



# Acquisition of Pet Doctors and \$18.0m Institutional Placement

12 September 2018

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# Transaction overview

## Overview

- National Veterinary Care (“NVL”) has executed definitive documentation in relation to the acquisition of “Pet Doctors” in New Zealand for total upfront purchase consideration of A\$22.7m<sup>1</sup>
- Acquisition multiple of:
  - 5.5 x clinic 2018A EBITDA (pre-synergies)<sup>2</sup>
  - 5.3 x clinic 2018A EBITDA (inclusive of synergies)
  - 7.9 x 2018A EBITDA (inclusive of on going support office costs and synergies)
  - 7.4 x 2019F EBITDA (assuming business meets target earnings for deferred consideration)
- Deferred consideration of A\$4.3m to be paid if certain earnings targets are exceeded.
- Additional working capital of A\$1.4m to be paid to Pet Doctors as part of the transaction

## Attractive market opportunity

- New Zealand represents a highly attractive market opportunity for NVL:
  - Pet humanisation continues to support higher value-add services
  - Technological innovation has led to an expanded range of veterinary services
  - Greater internet usage is providing corporate veterinary groups with an increased number of consumer touch points

## Pet Doctors overview

- Largest companion animal veterinary company in New Zealand
- Core operations include:
  - 23 veterinary clinics located in high traffic, metro areas throughout New Zealand
  - A vet nurse training school and two education centres
- Strong brand awareness underpinned by service excellence and a focus on clinical outcomes
- Track record of consistent revenue and earnings growth

# Transaction overview

<b>Strategic rationale</b>	<ul style="list-style-type: none"> <li>▪ Adds critical mass to NVL's existing New Zealand operations</li> <li>▪ Creates a strong foundation for further growth in New Zealand (acquisition and organic)</li> <li>▪ Potential procurement and sourcing benefits, as well as sharing of clinical best practices and training</li> <li>▪ Extends the reach of UVG into Pet Doctors' practice network and facilitates the penetration of the New Zealand independent market</li> <li>▪ Financially attractive transaction (expected EPS accretion)</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>▪ Initial purchase consideration, additional Pet Doctors working capital and associated transaction costs to be funded by an institutional placement, debt and from existing cash reserves. Institutional placement equal to A\$18.0m.</li> </ul>
<b>NVL intentions</b>	<ul style="list-style-type: none"> <li>▪ Within 120 days of acquisition, NVL intends to implement its systems across the Pet Doctors network to drive an increase in overall performance. (Systems include Wellness program, NPS, Clinical Benchmarking and others. Pet Doctors clinics currently use the same PMS (Practice Management System) as NVL).</li> <li>▪ Upon acquisition NVL intends to immediately rationalise Pet Doctors' support office resulting in a reduction of support office costs from circa A\$3.2m currently to cA\$1.5m per year. NVL will continue to monitor support office costs and identify opportunities (over time) for economies of scale and leveraging the support office over a larger network of clinics.</li> <li>▪ NVL intends to review the combined Pet Doctors and NVL network for any latent operating capacity and consider rationalising (any) clinics deemed to be inefficient</li> </ul>
<b>Expected financial impact</b>	<ul style="list-style-type: none"> <li>▪ Improved scale and operating leverage, particularly in New Zealand</li> <li>▪ Expected to deliver FY2019F EPS accretion in mid-single digits (including synergies)</li> <li>▪ PF Net debt / PF18A EBITDA of 2.0x <ul style="list-style-type: none"> <li>– NVL to maintain strong balance sheet post acquisition in support of future growth initiatives</li> <li>– Strong cash generation of the combined business to support deleverage over time</li> </ul> </li> </ul>
<b>Timing and other</b>	<ul style="list-style-type: none"> <li>▪ Well developed integration plan designed to manage the transition and to assist NVL realise expected acquisition benefits</li> <li>▪ Systems in place with capacity for support of expanded clinic network (limited additional fixed costs required)</li> <li>▪ Management team with track record and experience to execute</li> </ul>

