



Passionate about animal care

CVS Group plc
Annual Report and Financial Statements
for the year ended 30 June 2020

CVS | Thank You

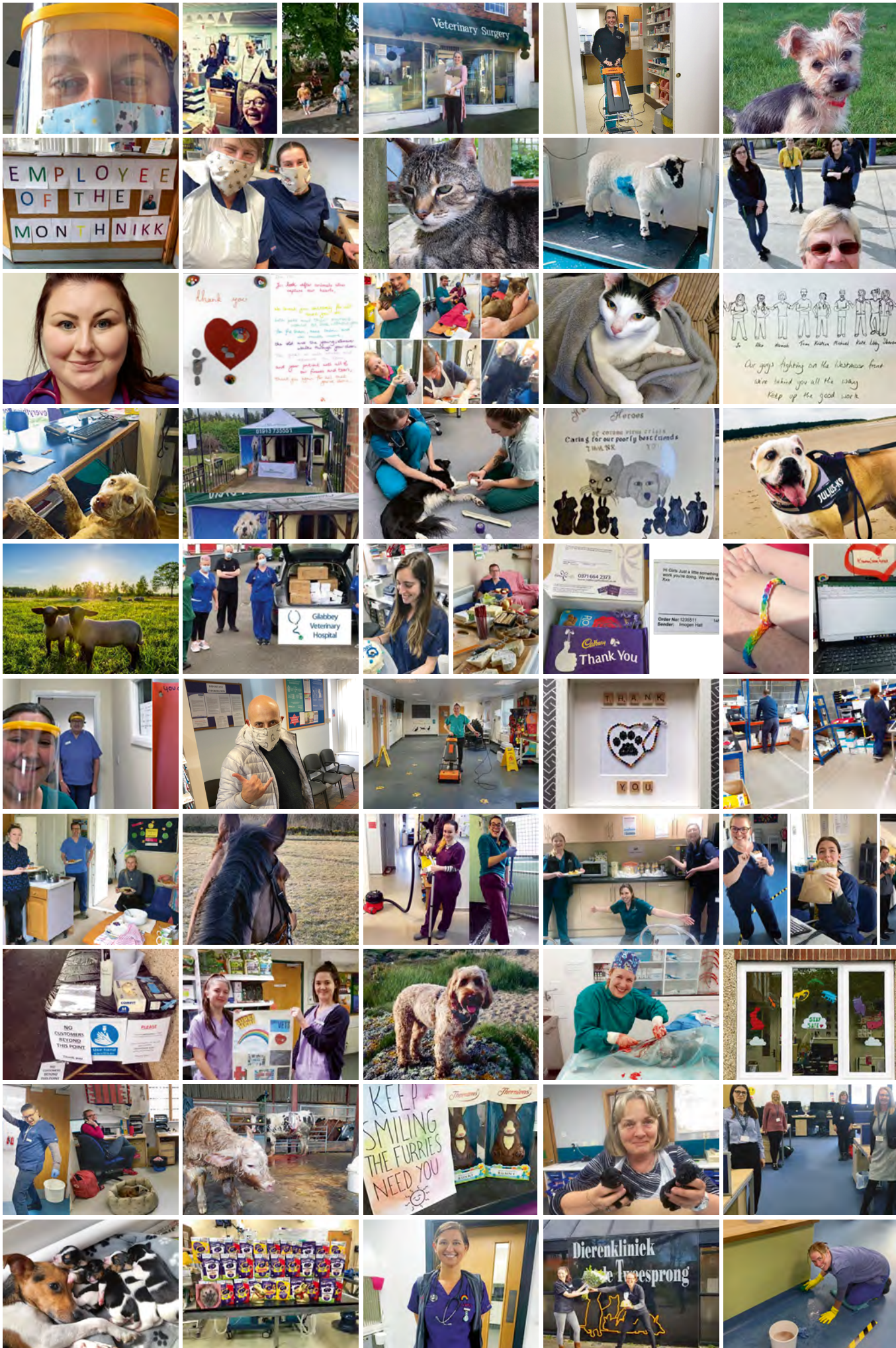
Despite the background of ongoing COVID-19 uncertainty, we continue to focus on what we do best – providing the best possible care to our clients and patients.

We want to thank every single colleague at CVS for their extraordinary efforts over the last few months. The way in which our colleagues, across all our business areas, have risen to the challenge, whether on the frontline, in support services, or those of you who agreed to be furloughed, is truly humbling.

Richard Fairman
Chief Executive
Officer

Ben Jacklin
Chief Operating
Officer

Robin Alfonso
Chief Financial
Officer



Passionate about animal care

CVS Group plc is one of the leading integrated veterinary service providers in the UK, the Netherlands and the Republic of Ireland, putting its people first.



[cvsukltd.co.uk](https://www.cvsukltd.co.uk)

The Strategic Report

3	Highlights
4	At a glance
6	Chairman's statement
8	Chief Executive Officer's statement
14	Our market
16	Business model
18	Stakeholder engagement
20	Our strategy
22	Key performance indicators
26	Operational review
34	Financial review
40	Sustainability
42	Principal risks and uncertainties

Corporate Governance

54	Board of Directors and Company Secretary
56	Corporate governance statement
61	Audit Committee report
63	Nomination Committee report
64	Remuneration Committee report – unaudited

The Directors' Report

74	Directors' report
77	Streamlined Energy and Carbon Reporting ("SECR")

Financial Statements

78	Independent auditor's report
83	Consolidated income statement
84	Consolidated statement of comprehensive income
85	Consolidated and Company statement of financial position
86	Consolidated statement of changes in equity
87	Company statement of changes in equity
88	Consolidated and Company statement of cash flow
89	Notes to the consolidated financial statements
131	Five-year history – unaudited
132	Contact details and advisors

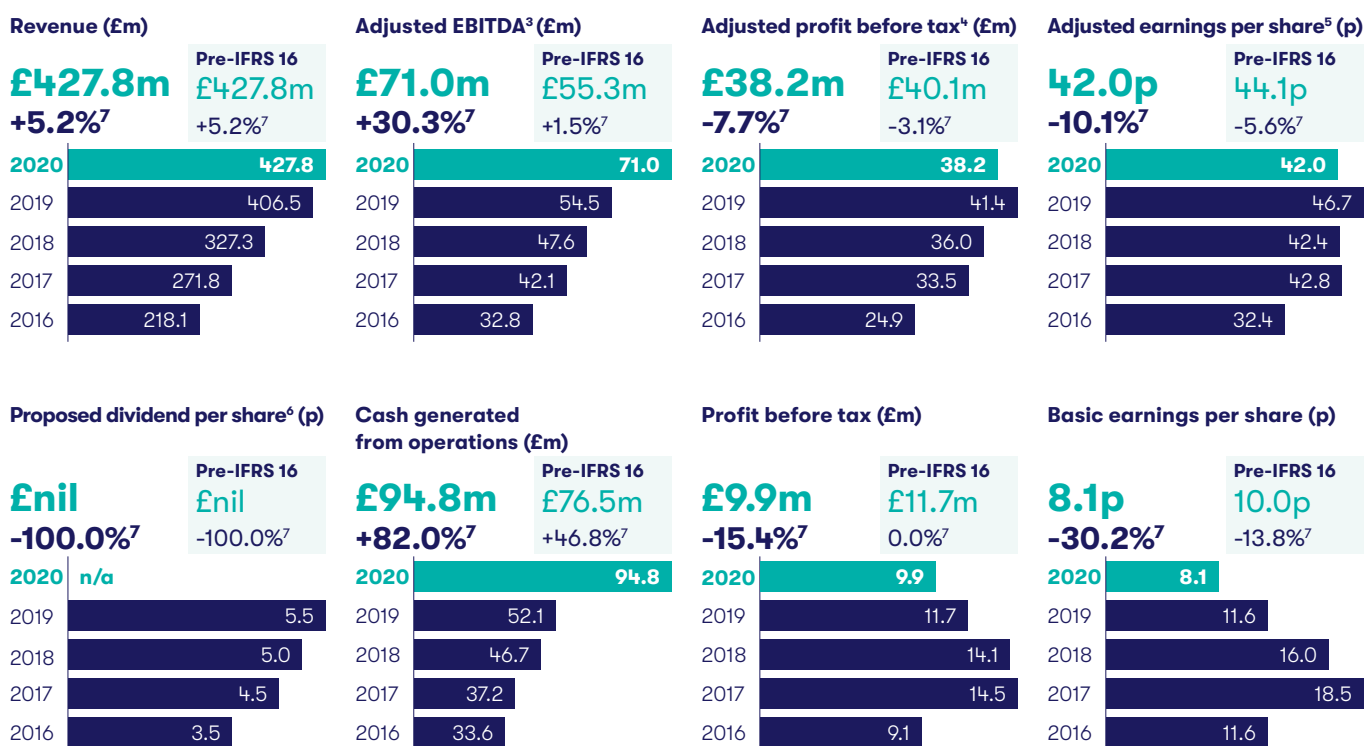
Highlights

Operational highlights

- > Our focus has been unrelentingly on creating a great environment to recruit, motivate and ultimately retain our talented people
- > We continue to invest in our facilities and equipment so that we can provide the best clinical treatment to our patients

Financial highlights¹

- > Revenue increased by 5.2% from £406.5m to £427.8m with strong Group like-for-like² growth in the first eight months of 7.9% and subsequent recovery towards the end of the year offsetting the significant reduction in revenue streams during the COVID-19 pandemic
- > Despite the impact of COVID-19, the Group delivered pre-IFRS 16 Adjusted EBITDA growth of 1.5% from £54.5m to £55.3m
- > Cash generated from operations increased from



- Adjusted financial measures are defined below and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") on page 83 and 111 (adjusted profit before tax and adjusted earnings per share). IFRS 16 has been applied respectively and therefore, years 2019 and prior are all stated pre the impact of IFRS 16.
- See definition for like-for-like sales on page 22.
- 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. Adjusted EBITDA is used as a financial metric that removes the cost of debt, costs relating to depreciation and amortisation and one-off costs to get a normalised number that is not distorted by irregular items or structural investment.
- Adjusted profit before tax is calculated as profit 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 year.
- The dividend per share is £nil as having taken support from government and in line with the approach taken by other companies, the Board does not intend to recommend payment of a final dividend.
- Percentage increases have been calculated throughout this document based on the unrounded values.

At a glance

Our purpose is to give the best possible care to animals

Our vision

Our vision is to be the veterinary company people most want to work for.

Our key strategic pillars

1 We recommend and provide the best clinical care every time

2 We are a great place to work and have a career

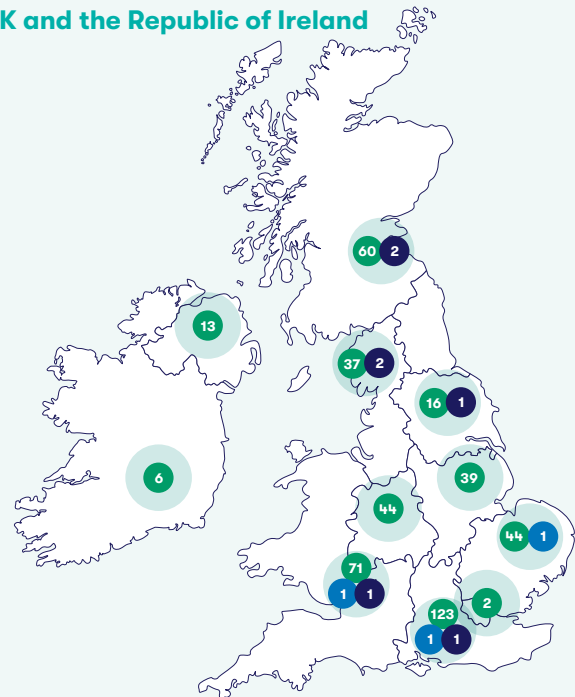
3 We provide great facilities and equipment

4 We take our responsibilities seriously

Our locations

We have a solid geographical spread across the UK and a growing presence in the Netherlands and the Republic of Ireland.

UK and the Republic of Ireland



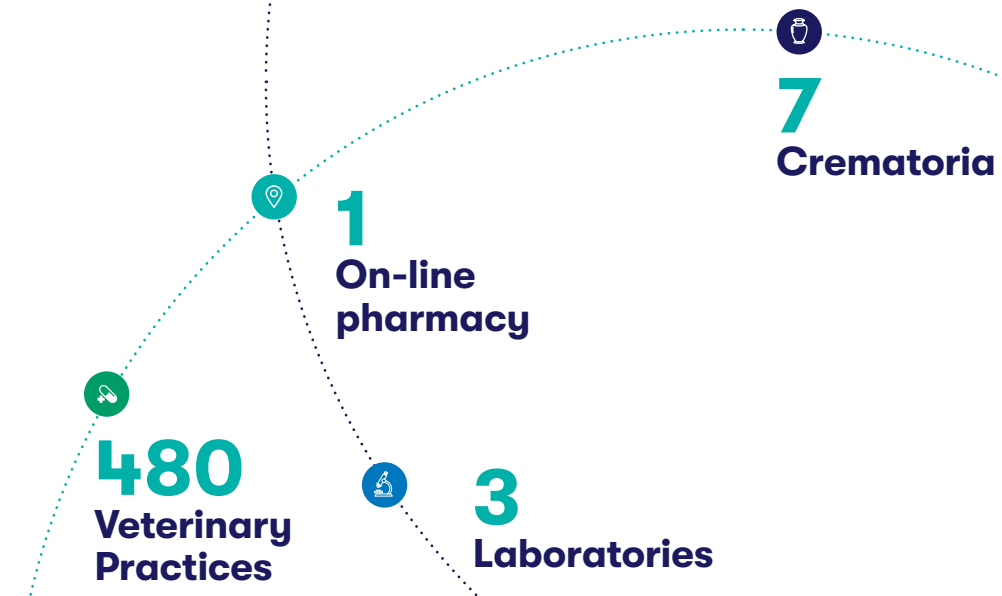
The Netherlands

Key

- Veterinary Practices (480)
- Laboratories (3)
- Crematoria (7)



 Discover more about our strategy on pages 20 and 21



Revenue share*

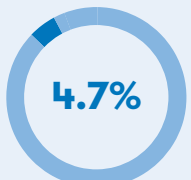


Veterinary Practices

Our first-opinion and referral practices provide specialist, high quality treatment for companion animals, equine and farm animals. We provide preventative healthcare either as and when required or through our preventative care schemes called Healthy Pet Club (“HPC”) and Healthy Horse Programme (“HHP”). We also operate buying groups, a veterinary consumable business, Vet Direct, and a number of own brand medicines and products.



Revenue share*



Laboratories

Our Laboratories provide diagnostic services to CVS veterinary practices and third parties. We offer an extensive range of tests with the ability to tailor specific profiles to our customers’ needs. Our pathologists and team of experts specialise in a variety of disciplines in all areas of the laboratory and their aim is to offer a level of service and expertise beyond our customer expectations.



Revenue share*



Crematoria

Our crematoria provide pet cremation and clinical waste services to our practices, third party practices and directly to pet owners. We offer a range of services to help our clients in remembering and saying goodbye to their pets.



Revenue share*



Animed Direct

Our on-line pharmacy and retail business sells prescription and non-prescription medicines, pet food and other animal related products. We deliver prescription and non-prescription medicines, premium pet foods and an ever-increasing range of pet care products directly to our customers’ doors, saving them time as well as money.

[Discover more about our operations on pages 26 to 33](#)

* Revenue share before intercompany sales between practices and other divisions.

Delivering our vision for the future



“
We emerge strong from the initial COVID-19 pandemic lockdown, ready to explore further growth opportunities.”

Richard Connell
Chairman

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.

* See definition for like-for-like sales on page 22.



Looking after our people

Our vision is to be the veterinary company people most want to work for and we do that by looking after our people. In the year we implemented enhanced maternity and adoption pay, and signed the “Time to Change” Mental Health Pledge.

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 on pages 9 and 10.

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.



Directors’ biographies can be read on pages 54 and 55

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.

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

Well positioned for future growth



“Throughout the past financial year, the dedication, hard work and professionalism of all CVS colleagues have enabled us to continue to provide the highest levels of veterinary care to our clients and their patients.”

Richard Fairman
Chief Executive Officer

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



Employee Assistance programme (“EAP”)

In association with the work that is done by our Wellbeing Champions, we are keen to ensure that colleagues are aware of the support that is available to them both internally and via third-party providers such as our Employee Assistance Programme (“EAP”).



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 our Equine Division. Farm practices were less impacted due to both 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 the decision not to reopen 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 previously due to be paid in April 2020 deferred until 31 March 2021. 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.



See our financial review on pages 34 to 39

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.

The veterinary company people most want to work for

Strategy continued

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 ensuring 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.

Developing our strategy

As a new Executive Board we have developed a new strategy with the collaboration of our colleagues.

Why we are doing this

We are a veterinary professional services business and it is the passion and motivation of our employees that will deliver future success.

The new strategy builds on the foundations laid over the past 20 years of growth which has seen CVS develop into an integrated veterinary business. The strategy reflects focus on organic growth, with a commitment to improve the engagement and retention of our staff.

The transition of our strategy

Delivery of high levels of clinical care continues to be an important driver in our business. However, consumers will judge the experience they have, reflecting on not only the clinical care received, but their interaction with our people, their ease in accessing our services and the standards of our facilities. In light of this we want to focus on improving the customer journey.

Our people enhance a customer's journey and are key to our success. Our strategy reflects the need to attract, retain and promote the development of our employees. We have implemented a number of different measures across our business including flexible working initiatives and wellbeing support and look forward to implementing further measures over the coming years.

Our facilities also drive the customer journey and therefore we are committed to reviewing our facilities and enhancing these where required.

We are committed to ensure that all our practices meet RCVS Practice Standard Scheme (“PSS”) accreditation.



159
Outstanding PSS awards

1

We recommend and provide the best clinical care every time

Strategic objectives

- > We have a culture of recommending the best possible treatments to our clients
- > We deliver industry-leading clinical training
- > We are committed to evidence-based medicine and have a robust quality improvement framework
- > We ensure our clinicians have access to the right medicines at the right time

2

We are a great place to work and have a career

Strategic objectives

- > We create opportunities for our people to have a diverse and rewarding career
- > We are as flexible as possible in all our roles
- > We have the best leaders in our businesses
- > We offer the best learning, education and development in the profession

3

We provide great facilities and equipment

Strategic objectives

- > We ensure all our practices meet PSS accreditation standards and aspire to achieve RCVS awards
- > We invest in our estate to ensure all our facilities meet an excellent standard
- > We are expanding our network with high quality facilities
- > We develop new ways to serve our clients and our patients

4

We take our responsibilities seriously

Strategic objectives

- > We are making our Company as environmentally sustainable as possible
- > We implement the best levels of health and safety in the profession
- > We prioritise the wellbeing of our people
- > We engage with the veterinary profession and support its interests



Discover more about our strategy on pages 20 and 21

Taking our responsibilities seriously

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 who 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.

 [Read more about this on page 13](#)

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 and 6pm Monday to 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.

 [See pages 40 and 41 for more information on sustainability](#)

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 wider stakeholders. This focus enabled us to adapt rapidly to changing guidelines.

 [See pages 18 and 19 for more information on our stakeholders](#)

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 to deliver 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

CVS continues to support the wellbeing of colleagues

The wellbeing of our colleagues has always been of great importance to CVS. Last year we committed to make it a primary focus for the business and we have taken a number of steps towards normalising rather than stigmatising mental health as a topic for discussion within our business.

Wellbeing Working Group (“WWG”)

The creation of our WWG has facilitated a structured and documented approach to addressing this wide-reaching subject. CEO Richard Fairman chairs the group which has members with different personal and professional backgrounds. This ensures we bring diverse inputs and secure top-down support to underpin initiatives.

Time to Change pledge

We signed the “Time to Change” pledge in November 2019. This public declaration of our desire for change was a clear message to our colleagues of our intention to make changes to improve the support we offer colleagues to improve their mental health.

We supported the “Time to Talk” initiative throughout the group in February 2020 where many teams held local events to socialise and talk about mental health. Teams were encouraged to continue to do this during the year and via appropriate means during the lockdown period.

Wellbeing Champions

We trained over 243 colleagues to become voluntary Wellbeing Champions and First Aiders for Mental Health. They are active at a local level sharing mental health awareness initiatives, providing support to colleagues and signposting resources. We continue to keep our Champions engaged through regular group contact, newsletters as well as further continued professional development.



Signposting services and Employee Assistance Programme

In association with the work that is done by our Wellbeing Champions, we are keen to ensure that colleagues are aware of the support that is available to them both internally and via third-party providers such as our Employee Assistance Programme (“EAP”).

Our EAP provides a free to access confidential helpline 24/7, 365 days a year. It also has a comprehensive online offering that can support colleagues through a number of structured self-help programmes that deal with personal, emotional and physical topics.

We regularly signpost support services for our colleagues via a number of internal channels including our intranet, our regular company magazine and our quarterly briefs. As a result, our overall usage of the EAP during the year has increased significantly. In particular, the EAP’s online wellbeing portal has seen its number of log-ins by CVS employees treble.

“Going home” checklist

In May we launched the “going home” checklist to coincide with Mental Health Awareness Week and our working safely initiative which fell during the COVID-19 pandemic. This enabled us to encourage more awareness of the importance of self-care.

Looking ahead

Further investment is also being made in our colleagues’ continued wellbeing as follows:

- > Face to face mental health and stress management training for managers has been postponed in the year due to the COVID-19 pandemic, but we plan to pilot a virtual version of this training in autumn 2020.
- > We will be offering our colleagues lifetime access to be mindful, the NHS-approved online mindfulness course.
- > We will be working with Dr Nadine Hamilton, psychologist and author of “Coping with Stress and Burnout as a Veterinarian”, and providing copies of her book and a free webinar to colleagues.
- > We have appointed Sally Gunnell OBE as an ambassador for wellbeing, to help our colleagues engage with the various wellbeing materials and initiatives.

The UK veterinary market continues to grow



Pet populations

PFMA* 2019

9.0m
Dogs

7.5m
Cats

Insurance penetration

25.5%
Dogs

13.3%
Cats

CVS patients

0.7m
7.7% of dog
population

0.3m
4.0% of cat
population

* Pet Food Manufacturers Association ("PFMA").

Market drivers and responses

A consistent UK small animal population

- > The UK continues to offer a stable market for pets with over 40% (PFMA 2019) of households owning a pet.

Our approach

- > We continue to expand our network of high quality facilities, accessible across the UK, the Netherlands and the ROI, catering for various animal species.

Link to strategy

Read more on pages **20 to 21**



Advances in veterinary care

- > Continued scientific research leads to further advances in veterinary care offering pet owners a variety of treatments for their animals. Improvements in technology have advanced the offering of telemedicine and remote specialist diagnostic review.

Our approach

- > We continue to invest in our clinicians, offering them industry-leading clinical training, and have the culture of recommending the best possible treatment to our clients. We have launched our Vet Oracle Teleneurology and Teleradiology specialists to aid the recommendation of the best possible treatment for our clients as well as offering telemedicine appointments during the COVID-19 period.

Link to strategy

Read more on pages **20 to 21**



c10.0%
Estimated growth
in UK veterinary
services

(Euromonitor International,
 December 2019)

£5.0bn+
Estimated UK
veterinary service
market in 2019

(Euromonitor International,
 December 2019)

Availability of vets to perform services

> In July 2019, veterinary surgeons returned to the UK Government Shortage Occupation List ("SOL"), acknowledging that there is currently a shortage of veterinary surgeons.

Our approach

> We continue to put our people first with our vision to become the veterinary company people most want to work for, and with the aim of attracting new employees and retaining our talented employees.

Link to strategy
 Read more on pages **20 to 21**



On-line purchasing

> Increasingly our customers are switching to shopping on-line for convenience and to obtain the most competitive price.

Our approach


> We continue to explore opportunities within our on-line platform, increasing our on-line capabilities and ensuring we have sustainable competitive pricing. We have invested in a new warehouse management system to improve the efficiency of our order fulfilment.

Link to strategy
 Read more on pages **20 to 21**



Consolidated market

> The UK and European veterinary market continues to consolidate and c50% of the small animal UK market is now owned by the six largest corporates.

 <https://www.lincolnternational.com/perspectives/global-veterinary-services-market-on-cloud-canine/>

Our approach

> We continue to invest in our integrated model and support organic and selective acquisitive growth.

Link to strategy
 Read more on pages **20 to 21**



Humanisation of pets

> Pet owners on average spend a minimum of £70 per month on their pets. Increasingly, our pets become family members in our households, meaning pet owners are willing to spend more on top quality care for their loved family members.

 www.pdsa.org.uk/media/7420/2019-paw-report_downloadable.pdf

Our approach

> We continue to have a culture of high quality care and with our integrated structure we can provide all-round animal care from referrals, diagnostic testing, accessories and consumables to end of life crematoria.

Link to strategy
 Read more on pages **20 to 21**



Business model

Competitive advantage through our integrated veterinary platform

Our inputs

Passionate people

We employ dedicated and trained professionals who are committed to excellent clinical care.

