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Pets at Home Group Plc: Preliminary Results

A strong year, now the UK's biggest pet and vet business

Pets At Home Group Plc, the UK's leading specialist retailer of pet food, accessories, pet-related products and services, today announces its preliminary results for the financial year ended 27 March 2014.

Financial highlights

- Performance in line with management expectations at the time of IPO, underlying EBITDA of £110.7m, up 12.4% year-on-year
- Revenues grew 11.2% to £665.4m, reflecting store portfolio expansion and strength across food, accessories and services
- Like-for-like sales growth of 2.4%, driven by VIP Club success, strength in Advanced Nutrition, omni-channel, and the growing maturity of Groom Rooms and vet practices
- Like-for-like growth in revenues generated within the Joint Venture veterinary practices of 14.0%, underpinning fee income growth
- Underlying EBITDA margin expansion of 17bps to 16.6%, reflecting the leverage from our services business, which represents 7.6% of Group revenues (FY13: 5.3%)

Operational highlights

- 32 new stores opened during the year, taking our total store portfolio to 377
- Now the largest small animal veterinary services provider in the UK with 277 practices, reflective of 47 in-store and 22 standalone openings in the year
- Successful integration of Vets4Pets, acquired March 2013, with a single support office now established for the combined vet business
- Largest number of Groom Rooms opened in a single year; 42 new salons, bringing the portfolio to 129
- VIP Club reached 2m members at the end of FY14, 1.5m members added in the year
- Pets At Home website relaunched in January 2014, now featuring a wider range of products, fewer clicks to checkout and enhanced presentation of our pet services

Nick Wood, Chief Executive Officer, commented:

"It has been a pivotal year for Pets at Home. Our results demonstrate how we are building on our leading position in the UK pet care market, continuing to innovate and grow the business. I am excited with the progress made in our Vets Group, which through the acquisition of Vets4Pets and the opening of 69 new practices, has become the UK's largest small animal veterinary services provider. None of this would have been possible without the commitment of our outstanding colleagues and I thank them all for their dedication.

We are focused on delivering the growth strategy we set out to shareholders at IPO. Whilst the lack of a sustained increase in consumer disposable incomes gives some caution to the outlook, I believe the potential of our retail and services businesses will enable us to deliver our strategy and achieve long-term returns."

Financial summary and FY14 highlights

£m	FY14	FY13	*Change*
Total revenue	665.4	598.3	*11.2%*
Like-for-like growth[1]	2.4%	2.6%	
Food	327.1	297.9	*9.8%*
Accessories	288.0	268.5	*7.3%*
Services & Other[2]	50.3	31.9	*57.4%*
Gross margin	53.8%	54.1%	*(32) bps*
Underlying EBITDA[3]	110.7	98.5	*12.4%*
Underlying EBITDA margin	16.6%	16.5%	*17 bps*
Underlying operating profit[4]	90.7	80.3	*12.9%*
Underlying operating profit margin	13.6%	13.4%	*21 bps*
Underlying trading profit before tax	52.2	40.0	*31.0%*
Underlying unlevered FCF[5]	92.4	96.8	*(4.5)%*
Conversion	83.5%	98.2%	*(148) bps*
Number stores[6]	377	345	*32*
Number vets	277	208	*69*
In store vets	158	111	*47*
Standalone vets	119	97	*22*
Number Groom Rooms	129	87	*42*

1 'Like-for-Like' growth comprises total sales/fee revenue in a financial period compared to revenue achieved in a prior period for stores, grooming salons and vets that have been trading for 52 weeks. LfL includes revenue from the Group's online store.
2 Includes joint venture fees and other income, Groom Room revenue, revenue from live pet sales and insurance commission
3 Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation & amortisation and profits and losses on disposal where these are included in operating profit. Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS2 related share based payment credits and charges
4 . Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS2 related share based payment credits and charges
5 Underlying unlevered Free Cashflow is defined as Underlying EBITDA, adjusted for changes in working capital, acquisitions of property, plant and equipment and other intangible assets, investments in other financial assets, proceeds from the sale of property, plant and equipment and is stated before cash flows for exceptional costs and acquisitions of subsidiaries. FY14 FCF has been adjusted through the removal of a £25.2m increase in other payments reflecting payables associated with IPO costs outstanding at year end to give an underlying unlevered FCF.
6 Includes new format high street store, Barkers

Results presentation

A presentation for analysts and investors will be held today at 9.45am, attendance is by invitation only. For dial in details, please contact Amie Gramlick, Head of Investor Relations, or Brunswick Group. An audio webcast will be available at http://investors.petsathome.com

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About Pets At Home

Pets At Home Group Plc is the UK's leading specialist pet retailer and services provider, with a wide omni-channel offering.

Pets At Home operates from 377 stores located across the UK. The Group operates the UK's largest small animal veterinary business with 277 surgeries, run principally under a Joint Venture model using the Companion Care and Vets4Pets brand names. Pets at Home is the UK's leading operator of pet grooming services offered through its 129 Groom Room salons. The Group also owns and operates Ride-away, a specialist equine retail business with a York superstore, website and catalogue. For more information visit: http://investors.petsathome.com/

Disclaimer

This preliminary statement of annual results does not constitute an invitation to underwrite, subscribe for, or otherwise acquire, dispose of any Pets at Home Group Plc shares or other securities nor should it form the basis of or be relied on in connection with any contract or commitment whatsoever. It does not constitute a recommendation regarding any securities. Past performance, including the price at which the Company's securities have been bought or sold in the past, is no guide to future performance and persons needing advice should consult an independent financial advisor.

Certain statements in this preliminary statement of annual results constitute forward-looking statements. Any statement in this presentation that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this statement of results. As a result you are cautioned not to place reliance on such forward-looking statements. Nothing in this statement should be construed as a profit forecast.

Chairman’s Statement

2014 was a historic year for the business, culminating in our listing on the premium segment of the London Stock Exchange. At the same time, we delivered record financial results, successfully executed on our growth strategy, continued to engage our colleagues and pet customers and enhanced our governance with an expanded Board of Directors.

Pets At Home is the leader in the highly attractive UK pet care market. We stand uniquely placed as the only UK retailer offering a full suite of pet products and services across both stores and the internet. We offer customers a truly differentiated range, which drives engagement and loyalty in a one stop shop environment.

During the year, we believe we have benefitted both from positive market dynamics, as well as the successful execution of our plans. Historically, the UK pet care market has experienced growth levels above those of the overall non-food sector, driven by pet owners’ continued demand for innovative, premium products, the increased uptake of pet services and the desire for owners to treat and care for their pets as one of the family. We believe this dynamic continues.

In the financial year 2014, revenues grew by 11.2% to £665.4m. We experienced another year of like-for-like growth, at 2.4%, driven by VIP Club success, strength in Advanced Nutrition, omni-channel and the increasing maturity of pet services.

