Parent of: Veterinary Enterprises & Trading Limited
Partnered with: 03495054
Note can be found on page 149

Driving Clinical Excellence

CVS Group plc
Annual Report and Financial Statements
for the year ended 30 June 2022

Registered No. 06312831

Care at our heart

CVS Group plc is an AIM-quoted veterinary group and one of the UK's leading providers of integrated veterinary services, with practices in the UK, the Netherlands and the Republic of Ireland.

Operational highlights

> Our colleagues have shown commitment and dedication to providing exceptional care to animals, with an increasing demand for our services as the pet population continues to grow

> The introduction of our industry-first CVS Clinical Research Awards encourages research and quality improvement by providing grants for research projects.

> The quality of our facilities and equipment is of key importance to us, and we have increased investment in capital projects by £7.9m to £24.5m in 2022 vs 2021, including completing 23 refurbishments and relocations during the financial year (2021: 13).

> Following the introduction of our ESG strategy, "Care at our Heart", in August 2022, we have published our first standalone Sustainability Report, describing the goals and activities of our ESG working groups and reporting sustainability data under the Sustainability Accounting Standards Board (SASB) standards.

Read this Annual Report and our Sustainability Report at cvsukltd.co.uk

Thank You

We are constantly inspired by the dedication and passion of our colleagues as they give the best possible care to animals. Our vision is to be the veterinary company people most want to work for and we continue to look for new ways to appropriately recognise and reward our colleagues.

3%

As part of our commitment to our vision, every colleague in employment on 1 May 2022 (save for the Executive Directors) received a 3% out-of-cycle pay increase to support with rising costs of living, and we have committed to pay at least 3% above National Minimum Wage/ National Living Wage to all current and future colleagues.

5

Our colleagues can receive up to five additional days' holiday under our new long-service award scheme which grants colleagues an additional day of holiday for each completed year of service, up to five years.

11

The introduction of CVS Clinical Research Awards encourages innovation and supports clinicians to work towards improving veterinary medicine. So far, we have awarded grants to 11 CVS colleagues for their projects.

£0.7m

Our colleagues can receive financial and non-financial awards for successfully referring their friends to work with us, resulting in refer-a-friend awards of £0.7m paid to our colleagues in FY22. We also again offered a "holiday of a lifetime" draw, enabling colleagues to win a holiday worth £10,000 for a successful referral.

Highlights

Financial highlights[1]

- Revenue increased by 8.6% to £554.2m from £510.1m, with strong Group like-for-like sales[2] growth of 8.0% benefitting from favourable market trends and the continued focus on delivering against our strategy.
- The Group delivered adjusted EBITDA[4] growth of 10.2% to £107.4m from £97.5m, through strong revenue performance and operational efficiencies.
- Cash generated from operations increased by 15.9% to £93.1m from £80.3m, primarily as a result of the increase in adjusted EBITDA.
- Profit before tax increased by 8.8% to £36.0m from £33.1m, benefitting from the increase in adjusted EBITDA and a reduction in costs relating to business combinations, partially offset by an impairment of investment.
- Leverage[3] fell to 0.40x from 0.68x as a result of strong EBITDA growth, continued good operating cash generation and reduction in net debt.

Revenue (£m)

£554.2m
+8.6%

2022	**554.2**
2021	510.1
2020	427.8
2019	406.5
2018	327.3

Adjusted EBITDA[4] (£m)

£107.4m
+10.2%

2022	**107.4**
2021	97.5
2020	71.0
2019	54.5
2018	47.6

Adjusted profit before tax[5] (£m)

£75.5m
+14.0%

2022	**75.5**
2021	66.2
2020	38.2
2019	41.4
2018	36.0

Adjusted earnings per share[6] (p)

85.8p
+14.2%

2022	**85.8**
2021	75.1
2020	42.0
2019	46.7
2018	42.4

Proposed dividend per share (p)

7.0p
+7.7%

2022	**7.0**
2021	6.5
2020	n/a
2019	5.5
2018	5.0

Cash generated from operations (£m)

£93.1m
+15.9%

2022	**93.1**
2021	80.3
2020	94.8
2019	52.1
2018	46.7

Profit before tax (£m)

£36.0m
+8.8%

2022	**36.0**
2021	33.1
2020	9.9
2019	11.7
2018	14.1

Basic earnings per share (p)

36.2p
+32.6%

2022	**36.2**
2021	27.3
2020	8.1
2019	11.6
2018	16.0

1 Adjusted financial measures (adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("adjusted EBITDA"), adjusted profit before tax and adjusted earnings per share) are defined below, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 114 and 132. IFRS 16 has been applied prospectively and, therefore, years 2019 and prior are all stated before the impact of IFRS 16

2. Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2020, revenue is included from September 2021 in the like-for-like calculations.

3. Leverage on a bank test basis is drawn bank debt less cash and cash equivalents, divided by adjusted EBITDA annualised for the effect of acquisitions, including costs relating to business combinations and excluding share option costs, prior to the adoption of IFRS 16.

4. Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is profit before tax adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, and exceptional items. Adjusted EBITDA provides information on the Group's underlying performance and this measure is aligned to our strategy and KPIs.

5. Adjusted profit before tax is calculated as profit before amortisation, taxation, costs relating to business combinations, and exceptional items.

6. Adjusted earnings per share is calculated as adjusted profit before tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the year.

A clear strategy for sustainable growth

Our purpose is to give the best possible care to animals

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

Our 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

Discover more about our strategy on pages 26 and 27

Underpinned by our Environmental, Social and Governance (ESG) strategy, "Care at our Heart"

Our ESG strategy articulates why and how we care. Our commitment to sustainability is monitored and assessed through our seven working groups: (1) Energy and Carbon; (2) Waste; (3) One Health; (4) Wellbeing; (5) People Development; (6) Equity, Diversity and Inclusion; and (7) Community.

Area of focus

Our values

Customer focus
Our dedication to our customers is at the heart of our business and we are focused on our customers' and their animals' needs.

Commitment to excellence
We constantly strive to achieve the highest possible standards in the quality of services and products we provide

Success through our people
We aim to attract, develop and retain the best people and to be the veterinary company people most want to work for.

Honesty and integrity
We treat our colleagues and customers with honesty and respect. We strive to achieve long-term relationships with our customers and suppliers, and ensure safety and accessibility in all areas of our business.

Discover more about our culture and values on pages 20 to 21

Read more about our approach to Sustainability on pages 32 to 44

Providing industry-leading Continued Professional Development

We are hugely proud of our Learning, Education and Development (LED) programme at CVS. The Knowledge Hub educational platform offers hundreds of courses and webinars covering a wide range of clinical and non-clinical education and training.

Improving inclusivity
We want to be as inclusive as possible in our training offerings and therefore we use accessibility software to ensure that all of our courses work with screen readers and are optimised for contrast, fonts and layout so all learner needs can be met.

To improve the accessibility of our video content for those who have impaired hearing, or whose devices do not conveniently allow audio content, we have embarked on a project to transcribe and subtitle all video content.

We have also created audio versions of many courses for colleagues who have impaired vision, or who would prefer to listen to content.

The Knowledge Hub: our LED platform

8684
active users

261
courses available

235
webinars available

At a glance

Our purpose is to give the best possible care to animals

Breakdown of revenue

85.5%*
Veterinary Practices
Our first-opinion and referral practices provide specialist treatment for companion, equine and farm animals. We provide high-quality healthcare for sick and injured animals, or through our preventative healthcare schemes: the Healthy Pet Club (HPC) and Healthy Horse Programme (HHP)**. We also operate buying groups and a veterinary consumables business, "Vet Direct", and we supply a number of own-brand medicines and products.

4.7%*
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 team of pathologists and 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 customers' expectations.

1.7%*
Crematoria
Our crematoria provide pet cremation and clinical waste services to CVS practices and third-party practices, and cremations to animal owners. We offer a range of services to help our clients remember and say goodbye to their pets.

8.1%*
Online Retail Business
Our online retail business, "Animed Direct", sells prescription and non-prescription medicines, premium pet foods and an ever-increasing range of pet care products, which can be delivered directly to our customers' doors, saving them time as well as money.

Discover more about our operations on pages 45 to 53

* Revenue share before intercompany sales between Veterinary Practices and other divisions.

** Throughout this report, references to Healthy Pet Club are inclusive of Healthy Pet Club and Healthy Horse Programme.

Our locations

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

Key

Veterinary practices (472)
Laboratories (3
Crematoria (7)

54 2
13
39 2
20 1
4
34
38 93 44 1
1
98 8 1 27
1 1

Discover more about our geographical markets opportunities on pages 14 to 17

Multiple opportunities to build on our strong foundations

CVS is an AIM-quoted veterinary group with a fully-integrated model and strengthened balance sheet which positions it well for both organic and acquisitive growth.

Market

We continue to operate in a growing market with increasing demand for our services.

Discover more about our markets on pages 14 to 17

Sector

A favourable sector with increasing appetite for innovation and quality improvement

Discover more in our Operational review on pages 45 to 53

Strategy

We have a clear, people-focused strategy of organic growth, supported by investment in our facilities and equipment, and augmented by inorganic growth through investment in greenfield sites and acquisitions.

Discover more about our strategy on pages 26 and 27

Management

Strong management team with a broad range of experience and expertise, which has a proven track record of delivering growth

Discover more about our Board of Directors on pages 70 and 71

Business model

Fully-integrated veterinary services model, with first-opinion practices supported by specialist-led multi-disciplinary referral hospitals, laboratories, crematoria and an online retail business.

Discover more about our business model on pages 18 and 19

Growth opportunities

Alongside consistent organic growth through our fully-integrated veterinary model, there are opportunities for further acquisitive growth both in the UK as well as emerging European markets.

Discover more about our growth opportunities on pages 14 to 17

Leveraging favourable market trends to deliver improved financial performance

Richard Connell
Chair

Introduction

We are committed at CVS to providing the best possible care to our clients and their animals. Key to the delivery of this care is our people and I would like to take this opportunity to thank all our colleagues for their continued dedication and professionalism.

We continue to develop CVS through investment in our people, in the technology we use, in our practice facilities and in new clinical equipment. This is important to both the delivery of first-class clinical care and the recruitment and retention of clinical resource. We have increased capital investment in the past financial year and this has delivered favourable returns. Further increases in capital investment are planned in the current year and we are confident that this will position the Group well for continued growth in the years ahead.

Positive financial performance
I am delighted to share another strong set of financial results with growth in both revenue and earnings, with continued strong operating cash conversion and improved balance sheet strength.

The Group generated revenue growth of 8.6% in the financial year, with like-for-like sales increasing by 8.0%, reflecting our continued focus on delivering organic growth. We completed three acquisitions (comprising four practice sites) in the second half of the financial year (2021: nine acquisitions across the year).

In light of the Competition and Markets Authority's (CMA) phase one investigation into our August 2021 acquisition of Quality Pet Care Ltd, and the CMA's view that the merger may be expected to result in a substantial lessening of competition within a market or markets, we decided to sell this business, and the disposal was completed in June 2022. We recognised an investment impairment ahead of sale and further information is available in note 16. Whilst the CMA's conclusion was disappointing, we now have a clear guideline as to how the CMA assesses local competition in veterinary care which will be useful in informing our approach to future acquisitions in the UK. There are considerable parts of the UK where we do not currently own any practices, and hence where there cannot be competition issues; we are confident that we can acquire further practices in areas of the UK where we already operate, provided that our share of vet full-time equivalent resource in the vicinity is less than 30%.

"I am delighted to share another strong set of financial results with growth in revenue and earnings, continued strong operational cash conversion and improved balance sheet strength."

Adjusted EBITDA increased by 10.2% to £107.4m (2021: £97.5m), through strong revenue growth. Profit before tax correspondingly increased by 8.8% to £36.0m (2021: £33.1m) with adjusted EPS increasing by 14.2% to 85.8p (2021: 75.1p) and basic EPS increasing by 32.6% to 36.2p (2021: 27.3p).

The Group remains highly cash-generative, with the increase in adjusted EBITDA flowing through to cash generated from operations, which increased by 15.9% to £93.1m (2021: £80.3m). Net debt correspondingly decreased by £14.9m to £35.3m (2021: £50.2m) with leverage reducing to 0.40x bank-test EBITDA at 30 June 2022 (2021: 0.68x).

Strategic progress

Our purpose at CVS 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 purpose and vision are underpinned by our four strategic pillars: to recommend and provide the best clinical care every time; to be a great place to work and have a career; to provide great facilities and equipment; and to take our responsibilities seriously.

We are committed to the highest standards of clinical care and all of our practices participate in the Royal College of Veterinary Surgeons' voluntary Practice Standards Scheme. We have recently published our annual Quality Improvement report which outlines our approach to further enhancing clinical standards underpinned by evidence-based medicine.

In addition to our ongoing focus on providing learning, education and development support to our colleagues, we continue to enhance our package of reward and benefits. In the past financial year, we increased the holiday entitlement for all colleagues through an additional day's annual leave for each completed year of service, up to a maximum of five days once colleagues have completed five years' service. In May 2022, we implemented an additional salary review, with a salary increase of 3.0% for all colleagues (save for the Executive Directors, whose salary review will take place under the normal cycle) in advance of our full annual salary review in July 2022. We also announced our commitment to pay a minimum of 3.0% above National Minimum Wage/ National Living Wage for all current and future colleagues.

Our continued focus on recruitment, alongside improvements in retention, has resulted in a 6.0% increase in the average number of vets employed during the financial year to 2,079 vets (2021: 1,962 vets). Furthermore, the average number of nurses we employed in the financial year increased to 2,839 nurses (2021: 2,548). We also launched a new Equity, Diversity and Inclusion (EDI) working group to help attract and support colleagues from all backgrounds.

We continue to improve our practice facilities and clinical equipment, with £24.5m invested in capital expenditure during the year (2021: £16.6m). This investment enables us to both enhance the client and colleague experience in our practices and, importantly, to further improve the standards of clinical care which we can provide.

We outlined our overall approach to sustainability and ESG in our 2021 Annual Report and, in August 2022, we published our first Sustainability Report, which sets out the foundations of our approach to ESG. As part of our commitment in this area, we have introduced five new non-financial targets for our Executive Directors as a key element of their annual bonus for the financial year ending 30 June 2023. Our ESG approach has been informed and influenced by globally recognised frameworks and sets of principles, including the Global Reporting Initiative Standards, the United Nations Sustainable Development Goals and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). We have also disclosed data against standards developed by the Sustainability Accounting Standards Board. Furthermore, in this Annual Report we have early-adopted the TCFD recommendations for disclosure of climate-related risks and opportunities.

We remain well-placed to deliver further organic growth through the provision of high-quality joined-up care throughout our patients' lives, from our first-opinion veterinary practices, specialist-led multidisciplinary referral hospitals, diagnostic laboratories, dedicated out-of-hours clinics and online retail business, Animed Direct. Our crematoria provide a compassionate cremation service at the end of an animal's life and clinical waste disposal services. We will augment this growth through further acquisitions and the creation of greenfield practices.

Governance and the Board
We are committed to the highest levels of corporate governance and, as an AIM-quoted group, we voluntarily adopt the UK Corporate Governance Code 2018.

We continue to review the composition of the Board, in order to ensure that we have the right balance of skills and experience. Mike McCollum, former Senior Independent Director and Chair of the Audit Committee, resigned from the Board in September 2021 to pursue a full-time opportunity outside the Group. In light of his resignation, Deborah Kemp was appointed as our Senior Independent Director and the Nomination Committee oversaw the appointment of David Wilton as the new Chair of the Audit Committee with effect from 24 September 2021.

Dividends
In light of the further improvement in financial performance and the Group's strong cash generation, the Board is recommending a continuation of our progressive dividend policy, with the payment of a final dividend of 7.0p per Ordinary share (2021: 6.5p).

Shareholder engagement
The Board continues its active engagement with existing and potential new shareholders, with the Executive Directors attending a number of investor conferences and holding individual investor meetings throughout the year. In April 2022, we conducted a US roadshow in light of the increased number of US-based institutions on our share register.

The Executive Directors have held live webcasts for our preliminary and interim results presentations over the past year, including question and answer sessions with analysts, with a replay facility available on our investor website.

We are holding a capital markets day on 8 November 2022 in which we will outline our capital allocation priorities and the opportunities we have to deliver further sustainable growth in shareholder value.

Outlook
The veterinary sector is seeing favourable market and consumer trends with an increased pet population, enhanced life expectancy and the continued humanisation of pets, with owners willing to spend more on their care. Our approach in providing the best possible care through our fully-integrated veterinary services model positions CVS well to benefit from these favourable trends. Whilst we are mindful of the pressures on household incomes through rising inflation, we are confident in the resilience of our business model with our expectation that clients will continue to seek access to high-quality care for their animals.

I look forward to reporting on further successful growth for CVS in the future.

Richard Connell
Chair
22 September 2022

Did you know?

CVS Group published its first Sustainability Report in 2022
We care about our impact on our stakeholders and the environment. In our first annual Sustainability Report we shared the work of our ESG working groups across the business, as well as sustainability data in line with the Sustainability Accounting Standards Board framework.

In this report, we announced that 20.0% of our Executive bonuses for 2023 will be contingent on the Group achieving five non-financial sustainability targets, namely: waste; attrition; eNPS; client NPS; and Patient Care Index.

The report is available to read on our investor website: www.cvsukltd.co.uk/investor-centre/sustainability

Discover more about our sustainability on pages 32 to 44

Area of focus

Improving client satisfaction

The ability to deliver high-quality clinical care and ensure good outcomes for patients is an essential value driver for us as a veterinary care provider. Defining and measuring quality of care is an emerging area in which CVS aims to lead. Metrics which are commonly used in human healthcare, such as excess readmission ratio and length of stay, are not commonly used in veterinary medicine.

Patient Reported Outcome Measures (PROMs) are validated questionnaires which allow the progress of patients to be monitored and compared to a baseline score. In veterinary medicine, these are completed by the owner and referred to as Client Reported Outcome Measures (CROMs). Similarly, Patient/Client Reported Experience Measures (PREMs/CREMs) can record the experience of the care provided. There is increasing evidence that the experience of clients and their pets is linked to the outcome of treatment. Whilst this is a developing area, in future CVS hopes to be able to report on the quality of care provided.

71.9

Client Net Promoter Score (NPS)

The following are two examples of how we are measuring patient satisfaction.

Automated outcomes

Working with an external provider, CVS has piloted a system to automate collection of CROMs from orthopaedic patients in our referral hospitals. When a new appointment is booked, owners are automatically sent a baseline outcome measure. Clinicians, Clinical Directors and the Quality Improvement team can monitor theses scores via a dedicated portal. Benchmarking across the referral group will allow us to share good practice, maximising outcomes and minimising complications.

Client Reported Experience Measures

All clients are sent a survey automatically following discharge. We collect data about the experience of the care their pets receive, including collecting an NPS score. There is increasing evidence that experience of care is a good proxy for the quality of care received.

Discover more in our Operational review on pages 45 to 53

Small actions add up to a big impact

Richard Fairman
Chief Executive Officer

Introduction

I am delighted to introduce our 2022 Annual Report and Financial Statements and to report on another successful financial year in which we delivered further improvements in performance.

Our purpose at CVS is to provide the best possible care to animals and key to the delivery of this is our fantastic team of colleagues who are passionate and committed to client service and patient care. I would like to thank all CVS colleagues for their contribution over the past year and for their continued support and dedication.

Increased investment to position CVS for further growth

We continue to invest in a number of areas to position CVS well for further growth in the future. Our people are the heart of everything we do and we continue to develop learning, education and development support for all colleagues to help them develop their careers.

We recognise the opportunity to improve our practice facilities and install new clinical equipment and this is important in both attracting and retaining talent, and also in continuing to expand the range of services we can provide to our clients and their animals. We are confident with the financial returns from this investment and, in light of our strengthened balance sheet and continued high level of operating cash conversion, we plan to increase this investment in the new financial year. We have undertaken a number of practice refurbishments and relocations in the past financial year and our new state-of-the-art referral hospital in Bristol will open its doors in early 2023.

Investment in our people, facilities and clinical equipment will position CVS to benefit from the continued favourable market and consumer trends. The population of pets in the UK has increased in the past two years, with an increasing number of puppies and kittens within UK households. Given our focus on high-quality clinical care, we expect to see the benefit of this increase in population steadily increase over the next ten years given that average veterinary spend per pet

1. www.healthforanimals.org/reports/pet-care-report/global-trends-in-the-pet-population/

"With the continued support of our outstanding colleagues, we will continue to grow CVS with care at our heart."

increases with age. Coupled with this, there is evidence of increased life expectancy in pets with HealthforAnimals[1], the global animal health association, recently reporting that life expectancy for dogs has increased by 11.4% between 2002 and 2016.

Preventative care is an important part of our offering and I am delighted that we continue to see growth in our Healthy Pet Club and Healthy Horse Programme, with 470,000 members at 30 June 2022, an increase of 4.4% in the year. This scheme provides a helpful way for clients to spread the cost of preventative veterinary care through monthly instalments and provides discounts on other services which may be required. The routine health checks which are provided under this scheme are important as they offer an early opportunity to identify and treat potential issues, avoiding more complex and expensive interventions later.

There are many reported benefits of animal ownership with pets in particular proven to improve their owners' physical and mental health. The trend of humanisation of pets continues and, notwithstanding inflationary pressures in the wider economy, we are confident that our clients will continue to access our services in order to ensure their animals receive the best possible care.

Our integrated model at CVS enables us to provide care to animals at all stages of their life cycle, from puppy and kitten health checks and annual vaccinations through to specialist interventions where required. Our network of first-opinion practices, dedicated out-of-hours clinics, specialist-led referral hospitals and diagnostic laboratories deliver continuity of treatment, thereby ensuring our clients and their animals receive a first-class service. Our crematoria provide compassionate cremation services at the end of an animal's life, as well as a clinical waste disposal services to enable CVS, and third-party practices, to operate to the highest standards. This is a key part of our service offering given that most clients who lose a beloved pet subsequently purchase another and continue to enjoy access to our services.

Animed Direct, our online retail business, attracts a broader range of clients and gives access to a substantial range of pet food, pharmaceutical products and accessories. We continue to see strong growth in pet food sales as customers enjoy the convenience of being able to order bulky and heavy pet food and have it delivered directly to their door.

Robust financial performance

We have delivered continued growth in financial performance, with revenue for the financial year of £554.2m (2021: £510.1m) representing growth of 8.6% over the prior year, and an increase in like-for-like sales of 8.0%. Adjusted EBITDA increased to £107.4m (2021: £97.5m), a £9.9m (10.2%) increase over the prior year.

This strong financial performance, alongside a reduction in net debt, led to a decrease in leverage to 0.40x at 30 June 2022 (30 June 2021: 0.68x).

Strategy

Our purpose to provide the best possible care to animals, and our vision to be the veterinary company people most want to work for, are underpinned by our four clear strategic pillars: to recommend and provide the best clinical care every time; to be a great place to work and have a career; to provide great facilities and equipment; and to take our responsibilities seriously.

In order to provide the best possible clinical care, we continue to focus on helping to drive increased standards in the profession and we recently published our latest annual Quality Improvement (QI) report. This sets out our approach to learning from clinical issues and using evidence-based medicine to inform the care we provide. We also launched our CVS Clinical Research Awards programme in the financial year, which provides funds for CVS colleagues and university academics in collaboration with CVS to facilitate the growth of veterinary clinical research.

We are committed to making CVS a great place to work and have a career and we continue to develop our reward and benefits to ensure we remain well positioned in a competitive marketplace. We announced an interim cost-of-living pay review in May 2022, in addition to our annual pay review in July 2021, and we have expanded our reward and benefits package, including the introduction of enhanced holiday entitlement based on length of service. In May 2022, we committed an ongoing pledge to paying a minimum of 3.0% more than the current National Minimum Wage/ National Living Wage.

Chief Executive Officer's review continued

Strategy continued
Our focus on improving our practice facilities and clinical equipment is important in both helping us attract and retain clinicians, and enabling them to deliver the best possible clinical care. We completed 23 refurbishments and relocations in the financial year (2021: 13). We have a pipeline of exciting capital expenditure projects to develop our existing facilities and open new greenfield practice sites, as well as continuing to acquire quality practices where they are aligned with our strategic goals.

We have responsibilities to all our stakeholders, including our patients, our colleagues and our regulatory bodies, and we take all of these responsibilities seriously. We continue to engage with the Royal College of Veterinary Surgeons (RCVS) and aim to ensure all our practices meet the rigorous standards of the RCVS' Practice Standards Scheme.

We remain well-placed to make further practice acquisitions in the UK and in new European markets and we have a strong pipeline of opportunities. I am pleased that we completed three acquisitions in the financial year, adding four practice sites to the Group.

Recruitment and retention of clinicians
To support the Group's continued growth, we employed an average of 117 (6.0%) more vets and an average of 291 (11.4%) more nurses in the financial year to 30 June 2022 in comparison to the previous financial year. The RCVS, in its Workforce Summit report in November 2021, stated that the population of practising vets in the UK had increased by c.1% and hence we are pleased with our overall increase.

There remains a shortage of vets in the UK and we are keen to recruit more vets to enable us to capitalise on the growth opportunity in the market. We are confident that the supply of vets and nurses will increase over the medium term given that there are now eleven vet schools in the UK. Our leading graduate induction programme was enhanced in the year through our summer and winter camp programmes which help graduate vets make the transition from university to work in practice. We have continued to expand our investment in Continued Professional Development and enhanced career pathways, to ensure colleagues have excellent career opportunities within CVS.

We continue to implement initiatives to enhance the wellbeing and job satisfaction for all our colleagues and promoted a wellbeing financial calendar in July 2021, which is now in its second year.

Sustainability and ESG
We published our first annual Sustainability Report in August 2022, which sets out our commitment to reducing our environmental impact and to improving our ESG standards.

We are committed to taking action to ensure our business is as sustainable as it can be, and we will continue to work collaboratively and creatively to ensure we are doing the right thing for all stakeholders.

We have appointed an ESG lead to co-ordinate our efforts across CVS, with our seven dedicated ESG working groups driving progress in the following areas:

- Energy and Carbon;
- Waste;
- One Health (including antimicrobial resistance);
- Wellbeing;
- People Development;
- Equity, Diversity and Inclusion; and
- Community.

Demonstrating our commitment to holding ourselves accountable for our sustainability goals, in our 2022 Sustainability Report we disclosed financial and non-financial data relating to a range of sustainability factors using the Sustainability Accounting Standards Board (SASB) framework. Further, in this Annual Report we have early-adopted the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). Applying these reporting frameworks has aided us in understanding the impact of our operations on our stakeholders and our environment, and developing targets to improve our sustainability.

I look forward to sharing further progress in due course.

Outlook
We are confident in our ability to deliver further growth. With the improved financial performance in the past financial year, continued operating cash conversion and strengthened balance sheet, we are well-positioned to continue our programme of investment to enable CVS to benefit from the favourable market and consumer trends.

We will continue our focus on organic growth through high quality of care, augmented by investment in further strategically-aligned acquisitions and greenfield practice sites, as well as investment in technology, including launching a new modern intuitive practice management system, Provet Cloud, during 2023.

Our colleagues are key to our success and with their continued professionalism, I look forward to a successful future.

Richard Fairman
Chief Executive Officer
22 September 2022

Area of focus

Proud to be part of the CVS community

Celebrating 50 years of Pride
2022 marked the 50th anniversary of Pride in the UK. To celebrate Pride month in June, together as an organisation, we invited colleagues to express what Pride symbolises to them personally or as a team.

Many of our colleagues shared their personal stories, poems, photographs and artworks which were celebrated in our Group magazine.

Our veterinary practices got involved with colourful pride displays and events including wearing colourful dress, hosting special lunches, and inviting customers to take photos with their pets wearing rainbow accessories.

As part of our conversations about Pride, one of our support office colleagues (pictured) told us:

"Back in 2013, my partner and I went to Canada to get married because it was still not legal in the UK. Pride allows people to stop and think, and because of this, we were legally married in the UK too the following year!"

Encouraging inclusivity
Our LGBTQ+ working group has undertaken a project to educate CVS colleagues about fostering inclusivity in the workplace, through Group-wide communications using our internal channels. As part of this project, we have encouraged the free use of gender pronouns.

Our culture survey
With almost 8,000 colleagues in 2022, CVS Group comprises people from a range of backgrounds, with a broad variety of values and interests. In 2022, we conducted a culture survey to understand how our colleagues feel about the culture at CVS, and what we can do to ensure every colleague's experience is positive.

Discover more about our culture on pages 20 and 21

Increasing demand for quality all-round pet care

The veterinary market continues to benefit from increased pet ownership alongside trends of humanisation of pets and a growing appetite for high-quality care.

Understanding our key markets

Our veterinary practices, laboratories, crematoria and online retail business operate in a growing veterinary market. The UK pet population has increased since the COVID-19 lockdown and pet life expectancy is also increasing, as a result of improved diet and high standards of clinical care. CVS is well-placed to benefit from these trends thanks to our fully-integrated veterinary services model.

£9.7bn

spent on pets and related products in the UK in 2021[1]

Market size (£bn)[1]

2017	2018	2019	2020	**2021**
7.5	7.5	7.8	8.3	**9.7**

Increasing pet life expectancy

Across the globe, pet owners are seeing an increase in life expectancy for household cats and dogs[2] and, with continually improving standards of both preventative healthcare and clinical treatments, this is set to continue. Studies in the UK have found links between veterinary procedures and reduced rates of mortality. Increased life expectancies also provide us with increased opportunities to deliver quality veterinary services which generate revenues over a longer time period.

Changing lifestyles

It is clear the COVID-19 pandemic has had lasting effects on the way people live and work, from increased time spent at home to changing priorities in how we spend our money. In addition to the well-publicised impact on the pet population, there has been an increase in the demand for high-quality healthcare in all stages of a pet's life cycle.

1. https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/timeseries/uvjk/ct
2. www.healthforanimals.org/reports/pet-care-report/global-trends-in-the-pet-population/

We provide integrated care throughout the life cycle...

Typical life expectancy of 12 years for a dog (14–17 years for a cat) which is increasing

1–3 years **3–8 years** **8+ years**

First-opinion practices servicing whole life veterinary care requirements

Online retail business food sales

Laboratory tests

Specialist referral interventions

Compassionate end-of-life care and cremation service

Geographical market

Following the Competition and Markets Authority (CMA) investigation of our acquisition of Quality Pet Care Ltd, we now have a clear framework to identify geographical areas for further growth. The CMA concluded that a substantial lessening of competition could result from an acquisition where the resulting share of full-time equivalent (FTE) veterinary surgeons in the relevant catchment area is above 30%.

Using this guidance, the Group is able to identify significant areas of the UK which continue to provide opportunities for acquisitive growth without raising anti-competitive concerns, which we refer to as "white space".

c.5,300

veterinary practices in the UK[3]

472

veterinary practices operated by CVS Group

3. Source: findavet.rcvs.org.uk

Opportunities for growth

We estimate that the UK veterinary market is under approximately 55% corporate ownership, with the remaining veterinary practices owned privately or in partnerships and small groups. We have seen in other industries that corporate ownership can comfortably reach around 80% without impact to competition in the market. We therefore consider there is significant runway for further growth via acquisitions within the UK market.

In addition to acquisitive growth, the market is receptive to further organic growth through the opening of new sites. We have a pipeline of three viable new sites for potential future development.

Our presence in the Republic of Ireland and the Netherlands also provides a strong framework to develop further international operations, with emerging European markets including France, Germany and Spain being potential targets for future expansion.

Market drivers and responses

A growing UK pet population

Description

- The UK pet population has continued to grow; continued time spent at home has grown over the past two years with consumers recognising the benefits of companion animal ownership.
- The Pet Food Manufacturers' Association, in its recent survey, indicates that there are now over 25m cats and dogs in the UK.
- This increase in the pet population is a helpful market driver, not just in the short term when kittens and puppies require vaccinations, initial check-ups and in some cases neutering, but significantly in the medium and longer term as they become mature animals requiring more veterinary intervention.

Our approach

- We continue to expand our network of high-quality facilities, accessible across the UK, the Netherlands and the Republic of Ireland.
- We provide access to preventative care through our successful Healthy Pet Club scheme which provides preventative healthcare including regular check-ups, annual vaccinations and regular flea and worming treatments.
- We also provide advice to clients on the appropriate choice of pet for their individual circumstances and we offer puppy socialisation classes in a number of our first-opinion practices.

Link to strategy

Read more on pages **26 and 27**

1 3

Advances in veterinary care

Description

- 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 image interpretation and advice.
- Technology is becoming more affordable and more practices around the world are able to buy MRI and CT scanners. We provide support through our Vet Oracle™ business. Our Vet Oracle™ specialists are able to review images remotely and provide advice on clinical treatments for first-opinion vets within CVS and third-party owned practices.

Our approach

- We invest in our clinicians, offering them industry-leading clinical training, and we provide a culture of recommending the best possible treatment to our clients.
- We have introduced CVS Clinical Research Awards which are available to CVS colleagues and academics from universities or research institutes in the UK, the Netherlands and the Republic of Ireland. Successful applicants can receive funding to support clinical research that benefits veterinary clinical practice.
- We continue to grow our vet-to-vet telemedicine service, Vet Oracle™, which now has five specialisms.
- We invest in cutting-edge technology to enable us to offer the best clinical care to our patients, including investing in a stereotactic linear accelerator for cancer treatment, the first of its kind for animals in the UK, at our new referral centre in Bristol, opening in 2023

Link to strategy

Read more on pages **26 and 27**

1 2 3 4

Availability of vets to perform services

Description

- There is a continued shortage of veterinary surgeons and, to a lesser extent, nurses in the UK.
- The Royal College of Veterinary Surgeons (RCVS) has confirmed that veterinary surgeons who have qualified in the EU can continue to work in the UK without any remedial training, provided they have qualified from European Association of Establishments for Veterinary Education (EAEVE) accredited institutions and provided they meet appropriate language requirements.
- The number of veterinary schools in the UK has increased to eleven currently (from nine as at the date of our 2021 Annual Report). The number of graduate vets each year continues to increase, and will increase further, as a result.
- The RCVS is in the final stages of consultation on proposed changes to the Veterinary Surgeons Act 1966 which, amongst other things, would enable nurses to undertake a broader range of procedures without direct veterinary surgeon supervision.

Our approach

- We continue to put our people first with our vision to be the veterinary company people most want to work for.
- We have implemented many initiatives with the aim of attracting new colleagues and retaining our existing colleagues, including enhanced wellbeing resources. We have particularly targeted new graduate vets, with our popular Summer and Winter Camps.
- We continue to enhance our learning, education and development in support of our clinical colleagues in order to enable their continued professional development.
- We continue to monitor our main key performance indicators of vet vacancy rate and employee Net Promoter Score.
- We continue to partner with universities to assist students with their extramural studies, providing lasting relationships with graduates.

Link to strategy

Read more on pages **26 and 27**

1 2 3 4

Did you know?

The Netherlands celebrated 200 years of veterinary medicine in 2021
In 1821, the National Veterinary School was founded in Utrecht with the hope that scientifically-trained veterinarians would be able to solve the problem of livestock diseases. Much has changed since 1821 as the field of study expanded to match the changing function and meaning of the animal in modern society, and the resulting demand for veterinary services.

Between October and December 2021, colleagues from practices through the Netherlands carried a "veterinary flame" across the country. They could cycle, walk, row or ride on horseback, and the flame relay also raised money for Veterinary Medicine Friends, a charity that conducts paid research to improve the health of animals.

Online retail

Description

- Increasingly, our customers are switching to shopping online for their pet food for convenience and to obtain the most competitive price.
- Whilst the majority of our clients purchase drugs in our practices, they can also purchase a prescription from our practices and then purchase drugs online.

Our approach

- We have invested in and launched a warehouse management system to improve the efficiency of our order fulfilment.
- We continue to explore opportunities within our online platform, increasing our website capabilities and ensuring we have sustainable competitive pricing. We are launching a new website for Animed Direct in the 2023 financial year.
- We are reviewing new opportunities to expand our online offering to our practice customers.

Link to strategy
Read more on pages **26 and 27**

1 3

Consolidated market

Description

- The UK and European veterinary market continues to consolidate and it is estimated that c.55% of UK practices are under corporate ownership.
- We recognise the importance of privately-owned independent practices. However, we can see significant runway for further consolidation in the market, from review of other successful consolidated markets.
- Where private practice owners are looking to sell, we are well-positioned to acquire and provide benefits to owners, colleagues and patients.

Our approach

- We continue to invest in our integrated model and support organic and selective acquisitive growth. During the year, we spent £24.5m on capital expenditure, in addition to acquiring four companion animal practice sites.
- We support independent practices through our buying groups, our laboratories, our referral specialists, our Vet Oracle™ service and our crematoria, all of which offer services to non-CVS practices as well as our own.
- We will continue to seek synergistic acquisition opportunities in areas of the UK where our presence is more limited, as well as exploring emerging European markets.

Link to strategy
Read more on pages **26 and 27**

1 3

Humanisation of pets

Description

- The veterinary sector has benefitted from the humanisation of pets in recent years as pets are treated increasingly as companions and seen as an important part of family and home life, as well as positive contributors to improved mental and physical health.
- In the PDSA 2022 PAW report, it was reported that 94% of pet owners say owning a pet makes them happy, and 84% of pet owners say owning a pet improves mental health.
- Research published in the American Heart Association journal has linked pet ownership to improved health due to the mental health benefits of pet companionship and physical health benefits of physical activity, particularly associated with dog ownership.

Our approach

- We continue to prioritise high-quality clinical care and, with our integrated structure, we can provide all-round animal care throughout a pet's life, from first-opinion, specialist referrals, diagnostic testing, accessories, pet food and consumables, to end-of-life care, crematoria and waste disposal services.
- We have a culture of quality improvement which ensures our clients can access the most appropriate care for their pet.

