior to COVID-19 was 7.9%.
(C) Adjusted EBITDA	**£55.3m** £54.5m	Adjusted EBITDA excludes costs relating to business combinations and exceptional items and assists in understanding the underlying performance of the Group. **IFRS 16 impact** The impact of IFRS 16 was to improve adjusted EBITDA by £15.7m.	- The improvement in adjusted EBITDA is explained by improvement in like-for-like adjusted EBITDA of £0.6m, the full year impact of prior year acquisitions and acquisitions in the current year of £2.3m, partly offset by a £2.1m increase in central costs incurred to continually build a foundation for further development and expansion of the Group. - The COVID-19 impact on adjusted EBITDA was mitigated by accessing the Coronavirus job retention scheme ("CJRS") which partially offset the loss in revenue.

(D) Adjusted EPS	**44.1p** 46.7p	This is equal to earnings, adjusted for amortisation, costs relating to business combinations, exceptional items and non-recurring tax credits, next of the notional tax impact of the above, divided by the weighted average number of shares. This shows the underlying earnings per share before business combination costs. **IFRS 16 impact** The impact of IFRS 16 was to reduce adjusted EPS by 2.1p to 42.0p.	- The decrease reflects the decrease in adjusted profit before tax of £1.3m.
(E) Total capex	**£12.4m** £12.9m	This is the total amount spent by the Group on capital expenditure. Capital expenditure is incurred on refurbishment and investment in new equipment. Investing in our practices is key to achievement of our strategic goal of providing great facilities and equipment. **IFRS 16 impact** No impact.	- Total capital expenditure is marginally down on the prior year and this is due to deferring non-essential capital expenditure in response to the COVID-19 pandemic.
(F) Gross margin before clinical staff costs	**75.5%** 76.2%	Gross margin which represents revenue after deducting the cost of drugs, laboratories' fees and cremation fees, and other goods sold or used by the business, expressed as a percentage of total revenue. Gross margin is a KPI as it helps us to monitor and measure our performance on ensuring drugs are purchased at the best possible price alongside ensuring it is the highest quality. **IFRS 16 impact** No impact.	- The decrease in gross margin is principally due to the increase revenue mix from our Farm Animal Division and Animed Direct Division, which operates at lower margins to our Small Animal Division.

(G) Cash generated from operations	**£76.5m** £52.1m	Cash generated from operations shows the cash inflows 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. Delivery of improved cash generated from operations allows us to invest in further growth opportunities across our business. **<u>IFRS 16 impact</u>** The impact of IFRS 16 was to increase cash generated from operations to £94.8m due to rental payments, which would have previously been cash outflows included in the cash from operations figure but are now classified as financing cash outflows.	- Cash generated from operations has significantly improved due to the improvement in working capital. CVS has accessed the COVID-19 tax deferral schemes across the UK and the Netherlands resulting in an increase in trade payables in the year.

Non-financial KPIs

Our non-financial measures help us track important data which allows us to allow us to monitor our core strategic goals.

These new non-financial KPIs align with our new strategy however data is only available for (1) one year, (2) three years, (3) five years

KPI	**2020/2019**	**Why it's a KPI**	**2020 performance**
(H) Vet Vacancy (2)	**6.9%** 9.1%	The vet vacancy rate is calculated as the average number of live vet vacancies divided by the total number of vets by headcount. This shows average level of vet vacancies for the Group during the period and is an indicator of staff retention. This links to our strategic goal of being a great place to work and have a	- The vet vacancy rate has continued to fall over 2020. This is a strong indicator that the initiatives used to put our people first are helping ensure we recruit and retain our staff and contribute to being the veterinary company people most want to work for.
(I) Healthy Pet Club members (3)	**415,000** 401,000	Healthy Pet Club is our preventative care scheme and provides CVS with a robust and regular revenue stream; and improves customer loyalty.	- Despite the COVID-19 lockdown, there has been a continued increase in the number of Healthy Pet Club members for the year.

(J) Number of RCVS awards (3)	**159** 114	This shows the number of Royal College of Veterinary Surgeons ("RCVS") Practice Standard Scheme awards across the Group. These awards promote and maintain the highest standards of veterinary care across a range of different criteria including client experience and clinical governance. Monitoring the number of RCVS awards helps us achieve our strategic goals of providing the best clinical care along with taking our responsibilities seriously.	- During the year we have achieved 45 additional "outstanding" awards across our practices
(K) Employee NPS (1)	**0.7**	Employee net promoter score ("eNPS") is a measure of how likely our staff members are to recommend the Group as a place to work. This shows the level of employee satisfaction shown across the Group as reported on anonymous surveys. Monitoring eNPS helps us ensure we are a great place to work and have career.	- This is the first financial year for monitoring eNPS and throughout the year we have seen improvements in employee engagement throughout the year, ending at 0.7. In 2021 we hope to improve the eNPS score across our business areas.
(L) Client NPS (1)	**78.5**	Client net promoter score ("NPS") is a measure of our level of customer satisfaction across the period. This shows the level of customers that would recommend the Group for our services. Monitoring NPS helps us ensure we recommend and provide the best clinical care every time.	- This is the first financial year for monitoring NPS and therefore no comparison can be made with prior years.

Principal risks and uncertainties

Risk management structure

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 senior management.

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.

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.

The key roles and delegated responsibilities

Executive Management team	Audit Committee	Internal audit
Collectively responsible for managing risks.	Assists the Board to fulfil its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and the risk management structure.	Holds meetings with risk owners across the business, updates the individual risk registers, assessing the risk ratings and documenting the controls in place to mitigate each risk, and recommends improvements and corrective actions.

