CVS Group plc

Interim report for the six months ended 31 December 2015

CVS Group plc

Financial highlights

	Six months ended 31 December 2015 (Unaudited)	Six months ended 31 December 2014 (Unaudited)	Change[4] %
Revenue (£m)	**100.7**	81.9	23.0
Adjusted EBITDA (£m) [1]	**14.6**	11.8	23.7
Adjusted profit before income tax (£m) [2]	**11.2**	9.5	17.9
Adjusted earnings per share (pence) [3]	**14.7**	12.9	14.0
Operating profit (£m)	**5.4**	5.8	-6.9
Profit before income tax (£m)	**4.3**	5.2	-17.3
Basic earnings per share (pence)	**5.6**	7.0	-20.0

- Sales growth of 23%
- Like-for-like sales increase of 3.0%
- Adjusted EBITDA up at £14.6m (23.7%)
- Adjusted EPS 14.7p (14.0%)
- Net debt £84.8m (June 2015: £46.2m) reflecting a significant acceleration in acquisition activity
- 42 practice surgeries acquired during the period and 8 after the period end
- Significant development of the referrals business with the acquisition of Highcroft Veterinary Referrals, Dovecote Veterinary Hospital and the opening on Lumbry Park Veterinary Specialists

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

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

[3] Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue in the period.

[4] Percentage increases have been calculated throughout this document based on the underlying values.

CVS Group plc

Chairman's statement

Introduction

I am pleased to announce the results of CVS Group plc for the six month period ended 31 December 2015. Once again the Group has delivered a strong set of results showing further growth in revenue and underlying profit, generated both organically and through acquisitions. The period saw a significant acceleration in acquisition activity with a number of strategically important deals completed.

Results

For the first time, Group revenue has exceeded £100m in the half year, growing by 23.0% to £100.7m (2014: £81.9m). Whilst a substantial proportion of the increase came from acquisitions, like-for-like sales grew by a robust 3.0%. Cash flows from operations also improved further.

Adjusted EBITDA rose by 23.7% to £14.6m (2014: £11.8m).

Operating profit fell to £5.4m (2014: £5.8m) due to a £1.7m increase in the amortisation of intangible assets as a consequence of the high level of acquisitions in the past year. Adjusted profit before tax, which excludes the intangible asset impact, increased by 17.9% to £11.2m (2014: £9.5m). Basic earnings per share fell from 7.0p to 5.6p (again due to the significant increase in the amortisation of intangible assets) but adjusted earnings per share rose from 12.9p to 14.7p.

Cash generated from operations increased to £17.5m (2014: £12.9m) in part due to improved trading but also due to improved working capital. As a result of the large number of acquisitions, including a number of larger deals, net debt increased to £84.8m (June 2015: £46.2m) after funding £43.6m (including debt acquired) of acquisitions in the period.

Acquisitions

The six months to 31 December 2015 was a record for the Group in terms of the number of acquisitions. 42 surgeries were acquired as well as two crematoria, the Vetshare buying group and the VETisco instrumentation business.

Name	No. of sites	Location	Business
Practice Division			
Dovecote Veterinary Hospital	1	Castle Donington	Small animal referral
Rosemullion	3	Falmouth	Small & large animal
Torbridge Veterinary Hospital	3	Bideford	Small animal
Alnorthumbria	9	Northumberland	Small & large animal & equine
Okeford Veterinary Centre	2	Okehampton	Small animal
Highcroft Pet Care	13	Bristol & Bath	Small animal & referral
Albavet - surgeries	11	Fife, Glasgow, Stoke, Nottingham, Wallington	Small animal
Albavet – Vetshare and VETisco			Buying group and instrumentation sales
Practice Division total	**42**		
Crematoria Division			
The Pet Crematorium	2	Glasgow, Durham	Crematoria

A total of £43.6m (including debt acquired) was paid for the acquisitions. Based on the last set of accounts publicly available for each business, the aggregate historical annualised turnover of these businesses was approximately £24.6m generating aggregate EBITDA of approximately £4.8m.