Nick Wood and our executive management team have continued to execute our growth strategy for the business. We are very proud to have become the UK’s largest small animal veterinary services provider, with 277 practices operating under the Companion Care and Vets4Pets brands at year end. Our Groom Room services expanded at a rapid rate, with 42 salons added to our store portfolio, the largest expansion we have seen in a single year. We also opened 32 stores, bringing our portfolio to 377, larger than the five closest specialist competitors combined. Our success is driven by our highly engaged colleagues who deliver outstanding service to our pet customers. This high level of colleague engagement was recognised by being awarded the Sunday Times Best Place To Work, for large companies, in 2013.

As a public company, our vision remains the same, to be the best pet shop in the world. We have always sought to deliver superior returns to our shareholders through the continued growth, profitability and cashflows of the Company. At listing, we enhanced our corporate governance framework with an expansion of the Board and the appointment of five Independent Non-Executive Directors; Paul Coby, Tessa Green, Amy Stirling and Paul Moody. And we welcomed Dennis Millard as Deputy Chairman and Senior Independent Non-Executive Director. Each Director has been chosen to bring a range of retail, public company, commercial and charitable skills to Pets At Home. Brian Carroll has been appointed as a Non-Executive Director of the Board and representative of our principal shareholder.

Looking ahead, our performance in 2014 has given us a solid platform to build upon. We remain confident in the business and anticipate a further year of growth for Pets At Home.

Finally, on behalf of myself and the Board, I would like to thank all our colleagues for their substantial contribution during this historic year. Their continued passion and enthusiasm for the business are integral to our success. We will continue to live our values in driving the company forward, working together as a team and taking great pride in what we do.

Tony DeNunzio
Non Executive Chairman
12 June 2014

Chief Executive's Review

Strategic overview

During the financial year 2014, we continued to make strong progress on our strategy to leverage our leading position in the UK pet care market and develop new opportunities for growth. This strategy is reflected in the Pets At Home PawPrint, the internal articulation of our strategy to all colleagues across the business: To be the best pet shop in the world; by providing world class shops; colleagues who are friendly experts; being at the heart of every community; always new and exciting; offering the best vets and groomers; being a truly amazing place to work and putting pets before profit.

The operational delivery of the strategy is achieved through three growth levers:

- Expanding like-for-like sales
- Space rollout and footprint development
- Continued focus on gross margin improvement

We saw good progression against all three growth levers during the financial year.

Strategy highlights

Expand like-for-like sales	Product and innovation	• More than 2,750 SKUs launched during the year, refreshing over one third of our store product range • New launches in Advanced Nutrition – Wainwright's cat and Wainwright's Grain Free dog food
	VIP Club	• VIP Club reached 2 million members and captured over 50% of store revenues by March 2014 • Voted 'Best Loyalty Programme' in retail by the Loyalty Awards 2014
	Omni-channel	• New website launched in January 2014 • Web range expanded and now exceeds in-store range
	Services	• Retrofit services added to stores included 18 veterinary practices and 11 Groom Room salons
	Engagement	• Colleague retention rate of 81% • Customer advocacy Net Promoter Score of 84%
Space rollout and footprint development	Store & services rollout	• 32 new stores opened, 69 new veterinary practices (47 in-store, 22 standalone), 42 new Groom Room salons • Barkers launched in Wilmslow, Cheshire – our trial high-end, dog focused, high street store format
Focus on segmental gross margin improvement	Product mix & own brand	• Advanced Nutrition now 56% of total dog and cat food sales, excluding treats (FY13: 53%) • Wainwright's dog food sales grew 26.7% to £27.2m (FY13: £21.4m) • Own/private label products 42% of store revenues • Pet services increasing maturity starting to positively impact margins but still at early stages

Like for like growth

Product and innovation

Differentiated and unique product is critical to the Group's strategy, driving both customer loyalty and visit frequency. We refreshed our product range with more than 2,750 new SKUs (Stock Keeping Units) in 2014, representing over a third of our total range. During the year, a number of new Advanced Nutrition (AN) brands were introduced to stores, including Barking Heads for dogs and Meowing Heads for cats. AN foods have superior health and nutritional benefits to pets and are the fastest growing segment of the pet food market. New launches within Wainwright's, our private label AN range, also saw strong sales after launch, which included Wainwright's for cats, as well as Wainwright's Grain Free for dogs.

VIP Club

Our VIP Club continues to grow at a rapid rate, reaching 2 million members and capturing over 50% of all revenues spent in stores by the end of March 2014. Increasing use of the loyalty card is also being seen within our in-store veterinary practices and Groom Room salons. VIP allows us to send personalised and targeted marketing to owners and their pets and will continue to be one of the key levers through which we can take further market share. This year, ahead of the Wainwright's cat food launch, we were able to target cat owners within the VIP Club database, particularly those who were already purchasing Wainwright's dog food. These members were sent targeted emails, resulting in 55% of Wainwright's cat food launch sales being attributable to VIP Club members. Our VIP Club also creates charity lifelines each time a card is swiped and generated over £1 million for customer nominated charities in FY14.

Omnichannel

PetsAtHome.com was relaunched in January 2014. The website now features only 4 clicks to checkout, richer content and offers more than 8,100 SKUs, higher than in-store ranges. Post new site launch, as expected, the website experienced slightly lower levels of traffic as re-indexing within search engines occurred, but more recent data shows that visits to the site have now recovered to pre-launch levels. We have also seen less activity from some competitor websites, meaning our overall share has increased slightly and we remain the highest traffic pet website in the UK, with more than three times the traffic levels of our nearest competitors.

Our food subscription service, which enables customers to receive their fifth order for free, remains in trial. Our Click and Collect (C&C) service, which allows customers to place an order on the website for collection in store within two hours, continues to perform well. C&C sales, as a percentage of total website sales, have been maintained since the new website launch. This is just one lever through which we seek to drive footfall to stores via the website, and we continue to view our online strategy as far more than simply a platform for customer purchases, but as a portal to drive engagement and cross-selling activities.

Looking ahead, we plan to launch mobile and tablet friendly website versions and increase our online product range towards a target of 10,000 SKUs. We will rollout Deliver To Store, which enables customers to order any product available online for delivery into a local store. We are also enabling the redemption of VIP vouchers online. This will create a seamless store and online shopping experience for VIP customers, as well as allowing us to track offer redemption rates and measure success and returns more easily.

Services

Retrofitting of veterinary practices and Groom Room salons to existing stores drives like-for-like store sales, by enhancing our overall proposition, driving store footfall and enabling cross-selling of products. During the year, 18 veterinary practices and 11 Groom Room salons were added to existing stores.

Engagement
Customer and colleague engagement is central to the Group's success, creating loyalty and like-for-like sales growth. Through our highly trained and engaged colleagues, we seek to increase our share of spend with current customers and extend the Pets At Home experience to new customers.

Colleague engagement levels, which are measured through an internally collated survey, were 93% in FY14 (FY13: 93%). Being able to maintain such a high level of engagement is reflective of our rewards system, the specialist training offered, and the opportunity for colleagues to change roles and diversify their skill sets within the business. Colleague retention rates decreased marginally in the FY14 to 81% (FY13: 83%), but such a rate still places Pets At Home as a leader within the retail industry.

