

Delivering our strategy



Our mission:

To be the best pet shop in the world



The PawPrint:

Pets Before Profit

World class shopping

Friendly experts

At the heart of every community

Always new and exciting

The best vets and groomers

A truly amazing place to work

Delivery of our strategy across the PawPrint supports growth in like-for-like revenues, space rollout and margins, as well as putting responsibility at the heart of our business.



Grow like-for-like revenues

Multiple opportunities to improve our offer to customers and deliver resilient growth.



Grow retail and services space

Increase our footprint across the UK to improve convenience to existing customers and access new customers.



Grow margins

Focus on strategies that will deliver long term operating margin improvement.



CSR strategy

Put responsibility at the heart of our business.

Key performance indicators

➔ Page 20

Innovation

Evolve our food range to give pets better quality diets. Develop new and exciting accessories to ensure customers are always seeing something different.

Private brands

Expand and grow our private labels in food and accessories, which are only stocked in Pets at Home.

Value

Ensure a tight focus on delivering overall value for customers; through pricing, product features, service and convenience.

Omnichannel

Stay relevant to customers' evolving shopping habits through an improved online experience and convenient delivery and collection options.

Services

Develop our vet, grooming and advisory services, which create more reasons for customers to visit us.

Loyalty

Grow the VIP club and personalise our approach to marketing so we can increase our share of customers' spend.

Engagement

Maintain leading levels of customer engagement with our highly trained colleagues, to ensure we are the trusted pet experts.

Read more

➔ Page 20

New stores & services

Open selected new superstores containing vet practices and grooming salons, in optimal locations, to access unmet market spend.

Retrofit services

Retrofit vet practices and grooming salons to improve the customer offer in stores that do not have pet services.

Vet business growth

As well as in-store practices, open practices in standalone locations.

Expand into veterinary market areas that are complementary to our core business and provide additional growth opportunities.

Read more

➔ Page 22

Vet services

Focus on the growth of our veterinary services, which deliver premium operating margins when mature.

Private brands

Grow the participation of private brands to increase the mix of premium margin products within the business.

Simplicity

Simplify processes, product management and behaviours to maintain an optimal cost base.

Read more

➔ Page 23

For pets

Ensure we maintain our number one value, Pets Before Profit.

For people

Be a great place to work.

For the planet

Efficiently use and respect resources.

Read more

➔ Page 38

Grow like-for-like revenues



Highlights of 2018

Value

- Invested significantly in price points across retail, particularly in food.
- Moved to a simpler and consistent pricing approach, away from promotional offers and vouchers.

Omnichannel

- Launched 'Order-In-Store', where colleagues can order from our extended online range.
- Expanded our popular subscription service to offer additional flea prevention products.
- Developed a faster online checkout process for mobile device users.

Innovation

- Relunched our puppy product range, with a new look and feel.
- Launched new lines, with fresh designs, across dog bedding, leads and collars.

Private brands

- Repositioned private label dog Advanced Nutrition pricing so it is now amongst the best value in the UK.
- Launched an extension to our private label science dog food range, AVA, with breed specific diets.

Services

- Grew new client registrations in our First Opinion vet practices through our TV and online Vets4Pets advertising, extended opening hours in existing practices, and educated clients on the importance of care plans for their pets.
- Added extra space to our Specialist Referral Centres to give them extra consulting and treatment areas.
- Introduced better value grooming packages in our salons.

Future plans

As we look to the year ahead we continue with the remainder of our price repositioning programme in the retail business. Omnichannel, the digital space and our website will also be core areas of investment, as we adapt to customers' changing shopping habits. In our veterinary business, our growth initiatives will focus on delivering the highest levels of clinical care, convenient opening hours, capacity extensions, and educating customers on the importance of proactive healthcare.

We expect our strategic initiatives to deliver like-for-like revenue growth ahead of the market across both retail products and veterinary services.

Key Performance Indicators

Like-for-like¹ growth

Performance in 2018

Group like-for-like growth significantly improved as a result of our pricing, online, and innovation initiatives in the Merchandise business. Our Services business yet again delivered a consistently high level of like-for-like growth, primarily driven through our vet business.

