

29 January 2021

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

Trading Update

CVS, one of the UK's leading providers of integrated veterinary services, gives the following update on trading covering the six months ended 31 December 2020 ("H1 2021"). Financial data is stated in accordance with IFRS, except where otherwise indicated.

Summary

- Strong H1 2021 financial performance with total sales growing by 9.4% to £245.6m (H1 2020: £224.5m) and like-for-like ("LFL") sales¹ increased by 7.8% (H1 2020: 8.4%), reflecting continued momentum across all divisions and recognition of HPC revenue
- Adjusted EBITDA margin improved from 16.9% in H1 2020 to 18.4% in H1 2021 (pre-IFRS 16 from 13.4% to 15.2%)
- Vet vacancy rates stable at 7.4% (H1 2020: 7.8%)
- Positive trading performance, coupled with continued strong cash generation, has led to a reduction in net bank borrowings⁴ to £44.4m, with leverage⁵ at 0.72x at 31 December 2020 (30 June 2020: £63.5m and 1.14x respectively)
- Four small animal practice acquisitions have been completed in H1 2021 (H1 2020: three)
- All CVS practices remain open in current lockdown, offering essential services to clients in accordance with Royal College of Veterinary Surgeons ("RCVS") guidance but with a closed door policy to clients in the interests of public health

H1 2021 Performance

The Group's total sales increased by 9.4% to £245.6m and LFL sales increased by 7.8%. The performance reflects the continued strengthening of the Group's offering and was achieved through a combination of growth in our core Practices division and related services, alongside increased demand in Animed Direct, the Group's online pharmacy and retail business.

Within the Group's core Practice division, total sales increased by 7.1% and Practice LFL² sales increased by 5.4%. This LFL growth rate primarily reflects a continued focus on delivering high quality clinical care and service to our customers across our integrated veterinary model. This has been coupled with an increase in new client registrations. The annual price increase, deferred from 1 July 2020 due to market conditions at the time, was implemented on 1 January 2021.

Our Healthy Pet Club ("HPC") preventative medicine scheme has seen a further increase in membership since the financial year end, up 3.6% to 430,000 (30 June 2020: 415,000). The £6m of revenue deferred from the prior year has now been recognised in full as the treatments have been performed.

Employment costs for the Group in H1 2021 were 48.9% of total sales, compared to 51.0% in H1 2020 reflecting continued stability in the vet vacancy rate at 7.4% (H1 2020: 7.8%) with the Group continuing to champion initiatives to recruit and retain its colleagues as it strives to be the veterinary company that people most want to work for. We have implemented a pay increase across the Group effective from 1 January 2021 broadly in line with inflation.

Group Adjusted EBITDA³ margin has improved from 16.9% in H1 2020 to 18.4% in H1 2021 (pre-IFRS 16 from 13.4% to 15.2%) largely reflecting the improvement in sales as the Group continues to benefit from our consolidated veterinary platform.

As a result of the above, CVS expects to report H1 2021 Adjusted EBITDA³ of approximately £45.1m (H1 2020: £37.9m, pre-IFRS 16 £37.3m (H1 2020: £30.1m)).

Net Debt

As at 31 December 2020, CVS had reduced net bank borrowings⁴ to £44.4m and leverage on a bank test basis⁵ to 0.72x (30 June 2020: £63.5m and 1.14x respectively). Interest cover⁶ measured at the end of the first half was 20.5x (30 June 2020: 19.3x). These metrics reflect the Group's strong operating cash generation and the significant headroom provides a resilient platform for further growth through ongoing investment in people and practices, supplemented by selective acquisitions.

Acquisitions

Since the trading update on 26 November 2020, the Group has completed one further acquisition, meaning that four purchases have been completed in the H1 2021 (H1 2020: three). These were:

- Tremain Veterinary Group, a two site small animal practice in Oxfordshire, acquired on 4 November 2020;
- Astonlee Veterinary Group, a single site small animal practice in Milton Keynes, acquired on 17 November 2020;
- White Lodge Vets, a single site small animal practice in Devon, acquired on 19 November 2020; and
- Charter Veterinary Group, a three site small animal practice in Devon, acquired on 2 December 2020

The Group remains committed to complement organic growth with acquisitions of carefully selected practices, which enhance its existing business.

COVID-19

On the 6 January 2021 the RCVS issued guidance that veterinary practices may remain open in the current lockdown to provide services essential for public health and animal welfare and not just urgent and emergency only work as was the case in the initial March 2020 guidance. The RCVS also issued a reminder for veterinary practice support colleagues to work from home if possible in line with the Government's stay at home message. Currently, all CVS practices remain open, operating under appropriate safety protocols for the benefit of customers and personnel.

Outlook

The veterinary market continues to benefit from favourable consumer trends, with increasing pet ownership and the humanisation of pets driving wider appreciation of animal care. These trends, coupled with advances in clinical care increases the range of services we can offer. Alongside our excellent clinical standards and preventative care offerings, and the breadth of our integrated model, this is providing additional resilience to a number of our revenue streams.

The Board is pleased with the Group's resilience as shown through the positive performance of the business, despite the challenges experienced from the second half of the prior financial year. Although the Board remains cautious given the current level of macro uncertainty, particularly in light of the recent UK lockdown restrictions, the improved performance has been maintained across all operations during the first half. The Board therefore remains confident in the Group's ability to maintain clinical excellence and in the adaptability of its people and processes, which together support the Group's continuing momentum and its strong longer-term prospects.

The Board would like to acknowledge and thank all the members of the CVS team for their continuing dedication to the delivery of the best possible care to animals.

The Company expects to announce its H1 2021 interim results on 25 March 2021.

Notes

1 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 2019, revenue is included in the like-for-like calculations from September 2020

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

- 3 Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items
- 4 Net bank borrowings is drawn bank debt less cash at bank
- 5 Leverage on a bank test basis is net bank borrowings; divided by 'Adjusted EBITDA' annualised for the effect of acquisitions and including costs relating to business combinations and exceptional items. Adjusted EBITDA is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and exceptional items, prior to the adoption of IFRS 16
- 6 Interest cover is calculated as Adjusted EBITDA, prior to the adoption of IFRS 16, annualised for the effect of acquisitions and including costs relating to business combinations and exceptional items, divided by Interest expense

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Notes to Editors

CVS Group is one of the leading integrated veterinary service providers in the UK, the Netherlands and the Republic of Ireland. CVS is focused on providing a high quality, people-led service to its customers and their animals, with outstanding and dedicated clinical teams and support colleagues at the core of its strategy.

The Group operates an integrated model with over 480 veterinary practices across its three markets, including eight specialist referral hospitals and 29 dedicated out-of-hours sites. Our broad range of animal care services centre around the core Practices division, supported by our Laboratories (providing diagnostic services to CVS and third parties), Crematoria (providing pet cremation and clinical waste disposal for CVS and third party practices), Buying Groups and Animed Direct (the Group's online pharmacy and retail business).

The Group employs over 7,000 personnel, including over 1,900 veterinary surgeons and in excess of 2,300 nurses across its three territories.