



# Interim Results

## Half Year ending 31 Dec 2017

National Veterinary Care Ltd | [nvcld.com.au](http://nvcld.com.au)

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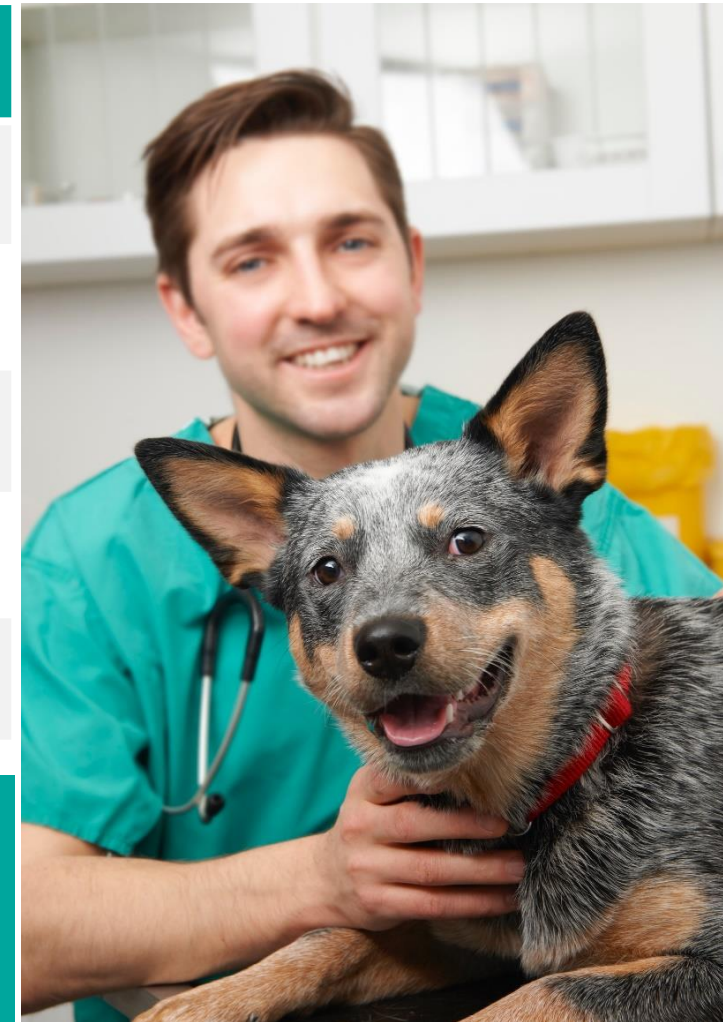
# Highlights

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# 1H FY2018 Performance Highlights

	1H FY2018	1H FY2017	Growth
Revenue	\$41.6m	\$32.6m	↑ +27.8%
Underlying EBITDA <sup>1</sup>	\$6.3m	\$6.0m	↑ +5.0%
Underlying EBITDA margin	15.7%	18.6%	↓ -290bps
Statutory NPAT	\$3.3m	\$2.6m	↑ +27.7%
EPS (basic)	5.57cps	4.96cps	↑ +12.3%

- Focus on revenue growth, including 7 veterinary clinics acquired in AUS in the first quarter
- General practices organic revenue growth 3.11% (1H FY2017: 3.03%) <sup>2 3</sup>
- Significant planned investment in resourcing and systems for future synergies
- FY2018 full year result will be weighted towards 2H due to investment in 1H



<sup>1</sup> EBITDA – Earnings before interest, tax depreciation and amortisation. Includes non-controlling interest. Excluding acquisition, integration and other one-off expense and revenue. Refer to page 20 for further details.

<sup>2</sup> Like for like sales growth in 1H FY2018 reflects General Practice clinics' performance, excluding strategic divestment, held for 6 months (1 July 2017 to 31 December 2017 vs 1 July 2016 to 31 December 2016).

<sup>3</sup> Like for like sales growth in 1H FY2017 reflects General Practice clinics' performance held for 4 months (1 September 2016 to 31 December 2016 vs 1 September 2015 to 31 December 2015).

# 1HFY2018 Operational Highlights

**60 Owned Clinics**  
(50 in AUS + 10 in NZ)



- 7 acquisitions settled from 1 July 2017 to 31 December 2017 – total to 60 clinics – 9% growth in clinic numbers (including divestments) since 1 July 2017
- Strategic divestment of 2 emergency clinics in August 2017
- 4 more acquisitions have settled in January 2018 (11 clinics FY18 to date) – total to 64 clinics

**392 Clinics in Management Services**



- 392 independent clinics utilising our Management Services and Procurement (MSP) Division by 31 December 2017 - 16% growth since 1 July 2017
- Current number of clinics under MSP Division is 401
- Management Services now provided to 3 corporate veterinary groups

**14,450 Wellness Program Members**



- Wellness Program implemented in 48 clinics with a total of 14,450 members - 23% growth since 1 July 2017
- 4 more clinics have commenced promoting the Wellness Program since 1 January 2018
- NPS Score of 75.86 at 31 December 2017 with over 13,489 completed surveys since 1 July 2017
- NPS Score of 76.85 since 1 January 2018

**NPS Score > 75**

**600 Professionals Trained**



- Trained 600 veterinary professionals across 54 workshops in 2017, up 160% from 2016
- Training Centre expects to offer 70 workshops in 2018 (February - November 2018)
- Professional development is one of NVC's strategic objectives, and underpins clinic organic growth





