



CVS Group plc

Interim report for the six months ended 31 December 2022

CVS Group plc
(“CVS”, the “Company” or the “Group”)

Interim results for the six months ended 31 December 2022

Robust results and current trading in line with full year expectations

CVS, one of the UK’s leading providers of integrated veterinary services, is pleased to announce its unaudited interim results for the six months ended 31 December 2022 (“H1 2023”) and provide an update on year-to-date trading. Comparative data is provided for the six months ended 31 December 2021 (“H1 2022”), unless otherwise stated.

Financial Highlights

£m except where stated	H1 2023 (unaudited)	H1 2022 (unaudited)	Change % ⁶	FY 2022 (audited)
Revenue	296.3	273.7	8.2%	554.2
<i>Like-for-like sales¹ growth (%)</i>	7.5%	9.6%	-2.1ppts	8.0%
Adjusted EBITDA ²	57.8	52.0	11.2%	107.4
<i>Adjusted EBITDA² margin (%)</i>	19.5%	19.0%	0.5ppts	19.4%
Adjusted profit before tax ³	41.1	36.2	13.5%	75.5
Adjusted earnings per share ⁴ (p)	45.6	41.5	9.9%	85.8
Operating profit	31.5	26.3	19.7%	42.8
Profit before tax	28.0	22.9	22.1%	36.0
Basic earnings per share (p)	29.6	24.7	19.8%	36.2
Net bank borrowings ⁵	57.6	63.2	-9.0%	36.0

Notes

- 1 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 2021, revenue is included from September 2022 in the like-for-like calculations.
- 2 Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is profit before tax adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, and exceptional items. Adjusted EBITDA provides information on the Group’s underlying performance and this measure is aligned to our strategy and KPIs. Alternative performance measures are described in note 2.
- 3 Adjusted profit before tax is calculated as profit before amortisation, taxation, costs relating to business combinations, and exceptional items. Alternative performance measures are described in note 2.
- 4 Adjusted earnings per share is calculated as adjusted profit before tax, less applicable taxation, divided by the weighted average number of Ordinary shares in issue in the period. Alternative performance measures are described in note 2.
- 5 Net bank borrowings is drawn bank debt less cash and cash equivalents.
- 6 Percentage increases and decreases are calculated based on the underlying values throughout this document.

Financial Highlights

- Organic growth has continued with 7.5% like-for-like sales¹ growth, within the Group’s organic revenue growth ambition of between 4% and 8%
- Increase in Adjusted EBITDA² margin to 19.5%, a like-for-like improvement of 0.5 percentage points, within our stated ambition of margins between 19% and 23%
- Membership of our preventative healthcare scheme, Healthy Pet Club (HPC), has increased to 481,000, up 4.3% vs. 31 December 2021 (+2.3% vs. 30 June 2022)

- Leverage of 0.60x as at 31 December 2022 (31 December 2021: 0.76x; 30 June 2022: 0.40x) reflecting strong EBITDA growth and operating cash conversion, offset by an increase in net debt due to continued execution of our M&A and capital investment strategy

Operational & Strategic Highlights

- **Renewed focus on capital investment to drive further growth**
 - Increased investment in our facilities and equipment to support growth, with total capital expenditure of £19.9m (H1 2022: £10.6m, FY 2022: £24.5m)
 - State-of-the art companion animal greenfield site opened in Southport in December 2022, and work has progressed on our flagship referral hospital, Bristol Vet Specialists, which is due to open in Spring 2023
- **Continued execution of M&A strategy**
 - Completed five practice acquisitions (eight practice sites) in the UK in H1 2023 for £24.4m (eight acquisitions (eleven practice sites) year to date for £35.3m)
- **Long-term strategic vision of being the veterinary company people most want to work for**
 - 5.0% more vets employed on average in calendar year 2022 vs 2021 as we strive to be an employer of choice
 - Employee net promotor score significantly increased to 18.6 (31 December 2021: 3.7, 30 June 2022: 4.8), reflecting our investment in our highly skilled and dedicated team including the introduction of a range of new benefits and our expanding EDI and wellbeing programmes. Whilst this is a significant improvement we expect it to stabilise over the next six months

Current trading and outlook: confident of continued growth and delivery of our strategic goals

- Whilst we are mindful of the wider macroeconomic backdrop and inflationary pressures, demand for our high-quality veterinary services remains robust and the positive performance of H1 2023 has continued into the first month of the second half
- The Board remains confident that full year results will be in line with market expectations
- In February 2023, CVS re-financed its debt facility, at the same margin and on improved commercial terms, increasing the total facility from £170.0m to £350.0m, to support the Group's five year growth ambition as set out at the Capital Markets Day
- We continue to focus on investment in our people, technology and clinical facilities in order to support further organic growth
- We remain confident that we can continue to execute on our exciting pipeline of selective acquisitions and development of Greenfield sites

Richard Fairman, Chief Executive Officer, commented:

“These results reflect the continued professionalism and dedication of our colleagues in providing high-quality care to our clients and their animals and I would like to take this opportunity to thank them for their contribution.

At our Capital Markets Day in November 2022, we announced six key elements underpinning our ambition to double Adjusted EBITDA over the next five years. Demand for our services remains strong, notwithstanding a challenging macroeconomic environment and I am pleased to report H1 2023 results are in line with expectations and we are on track to deliver continued growth. In February 2023 we re-financed our debt facility, increasing the total facility to £350.0m, with funding now in place to support our five year growth ambition.

Our purpose is to give the best possible care to animals and we are increasing our investment in our practice facilities, clinical equipment and technology to ensure we can provide a comfortable environment with great facilities for our colleagues, patients and clients.

I am also pleased to report that we have welcomed eight practices (comprising eleven sites) into the Group in the financial year to date, with a strong pipeline of further opportunities.

The robust performance in H1 2023 has continued into the second half of the year and we look forward to reporting further growth in the future.”

Results webcast

Management will host a live webcast and Q&A for analysts and investors at 9am GMT this morning. Those wishing to join should register at <https://stream.brrmedia.co.uk/broadcast/63bd291ddd6e715032016056>. For those unable to join, there will be a playback facility available on the CVS website later.

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

CVS Group is an AIM-quoted fully-integrated provider of veterinary services in the UK, with practices in the Netherlands and the Republic of Ireland. CVS is focused on providing high-quality clinical services to its customers and their animals, with outstanding and dedicated clinical teams and support colleagues at the core of its strategy.

The Group has c.500 veterinary practices across its three markets, including eight specialist referral hospitals and 37 dedicated out-of-hours sites. Alongside the core Veterinary Practices division, CVS operates Laboratories (providing diagnostic services to CVS and third-parties), Crematoria (providing pet cremation and clinical waste disposal for CVS and third-party practices) and the Group’s online retail business (“Animed Direct”).

The Group employs c.8,500 personnel, including c.2,200 veterinary surgeons and c.3,100 nurses.