Key risks associated

- Brand and reputation
- Competition
- Our people
- Business systems and information security
- Supply chain/sourcing
- Services and store expansion
- Regulatory and compliance
- Extreme weather

Group like-for-like growth¹

5.5%

2018	5.5
2017	1.5
2016	2.2

Services like-for-like growth¹

8.5%

2018	8.5
2017	7.9
2016	10.4

Merchandise like-for-like growth¹

5.0%

2018	5.0
2017	0.8
2016	1.5



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

Private label participation

Performance in 2018

Our aim during the year was to increase the participation of private label products in the business. Whilst a steady participation is the outcome from a percentage of revenue perspective, participation has increased as a proportion of our volumes, which is a reflection of our price reduction initiatives over the year.

Key risks associated

- Our people
- Supply chain/sourcing
- Competition

Private label participation in Merchandise revenues

41%

2018	41
2017	41
2016	42



Product refreshment

Performance in 2018

We changed around 2,500 products in the year, and whilst this was a lower number than the prior year, our focus was on achieving more significant innovation and change, in fewer areas. This delivered highly successful range relaunches in areas like dog accessories.

Key risks associated

- Our people
- Supply chain/sourcing

Products refreshed and changed

31%

2018	31
2017	39
2016	40



VIP club

Performance in 2018

We again grew the number of Very Important Pet loyalty club members, and also increased the swipe rate of the card at store tills, which reflects a higher proportion of shoppers opting to be part of our loyal customer following.

Key risks associated

- Brand and reputation
- Our people
- Business systems and information security
- Competition

Active VIP club members

3.9m

2018	3.9
2017	3.7
2016	3.4

VIP card swipe rate in-store²

70%

2018	70
2017	68
2016	64

² Average swipe rate of the card at store tills over latest quarterly period.

Store colleague retention

Performance in 2018

In line with our aim, we broadly maintained our colleague retention rate during the year, which is underpinned by our benefits, education and training, and engagement we have with colleagues through the business.

Key risks associated

- Brand and reputation
- Our people
- Competition
- Services and store expansion

Store colleague retention

76%

2018	76
2017	78
2016	79



Grow retail and services space



Highlights of 2018

Stores

- Opened 13 superstores (net), bringing our total store numbers to 448.
- Took the decision to discontinue our trial of Barkers for dogs stores.

Vet practices

- Opened 25 vet First Opinion practices (net), bringing our total numbers to 461 practices.

Grooming salons

- Opened 27 grooming salons (net), bringing our total numbers to 309 salons.

Future plans

In the coming year we will open up to five new stores. 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 expect to open 20-25 First Opinion practices in the year ahead. Our aim remains to acquire or open more veterinary Specialist Referral Centres.

Key Performance Indicators

Stores

Performance in 2018

We opened 13 superstores (net), slightly ahead of our target of ten.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

Pets at Home superstores

448

2018	448
2017	442
2016	419

Vet practices and referral centres

Performance in 2018

We opened 25 practices (net), below our target of 40-50, where the shortage of qualified vets in the UK continues to be an industry wide challenge. We did not open any further referral centres during the year.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

First Opinion vet practices

461

2018	461
2017	436
2016	388

Veterinary Specialist Referral Centres

4

2018	4
2017	4
2016	2

Grooming salons

Performance in 2018

We opened 27 salons, in line with our target of 20-30.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

Grooming salons

309

2018	309
2017	290
2016	240

Grow margins



Highlights of 2018

Services

- Services revenues grew to 14.9% of the Group, up from 14.1% in the prior year.

Private brands

- Increased our participation of private brands within Advanced Nutrition, and kept participation broadly similar in other areas of the business.

Future plans

Delivering the maturity of our veterinary business is key to supporting operating margins in the Group. Our activities will focus on driving revenue growth in First Opinion practices and supporting them as they grow, as well as opening new practices.

We will expand our private label food business further and encourage customers to purchase our brands, ensuring they receive the most appropriate products for their pet.

Key Performance Indicators

Gross margin

Performance in 2018

Group gross margin declined, driven primarily by our price investment in the Merchandise business, which more than offset the increase in Services gross margin.

Key risks associated

- Brand and reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Services and store expansion

Group gross margin

51.7%

2018	51.7
2017	54.2
2016	54.5

Services gross margin

34.1%

2018	34.1
2017	33.3
2016	33.0

Merchandise gross margin

54.8%

2018	54.8
2017	57.6
2016	57.0

EBITDA margin¹

Performance in 2018

We maintained good operating cost control, aided by our simplicity initiatives in stores and the cost savings delivered by our energy saving programme, which helped to offset part of the gross margin dilution.

Key risks associated

- Brand and reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Services and store expansion

Group underlying EBITDA margin¹

13.7%

2018	13.7
2017	15.6
2016	16.0

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