Pets At Home measures customer advocacy through the Net Promoter Score ("NPS"), gathered through Fish4opinion.co.uk, a customer service survey website operated by the Group. With over 110,000 customer feedback points over the year, FY14 NPS levels were maintained at 84% (FY13: 84%). During the year, we implemented some changes to the way in which NPS is measured, effectively raising the threshold at which we consider scores given by customers to represent a positive experience. If we had maintained the same criteria as the previous year, NPS would have been 86%. This is a key example of our values in action: challenging our standards and getting better every day.

Our fund raising initiatives on behalf of our nominated charity, Support Adoption For Pets, also grew strongly during the year. Support Adoption for Pets, which is the largest animal rehoming charity in the UK, raised £2.65m for national animal welfare charities and local re-homing organisations during the year and has raised over £10m since its inception in 2006.

Space and footprint expansion

A key part of the Group's strategy is to increase the number of stores, in-store and standalone veterinary practices, and Groom Room salons.

During the FY14, Pets At Home opened 32 new stores, bringing the total store portfolio to 377 across the UK. The portfolio includes the new trial high street store format, Barkers. 'Barkers of Wilmslow' opened in Wilmslow, Cheshire, in March 2014, featuring high end exclusive luxury dog products, at the premium end of the market.

During the year, we became the largest provider of small animal veterinary services to pet owners in the UK, with a vet portfolio at year end of 277 practices. Of the 69 new veterinary practices opened, 18 were retrofits to current stores, 29 were new in-store locations and 22 were stand alone practices. Pets At Home operates the only large scale Joint Venture veterinary services model in the UK market, under our two veterinary brands – Companion Care, our original veterinary brand, and Vets4Pets, acquired in March 2013. The Joint Venture model allows each vet practice to operate as an independent business, jointly owned by Pets At Home and a veterinary JV partner, funded by small loans into the business by the JV partner and Pets At Home, alongside a larger, independent bank loan. The ownership structure enables all profits and capital accretion within the JV to accrue to the vet partner. This structure gives us the ability to work closely with the partner to develop their business and overcome any challenges, which is key to the success of the business model. The JV vet partner pays a service charge, reflecting the cost of the space occupied in store, and a percentage of their revenue in the form of fee income to Pets At Home, whilst we provide all the administrative and back office support, allowing the vet partner and their colleagues to focus on clinical excellence and delivering the best possible service to pets and their owners.

The current vet portfolio has 119 Companion Care practices and 158 Vets4Pets practices (of which 92 were acquired in 2013). Going forward, we are opening all new surgeries under the Vets4Pets brand and working with our current Joint Venture partners to move to Vets4Pets branding, which will enable advertising synergies across the Vet Group, leveraging national brand awareness with potential new customers.

Groom Room rollout was particularly strong during the year, with 42 new openings, of which 11 were retrofits and 31 within new stores. The UK grooming services market is highly fragmented and the Groom Room is positioned as the only branded chain in the market, ideally positioned to benefit from increased demand.

Going forward, Pets At Home has a strong store and services rollout programme. Current analysis, conducted in conjunction with CACI, shows the potential for over 500 stores, 450 in-store vets, over 250 standalone vets and over 300 grooming salons in the UK market.

Focus on gross margin

The Group remains focused on innovation, increasing brand choice for customers and developing its own brand and private label offerings in order to improve margins. Higher margin Advanced Nutrition and private label products, such as Wainwright's, are an important contributor. During the year, we launched a number of new AN brands to stores, helping to drive AN revenues to 56% of total dog and cat food revenues, excluding food treats (FY13: 53%). Wainwright's dog food also continued to gain popularity, growing by 26.7% to £27.2m (FY13: £21.4m). Own brand and private label products represented 42.4% of gross store revenues during the year (FY13: 42.1%).

As our vet practices and Groom Room salons continue to mature, we have begun to see an increasing contribution to Group profitability. The JV vet practices take up to seven years to mature, although they are profitable to the Group from opening, through the percentage of revenue payment and start-up fees. As the JVs mature and reach higher utilisation rates there is an opportunity for our revenue stream to increase without a significant increase in our cost base, delivering margin leverage. Within the Groom Room business, new salons are dilutive in the first two years, with maturity achieved after five years. We remain excited about the further maturation and potential margin benefit the services opportunity presents.

Summary and outlook

Pets At Home has delivered excellent results in the past financial year, increasing like-for-like sales, improving underlying EBITDA margin, delivering on the rollout programme, strengthening our pet services offer and increasing the profile of the brand.

The pet care market outlook remains good. Whilst economic indicators for the UK are positive, the lack of a sustained increase in consumer disposable incomes gives some caution to the outlook. We remain comfortable with market expectations for the coming financial year.

The Group will continue to execute its strategy, leveraging a number of growth opportunities; improving like-for-like sales, increasing space and optimising our footprint through the inclusion of pet services, and maintaining a focus on gross margin. We expect to open around 25 stores, 60 veterinary practices and 50 Groom Room salons in the FY15.

The Board and executive management team remains confident in the future prospects of the Group. Trading in the current financial year is progressing in line with our expectations.

Nick Wood
Chief Executive Officer
12 June 2014

Chief Financial Officer's Review

The FY14 accounting period represents 52 weeks to 27 March 2014. The comparative FY13 period represents 52 weeks to 28 March 2013.

Key Performance Indicators

		FY14	FY13	*Change*
Stores	Number of stores	377	345	*32*
	New stores[1]	32	32	
Vets	Number of vet practices (total)	277	208	*69*
	Of which Joint Venture practices	267	111	
	Of which wholly owned Group Venture practices	10	5	
	Of which Vets4Pets acquisition		92	
	Number of standalone vet practices	119	97	*22*
	Number of in-store vet practices	158	111	*47*
	% of stores with vet	42%	32%	
	New vet practices (total)	69	116	
	New standalone vet practices	22	92	
	New in-store vet practices	47	24	
	Of which retrofits	18	17	
Groomers	Number of groomers	129	87	*42*
	% of stores with groomer	34%	25%	
	New groomers	42	26	
	Of which retrofits	11	8	
Revenue	Revenue Split (£m)			
	Food	327.1	297.9	9.8%
	Accessories	288.0	268.5	7.3%
	Total Merchandise revenue	615.1	566.4	8.6%
	Services & other[2]	50.3	31.9	57.4%
	Total Group revenue	665.4	598.3	11.2%
	Like For Like growth[3]	2.4%	2.6%	
	VIP Club members (m)	2.0	0.5	1.5
	VIP swipe as % revenue	54%	21%	
	Revenue Mix (% of total revenues)			
	Food	49.2%	49.8%	*(62) bps*
	Accessories	43.3%	44.9%	*(159) bps*
	Total Merchandise	92.4%	94.7%	*(222) bps*
	Services & other[3]	7.6%	5.3%	*+222 bps*
Gross Margin	Merchandise Gross Margin (store + omnichannel)	56.1%	56.0%	*+14 bps*
	Services & Other Gross Margin	26.3%	22.5%	+386 bps
	Total Gross Margin	53.8%	54.1%	(32) bps
EBITDA	Underlying EBITDA (£m)	110.7	98.5	12.4%
	Underlying EBITDA margin	16.6%	16.5%	17 bps

1 F14 openings include new format store, Barkers

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 for stores, grooming salons and vets that have been trading for 52 weeks. LfL includes revenue from the Group's online store.