Risk appetite

The effectiveness of our risk management approach relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. The Group's appetite for risk is considered low; whilst some risk is required in order to develop the business and invest in future growth, the Group has no appetite for major risks which cannot be effectively mitigated through appropriate controls.

Assessment of principal risks

During the year the Board undertook a robust, in-depth and comprehensive assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity. A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 43 to 53 of the Annual Report.

COVID-19

The Board has reviewed the risks and opportunities that may arise through COVID-19 or similar pandemic and as a result has implemented a number of risk management plans in areas which could be impacted. The medium to longer-term effects of COVID-19 remain unclear but the Board and Executive Committee continue to monitor developments and plan accordingly.

The key risk areas for COVID-19 are:

- Our people - The current COVID-19 pandemic has the potential to cause a significant impact on the Group's business. It has impacted staffing levels with the need for employees to self-isolate and others required to work from home. This may have a significant impact on our ability to effectively staff practices and provide ongoing care to our patients.
- The economy – The pandemic could have a significant medium-term impact on the economy and clients' ability to spend on their pets. This could affect the Group's ability to comply with its bank facilities and the availability of liquidity in the market. Whilst the sector has proven resilient in past economic downturns, there is considerable uncertainty at the current time.
- Our supply chain - The COVID-19 pandemic creates a new and potentially serious risk to ongoing supplies. Manufacturers are taking actions to prevent supply issues. However, there is a risk of an ongoing fall in the level of supply.

Brexit

Brexit continues to present various risks and uncertainties which the Board and senior management continue to manage. The key areas of focus are:

- Our people;
- The economy; and
- Our supply chain.

Principal risk occurrence

Risk	**Description**	**Mitigating factors**	**Changes in the year**
1.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 and there are insufficient UK veterinary surgeons and nurses to fill all positions, with a resulting reliance on foreign nationals. Furthermore, there are other changes in the industry such as the increasing feminisation of veterinary surgeons which may have an impact in due course. As a result of the above factors there had been a historic increase in the veterinary surgeon and nurse vacancy rate in the UK and a historic increase in reliance on locums. This has resulted in salary cost inflation.	The Group maintains close relationships with UK veterinary schools and has a market-leading graduate induction programme in place in order to attract and develop leading graduates. The Group has developed a range of training programmes for its employees which include clinical, customer service and management training. The Group has focused on providing more flexible working for its employees and increased wellbeing support. The retention of senior employees is encouraged through an annual bonus scheme and a Group LTIP scheme. An annual SAYE scheme is in place to incentivise all staff and help improve retention. Staff surveys and exit interviews are undertaken and the feedback from these is used to address any common issues or concerns. A highly qualified Recruitment team is in place to facilitate the recruitment of employees from the UK and overseas. The Group's veterinary vacancy rate and nurse vacancy rate are both key performance indicators which are reported to the Board each month. The Home Office has reinstated the role of veterinary surgeon on the UK Shortage Occupation List and this is a positive step in	The ability to recruit and retain key clinical and non-clinical staff has increased in the year and we have seen a reduction in our vet and nurse vacancy rates to 6.9% and 3.9% respectively. More recently we have seen an increase in recruitment of high quality clinical and non-clinical staff.

		helping to address the UK shortage of veterinary surgeons.	
2. Economic environment	The continued COVID-19 and Brexit uncertainty, and potential further decline in the UK economy, could result in a reduction in consumer confidence and spending on veterinary services.	The veterinary sector has proved to be robust in times of past economic downturn and the Board believes that the characteristics of our business make it relatively resilient to future economic fluctuations. The Group has diversified the business and provides a wide range of integrated veterinary services to small animal, equine and farm patients and clients in the UK, the Netherlands and the Republic of Ireland. The Group continues to focus on providing the best levels of clinical care and its preventative healthcare schemes serve to bond clients to the Group. The Group at the year-end had 415,000 members of its Healthy Pet Club and has 8,000 members of its Healthy Horse Programme. These schemes, and the Group's ability to provide end to end veterinary services, build client loyalty to the Group and increase retention. The range of businesses within the Group, and our geographic expansion, reduces the risk of the impact of any economic downturn. The small animal, equine and farm veterinary markets have slightly different characteristics and the Group's expansion of its Equine and Farm Animal Divisions reduces its risk. The Group's Animed Direct business protects the Group against an increase in customers who may switch to purchasing pharmaceuticals online and performed really well during the COVID-19 lockdown. The Group's own brand products are only available in practices and are not available to customers online.	The longer term impact of the COVID-19 pandemic is unknown, but it could have a significant medium-term impact on the economy and clients' ability to spend on their pets. Whilst the sector has proven resilient in past economic downturns, there is considerable uncertainty at the current time.