# Business Overview

# Shaping Pet Healthcare

NVC has continued to shape pet healthcare in Australia and New Zealand over the last 12 months



12 new clinics  
welcomed to  
the NVC  
Community



Over **180,000**  
primary  
consultations &  
vaccinations



Over  
**155,000**  
active clients



Over **8,200** pets  
received  
a dental procedure



Over  
**24,000**  
new clients



Over  
**600,000**  
unique website visits



Two industry leading  
conferences for over  
**278** Veterinary  
Professionals



54 practical training  
workshops offered  
by our Veterinary  
Training Centre



**82%** of clients  
surveyed scored us a  
**9 or 10**



Over  
**34,700**  
new followers on  
Social Media

# Our Competitive Advantage

## 1. Local Area Branding



Our clinics retain their local area brand, continuing to leverage their established brand equity

## 2. Training



Our veterinary professionals & other industry participants have access to the NVC Veterinary Training Centre

## 3. Scale of Operation



Representing 18% of the AUS industry via our owned businesses and our management services division

## 4. Patient Satisfaction



Net Promoter Score continues to be above 75, with strong client retention

## 5. Clinical Autonomy



Vet Advisory Committee establishes standards for our clinics to guide their clinical decision making

## 6. Industry Partnerships



Working with the wider veterinary community for the future success of the industry



# Foundations for Long Term Growth

## Investment in Support Office and our People



### Strategically scaling up Support Office capabilities to support additional clinics and realise future synergies by:

- Creating a more robust operations team and introducing added support for clinics including new Vet Manager roles across regions.
- Additional expertise across Integrations, Finance, Marketing and HR teams.
- Investment in development of corporate culture, and development of our people and leaders – structured leadership programs and continued development/expansion of the Veterinary Training Centre.
- Investment of approx. \$0.55 million over the prior period (\$1.1m annualised) in key initiatives for support office and systems.

## Investment in New Systems



### Introducing new systems and improvements to facilitate scalability:

- Commenced implementation of new integrated accounts payable and employee expense claim systems, to be completed by June 2018.
- Commenced scoping of API between key Practice Management System and finance system, to be completed by June 2018.
- Completed integration of a new CRM system to communicate with our clients more effectively.

## Investment in Infrastructure and Technology



### Investment in technology and infrastructure to support the integration strategy:

- Refinement of our key Practice Management System (PMS) to a centralised database for clinical consistency and practice scalability, to be completed in 2018.
- NVC systems integration (including PMS) continues across clinics, including recent acquisitions.
- Transition to standardised phone system and IT platform across Aust and NZ during 2018 creating significant operating efficiencies.

