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Note can be found on page 99 and 100

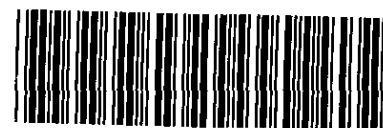
Care at our Heart

CVS Group plc

Annual Report and Financial
Statements for the year ended
30 June 2021

Company No. 06312831

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COMPANIES HOUSE

Passionate about animal care

CVS Group plc is one of the leading integrated veterinary services providers in the UK, the Netherlands and the Republic of Ireland. Our success is derived from the passion our people have for providing excellent care for animals.

The Strategic Report

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Operational highlights

- Our people have demonstrated resilience and continued excellence throughout the year despite many challenges across our industry
- As well as offering first class care to sick or injured animals we are continually improving the levels of preventative health care through our Healthy Pet Club
- Our annual Quality Improvement report reflects our commitment to patient safety and consistent clinical improvement, and has gained us significant recognition in the profession, not least by our regulator the Royal College of Veterinary Surgeons ("RCVS")
- We are committed to enhancing the clinical services we offer, particularly in the quality of our facilities and as such we have completed 13 refurbishments and relocations in FY21
- We have continued to organically grow our revenues, supplementing this with nine synergistic acquisitions during the year

**Read the report at
cvsukltd.co.uk**

THANK YOU

CVS cares about the contribution of our colleagues and we want to thank every single one of them for their extraordinary efforts to provide the best possible care for animals, and for delivering exceptional performance across all our business areas.

CVS 'Thank Holiday'

In recognition of the support that we received from colleagues during the initial COVID-19 lockdown period, we offered all our colleagues an additional day's holiday in December 2020.

'Holiday of a lifetime'

In April 2021, we ran a prize draw in which all colleagues who successfully referred a friend to work for CVS were entered into a prize draw to win a 'holiday of a lifetime'. This was won by one of our valued nurses.

Early bonus payment

In March 2021, to recognise the significant efforts of our colleagues in recovering from the COVID-19 pandemic, we made a partial early bonus payment to clinical colleagues and gave shopping vouchers to all colleagues.

Wellbeing

Our people are our biggest asset and they have demonstrated resilience and dedication over the past year. We improved our wellbeing offering in 2021, rolling out a new dedicated Wellbeing Hub with support and resources available to all our colleagues.

Highlights

Financial highlights¹

- Revenue increased by 19.2%, to £510.1m from £427.8m, with strong Group like-for-like² growth of 17.4% benefitting from favourable market dynamics and a continued focus on providing high quality care to our clients and their animals.
- The Group delivered adjusted EBITDA growth of 37.3%, to £97.5m from £71.0m, through an increase in revenue across all divisions and effective management of costs.
- Profit before income tax increased by 234.3% to £33.1m from £9.9m.
- Leverage³ fell to 0.68x from 1.14x as a result of strong EBITDA growth and reduction in net debt.
- Cash generated from operations decreased to £80.3m from £94.8m despite the increase in adjusted EBITDA, due to VAT and taxes deferred in the prior year due to COVID-19, paid in the current year.

Revenue (£m)		Adjusted EBITDA ⁴ (£m)		Adjusted profit before income tax ⁵ (£m)		Adjusted earnings per share ⁶ (p)	
£510.1m		£97.5m		£66.2m		75.1p	
+19.2%		+37.3%		+73.3%		+78.8%	
2021	510.1	2021	97.5	2021	66.2	2021	75.1
2020	427.8	2020	71.0	2020	38.2	2020	42.0
2019	406.5	2019	54.5	2019	41.4	2019	46.7
2018	327.3	2018	47.6	2018	36.0	2018	42.4
2017	271.8	2017	42.1	2017	33.5	2017	42.8

Proposed dividend per share (p)		Cash generated from operations (£m)		Profit before income tax (£m)		Basic earnings per share (p)	
6.5p		£80.3m		£33.1m		27.3p	
n/a		-15.3%		+234.3%		+237.0%	
2021	6.5	2021	80.3	2021	33.1	2021	27.3
2020	n/a	2020	94.8	2020	9.9	2020	8.1
2019	5.5	2019	52.1	2019	11.7	2019	11.6
2018	5.0	2018	46.7	2018	14.1	2018	16.0
2017	4.5	2017	37.2	2017	14.5	2017	18.5

1 Adjusted financial measures (adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("adjusted EBITDA"), adjusted profit before income tax and adjusted earnings per share) are defined below, and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") on pages 90 and 118. IFRS 16, 'Leases', 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 2019, revenue is included from September 2020 in the like-for-like calculations

3 Leverage on a bank test basis is drawn bank debt less cash at bank, 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 income tax adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, and exceptional items. Adjusted EBITDA is used as a financial metric that removes the cost of debt, costs relating to depreciation and amortisation and one-off costs to achieve a normalised earnings figure that is not distorted by irregular items or structural investment

5 Adjusted profit before income 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 income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the year.

Strategic roadmap

Delivering our vision for the future

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

Our key strategic pillars

1.

We recommend and provide the best clinical care every time

2.

We are a great place to work and have a career

3.

We provide great facilities and equipment

4.

We take our responsibilities seriously

Discover more about our strategy on pages 22 and 23

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.

Underpinned by our commitment to Environmental, Social and Governance ("ESG")

Read more about our approach to ESG on pages 42 to 48

At a glance

A fully integrated veterinary services platform

Breakdown of revenue

85.4%*

Veterinary practices

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

5.3%*

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.

1.5%*

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.

7.8%*

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 28 to 35

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

Our locations

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

Key

Veterinary practices (506)
Laboratories (3)
Crematoria (7)

Investment case

Foundations are in place for future growth

CVS is a high-performing business with a fully-integrated model which positions it well for further growth.

Market

Sizeable and growing market with consumers spending more on their pets

Discover more about our markets on pages 13 to 15

Sectors

Attractive sector which has proven resilient despite COVID-19 restrictions

Discover more in our Operational review on pages 28 to 35

Strategy

Clear, people-focused strategy to drive organic growth

Discover more about our strategy on pages 22 and 23

Management

Strong management team with a broad range of experience and expertise of which 50% of our Executive team are veterinary surgeons or nurses

Discover more about our Board of Directors on pages 58 and 59

Business model

Fully integrated 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 16 and 17

Acquisitions

Increased opportunity for acquisitions to supplement organic growth

Discover more in our Chief Executive Officer's review on pages 9 to 11

Strategy in action

1 We recommend and provide the best clinical care every time

Service quality is driving client value

During the year, we have made efforts to reduce the prescribing of Highest Priority Critically Important Antimicrobials ("HPCIA's"), for which we have been internationally recognised. Thanks to the excellent work of CVS practices, we now have an evidence based framework for reducing HPCIA prescriptions in companion animal practices. The CVS Antimicrobial Resistance policy is shaping the approach to antimicrobial prescribing across clinical and laboratory teams, and this framework will be used Group-wide, with the hope of realising benefits on a larger scale.

This is just one example of how we recommend and provide the best clinical care for our patients, which is one of the reasons for our high client loyalty

+8.4%

Membership of our preventative healthcare scheme, Healthy Pet Club, has grown 8.4%, to 450,000 members

+c.31%

Cases seen by our specialist referral hospitals have grown by c.31% compared to FY20

+c.23%

Our companion animal and new client registrations have increased by c.23% in 2021 compared to FY20

www.cvsukltd.co.uk/cvs-group-publishes-2020-quality-improvement-report/

Well positioned to deliver further growth in shareholder value

“CVS has emerged as a stronger business in light of actions taken to manage the business through the COVID-19 pandemic, with excellent growth opportunities ahead.”

Richard Connell
Chairman

Introduction

When I wrote to you last year, CVS was emerging from the first phase of an unprecedented period of disruption caused by the COVID-19 pandemic. Over the past year, we have continued to face challenges but have taken a number of appropriate and decisive actions as a Board. Through this effective leadership, combined with the ongoing dedication of our colleagues, I am delighted that CVS has demonstrated the resilience of its business model and has emerged as a stronger business with excellent growth opportunities ahead.

The fundamental strength of CVS is our people and this has been a key factor in our strong performance over the past year. CVS colleagues have continued to work tirelessly to provide high quality care to our clients and their patients and, on behalf of the Board, I would like to take this opportunity to thank them all for their hard work and commitment.

Strong financial performance

CVS has delivered improved financial performance in the past financial year as a result of positive momentum in trading across the Group.

We generated revenue growth of 19.2% which reflects strong organic growth, with like-for-like sales increasing by 17.4% for the Group. This reflects an increased client base and our continued focus on delivering high quality clinical care. We completed nine acquisitions during the financial year and revenue of £6.1m was generated from these (2020: four acquisitions with revenue of £4.3m).

Our adjusted EBITDA increased by 37.3% to £97.5m (2020: £71.0m) reflecting good performance across all areas of our business and close control of expenses. Adjusted EPS increased by 78.8% to 75.1p (2020: 42.0p).

Profit before income tax increased by 234.3% to £33.1m (2020: £9.9m). This dual benefit of the increase in revenue and the careful management of costs has resulted in a significant improvement in returns. Basic EPS increased by 237.0% to 27.3p (2020: 8.1p).

We continued to generate strong cash flow from operations of £80.3m (2020: £94.8m), with the year-on-year decrease of 15.3% due to the repayment of VAT of £15.0m to HMRC, which was deferred from 2020 under the COVID-19 VAT Deferral scheme.

Strategic progress

We have a very clear purpose to provide the best possible care to animals and this is underpinned by our vision to be the veterinary company people most want to work for.

In recognition of the essential part our colleagues play in the success of CVS, we have continued to review reward and benefits across CVS to ensure we remain well positioned to retain and attract the very best talent in the profession. We also support employee shareholding in CVS and, with this in mind, we increased the discount to 20.0% for our latest employee Save As You Earn scheme which launched in November 2020.

We continue to expand our colleague base in response to the increased demand for our integrated veterinary services, particularly in light of a growing pet population. In the year ended 30 June 2021, CVS employed an average of 7,241 colleagues (30 June 2020: 6,761) including 1,962 veterinary surgeons (30 June 2020: 1,781) and 2,548 nurses (30 June 2020: 2,359) who we support through our comprehensive training and development programmes.

We have delivered strong underlying financial performance over the past year from a focus on organic growth through the delivery of first class clinical care. We continue to invest in improving our practice facilities and clinical equipment, completing 13 practice refurbishment and relocation projects in the past financial year. We have also announced plans to create a specialist, multi-disciplinary referral hospital in Bristol and look forward to welcoming our first clients to this new facility in 2022.

Alongside our focus on organic growth and our continued investment in practice and clinical facilities, we are well placed to make further acquisitions of first-opinion veterinary practices. Acquisitions can widen our offer of high quality and integrated veterinary services, whilst augmenting our organic growth, positioning CVS well to deliver further growth in shareholder value over the medium term.

Governance and the Board

We remain committed to the highest levels of corporate governance and, as an AIM-quoted company, we voluntarily adopt the FRC UK Corporate Governance Code (2018).

We are committed to ensuring we have the right balance of skills and experience within the Board. In July 2020, we appointed an additional Non-Executive Director, Richard Gray. Richard is the Chair of the Nominations Committee

Our Senior Independent Non-Executive Director, Mike McCollum has announced his intention to stand down, after serving for eight and a half years, and will leave CVS at the end of his current service agreement, which expires on 23 September 2021. On behalf of the Board, I would like to take this opportunity to thank Mike for his tremendous service and to wish him every success in the future.

The Nominations Committee is proposing that we appoint David Wilton as a new Non-Executive Director on 24 September 2021 to replace Mike McCollum as Audit Committee Chair. David is a Chartered Accountant and has a wealth of experience in senior financial roles, most recently as Chief Financial Officer of Sumo Group plc. In light of Mike McCollum's departure, Deborah Kemp will become the Senior Independent Director.

On 16 August 2021, we appointed Jenny Farrer as our new Company Secretary. Jenny is a Chartered Governance Professional and has a wealth of experience in company secretarial roles.

I am delighted to welcome David and Jenny to CVS.

In the year, we consulted with major shareholders on governance and other matters and, in light of their feedback and independence considerations, I stood down from all Board committees with effect from 30 April 2021.

Dividends

The robust performance delivered over the past year demonstrates both the resilience of our business and the strength of our integrated veterinary services model. The Group continues to be highly cash generative, and despite continuing strong levels of investment in facilities, equipment and acquisitions in the year, we reduced our net debt by £11.9m over the course of the year.

In light of the improvements in financial performance and the continued strong cash generation, the Board is recommending a return to our progressive dividend policy, with the payment of a final dividend of 6.5p per share (2020: £nil).

Chairman's statement continued

Shareholder engagement

During the year, the Directors regularly held one-to-one meetings and calls with existing and potential new shareholders, hosted a number of roadshows and attended several virtual broker conferences.

We appointed MHP Communications as our financial public relations ("PR") agency in the year and we will continue to develop our shareholder engagement and reporting in line with best practice. The Executive Directors held the Group's first ever live webcast of the Group's interim results presentation in March 2021 and we will continue to present future results in this way, with a replay facility available.

Outlook

The veterinary sector is undergoing structural growth, through a number of continuing trends including the humanisation of pets, an increase in the demand for companion animals accelerated by COVID-19 restrictions, consumers who are keen to provide the best possible care to their pets, and clinical enhancements which are increasing the range of services we can offer to achieve the best potential outcomes.

Our fully integrated veterinary services model, with first-opinion veterinary practices supported by specialist referral hospitals, laboratories, crematoria and our online retail business all position CVS well to benefit from these favourable sector and consumer trends. Through our improved financial performance and strengthened balance sheet, we are well placed to invest further in our people, our facilities and clinical equipment, and in selective acquisitions to drive growth and enhanced returns.

As we continue to expand and develop our business, our focus will rightly remain on attracting and retaining the very best talent and working as a team to provide the highest quality care to our clients and their animals.

I look forward with confidence to a successful future.

Richard Connell
Chairman

23 September 2021

We care by taking a leading role in driving standards and responsible practices across the profession

In our companion animal practices, we are using an evidence-based framework to report on antibiotic prescriptions and promote responsible prescribing of antimicrobials. We encourage our practices to participate in 'Farm Vet Champions', sponsored by RCVS Knowledge, a charity partner of the Royal College of Veterinary Surgeons. This online learning platform supports farm vets to establish good antimicrobial stewardship. In equine practices, we are working to baseline and benchmark prescribing data and develop antimicrobial stewardship guidelines.

Care at our heart

“

I am immensely proud to lead our team of highly skilled and committed CVS colleagues who provide outstanding service to our clients and their animals.”

Richard Fairman
Chief Executive Officer

Introduction

I am pleased to share our 2021 Annual Report and Financial Statements.

We have delivered a strong performance in the past financial year. Our business model has proven to be resilient, despite the difficult backdrop of COVID-19, and we have as rich a proposition as ever, focused on providing the very highest standards of clinical care. This is all due to the efforts and collaboration of our outstanding team of colleagues.

Throughout the past year, we have had to respond to evolving regulatory guidance and new ways of working in order to provide ongoing care to animals, whilst keeping our colleagues and clients safe.

I would like to take this opportunity to thank all CVS colleagues for their professionalism, sheer hard work and continued commitment to providing the highest levels of service

Favourable market and consumer trends

We have seen a continued increase in pet ownership in the past year and, whilst there is no definitive pet population data available, results of a recent survey published by the Pet Food Manufacturers Association indicate that c.3.2 million UK households have acquired a puppy or kitten since the start of lockdown restrictions and that there are now over 24 million cats and dogs in the UK. This is clearly a positive trend for CVS, and whilst there are short-term benefits from first consultations, vaccinations and in some cases neutering procedures, we anticipate the benefits to be recognised over the medium term as these puppies and kittens reach their mature stages of life and require more veterinary intervention.

We continue to see a favourable trend of humanisation of pets, with consumers willing to spend more on looking after their animals. In many households, pets are seen as a core member of the family and as with human health, improvements in clinical diets and advances in clinical treatments available are likely to lead to increased life expectancy of pets.

Chief Executive Officer's review continued

Favourable market and consumer trends continued

Our fully integrated veterinary services model positions CVS well to benefit from these favourable market and consumer trends. Our first-opinion practices provide access to advice and clinical care and our preventative pet health scheme, the Healthy Pet Club, provides regular vaccinations, check-ups and flea and worming treatments. Our specialist-led, multi-disciplinary referral hospitals provide access to advanced procedures where required and our in-house laboratories provide an increasing range of diagnostic tests in support of our first-opinion and specialist clinical teams. Our online retail business provides a large range of pet food, drugs and other products and our crematoria provide a compassionate and valued end-of-life service to our clients.

Strong financial performance

We have delivered a strong financial performance in the past year, with revenue of £510.1m representing an increase of 19.2% over that achieved in the prior year. This reflects a 17.4% increase in like-for-like sales. Adjusted EBITDA increased to £97.5m, with all divisions contributing to this 37.3% increase over the prior year.

This improved financial performance coupled with continued good operational cash conversion led to a reduction in leverage to 0.68x at 30 June 2021 (30 June 2020: 1.14x).

Strategy

Our purpose is to provide the best possible care to animals and our integrated veterinary services are key to enabling this. Our integrated model and our breadth of skills, services and facilities position us well to provide outstanding care to our clients and their animals.

Our highly skilled and dedicated team of clinicians and support colleagues are at the centre of our strategy and our vision is to be the veterinary company people most want to work for. 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. Our leading Learning, Education and Development team have delivered significant online training over the past year in support of our colleague development.

We pride ourselves on our high clinical standards and remain focused on recommending and providing the best clinical

care. Retaining and attracting the very best veterinary talent is clearly key to this, but we also recognise the need for continued investment in our practice facilities and clinical equipment. I am delighted that we have completed 13 practice refurbishments/relocations in the past year and we have invested £3.8m in new clinical equipment.

Our focus on delivering organic growth through our existing operations will continue to be augmented by the selective acquisition of veterinary practices and the investment in existing and new facilities. We made nine acquisitions in the past year and I am delighted to welcome our new colleagues to CVS. We also announced plans to open a brand new, state of the art multi-disciplinary referral hospital in Bristol and I look forward to the opening of this new facility in 2022. This new facility will allow us to continue to provide specialist support to our clients and their animals for more complex cases, complementing the first-opinion services we provide in CVS. This will also increase the services we supply to third-party practices.

Recruitment of more clinicians

We have expanded CVS over the past year and in the year ended 30 June 2021 we employed an average of 181 (10.2%) more vets and 189 (8.0%) more nurses than in the year ended 30 June 2020. Notwithstanding this increase, we are keen to recruit more clinicians to support our growth and are advertising for a number of new positions. This has the effect of inflating our veterinary surgeon vacancy rate which is calculated as the number of vet vacancies divided by the total number of roles (being both employed vets and new vacancies).

RCVS consultation on legislative review

We have been proactively engaging with the RCVS as a business for some time, for changes in legislation that would allow our highly skilled nurses to perform a greater range of procedures without the need for vet supervision.

We are delighted that the RCVS undertook consultation on a number of proposed reforms to the Veterinary Surgeons Act, 1966 ('the Act'), including proposals to enable nurses to undertake a broader range of procedures such as feline castrations. We actively participated in this consultation process and we broadly support the RCVS reform recommendations which were formally approved by the RCVS Council on 10 June 2021. We now encourage the government to support these reforms so that revised legislation can be enacted.

We care by supporting vets from the very start of their careers

We ran the first fully-paid, three-week Summer Camp in August 2021 to enhance opportunities available to new starters in the profession. The vets who participated received a week of residential training and a week within a practice, with operating experience. This was supported by a week of applied online learning, delivered through the CVS Knowledge Hub, our online learning, education and development platform

Sustainability and ESG

Our focus on providing the very best possible care to our clients and their animals and our focus on making CVS a great place to work and have a career are central components of our strategy.

The Board of CVS is acutely aware that today companies must also be managed so that wider society benefits from their business operations and services. Whilst CVS has always taken its broader societal obligations seriously, we have recently begun the process of understanding our impact on, and the wider contribution we make to society, in order to ensure that CVS becomes a truly sustainable business focused on delivering value to all of our stakeholders. This initiative, which commenced in the second half of this financial year, builds on our mission and purpose and will, over time, evolve into a fully costed and measurable ESG strategy.

We describe this approach as “Care at our Heart”, having worked to identify and articulate the core priorities for all arms of our business, using internal interviews and analysis. The concept of “care” resonated strongly across these discussions – we are, of course, a business that provides best-in-class clinical care. But care, in its broader sense, goes to the very heart of what we do.

As a Company, we strive to reflect this in the work we do. Care is in our DNA, and it is the foundation of our ESG strategy.

- We care deeply 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 providing the best possible health care for 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 doesn't compromise the natural environment.
- We care about delivering value for our investors by doing good.

As a business we have made a number of changes to progress our sustainability agenda, and we are extremely committed to further development in the future. I am

delighted that our stakeholders are equally committed to making demonstrable changes and through working together, I am confident that we will deliver meaningful improvements across all aspects of ESG within CVS.

We have outlined some of our progress in this Annual Report and I look forward to sharing further developments in due course.

Wellbeing and mental health

As a caring employer, we are committed to supporting our colleagues in their wellbeing and mental health. Given the challenges over the past 18 months to our working and personal lives from the COVID-19 pandemic, wellbeing and mental health support is more important than ever.

We continue to develop ways to support all colleagues and we now have over 300 ‘First Aiders for Mental Health’ across CVS who are actively championing wellbeing and positive mental health across our business.

We launched a range of new initiatives over the past year supported by our wellbeing ambassador, Sally Gunnell OBE

Outlook

With our improved financial performance in the past year, continued strong cash flow and strengthened balance sheet, CVS is well positioned for further growth and to benefit from the favourable market and consumer trends.

We will continue to focus on organic growth through providing great care to our clients and animals and through further investment in our people, our clinical facilities and our practices. This organic growth can be augmented by further acquisitions and we have acquired a further eight practice sites since the financial year end.

Our highly skilled and dedicated team of colleagues are key to our business and with their continued support and dedication, I look forward to sharing further success in the future.

Richard Fairman
Chief Executive Officer

23 September 2021

Strategy in action

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

Helping our colleagues achieve their full potential

We are committed to supporting our colleagues in their career progression, and to retaining and developing the best talent in the veterinary profession. Creating opportunities for diverse and rewarding careers is a key part of our strategy and we have an in-house careers team who can help any colleagues looking for a change of direction, location or career progression. This helps us not only to attract new talent, but also to retain our existing colleagues.

In Spring 2021, we ran an additional rewards programme which saw all colleagues who successfully recommended a friend to work at CVS entered into a free draw to win the holiday of a lifetime. This was won by one of our valued nurses.

196

Live courses on Knowledge Hub

10,675

Views of clinical webinars in 2021

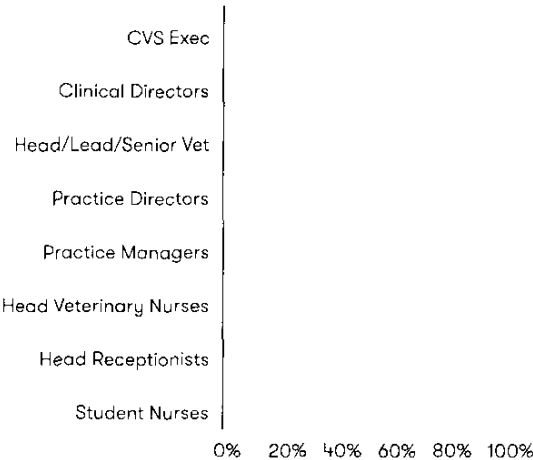
>300

First Aiders for Mental Health in our business

845

Roles filled by internal candidates

Percentage of roles filled by internal candidates



Market review

The UK veterinary market continues to grow

The veterinary market benefits from the tailwinds of increasing pet ownership as we change the way we live and work.

Increasing pet ownership

- There is a growing pet population, with c.24 million cats and dogs in the UK¹.
- Demand for pets has increased due to lifestyle changes; c.3.2m¹ UK households have bought a pet since the start of the pandemic.

Market size (£bn)²

	2017	2018	2019	2020
	6.5	6.8	7.2	7.9

Growing focus/spend on animal care

- There is a growing trend towards humanisation of pets, resulting in an increased average spend on pet care and products.
- 58% of dogs and 41% of cats have some form of insurance³, giving owners affordable access to veterinary care, especially in emergencies.
- Great veterinary care, particularly preventative care, enables owners to maintain the social benefits of pet ownership
- Advances in clinical care provide access to a wider range of treatments.