Link to strategy
Read more on pages **26 and 27**

1 2 3

Our fully-integrated veterinary services model has a track record of resilience

Our inputs

Passionate people
We employ dedicated professionals who are committed to excellent clinical care.

7,913
employees

2,079
veterinary surgeons

Financial strength
We continue to deliver growth in revenue, adjusted EBITDA and underlying cash generated from operations.

£554.2m
revenue

£107.4m
adjusted EBITDA

£93.1m
cash generated from operations

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

85
referrals specialists

154
PSS awards

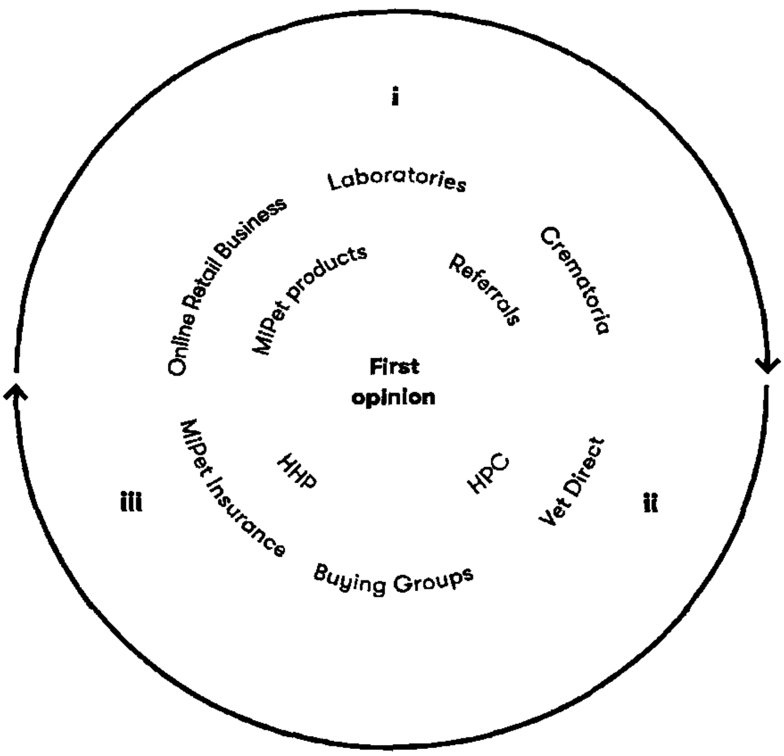
Customer focused
Our colleagues are dedicated to providing a quality service with the highest levels of customer and clinical care.

470,000
Healthy Pet Club members

71.9
client Net Promoter Score

Integrated veterinary platform

We have a fully-integrated model with first-opinion veterinary practices at the core of our business, supported by specialist-led multi-disciplinary referral hospitals, our own diagnostic laboratories, our network of crematoria and our online retail business for pet food, medicines and pet care products. Through our fully-integrated model, we can provide high-quality end-to-end care to our patients and their owners.



See our Operational review on pages 45 to 53

i

A vertically integrated platform with veterinary practices at our core

Strong barriers to entry

High-quality integrated clinical care

Scale benefits

ii

Operating in a sizeable and growing market with resilient characteristics

Increased population of pets

Humanisation of pets with consumers willing to spend more

Recurring robust revenues

iii

Supplemented by prudent capital allocation

- Investment in new facilities and equipment, and increase in clinical specialists, to drive organic growth
- Opportunity for accretive acquisitions
- Progressive dividend policy

Find out more in our Financial review on pages 54 to 58

Stakeholder value creation

Colleagues

- Supporting colleagues' wellbeing and performing regular check-ins
- Creation of an Equity, Diversity and Inclusion (EDI) working group
- Providing career progression and learning and development opportunities including continued professional development and access to top-tier clinical expertise
- Maintaining high standards of clinical governance
- Industry-leading graduate programme, including graduate camps
- A culture of open dialogue and learning
- Offering competitive rewards and benefits

Shareholders

- Delivering sustained financial performance
- Open dialogue and communication with our shareholders
- Appointment of a financial PR agency and recording of analyst results presentations
- Adherence with reporting requirements including Streamlined Energy and Carbon Reporting
- Long-Term Incentive Plan (LTIP) awards are linked to total shareholder returns and targets are aligned with shareholder interests. Executive Directors are subject to two-year holding period on LTIP awards
- Annual bonus targets for Executive Committee members will now include non-financial measures linked to sustainability

Industry bodies

- Regular contact with the Royal College of Veterinary Surgeons (RCVS) and other industry bodies
- Participation in RCVS Practice Standards Scheme by all CVS practices
- Full engagement with RCVS as part of its recent consultation on proposed reforms of the Veterinary Surgeons Act 1966 with written submission from CVS into this consultation
- Publication of annual Quality Improvement report to promote improvements across the profession
- Liaison with RCVS on wellbeing and ESG matters

Customers

- Ensuring customers have access to end-to-end care through our first-opinion practices, our specialist-led, multi-disciplinary referral hospitals, our diagnostic laboratories and, at the end of an animal's life, our compassionate cremation services
- Demonstrating consistently high clinical standards
- Prioritising animal welfare
- Providing regular check-ups and routine treatments (e.g. vaccines, flea and worming treatments)
- Maintaining high standards of pain management, particularly in surgical patients
- All our first-opinion companion animal practices have sign access to allow deaf clients access to veterinary care
- Providing an equine out-of-hours service

Community

- Focus on quality improvement including antimicrobial stewardship
- Outreach to schools
- Regular liaison with industry bodies including the RCVS, British Veterinary Association, British Veterinary Nursing Association, and more
- Donations to charity, including sponsorships and annual Vetlife charity donations

Suppliers

- Fair trading terms with our suppliers which promote the collective interests of CVS and our supplier base
- Regular meetings with senior management teams to ensure interests are aligned
- Suppliers continue to benefit from the growth of CVS organically and through our strategic acquisitions
- Engagement on ESG matters to ensure collective improvement

Driving positive change with care at our heart

Our culture and values reflect our purpose to give the best possible care to animals and our vision to be the veterinary company people most want to work for.

"We're building an inclusive behaviour framework, to help everyone understand what they can do to foster inclusivity within their teams."

Our approach

Individual attitudes and behaviours are key to our success. These values not only make us different, they also provide us with a sense of direction for consistent behaviour. They act as a foundation for our evolving culture as well as a guide describing what we can expect of each other and what our colleagues, our customers and the communities in which we work can expect of us. Our values are at the heart of how we work and they provide the inextricable link that ties all of these things together.

In 2022, we completed a Group-wide culture survey in which our colleagues fed back their experiences of inclusion, support and fairness within CVS. We are using this feedback to guide our colleague-led Equity, Diversity and Inclusion (EDI) groups, focusing on Ability and Neurodiversity, Ethnicity, Social Mobility, Gender and LGBTQ+. The groups have great passion for this hugely important subject and are already helping us identify ways in which we can further improve. We are in this for the long term, and we recognise that sustainable cultural and systemic change will take time. We are building a comprehensive EDI strategy, which will evolve over time as we respond to what we are achieving and what our colleagues are telling us.

Our values

Customer focus
Our dedication to our customers is at the heart of our business and we are focused on our customers' and their animals' needs. We treat our customers with warmth and respect, we make them feel welcome, and we keep our commitments.

Commitment to excellence
We constantly strive to achieve the highest possible standards in the quality of services and products we provide. We look for better ways of working, both individually and in teams, and we encourage colleagues to be innovative to improve the way we work.

Success through our people
We aim to attract, develop and retain the best people. We foster a collaborative and mutually supportive working environment, and we assist all our colleagues in achieving their career aspirations, with progressive learning and development opportunities.

Honesty and integrity
We treat our colleagues and customers with honesty and respect. We strive to ensure safety and accessibility in all areas of our business. We act with integrity in all that we do, being fair, transparent and accessible to all. We are open to feedback and we own up to our mistakes.

How we demonstrate our values

We achieve success through our people: The companion animal practices within CVS collectively received an RCVS Knowledge Champion Award in 2021, for auditing small animal ear cytology on a national scale over a long period, resulting in an increase in diagnostic tests and a reduction in antibiotic use across a wide range of practices.

We act with honesty and integrity: Many of our colleagues are already demonstrating inclusive behaviours, but we recognise that we can always do more to recognise and celebrate these inclusive behaviours. With the help of our colleague EDI groups, we're building an inclusive behaviour framework to help everyone understand what they can do to foster inclusivity within their teams.

Our culture in numbers

4.8
employee Net Promoter Score

Discover more on page 31

280
active Wellbeing Champions

374
managers who completed "Supporting the Wellbeing of Your Team" training

5
EDI working groups

Section 172(1) statement and stakeholder engagement

Creating value for our stakeholders

Section 172(1) Statement

Our Section 172(1) Statement sets out how the Board has given regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act 2006 ("s172") in performing its duties over the course of the year. The Company's purpose, vision and strategy are reviewed and discussed annually by the Board to ensure that these continue to promote the long-term success of the Company for the benefit of its members as a whole, whilst also having regard to the matters set out in s172.

Purpose, vision 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 purpose and vision are in alignment with the long-term interests of our customers, our colleagues and other stakeholders in the delivery of high-quality, sustainable clinical care for animals.

Stakeholder engagement

The Board has identified six key stakeholders who are essential to the delivery of the Company's strategy and long-term success, details of which are set out on the following pages. Our colleagues, customers, shareholders, community, industry bodies and suppliers are at the heart of what we do; it is of the highest importance to us that we engage with all of our stakeholders meaningfully to inform decision-making and ensure that we provide value in all areas of our business. We promote an ongoing dialogue with all of our stakeholders to enable us to act on feedback and foster a culture of honesty and integrity.

Consideration of s172 factors by the Board

The following table sets out some key decisions taken by the Board during the year and how s172 factors and engagement with stakeholders have been discussed and taken into consideration.

The Board has a duty to act for the benefit of its members as a whole whilst having regard to the matters set out in s172:

a. the likely consequences of any decision 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 the 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 members of the Company.

Board decision	s172 considerations
Dividend The Board approved a final dividend of 6.5p per Ordinary share of 0.2p each in the capital of the Company for the year ended 30 June 2021. **Links to s172:** a, c and f	The Board considered the Company's capital position and performance and agreed the reintroduction of its progressive dividend policy which is based on growing the dividend per Ordinary share over time. The Board also considered whether it was appropriate to return capital to shareholders through the use of special dividends and share buybacks, but taking into consideration the long-term investment needs of the business, the Board decided to reinvest capital in supporting delivery of long-term growth.
Environmental, Social and Governance (ESG) strategy During the course of the year, the Board formally adopted the UN Sustainable Development Goals and joined the UN Global Compact, as part of its commitment to delivering on its ESG strategy as set out on pages 32 to 44. CVS published its first standalone Sustainability Report on 12 August 2022. **Links to s172:** a, b, d and e	The Board considered the Company's environmental impact and discussed initiatives such as the reduction of waste, water consumption and the transition to recycled packaging. In addition to formally adopting the UN Sustainable Development Goals, the Board also committed to adopting the Sustainability Accounting Standards Board (SASB) reporting framework as a means to communicate to stakeholders data relating to actions the Board is taking with regard to financially-material sustainability factors. SASB data is recorded in the Group's 2022 Sustainability Report. Further, the Board has early-adopted the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD); the Group's TCFD statement can be read on pages 38 to 44.
Cost-of-living pay review The Board agreed an additional 3.0% salary increase for all colleagues (save for the Executive Directors) with effect from 1 May 2022 to support increased costs of living. Further, the Board committed to paying a minimum of 3.0% above National Minimum Wage/National Living Wage for all present and future colleagues. **Links to s172:** b, d and e	The Board agreed to an additional pay increase in May 2022 in recognition of the increased costs faced by households in the UK and Europe. The Board considered the views of its stakeholders and agreed that prioritising the needs of its colleagues would also have a positive impact on the communities it operates in as an employer, as well as cementing our reputation as a great place to work and have a career.

Colleagues

Why we engage

Our vision is to be the veterinary company people most want to work for. By engaging with our colleagues, we can understand their motivations and work with them to maximise colleague engagement and welfare. Our focus is continuing to provide our colleagues with the flexibility and support they need to develop their careers.

How we engage

We issue Group-wide correspondence in the form of weekly emails, a monthly magazine and quarterly video briefings, which are issued in English and Dutch with subtitles, to improve accessibility. We host an annual conference where clinical staff from across our divisions can engage with other members of the business.

We actively monitor our colleague satisfaction via our employee Net Promoter Score (eNPS), which is updated monthly. The score is broken down on a divisional basis, and business leaders seek feedback in response to changes in the score.

Although much of our day-to-day engagement with colleagues is delegated to local teams, a Non-Executive Director regularly meets with our colleagues to discuss key matters.

We host live question and answer webinars with our Chief Executive Officer and Chief Operating Officer, and answers are also shared in the monthly company magazine.

Outcomes

Our colleagues provide valuable feedback, particularly on issues which affect them most, such as the rising costs of living. As a result of this, we announced an out-of-cycle pay rise for all colleagues, as well as a commitment to pay at least 3.0% above National Minimum Wage/National Living Wage to all current and future colleagues.

In the past year, an increasing pet population and growing demand for high-quality clinical care has coincided with a shortage of clinical staff in the industry, leading to increased demands on our colleagues. We have monitored feedback from our colleagues and continue to implement measures to support them, by focusing on recruitment and retention, and investing in excellent facilities.

We have continued to increase our wellbeing resources, including training further Wellbeing Champions and First Aiders for Mental Health, increasing the range of resources available on our wellbeing portal, and promoting our Employee Assistance Programme.

Customers

Why we engage

Customers rightly expect the highest quality care for their animals. We provide this through our integrated veterinary services model which enables us to deliver high clinical standards and quality facilities.

We engage with our customers to ensure we are meeting their high standards of service, and to identify opportunities to improve client service.

How we engage

Alongside contact within our practices, we regularly communicate with our customers through a variety of channels such as social media, email and direct mail, promoting animal wellbeing in addition to discounts and benefits.

We seek feedback from customers enabling us to measure our customer Net Promoter Score.

Our practice teams engage most closely with customers, and these colleagues are encouraged to provide regional and central management with feedback on key issues identified in conversations during consultations and other in-practice interactions.

Outcomes

We continue to invest in our integrated veterinary platform, ensuring we can offer our customers a complete pet care service, from first-opinion clinics and referral centres, to the sale of pet food and medications, to in-house laboratory testing, compassionate cremation services and clinical waste disposal.

We ensure our acquisitions will improve the level of service we offer to our customers, whether it is covering a broader range of locations or providing enhanced services, such as out-of-hours, to complement existing practices.

We continue to invest in improving our practices to enhance customer experience and the quality of clinical care we can provide. Our new flagship referral hospital with cutting-edge facilities and equipment, including a specialist stereotactic linear accelerator, is on track to open in Bristol in early 2023. The additional capacity will help us treat a larger number of cases and the advanced equipment will open up treatment opportunities to give the best possible care to animals.

Section 172(1) statement and stakeholder engagement continued

Shareholders

Why we engage

We actively engage with our shareholders, highlighting our investment case and communicating our future plans, to ensure the Group's strategy is aligned to the interests of its shareholders.

Our shareholders hold us accountable for doing the right thing, and by engaging with them we can understand and act on their expectations, enabling us to drive the business forward, deliver sustainable growth in shareholder return and attract additional investors to support the business.

How we engage

We engage with our shareholders through our Annual General Meeting (AGM), broker conferences, one-to one meetings and investor roadshows. We have an ongoing dialogue with our shareholders and value their feedback, which is regularly discussed at Board meetings.

We keep the investor section of our website up to date to provide timely updates about CVS and its activities.

Individual shareholders are encouraged to contact Directors on all matters relating to governance and strategy via the Company Secretary. Our Executive Directors take part in live webcasts of our interim and preliminary results announcements, including live question and answer sessions with analysts.

Outcomes

At the 2021 AGM, 100.0% of resolutions were passed and votes in favour ranged from 93.7% to 100.0%.

During the year, we attended eight investor conferences and we were delighted to attend in-person investor roadshows in the United States and the Republic of Ireland.

Our next capital markets day will be held on 8 November 2022, giving investors a deeper insight into our future growth opportunities and our capital allocation priorities, with an opportunity to meet our colleagues and attend practice tours.

Community

Why we engage

We regularly engage with local communities in which our practices operate, communities of pet owners and animal carers, and the communities to which our colleagues belong, in order to understand how we can support them.

By engaging with our communities we can find ways to contribute positively to the environments in which we work, promote employment satisfaction within our operations and support our communities to achieve common goals, such as the advancement of clinical care.

How we engage

We have an annual charity of the year, which is chosen by our colleagues; in 2022 this is the Pet Blood Bank. Throughout the year we hold regular fundraising events from bake sales in local practices to Group-wide promoted events.

Our practices also engage within their local communities, providing key care to animals for a number of smaller charities.

Outcomes

Our colleagues raised £10,000 for our 2021 charity of the year, British Divers Marine Life Rescue, which was matched by CVS in a donation to Vetlife. This money helped the charity to deal with increased callouts after Storm Arwen, and helped to fund its new Seal Hospital in Cornwall.

In February 2022, we launched our "MiniCVS" workshops initiative, which sees our colleagues visit local schools to help get children excited about science and animals, with activities from roleplay, to pet first aid, to careers advice.

We have implemented a number of initiatives to lessen or offset our impact on the environment. Our crematoria have been donating throughout 2021 and 2022 towards the National Trust tree planting initiative. For every individual cremation received in 2021, a contribution was made to this initiative, culminating in a £10,000 donation in June 2022 which equates to almost three football pitches of new green space in loving memory of pets.

Industry bodies

Why we engage

We actively engage with our industry bodies, including the Royal College of Veterinary Surgeons (RCVS), the British Veterinary Association (BVA) and the British Veterinary Nurses Association (BVNA), to promote innovation and advancement within the veterinary industry.

How we engage

We engage with our regulators over a wide range of issues.

Where appropriate, we hold meetings with industry bodies, such as the RCVS, BVA, BVNA and Veterinary Defence Society, to discuss key issues and share initiatives and improvements across the industry.

Appropriate colleagues attend update calls and webinars with regulatory bodies to understand upcoming regulatory changes, such as the addition of ESG measures to the RCVS Practice Standards Scheme (PSS) which we were pleased to see in 2022.

Outcomes

In August 2022, we released our latest Quality Improvement (QI) report, updating our stakeholders on our approach to improving clinical standards in the industry. QI is hugely important to ensure we can maintain the highest possible standards of care. Our colleagues' work on the impact of parasiticides on the natural environment will provide recommendations to inform clinical decision-making in an area which is currently not well understood.

We were actively involved in consultation with the RCVS on recommendations for reform of the Veterinary Surgeons Act 1966 and are keen to see this legislation amended so that our highly-skilled nurses can undertake more procedures.

In advance of any changes in legislation, we have increased nurse utilisation in our veterinary practices as permitted under existing legislation, with the percentage of Registered Veterinary Nurses (RVNs) carrying out consultations increasing significantly in the year.

Suppliers

Why we engage

We are proud to have long-term relationships with our wholesalers and manufacturers, regularly communicating with them to promote our relationship. Through these relationships we can generate consistent custom for our suppliers, in return achieving mutually favourable terms on purchases.

We engage with our suppliers to deliver ongoing benefits to our businesses, collaboratively finding operational and sustainable improvements and delivering improved value.

We have shared sustainability goals with some of our key suppliers. We recognise that through working together we can reduce our impact on the environment.

How we engage

We regularly communicate with our suppliers to review contract terms and identify mutually beneficial opportunities.

Our suppliers are invited to attend our annual conference to understand our business, engage with other key stakeholders and ask any questions they may have.

We attend industry conferences and events which are also attended by our existing suppliers, as well as other suppliers that we may work with in the future. We actively engage at these events to understand where our goals might be aligned to those of suppliers.

Outcomes

We have continued to maintain appropriate communication with our suppliers, ensuring they are paid on time and are able to deliver sufficient product.

We have formed partnerships with some of our key suppliers to reduce our impact on the environment. Our office supplies provider, Warrens Office, has worked closely with us on a number of environmental initiatives, including timing the deliveries of its office supplies to our practices to coincide with deliveries to other customers in the same areas.

We have partnered with environmental award-winning print supplier SF Taylor to launch the CVS Print Hub in November 2021. The CVS Print Hub provides a catalogue of printed items for CVS practices to order, including posters, leaflets and branded letterheads. Fully accredited with ISO 14001, FSC and PFEC, SF Taylor also holds awards for its commitment to manufacturing with process-free printing plates; use of only vegetable-based inks; reduction of wastage by recycling solvents wherever possible; and use of an ink pumping system which both reduces Volatile Organic Compounds (VOC) emitted to the atmosphere and minimises waste.

Driving business performance by doing the right thing

1. We recommend and provide the best clinical care every time

Our strategic objectives

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

Our achievements in the year

- We have once again published our annual Quality Improvement (QI) report, reflecting our commitment to leading the veterinary profession in patient safety and promoting a culture of learning and development amongst colleagues.
- We have focused on our Patient Care Index, which is our framework to monitor the quality of patient care.
- Our Vet Oracle™ virtual specialist hospital has continued to grow, with 13,000 cases considered in 2022.
- Our equine and farm colleagues have been focusing on implementing QI measures, including establishing a QI Lead within each practice

Outlook

- We are working hard to drive increased levels of preventative healthcare and we hope to continue to grow membership of our Healthy Pet Club.
- Our referrals teams are using technology to advance clinician-reported and client-reported outcome measures, which will undoubtedly lead the way to introducing this work to the wider profession.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care; and
- humanisation of pets

Link to KPIs A B C D E F G H I J K L

Read more on pages **28 to 31**

Link to risks 1 3 4 6 7 9 11 12 13 14

Read more on pages **60 to 68**

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

Our strategic objectives

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

Our achievements in the year

- In the year ended 30 June 2022 we employed an average of 2,079 vets (2021: 1,962). This is a 6.0% increase from 2021 to 2022, despite workforce shortages in the veterinary industry, demonstrating the success of our people-focused strategy.
- Our vet and nurse attrition has remained relatively stable.
- Our employee Net Promoter Score, which tracks colleague engagement across our business, increased by 65.5% from 2021 to 2022.
- We have placed 362 new colleagues through our highly successful refer-a-friend scheme and we have filled 160 roles with internal candidates.
- We have implemented enhanced benefits for our colleagues including increased pay and holiday. In May 2022, we announced our commitment to pay a minimum of 3.0% above National Minimum Wage/National Living Wage to all current and future colleagues.

Outlook

- We will remain focused on colleague recruitment and retention, seeking further initiatives to improve colleague satisfaction.
- Our Culture Survey has provided excellent feedback which our five colleague-led Equity, Diversity and Inclusion (EDI) groups are working on to support colleagues on topics including.
  - Ability and Neurodiversity;
  - Ethnicity;
  - Social Mobility;
  - Gender; and
  - LGBTQ+.
- Our industry-leading learning, education and development platform, the Knowledge Hub, goes from strength to strength, with 261 courses now available.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care;
- availability of vets to perform services; and
- humanisation of pets.

Link to KPIs A B C D E F G H J K L

Read more on pages **28 to 31**

Link to risks 1 2 3 4 6 11 12 13

Read more on pages **60 to 68**

We recommend and provide the best clinical care every time
1

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

3
We provide great facilities and equipment

4
We take our responsibilities seriously

3. We provide great facilities and equipment

Our strategic objectives

- To ensure all our practices meet the Royal College of Veterinary Surgeons (RCVS) Practice Standards Scheme accreditation standards, and to aspire to achieve further RCVS awards.
- To invest in our estate to ensure all our facilities meet excellent standards.
- To expand our network with high-quality facilities.
- To develop new ways to serve our clients and our patients

Our achievements in the year

- We have completed 23 practice relocations and refurbishments.
- In 2022, we spent £13.7m on investment in our facilities and medical equipment.
- During the year, we acquired three new practices (four practice sites), which complement our existing portfolio of practices.

Outlook

- We are committed to enhancing the quality of our on-site facilities.
- Our senior clinical teams are launching and training new techniques across our practices.
- Our flagship specialist veterinary hospital in Bristol, opening in 2023, will have specialists in every discipline and cutting-edge equipment and technology.

Market drivers

This pillar is impacted by:

- a growing UK pet population;
- advances in veterinary care;
- availability of vets to perform services; and
- a consolidated market.

Link to KPIs A B C D E F G H J K L
Read more on pages **28 to 31**

Link to risks 1 2 3 4 5 6 8 9 11 12 13 14 15
Read more on pages **60 to 68**

4. We take our responsibilities seriously

Our strategic objectives

- To make our Group as environmentally sustainable as possible.
- To implement the best levels of health and safety in the profession.
- To prioritise the wellbeing of our people.
- To engage with the veterinary profession and support its interests.

Our achievements in the year

- We refreshed our EDI committee and introduced and recruited 60 colleagues from across CVS to five new colleague-led EDI groups.
- We have published our first standalone Sustainability Report, using the Sustainability Accounting Standards Board (SASB) as the reporting framework to disclose our sustainability data.
- In this Annual Report we have early-adopted the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD).

Read more in our TCFD report on pages 38 to 44.

- We have installed an automatic anonymisation feature within our primary practice management system that erases or anonymises customer data in line with the data retention policy.

Outlook

- We want to play a leading role in tackling issues such as antimicrobial resistance – a critical challenge for animal healthcare globally. We continue to support research into this subject and promote a reduction in prescribing of unnecessary or inappropriate antimicrobials.
- CVS works closely with RCVS Knowledge, the charity partner of the RCVS, to help promote its mission "to advance the quality of veterinary care for the benefit of animals, the public, and society."
- We will continue to report annually under the SASB and TCFD frameworks, ensuring accountability to our stakeholders, including setting measurable targets against which to benchmark progress.

Market drivers

This pillar is impacted by:

- availability of vets to perform services; and
- humanisation of pets.

Link to KPIs A B C D E F G H J K L
Read more on pages **28 to 31**

Link to risks 1 2 4 5 6 7 9 10 11 12 13 14 15
Read more on pages **60 to 68**

Financial KPIs

Ensuring CVS tracks and monitors the correct KPIs, both financial and non-financial, is key in measuring our success.

(A) Revenue (£m)

£554.2m
+8.6%

2022	**554.2**
2021	510.1
2020	427.8
2019	406.5
2018	327.3

Why it's a KPI
Revenue is a key measure of performance across all divisions of the Group and demonstrates our ability to attract and retain customers.

2022 performance
- Group revenue has increased by £44.1m.
- Like-for-like sales, adjusted for intercompany revenue eliminations, increased by £37.1m (8.0%) as a result of investments in our people, facilities and clinical equipment.
- Acquisitions during the year and the full year impact of prior year acquisitions generated additional revenue of £7.0m.

1 2 3 4

(B) Like-for-like sales (%)

8.0%
-54.0%

2022	**8.0**
2021	17.4
2020	0.7
2019	5.2
2018	4.9

Why it's a KPI
Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2020, revenue is included from September 2021 in the like-for-like calculations. This shows the underlying growth in revenue across all divisions, excluding the impact of acquisitions.

2022 performance
- Like-for-like performance reflects growth in both price and volume compared to the previous year.
- Price increases are in line with inflation and reflect our focus on delivering high-quality care to our clients and patients.
- The increase in volume has been driven by an increase in clinical staff supported by our continuing investment in our facilities and clinical equipment.

1 2 3 4

(C) Adjusted EBITDA[1] (£m)

£107.4m
+10.2%

2022	**107.4**
2021	97.5
2020	71.0
2019	54.5
2018	47.6

Why it's a KPI
Adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) excludes costs relating to business combinations and exceptional items and assists in understanding the underlying performance of the Group.

2022 performance
- The improvement in adjusted EBITDA reflects the increase in like-for-like sales and improvement in gross margin before clinical staff costs, as we continue to deliver our purpose to give the best possible care to animals.
- This increase has contributed to the improvement in like-for-like adjusted EBITDA of £9.3m, with acquisitions in the year and the full year impact of prior year acquisitions generating an additional £1.5m.
- This is partly offset by an increase in central costs of £0.9m as we continue to invest in our support functions to support the delivery of high-quality care across the Group.

1 2 3 4

1. Adjusted financial measures (adjusted EBITDA, adjusted profit before tax and adjusted earnings per share) are defined in note 1 to the financial statements, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 114 and 132.

Link to strategy
Read more on pages **26 and 27**

(D) Adjusted EPS[1] (pence)

85.8p
+14.2%

2022	**85.8**
2021	75.1
2020	42.0
2019	46.7
2018	42.4

Why it's a KPI
This is profit before tax adjusted for: amortisation; costs relating to business combinations; and exceptional items net of the notional tax impact of these, divided by the weighted average number of shares.

2022 performance
- The increase reflects the increase of £9.3m in the year in adjusted profit before tax[1].
- Issued share capital has increased only by the number of shares required to satisfy the Group's Long-Term Incentive Plan and Save As You Earn schemes.

1 2 3 4

(E) Total capex (£m)

£24.5m
+47.6%

2022	**24.5**
2021	16.6
2020	12.4
2019	12.9
2018	10.7

Why it's a KPI
This is the total amount spent by the Group on capital expenditure ("capex"). Capital expenditure is incurred on refurbishment and relocation of practice facilities and investment in new equipment and clinical facilities. Investing in our practices and clinical equipment is key to achievement of our strategic goal of providing great facilities and equipment.

2022 performance
- Total capital expenditure has increased by £7.9m, consisting of a £2.6m increase in maintenance capital expenditure, and a £5.3m increase in development capital expenditure, with the focus on improving client experience and growing our business. Refer to the Financial review on pages 54 to 58 for further detail.

1 2 3 4

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

76.9%
+1.1%

2022	**76.9**
2021	76.1
2020	75.5
2019	76.2
2018	79.6

Why it's a KPI
Gross margin represents revenue after deducting the cost of drugs, laboratory 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 because it helps us to monitor and measure our ability to purchase drugs at the best possible price whilst ensuring the highest quality.

2022 performance
- The increase in gross margin is principally due to our focus on providing great clinical care through increased diagnostics.

1 2 3 4

(G) Cash generated from operations (£m)

£93.1m
+15.9%

2022	**93.1**
2021	80.3
2020	94.8
2019	52.1
2018	46.7

Why it's a KPI
Cash generated from operations shows the cash inflows before: payments of taxation and interest; business combinations; purchases of property, plant and equipment and intangible assets; repayment of right-of-use assets; payments of dividends; debt issuance costs; increase/repayment of bank loans; exceptional items; and proceeds from issue of shares. Delivery of increased cash generated from operations allows us to invest in further growth opportunities across our business.

2022 performance
- Cash generated from operations has increased due to the increase in profit for the year offset by adverse working capital, with an increase in inventories of £6.6m and a reduction in trade payables due to a portion of colleagues' bonus payments now being paid in salary.

1 2 3 4

Non-financial KPIs

Tracking our non-financial measures allows us to monitor our performance against our core strategic goals.

(H) Vet vacancy rate (%)

10.4%
+25.3%

2022	**10.4**
2021	8.3
2020	6.9
2019	9.1
2018	11.3

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 plus vacancies. This shows the average level of vet vacancies for the Group during the period. This links to our strategic goal of being the veterinary company people most want to work for

2022 performance
- The vet vacancy rate has increased in 2022, as we are advertising for a number of new positions to support our growth due to increasing demand for our services.

(I) Healthy Pet Club members

470,000
+4.4%

2022	**470,000**
2021	450,000
2020	415,000
2019	401,000
2018	362,000

Why it's a KPI
Healthy Pet Club is our preventative care scheme. It provides CVS with a robust and regular revenue stream, as well as improving customer loyalty.

2022 performance
- The number of Healthy Pet Club members has increased by 4.4% in the year.
- This demonstrates the increased humanisation of pets and desire for our clients to invest in their pets' health through preventative care.

(J) Number of RCVS awards

154
-3.1%

2022	**154**
2021	159
2020	159
2019	114
2018	83

Why it's a KPI
This shows the number of RCVS Practice Standards Scheme (PSS) 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 goal of taking our responsibilities seriously.

2022 performance
- PSS accreditations and award assessments stopped during COVID-19 lockdown periods.
- The Awards have recently begun to be assessed again, but to manage the pressure that some practices are under, we have not begun actively promoting re-assessment.
- Of our 154 PSS Awards, 117 relate to client service, highlighting our focus on exceptional client service.

1. These non-financial KPIs align with our strategy; however, data is only available for three years.
2. Net Promoter Score measures customer and colleague experience using the answer to a key question, "how likely is it that you would recommend CVS?", with a 0-10 scale. Responses are analysed using a weighted calculation to yield a score between a low of -100 to a high of 100.

Link to strategy	(H)	(I)	(J)
Read more on pages 26 and 27	2 3 4	1	1 2 3 4

Area of focus

(K) Employee NPS[1,2]

4.8
+65.5%

2022	**4.8**
2021	2.9
2020	0.7

Why it's a KPI
Employee Net Promoter Score (eNPS) is a measure of how likely our colleagues are to recommend the Group as a place to work as reported on anonymous surveys. Monitoring eNPS shows the level of colleague satisfaction across the Group and helps us to ensure we are a great place to work and have a career.

2022 performance

- We have seen significant improvements in colleague engagement; our focus on colleague recruitment and retention supports us in our vision to be the veterinary company people most want to work for.
- We care about the wellbeing of our colleagues and continue to look for ways to support them in their roles, such as implementing new pastoral support roles in practices, and utilising our 280 active Wellbeing Champions across the business.

1 2 3 4

(L) Client NPS[1,2]

71.9
-0.4%

2022	**71.9**
2021	72.2
2020	78.5

Why it's a KPI
Client Net Promoter Score (NPS) is a measure of the level of our clients' satisfaction with their experiences with the Group via anonymous reporting of the likelihood that clients would recommend the Group for our services. Monitoring NPS helps us to ensure we recommend and provide the best clinical care every time.

2022 performance

- Client engagement has remained consistent with the prior year, at very high levels.
- We have been pleased that our practices were able to re-open their reception areas for much of the financial year, and, more recently, invite clients back into consultation rooms.
- We hope that our focus on high-quality clinical care and investment in our practice facilities will continue to meet our clients' demands for exceptional care of their treasured animals.

1 3

A culture of learning from mistakes

Talking about and learning from mistakes, or near misses, is an integral part of having a culture where patient safety is paramount. It is also essential to support the team members involved, as we know that people can become extremely distressed by these events, known as second victim syndrome, and their mental health may suffer.

The meaning of a significant event in this context is any unintended or unexpected event which could or did lead to animal harm. The significant event analysis process provides a framework to systematically identify all factors that contributed to an event, so that improvements can be made. While human error may play a role, there will always be more factors involved.

The online significant event recording system, VetSafe, is where practices can record and share these events. A high number of VetSafe records is considered success, as the team is more likely to be learning from these events and putting measures in place to reduce the chances of the event happening again. Centrally, trends in reporting are identified and support can be provided in the form of learning opportunities and guidance, as well as taking on some of the things that are outside of the practices power to change themselves.

Significant events recorded on VetSafe

2021-2022	**617**
2020-2021	544
2019-2020	540

Care at the heart of our business

Value creation

Our efforts to build a more sustainable business will drive increased standards, an improved working environment for our colleagues and improved returns for our shareholders. This improvement feeds into a positive cycle of performance in all aspects of our economic performance, sustainable practices and corporate governance.

Our purpose

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

Read our Sustainability Report at cvsukltd.co.uk

Introduction

Our Environmental, Social and Governance (ESG) strategy was introduced in our 2021 Annual Report, setting out why and how we care:

- **We care** about protecting the wellbeing of our colleagues, and equipping them with the support, resources, training and access to personal development opportunities that they need.
- **We care** about driving standards of clinical excellence in the profession and giving the best possible care to animals.
- **We care** about making a positive impact in the communities in which we work.
- **We care** about doing our job in a way that is sustainable and that does not compromise the natural environment.
- **We care** about delivering value for our investors by doing the right thing.

To support the delivery of this strategy, we have established working groups across CVS which have been assigned to monitor, assess, understand and develop proposals to manage our impact in the following areas:

- Energy and Carbon;
- Waste;
- 'One Health' (including antimicrobial resistance);
- Wellbeing;
- People Development;
- Equity, Diversity and Inclusion; and
- Community.

Our goal is to build a more sustainable business, driving increased standards, a better working environment for our colleagues and improved shareholder returns.

CVS in 2022 at a glance

c.1.2m
Companion animals under our care
(2021: c.1.1m)

£554.2m
Revenue
(2021: £510.1m)

£107.4m
Adjusted EBITDA
(2021: £97.5m)

£1.2bn
Market capitalisation
1,656p per share at 30 June 2022
(2021: £1.7bn, 2,415p per share)

470,000
Members of the Healthy Pet Club,
our preventative healthcare scheme
(2021: 450,000)

4
Clinicians on our Executive Committee,
including three veterinary surgeons, of which two are specialists, and one qualified veterinary nurse, comprising 50% of roles (Chief Operating Officer, Chief Veterinary Officer, Director of Clinical Operations and Group Procurement Director)

7,913
Colleagues employed
(2021: 7,241), including 2,079 veterinary surgeons (2021: 1,962) and 2,839 nurses (2021: 2,548)

472
Veterinary surgeries
(2021: 498) throughout the UK, the Netherlands and the Republic of Ireland

Sustainability continued

Energy and carbon

Key objectives

1. Consumption management and user awareness.
2. A programme of targeted capital expenditure.
3. Enhancement of existing construction, maintenance and property leasing activities.

Progress in the year

As part of our adoption of Streamlined Energy and Carbon Reporting (SECR), we have undertaken work to reduce our Scope 1, 2 and 3 emissions, as well as broadening the extent of our reporting to include details of greenhouse gas emissions (including anaesthetics) which are not covered by SECR.