Introduction

The Board is pleased to report that the Group has delivered continued growth in both revenue and adjusted EBITDA, as demand for its fully integrated veterinary services remains strong.

We are pleased that our H1 2023 results take a positive step towards our stated five year ambition to double Adjusted EBITDA by focusing on:

- Organic revenue growth of 4% - 8% per annum;
- Adjusted EBITDA margin ambition between 19% to 23%;
- Investment in practice facilities and technology to deliver additional organic growth;
- Investment in selective acquisitions subject to disciplined criteria for returns and earnings accretion;
- Operating cash conversion greater than 70%; and
- Maintaining leverage (net debt to EBITDA ratio) below 2.0x.

Our highly skilled colleagues have continued to deliver exceptional clinical care, which has driven our first-half

performance. This focus on delivering evidence-based clinical care in well-equipped facilities has contributed to like-for-like sales¹ growth in H1 2023 of 7.5%, and Adjusted EBITDA margin improvement of 0.5 percentage points, to 19.5%.

Market trends: CVS benefits from a growing market with consistent consumer demand

The veterinary market remains robust, and both consumer insights and consumer patterns over the past six months indicate that pet owners remain willing to spend on high-quality veterinary care and products for their animals, particularly as a result of the increased humanisation of pets during the COVID-19 pandemic. The number of active patients in our Veterinary Practices division remains consistent with the prior period.

We have seen a further increase in membership of our popular preventative healthcare scheme Healthy Pet Club to 481,000 members, which enables pet owners to spread the cost of their pets' vaccinations and flea and worming treatments and save money on a range of services and products.

With the pet population increasing during 2020 and 2021, we saw an increase in busyness in our practices as our clinicians provided puppies and kittens with their first vaccinations, check-ups and other early-in-life procedures. We expect to see the full benefit of this increased population over the next five to ten years as these animals reach maturity and may require more frequent and complex veterinary interventions. The Group is well-placed to provide this care through our fully-integrated veterinary services model, starting with our first-opinion practices which are supported by our specialist-led multi-disciplinary hospitals, our out-of-hours centres and our diagnostic laboratories. Our crematoria provide clinical waste disposal and, at the end of a pet's life, compassionate cremation services.

We are highly aware of the ongoing challenges in the macroeconomic environment, however the Group's ability to provide joined-up care throughout a pet's life provides consistent revenue streams. Our focus on high-quality clinical care positions us well to remain resilient to the economic challenges, as tested and proven during the COVID-19 pandemic.

Capital allocation: our plan to deliver sustainable future growth

CVS has placed particular emphasis in recent years on developing strong foundations upon which to generate positive and sustainable organic growth. Having announced our ambition to double Adjusted EBITDA over the next five years, we have begun implementing our selective capital allocation programme. This involves increasing investment in our existing facilities and equipment. In H1 2023, we invested £19.9m in capital projects, completing 13 refurbishments and relocations.

Alongside investment in improving and developing our existing practices, we are excited to be investing in Greenfield sites, which provide opportunities and support for clinicians to establish new veterinary practices and hospitals in state-of-the-art facilities. In December 2022, we opened our Greenfield companion animal veterinary practice in Southport, a superior quality facility housing a spacious operating theatre, dental suite, in-house laboratory and x-ray facilities. We hope to open two further Greenfield sites during FY23. Our flagship multidisciplinary referral centre, Bristol Vet Specialists, is set to open in April 2023 in Avonmouth. The new hospital, which covers over 30,000 square feet, is being custom built with uniquely designed facilities, the latest cutting-edge equipment and specialists in a range of disciplines.

M&A strategy – continued opportunities for selective acquisitions

We have continued our efforts to identify selective acquisitions which complement our existing network of veterinary practices and enhance the breadth of skills and expertise in the Group. In H1 2023, we completed five acquisitions (eight practice sites) for an aggregate initial consideration of £24.4m. A further three acquisitions (three practice sites) have been completed in the second half to date, and we have an exciting pipeline of future acquisitions. We are delighted to welcome these colleagues, clients and patients into the Group.

We are carefully considering targeted entry into new geographical markets both in Europe and in English-speaking geographies further afield, where there are similar cultures to the UK and with currently less corporate consolidation.

Our leverage (net debt / adjusted annualised EBITDA) remains comfortably below 1.0x. In February 2023, CVS re-financed its debt facility, on the same commercial terms, increasing the total facility from £170.0m to £350.0m, to support the Group's five year growth ambition as set out at the Capital Markets Day.

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

Our people remain at the core of our business, and we continue to seek ways to support them. This includes creating great places to work as well as providing our colleagues with the support required to not only give exceptional care to patients but also to achieve their career goals. As a result of our strategic focus on our people, our employee NPS score, a standardised measure of employee satisfaction where 100 is the maximum and -100 is the minimum, has increased to 18.6 from 4.8 at June 2022.

During the period, we conducted a full review of our employment policies and benefits and launched a range of new benefits. These new benefits are in addition to our existing range which includes, among others, enhanced maternity pay, additional annual leave for up to five years of service alongside the option to buy/sell further annual leave, and annual Save-As-You-Earn schemes, of which the latest scheme saw a 38.9% increase in uptake in the current year.

Our new benefits includes a health cash plan enabling colleagues to opt in to reclaim the cost of a range of medical services, including mental health services. We have also added policies to:

- support our colleagues through fertility investigations and treatments, including supporting their partner in these treatments;
- provide additional compassionate leave in the event of pregnancy loss; and
- offer additional paid leave for significant health-related life events including major surgery, hospitalisation, and procedures related to gender transition.

During 2022, we implemented two salary reviews: a 3.0% out-of-cycle "cost of living" increase in May 2022 to support our colleagues with increasing inflationary pressures, alongside our annual salary review in July 2022.

CVS promoting Equity, Diversity and Inclusion

The Group has a clearly-stated equity, diversity and inclusion (EDI) strategy which was introduced in our 2022 Sustainability Report. We have been primarily focusing on ensuring foundational understanding of EDI, which includes understanding the diversity of our current workforce by collecting workforce diversity data. The proportion of our colleagues having submitted this data increased to over 60% by the end of the period, which will support us to promote and maintain equal opportunities, and understand how we can best support our colleagues to feel a sense of inclusion and belonging at work.

As well as crucial revised policies covering EDI and bullying, harassment and incivility, we introduced an original EDI training course for all CVS colleagues. We have also introduced a regular survey-question measure of whether our colleagues feel equally included at work, and in December 2022 85% of colleagues responded positively.

Providing skills enhancement and training

In addition to supporting our existing colleagues, we are looking towards the next generation of skilled veterinary workers and have a range of programmes including our New Graduate Programme, Graduate summer school, and our esteemed ChesterGates Veterinary Nurse Training Centre. We have developed a leading induction programme for practices to on-board and support new graduates joining the practice and ensure they have the resources they need to start a successful and fulfilling veterinary career.