# Introduction to NVL New Zealand

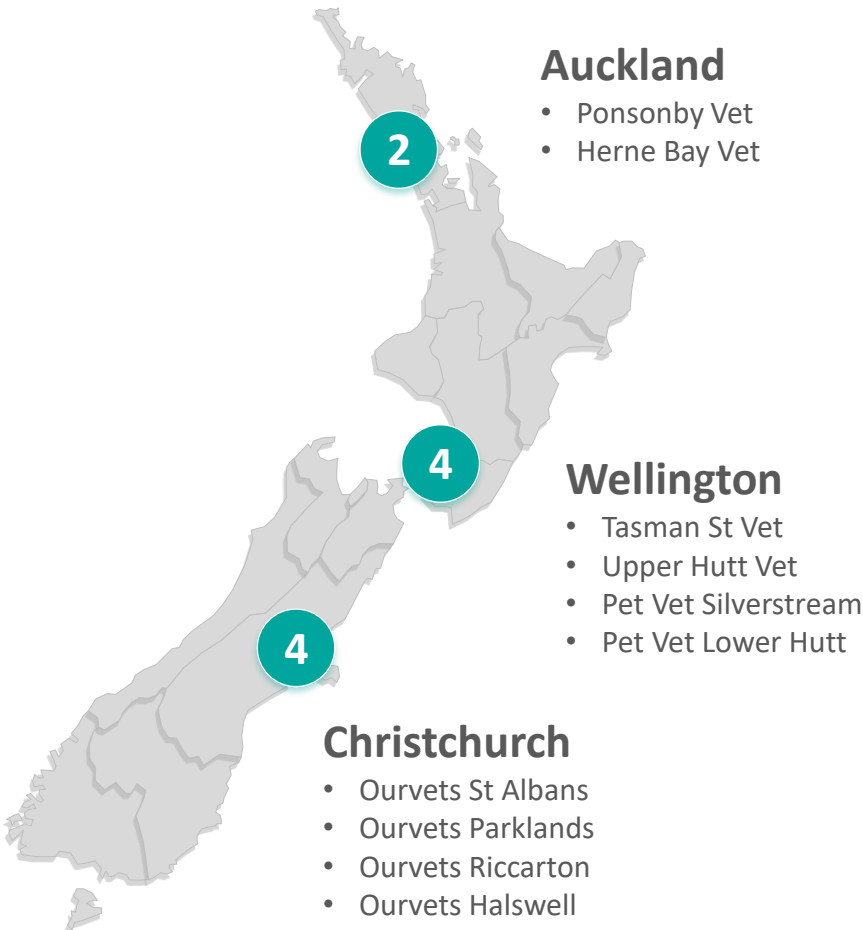
## Key Highlights



## Best for Pet Program



## Network



## 2 Introduction to Pet Doctors

### Key Highlights

23  
clinics

2  
Training  
centres

300  
staff

55K  
Database  
of pet  
patients

### Pet Doctors Franchise



- 17 Pet Doctors branded clinics (2 partially branded)
- Two other complementary brands
- Flexible approach to branding with a combination of unbranded and fully branded clinics



- Vet nurse training school with education centres in Albany and Botany
- NZQA approved and accredited



- Online retail store offering a large range of products for companion animals



- 3,237 Vac for Life members

### Pet Doctors Clinic Network

#### Auckland

- Botany
- Howick
- Lynfield
- Mt Eden
- Papatoetoe
- St Lukes & Exotics
- South Auckland Veterinary Hospital
- Vet Nurse Plus (2 locations)

#### Waikato / Bay of Plenty

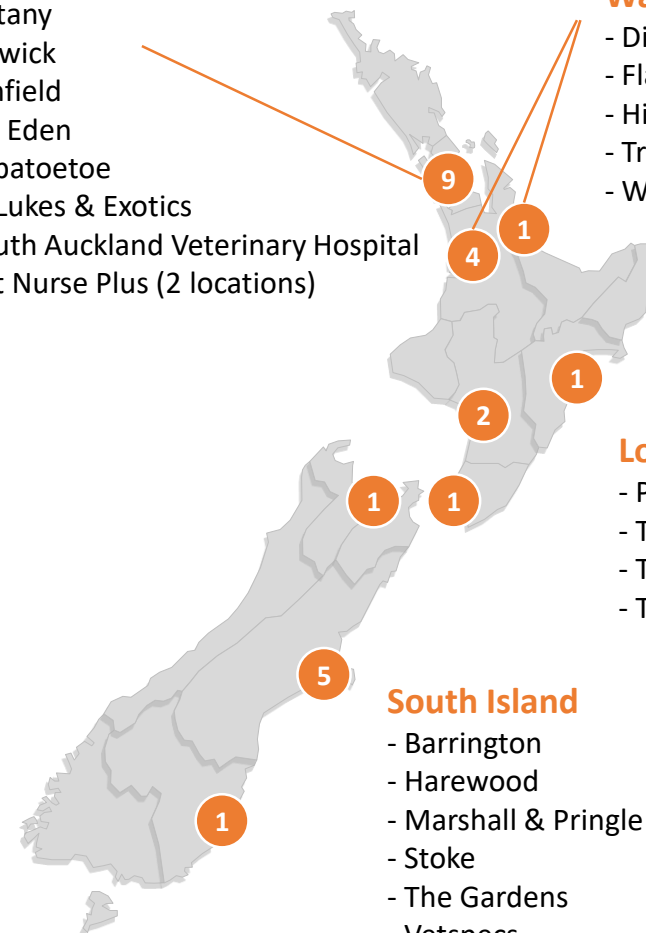
- Dinsdale
- Flagstaff
- Hillcrest
- Tristram Street
- Waihi

#### Lower North Island

- Palmerston North
- Terrace End
- Taradale
- Thomdon

#### South Island

- Barrington
- Harewood
- Marshall & Pringle
- Stoke
- The Gardens
- Vetspecs
- Templeton