We have moved to a renewable energy supply, we are supporting smarter heat and building management and we are reducing electricity use in our day-to-day operations. In April 2022, we also added a range of ultra-low emissions vehicles (ULEV) to our company car list.

We have conducted work to measure climate risk within our business in line with the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD), and we have early-adopted the TCFD's recommendations in this Annual Report, on pages 38 to 44.

Outlook

We are launching new Group-wide initiatives to help inform colleagues of our responsibilities to consume and conserve energy in the most efficient way possible.

We are working through an updated and detailed asset survey of the Group's property portfolio in terms of infrastructure and equipment. An output of this process will be a reclassification of our key investment priorities. Using this information, we intend to develop an investment programme to help improve our consumption and monitoring capabilities.

We also plan to enhance our facilities management provision during the year ahead and will engage with suppliers which specifically promote energy management and sustainability across their service provision to us.

As part of our forward acquisition and lease renewal activity we will actively promote green leases with our landlords.

Waste

Key objectives

1. Segregating waste appropriately to recycle where possible, reducing the amount of waste entering landfill and the amount of hazardous waste incinerated.
2. Where possible, replacing single-use items with reusable ones and using products made from more sustainable sources.
3. Engaging with suppliers to understand their sustainability policies, and endeavouring to source products from companies with strong environmental credentials.

Progress in the year

Annual reporting of packaging purchased across our warehouse and laboratories shows a 35% reduction in paper use relative to the previous year (calendar year 2021, compared to 2020).

In addition, we have introduced paperless systems in our warehouse, such as our new stock management system.

We have also collaborated with some of our key suppliers to offer packaging return schemes and recycling schemes for printer cartridges, batteries and, in our equine practices, single-use equine inhaler devices.

Vet Direct, our veterinary equipment supplier, has vastly reduced its printing of catalogues, and is carbon balancing the use of paper through the World Land Trust.

Outlook

We continue to work on initiatives to reduce waste across our business, and we hope to recruit "Waste Champions" in all areas of the business to support our colleagues in reducing their waste.

We use Veolia's Microsoft Power BI platform to analyse waste collection data and monitor waste bin utilisation across our practices, helping us to increase recycling and reduce waste collections. Using this data, we can identify areas for improvement in our waste reduction processes.

One Health

Key objectives

1. Promoting the responsible use of antimicrobials within CVS and beyond.
2. Investigating the future use of parasiticides at CVS.
3. Setting short-, medium- and long-term recommendations on medications and prescriptions to help inform clinical decision-making in the future.

Progress in the year

The Parasiticides working group met in April 2022 for an initial exploratory discussion which provided short-, medium-, and long-term recommendations, as well as emphasising the critical need for practical research in this area, to help inform clinical decision-making in the future.

Since updating our antimicrobial resistance (AMR) policy in late 2021, there has been considerable progress in the reduction of Highest Priority Critically Important Antimicrobials (HPCIA) prescriptions due to our intervention. Read more about HPCIA prescriptions in our 2021 Quality Improvement report and our 2022 Sustainability Report, which are available on our website: www.cvsukltd.co.uk.

Outlook

There is currently insufficient evidence available to make an effective risk-benefit analysis of the ongoing prophylactic use of parasiticides in companion animals. Therefore, a working group has been formed to further develop clinical strategies aimed at balancing the use of parasiticides in companion animals with environmental concerns regarding such products polluting the environment and endangering insect life.

Future discussions and decision-making will include feedback from clinicians in practice, to ensure their voices are heard and a balanced approach is taken.

Wellbeing

Key objectives

1. Self: providing support and resources to enable individual colleagues to look after their own wellbeing.
2. Leadership: supplying leaders with the relevant tools, training, and role-modelling to enable them to support the wellbeing of their teams.
3. Community: fostering wellbeing across our teams and the CVS community – using our network of Wellbeing Champions and team wellbeing activities and events.

Progress in the year

In July 2021, CVS introduced a Wellbeing Calendar. In its first year, it featured topics such as resilience, exercise, sleep, stress, financial wellbeing, and crisis awareness.

The Wellbeing working group is already seeing good results against its three key objectives.

>1,000
colleagues have accessed wellbeing resources on the Knowledge Hub

374
leaders have been trained in supporting the wellbeing of their team

>350
colleagues have been trained in First Aid for Mental Health

Outlook

In 2023, a new regular wellbeing measure will be introduced. This will be survey-based, asking colleagues how their work affects their wellbeing.

In July 2022, we introduced the second year of our Wellbeing Calendar, including topics such as mindful self-care, community outreach, hobbies and being active.

We are launching a new online training module for leaders on psychological safety – this is, we believe, the first psychological safety training course that is bespoke to veterinary context.

People Development

Key objectives

1. Developing our people to flourish in their current roles, including career pathway development and preparing them for future roles.
2. Building and strengthening relationships with major partner stakeholders to enhance our pipeline for future recruitment and help raise the standard of new colleagues who join CVS or the wider profession.
3. Supporting and engaging with broader society with initiatives including community outreach, school engagement and client education.

Progress in the year

Between 2017 and 2022 we have funded our apprenticeship training through the apprenticeship levy, to the value of £4.4m to date, and committed to continue to fund and support these apprentices. We have over 400 currently active learners and over 800 colleagues have started an apprenticeship since 2017.

Many of our colleagues have enjoyed implementing and taking part in wider initiatives, such as our "MiniCVS" Workshops initiative, which sees our colleagues visit local schools to help get children excited about science and animal care.

Outlook

The People Development working group is prioritising:

- delivering industry-leading training;
- offering the best learning, education and development in the profession;
- having the best leaders in our business; and
- engaging with the veterinary profession and broader society, and supporting its interests.

£4.4m
value of the apprenticeship levy

>400
active learner apprentices

Equity, Diversity and Inclusion (EDI)

Key objectives

1. For CVS to be the veterinary company people most want to work for, regardless of who they are, how they identify, or their background.
2. Establishing a ten-year plan to ensure the Group continues to move in the right direction towards a culture of inclusion fluency
3. Developing awareness and understanding of inclusivity with all leaders and colleagues.

Progress in the year

We've launched an EDI educational platform within the Knowledge Hub. It houses plenty of resources to support us all with our continued learning and awareness around equity and inclusivity.

We've also revised our monthly colleague survey to help us gather more useful insights into how we're doing: quarterly, the survey will ask about inclusion.

In May 2022, the Board took the decision to increase the base salary of our minimum wage roles to 3.0% above the National Minimum Wage/National Living Wage.

We have increased the range of pronouns listed in Robovet to provide clients with more options when registering with us, and implemented some changes within HR processes around gender inclusivity, as well as encouraging the free use of gender pronouns.

In June 2022, CVS celebrated Pride Month.

Outlook

Through 2022 and into 2023, our focus is on building foundational understanding across the organisation around EDI.

We are preparing updated company policies on: EDI; Bullying, Harassment and Incivility; and Menopause.

Our Ability and Neurodiversity group is engaging with our recruitment team to look at how we talk about disability and reasonable adjustments during the process to make it accessible for everyone.

Our Ethnicity group is building an inclusive behaviours framework and supportive training, and wants to ensure all colleagues feel confident to report any prejudice or discrimination experienced.

Our Social Mobility group is working towards increasing the socio-economic diversity of qualified veterinary surgeons and nurses in CVS and the wider profession.

Community

Key objectives

1. Working with charities.
2. Giving our time.
3. Sharing our expertise.

Progress in the year

In February 2022, we launched our "MiniCVS" workshops initiative, which sees our colleagues visit local schools to help get children excited about science and animal care. Our colleagues cater their workshops to different ages, from role-play and pet first aid for younger children, through to careers advice for older students.

We encourage our teams to fundraise for our annual charity of the year, which is chosen by our colleagues to maximise engagement. In January 2022, a £10,000 donation was made to our charity of the year, British Divers Marine Life Rescue. CVS also makes an annual donation to Vetlife, matching the amount raised for the colleagues' chosen charity of the year.

We have connected with a charitable organisation, the Links Group, which explores the links between animal abuse and domestic violence.

Outlook

In the year ahead, our Community working group will develop and start to deliver a CVS Community Strategy in order to bring additional rigour and resource to our community activities.

In 2022, our charity of the year is the Pet Blood Bank.

"UK SAYS NO MORE" is a campaign working to take a stand against domestic abuse and sexual violence by challenging the myths and misconceptions around these issues and sharing information. It is working with various pharmacies, shops and banks across the UK to provide Safe Spaces in its consultation rooms for people experiencing domestic abuse. We are looking at ways we can offer a similar support network in our practices through our project with the Links Group.

"The care we have for our colleagues, our clients and their animals is ingrained within our very DNA. 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 purpose and vision guide us in everything we do and help us not only to have a positive impact on our teams, our patients, our customers, and our other stakeholders, but also to make a bigger contribution to wider society."

Richard Fairman
Chief Executive Officer

Read more in our 2022 Sustainability Report, published on our website www.cvsukltd.co.uk/investor-centre/sustainability/

Non-Financial and Sustainability Information Statement

Caring for animals goes hand-in-hand with caring for the natural environment, so climate-related risks and opportunities are a key factor of consideration in the short-, medium- and long-term strategic planning of the Group. Our aim is to minimise our impact on the planet in a way that supports and develops our services and clinical expertise.

This year, we have focused on developing an understanding of our impact on the environment, using the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations to guide our approach. We understand that there is further work to be done to manage our impact on the environment, which is why we have chosen to adopt the TCFD recommendations, which include:

- scenario analysis which includes a global warming scenario as well as a Net Zero scenario;
- setting targets for short-, medium- and long-term actions to lessen harmful environmental impacts of our business and increase environmentally friendly activities; and
- reviewing and improving our processes around monitoring our environmental impact and managing climate-related risks.

To ensure open communication with stakeholders on progress, we have chosen to early-adopt the disclosure recommendations of the TCFD in this Annual Report. In the table below, we have set out our progress against the eleven recommended disclosures.

Governance and management

Disclosure requirement	Our progress	Find out more
Describe the Board's oversight of climate-related risks and opportunities	The Board has overall responsibility for ensuring risk is appropriately managed across the Group, including risks relating to Environmental, Social and Governance (ESG) matters and climate change. In 2021, the Group formed an ESG Implementation Group, chaired by the Chief Executive Officer (CEO), to assist the Board in identifying the risks and opportunities arising as a result of sustainability matters, including climate change. Addressing the climate challenge is a key part of our wider ESG strategy. Sustainability and ESG, including climate-related issues, are discussed as a standing agenda item in Board meetings, with the CEO presenting the activities of the ESG Implementation Group. In 2022 there were 15 Board meetings. The Board has appointed third-party ESG advisors which have helped the Group to assess its risks and develop our sustainability and ESG strategy. Within CVS, working groups have been formed to monitor, assess and understand our impact on areas including energy, carbon and waste. Although the Board has overall responsibility for assessing and considering climate-related issues, the day-to-day monitoring of such issues is delegated to the relevant working groups which are chaired by members of senior management. The Group has increased the volume and regularity of its climate-related reporting in the past year, including early-adoption of TCFD reporting within the 2022 Annual Report, and the publication of our first standalone Sustainability Report, titled "Care at our Heart", which includes data under the Sustainability Accounting Standards Board (SASB) standards. The Group has made significant efforts to ensure this reporting is fair, balanced and understandable, for example by adapting metrics and, where necessary, providing supporting discussion to explain sources of data or calculation methods. As an AIM-quoted group, CVS is not required to report under the TCFD recommendations this year; however, we have produced this report in order to promote open communication of our risks, opportunities, strategies and initiatives relating to climate issues, as well as encouraging the Board to remain accountable to the Group's stakeholders by introducing disclosures against which progress can be reported in future.	**2022 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/investor-centre/* **2022 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68* **2022 Annual Report:** Remuneration Committee report *on pages 83 to 93*

Disclosure requirement	Our progress	Find out more
Describe Management's role in assessing/ managing climate-related risks and opportunities	ESG is a standing agenda item at Board meetings. The Group intends to introduce further ESG targets and KPIs, including climate-related targets, against which progress can be reported to the Board to ensure consistent and comparable information is available to support decision-making. The Board has ultimate authority for setting climate-related goals and targets; however, the ESG Implementation Group, established in 2021 and chaired by the CEO, has assisted in the identification of climate-related risks and opportunities and helped to set climate-related targets across the Group. Advice is also taken from the ESG working groups across the business. These groups are led by senior management, and are already making good progress, having developed their own terms of reference and set work in motion to ensure that we are doing the right thing, and to challenge us to go further. For example, the Waste working group, established in 2021, has developed key objectives to segregate waste appropriately for effective recycling, to replace single-use items with reusable items where possible and to engage with suppliers around their sustainability policies. The Board feels that the business is prepared for potential short-term climate-related issues which are discussed later in this report, due to the strength of its integrated model.	**2022 Sustainability Report** *available on our Investor Website www. cvsukltd.co.uk/ investor-centre/*

Business model and strategy

Disclosure requirement	Our progress	Find out more
Describe the climate-related risks and opportunities identified in the short, medium and long term	The Group's continued long-term success depends on the social and environmental sustainability of its operations. There is a risk that potential climate-related issues can have an adverse effect on financial or operational performance, including our ability to fulfil operational activities, disruption of supply chain, cost of production, and demand for services. The Group's strategy, long-term sustainability and growth potential also rely on how the Group assesses risks and opportunities and takes action to reduce the environmental impact of operations. Below we have detailed some of the key climate-related risks and opportunities we have identified. As an AIM-quoted business, risks and opportunities which will impact our financial performance are considered financially material as these are likely to impact the decision-making of our investors and potential investors, particularly our financial Key Performance Indicators (KPIs) as disclosed on pages 28 and 29 of this Annual Report. Therefore, the Board considers that those risks that are likely to impact these metrics the most significantly are the most financially material to the Group. The Group has performed a scenario analysis, which is discussed in more detail on page 41, from which the following climate-related risks and opportunities have been identified. This is not an exhaustive list and is not in a particular order. **Risks:** > Disruptions to supply chain caused by the physical effects of climate change, increased costs of transportation, regulatory changes and other factors This could result in disruptions to the Group's revenue-generating activities, including the ability to administer drugs, alongside increasing costs and decreasing margins. This is the risk most likely to be financially material to the Group in the short-to-medium term. > Increased likelihood and severity of extreme weather events can cause damage to property and disruption to our colleagues' ability to provide high-quality clinical care, and can prevent clients from being able to visit our practices.	**2022 Annual Report:** Financial KPIs on *pages 28 and 29*

Business model and strategy continued

Disclosure requirement	**Our progress**	**Find out more**
Describe the climate-related risks and opportunities identified in the short, medium and long term *continued*	**Opportunities:** ➤ There may be increased opportunities for the Group to provide high-quality clinical services as a result of animal injuries and illnesses resulting from climate change, such as extreme weather events. ➤ It is likely there will be increased appetite for veterinary innovation and development of technological advancements, to treat new diseases and find ways of working and supporting pet owners in a changing physical environment. Our clinicians are passionate about innovation and Quality Improvement, evidenced by CVS being the only veterinary corporate to publish an annual Quality Improvement report. ➤ As innovative utilities technologies are developed, such as technologies for off-grid energy generation and water harvesting and recycling, these can be implemented by the Group to reduce overhead costs and reliance on grid stability. Likewise, increased availability of cloud-based IT systems reduces the space and electricity required to maintain servers in our own facilities. ➤ Reduction in travel, both international and local, could result in an increase in the pet population similar to that seen during the COVID-19 pandemic, which provides CVS with further opportunities to provide excellent clinical care. In order to assess the impact of climate-related issues, including the risks and opportunities identified above, the Group has conducted a risks and opportunities assessment as part of our regular risk assessment process. The ESG Implementation Group has assisted in the identification of climate-related risks and opportunities and is helping to set climate-related targets across the Group.	**2022 Quality Improvement report** *published on our website www.cvsukltd.co.uk/cvs-release-fourth-annual-quality-improvement-report/* **2022 Annual Report:** Principal Risks and Uncertainties on *pages 60 to 68*
Describe the impact of climate-related risks and opportunities on the Group's businesses, strategy and financial planning	The Group introduced its ESG strategy, "Care at our Heart", in the 2021 Annual Report. This strategy is based on a set of foundations articulating why and how we care. These foundations are included within the Sustainability pages of the 2022 Annual Report. To support the delivery of this strategy, our working groups in Energy and Carbon, Waste, One Health, Wellbeing, People Development, EDI and Community monitor and assess our impact in these areas. Each group has its own terms of reference and targets, within which climate-related challenges can be identified and managed. Impacts of low-carbon transition could include transitions to electric vehicles and use of electricity generated from renewable sources. Such measures have been considered in the Group's risk and opportunities assessment. In preparing the 2022 Annual Report, the Group has, where possible, considered the impact of climate-related risks and opportunities on the Group's businesses, strategy and financial planning. At the present time, no changes were made to the Group's accounting policies, estimates or judgements. In line with developments in climate change, the related reporting thereof and the climate-related initiatives we have put in place, we expect these disclosures to evolve in future years.	**2022 Annual Report:** Sustainability on *pages 32 to 44* **2022 Annual Report:** Financial Statements Accounting Policies on *pages 115 to 123*

Disclosure requirement	Our progress	Find out more
Describe the resilience of the Group's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	A scenario analysis has been performed, taking into account a "2°C global warming" scenario and a "net zero emissions achieved by 2050" scenario. These were identified as key scenarios as they challenge the resilience of the business to both impacts from climate change and impacts from policy change. In conducting the scenario analysis, we have considered the potential risks and opportunities and their impact on: > financial metrics, including revenue, expenditure, assets and liabilities; and > stakeholders, including colleagues, customers, suppliers, investors and our patients. A scenario in which a 2°C global warming is experienced could result in risks and opportunities including, but not limited to, the following. > Rising sea levels in the Group's existing geographical markets, which could decrease customer base and market size, potentially reducing the Group's market size and increasing competition, but likely favouring the Group's city-centre practices. > Increased rates of disease and decreased longevity in all animals, which could provide opportunities for the Group to provide excellent clinical care and increase job satisfaction for clinical colleagues. Conversely, this could reduce the market size if the companion animal population decreases. > An environment which is less safe for animals, particularly companion animals and livestock, due to high temperatures and reduced availability of food and drinking water. This could have similar impacts to the above. A scenario in which net zero emissions can be achieved by 2050 in the Group's existing geographical markets could result in risks and opportunities including, but not limited to, the following. > Stricter regulations relating to the use of fossil fuels, may increase costs and reduce availability of grid energy, and increase the use of electric vehicles which may prompt customers to choose veterinary practices in different locations (e.g. closer to their homes or in retail parks which have electric vehicle chargers). > A reduction in international travel, which could increase the population of companion animals, as owners have more time and money to spend at home. The Group can offer this increased population high-quality preventative and reactive veterinary care. > Increased costs of energy, veterinary medicine and consumables, as a result of increased regulatory requirements, for example regarding the use of chemicals in pharmaceutical products. This could lead to disruptions to the Group's ability to provide clinical care; however, the Group's size and integrated veterinary platform positions it well to remain resilient to price rises. The Group's strategy for growth includes organic growth through capital investment in existing and new facilities, and inorganic growth through synergistic acquisitions. This strategy enables the Group to be flexible in deciding where to deploy capital, therefore climate-related issues such as mass migration as a result of rising sea levels, can be adapted into our strategy, for example by choosing alternative sites in which to invest. The Group has plans to implement a Net Zero target. We are considering the most appropriate target for the Group and its stakeholders and intend to communicate this in future reports.	**2022 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68* **2022 Annual Report:** Market overview *on pages 14 to 17*

Risk management

Disclosure requirement	Our progress	Find out more
Describe the Group's processes for identifying and assessing climate-related risks	In order to assess the impact of climate-related issues, including the risks and opportunities identified above, the Group has conducted a risks and opportunities assessment as part of our regular risk assessment process. The ESG implementation group, established in 2021, has assisted in the identification of climate-related risks and opportunities and helped to set climate-related targets across the Group.	**2022 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68*
Describe the Group's process for managing climate-related risks	The Board regularly undertakes assessments of the emerging and principal risks facing the Group, including climate-related risks and climate-related impacts on other risks. The ESG Implementation Group and members of senior management monitor these risks on a day-to-day basis, reporting changes to the Board where necessary. The Group has identified a range of climate-related risks, both transitional and physical. These have been described in detail in the preceding pages. The key impacts of climate-related risks are considered to be financial and operational. Physical climate-related risks to the Group include operational disruption to colleagues and clients caused by extreme weather events, and operational and financial effects of disruptions to supply chains resulting from such events. Transitional climate-related risks to the Group include increased prices for consumables, medicines and other items due to supply chains transitioning away from fossil fuels, e.g. to electric vehicles, and a reduction in air freight. The Group's risk management process considers short-term operational risks as well as risks that may threaten the delivery of the Group's long-term strategic business model. The Directors have assessed the prospects of the Group in line with the "Going concern" provision for a period of five years, as disclosed in the Directors' Report on pages 95 and 96 of the 2022 Annual Report, and have concluded the business is viable and will remain viable up to at least 30 June 2027. Sustainability and climate change are key considerations of the Group, and the potential impacts have therefore been built into the Group's going concern and viability assessment. This assessment is reconsidered on at least an annual basis, and any significant signals that climate-related issues are likely to have an impact on this assessment would be identified by the working groups responsible for monitoring and assessing matters relating to sustainability and ESG. These working groups feed back to the ESG Implementation Group, which provides a report to the Board as a standing agenda item.	**2022 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68* **2022 Annual Report:** Directors' Report *on pages 94 to 100*
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the Group's overall risk management	The Group's overall risk management approach is described in the Principal Risks and Uncertainties report on pages 60 to 68. One of the principal risks identified by the Board is Sustainability and climate change. The impact and probability of this risk is reviewed on at least a bi-annual basis, including review of the mitigating factors in place, and any changes since the last review. The Group has also developed a framework for assessing climate-related risks using a scenario analysis, which is described on page 41.	**2022 Annual Report:** Principal Risks and Uncertainties *on pages 60 to 68*

Metrics and targets

Disclosure requirement	Our progress	Find out more
Discuss the metrics used by the Group to assess climate-related risks and opportunities in line with its strategy and risk management process	The Group has a standalone ESG strategy, "Care at Our Heart", which underpins the Group's overall strategy and business model. To support the delivery of this strategy, our working groups in energy and carbon, waste, One Health, people development, wellbeing, EDI and community monitor and assess our impact in these areas. Each group has its own terms of reference and targets, within which climate-related challenges can be identified and managed. In addition, in 2022 we released our first standalone Sustainability Report in which we produced a full disclosure report under the Sustainability Accounting Standards Board (SASB) standards. This reporting framework was selected to provide reliable data on financially material sustainability factors which is comparable and consistent, thereby assisting investors to make better investment and voting decisions. SASB standards are industry specific, and under the current classification system used by SASB, there is no single industry framework that would be fully aligned with the indicators relevant to a veterinary business. To maximise the transparency and suitability of our reporting, we decided to report against two industry-specific sets of standards within SASB: "Health Care Delivery", and "Multiline and Speciality Retailers & Distributors". In some cases the metrics within the SASB standards were adapted to suit the Group's business and markets. We were advised and supported in the selection of the SASB framework, and the reporting of this data, by an external expert which also advised in the creation of our Care at Our Heart strategy. This is the first year in which we have reported against SASB standards and we intend to continue doing so going forward. This will involve improving our data collection processes to provide our stakeholders with a full picture of our performance, and aligning the reporting period of various disclosed metrics to the extent possible. We have calculated the data on a basis which can be consistently applied in future years for maximum comparability. As this is the first time we have reported against SASB standards, some of the data we have disclosed relates only to certain areas of the business, in particular our Veterinary Practices division which is our largest operating division, and to differing periods. In all cases, we have disclosed the scope and boundary of the information presented within our SASB report. We have made efforts to align the reporting period of the data to our financial year where this is possible, and going forwards we intend to ensure all data is aligned to this period, and to extend the scope of the data to cover the entire Group wherever relevant. Metrics regarding water, energy and land use and waste management are included in the SASB standards; we have provided data to the fullest extent possible within our 2022 Sustainability Report. In most cases, the data required to report against SASB metrics is available internally. This is with the exception of some energy and carbon data, for which we use an external energy consultancy which also supports us in the delivery of our Streamlined Energy and Carbon Reporting (SECR) in our Annual Report.	**2022 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/investor-centre/* **2022 Annual Report:** Streamlined Energy and Carbon Reporting on *pages 99 to 100*

Metrics and targets continued

Disclosure requirement	Our progress	Find out more
Discuss the metrics used by the Group to assess climate related risks and opportunities in line with its strategy and risk management process *continued*	The Board are aware that the Group has runway to improve in a range of sustainability and climate-related metrics. One of the key intentions when publishing the Sustainability Report and SASB data is to ensure accountability across the Group in delivering improvements to these metrics. The creation of our ESG working groups helps to disaggregate responsibility for delivering progress in the Group's sustainability and readiness for climate-related risks and opportunities. The Group reports alternative climate-related metrics within the SASB section of our 2022 Sustainability Report, however there are not currently specific timelines for improvement of these metrics.	**2022 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/investor-centre/*
Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	The Group's Scope 1, Scope 2 and Scope 3 emissions and the methodology for calculating these are disclosed in the SECR report within our 2022 Annual Report. The SECR lays out the total emissions, as well as the methodology applied. An internal carbon price is calculated to normalise year-on-year data, by calculating the emissions in tonnes of CO_2 per £m of revenue. This allows for more effective year-on-year comparison.	**2022 Annual Report:** Streamlined Energy and Carbon Reporting *on pages 99 to 100*
Describe the targets used by the Group to manage climate-related risks and opportunities and performance against targets	The Group has initiatives in place to reduce its impact on the environment, which are disclosed in our 2022 Sustainability Report. Our purpose is to give the best possible care to animals and, to be able to deliver this purpose, the Group must be able to continue in operation despite climate-related risks. Therefore, the Board is overseeing the implementation of specific targets relating to climate resilience. We have set sustainability-related targets in bonuses for Directors and other Senior Management, for the financial year to 30 June 2023, as a strategy to incentivise the achievement of climate-related targets. These are set out in our Remuneration Committee Report on page 93.	**2022 Sustainability Report** *available on our Investor Website www.cvsukltd.co.uk/* investor-centre/ **2022 Annual Report:** Remuneration Committee Report *on pages 83 to 93*

Outstanding people, delivering outstanding care to our patients and clients

Ben Jacklin
Chief Operating Officer

The year delivered much to be proud of in CVS, despite the lingering challenges of a global pandemic. COVID-19 infection rates have been an ongoing challenge for both our colleagues and our clients, but our teams continue to demonstrate their unending passion and dedication to achieving our purpose of giving the best possible care to animals. I would like to take this opportunity to thank them once again for everything they do for our patients and each other.

We continue our relentless pursuit of our purpose through our clear vision to be the veterinary company people most want to work for. Beneath our purpose and vision are our four strategic pillars:

- we recommend and provide the best clinical care every time;
- we are a great place to work and have a career;
- we provide great facilities and equipment; and
- we take our responsibilities seriously.

As we have done for a number of years, we have placed significant focus on attracting great clinical talent and providing them with great places to work and have a career. Much of our success has come from the culture we have fostered, putting clinical care at the forefront of what we do. This has meant alignment of all our operational practices to this goal, from KPIs and incentive schemes, to the investments we continue to make in the very best clinical equipment. Our national network of hub clinical leads, who are experienced and inspirational vets, are core to this. They support our companion animal practices across the business by teaching advanced diagnostics and techniques, and by mentoring vets who are developing interests in specific disciplines. This makes best use of expertise by spreading that knowledge across our practices, improving the quality of care we can offer, then supporting teams to deliver this care to their patients. Furthermore, we have added pastoral support roles for recently graduated veterinary clinicians across our practices. This provides new vets with experienced colleagues to support and guide them through their first years in practice and ensure they have a great experience.

"Having clearly set out our stall of providing the best possible care to animals, we have continued to attract and retain the very best clinical talent, which has had huge benefits for our patients and clients."

One KPI we introduced in 2021 was employee Net Promoter Score, and I am delighted we have seen yet further improvements in this measure during the year. By having live monthly feedback from colleagues, we are able to ensure we are making the right decisions for them, and creating a workplace that is the envy of the veterinary profession. We also reduced attrition rates of clinical colleagues during the year, further to the significant improvements we made in this measure when we facilitated changes to the culture of our Group.

Our quality improvement team is equally important to this culture, providing data-driven feedback to all our clinicians on where we can make improvements and reduce errors. By leading national and international projects, the quality improvement team makes a big difference to the patients they serve and ultimately the profession as a whole.

Our Advanced Clinical Services Network (ACSN) has continued to grow, supporting our colleagues in primary care practices. Our ACSN clinicians hold advanced qualifications in specific disciplines and, by being available across a region of our practices, they make advanced treatments available to clients and patients that would otherwise necessitate referral elsewhere. The goal of our ACSN is to be an accessible service to all CVS colleagues in the UK, offering a unique clinical career pathway for vets and nurses and being advocates of excellent patient care, whilst contributing to the development of general practice, laboratory and specialist services. The number of ACSN clinicians grew to ten during the year, and revenues grew by 22.9%.

We have further developed our vet-to-vet telemedicine service, Vet Oracle™, and we now have five specialisms within this business, offering specialist interpretation of results and practical virtual assistance. This not only has the benefit of creating new direct revenue streams but, more importantly, spreads our expertise across a much wider network, improving the care offered and given to our patients. This includes installations of advanced imaging equipment, such as CT scanning, in practices which would otherwise not have the expertise to interpret the results. In 2022, Vet Oracle™ considered c.13,000 cases for CVS and non-CVS vets, a growth of 54% year-on-year.

Did you know?

One of our nursing assistants in the Northern region, Julie Beckett, is our Signvideo ambassador, supporting the Group in its project to improve accessibility to our veterinary practices for deaf and hearing-impaired customers. In July 2022, Julie attended the Deaf Rally, teaching children about veterinary medicine whilst also expanding their British Sign Language vocabulary.

At the Deaf Rally, Julie had a table at which she answered questions about the Healthy Pet Club scheme and how Signvideo enables clear communication on visits to the vet. She also gave a stage presentation in which she discussed the range of services CVS offers, again explaining how Signvideo can support hearing impaired customers.

Julie also hosted a range of children's activities, supporting them to enhance their British Sign Language vocabulary, whilst teaching them a little about veterinary medicine. The feedback from the event was excellent.

We are equally focused on all the other aspects of being a colleague at CVS that can help us achieve our vision of being the veterinary company people most want to work for. One significant step this year has been to increase the rate of pay for all our colleagues on the National Living Wage/National Minimum Wage, to 3.0% above the standard set by the government both now and in the future. Many of those colleagues are critical to our success and often lead the first and most regular interactions our clients have with their veterinary practice. Ensuring we took the appropriate steps to support these colleagues as costs of living rose was the right way to deliver on our vision.

Looking after the wellbeing of our colleagues is a crucial part of what we do at CVS, and our 280 active Wellbeing Champions continue to do excellent work across the business. These Champions ensure our colleagues are informed of the various resources available to them, including our Employee Assistance Programme and our Wellbeing Zone on the Knowledge Hub, onto which over 1,000 colleagues enrolled in its first year. During the year, COVID-19 isolations impacted a significant number of our veterinary practices, as we made every effort to ensure the safety and wellbeing of our colleagues across the Group. We retained some social distancing, PPE and other restrictions as we continued to follow government guidance and the guidance of our most senior clinicians.

Ensuring our nurses have great places to work and rewarding careers remains a key aim, led by our Chief Veterinary Nursing Officer. We continue to improve the number of procedures undertaken by nurses in our practices. We also continue to see nurses leading our business in a variety of areas, including a number of qualified veterinary nurses across our senior leadership group and Executive Committee.

Despite the challenges that remain in the recruitment of both vets and nurses, I am delighted that we increased the average number of vets employed in the Group by 6.0% during the year, and the number of nurses by 11.4%. We continue to drive forward recruitment across the UK, Europe and further afield, but most encouraging has been the number of vets and nurses joining us on the back of a referral from an existing colleague. We saw 362 colleagues join via a referral from an existing colleague during the year, up 91.5% from the prior year.

Another major area of focus is attracting the very best new graduate vets, and following the hugely popular inaugural "CVS Summer Camp" in 2021 we have repeated and enhanced the event this summer. This gives recent graduates the very best start in their careers, allows us to share all the benefits of the wider CVS from the start of their time with us, and gives us and them the best chance of a long and rewarding career with CVS. Read more about our summer camps on page 59.

Did you know?

During the year, we completed 23 refurbishments and relocations. This work is critical to our strategy of ensuring the clinicians have the right environment to do the best work for animals. We have invested in our property team to ensure we can deliver on our objectives of refurbishing or relocating around half of our companion animal sites over the next few years. The refurbishments and relocations are very much undertaken with ESG in mind, installing energy saving equipment, and other measures such as car chargers and alternative sources of energy.

Despite being unable to make acquisitions during much of the financial year due to the Competition and Markets Authority (CMA) investigation into our acquisition of Quality Pet Care Ltd in August 2021, we completed three acquisitions, comprising four practice sites, during Q4. We continue to see significant opportunity for acquisitions in the UK, with the majority of potential targets unaffected by the CMA's determination on Quality Pet Care Ltd. To that end, I am delighted we have acquired a further three practice sites since the year end.

In our 2021 Annual Report we introduced our ESG strategy, "Care at our Heart", which underpins our strategic pillars and gives meaning to all that we do, as we aim not only to have a positive impact on our teams, our patients, our customers and our other stakeholders, but also to make a bigger contribution to wider society. Many of our initiatives across our operations in 2022 have been driven by this intention. Read more about our ESG strategy, including key actions from our new ESG working groups, on pages 32 to 44.

Veterinary Practices division

Delivering clinical excellence in an expanding market

Veterinary Practices revenue share*

85.5%

£492.1m
revenue

8.5%
revenue growth

470,000
HPC customers

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

Our Veterinary Practices division comprises our companion animal, referrals, farm animal and equine veterinary practices, as well as our buying groups, veterinary wholesaler "Vet Direct", and MiPet Insurance. The division has again performed well during the financial year, against a comparator which included favourable tailwinds from a post-pandemic backlog of non-essential procedures. Like-for-like sales growth in the division was 7.6%, contributing to total revenue growth of 8.5%. This like-for-like growth was also hampered during the final quarter of the financial year where we experienced a significant increase in COVID-19 isolations of our colleagues, which impacted revenues. We made three acquisitions during the financial year, adding four practice sites to the Group. A further three practice sites have been acquired since the year end, and we are pleased to welcome these colleagues to the Group. As we continue our focus on delivering the best client service across our business and being the veterinary company people most want to work for, we continue to review our facilities and have closed a number of small branch sites in the year to consolidate the work to our larger practice sites.

Companion Animal
Our Companion Animal division forms the majority of our Veterinary Practices division. The focus of our Companion Animal division on delivering the very best care continues to fare well in a market that has grown since the pandemic, and where the humanisation of pets continues apace.

Our Patient Care Index (PCI) is a measure of the quality of care we give to patients in our Companion Animal first-opinion practices. High PCI is associated with high-quality clinical diagnostics and the targeted treatment that follows, as opposed to more symptomatic treatments. We have seen improvements in PCI across our practices as we work towards our purpose to give the best possible care to animals. This focus has enabled us to deliver revenue growth of 10.3% in our Companion Animal division.

Referrals
Our Referrals division has grown strongly in recent years. We have continued to invest in our nursing and administration teams within this division, which are essential to support such strong growth. We also continue to expand our network of advanced peripatetic practitioners, who provide advanced clinical services to our first-opinion practices entering new disciplines and geographical locations.

The range of clinical disciplines we offer in our hospitals has expanded, and we are developing opportunities to open new sites. There has been an increase in investment in highest-quality medical equipment and facilities, such as MRI scanners and our cutting-edge Bristol Referral Hospital which is planned to open in 2023.

Equine
Our Equine division has 19 equine locations across the UK. The division has performed well in the financial year; this has partly resulted from growth in client numbers through our focus on attracting new clients, and the introduction of a new greenfield practice in the South of England.

Farm Animal
Our Farm Animal division consists of 14 farm animal locations and a large specialist poultry veterinary business, Slate Hall. During the year we have increased fee revenue in particular, with drug revenue impacted by conscious movement away from antibiotic usage wherever possible.

We have been able to secure our medication supply through one of our Group companies, Pharmsure, which is a specialist wholesale and distribution company supplying veterinary medicines for the pig and poultry industries. This has helped our farm practices to achieve improved margins, secure prices, and be more confident in medication supply.

International
Our International division comprises 27 practices in the Netherlands and four practices in the Republic of Ireland. These include companion animal, equine and farm practices.

Internationally, we have increased investment into our highly valued nurses, to mitigate challenges in vet recruitment and help us to attract and retain colleagues. This includes benchmarking of salaries and increased investment in our colleagues' wellbeing.

Head Office
Central administration costs include those of the central finance, IT, human resources, purchasing, legal and property functions. Total costs were £16.6m (2021: £15.7m), representing 3.0% of revenue (2021: 3.1%). The increased spend primarily relates to salary costs for new roles to support the continued growth of the Group and delivery of our strategy; for example, by investing in our human resources team, we are able to implement more initiatives to help reduce clinical role attrition.

As a percentage of revenue, the spend on support functions has remained broadly flat. The Group continues to base support colleagues in regions where possible, so they can easily provide the close support that the operations teams require.

Operational review continued

Area of focus

Veterinary Practices division
continued

Healthy Pet Club

As well as offering first class care to sick or injured animals, we continue to offer preventative healthcare through our Healthy Pet Club scheme, which offers routine flea and worming treatments and vaccinations, as well as twice yearly health checks. These clients can spread the cost of accessing the best preventative healthcare, allowing our clinicians to identify diseases and recommend the best diagnostics and treatments. The scheme membership has grown by 4.4% over the past year to around 470,000 members, representing roughly 40% of our companion animal active client base.