6,758

Employees

6.9%

Vet vacancy rate

3.9%

Nurse vacancy rate

Financial strength

We continue to deliver growth in revenues, adjusted EBITDA and operating cash flow.

£427.8m

Revenue

£55.3m

Pre-IFRS 16 adjusted EBITDA

High quality clinical care

All of our practices are registered with the RCVS Practice Standards Scheme and are committed to investing in and using modern diagnostic techniques. We invest in clinical training and advanced qualifications.

90

Veterinary diploma holders

Customer focused

Our staff are dedicated to providing a quality service with the highest levels of customer and clinical care.

415,000

Healthy Pet Club members

78.5

Net promoter score

Integrated veterinary platform



Stakeholder value creation

- > Favourable market and customer trends
- > Year-on-year growth in key operational performance measures
- > Multiple future organic growth opportunities
- > Strong free cash flow to continue investing in people, specialists, facilities and clinical excellence
- > Selective acquisitions where strategically compelling

Employees

Development of our staff and of our clinical and non-clinical training continues to be a priority. We continue to develop our internal training programmes, both clinical and managerial, and believe this benefits our customers, our staff and the business.

Customers

We aim to meet all our customers' needs and with an increased focus on both our first opinion and referral practices, we are able to offer our clients and patients an increasing level of clinical care.

Shareholders

We continue to focus on the creation of shareholder value.

Industry bodies

We continue to work with our Industry bodies; this has been a key objective over the COVID-19 outbreak.

Community

Our nominated charity of the year for 2020 is The Cinnamon Trust. We encourage our practices to engage with the community to support both our nominated charities of the year and local charities, which helps foster relationships between us and the local communities.

Suppliers

We aim to foster successful long-term relationships with our key suppliers built on a foundation of trust.

Responding to stakeholders' needs under s.172 Companies Act 2006

	Employees	Customers	Shareholders
Why we engage	<p>CVS proudly strives to be the veterinary company that people most want to work for. By engaging with our employees, we can understand their motivations and work with them to maximise employee engagement and welfare.</p> <p>B E</p>	<p>Customers are increasingly demanding the highest quality care for their animals. We provide this not only through the customer experience but also through our high clinical standards and facilities.</p> <p>B F</p>	<p>Following the appointment of our new Executive Directors in November 2019, we have actively engaged with our shareholders, sharing our investment case and communicating our future plans.</p> <p>C E</p>
How we engage	<p>We engage with our employees in a number of ways, from weekly updates to our annual conference. In normal circumstances, a Non-Executive Director regularly meets with employees to discuss key matters. We have also launched our employee net promoter score so we can actively monitor our employee satisfaction and engagement.</p> <p>B E</p>	<p>We regularly communicate with our customers through a variety of media such as social media, email and direct mail, promoting animal wellbeing in addition to discounts and benefits.</p> <p>E F</p>	<p>We engage with our shareholders through our Annual General Meeting ("AGM"), conference calls, meetings and investor roadshows. Individual shareholders are encouraged to contact Directors on all matters relating to governance and strategy via the Company Secretary. At the AGM 100.0% of resolutions were passed and votes in favour ranged from 100.0% to 84.4%.</p> <p>C E</p>
Outcomes	<p>Our focus is continuing to provide our employees with the flexibility and support they need to develop their careers. We proudly signed the Time to Change Pledge at our 2019 annual conference and promote this within our values. We have also listened to our colleagues and implemented enhanced maternity pay in 2019.</p> <p>A B E</p>	<p>We have grown our Healthy Pet Club membership to 415,000 members and our unique customers to 454,000 for our online Animed business. We continue to invest to ensure we can offer our customers complete pet care service, from first opinion clinics and referral centres, to pet consumables, in-house laboratory testing and crematoria.</p> <p>A E F</p>	<p>We have ongoing positive dialogue with our shareholders and value their feedback, which is discussed at Board meetings. We keep the investor section of our website up to date to provide timely updates about CVS and its activities. We manage our business in accordance with good business practice, for example the decision to close 33 sites (see page 6).</p> <p>A C E</p>

On the basis of the above, the members of the Board consider both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole having regard to the shareholders and matters set out in S172(1) (a-f) of the Companies Act 2006 in the decisions taken during the year ended 30 June 2020.

This is an overview of how the Directors performed their duty to promote the success of the Company under section 172 of the Companies Act 2006. The Company's purpose, vision and strategy is underpinned by the principles described in the table below. These examples, as referenced in the matrix according to the alphabetical designation below, illustrate how the Directors have fulfilled their duties during the year under review with regard (amongst other matters) to:

- A** the likely consequences of any decisions in the long term;
- B** the interests of the Company's employees;
- C** the need to foster the Company's business relationships with suppliers, customers and others;
- D** the impact of the Company's operations on the community and environment;
- E** the desirability of the Company maintaining a reputation for high standards of business conduct; and
- F** the need to act fairly as between shareholders of the Company.

Industry bodies	Community	Suppliers
<p>We actively engage with our industry bodies, including the RCVS, BVA and British Veterinary Nurses Association ("BVNA"), to promote innovation and advancement within the veterinary industry. This helps us to maintain a reputation for high standards of business conduct.</p> <p>C E</p>	<p>We regularly engage with the community to understand how we can support the communities we work in.</p> <p>C D E</p>	<p>We engage with our suppliers to deliver ongoing benefits to our businesses, collaboratively finding improvements and delivering improved value.</p> <p>C E</p>
<p>We hold meetings with the RCVS, BVA, BVNA and Veterinary Defence Society to discuss key issues and share initiatives and improvements across the industry. In December 2019 we released our second Quality Improvement Report, updating our employees on clinical guidance from the industry.</p> <p>C E</p>	<p>Our charity of the year, chosen by our employees, is The Cinnamon Trust. Throughout the year we hold regular fundraising events from bake sales to Group-wide promoted events. Our local practices also engage within the community, providing key care to animals for a number of smaller charities.</p> <p>C D E</p>	<p>We have a stable supplier base in our wholesalers and manufacturers, regularly communicating with them to promote our relationship. Our suppliers are invited to attend our annual conference to understand our business and engage with other key stakeholders and ask any questions they may have.</p> <p>C E</p>
<p>We engage with our industry bodies over a wide range of issues, including over the COVID-19 pandemic we have provided our vets with the resource to interpret and follow the BVA and RCVS guidance. We have also recently worked with the BVA to lobby the government to add veterinary surgeons to the Shortage Occupation List.</p> <p>A C E</p>	<p>By engaging with our communities we enhance the environment in which we work, promote employment satisfaction in our operations and keep our communities informed. This provides long-term benefits to our Group.</p> <p>A C D E</p>	<p>We are proud to have long-term relationships with our wholesalers and manufacturers. We have identified areas to improve our environmental impact, reducing the use of packaging whilst still maintaining the highest standards, and we will take this forward into future years. We have implemented energy saving measures, as described in the Directors' Report, which will have long-term benefits to the Group.</p> <p>A C D E</p>

Progressing towards our goals

1

We recommend and provide the best clinical care every time

Strategic objectives

- > We have a culture of recommending the best possible treatments to our clients.
- > We deliver industry-leading clinical training.
- > We are committed to evidence-based medicine and have a robust quality improvement framework.
- > We ensure our clinicians have access to the right medicines at the right time.

Our achievements in the year

- > We have designed and delivered a “Quality Improvement” dashboard to our clinics to allow them to monitor key clinical performance indicators and to facilitate clinical audit.
- > We have created a national team of experienced clinical leaders (“Hub Clinical Leads”) to drive best practice and quality improvement, and to mentor and upskill our vets.
- > We have initiated a rollout programme of training and equipment for laparoscopic (“keyhole”) surgery including routine canine ovariohysterectomy (“spay”).
- > Funded by Biotechnology and Biological Sciences Research (“BBSRC”), we have partnered with the University of Liverpool’s “Small Animal Veterinary Surveillance Network” (SAVSNet) on a randomised controlled trial to demonstrate success with strategies for driving responsible use of antimicrobials.
- > During the COVID-19 lockdown, our veterinary specialists delivered over 50 educational webinars to our GP vets to provide continuing professional development.

Outlook

- > We are expanding our network of Hub Clinical Leads to further enhance the support and guidance we offer in practice.
- > We have further refined our suite of KPIs to help us further deliver our purpose of providing the best possible care to animals.
- > We continue to work closely with RCVS Knowledge on implementing new processes around quality improvement within CVS and across the profession.
- > We are working towards direct supply of medications to our practices, to maximise our control over the supply chain and ensure our clinicians have the right medicines, on time, all the time.

2

We are a great place to work and have a career

Strategic objectives

- > We create opportunities for our people to have a diverse and rewarding career.
- > We are as flexible as possible in all our roles.
- > We have the best leaders in our businesses.
- > We offer the best learning, education and development in the profession.

Our achievements in the year

- > During the year, we reduced our vet vacancy rate to 6.9% from 9.1% and nurse vacancy rate to 3.9% from 4.4%.
- > Employee net promoter score (“eNPS”) was launched to track our employee engagement monthly across our business areas, and has become an important KPI across the business. Read more about this on page 25.
- > During the year we became the first large veterinary group in the UK to offer enhanced maternity leave, ensuring we are best placed to offer our people a long, flexible and fulfilling career at CVS.
- > In November 2019, we launched the CVS Knowledge Hub, which is an online learning platform to support all our colleagues in their growth and development.

Outlook

- > Attracting and retaining our clinicians is a key priority of CVS and we therefore look forward to developing our education platform further and offering the training our employees want.
- > We will also continue to track our eNPS and implement initiatives to further improve our employee engagement.
- > We have created a new, rotational role of Chief Veterinary Nursing Officer on a two-year basis, to ensure veterinary nurses are encouraged into the highest levels of leadership in the Company.
- > We have also appointed a new Director of Human Resources, joining us from a global professional services people-orientated firm, which will help us continue to progress towards our vision of being the veterinary company people most want to work for.

Link to KPIs



Read more on pages **22 to 25**

Link to risks



Read more on pages **42 to 53**

Link to KPIs



Read more on pages **22 and 25**

Link to risks



Read more on pages **42 to 53**

3

We provide great facilities and equipment

Strategic objectives

- > We ensure all our practices meet PSS accreditation standards, and aspire to achieve RCVS awards.
- > We invest in our estate to ensure all our facilities meet an excellent standard.
- > We are expanding our network with high quality facilities.
- > We develop new ways to serve our clients and our patients.

Our achievements in the year

- > During the year we acquired seven new surgeries which complemented our existing portfolio of practices.
- > We also completed a number of practice relocations and refurbishments and opened our own shared service centre in Wetherby.
- > We also achieved a further 45 RCVS Practice Standard Scheme awards.
- > We reviewed our practice portfolio and closed 33 sites where the facilities were not up to the standard we strive to achieve.

Outlook

- > We are committed to provide the best facilities and have committed to projects to relocate our practices to purpose built, specialist facilities, improving the facilities our employees work in and further enhancing the customer experience.
- > We continue to review innovative ways to undertake our work and are committed to investing in equipment to aid this.
- > We continue to explore acquisitive growth opportunities which complement our existing portfolio and core business.

Link to KPIs [A](#) [B](#) [C](#) [D](#) [E](#) [F](#) [G](#) [H](#) [J](#) [K](#) [L](#)

Read more on pages **22 and 25**

Link to risks [2](#) [3](#) [4](#) [5](#) [6](#) [8](#) [9](#) [11](#) [12](#)

Read more on pages **42 to 53**

4

We take our responsibilities seriously

Strategic objectives

- > We are making our Company as environmentally sustainable as possible.
- > We implement the best levels of health and safety in the profession.
- > We prioritise the wellbeing of our people.
- > We engage with the veterinary profession and support its interests.

Our achievements in the year

- > In November 2019, we signed the “Time to Change” pledge. This public declaration of our desire for change was a clear message to our colleagues of our intention to make changes to improve the support we offer colleagues to improve their mental health.
- > We also engaged with the veterinary profession to ensure our farm veterinary surgeons were on the key worker list over the COVID-19 pandemic, to help preserve the food supply chain.
- > During the year we reduced our environmental impact through a range of initiatives including moving to paperless invoicing and online meetings. This was led and supported by the Board and Executive Committee.

Outlook

- > We continue to promote the wellbeing of our people and will be implementing training for all managers on mental health and stress management.
- > We will also formally launch our Sustainability Group, contributing to the long-term sustainability of CVS.
- > We will also encourage our employees to switch to a more green fleet where appropriate and offer more web-based training, reducing the need to travel and therefore our carbon footprint.

Link to KPIs [D](#) [E](#) [H](#) [J](#) [K](#)

Read more on pages **22 and 25**

Link to risks [1](#) [2](#) [4](#) [5](#) [6](#) [7](#) [9](#) [10](#) [11](#) [12](#)

Read more on pages **42 to 53**

Financial KPIs

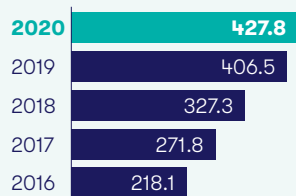
Ensuring CVS tracks and monitors the correct KPIs, both financial and non-financial, is key in measuring our success. All financial KPIs are shown pre-IFRS 16 with the impact of IFRS 16 shown below each KPI.

* Further information on IFRS 16 can be found in notes 2 and 34.

Link to strategy
Read more on pages 20 and 21

(A) Revenue

£427.8m
+5.2%



Why it's a KPI

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.

2020 performance

- > Overall revenue has increased by £21.3m.
- > Like-for-like revenue increased £4.8m, acquisitions in the year and the full year impact of 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.

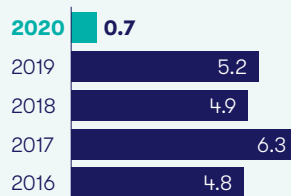
IFRS 16 impact*

No impact.



(B) Like-for-like sales

0.7%
-86.5%



Why it's a KPI

Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year adjusted for 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.

2020 performance

- > 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 the eight months prior to COVID-19 was 7.9%.

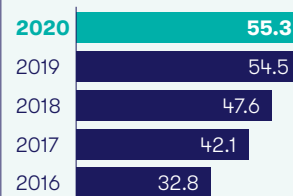
IFRS 16 impact*

No impact.



(C) Adjusted EBITDA

£55.3m
+1.5%



Why it's a KPI

Adjusted EBITDA excludes costs relating to business combinations and exceptional items and assists in understanding the underlying performance of the Group.

2020 performance

- > 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.

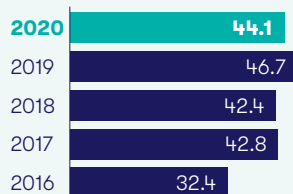
IFRS 16 impact*

The impact of IFRS 16 was to improve adjusted EBITDA by £15.7m.



(D) Adjusted EPS

44.1p
-5.6%

**Why it's a KPI**

This is equal to earnings, adjusted for amortisation, costs relating to business combinations, exceptional items and non-recurring tax credits, net 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.

2020 performance

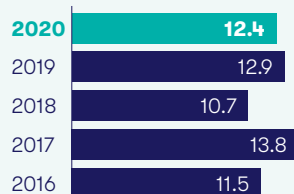
> The decrease reflects the decrease in adjusted profit before tax of £1.3m.

IFRS 16 impact*

The impact of IFRS 16 was to reduce adjusted EPS by 2.1p to 42.0p.

**(E) Total capex**

£12.4m
-3.9%

**Why it's a KPI**

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.

2020 performance

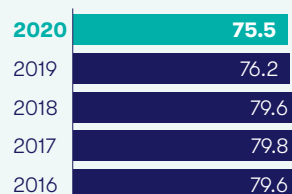
> Total capital expenditure is marginally down on the prior year and this is due to deferring non-essential capital expenditure in response to the COVID-19 pandemic.

IFRS 16 impact*

No impact.

**(F) Gross margin % before clinical staff costs**

75.5%
-0.9%

**Why it's a KPI**

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.

2020 performance

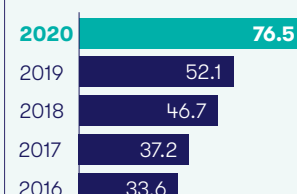
> The decrease in gross margin is principally due to the increase revenue mix from our Farm Animal Division and Animed Direct Division, which operate at lower margins to our Small Animal Division.

IFRS 16 impact*

No impact.

**(G) Cash generated from operations**

£76.5m
+46.8%

**Why it's a KPI**

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.

2020 performance

> 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.

IFRS 16 impact*

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.

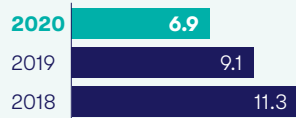


Non-financial KPIs

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

(H) Vet vacancy rate²

6.9%
-24.2%



Why it's a KPI

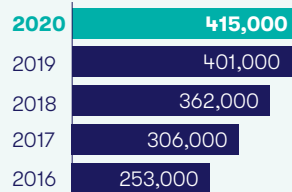
The vet vacancy rate is calculated as the average number of live vet vacancies divided by the total number of vets by headcount. This shows the average level of vet vacancies for the Group during the period and is an indicator of staff retention. This links to our strategic goal of being a great place to work and have a career.

2020 performance

> 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 members³

415,000
+3.5%



Why it's a KPI

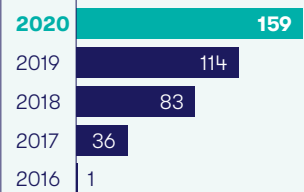
Healthy Pet Club is our preventative care scheme and provides CVS with a robust and regular revenue stream; and improves customer loyalty.

2020 performance

> 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 awards³

159
+39.5%



Why it's a KPI

This shows the number of Royal College of Veterinary Surgeons ("RCVS") Practice Standards 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.

2020 performance

> During the year we have achieved 45 additional "outstanding" awards across our practices.

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

Link to strategy

Read more on pages 20 and 21



(K) Employee NPS¹

0.7



Why it's a KPI

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 a career.

2020 performance

> This is the first financial year for monitoring eNPS and throughout the year we have seen improvements in employee engagement, ending at 0.7. In 2021 we hope to improve the eNPS score across our business areas.



(L) Client NPS¹

78.5



Why it's a KPI

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.

2020 performance

> This is the first financial year for monitoring NPS and therefore no comparison can be made with prior years.



eNPS

With regard to non-financial KPIs, there are none more important to us than our clinical vacancy rates. In October 2019 we further increased our focus on some of the root causes of vacancies. Central to that was the launch of a monthly employee net promoter score ("eNPS") measurement. Each month every member of CVS is asked how likely it is they would recommend their employer, on a scale of 0–10. Using that data, and published net promoter score methodology, we assess our engagement across all our business areas. In doing so, and by challenging our teams to make this a critical KPI focus, we have seen dramatic improvements across the year.



Developing our operations



“
We are not an animal business;
we are a people business and
we do great things for animals.”

Ben Jacklin
Chief Operating Officer

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.

29

MiNightVet practices



£12.4m

Investment

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

CVS published its second annual Quality Improvement Report

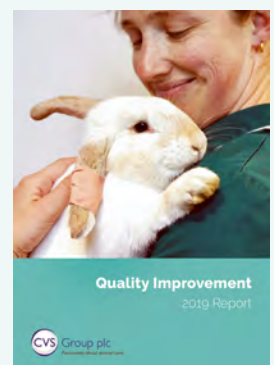
In January 2020, CVS published its second annual Quality Improvement Report and is proud to be the only veterinary corporate in the UK to do this. The report demonstrates just a few examples of the excellent work undertaken by practice teams to improve the quality of care they provide to their patients and clients.

The CVS Quality Improvement ("QI") team is led by Angela Rayner BVM&S MRCVS PgCertPSCHE.

The Director of Quality Improvement promotes teamwork and communication to create the environment in which excellence in clinical care can flourish. CVS works closely with RCVS Knowledge and Angela has joined its Quality Improvement Advisory Board, supporting the charity in its mission to shape and support the direction of QI in the profession.



www.cvsukitd.co.uk



Proven resilience in Veterinary care



Veterinary Practice revenue share*



£384.1m
Revenue

3.6%
Revenue growth

415,000
HPC customers

* Revenue share before intercompany sales between practices and other divisions.

Progress

Our Veterinary Practice Division comprises our small animal, referrals, farm animal and equine veterinary practices, as well as our buying groups, Vet Direct and MiPet Insurance. The division performed exceptionally well during the first half of the financial year, with like-for-like revenue growth of 7.4% and total revenue growth of 14.0%. The full year was clearly impacted by the COVID-19 pandemic and delivered like-for-like revenue deterioration of -1.2% and total growth of 3.6%. Pre-IFRS 16 adjusted EBITDA grew exceptionally strongly in the first half (25.2% like-for-like, 26.7% in total) but again was impacted significantly by the COVID-19 pandemic with full year like-for-like growth of 0.3%, and total pre-IFRS 16 adjusted EBITDA growth of 1.2%. As we move into the new financial year, I am pleased that our businesses have proved resilient and this should give cause for optimism on the outlook for the next few years.

Small Animal

Our Small Animal Division forms the majority of our Veterinary Practice Division and, following an excellent first half, has proved resilient during the COVID-19 pandemic and provides an excellent platform for growth.

Our focus has, as in other divisions, been on ensuring we recommend and deliver the very best in clinical care to our clients and our patients. We have seen excellent progress in our patient outcome measures, as well as in our KPIs that monitor the level of patient care across the division. Our Small Animal Leadership team has developed a culture of clinical excellence and empowerment.

Referrals

Our Referrals Division has had another fantastic year, including opening a new referral hospital, Northern Ireland Veterinary Specialists, the first specialist-led referral hospital in Northern Ireland. Recruitment of some of the most talented specialists in the profession has continued, with an additional twelve specialists joining to make a total of 65 specialists across nine referral centres and our new specialist telemedicine "virtual hospital" – Vet Oracle. Our Greenfield hospital in Hampshire, Lumbry Park Veterinary Specialists, has continued to grow well and added ophthalmology to its impressive range of specialisms. Additionally we have continued to grow our teleradiology and teleneurology services, offering specialist imaging interpretation and clinical advice to vets around the world, with three specialists now employed within each service.

21

Own brand

small animal, equine and farm products available in our practices and to our buying group members

Revenue within our Referrals Division grew by 14.5% over the year, driven by an increased internalisation of referrals through improved engagement with our primary care practices, as well as a growing number of referrals from external practices.

Equine

Our Equine Division performed in line with prior year despite COVID-19.

We now have 20 equine practices across the UK, the Republic of Ireland and the Netherlands, including five RCVS accredited referral hospitals in the UK and large referral hospitals in both Ireland and the Netherlands.

During the year we have also expanded our out-of-hours services, Equicall, offering emergency cover to both CVS and third-party practices out-of-hours. We believe Equicall is the only dedicated equine emergency out-of-hours practice globally and, as in our Small Animal Division out-of-hours services, this helps deliver on our purpose to give the best possible care to animals.

Our Healthy Horse Programme remains relatively nascent, but has grown from 7,000 to 8,000 over the financial year, and is growing in popularity amongst our horse-owning clients.

Farm Animal

Our Farm Animal Division consists of 19 farm animal practices and a large specialist poultry business, Slate Hall. Revenues during the year grew by 14.8%. COVID-19 had little impact on this revenue stream due to the requirement to ensure the food supply chain was not interrupted.

Key to our strategy in the Farm Animal Division is to recruit talented veterinary surgeons, capable of attracting new clients to the Group and establishing new operations around them. During the year we launched our first Greenfield farm animal practice, Cheshire Farm Vets, using this model and business performance has been encouraging. This ensures we can offer great career opportunities for young and ambitious vets, giving them the chance to shape their own practice without the need for personal capital investment.

We have also worked hard to improve our buying terms on farm animal medicines, and grew our sales of prescription products in the Farm Animal Division steadily across the year, which has the additional benefit of allowing our Greenfield farm animal practices to compete successfully for product sales with third-party practices.

CVS expanded its Careline operation

In January 2020, CVS expanded its Careline operation, which is a dedicated team handling incoming calls to practices including: appointment booking and appointment amending, prescription ordering, insurance queries and advice. The Careline team is currently based at our Solihull contact centre and has been taking calls for the YourVets group for many years. More recently, it has expanded to operate Careline for additional practices in the Group.

In March 2020, Careline opened a new dedicated call centre in Wetherby to service a higher volume of calls on behalf of CVS veterinary practices. The sizeable facility hosts an abundance of new technology and includes CVS's first dedicated training centre called the "Knowledge Hub".

Practice benefits of the Careline service

- > Front-of-house practice teams have more time to interact with the clients and manage the busy reception desk. This delivers a better client experience on the phone and in the waiting room.
- > Calls are answered quickly by Careline and clients can be supported without distraction in the waiting room.
- > Careline can assist practices with other tasks such as callbacks, reminders and repeat prescription ordering.



Operational review continued

International

Our International Division comprises 25 practices in the Netherlands and 6 practices in the Republic of Ireland.