## Investment in Managed Services Division

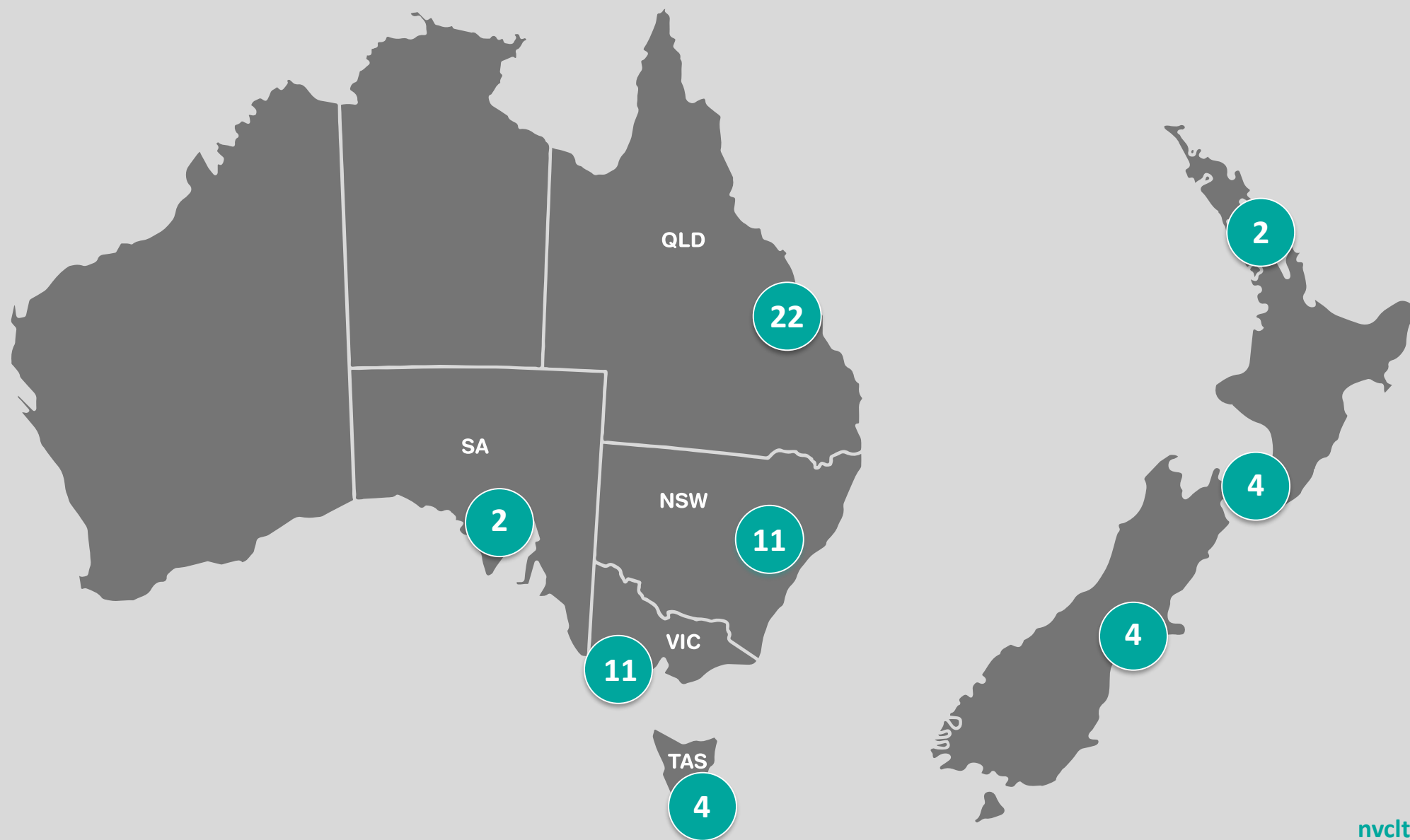


### Improving business systems and processes to enhance member engagement and facilitate scalability:

- Expansion of the management services team, including additional veterinary and coaching expertise and member servicing.
- New member focused initiatives including member database and marketing initiatives to attract, retain and manage members.
- Improved clinic rebates delivered through new and improved member deals.
- Potential for NZ expansion in the next 12 months.

# Australia and New Zealand Portfolio – at 31 December 2017

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NVC Clinics

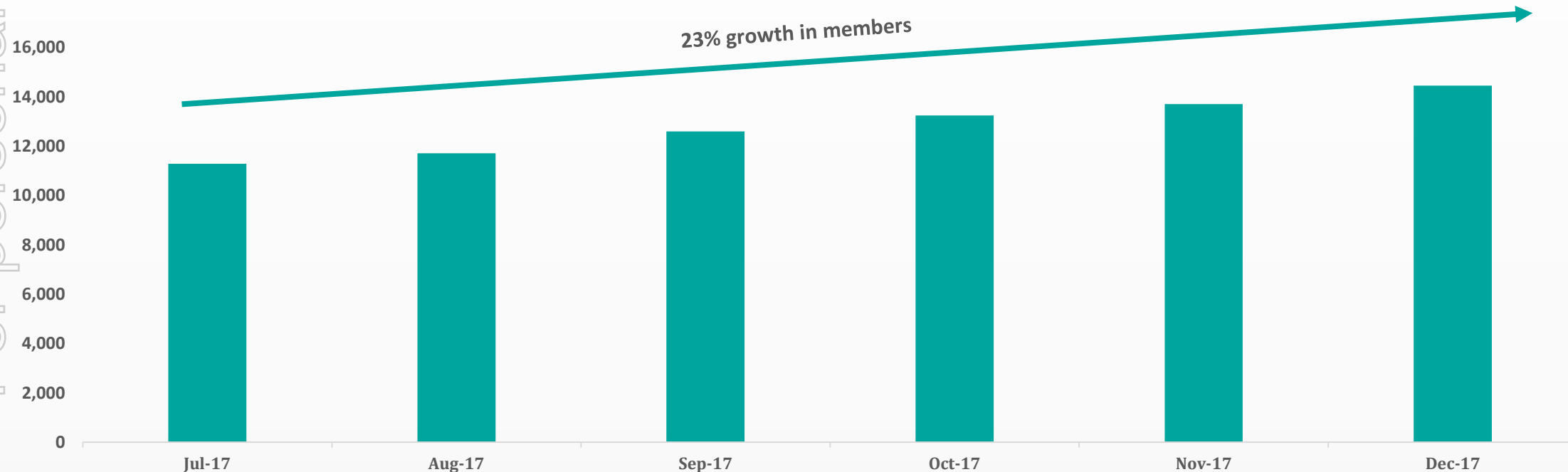
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# Key drivers of organic growth performance

Wellness Program **bestforpet**

- At 31 December 2017 - 48 clinics promoting the program with 14,450 members – 23% growth in members since 1 July 2017
- Currently - 52 clinics promoting the program with 15,549 members
- Members average spend increases by >90% after joining the program
- The current membership retention rate is 79%.



# Renovation results in improved clinic performance

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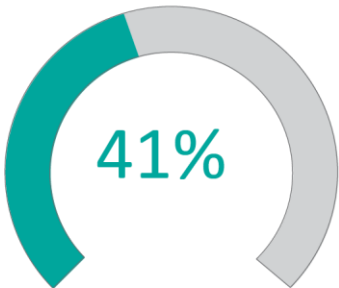
Increase in Revenue



Increase in Dental Procedures



Increase in Per Opportunity



Increase in New Clients



Increase in Best for Pet Average Monthly Acquisition

- Renovations have a positive effect on employees, clients and clinic performance
- Additional 5 clinic renovations or refreshes in progress or planned in the next 6-18 months
- Streamlined renovation process developed to minimise clinic disruption