The acquisitions made significant strides forward in our strategy. In referrals, the Dovecote and Highcroft acquisitions were important in further developing our geographic coverage for the business. The Alnorthumbria business includes substantial large animal and equine elements and together with last year's acquisition of Castle will enable further development in our large animal business. The Vetshare buying group has over 400 members across more than 500 locations. Whilst our detailed strategy for the development of this business is still being refined, our aim is to generate additional rebates for the members as well as allow them to buy our MiPet products and other CVS services to improve both their businesses and that of CVS. Finally, The Pet Crematorium sites near Glasgow and Durham are a terrific geographic fit for the Crematoria Division.

Subsequent to 31 December 2015, the Group made two further acquisitions of Dart Vale Veterinary Group, comprising six surgeries in the Dartmouth area, and of Burghfield Veterinary Surgery, comprising two surgeries near Reading.

Divisional performance

Practice Division

At the half year, the Practice Division operated 333 veterinary surgeries (June 2015: 298) across the UK under a number of well-established local brands, primarily focused on the small animal market. We estimate that CVS has a 12% share of the total UK small animal veterinary market.

Practice revenues were £90.4m, a 25.5% increase on the £72.0m achieved in the prior period. Like-for-like sales growth of 3.0% generated about £1.9m of additional revenue; the annualisation impact of prior year acquisitions added £9.9m and current period acquisitions added a further £6.6m. The like-for-like increase was relatively consistent across all parts of the Practice Division.

The gross margin in the practices increased slightly from 83.6% to 83.8%. In the like-for-like practices the gross margin grew strongly due to the introduction of our MiPet, own brand flea and worming treatments in the spring of 2015. The gross margin in current year acquisitions was lower than average, partly due to them including a number of large animal businesses and partly because some had not yet realised the full benefit of CVS' buying power.

Adjusted EBITDA for the Practice Division grew by 21.2% from £13.2m to £16.0m but the adjusted EBITDA margin fell from 18.3% to 17.7%. The margin improvement due to own brand products was fully reflected in the EBITDA percentage for the like for like practices; however, the lower percentage in the acquired businesses together with the set up costs of Lumbry Park brought the divisional percentage total down.

The expansion of our own brand range of medicines and accessories has continued during the period. Further own brand medicines were introduced in February 2016 and two more are planned for the summer of 2016. These are smaller volume products than those already launched, but they will further support our margins. Our range of MiPet waiting room retail products and pet food are being rolled out across the division. Again, these are unlikely to be high volume products but will have some beneficial financial impact as well as building our MiPet brand across our estate.

Our referrals business has seen significant development in the period. The acquisitions of the Dovecote and Highcroft referral businesses and the opening of our major multi-disciplinary referral centre at Lumbry Park all add significantly to our geographic coverage. Lumbry Park opened in

October and is developing steadily. It is staffed by some of the highest qualified specialists and has the most modern equipment to provide an excellent service to customers and to other vets, from both CVS and outside.

The Healthy Pet Club schemes have grown significantly with membership at 31 December 2015 in excess of 238,000 pets, an increase of almost 12% over the six month period. Income from Healthy Pet Club schemes represented 12.6% of the income of the division for the six month period up from 12.5% in the comparable period. In the like for like practices the percentage increased from 12.8% to 15.2%. The schemes offer discounted products and services aiming to improve clinical compliance levels amongst members and to protect practice sales by bonding pet owners to their local CVS surgery.

Laboratory Division
Our laboratories provide diagnostic services and in-practice laboratory analysers to third party owned veterinary surgeries as well as our own practices. Diagnostic services are generally offered via post and courier allowing complete coverage of the UK.

Total revenues grew by 14.3% to £7.2m (2014: £6.3m). Sales of diagnostic services grew by almost 8.0% with the balance of growth being in the new analyser business. The gross margin percentage improved from 74.3% to 80.7% reflecting a reduction of pricing pressures. Adjusted EBITDA rose to £1.6m (2014: £1.0m).

Crematoria Division
Crematoria revenues increased by 66.7% to £2.0m (2014: £1.2m). Like-for-like sales grew by 32.3% reflecting the existing sites taking on work from CVS practices previously performed outside the group as well as third party growth. Overall the Crematoria Division delivered an adjusted EBITDA of £0.6m (2014: £0.3m).