4 At the end of P13

Sales and revenue

Total revenues in FY14 grew by 11.2% to £665.4m (FY13: £598.3m), with strong growth seen across all revenue categories; food, accessories and services.

Like-for-like sales grew by 2.4% in the period, driven by VIP Club success, strength in Advanced Nutrition, omni-channel, and the growing maturity of our Groom Rooms and vet practices. Cannibalisation as a result of new store rollout had a dilutive impact of around 1.8% on like-for-like sales growth, and we expect a similar cannibalisation impact in the coming year. In addition, sales in June/July 2013 were adversely impacted by around £2.6m, from the sustained hot weather across the UK. Hot weather results in lower footfall and accessories sales, as shopping trips focus on necessities, principally food.

Total merchandise revenues, which includes food and accessories, grew by 8.6% in the year to £615.1m (FY13: £566.4m).

We saw solid growth in food revenues, increasing by 9.8% to £327.1m (FY13: £297.9m), reflective of strong performance in Advanced Nutrition, where revenues grew 17.8%. During the year, we launched a number of new AN brands to stores, including Barking Heads for dogs and Meowing Heads for cats. These new brand launches, as well as the continued success of brands such as Eukanuba, Arden Grange and Burns, helped to drive AN revenues to 56% of total dog and cat food revenues, excluding treats (FY13: 53%). Our private label brand, Wainwright's dog food, also continued to gain in popularity, growing by 26.7% to £27.2m (FY13: £21.4m), supported by the launch of Wainwright's Grain Free. Weaker areas in food revenues included wild bird food sales, which were negatively impacted by a mild Autumn/Winter with birds feeding adequately from natural sources, and the discontinuation of rabbit muesli following research from Edinburgh University Veterinarian School which demonstrated negative health impacts in rabbits.

In Accessories, revenues grew by 7.3% to £288.0m (FY13: 268.5m), driven by innovative product launches across dog collars, leads, dog fashion and toys. In particular, the 'Summer Brights' dog bed collection and 'Platinum Space' dog range performed well, as well as our 'Rustic Charm' cat collection. We experienced some weakness in areas which are subject to greater discretionary spend, such as live pets, and small animal and aquatics accessories.

Services revenues grew by 57.4% to £50.3m (FY13: £31.9m), reflective of a full year of Vets4Pets revenues, following its acquisition in March 2013. This partly accounts for the increased proportion of services revenues, at 7.6% of total revenues in FY14 (FY13: 5.3%). Removing the impact of the Vets4Pets acquisition, services revenues still grew strongly, by 25.0%, reflecting in part the maturation from new veterinary practices and grooming salons, as well as strong performance from established veterinary practices which we believe continue to grow at above market rates. Like-for-like revenues generated within the Joint Venture veterinary practices grew by 14.0% during the year.

Gross margin

Overall FY14 gross margin contracted by 32bps to 53.8% (FY13: 54.1%), which is attributable to a mix effect, as relatively lower gross margin services became a larger part of the overall business.

Gross margins within Merchandise grew by 14 bps compared with the prior year, at 56.1% (FY13: 56.0%). Positive contributors to the Merchandise gross margin included a continued benefit from improvements in terms negotiations, as well as global sourcing agreements, where we saw margin gains from the procurement of accessories through Asia.
Higher margin AN and private label products, such as Wainwright's, were also an important positive contributor to margin expansion. Whilst we grew gross margins in both Food and Accessories, a 59 bps sales mix shift from higher margin accessories to food diluted the overall Merchandise margin gain to 14 bps during the year.

Gross margin within the services business expanded to 26.3% (FY13: 22.5%), mainly attributable to higher gross margin veterinary services being a larger part of the overall mix, resulting from the Vets4Pets acquisition and strong like-for-like growth within existing practices. Margin synergies have been achieved since the acquisition, combining three support offices into one and leveraging the significant scale increase, resulting in the delivery of £2.7m of synergy benefits during the year. This benefit outweighed the dilutive impact of increasing the number of wholly owned Group Venture (GV) veterinary practices by five during the year, as well as the significant Groom Room salon rollout, where recently opened wholly owned vet practices and newer salons are initially margin dilutive. Services and other gross margin was also negatively impacted by our investment in live pet care within stores, where we continually invest to improve welfare standards.

Looking forward, at a total gross margin level for the Group, we expect to begin to see a benefit from services maturation and growth, whilst continuing to see modest Merchandise margin expansion.

Operating costs

Selling and distribution expenses of £233.9m were 35.2% of revenue (FY13: 36.0%) reflecting efficiency improvements in the two distribution centres that serve our growing store base. Rent costs continued to benefit from a relatively benign rental market, as well as the expansion of the Vets Group, with the opening of 18 retrofit practices in store generating incremental service charge income. Offsetting these improvements, we have seen increased marketing costs from the expansion of our VIP Club, alongside increased costs from 'auto enrolment' pension legislation and in-store colleagues progressing through our 'Steps' training programme.
Administration expenses of £34.8m, before exceptional items, were 5.2% of revenue (FY13: 5.0%), reflecting increased support for our Ride-away business in its first full year in the group and higher depreciation, colleague and license costs in business systems following the successful implementation of SAP.

Underlying EBITDA

Underlying EBITDA of £110.7m represented a 12.4% increase on the previous year (FY13: £98.5m), attributable in part to the acquisition of Vets4Pets and Ride-away at the end of the FY13. We also saw expansion in our underlying EBITDA margin, to 16.6%, reflecting the leverage from our growing services business, which is accretive at an EBITDA level. All direct costs, principally colleague costs, associated with the delivery of the veterinary and Groom Room services are allocated at a cost of sales level, representing the majority of the cost base associated with the delivery of our services. Around £1.9m of indirect costs are allocated within operating expenses.

Exceptional expenses of £10.6m during the year were attributable to costs associated with the Initial Public Offering on 17 March 2014 (£9.4m), and costs associated with the integration of the Vets4Pets business (£2.3m) net of a significant VAT refund (£1.1m).

£000	FY14	FY13
Operating profit	78,842	72,934
Exceptional items	10,574	6,049
Related party fees	1,221	1,298
IFRS share based payment charges	31	0
Underlying operating profit	90,668	80,281
Depreciation and amortisation	19,990	18,207
Underlying EBITDA	110,658	98,488

Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation and amortisation and profits and losses on disposal where these are included in operating profit. Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS2 related share based payment credits and charges

Finance expense

Underlying finance expense for the year was £37.5m. Exceptional finance expenses of £19.2m represent accelerated amortisation costs following the repayment of the senior bank facility of £567.9m during the period.