Healthy Pet Club

Our Healthy Pet Club has once again performed well during the financial year, growing from 401,000 at the end of June 2019 to 415,000 at the end of June 2020. The Healthy Pet Club remains the leading scheme in the industry, with c40.0% of our small animal active patients as members, and continues to offer the very best in preventative care at great value to our clients and patients. During the pandemic, the number of members fell briefly driven by reduced sign-ups in practices as around half the practices were closed, but by June the scheme had returned to growth and we are optimistic that we will continue to grow the scheme over the years to come.

MiPet products/purchasing

During the year we were delighted to build on our strategy of producing own brand products, by adding further products to our suite, including our very first farm animal product. These products ensure security of supply of the highest quality medicines for our teams, a key strategic objective, as well as enhancing the margin on these products benefiting the Group directly. Our own brand products comprised 28.0% of pharmaceutical spend in our small animal practices during the year (2019: c25.0%). These products have also been a key driver in the recruitment of new independent practices into our MiVetClub buying group, where we can offer third-party practices great products at attractive prices. During the year we also successfully implemented a new warehouse management system, which will be extended into the Animed Direct business in the future.

Outlook

As we enter the new financial year, we are optimistic for the continued success of our Veterinary Practice Division. Through our ongoing efforts to become the veterinary company people most want to work for, and relentless focus on giving the best possible care to our patients, we are well placed to set ourselves apart from competitors and enjoy significant commercial success in the years to come.

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were pre-IFRS 16 £12.3m (2019: £10.2m), representing 2.9% of revenue (2019: 2.5%).

As a % of revenue, the spend on support functions has increased, representing the continued investment in our support areas to ensure that CVS continues to have appropriate systems and controls and to ensure the divisions receive the appropriate support. The Group continues to base support staff in the regions where they can more easily provide the close support that the operations team require.

CVS launched its virtual learning environment, Knowledge Hub

In November 2019, Professor Renate Weller DrVetMed, PhD, MScVetEd, FHEA, NTF, ECVSMR, ACVSMR, MRCVS, RCVS Specialist in Diagnostic Imaging, and her team launched the new Knowledge Hub online learning platform having collaborated extensively with CVS colleagues to identify specific needs and requirements to support learning and development.

Knowledge Hub is a virtual learning platform as well as a learning management system that can be accessed on any internet-enabled device including personal mobile phones, enabling all colleagues to manage learning requirements anywhere at any time of day.

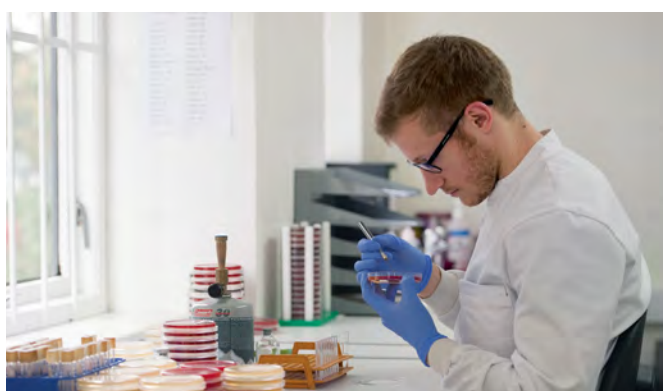
Since launch the platform has had over 75,000 visits from CVS employees accessing over 100 courses comprising clinical and non-clinical topics. It allowed the Company to respond timely to the necessity to fulfil the Company's learning needs by shifting courses from face-to-face training to online in response to the COVID-19 pandemic. The current portfolio includes 70 stand-alone online learning opportunities blending live sessions with courses and webinar that the learner can access at any time from any mobile device.

“

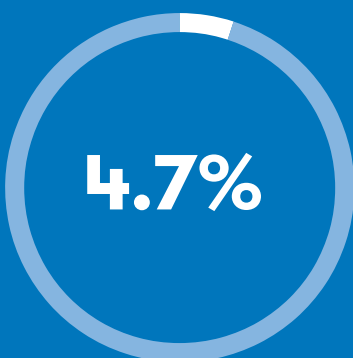
Our own learning platform allows us to adapt our learning offerings to CVS's needs and be agile enough to do so quickly.”

Professor Renate Weller
Director of Education

Enabling operational efficiencies in Laboratories



Laboratory revenue share*



£21.1m
Revenue

4.5%
Revenue growth

410,000
Lab tests performed

* Revenue share before intercompany sales between practices and other divisions.

Progress

Our Laboratory Division provides diagnostic services and in-practice desktop analysers to both CVS and third party practices, and includes a national courier network for the collection and timely processing of samples from practices across the UK. The division delivered revenue growth of 4.5% during the financial year and pre-IFRS 16 adjusted EBITDA growth of 31.4% despite the impact of COVID-19 during Q4. As part of streamlining of operations, we closed our Greendale laboratory during the year and consolidated the work into our existing network of laboratories. This ensures all samples continue to access the very best in equipment and expertise, while enabling operational efficiency improvements. Pre-IFRS 16 adjusted EBITDA as a percentage of sales grew from 21.4% to 26.9%.

Diagnostic services

Our diagnostic laboratories grew well during the year, driven by growth in both internal and external submissions. Whilst the majority of diagnostic services are provided to the companion (small) animal veterinary sector, the division saw strong growth of both equine and farm animal testing to both CVS and third-party practices during the year.

Analysers

Revenues from the analyser business grew by 10.0% over the course of the financial year, including strong growth from external third-party CVS practices. Revenues in this area are driven through a combination of analyser purchases, leasing agreements and ongoing purchase of consumables throughout the life of the equipment.

Outlook

Revenues from the division increased well during the year and with further expansion of farm animal and equine testing, and our small animal focus on ensuring our patients receive ever higher quality diagnostics, these revenues are expected to continue to grow over the coming years.

Growing our offerings in Crematoria



Crematoria revenue share*

1.6%

£7.2m
Revenue

-2.2%
Revenue growth

7
Locations

* Revenue share before intercompany sales between practices and other divisions.

Progress

Our Crematoria Division provides both individual and communal cremation services for small animal and equine clients, as well as clinical waste disposal services for both CVS and third party veterinary practices. The division saw revenues decline marginally year on year by 2.2%, and pre-IFRS 16 adjusted EBITDA improved marginally by 0.8%. These were impacted by COVID-19, principally through a reduction in clinical waste fees. We have introduced on-line shops across all crematoria selling caskets, urns, memorials and tributes and continue to grow our offerings in the area of individual cremation and more bespoke client services.

We operate seven crematoria across Great Britain and service veterinary practices nationally through our own courier service network. We are investing in our estate, introducing equine cremation in those crematoria which currently do not offer this service, and ensuring we maximise the operational efficiency of the division.

Outlook

In the new financial year, we anticipate the division will return to growth.

Ensuring competitive advantage in Animed Direct



Animed Direct revenue share*

7.2%

£32.1m
Revenue

37.4%
Revenue growth

454,000
Unique customer numbers

* Revenue share before intercompany sales between practices and other divisions.

Progress

Animed Direct is our online pet medication dispensary and pet food/accessory retailer. The focus on prescription and non-prescription medication is supported by the buying power of the Group as a whole, which ensures the business is extremely competitive.

Over the financial year the business delivered revenue growth of 37.4%, and pre-IFRS 16 adjusted EBITDA growth of 50.3%. Adjusted EBITDA margin also improved from 7.2% to 7.9%. This was supported by an element of increased customer demand during the early part of the lockdown period, but also through website improvements including a new prescription management system. We have also invested in a new customer service management system, which supports our efforts in maintaining our five-star Trustpilot rating. The business now has 454,000 unique customers (2019: 244,000).

Outlook

In the coming financial year we will continue to focus on website developments, as well as starting to implement the new warehouse management system that has already been successfully implemented in the MiPet buying group department.

Resilient financial performance and strengthened balance sheet



“Despite the impact of COVID-19, CVS has continued to deliver growth in revenue and adjusted EBITDA.”

Robin Alfonso
Chief Financial Officer

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 (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 eight months of 7.9% and subsequent recovery towards the end of the year offsetting the significant reduction in revenue streams experienced in the final four 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 option 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 and provisions 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. Full reconciliation of pre and post-IFRS 16 measures are shown in 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 years tax charge	(1.1)	(11.2%)
Effect of tax rate change on opening deferred tax balances	2.4	24.2%
Actual charge/effective tax rate	4.2	42.3%

Financial review continued

Taxation continued

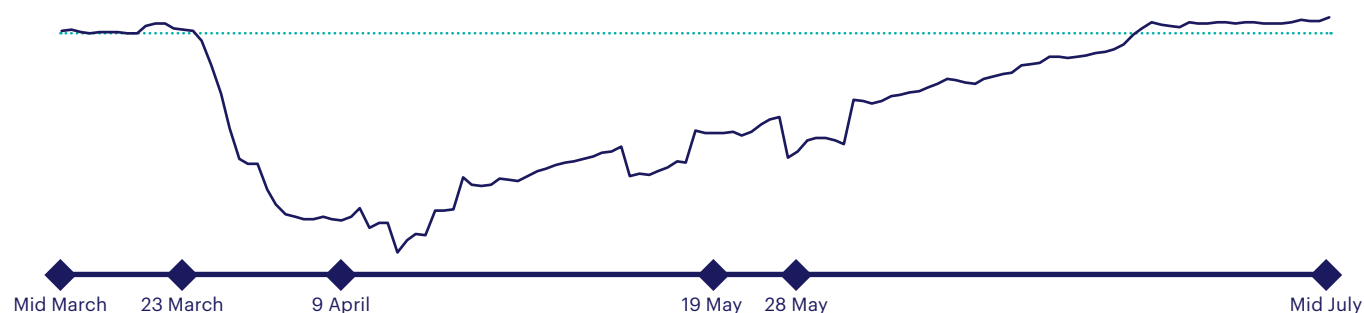
All of the Group's revenues and the majority of its expenses are subject to corporation tax. The main expenses that are not deductible for tax purposes are costs relating to acquisitions and depreciation on fixed assets that do not qualify for tax relief. Tax relief for some expenditure, mainly fixed 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 remeasurement 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.

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 total £1.2m (2019: £0.4m).

Current assets of £86.3m comprises inventories £18.7m (2019: £17.0m); trade and other receivables of £46.1m (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.

> 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".

Current liabilities is 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 and property provisions. 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) and prepaid rent of £2.7m. 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, which 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.

* Net debt is calculated as borrowings less gross cash and unamortised borrowing costs (see breakdown on page 38).

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 unable to perform the performance obligation 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 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 the 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.

Financial review continued

Pre-IFRS 16 performance continued

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 refinance.

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 £m	2019 £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

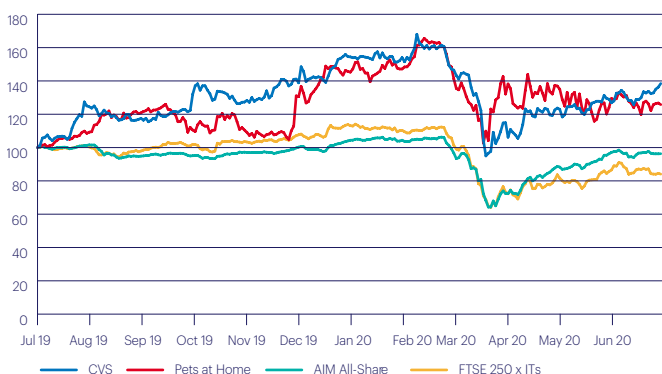
“

Leverage decreased during the year from 2.08x to 1.14x.”

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. The graph below shows the total shareholder return performance compared to the FTSE AIM All-Share Index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 July 2019 to 30 June 2020.

Twelve-month graph to 30 June 2020 (rebased)



Source: Factset

Key contractual arrangements

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

Forward-looking statements

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

Robin Alfonso
Chief Financial Officer
 24 September 2020

£

£21.5m
Cash and cash equivalents

£

£39.9m
Reduction in net debt

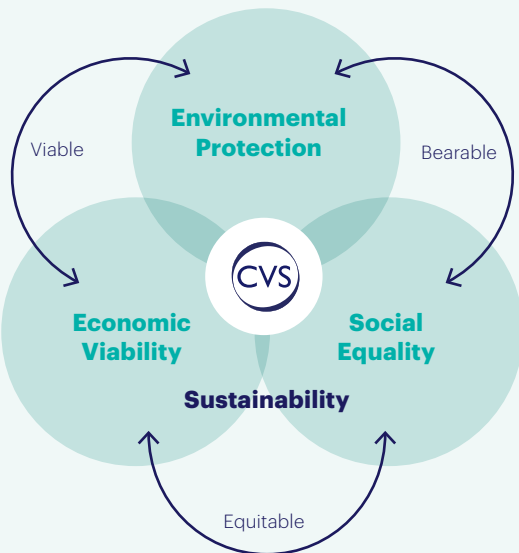
How we are doing the right thing

Managing sustainability

At CVS we take our responsibilities seriously and our sustainability strategy is a key focus of our business. CVS has broadly aligned its strategic goals with the United Nations (“UN”) Sustainable Development Goals (“SDGs”) for 2030 and created an internal Sustainability Group which will be formally launched in the 2020/21 financial year.

Sustainability strategy

The CVS sustainability strategy has three pillars being Environmental Protection, Social Equality and Economic Viability.



Pillar 1: Environmental Protection

We have taken further steps to reduce our environmental impact within our business and our supply chains by reducing the use of plastic packaging, switching to paperless client communications and internal reporting, promoting the use of energy saving lighting and adding more electric and hybrid vehicles to our fleet.



Pillar 2: Social Equality

We have committed to several initiatives to promote equality and diversity within our organisation and to support the accessibility and diverse requirements of our clients and patients. This includes the launch of the Equality, Diversity and Integration Group, sign language and video classes and, in November 2019, signing the ‘Time to Change’ pledge committing to the change the way we all think and act about mental health in the workplace.



Pillar 3: Economic Viability

We have taken steps to ensure the economic sustainability of the Group, securing the future for our stakeholders, colleagues and patients. In January 2020, CVS refinanced the business to enhance the future security thereof. The CVS Careline call centre creates new jobs while giving veterinary care to patients previously unable to access it.

Key areas of focus

The following key areas are the guiding principles that underpin our approach to sustainability.

Our people

We are committed to creating an environment that people enjoy and this commitment extends to both visitors and employees. Our people are our most important asset and enable the Group to deliver its strategy.

Values, policies and standards

Our values are at the heart of how we work and they provide the inextricable link that ties all of these things together.

Health, safety and environment

We have a zero-harm vision for our people, the environment we work in, our customers and our suppliers.

Stakeholder engagement

Our vision is to be the veterinary company people most want to work for whilst providing a growing return to our shareholders.

Environment calling

At our new Careline call centre facility in Wetherby, we have taken multiple steps to deliver our environmental goals. The property also houses CVS operational space, offices and our first dedicated clinical training and catering facility: the Knowledge Hub.

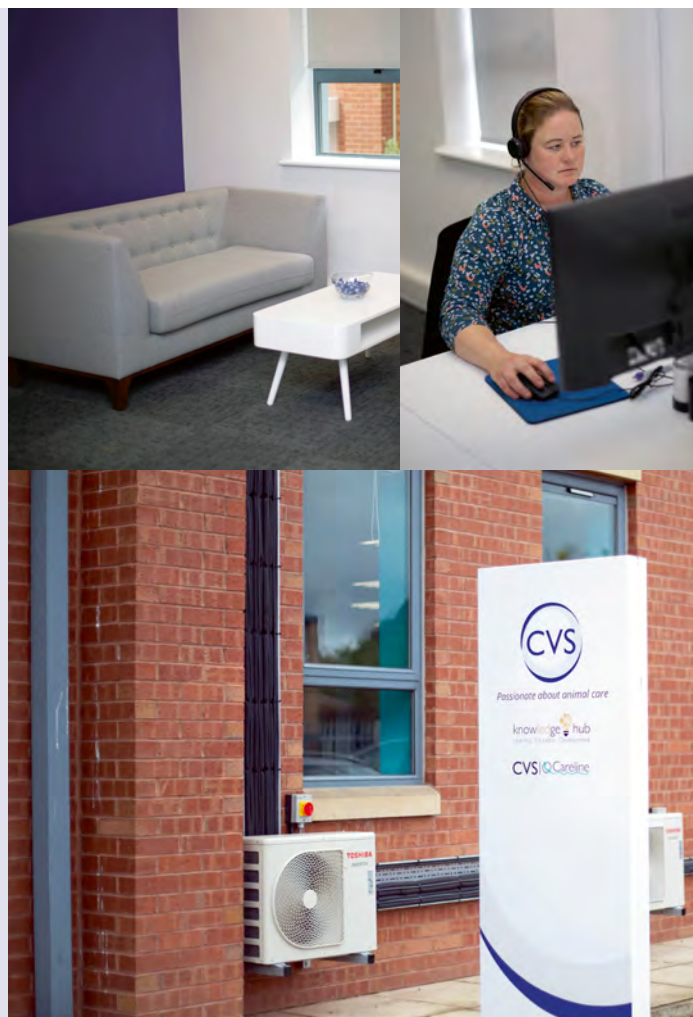
Environmental impact was considered early in the design stages, leading to the building being fully equipped with the latest energy saving technology including:

- > LED lights throughout;
- > passive infrared ("PIR") sensor light switches;
- > centrally controlled hibernation modes on IT equipment;
- > instant boiling water taps; and
- > smart meter technology.

The traditional boiler and wet heating system was removed from the property and replaced with air source heating and cooling, consuming far less energy and providing ultimate control of the heat in various zones in the building.

Outside of the building, the Wetherby office will be equipped with charge points for electric vehicles and has a bicycle shelter and shower facilities to encourage cycling to and from work.

In addition to energy conservation, the facility has a recycling programme with multiple waste stations throughout.



Principal risks and uncertainties

Ensuring risk is appropriately managed across the Group

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.

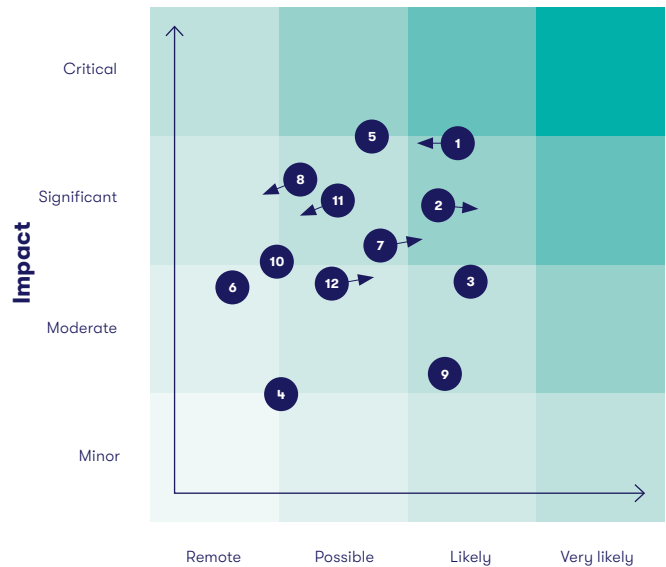
The key roles and delegated responsibilities

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.

Principal risk occurrence



Probability

- 1 Key staff
- 2 Economic environment
- 3 Competition
- 4 Adverse publicity
- 5 Information technology
- 6 Changes in industry regulations
- 7 Failure to source pharmaceutical supplies
- 8 Ability to source and integrate acquisitions
- 9 Failure to comply with health and safety legislation
- 10 Failure to comply with appropriate corporate legislation or regulatory requirements
- 11 Failure to comply with terms of bank facilities or to refinance the business
- 12 Future pandemic or lockdown

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.

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.

Risk management framework



Principal risks and uncertainties continued

1. Key staff

Link to strategy

Read more on pages **20 and 21**



Description

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 has 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.

Mitigating factors

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 helping to address the UK shortage of veterinary surgeons.

Changes in the year

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.



2. Economic environment

Link to strategy
Read more on pages **20 and 21**



Description

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.

Mitigating factors

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 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 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.

Changes in the year

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.

3. Competition

Link to strategy

Read more on pages **20 and 21**



1 **2** **3**

Description

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.

Mitigating factors

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 peripartetic 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 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.

Changes in the year

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.

No change to risk



Increasing risk



Reducing risk



4. Adverse publicity

Link to strategy

Read more on pages **20 and 21**



Description

Adverse publicity could result in a reduction in customer numbers, revenue and earnings and in our ability to attract and retain key staff.

Mitigating factors

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.

Changes in the year

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

Link to strategy

Read more on pages **20 and 21**



Description

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 data, the prevention of cyber-attack, and the continuing availability of systems throughout Group networks.

Mitigating factors

The Group has a number of policies in place that are aimed at ensuring the stability and security of our networks and systems, whilst at the same time supporting the growth of the business.

Access to networks, applications and data is limited to those who require it. Where possible, physical access to equipment is restricted. Access to networks and applications is 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.

Changes in the year

As we develop new ways to serve our clients and our patients and expand remote access as required for those working from home, our 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

Link to strategy
Read more on pages **20 and 21**



Description

The Group's operations are subject to a number of laws and regulations and changes in these could have a material adverse impact to the Group.

Mitigating factors

The Group operates under a number of laws and regulations and Operations teams in each area of the business have 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.

Changes in the year

The RCVS has relaxed rules and now allows telemedicine providers to prescribe medicine remotely and this could have a material impact on the Group.

7. Failure to source pharmaceutical supplies

Link to strategy
Read more on pages **20 and 21**



Description

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.

Mitigating factors

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.

The Group has developed a new warehouse management system with further developments 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.

Changes in the year

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.

8. Ability to source and integrate acquisitions

Link to strategy

Read more on pages **20 and 21**



3

Description

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.

Mitigating factors

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 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.

Changes in the year

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.



9. Failure to comply with health and safety legislation

Link to strategy
Read more on pages **20 and 21**



Description

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 number of premises which are visited by clients. There is a risk of personal injury if these premises are not appropriately maintained.

Mitigating factors

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 perform 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 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 health 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.

Changes in the year

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.

Principal risks and uncertainties continued

10. Failure to comply with appropriate corporate legislation or regulatory requirements

Link to strategy
Read more on pages **20 and 21**



Description

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.

Mitigating factors

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 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.

Changes in the year

The Group continues to monitor the legal and regulatory developments across the UK, the Netherlands and the Republic of Ireland and actively take steps to ensure the high standards of compliance are met across the business.

11. Failure to comply with terms of bank facilities or to refinance the business

Link to strategy
Read more on pages **20 and 21**



Description

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.

Mitigating factors

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.

Changes in the year

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.

No change to risk Increasing risk Reducing risk



12. Future pandemic or lockdown

Link to strategy

Read more on pages **20 and 21**



Description

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.

Mitigating factors

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 online 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 triage service when travel restrictions are in place.

Changes in the year

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 takes steps to mitigate any future impact on the Group.

Our effective and experienced leadership



A R N

Richard Connell (65)

Non-Executive Chairman

Appointment to the Board

Richard was appointed to the Board in September 2007.

Career and experience

Richard is a Chartered Accountant and worked in investment management with 3i Group, Invesco and HSBC. Previously he was Chairman of Dignity plc, Mercury Pharma and Ideal Stelrad Group.

Committee membership

Richard was Chairman of the Audit Committee until 16 July 2020. Richard is a member of all three Board Committees.



A R N

Mike McCollum (53)

Non-Executive Director

Appointment to the Board

Mike was appointed to the Board in April 2013.

Career and experience

Mike was Chief Executive Officer of Dignity plc, a FTSE-listed provider of funeral services, until 3 April 2020. Like CVS, this is a multi-site, acquisitive service business. As Finance Director he was a prime mover in the 2002 leveraged buyout, the whole-business securitisation in 2003 and the IPO in 2004. He became Chief Executive Officer in 2009. Mike is a solicitor and holds an MBA from the University of Warwick.

Committee membership

Mike was Chairman of the Remuneration Committee until 21 July 2020, when he assumed chairmanship of the Audit Committee. He is a member of all three Board Committees and is the Senior Independent Director.



A R N

Deborah Kemp (59)

Non-Executive Director

Appointment to the Board

Deborah was appointed to the Board in January 2018.

Career and experience

Deborah has held a variety of Chief Executive Officer roles in the consumer and hospitality sector, including as a FTSE 100 main board Director at Punch Taverns PLC. Her career started at Bass PLC as a Chartered Surveyor, subsequently holding key strategic roles in the evolution and growth of the Punch Taverns pub company. Following a period in private equity and a trade sale of Laurel Funerals, she is now a Director of Vennco Limited and a consultancy and interim specialist in the consumer-facing retail and hospitality sector, and assists multi-site businesses through growth change and transformation.

Committee membership

Deborah was Chair of the Nomination Committee until 21 July 2020, when she assumed chairmanship of the Remuneration Committee. She is a member of all three Board Committees.



A R N

Richard Gray (63)

Non-Executive Director

Appointment to the Board

Richard was appointed to the Board in July 2020.

Career and experience

Richard is a career investment banker who has extensive capital markets and corporate finance experience and has held senior positions in London and New York. He is a Director of Zeus Capital Limited and Non-Executive Board Director of BMO Private Equity Trust PLC. He has previously worked with Panmure Gordon, Lazard, Charterhouse and UBS. He is a member of the strategic board of Banco Finantia, a Non-Executive Director of Alpha Real Capital LLP and Vice Chairman of Invescore Group.