Clinical developments: Our purpose is to provide the best possible care to animals

We are striving to have a positive impact on the veterinary care sector as a whole, through investing in research projects designed to better understand and improve veterinary care. Through our Clinical Research Awards we have committed £0.5m across 16 projects, 11 of which are led by CVS colleagues. These projects are studying topics relating to animal health, clinical practices and the environment.

In September 2022, Paul Higgs was appointed to the role of Chief Veterinary Officer. In this role, Paul will oversee all clinical quality improvement work in our first-opinion and referrals divisions to help us enhance the care we provide to animals. Prior to his current role, Paul was Clinical Director at CVS' Highcroft Referrals Hospital in Bristol, where he still practices as a European Veterinary Specialist in internal medicine.

In August 2022, we published our fourth annual Quality Improvement report. Angela Rayner, Director of Quality Improvement, commented, "In quality improvement the work is never done, but celebrating what we achieve keeps us going. This report is a celebration of CVS teams, whose care and passion for what they do never ceases to be inspiring. I am grateful to all the wonderful colleagues at CVS for making this report possible."

Care at our Heart: embedding our Environmental, Social and Governance (ESG) strategy

We are delighted to have published our first standalone Sustainability Report in August 2022. We are committed to our ESG strategy, placing care at the heart of our operations to ensure we do the right thing, in the right way. Our seven working groups across the business have focused on analysing and understanding our impact on Energy and carbon, Waste, One Health, Wellbeing, People development, EDI and Community.

For the 2023 financial year we have linked Executive Committee remuneration to the delivery of five non-financial targets, with 20% of bonus potential linked to reducing clinical waste, improving patient care index (our measure of quality in practices), improving employee and client net promoter scores, and reducing colleague attrition.

We have been engaging with suppliers to reduce the environmental impact of our supply chain, including minimising emissions by combining orders into fewer deliveries and utilising low-emissions delivery vehicles, and promoting the use of recycled and recyclable packaging.

As we have been investing in capital projects across our estate we have implemented energy and carbon saving methods, such as passive-infrared switches on lighting, use of sustainable materials, and "green" clauses in lease agreements. We are partnering with our new facilities management provider to promote energy saving measures in our facilities.

Our colleague charity of the year in 2022 was the Pet Blood Bank and we raised £20,000 through a variety of local initiatives, which was matched by CVS with a £20,000 donation to Vetlife, the charity that provides emotional, financial and mental health support to the veterinary community.

Financial review: robust foundations from which to deliver continued growth

CVS delivered a resilient performance for H1 2023, delivering continued organic growth and investing in our existing veterinary practice portfolio in support of our purpose to give the best possible care to animals.

Group revenue was £296.3m in the period, an increase of 8.2% over the prior year (H1 2022: £273.7m). Like-for-like sales¹, grew 7.5% (H1 2022: 9.6%).

Gross margin before clinical staff costs increased slightly to 77.5% (H1 2022: 77.1%). Employment costs as a percentage of revenue increased to 51.9% (H1 2022: 50.4%) as a result of additional investment in our people and increased headcount in revenue-generating and support roles. We continue to increase our headcount, with a 7.2% increase in the average number of clinical colleagues employed during H1 2023 versus H1 2022.

Adjusted EBITDA for the half-year was £57.8m, an increase of 11.2% (H1 2022: £52.0m). This is primarily due to the increase in top line revenue.

Operating profit increased to £31.5m (H1 2022: £26.3m) after depreciation of property, plant and equipment of £6.1m (H1 2022: £5.7m), depreciation of right-of-use assets of £7.1m (H1 2022: £6.7m), amortisation of £11.3m (H1 2022: £11.3m) and costs relating to business combinations of £1.8m (H1 2022: £2.0m).

Adjusted profit before tax, which excludes amortisation, costs relating to business combinations and exceptional items, increased to £41.1m (H1 2022: £36.2m).

Adjusted earnings per share increased to 45.6p (H1 2022: 41.5p). Basic earnings per share for the period increased to 29.6p (H1 2022: 24.7p).

Cash generated from operations was £45.5m (H1 2022: £37.9m) with the increase driven mainly from increased EBITDA. Operating cash conversion of 58.9% (H1 2022: 54.0%) is in line with management expectations and the full year is expected to be in excess of 70%, with the first half impacted by prior year bonus payments.

Net bank borrowings increased to £57.6m (30 June 2022: £36.0m) after funding £24.4m of acquisitions (net of cash acquired), along with £19.9m of capital expenditure, up from £10.6m in the comparative period. This increase reflects the implementation of our capital allocation programme for future growth.

Operating segment performance

Veterinary Practices division

Our Veterinary Practices division comprises c.500 veterinary practices across three markets, including eight specialist referral hospitals and 37 dedicated out-of-hours sites, as well as our buying groups, Vet Direct and MiPet insurance. The Veterinary Practice division generated revenues of £263.4m in H1 2023, an increase of 8.2% on the £243.3m achieved in the prior period. Like-for-like sales growth, adjusted for the number of working days in the period, was 7.3% (H1 2022: 9.4%), demonstrating our continued ability to generate organic growth within our veterinary practices. Our companion animal and referrals practices generated the greatest growth in the division, demonstrating the benefits of our focus on providing high-quality clinical care and the resilience of our core business units.

Gross margin before clinical staff costs in the Veterinary Practices Division improved to 80.3% (H1 2022: 79.8%).

Adjusted EBITDA for the Veterinary Practices division increased to £55.4m (H1 2022: £52.1m). Adjusted EBITDA margin was down slightly at 21.0% (H1 2022: 21.4%), reflecting increased investment in our people and inflationary costs increases.

Laboratories division

Our Laboratories division provides diagnostic services and in-practice laboratory analysers to CVS practices and third-party owned veterinary surgeries. Diagnostic services are offered via post and courier allowing complete coverage of the UK. Revenue of £14.2m was generated in the period, reflecting strong growth of 7.2% from the £13.3m generated in H1 2022.

Adjusted EBITDA increased to £4.4m (H1 2022: £4.0m), with adjusted EBITDA margin increasing by 1.2 percentage points, to 31.2%.

Crematoria division

Our Crematoria division provides pet cremation and clinical waste disposal for CVS and third-party practices. Revenue was £5.3m in the period (H1 2022: £4.8m) reflecting the success of the Direct Pet Cremation project which is now in operation in all our Crematoria, offering a more compassionate aftercare service and increased options for pet owners. Adjusted EBITDA was £1.6m (H1 2022: £1.7m) reflecting increased costs of fuel used to run our cremators.

Online retail business

We have continued to improve our Online retail business, Animed Direct, with revenue increasing to £24.5m (H1 2022: £22.7m), benefitting from increased transaction values. Adjusted EBITDA was flat at £1.7m (H1 2022: £1.7m) as we continue to invest in marketing and improved systems and processes to offer enhanced customer experience.