Going forward, under the new post-IPO capital structure, we expect net financing costs of around 3.0% per annum.

Taxation and profit after tax

Total tax expense for the period was £9.0m, representing a tax expense of £13.7m on underlying trading profit before tax of £52.2m, offset by a tax credit of £4.7m attributable to exceptional items related to the Group restructuring as part of the IPO process. The tax deductible items included within exceptionals include the amortisation of finance costs in relation to finance which has been repaid, and redundancy costs associated with the Vets4Pets acquisition. Also included in exceptional costs are transaction costs in relation to the IPO process, for which no corporation tax relief is assumed.

Within the underlying trading profit before tax of £52.2m, there are some items which are non-deductible for corporation tax purposes, which have resulted in an effective tax rate of 26%, higher than the statutory corporation tax rate for the period of 23%. These items include an element of non-deductible related party interest and non-deductible depreciation in respect of capital expenditure. In addition, prior year adjustments of £0.9m, in respect of current tax and deferred tax, have increased the effective tax rate further. Our expected effective tax rate for the current financial year is 22%.

Profit for the period, after tax, was £13.5m (FY13: £20.5m). The year-on-year movement is representative of a £14.7m increase in exceptional costs, offset by a £7.7m improvement in the profit for the period associated with underlying trading.

Net income and earnings per share

Underlying trading net income for the period was £38.6m (FY13: £30.8m). After subtracting a dividend of £37.6m payable as a consequence of the pre IPO capital structure, basic underlying Earnings Per Share, calculated on an average weighted 175.1m shares in issue, was 1 pence. The weighted average share count for FY14 is reflective of the 166m shares outstanding pre IPO, with 500m shares in issue post listing.

Cash flows

Pets At Home continues to deliver strong cash flow generation. In the FY14, the Group generated £124.6m (FY13: £115.0m) of net cash from operating activities. Underlying unlevered free cash flow before interest, tax and acquisitions was £92.4m (FY13: £96.8m), representing a cash conversion rate of 83.5% (FY13: 98.2%). Underlying free cash flow has been adjusted through the removal of a £25.2m increase in other payables, reflecting payments associated with IPO costs outstanding at year end.

Borrowings and net debt

The Group's underlying net debt position at year end was £259.1m, adjusted for a timing difference in IPO and Plc related costs due to be paid from cash received as a result of primary proceeds raised from the IPO. This represents a leverage ratio of 2.34x underlying EBITDA.

We expect our leverage ratio to decline to under 2.0x underlying EBITDA by the end of the current financial year, and to decrease by 0.5x per annum in the following years, as our cash flows remain adequate to fund our space rollout programme, invest for future growth, deliver future returns to shareholders and service debt.

£m	Stated leverage	Underlying leverage
Stated Gross Debt	319.9	319.9
Add back: issue costs	5.1	5.1
Adjusted Gross Debt	325.0	325.0
Cash	90.8	90.8
Less IPO related cash		(24.9)
Adjusted cash		65.9
Net debt	234.2	259.1
Underlying EBITDA	110.7	110.7
Leverage	2.12x	2.34x

Working capital

Working capital improved by £9.7m in the year (FY13: £19.3m), excluding a £25.2m increase in other payables, reflecting payments associated with IPO costs outstanding at year end. The movement in working capital is made up of additional investment in inventory of £4.0m and an increase in receivables of £8.0m offset by an increase in trade and other payables of £21.7m.

The increase in inventory of £4.0m reflects the growth in the business, specifically the opening of 32 new stores. This increase in inventory is more than offset by an increase in trade creditors.

£5.1m of the increase in trade and other receivables relates to the timing of a refinancing within the Vets Group to ensure the Group had sufficient facilities for new JV partners to draw upon, to deliver our growth plans over the next two years . This required the group to temporarily fund a number of practice openings in the latter stages of the 2014 financial year. The remaining increase in trade and other receivables relates to the impact from integrating Vets4Pets, which is more than offset by a corresponding movement within trade and other payables, as the integration overall delivered a net working capital benefit of £3.1m to the group.

The significant increase in trade and other payables of £21.7m is partially the offset by the increase in inventory and the integration of the Vets4Pets business as outlined above. Also contributing to the movement in trade and other creditors are further improvement to supplier terms in the group, particularly in relation to products sourced through our sourcing office in Asia. The Group also saw a working capital benefit in FY14 relating to the timing of Easter in 2013 when the Easter weekend fell in the first weekend of FY14 accelerating payments pre-year end due to the timing of the Easter bank holidays.

Going forward, we expect a modest improvement in our working capital.

Capital expenditure

Capital expenditure was £30.0m for the FY14 (FY13: £22.0m), reflective of our new store openings, store refurbishment programme to facilitate pet services retrofitting (including the installation of mezzanines where necessary), new services rollout and the introduction of SAP. During the year, 32 new stores were opened with a capital expenditure cost of £10.9m (FY13: 32 stores at £10.7m). Major refurbishment capital expenditure totalled £5.1m as 20 stores were upgraded to facilitate the addition of vets and groomers, with 2 mezzanine floors added.
In order to support the vet and Groom Room retrofit programme, including mezzanine additions to stores, we expect total capital expenditure requirements to increase to around £34-35m per year going forward, which will be funded from operating cash flows.

Dividend

The Board's current intention is to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover, allowing us to retain sufficient capital within the Group to execute our growth strategy and meet our working capital needs, whilst at the same time returning value to shareholders. We still expect to target the commencement of a dividend payment in the FY15, with a payout ratio of 30-40%, split one-third and two-thirds between interim and final dividends respectively.

Ian Kellett
Chief Financial Officer
12 June 2014

Financial Statements

Financial Information

The financial information set out in this preliminary statement of annual results has been extracted from the Group's financial statements, which have been approved by a resolution of the Board of directors of the Company on 10 June 2014 and agreed with the Company's auditor.

The financial information set out in this preliminary statement does not constitute the Company's statutory accounts for the year ended 27 March 2014 as defined in section 434 of the Companies Act 2006 (the "Act") which have not yet been delivered to the Registrar of Companies.

The Company's auditor has reported on the FY14 financial statements. Its reports were unqualified and did not draw attention to any matters by way of emphasis. The reports also did not contain statements under section 498 of the Act.

Consolidated Income Statement

	Note	Period ended 27 March 2014			Period ended 28 March 2013		
		2014	2014	2014	2013	2013	2013
		£000	£000	£000	£000	£000	£000
		Underlying Trading	Exceptional Items (note 2)	Total	Underlying Trading	Exceptional Items (note 2)	Total
Revenue	2	665,395	-	665,395	598,337	-	598,337
Cost of sales		(307,271)	-	(307,271)	(274,362)	-	(274,362)
Gross profit		358,124	-	358,124	323,975	-	323,975
Selling and distribution expenses		(233,891)	-	(233,891)	(215,177)	-	(215,177)
Administrative expenses	2	(34,817)	(10,574)	(45,391)	(29,815)	(6,049)	(35,864)
Operating profit	2	89,416	(10,574)	78,842	78,983	(6,049)	72,934
Financial income		368	-	368	388	-	388
Financial expenses	4	(37,547)	(19,158)	(56,705)	(39,351)	(7,459)	(46,810)
Net financing expense		(37,179)	(19,158)	(56,337)	(38,963)	(7,459)	(46,422)
Profit before tax		52,237	(29,732)	22,505	40,020	(13,508)	26,512
Taxation	5	(13,672)	4,715	(8,957)	(9,189)	3,210	(5,979)
Profit for the period		38,565	(25,017)	13,548	30,831	(10,298)	20,533

All activities relate to continuing operations.