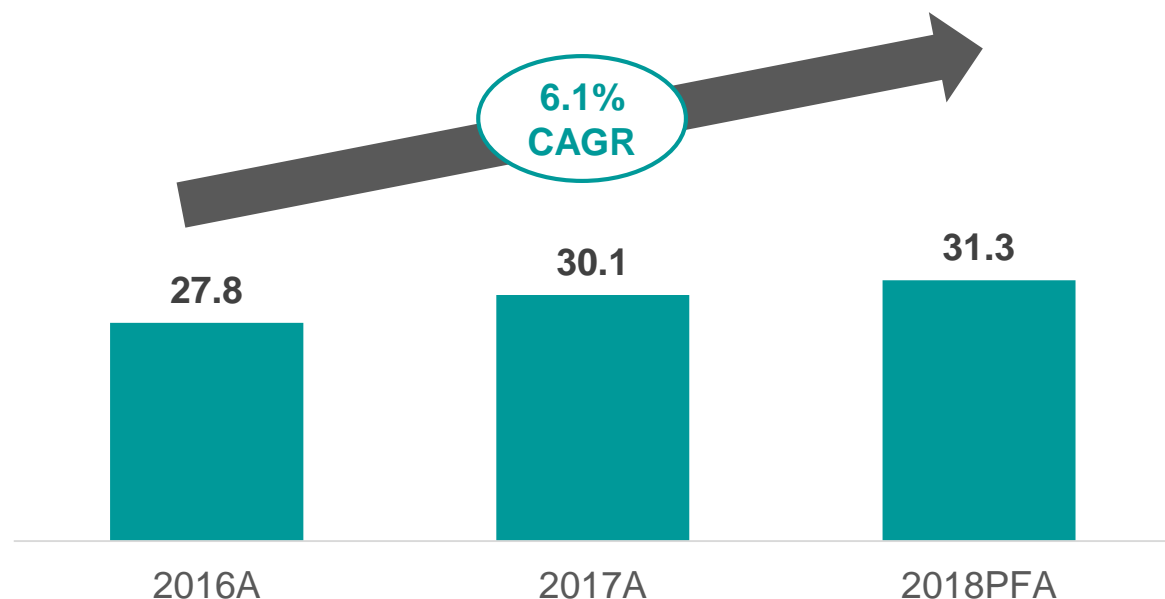




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## Pet Doctors has a strong financial track record

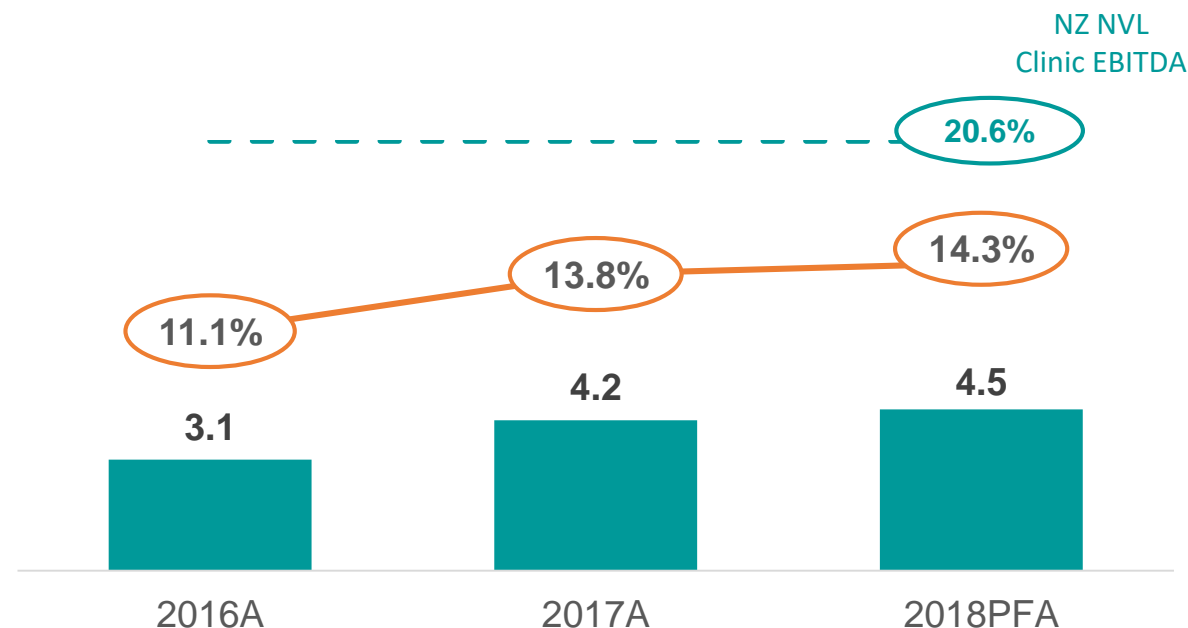
Clinic revenue (NZ \$m)<sup>1</sup>



**Strong organic growth**

Pet Doctors has demonstrated a track record of consistent revenue growth, underpinned by a market structure and factors similar to NVL