MiPet products/purchasing

Our own-brand spend consistently made up c.34% of the UK practices' pharmaceutical spending in 2022 and 2021. During the year, we have expanded our efforts to increase purchases of our own-brand products rather than third-party branded pharmaceuticals. This provides increased choice for our clients and we hope this will translate to an increase in own-brand spend in our practices.

We have continued to improve our warehouse management system, enhancing efficiency and increasing our permanent staffing, which has enabled us to cope with the increase in online retail order volumes as well as successfully complying with social distancing requirements through effective use of space and adjusted shift patterns within our warehouse.

Outlook

We are optimistic that our Veterinary Practices division will continue to deliver strong revenue growth. This optimism is driven primarily by our continued focus on high-quality clinical care, and we are confident we can continue to deliver significant improvements year on year. Whilst we are mindful of inflationary pressures, we are reassured that based on the responses to our consumer insight survey in August 2022, pet spend on veterinary care and food appears highly resilient. Secondly, we are also in a market of increasing humanisation of pets, with owners willing to spend more and more on the health of their pets, with increasingly high expectations and desire for their pets to have the same quality of care as every other member of the family.

Our colleagues continue to be our biggest focus in our Veterinary Practices division, as they are across the Group. In our 2022 Sustainability Report, we introduced our target to further reduce attrition by 10% which will enable us to bring down our vet and nurse vacancy rates, which have been relatively steady over the past two years despite significant workforce shortages in the industry. More broadly we expect significant improvements in supply of veterinary surgeons into the market over the next ten years, as the number of new graduates in the UK is set to roughly double by 2032.

Consumer insight survey

Our clients value the high quality of our services, and based on our August 2022 consumer insight survey[1], will preserve their spend even in the face of economic pressures.

Based on these survey responses, we are further reassured pet spend on veterinary care and food appears highly resilient, with only 5.8% of clients feeling they would try and reduce spend on veterinary care in the face of an economic recession. High-quality pet healthcare continues to be of great importance to our clients, with 52.1% of clients feeling spend on their pets healthcare would increase over the next 2 years, whilst only 5.2% felt it would decrease.

Spend on pet food is also considered a priority for our clients, with 96.5% of clients feeling spend on pet food would either stay the same or increase over the next two years.

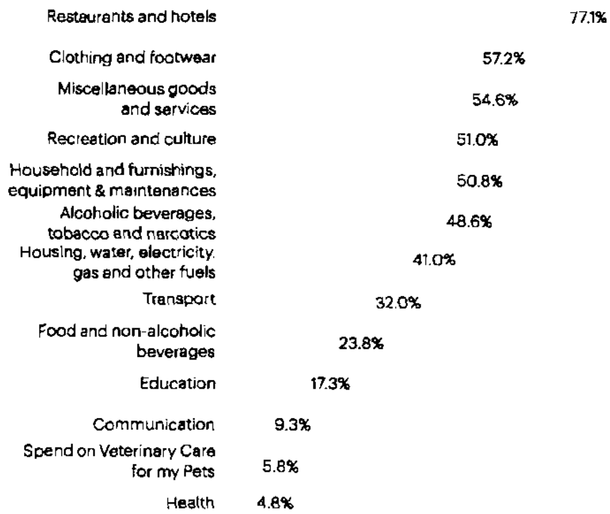
1 In August 2022, we issued a consumer insight survey to 2,000 clients and received a 23.2% response rate.

5.8%

Only 5.8% of pet owners said veterinary care was an area they would consider reducing spend on in the event of recession.

The consumer insight survey asked:

"In the face of an economic recession, which of the following categories of spend would you try to reduce over the next 2 years?"



Laboratories division

Reliable diagnostic testing supporting vets to deliver excellent clinical care

Laboratories revenue share*

4.7%

£27.2m
revenue

-2.9%
revenue growth

445,000
laboratory tests performed

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

Our Laboratories division provides diagnostic services and in-practice desktop analysers to both CVS and third-party practices, and employs a national courier network to facilitate the collection and timely processing of samples from practices across the UK. We continue to develop our capability to ensure we can support the wider Group focus on growing diagnostic care.

Revenue has decreased 2.9% compared to the prior year which benefitted from one-off COVID-19 testing for CVS and third parties. On an underlying basis, adjusting for the COVID-19 PCR testing revenue in the prior year, revenue increased 1.1% on the back of remarkable non-COVID-19 testing growth in the prior year. Approximately 45% of our diagnostic laboratory tests are for CVS practices, reflecting the importance of our integrated veterinary model. Adjusting for the number of COVID-19 tests performed in 2021, the number of diagnostic tests was broadly consistent between 2021 and 2022, with price rises contributing to underlying revenue growth.

Outlook
The Laboratories division has remained resilient despite increasing consolidation in the veterinary sector. By increasing the speed and range of testing we offer in our laboratories, continuing to ensure field-leading client service, and employing a highly skilled network of sales teams and engineers, we are optimistic of growth in the years to come.

Crematoria

CVS provides compassionate service throughout a pet's life and beyond

Our Crematoria division provides both individual and communal cremation services for companion animal and equine clients, as well as clinical waste disposal services for both CVS and third-party veterinary practices.

The strong growth in the division was driven by the Direct Pet Cremation service we introduced in the previous financial year. Putting customers directly in contact with crematoria to make pet aftercare arrangements, and giving them more time to consider their options, has resulted in significant changes to customers' choices and generated improved customer care alongside financial returns. As a result of the service, the number of individual cremations increased by 5.5% in the year.

Outlook

We are investing in a modern new crematorium to relocate one of our existing crematoria. The new facility will be the first pet crematorium in the UK to incorporate temperature and oxygen control systems, which to date have only been used in human cremators, to minimise our environmental impact by delivering optimal combustion efficiency.

This new facility, due to complete in the 2023 financial year, alongside continued expansion and development of the Direct Pet Cremation project, is expected to continue to deliver revenue growth across the Crematoria division.

Crematoria revenue share*

1.7%

£9.5m
revenue

18.8%
revenue growth

5.5%
increase in individual cremations

* Revenue share before intercompany sales between practices and other divisions

Online Retail Business

Shaking up the pet food and pharmacy sales market

Online Retail Business revenue share*

8.1%

£46.6m
revenue

11.8%
revenue growth

368,000
unique customers

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

Our online pet food and pharmacy retailer, "Animed Direct", focuses on supplying pet food and prescription and non-prescription medication, directly to customers. This is supported by the buying power of the Group as a whole, which ensures the business is able to provide the best value for customers.

During the financial year, our Online Retail Business division delivered revenue growth of 11.8% and adjusted EBITDA growth of 20.7%. We have focused on shifting the marketing and delivery of Animed Direct from low cost to a trusted quality retailer, which is in line with the Group's overall purpose and strategy. This has supported in delivering revenue growth in the division despite the reduction in unique customer numbers to 368,000 (2021: 404,000).

We have also successfully implemented a new logistics and fulfilment system to align with our improved warehouse management processes and ensure increased productivity and quality control.

Outlook
In the second half of the financial year, we began the design and implementation of a new website to enhance the customer journey, expected to launch in the 2023 financial year. Our improved website and warehouse systems will enable us to increase capacity, delivering future growth in online sales, generating revenue growth and improving customer satisfaction.

Ben Jacklin
Chief Operating Officer
22 September 2022

Well positioned for continued growth despite the more uncertain macro-economic environment

Robin Alfonso
Chief Financial Officer

Financial highlights

The Group has continued to deliver against its strategy, with strong performance in both revenue and adjusted EBITDA.

Key financial highlights are shown below:

	2022	2021	Change %
Revenue (£m)	**554.2**	510.1	8.6%
Adjusted EBITDA (£m)*	**107.4**	97.5	10.2%
Adjusted profit before tax (£m)*	**75.5**	66.2	14.0%
Adjusted earnings per share (p)*	**85.8**	75.1	14.2%
Operating profit (£m)	**42.8**	40.1	6.7%
Profit before tax (£m)	**36.0**	33.1	8.8%
Basic earnings per share (p)	**36.2**	27.3	32.6%

A reconciliation of the difference between the reported operating profit figure and adjusted EBITDA is shown below:

	2022 £m	2021 £m
Operating profit	**42.8**	40.1
Adjustments for:		
Amortisation, depreciation, impairment[1] and profit on disposal	**47.3**	48.1
Costs relating to business combinations	**4.9**	9.3
Exceptional items[2]	**12.4**	–
Adjusted EBITDA	**107.4**	97.5

1. Impairment of non-current assets, except for impairment of the investment in Quality Pet Care Ltd in 2022.
2. Impairment of the investment in Quality Pet Care Ltd in 2022 is included in exceptional items.

* Adjusted financial measures (adjusted EBITDA, adjusted profit before tax and adjusted earnings per share) are defined in the financial statements, and reconciled to the financial measures defined by International Financial Reporting Standards (IFRS) on pages 114 and 132 of the Annual Report. Management uses adjusted EBITDA and adjusted earnings per share ("adjusted 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.

"Delivery of our strategy drives strong performance and robust cash flows."

Financial performance

Revenue increased by 8.6% to £554.2m from £510.1m, with strong like-for-like growth of 8.0%. The Group continues to benefit from favourable market trends such as the sustained increase in pet population and the demand for and ability to deliver quality clinical intervention. The focus of delivery against our strategy has underpinned revenue growth and we have seen a 6.0% increase in the average number of vets we employ and a 4.4% increase in our Healthy Pet Club membership, to 470,000. This performance was particularly pleasing given the ongoing operational challenges associated with COVID-19.

We continue to see an opportunity to grow like-for-like sales and have increased our development capital expenditure to £13.7m from £8.4m to support ongoing expansion opportunities including refurbishments and relocations. We also see an opportunity to open Greenfield sites with three planned over the next twelve months.

Adjusted EBITDA increased by 10.2%, to £107.4m from £97.5m. Adjusted EBITDA margin increased to 19.4% from 19.1%, benefitting from operating leverage and strong revenue growth. Adjusted EBITDA also included £2.0m from another year of Research and Development Expenditure Tax Credits, which is the Group's second claim under this scheme.

During the year an impairment of £12.4m was recognised as an exceptional item, outside of adjusted EBITDA, following the Competition and Markets Authority's (CMA) investigation into the acquisition of Quality Pet Care Ltd and the subsequent divestment. This followed the CMA's conclusion that there was a potential substantial lessening of competition in a number of the sites acquired.

Since the conclusion of the investigation, three acquisitions have been completed for an investment totalling £8.4m (net of cash acquired), contributing during the period aggregate revenue of £0.5m and adjusted EBITDA of £0.1m. The pipeline of acquisitions remains strong and we continue to see opportunities for further investment in the future both in the UK, where there is now a clear framework to follow, and also in other territories.

We continue to closely monitor macro-economic trends including the impact of rising inflation. We believe that the Group is well placed to deliver continued growth from our integrated model, strong balance sheet and available investment opportunities.

Adjusted profit before tax increased by 14.0%, to £75.5m from £66.2m, in line with the increase in adjusted EBITDA. Adjusted EPS correspondingly increased by 14.2%, to 85.8p from 75.1p. Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets, costs relating to business combinations and exceptional items.

Profit before tax increased by 8.8%, to £36.0m from £33.1m, benefitting from an increase in adjusted EBITDA, a reduction in costs relating to business combinations, which includes business combinations costs in respect of prior periods, partially offset by the impairment in relation to Quality Pet Care Ltd (further information available in note 16 to the financial statements). Basic EPS increased by 32.6%, to 36.2p from 27.3p.

Taxation

The total tax expense has reduced by £3.5m to £10.3m from £13.8m, primarily due to the prior year having included a one-off £4.3m expense in respect of the re-measurement of deferred tax balances following the substantive enactment of the increase in the UK corporation tax rate to 25.0% from April 2023. This was partially offset by a £2.3m capital loss, in relation to the divestment of Quality Pet Care Ltd, which could not be utilised in the current year. A deferred tax asset has not been recognised in respect of this loss as presently it is not probable that the Group will utilise this loss in future periods.

Financial performance continued

Taxation continued

The Group's effective tax rate was 28.6% (2021: 41.7%). A reconciliation of the expected tax charge, at the standard rate, to the actual charge is shown below:

	£m	%*
Profit before tax	**36.0**	
Expected tax at UK standard rate of tax	**6.8**	19.0%
Loss on disposal of non-qualifying assets	**2.3**	6.4%
Expenses not deductible for tax purposes	**1.2**	3.3%
Adjustments to previous year tax charge	**(0.4)**	(1.1%)
Impact of unrecognised losses	**0.2**	0.5%
Effect of difference between closing deferred tax rate and current tax rate	**0.2**	0.5%
Actual charge/effective rate of tax	**10.3**	28.6%

* Percentage of profit before tax.

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, amortisation and depreciation of property, plant and equipment that do not qualify for tax relief. Tax relief for some expenditure, mainly property, plant and equipment, is received over a longer period than that for which the costs are charged in the financial statements.

Financial position

	2022 £m	2021 £m
Intangible assets	**216.5**	228.4
Property, plant and equipment	**69.7**	57.4
Right-of-use assets	**101.7**	97.2
Other non-current assets	**2.4**	0.1
Current assets	**127.9**	101.4
Current liabilities	**(101.4)**	(98.5)
Non-current liabilities	**(199.4)**	(194.9)
Equity	**217.4**	191.1

As at 30 June 2022, intangible assets amount to £216.5m (2021: £228.4m), consisting of goodwill, patient data records and computer software. The net reduction of £11.9m primarily relates to amortisation in the year of £22.2m (2021: £23.8m), offset by additions through business combinations of £8.8m (2021: £22.9m). The Group maintains significant headroom between the value-in-use of the groups of Cash Generating Units (CGUs) and the carrying amount of the associated assets, resulting in no impairment noted.

Property, plant and equipment of £69.7m (2021: £57.4m) includes freehold land and buildings, leasehold improvements, fixtures fittings and equipment and motor vehicles. The net increase of £12.3m primarily relates to additions (including those arising via business combinations) of £23.7m (2021: £16.7m), reflecting our continuing commitment to investing in our facilities, offset by depreciation of £11.3m (2021: £10.3m).

Right-of-use assets of £101.7m (2021: £97.2m) consists of property leases for our veterinary practices, specialist referral centres and support offices and short term leases for vehicles and equipment. The net increase in the year of £4.5m primarily relates to additions (including those via business combinations) and re-measurement of lease terms of £19.6m (2021: £15.4m), partially offset by depreciation and impairment charge in the year of £14.1m (2021: £14.0m) and net disposals of £1.0m (2021: £1.7m).

Other non-current assets of £2.4m (2021: £0.1m) primarily relates to the fair value of the cash flow hedge of £2.3m (2021: liability of £0.4m).

Current assets of £127.9m (2021: £101.4m) comprises inventories of £26.2m (2021: £19.5m), trade and other receivables of £52.7m (2021: £48.1m) and cash and cash equivalents of £49.0m (2021: £33.7m). The net increase of £26.5m mainly relates to increased inventories in line with growth in overall revenues and increased cash and cash equivalents arising from strong operating cash flows.

Current liabilities of £101.4m (2021: £98.5m) comprise trade and other payables of £86.6m (2021: £86.0m), provisions of £2.1m (2021: £3.9m), lease liabilities of £9.4m (2021: £8.6m), current tax liabilities of £3.3m (2021: asset of £0.1m). The net increase of £2.9m mainly relates to the increase in liability for corporation tax.

Non-current liabilities of £199.4m (2021: £194.9m) includes borrowings of £84.3m (2021: £83.9m), lease liabilities of £95.1m (2021: £90.2m), and deferred tax liabilities of £20.0m (2021: £20.4m). See below for further details regarding the Group's borrowings.

Equity of £217.4m (2021: £191.1m) increased by £26.3m as a result of total comprehensive income of £27.6m (2021: £19.0m), new shares issued and shares disposed from the Employee Benefit Trust (EBT) of £2.3m (2021: £1.5m) to settle obligations under the Group's Save As You Earn (SAYE) scheme, and transactions in relation to share-based payments and associated deferred tax of £1.0m (2021: £4.0m). A dividend payment of £4.6m was paid in 2022 (2021: £nil).

Cash flow and movement in net debt

Net debt decreased by £14.9m to £35.3m from £50.2m. The movement in net debt is explained as follows:

	2022 £m	2021 £m
Cash generated from operations	**93.1**	80.3
Capital expenditure – maintenance	**(10.8)**	(8.2)
Repayment of lease liability	**(12.7)**	(13.0)
Taxation paid	**(11.2)**	(13.0)
Interest paid	**(6.4)**	(7.1)
Free cash flow	**52.0**	39.0
Capital expenditure – development	**(13.7)**	(8.4)
Business combinations (net of cash acquired)	**(8.4)**	(19.4)
Loans and borrowings acquired through business combinations	**(0.1)**	(1.0)
Exceptional items	**(12.4)**	—
Dividends paid	**(4.6)**	—
Sale of property, plant and equipment	**0.2**	0.6
Proceeds from Ordinary shares	**2.3**	1.2
Proceeds from Treasury shares	**—**	0.3
Amortisation of debt issuance costs	**(0.4)**	(0.4)
Decrease in net debt	**14.9**	11.9

The Group remains highly cash generative and de-levers quickly post-investment. Cash generated from operations increased by 15.9% to £93.1m from £80.3m benefitting from increased adjusted EBITDA and a reduction in contingent consideration payments in respect of acquisition from prior years, partially offset by an increase in inventory. Working capital was also adversely impacted in the year by the commutation of a portion of clinical colleagues' bonus payments to salary in July 2021.

The analysis of capital expenditure between maintenance and development in the table above reflects a broad split between expenditure which we believe will primarily maintain profit, and that which we expect to increase profit. Development capital expenditure includes new sites, relocations, significant extensions and significant new equipment. All other capital expenditure is included as maintenance; maintenance capital expenditure remains less than 2.0% of revenue.

Repayment of lease liabilities of £12.7m (2021: £13.0m) are in respect of property leases for our veterinary practices, specialist referral centres and support offices and short-term leases for vehicles and equipment.

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 tax figure. Therefore, the tax liability moves broadly in line with the adjusted profit before tax of the Group.

The decrease in tax paid in the year is predominantly as a result of an increase in capital allowances and increase in the year-end corporation tax liability.

Interest payments of £6.4m were lower than the prior year of £7.1m, reflecting the Group's maintenance of low levels of net debt during the financial year. During the year, the Group transitioned its interest benchmark rate in relation to its loan facility from LIBOR to SONIA.

Cash available for discretionary expenditure ("free cash flow") increased to £52.0m from £39.0m, primarily as a result of increased adjusted EBITDA.

Development capital expenditure increased in the year to £13.7m, from £8.4m, to support ongoing expansion opportunities, including a number of relocations and renovations. We continue to see opportunities to grow organic revenue and therefore expect development capital expenditure to increase over the next few years.

For business combinations (net of cash acquired) acquired during the financial year, £8.0m (2021: £19.4m) was paid for three practices (four practice sites), with an additional £0.4m liability on the balance sheet. A further £0.4m (2021: £nil) was paid in relation to prior year acquisitions. In addition, £0.1m (2021: £1.0m) was paid to settle loans transferred as part of the business combinations.

On 19 August 2021, the Group acquired 100% of the share capital of Quality Pet Care Ltd, an eight site companion animal practice spread across the UK, for total consideration of £20.4m, including repayment of loans of £3.4m. On 22 September 2021, the CMA served an initial enforcement order in respect of this acquisition and during the period a further £1.0m loan was provided for working capital. On 30 June 2022, the entire shareholding was divested for proceeds of £9.0m, resulting in an impairment of £12.4m, which has been recognised as an exceptional item.

A dividend of £4.6m was paid in the year (2021: £nil) reflecting the final dividend for the prior year of 6.5p per share.

Sale of property, plant and equipment of £0.2m (2021: £0.6m) primarily related to the sale of motor vehicles.

Proceeds from the sale of Ordinary and Treasury shares of £2.3m (2021: £1.5m) arose on the exercise of options under the Group's approved SAYE scheme, which allows colleagues to save regular amounts each month over a three-year period and benefit from increases in the Group's share price over that time.

Amortisation of debt issuance costs of £0.4m (2021: £0.4m) were in line with our policy.

Cash flow and movement in net debt continued

Net debt and borrowing costs

The Group's net debt comprises the following:

	2022 £m	2021 £m
Borrowings repayable after more than one year:		
Loan facility	**85.0**	85.0
Unamortised borrowing costs	**(0.7)**	(1.1)
Total borrowings	**84.3**	83.9
Cash and cash equivalents	**(49.0)**	(33.7)
Net debt	**35.3**	50.2

The Group has total facilities of £175.0m to 31 January 2024, provided by a syndicate of four banks: NatWest, HSBC, BOI and AIB, and comprising the following elements:

- a fixed term loan of £85.0m, repayable on 31 January 2024 via a single bullet repayment;
- a four-year Revolving Credit Facility (RCF) of £85.0m, that runs to 31 January 2024;
- an envisaged, but not committed, accordion facility of up to £100.0m, that runs to 31 January 2024; and
- a £5.0m overdraft facility, renewable annually.

The two financial covenants associated with these facilities, described below, 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.

At the year-end, the total borrowings principally consist of:

- the £85.0m term loan (gross of unamortised issue costs) (2021: £85.0m); and
- £nil drawn down under the RCF (gross of unamortised issue costs) (2021: £nil).

The two financial covenants associated with the Group's bank facilities are based on the ratios of bank test EBITDA to interest and bank test net debt to bank test EBITDA. Bank test EBITDA is based on adjusted EBITDA, annualised for the effect of acquisitions, including costs relating to business combinations and excluding share option costs, prior to the adoption of IFRS 16. The bank test EBITDA to interest ratio must not be less than 4.5x. At 30 June 2022 it was 41.00x (2021: 24.97x).

The covenants allow a maximum net debt to bank test EBITDA ratio ("gearing") of 3.25x, although it is not the Group's intention to operate at this level. The gearing ratio decreased during the year, to 0.40x at 30 June 2022 from 0.68x at 30 June 2021. This decrease in ratio reflects both the decrease in net debt and increase in EBITDA.

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. During the year, the loan facility and two hedge arrangements were transitioned from LIBOR to SONIA benchmark rate, further information can be found in note 17.

Going concern and viability

At the year end, the Group had cash and cash equivalents of £49.0m, a drawn term loan of £85.0m, an unutilised revolving credit facility of £85.0m and an unutilised overdraft facility of £5.0m. The Group are fully compliant with all covenants in respect of these facilities.

The Directors consider that the £5.0m overdraft and the £170.0m of debt facilities will be sufficient to enable the Group to meet all liabilities when they fall due. The Group are not reliant on any Government support. 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 next 12 months, 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 our liabilities as they fall due over the period. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

More information on the Group's viability statement can be found on pages 95 and 96.

Share price performance

At the year end the Company's market capitalisation was £1.2bn (1,656p per share), compared to £1.7bn (2,415p per share) at the previous year end.

Forward-looking arrangements

Certain statements and arrangements described in the Annual Report and results release are forward-looking. Although the Board is comfortable 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
22 September 2022

Giving our graduate vets a warm welcome

Attracting key talent
Our vision and purpose rely on recruiting and retaining the very best talent. We have close relationships with the eleven veterinary schools in the UK and new graduate vets who chose to work at CVS are welcomed with an industry-leading residential camp.

The summer camp
Our Graduate Summer Camp was developed to help provide new graduates with the skills required for a successful start in the profession; our belief being that a good experience in the first months of practice would set them up for a long, happy and successful career.

Our graduates start with lectures on common conditions and webinars. The second week of the course is residential, in which graduates have opportunities to practice in areas such as suturing, ultrasound, CPR, and dentistry. There are also social events so they can get to know their new colleagues. Following this, new graduates attend clinics in pairs to spend time consulting and operating with direct and dedicated support from an experienced CVS vet.

One of our graduates who completed the summer camp, shared the following feedback after her first day in practice:

> "I just wanted to say that if I didn't do the Summer Camp, I would have been a burden today. All the vets were really surprised about how independent I was. So, a massive thank you for all the work and effort that's been put into the Summer Camp to make my transition to employment so much easier!"

Testimonials such as this have also been backed up by the data University of Surrey is currently analysing. In a questionnaire where new graduates scored their confidence going into practice at the beginning and end of the residential week, there was a dramatic increase from 1.7 to 8.4.

Proactively identifying and managing risk throughout 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. Colleagues across the business are involved in the preparation and regular review of these risk registers to ensure that all potential areas of risk are adequately identified, recorded and managed. Controls that are in place are assessed in order to determine the extent to which they mitigate risk and in circumstances where it is considered appropriate to reduce risk further, appropriate actions are determined.

The Group's business operations are subject to a wide range of risks. Some of the most significant risks are explained on pages 61 to 68, together with details of actions that have been taken to mitigate these risks.

The key roles and delegated responsibilities

Executive Management team
Collectively responsible for managing risks.

Audit Committee
Assists the Board to fulfil its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and the risk management structure.

Internal audit
Holds meetings with risk owners across the business, assesses the risk ratings and documents the controls in place to mitigate each risk, and recommends improvements and corrective actions.

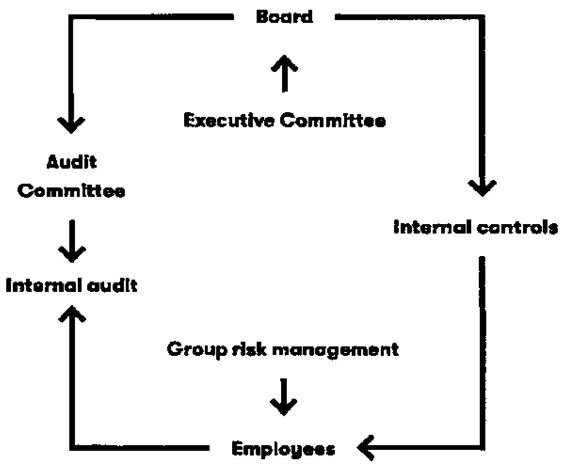
Risk appetite

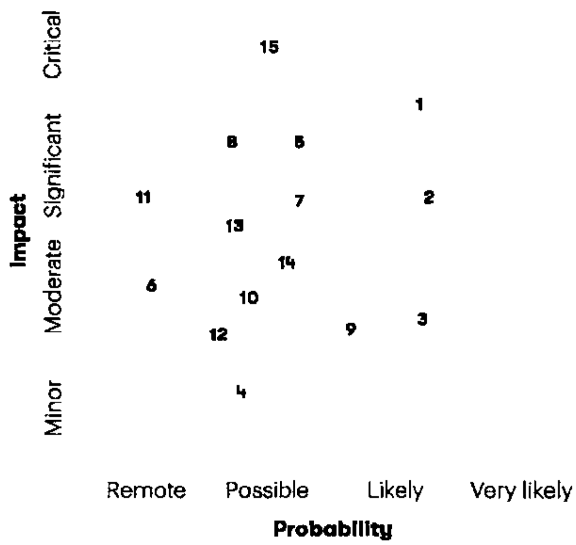
The effectiveness of the Group's risk management approach relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. The Group's appetite for risk is considered low; whilst some risk is accepted in order to develop the business and invest in future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

Assessment of principal risks
During the year, the Board undertook a robust, in-depth and comprehensive assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity. A summary of the principal risks and uncertainties that could impact the Group's performance is shown on pages 61 to 68.

"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."

Risk management framework





1 Key employees
2 Economic environment
3 Competition
4 Adverse publicity
5 Information technology
6 Changes in industry regulations
7 Sourcing pharmaceutical supplies
8 Sourcing and integrating acquisitions
9 Health and Safety legislation
10 Corporate legislation and regulatory requirements
11 Bank facilities
12 Future pandemic or lockdown
13 Sustainability and climate change
14 Epidemiology
15 Cyber attack

Principal risks and uncertainties continued

No change to risk ↔ **Increasing risk** ↑ **Reducing risk** ↓ **New risk** N

1. Key employees

Description
Failure to retain and attract key staff, particularly veterinary surgeons due to structural shortages of qualified vets in the industry.

Potential impact
- Failure to be able to meet the increased demand from clients and their animals.
- Increased employment costs leading to adverse impact on financial performance of the Group.
- Increased pressure on our colleagues to cover vacancy gaps.

Mitigating factors
- Close relationship with UK veterinary schools.
- Market leading graduate induction programme.
- Focused training programmes to cover clinical, customer service and management training.
- Appropriate reward and benefits.
- Regular feedback from colleagues to address common issues or concerns.
- Highly qualified recruitment team.
- Annual bonus scheme and a Group Long-Term Incentive Plan (LTIP) scheme for senior colleagues. An annual Save As You Earn (SAYE) scheme is in place for all UK colleagues.
- Home Office reinstatement of veterinary surgeons on UK Shortage Occupation List.
- Increasing number of veterinary schools.
- Summer and Winter Camps aid an increase in the number of graduate intake.
- Post COVID travel restrictions have eased allowing more flexibility.

Changes in the year
- Increased the number of vets and nurses employed by 6.0% and 11.4% respectively.
- Vet and nurse attrition rates remained relatively stable.
- Additional pay rises of 3.0% for all colleagues in May 2022 to manage rising cost of living, in addition to the July 2021 pay review in the year.
- Increased nurse utilisation, improving nurse job satisfaction and reducing pressure on vets.
- Summer and winter camps to attract new graduate vets, and increased engagement with the top vet schools.
- Introduced an additional days leave for each completed year of service up to a maximum of five additional days.

Link to strategy ↔
Read more on pages **26 and 27**

1 2 3 4

2. Economic environment

Description
Risk of potential further decline in the UK economy.

Potential impact
- Reduction in consumer confidence and spending on veterinary services in light of inflationary pressures.
- Rising inflation costs impacting cost of product and adversely effecting margins.
- The impact of Brexit on the Group's business is clearer. The main risks are a potential risk to supply and increased compliance around importing and exporting goods.

Mitigating factors
- Diverse range and provision of services across the Group to a wide range of animals in the UK, the Netherlands and the Republic of Ireland.
- Strong year-on-year growth in the Healthy Pet Club (HPC), which increased to 470,000 members from 450,000 at the year end, a 4.4% increase. This scheme helps to promote loyalty to the Group.
- Online retail business protects the Group against changes in consumer spending habits.
- Ability to source supplies from a number of manufacturers. We have strong relationships with our suppliers and manufacturers.
- Veterinary is considered to be an essential service.

Changes in the year
- A new fixed-term energy contract has been signed to protect the Group against increasing energy prices.
- Latest PDSA "PAW" report found 2.5 million dogs and cats acquired between 2020 to March 2022 showing increased pet population is here to stay.
- Shift in working patterns to more employees working from home makes it easier for pet owners to look after their pets.
- The Group is monitoring rising inflation.

Link to strategy ↑
Read more on pages **26 and 27**

1 3 4

3. Competition

Description
Increased consolidation and acquisition of independent veterinary practices.

Potential impact
- Loss of third-party practice clients to Laboratories, Crematoria and Referrals.
- Increased acquisition value multiples being paid.
- Increased price competition may limit the ability to pass on increases in employment, pharmaceutical and other costs.

Mitigating factors
- The Group has a wide range of services to offer its clients by way of its integrated veterinary platform.
- Continuous investment to maintain high-class facilities and equipment in order to provide excellent clinical service.
- Detailed assessment of acquisition opportunities measured against clear target criteria.
- Regular reviews of pricing of products and services to ensure we remain competitive.
- Healthy Pet Club (HPC) scheme offers clients access to preventative healthcare for their pets while spreading the cost.

Changes in the year
- Ongoing market consolidation.
- Continued increase in our HPC scheme.
- Growth in revenues in the year reflecting on focus to deliver organic growth.
- Clear guidelines set by Competition and Markets Authority on how to assess local market competition.

Link to strategy ↔
Read more on pages **26 and 27**

1 2 3

4. Adverse publicity

Description
Any adverse publicity on the Group, other corporate veterinary groups or the veterinary sector as a whole.

Potential impact
- Reduction in customer numbers leading to adverse revenue.
- Adverse impact on our ability to attract and retain key colleagues.

Mitigating factors
- Policies and procedures in place to monitor service delivery and ensure continued levels of high class veterinary care.
- Participation in the RCVS Practice Standards Scheme and RCVS Knowledge QI Champion accreditation.
- Established Clinical Advisory Committee to advise on clinical standards and drug lists across the Group.
- Individual practice branding to reduce risk of adverse publicity by being associated with other practices.
- Group marketing and communications teams to respond swiftly to any issues.
- Prominent representation on national bodies and at industry events to enhance the Group's reputation and credibility.
- Financial PR agency appointed to support with media communication.
- Positive feedback from Summer and Winter Camp for Veterinary graduates.
- 2021 Quality Improvement report issued which outlines our approach to increasing clinical standards.
- Leading Learning, Education and Development programme offering a wide range of continued professional development courses for our Vets and Nurses.

Changes in the year
- Increased media coverage regarding veterinary consolidation and the impact on end user pricing.
- Continued monitoring of our clinical standards against our quality improvement frameworks for clinicians and practices.
- We have engaged with third parties to further enhance reporting of important issues such as sustainability.

Link to strategy ↔
Read more on pages **26 and 27**

1 2 3 4

Principal risks and uncertainties continued

No change to risk	**Increasing risk**	**Reducing risk**	**New risk**
↔	↑	↓	N

5. Information technology

Description
The Group is dependent on various aspects of Information Technology (IT) and support for its operations.

Potential impact
- Loss of connectivity and availability of systems across our network.
- A cyber attack could result in loss of systems and potential loss of client data.

Mitigating factors
- Policies and procedures are in place to ensure stability and security of our networks and systems.
- Restricted access to systems, networks and applications wherever possible.
- Scheduled programme of network security enhancement with external reviews performed periodically.
- Full system testing of any developments prior to live deployment.
- Regular backups and testing of the recovery of those system backups.
- Established Practice Management System in place which is able to work without access to the internet for short periods of time.
- Appropriate training offered to all colleagues.

Changes in the year
- Strengthened senior IT team including appointment of Head of Cyber Security and Head of Infrastructure.
- The Group's new Chief Technology Officer (CTO) is undertaking a review of key risks.

Link to strategy
Read more on pages 26 and 27

↔

3 4

6. Changes in industry regulations

Description
The industry is subject to a number of laws and regulations.

Potential impact
- Failure to adhere to these could have a material impact on the Group through damage to reputation and/or financial penalties.
- Changes in regulations could adversely impact the Group.

Mitigating factors
- Policies and procedures in place to monitor compliance and any developments or proposed changes.
- Regular engagement with regulatory and legislative bodies to promote best practice and lobbying for change where considered appropriate.
- Clinical Directors in place to ensure high standards are maintained.

Changes in the year
- We continue to review and respond to evolving government and regulatory guidance and able to adapt our services accordingly (e.g. use of tele-consultations).

Link to strategy
Read more on pages 26 and 27

↔

1 2 3 4

7. Sourcing pharmaceutical supplies

Description
Failure to source pharmaceutical products at the required price and quantity.

Potential impact
- Inability to treat patients with the required prescription and non-prescription medicines.
- Adverse revenue impact.
- Adverse impact on margins through having to source alternative supplies on less favourable terms.

Mitigating factors
- Supply agreements in place with multiple major wholesalers to cover stocking issues.
- Supply of own-brand products in Group warehouses for onwards supply.
- Regular pricing reviews with all major suppliers across all divisions for best possible pricing.
- Increase in direct supply of products.

Changes in the year
- New warehouse system fully implemented for monitoring stock levels accurately.
- Where possible, we have included price caps in supplier contracts to protect the Group from price increases.

Link to strategy ↔
Read more on pages **26 and 27**

1 4

8. Sourcing and integrating acquisitions

Description
Failure to attract, acquire and integrate acquisitions at the appropriate price with minimal disruption.

Potential impact
- Pressure that higher multiples reduce growth opportunities through acquisitions.
- Failure to integrate efficiently impacting actual performance versus business case.

Mitigating factors
- Dedicated team committed to sourcing acquisitions.
- Clear list of criteria used to assess any potential acquisition targets.
- Multi-disciplined team communications in advance of acquisition to plan the integration.
- Use of professional advisors to ensure appropriate due diligence and legal advice are undertaken.
- Close monitoring of post-acquisition performance versus business plan.
- Liaise with Competitions and Markets Authority (CMA) on acquisitions where appropriate.

Changes in the year
- Added further conditions to pre-acquisitions checklist.
- Strengthened acquisitions team.
- Clear guidelines set by CMA on how to assess local market competition.

Link to strategy ↔
Read more on pages **26 and 27**

3

Principal risks and uncertainties continued

No change to risk ↔ **Increasing risk** ↑ **Reducing risk** ↓ **New risk** N

9. Health and Safety legislation

Description
Failure to comply with health and safety legislation across our practices, laboratories, crematoria, warehouse and other sites.

Potential impact
- Colleagues, clients or the general public are injured.
- Required temporary closure of sites whilst any issues are addressed.
- Loss of revenue and potential claims against the Group.

Mitigating factors
- Robust health and safety procedures are in place ensuring full compliance with health and safety legislation.
- Mandatory employee training to ensure they can perform their duties safely.
- Appropriate protective equipment supplied to all employees in order for them to perform their duties safely.
- Specialist health and safety team which regularly reviews any risks and identifies areas for improvement.
- Participation in the RCVS Practice Standards Scheme to ensure the Group promotes the highest levels of clinical standards.
- Specialist and appropriately qualified third-party advisors undertake maintenance, inspections and property development.
- Health and Safety committee in place.

Changes in the year
- Continued focus on health and safety in all practices.
- Emphasis on ensuring health and safety standards are at the forefront when considering property improvements.
- Appointment of Director of Property and Health and Safety.