¹ Pet Food Manufacturers Association 2021

² www.statista.com/statistics/308266/consumer-spending-on-pets-and-related-products-in-the-united-kingdom-uk/

³ PDSA 2020 PAW report

We provide integrated care throughout the life cycle...

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

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

Market drivers and responses

“

As with human health, better clinical diets and advances in the clinical treatments available should lead to an increased life expectancy.”

A growing UK pet population

- The UK pet population has grown in the past 18 months with COVID-19 lockdown restrictions resulting in an increased demand for companion animals.
- The Pet Food Manufacturers Association, in their recent survey, indicate that there are now over 24m cats and dogs in the UK with c.3.2m UK households having acquired a kitten or puppy since the start of lockdown restrictions
- 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, for all species of companion animals
- 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 22 and 23

1 3

Advances in veterinary care

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

- We continue to 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 continue to grow our Vet Oracle Teleneurology and Teleradiology specialisms whereby our specialists are able to review images remotely and provide advice on clinical treatments for first-opinion vets within CVS and third-party owned practices.
- We have invested in new clinical equipment including dental radiography and state of the art keyhole neutering equipment in 40 practices

Link to strategy

Read more on pages 22 and 23

1 2 3 4

Availability of vets to perform services

- There continues to be a shortage of veterinary surgeons and, to a lesser extent, nurses in the UK. These shortages were more pronounced following the Brexit referendum result in June 2016 which increased the level of uncertainty for EU vets already working in the UK or considering moving to the UK.
- In response to this shortage, the UK Government reinstated the veterinary surgeon onto the UK Shortage Occupation List in 2019 making it easier to employ overseas vets from outside the EU.
- The RCVS have also now confirmed that, post Brexit, veterinary surgeons who have qualified in the EU can come to work in the UK provided they have qualified from European Association of Establishments for Veterinary Education (“EAEVE”) accredited institutions without any remedial training
- The number of veterinary schools in the UK has increased to nine currently with proposals for a further three recently announced. The number of graduate vets each year continues to increase as a result
- The RCVS has recently undertaken a consultation on proposed reforms to the Veterinary Surgeons Act 1966 which, amongst other things would enable highly skilled 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 become the veterinary company people most want to work for.
- We have implemented many initiatives with the aim of attracting new colleagues and retaining our talented colleagues, including enhanced wellbeing resources
- 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 KPI of vet vacancy rate along with tracking colleague satisfaction through employee Net Promoter Score

Link to strategy

Read more on pages 22 and 23

1 2 4

We care by supporting veterinary surgeons around the world

Vet Oracle is a specialist-led team that accepts digital CT and MRI scans from first-opinion practices for diagnostic interpretation and support with treatment plans. The latest technology enables the team to support and mentor vets and imaging technicians across the world, providing fast, high-quality reporting and guidance even on non-urgent cases. This innovation and knowledge sharing helps to drive clinical standards for the veterinary profession as a whole

Online purchasing

- 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 drugs online

Our approach

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

Link to strategy

Read more on pages **22 and 23**

1 3

Consolidated market

- The UK and European veterinary market continues to consolidate and c 50% of the companion animal UK market is now owned by the six largest corporates
- We recognise the importance of privately owned independent practices.
- Where private practice owners are looking to sell, we are well positioned to acquire further

Our approach

- We continue to invest in our integrated model and support organic and selective acquisitive growth
- During the year we acquired nine practices primarily focusing on companion animals
- We support independent practices through our buying groups, our laboratories, our referral specialists, our Vet Oracle service and our crematoria.
- We will continue to look for further acquisition opportunities which are value accretive

Link to strategy

Read more on pages **22 and 23**

3

Humanisation of pets

- The Pet industry has benefitted from the humanisation of pets in recent years as pets are treated increasingly as companions
- In the recent PDSA 2020 PAW report, it was reported that "Healthy pets make happy owners" with
 - 94% of pet owners saying owning a pet makes them happy.
 - 86% of pet owners saying owning a pet improves mental health; and
 - 84% saying owning a pet makes them less lonely

Our approach

- We continue to have a culture of high quality care and with our integrated structure we can provide all round animal care, from first-opinion, specialist referrals, diagnostic testing, to end of life care and crematoria.
- We understand the emotional bond between our customers and their pets and the wider social benefits of pet ownership. With advances in clinical care, and our integrated model, we can support our clients throughout their pets' lives

Link to strategy

Read more on pages **22 and 23**

1 2

Business model

Competitive advantage through our integrated veterinary platform

Our inputs

Passionate people

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

7,241

Employees

1,962

Veterinary surgeons

2,548

Nurses

Financial strength

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

£510.1m

Revenue

£97.5m

Adjusted EBITDA

£80.3m

Cash generated from operations

High quality clinical care

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

95

Veterinary specialists

Customer focused

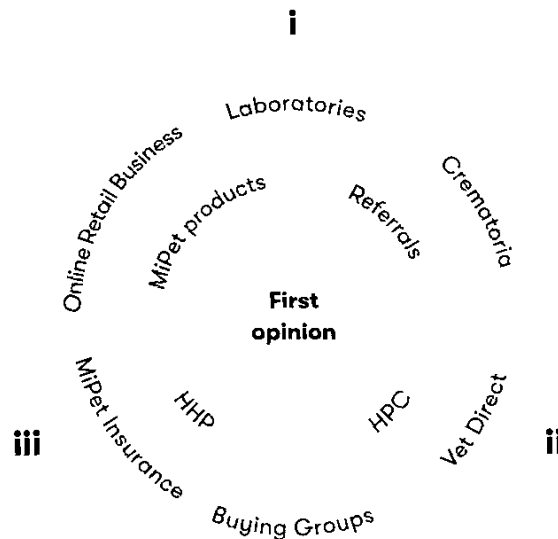
Our colleagues are dedicated to providing a quality service with the highest levels of customer and clinical care

450,000

Healthy Pet Club members

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 clients and their patients.



See our Operational review on pages 28 to 35

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 36 to 40

Stakeholder value creation**Employees**

- Reward and benefits are kept under regular review to ensure we remain competitive. As a thank you to all colleagues we gave an additional day's holiday in the financial year.
- Considerable career progression opportunities across clinical and leadership roles
- Access to an industry leading Learning, Education and Development programme – a number of courses were available online during the financial year
- Continued investment in practice facilities and enhanced clinical equipment.
- Enhanced maternity pay to support colleagues in starting a family and then returning to work.
- Comprehensive wellbeing programme with resources and support available
- Insurance cover provided through corporate membership of the Veterinary Defence Society

Customers

- Access to first class 24/7 veterinary care from our first-opinion practices, our out-of-hours centres, our specialist-led, multi-disciplinary referral hospitals and our laboratories.
- Increasing range of advanced clinical procedures available, with our periparturient advanced practitioners offering an increasing range of services in the clients' local practices.
- Preventative health services through our Healthy Pet Club ("HPC") and Healthy Horse Programme ("HHP")
- Convenience of purchasing pet food and medication online
- Advice on a wide range of issues including selecting the right pet and caring for them

Shareholders

- Increase in shareholder value through increase in share price over the financial year.
- Return to progressive dividend policy
- Increased access to management and improved communication.

Shareholders continued

- Changes in Executive remuneration to better align with shareholder value creation over the medium and longer term
- Increased focus on Sustainability and ESG aligned to shareholder interests
- Consultation with major shareholders undertaken in the year

Industry bodies

- Regular contact with RCVS and other industry bodies.
- Participation in RCVS Practice Standards Scheme by all CVS practices
- Full engagement with RCVS as part of their 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.

Community

- Our first-opinion practices provide an important service in their local communities
- Access is provided to deaf clients through our Sign Video services in 100% of our companion animal practices in the UK
- Colleagues raise money for our charity of the year which is chosen by colleagues. CVS make an equal donation to Vet Life, a charity which supports veterinary colleagues in wellbeing and mental health

Suppliers

- Fair trading terms with our suppliers which promotes the collective interest 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.

Find out more in our stakeholder engagement report on pages 18 to 21

Section 172 statement and stakeholder engagement

Creating value for our stakeholders

Section 172 statement

Our Section 172 statement sets out how the Board has had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 ("s172") in carrying out its duties over the course of the year. The Company's purpose, vision and strategy are underpinned by the codified duty to promote the success of the Company for the benefit of its members as a whole, whilst having regard to the matters set out in s172(1), being:

- 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 between members of the Company.

The underlying principles set out in s172 form the basis for decision making by the Board. The Board has identified six key stakeholders who are essential to delivery of the Company's strategy and long-term success of the Group, details of which are set out in the following pages. During the year, the Board have met more frequently to focus on stakeholder needs, and in particular the needs of our customers and our colleagues during the COVID-19 pandemic.

Engaging with our stakeholders for meaningful impact

The six key stakeholders identified by the Board are at the heart of what we do, being: our employees; our customers, our shareholders; our industry bodies; our community; and our suppliers. It is of the highest importance to us that we engage with all of our stakeholders meaningfully, to inform decision-making and ensure we provide value in all areas of our business. It is challenging to ensure all of our stakeholders have the same experience with the Group, due to our wide range of locations, operations and roles; therefore, we promote an ongoing dialogue with all our stakeholders to enable us to effectively act on feedback, and we foster a culture of honesty and integrity.

Employees

Why we engage

CVS proudly strives to be the veterinary company that 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. Usually, we host an annual conference, however this was delayed in the year due to COVID-19.

We actively monitor our colleague satisfaction via our employee Net Promoter Score, 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.

Outcomes

Our colleagues have provided a lot of valuable feedback over the past year, with all of our people facing uncertainty as the COVID-19 pandemic continued. We hosted live question and answer webinars throughout the year with our Chief Executive Officer and Chief Operating Officer, and our colleagues' questions were answered in writing in the monthly company magazine.

We expanded the Vet Oracle telemedicine service after feedback from our clinical colleagues that they wanted more access to referrals advice.

In what has been a difficult time for our colleagues across the business, we have increased our resources to support colleagues in managing their wellbeing. This includes implementing Wellbeing Champions, providing First Aid for Mental Health training, and launching a new wellbeing portal with free access to webinars, alongside our existing Employee Assistance Programme.

Customers

Why we engage

Customers are increasingly expecting the highest quality care for their animals. We provide this not only through the customer experience but also our high clinical standards and quality of 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 also track our customer Net Promoter Score monthly.

Outcomes

We continue to invest to ensure we can offer our customers a complete pet care service, from first-opinion clinics and referral centres, to pet consumables, in-house laboratory testing and crematoria. Many of our acquisitions are strategically placed to improve the 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 existing practices.

We have invested in improving our practices, including a new open-plan reception area designed to improve customer experience, which we have implemented in our Ramsgate veterinary practice, and a new flagship referral hospital with cutting edge facilities and equipment, including a specialist stereo-tactic linear accelerator, which will open in Bristol in 2022. This will help us treat a larger number of cases.

Shareholders

Why we engage

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

How we engage

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

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

Individual shareholders are encouraged to contact Directors on all matters relating to governance and strategy via the Company Secretary.

Outcomes

At the 2020 AGM, 100.0% of resolutions were passed and votes in favour ranged from 75.1% to 100.0%.

We have engaged MHP Communications, a Financial public relations firm, to assist with improving our investor relations experience, engaging more closely with current and potential shareholders. As part of our improvement of investor relations, our Executive Directors took part in our first ever live webcast of our interim results announcement in March 2021, including a live question and answer session with analysts.

During the year, we attended eight investor conferences and have undertaken virtual investor roadshows in the UK, Europe and the US.

We consulted with major shareholders in the year on governance and other matters and, in light of their feedback, Richard Connell stood down from all Board committees with effect from 30 April 2021. Read more about this in our Corporate Governance statement on pages 60 to 64.

Section 172 statement and stakeholder engagement continued

Industry bodies

Why we engage

We actively engage with our industry bodies: the RCVS, the British Veterinary Association ("BVA") and the British Veterinary Nurses Association ("BVNA"), to promote innovation and advancement within the veterinary industry. This helps us to ensure we are up-to-date with clinical guidance and maintain a reputation for high standards of business conduct.

How we engage

We engage with our regulators over a wide range of issues. During the COVID-19 pandemic we provided our vets with the resources to interpret and follow the RCVS and BVA guidance. Where appropriate, we hold meetings with the RCVS, BVA, BVNA and Veterinary Defence Society to discuss key issues and share initiatives and improvements across the industry.

Outcomes

In March 2021 we released our third Quality Improvement ("QI") report, updating our stakeholders on clinical guidance from the industry.

In the year we have engaged with the RCVS during their consultation on proposed reforms to the Veterinary Surgeons Act 1966 in April 2021.

In April 2021, some of our people and practices were recognised by the RCVS with a Knowledge Award which recognises championing the use of QI methodology.

Community

Why we engage

We regularly engage with the communities in which we work to understand how we can support them.

By engaging with our communities we enhance the environment in which we work, promote employment satisfaction in our operations and keep our communities informed.

How we engage

We have a charity of the year, which is chosen by our colleagues; in 2021 this is the British Divers Marine Life Rescue. Throughout the year we hold regular fundraising events from bake sales in local practices to Group-wide promoted events such as our 'Step'tember virtual dog walk in September 2020 which raised awareness for The Cinnamon Trust, our 2020 Charity of the year.

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

Outcomes

Our colleagues raised £22,000 for our 2020 Charity of the year, which was matched by CVS in a donation to Vet Life.

We have implemented a number of initiatives to lessen our impact on the environment. For example, our seven pet crematoria sites have pledged to offset their carbon footprint by planting one square metre of British native woodland for every pet they directly receive for individual cremation in 2021.

Suppliers

Why we engage

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

How we engage

We have a stable supplier base in our wholesalers and manufacturers, regularly communicating with them to promote our relationship. Our suppliers are invited to attend our annual conference to understand our business, engage with other key stakeholders and ask any questions they may have.

Outcomes

We are proud to have long-term relationships with our wholesalers and manufacturers. Through these relationships we can generate consistent custom for our suppliers, in return achieving mutually favourable terms on purchases. Over the past 18 months we have had appropriate communication with our suppliers, ensuring they were paid on time and were able to deliver sufficient product despite the impact on global supply chains during the pandemic.

Improved protective equipment for Equine vets and nurses

We recognise that Equine clinical work carries a high risk of injury to both vets and nurses. We have been working hard to reduce this, particularly by improving training for our clinical colleagues in understanding where the risks lie, and improving their horse handling skills. To help to mitigate the level of risk that remains in carrying out day-to-day tasks, we have taken the decision to supply all our vets and nurses with a personal protective helmet for them to wear during certain procedures, identified through detailed risk assessments.

Our strategy for growth

1

We recommend and provide the best clinical care every time

Our strategic objectives

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

Our achievements in the year

- We have once again published our annual QI Report reflecting our commitment to leading the veterinary profession in patient safety and promoting a culture of learning and development amongst colleagues
- New industry-leading techniques have been implemented across our practices.
- Established processes are in place to internalise more referrals and attract third-party referrals.
- We have expanded our pool of advanced peripartetic practitioners.

Outlook

- We are working hard to drive increased levels of preventative healthcare.

Market drivers

- A growing UK pet population.
- Advances in veterinary care
- Humanisation of pets.

Link to KPIs A B C D E F G H I J K
Read more on pages **24 to 27**

Link to risks 1 3 4 6 7 9 11 12 13
Read more on pages **50 to 57**

2

We are a great place to work and have a career

Our strategic objectives

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

Our achievements in the year

- In the year ended 30 June 2021 we employed an average of 1,962 veterinary surgeons (30 June 2020: 1,781) and 2,548 nurses (30 June 2020: 2,359).
- We continue to monitor our Key Performance Indicator ("KPI") employee Net Promoter Score ("eNPS"), which tracks our colleague engagement monthly across our business areas. During the year, this score increased by 314.3%. Read more about this on page 27.
- We have placed 189 new employees through our highly successful refer-a-friend scheme.
- We have filled 845 roles with internal candidates
- We have partnered with the University of Nottingham to deliver a four-year accredited graduate programme.
- We have created and accredited certificates in leadership and management for our leaders.
- We have implemented enhanced benefits for our colleagues from 2021.

Outlook

- We continue to improve our industry-leading Learning, Education and Development platform, the Knowledge Hub.

Market drivers

- A growing UK pet population.
- Advances in veterinary care.
- Availability of vets to perform services.
- Humanisation of pets.

Link to KPIs A B C C E F G H J K L
Read more on pages **24 to 27**

Link to risks 1 2 3 4 6 11 12 13
Read more on pages **50 to 57**

3

We provide great facilities and equipment

Our strategic objectives

- We ensure all our practices meet RCVS Practice Standards Scheme ("PSS") accreditation standards and aspire to achieve further RCVS awards
- We invest in our estate to ensure all our facilities meet excellent standards.
- We are expanding our network with high quality facilities.
- We develop new ways to serve our clients and our patients.

Our achievements in the year

- During the year we acquired nine new practices which complemented our existing portfolio of practices
- We also completed 13 practice relocations and refurbishments, including our innovative reception and waiting area design piloted in our Ramsgate surgery.
- We have invested in state of the art equipment for keyhole neutering in 40 practices.
- We are committed to enhancing the quality of our on-site facilities

Outlook

- Our senior clinical teams are launching and providing training on new techniques across our practices.
- Our flagship specialist veterinary hospital in Bristol, opening in 2022, will have specialists in every discipline and cutting-edge equipment and technology

Market drivers

- A growing UK pet population.
- Advances in veterinary care
- Availability of vets to perform services.
- Consolidated market.

Link to KPIs A B C D E F G H J K L
Read more on pages **24 to 27**

Link to risks 1 2 3 4 5 6 8 9 11 12 13
Read more on pages **50 to 57**

4

We take our responsibilities seriously

Our strategic objectives

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

Our achievements in the year

- Our new colleague wellbeing initiative saw a further 76 colleagues trained as workplace First Aiders for Mental Health, bringing our total to over 300 trained Wellbeing Champions.
- We contributed to the RCVS consultation on legislative reform of the Veterinary Surgeons Act 1966.
- During the year, we switched our UK mainland electricity supply to 100% fully renewable energy sources.
- We have included a range of wellbeing resources on the Knowledge Hub, which are available to all of our colleagues on demand.

Outlook

- We are working with our Irish and Dutch suppliers to secure Group-wide sustainable energy
- 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'.

Market drivers

- Availability of vets to perform services.
- Humanisation of pets

Link to KPIs A B C D E F G H J K L
Read more on pages **24 to 27**

Link to risks 1 2 4 5 6 7 9 10 11 12 13
Read more on pages **50 to 57**

Key performance indicators (“KPIs”)

Financial KPIs

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

(A) Revenue (£m)

£510.1m
+19.2%

2021	510.1
2020	427.8
2019	406.5
2018	327.3
2017	271.8

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.

2021 performance

- Overall revenue has increased by £82.3m.
- Like-for-like revenue, adjusted for intercompany sales eliminations, increased £72.3m, with acquisitions in the year and the full year impact of prior year acquisitions generating additional revenue of £10.0m.
- The Group has seen significant growth following recovery from the COVID-19 pandemic, during which revenue growth had slowed

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

17.4%
+2,385.7%

2021	17.4
2020	0.7
2019	5.2
2018	4.9
2017	6.3

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 2019, revenue is included from September 2020 in the like-for-like calculations. This shows the underlying growth in revenue across all divisions, excluding the impact of acquisitions.

2021 performance

- Like-for-like performance reflects the Group's recovery from COVID-19, as temporary practice closures during 2020 limited growth in the prior year.
- Increased pet ownership has also contributed to increased like-for-like sales.

(C) Adjusted EBITDA¹ (£m)

£97.5m
+37.3%

2021	97.5
2020	71.0
2019	54.5
2018	47.6
2017	42.1

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.

2021 performance

- The improvement in adjusted EBITDA reflects the improvement in like-for-like adjusted EBITDA of £28.3m, with acquisitions in the year and the full year impact of prior year acquisitions generating additional EBITDA of £1.8m
- This is partly offset by an increase in central costs of £3.6m incurred to protect our colleagues and clients and to continually build a foundation for further development and expansion of the Group

¹ Adjusted financial measures (adjusted EBITDA, adjusted profit before income 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 90 and 118

Link to strategy

Read more on pages 22 and 23

1 2 3 4

1 2 3 4

1 2 3 4

(D) Adjusted EPS¹ (pence)**75.1p**
+78.8%

2021	75.1
2020	42.0
2019	46.7
2018	42.4
2017	42.8

Why it's a KPI

This is profit before income 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. Adjusted EPS is a KPI because it assists in understanding the underlying returns generated for our shareholders.

2021 performance

- The increase reflects the increase of £28.0m in the year in adjusted profit before income tax¹.

1 2 3 4

(E) Total capex (£m)**£16.6m**
+33.9%

2021	16.6
2020	12.4
2019	12.9
2018	10.7
2017	13.8

Why it's a KPI

This is the total amount spent by the Group on capital expenditure. 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.

2021 performance

- Total capital expenditure has increased by £4.2m, consisting of a £0.5m reduction in maintenance capital expenditure and a £4.7m increase in development capital expenditure, with the focus on improving client experience and on growing our business. Refer to the financial review on pages 36 to 40 for further detail.

1 2 3 4

(F) Gross margin before clinical staff costs (%)**76.1%**
+0.8%

2021	76.1
2020	75.5
2019	76.2
2018	79.6
2017	79.8

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.

2021 performance

- The increase in gross margin is principally due to our focus on providing great clinical care.

1 2 3 4

(G) Cash generated from operations (£m)**£80.3m**
-15.3%

2021	80.3
2020	94.8
2019	52.1
2018	46.7
2017	37.2

Why it's a KPI

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

2021 performance

- Cash generated from operations has decreased due to payment in the year of the tax deferred under the COVID-19 tax deferral schemes which were accessed across the UK and the Netherlands in the prior year.
- The Board is confident that the cash generated from operations is performing in line with its expectations and in a manner which continues to enable investment.

1 2 3 4

Key performance indicators (“KPIs”) continued

Non-financial KPIs

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

(H) Vet vacancy rate¹

8.3%
+20.3%

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 vision of being the veterinary company people most want to work for.

2021 performance

- The vet vacancy rate has increased in 2021, 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

450,000
+8.4%

2021	450,000
2020	415,000
2019	401,000
2018	362,000
2017	306,000

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.

2021 performance

- The rate of growth in Healthy Pet Club members has increased, to 8.4% in 2021 from 3.5% growth in 2020
- This demonstrates the increased humanisation of pets and desire for our clients to invest in their *pets' futures through* preventative care.

(J) Number of RCVS awards

159
+0.0%

2021	159
2020	159
2019	114
2018	83
2017	36

Why it's a KPI

This shows the number of RCVS Practice Standards Scheme awards across the Group. These awards promote and maintain the highest standards of veterinary care across a range of different criteria including client experience and clinical governance. Monitoring the number of RCVS awards helps us achieve our strategic goals of taking our responsibilities seriously.

2021 performance

- Due to the COVID-19 pandemic, the RCVS did not issue further Practice Standards Scheme awards during the year. All of our practices who already hold these awards continue to be recognised as award-holders

- This non-financial KPI aligns with our strategy; however, data is only available for four years.
- These non-financial KPIs align with our strategy; however, data is only available for two years
- 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
Read more on pages **22 and 23**

4

1

1 2 3 4

(K) Employee NPS^{2, 3}

2.9
+314.3%

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

2021 performance

- We have seen significant improvements in colleague engagement due to our ability to effectively support our colleagues through the COVID-19 pandemic, among other factors

(L) Client NPS^{2, 3}

72.2
-8.0%

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.

2021 performance

- We have seen a small reduction in client engagement, likely due to the impact of the RCVS guidance which restricted our customers from accompanying their pets in our practices. This figure remains strongly positive, and we expect it to return to its previous levels in due course.

Employee Net Promoter Score

Our ongoing efforts to be the veterinary company people most want to work for are reflected in our monthly tracking of our employee Net Promoter Score ("eNPS"), which has improved throughout 2021.

Delivering outstanding clinical care despite challenging circumstances

“

We are focused on giving the best possible care to animals by being the veterinary company people most want to work for.”

Ben Jacklin
Chief Operating Officer

During the last twelve months, we have faced many challenges, but the way in which our colleagues have stepped up to protect animal welfare and continued to deliver the best possible care has been nothing short of remarkable. We owe our colleagues an enormous debt of gratitude and therefore I would like to thank every one of them for their continued hard work.