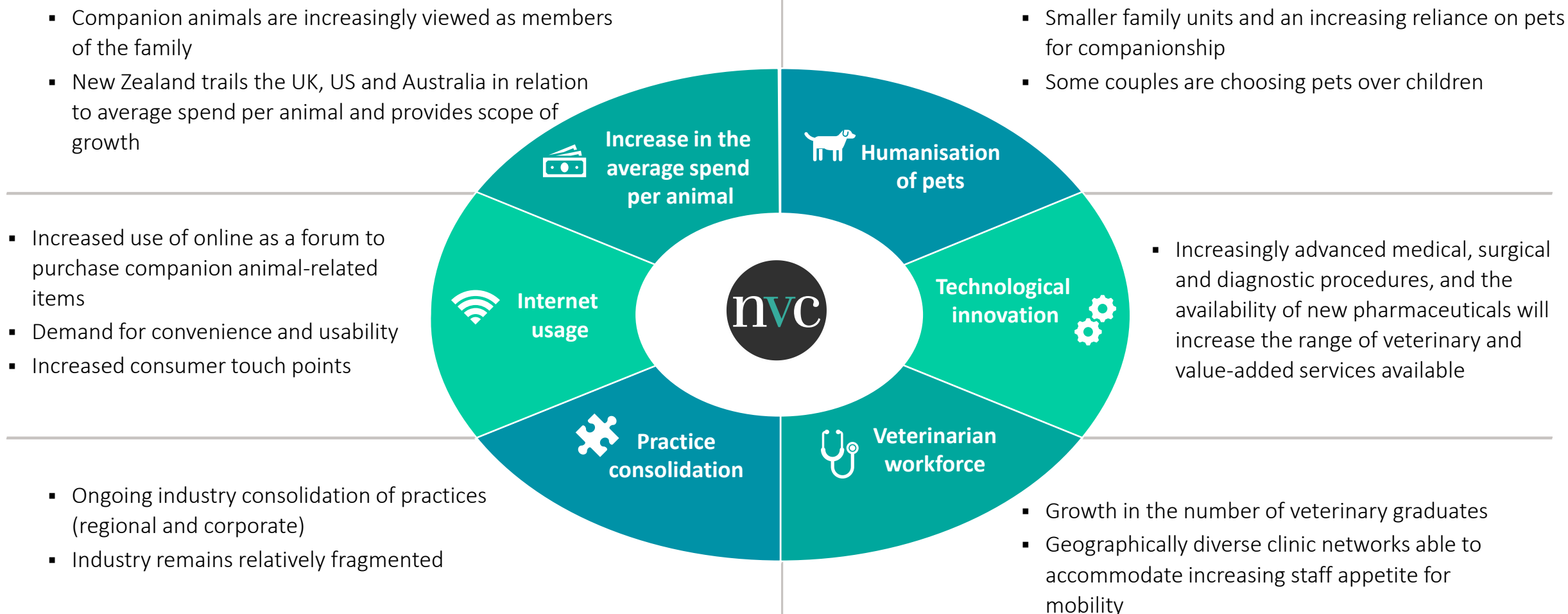
Clinic EBITDA (NZ \$m)<sup>1</sup> and EBITDA margin (%)



**~300bps of margin expansion over last three years, with upside potential**

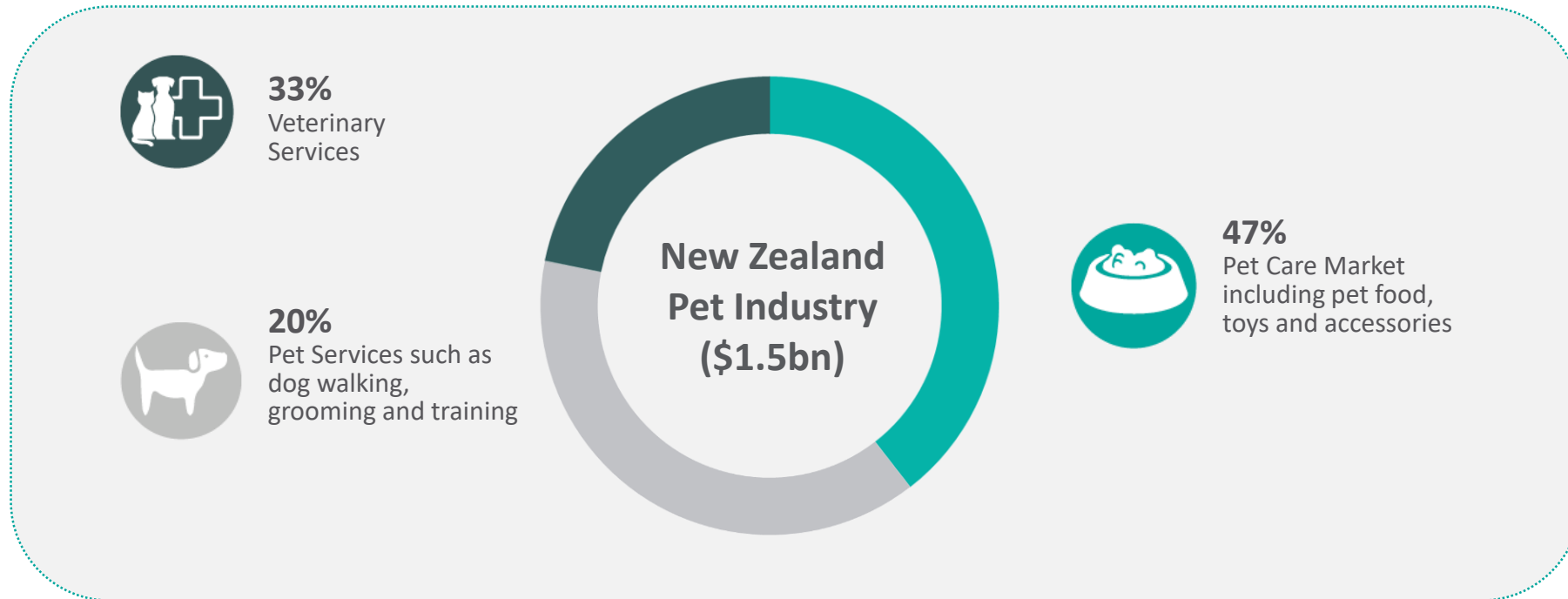
PD has experienced strong margin accretion over the last three years. PD and NVL NZ share similar gross margins, however scope exists to increase clinic margins further, from improved supplier terms, and implementation of NVL operating systems and clinical best practice (e.g. training, marketing)

