Despite some seasonal challenges to our Health & Hygiene sales, we have seen excellent performance in our strategic growth drivers of Advanced Nutrition, vet and grooming services. Together with refinancing benefits, this has contributed to our earnings growth of 11.2%. Our strong cash flow has enabled us to increase the ordinary dividend to shareholders, to a payout ratio of 50%, whilst also investing for growth through the acquisitions of specialist referral centres.

Financial highlights

The FY16 accounting period represents the 53 week period from 27 March 2015 to 31 March 2016. The comparative FY15 period represents the 52 week period from 28 March 2014 to 26 March 2015. Throughout the Chief Financial Officer's review, unless otherwise stated, FY16 commentary will refer to the unaudited 52 week period to 24 March 2016, to better reflect the underlying performance of the business.

		2016	2016	2015	Change
		Audited 53 weeks to 31 March 2016	Proforma 52 weeks to 24 March 2016	Audited 52 weeks to 26 March 2015	Proforma 52 weeks to 24 March 2016
Revenue	Food	390.0	382.5	359.3	6.4%
	Accessories	320.2	314.0	306.8	2.4%
	Total Merchandise revenue[1]	710.2	696.5	666.1	4.6%
	Services & Other revenue[2]	82.9	81.3	63.0	29.2%
	Total Group revenue	793.1	777.8	729.1	6.7%
	Like-for-like growth[3]	2.1%	2.2%	4.2%	
	Merchandise LFL growth	1.4%	1.5%	3.7%	
	Services LFL growth	10.0%	10.4%	10.7%	
Gross margin	Merchandise gross margin	57.0%	57.0%	56.3%	79 bps
	Services & Other gross margin	32.9%	33.0%	32.6%	35 bps
	Total gross margin	54.5%	54.5%	54.2%	31 bps
EBITDA	Pre-exceptional EBITDA (£m)	127.4[4]	124.7[4]	119.6	4.2%
	Pre-exceptional EBITDA margin	16.1%[4]	16.0%[4]	16.4%	(38) bps
Other income statement	Pre-exceptional profit before tax (£m)	97.3[5]	95.3[5]	87.0	9.6%
	Statutory profit before tax (£m)	92.1	90.2	87.0	3.7%
	Pre-exceptional basic EPS (pence)	15.4[5]	15.1[5]	13.5[6]	11.2%
Cash flow and leverage	FCF (£m)	71.6	77.8	72.0	8.1%
	Leverage (Net Debt/EBITDA)	1.3x[4]	1.2x[4]	1.6x	(0.4)x

1 Includes Food and Accessories revenue from our store and online operations.
2 Includes veterinary Joint Venture fees and other income, Groom Room revenue, revenue from live pet sales and insurance commission.
3 'Like-for-Like' sales growth comprises total sales/fee revenue in a financial period compared to revenue achieved in a prior period, post cannibalisation, for stores, online operations, grooming salons and vet practices. "52 weeks" represents LFL sales for the 52 week period to 24 March 2016 compared with the 52 week period to 26 March 2015. "53 weeks" represents LFL sales for the 53 week period to 31 March 2016, compared with the 53 week period to 2 April 2015.
4 Excludes £0.8m of M&A related exceptional expenses.
5 Excludes £0.8m of M&A related exceptional expenses and an exceptional finance expense of £4.3m associated with the amortisation of capitalised fees from the previous finance facility.
6 Excludes exceptional tax credit of £4.3m.

Merchandise revenue

£696.5m

+4.6%

(2015: £666.1m)

Services revenue

£81.3m

+29.2%

(2015: £63.0m)

Sales and revenue

Total revenue grew by 6.7% to £777.8m (FY15: £729.1m), with particularly strong performance in Services, alongside good growth in our Food business. Like-for-like sales grew by 2.2%, driven by strength in Advanced Nutrition, VIP club momentum and growth in fee income from our veterinary practices and grooming salons. This was partially offset by the seasonal challenge to Health & Hygiene products, which was a negative contributor to like-for-like performance.

Total Merchandise revenue, which includes Food and Accessories, grew by 4.6% to £696.5m (FY15: £666.1m).

