Becoming the best pet care business in the world

FY20 interim results presentation

26 November 2019
Today’s presentation

Group strategic update

Financial review of FY20 interim results
Group strategic update
Becoming the best pet care business in the world

> Pet market remains resilient and in growth: we are taking share across key areas, both offline and online

> Strong performance in H1 FY20 across our ecosystem:
  – Continued sales momentum in Retail has helped deliver profit growth
  – First Opinion practice buy out programme now complete, and wider recalibration plans already having a positive impact

> Customer KPIs demonstrate success of recent initiatives; record numbers of VIP members, website shoppers, First Opinion clients and subscription customers

> Made excellent progress in our strategy to become the best pet care business in the world, and see further opportunities for growth

“We have had a strong first half to the financial year. Our pet care strategy is working, and we continue to see growth across all key areas of the Group.”

Peter Pritchard
Group CEO
Our pet care strategy is working

Bring the pet experience to life

30.2m
number of customer transactions\(^1\)

+4.4% y/y

Set our people free to serve

£100.7k
customer sales per colleague\(^3\)

+5.6% y/y

Use data and VIP to better serve customers

£715.8m
VIP customer sales\(^2\)

+23.2% y/y

50% of sales from pet services

35.4%
customer sales from services\(^4\)

+99 bps y/y

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1. Includes customer transactions in-store, online, in First Opinion vet practices, cases treated in Specialist Referral centres plus pets groomed in Groom Room salons
2. Customer sales known to be transacted by VIPs in stores, online, at First Opinion vet practices and in grooming salons. VIP customer sales are shown on a rolling 12 month basis rather than a year-to-date basis
3. Gross customer revenues divided by the number of full-time-equivalent colleagues employed by the Group
4. Includes gross customer sales made by First Opinion vet practices, plus revenue from our Specialist Referral centres, grooming services, subscriptions, pet sales and pet insurance commissions
Our pet care ecosystem is reaching more customers than ever before

**Bring the pet experience to life**

**Record numbers across the Group**

- Active VIP members
- Website visitors
- Website conversion
- Store transactions
- Subscription customers
- First Opinion vet clients
- Number of dogs groomed
Eleven consecutive quarters of revenue growth in Retail

Bring the pet experience to life

H1 FY20 LFL growth in all channels
> Store\(^1\) growth 5%
> Online\(^2\) growth 41%
> Omnichannel\(^3\) growth 32%

1. Refers to Retail revenues generated by colleagues through the sale of products in-store, that can be taken home by customers on the same day
2. Refers to Retail revenues generated by customers who purchase on our website, for delivery to their home (does not include orders collected in store)
3. Refers to Retail revenues generated online as above, plus those generated by customers who purchase on our website for collection in-store, by colleagues in-store who facilitate a customer order on our website for delivery to their home or for the customer to collect in store another day, by colleagues through the sale of flea product subscription sales in-store which are delivered to the customers’ home, or by customers who sign up to our online subscription service ‘Easy Repeat’ and choose to collect in-store
Our price position remains competitive and sustainable

Bring the pet experience to life

Our price position\(^4\) vs the lowest price competitor has remained stable for over 12 months

<5%

Acceptable price gap on comparable products\(^1\)

Around the same price on the most important products to customers\(^2\)

(3)%

Cheaper for customers who opt into ‘Easy Repeat’ delivery\(^3\)

- Weighted by volumes sold in-store & online
- Informed using our VIP database
- Range of 381 products across 17 brands

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1. Refers to the price of all branded and easily comparable private label products sold by Pets at Home, compared with an online pureplay, weighted to the average volumes sold by Pets at Home
2. Refers to the price of items which we consider important to customer purchasing decisions, and where we have taken planned price action
3. Refers to our online frequent order delivery service
4. All price comparisons correct as of 21/11/19
Stores are an essential part of our pet care ecosystem

Bring the pet experience to life

<table>
<thead>
<tr>
<th>Metric</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like-for-like store sales growth</td>
<td>5% y/y</td>
</tr>
<tr>
<td>Growth in store transactions</td>
<td>4% y/y</td>
</tr>
<tr>
<td>Fewer store colleague hours</td>
<td>6% y/y</td>
</tr>
<tr>
<td>Store revenue per colleague hour</td>
<td>11% y/y</td>
</tr>
</tbody>
</table>
Our pet care centres are expanding, with more to come