## New Zealand represents an attractive market opportunity



**The New Zealand veterinary market is underpinned by a number of favourable industry trends which supports the expansion of the corporate ownership model over time**



### 3 Pet Ownership - New Zealand



- 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.

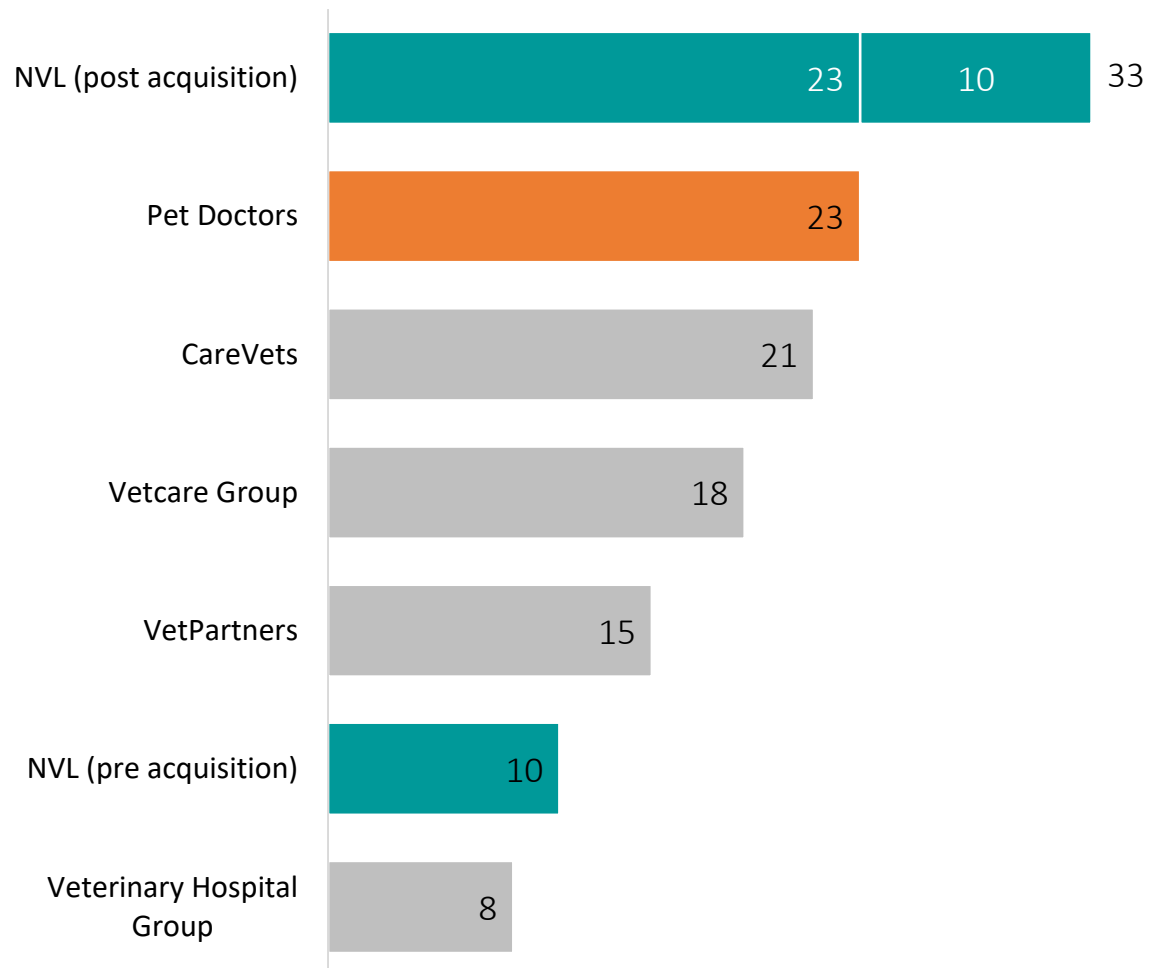
- **Highly fragmented market**
- **'Humanisation trend' and the emergence of the 'fur baby' means demand for veterinary services tends to be steady from year to year**
- **Growth opportunities exist in advanced surgical and diagnostic procedures**