		The impact of Brexit on the Group's business remains uncertain. The Board believes that the main risks from Brexit are from short-term disruption to its key supplies and from a subsequent reduction in economic growth. The Group has taken a number of steps to reduce the impact from disruption to its supplies including working with manufacturers and wholesalers to ensure they increase stocks, developing a new warehouse management system and t short-term stock building. The Board believes that the veterinary industry is relatively resilient to economic downturns and hence the impact from Brexit is likely to be less than for many industries.	
3. Competition	Increasing corporate consolidation and acquisition of independent veterinary practices results in a loss of clients to the Group. Independent practices which currently procure services from the Group are likely to switch their business post acquisition by a corporate competitor thereby resulting in lost revenue to the Group. Increasing acquisition multiples being paid by competitors increases the value of potential acquisition targets and reduces the margins available and the Group's ability to successfully acquire and integrate acquisitions. Increased price competition may limit the Group's ability to pass on increases in employment, pharmaceutical and other costs and result in reduced margins.	The Group focuses on providing the best levels of clinical care and customer service to its patients. The Group's integrated veterinary platform allows it to provide the full range of veterinary services to its clients. The Group provides referral services, out of hours provision, buying group membership discounts and laboratory and crematoria services and these help bond clients to the Group. The Group continues to invest in high class facilities and equipment to provide appropriate clinical service. Employees pride themselves on providing the highest levels of clinical care and excellent customer service. New peripatetic services are being launched to facilitate greater access to specialist care in local practices in order to improve customer access to local care. The Group assesses each acquisition opportunity on its own merits and against a clear set of criteria. The Group will only make acquisitions at acceptable multiples and where	The market continues to consolidate in the UK and the Netherlands; however, the Group remains in a strong position to grow through acquisition with substantial headroom in its facilities and strong cash generation. We will continue to use our culture of high clinical care and Healthy Pet Club subscription scheme to attract and retain our clients.

		it is confident that it will achieve appropriate returns. The Group regularly reviews the pricing of its products and services and seeks to remain competitive in each of the business areas in which it operates.	
4. Adverse publicity	Adverse publicity could result in a reduction in customer numbers, revenue and earnings and in our ability to attract and retain key staff.	The Group aims to provide the highest levels of clinical care and has policies and procedures in place to monitor delivery. The Group's practices participate in the RCVS Practice Standards Scheme and the Group has to date attained a number of “outstanding” awards. The Group is committed to an ongoing programme of quality improvement (“QI”) and has been awarded the RCVS Knowledge QI Champion award. The Group operates clinical advisory committees to promote and set appropriate clinical standards and drugs lists across the Group. An independent Clinical team monitors practice standards and makes recommendations for future improvement where appropriate. The individual branding of our practices reduces the risk of any adverse publicity at one practice impacting on another or on the wider Group. The Group has a Marketing/Communications team in place which can respond swiftly to any adverse publicity. 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.	We continue to monitor our clinical standards across the Group and have a robust quality improvement framework for our clinicians and practices. We will continue to adopt this culture going forward and implement necessary steps to ensure our high standards of compliance continue whilst continually looking for ways to improve.
5. Information technology	The Group is dependent on various aspects of IT technology and support for the continued operation of its business. These primarily relate to the security of	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	As we develop new ways to serve our clients and our patients and expand remote access as required for those working from home, our

	data, prevention of cyber-attack, and the continuing availability of systems throughout Group networks.	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 is 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.	information technology systems and data security are paramount to this strategy. The education of colleagues in this area will continue to mitigate this risk as well as continued implementation and development of our systems.
6. Changes in industry regulations	The Group's operations are subject to a number of laws and regulations and changes in these	The Group operates under a number of laws and regulations and Operations teams in each area of the business have	The RCVS has relaxed rules and now allow telemedicine providers to prescribe medicine remotely and this could have a

	could have a material adverse impact to the Group.	procedures in place to monitor compliance and also to monitor developments and proposed changes. The Group engages closely with regulatory and legislative bodies to promote best practice in veterinary care and to maintain awareness of any proposed changes and to lobby for changes where considered appropriate. For example, the Group believes that its highly skilled veterinary nurses should be able to undertake further clinical work and continues to lobby for this change. 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.	material impact on the Group.
7. Failure to source pharmaceutical supplies	The Group's operations require it to acquire and supply significant quantities of pharmaceutical products at appropriate prices. The majority of medicines are purchased through one wholesaler and any operational issues within that supplier could have an adverse impact on the Group. The Group has expanded its operations into equine and farm species and also into the Netherlands and the Republic of Ireland and there is a risk that the Group fails to achieve appropriate prices for pharmaceutical products in these newer areas.	The Group has an appropriate supply agreement in place with its major wholesaler to secure supplies. Other wholesalers can supply most medicines and hence the Group is confident that supplies will be available should the existing CVS wholesaler withdraw. CVS has direct relationships with many manufacturers which would enable direct supply should any difficulties occur. The Group has developed an increasing range of own brand medicines which are supplied directly to our warehouse in Diss for onward supply to our practices. These own brand medicines now account for 28% of small animal first opinion practice drug sales.	We continue to monitor the Brexit and COVID-19 uncertainty which may lead to an adverse impact on the availability of drugs in the UK. The main wholesaler and manufacturers are building stocks in advance of a possible exit and the Group will also consider increasing its own stock levels to mitigate any risk of supply disruption from Brexit.