In the last three years we have made great strides through acquisitions towards achieving the necessary geographic coverage that allows us to perform all of CVS' crematoria work efficiently. The acquisition of sites near Glasgow and Durham via The Pet Crematorium acquisition is a significant part of that development.

Animed Direct
Animed Direct, our on-line dispensary, suffered in the period from the after effects of a major internet search engine shutting off, without explanation, our shopping feed for several months and the shift of online sales to mobiles and tablets, for which our website is not optimised. We expect to launch an updated website imminently and hope to recapture some of our lost market share in the remainder of the year.

Revenues fell by 10.3% to £4.8m (2014: £5.3m) but adjusted EBITDA remained at £0.2m.

Central administration
Central administration costs were £3.7m (2014: £2.9m) and as a percentage of revenue increased slightly from 3.5% to 3.8% for the half year.

The scale of acquisitions during the period has required a step change in staff numbers in the central finance, IT, HR and property functions. The Group is conscious of the need to maintain good control of all acquisitions as they are integrated and has taken on the necessary resources to ensure that this is achieved.

Our head office relocated to a larger site in October 2015 and Animed direct will relocate to the same site during 2016.

Cash flow and funding position

Net debt stood at £84.8m at 31 December 2015 (see note 12), an increase of £38.6m from 1 July 2015. In the period £43.6m was spent on acquisitions (including £3.6m of debt acquired and £0.5m on deferred consideration) (2014: £4.3m), £8.0m on capital expenditure (2014: £3.0m) and £1.8m on dividends (2014: £1.5m).

Capital expenditure included £3.3m fitting out Lumbry Park, £2.5m on site refurbishments and relocations and £1.3m on equipment.

In November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115m until November 2021. Further details are set out in note 12 to this interim statement. The new facility covenant levels allow a maximum Group borrowings to EBITDA ratio of 3.5 times until December 2017, before this ceiling reduces. EBITDA is based on the last 12 months' performance adjusted for the full year impact of acquisitions made during that period. Without further acquisitions we expect the gearing ratio to moderate significantly through a combination of organic growth and the realisation of the full benefits of recently acquired acquisitions. However, we aim to continue to expand the business, have a strong acquisition pipeline and sufficient capacity to fund it.

Dividends

A dividend in respect of the year ended 30 June 2015 of 3.0p per share was paid in December 2015. The Board will continue to review its dividend policy and expects that a final dividend will be paid in December 2016, which, in the absence of any unforeseen change in trading conditions, will be at least equal in value to that of 2015.

Our people

Our people are key in enabling the Group to deliver these strong results and I would like to thank all of them for their skill and professionalism in providing the best possible care and service to our customers and their animals.

During the period CVS has further enhanced its internal training and focus on career development at all levels across all divisions. Additional staff have been taken on to develop and to deliver an increased range of courses. We now have a team dedicated to mentoring and developing our graduates. Our Nurse Academy was launched in January 2015 and is now being further developed for 2016.

The Group continues to be the largest employer in the UK veterinary profession with over 4,000 staff at 31 December 2015. Our aim is to ensure that we are the first choice employer in the profession by providing the best career paths, training and development for our people.

Further business development

The Board believes that the UK veterinary sector will continue to provide opportunities for further consolidation and strategic acquisitions across each of the small animal, equine and large animal segments. It is pleasing to note that, even following a period of exceptionally high activity, the Group's pipeline of potential acquisitions remains strong.

The Group will continue to build on the many strengths of its existing business: the development of Lumbry Park as a major multi-disciplinary referral centre will be a significant focus over the coming months; the expansion of our range of own brand products will continue; further development of out of hours centres will take place as the density of our practices grow; and the development of the buying group following the Vetshare acquisition is a priority. The Group will also seek to improve its operating efficiency whilst ensuring that resources remain adequate to successfully integrate acquisitions and develop the business.

Outlook

The Board is pleased to report that trading since the half year is in line with expectations. Like-for-like sales growth for January and February 2016 has improved slightly compared to the 2015 calendar year. With our wide range of organic opportunities, healthy cash generation and a strong acquisition pipeline, the Board looks forward with confidence to the remainder of the year and beyond.