Central administration

Central administration costs were £5.3m (H1 2022: £7.5m) Expressed as a percentage of Group revenue, excluding RDEC and associated costs, these costs remained consistent at 3.5% (H1 2022: 3.5%).

Cash flow and funding position

CVS had borrowings of £85.0m at 31 December 2022 with cash and cash equivalents of £27.4m, equating to net bank borrowings of £57.6m (H1 2022: £63.2m). The Group had leverage (net debt / adjusted annualised EBITDA) of 0.60x as of 31 December 2022 (30 June 2022: 0.40x).

Following the completion of a re-financing of the Group's debt facility on 22 February 2023, the Group has total facilities of £350.0m to 21 February 2027, with an optional 1 year extension, provided by a syndicate of eight banks: AIB, Barclays, Danske, HSBC, JP Morgan, Lloyds, NatWest and Virgin Money. The facility comprises the following elements:

- a fixed term loan of £87.5m, repayable on 21 February 2027 via a single bullet repayment;
- a four-year Revolving Credit Facility of £262.5m, available to 21 February 2027.

We retain our £5.0m overdraft facility, renewable annually.

The Group is subject to two financial covenants associated with these facilities which are based on the ratios of net debt to EBITDA and EBITDA to interest. EBITDA for this purpose 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 covenant levels are unchanged following the re-financing and allow a maximum Group net debt to EBITDA leverage ratio of 3.25x, although it is not the Group's intention to operate at this level. Leverage has increased during H1 2023, to 0.60x (30 June 2022: 0.40x). This increase is primarily due to an increase in net debt following increased investment for future growth. The EBITDA to interest ratio must not be less than 4.5x (unchanged as part of the re-financing). As of 31 December 2022, the ratio was 42.16x (30 June 2022: 41.00x).

Bank covenants are tested quarterly and the Group has considerable headroom in both financial covenants and in its undrawn but committed facilities as at 31 December 2022.

Dividends

A dividend of 7.0p (December 2021: 6.5p) per share was paid in December 2022 in respect of the financial year ended 30 June 2022. The Board will continue to review its dividend policy and anticipates the payment of a final dividend in respect of the current financial year in December 2023. In line with our customary practice, the amount of this dividend will be dependent on the outcome of the full year results and the growth capital needs of the business.

Current trading & Outlook: we remain confident of continued growth and delivery of our strategic goals

The veterinary market remains resilient, with strong demand for excellent clinical care. Our preventative healthcare scheme, The Healthy Pet Club, provides the opportunity for clients to spread the cost of veterinary care. We will continue to provide a wide range of evidence-based clinical services to meet our clients' needs and support their animals to live healthy and full lives.

We will continue our investment in our people, technology and our clinical facilities in order to support further organic growth. This will be augmented by investment in our exciting pipeline of selective acquisitions and development of exceptional Greenfield sites.

Following strong H1 2023 results, the Board remains confident that the full year results will be in line with expectations.

The Board would like to acknowledge and thank all members of the CVS team for their efforts to provide the very best care for animals, and with their support, we look forward to sharing continued success in the future.

Richard Connell
Chair
24 February 2023

**Condensed consolidated income statement for the six-month period ended 31 December 2022
(unaudited)**

	Note	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Revenue		296.3	273.7	554.2
Cost of sales		(169.6)	(159.3)	(315.1)
Gross profit		126.7	114.4	239.1
Administrative expenses		(95.2)	(88.1)	(196.3)
Operating profit		31.5	26.3	42.8
Finance expense	5	(3.5)	(3.4)	(6.8)
Profit before tax		28.0	22.9	36.0
Tax expense	8	(6.9)	(5.4)	(10.3)
Profit for the period		21.1	17.5	25.7
Earnings per Ordinary share (EPS)				
Basic	6	29.6p	24.7p	36.2p
Diluted	6	29.4p	24.5p	35.9p

All activities derive from continuing operations.

Reconciliation of alternative performance measures

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures.

Adjusted EBITDA is calculated by reference to profit before tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations and exceptional items. The following table provides the calculation of adjusted EBITDA.

Alternative performance measure: adjusted EBITDA	Note	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Profit before tax		28.0	22.9	36.0
Adjustments for:				
Finance expense	5	3.5	3.4	6.8
Amortisation of intangible assets	9	11.3	11.3	22.2
Depreciation of property, plant and equipment	9	6.1	5.7	11.3
Profit on disposal of property, plant and equipment and right-of-use assets		-	-	(0.3)
Depreciation and impairment of right-of-use assets	10	7.1	6.7	14.1
Costs relating to business combinations ¹		1.8	2.0	4.9
Exceptional items ²		-	-	12.4
Adjusted EBITDA		57.8	52.0	107.4
Adjusted earnings per share (EPS):				
Adjusted EPS	6	45.6p	41.5p	85.8p
Diluted adjusted EPS	6	45.2p	41.1p	85.0p

¹ Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.

² Exceptional items in the prior year relate to impairment in relation to Quality Pet Care Ltd.

Condensed consolidated statement of comprehensive income for the six-month period ended 31 December 2022 (unaudited)

	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Profit for the period	21.1	17.5	25.7
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	0.5	1.0	2.8
Cost of hedging reserve	-	(0.1)	(0.1)
Deferred tax on cash flow hedge and available-for-sale financial assets	(0.1)	(0.2)	(0.7)
Exchange differences on translation of foreign operations	-	(0.5)	(0.1)
Other comprehensive income for the period, net of tax	0.4	0.2	1.9
Total comprehensive income for the period attributable to owners of the parent	21.5	17.7	27.6

Condensed consolidated statement of financial position as at 31 December 2022 (unaudited)

	Note	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
Non-current assets				
Intangible assets	9	234.4	217.2	216.5
Property, plant and equipment	9	82.7	61.9	69.7
Right-of-use assets	10	99.4	98.9	101.7
Investments	11	0.1	17.1	0.1
Derivative financial instruments		2.8	0.5	2.3
		419.4	395.6	390.3
Current assets				
Inventories		28.7	22.6	26.2
Trade and other receivables		49.4	49.5	52.7
Current tax receivable	8	2.8	2.4	-
Cash and cash equivalents		27.4	21.8	49.0
		108.3	96.3	127.9
Total assets		527.7	491.9	518.2
Current liabilities				
Trade and other payables	13	(83.3)	(77.4)	(86.6)
Provisions	14	(0.9)	(3.0)	(2.1)
Lease liabilities	15	(9.5)	(8.6)	(9.4)
Current tax liabilities	8	-	-	(3.3)
		(93.7)	(89.0)	(101.4)
Non-current liabilities				
Borrowings	17	(84.5)	(84.1)	(84.3)
Lease liabilities	15	(93.4)	(92.4)	(95.1)
Deferred tax liabilities		(22.2)	(21.1)	(20.0)
		(200.1)	(197.6)	(199.4)
Total liabilities		(293.8)	(286.6)	(300.8)
Net assets		233.9	205.3	217.4

Condensed consolidated statement of financial position as at 31 December 2022 (unaudited)

	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
Shareholders' equity			
Share capital	0.1	0.1	0.1
Share premium	105.7	103.3	105.4
Capital redemption reserve	0.6	0.6	0.6
Treasury reserve	(1.2)	-	-
Cash flow hedge reserve	2.0	0.5	1.6
Merger reserve	(61.4)	(61.4)	(61.4)
Retained earnings	188.1	162.2	171.1
Total equity	233.9	205.3	217.4

The interim financial information above is reproduced from that on pages 9 to 29 of the Group's Interim Report which was approved by the Board of Directors on 24 February 2023.