Link to strategy ↓
Read more on pages 26 and 27

1 3 4

10. Corporate legislation and regulatory requirements

Description
Failure to comply with laws and regulations.

Potential impact
- The Group could face fines and penalties leading to financial loss.
- The Group could face suspension of certain operations.

Mitigating factors
- Appropriate training supplied to colleagues in the relevant areas required.
- Suitable experts employed to ensure compliance and to regularly update policies and procedures.
- Appropriate insurance cover and third-party professional advice used as required.

Changes in the year
- Tender process and appointment of new Nominated Advisor during the year.

Link to strategy ↔
Read more on pages 26 and 27

4

11. Bank facilities

Description
Failure to comply with bank covenants and ability to secure future funding.

Potential impact
- Lack of availability of funding.
- Increased borrowing costs.

Mitigating factors
- The Group maintains suitable facilities from a syndicate of leading banks with an appropriate term.
- Existing facilities comprise term debt, revolving credit facility and an overdraft.
- Regular reporting of headroom and compliance to the Board and Executive Committee.
- Regular meetings with bank syndicate members to appraise performance.
- Focus on maintaining relationships with main lenders and other banking parties.
- Daily cash flow forecasts prepared and reviewed for a rolling three-month period to enable working capital requirements to be understood and to optimise bank drawings and interest costs.
- The Group has the ability to de-lever quickly.

Changes in the year
- Strong cash generation continues and net debt and leverage remain low.
- No additional borrowings utilised in the year.
- Transition from LIBOR to SONIA on 31 December 2021.
- The Group is monitoring the changes in interest rates ahead of the repayment date of the existing credit facilities, which is 31 January 2024.

Link to strategy ↓
Read more on pages 26 and 27

1 2 3 4

12. Future pandemic or lockdown

Description	Mitigating factors	Changes in the year
Description Future uncertainty over COVID-19 or other pandemic and associated lockdowns. **Potential impact** > Future lockdowns affect our ability to service our clients if non-emergency services are unable to be undertaken. > Short-term restrictions in resource due to requirement for COVID-19 self-isolation.	> Working closely with the RCVS and BVA to review evolving guidance. > Multiple geographically-spread locations across the UK, Netherlands and Republic of Ireland protect the Group from any localised lockdowns. > The Group operates across a diverse number of operations with an online retail business and provides veterinary care across companion, equine and farm animal species. > The Farm Animal division is protected due to it being critical to the human food chain.	> Continued adherence to government and regulatory advice across all operating territories. > We continue to maintain the highest levels of protection for our staff and customers. > We continue to offer flexible working where appropriate to promote safety across the Group as a whole. **Link to strategy** ↓ Read more on pages **26 and 27** 3 4

13. Sustainability and climate change

Description	Mitigating factors	Changes in the year
Description The Group's continued success depends on the social and environmental sustainability of its operations. **Potential impact** > Disruptions to our supply chain leading to stock shortage and financial loss. > Adverse weather leading to a decline in our client demand. > Changes in regulations increasing the cost of our operations.	> Sustainability and ESG is discussed as a standing agenda item in Board meetings. > ESG Implementation Group formed which is chaired by the CEO. Supported by an additional seven working groups in the following areas: (1) Energy and Carbon, (2) Waste, (3) One Health, (4) Wellbeing, (5) People Development, (6) Equity, Diversity and (7) Inclusion and Community. > Introduction of additional electric vehicles for the car fleet and use of energy from renewable sources. > Focus on implementing targets to aim for Net Zero carbon emissions. > Appointment of ESG advisors to help assess our risks and to implement our ESG strategy, "Care at our Heart".	> Sustainability Report published with SASB-compliant data. > TCFD reporting in Annual Report. > Risks and opportunities assessment and scenario analysis performed in relation to climate change. **Link to strategy** ↔ Read more on pages **26 and 27** 1 2 3 4

Principal risks and uncertainties continued

No change to risk ↔ **Increasing risk** ↑ **Reducing risk** ↓ **New risk** N

14. Epidemiology

Description
There is a risk to the Group as a result of potential animal epidemics.

Potential impact
- New diseases entering the UK due to animal importation could lead to animal deaths, and loss of future revenues.
- Diseases transmitted from animals to humans may lead to operational disruption.

Mitigating factors
- The Group continues to invest in research and development and closely monitors trends and concerns through our well established Clinical Advisory Committee.
- Invested in ensuring we drive quality improvement and continue to publish our Quality Improvement Report.
- Notification system implemented to aid tracking and resolution of issuing arising.
- Focus on increased protection if suspected cases are identified.

Changes in the year
- We launched our Clinical Research Awards to fund clinical research, including quality improvement, which are open to both internal and external applicants via collaboration with universities.

Link to strategy N
Read more on pages **26 and 27**

1 4

15. Cyber attack

Description
Potential for a targeted breach of the Group's IT security.

Potential impact
- Loss of client data resulting in reputational damage.
- Disruption to operations

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.
- Network security is regularly enhanced with external reviews being performed periodically to identify areas of risk. A scheduled programme of equipment and software replacement takes place to help ensure that the latest security features are available.
- The Group employs a Head of Cyber Security alongside third-party advisors where appropriate to ensure we maintain high standards of protection.
- Systems are regularly backed up and the recovery of those systems is tested.
- Use of anti-virus software in place across the Group.
- Password policies are in place encouraging use of strong passwords. Forced password changes on a regular basis and two factor authentication used where appropriate.
- Fully encrypted payments terminals being rolled out across the group.
- Restricted access to systems, networks and applications wherever possible.

Changes in the year
- Strengthened senior IT team including appointment of Head of Cyber Security and Head of Infrastructure.
- The Group's new Chief Technology Officer (CTO) is undertaking a review of key risks.
- We switched provider of anti-virus software to mitigate potential threats arising from the changing political landscape in Europe.
- We continue to review our equipment and software and regularly install updates.

Link to strategy N
Read more on pages **26 and 27**

3 4

The Strategic Report is approved for issue by the Board of Directors

Jenny Farrer
Company Secretary
22 September 2022

Strong governance and leadership delivers sustainable growth.

Dear Shareholders,

I am pleased to present our Corporate Governance report for the year ended 30 June 2022 on behalf of the Board. This report explains how we have applied the principles of the UK Corporate Governance Code (the "Code") during the course of the year, as well as setting out details of changes to the Board of Directors and our governance structure. We believe that effective corporate governance is key to delivering the Group's strategy and ensuring long-term success and this report includes information about the progress we have made in diversity and inclusion, stakeholder engagement and our sustainability strategy.

Board changes and effectiveness

In September 2021, we welcomed David Wilton to the Board as an independent Non-Executive Director. David has also taken over the role of Chair of the Audit Committee following the departure of Mike McCollum and has brought a wealth of financial skills and experience to the role. In addition to this, Deborah Kemp was appointed Senior Independent Director as well as continuing to act as the Board's dedicated Non-Executive Director for employee engagement.

During the year, I conducted an internal evaluation to assess the effectiveness of the Board with support from our Company Secretary. We have internally set out the outcome and actions arising from the evaluation and this includes ensuring that the Board agenda includes opportunities for the Board to meet with and engage with the wider management team.

Equity, diversity and inclusion

Focus on nurturing an inclusive culture at CVS through our Equity, Diversity and Inclusion (EDI) workstream has continued throughout the year with good progress made against our ten-year plan. During 2022, we ran training for our HR team on recognising and minimising bias within performance and reward management, created EDI zones in our learning and development platform, launched psychological safety training and prepared updated company policies on EDI, Bullying, Harassment and Incivility and Menopause. CVS Colleague EDI groups, comprising over 60 colleagues from across the Group, have been established to focus on: ability and neurodiversity; ethnicity; gender; LGBTQ+ matters; and social mobility. These groups are already making an impact across the business and I am pleased to report that CVS joined together to celebrate Pride month this year through activities and the sharing of colleague stories.

Section 172(1) and stakeholder engagement

During the course of the year, I held a number of meetings with our institutional shareholders so I could understand their priorities and discuss key themes including the development of our approach to ESG and capital management.

During my time as Chair, CVS has built a strong corporate culture based on investing in our people, our facilities and our clinical equipment. We continue to expand our business and our focus remains on attracting and retaining the very best talent. The Board takes into account the interests of its stakeholders when taking decisions and some examples of how the Board has fulfilled its Section 172(1) duties and engaged with stakeholders during the course of the year can be found on pages 22 to 25.

Sustainability

During the year the Board has discussed the development of its approach to ESG at every Board meeting and we are pleased to have released our first standalone Sustainability Report, detailing the progress we are making and outlining how our ESG strategy is closely aligned to our purpose, vision, values and strategic pillars.

Annual General Meeting (AGM)

Our 2022 AGM will be held on Wednesday 23 November 2022 at 11:00am. Full details including the resolutions to be proposed to shareholders will be set out in the Notice of AGM which will be made available in the Investor Centre on our website.

Outcomes of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the Company's website and the London Stock Exchange once the AGM has concluded.

Richard Connell
Chair
22 September 2022

Our experienced Board with diverse skills and expertise

Board and Company Secretary gender diversit

Male	75%
Female	25%

Board and Company Secretary ethnic diversity

White	87.5%
Ethnic minority	12.5%

1. Richard Connell (67)
Non-Executive Chair

Appointment to the Board
Richard was appointed to the Board in October 2007.

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

Committee membership
Richard is not a member of the Audit, Remuneration or Nomination Committees.

A R N

2. David Wilton (59)
Non-Executive Director

Appointment to the Board
David was appointed to the Board in September 2021.

Career and experience
David is a qualified Chartered Accountant with more than 30 years' post-qualification experience as a Chief Financial Officer, Non-Executive Director (NED) and consultant after many years in corporate finance, primarily in mid-cap M&A with Rothschilds. David has held roles in both public and private equity backed companies including as CFO of Sumo Group plc, Group Finance Director of WYG plc and NED and Chair of the Audit Committee of Sweett Group plc. With effect from 22 September 2022, David was appointed as NED and Chair Designate at Frontier Developments plc, due to take over as Chair in December 2022.

Committee membership
David is Chair of the Audit Committee, and is a member of all three Board Committees.

A R N

3. Deborah Kemp (61)
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 is Chair of the Remuneration Committee. She is a member of all three Board Committees and is the Senior Independent Director.

A R

4. Richard Gray (65)
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. He is Chairman of CT Private Equity Trust PLC, a Non-Executive Director of Alpha Real Capital, Vice Chairman of Invescore Group and a Director at Zeus Capital. He has previously worked at Panmure Gordon, Lazard, Charterhouse and UBS.

Committee membership
Richard is Chair of the Nomination Committee, and is a member of all three Board Committees.

5. Richard Fairman (55)
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, 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 from 2016. Prior to this, Richard qualified as a Chartered Accountant at EY, later working at PwC, following which Richard held roles including Finance Director of Virgin Money, CFO of Central Trust and Finance Director of Virgin Money Giving.

6. Ben Jacklin (38)
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 management of our business operations, across all our territories. These include all our veterinary practices and our laboratories, crematoria, marketing and communication departments. Ben joined CVS in 2015 and, prior to his appointment to the Board in 2019, led the Veterinary Practice division across the CVS territories. Ben qualified as a Veterinary Surgeon from Cambridge University, and is a European College of Veterinary Surgeons and Royal College of Veterinary Surgeons recognised specialist in equine surgery.

7. Robin Alfonso (43)
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 then 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 PwC, following which he moved to Aviva where he performed a technical accounting role.

8. Jenny Farrer (45)
Company Secretary

Appointment
Jenny was appointed as Company Secretary in August 2021.

Career and experience
Jenny is a fellow of the Chartered Governance Institute with 16 years' experience of acting as Company Secretary to listed and large private companies through in-house and professional practice roles. Jenny is a Corporate Governance Professional and also spent over seven years in professional practice building and heading the Company Secretarial Practice at Mills & Reeve LLP. Jenny established the East of England Branch of the Chartered Governance Institute in 2008 and still takes an active role on its committee.

Committee membership

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

Effective management across the business

Jenny Farrer
Company Secretary

This Corporate Governance Statement explains how the Company is managed, the roles of the Board, its Committees and Directors and compliance with the standards set out in the UK Corporate Governance Code 2018 ("the Code") for the financial year ended 30 June 2022. For more information about the Code set by the Financial Reporting Council (FRC), visit www.frc.org.uk.

During the year to 30 June 2022, and up to the date of this Annual Report and Financial Statements, the Company has complied with the principles set out in the Code apart from certain limited exceptions which are explained on page 75 (Chair's independence and tenure – Provisions 10 and 19) and page 86 (Directors' Remuneration Policy – Pension – Provision 38). The Corporate Governance Report explains how the Company has applied the principles of the Code; please find below a guide to the most relevant explanations for each of the principles:

	Principles	Disclosure in the 2022 Report
Board leadership and Company purpose	A, B, C, D and E	Pages 72 and 73
Division of responsibilities	F, G and H	Page 74
Composition, succession and evaluation	I, J, K and L	Pages 74 and 75
Audit, risk and internal control	M, N and O	Page 77 and 78
Remuneration	P, Q and R	Page 90

Board activity during the financial year to 30 June 2022

Strategy, business and operational performance	› Reviewing and testing the Group's overall strategy and supporting strategic pillars and monitoring performance against targets. › Considering and approving major acquisitions and disposals. › Monitoring trading and market conditions, competitor activity and regulatory requirements.
Financial performance	› Receiving Audit Committee reports on full and half year financial results. › Reviewing and approving the Group's annual budget › Considering the Company's dividend policy and approving the allocation of capital for investment.
Risk management and internal control	› Reviewing the Group's risk register. › Receiving reports from the Audit Committee on the effectiveness of internal controls. › Approving the Audit Committee's recommendation to appoint KPMG as internal auditor. › Receiving regular updates on legal and regulatory matters.
Board and Committee governance	› Receiving reports from Board Committees. › Reviewing terms of reference for Board Committees. › Adopting updated Schedule of Matters Reserved to the Board. › Receiving corporate governance updates. › Conducting annual review of Board effectiveness.

Our governance framework

The Group's governance framework comprises matters reserved to the Board, Committees with clear terms of reference and our Delegated Authorities policy which ensures that decisions are made at appropriate levels within the Group:

The Board

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Audit Committee
Key responsibilities:

- reviewing and monitoring financial reporting;
- ensuring an appropriate internal control and risk management framework;
- monitoring internal and external audit arrangements (including auditor independence); and
- maintaining appropriate whistleblowing procedures.

Membership:
David Wilton – Chair

Deborah Kemp

Richard Gray

Nomination Committee
Key responsibilities:

- making recommendations on all Board appointments and succession planning;
- monitoring and reviewing Board composition; and
- undertaking an annual evaluation of the effectiveness of the Board and its Committees.

Membership:
Richard Gray – Chair

Deborah Kemp

David Wilton

Remuneration Committee
Key responsibilities:

- assisting the Board in ensuring appropriate remuneration policies are in place for the Group;
- ensuring Executive Director remuneration is aligned to the strategic priorities of the Group and its performance; and
- making recommendations regarding Long-Term Incentive Plan terms and conditions, and awards.

Membership:
Deborah Kemp – Chair

David Wilton

Richard Gray

↓ ↓ ↓

Executive Committee
The Executive Committee ("Exco") comprises the Group CEO, COO, CFO, Group HR Director, Chief Veterinary Officer, Group Procurement Director, Director of Clinical Operations and Chief Technology Officer. The Exco assists the CEO in managing the Group's operations and the implementation of strategy. The Exco meets at a minimum on a monthly basis to set performance targets, monitor key objectives and commercial plans and evaluate opportunities and business initiatives. Exco members report annually to the Board in person as well as providing monthly updates through the CEO, COO and CFO Board reports.

↓

Senior Leadership Group (SLG)
The SLG comprises the heads of major business units and key service functions The SLG meets on a monthly basis to collaborate and discuss major projects and Group performance.

Corporate governance statement continued

Structure of the Board and Board Committees

At 30 June 2022, the Board of Directors consisted of seven members, including a Non-Executive Chair and three independent Non-Executive Directors. Biographical details of the Directors as at the date of this report are set out on pages 70 and 71. The responsibilities of the Board members are set out in the table below. The Board and its Committees have access to management and external advisors to assist them in discharging their duties. During the year ended 30 June 2022, the Board and Board Committees received sufficient, reliable and timely information in order for them to perform their responsibilities effectively.

Roles and responsibilities

There is a clear division of responsibilities between the Chair and the CEO, and all Board members have clearly defined roles and responsibilities as set out below. Board members have the range of skills and experience required to ensure the successful operation, growth and sustainability of the Group, as set out in their biographies on pages 70 and 71.

Role	Name	Responsibility
Chair	Richard Connell	> The Chair is responsible for leading the Board and for its overall effectiveness in directing the Company. The Chair also facilitates constructive Board relations and the effective contribution of all Non-Executive Directors as well as ensuring that the Directors receive accurate, timely and clear information and overseeing the governance framework.
CEO	Richard Fairman	> The CEO is responsible for leading the Company's executives in managing the day-to-day operation of the Group. The CEO is accountable to and reports to the Board and is assisted in his role by the Group's Exco, all of whom report directly or indirectly to the CEO.
COO	Ben Jacklin	> The COO reports to the CEO and is responsible for overseeing and directing the day-to-day operations of the Group in addition to supporting the CEO with developing and implementing Group strategy.
CFO	Robin Alfonso	> The CFO reports to the CEO and is responsible for the day-to-day management of the Group's finances and development and implementation of financial strategy as well as supporting the CEO with developing and implementing Group strategy.
Senior Independent Director	Deborah Kemp	> The Senior Independent Director (SID) provides advice and additional support and experience to the Chair.
Independent Non-Executive Directors	Richard Gray David Wilton	> Independent Non-Executive Directors provide constructive challenge, strategic guidance and specialist advice as well as holding management to account and being available to work with the Chair to resolve contentious issues.
Company Secretary	Jenny Farrer	> The Company Secretary acts as Secretary to the Board and its Committees and is responsible for ensuring that the Board has the policies, processes, information, time and resources it needs in order to function effectively and efficiently as well as supporting the Chair in developing and overseeing the governance framework.

Board and Committee meeting attendance

The Board meets formally eleven times a year and meetings are planned around key events in the corporate calendar including interim results, full-year results and the Annual General Meeting (AGM). 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 other Committee meetings, the Non-Executive Directors make themselves available for ad-hoc meetings and Board calls to receive regular updates and to deal with specific projects or matters arising during the year.

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

The table below sets out attendance at Board meetings during the financial year ended 30 June 2022, including a dedicated strategy meeting held in the same week as the Board meeting in March 2022.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	**15**	**2**	**5**	**2**
R Connell	15	2*	5*	2*
D Kemp	15	2	5	2
R Gray	15	2	5	2
D Wilton	10**	1**	4**	1**
M McCollum	5**	1**	1**	1**
R Fairman	15	2*	5*	2*
R Alfonso	15	2*	5*	2*
B Jacklin	15	2*	5*	2*

* In attendance by invitation of the respective Committee.

** Mike McCollum resigned as a Director on 23 September 2021 and was replaced by David Wilton with effect from 24 September 2021 Both Directors attended all meetings whilst in appointment.

Board processes and effectiveness

The Board has a formal schedule of matters reserved for its approval which includes matters of strategy, structure and capital, financial reporting, internal controls, contracts, Board membership, remuneration, delegation of authority and corporate governance. Matters that fall outside of those reserved to the Board or its Committees fall within the responsibility and authority of the CEO, COO and CFO and are either reserved to them or delegated further through the Group's Delegated Authorities Policy.

Board and Committee papers are circulated well in advance of meetings and Directors have access to a Board portal containing Board packs and reference materials from previous meetings as well as all Board policies and procedures. In addition to formally scheduled meetings, the Chair maintains regular contact with the Non-Executive Directors, CEO, COO, CFO and Company Secretary in performing his duties leading the Board.

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. During December 2021, the Chair, assisted by the Company Secretary, carried out an internal review of Board effectiveness which included a review of the information provided to the Board, the composition of the Board, decision-making processes and the Board's annual agenda.

Outcomes from the Board effectiveness review:

- dedicated strategy day held in March 2022 to review and refresh the Group's five-year plan;
- development of an annual rolling agenda to encourage interaction with Executive Committee members;
- Nomination Committee to continue to monitor the gender diversity of the Board; and
- introduction of a Board portal to support Directors in reviewing Board papers and create a reference point for Board policies and procedures.

Board induction and training

New Directors appointed to the Board undertake an induction programme to assist in developing their understanding and awareness of the business, its governance framework, employees and Group policies and procedures. Induction is tailored to suit the requirements of each new Director and includes site visits to practices around the Group, meetings with the heads of Group functions and one-on-one meetings with fellow Board members, Executive Committee members and the Company's external advisors in addition to being provided with details of the Group's policies and procedures.

During the financial year ended 30 June 2022, Board members received refresher training on AIM and the Market Abuse Regulations delivered by the Company's Nominated Advisor and external legal counsel.

Independence

Richard Connell has held the position of Chair of the Board since October 2007 and has therefore served on the Board for more than nine years, which is an example in the Code of a circumstance in which a Non-Executive Director's independence is likely to be, or could appear to be, impaired. The Board of Directors believes that Richard's knowledge of the veterinary sector and the Group's operations and experience of transactions continue to be invaluable to the leadership of the Group.

Deborah Kemp, Richard Gray and David Wilton are considered to be independent by the Board.

All Directors will offer themselves for re-election at the 2022 AGM of the Company.

Corporate governance statement continued

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 deals with shareholder correspondence as and when it arises throughout the year.

The CEO, COO and CFO have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Chair 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@cvsvets.com.

Shareholder engagement activities:

- Preliminary results roadshow – September 2021
- Annual General Meeting – November 2021
- Interim results roadshow – March 2022
- US roadshow – April 2022
- Republic of Ireland roadshow – June 2022

The Audit Committee

During the year under review the Committee Chair was David Wilton. David became Chair of the Committee in September 2021 and has a wealth of experience in senior finance roles including in listed companies. All Non-Executive Directors other than the Chair were members of the Committee.

The Board considers that 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 79 and 80.

The Nomination Committee

During the year under review the Chair of the Nomination Committee was Richard Gray, following his appointment as a Non-Executive Director in July 2020. All Non-Executive Directors other than the Chair were members of the Committee.

The Nomination Committee 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. During the year it appointed a new Non-Executive Director David Wilton, to replace Mike McCollum.

The Nomination Committee Report can be found on pages 81 and 82.

The Remuneration Committee

During the year under review the Chair of the Remuneration Committee was Deborah Kemp. Deborah became Chair of the Committee in July 2020. All Non-Executive Directors other than the Chair were members of the Committee.

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

The CEO, COO and CFO are invited to attend meetings as appropriate but do not participate in discussions relating to their own remuneration. The Chair will also be invited to attend meetings as appropriate.

The Remuneration Committee Report can be found on pages 83 to 93.

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 Chair and helping the Board and its Committees to function efficiently.

Jenny Farrer was appointed Company Secretary with effect from 16 August 2021.

Annual General Meeting 2022 – voting results

In the 2021 Results of AGM announcement, the Board of CVS noted that all the resolutions had been passed with the requisite majority. During the course of the year, the Board of Directors has continued to actively engage with shareholders and to discuss and consider their feedback.

Over the past two years, the following changes have been made to remuneration policies and committee composition:

- introduction of malus and clawback for annual bonuses and Long-Term Incentive Plans (LTIP);
- Remuneration Committee discretion to override formulaic outcomes introduced for bonuses and LTIPs;
- LTIP scheme performance conditions amended so as to closely align with shareholder returns with 50.0% of the performance condition now based on total shareholder return;
- target shareholding thresholds introduced of 100.0% of salary for the CEO, COO and CFO;
- two-year holding period introduced for new LTIP awards for the CEO, COO and CFO; and
- Board Committees were restructured as Richard Connell stood down from all Committees.

Whistleblowing

The Group's whistleblowing policy is reviewed by the Board annually. The policy sets out the procedures for employees or third parties to raise concerns about any suspected wrongdoing. Employees also have access to a wide range of alternative and informal routes through which to raise concerns. This reflects the open culture and strong internal communication channels of the Group, in line with our strategy, and supports the formal whistleblowing policy we have in place. The Board receives a whistleblowing report at each Board meeting and will receive more detailed reports of any investigations that may take place. There were no issues reported to the Board under the whistleblowing policy during the year.

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 colleagues 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;
- 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 and cash flow 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 Chair 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.

Corporate governance statement continued

Audit, risk and internal control continued
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
During the year, the Audit Committee took the decision to appoint KPMG as Internal Auditor to provide an outsourced service.

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 both 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 Committee is reported in full on pages 83 to 93 of this Annual Report.

Annual General Meeting
The Annual General Meeting (AGM) of the Company will take place on 23 November 2022. Full details of resolutions to be proposed to our shareholders will be set out in the Notice of AGM will which will be made available in the Investor Centre on our website.

Outcomes of the resolutions put to the AGM, including poll results detailing votes for, against and withheld, will be published on the website of the Company and the London Stock Exchange once the AGM has concluded.

By order of the Board

Jenny Farrer
Company Secretary
22 September 2022

Area of focus

Engaging with charities

Every year, CVS colleagues nominate and vote for their favourite animal charities to be selected as the Group's Charity of the Year. Throughout the year, our colleagues fundraise for this charity; this ranges from collection pots in veterinary practices, to bake sales, to large sponsored events. Each year, CVS matches the amount raised by colleagues for the Charity of the Year, with a donation to Vetlife, a charity that provides emotional, financial and mental health support to the veterinary community.

For 2022, the chosen Charity of the Year is the Pet Blood Bank, a charity set up to support vets by providing a blood service for pets, just like the one we have as humans.

"We are absolutely over the moon to have been chosen by CVS colleagues as their charity of the year! Pet Blood Bank is a small charity but what we do is critical to the veterinary industry. The support from CVS will help to fund things like free training and education for vets and go towards helping to keep the cost of our blood products as low as possible. Ultimately, this partnership will help to save more lives and we are so grateful for the nomination."

Nicole Osborne
Marketing Manager for Pet Blood Bank

Ensuring the continued integrity and quality of financial information

David Wilton
Audit Committee Chair

Key responsibilities:

- reviewing and monitoring financial reporting;
- ensuring an appropriate internal control and risk management framework;
- monitoring internal and external audit arrangements (including auditor independence); and
- maintaining appropriate whistleblowing procedures.

Committee composition during the year to 30 June 2022	Attendance
David Wilton*	1
Deborah Kemp	2
Richard Gray	2
Mike McCollum**	1

* David Wilton attended the Audit Committee meeting held following his appointment on 24 September 2021.

** Mike McCollum attended the Audit committee meeting held prior to him stepping down from the Board on 23 September 2021. Prior to his resignation, Mike McCollum chaired the Audit Committee.

Responsibilities and terms of reference

The Committee is responsible for ensuring that the financial performance of the Group is properly controlled, monitored and reported, for liaising with the external auditor and reviewing its reports relating to the Annual Report and Financial Statements, and for internal control matters. David Wilton became Chair of the Committee following his appointment as a Non-Executive Director on 24 September 2021, replacing Mike McCollum. David is a chartered accountant and, until his retirement at the end of October 2022, will be the Chief Financial Officer of another company that was listed until January 2022. All members of the Committee are Non-Executive Directors with considerable experience in senior roles and are deemed to have the necessary ability and experience to understand financial statements. The Chair, the Chief Executive Officer (CEO), the Chief Operating Officer (COO) and the Chief Financial Officer (CFO) are invited to attend such meetings, but the Committee also meets with the external auditor without the CEO, COO and CFO 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 request reports on matters relevant to its terms of reference in addition to the regular items.

Summary of activity

In the year ended 30 June 2022 and up to the date of this report, the actions taken by the Audit Committee to discharge its duties included:

- reviewing the Annual Report and Financial Statements and the Interim Report, 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 2022 financial statements;
- advising the Board that the Annual Report and Financial Statements are fair, balanced and understandable, and provide 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 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 effectiveness of the Group's internal audit function and arranging for the appointment of KPMG to provide an outsourced internal audit service;
- 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 disclosure provided in the Annual Report and Financial Statements;
- considering papers prepared by the CFO to support the going concern basis of preparation of the Annual Report and Financial Statements;

Summary of activity continued

- considering papers prepared by the CFO to support goodwill and cash-generating unit impairment review;
- reviewing the calculation, application and presentation of Alternative Performance Measures (APMs) in the Annual Report and Financial Statements;
- agreeing the fees to be paid to the external auditor for its audit of the 2022 financial statements; and
- reviewing the performance and independence of the external auditor.

Significant financial reporting risks and judgement areas considered during the year

Revenue recognition

During the year, the Committee has reviewed the Group's revenue recognition in accordance with IFRS 15 Revenue from Contracts with Customers. The Committee reviewed the revenue recognised under the Healthy Pet Club membership scheme, to ensure revenue is recognised on delivery of the performance obligation. In the year the Board reviewed the assumptions around the occurrence of the performance obligations and concluded the recognition of Healthy Pet Club revenue to be appropriate.

Management override

During the year, the Committee has reviewed the appropriateness of controls around management override of controls taking into account reasons which could lead management to override controls. The Committee concluded there are adequate policies and procedures in place and there is a culture of high adherence to compliance, ethics and code of conduct across the Group. The Group also has an appropriate whistleblowing policy in place.

The Audit Committee also received and considered reports from the external auditor, Deloitte LLP, which included control findings relevant to their audit. Management conducts regular reviews to identify and evaluate the risks faced by the Group and to ensure that mitigation is appropriate. This process was reviewed by the Audit Committee and is considered appropriate.

The Board also carries out its own annual review and assessment of key risks. During the year the Audit Committee has received a presentation detailing each key risk, and the mitigating actions in place.

Research and Development Expenditure Tax Credit (RDEC) income

During the year, the Committee has reviewed the appropriateness of the income recognised in relation to RDEC. The Group has considered the facts and circumstances relating to the claims in order to make a judgement as to whether compliance is reasonably assured and therefore receipt is reasonably certain. The Committee has reviewed the estimated discount applied to the gross claims and the associated uncertainty of the claims until either the formal acceptance of the claims has been received from HM Revenue & Customs or the expiry enquiry window of the relevant claims. The Committee concluded the income recognised is considered to be appropriate.

In respect of these significant financial reporting risks and judgement areas, we concluded that the Group's accounting treatment and/or controls in place were appropriate.

Going concern and viability assessment

In considering going concern and viability overall, the Committee reviewed the Group's forecasts with particular focus on the key assumptions in relation to revenue, gross margin and cash flow management. Sensitivities to these key assumptions were also reviewed based on the impact of the Group's key risks, as set out on pages 60 to 68.

Following a review of the detailed considerations set out above by the Committee and Executive Committee, the Committee is satisfied that it is appropriate for the Group to continue to adopt the going concern basis in preparing the Annual Report and Accounts of the Group and, further, that the going concern longer term viability statement on pages 95 to 96 is appropriate.

External auditor

The external auditor was appointed with effect from the year ended 30 June 2017 giving a current tenure of six years. A tender process was carried out prior to this change. From the year ending 30 June 2022, in line with guidance from the Auditing Standards Board, there has been an audit engagement partner rotation and a new audit partner has become the Senior Statutory Auditor. The appointment of the external auditor is reviewed and subject to a shareholder vote at the AGM on an annual basis. Details of the fees paid to the external auditor during the financial year are set out in note 6 to the financial statements.

The Audit Committee has primary responsibility for the supervision of the relationship with the external auditor, including overseeing its qualification, independence, expertise, performance and effectiveness, and the terms of its engagement and remuneration. The Committee is also responsible for ensuring the quality and efficiency of the external audit, enabling the Committee to formally evaluate the effectiveness and quality of the external auditor's output, which it does annually. After reviewing the external auditor's performance during the year, the Committee has concluded that it is satisfied with the effectiveness of the external auditor and the external audit process, and that Deloitte remains effective in its role as external auditor. The Committee has therefore recommended to the Board that Deloitte LLP be reappointed for a further year and a resolution to this effect will be proposed at the AGM.

Approval

The members of the Audit Committee have reviewed the financial statements and the content of the draft Annual Report and Financial Statements to ensure that they are fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the Directors' responsibilities statement set out on page 97.

David Wilton
Audit Committee Chair
22 September 2022

Ensuring an appropriate level of experience on the Board

Richard Gray
Nomination Committee Chair

Key responsibilities:

- making recommendations on all Board appointments and succession planning;
- monitoring and reviewing the Board composition; and
- undertaking an annual evaluation of the effectiveness of the Board and its Committees.

The Committee is comprised of the three independent 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;
- potential conflicts of interest;
- 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 2022	Attendance
Richard Gray	2
Deborah Kemp	2
David Wilton*	1
Mike McCollum**	1

* David Wilton attended the Nomination Committee meeting held following his appointment on 24 September 2021.

** Mike McCollum attended the Nomination Committee meeting held prior to him stepping down from the Board on 23 September 2021.

Board appointments and resignations

Mike McCollum, former Senior Independent Non-Executive Director and Chair of the Audit Committee, resigned from the Board at the end of his term on 23 September 2021 to pursue a full-time opportunity outside of the Group.

In light of Mike McCollum's resignation, Deborah Kemp, who has served as a Non-Executive Director since her appointment on 2 January 2018, was appointed Senior Independent Director.

The Nomination Committee oversaw the appointment of David Wilton as the new Chair of the Audit Committee with effect from 24 September 2021. David Wilton is a qualified Chartered Accountant with more than 30 years' post-qualification experience as a Chief Financial Officer, Non-Executive Director and consultant after many years in corporate finance, primarily in mid-cap M&A with Rothschilds. David has held roles in both public and private equity backed companies including as CFO of Sumo Group plc, Group Finance Director of WYG plc and Non-Executive Director and Chair of the Audit Committee of Sweett Group plc. With effect from 22 September 2022, David was appointed as Non-Executive Director and Chairman Designate at Frontier Developments plc, taking over as Chairman in December 2022.

The Nomination Committee engaged a third-party recruitment specialist, Chief Officers Group, to support with the appointment of David Wilton.

Nomination Committee report continued

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.

In April 2022, the Nomination Committee evaluated the results of the internal Board Effectiveness review carried out by the Chair and the Company Secretary and was satisfied that the Board remains effective and has the right balance of skills and experience to provide continued effective stewardship of the Group.

Committee terms of reference

The Nomination Committee's terms of reference were reviewed during the course of the year and were considered to be appropriate.

Succession planning

The Committee is responsible for ensuring that plans are in place for orderly succession to Board and executive positions, and to oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future. The Nomination Committee considered contingency and succession plans in April 2022.

The Committee is also responsible for keeping under review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively.

It is important that a diverse pipeline for succession is developed in line with the Company's strategy on pages 26 and 27. 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 four women and five men.

The Committee is responsible for keeping up to date and fully-informed about strategic issues and commercial changes affecting the Group and the market in which it operates. The Group competes with a number of private equity backed veterinary businesses and, in order to respond appropriately to changing and increasing competition, and to successfully execute accretive acquisitions, it is considered important that the Board contains Executive and Non-Executive Directors with both private equity and transaction experience.

Conflicts of interest

The Board has established robust procedures for monitoring conflicts of interest in accordance with the Group's Articles of Association and conflicts of interest policy. All Directors are required to make the Board aware of any other commitments and potential conflicts of interest are approved by the Board where appropriate, and recorded in the conflicts register. The Board has delegated authority to the Nomination Committee to keep under review any actual or potential conflict of interest situations authorised by the Board, and to determine whether it is appropriate for such matter(s) to remain so authorised. During the year the Committee reviewed the conflicts register and it was noted that none of the Directors have interests or external appointments which give rise to material conflicts of interest.

Electing and re-electing Directors

The Committee has reviewed the independence of the Non-Executive Directors and the Non-Executive Chair and concluded that all remain independent and have sufficient time to meet their Board responsibilities in accordance with the criteria set out in the UK Corporate Governance Code.

The Committee will recommend to the Board and the shareholders that all serving Directors should be submitted for re-election at the Company's 2022 AGM.

Ongoing review

Whilst the Committee will continue to review the composition of the Board, it is confident that the Board has the right balance of skills, experience and tenure at present to successfully steer the Group through the next stages of its growth and to respond appropriately to the strategic opportunities ahead.

The Group's continuing strong financial performance, strengthened balance sheet and experienced management team position it well to take advantage of these opportunities and to deliver further enhancements in shareholder value.

Richard Gray
Nomination Committee Chair
22 September 2022

Ensuring remuneration is aligned with shareholders' interests

Deborah Kemp
Remuneration Committee Chair

Key responsibilities:

- assisting the Board in ensuring appropriate remuneration policies are in place for the Group;
- ensuring Executive Director remuneration is aligned to the strategic priorities of the Group and its performance; and
- making recommendations regarding Long-Term Incentive Plan (LTIP) terms and conditions, and awards.

The Remuneration Committee is comprised of three independent Non-Executive Directors.

The Remuneration Committee meets frequently throughout the year to consider remuneration matters of the Group, to consider feedback from shareholders on remuneration matters and to make appropriate recommendations to the Board.

Terms of Reference

The full Terms of Reference for the Committee are reviewed and approved annually. These were last updated on 22 September 2022.

Committee composition during the year to 30 June 2022	Attendance
Deborah Kemp	5
Richard Gray	5
David Wilton*	4
Mike McCollum**	1

* David Wilton attended all Remuneration Committee meetings held following his appointment on 24 September 2021.

** Mike McCollum attended the Remuneration Committee meeting held prior to him stepping down from the Board on 23 September 2021.

As an AIM-quoted company, the information provided in this report 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 Remuneration Committee seeks to develop the Company's executive remuneration arrangements appropriately taking due account of matters specified in the UK Corporate Governance Code and the Investment Association Principles of Remuneration in light of the Company's growth and its status as an AIM 50 company.