Our purpose is to give the best possible care to animals, which we are delivering through our clear vision to be the veterinary company people most want to work for. This financial year has seen us make significant strides forward despite the challenging environment. Our focus on the critical KPIs of our colleague satisfaction and our vet vacancy rate are a reflection of this vision. Beneath our purpose and vision, as we introduced in our FY20 Annual Report, are our four strategic pillars:

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

Alongside the strong growth we have seen during the year I am delighted to have seen a significant number of new clinical positions created over the year, and on average in the year ended 30 June 2021 we employed 10.2% (181) more vets than we did in the year ended 30 June 2020. We have also seen more roles filled by internal candidates, promoting great careers within CVS, as well as through our highly successful refer a friend scheme during the year. As a result of the continued expansion of our practices, we have advertised for more clinical roles than ever, which has had the effect of increasing our vet vacancy rate across the year to 8.3%. Critically, and in stark contrast to the higher vet vacancy rate experienced several years ago, these vacancies are the result of our expansion ambitions, as we seek to add new clinical roles across the company to capitalise on an expanding market. Our annual clinical attrition rates and employee Net Promotor Scores both remain improved on prior years as we continue to strive to be the veterinary company people most want to work for.

We have also made some changes to remuneration since the end of the financial year in response to survey data and feedback, focusing more on fixed income for clinicians and introducing bonus schemes that reward collaboration across the Group and the delivery of the best possible clinical care. We also recognise the intense demands of clinical roles in the veterinary profession, not least during the last 18 months, and have introduced an enhanced holiday scheme to give colleagues an extra day of annual leave for each year of CVS service, up to a maximum of five years. This is additional to our buy and sell holiday scheme, both of which are aimed at ensuring our colleagues get the right balance of time away from work.

We remain committed to being a great place to work and have a career. This year, we have partnered with the University of Nottingham to deliver a unique four-year accredited graduate programme which launched in autumn 2020. Supporting and mentoring a pipeline of talented graduates is a central tenet to our ongoing commitment supporting long and successful careers for our clinicians within CVS. We have also introduced our first graduate summer camp to the graduate intake programme. This helps our newly qualified vets to develop their core practical skills, increase their knowledge and understanding of surgery and consulting, and be 'practice ready' as they begin their careers with us. Additionally, we have partnered with the University of Bristol to deliver final year clinical rotations for their veterinary students in our equine clinics and hospitals. This now means all students at Bristol Veterinary School will experience at least one rotation within CVS before they graduate, exposing bright and ambitious young talent to all that CVS has to offer, and enabling us to contribute to the education of the next generation of veterinary surgeons.

We are the only veterinary corporate group to publish an annual QI report

This year, we published our third annual Quality Improvement report, and we continue to be at the forefront of patient safety and clinical improvement. As always, our report provided a clear and measurable account of ways in which we are improving clinical care and animal welfare. Taking our responsibilities seriously is a key pillar of our strategy and there is no better measure of our efforts than our Quality Improvement report.

www.cvsukltd.co.uk

Our efforts to build the best learning education and development platform in the profession have continued, with the Knowledge Hub – our online training portal – having an average of 4,200 users per week during FY21. This platform offers almost 200 live courses and programs and we had over 10,000 clinical webinar views in the year, reflecting the critical role that offering continued professional development has in the retention and recruitment of our talented colleagues. A limited number of courses are now also available to third parties, as we begin a rollout of learning opportunities to the wider profession.

Having great facilities and equipment is critical to us delivering on our strategy, and as such we have completed 13 refurbishments and relocations in FY21. The quality of practice facilities is directly related to our ability to recruit vets, and the ability of our clinical teams to deliver the best possible care; therefore refurbishments and relocations are a fantastic investment opportunity for us. We are also deploying new industry-leading techniques across our practices, including dental radiography and keyhole surgery for neutering, which is now in operation in 40 practices across the Group.

Veterinary Practices division

Demonstrating strong growth alongside operational adaptability

Our Veterinary Practices division comprises our companion animal, referrals, farm animal and equine veterinary practices, as well as our buying groups, Vet Direct and MiPet Insurance. The division has performed extremely well during the financial year, with like-for-like revenue growth of 15.9% and total revenue growth of 18.0%. We have also generated growth through acquisitions, having made nine acquisitions comprising 15 practice sites in FY21 and eight practice sites since the financial year-end, mainly providing companion animal services, as well as complementary farm and equine animal services. We are pleased to report that this cohort of new acquisitions have been well integrated into the Group, and are performing well.

Veterinary Practices revenue share*

85.4%

£453.4m
Revenue

18.0%
Revenue growth

450,000
HPC customers

* Revenue share before intercompany sales between practices and other divisions

Companion Animal

Our Companion Animal division forms the majority of our Veterinary Practices division, and has proven resilient in recovering from the COVID-19 disruption. We have continued to focus on supporting our clinical teams to deliver the best possible care, and despite the challenges of the pandemic we have made excellent progress across a range of areas of clinical development.

Despite reception areas and consultation rooms remaining mainly closed throughout much of FY21, the division has continued to deliver high quality clinical service whilst changing the ways of working within practice. The temporary relaxation of restrictions by the RCVS allowed for remote prescribing and supported telemedicine consultations in the very early months of the pandemic, but throughout the financial year we saw a strong demand from clients to attend our clinics in person, and the demand for virtual interactions fell away, reiterating the close ties of our practices with their communities.

Referrals

Our Referrals division continues to grow strongly, with revenue increasing 29.3% over the prior year. We have expanded the range of clinical disciplines we offer in our hospitals, and we have seen growth of our vet-to-vet telemedicine imaging service, VetOracle. These services are offered to both our own and third-party practices across the globe, and we have invested further in systems to support further growth. We also continue to expand our network of advanced peripartetic practitioners, who provide advanced clinical services to our first-opinion practices entering new disciplines and geographical locations.

Our Referrals division has worked hard to build relationships with both internal and external first-opinion practices. This has led to a 31.4% increase in cases being referred during the financial year compared to FY20.

Equine

Our Equine division has 20 equine practices across the UK, the Republic of Ireland and the Netherlands, including five RCVS accredited referral hospitals in the UK and large referral hospitals in both the Republic of Ireland and the Netherlands.

The division has performed well in the financial year, generating internal referrals through supporting collaboration between practices, providing operational leverage and resulting in EBITDA growth of 163.1%. We have also implemented further training for first-opinion equine vets and provided additional equipment, such as scanning equipment, for use on first visits, contributing to a 26.2% increase in revenue.

We have continued to expand our out-of-hours service, Equicall, offering emergency cover to both CVS and third-party practices. This world-first equine dedicated out-of-hours service has not only improved access to clinical care for our clients, but has improved flexibility for our vets by reducing the burden on existing vet teams.

Farm Animal

Our Farm Animal division consists of 23 farm animal practices and a large specialist poultry business, Slate Hall. During the year we have increased both fee and drug revenue via buying groups and increased incentives for our vets, such as our productivity bonus scheme.

After launching our first greenfield farm animal practice in 2020, we have continued to advance this model throughout 2021, and at the end of this financial year we have three greenfield practices providing opportunities for young and ambitious vets.

International

Our International division comprises 25 practices in the Netherlands and six practices in the Republic of Ireland. Internationally we have expanded and improved our out-of-hours services, to reach more clients and support the best possible working environment for our clinicians.

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £15.7m (2020: £12.1m) representing 3.1% of revenue (2020: 2.8%). The increased spend reflects business growth during the period as well as investment in people and processes in support of further scalability, whilst maintaining a high standard of internal and external service.

As a percentage of revenue, the spend on support functions has increased, particularly in the areas of IT and Human Resources. This represents our continued investment in support areas, ensuring that we continue to have suitable systems to appropriately support the trading divisions. This overall increase in central costs also reflects health and safety expenditure in relation to COVID-19, for example additional personal protective equipment for our colleagues, amounting to c.£0.5m. 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

International continued

We continue to focus on rolling out our people-focused model, providing the best possible care to animals in all our territories. Improved collaboration between practices, including referral of more advanced cases between experienced clinicians remains a good opportunity for organic growth.

Healthy Pet Club

As well as offering first class care to sick or injured animals we continue to offer preventative health care 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 health care, as well as allowing our clinicians to identify diseases and recommend the best diagnostics and treatments. The scheme membership has grown by 8.4% over the last year to around 450,000 members, representing roughly 40% of our companion animal active client base. The Healthy Horse Programme has also grown, with 10,000 members at the end of June 2021.

MiPet products/purchasing

During the year, we have continued our efforts to increase purchases of our own-brand products rather than third-party branded pharmaceuticals. As well as providing increased choice for our clients, this has also resulted in our own-brand spend increasing to 34.0% of the UK practices' pharmaceutical spend, up from 28.0% in 2020.

We have continued to improve our warehouse management system, improving 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 for continued growth within our Veterinary Practices division, with revenue growth expected to come from an increased number of clients and our focus on exceptional clinical care and our desire to be the veterinary company people most want to work for. Initiatives for the forthcoming year include a focus on radiography in first-opinion practices, in collaboration with our specialist VetOracle imaging teams. This will enable improvements in image acquisition, interpretation, and most importantly in the quality of diagnoses in pursuit of the best possible clinical care.

We are also focused on enhancing the role of our veterinary nurses in our clinics, and have launched a new programme to grow the number of consultations undertaken by our talented nursing colleagues. In areas such as these we continue to see significant opportunity to drive organic growth, by focusing on increasing our capability in all areas of diagnostics, and then recommending and delivering the best possible treatments.

We continue to seek high quality independent practices to join our network and, having put significant effort into our integration processes over the last two years, we are confident we can drive value from all acquisitions we make. We are well placed to continue to improve margins via streamlined referrals, use of our own-brand products and an increased range of clinical services.

'Get out to help out' vaccination programme

Following the COVID-19 National lockdowns, the Group's companion animal practices faced a significant backlog of work. One of the non-essential procedures postponed during the lockdowns was the administration of pets' vaccinations. Across the country, CVS clinical and non-clinical colleagues volunteered their time to assist with vaccination days to help clear the backlog, including our CEO, Richard Fairman (pictured).

Laboratories division

Providing a full range of laboratory services

Laboratories revenue share*

5.3%

£28.0m
Revenue

32.7%
Revenue growth

497,000
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's focus on growing diagnostic care.

Diagnostic services

Our diagnostic laboratories have grown during the year, including 20.1% growth in the number of tests provided to external customers. During the pandemic we also introduced COVID-19 PCR testing for our colleagues and for third parties, which was discontinued in March 2021 due to changes in government regulations.

Analysers

Analyser revenue is driven by a combination of sales of analysers, leasing agreements and ongoing sales of consumables throughout the life of the equipment. Revenues from the analyser business grew by 28.7% over the course of the financial year, including strong growth within CVS practices aligned to the wider clinical focus on diagnostics.

Outlook

The Laboratories division has remained resilient despite increasing consolidation in the veterinary sector resulting in the loss of some external clients. 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 for further growth in the years to come.

Operational review continued

Crematoria division

Collaboration between crematoria and practices to help deliver the best client care

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.

Having successfully trialled our Direct Pet Cremation project in the first half of the year, this was rolled out across more of our companion animal practices in the final quarter of the financial year. This initiative has contributed to the increase in the number of individual cremations of 20.2% over the prior year.

Outlook

Our Direct Pet Cremation project has seen great engagement from our practices and clients, and as we complete the rollout in the new financial year we expect this to continue, along with our Crematoria division revenues.

Crematoria revenue share*

1.5%

£8.0m
Revenue

11.1%
Revenue growth

20.2%
increase in individual cremations

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

Direct Pet Cremation Project

Our integrated veterinary platform is demonstrated in action with our Direct Pet Cremation Project, which sees clients allowed more time to consider difficult decisions about their beloved pet's end-of-life and cremation, such as whether to choose individual cremation, and choices between a range of caskets and other mementos. Crematoria and practices collaborate to give our clients time and space, which reduces the emotional pressures of our clients' decisions and allows our subject matter experts in our crematoria to discuss the full range of options open to clients during the most difficult time of all.

Online Retail Business division

Growing pet food sales online

Online Retail Business revenue share*

7.8%

£41.7m

Revenue

29.9%

Revenue growth

404,000

Unique customers

* Revenue share before intercompany sales between practices and other divisions

Our online pet food and pharmacy retailer, “Animed Direct”, focuses on 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 division delivered revenue growth of 29.9% and adjusted EBITDA growth of 16.0%. The COVID-19 lockdowns have changed consumer habits towards sourcing pet food online, rather than visiting physical shops. Our high levels of customer service have enabled us to retain a large portion of the new customers that first used the platform during the national lockdown, despite retail restrictions having subsequently eased.

We have expanded our range of product lines and continued to improve our website, prescription management system, and customer service management system, which contributes to our consistent five-star Trustpilot rating.

Outlook

The continual improvements and expansion to our product range as well as the increasing changes in customers’ shopping habits towards online shopping for convenience is expected to continue to deliver revenue growth in our Online Retail business in the coming years. We continue to develop our website to improve user experience, further increasing revenue growth opportunities.

Ben Jacklin
Chief Operating Officer
23 September 2021

Strong growth in financial performance and well placed for future investment

“Strong financial performance is underpinned by our strategy and favourable market dynamics, with investment opportunities to deliver further growth.”

Robin Alfonso
Chief Financial Officer

Financial highlights

The Group has recovered well from the COVID-19 pandemic, to deliver significant growth in revenues and adjusted EBITDA.

Key financial highlights are shown below:

	2021	2020	Change %
Revenue (£m)	510.1	427.8	19.2%
Adjusted EBITDA (£m)*	97.5	71.0	37.3%
Adjusted profit before income tax (£m)*	66.2	38.2	73.3%
Adjusted earnings per share (p)*	75.1	42.0	78.8%
Operating profit (£m)	40.1	18.5	116.8%
Profit before income tax (£m)	33.1	9.9	234.3%
Basic earnings per share (p)	27.3	8.1	237.0%

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

	2021 £m	2020 £m
Operating profit	40.1	18.5
Adjustments for:		
Amortisation, depreciation and impairment ¹	48.1	46.4
Costs relating to business combinations	9.3	0.7
Exceptional items	—	5.4
Adjusted EBITDA	97.5	71.0

¹ Impairments in the year ended 30 June 2020 are shown in exceptional items

* Adjusted financial measures (adjusted EBITDA, adjusted profit before income 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 90 and 118 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

Financial performance

Revenue increased by 19.2% to £510.1m from £427.8m with strong Group like-for-like growth of 17.4%. The Group continues to benefit from favourable market dynamics with the trend in humanisation of pets, increasing pet ownership and the shift in consumer spending online. Like-for-like growth was underpinned by the continued focus on our strategy of providing the best clinical care, and was delivered despite a planned companion animal price increase being delayed during the year, which was eventually implemented on 1 January 2021. Revenue also included COVID-19 PCR testing, which discontinued in March 2021 following a change in Government guidance.

Adjusted EBITDA increased by 37.3% to £97.5m from £71.0m. As a percentage of revenue, adjusted EBITDA increased to 19.1% from 16.6%, benefitting from operating leverage and strong revenue growth. Adjusted EBITDA also benefitted from £2.0m of Research and Development Expenditure Tax Credits, following the Group's first claim under this scheme. The Group made nine acquisitions in the financial year, which in aggregate generated revenue of £6.1m and adjusted EBITDA of £1.3m during the period.

Adjusted profit before income tax increased 73.3%, to £66.2m from £38.2m, benefitting from the increase in adjusted EBITDA and a reduction in finance expense. Adjusted EPS (as defined in note 2 to the financial statements) increased 78.8%, to 75 1p from 42.0p. Adjusted profit before income tax and adjusted EPS exclude the impact of amortisation of intangible assets, costs relating to business combinations and exceptional items.

Profit before income tax increased by 234.3%, to £33.1m from £9.9m, underpinned by the increase in adjusted EBITDA and reduction in exceptional costs, partially offset by the increase in costs in relation to business combinations, which includes business combinations costs in respect of prior periods. Basic EPS increased 237.0%, to 27.3p from 8.1p.

Taxation

Income tax expense has increased by £9.6m, to £13.8m from £4.2m, primarily due to the increase in profit before income tax and £4.3m relating to the re-measurement of deferred tax balances in respect of UK jurisdictions following the UK Government's announcement to increase the rate of corporation tax to 25%, from 19%, in April 2023.

The Group's effective tax rate was 41.7% (2020: 42.3%).

A reconciliation of the expected tax charge, at the standard rate, to the actual charge is shown below:

	£m	%*
Profit before income tax	33.1	
Expected tax at UK standard rate of tax	6.3	19.0%
Expenses not deductible for tax purposes	2.4	7.3%
Adjustments to previous year tax charge	1.6	4.8%
Utilisation of brought forward losses	(0.1)	(0.3%)
Effect of difference between closing deferred tax rate and current tax rate	(0.7)	(2.1%)
Effect of tax rate change on opening deferred tax balances	4.3	13.0%
Actual charge/effective rate of tax	13.8	41.7%

* Percentage of profit before income 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 and depreciation on fixed assets that do not qualify for tax relief. Tax relief for some expenditure, mainly fixed assets, is received over a longer period than that for which the costs are charged in the financial statements.

Financial position

	2021 £m	2020 £m
Intangible assets	228.4	229.8
Property, plant and equipment	57.4	51.6
Right-of-use assets	97.2	98.1
Other non-current assets	0.1	1.2
Current assets	101.4	83.6
Current liabilities	(98.5)	(102.0)
Non-current liabilities	(194.9)	(195.7)
Equity	191.1	166.6

Financial review continued

Financial position continued

As at 30 June 2021, intangible assets amounted to £228.4m (2020: £229.8m), consisting of goodwill, patient data records and computer software. The net reduction of £1.4m relates to amortisation and impairment in the year of £23.8m (2020: £23.2m), net foreign exchange movements on opening balances of £1.0m (2020: £0.5m), offset by additions through business combinations of £22.9m (2020: £7.2m) and computer software additions of £0.5m (2020: £1.3m).

Property, plant and equipment of £57.4m (2020: £51.6m) includes freehold land and buildings, leasehold improvements, fixtures, fittings and equipment and motor vehicles. The net increase of £5.8m primarily relates to additions (including those arising via business combinations) of £16.7m (2020: £11.3m), reflecting our continuing commitment to investing in our facilities, offset by net disposals of £0.5m (2020: £nil), net foreign exchange movements on opening balances of £0.1m (2020: £nil) and depreciation in the year of £10.3m (2020: £10.7m).

Right-of-use-assets of £97.2m (2020: £98.1m) consists of property leases for our veterinary practices, specialist referral centres and support offices of £95.1m (2020: £96.3m) and leases for vehicles and equipment of £2.1m (2020: £1.8m). The net reduction in the year of £0.9m relates to the depreciation and impairment charge in the year of £14.0m (2020: £14.6m), net disposals of £1.7m (2020: £nil), foreign exchange on opening balances of £0.6m (2020: £0.1m increase), offset by additions (including those via business combinations) and re-measurement of lease terms of £15.4m (2020: £4.8m).

Other non-current assets of £0.1m (2020: £1.2m) relates to a managed investment fund measured at fair value of £0.1m (2020: £0.1m) and deferred tax assets of £nil (2020: £1.1m). In the current year the deferred tax asset has been offset against deferred tax liabilities (see note 24 to the financial statements for further details).

Current assets of £101.4m (2020: £83.6m) comprises inventories of £19.5m (2020: £18.7m), trade and other receivables of £48.1m (2020: £43.4m), current income tax receivable of £0.1m (2020: £0.4m current liability), and cash and cash equivalents of £33.7m (2020: £21.5m). The net increase of £17.8m mainly relates to increased cash and cash equivalents and increased trade receivables in line with the growth in overall revenues.

Current liabilities of £98.5m (2020: £102.0m) comprise trade and other payables of £86.0m (2020: £87.7m), provisions of £3.9m (2020: £5.0m), lease liabilities of £8.6m (2020: £8.8m), income tax liabilities of £nil (2020: £0.4m) and borrowings of £nil (2020: £0.1m). The net reduction of £3.5m mainly relates to the net movement following the repayment of £15.0m deferred VAT under the COVID-19 VAT Deferral scheme, offset by the increase in bonus accruals due to the strong performance of the Group (included within other payables) and additional legal fees accrued.

Non-current liabilities of £194.9m (2020: £195.7m) includes borrowings of £83.9m (2020: £83.5m), lease liabilities of £90.2m (2020: £89.8m), derivative financial instruments of £0.4m (2020: £0.9m) and deferred tax liabilities of £20.4m (2020: £21.5m). See below for further details regarding the Group's borrowings.

Equity of £191.1m (2020: £166.6m) increased by £24.5m as a result of total comprehensive income of £19.0m (2020: £5.5m), new shares issued and shares disposed from the Employee Benefit Trust ("EBT") of £1.5m (2020: £1.0m) to settle obligations under the Group's Save As You Earn ("SAYE") scheme, and transactions in relation to share-based payments and associated deferred income tax of £4.0m (2020: £1.0m). There was no dividend payment in 2021 (2020: £3.9m).

Cash flow and movement in net debt

Net debt decreased by £11.9m to £50.2m from £62.1m. The movement in net debt is explained as follows:

	2021 £m	2020 £m
Cash generated from operations	80.3	94.8
Capital expenditure – maintenance	(8.2)	(8.7)
Repayment of right-of-use liability	(13.0)	(14.2)
Taxation paid	(13.0)	(9.5)
Interest paid	(7.1)	(7.0)
Free cash flow	39.0	55.4
Capital expenditure – development	(8.4)	(3.7)
Business combinations (net of cash acquired)	(19.4)	(7.2)
Loans and borrowings acquired through business combinations	(1.0)	–
Dividends paid	–	(3.9)
Sale of property, plant and equipment	0.6	–
Exceptional items	–	(0.7)
Proceeds from Ordinary shares	1.2	0.1
Proceeds from sale of Treasury shares	0.3	0.9
Amortisation of debt issuance costs	(0.4)	(1.0)
Decrease in net debt	11.9	39.9

Cash generated from operating activities decreased by 15.3% to £80.3m from £94.8m, despite the increase in adjusted EBITDA. The decrease primarily relates to £15.0m of VAT payments which were deferred under the COVID-19 VAT Deferral scheme and £2.0m of taxes in the Netherlands deferred from the prior year, paid in the current year. Cash generated from operations also includes an additional £7.7m of payments for costs relating to business combinations, which mostly relate to acquisitions in prior periods.

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. This split can only ever be approximate. Development capital expenditure includes new sites, relocations, significant extensions and significant new equipment. All other capital expenditure is included as maintenance.

Repayment of right-of-use-liabilities of £13.0m (2020: £14.2m) consists of liabilities in respect of property leases for our veterinary practices, specialist referral centres and support offices and 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 income tax figure. Therefore, taxation paid moves broadly in line with the adjusted profit before income tax of the Group. The increase in tax paid in the year is primarily as a result of the increase in profit generated by the Group.

The interest payment of £7.1m was consistent with the prior year of £7.0m, reflecting the Group's maintenance of net debt during the financial year.

Cash available for discretionary expenditure ("free cash flow") decreased to £39.0m from £55.4m, primarily as a result of the deferred VAT payments noted above.

Development capital expenditure of £8.4m (2020: £3.7m) was incurred in the year. This investment included relocation of our practices at the Grove in Fakenham, Barry in Wales, Buttercross in Nottinghamshire and Rosemullion in Cornwall, and refurbishment of some of our existing sites, with significant investment in our sites at Buchanan in Manchester, Springfield in Rotherham and Newquay in Cornwall, which is due to complete in October 2021. The level of investment in the prior year was adversely impacted by action taken to preserve cash during the first COVID-19 lockdown in March 2020.

Consideration for business combinations, net of cash acquired, of £19.4m was paid for nine practices (15 practice sites) (2020: £7.2m) acquired during the financial year to June 2021. In addition a further £1.0m (2020: £nil) was paid to settle loans transferred as part of the business combinations.

Dividend of £nil (2020: £3.9m) following the decision not to declare a dividend in the prior year due to COVID-19 support received.

Sale of property plant and equipment of £0.6m (2020: £nil) relates to sites held not deemed to be in the right location for future investment.

Exceptional items of £nil (2020: £0.7m). The prior year related to amounts paid in relation to Board restructuring costs.

Proceeds from the sale of Ordinary and Treasury shares of £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 (2020: £1.0m) was in line with our policy.

Net debt and borrowing costs

The Group's net debt comprises the following:

	2021 £m	2020 £m
Borrowings repayable:		
Within one year	—	0.1
After more than one year		
Loan facility	85.0	85.0
Unamortised borrowing costs	(1.1)	(1.5)
Total borrowings	83.9	83.6
Cash and cash equivalents	(33.7)	(21.5)
Net debt	50.2	62.1

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
- in addition, the Group has 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) (2020: £85.0m); and
- £nil drawn down under the RCF (gross of unamortised issue costs) (2020: £nil).