Condensed consolidated statement of changes in equity for the six-month period ended 31 December 2022 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Treasury reserve	Cash flow hedge reserve	Cost of hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 July 2022	0.1	105.4	0.6	-	1.6	-	(61.4)	171.1	217.4
Profit for the period	-	-	-	-	-	-	-	21.1	21.1
Other comprehensive income and losses									
Cash flow hedges: Fair value income	-	-	-	-	0.5	-	-	-	0.5
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-
Deferred tax on cash flow hedge and available-for-sale financial assets	-	-	-	-	(0.1)	-	-	-	(0.1)
Total other comprehensive income	-	-	-	-	0.4	-	-	-	0.4
Total comprehensive income	-	-	-	-	0.4	-	-	21.1	21.5
Transactions with owners:									
Issue of Ordinary shares	-	0.3	-	-	-	-	-	-	0.3
Credit to reserves for share-based payments	-	-	-	-	-	-	-	1.2	1.2
Deferred tax relating to share-based payments	-	-	-	-	-	-	-	(0.3)	(0.3)
Purchase of Treasury shares	-	-	-	(1.2)	-	-	-	-	(1.2)
Dividends to equity holders of the Company	-	-	-	-	-	-	-	(5.0)	(5.0)
Transactions with owners	-	0.3	-	(1.2)	-	-	-	(4.1)	(5.0)
At 31 December 2022	0.1	105.7	0.6	(1.2)	2.0	-	(61.4)	188.1	233.9

Condensed consolidated statement of changes in equity for the six-month period ended 31 December 2021 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Treasury reserve	Cash flow hedge reserve	Cost of hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 July 2021	0.1	103.1	0.6	-	(0.5)	0.1	(61.4)	149.1	191.1
Profit for the period	-	-	-	-	-	-	-	17.5	17.5
Other comprehensive income and losses									
Cash flow hedges: Fair value income/(loss)	-	-	-	-	1.0	(0.1)	-	-	0.9
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(0.5)	(0.5)
Deferred tax on cash flow hedge and available-for-sale financial assets	-	-	-	-	-	-	-	(0.2)	(0.2)
Total other comprehensive income/(loss)	-	-	-	-	1.0	(0.1)	-	(0.7)	0.2
Total comprehensive income/(loss)	-	-	-	-	1.0	(0.1)	-	16.8	17.7
Transactions with owners:									
Issue of Ordinary shares	-	0.2	-	-	-	-	-	-	0.2
Credit to reserves for share-based payments	-	-	-	-	-	-	-	1.3	1.3
Deferred tax relating to share-based payments	-	-	-	-	-	-	-	(0.4)	(0.4)
Purchase of Treasury shares	-	-	-	-	-	-	-	-	-
Dividends to equity holders of the Company	-	-	-	-	-	-	-	(4.6)	(4.6)
Transactions with owners	-	0.2	-	-	-	-	-	(3.7)	(3.5)
At 31 December 2021	0.1	103.3	0.6	-	0.5	-	(61.4)	162.2	205.3

Condensed consolidated statement of cash flows for the six-month period ended 31 December 2022 (unaudited)

	Note	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	16	45.5	37.9	93.1
Taxation paid		(7.2)	(5.5)	(11.2)
Interest paid		(3.3)	(3.2)	(6.4)
Net cash generated from operating activities		35.0	29.2	75.5
Cash flows from investing activities				
Business combinations (net of cash acquired)		(24.4)	(0.4)	(8.4)
Purchase of property, plant and equipment	9	(18.0)	(10.3)	(23.0)
Proceeds from sale of property, plant and equipment		0.1	0.1	0.2
Purchase of intangible assets	9	(1.9)	(0.3)	(1.5)
Purchase of other investments		-	(19.7)	(21.4)
Proceeds from sale of other investments		-	-	9.0
Net cash used in investing activities		(44.2)	(30.6)	(45.1)
Cash flows from financing activities				
Dividends paid		(5.0)	(4.6)	(4.6)
Proceeds from issue of Ordinary shares		0.3	0.2	2.3
Purchase of Treasury shares		(1.2)	-	-
Repayment of obligation under right-of-use asset		(6.5)	(6.1)	(12.7)
Repayment of borrowings	17	-	-	(0.1)
Net cash used in financing activities		(12.4)	(10.5)	(15.1)
Net (decrease)/increase in cash and cash equivalents		(21.6)	(11.9)	15.3
Cash and cash equivalents at the beginning of period		49.0	33.7	33.7
Cash and cash equivalents at end of the period		27.4	21.8	49.0

Notes to the interim consolidated financial information

1. General information

The principal activity of CVS Group plc, together with its subsidiaries (“the Group”) is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an online pharmacy and retail business.

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 the AIM Market of the London Stock Exchange (“CVSG”). Its company registration number is 06312831 and registered office is CVS House, Owen Road, Diss, IP22 4ER.

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of CVS Group plc in respect of the year ended 30 June 2022 have been delivered to the Registrar of Companies, upon which the Company’s auditors have given a report which was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Forward looking statements

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

2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2022. It is unaudited and has been prepared in accordance with the AIM Rules for Companies and with IAS 34, ‘Interim Financial Reporting’. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2022, which have been prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

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

Use of alternative performance measures

Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), adjusted profit before tax (adjusted PBT) and adjusted earnings per share (adjusted EPS)

The Directors believe that adjusted measures, being adjusted EBITDA, adjusted PBT and adjusted EPS, provide additional useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management remuneration. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies’ adjusted measures. They are not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

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

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

Adjusted EPS is calculated as adjusted profit before tax, less applicable tax, divided by the weighted average number of Ordinary shares in issue during the period.

