"We have successfully completed the first of our three year financial transition back to sustainable profit growth and remain confident in our plan."

Mike Iddon
Group Chief Financial Officer

Financial highlights

Financials		FY17	FY18	Change
Revenue	**Revenue split (£m)**			
	Food	395.1	421.9	6.8%
	Accessories	321.6	343.5	6.8%
	Total Merchandise	716.7	765.4	6.8%
	Services & Other[2]	117.5	133.5	13.7%
	Total Group	834.2	898.9	7.8%
	Like-for-like growth[1]	1.5%	5.5%	
	Merchandise LFL[1]	0.8%	5.0%	
	Services & Other LFL[1]	7.9%	8.5%	
	Revenue mix (% of total revenues)			
	Merchandise	85.9%	85.1%	(79) bps
	Services & Other	14.1%	14.9%	79 bps
Gross margin	Merchandise gross margin	57.6%	54.8%	(285) bps
	Services & other gross margin	33.3%	34.1%	78 bps
	Total gross margin	54.2%	51.7%	(249) bps
EBITDA	Underlying EBITDA[1,3] (£m)	130.5	123.3	(5.6)%
	Underlying EBITDA margin[1,3]	15.6%	13.7%	(194) bps
Other income statement	Underlying PBT[1,3] (£m)	96.4	84.5	(12.3)%
	Statutory PBT (£m)	95.4	79.6	(16.6)%
	Underlying basic EPS[1,3] (p)	15.3	13.5	(11.2)%
	Statutory basic EPS	15.1	12.6	(16.6)%
	Dividend (p)	7.5	7.5	0%
Cashflow & leverage	Free cashflow[1] (£m)	64.6	55.8	(13.6)%
	CROIC[1]	20.6%	19.4%	(89) bps
	Leverage (ND/underlying EBITDA)[1]	1.2x	1.1x	

The FY18 audited period represents the 52 weeks to 29 March 2018.
The audited comparative period represents 52 weeks to 30 March 2017.

1 Alternative Performance Measures (APMs) are defined & reconciled to IFRS, where possible, on page 169.
2 Includes veterinary Joint Venture fees & other veterinary income, Specialist Referrals revenue, grooming salon revenue, revenue from live pet sales & insurance.
3 Non-underlying items in FY18 includes £2.7m associated with the closure of Barkers, £1.6m accounting charge for the acquisition of minority stakes owned by vet partners in Specialist Referral Centres, and £0.6m of other expenses. Non-underlying items in FY17 includes £1.0m of expenses for the disposal of Farm Away Limited, the Group's equestrian retailing business.

Sales and revenue

Group revenue grew by 7.8% to £898.9m (FY17: £834.2m) and Group like-for-like revenues[1] (LFL) grew 5.5%.

Merchandise revenue, which includes food and accessories, grew by 6.8% to £765.4m (FY17: £716.7m), with LFL revenue[1] of 5.0%. This reflects particularly strong performance from our omnichannel business, which grew its revenues by 75.1% to £51.4m, but also from store sales, which grew by 3.9%. Food revenue grew by 6.8% to £421.9m (FY17: £395.1m), with strength across all areas of dog and cat food, including Advanced Nutrition, where revenue grew by 6.0% to £189.8m (FY17: £179.1m).

Accessories revenue grew by 6.8% to £343.5m (FY17: £321.6m), where dog accessories and toys were a core driver, alongside subscription plans in licensed flea prevention products.

Services revenue grew by 13.7% to £133.5m (FY17: £117.5m), with LFL revenues[1] of 8.5%. We saw good growth across our Vet Group in both Specialist Referral Centres and also the First Opinion business, where practice income increased by 16.1% to £53.1m (FY17: £45.8m). Also within Services, our grooming salons experienced slower growth than in prior periods, and we also saw some weakness in trade from declining pet sales, which is an ongoing trend.

Gross margin

Group gross margin declined by 249 bps to 51.7% (FY17: 54.2%).

Gross margin within Merchandise was 54.8%, a reduction of 285 bps over the prior year (FY17: 57.6%), in line with our plans. This mainly reflects our price repositioning activities of c£13m, a foreign currency impact of £5.7m from the movement in USD versus GBP and the growth of our omnichannel business, which has a greater mix of food product versus higher margin accessories.