The two financial covenants associated with the Group's bank facilities are based on the ratios of net debt to EBITDA and EBITDA to interest. 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 EBITDA to interest ratio must not be less than 4.5x. At 30 June 2021 it was 24.97x.

Financial review continued

Cash flow and movement in net debt continued

Net debt and borrowing costs continued

The covenant levels allow a maximum Group net debt to 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 0.68x at 30 June 2021 from 1.14x at 30 June 2020. 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.

Going concern and viability

At the statement of financial position date the Group had cash balances of £33.7m 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 RCF of £85.0m. The Directors consider that the £5.0m overdraft and the £170.0m facility enable the Group to meet its liabilities as they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), financial forecasts for the three years to 30 June 2024, 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 its liabilities as they fall due over the period, being at least 12 months from the date of approval of the financial statements.

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 page 79 of the Annual Report.

Share price performance

At the year-end the Company's market capitalisation was £1,708.7m (2,415p per share), compared to £727.8m (1,030p per share) at the previous year-end. The graph below shows the total shareholder return performance compared to the FTSE AIM All-Share index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 July 2020 to 30 June 2021.

Twelve-month graph to 30 June 2021 (rebased)

Source: Factset

Key contractual arrangements

The Directors consider that the Group has only two significant third-party supplier contracts which are for the supply of veterinary drugs. In the event that these suppliers ceased trading, the Group would be able to continue in business without significant disruption in trading by purchasing from alternative suppliers.

Forward-looking statements

Certain statements and arrangements described in the Annual Report 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
23 September 2021

Strategy in action

3

We provide great facilities and equipment

Enhancing specialist services

Put simply, we want to make sure our clinical teams have the best facilities and equipment possible to do their outstanding work, as well as provide our clients with a best-in-class service.

Our new Ramsgate site is designed to create a new and improved experience for clients and their pets. The site offers an extended range of services and facilities in a very modern environment, whilst maintaining a warm and friendly atmosphere. It is the first CVS practice to use a new modern and spacious open-plan reception and waiting area design, to enable the team to bond with their clients and patients from the second they enter the building. Removing the usual reception desk defies the rules but the team passionately believe in customer focus and having no barriers between them and their clients.

13

Completed refurbishments and relocations in 2021

40

Practices equipped with state of the art keyhole neutering equipment

Care at our heart

CVS in 2021 at a Glance

c.1.1m

Companion animals under our care in 2020/2021

£510.1m

Revenue

(2020: £427.8m)

£97.5m

Adjusted EBITDA

(2020: £71.0m)

£1.7bn

Market capitalisation

(2,415p per share) at 30 June 2021

(30 June 2020: £727.8m (1,030p per share))

450,000

Members of the Healthy Pet Club,

our preventative healthcare scheme

(2020: 415,000)

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)

7,241

Colleagues employed

(2020: 6,761), including 1,962 veterinary surgeons (2020: 1,781) and 2,548 nurses (2020: 2,359)

>500

Veterinary surgeries

throughout the UK, the Netherlands and Republic of Ireland

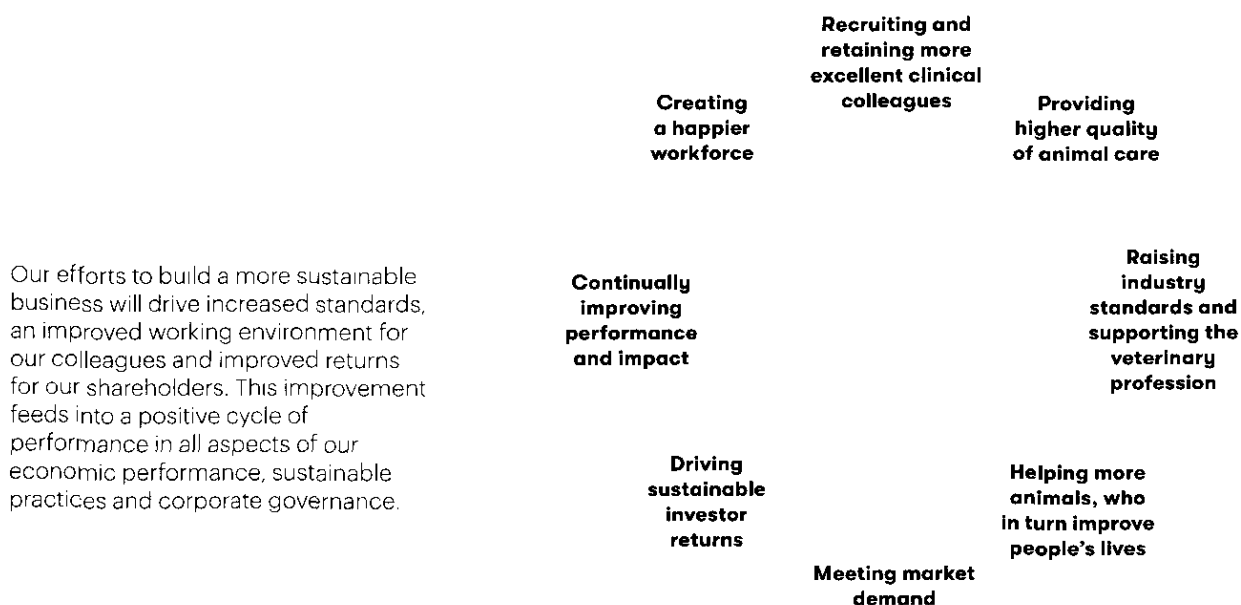
Introduction

CVS has in recent years embarked on an ambitious programme to build a financially sustainable, fully integrated, successful and growing veterinary services group. This approach, which is aligned with the UN's Sustainability Development Goals, is on track, with the strong performance during the year underpinned by our clear strategy to continue to improve our contribution in future years. We are proud of what has been achieved, as highlighted in the following pages.

The Board of CVS is acutely aware that today companies must be managed so that wider society benefits from their business operations and services. Whilst CVS has always taken its broader societal obligations seriously, we have recently begun the process of monitoring, assessing and understanding our impact and the contribution we make in order to ensure that CVS becomes a truly sustainable business focused on delivering value to all of its stakeholders. This initiative builds on our purpose and vision and will, over time, evolve into a measurable ESG strategy.

We refer to this approach as “**Care at our Heart**”, having *worked to identify and articulate the core priorities for all divisions of our business, using interviews with our colleagues and stakeholder analysis, highlighting their own priorities and concerns and how these interlock with our own. We are, of course, a business that provides best-in-class clinical care to animals. But care, in its broader sense, goes to the very heart of what we do*

Our colleagues choose to work in the sector because they *care deeply about the animals we treat, and about driving standards of clinical excellence while minimising our impact on the natural environment. We care about protecting their own wellbeing, and equipping them with the support, resources, training, and access to continuous professional development they need to perform at their best. We care about making a positive impact in the communities and the profession in which we work and harnessing this good to drive value for our investors. Care is in our DNA, and it is the foundation of our ESG strategy.*



ESG driving business performance

“

The emphasis on a dedicated series of workstreams to understand and measure our impact is new, but our focus remains unchanged – building a sustainable business. Central to our management approach is the belief that delivering strong financial performance goes hand in hand with meeting our ambitious ESG objectives. Becoming the employer of choice, providing the best clinical care and playing our role in society will ensure we have the capacity to meet demand. Career development, diversifying our workforce, and supporting colleagues to enhance their wellbeing are not ‘soft’ activities but central to attracting and retaining the very best vets. In simple terms, at CVS we believe investing in our ESG strategy de-risks our business, creating value for all our stakeholders.”

Robin Alfonso
Chief Financial Officer

How we care for our stakeholders

Reporting and target setting

We have identified the metrics we have put in place for each strand of our ESG strategy on the following pages, describing their importance in driving positive change, behaviours and actions. Over the coming year, we will be analysing our business further and engaging with stakeholders to understand what further metrics CVS should put in place to measure **care** at the heart of our business.

Our patients and their owners

How we care

- 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, through our compassionate cremation services
- High clinical standards
- Animal welfare prioritised
- Regular check-ups and treatments (vaccines/flea treatments/worming)
- Consistently high standards for pain management in surgical patients
- Equine out-of-hours service
- Vet Oracle Telemedicine

Outcomes

- *A healthy pet population*
- Outstanding clinical expertise
- *The best possible service for pet owners and their animals*

Current and future KPIs

Current:

- Monthly tracking of customer Net Promoter Scores
- Membership of our preventative healthcare schemes, Healthy Pet Club and Healthy Horse Programme
- Clinical outcome surveys

Future:

- Tracking of patient survey follow-up actions to improve quality of service and care

Colleagues

How we care

- Competitive rewards and benefits
- Colleague wellbeing support and regular check-ins
- Flexible working programmes
- Equality, Diversity and Inclusion working group
- Development opportunities
- Clinical governance
- *New graduate programme including our first graduate summer camps*
- Culture of open dialogue and learning
- Access to top-tier clinical expertise
- Learning and development
- Mental Health Pledge

Outcomes

- *Becoming the veterinary company people most want to work for*
- *Fulfilled vets and nurses who have the equipment and support to provide the best possible care for animals*
- Equal opportunities for all colleagues
- A healthy and safe workspace
- Offering clinical colleagues access to top-tier clinical expertise and continued professional development
- Building the best Learning, Education and Development ("LED") platform

Current and future KPIs

Current:

- Monthly tracking of eNPS colleague survey
- Vet and nurse employee numbers
- Clinical role vacancy rates

Future:

- *Average training and development expenditure per full-time employee*
- Tracking of follow-up actions from eNPS surveys to improve colleague wellbeing and staff satisfaction
- Gender and ethnicity KPI

Environment

How we care

- Responsible sourcing including choosing suppliers who use sustainable packaging
- Waste reduction initiatives
- Switch to electricity from 100% renewable sources in UK veterinary practices
- New, greener vehicle fleet introduced and further changes planned
- National Trust partnership and tree planting initiative
- PPE recycling trial underway

Outcomes

- Monitoring and reducing our environmental impact
- Reduced waste
- Reduced emissions
- Reduced carbon footprint

Current and future KPIs

Current:

- Streamlined Energy and Carbon Reporting ("SECR") on Scope 1, 2, and 3 emissions alongside details of greenhouse gas emissions (including anaesthetics) not covered by SECR
- Percentage reduction in waste disposal per annum

Future:

- Absolute reduction targets
- Tonnes of waste generated (hazardous, general, landfill and incineration, recycled)
- Water consumption
- Percentage of packaging formats that are recyclable, reusable or compostable

Community and industry bodies

How we care

- Sign access to all first-opinion companion animal practices to allow deaf clients to access veterinary care
- Schools outreach
- Liaison with RCVS, BVA, BVNA and other industry bodies
- Annual Vet Life charity donations
- Focus on quality improvement including antimicrobial stewardship
- Sponsorship and charity donations

Outcomes

- Investment in the veterinary profession
- Raising standards across the sector

Current and future KPIs

- Percentage increase in community investment

Investors

How we care

- Delivering strong financial performance
- Streamlined Energy and Carbon Reporting
- Open-dialogue communication with our shareholders
- Alignment with targets
- Improved shareholder access to senior management and communication including appointment of financial PR agency and recording of analyst results presentations

Outcomes

- Sustainable shareholder value and long-term growth
- LTIP awards linked to total shareholder returns over the medium and longer term
- Executive Directors subject to two-year lock-in for future LTIP awards
- Shareholder consultation on key issues raised through AGM voting or through regular meetings

Current and future KPIs

- Share price and total shareholder return
- Virtual broker conferences
- Engagement with investors

CVS's approach to sustainability and ESG continued

Our UNSDGs

The Group has identified the following UNSDGs as the most important to our activities and impact on people, animals and the natural environment.

Pillar 3: Good health and wellbeing

Ensure healthy lives and promote wellbeing for all.

Pillar 4: Quality education

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Pillar 5: Gender equality

Achieve gender equality and empower all women and girls

Pillar 8: Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full productive employment and decent work for all.

Pillar 9: Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Pillar 12: Responsible consumption and production

Ensure sustainable consumption and production patterns.

Pillar 13: Climate action

Take urgent action to combat climate change and its impacts.

Pillar 15: Life on land

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Pillar 17: Partnership for the goals

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Our responsibility: putting Care into practice

We care about our responsibility to people, animals and the natural environment, and the United Nations Sustainable Development Goals ("UNSDGs") are an invaluable framework for our business to put care into practice. We outline below our priorities as a Group and the initiatives we have put in place to ensure we meet and exceed this responsibility, highlighting the relevant UNSDGs.

Attracting and retaining talent, and ensuring the wellbeing of our employees

Why we care: Our service, and the success of our operations, depend on the expertise, experience and wellbeing of our teams. Our vision is to be the veterinary company people most want to work for, and we aim to achieve this by providing long-term careers, appropriate reward and benefits, and equal opportunities for all. We offer numerous quality development opportunities alongside excellent facilities and resources, whilst encouraging and supporting good mental health.

How we care: CVS has created three new Wellbeing Working Groups, involving colleagues from a variety of roles across the company. We have trained over 300 Wellbeing Champions in First Aid for Mental Health, embedding them in local teams, alongside wellbeing training for senior leaders, which had been taken up by over 280 managers by 30 June 2021.

Following the financial year-end, we have introduced enhanced holiday provision to support wellbeing and recognise colleagues' contribution through long service, while reducing the impact of job vacancies on teams by improving attraction and retention for all roles.

We track colleague engagement through the monthly Employee Net Promoter Scores ("eNPS"), to ensure our teams are fulfilled and to allow us to respond to issues early.

In a clinical setting, we provide Continuous Professional Development ("CPD") allowances for all our vets and nurses, in addition to in-depth training programmes and graduate camps. To support our nurses through the first lockdown, the LED team together with ChesterGates' nursing school developed the "From Nurses. For Nurses" initiative. This comprises a series of webinars, quizzes and Q&A-style online sessions, led by our referral nurses for their colleagues.

We offer a two-year graduate induction programme to support early-career professionals, while our virtual LED platform, Knowledge Hub, has improved ease of access to information and learning online.

Delivering a first-class experience to our customers and their animals

Why we care: Providing the best possible care for our patients is integral to our business. Our teams care deeply about the health of the animals they treat, providing outstanding service and expertise that is trusted by animal owners.

How we care: Our integrated model supports our customers by allowing us to set the highest standards of clinical care and support the work of our practices with specialist referral hospitals and diagnostic laboratories. This approach is led by our Chief Veterinary Officer, Professor John Innes and his clinical team which includes our newly-appointed Chief Nursing Officer, Lucy Turner.

We are the only veterinary corporate group in the UK to publish an annual Quality Improvement report. We are fully committed to the RCVS Practice Standards Scheme and have received a number of outstanding awards.

We provide access to high-quality veterinary specialists to assist in resolving complex clinical issues, while our Vet Oracle business provides tele-radiology and tele-neurology image interpretation services to first-opinion vets all over the world.

Playing an active role in the communities in which we operate, and the profession

Why we care: We believe in the importance of playing an active role in community life. Building trust, familiarity and reliability helps us make a positive impact on the lives of our customers, patients, and their communities. Leading the way in driving standards of excellence, innovation and initiatives to shape the profile of the profession will help to advance animal healthcare for future generations.

How we care: We want to increase the level of diversity in our sector and are beginning to work with schools and universities to attract a more diverse workforce. We have appointed a new internal committee focusing on aspects of diversity and inclusion. Our new Employee Experience role also focuses on improving the diversity profile of our business, and on our commitment to providing equal opportunities and improving the gender pay gap.

We also want to play a leading role in tackling issues such as antimicrobial resistance – a critical challenge for animal healthcare globally, working with organisations embedded within the profession to promote responsible prescribing of antimicrobials.

We engage with charities to provide veterinary services, and we encourage our colleagues to fundraise for our charity of the year, which is chosen by our colleagues.

“

We are, above all, a business that cares about our wider impact on the world around us. We believe strongly that we have a responsibility to do our very best for our teams, our patients, customers, and the communities in which we work. This drives value, but it's also just the right thing to do.”

Richard Fairman
Chief Executive Officer

CVS's approach to sustainability and ESG continued

Our responsibility: putting Care into practice continued

Reducing our environmental impact

Why we care: Caring for animals goes hand in hand with caring for the natural environment. Our aim is to minimise our impact on the planet in a way that supports and develops our services and clinical expertise.

How we care: We are investing in a range of interventions to increase efficiency and reduce our climate impact. As part of our adoption of 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.

Our initiatives to achieve this have included: moving to a renewable energy supply; supporting smarter heat and building management; adding electric vehicles and capping CO₂ emissions for our new fleet; decommissioning air-conditioning supplies that use 'R22' gas, which has a high ozone depletion potential, reducing electricity use in our day-to-day operations, and improving our waste management and increasing recycling.

Further, together with the National Trust, our seven crematoria sites across the UK have pledged to plant one square metre of native British woodland for every pet we receive directly for individual cremation throughout 2021. So far in 2021, we've already helped to plant 4,000m² of native woodland through this initiative.

In tandem with this, we will conduct work to measure climate risk within our business in line with the recommendations laid out by the Taskforce on Climate-Related Financial Disclosures ("TCFD").

Working with suppliers to drive positive change

Why we care: We believe in driving sustainability at all stages of our supply chain, and creating and adopting sustainable practices and equipment to ensure we can effect positive change together with our suppliers.

How we care: We have, alongside our office supplies supplier, Warrens Office, undertaken various packaging reduction initiatives including reusable and recyclable packaging. They have committed to switching all company vehicles to electric vehicles, which will be powered by the company's self-generated solar power.

We are also switching our products to more environmentally friendly options, such as recycled products.

Autumn 2021 will see the launch of the new CVS Print Platform in conjunction with environmental award-winning print supplier, SF Taylor. This will help reduce waste and ensure we are using responsibly sourced materials.

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.

Vet Direct, our veterinary equipment supplier, has vastly reduced its printing of catalogues, and carbon balancing the paper through the World Land Trust. This has helped protect 4,999m² of critically threatened tropical forest.

Strategy in action

4

**We take our
responsibilities seriously**

Safety First

In January 2021, we launched our new online health and safety system, Safety Hub. This resource includes training modules as well as divisionally-specific resources related to each site's area of work. Divisional Health and Safety Advisors make regular support visits to review all areas of safety compliance and support teams in meeting practice standards. Site managers can complete weekly and monthly compliance checklists on the Hub, and Regional Directors can generate reports giving an overview of sites in their areas.

The system not only makes it easier for CVS colleagues to ensure they are Health and Safety compliant, it also reduces the Group's environmental impact by removing the need for paper checklists and instead utilising a user-friendly website or smartphone app.

258

Courses completed by managers on the new Safety Hub

159

'Outstanding' RCVS Practice Standards Scheme Awards

Principal risks and uncertainties

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 in order 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 below 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 correction 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 52 to 57.

COVID-19 and Brexit

The Group faced unprecedented disruption to its operations in the previous financial year to 30 June 2020 due to the COVID-19 pandemic, and the Group has had to continue to evolve its operations to reflect ongoing COVID-19 government and regulatory guidance in the financial year to 30 June 2021. The Group has also had to adapt to the changes arising from the UK's exit from the European Union.

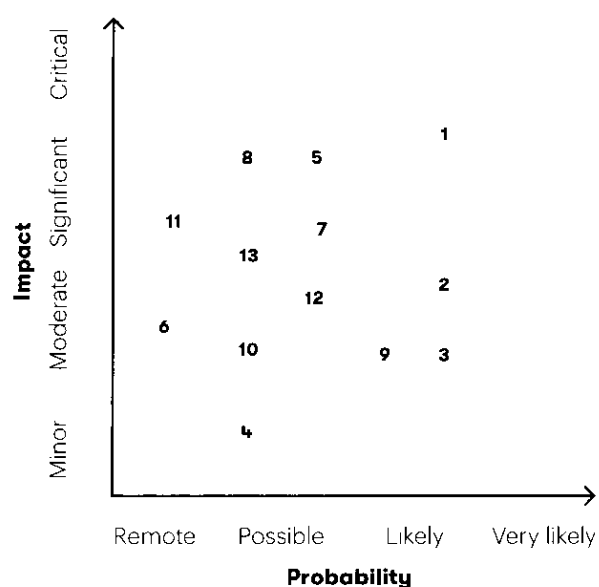
The Board continues to monitor and assess the risks and opportunities which may arise from further disruption through COVID-19 or similar pandemic and through Brexit. The medium and longer term impacts of COVID-19 and Brexit remain unclear but the Board and senior management continue to monitor developments and plan accordingly.

Our key focus in monitoring and managing risks from COVID-19 and Brexit is to ensure the safety and wellbeing of our colleagues and to ensure we have appropriate resources in place to continue to provide appropriate services to our customers and their animals.

COVID-19 and Brexit both have the ability to affect the following principle risks:

- Key employees
- Economic environment and consumer trends
- Competition
- Changes in industry regulations
- Sourcing pharmaceutical supplies
- Health and Safety legislation
- Corporate legislation or regulatory requirements
- Bank facilities
- Future pandemic or lockdown

Risk management framework



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

Principal risks and uncertainties continued

No change to risk Increasing risk Reducing risk New risk

1. Key employees

Description

Failure to retain and attract key colleagues, 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 and 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, including our whistleblowing policy, as detailed on page 64.
- Highly qualified recruitment team.
- Home Office reinstatement of Veterinary Surgeons on UK Shortage Occupation List.

Changes in the year

- We have increased the number of vets and nurses employed by 10.2% and 8.0% respectively.
- In order to deliver growth and service the increased demand we are seeking to recruit more vets and nurses.
- Attrition rates remain unchanged.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

2. Economic environment and consumer trends

Description

Risk that Brexit and the continuing COVID-19 pandemic has a detrimental impact on the economy.

Potential impact

- Reduction in consumer confidence and spending on veterinary services.
- Short term restrictions in resource due to requirement for self-isolation.
- Further lockdown restrictions.
- Supply disruptions.
- Changing consumer trends may lead to a reduction in pet ownership.

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 had 450,000 members at the year end and the Healthy Horse Programme ("HHP"), which had 10,000 members. This promotes 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.

Changes in the year

- We continue to respond to evolving government and regulatory guidance and are able to adapt our services accordingly (e.g the use of tele-consultations where required).
- Brexit import and export rules and regulations are clear.
- According to the Pet Food Manufacturers Association, c.3.2m UK households bought a pet during the COVID-19 pandemic.

Link to strategy

Read more on pages **22 and 23**

2 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.

Changes in the year

- Ongoing market consolidation.
- Growth in revenues across all divisions.
- Continued increase in our HPC and HHP schemes to retain our clients

Link to

strategy

Read more on pages **22 and 23**

1 2 3

4. Adverse publicity

Description

Any adverse publicity on the Group, other corporate veterinary groups or on 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 Committees to advise on clinical standards and drug lists across the Group.
- Individual practice branding to reduce the risk of any adverse publicity 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 build the Group's reputation and credibility.

Changes in the year

- Financial PR agency appointed to support with media communication.
- Continued monitoring of our clinical standards against our quality improvement frameworks for clinicians and practices.

Link to

strategy

Read more on pages **22 and 23**

1 2 3 4

Principal risks and uncertainties continued

No change to risk Increasing risk Reducing risk New risk

5. Information technology

Description

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

Potential impact

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

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 program 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.

Changes in the year

- Appointment of a Chief Technology Officer
- Strengthened senior IT team including appointment of Head of Security and Head of IT Projects.

Link to strategy

Read more on pages **22 and 23**

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's competitive advantage.

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

- Monitoring and adherence to temporary regulation changes put in place by the RCVS as a result of the COVID-19 pandemic.

Link to strategy

Read more on pages **22 and 23**

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

Changes in the year

- Monitoring the availability of any drugs sourced from outside the UK due to Brexit and the ongoing COVID-19 pandemic.
- Increased stock levels in Group warehousing to reduce the potential impact of any supply disruption.
- New warehousing system.
- New direct supply agreement with major manufacturer.

Link to strategy

Read more on pages **22 and 23**

1 4

8. Sourcing and integrating acquisitions

Description

Failure to attract and acquire acquisitions at the appropriate price

Potential impact

- Pressure that higher multiples reduces 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 advisers to ensure appropriate due diligence and legal advice is undertaken.
- Close monitoring of post-acquisition performance versus business plan.

Changes in the year

- Strengthened acquisitions team.