Basic and diluted earnings per share attributable to equity shareholders of the Company:

	Note	2014	2013
Equity holders of the parent – underlying trading	3	£0.01	(£0.12)
Equity holders of the parent – after exceptional items	3	(£0.14)	(£0.20)

Consolidated Statement of Comprehensive Income

	Period ended 27 March 2014	Period ended 28 March 2013
	£000	**£000**
Profit for the period	13,548	20,533
Other comprehensive income		
Items that are or may be recycled subsequently into profit or loss:		
Foreign exchange translation differences	5	(1)
Cash flow hedges – reclassified to profit and loss	(811)	110
Effective portion of changes in fair value of cash flow hedges	1,442	2,978
Other comprehensive income for the period, before income tax	636	3,087
Income tax on other comprehensive income	(159)	(752)
Other comprehensive income for the period, net of income tax	477	2,335
Total comprehensive income for the period	14,025	22,868

Consolidated Balance Sheet

	Note	At 27 March 2014 £000	At 28 March 2013 £000
Non-current assets			
Property, plant and equipment		93,628	84,622
Intangible assets		955,238	955,004
Other financial assets		6,619	3,727
		1,055,485	1,043,353
Current assets			
Inventories		46,116	42,056
Deferred tax assets		45	959
Other financial assets		-	811
Trade and other receivables		42,159	34,041
Cash and cash equivalents		90,823	31,593
		179,143	109,460
Total assets		1,234,628	1,152,813
Current liabilities			
Other interest-bearing loans and borrowings	*6*	-	(5,708)
Trade and other payables		(149,547)	(104,299)
Provisions		(461)	(380)
Other financial liabilities		(1,113)	(1,894)
		(151,121)	(112,281)
Non-current liabilities			
Other interest-bearing loans and borrowings	*6*	(319,855)	(413,927)
Other payables		(31,068)	(49,967)
Provisions		(1,835)	(1,914)
		(352,758)	(465,808)
Total liabilities		(503,879)	(578,089)
Net assets		730,749	574,724
Equity attributable to equity holders of the parent			
Ordinary share capital		5,000	1,659
Share premium		1,080,477	291,492
Additional paid in capital		-	612,680
Consolidation reserve		(372,026)	(372,026)
Merger reserve		113,321	113,321
Translation reserve		4	(1)
Cash flow hedging reserve		(362)	(834)
Retained earnings		(95,634)	(71,567)
Share based payment reserve		(31)	-
Total equity		730,749	574,724

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Additional paid in capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Share based payments reserve £000	Total equity £000
Balance at 28 March 2013	**1,659**	**291,492**	**612,680**	**(372,026)**	**113,321**	**(834)**	**(1)**	**(71,567)**	**-**	**574,724**
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	-	13,579	(31)	13,548
Other comprehensive income	-	-	-	-	-	472	5	-	-	477
Total comprehensive income for the period	-	-	-	-	-	472	5	13,579	(31)	14,025
Transactions with owners, recorded directly in equity										
Issue of shares (i)	1,405	342,916	(344,321)	-	-	-	-	-	-	-
Issue of shares (ii)	40	9,697	-	-	-	-	-	-	-	9,737
Issue of shares (iii)	1,896	462,574	-	-	-	-	-	-	-	464,470
Share issue costs	-	(26,202)	-							(26,202)
Dividends on additional paid in capital	-	-	37,646	-	-	-	-	(37,646)		-
Redemption of additional paid in capital	-	-	(306,005)					-	-	(306,005)
Total contributions by and distributions to owners	3,341	788,985	(612,680)	-	-	-	-	(37,646)	-	142,000
Balance at 27 March 2014	**5,000**	**1,080,477**	**-**	**(372,026)**	**113,321**	**(362)**	**4**	**(95,634)**	**(31)**	**730,749**

(i) On 17 March 2014 the Company issued 140,539,069 ordinary £0.01 shares at a premium of £2.44 per share in exchange for £344,321,000 additional paid in capital issued by PAH Lux S.a.r.l.

(ii) On 17 March 2014, the Company issued 3,974,537 ordinary £0.01 shares in exchange for debt issued by a subsidiary.

(iii) On 17 March 2014 the Company issued 189,579,314 ordinary £0.01 shares at a premium of £2.44 per share. Share issue costs of £26,202,000 were offset against the gross proceeds of £464,470,000.

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Additional paid in capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non-controlling interest £000
Balance at 29 March 2012	**1,277**	**284,050**	**565,331**	**(372,026)**	**113,321**	**(3,170)**	**-**	**(37,025)**	**551,758**	**552,265**	**(507)**
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	-	20,533	20,533	20,533	-
Other comprehensive income	-	-	-	-	-	2,336	(1)	-	2,335	2,335	-
Total comprehensive income for the period	-	-	-	-	-	2,336	(1)	20,533	22,868	22,868	-
Transactions with owners, recorded directly in equity											
Issue of shares	382	7,442	1,339	-	-	-	-	-	9,163	9,163	-
Dividends on additional paid in capital	-	-	46,010	-	-	-	-	(46,010)	-	-	-
Total contributions by and distributions to owners	382	7,442	47,349	-	-	-	-	(46,010)	9,163	9,163	-
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	-	-	(9,065)	(9,065)	(9,572)	507
Total transactions with owners	-	-	-	-	-	-	-	(9,065)	(9,065)	(9,572)	507
Balance at 28 March 2013	**1,659**	**291,492**	**612,680**	**(372,026)**	**113,321**	**(834)**	**(1)**	**(71,567)**	**574,724**	**574,724**	**-**