Food revenue grew strongly by 6.4% to £382.5m (FY15: £359.3m), reflective of excellent performance in dog food and treats, and both dog and cat Advanced Nutrition. Advanced Nutrition revenue grew by 12.3% to £163.2m (FY15: £145.4m), with our flagship private label Wainwright's a key contributor, growing by 17.4% to £47.0m (FY15: £40.1m). Grocery dog and cat food performance was weaker, where we are seeing the impacts of our space reduction and the ongoing competitive market environment in this category.

Accessories revenue grew by 2.4% to £314.0m (FY15: £306.8m). Revenue growth was significantly impacted by weakness in Health & Hygiene products, which saw particularly strong growth in the prior year and weather related challenges in the current year. We also saw a weaker performance in aquatics accessories, reflecting our space reallocations when we retrofit services into existing stores. Offsetting this to some degree was good performance in dog accessories across toys, bedding and training, where we have reinvigorated ranges this year.

Services revenue grew 29.2% to £81.3m (FY15: £63.0m), increasing participation to 10.5% of Group revenue (FY15: 8.6%). This reflects both new openings and another year of excellent growth in our vet practices and grooming salons. Growth in our Joint Venture veterinary practices was strong, generating fee income of £34.5m (FY15: £28.2m), up 22.3% compared with the prior year. Within our mature vet practices, revenue continued to grow ahead of the market.

Gross margin

Group gross margin expanded by 31bps to 54.5% (FY15: 54.2%), attributable to significant expansion in our Merchandise margin, as well as progression in Services margin.

Gross margin within Merchandise was 57.0%, an expansion of 79 bps on the prior year (FY15: 56.3%). This has primarily been achieved through improvements in terms with suppliers, alongside the mix shift from grocery to Advanced Nutrition foods, particularly the margin benefit from our private label Wainwright's. These positive movements more than offset the faster growth of food versus accessories.

Services gross margin, which was 33.0% in FY16 (FY15: 32.6%), expanded by 35 bps through the growing maturity of our veterinary practices. This positive benefit was partially offset by the increasing number of immature grooming salons in the portfolio, our ongoing investment in pet welfare and our acquisition of two veterinary referral centres during the period. The referral centres are operated as wholly owned businesses and therefore have lower margins than that of the Joint Venture fee income model.

Unless otherwise stated, all 2016 financials refer to the 52 weeks proforma period to 24 March 2016.

Operating costs

Selling and distribution expenses of £274.7m were broadly constant as a percentage of Group revenue at 35.3% (FY15: 35.4%). Occupation costs once again declined as a percentage of revenue as we benefit from a benign rental market and the offset to rental costs from the retrofitting of vet practices to stores. Colleague costs of £156.2m (FY15: £136.5m) increased as a result of our new store rollout and 'learn to earn' Steps training programme, alongside moving to an improved holiday pay scheme for our store colleagues. We also expanded our omni-channel colleague team to deliver the seamless shopping strategy.

Pre-exceptional administration expenses of £50.1m were 6.4% of revenue (FY15: 5.6%). The increase mainly reflects investment in the systems software and hardware to deliver our seamless strategy, and an increase in IFRS2 share based payment charges to £3.0m (FY15: £1.7m).

EBITDA

Pre-exceptional EBITDA of £124.7m, which excludes £0.8m of M&A related exceptional expenses, represented a 4.2% increase on the previous year (FY15: £119.6m).

Pre-exceptional EBITDA margin declined by 38 bps when compared with the prior year. This reflects our commitment to strategic investment in the business, despite some of the top line challenges we saw from the seasonally impacted Health & Hygiene category. There was also a dilutive mix impact from the addition of our newly acquired speciality referral centres during the year.

Finance expense

Pre-exceptional net finance expense was £4.8m, a significant decline from the prior year (FY15: £9.8m) as a result of our refinancing in April 2015. An exceptional non cash finance expense of £4.3m relates to the amortisation of capitalised fees associated with the previous financing facility.

Taxation, trading profit & EPS

Underlying total tax expense for the period was £19.8m, an effective rate of 21% on pre tax profit.

Pre-exceptional trading profit for the period was £75.5m (FY15: £67.9m) which excludes £0.8m of M&A related exceptional expenses, the exceptional finance expense of £4.3m and their taxation impacts. Pre-exceptional basic earnings per share were 15.1 pence (FY15: 13.5 pence), showing strong growth of 11.2%, which reflects our operational expansion, the positive impact of refinancing and a lower corporation tax rate this year.