The Remuneration Committee considers it important that remuneration policies for Executive Directors are aligned to the Group's long-term strategy and that a meaningful portion of Executive Director reward is linked to long-term performance. In light of this, remuneration for Executive Directors is comprised of base salary, an annual bonus and a Long-Term Incentive Plan (LTIP) with performance criteria based on earnings per share and total shareholder return.

In respect of 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. The annual bonus scheme is designed to reward exceptional performance with criteria aligned to the annual budget approved by the Board. Long-Term Incentive Plans are seen as an important part of Executive Directors' total remuneration and are designed to drive and reward exceptional performance aligned with shareholder interests over the long term.

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 (or car allowance), and life and medical insurance.

A description of how the Company has addressed the matters specified in Rule 41 of the FRC Code is set out on page 89.

Ongoing development of remuneration policy in alignment with shareholder interests

The Remuneration Committee has introduced the following changes in Executive Director reward and benefits over the past two years following consultation with major shareholders:

- the introduction of malus and clawback provisions for annual bonuses and LTIPs;
- the ability for the Remuneration Committee to override formulaic outcomes;

Ongoing development of remuneration policy in alignment with shareholder interests continued

- the amendment of LTIP performance criteria such that 50.0% of the performance condition is based on achieving total shareholder return with the remaining 50.0% continuing to be based on delivering real increases in earnings per share; and
- the introduction of formal shareholding guidelines of 100.0% of salary for the three Executive Directors.

In light of these changes, and the voluntary forgoing of 20.0% of salaries by all Directors in the final quarter of the financial year to 30 June 2020 at the peak of the COVID-19 pandemic impact, the advisory vote to approve the Directors' Remuneration Report at our 2021 AGM was supported by 94.5% of votes cast.

The Remuneration Committee is committed to ensuring that the Group's remuneration policies remain appropriate given its AIM-quoted status and has introduced the following two additional changes in the past year:

- a new two-year hold period has been introduced for all new LTIP awards for Executive Directors, commencing with the awards made in October 2021 in relation to the three-year performance period ending 30 June 2024 (save that the Executive Directors will be able to sell sufficient shares to cover any tax liability arising); and
- new non-financial measures have been introduced in the Executive Directors' annual bonus scheme for the year to 30 June 2023 with 20.0% of bonus potential being based on the delivery of five non-financial measures. These measures are aligned with shareholder interests and comprise targets on improving Patient Care Index, reducing attrition, improving employee net promoter scores, improving client net promoter scores and reducing gross tonnage clinical waste which is sent to landfill.

The Remuneration Committee will continue to review a number of further matters on remuneration in particular; bonus deferral, the level of the shareholding guidelines and Director pension alignment with the workforce.

In relation to bonus deferral, the Remuneration Committee continues to see merit in a clear distinction between annual bonus and long-term incentives and does not propose this should be introduced at this point. The maximum annual bonus is capped at 100.0% of salary for each Executive Director.

The Executive Directors have each increased their individual shareholdings in CVS Group plc over the past year and the company intends to maintain its shareholding guideline at 100.0% of salary for the three Executive Directors.

Executive Director Service Agreements

During the prior year, the Remuneration Committee oversaw the agreement of new Service Agreements with each Executive Director to reflect current best practice in light of input from the Group's legal advisors, DLA Piper UK LLP. The Remuneration Committee believes that the terms of these Service Agreements remain appropriate and in line with best practice.

Executive Director salary review

Salaries are reviewed annually and are regularly benchmarked against similar AIM-quoted and other listed companies with changes effective annually in January. The Remuneration Committee decided to increase the salary of the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) by 2.0% with effect from 1 January 2022 in line with the average Company-wide increase. The CEO salary increased to £416,000, the COO salary increased to £312,000 and the CFO salary increased to £270,000.

Executive Director annual bonus scheme

The annual bonus scheme in which the Executive Directors participate is based on the achievement of adjusted EBITDA prior to share option costs, in comparison to the annual budget approved by the Board. For 2021/22, the maximum bonus for the CEO, COO and CFO was 100.0% of salary.

In light of the financial performance in the year, the Remuneration Committee proposes that the CEO, COO and CFO achieve 98.4% of their bonus entitlement.

LTIP awards

In October 2021, the Company granted awards under its LTIP scheme to the CEO with a value of 125.0% of salary, and to the COO and CFO with a value of 100.0% of salary. 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. For the first time these awards are now subject to a two-year hold period post-vesting. Detail on the performance conditions is set out later in this report.

The Remuneration Committee plans to make further awards in October 2022 on a consistent basis.

Recognising the contribution of all CVS colleagues

CVS colleagues continue to work tirelessly to ensure CVS provides the best possible care to animals. In recognition of the dedication and professionalism of colleagues, during the year the Remuneration Committee made the following changes:

- salary review dates for all colleagues (save for Directors) were accelerated from 1 January 2022 to 1 July 2021;
- the Remuneration Committee decided to increase the holiday entitlement to colleagues with an additional day's holiday for every completed year of service, up to a maximum of five days; and
- the Remuneration Committee approved an additional 3.0% salary increase for all colleagues (save for the Board whose salary review will take place under the normal cycle) in May 2022, recognising the pressures faced with the increased cost of living. At the same time they committed to always paying all colleagues at least 3.0% above the National Minimum Wage/National Living Wage, improving salaries for our lower income colleagues.

In light of the competitive landscape and the continued shortage of veterinary professionals in the UK, the Remuneration Committee will continue to consider reward and benefits across the Group to ensure that CVS remains well positioned to attract and retain talent.

Ongoing review

The Remuneration Committee intends to keep remuneration policies under review and will continue to consider and develop its approach to remuneration on an ongoing basis.

The Remuneration Committee has received advice in relation to the matters outlined above and overall executive remuneration from h2glenfern Remuneration Advisory.

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.

Executive Directors' remuneration policy

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

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business. To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Group's strategy.	Salaries are reviewed annually and benchmarked against similar AIM-quoted and listed companies with any changes effective from 1 January. The review takes into account: > Company performance and increase in scale and complexity; > the role, experience and performance of the individual Director; and > average workforce salary adjustments within the Company.	The CEO's base salary was reviewed on 1 January 2022 (the prior review being in January 2021) and was increased by 2.0% to £416,160. The COO's base salary was reviewed on 1 January 2022 (the prior review being on 1 January 2021) and was increased by 2.0% to £312,120. The CFO's base salary was reviewed on 1 January 2022 (the prior review being on 1 January 2021) and was increased by 2.0% to £270,300.	Not applicable.
Benefits			
To complement base salary by providing market competitive benefits to attract and retain Executive Directors.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive. Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.	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.	Not applicable.

Executive Directors' remuneration policy continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Pension			
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.	The CEO participates in a defined contribution pension arrangement and receives payments partly in lieu of pension. The COO receives payments in lieu of pension which are partly used for an enhanced company car contribution. The CFO receives payments in lieu of pension. Pension arrangements, including contribution rates, for any new Executive Directors will be aligned with those of the majority of the UK workforce.	The CEO is entitled to a Company pension contribution of 12.0%. This is partly taken as a payment in lieu of a pension. The COO is entitled to a Company pension contribution of 10.0%. This is partly taken as a payment in lieu of pension and partly as enhanced company car contribution. The CFO is entitled to a Company pension contribution of 8.0%. This is taken as a payment in lieu of pension. Only base salary is pensionable.	Not applicable.
Annual bonus			
To drive and reward exceptional performance.	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. Bonuses are paid in cash based on audited financial results. Annual bonus payments are subject to malus and clawback provisions.	During the year under review, the maximum capped bonus potential for the CEO, COO and CFO is 100.0% of base salary.	For the year ended 30 June 2022 the targets are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year. The level of payment commences from zero at the threshold target increasing on a straight-line basis to full payment at the maximum target. For the year ending 30 June 2023, 80.0% of bonus will be payable on adjusted EBITDA as described above, and 20.0% on non-financial ESG related targets. More information can be found on page 93.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Long-Term Incentive Plan (LTIP)			
To drive and reward exceptional performance over the medium term and to align the interests of Executive Directors and shareholders.	The Executive Directors are entitled to be considered for the grant of awards under the Group's LTIP scheme. 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. 25.0% of awards vest at threshold performance for each target, being adjusted EPS growth and Total Shareholder Return. 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. 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 10.0% of issued share capital over any ten-year period. For schemes granted from 2021, there will be a two-year holding period for LTIPs for Executive Directors, other than for settling related tax liabilities.	The Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO of 125.0% of salary and the COO and CFO of 100.0% of salary. The maximum annual award permissible under the 2017 plan rules in exceptional circumstances is 200.0% of salary.	From 2019, awards are subject 50.0% to an adjusted EPS CAGR real growth target, where adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations and associated income tax and exceptional items, and 50.0% to a relative Total Shareholder Return performance condition against the FTSE 250 companies excluding investment trusts. 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. An amendment to the 2017 plan was made in 2019 to ensure that the Committee has discretion to vary award vesting in the event of exceptional negative events and to override formulaic outcomes. Commencing in 2021, a two-year holding period applies to Directors for shares awarded under LTIP schemes, other than the requirement to sell to settle associated tax liabilities.

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 – 100.0% of salary. COO – 100.0% of salary. CFO – 100.0% of salary. Current shareholder interests are shown on page 92.	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 or 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 UK colleagues, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each calendar year. Under the SAYE14 and SAYE13 schemes, the awards were made at a 20.0% discount to the closing mid-market price of the day preceding the date of invitation. Under the SAYE12 and SAYE11 schemes, the awards were made at a 10.0% discount. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Directors' remuneration

The Chair and the other Non-Executive Directors' remuneration comprises only directorship fees. They are reviewed annually. The Chair'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 Chair and the other independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees payable for 2021/22 are set out in the Annual Report on Remuneration.

The current annual fees are as follows:

Director	
R Connell	£117,650
D Kemp	£47,858
R Gray	£45,257
D Wilton	£47,858

Executive Directors' service agreements

Richard Fairman's service agreement commenced on 1 August 2018 and 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's service agreement commenced on 7 September 2015 and 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's service agreement commenced on 8 July 2019 and 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 agreements 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 for a one-year term ending on 21 September 2023. His appointment may be terminated by the Company or himself giving three months' notice. Deborah Kemp was appointed on 2 January 2018. Her most recent service agreement is dated 2 January 2021 for a three-year term ending on 2 January 2024. Her appointment can be terminated by the Company or herself by giving three 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 three months' notice. David Wilton was appointed on 24 September 2021 for a three-year term ending 24 September 2024. His appointment can be terminated by the Company or himself by giving three months' notice.

Further items specified under Rule 41 of the FRC Code
The Remuneration Committee believes remuneration is appropriate in light of the skills and experience of the Executive Directors, and 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 in taking decisions on remuneration matters. Malus and clawback provisions, and the Remuneration Committee's ability to exercise discretion within the policy to override formulaic outcomes, 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 2021/22. The Committee continues to engage with the workforce in respect of remuneration and other matters. The Committee did not apply discretions in respect of the operation of annual bonus or LTIP during 2021/22.

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 2022.

Membership and role of the Remuneration Committee
The Remuneration Committee is appointed by the Board, and comprises Deborah Kemp as Chair, Richard Gray and David Wilton. Mike McCollum was a member of the Committee until he left the Board on 23 September 2021. 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 Remuneration Advisory to provide advice on Executive remuneration. h2glenfern Remuneration Advisory is a member of the Remuneration Consultants Group in relation to executive remuneration consulting in the United Kingdom. h2glenfern does not provide other services to the Group and has no other connection with the Company or individual Directors. The Board is satisfied that h2glenfern is independent and has no connection to any individual Director.

Annual Report on Remuneration continued

Remuneration of the Executive Directors – audited

Directors' emoluments

		Basic salary allowance and fees £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	Value of share LTIP awards vested during the year[3] £'000	Total £'000
Executive Directors							
R Fairman	2022	412	12	49	409	791	**1,673**
	2021	404	12	48	408	750	**1,622**
B Jacklin	2022	303	4	24	307	475	**1,113**
	2021	303	10	28	306	150	**797**
R Alfonso	2022	268	10	21	266	261	**826**
	2021	215	9	17	265	—	**506**
Non-Executive Chair							
R Connell	2022	116	—	—	—	—	**116**
	2021	114	—	—	—	—	**114**
Non-Executive Directors							
M McCollum[1]	2022	16	—	—	—	—	**16**
	2021	46	—	—	—	—	**46**
D Kemp	2022	47	—	—	—	—	**47**
	2021	46	—	—	—	—	**46**
R Gray	2022	45	—	—	—	—	**45**
	2021	42	—	—	—	—	**42**
D Wilton[2]	2022	37	—	—	—	—	**37**
	2021	—	—	—	—	—	**—**

1. M McCollum resigned on 23 September 2021
2. D Wilton was appointed on 24 September 2021.
3. In respect of 2022, LTIP awards expected to vest by reference to a performance period ending 30 June 2022 value is based on: the estimated vesting outturn (100%) and the estimated value of a share at vesting calculated by reference to the three month average share price up to 30 June 2022 (being £17.08) less the per share exercise price (0.2 pence). In the 2021 Directors' Remuneration Report, the value of awards vesting in respect of the performance period ending 30 June 2021 was calculated by reference to the share price at date of grant. The values have been updated to reflect the share price on the date of vesting (13 October 2021), being £24.22. The value of these awards is not included in the table in note 8 to the financial statements.

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

No Directors waived emoluments in respect of the year ended 30 June 2022.

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.

LTIP vesting

LTIP awards for the three year performance period ended 30 June 2022 are due to vest in December 2022 ("LTIP 13"). The vesting of these awards is subject to meeting adjusted EPS and total shareholder return targets as set out below:

Adjusted EPS

Pre-IFRS 16 adjusted EPS for the year ended 30 June 2022 was 87.5p. This compares to adjusted EPS of 46.7p for the year ended 30 June 2019, a Compound Annual Growth Rate (CAGR) of 17.8% above inflation. The target CAGR for threshold and full vesting of LTIPs issued in December 2019 was 5.0% and 10.0% above inflation, respectively. This target has been substantially exceeded and, therefore, 50.0% of the options granted have vested.

Total shareholder return

Total shareholder return for the three years to 30 June 2022 was 124.0%, and in the upper quartile when benchmarked against the FTSE-250 index (less investment trusts), measured over the same period. This target has been exceeded and, therefore, 50.0% of the options granted have vested.

In light of the adjusted EPS and total shareholder return targets having been achieved, 100.0% of the options granted have vested for LTIP13.

Discretionary bonus

		Bonus (% of salary)	Range (adjusted EBITDA pre-share option cost)*	Actual (adjusted EBITDA pre-share option cost)	Payout £'000
R Fairman	2022*	98.4	£101.1m to £110.6m	£111.5m	409
	2021**	100	£57.2m to £62.7m	£79.1m	408
B Jacklin	2022*	98.4	£101.1m to £110.6m	£111.5m	307
	2021**	100	£57.2m to £62.7m	£79.1m	306
R Alfonso	2022*	98.4	£101.1m to £110.6m	£111.5m	266
	2021**	100	£57.2m to £62.7m	£79.1m	265

* 2022 bonus targets were adjusted EBITDA, excluding Executive Committee bonus accrual, share option costs and associated employee national insurance.

** 2021 bonus targets were pre-IFRS 16 adjusted EBITDA, and pre-share option costs.

The Remuneration Committee has considered the financial performance of the year and considers it appropriate that the CEO, COO and CFO are paid 98.4% of their bonus entitlement. The Group has not taken government support in the current or previous financial year.

Share scheme interests as of 30 June 2022

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

Award	Grant date	Vesting period	
LTIP13	19 December 2019	3 years	The performance targets for awards LTIP13, LTIP14 and LTIP15 are based on achieving adjusted EPS growth in excess of inflation and total shareholder return in comparison to the FTSE 250.
LTIP14	02 October 2020	3 years	
LTIP15	06 October 2021	3 years	

50.0% of the awards will vest if adjusted EPS growth in excess of inflation, pre-IFRS 16 (LTIP14 and LTIP15 post-IFRS 16), is achieved as follows:

- less than 5.0% CAGR – no award subject to this condition;
- 5.0% to 10.0% CAGR – awarded on a straight-line basis between 25.0% and 100.0% of total award subject to this condition; or
- more than 10.0% CAGR – full award subject to this condition.

50.0% of the awards will vest if total shareholder returns in comparison to the FTSE 250 index (excluding investment trusts) are achieved as follows:

- below median comparable performance – no award subject to this condition;
- median comparable performance – 25.0% of awards subject to this condition;
- median to upper quartile comparable performance – 25.0% to 100.0% of awards subject to this condition measured on a straight-line basis; or
- upper quartile comparable performance – 100.0% of awards subject to this condition.

Corporate Governance

Annual Report on Remuneration continued

Share scheme interests as of 30 June 2022 continued

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place on 22 September 2022 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					
LTIP13	19 December 2019	1,080p	30 June 2022	0.2p	46,296
LTIP14	02 October 2020	1,219p	30 June 2023	0.2p	41,030
LTIP15	06 October 2021	2,407p	30 June 2024	0.2p	21,188
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	310
B Jacklin					
LTIP13	19 December 2019	1,080p	30 June 2022	0.2p	27,778
LTIP14	02 October 2020	1,219p	30 June 2023	0.2p	24,618
LTIP15	06 October 2021	2,407p	30 June 2024	0.2p	12,712
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	570
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	310
R Alfonso					
LTIP13	19 December 2019	1,080p	30 June 2022	0.2p	15,278
LTIP14	02 October 2020	1,219p	30 June 2023	0.2p	13,540
LTIP14(b)	04 January 2021	1,485p	30 June 2023	0.2p	6,733
LTIP15	06 October 2021	2,407p	30 June 2024	0.2p	11,009
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606
SAYE14	25 November 2021	2,230p	01 January 2025	1,974p	291

During the year, shares were exercised 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
SAYE11	30 November 2018	913p	01 January 2022	830p	737
B Jacklin					
LTIP12	12 October 2018	807p	30 June 2021	0.2p	6,194
SAYE11	30 November 2018	913p	01 January 2022	830p	737

No options have lapsed during the year.

Directors' interests in shares

The interests of the Directors when combined with their spouses' holdings as of 30 June 2022 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	164,500
D Kemp	6,559
R Gray	5,000
D Wilton	5,500
R Fairman	29,462
B Jacklin	5,446
R Alfonso	2,000

Apart from the interests in shares and share options disclosed above, the Directors had no other interest in shares of Group companies. There have been no changes to the Directors' interests in shares between the year end and the date of this Annual Report.

On 30 June 2022, the market price of the Ordinary shares was 1,656p.

Statement of voting

At the 2021 AGM, a motion was proposed to the shareholders to approve on an advisory only basis the Directors' Remuneration Report contained in the 2021 Annual Report. 94.5% of votes cast were in favour of the motion and 5.5% of votes cast were against.

Remuneration in 2022/23

Salaries and fees

Salaries and fees effective from 1 January 2022 are detailed earlier in this report.

Bonus targets for the financial year to 30 June 2023

The Remuneration Committee has approved a bonus scheme for Executive Directors for the financial year to 30 June 2023, with 80.0% of bonus potential being based on EBITDA performance versus budget, with 20.0% being based on ESG related non-financial measures for the first time.

The targets of the financial element of the bonus are deemed commercially sensitive, and therefore the committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to retrospectively publish the annual bonus targets in the Annual Report and Financial Statements for the year to June 2023.

The ESG related non-financial element is based on targets being achieved in key non-financial metrics as follows.

1. Patient Care Index – an increase of one percentage point.
2. Attrition – 10.0% reduction.
3. eNPS – 50.0% improvement in employee net promoter score.
4. Clinical waste – 5.0% reduction in gross tonnage clinical waste which is incinerated or which is sent to landfill (measured across existing CVS sites and excluding acquisitions in year).
5. Client NPS – 5.0% improvement in client net promoter score.

LTIP targets for the three-year performance period to 30 June 2025

The Remuneration Committee is proposing new LTIP targets for Executive Directors for the three-year LTIP scheme ("LTIP 16") for the performance period to 30 June 2025 on the following basis:

50.0% of the awards will vest if adjusted EPS growth in excess of inflation is achieved as follows:

- less than 1.0% CAGR – no award subject to this condition;
- 1.0% to 6.0% CAGR – awarded on a straight-line basis between 25.0% and 100.0% of total award subject to this condition; or
- more than 6.0% CAGR – full award subject to this condition.

50.0% of the awards will vest if total shareholder returns in comparison to the FTSE 250 index (excluding investment trusts) are achieved as follows:

- below median comparable performance – no award subject to this condition;
- median comparable performance – 25.0% of awards subject to this condition;
- median to upper quartile comparable performance – 25.0% to 100.0% of awards subject to this condition measured on a straight-line basis; or
- upper quartile comparable performance – 100.0% of awards subject to this condition.

Deborah Kemp
Remuneration Committee Chair
22 September 2022

Directors' report

The Directors present their Annual Report and Financial Statements together with the audited consolidated financial statements for the year ended 30 June 2022.

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 retail business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £25.7m (2021: £19.3m).

Particulars of events which have occurred since the end of the financial year have been disclosed in note 32 to the financial statements.

Business review
The information that fulfils the requirements of the business review, including details of the 2022 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chair's statement (pages 6 to 8), the Chief Executive Officer's review (pages 10 to 12), the Operational review (pages 45 to 53) and the Financial review (pages 54 to 58) including key performance indicators (pages 28 to 31) and principal risks and uncertainties (pages 60 to 68).

Dividends
In respect of the year under review, the Directors recommend a dividend payment of 7.0p, amounting to £5.0m (2021: £4.6m). The aggregate dividends recognised as distributions in the year ended 30 June 2022 amounted to £4.6m (2021: £nil). No interim dividends (2021: £nil) have been paid during the year.

Dividend policy
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 (resigned 23 September 2021)
D Kemp
R Gray
D Wilton (appointed 24 September 2021)
R Fairman
B Jacklin
R Alfonso

Biographical details of the Directors are provided on pages 70 and 71.

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 83 to 93. 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. Details of the Group's approach to sustainability and ESG are set out on pages 32 to 44.

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 colleagues 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 colleagues and all other people who may be attending our premises.

Corporate governance
The Board's Corporate Governance Statement is set out on pages 72 to 78.

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 (which mature in January 2024) and related covenant requirements and the expected operational activities of the Group.

As part of the going concern assessment, the Group modelled a base case scenario and undertook sensitivity analysis to stress-test the performance at which the Group would breach its covenants. This sensitivity analysis assessed the impact of a sustained reduction in revenues on cash and covenants, with reductions between 5% and 30% modelled. While the sensitivity analysis was modelled up to a sustained 30% decrease in revenue, it is considered that a reduction of 15% would be a realistic worst case scenario, given this was the short-term decrease in revenues experienced across the Group at the height of the COVID-19 pandemic. In the 15% decrease scenario, the Group would breach its covenants in September 2023, however this analysis excludes any reduction in costs and in practice, the Group is confident that sufficient mitigating actions could be taken to remedy this. Additional details on the above scenario analysis can be found in the Viability statement below.

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.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than 12 months required by the "Going concern" provision. A period of five years is believed to be appropriate for this assessment since this is consistent with the Group's long term strategic planning, and other assessment periods included within the Annual Report, for example impairment reviews. The Group also finances debt on a four-plus-one-year period, which is consistent with a five-year assessment period.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation to meet its liabilities as they fall due, up to 30 June 2027.

The Directors' assessment has been made by reference to the Group's financial position as at 30 June 2022, its prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks, all of which are described in the Strategic Report. The assessment also considers scenario analysis over the key principal risks to the business, how the Group is resilient to those risks and how the Group can mitigate the effects of those risks.

The Directors' assessment of the Group's viability is underpinned by a paper prepared by management. The paper is supported by comprehensive and detailed analysis and modelling, containing financial projections for a detailed one-year plan and extended five-year period. The longer-term plan is reviewed each year by the Board as part of the strategy review process. Once approved by the Board, the plan is cascaded across the Group and provides the basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance.

The five-year plan provides a robust planning tool against which strategic decisions can be made. In making their viability assessment, the Board has taken into consideration that financing facilities are maintained for the duration of the forecast.

For the purposes of assessing the Group's viability, the Directors identified that, of the principal risks detailed on pages 60 to 68, the most important to the assessment of the viability of the group are Economic environment, Future pandemic or lockdown, and Bank facilities.

As part of the going concern assessment, the Group modelled a base case scenario and undertook sensitivity analysis to stress test the performance at which the Group would breach its covenants. The Group has two financial covenants associated with the Group's bank facilities, which are based on the ratios of net debt to bank test EBITDA and bank test EBITDA to interest. The net debt to bank test EBITDA ratio must not exceed 3.25x. The bank test EBITDA to interest ratio must not be less than 4.50x. Further details on the covenants, solvency and liquidity are included below.

Scenario analysis was completed to assess the required reduction in revenue that would lead to a breach of covenants before any mitigating actions. At a sustained 15.0% decrease in revenue, covenants would be breached by September 2023 due to the negative impact on EBITDA. This sustained decrease in revenue has been modelled around the impact of the first COVID-19 lockdown as the Directors consider this to be an accurate representation of a potential worst-case scenario.

The Directors consider the Group to be resilient to future pandemics or lockdowns, including through the following:

- geographically-spread locations across the UK, the Netherlands and the Republic of Ireland protect the Group from any localised lockdowns;
- better knowledge and understanding of the impacts of lockdowns on the business, reducing the level of uncertainty; and
- improved infrastructure to cope with remote working, such as telemedicine capabilities.

Directors' report continued

Viability statement continued

The scenario analysis assumes that no mitigating action is taken. However, the Group would be able to mitigate the impact of future pandemics or lockdowns on covenant compliance through reductions in non-essential spending, including locum vets and discretionary bonuses, and the deferment of non-essential capital expenditure.

Therefore, the Directors consider that under this worst-case scenario, the Group would be able to comply with its covenants and secure further funding if required.

The Directors have considered other sources of risks and uncertainties that may impact on the Group's ability to trade, and the controls in place to mitigate them, on pages 60 to 68.

The outputs of the above scenario tests have been reviewed against the Group's current and projected future cash and liquidity position. At the year end, the Group had cash and cash equivalents of £49.0m, a drawn term loan of £85.0m, an unutilised revolving credit facility of £85.0m, and an unutilised overdraft facility of £5.0m.

During the viability period, on 31 January 2024, the term loan of £85.0m will expire. The Directors have considered the available cash and undrawn overdraft facility and cash flow forecasts (including those prepared on the basis of a lower investment capital expenditure profile) and consider that the Group will be able to meet its liabilities in full as they fall due, including the repayment of the term loan if not refinanced. The Group monitors cash flow on a daily basis, and maintains sufficient cash reserves to ensure both solvency and liquidity within the Group.

In making this assessment, the Board has assumed that there is no material adverse change in the legislative environment in the practice of veterinary medicine. The Group expects that legislative changes, such as the proposal by the RCVS to enable highly skilled nurses to undertake a broader range of procedures without veterinary surgeon supervision, will benefit the Group moving forwards. It is recognised however, that such future assessments are subject to a level of uncertainty that increases with time and therefore future outcomes cannot be guaranteed or predicted with certainty. In the scenario analysis, the Board has also assumed that a worst case scenario would not exceed the impact of the initial COVID-19 lockdown. On this basis and in conjunction with other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the five financial years used for its assessment.

Financial instruments

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

Share capital and substantial shareholdings

Shareholder	31 August 2022	% IC
BlackRock Inc	5,905,327	8.30
Octopus Investments Limited	4,759,771	6.69
Grandeur Peak Global Advisors	4,271,773	6.00
Ameriprise Financial	3,672,818	5.16
abrdn plc	3,378,549	4.75
Global Alpha Capital Management	2,892,337	4.06
Canaccord Genuity Wealth Management	2,616,423	3.68
Invesco	2,210,381	3.11
	29,707,379	**41.75**

Details of the share capital of the Company as at 30 June 2022 are set out in note 26 to the financial statements. Each share carries the right to one vote at general meetings of the Company.

At 31 August 2022, the Company has been notified (using TR1 standard form) of the substantial shareholdings detailed in the table above comprising 3.0% 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

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 employees' 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 during the year Deborah has consulted with employees through online meetings with the Company's Senior Leadership Team, visits to our businesses and regular reviews of the Group's monthly employee Net Promoter Score. The business has further reviewed its monthly employee survey and additional questions have been added to this to obtain more detailed feedback from employees in addition to calculating the 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 11. The Group also has a Save As You Earn scheme, now in its 14th 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 20.0% 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 83 to 93.

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' ("D&O") liability insurance policy throughout the financial year.

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' report continued

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.

Jenny Farrer
Company Secretary
22 September 2022

Streamlined Energy and Carbon Reporting (SECR)

The Group is required under the Streamlined Energy and Carbon Reporting (SECR) regulations to report how it manages its energy consumption and carbon emissions and has used a third-party consultant to advise on this and support with the preparation of this SECR report. Since 2020, we have published our direct greenhouse gas (GHG) emissions from sources that are controlled or owned by the Group ("Scope 1"), indirect GHG emissions from the Group's consumption of purchased electricity ("Scope 2") and all emissions the Group is indirectly responsible for across its value chain ("Scope 3").

Monitoring and reporting these emissions enables us to evaluate and minimise our impact on the natural environment, which supports us in our purpose to give the best possible care to animals. We have taken strong actions to increase our energy efficiency and reduce any adverse impact our business has on the planet.

Our energy efficiency actions

Increasing energy efficiency in our facilities

One of our strategic goals is to provide great facilities and equipment, and a key part of this is to ensure our facilities and operations are as energy efficient as possible.

We are currently working through an updated and detailed asset survey of the Group's property portfolio in terms of infrastructure and equipment. An output of this process will be a reclassification of a number of our key investment priorities. Using this information we intend to develop a programme of investment to help improve our consumption and monitoring capabilities. This will focus on, but not be limited to:

- replacing our lighting infrastructure with LED/Energy efficient products;
- targeted deployment of Smart meters particularly focused on high consuming locations;
- the installation of further EV chargers at appropriate locations across our estate; and
- installing energy saving equipment such as Passive Infrared (PIR) detectors and other intelligent solutions.

A greener approach to transport

We have added a range of ultra-low emissions vehicles (ULEV) to our company car list, as well as more hybrid and Electric Vehicles (EV). All fossil fuel-reliant vehicles on the list are capped to 130g CO_2 emissions. To support the future increase in EV and hybrid vehicles, we have installed several EV charging points at a range of our sites. We have also installed charging points at our Wetherby and Diss support office sites.

Using renewable sources

Since August 2021, all our veterinary practice sites across the UK, the Netherlands and the Republic of Ireland use electricity from 100% renewable sources.

Reducing the energy consumed by our equipment

All relocations and new builds are fitted with LED lights from the outset, combined with PIR switches where appropriate, to ensure lights are not left on for longer than required. In our existing sites we continue to roll out an LED light replacement programme which sees all bulbs which expire across our estate being replaced with LEDs.

Where possible, all devices are set to hibernate after a short period of idle time, for example display monitors, computers and printers.

We have briefed our suppliers to supply only A-rated appliances, such as refrigerators and washing equipment.

Streamlined Energy and Carbon Reporting (SECR) continued

Our UK and offshore energy usage and carbon emissions

	2022 tCO_2e	2021 tCO_2e	Change (%)	Comments
Scope 1	**8,539**	4,862	75.6%	The increase in these emissions arises from a return to regular business transport following the COVID-19 pandemic, as business has begun to return to normal, particularly in our support offices in Wetherby and Diss. Emissions from gas have decreased 7.2%.
Scope 2	**2,619**	2,940	-10.9%	The reduction in these emissions arises partly from the full-year impact of the switch to renewable sources for all our UK veterinary practices in January 2021. There is a partial offset due to support office workers returning to the office.
Scope 3	**593**	2	295.5%	The Group did not record grey fleet mileage for the financial year ended 30 June 2021, however, we have implemented a process to record this and therefore emissions from grey fleet have been included in 2022.
Total emissions	**11,750**	7,804	50.6%	
Total energy volume (kWh)	**55,227,876**	38,929,681	41.9%	
Intensity ratio (tCO_2e per £m revenue)	**21.2**	15.3	38.6%	The intensity ratio has increased from the prior year, as a result of the prior year impact of the COVID-19 pandemic, which only impacted part of the current year.

Methodology
The Group has taken guidance from the UK Government's Environmental Reporting Guidelines (March 2019), the Greenhouse Gas Protocol reporting standard, and the UK Government's Greenhouse Gas Conversion Factors for Company Reporting document for calculating carbon emissions.

Energy usage information (gas and electricity) has been obtained directly from the Group's energy suppliers and Half-Hourly Automated Meter Reading (HH/AMR) data, where available, for those suppliers with HH/AMR meters. For suppliers where energy usage data was not available for a full twelve months, flat profile estimation techniques were used to calculate the annual consumption. With all landlord sites these have had to be estimated using similar-sized sites' usage for gas and electricity.

Transport mileage data was obtained from expense claims submitted for our company cars and grey fleet.

Exclusions
Transport mileage and/or fuel usage data was provided for the Group's and colleagues' owned vehicles. Grey fleet mileage was included for the financial year ended 30 June 2022 but was not recorded in the prior year comparative as the Group did not have methods in place for recording this mileage at that time.

CO_2e emissions were calculated using the appropriate emission factors from the UK Government's UK Greenhouse Gas Conversion Factors and this is retained within the Group's data file for reference where required.

Normalisation
The Group has chosen to report gross Scope 1, 2 and 3 emissions tonnes of CO_2 equivalent (tCO_2e) per £m revenue as this is a common metric used in corporate GHG reporting.

Approval
Authorised by order of the Board

Jenny Farrer
Company Secretary
22 September 2022

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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 parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flow; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards 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 (FRC) 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 is a similar level of risk to the prior year.
Materiality	The materiality that we used for the Group financial statements was £3.0m (2021: £2.5m) which was determined by reference to a range of income statement measures.
Scoping	Our audit comprised of two components subject to full-scope audits and a further 13 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	There have been no significant changes to our audit approach in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Assessment of the financing facilities available to Group, including repayment terms and likelihood of breaching financial covenants;
- Evaluation of the assumptions used in the forecasts such as revenue growth, gross margin changes and cash flow movements, and whether these are appropriate in line with historical performance;
- Assessment of the level of headroom in the financing facilities under the base case forecast;
- Assessment of the arithmetical accuracy of the forecast model confirming consistent calculations are used throughout, using internal software;
- Assessment of the historical accuracy of forecasts through comparing actual performance to forecast, to assess the historic accuracy of forecasts prepared by management;
- Assessment of the reverse stress test scenario performed by management, and consideration of whether the adverse variance in cash flows required to produce a covenant breach represents a remote possibility; and
- Assessment of the appropriateness of the going concern disclosures in the financial statements.

4. Conclusions relating to going concern continued
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 year 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.

These matters were 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 these matters.

5.1. Healthy Pet Club – Revenue Recognition

Key audit matter description	The Group earns revenue via the Healthy Pet Club (HPC) scheme whereby customers sign up for a monthly or annual direct debit arrangement in exchange for a program of preventative products and treatments. The Group recognised £67.3m (2021: £60.2m) of HPC revenue during the year and has approximately 470,000 (2021: 450,000) active members as at the year-end. 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 in the case of HPC revenue is not aligned to the timing of cash receipts due to the weighting of treatments towards the earlier months of the scheme. Revenue must also be adjusted for anticipated animal deaths (whereby outstanding fees will be waived) and irrecoverable debts. Additional adjustments are also required where a customer does not receive their treatment during the scheduled month, due to various factors. The Group's accounting policy is to record revenue according to the cost profile associated with providing the services offered in the scheme, as disclosed in note 2 to the financial statements, and due to the complexities outlined above there is a risk that revenue recognition is not in accordance with IFRS 15 Revenue from Contracts with Customers.
How the scope of our audit responded to the key audit matter	In response to the key audit matter, we performed the following procedures: > Tested management's controls around HPC revenue recognition; > Assessed the appropriateness of accruing revenue according to the cost profile of treatments offered, including adjustments to delay revenue recognition where treatments are missed, in line with the requirements of IFRS 15; > Tested the accuracy and completeness of the membership data that drives the HPC revenue calculation; > Tested the accuracy and completeness of the underlying data of the assumed cost profiles for the different types of pet that can be added to the scheme; > Performed a reconciliation of amounts due from customers to cash receipts in bank statements, for a sample of months; > Performed a recalculation of accrued revenue based on member data and assumed cost profiles; > Performed a recalculation of revenue subsequently deferred due to missed treatments, based on operational and sales data used to estimate the level of missed treatments occurring across the Group; and > Critically assessed assumptions around animal deaths and cancellations through comparison and benchmarking against direct debit collection rates and operational data around animal life expectancy.
Key observations	Based on the audit procedures performed, we concluded that revenue recognition in respect of the HPC is appropriate.

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	£3.0m (2021: £2.5m)	£2.3m (2021: £2.3m)
Basis for determining materiality	3.9% (2021: 3.8%) of adjusted pre-tax profit.	1.5% (2021: 1.5%) of net assets.
Rationale for the benchmark applied	We have considered both adjusted pre-tax profit of £75.5m (2021: £66.2m) and revenue of £554.2m (2021: £510.1m), where adjusted pre-tax profit is calculated as profit before tax adjusted for amortisation, costs associated with business combinations and exceptional items. These are the metrics that are deemed to be of most importance to stakeholders, as disclosed within Note 1.	As a holding company, net assets were considered the most relevant benchmark to users of the parent company financial statements.