Richard Connell
Chairman
21 March 2016

Consolidated income statement for the six month period ended 31 December 2015 (unaudited)

	Note	**31 December 2015 (Unaudited) £m**	31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Revenue	4	**100.7**	81.9	167.3
Cost of sales		**(55.4)**	(43.6)	(88.2)
Gross profit		**45.3**	38.3	79.1
Administrative expenses		**(39.9)**	(32.5)	(69.3)
Operating profit		**5.4**	5.8	9.8
Other finance expense	5	**(1.1)**	(0.6)	(1.3)
Profit before income tax		**4.3**	5.2	8.5
Income tax expense	8	**(0.9)**	(1.1)	(1.7)
Profit for the period attributable to owners of the Parent Company		**3.4**	4.1	6.8
Basic	6	**5.6p**	7.0p	11.6p
Diluted	6	**5.4p**	6.8p	11.3p

The 31 December 2014 comparatives for cost of sales and administration expenses have been restated to reclassify salary costs relating to non-clinical staff and other employment costs to administrative expenses.

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.

Non-GAAP measure: Adjusted EBITDA	Note	**£m**	£m	£m
Profit before income tax		**4.3**	5.2	8.5
Adjustments for:				
Net finance expense	5	**1.1**	0.6	1.3
Depreciation	9	**2.3**	1.7	3.5
Amortisation	9	**5.7**	4.0	8.5
Costs relating to business combinations		**1.2**	0.3	1.2
Adjusted EBITDA		**14.6**	11.8	23.0

Statement of consolidated comprehensive income for the six month period ended 31 December 2015 (unaudited)

	£m	£m	£m
Profit for the period	**3.4**	4.1	6.8
Other comprehensive income			
Cash flow hedges: Fair value losses	-	(0.2)	(0.1)
Other comprehensive income for the period, net of tax	-	(0.2)	(0.1)
Total comprehensive income for the period attributable to owners of the Parent Company	**3.4**	3.9	6.7

Consolidated balance sheet as at 31 December 2015 (unaudited)

	Note	**31 December 2015 (Unaudited) £m**	31 December 2014 (Unaudited) £m	30 June 2015 (Audited) £m
Non-current assets				
Intangible assets	9	**118.1**	58.9	79.2
Property, plant and equipment	9	**33.0**	16.1	20.0
Investments		**0.1**	0.1	0.1
Deferred income tax assets		**1.8**	1.1	1.8
		153.0	76.2	101.1
Current assets				
Inventories		**7.8**	4.4	5.8
Trade and other receivables		**22.7**	15.4	17.1
Cash and cash equivalents		**9.6**	3.0	3.0
		40.1	22.8	25.9
Total assets	4	**193.1**	99.0	127.0
Current liabilities				
Trade and other payables		**(41.8)**	(27.6)	(30.4)
Current income tax liabilities		**(2.3)**	(1.6)	(1.7)
Borrowings		**(25.4)**	(3.9)	(14.1)
		(69.5)	(33.1)	(46.2)
Non-current liabilities				
Borrowings		**(69.0)**	(27.8)	(35.1)
Deferred income tax liabilities		**(12.9)**	(3.4)	(6.5)
Derivative financial instruments		**(0.1)**	(0.2)	(0.1)
		(82.0)	(31.4)	(41.7)
Total liabilities	4	**(151.5)**	(64.5)	(87.9)
Net assets		**41.6**	34.5	39.1
Shareholders' equity				
Share capital		**0.1**	0.1	0.1
Share premium		**9.5**	9.2	9.5
Capital redemption reserve		**0.6**	0.6	0.6
Revaluation reserve		**0.1**	0.1	0.1
Merger reserve		**(61.4)**	(61.4)	(61.4)
Retained earnings		**92.7**	85.9	90.2
Total equity		**41.6**	34.5	39.1

The interim financial information on pages 6 to 17 was approved by the Board of Directors on 21 March 2016.