		The Group has developed a new warehouse management system with further developments which is expected to go live in the 2021 financial year and this will facilitate further growth in direct distribution. The Group undertakes regular reviews with manufacturers on drug prices and compares pricing for small animal products in the UK, the Netherlands and the Republic of Ireland to identify anomalies in pricing. Similarly, the Group reviews equine and farm drug prices in comparison to small animal.	
8. Ability to source and integrate acquisitions	The Group has completed a number of veterinary practice and related business acquisitions in recent years and these have driven significant growth in revenue and earnings. Acquisition multiples in the industry have increased and there is a risk that the Group is unable to make further acquisitions at acceptable multiples, or fails to integrate them successfully with its existing operations.	The Group continues to consider opportunities to acquire practices that provide veterinary services to small animal clients, where the Group is confident that they can be acquired at acceptable multiples and can be integrated effectively. In recent years the Group has also acquired practices in the Netherlands and the Republic of Ireland. Both of these markets, whilst smaller than the UK market, are substantially less consolidated and together provide opportunities for further growth through acquisition. The Group may consider entering other geographic markets in due course where they are considered attractive. The Group has developed a robust approach to assess acquisition opportunities against a clear list of criteria and offers are only made where practices meet these criteria and where the Group is confident that it can generate appropriate returns post acquisition and successfully integrate the acquisition target with its existing operations. The Operations teams, which will be responsible for managing the	With the dedicated team to integrate acquisitions in place, this risk is improving and acquisitions made in the year under review are all trading in line with expectation.

		acquisition target post a successful acquisition process, are fully involved in the acquisition process before any offers are made. The Group employs professional advisors to ensure an appropriate due diligence process is undertaken prior to acquisition and formal business cases are presented to the Board for approval. These business cases clearly set out the rationale for the proposed acquisition, the process by which the acquisition target will be integrated with the Group, the key priorities immediately post acquisition and the expected financial returns. Post acquisition, the results of acquisitions are reported and monitored separately by the Operations teams, by the Executive Committee and by the Board. Any learnings to be gained from previous acquisitions are used to refine the acquisition process and approach.	
9. Failure to comply with health and safety legislation	The Group's operations involve treating companion, equine and farm animals that can be in pain and distress. Furthermore, some veterinary procedures are performed outside of the Group's premises at equine and farm clients' premises. This naturally results in a risk of injury to the Group's employees and to members of the public. The Group's operations also involve the administration and supply of pharmaceutical products and appropriate care needs to be taken in their handling and supply. The Group's equine and farm veterinary surgeons are also required to handle firearms from time to time and there is a risk of personal injury if these firearms are not used and stored in a safe manner. The Group operates from a	The Group takes the health and safety of its employees, customers and members of the public extremely seriously and has a number of policies and procedures in place aimed at ensuring full compliance with health and safety legislation and ultimately at ensuring there are no adverse issues. All employees are required to undertake appropriate training in order to ensure they are fully equipped to perform their duties safely and to minimise the risk of accidents. Employees are provided with appropriate facilities and protective equipment and clothing in order to undertake their duties appropriately. Pharmaceutical products and firearms are stored in a secure manner in the Group's premises and in ambulatory vehicles and appropriate records are maintained to control use.	The Group continues to focus on compliance with Health and safety legislation and is working with relevant organisations, including conducting surveys at all of its sites, to ensure a high standard of compliance across the business.

	number of premises which are visited by clients. There is a risk of personal injury if these premises are not appropriately maintained.	The Group has a specialist Health and Safety team which is responsible for reviewing health and safety risks and for making recommendations for improvement where appropriate. This team is managed by the Director of Property, Estates and Health and Safety reporting directly to the Chief Executive Officer. All property areas now report to this Director thereby ensuring that healthy and safety is joined up with facilities maintenance and property development. The Group participates in the RCVS Practice Standards Scheme which aims to promote the highest level of clinical standards. The Group employs a specialist Clinical team to oversee best practice and to identify and address any areas of concern which could result in harm to our patients, employees and members of the public. The Group employs third party specialist contractors to both advise on and undertake property maintenance and development work. Whilst policies and procedures are in place to ensure the Group selects appropriately qualified contractors and to ensure that such contractors comply with health and safety legislation, additional controls are being implemented to further enhance oversight in this area.	
10. Failure to comply with appropriate corporate legislation or regulatory requirements	The Group is subject to a wide range of legislation and regulations. Non-compliance with laws and regulations could lead to limitations on certain areas of the business or ultimately fines, penalties and the suspension of certain operations.	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. The Group obtains	The Group continues to monitor the legal and regulatory developments across the UK, Netherlands and Republic of Ireland and actively take steps to ensure the high standards of compliance are met across the business.

		insurance cover and professional advice from third-party experts where appropriate. The Group operates as an Appointed Representative of its pet insurance provider and hence is subject to regulation by the Financial Conduct Authority. The Group employs suitably qualified individuals to ensure compliance with appropriate Financial Conduct Authority legislation and works closely with its insurance provider in this regard.	
11. Failure to comply with terms of bank facilities or to refinance the business	The Group has taken out bank lending facilities to fund its operations and to provide investment for future growth. The facilities are for a fixed term and are subject to compliance with general undertakings, reporting requirements and financial covenants. Failure by the Group to comply with the terms of the existing facilities, or to refinance these facilities in due course could result in a lack of availability of funding and/or increased borrowing costs and could ultimately have a material adverse impact on the Group.	The Group maintains suitable bank facilities from a syndicate of leading banks with an appropriate term. Committed facilities are maintained for a minimum future period comprising term debt, a revolving credit facility and an overdraft. Cash flows, facility compliance and covenant headroom are reported to the Executive Committee and the Board monthly and regular meetings are held with the banking syndicate to appraise it of financial performance. Daily cash flow forecasts are maintained for a minimum three-month period to enable the Group to understand its future borrowing requirements and to enable it to optimise its bank drawings and interest costs whilst providing access to appropriate funds as required. Treasury processes are in place to maximise operating cash flows and to free up cash for future investment. The Group is cash generative and in the absence of acquisitions the Group reduces leverage, thereby increasing the headroom under financial covenants.	The Group successfully extended these facilities in January 2020.The term was extended to January 2024, with an additional one-year extension option and an additional £100m accordion facility, therefore mitigating this risk. The risk would increase in the event of a sustained impact of COVID-19 on the economy and the business.