Link to strategy

Read more on pages **22 and 23**

3

Principal risks and uncertainties continued

No change to risk Increasing risk Reducing risk New risk

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 advisers undertake maintenance, inspections and property development.

Changes in the year

- Ongoing provision of COVID-19 guidance in light of evolving guidelines.
- COVID-19 test kits provided to colleagues.
- COVID-19 secure risk assessments at all sites.
- Enhanced PPE supplied to protect colleagues and clients against COVID-19 and other risks.
- New guidance and training supplied to colleagues.

Link to

strategy

Read more on pages **22 and 23**

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

- Regular reviews of legal and regulatory developments across all countries in which the Group operates.

Link to

strategy

Read more on pages **22 and 23**

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.
- 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.

Changes in the year

- The Group is cash generative and has continued to reduce net debt and leverage, thereby increasing the headroom under the financial covenants.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

12. Future pandemic or lockdown

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.

Mitigating factors

- 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.

Changes in the year

- Continued adherence to government and regulatory advice across all operating territories.

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

13. Sustainability and climate change

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.

Mitigating factors

- Sustainability and ESG is discussed as a standing agenda item in Board meetings.
- ESG working group formed which is chaired by the CEO
- Appointment of ESG advisers to help assess our risks and to develop our Sustainability and ESG focus.

Changes in the year

- Increased focus on ESG and additional detail included in Annual Report

Link to strategy

Read more on pages **22 and 23**

1 2 3 4

Our experienced Board with diverse skills and expertise

Richard Connell (66) **Non-Executive Chairman**

Appointment to the Board
Richard was appointed to the Board in September 2007

Career and experience

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

Committee membership

Richard was a member of all three Board Committees until 30 April 2021. Richard is no longer a member of the Audit, Remuneration or Nomination Committees

A R N

Mike McCollum (54) **Non-Executive Director**

Appointment to the Board
Mike was appointed to the Board in April 2013.

Career and experience

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

Committee membership

Mike is Chair of the Audit Committee. He is a member of all three Board Committees and is the Senior Independent Director.

A R N

Deborah Kemp (60) **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 dedicated Non-Executive Director for employee engagement.

A R N

Richard Gray (64) **Non-Executive Director**

Appointment to the Board
Richard was appointed to the Board in July 2020.

Career and experience

Richard is an investment banker who has extensive capital markets and corporate finance experience. He is a Director of Zeus Capital and has previously worked with Panmure Gordon, Lazard, Charterhouse and UBS. He is a Non-Executive Director of BMO Private Equity Trust plc and holds a number of private company appointments including Non-Executive Director of Alpha Real Capital and Vice Chair of Invescore Group

Committee membership

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

Committee membership

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

Richard Fairman (54) Chief Executive Officer

Appointment to the Board

Richard was appointed as a Director in August 2018 and was appointed as Chief Financial Officer in October 2018, and then as Chief Executive Officer in November 2019.

Career and experience

Richard spent six and a half years at the RAC Group, including as Chief Financial Officer 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.

Ben Jacklin (37) 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 Practices 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.

Robin Alfonso (42) 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.

Jenny Farrer (44) Company Secretary

Appointment to the Board

Jenny was appointed as Company Secretary in August 2021.

Career and experience

Jenny is a fellow of the Chartered Governance Institute with fifteen years' experience of acting as Company Secretary to listed and large private companies through in-house and professional practice roles. Jenny is a Chartered Secretary and has also spent over seven years in professional practice establishing 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.

Effective management across the business

“
Effective corporate governance
is key to delivering the Group’s
strategy and ensuring the
long-term success of the Group.”

Jenny Farrer
Company Secretary

Principles of corporate governance

The purpose of this report is to provide our shareholders and other stakeholders with information on how the Company is managed, the roles of the Directors and the Committees and to set out the Company’s compliance with the FRC UK Corporate Governance Code 2018 (“the Code”). The report also sets out the Group’s internal management controls while risk management details are available on pages 50 to 57.

This Annual Report and Financial Statements should, overall, provide information that enables shareholders to assess how the Directors have performed their duties under Section 172(1) of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole. Our Section 172(1) Statement can be found on page 18.

Compliance statements

During the year to 30 June 2021, the Company has complied with the principles set out in the Code. The following paragraphs consist of compliance statements.

The purpose of the Company is to give the best possible care to animals and the Company’s vision is to be the veterinary company people most want to work for. The Board has consulted with employees over this objective and it is firmly believed that where this is achieved, the Company will best meet its responsibilities to stakeholders.

Board and Company Secretary gender diversity

Male	6
Female	2

Board and Company Secretary ethnic diversity

White	7
Ethnic minority	1

Board committees

Audit Committee

Key responsibilities:

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

Nomination Committee

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.

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.

Executive Committee and Company Secretary

Male	6
Female	3

At 30 June 2021 the Board of Directors consisted of seven members, including a Non-Executive Chairman, and three independent Non-Executive Directors. The Board presents a wide range of experience including customer-facing multi-site companies, mergers and acquisitions, financial, operational and organisational, and no one individual or small group of individuals dominates the Board's decision-making process.

The Company achieves shareholder returns through growth, both organically from its integrated business model and through the acquisition of synergistic business.

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

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

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

Corporate governance statement continued

Board committees continued

The Board identified Mike McCollum as the Senior Independent Director during the past financial year and he has been available to the other Directors and shareholders to discuss any matters relating to the Chairman. Following Mike McCollum's pending departure on 23 September 2021, the Board will identify Deborah Kemp as the Senior Independent Director.

The Non-Executive Directors confirm that they have sufficient time to devote to meet their Board responsibilities. In addition to the 11 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 Chairman and Non-Executive Directors meet from time to time as appropriate without the Executive Directors present.

When conditions allow, the Non-Executive Directors also spend time visiting the Group's operations in order to meet with colleagues and to develop their understanding of the business operations, and are invited to attend the annual conference. Deborah Kemp is the dedicated Non-Executive Director for employee engagement and she consults with colleagues throughout the year on how the Board's decisions affect them.

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	13	2	8	5
R Connell	13	2	8	5
M McCollum	13	2	8	5
D Kemp	13	2	8	5
R Gray**	12	2	8	4
R Fairman	13	2*	6*	3*
R Alfonso	13	2*	3*	3*
B Jacklin	13	2*	3*	3*

* In attendance by invitation of the respective Committee.

** Richard Gray was appointed to the Board on 21 July 2020 and has attended all Board meetings since this date

The Audit Committee

During the year under review the Committee Chair was Mike McCollum. Mike became Chair of the Committee in July 2020 having worked previously as the CFO for a FTSE 250 business. All Non-Executive Directors were members of the Committee until 30 April 2021 when the Chairman stood down.

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 65 and 66.

Following Mike McCollum's pending departure on 23 September 2021, and upon David Wilton's appointment as a Non-Executive Director on 24 September 2021, David will become the new Chair of the Audit Committee. David is a Chartered Accountant and has a wealth of experience in senior finance roles including in listed companies.

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. The meeting at which he was appointed was chaired by Deborah Kemp. All Non-Executive Directors were members of the Committee until 30 April 2021 when the Chairman stood down.

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.

The Nomination Committee report can be found on pages 67 and 68.

Following Mike McCollum's decision to stand down as a Non-Executive Director at the end of his current service agreement on 23 September 2021, the Committee has overseen the selection of Mike's successor which has led to the proposed appointment of David Wilton with effect from 24 September 2021.

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 were members of the Committee until 30 April 2021 when the Chairman stood down.

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

The Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and the Chief Operating Officer ("COO") are invited to attend meetings as appropriate but do not participate in discussions relating to their own remuneration. The Chairman will also be invited to attend meetings as appropriate, following standing down from the committee from 30 April 2021.

The Remuneration Committee report can be found on pages 69 to 77.

The Company Secretary

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

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

Annual General Meeting 2020 – voting results

In the 2020 Result of AGM announcement, the Board of CVS noted that all the resolutions had been passed with the requisite majority, but that the resolution to reappoint Richard Connell as Chairman received 75.1% support and the resolution to approve the Remuneration Committee report received 78.5% support. Whilst a clear majority of shareholders were supportive, in accordance with Provision 4 of the UK Corporate Governance Code the Board of CVS has consulted with major shareholders in order to better understand their views on these matters. In accordance with the Code, the Company published a market announcement regarding the shareholder consultation on 13 May 2021 via RNS and on the Investor Centre area of our website.

During the course of the year the Board of Directors have 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 LTIPs.
- 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% of the performance condition now based on total shareholder return.
- Target shareholding thresholds introduced of 100% of salary for the CEO, COO and CFO.
- Two year holding period introduced for new LTIP awards for the CEO, COO and CFO.
- Board Committees were restructured to ensure that all are chaired by independent Non-Executive Directors.

Independence

Richard Connell has held the position of Chairman of the Board since September 2007 and therefore has 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 believe that Richard's knowledge of the veterinary sector and experience of private equity and corporate transactions has been invaluable in steering the Company through the ongoing COVID-19 pandemic. He has also personally overseen a major restructuring of the Board over the past three years, appointing Richard Fairman as CEO, Ben Jacklin as COO and Robin Alfonso as CFO, as well as strengthening the Board through the appointment of Richard Gray as an additional Non-Executive Director. These changes have delivered improved performance and a substantial increase in shareholder value in the past twelve months. Mike McCollum, Deborah Kemp and Richard Gray are considered to be independent by the Board and, following the shareholder consultation after the 2020 AGM, Richard Connell stood down from all Committees.

Save for Mike McCollum, all Directors will offer themselves for re-election at the 2021 AGM of the Company.

Relations with shareholders

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

Due to the challenges around physical meetings in 2020, the last AGM of the Company was held as a closed meeting in accordance with the Corporate Insolvency and Governance Act ("CIGA") 2020 and guidance issued by the Chartered Governance Institute. The Executive and Non-Executive Directors and the Company Secretary frequently engaged with shareholders during the course of the year. The Company will announce its plans for this year's AGM shortly in light of latest COVID-19 government guidance. Full details of the 2021 AGM meeting arrangements and notice will be made available on our website.

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 Chairman and the Non-Executive Directors are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Company Secretary at company.secretary@cvsukltd.co.uk.

Corporate governance statement continued

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, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;
- a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas;

- an independent internal audit function that reports to the 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.

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

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

Internal audit

The Internal Audit team has implemented and refined the audit process focusing on financial and related procedure risks primarily across the Veterinary Practices division. Performance of the Internal Audit function will continue to be reviewed during the current financial year to ensure it remains appropriate.

Remuneration

The Board considers that policies on executive remuneration should be transparent. They should be implemented in a manner which supports strategy and promotes long-term sustainable growth. In addition, remuneration should reflect 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 69 to 77 of this Annual Report.

Annual General Meeting

The Annual General Meeting of the Company will take place on 24 November 2021. Full details of resolutions to be proposed to our 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 website of the Company and the London Stock Exchange once the AGM has concluded.

By order of the Board

Jenny Farrer
Company Secretary
23 September 2021

Ensuring accountability and transparency

Mike McCollum Audit Committee Chair

Key responsibilities:

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

Committee composition

during the year to 30 June 2021	Attendance
Richard Connell*	2
Mike McCollum	2
Deborah Kemp	2
Richard Gray	2

* Richard Connell was a member of the Committee until 30 April 2021 when he stepped down from all Board Committees. Whilst Richard Connell is no longer a member of the Committee, Richard may attend future committee meetings along with the Executive Directors at the invitation of, and where this is considered appropriate by, the Committee Chair.

Responsibilities and terms of reference

The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported, for meeting with the external auditor and for reviewing its reports relating to financial statements and internal control matters. During the year under review the Committee Chair was Mike McCollum, who became Chair of the Committee in July 2020. All Non-Executive Directors are members of the Committee, apart from the Chairman, Richard Connell, who stood down from the Committee on 30 April 2021. 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 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 *require reports on matters relevant to its terms of reference* in addition to the regular items.

Summary of activity

In the year ended 30 June 2021 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 annual financial statements;
- advising the Board that the Annual Report and Financial Statements is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- reviewing the effectiveness of the Group's internal controls and 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;

Audit Committee report continued

Summary of activity continued

- 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;
- agreeing the fees to be paid to the external auditor for its audit of the 2021 financial statements; and
- reviewing the performance and independence of the external auditor.

Significant financial reporting risks and judgement areas considered

Revenue recognition

During the year, we have reviewed the appropriateness of the revenue recognised according to the cost profile of delivering the performance obligations for our Healthy Pet Club scheme.

Management override

During the year, we have reviewed the appropriateness of controls around management override of controls, ensuring the controls in place are robust and, where appropriate, recommending areas for improvements.

Research and Development Expenditure Tax Credit ("RDEC") income

During the year, we have reviewed the appropriateness of the income recognised in relation to RDEC, along with the associated accounting estimates and judgements.

In respect of the above 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 50 to 57.

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 page 79 is appropriate.

External auditor

The external auditor was appointed with effect from the year ended 30 June 2017 giving a current tenure of five 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 will be an audit partner rotation and a new audit engagement partner. The appointment is reviewed and subject to a shareholder vote at the AGM on an annual basis. Details of the fees paid to Deloitte during the financial year are set out in note 6 to the financial statements.

The Audit Committee has primary responsibility for the supervision of the relationship with the external auditor, including overseeing their 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 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 audit and the audit process, and that Deloitte remains effective in its role as external auditor. The Committee has therefore recommended to the Board that Deloitte 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 it is fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the Directors' Responsibilities statement set out on pages 80 and 81.

Mike McCollum
Audit Committee Chair
23 September 2021

Securing the right expertise and knowledge

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 2021

	Attendance
Richard Gray*	4
Mike McCollum	5
Deborah Kemp	5
Richard Connell**	5

* Richard Gray has chaired all Nomination Committee meetings from his appointment in July 2020. Deborah Kemp chaired the Nomination Committee meeting in which Richard Gray was appointed.

** Richard Connell was a member of the Committee until 30 April 2021 when he stepped down from all Board Committees. Whilst Richard Connell is no longer a member of the Committee, Richard may attend future Committee meetings along with the Executive Directors at the invitation of, and where this is considered appropriate by, the Committee Chair.

Board appointments and resignations

Richard Gray was appointed a Non-Executive Director on 16 July 2020, following an appropriate recruitment and selection process, and replaced Deborah Kemp as Chair of the Nomination Committee on 21 July 2020.

Following the decision by Mike McCollum to step down on 23 September 2021, the Committee oversaw the selection of David Wilton, who will be appointed to the Board on 24 September 2021. David was appointed using an external search consultancy, Chief Officers Group.

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.

Over the past 18 months, the Board has effectively steered the business through a period of unprecedented disruption caused by the COVID-19 pandemic. This stewardship involved more regular Board meetings and updates, the preparation and review of regular analysis of trading and reforecasts of future performance, and resulted in appropriate measures being implemented in order to protect the Group's colleagues and clients whilst ensuring the Group was able to continue to provide access to clinical care to its clients and their patients.

The varied experience of all Directors was invaluable in enabling CVS to respond appropriately to these challenges and to emerge from the pandemic with a strengthened balance sheet such that the Group is well positioned to capitalise on future growth opportunities.

Nomination Committee report continued

Board evaluation and effectiveness continued

The Committee oversaw a review of Board effectiveness in December 2020 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 Committee approved revised terms of reference in the year for each Committee of the Board. The new terms of reference for each Committee reflected best practice under the UK Corporate Governance Code and the Committee was advised by DLA Piper UK LLP in the drafting and execution of these new terms of reference.

Executive Director service agreements

New service agreements were entered into with the Executive Directors during the year, again in order to reflect best practice under the UK Corporate Governance Code and reflecting advice from DLA Piper UK LLP in the development and execution of these new agreements.

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 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 22 and 23. The gender balance of those in the senior management, which, in accordance with the Code, we consider to be the Executive Committee and the Company Secretary, is three women and six 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.

Consultation with major shareholders

In the 2020 Result of AGM announcement, the Board of CVS noted that all the resolutions had been passed with the requisite majority, but that the resolution to re-appoint Richard Connell as Chairman received 75.1% support and the resolution to approve the Remuneration Committee report received 78.5% support. Whilst a clear majority of shareholders were supportive, in accordance with Provision 4 of the UK Corporate Governance Code the Board of CVS has consulted with major shareholders in order to better understand their views on these matters.

A view expressed by some shareholders was that Richard Connell's membership of the Board Audit Committee resulted in this Committee not being deemed fully independent. In light of this feedback, and to ensure all Board Committees are fully independent, Richard Connell stepped down from all Board Committees from 30 April 2021.

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 improved 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
23 September 2021

Achieving and sustaining CVS's long-term value

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 terms and conditions, and awards.

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

Over the past 18 months, the Remuneration Committee has met more frequently to make appropriate recommendations to the Board in response to the COVID-19 pandemic and to consider feedback from shareholders on remuneration matters.

Committee composition

during the year to 30 June 2021

	Attendance
Richard Connell*	8
Mike McCollum	8
Deborah Kemp	8
Richard Gray	8

* Richard Connell was a member of the Committee until 30 April 2021 when he stepped down from all Board Committees. Whilst Richard Connell is no longer a member of the Committee, Richard may attend future committee meetings along with the Executive Directors at the invitation of, and where this is considered appropriate by, the Committee Chair.

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

Remuneration policy

The 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 the 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 with performance criteria based on earnings per share and total shareholder reward.

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 ("LTIP") 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 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 under the policy table on page 74.

Development of remuneration policy in light of shareholder consultation

The advisory vote to approve the Directors' Remuneration Report at our 2020 AGM was supported by 78.5% of votes cast.

In response to the AGM vote, the Remuneration Committee considered a number of matters on remuneration in particular, whether a two-year holding period should be applied to LTIP awards, bonus deferral, shareholding guidelines and Director pension alignment with the workforce.

Remuneration Committee report – unaudited continued

Development of remuneration policy in light of shareholder consultation continued

The two-year holding period was regarded as a priority matter and the Remuneration Committee has decided that a two-year holding period will be applied to future LTIP awards to Executive Directors, commencing in 2021. This follows changes already implemented in previous financial years which include Executive and Non-Executive Directors voluntarily forgoing 20.0% of their salaries in the final quarter of the previous financial year, the introduction of malus and clawback conditions for LTIP and bonus awards, the ability for the Remuneration Committee to override formulaic outcomes and the amendment of LTIP performance vesting criteria such that 50.0% of the performance condition is now based on meeting a total shareholder return threshold.

In relation to bonus deferral, the Remuneration Committee continues to see merit in a clear distinction between annual bonus and long-term incentives. One matter the Board has taken into account is that bonuses have not been paid out for 2018/19 or 2019/20. The Remuneration Committee 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 Company intends to maintain its shareholding guideline at 100.0% of salary for the three Executive Directors.

Executive Director service agreements

During the financial 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 advisers, DLA Piper UK LLP.

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") by 2.0% to £408,000 with effect from 1 January 2021, and to increase the salary of the Chief Operating Officer ("COO") by 2.0% to £306,000 as of the same date in line with the average company-wide increase.

On review of the Chief Financial Officer's ("CFO") salary and as detailed in the previous year's Remuneration Committee report, the Remuneration Committee decided to bring the salary of the CFO commensurate with market practice. As a result, the Remuneration Committee decided to increase the salary of the CFO by 60.6% to £265,000 with effect from 1 January 2021 and his maximum bonus percentage was increased to 100.0% of salary. The CFO's revised remuneration is now in line with that of the previous two CFOs and the market benchmark provided by h2glenferm Remuneration Advisory.

Executive Director Annual Bonus Scheme

The annual bonus scheme in which the Executive Directors participate is based on the achievement of pre-IFRS 16 adjusted EBITDA prior to share-option costs, performance in comparison to the annual budget approved by the Board.

For 2020/21, the maximum bonus for the CEO, COO and CFO was 100.0% of salary.

In light of the performance of the Group in the financial year, as reflected in a significant increase in shareholder value, the maximum bonus entitlement was achieved by the CEO, COO and the CFO.

LTIP awards

In October 2020 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, increased to reflect the CFO's increased salary in January 2021. As in previous years, these awards are subject to an adjusted EPS real growth performance condition measured over three years in addition to the total shareholder return benchmarked against the FTSE-250 index (less investment trusts) measured over three years. Detail on the performance conditions is set out later in this report.

LTIP vesting

Pre-IFRS 16 adjusted EPS for the year ended 30 June 2021 was 77.1p. This compares to adjusted EPS of 42.4p for the year ended 30 June 2018, a Compound Annual Growth Rate ("CAGR") of 19.5% above inflation. The target CAGR for threshold and full vesting of LTIPs issued in October 2018 was 8.0% and 12.0% above inflation, respectively. This target has been substantially exceeded and, therefore, 100.0% of the options granted have vested.

Recognising the contribution of all CVS colleagues

The past 18 months have seen unprecedented disruption due to the COVID-19 pandemic and CVS Colleagues have had to adapt to new ways of working in light of evolving government and RCVS guidance whilst continuing to provide first class care to our clients and their animals.

In recognition of this, the Remuneration Committee approved the payment of annual productivity bonuses to front line colleagues in September 2020 and awarded all colleagues an additional day's holiday in December 2020 as a thank you for their contribution in the year. The Remuneration Committee also decided to make an advance payment to colleagues in respect of their 2021 discretionary bonus early in March 2021, with the balance to be settled in the normal manner.

The Remuneration Committee also decided that in respect of the Group's Save As You Earn ("SAYE") scheme launched in November 2020 to increase the discount from 10.0% to 20.0% to the closing mid-market price of the day preceding the date of invitation. These share options vest after three years to ensure that colleagues have a personal interest in the longer-term success of the Group.

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 retain and attract talented colleagues.

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: <ul style="list-style-type: none"> • 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 2021 (the prior review being in January 2020) and was increased by 2.0% to £408,000. The COO's base salary was reviewed on 1 January 2021 (the prior review being on 1 January 2020) and was increased by 2.0% to £306,000. The CFO's base salary was reviewed on 1 January 2021 (the prior review being on 1 January 2020) and was increased by 60.6% to £265,000.	Not applicable.
Benefits To complement basic 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.

Remuneration Committee report – unaudited continued

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.	<p>The CEO and COO participate in defined contribution pension arrangements and received payments partly in lieu of pension.</p> <p>The CFO participates in a defined contribution pension arrangement.</p> <p>Pension arrangements, including contribution rates, for any new Executive Directors will be aligned with those of the majority of the UK workforce.</p>	<p>The CEO is entitled to a Company pension contribution of 12.0%. This is partly taken as a payment in lieu of a pension.</p> <p>The COO is entitled to a Company pension contribution of 10.0%. This is partly taken as a payment in lieu of salary.</p> <p>The CFO is entitled to a Company pension contribution of 8.0%.</p> <p>Only basic salary is pensionable.</p>	Not applicable.
Annual bonus			
To drive and reward exceptional performance.	<p>The Executive Directors are eligible to participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>Bonuses are paid in cash based on audited financial results. Commencing financial year 2018/19, annual bonus payments are subject to malus and clawback provisions.</p>	During the year under review, the maximum capped bonus potential for the CEO, COO and CFO is 100.0% of salary.	For the years ended 30 June 2021 and ending 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 and exceptional items. The level of payment commences from zero at the threshold target increasing on a straight-line basis to full payment at the maximum target.
Long-Term Incentive Plan ("LTIP")			
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 award from LTIP11.	<p>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</p> <p>The maximum annual award permissible under the 2017 plan rules in exceptional circumstances is 200.0% of salary.</p>	<p>Up to and including 2018, an adjusted EPS CAGR real growth target is applied to awards.</p> <p>The adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations and associated income tax and exceptional items.</p> <p>From 2019, awards will be subject 50.0% to an EPS growth target, as previously, and 50.0% subject to a relative Total Shareholder Return performance condition against the FTSE 250 companies excluding investment trusts.</p>

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Long-Term Incentive Plan ("LTIP") continued			
	<p>The LTIP rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets.</p> <p>Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. The Remuneration Committee sets performance conditions at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10.0% of issued share capital over any ten-year period.</p> <p>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.</p>		<p>In addition, and irrespective of the targets, no award will vest unless, in the opinion of the Remuneration Committee, the underlying performance of the Group has been satisfactory over the measurement period.</p> <p>An amendment to the 2017 plan was made in 2019 to ensure that the Committee has discretion to vary award vesting in the event of exceptional negative events and to override formulaic outcomes.</p>
Shareholding guideline			
To incentivise executives to achieve the Company's long-term strategy and create sustainable shareholder value. To align with shareholder interests.	<p>Target value to be achieved over five years:</p> <p>CEO – 100.0% of salary.</p> <p>COO – 100.0% of salary.</p> <p>CFO – 100.0% of salary</p>	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 staff, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each calendar year. Under the 2020 scheme, 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 2019 and 2018 schemes the awards were made at a 10.0% discount. There are no performance conditions attached to any of the SAYE schemes.