Committee membership

Richard was appointed Chairman of the Nomination Committee on 21 July 2020, and is a member of all three Board Committees.

- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- Chairman of Committee



Richard Fairman (53)
Chief Executive Officer
Appointment to the Board
 Richard was appointed as a Director in August 2018 and was appointed as Chief Financial Officer in October 2018, and then as Chief Executive Officer in November 2019.

Career and experience
 Richard spent six and a half years at the RAC Group, including as Chief Financial Officer since 2016. Prior to this, Richard qualified as a Chartered Accountant at Ernst & Young, later working at PricewaterhouseCoopers (now PwC), following which Richard held roles including Finance Director of Virgin Money, CFO of Central Trust and Finance Director of Virgin Money Giving.



Ben Jacklin (36)
Chief Operating Officer
Appointment to the Board
 Ben was appointed as a Director and Chief Operating Officer in November 2019.

Career and experience
 Ben is responsible for the leadership and performance of all established CVS operations, including small animal practices, referral hospitals, farm animal practices, and our laboratory, crematoria, marketing and learning, education and development departments. Ben joined CVS in 2015 and, prior to his appointment to the Board, led the Veterinary Practice Division across all CVS territories, and prior to that the Small Animal Division and Equine Division. Ben qualified as a Veterinary Surgeon from Cambridge University, and is an ECVS and RCVS recognised specialist in equine surgery.



Robin Alfonso (41)
Chief Financial Officer
Appointment to the Board
 Robin was appointed as a Director and Chief Financial Officer in November 2019.

Career and experience
 Robin spent eight years at the RAC Group, initially as Group Financial Controller and latterly as Divisional Finance Director of its largest commercial division and profit centre, Consumer Roadside and Marketing. Prior to this, Robin qualified as a Chartered Accountant at PricewaterhouseCoopers (now PwC), following which he moved to Aviva where he performed a technical accounting role.



Juliet Dearlove (52)
Company Secretary
Appointment to the Board
 Juliet was appointed as Company Secretary in June 2020.

Career and experience
 Juliet has worked as a Company Secretary of listed companies for over 25 years, initially at the motor retail group H.R. Owen plc, then the privately owned international money broking group Prebon Yamane, including during its takeover by Collins Stewart Tullett in 2004, and most recently spending ten years at J.P. Morgan advising FTSE 250-listed investment trusts. She qualified as a Solicitor in 1993. She was a co-founder and Non-Executive Director of Board Apprentice.

A framework for Board effectiveness



“There is a clear link between the Company’s corporate governance and the delivery of the Group’s strategy.”

Juliet Dearlove
Company Secretary

Principles of corporate governance

The purpose of this report is to provide our shareholders and stakeholders with information on how the Company is managed and the roles of the Directors and the Committees and to set out the Company’s compliance with the FRC UK Corporate Governance Code 2018 (“the Code”). The report also sets out the Group’s internal management controls while risk management details are available on pages 42 to 53.

This Annual Report and Financial Statements should, overall, provide information that enables shareholders to assess how the Directors have performed their duties under Section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole. For further information on stakeholder engagement see pages 18 and 19.

Compliance statements

During the year to 30 June 2020, the Company has complied with the principles set out in the Code save as reported within this Corporate Governance Statement. Where the Company feels that it has not complied with the principles or the provisions, a full explanation is provided. The following paragraphs consist of compliance statements.

The purpose of the Company is to provide the best possible care for animals. The Board has consulted extensively with the employees over this objective and it is firmly believed that where this is achieved, the Company will best meet its responsibilities to stakeholders.

Board of Directors – leadership and division of responsibilities

Audit Committee

Key responsibilities:

- > reviewing and monitoring financial reporting;
- > internal control and risk management;
- > whistleblowing procedures; and
- > monitoring internal and external audit arrangements.

Remuneration Committee

Key responsibilities:

- > monitors and reviews Executive Management remuneration and benefits;
- > monitoring and reviewing Group remuneration policies;
- > reviewing Executive Director performance in light of remuneration packages; and
- > making recommendations regarding LTIP terms and conditions, and awards.

Nomination Committee

Key responsibilities:

- > making recommendations on all Board appointments and succession planning;
- > monitoring and reviewing the Board composition; and
- > co-ordination of annual evaluation of the Board and Committees.

At 30 June 2020 the Board of Directors consisted of six members, including a Non-Executive Chairman and two other Non-Executive Directors. Since the financial year end, on 16 July 2020, the Board appointed a further Non-Executive Director, Richard Gray. The Board presents a wide range of experience including: customer-facing multi-site companies, mergers and acquisitions, financial, operational and organisational, and no one individual or small group of individuals dominates the Board's decision-making process.

The Company achieves shareholder returns through growth, both organically, and through the acquisition of practices,

laboratories and crematoria. Acquisition activities have been reduced over the second half of the financial year as a result of the impact of COVID-19.

The Company considers the Chairman and all Non-Executive Directors to be independent, and that all four have been so since appointment.

During the year under review, on 5 November 2019, Richard Fairman was appointed as Chief Executive Officer, replacing Simon Innes. On 28 November 2019, Ben Jacklin and Robin Alfonso joined the Board and became Chief Operating Officer and Chief Financial Officer respectively.

The business of the Company and its subsidiaries is the combined responsibility of the Board, which is responsible for controlling and leading the Group. The Board's responsibilities include:

- > setting the strategy of the Group and making major strategic decisions;
- > approving other significant operational matters;
- > agreeing annual budgets and monitoring results;
- > monitoring funding requirements and forecasting;
- > reviewing the risk profile of the Group and ensuring adequate internal controls are in place;
- > approving acquisitions of more than £1.0m and all major capital expenditure; and
- > proposing dividends to shareholders.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive updates on the duties and responsibilities of being a Director of an AIM-listed company. This covers legal, accounting and tax matters, as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £50.0m.

The Board identifies Mike McCollum as the Senior Independent Director and he is available to the other Directors and shareholders to discuss any matters relating to the Chairman.

Corporate governance statement continued

Board of Directors – leadership and division of responsibilities continued

Richard Connell was appointed on 1 September 2007 and has accordingly served more than nine years. The Code indicates that one example which may affect independence is if a Non-Executive Director has served for more than nine years from the date of appointment. It also recognises that the period can be extended for a limited time, to facilitate effective succession planning and the development of a diverse Board. The Non-Executive Directors continue to review the Chairman's performance of his roles and responsibilities and believe that the skills, knowledge and experience that Richard Connell brings to the role mean he is suitable to continue as Chairman of the Board. The Board has concluded that Richard Connell continues to demonstrate objective judgement and promotes a culture of openness and debate. The Board is conscious that the previous year has been a period of significant change, with the addition of a new Non-Executive Director and the changes to the Executive Board. Consequently a period of stability is desirable. The ongoing review of the Chairman's performance and independence will continue throughout the current financial year.

The Non-Executive Directors confirm that they have sufficient time to devote to meet their Board responsibilities. In addition to the eleven scheduled Board meetings and Committee meetings, the Non-Executive Directors make themselves available for ad-hoc meetings and fortnightly updates and to deal with specific projects or matters arising during the year.

The Chairman and Non-Executive Directors meet from time to time as appropriate without the Executive Directors present.

When conditions allow, the Non-Executive Directors also visit the practices, laboratories and crematoria independently to meet with the workforce and develop their understanding of the business operations. They are also invited to attend the Group's annual conference and take the opportunity to meet colleagues. Deborah Kemp is the dedicated Non-Executive Director for employee engagement and she consults (in normal times) with employees, which has enabled her to develop an extensive knowledge of the Company's business.

This additional exposure to the Group's operations provides the Non-Executive Directors with invaluable experience enabling them effectively to provide constructive challenge and strategic guidance, to offer specialist advice and to hold management to account.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	11	2	2	2
R Connell	11	2	2	2
M McCollum	11	2	2	2
D Kemp	11	2	2	2
R Fairman	11	2*	2*	2*
R Alfonso ¹	8	1*	2*	1*
B Jacklin ²	8	1*	1*	1*
S Innes ³	3	1*	—	—

* In attendance by invitation of the respective Committee.

1. Robin Alfonso was appointed to the Board on 28 November 2019 and has attended all Board meetings since this date.
2. Ben Jacklin was appointed to the Board on 28 November 2019 and has attended all Board meetings since this date.
3. Simon Innes resigned from the Board on 5 November 2019.

Richard Gray joined the Board on 16 July 2020.

The Audit Committee

During the year under review the Committee Chairman was Richard Connell. On 21 July 2020 Mike McCollum became Chairman of the Committee. All Non-Executive Directors are members of the Committee. Richard Connell is a Chartered Accountant and Mike McCollum has worked previously as the Chief Financial Officer of a FTSE-250 business. Although the Chairman of the Board and former Chairman of the Audit Committee is a member, the Board believes this to be appropriate given his significant financial experience and given that the Company is an AIM-listed company, it is only required to have two members on the Audit Committee under the Code.

The Board considers that the members of the Audit Committee have recent and relevant financial expertise, and that the Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee's duties primarily concern financial reporting, internal control and risk management systems, whistleblowing procedures and internal audit and external audit arrangements (including auditor independence).

The Audit Committee Report can be found on pages 61 and 62.

The Remuneration Committee

During the year under review the Chairman of the Remuneration Committee was Mike McCollum. On 21 July 2020 Deborah Kemp became Chairman of the Committee. On 16 July 2020 Richard Gray joined the Committee. All Non-Executive Directors are members of the Committee.

The Remuneration Committee has delegated responsibility for designing and determining remuneration for the Chairman, Executive Directors and next level of senior management, as well as the Company Secretary.

The Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer are invited to attend meetings as appropriate but do not participate in discussions relating to their own remuneration. The Chairman does not participate in discussions relating to his own remuneration.

The Remuneration Committee Report can be found on pages 64 to 73.

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This information is unaudited.

The Nomination Committee

During the year under review the Chairman of the Nomination Committee was Deborah Kemp. On 21 July 2020 Richard Gray became Chairman of the Committee. All Non-Executive Directors are members of the Committee. The Nomination Committee meets at least once annually and is responsible for reviewing the structure, size and composition, including skills, independence, knowledge and experience, of the Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its Committees, and for ensuring appropriate succession plans are in place. Given the size of the Group and the Company's AIM listing, the Board does not believe external evaluation of the Board to be appropriate. All Directors engage in the internal evaluation and appropriate action is taken in light of the assessment.

The Committee is responsible for making recommendations to the Board on all Board appointments and on the succession plans for both Executive Directors and Non-Executive Directors.

The Nomination Committee Report can be found on page 63.

The Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are complied with, advising the Board on all governance matters, supporting the Chairman and helping the Board and its Committees to function efficiently.

The Company Secretary is also the Group's Data Protection Officer.

Relations with shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders where requested and copies are available on the Group's website (www.cvsukltd.co.uk). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary deals with correspondence as and when it arises throughout the year.

Typically at our Annual General Meetings shareholders are entitled to raise questions and queries, and the Chairman, the Chief Executive Officer and other Directors are available before and after the meeting for further discussions with shareholders. However, given the current COVID-19 risk (and any resultant regulatory changes) which could ensue during the period between publication of this document and the date of the Annual General Meeting ("AGM") and to protect our employees', local community's and shareholders' welfare, we have decided not to hold a public AGM this year. Shareholders should appoint the Chairman of the meeting as their proxy as is more particularly detailed in the Notice of AGM.

The Chief Executive Officer and the Chief Financial Officer have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Company has been unable to hold an Investors' Day this year, but will endeavour to hold this popular event in the future.

The Chairman and the Non-Executive Directors are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Company Secretary at company.secretary@cvs vets.com or by writing to the Company Secretary at the Company's registered office.

Audit, risk and internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness on an ongoing basis.

The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key risk management processes and internal control procedures include the following:

- > the close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;
- > clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;

Corporate governance statement continued

Audit, risk and internal control continued

- > a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from the budget and the prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;
- > a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas;
- > an independent Internal Audit function that reports to the Chairman of the Audit Committee;
- > a central team that checks clinical, and health and safety compliance in all parts of the Group; and
- > the Company's Scheme of Delegation of Financial Authority.

The Board is committed to maintaining high standards of business conduct and ethics, and has an ongoing process for identifying, evaluating and managing any significant risks in this regard.

The internal control procedures are delegated to the Executive Directors and senior management and are reviewed in light of the ongoing assessment of the Group's significant risks.

Internal audit

The Internal Audit team has implemented and refined the audit process focusing on Group finance, tax, payroll, company secretarial, IT and the Veterinary Practices Division. Performance of the Internal Audit function will continue to be reviewed during the current financial year to ensure it remains appropriate.

Remuneration

The Board considers that policies on executive remuneration should be transparent. They should be implemented in a manner which supports strategy and promotes long-term sustainable growth. In addition, remuneration should reflect the performance of the Company as well as individuals. The Board has delegated to the Remuneration Committee responsibility for complying with these aspects of the Code and the work of the Remuneration Committee is reported in full on pages 64 to 73 of this Annual Report.

By order of the Board

Juliet Dearlove
Company Secretary
24 September 2020

Ensuring financial integrity



Mike McCollum
Audit Committee Chairman

Key responsibilities:

- > reviewing and monitoring financial reporting;
- > internal control and risk management;
- > whistleblowing procedures; and
- > monitoring internal and external audit arrangements.

The Audit Committee's duties primarily concern financial reporting, internal control and risk management systems, whistleblowing procedures and internal audit and external audit arrangements (including auditor independence).

Committee composition during the year to 30 June 2020	Attendance
Richard Connell	2
Mike McCollum	2
Deborah Kemp	2

During the year under review, the Committee Chairman was Richard Connell. On 21 July 2020 Mike McCollum became Chairman.

Responsibilities and terms of reference

The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported, for meeting with the external auditor and for reviewing its reports relating to financial statements and internal control matters. The Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer are invited to attend such meetings, but the Committee also meets with the auditor without the Chief Executive, the Chief Financial Officer and the Chief Operating Officer being present at least once annually. Other members of management are invited to present such reports as are required for the Committee to discharge its duties.

The agenda of each meeting is linked to the reporting requirements of the Group and the Group's financial calendar. Each Audit Committee member has the right to require reports on matters relevant to its terms of reference in addition to the regular items.

Summary of activity

In the year ended 30 June 2020 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- > reviewing the 2020 Annual Report and Financial Statements and the Interim Report issued in March 2020, including significant financial reporting judgements contained therein. As part of these reviews the Committee received a report from the external auditor on its audit of the annual financial statements;
- > advising the Board that the Annual Report and Financial Statements is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- > reviewing the effectiveness of the Group's internal controls and risk management reports received from the Group's internal audit function in respect of its programme of internal audit reviews;
- > reviewing the Group's risk management framework;
- > reviewing the external auditor's audit planning document, with particular reference to the audit approach, planned materiality, significant risks as detailed in the Independent Auditor's Report and the audit approach to these risks;
- > reviewing the external auditor's audit findings memorandum, noting conclusions in respect of identified audit risks, materiality of adjusted and unadjusted misstatements, control observations and suggested improvements in the disclosures provided in the Annual Report and Financial Statements;

Audit Committee report continued

Summary of activity continued

- > considering papers prepared by the Chief Financial Officer to support the going concern basis of preparation;
- > agreeing the fees to be paid to the external auditor for its audit of the 2020 financial statements; and
- > reviewing and monitoring the external auditor's independence and objectivity through regular meetings and conversations between the Committee Chairman, the Committee and members of the senior finance team, taking into account relevant regulations and ethical guidance.

Significant financial reporting risks and judgement areas considered

- > Revenue recognition
During the year, we have reviewed the appropriateness of the revenue recognised according to the cost profile of delivering the performance obligations for our Healthy Pet Club scheme. In the year, the Committee also assessed the additional adjustments following the delayed treatments during the COVID-19 lockdown period ensuring revenue was appropriately recorded in accordance with IFRS 15 Revenue from contracts with customers.
- > Management override
During the year, we have reviewed the appropriateness of controls around management override of controls, ensuring the controls in place are robust where appropriate recommending areas for improvement.

Going concern and viability assessment

The Committee reviewed and advised the Board on the Group's going concern statements included in this Annual Report and financial statements and the assessment reports prepared by management to support such statements. The current and anticipated impact of COVID-19 was considered as part of this review. The external auditor discussed the statements with the Committee and reviewed the conclusions reached by management regarding going concern.

External auditor

The external auditor was appointed with effect from the year ended 30 June 2017 giving a current tenure of four years. A tender process was carried out prior to this change. The appointment is reviewed and subject to a shareholder vote at the AGM on an annual basis. Details of the fees paid to Deloitte during the financial year are set out in note 6 to the financial statements.

The Committee reviews the effectiveness of the external audit process, including discussing feedback from members of the senior finance team involved in the audit process.

Non-audit services are first considered by the Chief Financial Officer and, where appropriate, referred to the Committee. Any approvals would be provided on the basis of Group policy. In the year, no non-audit services were provided by the external auditor.

Approval

The members of the Audit Committee have reviewed the financial statements and the content of the Annual Report and Financial Statements to ensure that it is fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the Directors' Responsibility statement set out on page 76.

Mike McCollum Audit Committee Chairman

24 September 2020

Ensuring the right skills and experience



Richard Gray
Nomination Committee Chairman

Key responsibilities:

- > making recommendations on all Board appointments and succession planning;
- > monitoring and reviewing the Board composition; and
- > co-ordination of annual evaluation of the Board and Committees.

The Committee is comprised of Non-Executive Directors. The primary purpose of the Committee is to lead the process for Board appointments and to make recommendations to the Board to achieve the optimal composition of the Board having regard to:

- > its size and composition;
- > ensuring that it consists of individuals who are best able to discharge the responsibilities of Directors;
- > the extent to which the required skills, experience or attributes are represented; and
- > the need to maintain the highest standards of corporate governance.

The Board recognises the importance of having a diverse Board and workforce and encourages reviewing ways of working to ensure candidates from all backgrounds can apply. Each appointment of a Board member or senior executive is made on merit and the best candidate will be appointed. The Board recognises that further steps can be taken to improve the diversity of the Group at all levels and across all business streams, and continues to work towards this aim.

Committee composition during the year to 30 June 2020	Attendance
Richard Connell	2
Mike McCollum	2
Deborah Kemp	2

During the year under review, the Committee Chair was Deborah Kemp. On 21 July 2020 Richard Gray became Chairman.

Board appointments and resignations

During the year the Nomination Committee oversaw the appointment of Robin Alfonso as Chief Financial Officer, Ben Jacklin as Chief Operating Officer and Richard Gray as Non-Executive Director following an executive search and comprehensive interview process overseen by the Chairman and the Chief Executive Officer. The Board has an extensive network of contacts therefore an external search consultant was not used.

Simon Innes resigned from the Board as Chief Executive Officer on 5 November 2019 and Richard Fairman, previously Chief Financial Officer, was promoted to Chief Executive Officer following a comprehensive interview overseen by the Chairman.

Board evaluation and effectiveness

The Nomination Committee scrutinises the performance of the Executive Directors, taking into account the performance of the business against agreed plans. The Nomination Committee also considers the other commitments of Directors and is satisfied that all Directors devote appropriate time to the Company's affairs.

The Committee is responsible for ensuring that succession plans are in place for the Directors and the Executive Management team, so that orderly succession is achieved. It is important that a diverse pipeline for succession is developed in line with the Company's strategy on pages 20 and 21. The gender balance of those in the senior management, which, in accordance with the Code, we consider to be the Executive Committee and the Company Secretary, is three women and five men.

Following a period of change for the Board it was determined that the annual evaluation of performance of the Board, its Committees, the Chairman and individual Directors held in September 2020. This formal and rigorous evaluation is yet to be concluded, and its recommendations will be implemented during the year to June 2021.

Richard Gray
Nomination Committee Chairman

24 September 2020

Delivering the long-term potential of CVS



Deborah Kemp

Remuneration Committee Chair

Key responsibilities:

- > monitoring and reviewing Group remuneration policies;
- > reviewing Executive Director performance considering remuneration packages; and
- > making recommendations regarding LTIP terms and conditions, and awards.

Committee composition

during the year to 30 June 2020

Attendance

Richard Connell	2
Mike McCollum	2
Deborah Kemp	2

During the year under review, the Committee Chairman was Mike McCollum. On 21 July 2020 Deborah Kemp became Chair.

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The information is unaudited.

Remuneration policy

The design of remuneration policies, structures and schemes is a crucial part of the Remuneration Committee's role. The remuneration policy in respect of Executive Directors is designed to ensure that the Group achieves its potential and increases long-term shareholder value. With regard to basic salary, the objective is to ensure that the Group attracts and retains high calibre Executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and LTIPs are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance and align the interests of the Executive Directors with the shareholders over the long term. Performance conditions are selected to reflect the Company's and shareholders' objectives. The policy also provides for post-retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car and life and medical insurance.

Performance and decisions on remuneration taken in 2019/20

Salaries are reviewed annually and benchmarked against similar listed companies with changes effective in January. With this in mind, the Remuneration Committee decided to increase the salary of the Chief Operating Officer ("COO") by 1% to £300,000 and to increase the salary of the Chief Financial Officer ("CFO") by 1% to £165,000. The Committee proposes, over the short to medium term, to bring the salary of the CFO into line with market practice. On 5 November 2019, Simon Innes resigned as Chief Executive Officer ("CEO") and Richard Fairman (previously CFO) was appointed as CEO from this date. With this change in effect, the Remuneration Committee decided to reduce the salary of the new CEO to £400,000 (this is a 5% decrease compared to the CEO salary published in the 2018/19 year).

The annual bonus scheme in which the Executive Directors participate is based on the achievement of adjusted EBITDA performance. For 2019/20, the maximum bonus for the CEO was 100% of base pay, for the COO was 100% of base pay and for the CFO was 50% of base pay. Due to more challenging conditions during the year, the targets were not met and no bonus will be payable to the CEO, COO or CFO. In December 2019 the Company granted awards under its LTIP to the CEO with a value of 125% of salary, to the COO with a value of 100% of salary and to the CFO with a value of 100% of salary. As in previous years, these awards are subject to an adjusted EPS real growth performance condition measured over three years in addition to the total shareholder return benchmarked against the FTSE-250 index (less investment trusts) measured over three years. Detail on the performance conditions are set out later in this report.

Pre-IFRS 16 adjusted EPS for the year ended 30 June 2020 was 44.1p. This compares to adjusted EPS of 42.8p for the year ended 30 June 2017, a compound annual growth rate (“CAGR”) of 1.4% below inflation. The target CAGR for threshold and full vesting of LTIPs issued in January 2018 was 8% and 12% above inflation, respectively, and this target has not been met and therefore no options granted have vested.

Development of remuneration policy

The Remuneration Committee has reviewed the remuneration policy in light of market conditions, performance and developments in corporate governance whilst taking account of the Company’s status as a larger AIM company.

Early in the year, the Remuneration Committee decided to develop the policy in a number of areas and the changes made, relating to incentive plans and pension arrangements, were summarised in last year’s Remuneration Report.

Commercial changes

The Remuneration Committee does not propose to make substantial changes to the basic structure of remuneration, covering salary, pension, benefits, annual bonus and long-term incentives, but will make a number of modest changes.

The maximum bonus opportunity of our CFO, Robin Alfonso, who joined the Board in November 2019, was 50% of salary in the year 2019/20. This will be increased to 100% of salary from 2020/21 so that it is competitive and effective. Annual bonus will remain subject to a 100% adjusted EBITDA performance condition.

A description of how the Company has addressed the matters specified in Rule 40 and 41 of the FRC Corporate Governance Code is set out under the policy table (on page 69).

2019 Annual General Meeting (“AGM”)

The advisory vote to approve the Directors’ Remuneration Report at our 2019 AGM was supported by 87.6% of votes cast. While pleased with the overall level of support, the Committee noted that one larger shareholder voted against this resolution and the principal points made by this shareholder, which related to applying a two-year post-vesting holding period to LTIP awards and introducing an element of bonus deferral. The Committee considered these points again and, considering executive remuneration in the round in the context of the Company’s status as an AIM company, determined to make no further changes at this point.

Looking ahead, the Remuneration Committee will continue to be guided by policies and procedures recommended by the Corporate Governance Code. In particular, we will seek to be innovative and to simplify remuneration structures in relation to performance-based incentive plans and include a range of financial, non-financial and strategic measures to deliver value over the long term.

I hope that you find the report helpful and informative and I look forward to receiving further feedback from our investors on the information presented.

