

// I'm proud and excited to be taking over as CEO. The value of our business is much greater than being a retailer or a vet care provider. It's the way we can give pet owners a breadth of products, grooming, vet care and other services. Combined with the way we can serve them through stores, the website and our pet professionals, the colleagues and vets who genuinely care about customers and their pets.

Our plans to reposition retail are working, more customers are coming back to shop with us, and we are committed to returning the business to profit growth. But it hasn't been easy. We took decisive action, threw passion and energy into it, and delivered targeted pricing changes to give customers the products that mattered most to them, with the service and value they expect from us. Our product innovation this year has been the best I can remember and the investment we made in the development of a subscription service is bringing some excellent results, as is Order-In-Store, which brings our full online range to every store in the business.

The veterinary services market is a very attractive space in which we can grow. We have a profitable business delivering strong returns, achieved largely through our preference to work in partnership with vets who share in the success of their practice. The shortage of qualified vets in the UK remains an industry wide problem, so we have chosen to slow our practice



rollout to be sure we open practices in quality locations for the best vet partners. With slower rollout we can, and need to, focus more on strategies to accelerate growth in our existing practices, where we know there is still huge potential. About 84%<sup>1</sup> of our First Opinion practices are relatively young and whilst they require more funding from us over the next four to five years, the long term prize for us and our vet partners is substantial.

We have a bright future. Year one of our three-year strategy has delivered, and as a business we are on a stronger competitive footing to return to sustainable profit growth. But the job isn't done yet. As our new CEO, my plan has a bigger focus on digital, tapping into the vast potential of our customer and pet data, and taking action to ensure our vet business reaches its potential. Our market has a track record of resilience in a downturn and as we adapt to a changing environment, we will emphasise the things that make Pets at Home unique and best placed to serve the UK's pet loving owners."

**Peter Pritchard**  
Group Chief Executive Officer

### Strategic update

#### Drivers of our like-for-like growth Home of all things pet

Our biggest competitive asset is the ability to give pet owners the full breadth of pet care; customers who shop across retail, grooming and vet have around three times the spend of those who are just retail customers.

Puppy owners are an opportunity to develop a relationship at one of the most important milestones – the first

puppy shop. With that in mind, we gave a complete overhaul to our range and also launched the VIP Puppy Club. By joining the club, customers receive 10% off their first puppy product shop, a free bag of Advanced Nutrition food, their first month for free with a flea product subscription, a free puppy groom and a free vet nurse check. We have seen some great results from our initiative, with a 25% spending increase by Puppy Club customers.

#### Home of value and convenience

During the year, we invested c£13m in pricing to deliver better value for our customers. We have taken a targeted approach, which began with a campaign that lowered prices and highlighted the value in our private label Advanced Nutrition. This was followed by price adjustments across branded Advanced Nutrition, more food categories and pet essentials. We are confident this is driving a positive reaction with customers, having seen such a strong rebound in Merchandise trade during the year. Advanced Nutrition also performed very well, with 12.7% volume growth and significantly increased private label participation. Looking forward, maintaining a competitive price position will always be part of everyday strategy but this will not be to the same scale as the prior financial year.

Delivering better value for customers is also a priority in our grooming business, where we experienced some slower trading during the year. We are set to launch a trial package in selected salons where, for an annual fee, customers can bring their dog for unlimited bath and brush treatments.

Whilst price has been an important part of our improved trading, it doesn't present the full story. Investing in digital helped deliver omnichannel revenue growth of 75%. The two initiatives driving such strong growth are Order-In-Store and subscription for flea products. We have also improved our website experience with a faster checkout process across mobile, tablet and desktop, and have started to trial repeat order across food products. Looking to the year ahead will see ongoing upgrades to our website look, content and navigation, with more subscription products in our plan.

#### Home of veterinary excellence

We have a successful veterinary business growing ahead of the market in both First Opinion practices and Specialist Referral Centres. The Vet Group generates cash returns on invested capital<sup>2</sup> of 24% despite the majority of practices (c84%<sup>1</sup>) being relatively young.

We can attribute the strong revenue growth in our First Opinion practices to a number of competitive differences; but also to the drive of our vet partners in the JV model, who share in the success of the practice. Our model provides vets with business services and cashflow support as they grow, in return for management fees.

The revenue progression for practices, and therefore our fee income, has been relatively consistent. In coming years, as our rollout profile swings more to standalone, rather than in-store practices, we may see some variations in revenue performance, although we still expect the standalone practices to deliver strong returns for the Group.

The path to profit growth for some practices is lengthening as a result of the upward pressure on payroll costs. This factor, combined with the large number of young practices in the business, is leading to increased funding requirements from Pets at Home in the form of working capital operating loans. We expect the overall funding level to

continue to grow for the next four to five years, after which we expect to see the balance decline, and are comfortable this is mainly a feature of the immaturity of our estate.

With a long term view of growing our practices to maturity, the prize remains: for us in the mature profits from a mainly fixed cost business, and for our vet partners in the form of dividends and the capital value of their practice. We currently have 87 such practices that have fully repaid all debts and we are focusing more on strategies to accelerate growth in our existing practices, to ensure we can deliver the inherent potential of the business.

#### Retail space evolution and vet practice rollout

With a total of 448 superstores, our store estate is nearing its optimum size. In the coming year we will open only a small number of stores in carefully selected areas, in up to five new locations. At the same time, we will continue to rollout grooming salons amongst the existing store estate and expect to open 10-20.

In our veterinary business we opened a net number of 25 new practices to bring our total to 461. We also transformed more practices to give them extra consulting space, or longer opening hours, so that we have ten 'super surgeries' and six practices opening 24/7. The challenging supply of veterinarians has long been a feature of the UK market and was exacerbated after the Brexit vote (around 30% of vets in the UK are thought to be EU domiciled). In addition, our practice rollout has always been heavily weighted towards the end of our financial year, which has placed an excessive burden on the business and we are taking an active decision to spread this profile more evenly through the year. The supply of veterinarians is unlikely to change in the short term and our priority is to open practices in quality locations for the best vet partners. We expect to open 20-25 practices in the year ahead and have already opened four in the new financial year to date.

#### Strategic evolution and outlook in the year ahead

The pet care market remains resilient, with growth in pet products estimated at c2% in 2017, and veterinary services at c5%. We again grew our market share in the vet segment and are pleased to say that following our price repositioning work in retail, we have won back share in the food and accessories markets.<sup>3</sup>

FY19 will be the second of our three-year financial transition back to sustainable profit growth, and following our progress in FY18, we are determined to achieve our plan. In the coming financial year we are targeting like-for-like revenue growth ahead of the market in both Retail and our Vet Group, and a transition back to low single digit underlying Group profit<sup>2</sup> growth. We remain a cash generative business with a priority to invest in our core capabilities, particularly our Vet Group.

Delivering the financial plan does not require adhering to our historical strategic priorities of growing like-for-like, space and margins. Our strategy should evolve with the market and competitive changes, our challenges and our ambitions. Our immediate priorities are to address the few remaining areas of our price repositioning programme and take action to ensure the vet business can deliver on its potential. But in the coming months, we will evolve our longer term strategic plan to become the best pet care business in the world; a bigger focus on digital, data, more services and changing the shape of our stores in an ongoing environment of channel shift.



#### Peter Pritchard

Group Chief Executive Officer  
22 May 2018

- 1 Refers to vet practices younger than 10 years.
- 2 Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.
- 3 Market information sourced using internal data and UK pet market reports, OCGC 2017.