12. Future pandemic or lockdown	With continued uncertainty over COVID-19 and any future lockdowns, the Group is exposed to a risk of being able to undertake non-emergency veterinary services.	During the current COVID-19 pandemic, the Group has worked with veterinary regulators RCVS and BVA, to ensure the veterinary sector was able to perform essential and emergency care. The Group operates in the UK, the Republic of Ireland and the Netherlands and has practices geographically spread in these territories. This minimises the impact to the Group of localised lockdown. The Group is also diverse in its operations with an on-line pharmacy and pet consumable business, providing veterinary care across many animal species, including farm animal which are critical to the human food chain, laboratory testing work including COVID-19 testing and vital crematoria clinical waste. The Group has launched a telemedicine service for clients who are unable to visit practices, providing a tri-age service when travel restrictions are in place.	The impact of COVID-19 is ongoing, however the Group adapted to the first phase well and had returned to pre COVID-19 levels of revenue by the financial year end. The Group continues to monitor government advice in its operational territories and actively take steps to mitigate any future impact on the Group.

Consolidated income statement
For the year ended 30 June 2020

	Note	2020 £m	2019 £m
Revenue	2	**427.8**	406.5
Cost of sales		**(257.7)**	(237.6)
Gross profit		**170.1**	168.9
Administrative expenses		**(151.6)**	(153.3)
Operating profit		**18.5**	15.6
Finance expense		**(8.6)**	(3.9)
Profit before income tax	2	**9.9**	11.7
Income tax expense	3	**(4.2)**	(3.5)
Profit for the year attributable to owners of the parent		**5.7**	8.2
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	4	**8.1p**	11.6p
Diluted	4	**8.1p**	11.6p

All activities derive from continuing operations.

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 and exceptional items.

Non-GAAP measure: adjusted EBITDA	Note	2020 £m	2019 £m
Profit before income tax		**9.9**	11.7
Adjustments for:			
Finance expense		**8.6**	3.9
Depreciation		**24.2**	9.2
Amortisation of intangible assets		**22.2**	22.2
Costs relating to business combinations*	2	**0.7**	7.2
Exceptional items		**5.4**	0.3
Adjusted EBITDA	2	**71.0**	54.5

* Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.

Consolidated statement of comprehensive income
for the year ended 30 June 2020

	Note	2020 £m	2019 £m
Profit for the year		**5.7**	8.2
Other comprehensive income – items that will or may be reclassified to loss in future periods			
Cash flow hedges:			
Net movement on cash flow hedge		**(1.5)**	(0.1)
Cost of hedging reserve		**0.5**	-
Deferred tax on cash flow hedge and available for sale financial assets		**0.2**	-
Exchange differences on translation of foreign operations		**0.6**	0.2
Other comprehensive (loss)/income for the year, net of tax		**(0.2)**	0.1
Total comprehensive income for the year attributable to owners of the parent		**5.5**	8.3

Consolidated Statement of financial position

as at 30 June 2020

Company registration number: 06312831

	Note	**Group 2020 £m**	Group 2019 £m
Non-current assets			
Intangible assets		**229.8**	244.5
Property, plant and equipment		**51.6**	51.4
Right-of-use assets		**98.1**	-
Investments		**0.1**	0.1
Deferred income tax assets		**1.1**	0.2
Derivative financial instruments		**-**	0.1
		380.7	296.3
Current assets			
Inventories		**18.7**	17.0
Trade and other receivables		**43.4**	51.6
Cash and cash equivalents		**21.5**	12.5
		83.6	81.1
Total assets	2	**464.3**	377.4
Current liabilities			
Trade and other payables		**(87.7)**	(73.7)
Provisions		**(5.0)**	-
Lease liabilities		**(8.8)**	-
Current income tax liabilities		**(0.4)**	(4.9)
Borrowings	7	**(0.1)**	(0.3)
		(102.0)	(78.9)
Non-current liabilities			
Borrowings	7	**(83.5)**	(114.2)
Lease liabilities		**(89.8)**	-
Derivative financial instruments		**(0.9)**	-
Deferred income tax liabilities		**(21.5)**	(21.2)
		(195.7)	(135.4)
Total liabilities	2	**(297.7)**	(214.3)
Net assets		**166.6**	163.1
Shareholders' equity			
Share capital		**0.1**	0.1
Share premium		**101.9**	99.7
Capital redemption reserve		**0.6**	0.6
Treasury reserves		**(0.3)**	-
Cash flow hedge reserve		**(1.4)**	-
Cost of hedging reserve		**0.5**	-
Revaluation reserve		-	0.1
Merger reserve		**(61.4)**	(61.4)
Retained earnings		**126.6**	124.0
Total equity		**166.6**	163.1

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 related notes, were authorised for issue by the Board of Directors on 24 September 2020 and were signed on its behalf by:

Richard Fairman
Director

Robin Alfonso
Director

Consolidated statement of changes in equity

for the year ended 30 June 2020

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2019		0.1	99.7	0.6	-	-	-	0.1	(61.4)	124.0	163.1
Profit for the year		-	-	-	-	-	-	-	-	5.7	5.7
Other comprehensive income											
Cash flow hedges:											
Fair value loss		-	-	-	-	(1.4)	0.5	-	-	(0.1)	(1.0)
Deferred tax on cash flow hedge and available for sale financial assets		-	-	-	-	-	-	-	-	0.2	0.2
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	0.6	0.6
Total other comprehensive income		-	-	-	-	(1.4)	0.5	-	-	0.7	(0.2)
Total comprehensive income		-	-	-	-	(1.4)	0.5	-	-	6.4	5.5
Transactions with owners											
Issue of Ordinary shares		-	0.1	-	-	-	-	-	-	-	0.1
Reclassification between reserves		-	2.1	-	(2.1)	-	-	-	-	-	-
Disposal of revaluation reserve		-	-	-	-	-	-	(0.1)	-	-	(0.1)
Disposal of treasury shares		-	-	-	1.8	-	-	-	-	(0.9)	0.9
Credit to reserves for share-based payments		-	-	-	-	-	-	-	-	0.9	0.9
Deferred tax relating to share-based payments		-	-	-	-	-	-	-	-	0.1	0.1
Dividends to equity holders of the Company	6	-	-	-	-	-	-	-	-	(3.9)	(3.9)
Transactions with owners		-	2.2	-	(0.3)	-	-	(0.1)	-	(3.8)	(2.0)
At 30 June 2020		**0.1**	**101.9**	**0.6**	**(0.3)**	**(1.4)**	**0.5**	**-**	**(61.4)**	**126.6**	**166.6**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2018		0.1	99.1	0.6	-	0.1	(61.4)	119.2	157.7
Profit for the year		-	-	-	-	-	-	8.2	8.2
Other comprehensive income									
Cash flow hedges:									
Fair value loss		-	-	-	-	-	-	(0.1)	(0.1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	0.2	0.2
Total other comprehensive income		-	-	-	-	-	-	0.1	0.1
Total comprehensive income		-	-	-	-	-	-	8.3	8.3
Transactions with owners									
Issue of Ordinary shares		-	0.6	-	-	-	-	-	0.6
Credit to reserves for share-based payments		-	-	-	-	-	-	0.1	0.1
Deferred tax relating to share-based payments		-	-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders of the Company	6	-	-	-	-	-	-	(3.5)	(3.5)
Transactions with owners		-	0.6	-	-	-	-	(3.5)	(2.9)
At 30 June 2019		0.1	99.7	0.6	-	0.1	(61.4)	124.0	163.1

Consolidated Statement of cash flow

for the year ended 30 June 2020

	Note	**Group 2020 £m**	Group 2019 £m
Cash flows from operating activities			
Cash generated from operations	8	**94.8**	52.1
Taxation paid		**(9.5)**	(7.3)
Interest paid		**(7.0)**	(3.4)
Exceptional items paid		**(0.7)**	-
Net cash generated from operating activities		**77.6**	41.4
Cash flows from investing activities			
Acquisitions (net of cash acquired)	5	**(7.2)**	(56.6)
Purchase of property, plant and equipment		**(11.1)**	(11.9)
Purchase of intangible assets		**(1.3)**	(1.0)
Net cash used in investing activities		**(19.6)**	(69.5)
Cash flows from financing activities			
Dividends paid		**(3.9)**	(3.5)
Proceeds from issue of Ordinary shares		**0.1**	0.6
Proceeds from sale of treasury shares		**0.9**	-
Repayment of obligations under right-of-use assets		**(14.2)**	-
Debt issuance costs		**(1.7)**	(0.3)
Repayment of borrowings		**(65.2)**	-
Increase of borrowings		**35.0**	28.8
Net cash (used in)/generated from financing activities		**(49.0)**	25.6
Net increase/(decrease) in cash and cash equivalents		**9.0**	(2.5)
Cash and cash equivalents at the beginning of the year		**12.5**	15.0
Cash and cash equivalents at the end of the year		**21.5**	12.5

Notes to the consolidated financial statements for the year ended 30 June 2020

for the year ended 30 June 2020

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 2020 or 2019, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2020, 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 2019 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 in accordance with EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements. Further details are provided in the Corporate Governance Statement on pages 56 to 60 of the Group's Annual Report.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in the financial information.

Use of non-GAAP measures

Adjusted EBITDA, and adjusted profit before tax ("adjusted PBT") and adjusted EPS

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on the Group's underlying performance. These measures are used by the Board and management for planning and internal reporting and are aligned to our strategy and KPIs. A subset is also used by management in setting Director and management remuneration. The measures are also used in discussions with the investment analyst community. 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 and exceptional items.

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 adjusted for the number of working days; for example, for a practice acquired in September 2018, revenue is included from September 2019 in the like for like revenue calculation.

Net debt

Net debt is calculated as borrowings less gross cash and unamortised borrowing costs.

2. Segmental reporting

Segmental information is presented in respect of the Group's business and geographical segments. The primary format, operating segments, is based on the Group's management and internal reporting structure and monitored by the Group's 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 and liabilities, costs relating to business combinations, and Head Office salary and premises costs.

Geographical segments

The business operates predominantly in the UK. As at 30 June 2020, it has 25 veterinary practices in the Netherlands and 6 in the Republic of Ireland. 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.

Revenue comprises £293.6m of fees and £134.2m of goods (2019: £287.0m and £119.5m respectively). Revenue from contracts totalled £46.8m in the year (2019: £45.4m).