Remuneration Committee report – unaudited continued

Executive Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company with regard to its Directors.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
<p>Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business.</p> <p>To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy.</p>	<p>Salaries are reviewed annually and benchmarked against similar listed companies with any changes effective from 1 January. The review takes into account:</p> <ul style="list-style-type: none"> > Company performance and rapid increase in scale and complexity; > the role, experience and performance of the individual Director; and > average workforce salary adjustments within the Company. 	<p>The CEO's base salary was reviewed on 1 January 2020 (the prior review being in January 2019) and was £400,000.</p> <p>The COO's base salary was reviewed on 1 January 2020 (the prior review being on appointment on 1 January 2019) and was increased by 1% to £300,000.</p> <p>The CFO's base salary was reviewed on 1 January 2020 and was increased by 1% to £165,000.</p>	Not applicable.
Benefits			
<p>To complement basic salary by providing market competitive benefits to attract and retain Executive Directors.</p>	<p>Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive.</p> <p>Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.</p>	<p>The cost of providing these benefits varies year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.</p>	Not applicable.
Pension			
<p>To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain appropriately qualified Executive Directors.</p>	<p>The CEO received a payment in lieu of pension.</p> <p>The COO and CFO participate in a defined contribution pension arrangement.</p> <p>Pension arrangements, including contribution rates, for new Executive Directors will be aligned with those of the majority of the UK workforce.</p>	<p>The CEO is entitled to a Company pension contribution of 12%. This is taken as a payment in lieu of a pension.</p> <p>The COO is entitled to a Company pension contribution of 10%.</p> <p>The CFO is entitled to a Company pension contribution of 8%.</p> <p>For the CEO, where a payment is taken in lieu of a pension it is reduced by the amount of the Company's liability to pay National Insurance on the contribution. Only basic salary is pensionable.</p>	Not applicable.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Annual bonus			
To drive and reward exceptional performance.	<p>The Executive Directors are eligible to participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>Bonuses are paid in cash based on audited financial results. Commencing financial year 2018/19, annual bonus payments are subject to a clawback provision.</p>	<p>During the year under review, the maximum capped bonus potential for the CEO is 100% of salary, COO is 100% of salary and CFO is 50% of salary.</p> <p>From 2020/21 the maximum capped bonus potential for all Executive Directors is 100%.</p>	For the years ended 30 June 2020 and ending 30 June 2021, the targets are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year and exceptional items. The level of payment commences from zero at the threshold target increasing on a straight-line basis to full payment at the maximum target.
Long Term Incentive Plan (“LTIP”)			
<p>To drive and reward exceptional performance.</p> <p>To align the interests of Executive Directors and shareholders.</p>	<p>The Executive Directors are entitled to be considered for the grant of awards under the LTIP. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable. Awards are released to participants after a performance period of three years, subject to certain performance and service conditions being met. 25% of awards vest at threshold performance for LTIP11 and LTIP12 and 12.5% for LTIP13.</p> <p>The LTIP rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets.</p> <p>Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. The Remuneration Committee sets performance conditions at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period.</p>	<p>From 2018, the Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO of 125% of salary and the COO and CFO of 100% of salary.</p> <p>The maximum annual award permissible under the 2017 plan rules in exceptional circumstances is 200% of salary.</p>	<p>Up to and including 2018, an adjusted EPS CAGR real growth target is applied to awards.</p> <p>The adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations, income tax and exceptional items.</p> <p>From 2019, awards will be subject 50% to an EPS growth target, as previously, and 50% subject to a relative TSR performance condition against the FTSE 250 companies excluding investment trusts.</p> <p>In addition and irrespective of the targets, no award will vest unless, in the opinion of the Remuneration Committee, the underlying performance of the Group has been satisfactory over the measurement period.</p> <p>An amendment to the 2017 plan was made in 2019 to ensure that the Committee has discretion to vary payouts in the event of exceptional negative events and to override formulaic outcomes.</p>

Remuneration Committee report – unaudited continued

Executive Directors' remuneration policy continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Shareholding guideline			
To incentivise executives to achieve the Company's long-term strategy and create sustainable shareholder value. To align with shareholder interests.	Target value to be achieved over five years: CEO – 100% of salary. COO – 100% of salary. CFO – 100% of salary.	Not applicable.	Not applicable.

In relation to both annual bonus and LTIP awards, the Remuneration Committee may, in line with the UK Corporate Governance Code, exercise its discretion to override formulaic outcomes, including to reflect overall corporate performance and the experience of shareholders of the Company and if the business has suffered an exceptional negative event. Malus and clawback provisions are effective for three years from the date bonus is paid. Issues which may trigger malus and clawback include discovery of misstatement of the financial results, error in assessing the achievement of the performance conditions. Other circumstances include the individual being found guilty of misconduct.

Save As You Earn (“SAYE”)

The Group operates a savings scheme for all staff, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each calendar year. Under the 2019, 2018 and 2017 schemes the awards were made at a 10% discount to the closing mid-market price on the day preceding the date of invitation. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Directors' remuneration

The Chairman and the other Non-Executive Directors' remuneration comprises only directorship fees. They are reviewed annually with changes effective from 1 January each year. The Chairman's and the Non-Executive Directors' fees are approved by the Board on the recommendation of the CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration. The Chairman and the other independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees paid for 2019/20 are set out in the Annual Report on Remuneration.

The current fees are as follows:

Director	
R Connell	£122,504
M McCollum	£49,833
D Kemp	£49,833
R Gray	£43,500

Executive Directors' service agreements

Richard Fairman was appointed on 19 July 2018. His most recent service agreement is dated 10 September 2020. The CEO's agreement can be terminated by either the CEO or the Company on twelve months' notice. Ben Jacklin joined the Company on 7 September 2015. His most recent service agreement is dated 18 September 2020. The COO's agreement can be terminated by either the COO or the Company on twelve months' notice. Robin Alfonso joined the Company on 8 July 2019. His most recent service agreement is dated 22 September 2020. The CFO's agreement can be terminated by either the CFO or the Company on twelve months' notice. As well as an annual salary, the service contracts also detail the provision of other benefits including performance related bonuses, medical and life insurance, a car allowance and contributions to personal pension plans.

Non-Executive Directors' letters of appointment

Richard Connell was appointed on 4 October 2007. His most recent service agreement is dated 23 September 2020 and is for a one-year term ending on 22 September 2021. Mike McCollum was appointed on 2 April 2013. His most recent service agreement is for a one-year term ending on 22 September 2021. These appointments can be terminated by the Company or the Directors by giving three months' notice. Deborah Kemp was appointed on 2 January 2018 for a three-year term ending on 1 January 2021. Her appointment can be terminated by the Company or herself by giving six months' notice. Richard Gray was appointed on 16 July 2020 for a three-year term ending 16 July 2023. His appointment can be terminated by the Company or himself by giving six months' notice.

Further items specified under Rule S40 and Rule S41 of the FRC Code

The Remuneration Committee believes remuneration is appropriate in light of the skills and experience of the Executive Directors, the need for differentials between different levels of seniority and in the context of the amounts and structure of remuneration at comparable UK companies.

Mindful of provision 40 of the Code, the Remuneration Committee will continue to consider factors including clarity, simplicity, risk, predictability, proportionality and alignment to culture. The Remuneration Committee believes that the Company's remuneration practices are clear and simple, as laid out in this Remuneration Report. The Committee has always been conscious of reputational and other risks in managing remuneration and taking decisions. Malus and clawback provisions, and the Remuneration Committee's ability to exercise discretion within the policy, all override formulaic outcomes and support the mitigation of risks. The Committee believes that the range of possible values of rewards is clearly identified and explained in this report that the rewards and potential rewards are proportionate and do not reward poor performance and that remuneration arrangements are aligned with Company culture.

The Remuneration Committee believes that the policy operated as intended in terms of Company performance and quantum during 2019/20. The Company engaged with major shareholders on remuneration during 2019/20. The Committee did not engage with the workforce in respect of executive remuneration during 2019/20. The Committee did not apply discretions in respect of the operation of the annual bonus or LTIP during 2019/20.

Remuneration Committee report – unaudited continued

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the year ended 30 June 2020.

Membership and role of the Remuneration Committee

The Remuneration Committee is appointed by the Board, and comprises Deborah Kemp as Chairman, Richard Connell, Mike McCollum and Richard Gray. The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long-term incentive awards and pension arrangements.

Advisors

During the year, the Company engaged h2glenfern, a remuneration advisory practice, to provide advice on the new LTIP and the overall development on executive remuneration. Moving forward we will continue to assess against pay ratios and pay gaps. The Board is satisfied that h2glenfern is independent and has no connection to any individual Director.

Remuneration of the Executive Directors Directors' emoluments

		Basic salary allowance, fees and other payments £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	Value of share LTIP awards vested during the year** £'000	Total £'000
Executive Directors							
S Innes*	2020	743	36	11	—	—	790
* Resigned 5 November 2019	2019	416	38	44	—	282	780
N Perrin*	2020	—	—	—	—	—	—
* Resigned 28 September 2018	2019	89	12	9	—	208	318
R Fairman	2020	328	10	40	—	—	378
	2019	232	9	28	—	—	269
R Alfonso*	2020	102	8	8	—	—	118
* Appointed 28 November 2019	2019	—	—	—	—	—	—
B Jacklin*	2020	185	16	18	—	7	226
* Appointed 28 November 2019	2019	—	—	—	—	—	—
Non-Executive Chairman							
R Connell	2020	107	—	—	—	—	107
	2019	113	—	—	—	—	113
Non-Executive Directors							
M McCollum	2020	44	—	—	—	—	44
	2019	46	—	—	—	—	46
D Kemp	2020	44	—	—	—	—	44
	2019	46	—	—	—	—	46

** The value of the share LTIP awards vested during the year is calculated using the share price at date of grant and the number of shares vested.

Benefits in kind include the provision of a company car and medical and life insurance for each Executive Director.

All Directors waived 20.0% of their basic salaries and fees from March 2020 to June 2020 due to COVID-19. No Directors waived emoluments in respect of the year ended 30 June 2019.

The remuneration of the Executive Directors of CVS Group plc is borne by the subsidiary company, CVS (UK) Limited, without recharge to CVS Group plc.

		Bonus (% of salary)	Range (adjusted EBITDA)	Actual £m	Payout £m
R Fairman	2020	100	£58.0m to £59.6m	55.3	—
B Jacklin	2020	100	£58.0m to £59.6m	55.3	—
R Alfonso	2020	50	£58.0m to £59.6m	55.3	—

The Remuneration Committee has continued to operate a policy in line with the Company performance; for example, no bonus will be payable to the CEO, COO or CFO in relation to the 2020 financial year as the Company has not met the financial targets as set out in the bonus schemes above.

Due to the commercially sensitive nature of the proposed bonus targets, the Committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to retrospectively publish annual bonus targets in the Annual Report and Financial Statements for the year to June 2021.

Share scheme interests as at 30 June 2020

Details of plans at the reporting date that have not yet vested are set out below.

Award	Grant date	Vesting period	
LTIP11	17 January 2018	3 years	<p>The performance targets for awards LTIP11 and LTIP12 are based on achieving adjusted EPS growth in excess of inflation as follows:</p> <ul style="list-style-type: none"> > Less than 8.0% CAGR – no award. > 8.0% to 12.0% CAGR – awarded on a straight-line basis between 25% and 100% of total award. > More than 12.0% CAGR – full award.
LTIP12	12 October 2018	3 years	
LTIP13	19 December 2019	3 years	

Remuneration Committee report – unaudited continued

Annual Report on Remuneration continued

Share scheme interests as at 30 June 2020 continued

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 24 September 2020 are as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
R Fairman					
LTIP12	12 October 2018	807p	30 June 2021	0.2p	30,969
LTIP13	12 October 2019	1,080p	30 June 2022	0.2p	46,296
SAYE11	30 November 2018	913p	1 January 2022	830p	737
B Jacklin					
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	3,600
LTIP12	12 October 2018	807p	30 June 2021	0.2p	6,194
LTIP13	12 October 2019	1,080p	30 June 2022	0.2p	27,778
SAYE11	30 November 2018	913p	1 January 2022	830p	737
SAYE12	4 December 2019	1,054p	1 January 2023	863p	709
R Alfonso					
LTIP13	12 October 2019	1,080p	30 June 2022	0.2p	15,278
SAYE12	4 December 2019	1,054p	1 January 2023	863p	709

Directors' interests in shares

The interests of the Directors when combined with their spouses' holdings as at 30 June 2020 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	152,800
M McCollum	38,678
D Kemp	6,559
R Gray	—
R Fairman	11,450
B Jacklin	1,436
R Alfonso	—

Apart from the interests in shares and share options disclosed above, the Directors had no other interest in shares of Group companies.

At 30 June 2020, the market price of the Ordinary shares was 1,030p.

During the year shares lapsed as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
S Innes					
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	13,744
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	40,000
LTIP12	12 October 2018	807p	30 June 2021	0.2p	63,797
B Jacklin					
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	382

The following options have been exercised during the year:

	Scheme	Number of shares	Exercise date	Exercise price	Share price at exercise date
S Innes	LTIP10	26,256	4 November 2019	0.2p	1,067p
B Jacklin	LTIP10	729	4 November 2019	0.2p	1,067p
	SAYE10	318	19 June 2020	790p	993p

Gains arising on the exercise of options for Simon Innes and Ben Jacklin amounted to £280,099 and £10,289 respectively. No options have been exercised for Richard Fairman or Robin Alfonso.

Statement of voting

At the 2019 AGM, a motion was proposed to the shareholders to approve on an advisory only basis the Directors' Remuneration Report contained in the 2019 Annual Report. 87.6% of votes cast were in favour of the motion and 12.4% of votes cast were against.

On behalf of the Remuneration Committee

Deborah Kemp
Remuneration Committee Chair
24 September 2020

Directors' report

The Directors present their Annual Report and Financial Statements together with the audited consolidated financial statements for the year ended 30 June 2020.

Principal activities and results

The principal activities of the Group are to operate animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online veterinary pharmacy and retail business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £5.7m (2019: £8.2m).

Business review

The information that fulfils the requirements of the business review, including details of the 2020 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 6 and 7), the Chief Executive Officer's statement (pages 8 to 13), the Operational Review (pages 26 to 33) and the Finance Review (pages 34 to 39) including key performance indicators (pages 22 to 25) and principal risks and uncertainties (pages 42 to 53).

Dividends

In respect of the year under review, as announced on 24 July 2020, the Directors do not recommend the payment of a dividend (2019: 5.5p amounting to £3.9m). The reasons for this are explained in the Chairman's Statement on page 7. The aggregate dividends recognised as distributions in the year ended 30 June 2020 amounted to £3.9m (2019: £3.5m). No interim dividends (2019: £nil) have been paid during the year.

Dividend policy

For normal times, and with the exception of years which are impacted by the uncertainty of the COVID-19 pandemic, the Group has established an ordinary dividend policy that is both progressive and sustainable, based on growing the ordinary dividend per share over time. The rate of growth of the ordinary dividend will be decided by the Board in light of the circumstances at the time. The Board also gives due consideration to the return of capital through the use of special dividends or share buybacks.

The ability of the Group to pay a dividend is also subject to constraints including the availability of distributable reserves and the Group's financial and operating performance. Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements.

Directors

The following Directors held office during the year and up to the date of signing the financial statements unless otherwise stated:

R Connell
M McCollum
D Kemp
R Gray (appointed 16 July 2020)
R Fairman
B Jacklin (appointed 28 November 2019)
R Alfonso (appointed 28 November 2019)
S Innes (resigned 5 November 2019)

Biographical details of the Directors are provided on pages 54 and 55.

Re-election of Directors

The Articles of Association of the Company require all Directors to be re-elected at intervals of not more than three years. The Board has decided that it is appropriate for all Directors to be re-appointed each year, so in accordance with that decision all Directors will stand for re-election at the Annual General Meeting.

Directors' remuneration and interests

The Remuneration Committee Report is set out on pages 64 to 73. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Environment

The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with in addition to providing training to its employees to ensure compliance.

Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect.

Health and safety

The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our employees and customers is of paramount importance. The Group's operations are managed at all times in such a way as to ensure, as far as is reasonably practicable, the health, safety and welfare of all of our employees and all other people who may be attending our premises.

Corporate governance

The Board's Corporate Governance Statement is set out on pages 56 to 60.

Going concern

The Governance Code requires the Board to assess and report on the prospects of the Group and whether the business is a going concern. In considering this requirement, the Directors have taken into account the Group's forecast cash flows, liquidity, borrowing facilities and related covenant requirements and the expected operational activities of the Group.

As part of the going concern assessment, the Group modelled two principal scenarios: a base case and a reasonably likely scenario. The base case takes into account the latest run rate of performance and the reasonably likely scenario models a further lockdown, with the impact on Group revenue the same as experienced during April to June 2020. Under both the base case and the reasonably likely scenario, there is more than sufficient headroom in both liquidity and covenants.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to remain in operation until at least twelve months after the approval of these financial statements. The Board has therefore continued to adopt the going concern basis in preparing the consolidated financial statements.

Financial instruments

Details of the Group's financial risk management objectives and policies are included in note 3 to the financial statements.

Substantial shareholdings

Shareholder	9 September 2020	% IC
Octopus Investments Limited	5,830,059	8.25
Canaccord Genuity Group Inc	5,530,252	7.83
Invesco	4,510,830	6.38
BlackRock Inc	4,385,919	6.21
Connor, Clark & Lunn	3,297,816	4.67
Ameriprise Financial	3,204,594	4.54
NN Group NV	2,621,966	3.71
The Goldman Sachs Group, Inc	2,561,312	3.63
Marlowe Partners	2,225,301	3.15
Total	34,168,049	48.37

Share capital and substantial shareholdings

Details of the share capital of the Company as at 30 June 2020 are set out in note 25 to the financial statements. Each share carries the right to one vote at general meetings of the Company.

At 9 September 2020, the Company has been notified (using TR1 standard form) of the substantial shareholdings detailed in the table above comprising 3% or more of the issued Ordinary share capital of the Company.

The Board is satisfied that no major shareholder presents a conflict of interest or exerts undue influence over the Board's independent judgement.

Employees

In normal times, consultation with employees takes place through a number of regional meetings throughout the year and an annual staff survey. The aim is to ensure that their views are taken into account when decisions are made which are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole. To enhance communication within the Group, a committee is in place which is constituted of regional members from all areas of the business with the aim of improving consultation and communication levels.

Deborah Kemp is the Board's dedicated Non-Executive Director for employee engagement and it is Deborah's usual practice to consult with employees through attendance at our annual employee conference, periodic visits to our businesses and regular reviews of the Group's monthly employee net promoter score.

The Group regularly consults with, and seeks feedback from, employees, and the Board monitors employee engagement.

Applications for employment by disabled people are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should be, as far as possible, identical to that of a person who does not have a disability.

The Group operates a Long Term Incentive Plan for Executive Directors and senior managers. Details are included in note 8. The Group also has a Save As You Earn scheme, now in its eleventh year, under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 10% discount to the shares' market value at the date of invitation. The scheme is open to all UK Group employees, including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 64 to 73.

Directors' report continued

Directors' third party indemnity provision

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the year and also at the consolidated and Company statement of financial position date for the benefit of each of the Directors in respect of liabilities incurred as a result of their office with the Company and any associated company to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year. The level of cover is currently £50.0m.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgements and accounting estimates that are reasonable and prudent;
- > state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that the Annual Report provides information necessary to enable shareholders to assess the Company's position, performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this Annual Report and Financial Statements confirms that:

- > so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- > the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Resolutions concerning the re-appointment of Deloitte LLP as auditor and authorising the Audit Committee to set its remuneration will be proposed at the AGM.

Authorised by order of the Board

Juliet Dearlove
Company Secretary
24 September 2020

Streamlined Energy And Carbon Reporting (“SECR”)

With effect from this year, the Company is required to report on energy consumption and Greenhouse Gas (“GHG”) emissions and energy consumed, under the Streamlined Energy and Carbon Reporting regulations.

This work was already being carried out by the Group, in line with its strategy (see pages 20 and 21). The Company has appointed The Consultus International Group to independently assess the business, using the methodology set out below, for the year ended 30 June 2020.

UK and offshore kWh and CO₂e

Scope 1 emissions (direct)

Emissions from activities owned or controlled by your organisation that release emissions into the atmosphere. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production in owned or controlled process equipment.

Energy type	Definition	Total volume (kWh)	Calculated emissions (tonnes of CO ₂ e)
Gas	Emissions from combustion of gas	19,492,520	3,584
Transport	Emissions from combustion of fuel for transport purposes	12,992,379	3,164
Total		32,484,899	6,748

Scope 2 emissions (indirect)

Emissions released into the atmosphere associated with your consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of your organisation’s activities, but which occur at sources you do not own or control.

Energy type	Definition	Total volume (kWh)	Calculated emissions (tonnes of CO ₂ e)
Electricity	Emissions from purchased electricity	14,102,256	3,605
Total		14,102,256	3,605

Total emission scope summary

Emission type	Total volume (kWh)	Calculated emissions (tonnes of CO ₂ e)
Scope 1 (direct)	32,484,899	6,748
Scope 2 (indirect)	14,102,256	3,605
Total	46,587,155	10,353

Quantification and reporting methodology

The organisation has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions. Energy usage information (gas and electricity) has been obtained directly from their energy suppliers and HH data, where available, for those supplies with HH meters. For supplies where there wasn’t complete 12 month energy usage available, flat profile estimation techniques were used to complete the annual consumption (applicable only to the NHH and gas supplies). There were also supplies where billing information was not easily obtainable for this reporting year therefore the organisation utilised usage from previous years or profile based contract usage. Transport mileage and litres fuel usage data were provided for their fleet vehicles. The CO₂e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information and retained within the organisations Data File for reference where required.

Energy efficiency action

In the period covered by the report, the Company has implemented a number of energy saving measures which include replacement of lighting, hybrid vehicles and installing A rated appliances; all sites with effect from January 2020 have faulty lights changed for LED energy efficient lights as a matter of course and where mixed lights are found in locations all lights are changed to full LED. The plan is to replace all lighting throughout the group to LED in the next three years. The Company is now supplying Hybrid cars on the fleet list for all staff members to choose from and will continue to move towards hybrid and electric cars as manufacturers broaden their range. They are continuing to encourage staff to choose hybrid cars because of the tax benefits. This is an ongoing project and the fleet list is continually updated with cars that fall into the hybrid and electric categories. All sites are supplied with ‘A’ rated fridges and domestic washing machines as a matter of course, and we will choose the most efficient item where possible.

Intensity ratio

Intensity ratios compare emissions data with an appropriate business metric or financial indicator. When presenting the detail of your KPIs, they should be expressed in absolute terms but it is also helpful if you use a normalising factor in reporting your data.

Intensity measurement	Turnover (£m)	Intensity ratio (tCO ₂ e/turnover £m)
Tonnes of CO₂e per total £m sales revenue	£427.8	24.2

The organisation has chosen to use tonnes of CO₂e per £m Turnover for its Intensity Ratio. As this is the first year of reporting, there are no comparisons of change from previous years.

Independent auditor's report

To the members of CVS Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- > the financial statements of CVS Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- > the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- > the consolidated income statement;
- > the consolidated statement of comprehensive income;
- > the consolidated and company statements of financial position;
- > the consolidated and company statements of changes in equity;
- > the consolidated and company statements of cash flow; and
- > the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matter that we identified in the current year was:

- > Revenue Recognition – Healthy Pet Club

This key audit matter has not changed from prior year.

Materiality

The materiality that we used for the group financial statements was £1.6m, which was determined as a blended measure based on various profit and asset measures.

Scoping

Our audit comprised five components subject to full-scope audits and a further ten components subject to audit procedures on specified account balances. The remainder of the group was subject to review procedures only.

Significant changes in our approach

We no longer consider the valuation of intangible assets acquired in business combinations as a key audit matter due to the reduction in the number of acquisitions in FY20.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- > the disclosures on pages 42–53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;

4. Conclusions relating to going concern, principal risks and viability statement continued

4.2. Principal risks and viability statement continued

- > the directors' confirmation on page 42 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- > the directors' explanation on page 38 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

5.1. Revenue Recognition – Healthy Pet Club

Key audit matter description

The group earns revenue via the Healthy Pet Club ("HPC") whereby customers sign up for a monthly or annual direct debit arrangement in exchange for a range of preventative products and treatments at a discount to the standalone selling price. The group recognised £46.6 million of HPC revenue during the year, and has 415,000 active members as at the year-end. Due to Covid-19 and the emergency treatment restrictions put in place, some routine treatments for HPC members were delayed. As a result, £3.3m income received in the year has been deferred until the treatment has taken place.

The revenue recognition for this scheme is judgemental since IFRS 15 Revenue from Contracts with Customers requires revenue to be recorded either at a point in time or over time according to when the performance obligation is satisfied, which is not aligned to the timing of cash receipts.

Revenue must also be adjusted for anticipated animal deaths (where outstanding fees will be waived) and irrecoverable debts. In the current year, additional adjustments are required for treatments that were missed due to Covid-19 restrictions that meant a number of customers did not receive treatments and services at the expected time. Management's estimate of the amount of revenue to be deferred is based on reminder data sent to pet owners about whether treatments are due or overdue under the scheme. There is therefore a risk that revenue is not recorded in accordance with IFRS 15 Revenue from Contracts with Customers.