Remuneration Committee report – unaudited continued

Executive Directors' remuneration policy continued

Policy on Non-Executive Directors' remuneration

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

Details of the fees payable for 2020/21 are set out in the Annual Report on Remuneration.

The current fees are as follows:

Director	
R Connell	£115,343
M McCollum	£46,920
D Kemp	£46,920
R Gray	£44,370

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 22 September 2022. Mike McCollum was appointed on 2 April 2013. His most recent service agreement is for a one-year term ending on 23 September 2021. These appointments can be terminated by the Company or the Directors by giving three months' notice. Deborah Kemp was appointed on 2 January 2018. Her most recent service agreement is dated 1 January 2021 for a three-year term ending on 1 January 2024. Her appointment can be terminated by the Company or herself by giving six months' notice. Richard Gray was appointed on 16 July 2020 for a three-year term ending 16 July 2023. His appointment can be terminated by the Company or himself by giving six months' notice.

Further items specified under Rule 41 of the FRC Code

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

Mindful of provision 40 of the Code, the Remuneration Committee will continue to consider factors including clarity, simplicity, risk, predictability, proportionality and alignment to culture. The Remuneration Committee believes that the Company's remuneration practices are clear and simple, as laid out in this Remuneration Report. The Committee has always been conscious of reputational and other risks in managing remuneration and 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 2020/21. The Company engaged with major shareholders on remuneration during 2020/21 as detailed on page 19 and 69. 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 2020/21.

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the period ended 30 June 2021.

Membership and role of the Remuneration Committee

The Remuneration Committee is appointed by the Board, and comprises Deborah Kemp as Chair, Mike McCollum and Richard Gray. Richard Connell was a member of the committee until 30 April 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.

Remuneration of the Executive Directors – audited Directors' emoluments

		Basic salary allowance, fees and other payments £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	Value of share LTIP awards vested during the year ² £'000	Total £'000
Executive Directors							
R Fairman	2021	404	12	48	408	250	1,122
	2020	328	10	40	—	—	378
B Jacklin	2021	303	10	28	306	50	697
	2020	185	16	18	—	7	226
R Alfonso	2021	215	9	17	265	—	506
	2020	102	8	8	—	—	118
S Innes ³	2021	—	—	—	—	—	—
	2020	743	36	11	—	—	790
Non-Executive Chairman							
R Connell	2021	114	—	—	—	—	114
	2020	107	—	—	—	—	107
Non-Executive Directors							
M McCollum	2021	46	—	—	—	—	46
	2020	44	—	—	—	—	44
D Kemp	2021	46	—	—	—	—	46
	2020	44	—	—	—	—	44
R Gray ¹	2021	42	—	—	—	—	42
	2020	—	—	—	—	—	—

1 R Gray was appointed on 16 July 2020

2 The value of the share LTIP awards vested during the year is calculated using the share price at date of grant and the number of shares vested. The value of these awards is not included in the table in note 8 to the financial statements

3 S Innes resigned 5 November 2019

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 2021.

In the prior year, in November 2019, R Fairman was promoted to CEO from CFO and B Jacklin and R Alfonso were appointed as Directors and COO and CFO respectively. As a consequence, the 2020 remuneration reflects a pro-rata amount based on the relevant appointment. In addition, all Directors waived 20.0% of their basic salaries and fees from April 2020 to June 2020 due to COVID-19. Bonuses were not payable in 2020 due to the financial targets not being met due to the impact of the COVID-19 pandemic.

Remuneration Committee report – unaudited continued

Annual Report on Remuneration continued

Remuneration of the Executive Directors – audited continued

Directors' emoluments continued

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.

Discretionary bonus

		Bonus (% of salary)	Range (pre-IFRS 16 adjusted EBITDA pre-share option cost)	Actual (pre-IFRS 16 adjusted EBITDA pre-share option cost)	Payout £'000
R Fairman	2021	100	£57.2m to £62.7m	£79.1m	408
B Jacklin	2021	100	£57.2m to £62.7m	£79.1m	306
R Alfonso	2021	100	£57.2m to £62.7m	£79.1m	265

The Remuneration Committee has decided to pay bonuses in full in respect of the financial year in light of financial targets being significantly exceeded as reflected in a substantial increase in shareholder value. No Executive Director bonuses were paid in 2018, 2019 or 2020. The Group has not taken government support in the current financial year and has repaid all taxes deferred from 2020 due to the COVID-19 pandemic.

Due to the commercially sensitive nature of the proposed bonus targets, the committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to retrospectively publish annual bonus targets in the Annual Report and Financial Statements for the year to June 2022.

Share scheme interests as at 30 June 2021

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

Award	Grant date	Vesting period	
LTIP12	12 October 2018	3 years	<p>The performance targets for award LTIP12 are based on achieving adjusted EPS growth in excess of inflation as follows:</p> <ul style="list-style-type: none"> • Less than 8.0% CAGR – no award • 8.0% to 12.0% CAGR – awarded on a straight-line basis between 25.0% and 100.0% of total award • More than 12.0% CAGR – full award
LTIP13	19 December 2019	3 years	<p>The performance targets for award LTIP13 and LTIP 14 are based on achieving adjusted EPS growth in excess of inflation and total shareholder return in comparison to the FTSE 250.</p> <p>50.0% of the awards will vest if adjusted EPS growth in excess of inflation, pre-IFRS 16 (LTIP 14 post-IFRS 16), is achieved as follows:</p> <ul style="list-style-type: none"> • 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 • More than 10.0% CAGR – full award subject to this condition. <p>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:</p> <ul style="list-style-type: none"> • 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. • Upper quartile comparable performance – 100.0% of awards subject to this condition.
LTIP14	02 October 2020	3 years	

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place on 23 September 2021 are as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
R Fairman					
LTIP12	12 October 2018	807p	30 June 2021	0.2p	30,969
LTIP13	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
SAYE11	30 November 2018	913p	01 January 2022	830p	737
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606
B Jacklin					
LTIP12	12 October 2018	807p	30 June 2021	0.2p	6,194
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
SAYE11	30 November 2018	913p	01 January 2022	830p	737
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	570
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
SAYE12	04 December 2019	1,054p	01 January 2023	863p	709
SAYE13	02 December 2020	1,415p	01 January 2024	1,009p	606

Directors' interests in shares

The interests of the Directors when combined with their spouses' holdings as of 30 June 2021 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	157,800
M McCollum	38,678
D Kemp	6,559
R Gray	3,000
R Fairman	11,450
B Jacklin	1,436
R Alfonso	—

Apart from the interests in shares and share options disclosed above, the Directors had no other interest in shares of Group companies. 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 2021, the market price of the Ordinary shares was 2,415p. During the year shares lapsed as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting of shares	Exercise price	Number of shares
B Jacklin					
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	3,600

No options have been exercised during the year.

Statement of voting

At the 2020 AGM, a motion was proposed to the shareholders to approve on an advisory only basis the Directors' Remuneration Report contained in the 2020 Annual Report. 78.5% of votes cast were in favour of the motion and 21.5% of votes cast were against. The Company's response to this voting, which included consulting major shareholders and introducing the two-year holding period to LTIP awards, is detailed in the letter of introduction from the Remuneration Committee Chair.

Deborah Kemp
Remuneration Committee Chair
23 September 2021

Directors' report

The Directors present their Annual Report and Financial Statements together with the audited consolidated financial statements for the year ended 30 June 2021.

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 £19.3m (2020: £5.7m).

Particulars of events which have occurred since the end of the financial year have been disclosed in note 31 to the financial statements.

Business review

The information that fulfils the requirements of the business review, including details of the 2021 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's statement (pages 6 to 8), the Chief Executive Officer's review (pages 9 to 11), the Operational review (pages 28 to 35) and the Financial review (pages 36 to 40) including key performance indicators (pages 24 to 27) and principal risks and uncertainties (pages 50 to 57).

Dividends

In respect of the year under review, the Directors recommend a dividend payment of 6.5p, amounting to £4.6m (2020: £nil). The aggregate dividends recognised as distributions in the year ended 30 June 2021 amounted to £nil (2020: £3.9m). No interim dividends (2020: £nil) have been paid during the year.

Dividend policy

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

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

Directors

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

R Connell
M McCollum
D Kemp
R Gray (appointed 16 July 2020)
R Fairman
B Jacklin
R Alfonso

Biographical details of the Directors are provided on pages 58 to 59.

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 69 to 77. 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 42 to 48.

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 60 to 64.

Going concern

The Governance Code requires the Board to assess and report on the prospects of the Group and whether the business is a going concern. In considering this requirement, the Directors have taken into account the Group's forecast cash flows, liquidity, borrowing facilities and relating 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. The base case takes into account the latest run rate of performance. The sensitivity analysis is based on a reduction in revenue and associated impact on gross margin. The Group has modelled a further scenario of no further revenue growth and under both the base case and the no growth scenario, there is more than sufficient headroom in both liquidity and covenants.

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

Viability statement

In accordance with provision 30 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 three years is believed to be appropriate for this assessment since this is consistent with the Group's financing cycle, whereby on average the Group has refinanced debt in line with this timescale, usually as a result of acquisition and investment activity.

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 2024.

The Directors' assessment has been made by reference to the Group's financial position as at 30 June 2021, 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 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 three-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 three-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. The Directors have considered a combination of risks and uncertainties and the mitigating controls operated by the Group as detailed on pages 50 to 57 that may impact on the Group's ability to trade.

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 three financial years used for its assessment. In making this assessment, the Board has assumed that there is no material change in the legislative environment in the practice of veterinary medicine. It is recognised 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.

Financial instruments

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

Substantial shareholdings

Shareholder	31 August 2021	% IC
Octopus Investments Limited	4,953,290	7.00
BlackRock Inc	5,110,581	7.22
Ameriprise Financial	4,877,966	6.89
Canaccord Genuity Group Inc	4,307,510	6.09
Invesco	2,358,564	3.33
abrdn plc	2,136,305	3.02
	23,744,216	33.55

Share capital and substantial shareholdings

Details of the share capital of the Company as at 30 June 2021 are set out in note 25 to the financial statements. Each share carries the right to one vote at general meetings of the Company.

At 31 August 2021, 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.

Directors' report continued

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 it is Deborah's usual practice to consult with employees through attendance at our annual employee conference, which was postponed in the year due to COVID-19, periodic visits to our businesses and regular reviews of the Group's monthly employee Net Promoter Score.

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

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

The Group operates a Long-Term Incentive Plan for Executive Directors and senior managers. Details are included in note 8. The Group also has a Save As You Earn scheme, now in its thirteenth 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 69 to 77.

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. The level of cover is currently £50.0m.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group and Company financial statements in accordance with international 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 provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Disclosure of information to auditor

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

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

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

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

Approval

The Strategic Report on pages 1 to 57 was approved by the Board of Directors on 23 September 2021.

Authorised by order of the Board

Jenny Farrer
Company Secretary
 23 September 2021

Streamlined Energy and Carbon Reporting (“SECR”)

The Group is required under the Streamlined Energy and Carbon Reporting regulations to report how it manages its energy consumption and carbon emissions. This report forms part of the Directors’ report. Since last year we have published our direct Greenhouse Gas (“GHG”) emissions from sources that are controlled or owned by the Group (“Scope 1”) and indirect GHG emissions from the Group’s consumption of purchased electricity (“Scope 2”) emissions. This year, we have also begun collecting data on our “Scope 3” emissions, which are all emissions the Group is indirectly responsible for across its value chain.

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. In new facilities, such as Wetherby, we have stripped out “wet” heating systems, such as traditional radiators, and replaced with air-source heating systems which extract heat from the air, resulting in a reduction in carbon emissions. We have also replaced our older air conditioning units, which use R22 gas, with newer, safer and more energy efficient air conditioning solutions.

A greener approach to transport

We have reviewed our fleet vehicle lists, adding more Hybrid and Electric Vehicles (“EVs”) and capping all fossil fuel-reliant vehicles to 130g CO₂ emissions. To support the future increase in EV and Hybrid vehicles, we have started installing several EV charging points at some of our sites, including at our Endell Equine Hospital. We are also preparing to install charging points at our Wetherby and Diss sites.

Using renewable sources

In January 2021, we switched all our UK practice sites to use electricity from 100% renewable sources. Our sites in the Netherlands have already been utilising renewable energy sources, and our Republic of Ireland sites were switched to renewable energy in August 2021.

Reducing the energy consumed by our equipment

All relocations and new builds are fitted with LED lights from the outset, combined with Passive Infrared (“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.

Our UK and Offshore energy usage and carbon emissions

	2021 tCO ₂ e	2020 tCO ₂ e	Change (%)	Comments
Scope 1	4,862	6,748	-27.9%	The reduction in these emissions arises from a significant reduction in transport emissions. This is predominantly a result in a reduction in business transport during the COVID-19 pandemic.
Scope 2	2,940	3,605	-18.4%	The reduction in these emissions arises partly from the switch to renewable sources for all our UK veterinary practices in January 2021 (half way through the financial year ended 30 June 2021). In addition, during the National lockdowns there was a reduction in procedures performed and support colleagues were required to work from home.
Scope 3*	2	—	100.0%	
Total emissions	7,804	10,353	-24.6%	
Total energy volume (kWhs)	38,929,681	46,587,155	19.8%	
Intensity Ratio (tCO ₂ e per £m revenue)	15.3	24.2	-36.8%	The intensity ratio has decreased from the prior year, as a result of the full-year impact of changes to ways of working as a result of the COVID-19 pandemic, which only impacted the final quarter of the prior year.

* Data was not available for scope 3 in 2019/20

Methodology

The Group has taken guidance from the UK Government's Environmental Reporting Guidelines (March 2019), the Greenhouse Gas Protocol reporting standard, and from 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 12 months, flat profile estimation techniques were used to calculate the annual consumption.

Exclusions

Transport mileage and/or fuel usage data was provided for the Group's and colleagues' owned vehicles. The Group did not record grey fleet mileage for the financial year ended 30 June 2021, however we have implemented a process to ensure this is recorded going forward.

CO₂ 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 have chosen to report gross Scope 1, 2 and 3 emissions in tonnes of CO₂ equivalent ("tCO₂e") per £m revenue as this is a common metric used in corporate GHG reporting.

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 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 statement 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 32.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none">• Revenue Recognition – Healthy Pet Club
	Within this report, key audit matters are identified as follows: <ul style="list-style-type: none">Newly identifiedIncreased level of riskSimilar level of riskDecreased level of risk
Materiality	The materiality that we used for the group financial statements was £2.5m which was determined on a range of measures based on various profit measures.
Scoping	Our audit comprised of two components subject to full-scope audits and a further sixteen 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:

- Assessed the financing facilities available to group, including repayment date and likelihood of breaching financial covenants;
- Evaluated the assumptions used in the forecasts, such as revenue growth, gross margin improvements and cash flow movements, and whether these are appropriate in line with historical performance;
- Assessed the level of headroom in the financing facilities;
- Assessed the arithmetical accuracy of the forecast model confirming consistent calculations are used throughout, using internal software.

4. Conclusions relating to going concern continued

- Assessed the historical accuracy of forecasts through comparing actual performance to forecast, to assess the historical accuracy of forecasts prepared by management; and
- Assessed the appropriateness of the going concern disclosures.

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

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	<p>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 range of preventative products and treatments at a discount to the standalone selling price. The group recognised £60.4m (FY20: £46.8m) of HPC revenue during the year and has 450,000 (FY20: 415,000) active members as at the year-end.</p> <p>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. Revenue must also be adjusted for anticipated animal deaths (whereby outstanding fees will be waived) and irrecoverable debts. Additional adjustments are increasingly required for treatments that were missed due to a combination of COVID-19 restrictions and customers missing appointments naturally.</p> <p>The group's accounting policy is to record revenue according to the cost profile associated to 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'.</p>
How the scope of our audit responded to the key audit matter	<p>In response to the key audit matter, we performed the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of management's controls around HPC revenue recognition. • Recalculated the revenue accrual/deferral for all customers and compared this to management's own figure. • Assessed the appropriateness of deferring HPC revenue as a result of missed treatments against IFRS 15 requirements. • Performed an assessment of management's assumptions in calculating the deferral, which include the use of both reminder data and actual sales data to estimate the quantities of missed treatments. • Recalculated the revenue deferral for a sample of customers based on their specific payment and pricing information and compared to management's calculation. • Checked that, in instances of missed treatments that the customer would not catch up on, deferred income had been appropriately released to reflect the fact that membership fees are non-refundable and the group has no obligation to return amounts to customers.
Key observations	<p>Based on the audit procedures performed, we concluded that revenue recognition in respect of the HPC is in accordance with IFRS 15.</p>

Independent auditor's report continued

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£2.5m (FY20: £1.6m).	£2.3m (FY20: £1.4m).
Basis for determining materiality	3.8% (FY20: 4.0%) of adjusted pre-tax profit. We considered adjusted pre-tax profit of £66.2m (note 10) and revenue of £510.1m (consolidated income statement) when determining materiality, as well as the growth of the business (as indicated by revenue growth) versus FY20. Adjusted pre-tax profit is calculated as profit before tax adjusted for amortisation, costs associated with business combinations and exceptional items. This is consistent with the prior year	1.5% (FY20: 1.5%) of net assets. Parent company materiality was determined based on 1.5% of net assets, and capped at 85% of group materiality.
Rationale for the benchmark applied	We have considered both revenue and adjusted pre-tax profit, reflecting the metrics that are deemed to be of most importance to stakeholders, as disclosed within note 2.	As a holding company, net assets was considered the most relevant benchmark to users of the parent company financial statements

	Group materiality £2.5m
Adjusted PBT £66m	Component materiality range £0.7m to £1.5m
Adjusted PBT Group materiality	Audit Committee reporting threshold £0.1m

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% (FY20: 70%) of group materiality.	70% (FY20: 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 £0.1m (FY20: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

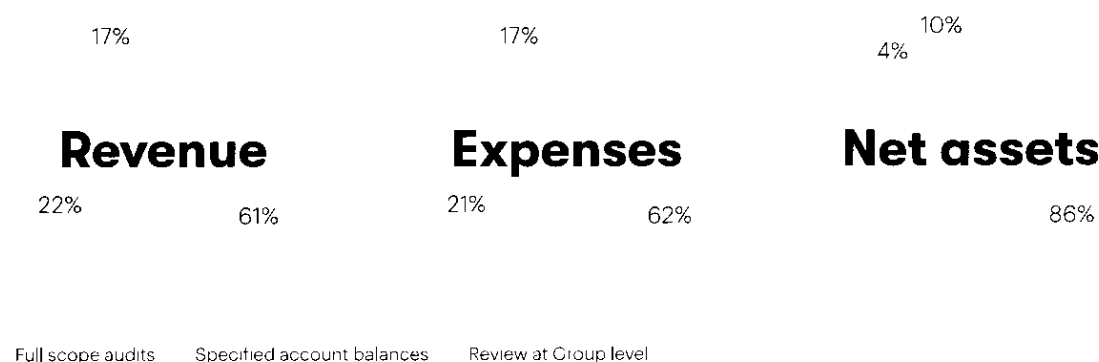
7.1. Identification and scoping of components

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

We have focused our work on the UK-based subsidiaries which account for 83% (FY20: 85%) of the group's revenue, 83% (FY20: 86%) of group's expenses and 90% (FY20: 86%) of net assets. We have subjected two components to full-scope audits and a further sixteen components to audits of specified account balances. The remainder of the group, including components located overseas, were subject to review procedures only. We have followed a similar approach in the prior year audit.

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 £1.5m (FY20: £0.3m to £1.4m).

The coverage achieved by this strategy is as follows:



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 our 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.

Independent auditor's report continued

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, internal audit 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; and

- 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, Animal 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 HSE and RCVS;
- reviewing the disclosures in the Audit Committee Report on pages 65 and 66; 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 page 79;
- 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 page 79;
- the Directors' statement on fair, balanced and understandable set out on page 81;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 50;

- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 50 to 57; and
- the section describing the work of the Audit Committee set out on pages 65 and 66.

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.

Lee Welham FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
 23 September 2021

Consolidated income statement

for the year ended 30 June 2021

	Note	2021 £m	2020 £m
Revenue	4	510.1	427.8
Cost of sales	6	(288.2)	(257.7)
Gross profit		221.9	170.1
Administrative expenses	6	(181.8)	(151.6)
Operating profit		40.1	18.5
Finance expense	5	(7.0)	(8.6)
Profit before income tax	4	33.1	9.9
Income tax expense	9	(13.8)	(4.2)
Profit for the year attributable to owners of the parent		19.3	5.7
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	10	27.3p	8.1p
Diluted	10	27.1p	8.1p

All activities derive from continuing operations.

Reconciliation of adjusted financial measures

The Directors believe that an adjusted profit measure, being adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA"), provides additional useful information for shareholders on performance. This is used for internal performance analysis. This measure is not defined by IFRS and is not intended to be a substitute for, or superior to, IFRS measurements of profit. The following table is provided to show the comparative EBITDA after adjusting for costs relating to business combinations, impairment and exceptional items.

Non-GAAP measure: adjusted EBITDA	Note	2021 £m	2020 £m
Profit before income tax		33.1	9.9
Adjustments for:			
Finance expense	5	7.0	8.6
Depreciation and impairment of tangible and right-of-use assets ¹	13, 14	24.3	24.2
Amortisation of intangible assets	12	23.8	22.2
Costs relating to business combinations ²	4	9.3	0.7
Exceptional items ¹	6	—	5.4
Adjusted EBITDA	4	97.5	71.0

¹ Impairments in the year ended 30 June 2020 are shown in exceptional items

² Includes amounts paid in respect of acquisitions in prior years expensed to the income statement

Consolidated statement of comprehensive income

for the year ended 30 June 2021

	Note	2021 £m	2020 £m
Profit for the year		19.3	5.7
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		0.9	(1.5)
Cost of hedging reserve		(0.1)	0.5
Deferred tax on cash flow hedge and available-for-sale financial assets	24	(0.1)	0.2
Exchange differences on translation of foreign operations		(0.7)	0.6
Other comprehensive loss for the year, net of tax		(0.3)	(0.2)
Total comprehensive income for the year attributable to owners of the parent		19.0	5.5

Consolidated and Company statement of financial position

as at 30 June 2021

Company registration number: 06312831

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Non-current assets					
Intangible assets	12	228.4	229.8	—	—
Property, plant and equipment	13	57.4	51.6	—	—
Right-of-use assets	14	97.2	98.1	—	—
Investments	16	0.1	0.1	71.6	69.4
Deferred income tax assets	24	—	1.1	—	—
Amounts owed by Group undertakings	32	—	—	82.3	81.6
		383.1	380.7	153.9	151.0
Current assets					
Inventories	19	19.5	18.7	—	—
Trade and other receivables	20	48.1	43.4	—	—
Current income tax receivable		0.1	—	—	—
Cash and cash equivalents		33.7	21.5	—	—
		101.4	83.6	—	—
Total assets	4	484.5	464.3	153.9	151.0
Current liabilities					
Trade and other payables	21	(86.0)	(87.7)	—	—
Provisions	22	(3.9)	(5.0)	—	—
Lease liabilities	14	(8.6)	(8.8)	—	—
Current income tax liabilities		—	(0.4)	—	—
Borrowings	23	—	(0.1)	—	—
		(98.5)	(102.0)	—	—
Non-current liabilities					
Borrowings	23	(83.9)	(83.5)	—	—
Lease liabilities	14	(90.2)	(89.8)	—	—
Derivative financial instruments	17	(0.4)	(0.9)	—	—
Deferred income tax liabilities	24	(20.4)	(21.5)	—	—
		(194.9)	(195.7)	—	—
Total liabilities	4	(293.4)	(297.7)	—	—
Net assets		191.1	166.6	153.9	151.0
Shareholders' equity					
Share capital	25	0.1	0.1	0.1	0.1
Share premium	26	103.1	101.9	103.1	101.9
Capital redemption reserve		0.6	0.6	0.6	0.6
Treasury reserves		—	(0.3)	—	—
Cash flow hedge reserve		(0.5)	(1.4)	—	—
Cost of hedging reserve		0.1	0.5	—	—
Merger reserve		(61.4)	(61.4)	—	—
Retained earnings		149.1	126.6	50.1	48.4
Total equity		191.1	166.6	153.9	151.0

The Company reported a total comprehensive loss for the financial year ended 30 June 2021 of £0.5m (2020: £0.4m).