Gross margin within Services increased by 78 bps to 34.1% (FY17: 33.3%). We saw expansion in the underlying gross margin of veterinary First Opinion practices and Specialist Referral Centres, but at an overall level, the First Opinion business saw a decline in gross margin due to a £5.0m increase in the provision held for practice operating loans. We also experienced a significant improvement in the margin of pet sales in store, which reflects our activities to improve and simplify the care and welfare routines. This benefit is expected to be a one-off feature of FY18.

Underlying EBITDA[1] and operating costs

Underlying EBITDA[1] was £123.3m (FY17: £130.5m), with a margin of 13.7% (FY17: 15.6%).

Selling and distribution (S&D) expenses of £309.5m decreased as a percentage of Group revenue, to 34.4% (FY17: 35.5%). Within this, we saw £2.5m in cost savings as a result of our energy saving programme, and occupation costs (rent, service charges and other costs) again declined as a percentage of sales as we benefit from the rent paid by vet practices in our stores, which contributed £11.7m (FY17: £10.7m). Colleague costs also declined as a percentage of sales, particularly in relation to stores, where we have reduced payroll hours by streamlining non customer facing activities.

Underlying administration expenses of £66.3m were 7.4% of revenue (FY17: 6.6%), where we are seeing growth in Vet Group operating costs, alongside our investment in business systems and omnichannel.

Non-underlying costs totalled £4.9m. Of this, £2.7m relates to the closure of our trial Barkers stores and the associated lease commitments and write down of fixed assets. In addition, £1.6m of non-underlying costs were recognised in relation to the ownership structures and accounting treatment of the veterinary Specialist Referral Centres (see detailed note below on page 27). There were also £0.6m of M&A related expenses, for transactions that were not completed.

Depreciation and amortisation, which is contained within our total operating costs, increased to £34.5m (FY17 £29.6m).

7.8%[1]
Group revenue growth

51.7%
Group gross margin

5.5%[1]
Group like-for-like revenue (LFL) growth

£123.3m[1]
Underlying EBITDA

1 Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.

Underlying finance expense

Underlying net finance expense[1] for the year was £4.3m (FY17: £4.5m).

Taxation, trading profit & EPS

Underlying pre tax profit[1] was £84.5m (FY17: £96.4m) and statutory pre tax profit was £79.6m (FY17: £95.4m).

Underlying total tax expense[1] for the period was £17.0m, a rate of 20% on underlying pre tax profit[1].

Underlying profit for the period[1], after tax, was £67.5m (FY17: £76.3m) and underlying basic earnings per share[1] were 13.5 pence (FY17: 15.3 pence). Statutory basic earnings per share were 12.6 pence (FY17: 15.1 pence).

Working capital[1] and funding for vet practices

The cash movement in trading working capital[1] for FY18 was an inflow of £9.4m. This was comprised of a £4.1m increase in inventory, offset by a £3.9m decrease in receivables and a £9.6m increase in payables.

We increased our working capital support to First Opinion veterinary practices with £14.8m in operating loans. This created an overall increase in Group receivables of £10.9m and overall Group cash working capital outflow of £5.4m.

Operating loans represent cash funding we choose to provide to Joint Venture First Opinion veterinary practices, to assist with their working capital requirements and underpin their growth to maturity. The gross value of operating loans at the end of the financial year was £38.0m (FY17: £23.2m), against which a provision of £8.3m is held (FY17: £3.3m). The increased provision reflects both the longer maturity curves for practices as well as an improvement in methodology used to assess the operating loan balance. A provision has been applied to all outstanding practice loan balances, which we believe is more appropriate considering the growing size of our First Opinion business.

Capital investment

Capital investment was £40.7m (FY17: £44.5m), where £12.8m is represented by the refurbishment and retrofit of services into our existing store estate (FY17 £16.8m) and new store capital investment totalled £7.3m (FY17: £6.4m). Investment in business systems totalled £10.0m (FY17: £7.2m), and £2.3m was part of the energy savings programme to fit LED lighting and smart energy management systems in our store estate (FY17: £5.8m). Cash capital expenditure was £41.6m (FY17: £40.9m).

Cashflow and capital structure

Free cash flow (FCF) after interest, tax and before acquisitions[1] was £55.8m (FY17: £64.6m), representing a cash conversion rate of 45% (FY17: 49%). The decline in FCF when compared with the prior year is driven by our price investments in the Merchandise business, increased working capital requirements and the purchase of shares to satisfy colleague stock option schemes.