The accounting policy for HPC revenue is to recognise revenue according to the cost profile associated to providing the services offered in the scheme, and is disclosed in note 2 to the financial statements.

How the scope of our audit responded to the key audit matter

We assessed the design and implementation of management's controls around the revenue related to HPC.

In response to this key audit matter, we performed the following procedures:

- > Recalculated the revenue accrual/deferral for all customers and compared this to management's own figure.
- > Assessed the appropriateness of deferring HPC revenue as a result of missed treatments against IFRS 15.
- > Performed a critical assessment of management's assumptions in calculating the deferral, which include the use of remainder data to estimate the quantities of missed treatments.
- > Recalculated the revenue deferral for a sample of customers based on their specific payment and pricing information and compared to management's calculation.
- > Ensured that, in instances of missed treatments that the customer would not catch up on, deferred income had been appropriately released to reflect the fact that membership fees are non-refundable and the group has no obligation to return amounts to customers.

Key observations

Based on the audit procedures performed, we concluded that revenue recognition in respect of the HPC is materially in line with IFRS 15.

Independent auditor's report continued

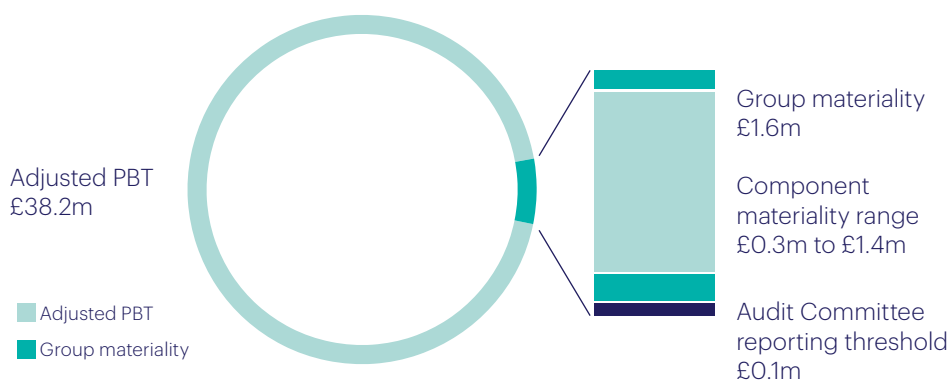
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1.6m (2019: £1.3m)	£1.4m (2019: £1.2m)
Basis for determining materiality	We considered pre-tax profit and revenue when determining materiality, as well as the growth of the business (as indicated by revenue growth) versus FY19. We also considered the materiality that might be adopted by reference to non-statutory measures such as adjusted pre-tax profit and adjusted EBITDA, and ultimately used a blend of these measures. This is consistent with the prior year. Materiality represents 4.0% of adjusted pre-tax profit and 2.2% of adjusted EBITDA.	Parent company materiality was determined based on 1.5% of net assets, and capped at 90% of group materiality.
Rationale for the benchmark applied	We have considered both statutory and adjusted pre-tax profit, reflecting the metrics that are deemed to be of most importance to stakeholders, as disclosed within Note 2.	As a holding company, net assets was considered the most relevant benchmark to users of the parent company financial statements.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the quality of the group's overall control environment; and
- the low volume of corrected and uncorrected misstatements in the previous audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2019: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

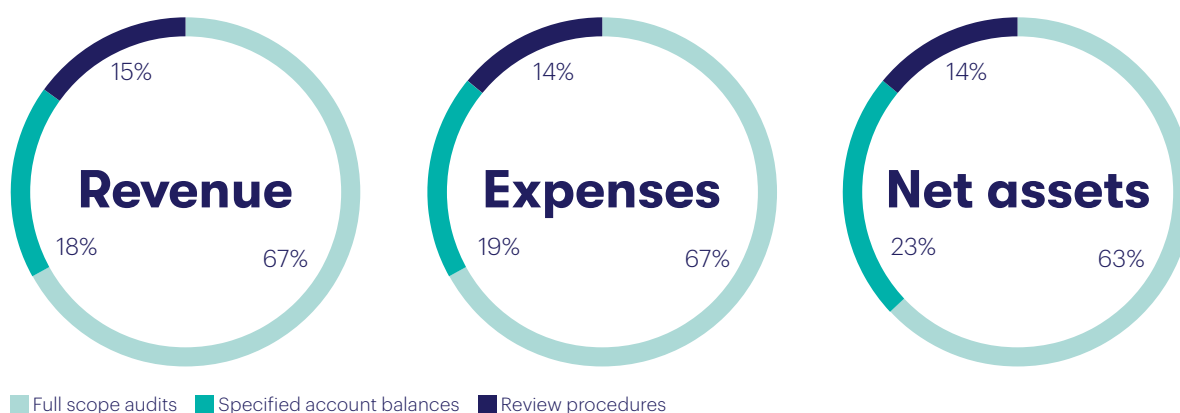
7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

We have focused our work on the UK-based subsidiaries which account for 85% of the group's revenue and 86% of group's expenses and net assets. We have subjected five components to full-scope audits and a further ten components to audits of specified account balances. The remainder of the group, including components located overseas, were subject to review procedures only. We followed a similar approach in the prior year audit.

All audit work was carried out by the UK engagement team, with no reliance of component auditors. Testing was performed to component materiality ranging from £0.3m to £1.4m.

The coverage achieved by this strategy is as follows:



8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- > **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- > **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

Independent auditor's report continued

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- > the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > we have not received all the information and explanations we require for our audit; or
- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

12.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

13. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Lee Welham FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cambridge, United Kingdom

24 September 2020

Consolidated income statement

for the year ended 30 June 2020

	Note	2020 £m	2019 £m
Revenue	4	427.8	406.5
Cost of sales	6	(257.7)	(237.6)
Gross profit		170.1	168.9
Administrative expenses	6	(151.6)	(153.3)
Operating profit		18.5	15.6
Finance expense	5	(8.6)	(3.9)
Profit before income tax	4	9.9	11.7
Income tax expense	9	(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	10	8.1p	11.6p
Diluted	10	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	5	8.6	3.9
Depreciation	13, 14	24.2	9.2
Amortisation of intangible assets	12	22.2	22.2
Costs relating to business combinations*	4	0.7	7.2
Exceptional items	6	5.4	0.3
Adjusted EBITDA	4	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

	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 and Company statement of financial position

as at 30 June 2020

Company registration number: 06312831

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	As restated* Company 2019 £m	As restated* Company 2018 £m
Non-current assets						
Intangible assets	12	229.8	244.5	—	—	—
Property, plant and equipment	13	51.6	51.4	—	—	—
Right-of-use assets	14	98.1	—	—	—	—
Investments	16	0.1	0.1	69.4	68.5	68.4
Deferred income tax assets	24	1.1	0.2	—	—	—
Amounts owed by Group undertakings	33	—	—	81.6	85.8	89.1
Derivative financial instruments	17	—	0.1	—	—	—
		380.7	296.3	151.0	154.3	157.5
Current assets						
Inventories	19	18.7	17.0	—	—	—
Trade and other receivables	20	43.4	51.6	—	—	—
Cash and cash equivalents		21.5	12.5	—	—	—
		83.6	81.1	—	—	—
Total assets	4	464.3	377.4	151.0	154.3	157.5
Current liabilities						
Trade and other payables	21	(87.7)	(73.7)	—	—	—
Provisions	22	(5.0)	—	—	—	—
Lease liabilities	14	(8.8)	—	—	—	—
Current income tax liabilities		(0.4)	(4.9)	—	—	—
Borrowings	23	(0.1)	(0.3)	—	—	—
		(102.0)	(78.9)	—	—	—
Non-current liabilities						
Borrowings	23	(83.5)	(114.2)	—	—	—
Lease liabilities	14	(89.8)	—	—	—	—
Derivative financial instruments	17	(0.9)	—	—	—	—
Deferred income tax liabilities	24	(21.5)	(21.2)	—	—	—
		(195.7)	(135.4)	—	—	—
Total liabilities	4	(297.7)	(214.3)	—	—	—
Net assets		166.6	163.1	151.0	154.3	157.5
Shareholders' equity						
Share capital	25	0.1	0.1	0.1	0.1	0.1
Share premium	27	101.9	99.7	101.9	101.8	101.2
Capital redemption reserve		0.6	0.6	0.6	0.6	0.6
Treasury reserves		(0.3)	—	—	—	—
Cash flow hedge reserve		(1.4)	—	—	—	—
Cost of hedging reserve		0.5	—	—	—	—
Revaluation reserve	26	—	0.1	—	—	—
Merger reserve		(61.4)	(61.4)	—	—	—
Retained earnings		126.6	124.0	48.4	51.8	55.6
Total equity		166.6	163.1	151.0	154.3	157.5

* Further details of the prior year restatement are shown in note 35.

The Company reported a loss for the financial year ended 30 June 2020 of £0.4m (2019: £0.4m).

The notes on pages 89 to 130 are an integral part of these consolidated financial statements.

The financial statements on pages 83 to 130 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	25	—	0.1	—	—	—	—	—	—	—	0.1
Reclassification between reserves		—	2.1	—	(2.1)	—	—	—	—	—	—
Disposal of revaluation reserve		—	—	—	—	—	—	(0.1)	—	—	(0.1)
Disposal of treasury reserve		—	—	—	1.8	—	—	—	—	(0.9)	0.9
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	—	0.9	0.9
Deferred tax relating to share-based payments		—	—	—	—	—	—	—	—	0.1	0.1
Dividends to equity holders of the Company	25	—	—	—	—	—	—	—	—	(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	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 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	25	—	0.6	—	—	—	—	—	—	—	0.6
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	—	0.1	0.1
Deferred tax relating to share-based payments		—	—	—	—	—	—	—	—	(0.1)	(0.1)
Dividends to equity holders of the Company	25	—	—	—	—	—	—	—	—	(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

Company statement of changes in equity

for the year ended 30 June 2020

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2019		0.1	101.8	0.6	51.8	154.3
Total comprehensive loss for the year		—	—	—	(0.4)	(0.4)
Transactions with owners						
Issue of Ordinary shares	25	—	0.1	—	—	0.1
Credit to reserves for share-based payments	11	—	—	—	0.9	0.9
Dividends to equity holders of the Company	25	—	—	—	(3.9)	(3.9)
Transactions with owners		—	0.1	—	(3.0)	(2.9)
At 30 June 2020		0.1	101.9	0.6	48.4	151.0
	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2018		0.1	101.2	0.6	55.6	157.5
Total comprehensive loss for the year		—	—	—	(0.4)	(0.4)
Transactions with owners						
Issue of Ordinary shares	25	—	0.6	—	—	0.6
Credit to reserves for share-based payments	11	—	—	—	0.1	0.1
Dividends to equity holders of the Company	25	—	—	—	(3.5)	(3.5)
Transactions with owners		—	0.6	—	(3.4)	(2.8)
At 30 June 2019		0.1	101.8	0.6	51.8	154.3

Consolidated and Company statement of cash flow

for the year ended 30 June 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Cash flows from operating activities					
Cash generated from operations	29	94.8	52.1	3.9	2.9
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	3.9	2.9
Cash flows from investing activities					
Acquisitions (net of cash acquired)	15	(7.2)	(56.6)	—	—
Purchase of property, plant and equipment	13	(11.1)	(11.9)	—	—
Purchase of intangible assets	12	(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)	(3.9)	(3.5)
Proceeds from issue of Ordinary shares	25	0.1	0.6	—	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	(3.9)	(2.9)
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

1. General information

The principal activity of the Group is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online pharmacy and retail business. The principal activity of the Company is that of a holding company.

CVS Group plc is a public limited company incorporated under the Companies Act 2006 and domiciled in England and Wales and its shares are quoted on AIM of the London Stock Exchange. Its company registration number is 06312831.

Companies in the consolidated financial statements

The trading subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Principal business
Albavet Limited	Veterinary services and buying club
Animed Direct Limited	Online dispensary
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services
B&W Equine Group Limited	Veterinary services
Coen Dierenarts B.V.	Veterinary services
CVS (Ireland) Veterinary Services Limited	Holding company
CVS (Ireland) Veterinary Services No.2 Limited	Veterinary services
CVS (Netherlands) B.V.	Holding company
CVS Netherlands No2 B.V.	Veterinary services
CVS (UK) Limited	Veterinary and diagnostic services
Dierenartsenpraktijk NOP B.V.	Veterinary services
Dierenartsenpraktijk Zuid-West Friesland B.V.	Veterinary services
Dierenkliniek Schalekamp B.V.	Veterinary services
Dierenziekenhuis Drachten B.V.	Veterinary services
Diergeneeskundig Centrum Noord Nederland B.V.	Veterinary services
Endell Veterinary Group Limited	Veterinary services
Greenacres Pet Crematorium Limited	Animal cremation
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Highcroft Pet Care Limited	Veterinary services
Insight Laboratory Services Limited	Veterinary services
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services
MiVet Club Limited	Veterinary goods and services buying club
Okeford Veterinary Centre Limited	Veterinary services
Pet Doctors Limited	Veterinary services
Pet Emergency Treatment Services Limited	Veterinary services
Pet Vaccination Clinic Limited	Veterinary services
Pharmsure UK Limited	Veterinary services
Precision Histology International Limited	Veterinary diagnostic services
Rosendale Pet Crematorium Limited	Animal cremation and provision of burial grounds
Ruddington and East Leake Veterinary Centre Limited	Veterinary services
Severn Edge Equine Limited	Veterinary services
Severn Edge Farm Limited	Veterinary services
Severn Edge Veterinary Group Limited	Veterinary services
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Silverton Veterinary Practice Limited	Veterinary services
Slate Hall Veterinary Practice Limited	Veterinary services
Slate Hall Veterinary Services Limited	Veterinary services

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

1. General information continued

Companies in the consolidated financial statements continued

Name of subsidiary	Principal business
The Pet Crematorium Limited	Animal cremation
Valley Pet Crematorium Limited	Animal cremation
Vet Direct Services Limited	Veterinary instrumentation supply
Whitley Brook Crematorium for Pets Limited	Animal cremation
Wyatt Poultry Veterinary Services Limited	Veterinary services

The dormant subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	
Alcock Veterinary Services Limited*	Pet Vaccination UK Limited
Alnorthumbria Veterinary Practice Limited*	Pets Holding Limited
Ambivet Limited	Pinfold House Veterinary Clinic Limited*
Ashburn Veterinary Centre Limited*	Severn Edge Holdings Limited
Boundary Veterinary Clinic Limited*	St Elmo Veterinary Clinic Limited*
Briar Dawn Veterinary Centre Limited*	Superstar Pets Limited
BVCM Limited*	Sustainable Developments (SW) Limited
Camlas Petcare Vets Limited*	Three Valleys Veterinary Limited*
Campsie Veterinary Centre Limited*	Total Veterinary Services Limited
Cinder Hill Equine Clinic Limited	Vet Direct Holdings Limited
Corner House Equine Clinic Limited	Veterinary Enterprises & Trading Limited
Cromlynvets Limited	VETisco Limited*
Gurka Animal Care Limited	Weighbridge Referral Service Limited
Keown O'Neill Limited	Western Counties Equine Hospital Limited
Newlands Veterinary Group Limited	Your Vets (Holdings) Limited
Pet Medic Recruitment Limited*	

* Companies in liquidation.

Apart from CVS (UK) Limited, all of the above subsidiaries are indirectly held by CVS Group plc. All companies are registered in England and Wales, with the exception of BVCM Limited, Albavet Limited and VETisco Limited, which are registered in Scotland; Cromlynvets Limited, Campsie Veterinary Centre Limited, Keown O'Neill Limited and St Elmo Veterinary Clinic Limited, which are registered in Northern Ireland; CVS (Ireland) Veterinary Services Limited and CVS (Ireland) Veterinary Services No.2 Limited, which are registered in the Republic of Ireland; and CVS (Netherlands) B.V., CVS Netherlands No2 B.V., Kliniek voor Gezelschapsdieren Dieren B.V., Dierenartsenpraktijk NOP B.V., Dierenartsenpraktijk Zuid-West Friesland B.V., Dierenkliniek Schalekamp B.V., Dierenziekenhuis Drachten B.V., Coen Dierenarts B.V. and Diergeneeskundig Centrum Noord Nederland B.V., which are registered in the Netherlands.

100% of the Ordinary share capital is owned for all equity shareholdings and all are wholly owned.

1. General information continued

Companies in the consolidated financial statements continued

The registered office for all United Kingdom registered subsidiary undertakings is CVS House, Owen Road, Diss, Norfolk IP22 4ER, with the exception of the following companies:

Name of subsidiary	
Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon TQ12 4PB
Albavet Limited	24 Nicol Street, Kirkcaldy, Fife KY1 1NY
BVCM Limited	19-21 High Street, Strichen, Fraserburgh AB43 6SQ
VETisco Limited	24 Nicol Street, Kirkcaldy, Fife KY1 1NY
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
Keown O'Neill Limited	11 Church Street, Ballygawley, Co. Tyrone BT70 2HA
Precision Histology International Limited	The School House, One Eyed Lane, Weybread, Diss, Norfolk IP21 5TT
Campsie Veterinary Centre Limited	25 Knocknamoe Road, Omagh BT79 7LB
St Elmo Veterinary Clinic Limited	2 Skeoge Industrial Estate, Beraghmore Road, Londonderry BT48 8SE

The registered office for all Netherlands registered subsidiary undertakings is Postbus 176, 8300 AD Emmeloord. The registered office for all Republic of Ireland registered subsidiary undertakings is KPMG, Dockgate, Dock Road, Galway H91 V6RR.

Parent company guarantee

The following wholly owned subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Act.

Name of subsidiary	
Endell Veterinary Group Limited	08078309
Greenacres Pet Crematorium Limited	07877237
Greendale Veterinary Diagnostics Limited	05138112
Insight Laboratory Services Limited	06353163
MiVet Club Limited	08365201
Okeford Veterinary Centre Limited	05984705
Pet Emergency Treatment Services Limited	03586933
Rosendale Pet Crematorium Limited	01409643
Ruddington and East Leake Veterinary Centre Limited	04551334
Severn Edge Equine Limited	09524486
Severn Edge Farm Limited	09521408
Silvermere Haven Limited	02187947
Silverton Veterinary Practice Limited	08101117
Slate Hall Veterinary Practice Limited	05465166
Sustainable Developments (SW) Limited	05174372
The Pet Crematorium Limited	03442460
Valley Pet Crematorium Limited	04961306
Vet Direct Holdings Limited	06746630
Vet Direct Services Limited	05167635
Whitley Brook Crematorium for Pets Limited	04734723
Wyatt Poultry Veterinary Services Limited	05780117

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies

Basis of preparation

The consolidated and Company financial statements of CVS Group plc 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 Directors' Report on pages 74 to 76.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. The accounting policies which follow relate to the Group and are applied by the Company as appropriate.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates.

Leases

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term.

When determining the lease term in accordance with IFRS 16 paragraphs 18–21, management has applied the following policy for all leases:

- a) For properties in contract, the lease term has been determined as to the end of the contractual lease term.
- b) For properties out of contract and therefore occupied on a rolling basis, in accordance with legislation that permits this, the lease term has been determined to be 7.5 years from the date of transition.
- c) For properties where management has committed to close the site, the lease term is determined to be until the next break clause.

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. The Group has determined a weighted incremental borrowing rate of 4.0% for the right-of-use assets. The Directors considered all Group borrowings at the date of adoption in the determination of the incremental borrowing rates. The standard permits the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group has applied this practical expedient to its operating leases on adoption for leases with a similar class and remaining lease term. Refer to note 14 for additional disclosures related to leases.

Changes in accounting policies and disclosure

Standards adopted by the Group for the first time

A number of new and revised standards, including IFRS 16, are effective for annual periods beginning on or after 1 January 2019. A number of new and revised standards, including the following, are effective for annual periods beginning on or after 1 January 2019:

- > IFRS 16: Leases
- > IFRIC 23: Uncertainty over Income Tax Treatment
- > Amendments to IFRS 9: Prepayment Features with Negative Compensation
- > Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- > Amendments to IAS 9: Plan Amendment, Curtailment or Settlement
- > Annual Improvements to IFRSs: 2015 – 2017 Cycle

Adoption of these standards, has not had an impact on the Group's financial statements, except the following:

2. Summary of significant accounting policies continued

Changes in accounting policies and disclosure continued

Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016), which is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 34. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 July 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- > in respect of those leases the Group previously treated as operating leases, the Group has chosen to measure the right-of-use asset at an amount equal to the lease liability; and
- > does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

b) Impact on lessee accounting

i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii); and
- b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of twelve months or less) and leases of low-value assets (which include tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS 16. This expense is presented within "other operating expenses" in profit or loss.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies continued

Changes in accounting policies and disclosure continued

Impact of initial application of IFRS 16 Leases continued

b) Impact on lessee accounting continued

i) Former operating leases continued

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 July 2019.

c) Financial impact of initial application of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. The financial impact on the Group's primary statements is shown in note 34.

Standards and interpretations to existing standards (all of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2020 or later periods but which the Group has not early adopted:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
- Amendments to IFRS 3: Definition of Business (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective 1 January 2020)
- Amendments to IFRS 16: Covid-19 Related Rent Concessions (effective 1 June 2020)
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use (effective 1 January 2022)
- Annual Improvements to IFRS Standards 2018 – 2020 (effective 1 January 2022)
- Amendments to IFRS 3: Reference to the Conceptual Framework (effective 1 January 2022)
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract (effective 1 January 2022)
- Amendments to IFRS 17: Insurance Contracts (effective 1 January 2023)
- Amendments to IAS 1: Classification of liabilities as current or non-current (effective 1 January 2023)

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2020.

Subsidiaries are all entities over which the Group has control. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. They are deconsolidated from the date that control ceases. On acquisition of a company or business, all assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, which arise after the Group has gained control of the company or business, and that arise after the measurement period, are credited or charged to the post-acquisition income statement.

Intra-group transactions and profits are eliminated fully on consolidation. Accounting policies of subsidiaries have been aligned to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker (“CODM”). The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments. The Group has four operating segments: Veterinary Practices, Laboratories, Crematoria and Animed Direct. Further details of the Group’s operating segments are provided in note 4 to the financial statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group and liabilities incurred by the Group to the former owners of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent or deferred consideration arrangement, this additional consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent or deferred consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent or deferred consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses. The assets’ residual values and useful lives are reviewed annually, and adjusted as appropriate. Depreciation is provided so as to write off the cost of property, plant and equipment, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

Freehold buildings	2% straight line
Leasehold improvements	Straight line over the life of the lease
Fixtures, fittings and equipment	20%–33% straight line
Motor vehicles	25% straight line

Freehold land is not depreciated on the basis that it has an unlimited life.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Intangible assets

Goodwill

With the exception of the acquisition of CVS (UK) Limited, which was accounted for using the principles of merger accounting, all business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisitions that have occurred since 1 July 2004 is stated after separate recognition of intangible assets and represents the difference between the fair value of the purchase consideration and the fair value of the Group’s share of the identifiable net assets of an acquired entity. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill is carried at cost less accumulated impairment losses, and is subject to annual impairment testing.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies continued

Intangible assets continued

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three years and charged to administrative expenses. Costs associated with maintaining computer software programs are recognised as an administrative expense as incurred.

Patient data records, customer lists and trade names

Acquired patient data records, customer lists and trade names are recognised as intangible assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. The fair value attributable to these items acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted post-tax weighted average cost of capital for the Group. The residual values are assumed to be £nil. Patient data records, customer lists and trade names are reviewed for impairment if conditions exist that indicate a review is required. Amortisation is provided so as to write off the cost over the expected economic lives of the asset in equal instalments at the following principal rates:

Patient data records and customer lists	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

Impairment of non-current assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

As permitted by IAS 36 Impairment of Assets for the purposes of assessing impairment, individual cash-generating units ("CGUs") are grouped at a level consistent with the Group's operating segments. Recoverable amounts for CGUs are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being a one-year detailed forecast and extrapolated forecasts thereafter, the results of which are approved by the Board. The key assumptions for the value-in-use calculations are those regarding discount rates and growth rates.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value on a first in, first out basis. Net realisable value is based on estimated selling price less costs expected to be incurred to disposal. Where necessary, provision is made for obsolete, slow moving or defective inventory.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated and Company statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade and other receivables is recognised if there are considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the income statement on page 83.

2. Summary of significant accounting policies continued

Financial instruments continued

b) Investments

Gains and losses arising from changes in the fair value of available-for-sale investments in equity instruments that have a quoted market price are recognised directly in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the year.

In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The Group assesses at each consolidated and Company statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

In the Company's financial statements, investments in subsidiary undertakings are initially stated at cost. Provision is made for any permanent impairment in the value of these investments.

c) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in profit or loss. A financial liability is derecognised only when the obligation is extinguished. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

d) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded as the proceeds received, net of associated transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the consolidated and Company statement of financial position date.

e) Trade and other payables

Trade and other payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

g) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The application of the amendments impacts the Group's accounting in relation to a sterling denominated fixed rate debt which it fair value hedge accounts using sterling fixed to GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The Group has chosen to early apply the amendments to IFRS 9 for the reporting period ended 30 June 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies continued

Financial instruments continued

g) Derivative financial instruments and hedging activities continued

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. The fair value of interest rate swap arrangements is calculated as the present value of the estimated future cash flows. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the income statement.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives, the strategy for undertaking various hedging transactions, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective element of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement where material. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement. The classification of the effective portion when recognised in the income statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less from inception. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the consolidated and Company statement of cash flow.