Adjusted PBT
£75.5m

Group materiality
£3.0m

Component
materiality range
£0.8m to £1.9m

Adjusted PBT
Group materiality

Audit Committee
reporting threshold
£0.15m

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 financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of Group materiality.	70% (2021: 70%) of parent company materiality.
Basis and rationale for determining performance materiality	We have assessed the quality of the Group's overall control environment, as well as the low volume of corrected and uncorrected misstatements in the previous audit.	The assessment at a Group level is also applicable for the parent company, also noting that minimal entries are made in the parent company reducing the risk of material misstatement.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £150k (2021: £125k) 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.

We have focused our work on the UK-based subsidiaries which account for the majority of the Group's revenue, expenses and net assets. We have subjected two components to full-scope audits and a further thirteen components to audits of specified account balances, which covers 84% of revenue, 85% of expenses and 91% of net assets. The remainder of the Group, including all components located overseas in the Republic of Ireland and the Netherlands, were subject to review procedures only. All audit work was carried out by the UK engagement team, with no reliance of components auditors. Testing was performed to component materiality ranging from £0.7m to £1.9m (2021: £0.8m to £1.5m).

16% 15% 9%

Revenue 22% 62%

Expenses 19% 66%

Net assets 91%

Full audit scope Specified audit procedures Review at Group level

7.2. Our consideration of the control environment

We have not relied on controls in the current year. During the course of the audit, we have performed testing around selected revenue controls and relevant IT systems, and communicated a number of observations and recommendations to management, in anticipation of adopting a controls reliance approach for material revenue streams in future years.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: Revenue Recognition – Healthy Pet Club. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act, AIM listing rules, corporate governance code, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's compliance with the RCVS regulations applicable to all practices and qualified nurses, GDPR, Veterinary Surgeons Act 1966, Animed Welfare Act 2006, Veterinary Medicines Regulations 2013 and The Animal Act 1986.

11.2. Audit response to risks identified

As a result of performing the above, we identified Revenue Recognition – Healthy Pet Club as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Health and Safety Excecutive (HSE) and the Royal College of Veterinary Services (RCVS);
- reviewing the disclosures in the Audit Committee Report on pages 79 and 80; and

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.2. Audit response to risks identified continued

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 95 and 96;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 95 and 96;
- the Directors' statement on being fair, balanced and understandable set out on page 97;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 95;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 77; and
- the section describing the work of the audit committee set out on pages 79 and 80.

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

14.1. 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.

14.2. 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.

15. 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.

Paul Schofield

Paul Schofield FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
22 September 2022

Consolidated income statement

for the year ended 30 June 2022

	Note	2022 £m	2021 £m
Revenue	4	**554.2**	510.1
Cost of sales		**(315.1)**	(288.2)
Gross profit		**239.1**	221.9
Administrative expenses		**(196.3)**	(181.8)
Operating profit		**42.8**	40.1
Finance expense	5	**(6.8)**	(7.0)
Profit before tax	4	**36.0**	33.1
Tax expense	9	**(10.3)**	(13.8)
Profit for the year		**25.7**	19.3
Earnings per Ordinary share (EPS)			
Basic	10	**36.2p**	27.3p
Diluted	10	**35.9p**	27.1p

All activities derive from continuing operations.

Reconciliation of alternative performance measures

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures.

Adjusted EBITDA is calculated by reference to profit before tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items. The following table provides the calculation of adjusted EBITDA:

Alternative performance measure: adjusted EBITDA	Note	2022 £m	2021 £m
Profit before income tax		**36.0**	33.1
Adjustments for:			
Finance expense	5	**6.8**	7.0
Amortisation of intangible assets	12	**22.2**	23.8
Depreciation of property, plant and equipment	13	**11.3**	10.3
Profit on disposal of property, plant and equipment and right-of-use assets		**(0.3)**	–
Depreciation and impairment of right-of-use assets	14	**14.1**	14.0
Costs relating to business combinations[1]	4	**4.9**	9.3
Exceptional items[2]	16	**12.4**	–
Adjusted EBITDA	4	**107.4**	97.5
Adjusted earnings per share (EPS):			
Adjusted EPS	10	**85.8p**	75.1p
Diluted adjusted EPS	10	**85.0p**	74.6p

1. Includes amounts paid in respect of acquisitions in prior years expensed to the income statement
2. Exceptional items relate to impairment in relation to Quality Pet Care Ltd, refer to note 16.

Consolidated statement of comprehensive income
for the year ended 30 June 2022

	Note	2022 £m	2021 £m
Profit for the year		**25.7**	19.3
Other comprehensive income – items that will or may be reclassified to profit or loss in future periods			
Cash flow hedges:			
Net movement on cash flow hedge		**2.8**	0.9
Cost of hedging reserve		**(0.1)**	(0.4)
Deferred tax on cash flow hedge and available-for-sale financial assets	25	**(0.7)**	(0.1)
Exchange differences on translation of foreign operations		**(0.1)**	(0.7)
Other comprehensive income/(expense) for the year, net of tax		**1.9**	(0.3)
Total comprehensive income for the year attributable to owners of the parent		**27.6**	19.0

Consolidated and Company statement of financial position

as at 30 June 2022

Company registration number: 06312831

	Note	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Non-current assets					
Intangible assets	12	**216.5**	228.4	**—**	—
Property, plant and equipment	13	**69.7**	57.4	**—**	—
Right-of-use assets	14	**101.7**	97.2	**—**	—
Investments	16	**0.1**	0.1	**73.9**	71.6
Amounts owed by Group undertakings	33	**—**	—	**79.4**	82.3
Derivative financial instruments	17	**2.3**	—	**—**	—
		390.3	383.1	**153.3**	153.9
Current assets					
Inventories	19	**26.2**	19.5	**—**	—
Trade and other receivables	20	**52.7**	48.1	**—**	—
Current tax receivable		**—**	0.1	**—**	—
Cash and cash equivalents	21	**49.0**	33.7	**—**	—
		127.9	101.4	**—**	—
Total assets	4	**518.2**	484.5	**153.3**	153.9
Current liabilities					
Trade and other payables	22	**(86.6)**	(86.0)	**—**	—
Provisions	23	**(2.1)**	(3.9)	**—**	—
Lease liabilities	14	**(9.4)**	(8.6)	**—**	—
Current tax liabilities		**(3.3)**	—	**—**	—
		(101.4)	(98.5)	**—**	—
Non-current liabilities					
Borrowings	24	**(84.3)**	(83.9)	**—**	—
Lease liabilities	14	**(95.1)**	(90.2)	**—**	—
Derivative financial instruments	17	**—**	(0.4)	**—**	—
Deferred tax liabilities	25	**(20.0)**	(20.4)	**—**	—
		(199.4)	(194.9)	**—**	—
Total liabilities	4	**(300.8)**	(293.4)	**—**	—
Net assets		**217.4**	191.1	**153.3**	153.9
Shareholders' equity					
Share capital	26	**0.1**	0.1	**0.1**	0.1
Share premium	27	**105.4**	103.1	**105.4**	103.1
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Cash flow hedge reserve		**1.6**	(0.5)	**—**	—
Cost of hedging reserve		**—**	0.1	**—**	—
Merger reserve		**(61.4)**	(61.4)	**—**	—
Retained earnings		**171.1**	149.1	**47.2**	50.1
Total equity		**217.4**	191.1	**153.3**	153.9

The Company reported a total comprehensive loss for the financial year ended 30 June 2022 of £0.6m (2021: £0.5m).

The notes on pages 114 to 150 are an integral part of these consolidated and Company financial statements.

The financial statements on pages 107 to 150 were authorised for issue by the Board of Directors on 22 September 2022 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 2022

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2021		0.1	103.1	0.6	—	(0.5)	0.1	(61.4)	149.1	191.1
Profit for the year		—	—	—	—	—	—	—	25.7	25.7
Other comprehensive income and losses										
Cash flow hedges:										
Fair value income/(loss)		—	—	—	—	2.8	(0.1)	—	—	2.7
Deferred tax on cash flow hedge and available-for-sale financial assets		—	—	—	—	(0.7)	—	—	—	(0.7)
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(0.1)	(0.1)
Total other comprehensive income/(loss)		—	—	—	—	2.1	(0.1)	—	(0.1)	1.9
Total comprehensive income/(loss)		—	—	—	—	2.1	(0.1)	—	25.6	27.6
Transactions with owners										
Issue of Ordinary shares	26	—	2.3	—	—	—	—	—	—	2.3
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	2.3	2.3
Deferred tax relating to share-based payments	25	—	—	—	—	—	—	—	(1.3)	(1.3)
Dividends to equity holders of the Company	26	—	—	—	—	—	—	—	(4.6)	(4.6)
Total transactions with owners		—	2.3	—	—	—	—	—	(3.6)	(1.3)
At 30 June 2022		**0.1**	**105.4**	**0.6**	**—**	**1.6**	**—**	**(61.4)**	**171.1**	**217.4**

Consolidated statement of changes in equity continued
for the year ended 30 June 2022

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2020		0.1	101.9	0.6	(0.3)	(1.4)	0.5	(61.4)	126.6	166.6
Profit for the year		—	—	—	—	—	—	—	19.3	19.3
Other comprehensive income and losses										
Cash flow hedges:										
Fair value income/(loss)		—	—	—	—	0.9	(0.4)	—	—	0.5
Deferred tax on cash flow hedge and available-for-sale financial assets		—	—	—	—	—	—	—	(0.1)	(0.1)
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(0.7)	(0.7)
Total other comprehensive (loss)/income		—	—	—	—	0.9	(0.4)	—	(0.8)	(0.3)
Total comprehensive income/(loss)		—	—	—	—	0.9	(0.4)	—	18.5	19.0
Transactions with owners										
Issue of Ordinary shares	26	—	1.2	—	—	—	—	—	—	1.2
Disposal of treasury reserve	26	—	—	—	0.3	—	—	—	—	0.3
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	2.2	2.2
Deferred tax relating to share-based payments	25	—	—	—	—	—	—	—	1.8	1.8
Total transactions with owners		—	1.2	—	0.3	—	—	—	4.0	5.5
At 30 June 2021		0.1	103.1	0.6	—	(0.5)	0.1	(61.4)	149.1	191.1

Company statement of changes in equity
for the year ended 30 June 2022

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2021		0.1	103.1	0.6	50.1	153.9
Total comprehensive loss for the year		—	—	—	(0.6)	(0.6)
Transactions with owners						
Issue of Ordinary shares	26	—	2.3	—	—	2.3
Credit to reserves for share-based payments	11	—	—	—	2.3	2.3
Dividends to equity holders of the Company	26	—	—	—	(4.6)	(4.6)
Total transactions with owners		—	2.3	—	(2.3)	—
At 30 June 2022		**0.1**	**105.4**	**0.6**	**47.2**	**153.3**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2020		0.1	101.9	0.6	48.4	151.0
Total comprehensive loss for the year		—	—	—	(0.5)	(0.5)
Transactions with owners						
Issue of Ordinary shares	26	—	1.2	—	—	1.2
Credit to reserves for share-based payments	11	—	—	—	2.2	2.2
Dividends to equity holders of the Company	26	—	—	—	—	—
Total transactions with owners		—	1.2	—	2.2	3.4
At 30 June 2021		0.1	103.1	0.6	50.1	153.9

Consolidated and Company statement of cash flow
for the year ended 30 June 2022

	Note	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	29	**93.1**	80.3	**2.3**	(1.2)
Taxation paid		**(11.2)**	(13.0)	**—**	—
Interest paid		**(6.4)**	(7.1)	**—**	—
Net cash generated from/(used in) operating activities		**75.5**	60.2	**2.3**	(1.2)
Cash flows from investing activities					
Business combinations (net of cash acquired)	15	**(8.4)**	(19.4)	**—**	—
Purchase of property, plant and equipment	13	**(23.0)**	(16.1)	**—**	—
Proceeds from sale of property, plant and equipment		**0.2**	0.6	**—**	—
Purchase of intangible assets	12	**(1.5)**	(0.5)	**—**	—
Purchase of other investments	16	**(21.4)**	—	**—**	—
Proceeds from sale of other investments	16	**9.0**	—	**—**	—
Net cash used in investing activities		**(45.1)**	(35.4)	**—**	—
Cash flows from financing activities					
Dividends paid	26	**(4.6)**	—	**(4.6)**	—
Proceeds from issue of Ordinary shares	26	**2.3**	1.2	**2.3**	1.2
Proceeds from sale of Treasury shares	26	**—**	0.3	**—**	—
Repayment of obligations under right-of-use assets		**(12.7)**	(13.0)	**—**	—
Repayment of borrowings	28	**(0.1)**	(1.1)	**—**	—
Net cash (used in)/generated from financing activities		**(15.1)**	(12.6)	**(2.3)**	1.2
Net increase in cash and cash equivalents		**15.3**	12.2	**—**	—
Cash and cash equivalents at the beginning of the year		**33.7**	21.5	**—**	—
Cash and cash equivalents at the end of the year		**49.0**	33.7	**—**	—

Notes to the consolidated financial statements

for the year ended 30 June 2022

1. General information

The principal activity of CVS Group plc, together with its subsidiaries ("the Group"), is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online pharmacy and retail business. The principal activity of CVS Group plc ("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 ("CVSG"). Its company registration number is 06312831 and registered office is CVS House, Owen Road, Diss, IP22 4ER.

Use of alternative performance measures

Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), adjusted profit before tax (adjusted PBT) and adjusted earnings per share (adjusted EPS)

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies' adjusted measures. They are 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 tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.

Adjusted PBT is calculated as profit before tax, amortisation, costs relating to business combinations and exceptional items.

Adjusted EPS is calculated as adjusted profit before tax, less applicable tax, divided by the weighted average number of Ordinary shares in issue in the period.

The following table provides the calculation of adjusted EBITDA as defined above:

Alternative performance measure: adjusted EBITDA	Note	2022 £m	2021 £m
Profit before income tax		**36.0**	33.1
Adjustments for:			
Finance expense	5	**6.8**	7.0
Amortisation of intangible assets	12	**22.2**	23.8
Depreciation of property, plant and equipment	13	**11.3**	10.3
Profit on disposal of property, plant and equipment and right-of-use assets		**(0.3)**	—
Depreciation and impairment of right-of-use assets	14	**14.1**	14.0
Costs relating to business combinations[1]	4	**4.9**	9.3
Exceptional items[2]	16	**12.4**	—
Adjusted EBITDA	4	**107.4**	97.5
Adjusted earnings per share (EPS):			
Adjusted EPS (pence)	10	**85.8**	75.1
Diluted adjusted EPS (pence)	10	**85.0**	74.6

1. Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.
2. Exceptional items relate to impairment in relation to Quality Pet Care Ltd, refer to note 16.

The reconciliations for adjusted PBT and adjusted EPS can be found in note 10.

Net debt

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

	Note	2022 £m	2021 £m
Borrowings repayable after more than one year			
Loan facility		**85.0**	85.0
Unamortised borrowing costs		**(0.7)**	(1.1)
Total borrowings	24	**84.3**	83.9
Cash and cash equivalents	21	**(49.0)**	(33.7)
Net debt		**35.3**	50.2

1. General information continued

Use of alternative performance measures continued

Like-for-like sales

Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2020, revenue is included from September 2021 in the like-for-like calculations.

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 international accounting standards and in conformity with the requirements of the Companies Act 2006.

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. At the year end the Group had cash balances of £49.0m and an unutilised overdraft facility of £5.0m. Total facilities of £170.0m 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 unutilised revolving credit facility of £85.0m. The Group is fully compliant with all covenants in respect of these facilities. The Directors consider that the £5.0m overdraft and the £170.0m facility enable the Group to meet all current liabilities as they fall due. The Group is not reliant on any Government support. 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, its profile of cash generation and the timing and amount of bank borrowings repayable, principal risks, and considering the Task Force on Climate-Related Financial Disclosures (TCFD) scenario analysis conducted, 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.

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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates.

Judgement: 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, 'Leases', paragraphs 18–21, management has applied the following policy for all leases:

a) for properties in contract, the lease term has been determined to be the period 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 end of the contractual lease term; and

c) for properties where management has committed to close the site, the lease term is determined to be until the next break clause.

Refer to note 14 for additional disclosures related to leases.

Accounting estimate: Research and Development Expenditure Tax Credit (RDEC)

The Group has recognised £2.0m (2021: £2.0m) income in relation to claims made by the Group under HM Revenue & Customs (HMRC) RDEC scheme in respect of costs relating to qualifying research and development (R&D) activities. The income is recognised when there is reasonable assurance that the Group will comply with the relevant conditions of the scheme and that the tax credits will be received, which can be some time after the original expense is incurred. The Group's assessment of eligible expenditure and qualifying activities must align with the definition of R&D for RDEC purposes. The Group has considered the facts and circumstances relating to each company's claim in order to make a judgement as to whether compliance is reasonably assured and therefore receipt is reasonably certain. The Group has applied an estimated discount to the gross claims of £4.1m (2021: £3.9m) submitted to HMRC in the period and recognised £2.1m (2021: £1.9m). The aggregate amount unrecognised at 30 June 2022 amounted to £4.0m (2021: £1.9m). The unrecognised amount of £4.0m, will be recognised when uncertainty has been removed either via formal acceptance of the claims or the expiry of the enquiry windows, which should occur in the year ended June 2023.

2. Summary of significant accounting policies continued

Changes in accounting policies and disclosure

Standards adopted by the Group for the first time

Two new and revised standards, including the following, are effective for annual periods beginning on or after 1 January 2021:

- Amendment to IFRS 16, 'Leases' – COVID-19 Related Rent Concessions Beyond 30 June 2021
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

Adoption of these standards has not had an impact on the Group's financial statements.

Standards and interpretations to existing standards 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 2022 or later periods but which the Group has not early adopted:

- 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)
- Amendments to IAS 8 – Definition of Accounting Estimates (effective 1 January 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective 1 January 2023)
- Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective 1 January 2023)

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2022.

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. Where the Group does not control a subsidiary, it is not consolidated. 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. Changes that arise during the measurement period that inform about conditions at the date of the acquisition are adjusted via goodwill, and changes that arise after the measurement period, are credited or charged to the 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.

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 Online Retail Business. 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 the income statement 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 the income statement as a bargain purchase gain.

2. Summary of significant accounting policies continued

Business combinations continued

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 the income statement.

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.

Patient data records and trade names

Acquired patient data records 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 a market participant. The residual values are assumed to be £nil. Patient data records 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	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

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 incurred.

2. Summary of significant accounting policies continued

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. The Group has considered the Task Force on Climate-Related Financial Disclosures (TCFD) scenario analysis conducted in undertaking this assessment and concluded no changes were required to the Group's accounting policies, estimates or judgements in this area.

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 on disposal. Where necessary, a 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.

Trade and other receivables

Trade and other receivables are recognised initially at fair value through profit or loss (FVTPL) 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 within administration expenses.

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 ("fair value through other comprehensive income" (FVTOCI)) 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, 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 year-end 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.

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 the income statement. 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.

2. Summary of significant accounting policies continued

Financial instruments continued

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.

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.

Equity instruments

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

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.

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.

2. Summary of significant accounting policies continued

Current and deferred 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 profit before tax 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 also not accounted for if it arises from initial recognition of goodwill. 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.

Current and 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 taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is measured in accordance with relevant accounting standards. For all contracts within the scope of IFRS 15, 'Revenue from Contracts with Customers', the Group 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 Group 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 veterinary consultation, veterinary procedure, laboratory test or cremation is completed.

Members of customer membership schemes, for example the 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 and contract liability for this are shown in note 20 and note 22, respectively. Revenue is recognised net of the 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 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.

2. Summary of significant accounting policies continued

Rebates received from manufacturers

Consistent with standard industry practice, the Group 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 the Group's purchases relating to inventories are held by the Group 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 in the statement of financial position as a receivable and the corresponding liability for the rebate due to the member is recorded as a payable. The associated 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.

Leases

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 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.

2. Summary of significant accounting policies continued
Leases continued
The Group as a lessee continued
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.

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.

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 on page 117.

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 administration expenses in the income statement.

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 contains 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 standalone price of the lease component and the aggregate standalone price of the non-lease components.

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 the income statement 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 the income statement in the period in which they become receivable.

Certain companies within the Group may be entitled to claim tax credits in relation to the Research and Development Expenditure Tax Credit (RDEC) scheme in the UK. Tax credits receivable under this scheme are determined to have the substance of a government grant and accordingly these tax credits are accounted for under IAS 20, 'Accounting for Government Grants', as described above. The tax credits are recognised within administration expenses within the income statement when there is reasonable assurance that the Group will comply with the relevant conditions and that the tax credits will be received.

Provisions
A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

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). UK employees may also acquire shares in the Company through an HMRC-approved employee Save As You Earn scheme (SAYE), where the employee makes monthly savings over a three-year period and has the option to purchase shares at the end of the period.

The fair values of equity-settled transactions are measured indirectly at the dates of grant using Monte Carlo or 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.

2. Summary of significant accounting policies continued

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 year-end, 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 the income statement 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, finance cost on the right-of-use lease liability, 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.

Share premium

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

Treasury reserve

The treasury reserve comprises shares held by an Employee Benefit Trust (EBT) for the purposes of satisfying the exercise of certain share options vesting under the Group's Long-Term Incentive Plan (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 income statement 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.

3. Financial risk management continued

Financial risk factors continued

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.

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 (2021: £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 2.70% above SONIA plus a credit adjustment spread. The applicable interest rate is dependent upon the bank test net debt to bank test EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.45% above SONIA.

At 30 June 2022, 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 2022, 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 £0.9m (2021: £0.8m) 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. Sales made other than on a cash basis are limited to a small part of the Group's overall business, and within these business areas the Group has appropriate credit checking facilities and procedures in place. 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 2022 is the fair value of each class of receivable as disclosed in note 20 to the financial statements.

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.

3. Financial risk management continued
Financial risk factors continued
c) Liquidity risk continued

30 June 2022	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
Non-derivative financial liabilities							
Borrowings		**—**	**85.0**	**—**	**—**	**—**	**85.0**
Trade and other payables (excluding social security and other taxes)	22	**68.2**	**—**	**—**	**—**	**—**	**68.2**
Lease liabilities	14	**13.2**	**15.5**	**14.6**	**26.1**	**56.6**	**126.0**
		81.4	**100.5**	**14.6**	**26.1**	**56.6**	**279.2**

30 June 2021	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
Non-derivative financial liabilities							
Borrowings		—	—	85.0	—	—	85.0
Trade and other payables (excluding social security and other taxes)	22	69.1	—	—	—	—	69.1
Lease liabilities	14	12.4	14.2	13.2	23.7	57.2	120.7
		81.5	14.2	98.2	23.7	57.2	274.8

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 bank test net debt/bank test EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements.

	2022 £m	2021 £m
Bank test net debt	**36.0**	51.3
Bank test EBITDA	**89.3**	75.5
Ratio	**0.40**	0.68

The ratio above is calculated for the bank covenants as bank test net debt divided by bank test EBITDA.

Bank test net debt
Drawn bank debt less cash and cash equivalents which includes £9.0m held in escrow at 30 June 2022 (2021: £nil).

Bank test EBITDA
Adjusted EBITDA annualised for the effect of acquisitions, deducting costs relating to business combinations and adding back share option costs, on an accounting basis prior to the adoption of IFRS 16. Refer to note 1 for the calculation of adjusted EBITDA.

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 overdraft facility and £85.0m revolving credit facility were undrawn at 30 June 2022.

Notes to the consolidated financial statements continued
for the year ended 30 June 2022

3. Financial risk management continued

Fair value measurement

The Group's financial assets and liabilities that are measured at fair value at 30 June 2022 by level of fair value hierarchy are:

> 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).

The Group has level 1 available-for-sale financial assets of £0.1m (2021: £0.1m). Refer to note 16 for further information.

4. Segment reporting

Segment 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.

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, tax-related assets and liabilities, costs relating to business combinations, and Head Office salary and premises costs.

Revenue comprises £398.1m of fees and £156.1m of goods (2021: £359.3m and £150.8m respectively).

Operating segments

The Group is split into four operating segments (Veterinary Practices, Laboratories, Crematoria and Online Retail Business) and a centralised support function (Head Office) for business segment analysis. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services.

Each of these operating segments is managed separately as each segment requires different specialisms, marketing approaches and resources. Intra-group sales eliminations are included within the Head Office segment. Head Office includes costs relating to the employees, property and other overhead costs associated with the centralised support function together with finance costs arising on the Group's borrowings.

Year ended 30 June 2022	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Revenue	492.1	27.2	9.5	46.6	(21.2)	554.2
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4
Profit/(loss) before tax	64.8	7.6	2.9	3.4	(42.7)	36.0
Total assets	426.0	38.6	20.1	27.9	5.6	518.2
Total liabilities	(170.6)	(5.1)	(2.2)	(18.6)	(104.3)	(300.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	64.8	7.6	2.9	3.4	(42.7)	36.0
Finance expense	4.1	—	—	—	2.7	6.8
Depreciation of property, plant and equipment	9.9	0.6	0.5	—	0.3	11.3
Depreciation of right-of-use assets	13.7	0.1	—	—	0.3	14.1
Profit on disposal of property, plant and equipment and right-of-use assets	(0.3)	—	—	—	—	(0.3)
Amortisation of intangible assets	14.6	—	—	0.1	7.5	22.2
Costs relating to business combinations	2.0	—	—	—	2.9	4.9
Exceptional items	—	—	—	—	12.4	12.4
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4

4. Segment reporting continued
Operating segments continued

Year ended 30 June 2021	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Revenue	453.4	28.0	8.0	41.7	(21.0)	510.1
Adjusted EBITDA	98.4	9.1	2.8	2.9	(15.7)	97.5
Profit/(loss) before tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Total assets	422.4	32.7	16.9	10.9	1.6	484.5
Total liabilities	(179.8)	(4.0)	(1.4)	(3.4)	(104.8)	(293.4)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Finance expense	4.1	—	—	—	2.9	7.0
Depreciation of property, plant and equipment	9.0	0.6	0.4	—	0.3	10.3
Depreciation and impairment of right-of-use assets	13.7	0.1	—	—	0.2	14.0
Amortisation of intangible assets	14.0	—	—	0.2	9.6	23.8
Costs relating to business combinations	8.1	—	—	—	1.2	9.3
Adjusted EBITDA	98.4	9.1	2.8	2.9	(15.7)	97.5

Geographical segments
The business operates predominantly in the UK. As at 30 June 2022, it has 27 veterinary practices in the Netherlands and four in the Republic of Ireland. It performs a small amount of laboratory work and teleradiology work for Europe-based clients and a small amount of teleradiology work for clients based in the rest of the world. In accordance with IFRS 8, 'Operating Segments', no segment results are presented for trade with clients in Europe or the rest of the world as these are not reported separately for management reporting purposes and are not considered material for separate disclosure.

5. Finance expense

	2022 £m	2021 £m
Interest expense on bank loans and overdraft	**2.2**	2.5
Interest expense on lease liabilities	**4.2**	4.1
Amortisation of debt arrangement fees	**0.4**	0.4
Finance expense	**6.8**	7.0

Notes to the consolidated financial statements continued
for the year ended 30 June 2022

6. Expenses/(Income) by nature

	Note	2022 £m	2021 £m
Amortisation of intangible assets	12	**22.2**	23.8
Depreciation of property, plant and equipment	13	**11.3**	10.3
Depreciation and impairment of right-of-use assets	14	**14.1**	14.0
Employee benefit expenses	7	**259.6**	231.5
Cost of inventories recognised as an expense (included in cost of sales)		**121.2**	117.5
Repairs and maintenance expenditure on property, plant and equipment		**4.9**	5.3
Movement in provision for expected credit losses	20	**(1.4)**	0.7
Exceptional items[1]	16	**12.4**	—
RDEC income[2]		**(2.0)**	(2.0)
Other expenses		**69.1**	68.9
Total cost of sales and administrative expenses		**511.4**	470.0

1. During the year ended 30 June 2022, exceptional items related to impairment of the investment in Quality Pet Care Ltd, which was disposed of on 30 June 2022. The impairment of this investment is considered as exceptional and non-recurring due to the circumstances of the sale, as described in note 16. These costs are included within administration expenses and are shown above. There were no exceptional items in the year ended 30 June 2021.
2. In the course of their ordinary work, our colleagues perform work which advances the overall knowledge in the veterinary field and seeks to resolve scientific and technological uncertainties. In the prior year, the Group submitted claims under the Research and Development Expenditure Credits (RDEC) scheme to HMRC for the first time in respect of the 2019 financial year, and in the current year claims were submitted in respect of 2020. The amount of qualifying expenditure in relation to 2021 and 2022 is yet to be determined, in part due to the uncertainty around FY19 and FY20 claims, which is explained more fully in Note 2. The amount of research and development expenditure within Cost of sales and Administrative expenses is therefore not separately disclosed.

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:

	2022 £'000	2021 £'000
Audit services		
Fees payable to the Group's auditor for:		
The audit of the parent company and consolidated financial statements	**180**	164
The audit of the Company's subsidiaries pursuant to legislation	**352**	326
	532	490

7. Employee benefit expense and numbers
Group

Employee benefit expense for the Group	Note	2022 £m	2021 £m
Wages and salaries		**228.5**	205.0
Social security costs		**22.9**	19.3
Other pension costs	31	**5.9**	5.0
Share-based payments	11	**2.3**	2.2
		259.6	231.5

The employee benefit expense included within cost of sales is £181.9m (2021: £160.7m). 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 and Non-Executive Directors) during the year, analysed by category, was as follows:

	2022 Number	2021 Number
Veterinary surgeons and pathologists	**2,079**	1,962
Nurses, practice ancillaries and technicians	**5,489**	4,976
Crematoria staff	**98**	84
Central support	**247**	219
	7,913	7,241

Company

The average monthly number of people employed by the Company is four (2021: four), being 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	
	2022 £m	2021 £m	2022 £m	2021 £m
Salaries and other short-term employee benefits	**0.8**	0.8	**2.3**	2.2
Company contributions to money purchase schemes	**—**	—	**0.1**	0.1
	0.8	0.8	**2.4**	2.3

Retirement benefits are accruing to one Director (2021: three) under a personal pension plan. The remuneration of the Executive Directors, amounting to £2.1m (2021: £2.1m), is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors, amounting to £0.3m (2021: £0.2m), is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

Directors' remuneration is disclosed on an individual basis in the Remuneration Committee Report on pages 83 to 93.

Share options

Under the Company's SAYE schemes the Directors have the following options at the year end:

	SAYE scheme	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
B Jacklin	SAYE12	04 December 2019	01 January 2023	863p	709
R Alfonso	SAYE12	04 December 2019	01 January 2023	863p	709
R Fairman	SAYE13	02 December 2020	01 January 2024	1,009p	606
B Jacklin	SAYE13	02 December 2020	01 January 2024	1,009p	570
R Alfonso	SAYE13	02 December 2020	01 January 2024	1,009p	606
R Fairman	SAYE14	25 November 2021	01 January 2025	1,974p	310
B Jacklin	SAYE14	25 November 2021	01 January 2025	1,974p	310
R Alfonso	SAYE14	25 November 2021	01 January 2025	1,974p	291

8. Directors' remuneration and key management compensation continued

Share options continued

Under the Company's Long-Term Incentive Plans (LTIP) the Directors have the following options at the year-end:

	LTIP	Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
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
R Fairman	LTIP14	02 October 2020	1,219p	30 June 2023	41,030
B Jacklin	LTIP14	02 October 2020	1,219p	30 June 2023	24,618
R Alfonso	LTIP14	02 October 2020	1,219p	30 June 2023	13,540
R Alfonso	LTIP14(b)	04 January 2021	1,485p	30 June 2023	6,733
R Fairman	LTIP15	06 October 2021	2,407p	30 June 2024	21,188
B Jacklin	LTIP15	06 October 2021	2,407p	30 June 2024	12,712
R Alfonso	LTIP15	06 October 2021	2,407p	30 June 2024	11,009

The exercise price for all shares awarded under LTIPs is 0.2p.

LTIP12 vested in the year; for further details of the above schemes see the Remuneration Committee report on pages 83 to 93.

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:

	2022 £m	2021 £m
Salaries and other short-term employee benefits	**3.5**	4.0
Post-employment benefits	**0.2**	0.2
Share-based payments	**1.1**	1.0
	4.8	5.2

9. Tax expense

a) Analysis of tax expense recognised in the income statement

	Note	2022 £m	2021 £m
Current tax			
Current tax on profits for the year		**13.1**	12.9
Adjustments in respect of previous years		**—**	1.3
Total current tax charge		**13.1**	14.2
Deferred tax			
Origination and reversal of temporary differences		**(2.4)**	(5.0)
Adjustments in respect of previous years		**(0.4)**	0.3
Effect of tax rate change on opening deferred tax balance		**—**	4.3
Total deferred tax credit	25	**(2.8)**	(0.4)
Total tax expense		**10.3**	13.8

9. Tax expense continued

b) Reconciliation of effective tax charge

The total tax expense for the year differs from the theoretical amount that would arise using the standard rate of UK corporation tax of 19.0% (2021: 19.0%) as follows:

	2022 £m	2021 £m
Profit before tax	**36.0**	33.1
Effective tax charge at 19.0% (2021: 19.0%)	**6.8**	6.3
Effects of:		
Expenses not deductible for tax purposes	**1.2**	2.4
Loss on disposal of non-qualifying assets	**2.3**	—
Tax rate change on opening deferred tax balances	**—**	4.3
Adjustments to deferred tax charge in respect of previous years	**(0.4)**	0.3
Adjustments to current tax charge in respect of previous years	**—**	1.3
Current year tax losses not recognised/(utilisation of brought forward losses previously unrecognised)	**0.2**	(0.1)
Effect of difference between closing deferred tax rate and current tax rate	**0.2**	(0.7)
Total tax expense	**10.3**	13.8

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2021: 19.0%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate on reported profits is 28.6% (2021: 41.7%) and has decreased from the prior year mainly due to the remeasurement of deferred tax in the prior year as a result of the substantive enactment of the increase in the UK corporation tax rate to 25.0% from April 2023, which did not recur in the current year. The effective tax rate for 2022 was adversely influenced by the impairment and subsequent disposal of an investment, which resulted in tax losses of £13.4m. A deferred tax asset has not been recognised on the tax loss as it is not probable the Group will have sufficient future taxable profits against which this loss could be utilised. It was further affected by a decrease in expenses not deductible for tax purposes predominantly in respect of business acquisitions.

Changes in tax rates

The UK corporation tax rate for the year was 19.0% (2021: 19.0%). In March 2021, the UK Government announced an increase in the UK corporation tax rate. The Finance Bill 2021 was substantively enacted on 24 May 2021 increasing the UK corporation rate to 25.0% from 1 April 2023. The impact of this change in tax rate was recognised in 2021 in the income statement, except to the extent that it related to items previously recognised outside of the income statement in which case it was recognised in other comprehensive income and equity accordingly.

Uncertain tax position

The Group recognises taxation based on estimates of whether taxes will be due. No material uncertain tax positions existed at 30 June 2022 or 30 June 2021.

10. Earnings per Ordinary share

a) Basic

	2022	2021
Profit for the year (£m)	**25.7**	19.3
Weighted average number of Ordinary shares in issue	**70,926,977**	70,685,939
Basic earnings per share (pence)	**36.2**	27.3

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.

10. Earnings per Ordinary share continued

b) Diluted continued

	2022	2021
Profit for the year (£m)	**25.7**	19.3
Weighted average number of Ordinary shares in issue	**70,926,977**	70,685,939
Adjustment for contingently issuable shares – LTIPs	**248,506**	237,307
Adjustment for contingently issuable shares – SAYE schemes	**377,056**	246,533
Weighted average number of Ordinary shares for diluted earnings per share	**71,552,539**	71,169,779
Diluted earnings per share (pence)	**35.9**	27.1

Alternative performance measure: adjusted earnings per share

	Note	2022 £m	2021 £m
Profit before tax		**36.0**	33.1
Adjustments for:			
Amortisation of intangible assets	12	**22.2**	23.8
Costs relating to business combinations	4	**4.9**	9.3
Exceptional items	6	**12.4**	—
Adjusted profit before tax		**75.5**	66.2
Tax expense amended for the above adjustments		**(14.6)**	(13.1)
Adjusted profit after tax		**60.9**	53.1
Weighted average number of Ordinary shares in issue		**70,926,977**	70,685,939
Weighted average number of Ordinary shares for diluted earnings per share		**71,552,539**	71,169,779

	Pence	Pence
Adjusted earnings per share (pence)	**85.8**	75.1
Diluted adjusted earnings per share (pence)	**85.0**	74.6

11. Share-based payments

Long-Term Incentive Plans

The Group operates incentive schemes for certain senior executives, the CVS Group Long-Term Incentive Plans (LTIP).

Under the LTIP schemes, awards are made at an effective nil cost, vesting over a three-year performance period conditional upon the Group's adjusted earnings per share growth and Total Shareholder Return (TSR). The LTIP scheme arrangements are equity settled.

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

	July 2021 scheme (LTIP15/15(b)) Number of share awards	July 2020 scheme (LTIP14/14(b)) Number of share awards	July 2019 scheme (LTIP13/13(b)) Number of share awards	July 2018 scheme (LTIP12) Number of share awards
Outstanding at 1 July 2021	—	136,655	135,025	98,110
Granted during the year	74,625	—	—	—
Lapsed during the year	—	—	—	(619)
Forfeited during the year	(4,982)	(12,836)	(6,111)	—
Exercised during the year	—	—	—	(97,491)
Outstanding at 30 June 2022	**69,643**	**123,819**	**128,914**	**—**
Exercisable at 30 June 2022	**—**	**—**	**128,914**	**—**

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

The options outstanding at the year end under LTIP15, LTIP15(b), LTIP14, LTIP14(b), LTIP13, and LTIP13(b) have a weighted average remaining contractual life of two years, two years, one year, one year, nil years and nil years, respectively.