Consolidated statement of changes in equity for the six month period ended 31 December 2015 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 July 2015	**0.1**	**9.5**	**0.6**	**0.1**	**(61.4)**	**90.2**	**39.1**
Profit for the period	-	-	-	-	-	**3.4**	**3.4**
Other comprehensive income:							
Cash flow hedges: Fair value losses	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	**3.4**	**3.4**
Transactions with owners:							
Credit to reserves for share-based payments	-	-	-	-	-	**0.6**	**0.6**
Deferred tax relating to share-based payments	-	-	-	-	-	**0.3**	**0.3**
Dividends to equity holders of the Company	-	-	-	-	-	**(1.8)**	**(1.8)**
Transactions with owners	-	-	-	-	-	**(0.9)**	**(0.9)**
At 31 December 2015	**0.1**	**9.5**	**0.6**	**0.1**	**(61.4)**	**92.7**	**41.6**

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 July 2014	0.1	9.2	0.6	0.1	(61.4)	82.6	31.2
Profit for the period	-	-	-	-	-	4.1	4.1
Other comprehensive income:							
Cash flow hedges: Fair value gains	-	-	-	-	-	(0.2)	(0.2)
Total other comprehensive income	-	-	-	-	-	(0.2)	(0.2)
Total comprehensive income	-	-	-	-	-	3.9	3.9
Transactions with owners:							
Credit to reserves for share-based payments	-	-	-	-	-	0.6	0.6
Deferred tax relating to share-based payments	-	-	-	-	-	0.3	0.3
Dividends to equity holders of the Company	-	-	-	-	-	(1.5)	(1.5)
Transactions with owners	-	-	-	-	-	(0.6)	(0.6)
At 31 December 2014	0.1	9.2	0.6	0.1	(61.4)	85.9	34.5

Consolidated statement of cash flows for the six month period ended 31 December 2015 (unaudited)

	Note	**31 December 2015 (Unaudited) £m**	31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	11	**17.5**	12.9	22.2
Taxation paid		**(1.6)**	(1.0)	(2.3)
Interest paid		**(1.0)**	(0.5)	(1.3)
Net cash generated from operating activities		**14.9**	11.4	18.6
Cash flows from investing activities				
Acquisitions (net of cash)	10	**(40.0)**	(4.3)	(21.1)
Purchase of property, plant and equipment		**(8.0)**	(3.0)	(6.1)
Purchase of intangible assets		**-**	-	(0.4)
Net cash used in investing activities		**(48.0)**	(7.3)	(27.6)
Cash flows from financing activities				
Dividends paid	13	**(1.8)**	(1.5)	(1.5)
Proceeds from issue of shares		**-**	-	0.3
Debt issuance costs	12	**(1.3)**	-	(0.5)
Increase / (repayment) of bank loan	12	**42.8**	(1.8)	11.5
Net cash from financing activities		**39.7**	(3.3)	9.8
Net increase in cash and cash equivalents		**6.6**	0.8	0.8
Cash and cash equivalents at start of period		**3.0**	2.2	2.2
Cash and cash equivalents at end of period		**9.6**	3.0	3.0

Notes to the interim consolidated financial information

1. General information

The principal activities of the Group are to operate companion and large animal and equine veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary business.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales and its shares are quoted on the Alternative Investment Market ('AIM') of the London Stock Exchange.

The address of the registered office is CVS House, Owen Road, Diss, Norfolk, IP22 4ER and the registered number of the Company is 06312831.

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of CVS Group plc in respect of the year ended 30 June 2015 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Forward looking statements

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2015. It is unaudited and has been prepared in accordance with the AIM Rules for Companies and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2015, which have been prepared in accordance with IFRSs adopted by the European Union.

The interim consolidated financial information has been prepared on a going-concern basis.

Use of non-GAAP measures

Adjusted EBITDA, adjusted EPS and like-for-like sales

The Directors believe that adjusted EBITDA and adjusted EPS provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

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

Adjusted EPS 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 comprise the revenue generated from all operations compared to the prior year. New surgeries are included from the anniversary of their acquisition or opening and discontinued activities are included up to the date of their sale or closure.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those set out on pages 40 to 45 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2015 (which are available upon request from the Company's registered office or on the Company's website).