Working capital

The cash movement in working capital for the 53 week period was an outflow of £3.6m, comprised of a £3.6m increase in inventory, an increase in receivables of £6.8m, offset by an increase in trade and other payables of £6.8m. The 53rd trading week caused an overall adverse movement in working capital of £8.6m, comprised of £6.1m in trade receivables and £2.5m in trade and other payables. We therefore saw an underlying improvement in our working capital position of £5.0m on a 52 week basis.

Capital investment

Capital investment in the 53 week period totalled £41.5m (FY15: £33.2m). The majority of our capital investment relates to the rollout of new stores and services, alongside the retrofitting of vet and grooming practices to the existing estate. When compared with the prior year, we have seen greater investment in systems to support the seamless shopping strategy and an increase in the number of wholly owned vet practices, where the Group incurs the full capital cost of build and fitout. We utilise wholly owned vet practices as a trial for potential new JV partners, and cycle around 50% of those opened into Joint Venture models during the year, recovering our initial capital investment.

On a cash basis, capital expenditure in the period was £36.8m (FY15: £30.4m).

Pre-exceptional EBITDA

£124.7m

+4.2%

(2015: £119.6m)

Unless otherwise stated, all 2016 financials refer to the 52 weeks proforma period to 24 March 2016.

£m	FY16 Proforma 52 weeks to 24 March 2016	FY16 Audited 53 weeks to 31 March 2016	FY15 Audited 52 weeks to 26 March 2015
Opening net debt	(192.0)	(192.0)	(259.4)
Free cashflow[1]	77.8	71.6	72.0
Ordinary dividends paid	(27.9)	(27.9)	(8.9)
Acquisitions	(8.1)	(8.1)	–
Other	(5.6)	(5.6)	4.3
Closing net debt	(155.8)	(162.0)	(192.0)
Leverage (ND/pre-exceptional EBITDA)	1.2x	1.3x	1.6x

1 FCF is defined as net cash from operating activities, less net cash used in investing activities, interest paid, debt issue costs and tax paid. FCF is stated before cash flows for exceptional costs and acquisitions of subsidiaries.

Capital structure and cash flow

Pets at Home is a growing, cash generative business. Our leverage position at 31 March 2016 was 1.3x net debt/pre-exceptional EBITDA, reflecting a reduction of 0.3x during the course of the year, despite the £8.6m negative working capital impact of the 53rd trading week.

We have deleveraged by 1.0x in the two financial years since our stock market listing, generating a total of £150m in free cashflow[1], returning £37m to shareholders in dividends and investing £8m in bolt-on acquisitions.

Our priority is to invest in areas that will expand the Group and deliver appropriate returns. Since the year end, we have acquired two veterinary specialist referral centres for a total consideration of £14.9m and we will continue to explore bolt-on opportunities in the wider veterinary services market.

Going forward, we intend to maintain a leverage position of around 1.5x net debt/EBITDA under normal circumstances, moving to a maximum of around 1.75x in the event suitable investment or acquisition opportunities arise. We believe this maintains appropriate flexibility for our business, operating in a resilient market with strong cash generation capabilities.

Dependent upon our acquisition outlook and if we do not foresee investment uses, it is our intention to return surplus free cashflow to shareholders through a combination of ordinary and special dividends.

Dividend

The Board has recommended a final dividend of 5.5 pence per share, giving a total dividend of 7.5 pence per share in respect of the 2016 financial year, up 39% on the prior year. The Board has increased the dividend payment policy to around 50% of earnings, reflective of the cash generative abilities of the business and the positive long term growth outlook.

The final dividend will be proposed by the Directors at the 2016 AGM and is in addition to the interim dividend of 2.0 pence per share, paid to shareholders on 8 January 2016. The ex-dividend date will be 18 August 2016 and, if approved at the Company's forthcoming AGM, will be paid to shareholders on 19 September 2016 to those shareholders on the register at the close of business on 19 August 2016.

Mark Adams
Interim Chief Financial Officer
25 May 2016

Unless otherwise stated, all 2016 financials refer to the 52 weeks proforma period to 24 March 2016.