

25 July 2024

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

Full year trading update, business developments and Board changes

CVS, the UK listed veterinary group and a leading provider of veterinary services is pleased to issue the following update on trading for the financial year ended 30 June 2024 ("FY24")¹, other business developments and Board changes. The Group expects to announce its FY24 preliminary results on 26 September 2024.

FY24 Highlights²

- Full year revenue growth for its continuing operations of c.10% with like-for-like³ sales increasing by 2.9% (FY23: 7.3%)
- Revenue growth and like-for-like³ sales impacted by: the transitory effect of the cyber incident announced on 8 April 2024 and the resulting decision to accelerate the cloud migration across the majority of the Group's companion animal practices in the UK; and softer demand given wider publicity around the veterinary sector and the continued cost of living pressures
- When adjusted for the estimated impact of the cyber incident and subsequent cloud migration at the Group's practices, underlying like-for-like sales growth would have been c.4.1%
- Adjusted EBITDA⁴ margin for continuing operations is expected to be at the lower end of our stated range of 19% to 23%
- As such the Group expects to report FY24 Adjusted EBITDA⁴ of c.£127m (unaudited)
- Roll out of Australia acquisitions continues with 22 practice acquisitions (comprising 28 practice sites) for aggregate initial consideration of A\$157.6m / £82.4m made in the year, and one further two site practice acquisition post year end
- Leverage⁶ expected to be c.1.5x as at 30 June 2024 (31 December 2023: 1.15x, 30 June 2023: 0.73x) as the Group continues to maintain significant headroom with committed undrawn bank facilities of over £165m. Leverage remains well below the stated target of less than 2.0x
- Membership of the Group's Healthy Pet Club preventative healthcare scheme has increased to 503,000 members, an increase of 14,000 (2.9%) in the year (30 June 2023: 489,000 members)
- After the year end, Paul Higgs (Chief Veterinary Officer) joined the Board as an executive director and Joanne Shaw (non-executive director) succeeded David Wilton as chair of the audit committee.

Updated Capital Allocation Policy

The Group set out a clear capital allocation strategy at its Capital Markets Day in November 2022, and today reaffirms this strategy as follows:

- Maintaining operation cash conversion of c.70%
- Investment in overseas acquisition of >£50m per annum
- Investment in capital expenditure of £30m - £50m per annum
- Maintaining leverage <2.0x

In FY25 the Group expects to continue to focus its capital allocation towards its Australia opportunity, building on its existing platform to drive long-term sustainable growth.

In FY24, CVS continued to invest in practice facilities, clinical equipment and technology with total capital expenditure of c.£42.0m, including bringing forward capital expenditure of c.£4.3m for IT and related infrastructure due to the rollout of the new practice management system (PMS) (FY23: total capital expenditure £45.7m).

This investment was funded from a combination of cash generated from operations and additional drawing under the Group's bank facilities. Net bank borrowings⁵ as at 30 June 2024 were £168.0m (31 December 2023: £129.2m, 30 June 2023: £74.0m).

Acquisitions:

Australia

The Group has significantly increased its presence in Australia, successfully completing a further ten acquisitions of small animal first opinion practices bringing the total to 23 acquisitions, comprising 30 practice sites. Of these, 22 acquisitions (comprising 28 practice sites) were completed within FY24. The aggregate initial consideration, net of cash acquired, for these 22 acquisitions was A\$157.6m / £82.4m. The Board is pleased with the performance in Australia with the acquisitions collectively performing in line with the Group's business plans.

Practice acquired	% acquired	Date of acquisition
Walkerville Vet	100%	25 March 2024
Selwood House Vets Pty Ltd	80%	09 April 2024
GVHCO Pty Ltd T/A Gordon Veterinary Hospital	100%	11 April 2024

Practice acquired	% acquired	Date of acquisition
Mayfield Veterinary Hospital, Georgetown Veterinary Clinic and Stockton Veterinary Clinic	100%	16 May 2024
Grantham Street Veterinary Clinic and Dalkeith Veterinary Clinic	100%	22 May 2024
North Perth Veterinary Centre	100%	22 May 2024
Northam Veterinary Centre	100%	22 May 2024
The Gap Veterinary Surgery	100%	28 May 2024
Mossman Park Veterinary Hospital	100%	29 May 2024
Pet Universe	100%	2 July 2024

The Group has established a significant platform in Australia and has expanded its local management team to support the continuing acquisition strategy. The Group assumed no synergies in its business cases but is increasingly confident that purchasing synergies can be secured. The Group has a strong pipeline of potential acquisition opportunities and is confident that it will complete a number of further small animal practice acquisitions in FY25.

United Kingdom

The Group completed a total of five acquisitions of small animal practices in the UK in FY24 comprising six practice sites, for aggregate initial consideration net of cash acquired of £12.7m. These acquisitions were made following the submission of briefing papers to the Competition and Markets Authority (CMA) and four were completed in H1, with a further two site practice acquisition of Ark Animal Services Limited on 12 February 2024. The Group has paused acquisition activity in the UK pending the outcome of the CMA market investigation.

Cyber Incident & Investment in IT Infrastructure

As previously announced, on 8 April 2024, CVS detected and intercepted a cyber incident which involved unauthorised external access to a limited number of the Group's IT servers. CVS immediately took a number of actions to limit the impact of this incident and notified all appropriate regulatory authorities alongside impacted colleagues.

Whilst this incident is now fully resolved, CVS expects to incur exceptional costs of approximately £4m to £5m comprising specialist professional fees; cyber security related one-off costs; and non-capital costs in relation to its modernisation programme and migration to its Cloud based PMS Provet Cloud. Over 375 of the Group's UK companion animal first opinion practices were fully migrated to the new PMS by 30 June 2024.