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. 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 central administration salary and premises.

Geographical segments

The business operates predominantly in the UK. It performs a small amount of laboratory work and sells a small quantity of goods on-line for European based clients. 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.

Operating segments

The Group is split into five operating segments for business segment analysis; veterinary practices, laboratories, crematorium, Animed Direct and a centralised administration function.

Six month period ended 31 December 2015	**Veterinary practices £m**	**Laboratories £m**	**Crematoria £m**	**Animed Direct £m**	**Central administration £m**	**Group £m**
Revenue	**90.4**	**7.2**	**2.0**	**4.8**	**(3.7)**	**100.7**
Profit/(loss) before income tax	**8.4**	**1.2**	**0.4**	**0.2**	**(5.9)**	**4.3**
Adjusted EBITDA	**16.0**	**1.6**	**0.6**	**0.2**	**(3.8)**	**14.6**
Total assets	**172.8**	**9.0**	**5.8**	**4.0**	**1.5**	**193.1**
Total liabilities	**(50.1)**	**(1.9)**	**(1.3)**	**(3.2)**	**(95.0)**	**(151.5)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**8.4**	**1.2**	**0.4**	**0.2**	**(5.9)**	**4.3**
Net finance expense	**-**	**-**	**-**	**-**	**1.1**	**1.1**
Depreciation	**1.8**	**0.3**	**0.1**	**-**	**0.1**	**2.3**
Amortisation	**5.5**	**0.1**	**0.1**	**-**	**-**	**5.7**
Costs relating to business combinations	**0.3**	**-**	**-**	**-**	**0.9**	**1.2**
Adjusted EBITDA	**16.0**	**1.6**	**0.6**	**0.2**	**(3.8)**	**14.6**

4. Segmental reporting (continued)

Six month period ended 31 December 2014	Veterinary practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Central administration £m	Group £m
Revenue	72.0	6.3	1.2	5.3	(2.9)	81.9
Profit/(loss) before income tax	8.0	0.6	0.1	0.2	(3.7)	5.2
Adjusted EBITDA	13.2	1.0	0.3	0.2	(2.9)	11.8
Total assets	84.5	6.7	2.5	3.8	1.5	99.0
Total liabilities	(27.1)	(1.4)	(0.5)	(3.5)	(32.0)	(64.5)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	8.0	0.6	0.1	0.2	(3.7)	5.2
Net finance expense	-	-	-	-	0.6	0.6
Depreciation	1.3	0.2	0.1	-	0.1	1.7
Amortisation	3.7	0.2	0.1	-	-	4.0
Costs relating to business combinations	0.2	-	-	-	0.1	0.3
Adjusted EBITDA	13.2	1.0	0.3	0.2	(2.9)	11.8

Year ended 30 June 2015	Veterinary practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Central administration £m	Group £m
Revenue	147.5	13.1	2.6	10.3	(6.2)	167.3
Profit/(loss) before income tax	13.7	1.7	0.7	0.5	(8.1)	8.5
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0
Total assets	110.1	7.9	3.6	3.5	1.9	127.0
Total liabilities	(33.1)	(1.9)	(0.8)	(3.0)	(49.1)	(87.9)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	14.0	1.6	0.6	0.5	(8.2)	8.5
Net finance expense	-	-	-	-	1.3	1.3
Depreciation	2.6	0.5	0.1	-	0.3	3.5
Amortisation	8.3	0.1	0.1	-	-	8.5
Costs relating to business combinations	0.4	-	-	-	0.8	1.2
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0

5. Finance expense

	31 December 2015 (Unaudited) £m	31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Interest expense, bank loans and overdraft	**1.0**	0.5	1.1
Amortisation of debt arrangement fees	**0.1**	0.1	0.2
Net finance expense	**1.1**	0.6	1.3

6. 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 period.

	31 December 2015 (Unaudited)	31 December 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**3.4**	4.1	6.8
Weighted average number of Ordinary shares in issue	**59,496,779**	58,467,292	58,814,787
Basic earnings per share (pence per share)	**5.6**	7.0	11.6

(b) Diluted

Diluted earnings per Ordinary 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 issueable shares under the Group's long term incentive plan schemes and Save As You Earn 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.