Consolidated Statement of Cash Flows

		Period ended 27 March 2014		Period ended 28 March 2013
		£000		**£000**
Cash flows from operating activities				
Profit for the period		13,548		20,533
Adjustments for:				
Depreciation and amortisation		19,990		18,207
Financial income		(368)		(388)
Financial expense		56,705		46,810
Loss on sale of PPE		77		90
Taxation		8,957		5,979
		98,909		91,231
Increase in trade and other receivables		(7,969)		(6,002)
Increase in inventories		(4,060)		(1,678)
Increase in trade and other payables	21,771		27,001	
*Increase in IPO related trade and other payables **(i)***	25,184		-	
Total increase in trade and other payables		46,955		27,001
Increase/(decrease) in provisions		2		(64)
		133,837		110,488
Tax (paid)/received		(9,192)		4,527
Net cash from operating activities		124,645		115,015
Cash flows from investing activities				
Proceeds from sale of PPE		-		663
Interest received		368		388
Investment in other financial assets		(1,753)		(1,201)
Acquisition of subsidiary, net of cash acquired		(2,000)		(47,900)
Acquisition of PPE and other intangible assets		(26,278)		(20,446)
Net cash used in investing activities		(29,663)		(68,496)
Cash flows from financing activities				
Proceeds from the issue of ordinary share capital		464,470		7,824
Share issue costs		(26,202)		-
Debt issue costs		(10,494)		(6,562)
Repayment of paid in capital		(306,005)		-
Proceeds from new loan		460,000		130,000
Repayment of borrowings		(585,260)		(173,987)
Interest paid		(32,261)		(32,679)
Acquisition of non-controlling interest		-		(9,075)
Net cash used in financing activities		(35,752)		(84,479)
Net increase/(decrease) in cash and cash equivalents		**59,230**		**(37,960)**
Cash and cash equivalents at beginning of period		**31,593**		**69,553**
Cash and cash equivalents at end of period		**90,823**		**31,593**

(i) The increase in IPO related trade and other payables of £25,184,000 relates to costs incurred as part of the IPO on 17 March 2014, which were included in accruals and other creditors at the period end date.

Notes

1 Basis of Preparation

Pets at Home Group Plc (the Company) is a company incorporated in the United Kingdom and its registered office is Epsom Avenue, Stanley Green, Handforth, Cheshire, SK9 3RN.
The company is listed on the London Stock Exchange.
The consolidated financial statements for the 52 weeks ended 27 March 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and were approved by the Directors of the Company on 10 June 2014 along with this preliminary announcement.
The consolidated financial statements are prepared on the historical costs basis except for derivative financial instruments, share based payments and certain investments measured at their fair value.
The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 (the "Act"). The financial information for the 52 weeks ended 27 March 2014 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the 52 weeks ended 27 March 2014 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.
The auditors have consented to the publication of the Preliminary Announcement as required by Listing Rule 9.7a having completed their procedures under APB bulletin 2008/2.
The directors of Pets at Home Group Plc, having made appropriate enquiries, consider that adequate resources exist for the Group to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the 52 weeks ended 27 March 2014.

Summary of impact of Group restructure and Initial Public Offering

On 17 March 2014, the Group listed its shares on the London Stock Exchange. In preparation for the Initial Public Offering ("IPO") the Group was restructured. The restructure has impacted a number of the current year and comparative primary financial statements and notes.
For the consolidated financial statements of the Group, prepared under IFRS, the principles of reverse acquisition accounting under IFRS 3 "Business Combinations" have been applied. The steps to restructure the Group had the effect of Pets at Home Group Plc ("Plc") being inserted above Pets at Home Lux S.a.r.l ("PAH Lux") as the holders of PAH Lux share capital and Preferred Equity Certificates (PECs) exchanged their PAH Lux shares and a portion of their PECS, for shares in Plc.
By applying the principles of reverse acquisition accounting, the Group is presented as if Plc has always owned the PAH Lux Group. The comparative Income Statement and Balance Sheet are presented in line with the previously presented PAH Lux position. The comparative and current year consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and merger reserve of Plc as if it had always existed, adjusted for movements in the underlying PAH Lux share capital and reserves until the share for share exchange.
The steps taken to restructure the Group are explained in more detail in section 1.2. The impact on the primary consolidated financial statements is as follows:

- Equity reflects the capital structure of Plc. As part of the restructuring of the Group, a number of shares in Plc were issued in exchange for various instruments or for cash. The premium arising on the issue of shares is allocated between the share premium and merger reserve.
- A consolidation reserve is created. This reflects the difference between the Plc reserves at the balance sheet date as reflected in the opening reserves at the start of the comparative period (29 March 2012) and the consolidated equity of PAH Lux at the same date.
- Prior to their cancellation as part of the IPO restructure, the PECs, issued by PAH Lux and shown as additional paid in capital in the consolidated financial statements, are shown as equity and the coupon charged on them is charged through reserves as a dividend.
- As part of the restructure, the PECs were ultimately exchanged for a combination of cash and shares in Plc.

Notes *(continued)*

1 Basis of Preparation *(continued)*

Summary of impact of Group restructure and Initial Public Offering *(continued)*

- Fees associated with the IPO are allocated to share premium, secured bank debt and the Consolidated Income Statement depending on the nature of the costs. Costs allocated against the secured bank debt will be amortised over the period of the financing. Fees charged to the Consolidated Income Statement have been presented as Exceptional Items.
- Due to the timing of the IPO not all fees had been paid at year end and hence there were significant balances in trade and other creditors for outstanding fees.
- The Group refinanced its external bank debt, using proceeds from the IPO to reduce the net debt position of the Group. Unamortised fees associated with the previous financing have been written off in the period. This non-cash cost has been presented as an Exceptional Item in the Consolidated Income Statement.

Basis of consolidation

On 17 March 2014, the entire share capital of the Group's previous parent company Pets at Home Lux S.a.r.l was acquired by Pets at Home Group Plc funded by an issue of shares in Pets at Home Group Plc in exchange for these shares. On the same date a number of other transactions were completed to swap debt and additional paid in capital held outside of the Group for equity instruments in Pets at Home Group Plc.
Whilst the equity instruments of Pets at Home Lux S.a.r.l were legally acquired, in substance the Directors have determined that the transaction represents a continuation of the Pets at Home Lux S.a.r.l business. As such, this transaction has been accounted for as a reverse acquisition.

Notes *(continued)*

2 Segmental reporting

The Directors consider there to be one operating and reportable segment, being that of the sale of pet products and services through retail outlets and the Group's website.

The Group's Board receives monthly financial information at this level and uses this information to monitor the performance of the store portfolio, allocate resources and make operational decisions. The internal reporting received focuses on the Group as a whole and does not identify individual segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

The performance of the operating segment is primarily based on a measure of EBITDA before exceptional items share based payment charges, and management charges. This can be reconciled to statutory operating profit as follows:

	Period ended 27 March 2014 £000	**Period ended 28 March 2013 £000**
Operating profit	78,842	72,934
Exceptional items	10,574	6,049
Management charges	1,221	1,298
Share based payment charges	31	-
Underlying operating profit	90,668	80,281
Depreciation and amortisation	19,990	18,207
Underlying Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) (before exceptional items)	**110,658**	**98,488**

Revenue	**Period ended 27 March 2014 £000**	**Period ended 28 March 2013 £000**
Food	327,101	297,887
Accessories	288,017	268,501
Services and other	50,277	31,949
	665,395	598,337