The following table provides the calculation of adjusted EBITDA as defined above:

Alternative performance measure: adjusted EBITDA	Note	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Profit before tax		28.0	22.9	36.0
Adjustments for:				
Finance expense	5	3.5	3.4	6.8
Amortisation of intangible assets	9	11.3	11.3	22.2
Depreciation of property, plant and equipment	9	6.1	5.7	11.3
Profit on disposal of property, plant and equipment and right-of-use assets		-	-	(0.3)
Depreciation and impairment of right-of-use assets	10	7.1	6.7	14.1
Costs relating to business combinations ¹		1.8	2.0	4.9
Exceptional items ²		-	-	12.4
Adjusted EBITDA		57.8	52.0	107.4
Adjusted earnings per share (EPS):				
Adjusted EPS	6	45.6p	41.5p	85.8p
Diluted adjusted EPS	6	45.2p	41.1p	85.0p

¹ Includes amounts paid in respect of acquisitions in prior years expensed to the income statement.

² Exceptional items in the prior year relate to impairment in relation to Quality Pet Care Ltd.

Net debt

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

	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Borrowings repayable after more than one year			
Loan facility	85.0	85.0	85.0
Unamortised borrowing costs	(0.5)	(0.9)	(0.7)
Total borrowings	84.5	84.1	84.3
Cash and cash equivalents	(27.4)	(21.8)	(49.0)
Net debt	57.1	62.3	35.3

Net bank borrowings

Net bank borrowings is drawn bank debt less cash and cash equivalents.

Like-for-like sales

Like-for-like sales shows revenue generated from like-for-like operations compared to the prior year, adjusted for the number of working days. For example, for a practice acquired in September 2021, revenue is included from September 2022 in the like-for-like sales calculation.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those set out on pages 115 to 124 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2022 (which are available upon request from the Company's registered office or on the Company's website).

The policy for recognising and measuring taxation in the interim period is described in note 8.

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 significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty, were the same as those described in the last annual financial statements.

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 Chief Operating Decision Maker (CODM).

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

Revenue comprises £214.4m of fees and £81.9m of goods (31 December 2021: £195.5m and £78.2m respectively).

Operating segments

The Group is split into four operating segments (Veterinary Practices, Laboratories, Crematoria and Online Retail Business) and a centralised support function (Head Office) for business segment analysis. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services.

Each of these operating segments is managed separately as each segment requires different specialisms, marketing approaches and resources. Intra-group sales eliminations are included within the Head Office segment. Head Office includes costs relating to the employees, property and other overhead costs associated with the centralised support function, together with finance costs arising on the Group's borrowings.

Six-months ended 31 December 2022	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Revenue	263.4	14.2	5.3	24.5	(11.1)	296.3
Adjusted EBITDA	55.4	4.4	1.6	1.7	(5.3)	57.8
Profit/(loss) before tax	32.5	4.0	1.4	1.6	(11.5)	28.0
Total assets	436.2	39.4	21.6	27.6	2.9	527.7

Total liabilities	(166.8)	(1.7)	(1.6)	(17.0)	(106.7)	(293.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	32.5	4.0	1.4	1.6	(11.5)	28.0
Finance expense	2.0	-	-	-	1.5	3.5
Depreciation of property, plant and equipment	5.4	0.4	0.2	-	0.1	6.1
Depreciation and impairment of right-of-use assets	6.8	-	-	-	0.3	7.1
Amortisation of intangible assets	7.8	-	-	0.1	3.4	11.3
Costs relating to business combinations	0.9	-	-	-	0.9	1.8
Adjusted EBITDA	55.4	4.4	1.6	1.7	(5.3)	57.8

Six-month period ended 31 December 2021	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Revenue	243.3	13.3	4.8	22.7	(10.4)	273.7
Adjusted EBITDA	52.1	4.0	1.7	1.7	(7.5)	52.0
Profit/(loss) before tax	30.2	3.6	1.5	1.6	(14.0)	22.9
Total assets	428.2	32.3	17.7	10.9	2.8	491.9
Total liabilities	(163.0)	(2.2)	(1.1)	(14.8)	(105.5)	(286.6)

Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	30.2	3.6	1.5	1.6	(14.0)	22.9
Finance expense	2.1	-	-	-	1.3	3.4
Depreciation of property, plant and equipment	5.0	0.3	0.2	-	0.2	5.7
Depreciation and impairment of right-of-use assets	6.6	0.1	-	-	-	6.7
Amortisation of intangible assets	7.2	-	-	0.1	4.0	11.3
Costs relating to business combinations	1.0	-	-	-	1.0	2.0
Adjusted EBITDA	52.1	4.0	1.7	1.7	(7.5)	52.0

Year ended 30 June 2022	Veterinary Practices £m	Laboratories £m	Crematoria £m	Online Retail Business £m	Head Office £m	Group £m
Revenue	492.1	27.2	9.5	46.6	(21.2)	554.2
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4
Profit/(loss) before tax	64.8	7.6	2.9	3.4	(42.7)	36.0

Total assets	426.0	38.6	20.1	27.9	5.6	518.2
Total liabilities	(170.6)	(5.1)	(2.2)	(18.6)	(104.3)	(300.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before tax	64.8	7.6	2.9	3.4	(42.7)	36.0
Finance expense	4.1	-	-	-	2.7	6.8
Depreciation of property, plant and equipment	9.9	0.6	0.5	-	0.3	11.3
Depreciation and impairment of right-of-use assets	13.7	0.1	-	-	0.3	14.1
Profit on disposal of property, plant and equipment and right-of-use assets	(0.3)	-	-	-	-	(0.3)
Amortisation of intangible assets	14.6	-	-	0.1	7.5	22.2
Costs relating to business combinations	2.0	-	-	-	2.9	4.9
Exceptional items	-	-	-	-	12.4	12.4
Adjusted EBITDA	108.8	8.3	3.4	3.5	(16.6)	107.4

Geographical segments

The business operates predominantly in the UK. As at 31 December 2022, it has 27 veterinary practices in the Netherlands and four in the Republic of Ireland. It performs a small amount of laboratory work and teleradiology work for Europe-based clients, and a small amount of teleradiology work for clients based in the rest of the world. In accordance with IFRS 8, 'Operating segments', no segment results are presented for trade with clients in Europe or the rest of the world as these are not reported separately for management reporting purposes, and are not considered material for separate disclosure.

5. Finance expense

	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Interest expense on bank loans and overdraft	1.2	1.1	2.2
Interest expense on lease liabilities	2.1	2.1	4.2
Amortisation of debt arrangement fees	0.2	0.2	0.4
Net finance expense	3.5	3.4	6.8

6. Earnings per Ordinary share

(a) Basic

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

	Six months ended 31 December 2022	Six months ended 31 December 2021	Year ended 30 June
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	(Unaudited)	(Unaudited)	2022 (Audited)
Profit for the year (£m)	21.1	17.5	25.7
Weighted average number of Ordinary shares in issue	71,215,385	70,839,356	70,926,977
Basic earnings per share (pence)	29.6	24.7	36.2

(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 Long-Term Incentive Plan (LTIP) schemes and Save-As-You-Earn (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.