**veterinary**  
TRAINING CENTRE





# Veterinary Training Centre - Workshop Topics & Participation (February – Nov 2018)

Workshop Topics		No. of Workshops	No. of Participants
Dental	Understand malocclusions, radiology, client compliance and dental extractions in one day	21	321
Pathology	Practical skills in taking and preparing all standard cytology samples including fine needle aspirates	4	96
Behaviour	An ongoing series of seminars on diagnosis and treatment of behavioural issues in small animals	2	60
Imaging	Ultrasonography imaging techniques as well as reading and interpretation	6	86
Surgery	Surgical wound management, abdominal surgery, stifle joint surgery, feline surgery	18	204
Nurse Consultation and Clinical Skills	Nurse consultation, merchandising in clinic effectively, foundation and advanced clinical nursing skills, nutrition and the effect on profitability	12	288
Leadership Training	Developing our clinic leaders with personal, financial, marketing and human resource management	4	280
Other	HR Staff Engagement, Effective use of Social Media, How to improve your customer service and customer loyalty	3	154
TOTAL		70	1,489

## Expansion of Veterinary Training Centre

- New training facilities in Melbourne and Christchurch planned in 2018
- Additional facilities will provide greater training capacity (more workshops) across AUS and NZ
- Increased revenue with target of 50% external participants
- Reduced travel costs and days out of clinic for NVC employees attending training, particularly for VIC, TAS and NZ clinics
- Potential for external use of facilities (e.g. training by suppliers and other health sector businesses)





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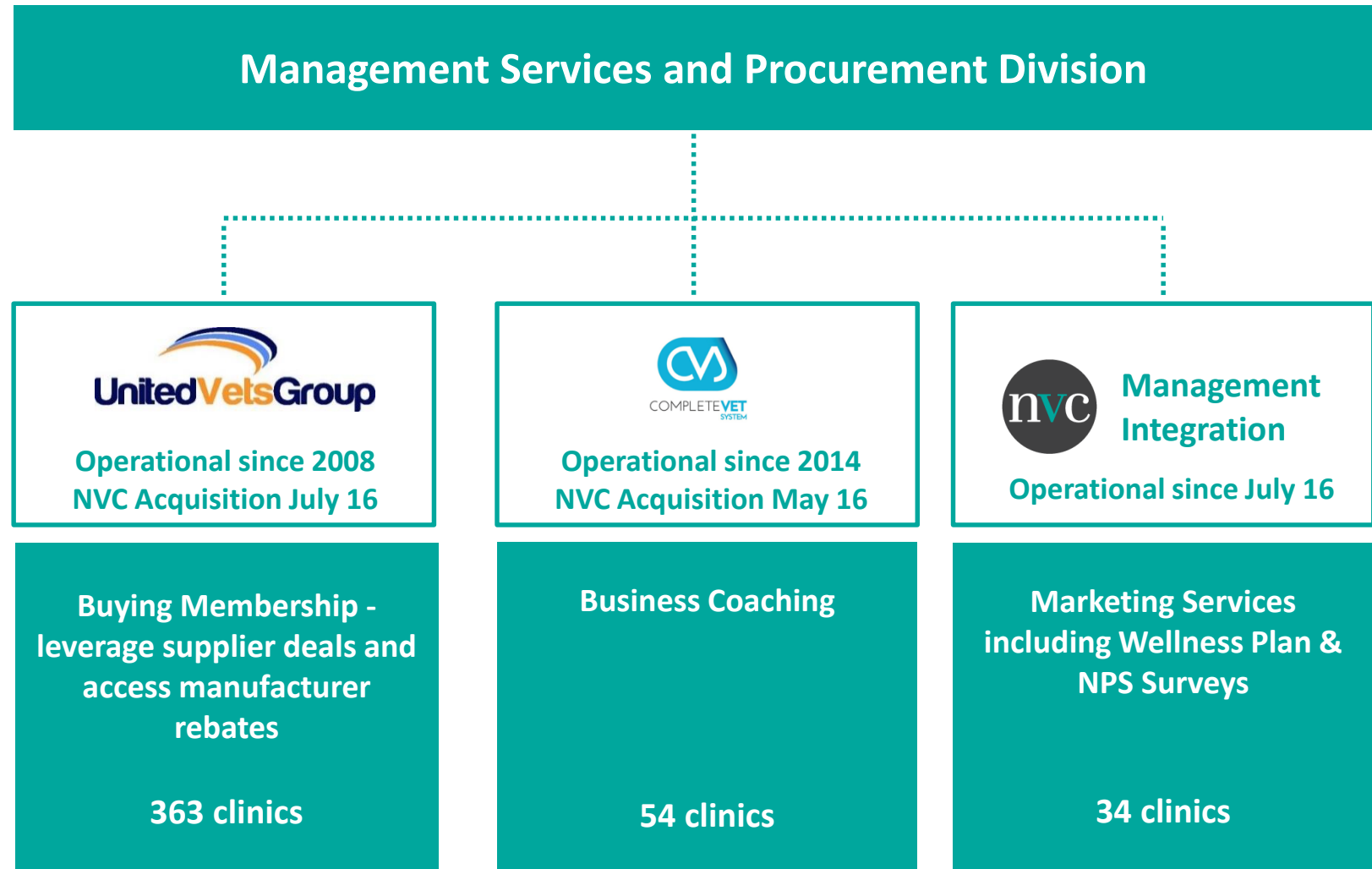
Management Services

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# Overview of Management Services and Procurement Division

- The Management Services and Procurement Division has 3 different engagement levels to interact with clinics in the veterinary community.
- 2 of the engagement levels are driven from established businesses acquired by NVC.
- The clinics benefit from NVC's procurement arrangements and industry leading management and coaching programs and support.
- Some clinics engage across multiple levels.
- NVC benefits by building relationships and engaging with the wider veterinary community in Australia and New Zealand.