Notes *(continued)*

3 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

	Period ended 27 March 2014	Period ended 27 March 2014	Period ended 27 March 2014	Period ended 28 March 2013	Period ended 28 March 2013	Period ended 28 March 2013
	Underlying	**Exceptionals**	**After Exceptionals**	**Underlying**	**Exceptionals**	**After Exceptionals**
Profit attributable to equity shareholders of the parent (£000s)	38,565	(25,017)	13,548	30,831	(10,298)	20,533
Less PEC dividend transferred from retained earnings	(37,646)	-	(37,646)	(46,010)	-	(46,010)
	919	(25,017)	(24,098)	(15,179)	(10,298)	(25,477)
Basic weighted average number of shares	175,053,425	175,053,425	175,053,425	129,804,683	129,804,683	129,804,683
Dilutive potential ordinary shares	71,360	71,360	71,360	-	-	-
Diluted weighted average number of shares	175,124,785	175,124,785	175,124,785	129,804,683	129,804,683	129,804,683
Basic earnings per share	£0.01	(£0.14)	(£0.14)	(£0.12)	(£0.08)	(£0.20)
Diluted earnings per share	£0.01	(£0.14)	(£0.14)	(£0.12)	(£0.08)	(£0.20)

Notes *(continued)*

4 Finance expense

Recognised in the income statement

	Period ended 27 March 2014	Period ended 28 March 2013
	£000	**£000**
Bank loans	30,890	31,917
Amortisation of loan issue costs	5,286	5,787
Related party loan notes	1,349	1,612
Other interest expense	22	35
Total underlying finance expense	37,547	39,351
Exceptional amortisation costs	19,158	7,459
Total exceptional finance expense	19,158	7,459
Total finance expense	56,705	46,810

Exceptional finance expenses in the period ended 27 March 2014 related to £19,158,000 of accelerated amortisation following the repayment of the senior bank facility of £567,926,000 in that period.

Exceptional finance expenses in the period ended 28 March 2013 related to £5,915,000 of accelerated amortisation and £1,544,000 of early repayment costs following the repayment of the subordinated bank loan of £154,397,000 in that period.

Notes *(continued)*

5 Taxation

Recognised in the income statement

	Period ended 27 March 2014	Period ended 28 March 2013
	£000	**£000**
Current tax expense		
Current period	7,840	7,048
Adjustments in respect of prior periods	362	38
Current tax expense	8,202	7,086
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	234	(575)
Reduction in tax rate	28	5
Adjustments in respect of prior periods	493	(537)
Deferred tax expense/(credit)	755	(1,107)
Total tax expense	8,957	5,979

The corporation tax rate applicable to the group was 23% in the period to 27 March 2014. The March 2013 Budget announced that the UK corporation tax rate will further reduce to 20% (effective from 1 April 2015) in addition to the planned reduction to 21% (effective from 1 April 2014) previously announced in the December 2012 Autumn Statement. These reductions were substantively enacted on 2 July 2013. The deferred tax asset has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes *(continued)*

5 Taxation *(continued)*

Deferred tax recognised in other comprehensive income

	Period ended 27 March 2014	Period ended 28 March 2013
	£000	£000
Effective portion of changes in fair value of cash flow hedges	159	752

Reconciliation of effective tax rate

	Period ended 27 March 2014	Period ended 28 March 2013
	£000	£000
Profit for the period	13,548	20,533
Total tax expense	8,957	5,979
Profit excluding taxation	22,505	26,512
Tax using the UK corporation tax rate for the relevant period (2014: 23%; 2013: 24%)	5,177	6,362
Impact of reduction in tax rate on deferred tax balances	28	5
Depreciation on expenditure not eligible for tax relief	1,094	1,132
Non-deductible IPO costs – exceptional item	2,055	-
Other	(251)	(1,022)
Adjustments in respect of prior periods	854	(498)
Total tax expense	8,957	5,979

The UK corporation tax standard rate for the period was 23% (2013: 24%). The effective tax rate for the period of 26% on underlying profits of £52.2m pre non-recurring exceptional items differs from the UK corporation tax rate. The principal reason for this difference relates to the non-deductibility of depreciation charged on capital expenditure. Included within the non-recurring exceptional items are non-deductible transaction costs in relation to the IPO process which result in a total effective tax rate for the period of 40%.

Notes *(continued)*

6 Other interest-bearing loans and borrowings

	Group	
	At 27 March 2014 £000	**At 28 March 2013 £000**
Non-current liabilities		
Secured bank loans	319,855	413,927
Current liabilities		
Current portion of secured bank loans	-	3,708
Deferred consideration on acquisition	-	2,000
	-	5,708
Total liabilities		
Secured bank loans	319,855	417,635
Deferred consideration on acquisition	-	2,000
	319,855	419,635

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 27 March 2014 £000	Carrying amount 27 March 2014 £000	Face value 28 March 2013 £000	Carrying amount 28 March 2013 £000
Senior Bank Loans	GBP	LIBOR +3-5%	2018	-	-	436,635	417,635
Senior Finance Bank Loans	GBP	LIBOR +2-2.25%	2019-2020	325,000	319,855	-	-
Deferred consideration on acquisition	GBP	3.5%	2013	-	-	2,000	2,000
				325,000	319,855	438,635	419,635

Included in deferred consideration on acquisition at 28 March 2013 is £2,000,000 due to the vendors of Farm Away Limited. The amount was settled in full in the period to 27 March 2014.

Included within the carrying value of senior and subordinated bank loans are issue costs of £5.1m (period to 28 March 2013 £19.0m). The Group has an undrawn revolving credit facility of £29.6m (period to 28 March 2013 £27.0m) which expires on 17 March 2019.

All bank borrowings are secured via fixed charges over the head office freehold property, the distribution centre leasehold property, and any plant and machinery owned by the Group, and also via a floating charge over the other assets of the Group. The senior bank loans bear interest at LIBOR plus a margin, currently varying between 2.0% and 2.25%, with the margin decreasing as the group's leverage (defined as total net debt to consolidated EBITDA) decreases. The senior bank loans are due for repayment at various dates up to 17 March 2020.

Notes *(continued)*

6 Other interest-bearing loans and borrowings *(continued)*

In July 2012 the business repaid the subordinated loan replacing it with a further tranche of the senior loan facility, which significantly reduced the interest charge of the Group. The business subsequently received approval from existing senior lenders to draw down a further £135m tranche of the senior loan facility. This refinancing was completed in March 2013, with the loan being drawn down on 8 April 2013.

In March 2014 the business repaid the senior bank loans replacing them with a new senior finance facility, which has significantly reduced the interest charge of the Group. The new senior bank facility was drawn down on 17 March 2014. The new senior bank facility is held by the company.

The Pets at Home Group has entered into fixed rate interest rate swap agreements over a total of £291.8m of the senior facility borrowings at a fixed rate of 0.74% and a further fixed rate interest rate swap over a total of £25.1m at a fixed rate of 0.655% (period ended 28 March 2013: £317.3m of the senior facility borrowings at a fixed rate of 0.74% and £83.0m at a fixed rate of 0.655%). Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

The analysis of repayments on the combined loans is as follows:

	At 27 March 2014	At 28 March 2013
	£000	£000
Within one year or repayable on demand	-	5,708
Between one and two years	5,000	12,409
Between two and five years	85,000	291,591
After five years	235,000	128,927
	325,000	438,635
Issue costs	(5,145)	(19,000)
	319,855	419,635