	31 December 2015 (Unaudited)	31 December 2014 (Unaudited)	Year ended 30 June 2015 (Audited)
Earnings attributable to Ordinary shareholders (£m)	**3.4**	4.1	6.8
Weighted average number of Ordinary shares in issue	**59,496,779**	58,467,292	58,814,787
Adjustment for contingently issuable shares	**1,764,887**	1,416,367	1,702,948
Weighted average number of Ordinary shares for diluted	**61,261,666**	59,883,659	60,517,735
Diluted earnings per share (pence per share)	**5.4**	6.8	11.3

6. Earnings per Ordinary share (continued)

(c) Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per Ordinary share is calculated by dividing the profit for the period attributable to equity shareholders excluding amortisation, fair value adjustments in respect of financial assets and liabilities, costs relating to business combinations and exceptional costs (all net of tax), by the weighted average number of shares in issue during the period.

	31 December 2015 (Unaudited) £m	31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Earnings attributable to Ordinary shareholders	**3.4**	4.1	6.8
Add back taxation	**0.9**	1.1	1.7
Profit before taxation	**4.3**	5.2	8.5
Adjustments for:			
Amortisation	**5.7**	4.0	8.5
Costs relating to business combinations	**1.2**	0.3	1.2
Adjusted profit before income tax	**11.2**	9.5	18.2
Tax on adjusted profit	**(2.5)**	(2.0)	(3.7)
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**8.7**	7.5	14.5
Weighted average number of Ordinary shares in issue	**59,496,779**	58,467,292	58,814,787
Weighted average number of Ordinary shares for diluted earnings per share	**61,261,666**	59,883,659	60,517,735
Adjusted earnings per share	**14.7p**	12.9p	24.7p
Diluted adjusted earnings per share	**14.3p**	12.6p	24.0p

7. Share-based payments

Long Term Incentive Plans

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 nominal cost (0.2p), vesting over a three year performance period conditional upon the Group's adjusted earnings growth. On vesting, the LTIP scheme awards are settled in equity.

On 17 December 2015, LTIP9 was issued with an option life of 3 years over 160,750 shares, of which 160,750 were outstanding at the period end. The share price at the grant date was £6.99 with an exercise price of 0.2p.

During the six months to 31 December 2015, directors and employees exercised 634,900 (2014: 651,721) share options with a nominal value of £1,270 (2014: £1,303), in respect of the LTIP6 scheme.

The share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.5m (2014: £0.4m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.3m (2014: £0.2m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Save As You Earn (SAYE)

The Group operates the CVS Group Save As You Earn ("SAYE") plan, as an incentive scheme for all staff. The scheme is approved by HM Revenue and Customs. Under the SAYE schemes awards are made at a 20% discount 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.

SAYE8 scheme was opened for subscription in November 2015. 225,750 options were granted in November 2015, with the first salary deductions taking place in December 2015 and a contract start date of 1 January 2016. The exercise price was £5.34.

Options were valued using the Black–Scholes option pricing model and the share-based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £0.1m (2014: £0.1m) and has been charged to administrative expenses.

8. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual statutory income tax rate expected for the full financial year as a percentage of taxable profit ("the effective tax rate").

9. Non-current assets

	Intangible assets £m	Property, plant and equipment £m
Six months ended 31 December 2015		
Opening net book value at 1 July 2015	**79.2**	**20.0**
Additions arising through business combinations (note 10)	**44.6**	**7.4**
Additions	**-**	**7.9**
Depreciation and amortisation	**(5.7)**	**(2.3)**
Closing net book value at 31 December 2015	**118.1**	**33.0**
Six months ended 31 December 2014		
Opening net book value at 1 July 2014	58.8	14.5
Additions arising through business combinations	4.1	0.3
Additions	-	3.0
Depreciation and amortisation	(4.0)	(1.7)
Closing net book value at 31 December 2014	58.9	16.1

10. Business combinations

Provisional details of business combinations in the six month period ended 31 December 2015 are set out below.