Free cashflow[1] (£m)	FY17	FY18
Cash EBITDA[1,4]	133.0	127.2
Working capital[1]	(2.4)	(5.4)
Operating loans provision movement	0.1	5.0
Tax	(19.3)	(19.1)
Interest cost	(4.2)	(3.9)
Capital expenditure	(42.6)	(44.0)
Purchase of shares for colleague stock options	0.0	(4.0)
Reported free cashflow	**64.6**	**55.8**

4 Defined as underlying EBITDA plus IFRS 2 share based payment charges.

The Group's net debt position at the end of period was £135.2m, which represents a leverage ratio[1] of 1.1x underlying EBITDA.

£m	FY17	FY18
Opening net debt	(162.0)	153.7
Free cashflow[1]	64.6	55.8
Ordinary dividends paid	(39.9)	(37.3)
Acquisitions	(14.8)	0.0
Other	(1.6)	0.0
Closing net debt	(153.7)	(135.2)
Leverage (ND/ underlying EBITDA[1])	1.2x	1.1x

Our capital structure and allocation policy remains as previously stated, with a priority to invest in areas that will expand the Group and deliver appropriate returns, particularly within our veterinary business. It is our intention to maintain a prudent approach to balance sheet management in the current economic environment, but retain some flexibility to increase leverage to an appropriate level in the

£84.5m[1]
Underlying profit before tax

7.5p
Recommended final dividend of 7.5 pence per share

£79.6m
Statutory pre tax profit

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event that suitable investment or acquisition opportunities arise. And dependent upon our acquisition outlook and if we do not foresee investment uses, it is our intention to return surplus free cashflow to shareholders.

Dividend

The Board has recommended a final dividend of 5.0 pence per share, giving a total dividend of 7.5 pence per share in respect of the 2018 financial year, equal to the prior year.

The final dividend will be proposed by the Directors at the 2018 AGM and is in addition to the interim dividend of 2.5 pence per share, paid to shareholders on 12 January 2018. The ex-dividend date will be 14 June 2018 and, if approved at the Company's forthcoming AGM, it will be paid on 17 July 2018 to those shareholders on the register at the close of business on 15 June 2018.

Foreign exchange outlook

The Group purchases products from Asia to a value of around US$65m each year. Our policy is to use a mix of foreign exchange forward contracts to hedge our USD requirement for the next 12 months and up to 50% of the following six months. The movement in hedged contract rates for FY18, which were at an average rate of 1.30 USD:GBP, created a £5.7m adverse cost to the Group. The majority of our hedging requirement for FY19 is in place, at an average rate of 1.34 USD:GBP, which is expected to have a positive financial impact of around c£1m.

£m	Retail	Vet Group	Central costs	Total Group
LFL revenue growth[1]	4.6%	15.0%		5.5%
Revenue	804.9	94.1		898.9
Gross margin	52.2%	47.1%		51.7%
Underlying EBITDA[1]	97.3[5]	31.9[6]	(5.8)	123.3
Underlying EBIT[1]	65.1[5]	29.6[6]	(5.8)	88.8

5 Non-underlying items: £2.7m associated with the closure of Barkers.

6 Non-underlying items: £1.6m accounting charge for the acquisition of minority stakes owned by vet partners in Specialist Referral Centres, and £0.6m of other expenses.

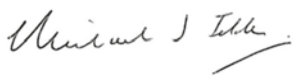
Accounting treatment of veterinary Specialist Referral Centres

Three of our four centres are structured as a Shared Venture ownership model, where Pets at Home maintains a minimum 75% controlling share, with the remaining shares owned by multiple clinician Shared Venture Partners (SVPs). Pets at Home has an option to buy the SVP shares in the future, with the value of these shares related to profit performance targets. The accounting treatment of such an option is therefore structured as a forward contract. Within the income statement, the discounted future value of the SVP's shares is recognised as an expense over the period to which the option can be exercised, and recognised as an non-underlying expense. We continue to expect this charge to be £1.5-2m for FY19.

New financial reporting disclosure

In FY19 our financial reporting will change to two segments that better represent the size of the respective businesses and our internal reporting structures: Retail (includes products purchased online and in-store, pet sales and grooming services) and Vet Group (includes our First Opinion practices both in-store and online, and Specialist Referral veterinary centres).

In order to familiarise readers of the accounts, and provide a basis for comparability, we show a pro-forma unaudited segmentation for the 52 weeks to 29 March 2018.



Mike Iddon
Chief Financial Officer
22 May 2018

£40.7m[1]
Capital investment

£(135.2)m
Group's net debt position

£55.8m[1]
Free cash flow

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