The notes on pages 97 to 134 are an integral part of these consolidated and Company financial statements.

The financial statements on pages 90 to 134 were authorised for issue by the Board of Directors on 23 September 2021 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 2021

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 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	25	—	1.2	—	—	—	—	—	—	—	1.2
Disposal of treasury reserve	25	—	—	—	0.3	—	—	—	—	—	0.3
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	—	2.2	2.2
Deferred tax relating to share-based payments	24	—	—	—	—	—	—	—	—	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

Consolidated statement of changes in equity continued

for the year ended 30 June 2021

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Treasury reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2019		0.1	99.7	0.6	—	—	—	0.1	(61.4)	124.0	163.1
Profit for the year		—	—	—	—	—	—	—	—	5.7	5.7
Other comprehensive income and losses											
Cash flow hedges:											
Fair value (loss)/income		—	—	—	—	(1.4)	0.5	—	—	(0.1)	(1.0)
Deferred tax on cash flow hedge and available-for-sale financial assets		—	—	—	—	—	—	—	—	0.2	0.2
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	—	0.6	0.6
Total other comprehensive (loss)/income		—	—	—	—	(1.4)	0.5	—	—	0.7	(0.2)
Total comprehensive income/(loss)		—	—	—	—	(1.4)	0.5	—	—	6.4	5.5
Transactions with owners											
Issue of Ordinary shares	25	—	0.1	—	—	—	—	—	—	—	0.1
Reclassification between reserves		—	2.1	—	(21)	—	—	—	—	—	—
Disposal of revaluation reserve		—	—	—	—	—	—	(0.1)	—	—	(0.1)
Disposal of treasury reserve		—	—	—	1.8	—	—	—	—	(0.9)	0.9
Credit to reserves for share-based payments	11	—	—	—	—	—	—	—	—	0.9	0.9
Deferred tax relating to share-based payments	24	—	—	—	—	—	—	—	—	0.1	0.1
Dividends to equity holders of the Company	25	—	—	—	—	—	—	—	—	(3.9)	(3.9)
Total transactions with owners		—	2.2	—	(0.3)	—	—	(0.1)	—	(3.8)	(2.0)
At 30 June 2020		0.1	101.9	0.6	(0.3)	(1.4)	0.5	—	(61.4)	126.6	166.6

Company statement of changes in equity

for the year ended 30 June 2021

	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	25	—	1.2	—	—	1.2
Credit to reserves for share-based payments	11	—	—	—	2.2	2.2
Dividends to equity holders of the Company	25	—	—	—	—	—
Total transactions with owners		—	1.2	—	2.2	3.4
At 30 June 2021		0.1	103.1	0.6	50.1	153.9

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

Consolidated and Company statement of cash flow

for the year ended 30 June 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	28	80.3	94.8	(1.2)	3.9
Taxation paid		(13.0)	(9.5)	—	—
Interest paid		(7.1)	(7.0)	—	—
Exceptional items paid		—	(0.7)	—	—
Net cash generated from/(used in) operating activities		60.2	77.6	(1.2)	3.9
Cash flows from investing activities					
Business combinations (net of cash acquired)	15	(19.4)	(7.2)	—	—
Purchase of property, plant and equipment	13	(16.1)	(11.1)	—	—
Proceeds from sale of property, plant and equipment		0.6	—	—	—
Purchase of intangible assets	12	(0.5)	(1.3)	—	—
Net cash used in investing activities		(35.4)	(19.6)	—	—
Cash flows from financing activities					
Dividends paid		—	(3.9)	—	(3.9)
Proceeds from issue of Ordinary shares	25	1.2	0.1	1.2	—
Proceeds from sale of Treasury shares	25	0.3	0.9	—	—
Repayment of obligations under right-of-use assets		(13.0)	(14.2)	—	—
Debt issuance costs		—	(1.7)	—	—
Repayment of borrowings		(1.1)	(65.2)	—	—
Increase of borrowings		—	35.0	—	—
Net cash (used in)/generated from financing activities		(12.6)	(49.0)	1.2	(3.9)
Net increase in cash and cash equivalents		12.2	9.0	—	—
Cash and cash equivalents at the beginning of the year		21.5	12.5	—	—
Cash and cash equivalents at the end of the year		33.7	21.5	—	—

Notes to the consolidated financial statements

for the year ended 30 June 2021

1. General information

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

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

Companies in the consolidated financial statements

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

Name of subsidiary	Principal business	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
Coen Dierenarts B.V.	Veterinary services	The Netherlands
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 Netherlands No2 B.V.	Veterinary services	The Netherlands
CVS (UK) Limited	Veterinary and diagnostic services	England and Wales
Dierenartsenpraktijk NOP B.V.	Veterinary services	The Netherlands
Dierenartsenpraktijk Zuid-West Friesland B.V.	Veterinary services	The Netherlands
Dierenkliniek Schalekamp B.V.	Veterinary services	The Netherlands
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
Rosendale 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
Your Vets (Holdings) Limited	Veterinary services	England and Wales

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

1. General information continued

Companies in the consolidated financial statements continued

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

Name of subsidiary	Country of incorporation
Alcock Veterinary Services Limited*	England and Wales
Alnorthumbria Veterinary Practice Ltd*	England and Wales
Arbury Road Vets Limited*	England and Wales
Animal Health Centre Limited	England and Wales
Ambivet Ltd	England and Wales
Astonlee Limited	England and Wales
Beechwood Animalcare Limited*	England and Wales
BVCM Limited*	Scotland
Campsie Veterinary Centre Ltd*	Northern Ireland
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 Limited	England and Wales
Insight Laboratory Services Limited	England and Wales
Keown O'Neill Limited	Northern Ireland
Newlands Veterinary Group 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
St Elmo Veterinary Clinic Ltd*	Northern Ireland
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
Vetisco Limited*	Scotland
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

* Companies in liquidation

Apart from CVS (UK) Limited, all of the above subsidiaries 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.

1. General information continued

Companies in the consolidated financial statements continued

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

Name of subsidiary	Registered office address
Albavet Limited	24 Nicol Street, Kirkcaldy, Fife KY1 1NY
Alcock Veterinary Services Limited	King Street House, 15 Upper King Street, Norwich NR3 1RB
Alnorthumbria Veterinary Practico Ltd	King Street House, 15 Upper King Street, Norwich NR3 1RB
Arbury Road Vets Limited	King Street House, 15 Upper King Street, Norwich NR3 1RB
Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon TQ12 4PB
Beechwood Animalcare Limited	King Street House, 15 Upper King Street, Norwich NR3 1RB
BVCM Limited	The Vision Building, 20 Greenmarket, Dundee DD1 4QB
Campsie Veterinary Centre Limited	17 Clarendon Road, Belfast BT1 3BG
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
St Elmo Veterinary Clinic Limited	17 Clarendon Road, Belfast BT1 3BG
Three Valleys Veterinary Ltd	17 Clarendon Road, Belfast BT1 3BG
Vetisco Limited	The Vision Building, 20 Greenmarket, Dundee DD1 4QB

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

Parent company guarantee

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

Name of subsidiary	Company registration 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 Ltd	06353163
Mi Vet Club Limited	08365201
Okeford Veterinary Centre Limited	05984705
Pet Vaccination UK Ltd	05391973
Pet Vaccination Clinic Limited	03252801
Pets Holding Limited	11161672
Pets Emergency Treatment Services Limited	03586933
Rosendale Pet Crematorium Limited	01409643
Ruddington and East Leake Veterinary Centre Limited	04551334
Severn Edge Equine Limited	09524486
Severn Edge Farm Limited	09521408
Severn Edge Holdings Limited	09522086
Severn Edge Veterinary Group Limited	09523786
Silvermere Haven Limited	02187947
Silverton Veterinary Practice Limited	08101117

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

1. General information continued

Parent company guarantee continued

Name of subsidiary	Company registration number
Slate Hall Veterinary Services Ltd	08390276
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 Ltd	05780117
Your Vets (Holdings) Ltd	07071834

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.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements. Further details are provided in the Directors' report on pages 78 to 81.

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

Critical accounting estimates and judgements

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

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.

2. Summary of significant accounting policies continued

Critical accounting estimates and judgements continued

Accounting estimate: Research and Development Expenditure Tax Credit ("RDEC")

The Group has recognised income in relation to claims made by the Group under HM Revenue & Customs' 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. As this is the first time the Group has claimed under this regime the Group has applied an estimated discount to the gross claim of £3.9m and recognised only £2.0m in the current year. The unrecognised amount is therefore £1.9m, which will be recognised when uncertainty has been removed either via formal acceptance of the claim or the expiry of the enquiry window.

Changes in accounting policies and disclosure

Standards adopted by the Group for the first time

A number of new and revised standards, including the following, are effective for annual periods beginning on or after 1 January 2020:

- Amendment to IFRS 16, 'Leases' – COVID-19 Related Rent Concessions (and from 1 April 2021 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 1
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3, 'Definition of a Business'

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 2021 or later periods but which the Group has not early adopted:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform' – Phase 2 (effective 1 January 2021)
- 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)

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2021.

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

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments. The Group has four operating segments: Veterinary Practices, Laboratories, Crematoria and 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.

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.

2. Summary of significant accounting policies continued

Intangible assets continued

Computer software

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

Patient data records 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 the Group. 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.

Impairment of non-current assets

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

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

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

Inventories

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

Financial instruments

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

Trade and other receivables

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

2. Summary of significant accounting policies continued

Financial instruments continued

Investments continued

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 consolidated and Company statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

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

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.

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.

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

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

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.

2. Summary of significant accounting policies continued

Financial instruments continued

Derivative financial instruments and hedging activities continued

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

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

Cash flow hedging

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

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

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

Cash and cash equivalents

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

Current and deferred income tax

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

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before income 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.

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

2. Summary of significant accounting policies continued

Current and deferred income tax continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis, 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 loyalty 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 21, 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.

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 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.

2. Summary of significant accounting policies continued

Leases continued

The Group as a lessee continued

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.

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

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

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

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

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

2. Summary of significant accounting policies continued

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 IAS20, 'Accounting for Government Grants', as described above. The tax credits are recognised within other income 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.

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

Foreign currency translation

Functional and presentational currency

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

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

Exchange differences are recognised in 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.

2. Summary of significant accounting policies continued

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.

Use of non-GAAP measures

Adjusted EBITDA, adjusted Profit Before Tax ("adjusted PBT") and adjusted Earnings Per Share ("adjusted EPS")

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on the Group's underlying performance. These measures are used by the Board and management for planning and internal reporting and are aligned to our strategy and KPIs. A subset is also used by management in setting Director and management remuneration. The measures are also used in discussions with the investment analyst community. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. 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 income tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.

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

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

Like-for-like sales

Like-for-like sales comprise the revenue generated from all operations compared to the prior year. Revenue is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year adjusted for the number of working days; for example, for a practice acquired in September 2019, revenue is included from September 2020 in the like-for-like revenue calculation.

Net debt

Net debt is calculated as borrowings less gross cash and unamortised borrowing costs.

Share premium

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

Treasury reserve

The treasury reserve 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.

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

3. Financial risk management continued

Financial risk factors continued

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 of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match a portion of the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.45% to 2.7% above LIBOR. The applicable interest rate is dependent upon the net debt to EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.55% above LIBOR.

At 30 June 2021, 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 2021, 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 £0.8m (2020: £1.1m) 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 2021 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 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)	21	69.1	—	—	—	—	69.1
Right-of-use 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

30 June 2020	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		0.1	—	—	85.0	—	85.1
Trade and other payables (excluding social security and other taxes)	21	59.4	—	—	—	—	59.4
Right-of-use liabilities	14	12.6	13.9	12.5	22.5	59.8	121.3
		72.1	13.9	12.5	107.5	59.8	265.8

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.

	2021 £m	2020 £m
Bank test net debt	51.3	63.6
Bank test EBITDA	75.5	55.9
Ratio	0.68	1.14

The ratio above is calculated for the bank covenants as drawn bank debt less cash at bank 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. Adjusted EBITDA is profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items.

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 2021.

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

3. Financial risk management continued

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2021 by level of fair value hierarchy:

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

	Note	30 June 2021			30 June 2020		
		Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets							
Available-for-sale financial assets	16	0.1	—	0.1	0.1	—	0.1

4. 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. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and associated costs, taxation related assets and liabilities, costs relating to business combinations, and Head Office salary and premises costs.

Geographical segments

The business operates predominantly in the UK. As at 30 June 2021, it has 25 veterinary practices in the Netherlands and 6 in the Republic of Ireland. It performs a small amount of laboratory work for Europe-based clients and until December 2020 the Online Retail Business distributed a small quantity of goods to European countries. In accordance with IFRS 8, 'Operating Segments', no segment results are presented for trade with European clients as these are not reported separately for management reporting purposes and are not considered material for separate disclosure.

Revenue comprises £359.3m of fees and £150.8m of goods (2020: £293.6m and £134.2m respectively). Revenue from contracts totalled £60.4m in the year (2020: £46.8m).

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.

4. Segment reporting continued

Operating segments continued

	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Year ended 30 June 2021						
Revenue	453.4	28.0	8.0	41.7	(21.0)	510.1
Profit/(loss) before income tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Adjusted EBITDA	98.4	9.1	2.8	2.9	(15.7)	97.5
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 income tax	49.5	8.4	2.4	2.7	(29.9)	33.1
Finance expense	4.1	—	—	—	2.9	7.0
Depreciation and impairment of tangible and right-of-use assets	22.7	0.7	0.4	—	0.5	24.3
Amortisation	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
Year ended 30 June 2020						
Revenue	384.1	21.1	7.2	32.1	(16.7)	427.8
Profit/(loss) before income tax	26.9	5.0	2.1	2.4	(26.5)	9.9
Adjusted EBITDA	72.3	5.8	2.5	2.5	(12.1)	71.0
Total assets	401.5	22.6	14.0	22.6	3.6	464.3
Total liabilities	(176.8)	(2.8)	(1.4)	(17.7)	(99.0)	(297.7)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	26.9	5.0	2.1	2.4	(26.5)	9.9
Finance expense	4.1	—	—	—	4.5	8.6
Depreciation ¹	21.7	0.8	0.4	0.1	1.2	24.2
Amortisation	14.7	—	—	—	7.5	22.2
Costs relating to business combinations	0.2	—	—	—	0.5	0.7
Exceptional items (note 6) ¹	4.7	—	—	—	0.7	5.4
Adjusted EBITDA	72.3	5.8	2.5	2.5	(12.1)	71.0

1. Impairments in the year ended 30 June 2020 are shown in exceptional items

5. Finance expense

	2021 £m	2020 £m
Interest expense on bank loans and overdraft	2.5	3.5
Interest expense on IFRS 16 lease liabilities	4.1	4.1
Amortisation of debt arrangement fees	0.4	1.0
Finance expense	7.0	8.6

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

6. Expenses by nature

	Note	2021 £m	2020 £m
Amortisation and impairment of intangible assets ¹	12	23.8	23.3
Depreciation and impairment of property, plant and equipment and right-of-use assets ¹	13, 14	24.3	24.2
Employee benefit expenses	7	231.5	198.0
Cost of inventories recognised as an expense (included in cost of sales)		117.5	99.9
Repairs and maintenance expenditure on property, plant and equipment		5.3	4.4
Trade receivables impairment charge	20	0.7	2.5
Exceptional items ¹		—	5.4
Grant income		—	(8.2)
RDEC income		(2.0)	—
Other expenses		68.9	59.8
Total cost of sales and administrative expenses		470.0	409.3

¹ Impairments in the year ended 30 June 2020 are shown in exceptional items

There was no grant income in 2021 relating to the UK Government's Coronavirus Job Retention Scheme (2020: £8.2m)

There were no exceptional items in the year ended 30 June 2021. During the year ended 30 June 2020, exceptional items included costs associated with the Board restructure which amounted to £0.7m and impairment of goodwill and patient data records in relation to the disposal of Ashburn veterinary clinic of £0.5m. In addition, £4.2m included within exceptional items related to the impairment of patient data records, property, plant and equipment, right-of-use assets, dilapidation provisions and redundancy provisions which all specifically relate to the costs associated with the closures of 33 sites. The closure of these sites is considered as exceptional and non-recurring following a review of our portfolio of practices during the COVID-19 pandemic lockdown. The decision was taken for these sites to remain closed as they were considered our worst performing practices. These costs are not related to the underlying performance of the business and for this reason are disclosed as exceptional items. These costs are included within net operating expenses and are shown above. These costs have been deducted in arriving at taxable profit as disclosed in note 9 with the exception of impairment of patient data records, which has been offset by a deferred tax release.

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:

	2021 £'000	2020 £'000
Audit services		
Fees payable to the Group's auditor for:		
The audit of the parent company and consolidated financial statements	164	35
The audit of the Company's subsidiaries pursuant to legislation	326	365
	490	400

7. Employee benefit expense and numbers Group

Employee benefit expense for the Group	Note	2021 £m	2020 £m
Wages and salaries		205.0	175.9
Social security costs		19.3	16.7
Other pension costs	30	5.0	4.5
Share-based payments	11	2.2	0.9
		231.5	198.0

The employee benefit expense included within cost of sales is £160.7m (2020: £137.7m). The balance is recorded within administrative expenses.

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:

	2021 Number	2020 Number
Veterinary surgeons and pathologists	1,962	1,781
Nurses, practice ancillaries and technicians	4,976	4,708
Crematoria staff	84	79
Central support	219	193
	7,241	6,761

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

8. Directors' remuneration and key management compensation

	Highest paid Director		Directors' emoluments	
	2021 £m	2020 £m	2021 £m	2020 £m
Salaries and other short-term employee benefits	0.8	0.8	2.2	1.6
Company contributions to money purchase schemes	—	—	0.1	0.1
	0.8	0.8	2.3	1.7

Retirement benefits are accruing to three Directors (2020: three) under a personal pension plan. The remuneration of the Executive Directors, amounting to £2.0m (2020: £1.4m), is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors, amounting to £0.2m (2020: £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 69 to 77.

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

8. Directors' remuneration and key management compensation continued

Share options

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

	SAYE scheme	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
R Fairman	SAYE11	30 November 2018	01 January 2022	830p	737
B Jacklin	SAYE11	30 November 2018	01 January 2022	830p	737
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

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

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

The exercise price for all shares awarded under LTIPs is 0.2p.

LTIP11 lapsed in the year, for further details of the above schemes see the Remuneration Committee report on pages 69 to 77.

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:

	2021 £m	2020 £m
Salaries and other short-term employee benefits	4.0	2.9
Post-employment benefits	0.2	0.1
Share-based payments	1.0	0.4
	5.2	3.4

9. Income tax expense

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

	Note	2021 £m	2020 £m
Current tax			
Current tax on profits for the year		12.9	6.8
Adjustments in respect of previous years		1.3	(1.8)
Total current tax charge		14.2	5.0
Deferred tax			
Origination and reversal of temporary differences		(5.0)	(3.9)
Adjustments in respect of previous years		0.3	0.7
Effect of tax rate change on opening deferred tax balance		4.3	2.4
Total deferred tax credit	24	(0.4)	(0.8)
Total income tax expense		13.8	4.2

b) Reconciliation of effective income tax charge

The total income tax expense for the year differs from the theoretical amount that would arise using the standard rate of UK corporation tax of 19.0% (2020: 19.0%) as follows:

	2021 £m	2020 £m
Profit before tax	33.1	9.9
Effective tax charge at 19.0% (2020: 19.0%)	6.3	1.9
Effects of:		
Expenses not deductible for tax purposes	2.4	1.0
Tax rate change on opening deferred tax balances	4.3	2.4
Adjustments to deferred tax charge in respect of previous years	0.3	0.7
Adjustments to current tax charge in respect of previous years	1.3	(1.8)
Utilisation of brought forward losses previously unrecognised	(0.1)	—
Effect of difference between closing deferred tax rate and current tax rate	(0.7)	—
Total income tax expense	13.8	4.2

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2020: 19.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate on reported profits is 41.7% (2020: 42.3%). The Group's effective tax rate for 2021 was influenced by the remeasurement of deferred tax balances in respect of UK jurisdictions from 19.0% to an average rate of 22.6% as a result of the substantively enacted increase in the UK corporation tax rate to 25.0% from 1 April 2023. It was further affected by an increase 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% (2020: 19.0%). In March 2021, the UK Government announced an increase in the UK corporation tax rate to 25.0% from 1 April 2023. The increase in UK corporation tax rate was substantively enacted on 24 May 2021. As a result, the relevant deferred taxation balances have been re-measured using the rates expected to apply when the deferred tax balances reverse.

The impact of change in tax rate in the prior year arose due to the previous enacted reduction in the UK corporation tax rate from 19.0% to 17.0% from 1 April 2020 being repealed, and the 19.0% tax rate being substantively enacted on 17 March 2020.

The impact of the change in tax rate has been recognised in total income tax expense in the Income Statement, except to the extent that it relates to items previously recognised outside of the Income Statement in which case it has been recognised in Other Comprehensive Income and Equity accordingly.

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

10. Earnings per Ordinary share

a) Basic

Basic earnings per Ordinary share is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the year.

	2021	2020
Earnings attributable to Ordinary shareholders (£m)	19.3	5.7
Weighted average number of Ordinary shares in issue	70,685,939	70,654,009
Basic earnings per share (pence per share)	27.3	8.1

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.

	2021	2020
Earnings attributable to Ordinary shareholders (£m)	19.3	5.7
Weighted average number of Ordinary shares in issue	70,685,939	70,654,009
Adjustment for contingently issuable shares – LTIPs	237,307	109,143
Adjustment for contingently issuable shares – SAYE schemes	246,533	3,017
Weighted average number of Ordinary shares for diluted earnings per share	71,169,779	70,766,169
Diluted earnings per share (pence per share)	27.1	8.1

Non-GAAP measure: adjusted earnings per share

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

	Note	2021 £m	2020 £m
Earnings attributable to Ordinary shareholders		19.3	5.7
Add back taxation		13.8	4.2
Profit before income tax		33.1	9.9
Adjustments for:			
Amortisation of intangible assets	12	23.8	22.2
Costs relating to business combinations	4	9.3	0.7
Exceptional items	6	—	5.4
Adjusted profit before income tax		66.2	38.2
Tax charge amended for the above adjustments		(13.1)	(8.5)
Adjusted profit after income tax and earnings attributable to owners of the parent		53.1	29.7
Weighted average number of Ordinary shares in issue		70,685,939	70,654,009
Weighted average number of Ordinary shares for diluted earnings per share		71,169,779	70,766,169
		Pence	Pence
Adjusted earnings per share (pence per share)		75.1p	42.0p
Diluted adjusted earnings per share (pence per share)		74.6p	41.9p

11. Share-based payments

Long-Term Incentive Plans ("LTIPs")

The Group operates incentive schemes for certain senior executives, the CVS Group Long-Term Incentive Plans ("LTIPs").

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 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	July 2017 scheme ("LTIP11") Number of share awards
Outstanding at 1 July 2020	—	146,137	107,090	38,241
Granted during the year	144,038	—	—	—
Lapsed during the year	—	—	—	(38,241)
Forfeited during the year	(7,383)	(11,112)	(8,980)	—
Exercised during the year	—	—	—	—
Outstanding at 30 June 2021	136,655	135,025	98,110	—
Exercisable at 30 June 2021	—	—	98,110	—

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 LTIP14, LTIP14(b), LTIP13, LTIP13(b) and LTIP12 have a weighted average remaining contractual life of two years, two years, one year, one year and nil years, respectively.

The share-based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £1.4m (2020: £0.6m) and has been debited to administrative expenses. Employer's National Insurance contributions of £0.6m have been debited to administrative expenses (2020: £0.1m) 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 69 to 77.

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. The SAYE10 scheme was opened for subscription in December 2017 (with options granted in January 2018), the SAYE11 scheme was opened for subscription in November 2018 (with options granted in January 2019), the SAYE12 scheme was opened for subscription in December 2019 (with options granted in January 2020), and the SAYE13 scheme was opened for subscription in December 2020 (with options granted in January 2021). Under the SAYE schemes, awards have been made at a 10.0% discount to the closing mid-market price on date of invitation for SAYE10, SAYE11 and SAYE12, and a 20.0% discount to the closing mid-market price on date of invitation for SAYE13. All of the SAYE schemes vest over a three-year period. There are no performance conditions attached to the SAYE scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE13 Number of share awards	SAYE12 Number of share awards	SAYE11 Number of share awards	SAYE10 Number of share awards
Outstanding at 1 July 2020	—	274,371	336,536	151,713
Granted during the year	360,269	—	—	—
Forfeited during the year	(14,306)	(30,561)	(35,976)	(23,400)
Exercised during the year*	(9)	(249)	(1,742)	(115,299)
Outstanding at 30 June 2021	345,954	243,561	298,818	13,014
Exercisable at 30 June 2021	—	—	—	13,014

* The weighted average share price at the date of exercise was £17.70

Notes to the consolidated financial statements continued

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11. Share-based payments continued

Save As You Earn ("SAYE") continued

Options are exercisable at 1,009p for the SAYE13 scheme, 863p for the SAYE12 scheme, 830p for the SAYE11 scheme, and 1,287p per share for the SAYE10 scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £9.33 and end of the period was £9.09.