	Six months ended 31 December 2022 (Unaudited)	Six months ended 31 December 2021 (Unaudited)	Year ended 30 June 2022 (Audited)
Profit for the year (£m)	21.1	17.5	25.7
Weighted average number of Ordinary shares in issue	71,215,385	70,839,356	70,926,977
Adjustment for contingently issuable shares – LTIPs	277,538	249,944	248,506
Adjustment for contingently issuable shares – SAYE schemes	232,314	494,778	377,056
Weighted average number of Ordinary shares for diluted earnings per share	71,725,237	71,584,078	71,552,539
Diluted earnings per share (pence)	29.4	24.5	35.9

Alternative performance measure: adjusted earnings per share

	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Profit before tax	28.0	22.9	36.0
Adjustments for:			
Amortisation of intangible assets	11.3	11.3	22.2
Costs relating to business combinations	1.8	2.0	4.9
Exceptional items	-	-	12.4
Adjusted profit before tax	41.1	36.2	75.5
Tax expense amended for the above adjustments	(8.6)	(6.8)	(14.6)
Adjusted profit after tax	32.5	29.4	60.9

Weighted average number of Ordinary shares in issue	71,215,385	70,839,356	70,926,977
Weighted average number of Ordinary shares for diluted earnings per share	71,725,237	71,584,078	71,552,539
Adjusted earnings per share (pence)	45.6p	41.5p	85.8p
Diluted adjusted earnings per share (pence)	45.2p	41.1p	85.0p

7. Share-based payments

Long-Term Incentive Plans

The Group operates incentive schemes for certain senior executives and others, the CVS Group Long-Term Incentive Plan (LTIP).

Under the LTIP schemes, awards are made at an effective nil cost. Executive schemes vest over a three-year performance period conditional upon the Group's adjusted earnings per share growth and Total Shareholder Return (TSR). Schemes for others vest over a three-year period but are not conditional on performance. The LTIP scheme arrangements are a mixture of equity-settled and cash-settled. Cash-settled LTIP schemes are linked to a number of shares, the value of which is settled in cash upon exercise.

The following LTIP schemes were issued in H1 2023:

	LTIP 16	LTIP 16(b)	LTIP 16(c)
Issue date	30 September 2022	30 September 2022	12 October 2022
Option life	3 years	3 years	3 years
Number of shares	119,639	5,915	5,915
Share price at grant date	£16.90	£16.90	£17.60
Exercise price	0.2p	0.2p	0.2p
Settlement	Equity-settled	Equity-settled	Cash-settled

During the six months to 31 December 2022, Directors and employees exercised 115,280 share options (31 December 2021: 97,491) with a weighted average share price at the date of exercise of £20.01 (31 December 2021: £24.22) in respect of the LTIP13 (31 December 2021: LTIP12) scheme.

Options were valued using the Monte-Carlo option pricing model and the share-based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £0.6m (31 December 2021: £0.8m), which has been charged to administrative expenses. National Insurance contributions amounting to £0.1m (31 December 2021: £0.2m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Save As You Earn (SAYE)

The Group operates an incentive scheme for all employees, the CVS Group SAYE plan, an HM Revenue & Customs-approved scheme. Under the new SAYE15 scheme, awards were made at a 20.0% discount (SAYE14 and SAYE13 were made at a 20.0% discount and SAYE11 and SAYE12 scheme awards were made at a 10.0% discount) of the closing mid-market price on date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE schemes.

SAYE15 was opened for subscription in November 2022 with 381,689 options granted and a contract start date of 1 January 2023. The exercise price was £15.15, a 20.0% discount to the closing mid-market price on the date of invitation.

Options were valued using the Black-Scholes option pricing model and the share-based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £0.6m (31 December 2021: £0.5m), which has been charged to administrative expenses.

8. Tax expense

The tax charge for the six months ended 31 December 2022 is recognised based on management's estimate of the weighted average annual effective tax rate expected for the full financial year, adjusted for the tax impact of any discrete items arising in the period. The estimated average annual tax rate used for the six months ended 31 December 2022 is 22.8% (31 December 2021: 21.8%).

The reported effective tax rate for the six months ended 31 December 2022 is 24.6% (31 December 2021: 23.8%). The reported effective tax rate has increased from the previous period by 0.8%. This is predominantly due to an increase in the standard rate of UK corporation tax rate to 25.0% from April 2023, resulting in UK corporation tax being calculated at a blended rate of 20.5% (31 December 2021: 19.0%), offset in part by a decrease in expenses not deductible for tax purposes, mainly in respect of business acquisitions.

9. Intangible assets and property, plant and equipment

	Intangible assets £m	Property, plant and equipment £m
Six months ended 31 December 2022		
Opening net book value at 1 July 2022	216.5	69.7
Foreign currency translation	0.5	-
Additions	1.9	18.0
Other additions	0.2	-
Additions arising through business combinations	26.6	1.1
Disposals	-	-
Amortisation and depreciation	(11.3)	(6.1)
Closing net book value at 31 December 2022	234.4	82.7
Six months ended 31 December 2021		
Opening net book value at 1 July 2021	228.4	57.4
Foreign currency translation	(0.2)	-
Additions	0.3	10.3
Disposals	-	(0.1)
Amortisation and depreciation	(11.3)	(5.7)
Closing net book value at 31 December 2021	217.2	61.9

10. Right-of-use assets

	Right-of-use assets £m
Six months ended 31 December 2022	
At 1 July 2022	101.7
Foreign currency translation	0.2
Remeasurement of lease term	0.7

Additions	2.2
Acquired through business combinations	2.5
Disposals	(0.8)
Depreciation	(7.1)
Closing net book value at 31 December 2022	99.4
Six months ended 31 December 2021	
At 1 July 2021	97.2
Foreign currency translation	(0.3)
Remeasurement of lease term	4.0
Additions	4.9
Disposals	(0.2)
Depreciation	(6.7)
Closing net book value at 31 December 2021	98.9

11. Investments

	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
Investments in equity instruments designated as fair value through other comprehensive income	-	17.0	-
Other investments	0.1	0.1	0.1
Total	0.1	17.1	0.1

12. Business Combinations

Details of business combinations in the six months ended 31 December 2022 are set out below. The reason for each acquisition was to expand the CVS Group business through acquisitions aligned to our strategic goals.

Name of business combination	Date of acquisition
Werrington Vets Limited	27 July 2022
Woodlands Veterinary Clinic Limited	16 September 2022
Market Cross Veterinary Clinic Limited	18 October 2022
Seadown Veterinary Services Ltd	9 November 2022
The Harrogate Vet Limited	24 November 2022

All businesses were acquired via 100.0% share purchase agreement.

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 period as though the acquisition date for all business combinations during the year had been at the beginning of that period.

