

Operating review

Merchandise

Our Merchandise segment is comprised of Food and Accessories across both our store and online businesses.

Food

Advanced Nutrition
Grocery food
Treats
Other food

Accessories

Pet homes and habitats
Toys, collars, leads, clothing and other accessories
Health & Hygiene products

Our Merchandise brands

Merchandise revenue

£666.1m
+8.3%



Revenue split	Growth
Food	£359.3m +9.8%
Accessories	£306.8m +6.6%

Food

Pet food is a fundamental part of our business, generating revenues of £359.3m in 2015, representing 54% of Merchandise revenues. We stock food products for dogs, cats, small mammals, fish, reptiles, birds and horses.

Within the food business, the fastest growing segment is Advanced Nutrition, a premium tier of food offering significant health benefits to dogs and cats. Advanced Nutrition represents 41% of our food revenues at £145.4m and grew by 44.1% during the year. As a premium price point product, a level of advice is required to drive sales and our highly trained colleagues are essential to increasing growth in this category. The distribution channels for Advanced Nutrition are selective and it is only sold by pet specialists, with Pets at Home holding 53% market share of this product segment in 2014.

Other important segments within food include grocery food, which can be found in both pet specialists and supermarkets, and treats. Treats are a fast growing market segment and we are adding new brands and innovation in this category which reflect humanisation and wellness trends, to further enhance our growth.

“Within the food business, the fastest growing segment is Advanced Nutrition, a premium tier of food offering significant health benefits to pets.”

Within our food business, 33% of store revenues are generated from own brand and private labels. Our own brand Pets at Home foods span both grocery and Advanced Nutrition. Private labels include Wainwright's, our flagship cat and dog food, as well as Purely for cats. We launched a new private label Advanced Nutrition brand during the year, Evolution Naturally, which brings the high protein dog and cat food trend, seen in the US market, to the UK.

Looking forward, we are aiming to increase our branded Advanced Nutrition ranges, continue re-allocating space away from grocery and into Advanced Nutrition, extend our Wainwright's offering and add further private label ranges to complement the branded ranges.

Accessories

Accessories revenues grew by 6.6% to £306.8m in 2015 and represent 46% of Merchandise revenues.

Dog and cat accessories include bedding, collars and leads, feeding bowls, clothing, toys, grooming products, training and behavioural products and travel accessories. Other accessories include small animal homes and bedding, equestrian accessories, and Health and Hygiene products.

We believe the pet accessories market follows many of the same trends as the human market, reflecting the increasing humanisation of pets by their engaged owners. This includes design trends and technological developments.

Own brands and private labels represent 51% of store revenues within the Accessories business. Our flagship private label, Wainwright's, includes collars, leads and toys. Other private label accessories brands include Ruffer & Tuffer toys, 3 Peaks dog beds and clothing, and Willows and Woodlands small animal accessories.

Innovation and exclusivity

Innovation in our food and accessories business is a key strategic priority. Our highly engaged pet customers value product breadth, refreshment and being able to choose something new and different each time they are in-store. Our ability to develop such a large number of private label and own brand products is assisted by our in-house innovation and design teams, and our dedicated sourcing office in Asia.

Exclusivity is also crucial to attracting and retaining customers and we seek to source new and innovative products to the UK market on an exclusive basis, ahead of our competitors.

Strategy in action

Own brands and private labels

43%

of store Merchandise revenues

Private labels



Own brands



Operating review **continued**

Services

Our Services segment is comprised of our vet practice, grooming salon and insurance businesses, as well as our pet sales.

Services & Other

Vet practices
Grooming salons
Insurance
Pets

Our Services brands**Services revenue**

£63.0m
+25.2%



Revenue split	Growth
Vet practice fee income	£28.2m +30.7%
Other services	£34.8m +21.1%

Pet services provide customers with a further reason to visit our stores, as well as creating theatre for our customers and their children. Adding vet practices and grooming salons to stores increases the frequency with which customers visit, lifting merchandise product spend and enhancing brand loyalty.

Veterinary practices

Pets at Home operates the only large scale joint venture veterinary services business in the UK market, under our two brands – Vets4Pets and Companion Care. Practices are operated within stores, as well as in standalone locations.

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The JV model allows each vet practice to operate as an independent business, owned by a veterinary JV partner and Pets at Home, and is funded by small loans into the business by the JV partner and Pets at Home, alongside a larger, independent bank loan. The JV partner pays a percentage of their revenue in the form of fee income to Pets at Home, for which we provide all the administrative and back office support, allowing the vet partner and their colleagues to focus on clinical excellence and customer service. If the practice is located in one of our stores, a service charge is also payable to Pets at Home, reflecting the cost of the space occupied. The JV Partner has access to all profits in the business when the loans are repaid and is entitled to the increase in value of the business if they wish to sell the practice to a new JV partner.

We also operate nine practices wholly owned by Pets at Home. These enable us to trial new initiatives before rolling out across the JV practice network, as well as offering vets the opportunity to trial working in one of our practices before committing to the JV partnership.

All new vet practices are opened under the Vets4Pets brand and this has become our primary brand, held by 71% of practices in the Group.

Looking forward, we will continue to develop a number of strategic initiatives across the Vet Group, including the addition of specialist referral hospitals, the development of existing practices into 24/7 or extended hours surgeries, extending our pet care plans into chronic care and other segments, and continuing with Vets4Pets brand investment and advertisement.

Grooming salons

We operate the largest branded chain of pet grooming salons in the UK. Groom Room salons are wholly owned and operated by Pets at Home and are primarily located within our stores, alongside two trials of grooming salons co-located with a standalone vet practice.

Groom Rooms offer both dog and cat grooming services, including bathing, clipping, coat cutting and nail trimming. The salons are operated by colleagues who have participated in extensive training and education programmes to become highly skilled grooming stylists.

In the fragmented UK grooming market, where service and quality levels can vary considerably, our aim is to create a national brand with consistent, outstanding service.

Pet insurance

We offer Pets at Home branded insurance in our stores and online, which provides cover for dogs, cats or rabbits. We operate on an introducer basis, with the insurance product issued and underwritten by a third party.

Strategy in action

VIP club is growing pet services

The VIP loyalty club is allowing us to increase customer use of our grooming and vet services.

The VIP card can be swiped and charity lifelines accumulated across our stores, grooming salons and vet practices, allowing us to track integrated customer spend behaviour. As part of the VIP signup process, customers share with us the details of their pets; name, type, breed and age.

How do we encourage VIPs to use pet services?

- New VIP members receive 25% off a full dog groom
- After any subsequent dog grooms, VIPs receive a follow up discount voucher
- New VIP members can receive a health check with one of our vets for only £10
- Vet and grooming services are marketed to VIP members who have pets suitable for such services, and are not currently using the Groom Room or vet practices.