The options outstanding at the year end under the SAYE13, SAYE 12, SAYE11 and SAYE10 schemes have a weighted average remaining contractual life of two years and five months, one year and five months, nil years and five months, and nil years, respectively.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.8m (2020: £0.3m) 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:

	LTIP11	LTIP14(b)	SAYE13
Grant date	02 October 2020	04 January 2021	02 December 2020
Share price at grant date ¹	£12.19	£14.85	£14.15
Fair value per option	£10.43	£13.38	£6.00
Exercise price	0.2p	0.2p	£10.09
Number of employees	32	1	1,140
Shares under option at date of grant	137,305	6,733	360,269
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	39.0%	41.0%	43.3%
Expected dividends expressed as a dividend yield	0.33%	0.33%	0.40%

1 Share price calculated at average of closing share price for preceding 5 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 2019		94.7	1.5	260.7	4.2	361.1
Additions arising through business combinations		4.3	—	2.9	—	7.2
Fair value adjustments in respect of prior periods		0.1	—	—	—	0.1
Foreign currency translation		0.7	—	—	—	0.7
Disposals ¹		(0.2)	—	(0.4)	—	(0.6)
Other adjustments		0.6	—	—	—	0.6
Other additions		—	—	—	1.3	1.3
At 30 June 2020		100.2	1.5	263.2	5.5	370.4
Additions arising through business combinations	15	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		113.9	1.5	271.2	6.0	392.6
Accumulated amortisation						
At 1 July 2019		(0.6)	1.4	112.9	2.9	116.6
Amortisation for the year		—	0.1	21.4	0.7	22.2
Foreign currency translation		—	—	0.2	—	0.2
Impairment ²		—	—	1.1	—	1.1
Other adjustments		0.6	—	—	—	0.6
Disposals ¹		—	—	(0.1)	—	(0.1)
At 30 June 2020		—	1.5	135.5	3.6	140.6
Amortisation for the year		—	—	22.8	1.0	23.8
Foreign currency translation		—	—	(0.2)	—	(0.2)
At 30 June 2021		—	1.5	158.1	4.6	164.2
Net book amount						
At 30 June 2021		113.9	—	113.1	1.4	228.4
At 30 June 2020		100.2	—	127.7	1.9	229.8
At 1 July 2019		95.3	0.1	147.8	1.3	244.5

¹ The disposals relate to the sale of Ashburn Veterinary Centre in the year ended 30 June 2020.

² The impairment in the prior year relates to the write down of patient data records for announced site closures. The impairment charge was included within exceptional items in the year ended 30 June 2020.

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	£6.9m	7 years
Patient data records	YourVets	£4.3m	4 years

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

12. Intangible assets continued

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

	2021 £m	2020 £m
Veterinary Practices	109.2	95.5
Laboratories	2.1	2.1
Crematoria	2.6	2.6
Total	113.9	100.2

Impairment tests

The pre-tax discount rate applied to the cash flow projections is derived from the Group's pre-tax weighted average cost of capital. The risks relating to each of the CGUs are considered to be the same as a result of the Group's operations being entirely focused in the veterinary market and, as such, the discount rate applied to each CGU is the same. The use of the Group's weighted average cost of capital is consistent with the valuation methodology used when determining the offer price for business combinations and, therefore, is considered an appropriate discount rate. The Directors consider the growth rate to be broadly consistent between CGUs; a 3.0% growth per annum in adjusted EBITDA has been assumed for the purposes of assessing net present value of future cash flows, with adjusted EBITDA 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 3.0%). The pre-tax discount rate used to calculate value in use is 10.3% at 30 June 2021 (2020: 9.9%).

Based on impairment testing at the individual CGU level, no impairment of patient data records (2020: £1.1m) and no impairment of property, plant and equipment (2020: £0.3m) have been recognised by the Group in the year ended 30 June 2021. In the year ended 30 June 2020, this charge related entirely to the Veterinary Practices operating segment.

Having assessed the anticipated future cash flows, the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to further impairment charges in the year ended 30 June 2021. The 3.0% growth rate is considered the worst case scenario given growth rates experienced in the veterinary market and, therefore, further sensitivity analysis is not required.

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 2019		15.4	28.8	50.1	2.7	97.0
Additions arising through business combinations		—	—	0.2	—	0.2
Additions		1.5	2.7	5.9	1.0	11.1
Revaluation		(0.1)	—	—	—	(0.1)
Disposals		—	(0.1)	(0.3)	(0.1)	(0.5)
At 30 June 2020		16.8	31.4	55.9	3.6	107.7
Foreign exchange		—	—	(0.2)	—	(0.2)
Additions arising through business combinations	15	—	—	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		19.3	37.1	62.0	5.0	123.4
Accumulated depreciation						
At 1 July 2019		1.5	13.3	29.4	1.4	45.6
Depreciation for the year		0.3	3.4	6.4	0.6	10.7
Impairment ¹		—	—	0.3	—	0.3
Disposals		—	(0.1)	(0.3)	(0.1)	(0.5)
At 30 June 2020		1.8	16.6	35.8	1.9	56.1
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		2.1	19.6	41.9	2.4	66.0
Net book amount						
At 30 June 2021		17.2	17.5	20.1	2.6	57.4
At 30 June 2020		15.0	14.8	20.1	1.7	51.6
At 1 July 2019		13.9	15.5	20.7	1.3	51.4

¹ Impairments in the year ended 30 June 2020 are shown in exceptional items

Freehold land amounting to £1.7m (2020: £1.2m) has not been depreciated.

Included within the above classes of assets is £4.6m (2020: £2.2m) of assets which are under construction.

14. Leases

Group as a lessee

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

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14. Leases continued

Right-of-use assets

Group	Note	Property £m	Equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2019		105.0	1.1	1.7	107.8
Foreign currency translation		0.1	—	—	0.1
Acquired through business combinations		2.2	—	—	2.2
Remeasurement of lease term		1.9	—	—	1.9
Additions		0.4	0.1	0.2	0.7
At 1 July 2020		109.6	1.2	1.9	112.7
Foreign currency translation		(0.6)	—	—	(0.6)
Acquired through business combinations	15	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		120.8	1.7	2.9	125.4
Accumulated depreciation					
At 1 July 2019		—	—	—	—
Depreciation for the year		12.2	0.4	0.9	13.5
Impairment		1.1	—	—	1.1
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 ¹		0.4	—	—	0.4
Disposals		(0.4)	—	—	(0.4)
At 30 June 2021		25.7	0.7	1.8	28.2
Net book amount					
At 30 June 2021		95.1	1.0	1.1	97.2
At 30 June 2020		96.3	0.8	1.0	98.1
At 1 July 2019		105.0	1.1	1.7	107.8

1 Impairments in the year ended 30 June 2020 are shown in exceptional items

The impairment loss in the current and prior financial year, relates to veterinary practices which 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 (2020: £1.1m) were charged in the year. In the year ended 30 June 2020, these impairment costs were included within exceptional items.

Lease liabilities

Group	2021 £m	2020 £m
Current	8.6	8.8
Non-current	90.2	89.8
Total discounted lease liabilities	98.8	98.6
Maturity analysis – contractual undiscounted lease payments		
Less than one year	12.4	12.6
Between one and five years	51.1	48.9
More than five years	57.2	59.8
Total undiscounted lease payments	120.7	121.3

15. Business combinations

Details of business combinations in the year ended 30 June 2021 are set out below, in addition to an analysis of post-acquisition performance of the respective business combinations, where practicable. The reason for each acquisition was to expand the CVS Group business through acquisitions in meeting our strategic goals.

Name of business combination	Date of acquisition
Darboe & Baily Limited	04 November 2020
Astonlee Limited	17 November 2020
White Lodge Veterinary Centre Limited	19 November 2020
Charter Veterinary Hospital Group Limited	03 December 2020
Market Hall Vets (trade and assets)	20 February 2021
Animal Health Centre Limited	23 February 2021
Polmont Veterinary Clinic Limited	01 March 2021
Enterprise Veterinary Services Limited	02 March 2021
Greensands Veterinary Clinic Limited	29 April 2021

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 2021:

	Note	Book value of acquired assets £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	13	0.6	—	0.6
Patient data records	12	—	8.8	8.8
Right-of-use assets	14	4.9	—	4.9
Inventories		0.4	—	0.4
Deferred tax liability	24	(0.1)	(2.0)	(2.1)
Trade and other receivables		1.4	(0.1)	1.3
Provision for impairment of trade receivables		(0.1)	—	(0.1)
Trade and other payables		(1.9)	—	(1.9)
Loans		(1.0)	—	(1.0)
Right-of-use liabilities		(4.9)	—	(4.9)
Total identifiable assets		(0.7)	6.7	6.0
Goodwill	12		14.1	14.1
Total initial consideration paid (net of cash acquired of £1.3m)				20.1
Initial consideration paid (net of cash acquired of £1.3m)				19.4
Deferred consideration payable				0.5
Contingent consideration payable				0.2
Total consideration (net of cash acquired of £1.3m)				20.1

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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 the acquired non-tax deductible patient data records.

Post-acquisition revenue and post-acquisition adjusted EBITDA were £6.1m and £1.3m respectively. The post-acquisition period is from the date of acquisition to 30 June 2021. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2021 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

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15. Business combinations continued

Goodwill and intangible assets recognised in the year relating to business combinations are not expected to be deductible for tax purposes.

The acquisition costs incurred in relation to the above and prior year business combinations amounted to £9.3m for the year and 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 2020.

Business combinations subsequent to the year-end

Subsequent to the year end, the Group has made one acquisition on 19 August 2021. The Group purchased 100% of the share capital of Quality Pet Care Limited, a company registered in England and Wales, for consideration of £20.4m. This is a business comprising eight companion animal veterinary practice sites across the UK.

The acquisition was purchased for total cash consideration of £20.4m. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £20.4m.

16. Investments

a) Available-for-sale financial assets

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

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

b) Shares in subsidiary undertakings

Company	Note	£m
Cost and net book amount		
At 1 July 2019		68.5
Options granted to employees of subsidiary undertakings	11	0.9
At 30 June 2020		69.4
Options granted to employees of subsidiary undertakings	11	2.2
At 30 June 2021		71.6

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

17. Derivative financial instruments

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

The ineffective element of cash flow hedges in 2021 was immaterial (2020: 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. At 30 June 2021, £70.0m of debt was hedged (2020: £70.0m); the remainder of the debt was unhedged at the year end.

The Group is exposed to Sterling LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform. The Group has applied the amendments set out in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) and concluded that it is appropriate to continue to apply hedge accounting, as detailed more fully in note 2.

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

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

17. Derivative financial instruments continued

Cash flow hedges continued

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

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

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Cash flow hedge	Receive one-month Sterling LIBOR, 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 will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependant on the introduction of fall-back clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

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

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

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

Group and Company	2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	—	(0.4)	—	(0.9)

Movements in fair values

Group and Company	Interest rate swap arrangements £m
Fair value at 1 July 2019	0.1
Fair value loss through reserves – brought forward	(0.1)
Fair value loss through reserves – hedged	(0.9)
At 30 June 2020	(0.9)
Fair value loss through reserves – hedged	0.5
At 30 June 2021	(0.4)

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.

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18. Financial instruments

Assets

Group	Note	2021			2020		
		Loans and receivables £m	Available for sale £m	Total £m	Loans and receivables £m	Available for sale £m	Total £m
Available-for-sale financial assets		—	0.1	0.1	—	0.1	0.1
Trade and other receivables (excluding prepayments)	20	39.5	—	39.5	35.4	—	35.4
Cash and cash equivalents		33.7	—	33.7	21.5	—	21.5
		73.2	0.1	73.3	56.9	0.1	57.0

Company	Note	2021			2020		
		Loans and receivables £m	Available for sale £m	Total £m	Loans and receivables £m	Available for sale £m	Total £m
Amounts owed by Group undertakings	32	82.3	—	82.3	81.6	—	81.6

Amounts owed by Group undertakings of £82.3m (2020: £81.6m) are included in non-current assets. These are unsecured, interest-free and have no fixed date of repayment.

Liabilities

Group	Note	2021			2020		
		Derivative instruments in designated hedge accounting relationships £m	Other financial liabilities £m	Total £m	Derivative instruments in designated hedge accounting relationships £m	Other financial liabilities £m	Total £m
Borrowings	23	—	(83.9)	(83.9)	—	(83.6)	(83.6)
Trade and other payables (excluding social security and other taxes)	21	—	(69.1)	(69.1)	—	(59.4)	(59.4)
Right-of-use liabilities	14	—	(98.8)	(98.8)	—	(98.6)	(98.6)
Derivative financial instruments	17	(0.4)	—	(0.4)	(0.9)	—	(0.9)
		(0.4)	(251.8)	(252.2)	(0.9)	(241.6)	(242.5)

19. Inventories

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

20. Trade and other receivables

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Trade receivables:				
Within their due period	19.2	17.4	—	—
Past due:				
Not impaired	7.8	5.6	—	—
Fully impaired	6.4	6.9	—	—
Total trade receivables	33.4	29.9	—	—
Less: provision for impairment of receivables	(6.4)	(6.9)	—	—
Trade receivables – net	27.0	23.0	—	—
Other receivables	4.4	6.4	—	—
Prepayments	8.6	8.0	—	—
Accrued income	8.1	6.0	—	—
Total trade and other receivables	48.1	43.4	—	—

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 impairment is established based on credit risk. The amount of the provision was £6.4m (2020: £6.9m). Movements on the Group's provision for impairment of trade receivables are as follows:

	2021 £m	2020 £m
At the beginning of the year	6.9	5.0
Charged to the income statement within administrative expenses	0.7	2.5
Utilisation of the provision during the year	(1.2)	(0.6)
At the end of the year	6.4	6.9

Other receivables do not contain impaired assets.

At 30 June 2021, there is a contract asset recorded in accrued income of £8.1m (2020: £6.0m), relating to customer loyalty 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.

Company

Amounts owed by Group undertakings of £82.3m (2020: £81.6m) are included in non-current assets. These are unsecured and interest-free and have no fixed date of repayment.

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

21. Trade and other payables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Current				
Trade payables	40.3	39.4	—	—
Social security and other taxes	16.9	28.3	—	—
Other payables	12.7	5.1	—	—
Deferred income ¹	2.8	3.3	—	—
Accruals	13.3	11.6	—	—
Total trade and other payables	86.0	87.7	—	—

1 Deferred income relates to the contract liability relating to the Healthy Pet Club ("HPC") contract

22. Provisions

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
At the beginning of the year	5.0	—	—	—
Charged to the income statement within administration expenses	0.9	3.4	—	—
Charged to the income statement within exceptional items	—	1.6	—	—
Utilised in the period	(2.0)	—	—	—
At the end of the year	3.9	5.0	—	—

Provisions charged to the income statement relate to announced site closures during the year of £0.6m (2020: £1.6m) and costs set aside for properties of £0.3m (2020: £3.4m) and therefore satisfy the recognition criteria under IAS 37. The announced site closures include amounts charged to the income statement of £0.6m (2020: £1.6m) comprise £0.6m for dilapidation costs (2020: £1.5m) and £nil for redundancies (2020: £0.1m).

23. Borrowings

Borrowings comprise bank loans and are denominated in Sterling. The repayment profile is as follows:

Group	2021 £m	2020 £m
Within one year or on demand	—	0.1
Between one and two years	—	—
After more than two years	83.9	83.5
	83.9	83.6

The balances above are shown net of issue costs of £1.1m (2020: £1.5m), 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 £170.0m. 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; and
- a four-year Revolving Credit Facility ("RCF") of £85.0m that runs to 31 January 2024.

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

The two financial covenants associated with these facilities have remained unchanged, and are based on the ratios of Group borrowings to EBITDA and Group EBITDA to interest. The Group borrowings to EBITDA ratio must not exceed 3.25x. The Group EBITDA to interest ratio must not be less than 4.5x. The facilities require cross-guarantees from the most significant of CVS Group's trading subsidiaries but are not secured on the assets of the Group. EBITDA is based on the last twelve months' adjusted EBITDA performance adjusted for a twelve-month adjustment for businesses acquired, transaction costs and deferred consideration on business combinations and share option expenses, prior to the impact of IFRS 16.

23. Borrowings continued

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 2021.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 28 February 2020, the Group entered into a four-year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £70.0m of its term loan.

At the consolidated and Company statement of financial position date £70.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

Undrawn committed borrowing facilities

At 30 June 2021, the Group has a committed overdraft facility of £5.0m (2020: £5.0m) and an RCF of £85.0m (2020: £85.0m). Both the overdraft facility and the RCF were undrawn at 30 June 2021 and 30 June 2020.

24. Deferred income tax

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

Deferred income tax assets comprised:

Group	2021 £m	2020 £m
Tax effect of temporary differences:		
Share-based payments	2.6	0.2
Accelerated tax depreciation	0.2	0.6
Derivative financial instruments	0.1	0.2
Tax losses	0.1	—
Other	0.1	0.1
	3.1	1.1

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

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

Group	2021 £m	2020 £m
Tax effect of temporary differences:		
Excess of qualifying amortisation and intangible fixed assets acquired via a business combination	23.5	21.5
	23.5	21.5

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

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)

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

24. Deferred income tax continued

Group	At 1 July 2019 £m	(Charged)/ credited to income statement £m	Credited 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 2020 £m
Share-based payments	0.2	(0.1)	—	0.1	—	0.2
Derivative financial instruments	—	—	0.2	—	—	0.2
Other temporary differences	—	0.1	—	—	—	0.1
Property, plant and equipment	0.6	—	—	—	—	0.6
Intangible assets and fixed assets acquired via a business combination	(21.8)	0.8	—	—	(0.5)	(21.5)
	(21.0)	0.8	0.2	0.1	(0.5)	(20.4)

The deferred tax balance is non-current.

Deferred tax assets have been offset against deferred tax liabilities as the balances relate to the same taxation authority, the Group has a legally enforceable right to offset and intends to settle the liability and realise the asset simultaneously. In the year ended 30 June 2020, the deferred tax assets of £1.1m were not offset against deferred tax liabilities. If these had been offset, the net deferred tax balance at 30 June 2020 would have been a deferred tax liability of £20.4m.

The Group has carried forward unutilised tax losses of £4.9m (2020: £1.1m) 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 £0.1m (2020: £nil) in respect of some of these losses as it is probable that sufficient future taxable profits will arise against which the asset will reverse. The Group has not recognised a deferred tax asset on remaining losses of £3.9m (2020: £1.1m) 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.

25. Share capital

Company	2021 £m	2020 £m
Issued and fully paid		
70,753,782 (2020: 70,654,959) Ordinary shares of 0.2p each	0.1	0.1

During the year, shares were issued for a total consideration of £1.2m (2020: £0.1m) as follows: 318 shares (2020: 19,019 shares) in respect of SAYE9, 97,296 shares (2020: nil shares) in respect of SAYE10; 1,053 shares (2020: nil shares) in respect of SAYE11; 147 shares (2020: nil shares) in respect of SAYE12; and 9 shares (2020: nil shares) in respect of SAYE13.

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 6.5p (2020: £nil) per share, giving a total of £4.6m (2020: £nil). During the year no dividend was paid (2020: £3.9m).

EBT own shares

The Group operates an EBT which holds 710 shares (2020: 24,279 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 (2020: 56,350 shares) to satisfy shares vesting under LTIP schemes. The Group sold 23,569 shares (2020: 114,371 shares) to satisfy shares vesting under SAYE schemes for proceeds of £0.3m (2020: £0.9m).

26. Share premium

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

27. Analysis of movement in liabilities from financing activities

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
Right-of-use 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)

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

Non-cash movements 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, bank debt acquired and transfers between categories of borrowings.

28. Cash flow generated from operations

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Profit/(loss) for the year	19.3	5.7	(0.5)	(0.4)
Taxation	13.8	4.2	—	—
Total finance costs	7.0	8.6	—	—
Amortisation of intangible assets	23.8	22.2	—	—
Depreciation and impairment of property, plant and equipment and right-of-use assets ¹	24.3	24.2	—	—
Increase in inventories	(0.4)	(1.4)	—	—
(Increase)/decrease in trade and other receivables	(3.4)	8.5	(0.7)	4.3
(Decrease)/increase in trade and other payables	(5.2)	11.5	—	—
(Decrease)/increase in provisions	(1.1)	5.0	—	—
Share option expense	2.2	0.9	—	—
Exceptional items ²	—	5.4	—	—
Total net cash flow generated from/(used in) operations	80.3	94.8	(1.2)	3.9

Financial Statements

¹ Impairments in the year ended 30 June 2020 are shown in exceptional items

Notes to the consolidated financial statements continued

for the year ended 30 June 2021

29. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2021 (2020: £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 2021 (2020: £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.

30. 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 £5.0m (2020: £4.5m). The amount outstanding at the year-end included in trade and other payables was £0.9m (2020: £0.8m).

31. Events after the reporting period

On 19 August 2021, the Group completed the purchase of 100% of the share capital of Quality Pet Care Limited, a company registered in England and Wales, for consideration of £20.4m. This is a business comprising eight companion animal veterinary practice sites across the UK, aligned with the Group's strategic goals. Further information can be found in note 15.

32. 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:

	2021 £m	2020 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	(0.5)	(0.4)
Cash advanced to fund payment of dividend	—	(3.9)

The following balances were owed by related companies:

	2021		2020	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	82.3	—	81.6	—

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, no dividends were paid to the Directors of the Group (2020: The following dividends were paid to the Directors: R Connell – £3,954, D Kemp – £361, M McCollum – £2,127, R Fairman – £80 and B Jacklin – £40. Dividends were also paid to the spouse of R Fairman of £550)

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history – unaudited

for the year ended 30 June 2021

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	510.1	427.8	406.5	327.3	271.8
Gross profit	221.9	170.1	168.9	151.6	124.5
Operating profit	40.1	18.5	15.6	17.7	17.2
Finance expense	(7.0)	(8.6)	(3.9)	(3.6)	(2.7)
Profit before income tax	33.1	9.9	11.7	14.1	14.5
Income tax expense	(13.8)	(4.2)	(3.5)	(3.4)	(3.0)
Profit for the year	19.3	5.7	8.2	10.7	11.5
EBITDA					
Adjusted EBITDA	97.5	71.0	54.5	47.6	42.1
Adjusted profit before income tax	66.2	38.2	41.4	36.0	33.5
Cash generated from operations	80.3	94.8	52.1	46.7	37.2
Purchase of property, plant and equipment and intangible assets	(16.6)	(12.4)	(12.9)	(10.7)	(13.8)
Proceeds from sale of property, plant and equipment and intangible assets	0.6	—	—	—	—
Repayment of obligations under right-of-use assets	(13.0)	(14.2)	—	—	—
Business combinations (net of cash acquired)	(19.4)	(7.2)	(56.6)	(50.3)	(46.9)
Loans and borrowings acquired through business combinations	(1.0)	—	(1.5)	(3.1)	(1.5)
Taxation paid	(13.0)	(9.5)	(7.3)	(6.2)	(5.4)
Interest paid	(7.1)	(7.0)	(3.4)	(3.1)	(2.1)
Amortisation of debt issue costs	(0.4)	(1.0)	(0.5)	(0.4)	(0.8)
Proceeds from Ordinary shares	1.2	0.1	0.6	61.0	30.6
Proceeds from Treasury shares	0.3	0.9	—	—	—
Purchase of own shares	—	—	—	—	(2.1)
Exceptional items	—	(0.7)	—	—	—
Dividends paid	—	(3.9)	(3.5)	(2.9)	(2.1)
Reduction/(increase) in net debt	11.9	39.9	(33.0)	31.0	(6.9)
Year-end net debt	50.2	62.1	102.0	69.0	100.0
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	27.3	8.1	11.6	16.0	18.5
Adjusted basic earnings per share	75.1	42.0	46.7	42.4	42.8

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CVS's commitment to environmental issues is reflected in this Annual Report, which has been printed on GalerieArt Satin, an FSC® certified material.

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