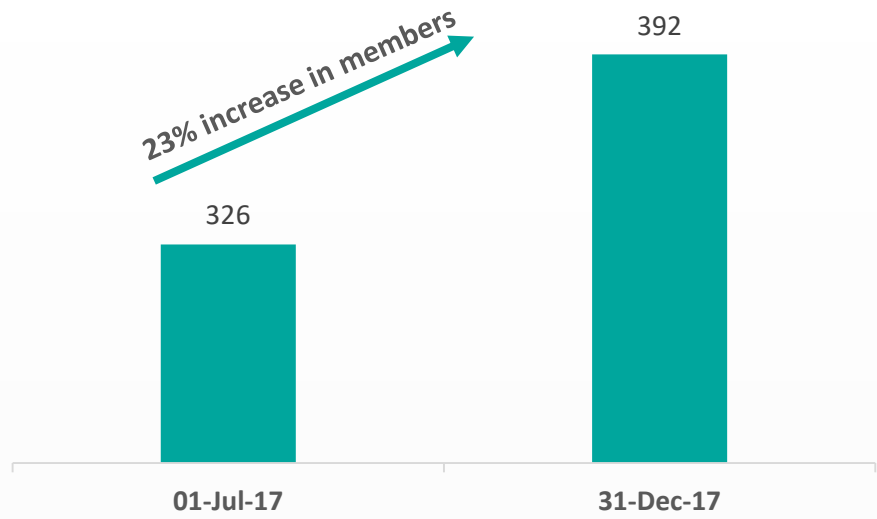




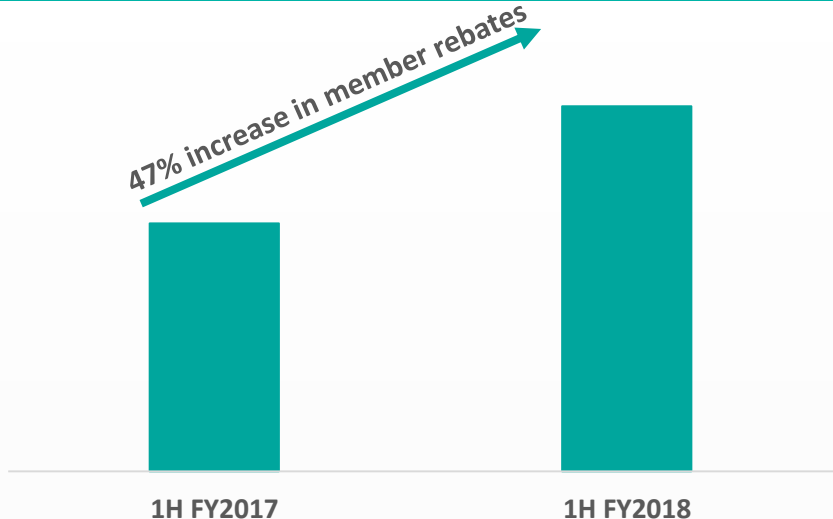
# Improved clinic participation in our Management Services Division

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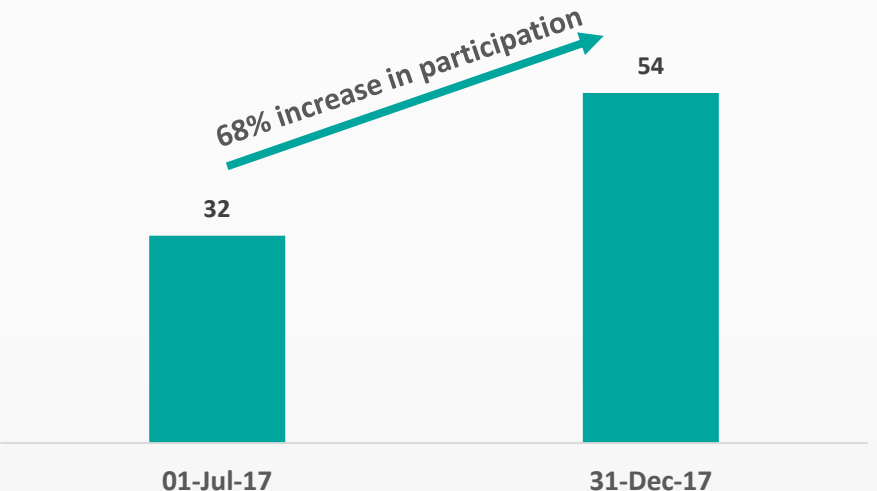
Increase in Members



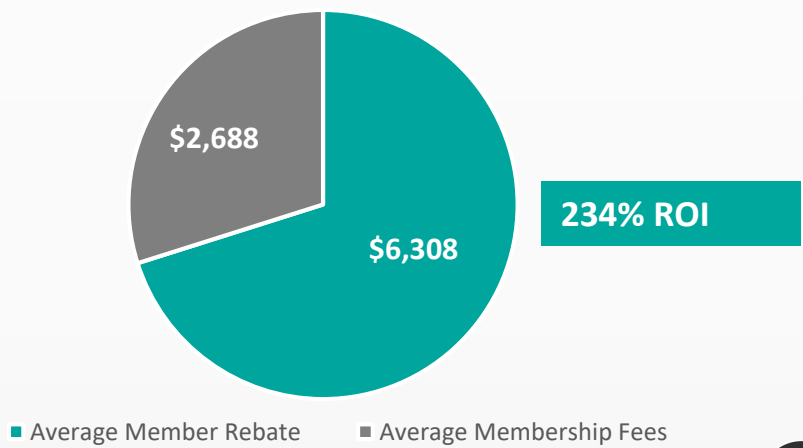
Increase in Rebates Paid to Members



Increase in Clinics in a Coaching Program



Average Rebate Paid Versus Member Fees



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# Financial Performance

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# Profit and Loss Statement – Underlying <sup>1</sup>