The table below summarises the total assets acquired through business combinations in the six months ended 31 December 2022:

	Note	Book value of acquired assets £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	9	1.1	-	1.1
Patient data records	9	-	7.2	7.2
Right-of-use assets	10	2.5	-	2.5
Inventories		0.2	-	0.2
Deferred tax liability		(0.2)	(1.8)	(2.0)
Trade and other receivables		2.0	-	2.0
Trade and other payables		(1.3)	-	(1.3)
Right-of-use liabilities		(2.5)	-	(2.5)
Total identifiable assets		1.8	5.4	7.2
Goodwill	9			19.4
Total consideration (net of cash acquired of £2.3m)				26.6
Initial consideration paid (net of cash acquired of £2.3m)				24.4
Deferred consideration payable				0.7
Contingent consideration payable				1.5
Total consideration (net of cash acquired of £2.3m)				26.6

Goodwill recognised represents the excess of purchase consideration over the fair value of the identifiable net assets. Goodwill reflects the synergies arising from the combination of the businesses; this includes cost synergies arising from shared support functions and buying power synergies. Goodwill includes the recognition of an amount equal to the deferred tax that arises on non-qualifying fixed assets acquired under a business combination.

Post-acquisition revenue and post-acquisition adjusted EBITDA were £2.2m and £0.6m respectively. The post-acquisition period is from the date of acquisition to 31 December 2022. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 31 December 2022 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

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

Acquisition costs of £1.8m (31 December 2021: £2.0m) are included within other expenses in note 4 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.

The acquisition of The Harrogate Vet Limited is a related party transaction and further details can be found in note 20.

Subsequent to the period end, the Group has made three acquisitions:

- 100% of the share capital of AT Animal Care Limited, a single site companion animal veterinary practice in the UK on 24 January 2023
- 100% of the share capital of Matt Smith Pet Care Limited, a single site companion animal veterinary practice in the UK on 26 January 2023
- The trade and assets of Macqueen Vets, a single site companion animal veterinary practice in the UK on 26 January 2023

13. Trade and other payables

	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
Trade payables	35.7	35.2	40.4
Social security and other taxes	19.9	16.7	18.4
Other payables	5.4	5.5	6.0
Deferred income ¹	2.2	2.3	2.2
Accruals	20.1	17.7	19.6
Total	83.3	77.4	86.6

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

14. Provisions

	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
At the beginning of the period	2.1	3.9	3.9
Charged to the income statement within administration expenses	-	-	1.2
Utilised in the period	(1.2)	(0.9)	(3.0)
At the end of the period	0.9	3.0	2.1

Provisions relate to costs set aside for properties including site closures and other property maintenance obligations. It is anticipated these will be utilised in the next twelve months.

15. Lease liabilities

	31 December 2022 (Unaudited) £m	31 December 2021 (Unaudited) £m	30 June 2022 (Audited) £m
Current	9.5	8.6	9.4
Non-current	93.4	92.4	95.1
Total discounted lease liabilities	102.9	101.0	104.5
Maturity analysis – contractual undiscounted cash flows			
Less than one year	13.4	12.4	13.2
Between one and five years	56.1	52.7	56.2
More than five years	53.3	57.7	56.6
Total	122.8	122.8	126.0

16. Cash flow generated from operations

	Six months ended 31 December 2022 (Unaudited) £m	Six months ended 31 December 2021 (Unaudited) £m	Year ended 30 June 2022 (Audited) £m
Profit for the period	21.1	17.5	25.7
Tax expense	6.9	5.4	10.3
Finance expense	3.5	3.4	6.8
Amortisation of intangible assets	11.3	11.3	22.2
Depreciation of property, plant and equipment	6.1	5.7	11.3
Depreciation and impairment of right-of-use assets	7.1	6.7	14.1
Profit on sale of property, plant and equipment and right-of-use assets	-	-	(0.3)
Increase in inventories	(2.3)	(3.1)	(6.6)
(Increase)/decrease in trade and other receivables	(1.2)	2.0	(3.2)
Decrease in trade and other payables	(7.0)	(11.4)	(0.1)
Decrease in provisions	(1.2)	(0.9)	(1.8)
Share option expense	1.2	1.3	2.3
Exceptional items	-	-	12.4
Total net cash flow generated from operations	45.5	37.9	93.1

17. Analysis of movement in liabilities from financing activities

	At 1 July 2022 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	At 31 December 2022 £m
Lease liabilities	(104.5)	8.6	(5.4)	0.8	(2.4)	(102.9)
Bank loans	(84.3)	-	-	-	(0.2)	(84.5)
Total liabilities from financing activities	(188.8)	8.6	(5.4)	0.8	(2.6)	(187.4)

	At 1 July 2021 £m	Cash flow £m	New leases £m	Liabilities on disposed leases £m	Non-cash movement £m	At 31 December 2021 £m
Lease liabilities	(98.8)	8.2	(8.9)	0.2	(1.7)	(101.0)
Bank loans	(83.9)	-	-	-	(0.2)	(84.1)

Total liabilities from financing activities	(182.7)	8.2	(8.9)	0.2	(1.9)	(185.1)
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Non-cash movements on right-of-use lease liabilities mainly comprise interest. Non-cash movements on borrowings and bank loans mainly include amortisation of issue costs on bank loans and bank debt acquired.

18. Dividends

The dividends paid in December 2022, representing the final dividend payable for the year ended 30 June 2022, amounted to £5.0m (7.0 pence per share) (31 December 2021: £4.6m (6.5 pence per share)).

19. Events after the reporting period

On 24 January 2023, the Group completed the purchase of 100.0% of the share capital of AT Animal Care Limited, a company registered in England and Wales. On 26 January 2023, the Group completed the purchase of 100.0% of the share capital of Matt Smith Pet Care Limited, a company registered in England and Wales. On 26 January 2023, the Group completed the purchase of the trade and assets of Macqueen Vets. These businesses each comprise one companion animal veterinary practice site in the UK, aligned with the Group's strategic goals. Initial cash consideration for these acquisitions was £10.9m.

On 22 February 2023, the Group completed a re-finance of the debt facility, increasing the total facility from £170.0m to £350.0m, which comprises the following elements:

- a fixed term loan of £87.5m, repayable on 21 February 2027 via a single bullet repayment;
- a four-year Revolving Credit Facility of £262.5m, that runs to 21 February 2027.

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

20. Related party transactions

During the period, on 23 November 2022, the Group completed the purchase of 100.0% of the share capital of The Harrogate Vet Limited, a company registered in England and Wales, for initial consideration of £2.6m, plus deferred consideration of £1.5m. This is a business comprising one animal veterinary practice site in the UK.

Prior to acquisition, the company was partially owned by the spouse of one of the Executive Directors of the Group, and as such the acquisition is considered a related party transaction. The terms of the acquisition, including consideration paid, were on an arm's length basis and consistent with acquisitions of other unrelated entities.

Consideration of £1.5m remains payable to the related party, contingent on fixed EBITDA targets within the practice acquired.

The related party remained in employment within the Group, and will receive an annual salary in FY23.

Directors and advisers

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Company number	06312831
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