Current and deferred income tax

The tax expense represents the sum of the current tax payable, deferred tax and any adjustments in respect of previous periods.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or tax deductible. The Group's liability for current tax is calculated on the basis of tax laws and tax rates that have been enacted or substantively enacted by the consolidated and Company statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities used in computation of taxable profits and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated and Company statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

2. Summary of significant accounting policies continued

Current and deferred income tax continued

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also recognised in other comprehensive income or equity respectively.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Revenue recognition

Revenue is measured in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, the Company determines whether enforceable rights and obligations have been created with the customer and recognises revenue based on total transaction price as estimated at the contract inception, being the amount which the Company expects to be entitled to and has present enforceable rights under contract. Revenue is allocated proportionately across the contract performance obligations and recognised either over time or at a point in time as appropriate.

Service revenue

Revenue represents sales of veterinary services, laboratory diagnostic services and crematoria services which are recognised in accordance with IFRS 15, at the point in time when the performance obligation is satisfied. Revenue is recognised when the laboratory test, veterinary consultation, veterinary procedure or cremation is completed.

Members of customer loyalty schemes, for example Healthy Pet Club, pay annually or monthly subscription fees and receive preventative consultations and treatments over a twelve-month period, being the life of the contract. Annual subscription fees are received annually in advance and monthly subscription fees are received evenly over a twelve-month period. Revenue is recognised in line with the cost profile of individual performance obligations as they are completed in accordance with the contract and not in line with the receipt of subscription fees. For the majority of customers who pay monthly this results in revenue recognised in advance of cash received as performance obligations are weighted towards the beginning of the twelve-month contract.

The adjustments are made through deferred and accrued income and the contract asset for this is shown in note 20. Revenue is recognised net of provision to reflect cancellations as a result of animal deaths due to our policy not to invoice our customers in such an event. The provision is calculated based on historical membership calculation data. All other cancellations are accounted for as an impairment of receivables within administration expenses.

Products

Revenue relating to the sale of veterinary products is recognised according to the terms of sale, at the point in time when the performance obligations are satisfied.

Rebates received from manufacturers

Consistent with standard industry practice, CVS has agreements with suppliers whereby volume related allowances and various other fees are received in connection with the purchase of goods from those suppliers in the form of rebates. Rebates received from drug and consumable manufacturers in respect of CVS purchases relating to inventories are held by CVS at the reporting date; the rebate is included within the cost of those inventories and recognised in cost of sales upon sale of those inventories.

Rebates negotiated on behalf of our buying group members, MiVetClub and VetShare, are recorded on the Group's consolidated and Company statement of financial position as a receivable and the corresponding liability for the rebate due to the member is recorded as a payable. The commission receivable by the Group is recorded as revenue in the income statement when all obligations attached to the rebate have been discharged and the rebate can be measured reliably based on the terms of the contract which is taken as at the point at which the buying group member purchases the drugs and consumables.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies continued

Leases

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 July 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low-value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- > fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- > variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- > the amount expected to be payable by the lessee under residual value guarantees;
- > the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- > payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- > the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- > the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- > a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

2. Summary of significant accounting policies continued

Leases continued

Policies applicable from 1 July 2019 continued

The Group as a lessee continued

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "Other operating expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Policies applicable prior to 1 July 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Transition

The Group adopted IFRS 16 Leases on 1 July 2019 using the modified retrospective approach. The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance sheet for the initial recognition of assets and liabilities as at 1 July 2019, with no restatement of comparable information and no impact on retained earnings. Further details and the impact of changes are disclosed in note 34.

Closed site provision

For veterinary practices due to close, the right-of-use assets have been impaired to recognise that the future economic benefits of the premises have reduced. Where the Group has exercised break clauses, the reduction in lease term has been recognised as a remeasurement and remaining right-of-use asset impaired.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

2. Summary of significant accounting policies continued

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The fair values of equity-settled transactions are measured indirectly at the dates of grant using Black Scholes option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value of share-based payments under such schemes is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted at each reporting date for the effect of non-market-based vesting conditions. The fair value of options awarded to employees of subsidiary undertakings is recognised as a capital contribution and recorded in investments on the Company statement of financial position.

Foreign currency translation

Functional and presentational currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements, rounded to the nearest £0.1m.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each consolidated and Company statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the consolidated and Company statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling-denominated assets and liabilities. Exchange differences arising are recognised in other comprehensive income.

Retirement benefit costs

The Group makes contributions to stakeholder and employee personal pension defined contribution schemes in respect of certain employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Financing costs

Financing costs comprise interest payable on borrowings, debt finance costs and gains and losses on derivative financial instruments that are recognised in the income statement.

Interest expense is recognised in the income statement as it accrues, using the effective interest method.

Use of non-GAAP measures

Adjusted EBITDA, 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.

2. Summary of significant accounting policies continued

Use of non-GAAP measures continued

Adjusted EBITDA, adjusted profit before tax (“adjusted PBT”) and adjusted EPS continued

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 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.

Share premium

The share premium reserve comprises the premium received over the nominal value of shares issued.

Treasury reserve

The treasury reserve comprise shares held by an Employee Benefit Trust (“EBT”) for the purposes of satisfying the exercise of certain share options vesting under the Group’s LTIP and SAYE schemes.

Capital redemption reserve

Upon cancellation of redeemable Preference shares on redemption, a capital redemption reserve was created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

Merger reserve

The merger reserve resulted from the acquisition of CVS (UK) Limited and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

Loss for the financial year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The loss attributable to the Company is disclosed in the footnote to the consolidated and Company statement of financial position.

3. Financial risk management

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (being foreign currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group uses derivative instruments to manage its exposure to interest rate movements. It is not the Group’s policy to actively trade in derivatives.

Given the size of the Group, the Board monitors financial risk management. The policies set by the Board of Directors are implemented by the Group’s finance department.

a) Market risk

i) Foreign exchange currency rate risk

The Group has limited exposure to foreign exchange risk as the majority of its transactions are denominated in the Company’s functional currency of Sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Group management. For subsidiaries incorporated in the Netherlands and the Republic of Ireland, a natural hedge is applied where both revenue and expenditure is denominated in Euros. Aside from this, the Group does not hedge any foreign currency transactions but continues to keep this policy under review.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

3. Financial risk management continued

Financial risk factors continued

a) Market risk continued

ii) Cash flow and fair value interest rate risk

The Group has interest-bearing assets and liabilities. The Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the year end, the Group had interest hedging arrangements in place covering £70.0m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match a portion of the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.45% to 2.7% above LIBOR. The applicable interest rate is dependent upon the net debt to EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.90% above LIBOR.

At 30 June 2020, the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2020, if interest rates on Sterling-denominated borrowings had been 1% higher or lower, with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £1.1m (2019: £1.2m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is recognised on trade receivables if there is considered to be expected credit losses. The amount of expected credit losses is calculated using the simplified approach as allowable under IFRS 9 and is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. The Group also has in place procedures that require appropriate credit checks on potential customers before sales, other than on a cash basis, are made. Customer accounts are also monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

The maximum exposure to credit risk at 30 June 2020 is the fair value of each class of receivable as disclosed in note 18 to the financial statements.

3. Financial risk management continued

Financial risk factors continued

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows, which include interest, analysed by contractual maturity. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The Group's revolving credit facility ("RCF") is usually utilised on 30-day terms; however, the RCF is available for utilisation until November 2021, and therefore the liability is included in due in more than one year but not more than two years.

	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
30 June 2020							
Non-derivative financial liabilities							
Borrowings	23	0.1	—	—	83.5	—	83.6
Trade and other payables (excluding social security and other taxes)	21	59.4	—	—	—	—	59.4
Right-of-use liabilities	14	8.8	10.5	9.6	17.7	52.0	98.6
		71.7	10.5	9.6	101.2	52.0	245.0

	Note	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
30 June 2019							
Non-derivative financial liabilities							
Borrowings	23	0.3	—	114.2	—	—	114.5
Trade and other payables (excluding social security and other taxes)	21	60.5	—	—	—	—	60.5
		60.8	—	114.2	—	—	175.0

Capital risk management

The Group's policy is to maintain a strong capital base, defined as bank facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings.

The bank facilities include financial covenants and a number of general undertakings. There have been no breaches of the terms of the respective loan agreements, breaches of covenants or defaults during the current or comparative years.

Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/adjusted EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements.

	Note	2020 £m	2019 £m
Net debt		62.1	102.0
Adjusted EBITDA	4	71.0	54.5
Ratio		0.87	1.87

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

3. Financial risk management continued

Capital risk management continued

The ratio above is calculated based upon adjusted EBITDA disclosed in the Annual Report and Financial Statements. The actual ratio calculated for the bank covenants takes account of a twelve-month EBITDA adjustment for businesses acquired; therefore, the ratio for the purposes of the bank covenants is 1.14x.

There were no changes to the Group's approach to capital management during the year.

The primary sources of funding for the Group are internally generated cash and syndicated borrowings. The Group's £5.0m working capital facility and £85.0m revolving credit facility were undrawn at 30 June 2020.

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2020 by level of fair value hierarchy:

- > quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- > inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- > inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Note	30 June 2020			30 June 2019		
		Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets							
Available-for-sale financial assets	16	0.1	—	0.1	0.1	—	0.1

4. 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.

4. Segmental reporting continued Operating segments continued

	Veterinary Practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Head Office £m	Group £m
Year ended 30 June 2020						
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 (note 6)	4.7	—	—	—	0.7	5.4
Adjusted EBITDA	72.3	5.8	2.5	2.5	(12.1)	71.0

	Veterinary Practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Head Office £m	Group £m
Year ended 30 June 2019						
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

5. Finance expense

	2020 £m	2019 £m
Interest expense, bank loans and overdraft	3.5	3.4
Interest expense on IFRS 16 lease liabilities	4.1	—
Amortisation of debt arrangement fees	1.0	0.5
Finance expense	8.6	3.9

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

6. Expenses by nature

	2020 £m	2019 £m
Amortisation and impairment of intangible assets	23.3	22.2
Depreciation of property, plant and equipment and right-of-use assets	24.2	9.2
Employee benefit expenses	198.0	181.0
Cost of inventories recognised as an expense (included in cost of sales)	99.9	92.2
Repairs and maintenance expenditure on property, plant and equipment	4.4	4.8
Trade receivables impairment charge	2.5	0.8
Operating lease rentals payable	—	17.1
Exceptional items	5.4	0.3
Grant income received	(8.2)	—
Other expenses	59.8	63.3
Total cost of sales and administrative expenses	409.3	390.9

The £8.2m grant income relates to the UK governments Coronavirus job retention scheme.

During the year exceptional items included costs associated with the Board restructure which amounted to £0.7m and impairment of goodwill and patient data records in relation to the disposal of Ashburn veterinary clinic of £0.5m. In addition, £4.2m included within exceptional items related to the impairment of patient data records, property, plant and equipment, right-of-use assets, dilapidation provisions and redundancy provisions which all specifically relate to the costs associated with the closures of 33 sites. The closure of these sites is considered as exceptional and non-reoccurring following a review of our portfolio of practices during the COVID-19 pandemic lockdown. The decision was taken for these sites to remain closed as they were considered our worst performing practices.

These costs are not related to the underlying performance of the business and for this reason disclosed as exceptional items. These costs are included within net operating expenses and are shown above. These costs have been deducted in arriving at taxable profit as disclosed on note 9 with the exception of patient data records impairment which has a deferred tax adjustment.

Services provided by the Company's auditor and associates

During the year the Group obtained the following services from the Company's auditor at costs as detailed below:

	2020 £'000	2019 £'000
Audit services		
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	35	31
The audit of the Company's subsidiaries pursuant to legislation	365	252
	400	283

7. Employee benefit expense and numbers

Group

Employee benefit expense for the Group	Note	2020 £m	2019 £m
Wages and salaries		175.9	162.2
Social security costs		16.7	15.4
Other pension costs	32	4.5	3.3
Share-based payments	11	0.9	0.1
		198.0	181.0

The employee benefit expense included within cost of sales is £137.7m (2019: £140.9m). The balance is recorded within administrative expenses.

7. Employee benefit expense and numbers continued

Group continued

The average monthly number of people employed by the Group (including Executive Directors) during the year, analysed by category, was as follows:

	2020 Number	2019 Number
Veterinary surgeons and pathologists	1,781	1,640
Nurses, practice ancillaries and technicians	4,708	4,519
Crematoria staff	79	78
Central support	193	175
	6,761	6,412

The Company has no employees, other than the Non-Executive Directors. The Executive Directors received remuneration in respect of their services to the Company from a subsidiary company.

8. Directors' remuneration and key management compensation

	Highest paid Director		Directors' emoluments	
	2020 £m	2019 £m	2020 £m	2019 £m
Salaries and other short-term employee benefits	0.8	0.4	1.6	1.0
Company contributions to money purchase schemes	—	0.1	0.1	0.1
	0.8	0.5	1.7	1.1

Retirement benefits are accruing to three Directors (2019: two) under a personal pension plan. The remuneration of the Executive Directors amounting to £1.4m (2019: £0.8m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.2m (2019: £0.2m) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

Share options

Under the Company's SAYE schemes the Directors have the following options at the consolidated and Company statement of financial position date:

	SAYE scheme	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
R Fairman	SAYE11	30 November 2018	1 January 2022	830p	737
B Jacklin	SAYE11	30 November 2018	1 January 2022	830p	737
B Jacklin	SAYE12	4 December 2019	1 January 2023	863p	709
R Alfonso	SAYE12	4 December 2019	1 January 2023	863p	709

Shares awarded to Executive Directors under the Long Term Incentive Plans ("LTIPs") as at the consolidated and Company statement of financial position date are as follows:

	LTIP	Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
B Jacklin	LTIP11	17 January 2018	1,031p	30 June 2020	3,600
R Fairman	LTIP12	12 October 2018	807p	30 June 2021	30,969
B Jacklin	LTIP12	12 October 2018	807p	30 June 2021	6,194
R Fairman	LTIP13	19 December 2019	1,080p	30 June 2022	46,296
B Jacklin	LTIP13	19 December 2019	1,080p	30 June 2022	27,778
R Alfonso	LTIP13	19 December 2019	1,080p	30 June 2022	15,278

The exercise price for all shares is 0.2p.

LTIP10 was exercised in the year; see the Remuneration Committee Report on page 73 for further details.

Further details of the above schemes are included in the Remuneration Committee Report on pages 64 to 73.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

8. Directors' remuneration and key management compensation continued

Key management compensation

Key management is considered to be those on the Executive Committee (being the Executive Directors and other senior management) and the Non-Executive Directors. The employment costs of key management are as follows:

	2020 £m	2019 £m
Salaries and other short-term employee benefits	2.9	2.6
Post-employment benefits	0.1	0.2
Share-based payments	0.4	—
	3.4	2.8

9. Income tax expense

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

	Note	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 balance		2.4	0.5
Total deferred tax credit	24	(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
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 these financial statements.

The effective tax rate on reported profits is 42.3% (2019: 29.9%) and has increased mainly due to the remeasurement 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.

10. 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	2019
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
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.

	Note	2020	2019
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	12	22.2	22.2
Costs relating to business combinations	4	0.7	7.2
Exceptional items	6	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

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

11. Share-based payments

Long Term Incentive Plans (“LTIPs”)

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan (“LTIP”).

Under the LTIP scheme awards are made at an effective nil cost, vesting over a three-year performance period conditional upon the Group’s earnings per share growth, as adjusted for amortisation of intangibles, exceptional items and fair value adjustments in respect of derivative instruments and available-for-sale assets over the same period. The LTIP scheme arrangements are equity settled.

Details of the share options outstanding during the year under the LTIP schemes are as follows:

	July 2019 scheme ("LTIP13/13(b)") Number of share awards	July 2018 scheme ("LTIP12") Number of share awards	July 2017 scheme ("LTIP11") Number of share awards	July 2016 scheme ("LTIP10") Number of share awards
Outstanding at 1 July 2019	—	180,799	86,774	85,858
Granted during the year	147,063	—	—	—
Lapsed during the year	—	—	—	(29,508)
Forfeited during the year	(926)	(73,709)	(48,533)	—
Exercised during the year*	—	—	—	(56,350)
Outstanding at 30 June 2020	146,137	107,090	38,241	—
Exercisable at 30 June 2020	—	—	38,241	—

* The weighted average share price at the date of exercise was £9.50.

Options are exercisable at 0.2p per share. The weighted average exercise price is 0.2p at the beginning and end of the period.

The options outstanding at the year end under LTIP13, LTIP13(b), LTIP12 and LTIP11 have a weighted average remaining contractual life of two years, two years, one year and nil years, respectively.

The share-based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £0.6m (2019: £0.2m credit) and has been debited to administrative expenses. National Insurance contributions of £0.1m have been debited to administrative expenses (2019: £0.1m credited) in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Further details of the above schemes are included in the Remuneration Committee Report on pages 64 to 73.

Save As You Earn (“SAYE”)

The Group operates an incentive scheme for all employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. The SAYE9 scheme was opened for subscription in December 2016 (with options granted in January 2017), the SAYE10 scheme was opened for subscription in December 2017 (with options granted in January 2018), the SAYE11 scheme was opened for subscription in December 2018 (with options granted in January 2019) and the SAYE12 scheme was opened for subscription in December 2019 (with options granted in January 2020). Under the SAYE schemes awards have been made at a 10% discount for SAYE9, SAYE10, SAYE11 and SAYE12 of the closing mid-market price on date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE12 Number of share awards	SAYE11 Number of share awards	SAYE10 Number of share awards	SAYE9 Number of share awards
Outstanding at 1 July 2019	—	385,673	179,913	135,921
Granted during the year	280,329	—	—	—
Forfeited during the year	(5,958)	(49,137)	(28,200)	(18,235)
Exercised during the year*	—	—	—	(117,686)
Outstanding at 30 June 2020	274,371	336,536	151,713	—
Exercisable at 30 June 2020	—	—	—	—

* The weighted average share price at the date of exercise was £9.33.

11. Share-based payments continued

Save As You Earn (“SAYE”) continued

Options are exercisable at 863p for the SAYE12 scheme, 830p for the SAYE11 scheme and 1,287p per share for the SAYE10 scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £9.39 and end of the period was £9.33.

The options outstanding at the year end under the SAYE12, SAYE11 and SAYE10 schemes have a weighted average remaining contractual life of two years and five months, one year and five months and nil years and five months, respectively.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.3m (2019: £0.3m) and has been charged to administrative expenses.

Options for all schemes were valued using the Black Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	LTIP13	LTIP13(b)	SAYE12
Grant date	19 December 2019	21 April 2020	4 December 2019
Share price at grant date	£10.80	£9.00	£10.54
Fair value per option	£10.80	£9.00	£4.04
Exercise price	0.2p	0.2p	£8.63
Number of employees	25	1	811
Shares under option at date of grant	143,036	4,027	280,329
Vesting period/option life/expected life	3 years	3 years	3 years
Weighted average remaining contractual life	2 years	2 years	2 years 5 months
Expected volatility*	43.99%	43.99%	43.99%
Expected dividends expressed as a dividend yield	0.33%	0.33%	0.33%

* Expected volatility has been determined by reference to the historical share return volatility of CVS Group plc.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

12. Intangible assets

	Note	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2018		67.8	1.5	225.4	3.2	297.9
Additions arising through business combinations		26.3	—	35.3	—	61.6
Fair value adjustments in respect of prior periods		0.6	—	—	—	0.6
Other additions		—	—	—	1.0	1.0
At 30 June 2019		94.7	1.5	260.7	4.2	361.1
Additions arising through business combinations	15	4.3	—	2.9	—	7.2
Fair value adjustments in respect of prior periods		0.1	—	—	—	0.1
Foreign currency translation		0.7	—	—	—	0.7
Disposals ¹		(0.2)	—	(0.4)	—	(0.6)
Other adjustments		0.6	—	—	—	0.6
Other additions		—	—	—	1.3	1.3
At 30 June 2020		100.2	1.5	263.2	5.5	370.4
Accumulated amortisation						
At 1 July 2018		(0.6)	1.2	91.5	2.3	94.4
Amortisation for the year		—	0.2	21.4	0.6	22.2
At 30 June 2019		(0.6)	1.4	112.9	2.9	116.6
Amortisation for the year		—	0.1	21.4	0.7	22.2
Foreign currency translation		—	—	0.2	—	0.2
Impairment ²		—	—	1.1	—	1.1
Other adjustments		0.6	—	—	—	0.6
Disposals ¹		—	—	(0.1)	—	(0.1)
At 30 June 2020		—	1.5	135.5	3.6	140.6
Net book amount						
At 30 June 2020		100.2	—	127.7	1.9	229.8
At 30 June 2019		95.3	0.1	147.8	1.3	244.5
At 1 July 2018		68.4	0.3	133.9	0.9	203.5

1. The disposals relate to the sale of Ashburn Veterinary Centre.

2. The impairment relates to the write down of patient data records for announced site closures. The impairment charge has been included within exceptional items.

Amortisation expense is charged to administrative expenses.

The patient data records, customer lists and trade names were acquired as a component of business combinations. See note 15 for further details of current year acquisitions.

Intangible assets that are individually material to the financial statements are disclosed as follows:

Intangible category	Description	Carrying amount	Remaining life
Patient data records	Slate Hall Veterinary Group	£7.9m	8 years
Patient data records	YourVets	£5.5m	5 years

12. Intangible assets continued

Material business combinations in the current year have been separately disclosed in note 15.

The components of goodwill are disclosed according to the group of CGUs to which they have been allocated. Due to the integrated nature of the Group, although each practice, laboratory and crematorium is considered to be an individual CGU, the monitoring of goodwill is performed on an aggregated basis for groups of CGUs that are no larger than the operating segments determined in accordance with IFRS 8.

The majority of other assets are tested at the CGU level, to the extent that an impairment review is triggered following identification of an indicator of impairment by management. A small number of assets (typically patient data lists acquired in a business combination with multiple sites or locations) are shared between sub-groups of CGUs and are tested for impairment at that level.

Goodwill per operating segment

	2020 £m	2019 £m
Veterinary Practices	95.5	90.6
Laboratories	2.1	2.1
Crematoria	2.6	2.6
	100.2	95.3

Impairment tests

The pre-tax discount rate applied to the cash flow projections is derived from the Group's pre-tax weighted average cost of capital. The risks relating to each of the CGUs are considered to be the same as a result of the Group's operations being entirely focused in the veterinary market and, as such, the discount rate applied to each CGU is the same. The use of the Group's weighted average cost of capital is consistent with the valuation methodology used when determining the offer price for business combinations and therefore is considered an appropriate discount rate. The Directors consider the growth rate to be broadly consistent between CGUs; a 3.0% growth per annum in EBITDA has been assumed for the purposes of assessing net present value of future cash flows, with pre-IFRS 16 EBITDA used as an approximation to cash flow given the insignificant impact of working capital adjustments. The budget for the next financial year is used as a basis for the cash flow projections. The growth rate used in the impairment tests is based upon a prudent assessment of market-specific growth assumptions. Further details of the impairment tests are disclosed in note 2.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long-term average growth rates for the markets in which the CGU operates (estimated at 3.0%). The pre-tax discount rate used to calculate value in use is 9.9% at 30 June 2020 (2019: 11.3%). These discount rates are derived from the Group's pre-tax weighted average cost of capital.

Based on current year impairment testing at the individual CGU level, £1.1m impairment of patient data records and £0.3m of property, plant and equipment have been recognised by the Group in the year ended 30 June 2020 (2019: £nil) in respect of closed sites. This charge relates entirely to the veterinary practices operating segment.

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such further impairment charges in the year ended 30 June 2020. The 3% growth rate is considered the worst case scenario given growth rates experienced in the veterinary market and therefore further sensitivity analysis is not required.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

13. Property, plant and equipment

Group	Note	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost						
At 1 July 2018		14.4	27.5	40.4	2.2	84.5
Additions arising through business combinations		—	0.1	1.8	0.1	2.0
Fair value adjustments in respect of prior periods		—	—	(0.2)	—	(0.2)
Additions		1.1	1.4	8.8	0.6	11.9
Disposals		(0.1)	(0.2)	(0.7)	(0.2)	(1.2)
At 30 June 2019		15.4	28.8	50.1	2.7	97.0
Additions arising through business combinations	15	—	—	0.2	—	0.2
Additions		1.5	2.7	5.9	1.0	11.1
Revaluation		(0.1)	—	—	—	(0.1)
Disposals		—	(0.1)	(0.3)	(0.1)	(0.5)
At 30 June 2020		16.8	31.4	55.9	3.6	107.7
Accumulated depreciation						
At 1 July 2018		1.2	10.3	23.9	1.2	36.6
Fair value adjustments in respect of prior periods		—	0.1	0.2	—	0.3
Charge for the year		0.3	2.9	5.6	0.4	9.2
Disposals		—	—	(0.3)	(0.2)	(0.5)
At 30 June 2019		1.5	13.3	29.4	1.4	45.6
Charge for the year		0.3	3.4	6.4	0.6	10.7
Impairment		—	—	0.3	—	0.3
Disposals		—	(0.1)	(0.3)	(0.1)	(0.5)
At 30 June 2020		1.8	16.6	35.8	1.9	56.1
Net book amount						
At 30 June 2020		15.0	14.8	20.1	1.7	51.6
At 30 June 2019		13.9	15.5	20.7	1.3	51.4
At 1 July 2018		13.2	17.2	16.5	1.0	47.9

Freehold land amounting to £1.2m (2019: £0.2m) has not been depreciated.