	1H FY2018 \$'000	1H FY2017 \$'000
<b>Sales Revenue</b>	40,003	32,588
Direct expenses	(10,270)	(8,244)
Gross margin	29,733	24,344
Gross margin (%)	74.3%	74.7%
Operating expenses <sup>1</sup>	(23,457)	(18,296)
<b>EBITDA <sup>2</sup></b>	6,276	6,048
<b>EBITDA margin (%)</b>	15.7%	18.6%
Depreciation	(635)	(443)
Finance expense	(734)	(684)
<b>Profit before tax</b>	4,907	4,921
<b>PBT margin (%)</b>	12.3%	15.1%
Income tax expense	(1,510)	(1,558)
<b>Net profit after tax</b>	3,397	3,363
Non-controlling interest	(311)	(311)
<b>Net profit after tax attributable to owners of NVL</b>	3,086	3,052
<b>NPAT margin (%)</b>	7.7%	9.3%
Earnings per share - basic (cents)	5.26	5.92

<sup>1</sup> Excluding acquisition, integration and other one-off expenses and revenues.

<sup>2</sup> EBITDA – Earnings before interest, tax depreciation and amortisation. Includes non-controlling interest.

## Commentary

### Revenue

The increase in revenue was driven by 12 acquisitions since the end of the prior period, the full impact of prior period acquisitions and general practice organic growth of 3.11%. This growth was somewhat offset by the disposal of 2 large emergency clinics early in the current period.

### Gross margin %

A strong result given the dilutionary impact of the New Zealand operations' lower margins (higher retail sales mix) occurred for the full period compared to only 3.5 months in the prior period, albeit offset by improved buying power.

### Operating expenses

Operating expense increases were primarily driven by wages growth at a support and clinic level. As noted on slide 9, NVL has invested approximately \$0.55m over the prior period in clinic support functions in order to capitalise on synergies as the portfolio continues to grow.

### Profitability

EBITDA margin % reduced as a result of higher operating costs relative to revenue growth including the impact of the additional investment in the business support functions. NPAT margin % remains strong.



# Underlying Adjustments

	EBITDA <sup>1</sup>		NPAT <sup>2</sup>	
	1H FY2018	1H FY2017	1H FY2018	1H FY2017
	\$'000	\$'000	\$'000	\$'000
<b>Statutory Performance</b>	6,081	5,391	3,266	2,557
Writeback of contingent consideration at fair value	(1,639)	-	(1,639)	-
Restructuring and Integration costs	365	173	365	173
Loss on disposal of business	272	-	272	-
Trading loss of disposed business	82	-	82	-
Acquisition and transaction costs	595	484	595	484
Other one-off	520	-	520	-
Effective tax rate <sup>4</sup>		-	(375)	(162)
<b>Total Adjustments</b>	195	657	(180)	495
<b>Underlying Performance <sup>3</sup></b>	6,276	6,048	3,086	3,052

<sup>1</sup> EBITDA – Earnings before interest, tax depreciation and amortisation. Includes non-controlling interest.

<sup>2</sup> NPAT – Net profit after tax attributable to shareholders after allowing for non-controlling interests

<sup>3</sup> After excluding the impact of acquisition, integration, restructuring and other one-off costs and revenues.

<sup>4</sup> Effective tax rate used on adjustments (excluding non-deductible stamp duty from acquisitions, and capital loss on disposal of business) is 30%

## Commentary

Writeback of contingent consideration relates to earnout amounts that were not paid for 7 of the 35 initial portfolio clinics. The earnouts amounts were either fully or partially written back due to underperformance of the clinics over the two year period post acquisition (this represents 1.7% of the total purchase price of \$56.8m for the initial portfolio excluding fair value increase to share consideration post settlement). During the period 2 of these clinics were divested (emergency centres) and the remaining clinics are now performing well.

Acquisition and integration costs include professional fees and stamp duty, as well as the provision of a dedicated team to provide support for due diligence, settlement and IT systems integration.

Stamp duty costs increased in line with Australian clinic acquisitions (prior period mainly New Zealand clinics acquired). Higher Restructuring and Integration costs are driven by increased investment in the integrations team supporting IT systems rollout and redundancies in the B2B businesses.

Other underlying costs of \$0.52m mainly relate to the impact of the new remuneration policy implemented in FY2018 which resulted in a one-off duplication of employee benefits costs in the current period arising from transition year accounting provisions.

# Profit and Loss Statement - Statutory

	1H FY2018 \$'000	1H FY2017 \$'000
<b>Revenue<sup>2</sup></b>	41,642	32,588
Direct expenses	(10,270)	(8,244)
Gross margin	29,733	24,344
Gross margin (%)	74.3%	74.7%
Operating expenses	(23,457)	(18,296)
Acquisition, integration and other one-off expenses	(1,834)	(657)
<b>EBITDA<sup>1</sup></b>	6,081	5,391
<b>EBITDA margin (%)</b>	14.6%	16.5%
Depreciation	(635)	(443)
Finance expense	(734)	(684)
<b>Profit before tax</b>	4,712	4,264
<b>PBT margin (%)</b>	11.3%	13.1%
Income tax expense	(1,135)	(1,396)
<b>Net profit after tax</b>	3,577	2,868
Non-controlling interest	(311)	(311)
<b>Net profit after tax attributable to owners of NVL</b>	3,266	2,557
<b>NPAT margin (%)</b>	7.8%	7.9%
Earnings per share (basic)	5.57 cents	4.96 cents

<sup>1</sup> EBITDA – Earnings before interest, tax depreciation and amortisation. Includes non-controlling interest.