Operating segments

The Group is split into four operating segments (Veterinary Practices, Laboratories, Crematoria 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 service 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 2020	**Veterinary Practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	**384.1**	**21.1**	**7.2**	**32.1**	**(16.7)**	**427.8**
Profit/(loss) before income tax	**26.9**	**5.0**	**2.1**	**2.4**	**(26.5)**	**9.9**
Adjusted EBITDA	**72.3**	**5.8**	**2.5**	**2.5**	**(12.1)**	**71.0**
Total assets	**401.5**	**22.6**	**14.0**	**22.6**	**3.6**	**464.3**
Total liabilities	**(176.8)**	**(2.8)**	**(1.4)**	**(17.7)**	**(99.0)**	**(297.7)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**26.9**	**5.0**	**2.1**	**2.4**	**(26.5)**	**9.9**
Finance expense	**4.1**	**-**	**-**	**-**	**4.5**	**8.6**
Depreciation	**21.7**	**0.8**	**0.4**	**0.1**	**1.2**	**24.2**
Amortisation	**14.7**	**-**	**-**	**-**	**7.5**	**22.2**
Costs relating to business combinations	**0.2**	**-**	**-**	**-**	**0.5**	**0.7**
Exceptional items	**4.7**	**-**	**-**	**-**	**0.7**	**5.4**
Adjusted EBITDA	**72.3**	**5.8**	**2.5**	**2.5**	**(12.1)**	**71.0**

Year ended 30 June 2019	Veterinary Practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Head Office £m	Group £m
Revenue	370.7	20.1	7.3	23.3	(14.9)	406.5
Profit/(loss) before income tax	30.7	3.7	2.1	1.6	(26.4)	11.7
Adjusted EBITDA	56.2	4.3	2.5	1.7	(10.2)	54.5
Total assets	332.4	18.5	12.3	11.9	2.3	377.4
Total liabilities	(65.6)	(3.3)	(1.8)	(8.9)	(134.7)	(214.3)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	30.7	3.7	2.1	1.6	(26.4)	11.7
Finance expense	0.1	-	-	-	3.8	3.9
Depreciation	7.8	0.6	0.4	-	0.4	9.2
Amortisation	13.2	-	-	0.1	8.9	22.2
Costs relating to business combinations	4.4	-	-	-	2.8	7.2
Exceptional items	-	-	-	-	0.3	0.3
Adjusted EBITDA	56.2	4.3	2.5	1.7	(10.2)	54.5

3. Income tax expense

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

	2020 £m	2019 £m
Current tax		
Current tax on profits for the year	**6.8**	7.0
Adjustments in respect of previous years	**(1.8)**	1.1
Total current tax charge	**5.0**	8.1
Deferred tax		
Origination and reversal of temporary differences	**(3.9)**	(4.2)
Adjustments in respect of previous years	**0.7**	(0.9)
Effect of tax rate change on opening deferred tax balances	**2.4**	0.5
Total deferred tax credit	**(0.8)**	(4.6)
Total income tax expense	**4.2**	3.5

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2019: 19.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

b) Reconciliation of effective income tax charge

The total income tax expense for the year differs from the theoretical amount that would arise using the standard rate of UK corporation tax of 19.0% (2019: 19.0%) as follows:

	2020 £m	2019 £m
Profit before tax	**9.9**	11.7
Effective tax charge at 19.0% (2019: 19.0%)	**1.9**	2.2
Effects of:		
Expenses not deductible for tax purposes	**1.0**	0.5
Effect of tax rate change on opening deferred tax balances	**2.4**	0.5
Adjustments to deferred tax charge in respect of previous years	**0.7**	(0.8)
Adjustments to current tax charge in respect of previous years	**(1.8)**	1.1
Total income tax expense	**4.2**	3.5

The standard rate of UK corporation tax for the period was 19.0% (2019: 19.0%). A UK corporation tax rate of 19.0% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19.0% to 17.0%. This change had been substantively enacted at the consolidated and Company statement of financial position date and, therefore, it is reflected in the deferred tax balances in this financial information.

The effective tax rate on reported profits is 42.3% (2019: 29.9%) and has increased mainly due to the re-measurement of deferred tax balances in respect of UK jurisdictions from 17.0% to 19.0% as a result of the repeal of the previously enacted UK corporation tax rate of 17.0% from 1 April 2020.

4. Earnings per Ordinary share

(a) Basic

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

	2020 £m	2019 £m
Earnings attributable to Ordinary shareholders (£m)	**5.7**	8.2
Weighted average number of Ordinary shares in issue	**70,654,009**	70,506,476
Basic earnings per share (p per share)	**8.1**	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 LTIP 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.

	2020	2019
	£m	£m
Earnings attributable to Ordinary shareholders (£m)	**5.7**	8.2
Weighted average number of Ordinary shares in issue	**70,654,009**	70,506,476
Adjustment for contingently issuable shares – LTIPs	**109,143**	88,379
Adjustment for contingently issuable shares – SAYE schemes	**3,017**	-
Weighted average number of Ordinary shares for diluted earnings per share	**70,766,169**	70,594,855
Diluted earnings per share (p per share)	**8.1**	11.6

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 number of Ordinary shares in issue in the period.