Included within the above classes of asset is £2.2m (2019: £7.1m) of assets under construction.

14. Leases

Group as a lessee

The majority of the Group's veterinary practices, specialist referral centres and support offices are leased, with remaining lease terms of between 1 and 15 years. The Group also has a number of non-property leases relating to vehicle, equipment and material handling equipment, with remaining lease terms of between 1 and 4 years. Additions to right-of-use assets include new leases and extensions to existing lease agreements are disclosed as remeasurements.

Right-of-use assets

Group	Property £m	Equipment £m	Motor vehicles £m	Total £m
Cost				
At 1 July 2019	105.0	1.1	1.7	107.8
Foreign currency translation	0.1	—	—	0.1
Acquired through business combination	2.2	—	—	2.2
Remeasurement of lease term	1.9	—	—	1.9
Additions	0.4	0.1	0.2	0.7
At 30 June 2020	109.6	1.2	1.9	112.7
Accumulated depreciation				
At 1 July 2019	—	—	—	—
Charge for the year	12.2	0.4	0.9	13.5
Impairment	1.1	—	—	1.1
At 30 June 2020	13.3	0.4	0.9	14.6
Net book value				
At 30 June 2020	96.3	0.8	1.0	98.1
At 1 July 2019	105.0	1.1	1.7	107.8

The impairment loss recognised in the period relates to veterinary practices which have closed. In line with IAS 36, the carrying value of these right-of-use assets was assessed for indicators of impairment and the planned closure was considered to be an indicator of impairment. The right-of-use asset has been written down to its expected recoverable value and costs of £1.1m impairment has been charged in the year within exceptional items.

Lease liabilities

The following table shows the discounted lease liabilities included in the Group statement of financial position and a maturity analysis of the contractual undiscounted lease payments:

Group	2020 £m	2019 £m
Current	8.8	—
Non-current	89.8	—
Total lease liabilities	98.6	—
Maturity analysis – contractual undiscounted cash flows		
Less than one year	12.6	—
Between one and five years	48.9	—
More than five years	59.8	—
Total undiscounted lease payments	121.3	—

15. 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.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

15. Business combinations continued

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:

	Note	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	13	0.2	—	0.2
Patient data records and customer lists	12	—	2.9	2.9
Right-of-use assets	14	2.2	—	2.2
Inventory		0.1	—	0.1
Deferred tax liability	24	—	(0.5)	(0.5)
Trade and other receivables		0.8	—	0.8
Provision for impairment of trade receivables		(0.1)	—	(0.1)
Trade and other payables		(0.5)	—	(0.5)
Right-of-use liabilities		(2.2)	—	(2.2)
Total identifiable assets		0.5	2.4	2.9
Goodwill	12		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 in note 6 of the financial statements.

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

15. Business combinations continued

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.

16. Investments

a) Available-for-sale financial assets

Available-for-sale financial assets, which are denominated in Sterling, consist of an investment in managed investment funds.

The Group holds an investment in managed investment funds which have a quoted market price in an active market and are accordingly measured at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or deemed to be impaired.

b) Shares in subsidiary undertakings

Company	Note	£m
Cost and net book amount		
At 1 July 2018		68.4
Options granted to employees of subsidiary undertakings	11	0.1
At 30 June 2019		68.5
Options granted to employees of subsidiary undertakings	11	0.9
At 30 June 2020		69.4

The principal subsidiary undertakings of CVS Group plc are set out in note 1.

17. Derivative financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and the mitigation of the market risk which would otherwise arise from movements in interest rates.

The ineffective element of cash flow hedges in 2020 was immaterial (2019: £nil).

Cash flow hedges

On 28 February 2020, the Group entered into an interest rate swap arrangement limiting the Group's exposure to interest rate increases. At 30 June 2020 £70.0m of debt was hedged (2019: £35.0m); the remainder of the debt was unhedged at the year end.

The Group is exposed to GBP LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has identified where LIBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates.

For the Group's derivative, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks with the aim of implementing this language into its ISDA agreements.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

17. Derivative financial instruments continued

Cash flow hedges continued

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Cash flow hedge	Receive one-month GBP 2024 LIBOR, pay sterling fixed interest rate swaps		£70.0m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependant on the introduction of fall-back clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

The Group classifies its interest rate swap arrangement as a cash flow hedge and utilises hedge accounting to minimise income statement volatility in relation to movements in the value of the swap arrangement.

The fair values of the Group's interest rate derivatives are established using valuation techniques, primarily discounted cash flows, based on assumptions that are supported by observable market prices or rates.

The fair values of derivative financial instruments have been disclosed in the Group consolidated and Company statement of financial position as follows:

Group	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	—	(0.9)	0.1	—

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2018	0.2
Fair value loss through reserves – hedged	(0.1)
At 30 June 2019	0.1
Fair value loss through reserves – brought forward	(0.1)
Fair value loss through reserves – hedged	(0.9)
At 30 June 2020	(0.9)

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items.

The cost of hedging reserve includes the effects of the changes in fair value of the time value of option when only the intrinsic value of the option is designated as the hedging instrument.

The changes in fair value of the time value of an option in relation to a transaction-related hedged item accumulated in the cost of hedging reserve, are reclassified to profit or loss only when the hedged transaction affects profit or loss, or included as a basis adjustment to the non-financial hedged item. The changes in fair value of the time value of an option in relation to a time-period related hedged item accumulated in the cash flow hedging reserve, are amortised to profit or loss on a rational basis over the term of the hedging relationship.

18. Financial instruments

Group – assets as per consolidated and Company statement of financial position	Note	2020				2019			
		Derivative instruments in designated hedge accounting relationships £m	Loans and receivables £m	Available for sale £m	Total £m	Derivative instruments in designated hedge accounting relationships £m	Loans and receivables £m	Available for sale £m	Total £m
Available-for-sale financial assets		—	—	0.1	0.1	—	—	0.1	0.1
Trade and other receivables (excluding prepayments)	20	—	35.4	—	35.4	—	42.3	—	42.3
Cash and cash equivalents		—	21.5	—	21.5	—	12.5	—	12.5
Derivative financial instruments	17	—	—	—	—	0.1	—	—	0.1
		—	56.9	0.1	57.0	0.1	54.8	0.1	55.0

Company – assets as per consolidated and Company statement of financial position	2020			2019*		
	Loans and receivables £m	Available for sale £m	Total £m	Loans and receivables £m	Available for sale £m	Total £m
Amounts owed by Group undertakings	81.6	—	81.6	85.8	—	85.8

* Further details of prior year restatement are shown in note 35.

Group – liabilities as per consolidated and Company statement of financial position	Note	2020			2019		
		Derivative instruments in designated hedge accounting relationships £m	Other financial liabilities £m	Total £m	Derivative instruments in designated hedge accounting relationships £m	Other financial liabilities £m	Total £m
Borrowings	23	—	(83.6)	(83.6)	—	(114.5)	(114.5)
Trade and other payables (excluding social security and other taxes)	21	—	(59.4)	(59.4)	—	(60.5)	(60.5)
Right-of-use liabilities	14	—	(98.6)	(98.6)	—	—	—
Derivative financial instruments	17	(0.9)	—	(0.9)	—	—	—
		(0.9)	(241.6)	(242.5)	—	(175.0)	(175.0)

19. Inventories

All inventories are goods held for resale. The Directors do not consider the difference between the purchase price of inventories and their replacement cost to be material.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

20. Trade and other receivables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	As restated* Company 2019 £m
Trade receivables:				
Within their due period	17.4	19.3	—	—
Past due (between one and six months old):				
Not impaired	5.6	7.5	—	—
Fully impaired	6.9	5.0	—	—
Total trade receivables	29.9	31.8	—	—
Less: provision for impairment of receivables	(6.9)	(5.0)	—	—
Trade receivables – net	23.0	26.8	—	—
Other receivables	6.4	7.0	—	—
Prepayments	8.0	9.3	—	—
Accrued income	6.0	8.5	—	—
	43.4	51.6	—	—

* Further details of prior year restatements are shown in note 35.

Group

The carrying amount of trade and other receivables is deemed to be a reasonable approximation to fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in Sterling.

A provision for impairment is established based on credit risk. The amount of the provision was £6.9m (2019: £5.0m). Movements on the Group's provision for impairment of trade receivables are as follows:

	2020 £m	2019 £m
At the beginning of the year	5.0	5.2
Charged to the income statement within administrative expenses	2.5	0.8
Utilisation of the provision during the year	(0.6)	(1.0)
At the end of the year	6.9	5.0

Other receivables do not contain impaired assets.

At 30 June 2020 there is a contract asset recorded in accrued income relating to the HPC contract of £6.0m (2019: £8.5m) relating to customer loyalty schemes, including Healthy Pet Club ("HPC") scheme. The contract asset arises from customers having received consultations and treatments, which are weighted towards the beginning of the twelve month scheme, in advance of cash payments, as detailed more fully in note 2.

Due to COVID-19 and the emergency treatment restrictions put in place, some routine treatments for our HPC members were delayed. As a result £6.4m (2019: £nil) of income relating to delayed services has been deferred until the treatment can take place. The amount of income accrued as a contract assets is £6.0m and has been included within trade and other receivables and the amount of income deferred as a contract liability is £3.3m and has been included in trade and other payables (see note 21).

Company

Amounts owed by Group undertakings of £81.6m (2019: £85.8m) are included in non-current assets. These are unsecured and interest free and have no fixed date of repayment. In the prior year, these were restated as non-current assets which is explained further in note 35.

21. Trade and other payables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Current				
Trade payables	39.4	42.2	—	—
Social security and other taxes	28.3	13.2	—	—
Other payables	5.1	2.5	—	—
Deferred income	3.3	—	—	—
Accruals	11.6	15.8	—	—
	87.7	73.7	—	—

22. Provisions

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
At the beginning of the year	—	—	—	—
Charged to the income statement within exceptional items	5.0	—	—	—
At the end of the year	5.0	—	—	—

Provisions relate to announced site closures during the year of £1.6m and costs set aside for properties of £3.4m and therefore satisfy the criteria under IAS 37. The announced site closures includes amounts charge to the income statement comprising of £1.5m for dilapidation costs and £0.1m for redundancies.

23. 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 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 considerable headroom in both financial covenants and in its undrawn but committed facilities as at 30 June 2020.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

23. Borrowings continued

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).

24. Deferred income tax

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. Deferred tax balances are calculated using tax rates expected to apply in the period when the liability or asset is expected to be realised based on rates enacted or substantively enacted by the reporting date.

Deferred income tax assets comprised:

Group	2020 £m	2019 £m
Tax effect of temporary differences:		
Share-based payments	0.2	0.2
Accelerated tax depreciation	0.6	—
Derivative financial instruments	0.2	—
Other	0.1	—
	1.1	0.2

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse.

Deferred income tax liabilities comprise the excess of carrying value over the tax base.

Group	2020 £m	2019 £m
Tax effect of temporary differences:		
Excess of qualifying amortisation and intangible fixed assets acquired via a business combination	21.5	21.8
Accelerated tax depreciation	—	(0.6)
	21.5	21.2

The movement in the net deferred tax assets and liabilities are explained as follows:

Group	At 1 July 2019 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to other comprehensive income £m	Credited to statement of changes in equity £m	At 30 June 2020 £m
Share-based payments	0.2	(0.1)	—	—	0.1	0.2
Derivative financial instruments	—	—	—	0.2	—	0.2
Other temporary differences	—	0.1	—	—	—	0.1
Property, plant and equipment	0.6	—	—	—	—	0.6
Intangible assets and fixed assets acquired on a business combination	(21.8)	0.8	(0.5)	—	—	(21.5)
	(21.0)	0.8	(0.5)	0.2	0.1	(20.4)

24. Deferred income tax continued

Group	At 1 July 2018 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to other comprehensive income or statement of changes in equity £m	At 30 June 2019 £m
Share-based payments	0.5	(0.2)	—	(0.1)	0.2
Unutilised tax losses carried forward	0.1	(0.1)	—	—	—
Property, plant and equipment	(0.3)	0.9	—	—	0.6
Intangible assets and fixed assets acquired on a business combination	(19.5)	4.0	(6.3)	—	(21.8)
	(19.2)	4.6	(6.3)	(0.1)	(21.0)

The deferred tax balance is non-current.

The Group has carried forward unutilised tax losses of £1.1m (2019: £1.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as it is not probable that sufficient future taxable profits will arise against which the asset will reverse.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group and there is no intention for these entities to pay dividends, no tax is expected to be payable on them in the foreseeable future.

25. Share capital

	2020 £m	2019 £m
Issued and fully paid		
70,654,959 (2019: 70,635,940) Ordinary shares of 0.2p each	0.1	0.1

During the year, 19,019 shares were issued for consideration of £101,942 in respect of SAYE9.

Details of shares under option are provided in note 11 to the financial statements.

The authorised share capital of the Company is 352,000,000 Ordinary shares of 0.2p each.

Dividends

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).

EBT own shares

The Group operates an EBT which holds 24,279 shares (2019: 195,000 shares). These were bought at open market value for £2.1m in 2017.

26. Revaluation reserve

The revaluation reserve is used to record any surplus following a revaluation of property, plant and equipment. The revaluation reserve arose on the revaluation of a property in the subsidiary undertaking Precision Histology International Limited. The revaluation reserve is not a distributable reserve until realised.

27. Share premium

In the 2017 financial year the Group established an Employee Benefit Trust ("EBT") for the purposes of satisfying the exercise of certain share options vesting under the Group's LTIP and SAYE schemes. The Group has accounted for the purchase of the shares held by the EBT as treasury shares and has deducted these from reserves. These treasury shares have been reallocated to a separate reserve in the current year.

During the year, the Group sold 56,350 shares to satisfy shares vesting under LTIP10. The Group sold 114,371 shares to satisfy shares vesting under SAYE schemes for proceeds of £903,531.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

28. Analysis of movement in liabilities from financing activities

Group	At 1 July 2019 £m	Cash flow £m	Liabilities on adoption and new leases £m	Non-cash movement £m	At 30 June 2020 £m
Right-of-use lease liabilities	—	18.3	(112.8)	(4.1)	(98.6)
Borrowings	(0.3)	0.2	—	—	(0.1)
Bank Loans	(114.2)	31.7	—	(1.0)	(83.5)
Total liabilities from financing activities	(114.5)	50.2	(112.8)	(5.1)	(182.2)

Non-cash movements comprise amortisation of issue costs on bank loans, liabilities recognised on adoption of IFRS 16 and on new leases in the year, bank debt acquired and transfers between categories of borrowings. Cash and cash equivalents comprise cash at bank and in hand.

29. Cash flow generated from operations

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Profit/(loss) for the year	5.7	8.2	(0.4)	(0.4)
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)	4.3	3.3
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	3.9	2.9

30. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2020 (2019: £nil).

Bank guarantees

The Company is a member of the Group banking arrangement, under which it is party to unlimited cross guarantees in respect of the banking facilities of other Group undertakings, amounting to £175.0m at 30 June 2020. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

Contingent liabilities

A letter of support has been provided to certain subsidiaries indicating the intention of the Company to support them, if required, for a period of a minimum of twelve months from the date of signing their financial statements.

31. Operating lease commitments

The Group as a lessee

Disclosure required by IAS 17

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

2019	Property £m	Plant and machinery £m	Total £m
Not later than one year	12.3	1.3	13.6
Later than one year and not later than five years	27.8	2.1	29.9
Later than five years	14.3	0.1	14.4
Total	54.4	3.5	57.9

Operating lease commitments primarily represent rentals payable by the Group in respect of its veterinary practices and office premises.

32. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £4.5m (2019: £3.3m). The amount outstanding at the end of the year included in trade and other payables was £0.8m (2019: £0.8m).

33. Related party transactions

Directors' and key management's compensation is disclosed in note 8.

Company

During the year the Company had the following transactions with CVS (UK) Limited:

	2020 £m	2019 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	(0.4)	(0.4)
Cash advanced to fund payment of dividend	(3.9)	(3.5)

The following balances were owed by related companies:

	2020		2019	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	81.6	—	85.8	—

Amounts owed by CVS (UK) Limited are unsecured and interest free and have no fixed date of repayment.

Transactions with Directors and key management

Annual market-based rent payable to the spouse of S Innes for the rental of premises amounts to £nil (2019: £0.1m), of which £nil (2019: £0.1m) was paid in the year.

During the year the following dividends were paid to the Directors: R Connell – £3,954, D Kemp – £361, M McCollum – £2,127, R Fairman – £80 and B Jacklin – £40. Dividends were also paid to the spouse of R Fairman of £550.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

34. Transition to IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities.

The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

The impact on the consolidated statement of financial position as at 30 June 2019 is as follows:

	As previously reported at 30 June 2019 (excluding IFRS 16 adjustment) £m	IFRS 16 adjustment £m	As restated 1 July 2019 £m
Non-current assets			
Intangible assets	244.5	—	244.5
Property, plant and equipment	51.4	—	51.4
Right-of-use assets	—	107.8	107.8
Investments	0.1	—	0.1
Deferred income tax assets	0.2	—	0.2
Derivative financial instruments	0.1	—	0.1
	296.3	107.8	404.1
Current assets			
Inventories	17.0	—	17.0
Trade and other receivables	51.6	(2.0)	49.6
Cash and cash equivalents	12.5	—	12.5
	81.1	(2.0)	79.1
Total assets	377.4	105.8	483.2
Current liabilities			
Trade and other payables	(73.7)	—	(73.7)
Lease liabilities	—	(9.3)	(9.3)
Current income tax liabilities	(4.9)	—	(4.9)
Borrowings	(0.3)	—	(0.3)
	(78.9)	(9.3)	(88.2)
Non-current liabilities			
Borrowings	(114.2)	—	(114.2)
Lease liabilities	—	(96.5)	(96.5)
Deferred income tax liabilities	(21.2)	—	(21.2)
	(135.4)	(96.5)	(231.9)
Total liabilities	(214.3)	(105.8)	(320.1)
Net assets	163.1	—	163.1
Shareholders' equity			
Share capital	0.1	—	0.1
Share premium	99.7	—	99.7
Capital redemption reserve	0.6	—	0.6
Revaluation reserve	0.1	—	0.1
Merger reserve	(61.4)	—	(61.4)
Retained earnings	124.0	—	124.0
Total equity	163.1	—	163.1

34. Transition to IFRS 16 continued

In terms of the impact on the consolidated income statement, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared with IAS 17. During the financial year ended 30 June 2020, in relation to leases under IFRS 16, the Group recognised the following amounts in the consolidated income statement:

	Year ended 30 June 2020 (excluding IFRS 16 adjustment) £m	IFRS 16 adjustment £m	Year ended 30 June 2020 (including IFRS 16 adjustment) £m
Revenue	427.8	—	427.8
Cost of sales	(257.7)	—	(257.7)
Gross profit	170.1	—	170.1
Administrative expenses	(153.9)	2.3	(151.6)
Operating profit	16.2	2.3	18.5
Finance expense	(4.5)	(4.1)	(8.6)
Profit before income tax	11.7	(1.8)	9.9
Income tax expense	(4.6)	0.4	(4.2)
Profit for the year attributable to owners of the parent	7.1	(1.4)	5.7
Non-GAAP measure: adjusted EBITDA	55.3	15.7	71.0
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	10.0	(1.9)	8.1
Diluted	10.0	(1.9)	8.1
Non-GAAP measure: adjusted Earnings per Ordinary share			
Basic	44.1	(2.1)	42.0
Diluted	44.0	(2.1)	41.9

Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements:

	£m
Operating lease commitments disclosed under IAS 17 at 30 June 2019	57.9
Remeasurement of lease term	71.0
Effect of discounting	(23.1)
Lease liabilities recognised at 1 July 2019	105.8
Disclosed as:	
Current liabilities	9.3
Non-current liabilities	96.5
	105.8

Notes to the consolidated financial statements continued

for the year ended 30 June 2020

35. Prior year restatement

Following a review by the Financial Reporting Council, it was identified that amounts owed by Group undertakings of £85.8m (2018: £89.1m) had previously been presented within current assets, but should have been presented within non-current assets. Although the amounts were repayable on demand, there was no expectation that they would be repaid within twelve months and, therefore, they did not meet the criteria to be reclassified as current assets. The prior period Company financial statements have been restated to show these balances within non-current assets.

The Financial Reporting Council's review does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into and therefore provides no assurance that the Annual Report is correct in all material respects.

Five-year history – unaudited

for the year ended 30 June 2020

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	427.8	406.5	327.3	271.8	218.1
Gross profit	170.1	168.9	151.6	124.5	105.9
Operating profit	18.5	15.6	17.7	17.2	11.8
Finance expense	(8.6)	(3.9)	(3.6)	(2.7)	(2.7)
Profit before tax	9.9	11.7	14.1	14.5	9.1
Income tax expense	(4.2)	(3.5)	(3.4)	(3.0)	(2.1)
Profit for the year	5.7	8.2	10.7	11.5	7.0
EBITDA					
Adjusted EBITDA	71.0	54.5	47.6	42.1	32.8
Adjusted profit before income tax	38.2	41.4	36.0	33.5	24.9
Cash generated from operations	94.8	52.1	46.7	37.2	33.6
Capital expenditure	(12.4)	(12.9)	(10.7)	(13.8)	(11.5)
Repayment of obligations under right-of-use assets	(14.2)	—	—	—	—
Acquisitions	(7.2)	(56.6)	(50.3)	(46.9)	(53.5)
Loans and borrowings acquired through business combinations	—	(1.5)	(3.1)	(1.5)	(7.8)
Taxation paid	(9.5)	(7.3)	(6.2)	(5.4)	(3.3)
Interest paid	(7.0)	(3.4)	(3.1)	(2.1)	(2.4)
Amortisation of debt issue costs	(1.0)	(0.5)	(0.4)	(0.8)	(0.4)
Proceeds from Ordinary shares	0.1	0.6	61.0	30.6	0.2
Proceeds from treasury shares	0.9	—	—	—	—
Purchase of own shares	—	—	—	(2.1)	—
Exceptional items	(0.7)	—	—	—	—
Dividends paid	(3.9)	(3.5)	(2.9)	(2.1)	(1.8)
Reduction/(increase) in net debt	39.9	(33.0)	31.0	(6.9)	(46.9)
Year-end net debt	62.1	102.0	69.0	100.0	93.1
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	8.1	11.6	16.0	18.5	11.6
Adjusted basic earnings per share	42.0	46.7	42.4	42.8	32.4

Contact details and advisors

Registered office

CVS House
1 Owen Road
Diss
Norfolk
IP22 4ER

Nominated advisor and broker

N+1 Singer

One Bartholomew Lane
London
EC2N 2AX

Company Secretary

J Dearlove

Bankers

NatWest Bank Plc

Gentleman's Walk
Norwich
NR2 1NA

HSBC Bank Plc

8 Canada Square
London
E14 5HQ

Bank of Ireland Group plc

40 Mespil Road
Dublin 4
Republic of Ireland

Allied Irish Banks plc

10 Molesworth Street
Dublin 2
Republic of Ireland

Rabobank

Willemskade 1
8011 AC Zwolle
Netherlands

Ulster Bank Limited

33 Eyre Square
Galway
H91 HY96
Republic of Ireland

Independent auditor

Deloitte LLP

1 Station Square
Cambridge
CB1 2GA

Legal advisors

Blake Morgan LLP

New Kings Court, Tollgate
Eastleigh
Hampshire
SO53 3LG

Leathes Prior

74 The Close
Norwich
NR1 4DR

DLA Piper UK LLP

Victoria Square House
Victoria Square
Birmingham
B2 4DL

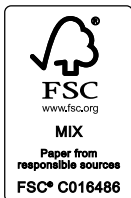
Eversheds Sutherland

115 Colmore Row
Birmingham
B3 3AL



WORLD
LAND
TRUST™

www.carbonbalancedpaper.com
CBP004561



CVS's commitment to environmental issues is reflected in this Annual Report, which has been printed on GalerieArt Silk, an FSC® certified material.

This document was printed by CPI Group using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

Produced by

designportfolio



CVS Group PLC

1 Owen Rd, Diss
IP22 4ER

01379 644288

Company No. 06312831