## Highly attractive acquisition aligned with NVL's strategy

	<b>Highly complementary service offering</b>	<ul style="list-style-type: none"> <li>▪ Largest companion animal veterinary company in New Zealand</li> <li>▪ Highly visible and well regarded brand with a focus on clinical excellence, service and convenience for customers</li> <li>▪ Corporate structure that leverages technology to drive efficiency and clinical insights</li> </ul>
	<b>Delivers scale and diversification benefits</b>	<ul style="list-style-type: none"> <li>▪ Transforms NVL's New Zealand footprint into the market leader, with 33 clinics located nationally</li> </ul>
	<b>Integration of UVG and cross selling benefits</b>	<ul style="list-style-type: none"> <li>▪ Ability to integrate UVG and NVL's market leading technology across the Pet Doctors network to driver operational efficiencies</li> <li>▪ Leverage Pet Doctors' market insights to extend UVG's reach into the New Zealand independent market</li> </ul>
	<b>Foundation for growth</b>	<ul style="list-style-type: none"> <li>▪ Market structure is highly fragmented – significant opportunity exists for further clinic acquisitions</li> <li>▪ Utilisation of existing support office in New Zealand to provide a strong foundation for expanded geographic coverage</li> </ul>
	<b>Value added veterinary services</b>	<ul style="list-style-type: none"> <li>▪ Range of veterinary and value-added services, including advanced medical, surgical and diagnostic procedures</li> </ul>
	<b>Potential combination benefits</b>	<ul style="list-style-type: none"> <li>▪ Consistency in clinic suppliers to deliver procurement and sourcing benefits</li> <li>▪ Enhanced training and development opportunities for clinical staff</li> <li>▪ Sharing of clinical best practice</li> </ul>

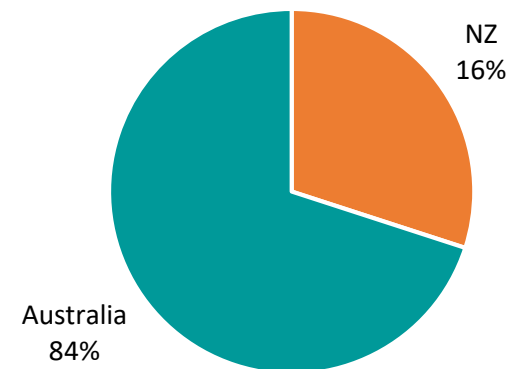
## Impact on NVL

### Number of clinics (NZ)

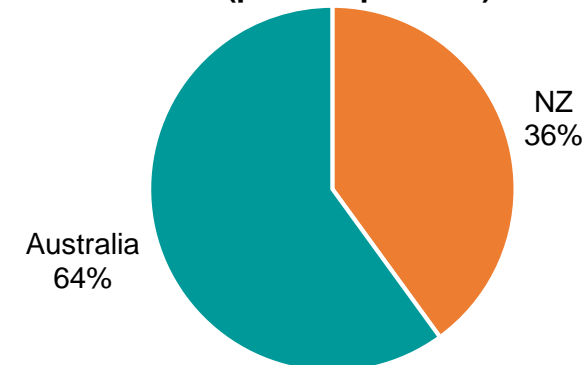


### NVL revenue mix (by Geography)

#### NVL (pre-acquisition)



#### NVL (post acquisition)





# Impact on FY2019 guidance

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- NVL has previously provided guidance that the company expects to add A\$20m of annualised revenue in 2019 via further clinic acquisitions
- The Pet Doctors acquisition will deliver annualised revenue in excess of A\$30m in 2019
- In addition to the Pet Doctors acquisition NVL expects to add a further A\$10m of annualised revenue via further clinic acquisitions in 2019
- This will result in expected revenue delivered in the FY2019 year of A\$115m, 40% above FY2018 levels
- Gross Margins and EBITDA margins in the existing business (pre Pet Doctors acquisition) are expected to be 75% and 16% respectively, in line with previous guidance
- The acquisition of Pet Doctors (which has historically had lower margins than NVL) will have the effect of lowering blended group margins in FY2019 and FY2020
- As a result NVL expects that group EBITDA margins will be in a range of 14.5% to 15.0% in FY2019 resulting in expected EBITDA of between A\$16.7m and A\$17.3m
- Over time NVL believes that it can increase the Pet Doctors EBITDA margins by implementation of NVL's practice management capability, improved supplier terms and benefits of scale

## Financially attractive acquisition

### Materially increases NVL's scale in New Zealand

- Significantly increases New Zealand revenues and earnings contribution to NVL
- Leverage existing New Zealand support office to create a strong platform for future regional growth
- Continued operating leverage in New Zealand as NVL builds scale in the region

### Accretive to earnings

- Forecast mid single digit EPS accretion for 2019 on a Pro Forma basis (including synergies)

### Maintains strong balance sheet

- NVL remains committed to maintaining a strong balance sheet
- PF Net debt / PF18A EBITDA following the acquisition is expected to be 2.0x
- Strong cash flow generation to support deleveraging over time and to provide additional flexibility for future growth