		2020	2019
	Note	**£m**	£m
Earnings attributable to Ordinary shareholders		**5.7**	8.2
Add back taxation		**4.2**	3.5
Profit before taxation		**9.9**	11.7
Adjustments for:			
Amortisation		**22.2**	22.2
Costs relating to business combinations	2	**0.7**	7.2
Exceptional items	2	**5.4**	0.3
Adjusted profit before income tax		**38.2**	41.4
Tax charge amended for the above adjustments		**(8.5)**	(8.5)
Adjusted profit after income tax and earnings attributable to owners of the parent		**29.7**	32.9
Weighted average number of Ordinary shares in issue		**70,654,009**	70,506,476
Weighted average number of Ordinary shares for diluted earnings per share		**70,766,169**	70,594,855

	Pence	Pence
Adjusted earnings per share	**42.0p**	46.7p
Diluted adjusted earnings per share	**41.9p**	46.6p

5. Business combinations

Details of business combinations in the year ended 30 June 2020 are set out below, in addition to an analysis of post-acquisition performance of the respective business combinations, where practicable. The reason for each acquisition was to expand the CVS Group business through acquisitions in meeting our goals outlined on pages 20 and 21 of the Group's Annual Report.

Name of business combination	Date of acquisition
Lissenhall Veterinary Hospital (trade and assets)	8 August 2019
Dierenkliniek Gooiland B.V. (trade and assets)	19 September 2019
Pet Emergency Treatment Services Limited	19 November 2019
Pets Holding Limited	19 November 2019
Stewart Vets (trade and assets)	10 March 2020

All businesses were acquired via 100% share purchase agreement unless indicated as such in the table above.

Given the nature of the veterinary surgeries acquired 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 at the beginning of that year.

The table below summarises the total assets acquired in the year ended 30 June 2020:

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	**0.2**	**-**	**0.2**
Patient data records and customer lists	**-**	**2.9**	**2.9**
Right-of-use assets	**2.2**	**-**	**2.2**
Inventory	**0.1**	**-**	**0.1**
Deferred tax liability	**-**	**(0.5)**	**(0.5)**
Trade and other receivables	**0.8**	**-**	**0.8**
Provision for impairment of trade receivables	**(0.1)**	**-**	**(0.1)**
Right-of-use liabilities	**(2.2)**	**-**	**(2.2)**
Trade and other payables	**(0.5)**	**-**	**(0.5)**
Total identifiable assets	**0.5**	**2.4**	**2.9**
Goodwill		**4.3**	**4.3**
Total initial consideration paid (net of cash acquired of £0.3m)			**7.2**

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 adjusted EBITDA were £4.3m and £0.8m respectively. The post-acquisition period is from the date of acquisition to 30 June 2020. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2020 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

Goodwill and intangible assets recognised in the year relating to business combinations are not expected to be deductible for tax purposes.

The acquisition costs incurred in relation to the above business combinations amounted to £0.5m for the year and are included within other expenses.

The Directors do not consider that any individual in year acquisition to be material to the Group and therefore have not separately disclosed these.

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 2019.

Business combinations subsequent to the year end

Subsequent to the year end, the Group has made no acquisitions.

6. Dividends

	2020 **£m**	2019 £m
Amounts recognised as distributions in the year in respect of:		
Ordinary shares	**3.9**	3.5

The Directors have proposed a final dividend of £nil (2019: 5.5p) per share, giving a total of £nil (2019: £3.9m). During the year a dividend of 5.5p per share amounting to £3.9m was paid (2019: £3.5m).

7. Borrowings

Borrowings comprise bank loans and hire purchase agreements and are denominated in Sterling. The repayment profile is as follows:

Group	**2020 £m**	2019 £m
Within one year or on demand	**0.1**	0.3
Between one and two years	**-**	-
After more than two years	**83.5**	114.2
	83.6	114.5

The balances above are shown net of issue costs of £1.5m (2019: £0.8m), 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.

The Group renewed and extended its bank facilities in January 2020. The Group has reduced the total facilities from £190.0m to £170.0m, a reduction of £20.0m, to reflect the continued focus and greater emphasis on organic growth and strong operating cash generation of the Group. These facilities are provided by a syndicate of four banks, NatWest, HSBC, BOI and AIB, and comprise the following elements:

- a fixed term loan of £85.0m, repayable on 31 January 2024 via a single bullet repayment; and
- a four-year revolving credit facility ("RCF") of £85.0m that runs to 31 January 2024.

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

The two financial covenants associated with these facilities have remained unchanged, and are based on Group borrowings to EBITDA and Group EBITDA to interest. The Group borrowings to EBITDA ratio must not exceed 3.25x. The Group EBITDA to interest ratio must not be less than 4.5x. 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.

Bank covenants are tested quarterly and the Group has considerate headroom in both financial covenants and in its undrawn but committed facilities as at 30 June 2020.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 28 February 2020, the Group entered into a four-year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £70.0m of its term loan.

At the consolidated and Company statement of financial position date £70.0m 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 2020 the Group has a committed overdraft facility of £5.0m (2019: £5.0m) and an RCF of £85.0m (2019: £95.0m). The overdraft facility was undrawn at 30 June 2020 and 30 June 2019. £85.0m of the RCF was undrawn at 30 June 2020 (2019: £75.0m).

8. Cash flow generated from operations

	Group 2020 £m	Group 2019 £m
Profit/(loss) for the year	**5.7**	8.2
Taxation	**4.2**	3.5
Total finance costs	**8.6**	3.9
Amortisation of intangible assets	**22.2**	22.2
Depreciation of property, plant and equipment and right-of-use assets	**24.2**	9.2
Increase in inventories	**(1.4)**	(1.0)
Decrease/(Increase) in trade and other receivables	**8.5**	(3.6)
Increase in trade and other payables	**11.5**	9.6
Increase in provisions	**5.0**	-
Share option expense	**0.9**	0.1
Exceptional items	**5.4**	-
Total net cash flow generated from operations	**94.8**	52.1