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property plant and equipment	7.4	-	**7.4**
Patient lists / customer lists	5.4	31.9	**37.3**
Goodwill	-	7.3	**7.3**
Deferred tax liability	(0.3)	(7.1)	**(7.4)**
Inventory	1.9	-	**1.9**
Trade and other receivables	5.0	-	**5.0**
Trade and other payables	(8.4)	-	**(8.4)**
Bank loans and other debt	(3.6)	-	**(3.6)**
Net assets acquired	7.4	32.1	**39.5**
Consideration paid - cash			**39.5**
Deferred consideration paid in respect of prior year acquisitions			**0.5**
Total consideration paid in year – cash			**40.0**

Adjustments relate to the patient and customer data records acquired as part of acquisitions, goodwill on acquisitions and the deferred tax gross up of the patient data records acquired.

10. Business combinations (continued)

Business combinations subsequent to the period end

Subsequent to the 31 December 2015, the Group acquired the assets and liabilities of Dart Vale Veterinary Group, a six surgery practice based in Devon, and Burghfield Veterinary Surgery, a two surgery practice near Reading. The provisional cash consideration for these acquisitions is approximately £4.0m.

11. Cash generated from operations

	31 December 2015 (Unaudited) £m	31 December 2014 (Unaudited) £m	Year ended 30 June 2015 (Audited) £m
Profit for the period	**3.4**	4.1	6.8
Add back:			
Taxation	**0.9**	1.1	1.7
Total finance costs	**1.1**	0.6	1.3
Amortisation of intangible assets	**5.7**	4.0	8.5
Depreciation of property, plant and equipment	**2.3**	1.7	3.5
Share option expense	**0.6**	0.5	1.2
(Increase)/decrease in working capital:			
Inventories	**(0.2)**	0.3	(0.6)
Trade and other receivables	**0.7**	(1.6)	(1.9)
Trade and other payables	**3.0**	2.2	1.7
Total cash flows from operating activities	**17.5**	12.9	22.2

12. Analysis of movement in net debt

	1 July 2015 £m	Cash flow £m	Non-cash movements £m	**31 December 2015 £m**
Cash and cash equivalents	3.0	6.6	-	**9.6**
Borrowings – current	(14.1)	(11.3)	-	**(25.4)**
Borrowings – non-current	(35.1)	(31.5)	(2.4)	**(69.0)**
Net debt	(46.2)	(36.2)	(2.4)	**(84.8)**

Non-cash movements relate to the amortisation of issue costs on bank loans and the debt acquired on acquisition.

In November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115 million. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB. They replace the existing banking arrangements on more favourable terms, including a lower coupon, and comprise the following elements:

- A fixed term loan of £67.5 million, repayable on 23rd November 2021 via a single bullet repayment; and

- A six year Revolving Credit Facility ("RCF") of £47.5 million that runs to 23rd November 2021.

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

The two main financial covenants associated with these facilities are based on Group Borrowings to EBITDA and Group EBITDA to interest. The Group Borrowings to EBITDA ratio must not exceed 3.5 for the period up to 31st December 2017 from when it must not exceed 3.0. The Group EBITDA to interest ratio must not be less than 4.5. The facilities require cross guarantees from the most significant of the CVS Group's trading subsidiaries but are not secured on the assets of the Group. EBITDA is based on the last 12 months' performance adjusted for the full year impact of acquisitions made during the period.

13. Dividends

The dividends paid in December 2015, representing the final dividend payable for the year ended 30 June 2015, amounted to £1,795,000 (3.0p per share) (2014: £1,473,000; 2.5p per share).

CVS Group plc

Directors and advisers

Directors	R Connell (Chairman) M McCollum (Non-Executive Director) S Innes (Chief Executive Officer) N Perrin (Finance Director)
Company Secretary	R Cleal
Company number	06312831
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Auditors	Grant Thornton UK LLP 80 Compair Crescent Ipswich Suffolk IP2 0EH
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	Royal Bank of Scotland Plc 36 St Andrew Square Edinburgh EH2 2YB
Legal advisors	DLA Piper UK LLP 3 Noble Street London EC2V 7EE
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