## 6

# Transaction funding

Sources of funds	A\$m <sup>1</sup>	Uses of funds	A\$m <sup>1</sup>
Institutional placement	\$18.0m	Purchase of Pet Doctors	\$22.7m
Corporate debt	\$6.2 m	Additional Pet Doctors working capital	\$1.4m
Cash reserves	\$1.1m	Transaction fees	\$1.2m
Total	\$25.3m	Total	\$25.3m



## 6 Capital raising and terms

<b>Institutional Placement</b>	<ul style="list-style-type: none"><li>▪ Institutional placement of approximately 8 million shares (“New Shares”) to raise A\$18.0 million</li><li>▪ Offer price of A\$2.25 per New Share under the institutional placement</li><li>▪ 4.3% discount to last close of \$2.35 on 7 September 2018</li></ul>
<b>Use of proceeds</b>	<ul style="list-style-type: none"><li>▪ Proceeds from the Institutional Placement will be used to fund the acquisition of Pet Doctors, finance additional working capital and pay for associated transaction costs</li></ul>
<b>Ranking</b>	<ul style="list-style-type: none"><li>▪ The New Shares will rank equally with all existing NVL shares</li><li>▪ Shares issued under the Institutional Placement will not be eligible for dividends for the period ending 30 June 2018</li></ul>
<b>Lead Manager</b>	<ul style="list-style-type: none"><li>▪ Wilsons is acting as Lead Manager to the Institutional Placement</li></ul>

Event	Date <sup>1</sup>
Ex-dividend date for 2018 final dividend for existing ordinary shares	Tuesday, 4 September 2018
Record date for 2018 final dividend	Wednesday, 5 September 2018
Trading halt conducted	Monday, 10 September 2018
Bookbuild conducted	Tuesday, 11 September 2018
Announcement of completion of Institutional Placement and trading halt lifted	Wednesday, 12 September 2018
Settlement of New Shares issued under the Institutional Placement	Tuesday, 18 September 2018
Allotment and normal settlement trading of New Shares issued under the Institutional Placement	Wednesday, 19 September 2018

Notes: 1. Dates and times are indicative only and subject to change without notice. NVL reserves the right to alter the dates in this presentation at its discretion and without notice, subject to the ASX Listing Rules and Corporations Act 2001 (Cth). All dates refer to Sydney, Australia time



This section outlines some of the key risks associated with an investment in NVL shares, together with risks relating specifically to the Pet Doctors acquisition and participation in the Institutional Placement. This is not an exhaustive list of the relevant risks and the risks set out below are not in order of importance. Additional risks not presently known to NVL, or that are not presently considered by NVL to be material, may also become important factors that adversely affect NVL. If any of the following risks materialise, NVL's business, financial condition and financial performance, and the price of its shares may be adversely affected. Investors should note that the occurrence or consequences of some of the risks described in this section are partially or completely outside of the control of NVL, its directors and senior management. In deciding whether to participate in the Institutional Placement, you should read this presentation in its entirety and carefully consider the risks outlined in this section. You should also read this presentation in conjunction with NVL's other periodic and continuous disclosure announcements lodged with the ASX, which are available at [www.asx.com.au](http://www.asx.com.au) and you should also consider consulting your financial or legal adviser so as to ensure you fully understand the terms of the Institutional Placement and the inherent risks.

<b>Acquisition of Pet Doctors</b>	<ul style="list-style-type: none"> <li>▪ The acquisition of Pet Doctors is conditional upon satisfaction of a number of conditions precedent, including raising sufficient capital under the Institutional Placement to fund the acquisition. Failure to satisfy these conditions could result in a delay in, or failure to complete, the acquisition. If the acquisition does not proceed, the funds raised in the Institutional Placement will be used for working capital and to fund any future acquisitions.</li> <li>▪ If completed, the acquisition will increase NVL's exposure to the risks of operating in New Zealand.</li> <li>▪ The financial accounts of Pet Doctors are unaudited. While NVL has undertaken due diligence and warranties have been sought from the vendors, there is a risk that the financial standing and performance of Pet Doctors may be different compared to the accounts provided by the vendors.</li> <li>▪ Movement in NZD/AUD exchange rates could increase the purchase price of Pet Doctors in Australian Dollars.</li> </ul>
<b>Integration risk</b>	<ul style="list-style-type: none"> <li>▪ Acquisitions have been a source of growth for NVL. However, there can be no guarantee that NVL will successfully integrate new businesses (including Pet Doctors) that it acquires or that the acquisition will perform as expected. There is a risk that the process of integration may take longer or be more expensive than anticipated and this could have a materially adverse impact on NVL's financial performance and position.</li> </ul>
<b>Veterinary services expenditure</b>	<ul style="list-style-type: none"> <li>▪ Any deterioration in economic conditions, a reduction in pet ownership in Australia or New Zealand, or the occurrence of any other event or circumstance with the potential to have a negative impact on the level of veterinary services expenditure in Australia and New Zealand may negatively impact NVL's future financial performance.</li> </ul>
<b>Key management personnel</b>	<ul style="list-style-type: none"> <li>▪ The successful execution of NVL's business model depends on a management team with the necessary talent and experience to integrate and manage veterinary clinics. The loss of key management personnel could adversely affect NVL's business, results of operations or financial conditions and performance.</li> </ul>