Whilst CVS continued to focus on providing high levels of clinical care to clients and patients, the cyber incident and resulting migration to the new PMS systems impacted trading in the final quarter with an adverse revenue impact of approximately £7.0m.

Strategic disposals: Netherlands and Republic of Ireland

As announced on 21 May 2024, CVS undertook the strategic decision to divest of its loss-making Netherlands and Republic of Ireland operations given their sub-scale nature and the particular challenges within these veterinary markets.

This completed on 29 May 2024 and CVS will make a non-cash write-down in its FY24 accounts in relation to the disposals.

Competition and Markets Authority

The Group continues to support the CMA with their market investigation and has responded to a number of detailed information requests. The Group also held a "teach-in" session with the CMA on 24 June 2024 and has arranged site visits for 31 July 2024. The market investigation is expected to conclude by November 2025 with an interim update expected from the CMA in April or May 2025.

Outlook

CVS has strong long-term prospects and great people. The Group is facing short-term headwinds with the recent cyber incident and modernisation, softening demand and the ongoing process with the CMA. The fundamentals of the sector remain very strong with an increased population of pets, pet life expectancy increasing and continued advancements in the provision of clinical care.

The Board would like to acknowledge and thank all CVS colleagues for their continued dedication and commitment in delivering the best possible care to animals.

Board changes

Following David Wilton's appointment as Non-executive Chair on 1 May 2024, the Board is pleased to announce that Joanne Shaw, who was appointed as a non-executive director on 1 July 2023, will succeed David as Chair of the Group's Audit Committee on 25 July 2024. Joanne, a chartered accountant, has significant healthcare and non-executive audit chair experience from her roles at Cancer Research UK, the Royal College of Paediatrics and Child Health, Vitality UK, NHS England and the National Audit Office. The audit committee now consists of Joanne Shaw (Chair), David Wilton, Deborah Kemp and Richard Gray.

The Board is also delighted to announce the appointment of our Chief Veterinary Officer Paul Higgs to the board on 25 July 2024. Paul is a European Small Animal Internal Medicine Specialist and will provide appropriate clinical advice to the board. He joined CVS in 2018 and was appointed as Chief Veterinary Officer in September 2022 and joined the executive committee at that date. In his role as Chief Veterinary Officer, Paul oversees the Group's clinical governance across the UK and Australia and the training and development of clinical colleagues.

Chair David Wilton commented:

"On behalf of the Board I am delighted to welcome Paul Higgs. Paul's commitment to advancing clinical quality, his passion for the development of the Group's clinicians and his engagement with the veterinary professional bodies will support the Board and the wider Group in delivering its purpose to give the best possible care to animals."

Notes:

- 1 Numbers included are unaudited.
- 2 Numbers are shown for continuing operations only and exclude the Netherlands and Republic of Ireland operations which were sold on 29 May 2024, as announced on 21 May 2024. FY23 comparators where indicated are adjusted to remove these discontinued operations
- 3 Like-for-like sales shows revenue generated from continuing like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2022, revenue is included from September 2023 in the like-for-like calculations.
- 4 Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before tax for continuing operations adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items. Adjusted EBITDA is an alternative performance measure and is defined in note 1 of the 2022 Annual Report.
- 5 Net bank borrowings is drawn bank debt less cash and cash equivalents.
- 6 Leverage on a bank test basis is net bank borrowings divided by 'Adjusted EBITDA', annualised for the effect of acquisitions, deducting acquisition fees and adding back share option costs, on an accounting basis prior to the adoption of IFRS 16.

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Additional Disclosures under the AIM Rules for Companies:

In relation to the appointment of Paul Stephen Higgs, aged 42:

Current directorships/partnerships

CVS (Australia) Holdings Proprietary Limited and the following subsidiary companies:

CVS Vets (Australia) Proprietary Limited

Vetright Pty Ltd

McDowall Veterinary Hospital Pty. Ltd

Cattle Dog Health Pty Ltd

Vet Referral Pty Ltd

GVHCO Pty Ltd

Biome Vet Pty Ltd

Southside Animal Hospital Pty Ltd

Brunker Road Veterinary Centre Pty Limited

Selwood House Vets Pty Ltd

At the date of this announcement Paul holds 6,364 ordinary shares in the Company and has options over a total of 10,944 shares granted under the CVS Group plc Long Term Incentive Plan 2022-2025 and the CVS Group plc Long Term Incentive Plan 2023-2026. Such options have an exercise price of 0.2p and are subject to vesting and performance criteria being satisfied, further details of which are set out in the Company's annual report.

Save for the above, there are no further disclosures to be made in accordance with Rule 17 and Schedule 2 paragraph (g) of the AIM Rules for Companies.

About CVS Group plc (www.cvsukltd.co.uk)

CVS Group is an AIM-listed provider of veterinary services with operations in the UK, and Australia. CVS is focused on providing high-quality clinical services to its clients and their animals, with outstanding and dedicated clinical teams and support colleagues at the core of its strategy.

The Group now operates c.460 veterinary practices across its two territories, including specialist referral hospitals and dedicated out-of-hours sites. Alongside the core Veterinary Practices division, CVS operates Laboratories (providing diagnostic services to CVS and third-parties), Crematoria (providing pet cremation and clinical waste disposal for CVS and third-party practices) and an online retail business ("Animed Direct").

The Group employs c.9,000 personnel, including c.2,400 veterinary surgeons and c.3,300 nurses.

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