<sup>2</sup> Revenue includes \$1.639m in write back of contingent consideration from acquisitions (excluded from gross margin)

# Balance Sheet

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	1H FY2018 \$'000	FY2017 \$'000
<b>ASSETS</b>		
Cash and cash equivalents	8,103	13,105
Trade and other receivables	3,036	3,075
Inventories	2,782	2,576
Assets held for sale	-	2,572
Property, plant and equipment	5,535	4,893
Intangibles	92,735	81,875
Deferred Tax	1,602	1,579
Other	409	130
<b>Total Assets</b>	<b>114,202</b>	<b>109,805</b>
<b>Liabilities</b>		
Trade and other payables	6,949	7,786
Income Tax	1,720	2,287
Employee benefits	2,287	2,372
Borrowings	28,282	24,805
Other	5,261	3,583
<b>Total Liabilities</b>	<b>44,499</b>	<b>40,833</b>
<b>Net Assets</b>	<b>69,703</b>	<b>68,972</b>
Shares on issue	58,940,699	58,940,699

	1H FY2018 \$'000	FY2017 \$'000
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## Debt metrics

Net debt	20,179	11,700
EBITDA leverage <sup>1</sup>	1.65	0.99

## Commentary

### Cash

Cash reserves are lower following settlement of acquisitions in the half year and large initial income tax payments across the group. Further income tax payments will be payable in the second half before reverting to regular periodic payments.

### Assets held for sale

Relates to emergency clinics disposed of in August 2017.

### Trade and other payables

Trade and other payables declined during the period mainly due to increased payment frequency of employee Pay As You Go Withholding (PAYGW) obligations.

### Debt

Drawn \$28.2m of core debt facility (\$42.0m) with EBITDA leverage at 1.65x (net), provides headroom to fund future acquisitions.

### Other liabilities

Includes deferred consideration payable to vendors of acquired businesses if performance hurdles are met and revenue received in advance in relation to the Best for Pet program.

<sup>1</sup> Bank Facility basis adjusted for net debt



# Cash Flow Statement

	1H FY2018 \$'000	1H FY2017 \$'000
<b>Underlying EBITDA <sup>1</sup></b>	6,276	6,048
Other non-cash items	104	-
Changes in working capital <sup>2</sup>	(1,143)	1,658
Underlying Operating Cash Flows (pre-tax, ungeared)	5,237	7,706
Conversion (%)	83%	127%
<b>Ungeared, pre-tax operating cash flows - Underlying</b>	5,237	7,706
Acquisition, integration and other one-off costs <sup>3</sup>	(1,562)	(657)
<b>Ungeared, pre-tax operating cash flows - Statutory</b>	3,675	7,049
Net finance costs paid	(618)	(892)
Income tax paid	(1,700)	(176)
<b>Net cash from operating activities</b>	1,357	5,981
Net payments for purchase of businesses <sup>4</sup>	(8,826)	(14,050)
Net payments for purchase of non-controlling interests	(473)	-
Net payments for plant and equipment	(917)	(624)
Proceeds on sale of business	2,365	-
<b>Net cash used in investing activities</b>	(7,851)	(14,674)
Net proceeds from share issue	(3)	(5)
Net proceeds from borrowings	3,520	9,310
Dividends/net loans paid to non-controlling interests, members and related parties	(2,028)	(287)
<b>Net cash from financing activities</b>	1,489	9,018
<b>Net increase in cash and cash equivalents</b>	(5,005)	809

<sup>1</sup> EBITDA – Earnings before interest, tax depreciation and amortisation. Includes non-controlling interest. Excluding acquisition, integration and other one-off expenses.

<sup>2</sup> Excludes income tax and finance costs

<sup>3</sup> Excludes non-cash loss on disposal of business in 1HFY2018

<sup>4</sup> Includes writeback of deferred consideration

<sup>5</sup> Pay As You Go Withholding (PAYGW)

## Commentary

### Operating

Operating cash flows in the half year were impacted by large initial income tax payments, changes to employee PAYGW<sup>5</sup> payment timing and acquisition/integration costs. EBITDA cash conversion of 83% improves to 100% when one-off issues such as PAYGW payment timing are normalised.

### Investing

Primarily related to the acquisition of 7 veterinary clinics during the half year compared with 9 veterinary clinics/businesses in the prior period offset by cash proceeds from some of the deferred consideration writebacks.

### Financing

Financing cash flows reflect net debt drawn to fund business acquisitions, less dividends and other payments made to non-controlling interests. Net proceeds of borrowings are lower than the prior period due to share placement funds raised in June 2017.

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# Growth Strategy & Outlook

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# Growth Strategy

NVC has three core growth platforms, each with attractive returns and significant runway remaining as it strives to increase its market share.

## Organic Growth of Veterinary Services



### Opportunity to improve the performance of existing veterinary services businesses through:

- Expansion of the Wellness Program – Best for Pet.
- Benchmarking of clinical standards across practices via the practice management system (leading to the identification of training opportunities to optimise product/service offer).
- Better standards of care, leading to increased revenue streams through the upskilling of veterinary professionals through the Veterinary Training Centre.
- In-house provision of more complex services to reduce external referrals outside of NVC.