## Key risks (cont'd)

<b>Retention of lead veterinarians</b>	<ul style="list-style-type: none"> <li>The retention of the lead veterinarians within the portfolio of NVL clinics is important to the ongoing operation of these clinics. If these lead veterinarians were to leave, there is a risk that some clients served by those veterinarians would no longer visit those clinics, which would have an adverse impact on the revenue of those clinics, and ultimately NVL.</li> </ul>
<b>Human resources</b>	<ul style="list-style-type: none"> <li>Personnel issues may arise at a clinic level. If these issues are not effectively managed, then the business and profitability of these clinics could be adversely affected.</li> <li>NVL offers the market attractive packages including incentive plans to key personnel to encourage retention and attract new talent. Further, NVL's focus on education and training through its Veterinary Training Centre is a key point of differentiation to other industry employers, and is an effective element of the Group's recruitment and retention strategy. However, any failure by NVL to retain its professional staff could negatively impact NVL's operations and financial position.</li> </ul>
<b>Future acquisitions</b>	<ul style="list-style-type: none"> <li>NVL may not be successful in identifying, evaluating and finalising future acquisitions on acceptable terms. There is also a risk that increased competition for acquisitions could increase price expectations, lower returns on capital and affect NVL's ability to make acquisitions.</li> </ul>
<b>Industry competition</b>	<ul style="list-style-type: none"> <li>Competitive threats such as reduction of competitor pricing for services, entry of new clinics in close proximity to NVL clinics, or increased competition for veterinarians could have a material adverse impact on NVL's operational and financial performance.</li> </ul>
<b>Due diligence</b>	<ul style="list-style-type: none"> <li>There is a risk that due diligence associated with the acquisitions that NVL has made to date and acquisitions it makes in the future may not identify all issues that would be material to the decision to acquire them. Further, there is a risk that information provided by vendors of clinics may not be reliable.</li> </ul>
<b>Financial guidance</b>	<ul style="list-style-type: none"> <li>Any guidance referred to in this presentation represents NVL's best estimate of anticipated financial results based on the information available at the date that guidance was given. However, investors should appreciate that forecasts by their very nature are subject to uncertainties which may be outside of NVL's control or may not be capable of being foreseen or accurately predicted. As such, actual results may differ from the guidance provide and such differences may be material.</li> </ul>
<b>Impairment of intangible assets</b>	<ul style="list-style-type: none"> <li>NVL has recognised a significant value of intangible assets on its balance sheet principally relating to goodwill. If impaired, NVL would need to write down the value of the intangible assets, which could have a material adverse impact on NVL's earnings and financial position.</li> </ul>
<b>Availability of funding</b>	<ul style="list-style-type: none"> <li>NVL's acquisition strategy is intended to be financed by a combination of debt and equity funding. NVL's ability to pursue its growth strategy may be constrained by limited access to further debt and equity funding.</li> <li>If NVL does not raise all of the intended funds in the Institutional Placement, NVL may be unable to complete the Pet Doctors acquisition.</li> </ul>

## Key risks (cont'd)

<b>General economic conditions</b>	<ul style="list-style-type: none"> <li>▪ The financial performance of NVL could be affected by changes in economic conditions in Australia and overseas.</li> </ul>
<b>Legislative and regulatory changes</b>	<ul style="list-style-type: none"> <li>▪ Changes in the laws or other regulations applicable to NVL's business, including tax laws and relevant accounting standards, may have an adverse impact on the financial position or performance of NVL.</li> </ul>
<b>Future payment of dividends</b>	<ul style="list-style-type: none"> <li>▪ The payment of dividends on NVL shares is dependent on a range of factors, including the availability of profits, the availability of franking credits and the capital requirements of NVL's business. Any future dividend and franking levels will be determined by the NVL board having regard to NVL's operating results and financial position at the relevant time. There is no guarantee that any dividend will be paid by NVL or, if paid, that it will be franked at any particular level.</li> </ul>

## Foreign selling / offer jurisdictions

### International Offer Restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

### Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

### New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act"). The New Shares are not being offered to the public within New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the FMC Act and the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016.

Other than in the Entitlement Offer, the New Shares may only be offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

## Foreign selling / offer jurisdictions

### Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

### Canada

No prospectus has been prepared for the New Shares. The New Shares are not being offered to the public in Canada and you may only access this document on the basis that you are an "accredited investor" (as such term is defined in National Instrument 45-106 – Prospectus Exemptions ("NI 45-106")). The Company will only issue New Shares to a person who is a resident of Canada where the Company, in its sole discretion, determine that such person is an "accredited investor" and that the issue of New Shares by such person is otherwise lawful and in compliance with all securities and other laws applicable to such person.

### United States

This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. This presentation may not be distributed or released in the United States. The securities in the proposed offering have not been and will not be registered under the United States Securities Act of 1933 as amended (the "US Securities Act"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the securities in the proposed offering may not be offered, or sold, directly or indirectly, in the United States, except in a transaction exempt from, or subject to, the registration requirements of the US Securities Act and any applicable security laws of any state or other jurisdiction of the United States.