11. Share-based payments continued

Long-Term Incentive Plans continued

The share-based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £1.2m (2021: £1.4m) and has been charged to administrative expenses. Employer's National Insurance contributions of £0.2m (2021: £0.6m) have been charged to administrative expenses 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 83 to 93.

Save As You Earn (SAYE)

The Group operates an incentive scheme for all UK employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE14 Number of share awards	SAYE13 Number of share awards	SAYE12 Number of share awards	SAYE11 Number of share awards	SAYE10 Number of share awards
Outstanding at 1 July 2021	—	345,954	243,561	298,818	13,014
Granted during the year	215,022	—	—	—	—
Forfeited during the year	(13,492)	(34,716)	(18,535)	(14,247)	—
Exercised during the year*	—	(1,047)	(2,799)	(249,108)	(13,014)
Outstanding at 30 June 2022	**201,530**	**310,191**	**222,227**	**35,463**	**—**
Exercisable at 30 June 2022	**—**	**—**	**—**	**35,463**	**—**

* The weighted average share price at the date of exercise was £19.54.

Further information on the SAYE schemes is shown in the table below:

	SAYE14	SAYE13	SAYE12	SAYE11
Date opened for subscription	November 2021	December 2020	December 2019	November 2018
Date options granted	January 2022	January 2021	January 2020	January 2019
Discount on closing mid-market price	20%	20%	10%	10%
Exercise price	£19.74	£10.09	£8.63	£8.30
Remaining contractual life	2 years 5 months	1 year 5 months	5 months	nil

All of the SAYE schemes vest over a three-year period. There are no performance conditions attached to the SAYE scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £9.09 and end of the period was £12.11.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £1.1m (2021: £0.8m) and has been charged to administrative expenses.

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

	LTIP15	LTIP15(b)	SAYE14
Grant date	06 October 2021	16 December 2021	25 November 2021
Share price at grant date[1]	£24.07	£22.17	£22.30
Fair value per option	£15.46	£18.81	£7.54
Exercise price	0.2p	0.2p	£19.74
Number of employees	34	1	1,391
Shares under option at date of grant	74,174	451	215,022
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[2]	35.2%	35.2%	41.1%
Expected dividends expressed as a dividend yield	0.45%	0.45%	0.30%

1. Share price calculated at average of closing share price for preceding five days in line with scheme rules.

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

12. Intangible assets

Group	Note	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2020		100.2	1.5	263.2	5.5	370.4
Additions arising through business combinations		14.1	—	8.8	—	22.9
Foreign currency translation		(0.4)	—	(0.8)	—	(1.2)
Other additions		—	—	—	0.5	0.5
At 30 June 2021 and 1 July 2021		113.9	1.5	271.2	6.0	392.6
Additions arising through business combinations	15	6.7	—	2.1	—	8.8
Other additions		—	—	—	1.5	1.5
At 30 June 2022		**120.6**	**1.5**	**273.3**	**7.5**	**402.9**
Accumulated amortisation						
At 1 July 2020		—	1.5	135.5	3.6	140.6
Amortisation for the year		—	—	22.8	1.0	23.8
Foreign currency translation		—	—	(0.2)	—	(0.2)
At 30 June 2021 and 1 July 2021		—	1.5	158.1	4.6	164.2
Amortisation for the year		—	—	21.4	0.8	22.2
At 30 June 2022		—	**1.5**	**179.5**	**5.4**	**186.4**
Net book amount						
At 30 June 2022		**120.6**	—	**93.8**	**2.1**	**216.5**
At 30 June 2021		113.9	—	113.1	1.4	228.4
At 1 July 2020		100.2	—	127.7	1.9	229.8

Amortisation is charged to administrative expenses in the Income Statement.

The patient data records 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	£6.1m	6 years
Patient data records	YourVets	£3.1m	3 years

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 veterinary 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, as 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 records 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

	2022 £m	2021 £m
Veterinary Practices	**116.3**	109.2
Laboratories	**2.1**	2.1
Crematoria	**2.6**	2.6
Total	**121.0**	113.9

12. **Intangible assets** continued

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 6.0% growth per annum in adjusted EBITDA has been assumed for years one to five with a long-term growth rate of 2.0% per annum for the purposes of assessing net present value of future cash flows, with adjusted EBITDA, adjusted for an assumption of capital expenditure, used as an approximation to cash flows 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 6.0% for years one to five and 2.0% long-term rate). The pre-tax discount rate used to calculate value in use is 11.3% at 30 June 2022 (2021: 10.3%).

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to the CGUs being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

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 2020		16.8	31.4	55.9	3.6	107.7
Foreign exchange		—	—	(0.2)	—	(0.2)
Additions arising through business combinations		—	—	0.6	—	0.6
Additions		3.0	5.7	5.7	1.7	16.1
Disposals		(0.5)	—	—	(0.3)	(0.8)
At 30 June 2021 and 1 July 2021		19.3	37.1	62.0	5.0	123.4
Additions arising through business combinations	15	—	—	0.7	—	0.7
Additions		3.2	8.8	9.0	2.0	23.0
Disposals		—	(0.1)	(0.2)	(0.3)	(0.6)
At 30 June 2022		**22.5**	**45.8**	**71.5**	**6.7**	**146.5**
Accumulated depreciation						
At 1 July 2020		1.8	16.6	35.8	1.9	56.1
Foreign exchange		—	—	(0.1)	—	(0.1)
Depreciation for the year		0.3	3.0	6.2	0.8	10.3
Disposals		—	—	—	(0.3)	(0.3)
At 30 June 2021 and 1 July 2021		2.1	19.6	41.9	2.4	66.0
Depreciation for the year		0.4	2.9	6.9	1.1	11.3
Disposals		—	—	(0.2)	(0.3)	(0.5)
At 30 June 2022		**2.5**	**22.5**	**48.6**	**3.2**	**76.8**
Net book amount						
At 30 June 2022		**20.0**	**23.3**	**22.9**	**3.5**	**69.7**
At 30 June 2021		17.2	17.5	20.1	2.6	57.4
At 1 July 2020		15.0	14.8	20.1	1.7	51.6

Freehold land amounting to £1.7m (2021: £1.7m) has not been depreciated.

Included within the above classes of assets is £5.5m (2021: £4.6m) of assets which are under construction, of which £4.8m was acquired in the year and £0.7m is carried forward from the previous year.

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 one and fifteen 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 one and four years. Additions to right-of-use assets include new leases; extensions and amendments to existing lease agreements are disclosed as remeasurements.

Right-of-use assets

Group	Note	Property £m	Equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2020		109.6	1.2	1.9	112.7
Foreign currency translation		(0.6)	—	—	(0.6)
Acquired through business combinations		4.9	—	—	4.9
Remeasurement of lease term		7.8	—	—	7.8
Additions		1.2	0.5	1.0	2.7
Disposals		(2.1)	—	—	(2.1)
At 30 June 2021 and 1 July 2021		120.8	1.7	2.9	125.4
Acquired through business combinations	15	1.0	—	—	1.0
Remeasurement of lease term		11.7	—	—	11.7
Additions		6.1	0.4	0.4	6.9
Disposals		(1.7)	—	(1.0)	(2.7)
At 30 June 2022		**137.9**	**2.1**	**2.3**	**142.3**
Accumulated depreciation					
At 1 July 2020		13.3	0.4	0.9	14.6
Depreciation for the year		12.4	0.3	0.9	13.6
Impairment		0.4	—	—	0.4
Disposals		(0.4)	—	—	(0.4)
At 30 June 2021 and 1 July 2021		25.7	0.7	1.8	28.2
Depreciation for the year		13.0	0.3	0.8	14.1
Disposals		(0.7)	—	(1.0)	(1.7)
At 30 June 2022		**38.0**	**1.0**	**1.6**	**40.6**
Net book amount					
At 30 June 2022		**99.9**	**1.1**	**0.7**	**101.7**
At 30 June 2021		95.1	1.0	1.1	97.2
At 1 July 2020		96.3	0.8	1.0	98.1

The impairment loss in the prior year relates to veterinary practices which were closed or were due to close. 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 was written down to its expected recoverable value and impairment costs of £0.4m were charged. No impairment loss was recognised in the current year.

14. Leases continued

Lease liabilities

Group	2022 £m	2021 £m
Current	**9.4**	8.6
Non-current	**95.1**	90.2
Total discounted lease liabilities	**104.5**	98.8
Maturity analysis – contractual undiscounted lease payments		
Less than one year	**13.2**	12.4
Between one and five years	**56.2**	51.1
More than five years	**56.6**	57.2
Total undiscounted lease payments	**126.0**	120.7

15. Business combinations

Details of business combinations in the year ended 30 June 2022 are set out below. The reason for each acquisition was to expand the CVS Group business through acquisitions aligned to our strategic goals. The acquisition and subsequent disposal of Quality Pet Care Ltd is not included in the below, and further information can be found in note 16.

Name of business combination	Date of acquisition
Dierenkliniek Leloup Olst-Wijhe (trade and asset)	01 February 2022
Anton Vets Ltd	05 May 2022
OCVC Limited	10 June 2022

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

Given the nature of the veterinary practices acquired and the records maintained by such practices, it is not practicable to disclose the revenue or profit or loss of the combined entity for the year as though the acquisition date for all business combinations during the year had been at the beginning of that year.

The table below summarises the total assets acquired through business combinations in the year ended 30 June 2022:

	Note	Book value of acquired assets £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	13	**0.7**	—	**0.7**
Patient data records	12	—	**2.1**	**2.1**
Right-of-use assets	14	**1.0**	—	**1.0**
Inventories		**0.1**	—	**0.1**
Deferred tax liability	25	**(0.1)**	**(0.3)**	**(0.4)**
Trade and other receivables		**0.1**	**(0.1)**	—
Trade and other payables		**(0.7)**	—	**(0.7)**
Loans		**(0.1)**	—	**(0.1)**
Lease liabilities		**(1.0)**	—	**(1.0)**
Total identifiable assets		—	**1.7**	**1.7**
Goodwill	12			**6.7**
Total consideration (net of cash acquired of £0.5m)				**8.4**
Initial consideration paid (net of cash acquired of £0.5m)				**8.0**
Deferred consideration payable				**0.4**
Total consideration (net of cash acquired of £0.5m)				**8.4**

The total consideration of £8.4m is prior to the agreement of the completion accounts. The amounts recognised are subject to adjustment in line with IFRS 3 for up to 12 months from acquisition, with goodwill being adjusted accordingly.

15. Business combinations continued

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 an amount equal to the deferred tax that arises on non-qualifying fixed assets acquired under a business combination.

Post-acquisition revenue and post-acquisition adjusted EBITDA were £0.5m and £0.1m respectively. The post-acquisition period is from the date of acquisition to 30 June 2022. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2022 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.

Acquisition costs of £4.9m (2021: £9.3m) are included within other expenses in note 6 of the financial statements.

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

Business combinations in previous years

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2021. £0.4m (2021: £nil) was paid in the current year to settle deferred consideration payable from the prior year.

Business combinations subsequent to the year end

Subsequent to the year end, the Group has made two acquisitions.

On 27 July 2022, the Group completed the purchase of 100.0% of the share capital of Werrington Vets Limited, a company registered in England and Wales, for initial cash consideration of £4.3m. This is a business comprising one companion animal veterinary practice site in the UK. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £4.1m.

On 16 September 2022, the Group completed the purchase of 100.0% of the share capital of Woodlands Veterinary Clinic Limited, a company registered in England and Wales, for initial cash consideration of £3.5m. This is a business comprising two companion animal veterinary practice sites in the UK. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £3.3m.

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 £0.1m (2021: £0.1m) in 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 2020		69.4
Options granted to employees of subsidiary undertakings		2.2
At 30 June 2021		71.6
Options granted to employees of subsidiary undertakings	11	2.3
At 30 June 2022		**73.9**

16. Investments continued

b) Shares in subsidiary undertakings continued

The principal subsidiary undertakings of CVS Group plc are set out below:

Name of subsidiary	Principal business	Country of incorporation
Albavet Limited	Veterinary services and buying club	Scotland
Animed Direct Limited	Online dispensary	England and Wales
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services	England and Wales
B & W Equine Group Limited	Veterinary services	England and Wales
CVS (Ireland) Veterinary Services Limited	Holding company	Republic of Ireland
CVS (Ireland) Veterinary Services No.2 Limited	Veterinary services	Republic of Ireland
CVS (Netherlands) B.V.	Holding company	The Netherlands
CVS (UK) Limited	Veterinary and diagnostic services	England and Wales
Dierenziekenhuis Drachten B.V.	Veterinary services	The Netherlands
Diergeneeskundig Centrum Noord Nederland B.V.	Veterinary services	The Netherlands
Endell Veterinary Group Limited	Veterinary services	England and Wales
Greenacres Pet Crematorium Limited	Animal cremation	England and Wales
Highcroft Pet Care Limited	Veterinary services	England and Wales
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services	The Netherlands
Mi Vet Club Limited	Veterinary goods and services buying club	England and Wales
Okeford Veterinary Centre Limited	Veterinary services	England and Wales
Pet Doctors Limited	Veterinary services	England and Wales
Pet Emergency Treatment Services Limited	Veterinary services	England and Wales
Pet Vaccination Clinic Limited	Veterinary services	England and Wales
Precision Histology International Limited	Veterinary diagnostic services	England and Wales
Rossendale Pet Crematorium Limited	Animal cremation and provision of burial grounds	England and Wales
Ruddington and East Leake Veterinary Centre Limited	Veterinary services	England and Wales
Severn Edge Equine Limited	Veterinary services	England and Wales
Severn Edge Farm Limited	Veterinary services	England and Wales
Severn Edge Veterinary Group Limited	Veterinary services	England and Wales
Silvermere Haven Limited	Animal cremation and provision of burial grounds	England and Wales
Silverton Veterinary Practice Limited	Veterinary services	England and Wales
Sustainable Developments (SW) Limited	Property development	England and Wales
The Pet Crematorium Limited	Animal cremation	England and Wales
Valley Pet Crematorium Limited	Animal cremation	England and Wales
Vet Direct Services Limited	Veterinary instrumentation supply	England and Wales
Whitley Brook Crematorium for Pets Limited	Animal cremation	England and Wales

16. Investments continued

b) Shares in subsidiary undertakings continued

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

Name of subsidiary	Country of incorporation
Animal Health Centre Limited	England and Wales
Anton Vets Ltd	England and Wales
Ambivet Ltd	England and Wales
Astonlee Limited	England and Wales
Charter Veterinary Hospital Group Limited	England and Wales
Cinder Hill Equine Clinic Limited	England and Wales
Corner House Equine Clinic Limited	England and Wales
Cromlynvets Limited	Northern Ireland
Darboe and Baily Limited	England and Wales
Enterprise Veterinary Services Limited	England and Wales
Greendale Veterinary Diagnostics Limited	England and Wales
Greensands Veterinary Clinic Limited	England and Wales
Gurka Animal Care Ltd	England and Wales
Insight Laboratory Services Limited	England and Wales
Keown O'Neill Limited	Northern Ireland
Newlands Veterinary Group Limited	England and Wales
OCVC Limited	England and Wales
Pet Vaccination UK Limited	England and Wales
Pets Holding Limited	England and Wales
Pharmsure UK Limited	England and Wales
Polmont Veterinary Clinic Limited	Scotland
Severn Edge Holdings Limited	England and Wales
Slate Hall Veterinary Practice Limited	England and Wales
Slate Hall Veterinary Services Limited	England and Wales
Superstar Pets Limited	England and Wales
Three Valleys Veterinary Ltd*	Northern Ireland
Total Veterinary Services Limited	England and Wales
Vet Direct Holdings Limited	England and Wales
Veterinary Enterprises & Trading Limited	England and Wales
Weighbridge Referral Service Limited	England and Wales
Western Counties Equine Hospital Limited	England and Wales
White Lodge Veterinary Centre Ltd	England and Wales
Wyatt Poultry Veterinary Services Limited	England and Wales
Your Vets (Holdings) Limited	England and Wales

* Companies in liquidation.

CVS Group plc owns 100% of the Ordinary share capital of CVS (UK) Limited; the remaining subsidiaries above are indirectly held by CVS Group plc.

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

16. Investments continued

b) Shares in subsidiary undertakings 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	Registered office address
Albavet Limited	24 Nicol Street, Kirkcaldy, Fife KY1 1NY
Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon TQ12 4PB
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
Keown O'Neill Limited	11 Church Street, Ballygawley, Co. Tyrone BT70 2HA
Polmont Veterinary Clinic Limited	Boness Road, Polmont, Falkirk FK2 0XZ
Precision Histology International Limited	The School House, One Eyed Lane, Weybread, Diss, Norfolk IP21 5TT
Three Valleys Veterinary Ltd	17 Clarendon Road, Belfast BT1 3BG

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.

On 19 August 2021, the Group acquired 100% of the share capital of Quality Pet Care Ltd, a company registered in England and Wales, for total consideration of £20.4m, including repayment of loans of £3.4m. On 22 September 2021, the Competition & Markets Authority (CMA) served an initial enforcement order (IEO) in respect of this acquisition and during the period a further £1.0m loan was provided for working capital. During the investigation, the group did not control Quality Pet Care Ltd due to conditions imposed by the IEO, and as such it is recorded as an investment in a subsidiary held at fair value, and its financial performance and position are not consolidated into those of the Group. Prior to the year-end, an impairment of £12.4m was recorded to the carrying amount of the investment in anticipation of a disposal, based on the estimated fair value, which has been recognised as an exceptional item in the income statement within administrative expenses. On 30 June 2022, the entire shareholding was divested with sales proceeds of £9.0m, with no gain or loss on disposal recorded due to the investment having already been impaired to its recoverable amount. The sales proceeds have been included within cash equivalents; see note 21.

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 2022 was immaterial (2021: immaterial).

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. The arrangement exposed the Group to Sterling LIBOR within a cash flow hedge accounting relationship.

Following the proposed and subsequent discontinuance of Sterling LIBOR, the Group has adopted both Phase 1 and Phase 2 of Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). The Group debt was transitioned per agreement entered on 31 December 2021. The Group has also transitioned its interest rate swaps, effective from 31 December 2021. The revised arrangements amended exposures from Sterling LIBOR to the Sterling Overnight Index Average Rate (SONIA), plus a credit adjustment spread.

The Group has applied the practical expedient published by the IASB, allowing the Group to account for a change in the contractual cash flows of the debt required by the Interest Rate Benchmark Reform by updating the effective interest rate and applying any changes prospectively.

The Group has also applied the practical expedient to continue hedge accounting where changes to the hedging arrangement arise as a direct result of changes required by the reform. Therefore, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate and does not require reclassification into retained earnings.

The expedients can be applied by the Group because the transitioning of interest rate swaps and debt was necessary as a direct consequent of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

At 30 June 2022, £70.0m of debt was hedged (2021: £70.0m); the remainder of the debt was unhedged at the year end.

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 SONIA + credit adjustment spread, pay Sterling fixed interest rate swaps	2024	£70.0m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

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 (level 1).

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

	2022		2021	
Group	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	**2.3**	**—**	—	(0.4)

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2020	(0.9)
Fair value loss through reserves – hedged	0.5
At 30 June 2021	(0.4)
Fair value gain through reserves – hedged	2.7
At 30 June 2022	**2.3**

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 the income statement 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 the income statement 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 the income statement on a rational basis over the term of the hedging relationship.

18. Financial instruments

Financial assets and liabilities

Group	Note	2022 FVTPL - derivatives designated in hedge relationships £m	2022 FVTOCI - designated £m	2022 Amortised cost £m	2022 Total £m	2021 FVTPL - derivatives designated in hedge relationships £m	2021 FVTOCI - designated £m	2021 Amortised cost £m	2021 Total £m
Investments	16	—	**0.1**	—	**0.1**	—	0.1	—	0.1
Trade and other receivables*	20	—	—	**42.1**	**42.1**	—	—	39.5	39.5
Cash and cash equivalents	21	—	—	**49.0**	**49.0**	—	—	33.7	33.7
Derivative financial instruments	17	**2.3**	—	—	**2.3**	(0.4)	—	—	(0.4)
Borrowings	24	—	—	**(84.3)**	**(84.3)**	—	—	(83.9)	(83.9)
Trade and other payables**	22	—	—	**(68.2)**	**(68.2)**	—	—	(69.1)	(69.1)
Lease liabilities	14	—	—	**(104.5)**	**(104.5)**	—	—	(98.8)	(98.8)
		2.3	**0.1**	**(165.9)**	**(163.5)**	(0.4)	0.1	(178.6)	(178.9)

* Trade and other receivables excludes prepayments.

** Trade and other payables excludes social security and other taxes.

Company	Note	2022 £m	2021 £m
Amounts owed by Group undertakings	33	**79.4**	82.3

Amounts owed by Group undertakings are unsecured and interest-free and have no fixed date of repayment. Amounts owed by Group undertakings are measured at amortised cost.

19. Inventories

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

20. Trade and other receivables

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Trade receivables:				
Within their due period	**17.1**	19.2	**—**	—
Past due:				
Not impaired	**10.8**	7.8	**—**	—
Fully impaired	**3.9**	6.4	**—**	—
Total trade receivables	**31.8**	33.4	**—**	—
Less: provision for impairment of receivables	**(3.9)**	(6.4)	**—**	—
Trade receivables – net	**27.9**	27.0	**—**	—
Other receivables	**5.4**	4.4	**—**	—
Prepayments	**10.6**	8.6	**—**	—
Accrued income	**8.8**	8.1	**—**	—
Total trade and other receivables	**52.7**	48.1	**—**	—

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 with the exception of prepayments which hold no credit risk. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in Sterling.

A provision for expected credit losses has been recognised at the reporting date through consideration of the ageing profile of the Group's trade receivables and the perceived credit quality of its customers reflecting net debt due. The carrying amount of trade receivables, net of expected credit losses, is considered to be an approximation to its fair value. The amount of the expected losses was £3.9m (2021: £6.4m). The Group has not disclosed the expected loss rate as this varies by type of customer. Aggregate movements on the Group's expected losses of trade receivables are as follows:

	2022 £m	2021 £m
At the beginning of the year	**6.4**	6.9
(Credited)/charged to the income statement within administrative expenses	**(1.4)**	0.7
Utilisation of the provision during the year	**(1.1)**	(1.2)
At the end of the year	**3.9**	6.4

Other receivables do not contain impaired assets.

At 30 June 2022, there is a contract asset recorded as accrued income of £8.8m (2021: £8.1m), relating to customer membership schemes including the Healthy Pet Club (HPC) contract. 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 the nature of the scheme, the accrued income amount brought forward has been fully utilised in the year.

21. Cash and cash equivalents

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash	**40.0**	33.7	**—**	—
Cash equivalents	**9.0**	—	**—**	—
Total cash and cash equivalents	**49.0**	33.7	**—**	—

Cash equivalents relate to funds held in an escrow account, which are available to the Group on demand.

22. Trade and other payables

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Current				
Trade payables	**40.4**	40.3	**—**	—
Social security and other taxes	**18.4**	16.9	**—**	—
Other payables	**6.0**	12.7	**—**	—
Deferred income[1]	**2.2**	2.8	**—**	—
Accruals	**19.6**	13.3	**—**	—
Total trade and other payables	**86.6**	86.0	**—**	—

1. Deferred income relates to the contract liability relating to the Healthy Pet Club (HPC) contract.

23. Provisions

	2022 £m	2021 £m
At the beginning of the year	**3.9**	5.0
Charged to the income statement within administration expenses	**1.2**	0.9
Utilised in the period	**(3.0)**	(2.0)
At the end of the year	**2.1**	3.9

Provisions relate to costs set aside for properties including site closures and other property maintenance obligations. It is anticipated these will be utilised in the next twelve months.

24. Borrowings

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

Group	2022 £m	2021 £m
Within one year or on demand	**—**	—
Between one and two years	**84.3**	—
After more than two years	**—**	83.9
	84.3	83.9

The balances above are shown net of issue costs of £0.7m (2021: £1.1m), which are being amortised over the term of the bank loan. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

The Group has total facilities of £175.0m. 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;
- a four-year Revolving Credit Facility (RCF) of £85.0m that runs to 31 January 2024; and
- a £5.0m overdraft facility renewable annually.

The two financial covenants associated with these facilities have remained unchanged, and are based on the ratios of bank-test net debt to bank-test EBITDA and bank-test EBITDA to interest. The bank-test net debt to bank-test EBITDA ratio must not exceed 3.25x. The bank-test 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. Bank-test EBITDA is based on the last twelve months' adjusted EBITDA performance annualised for the effect of acquisitions deducting costs relating to business combinations and adding back share option expense, prior to the impact of IFRS 16.

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 2022. More information can be found in note 3.

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.

24. Borrowings continued

At the year end £70.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged. Further information on the cash flow hedge can be found in note 17.

Undrawn committed borrowing facilities

At 30 June 2022, the Group has a committed overdraft facility of £5.0m (2021: £5.0m) and an RCF of £85.0m (2021: £85.0m). Both the overdraft facility and the RCF were undrawn at 30 June 2022 and 30 June 2021.

25. Deferred 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 tax assets comprised:

Group	2022 £m	2021 £m
Tax effect of temporary differences:		
Share-based payments	**1.5**	2.6
Accelerated tax depreciation	—	0.2
Derivative financial instruments	—	0.1
Tax losses	**0.2**	0.1
Other	**0.1**	0.1
	1.8	3.1

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The recoverability of deferred tax assets is supported by the expected level of future profits. The Group believes that it is probable that there will be sufficient taxable profits against which the deferred tax assets will reverse.

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

Group	2022 £m	2021 £m
Tax effect of temporary differences:		
Excess of qualifying amortisation and intangible fixed assets acquired via a business combination	**20.4**	23.5
Derivative financial instruments	**0.6**	—
Capital allowances in excess of depreciation	**0.8**	—
	21.8	23.5

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

Group	At 1 July 2021 £m	Credited/ (charged) to income statement £m	Charged to other comprehensive income £m	Charged to statement of changes in equity £m	Acquisition of subsidiary and deferred tax recognised in goodwill £m	At 30 June 2022 £m
Share-based payments	2.6	0.2	—	(1.3)	—	**1.5**
Derivative financial instruments	0.1	—	(0.7)	—	—	**(0.6)**
Other temporary differences	0.1	—	—	—	—	**0.1**
Property, plant and equipment	0.2	(0.9)	—	—	(0.1)	**(0.8)**
Tax losses	0.1	0.1	—	—	—	**0.2**
Intangible fixed assets acquired via a business combination	(23.5)	3.4	—	—	(0.3)	**(20.4)**
	(20.4)	2.8	(0.7)	(1.3)	(0.4)	**(20.0)**

25. Deferred tax continued

Group	At 1 July 2020 £m	Credited/ (charged) to income statement £m	Charged to other comprehensive income £m	Credited to statement of changes in equity £m	Acquisition of subsidiary and deferred tax recognised in goodwill £m	At 30 June 2021 £m
Share-based payments	0.2	0.6	—	1.8	—	2.6
Derivative financial instruments	0.2	—	(0.1)	—	—	0.1
Other temporary differences	0.1	—	—	—	—	0.1
Property, plant and equipment	0.6	(0.3)	—	—	(0.1)	0.2
Tax losses	—	0.1	—	—	—	0.1
Intangible assets and fixed assets acquired via a business combination	(21.5)	—	—	—	(2.0)	(23.5)
	(20.4)	0.4	(0.1)	1.8	(2.1)	(20.4)

The deferred tax balance is non-current.

Deferred tax assets and deferred tax liabilities have been offset where they relate to the same tax authority, the Group has a legally enforceable right to offset and the Group intends to settle the liability and realise the asset simultaneously.

The Group has carried forward unutilised tax losses of £20.6m (2021: £4.9m) that are available indefinitely for offsetting against future taxable profits of Group companies within the tax jurisdiction in which the losses arose. A deferred tax asset has been recognised of £0.2m (2021: £0.1m) in respect of some of these losses as it is probable that sufficient future taxable profits will arise against which the asset will reverse. This deferred tax asset has been offset against the deferred tax liability in respect of intangible assets. The Group has not recognised a deferred tax asset on remaining losses of £18.9m (2021: £3.9m) as it is not probable that sufficient future taxable profits will arise against which the losses can be utilised.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. 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.

26. Share capital

Company	**2022 £m**	2021 £m
Issued and fully paid		
71,120,037 (2021: 70,753,782) Ordinary shares of 0.2p each	**0.1**	0.1

During the year, shares were issued for a total consideration of £2.3m (2021: £1.2m) as follows:

	2022 shares	2021 shares
LTIP12	**97,491**	—
SAYE9	—	318
SAYE10	**15,810**	97,296
SAYE11	**249,108**	1,053
SAYE12	**2,799**	147
SAYE13	**1,047**	9
Total	**366,255**	98,823

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 7.0p (2021: 6.5p) per share, giving a total of £5.0m (2021: £4.6m). During the year the 2021 final dividend totalling £4.6m was paid (2021: £nil).

26. Share capital continued

EBT own shares

The Group operates an EBT which holds 64 shares (2021: 710 shares). 195,000 shares were bought at open market value for £2.1m in the year ended 30 June 2017.

In the year ended 30 June 2017, 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.

During the year, the Group did not sell shares (2021: nil shares) to satisfy shares vesting under LTIP schemes. The Group sold 646 shares (2021: 23,569 shares) to satisfy shares vesting under SAYE schemes for proceeds of less than £0.1m (2021: £0.3m).

27. Share premium

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

28. Analysis of movement in liabilities from financing activities

Group	At 1 July 2021 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	**At 30 June 2022 £m**
Lease liabilities	(98.8)	16.9	(19.6)	1.3	(4.3)	**(104.5)**
Bank loans	(83.9)	0.1	—	—	(0.5)	**(84.3)**
Total liabilities from financing activities	(182.7)	17.0	(19.6)	1.3	(4.8)	**(188.8)**

Group	At 1 July 2020 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	At 30 June 2021 £m
Lease liabilities	(98.6)	17.1	(15.4)	2.1	(4.0)	(98.8)
Borrowings	(0.1)	0.1	—	—	—	—
Bank loans	(83.5)	1.0	—	—	(1.4)	(83.9)
Total liabilities from financing activities	(182.2)	18.2	(15.4)	2.1	(5.4)	(182.7)

Non-cash movements on right-of-use assets mainly comprise interest on right-of-use lease liabilities. Non-cash movements on borrowings and bank loans mainly include amortisation of issue costs on bank loans and bank debt acquired.

29. Cash flow generated from operations

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Profit/(loss) for the year	**25.7**	19.3	**(0.6)**	(0.5)
Tax expense	**10.3**	13.8	**—**	—
Finance expense	**6.8**	7.0	**—**	—
Amortisation of intangible assets	**22.2**	23.8	**—**	—
Depreciation of property, plant and equipment	**11.3**	10.3	**—**	—
Depreciation and impairment of right-of-use assets	**14.1**	14.0	**—**	—
Profit on sale of property, plant and equipment and right-of-use assets	**(0.3)**	—	**—**	—
Increase in inventories	**(6.6)**	(0.4)	**—**	—
(Increase)/decrease in trade and other receivables	**(3.2)**	(3.4)	**2.9**	(0.7)
Decrease in trade and other payables	**(0.1)**	(5.2)	**—**	—
Decrease in provisions	**(1.8)**	(1.1)	**—**	—
Share option expense	**2.3**	2.2	**—**	—
Exceptional items	**12.4**	—	**—**	—
Total net cash flow generated from/(used in) operations	**93.1**	80.3	**2.3**	(1.2)

30. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2022 (2021: £nil).

Bank guarantees

The Company is a member of the Group's 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 2022 (2021: £175.0m). 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.

Exemption from audit by parent company guarantee

The following wholly owned subsidiaries of the Company are covered by a guarantee provided by CVS Group plc and are consequently entitled to an exemption under Section 479A from the requirement of the Act relating to the audit of individual accounts. Under this guarantee, the Group will guarantee all outstanding liabilities of these entities. The Group has deemed it not practical to quantify the possible outflow and no liability is expected to arise under the guarantee. The entities covered by this guarantee are disclosed below.

Name of subsidiary	Company number
Albavet Limited	SC275059
Axiom Veterinary Laboratories Limited	02526935
B & W Equine Group Limited	06777468
Charter Veterinary Hospital Group Limited	12941058
Endell Veterinary Group Limited	08078309
Greenacres Pet Crematorium Limited	07877237
Greendale Veterinary Diagnostics Limited	05138112
Highcroft Pet Care Limited	07238070
Insight Laboratory Services Limited	06353163
Mi Vet Club Limited	08365201
Okeford Veterinary Centre Limited	05984705
Pet Vaccination UK Limited	05391973
Pet Vaccination Clinic Limited	03252801
Pets Holding Limited	11161672
Pet Emergency Treatment Services Limited	03586933
Rossendale Pet Crematorium Limited	01409643
Ruddington and East Leake Veterinary Centre Limited	04551334
Severn Edge Equine Limited	09524486
Severn Edge Farm Limited	09521408
Severn Edge Holdings Limited	09522086
Severn Edge Veterinary Group Limited	09523786
Silvermere Haven Limited	02187947
Silverton Veterinary Practice Limited	08101117
Slate Hall Veterinary Services Ltd	08390278
Sustainable Developments (SW) Limited	05174372
The Pet Crematorium Limited	03442460
Valley Pet Crematorium Limited	04961306
Vet Direct Services Limited	05167635
Vet Direct Holdings Limited	06746630
Veterinary Enterprises & Trading Ltd	03495054
Whitley Brook Crematorium for Pets Limited	04734723
Wyatt Poultry Veterinary Services Limited	05780117
Your Vets (Holdings) Limited	07071834

31. 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 £5.9m (2021: £5.0m). The amount outstanding at the year end included in trade and other payables was £1.1m (2021: £0.9m).

32. Events after the reporting period
On 27 July 2022, the Group completed the purchase of 100.0% of the share capital of Werrington Vets Limited, a company registered in England and Wales, for initial cash consideration of £4.3m. This is a business comprising one companion animal veterinary practice site in the UK, aligned with the Group's strategic goals. Further information can be found in note 15.

On 16 September 2022, the Group completed the purchase of 100.0% of the share capital of Woodlands Veterinary Clinic Limited, a company registered in England and Wales, for initial cash consideration of £3.5m. This is a business comprising two companion animal veterinary practice sites in the UK, aligned with the Group's strategic goals. Further information can be found in note 15.

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:

	2022 £m	2021 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(0.6)**	(0.5)
Cash advanced to fund payment of dividend	**(4.6)**	—

The following balances were owed by related companies:

	2022		2021	
	Receivable £m	**Payable £m**	Receivable £m	Payable £m
CVS (UK) Limited	**79.4**	—	82.3	—

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

Transactions with Directors and key management
During the year, the following dividends were paid to the Directors of the Group: R Connell – £10,693; D Kemp – £426; R Gray – £325; R Fairman – £1,158; and B Jacklin – £306. Dividends were also paid to the spouses of R Fairman and R Alfonso of £709 and £130, respectively (2021: no dividend paid).

Ultimate controlling party
The Directors consider there is no ultimate controlling party.

Five-year history – unaudited
for the year ended 30 June 2022

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	**554.2**	510.1	427.8	406.5	327.3
Gross profit	**239.1**	221.9	170.1	168.9	151.6
Operating profit	**42.8**	40.1	18.5	15.6	17.7
Finance expense	**(6.8)**	(7.0)	(8.6)	(3.9)	(3.6)
Profit before tax	**36.0**	33.1	9.9	11.7	14.1
Tax expense	**(10.3)**	(13.8)	(4.2)	(3.5)	(3.4)
Profit for the year	**25.7**	19.3	5.7	8.2	10.7
Adjusted EBITDA	**107.4**	97.5	71.0	54.5	47.6
Adjusted profit before tax	**75.5**	66.2	38.2	41.4	36.0
Cash generated from operations	**93.1**	80.3	94.8	52.1	46.7
Taxation paid	**(11.2)**	(13.0)	(9.5)	(7.3)	(6.2)
Interest paid	**(6.4)**	(7.1)	(7.0)	(3.4)	(3.1)
Business combinations (net of cash acquired)	**(8.4)**	(19.4)	(7.2)	(56.6)	(50.3)
Loans and borrowings acquired through business combinations	**(0.1)**	(1.0)	—	(1.5)	(3.1)
Purchase of property, plant and equipment and intangible assets	**(24.5)**	(16.6)	(12.4)	(12.9)	(10.7)
Proceeds from sale of property, plant and equipment and intangible assets	**0.2**	0.6	—	—	—
Purchase of other investments	**(21.4)**	—	—	—	—
Proceeds from sale of other investments	**9.0**	—	—	—	—
Dividends paid	**(4.6)**	—	(3.9)	(3.5)	(2.9)
Proceeds from Ordinary shares	**2.3**	1.2	0.1	0.6	61.0
Proceeds from Treasury shares	**—**	0.3	0.9	—	—
Repayment of obligations under right-of-use assets	**(12.7)**	(13.0)	(14.2)	—	—
Amortisation of debt issuance costs	**(0.4)**	(0.4)	(1.0)	(0.5)	(0.4)
Exceptional items	**—**	—	(0.7)	—	—
Decrease/(increase) in net debt	**14.9**	11.9	39.9	(33.0)	31.0
Year-end net debt	**35.3**	50.2	62.1	102.0	69.0

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**36.2**	27.3	8.1	11.6	16.0
Adjusted basic earnings per share	**85.8**	75.1	42.0	46.7	42.4

Contact details and advisors

Registered office
CVS House
Owen Road
Diss
Norfolk
IP22 4ER

Nominated advisor and broker
Peel Hunt LLP
7th Floor
100 Liverpool Street
London
EC2M 2A

Joint broker
Berenberg
60 Threadneedle Street
London
EC2R 8HP

Financial Public Relations
MHP Communications
4th Floor
60 Great Portland Street
London
W1W 7RT

Company Secretary
J Farrer

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
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

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