## Growth by Acquisition



### Significant opportunity for further industry consolidation in the veterinary services sector due to:

- The fragmented nature of the industry.
- The changing characteristics of the veterinary workforce.

## Growth of Management Services and Procurement Division



### Significant opportunity to grow the management services and procurement division by leveraging:

- NVC's stronger buying power.
- NVC's Veterinary Training Centre.
- NVC's Systems.
- Providing bespoke service offerings and support to corporate groups in the health sector.
- Providing support to smaller independent clinics (approx. 2,600 clinics in Australia and New Zealand).



# FY2018 Outlook

Based on the initiatives and businesses currently in place, NVC updates its outlook for FY2018 as:

- Revenue growth expected to be greater than 25% above the statutory FY2017 revenue of \$66.8 million
- Gross Margin expected to be in line with FY2017
- Underlying EBITDA margin expected to be in the range of 16% to 17%
- Expect to pay a final dividend in respect of FY2018

Current growth initiatives include:

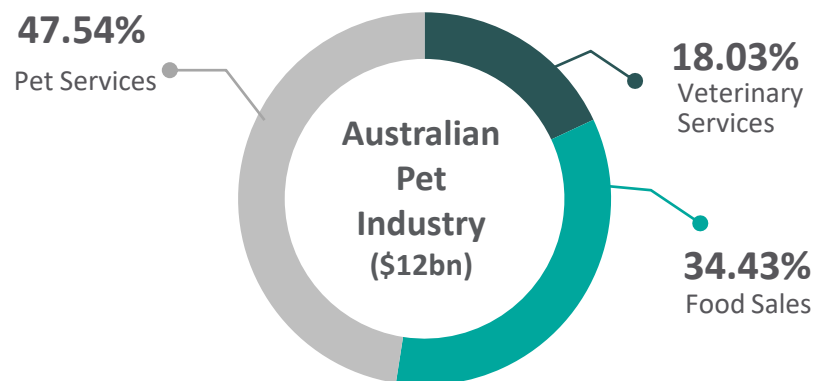
<b>Ongoing clinic initiatives</b>	<ul style="list-style-type: none"><li>▪ Wellness Program now offered through 52 clinics, with further clinics (including newly acquired) to be added</li><li>▪ Roll out of KPIs for benchmarking across the group ensuring high performance standards maintained through growth</li></ul>
<b>IT and new infrastructure in place</b>	<ul style="list-style-type: none"><li>▪ Centralised financial systems and practice management systems in place to ensure scalability of the business model</li></ul>
<b>Pipeline of potential acquisitions</b>	<ul style="list-style-type: none"><li>▪ 11 acquisitions settled to date in FY2018; strong pipeline of potential clinics to acquire to secure continued growth</li><li>▪ Sector remains highly fragmented in Australia and New Zealand with approximately 2,600 independent veterinary clinics</li></ul>
<b>Supplier Agreements in place</b>	<ul style="list-style-type: none"><li>▪ Agreements with additional suppliers to secure favourable (many best in industry) purchasing terms for clinics</li></ul>
<b>Alignment of interests</b>	<ul style="list-style-type: none"><li>▪ Management and vendors have significant financial interests in NVC which aligns their interests with shareholders</li></ul>



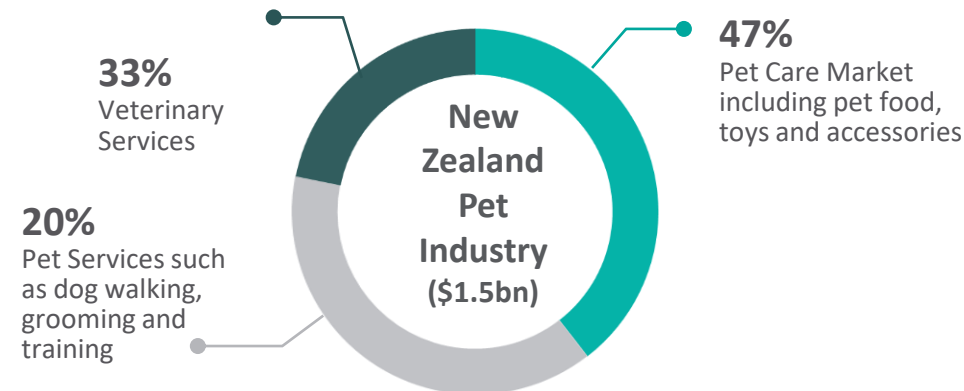
# Appendix

# Pet Ownership – Australia and New Zealand

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- The overall pet industry in Australia is estimated to be worth \$12bn. An increase of 42% since 2013.
- 4.8 million dogs in Australia and 3.8 million cats with total household pet ownership of 62%.
- Australia - 79% of dogs go to the vet at least once a year compared to 65% of cats.



- The overall pet industry in New Zealand is estimated to be worth 1.5bn.
- 683,000 dogs in New Zealand and 1.13 million cats with total household pet ownership of 64%.
- New Zealand - 82% of dogs go to the vet at least once a year compared to 64% of cats.

- **Highly fragmented markets**
- **‘Humanisation trend’ and the emergence of the ‘fur baby’ means demand for veterinary services tends to be steady from year to year**
- **Growth opportunities exist in advanced surgical and diagnostic procedures**



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**Thank you**

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