Bring the pet experience to life

Learnings from initial trials at Stockport & Chesterfield

Concept being refined at a further 3 locations

More event space
Enhanced customer experience
Omnichannel now represents 9.7% of Retail revenues, and all components are growing

Bring the pet experience to life

Our integrated model maximises convenience for customers, making our business stronger

Deliver to home

Order in store

Collect in store

Easy Repeat food subscription

Flea & worm subscriptions

Supported by CAPEX investment in order fulfilment at Northampton DC
Our biggest opportunity is driving customers into our pet care ecosystem

50% of sales from pet services

- Retail spend
- Vet spend
- Grooming spend
- Growth in customer numbers YoY

- Only c16% of all VIPs shop both products and services

Customers who channel shift spend more overall

Annual visit frequency

- Store customer: 5x
- Omnichannel customer (store + online): 12x
- Omnichannel + vet customer: 27x
- Omnichannel + vet + grooming customer: >40x

Growth in customer numbers: +23%, +49%, +49%, +37%
Practice maturity is our biggest value creation driver

50% of sales from pet services

Practice age and Vet Group FCF in FY19

Practice age
- 0 - 4 years: 18%
- 5 - 9 years: 39%
- 10 years+: 43%

Vet Group FCF in FY19: £20m

Practice age and FCF in the future at maturity

Practice age
- 0 - 4 years: 100%
- 5 - 9 years: Up to £20m
- 10 years+: Up to £60m

Includes the impact of planned adjustments to JV fee arrangements

1. Assuming each existing practice is individually mature, and without opening any new practices
We have been meticulous in delivering the Vet Group recalibration

<table>
<thead>
<tr>
<th>COMPLETE</th>
<th>ONGOING</th>
<th>ONGOING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy out and closure programme</strong></td>
<td><strong>Adjustments to JV fee arrangements</strong></td>
<td><strong>Driving improved operational performance</strong></td>
</tr>
<tr>
<td>&gt; Total of 57 buy outs completed</td>
<td>&gt; Adjustments to make fees simpler and fairer</td>
<td>&gt; Fee adjustments agreed on a case by case basis and contingent on improved performance</td>
</tr>
<tr>
<td>&gt; 36 of which have closed, with the remaining 21 being company managed</td>
<td>&gt; JV practices have been receiving support through adjustments to their fee arrangements during H1, with further measures planned for H2</td>
<td>&gt; Focus on controlling gross margin through managing colleague costs</td>
</tr>
<tr>
<td>&gt; Financial impact in line with our original plans</td>
<td>&gt; Updated JV model for new openings, with a simpler fee structure</td>
<td>&gt; Simpler fee structure enables Support Office efficiencies</td>
</tr>
</tbody>
</table>

JV fee income is suppressed in FY20, but delivers cashflow benefits to both JVPs and Pets at Home
**Our actions in Joint Venture practices are already showing signs of success**

<table>
<thead>
<tr>
<th>50% of sales from pet services</th>
<th>Year on year improvement across a range of financial metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer sales growth ahead of the market ✓</td>
</tr>
<tr>
<td></td>
<td>Improved gross margin and cost control ✓</td>
</tr>
<tr>
<td></td>
<td>Higher YTD cumulative practice EBIT ✓</td>
</tr>
<tr>
<td></td>
<td>Increased number of practices with positive PBT ✓</td>
</tr>
<tr>
<td></td>
<td>Lower level of total practice indebtedness ✓</td>
</tr>
<tr>
<td></td>
<td>Fewer practices with Pets at Home operating loan ✓</td>
</tr>
</tbody>
</table>
We are expanding our Specialist Referral capabilities

50% of sales from pet services

Extension at Dick White Referrals in Cambridge

Opening our 5th centre at a greenfield site in Scotland

> Multi-disciplinary site
> State of the art facility
> Well located between Edinburgh & Glasgow
> Due to open in FY21
Our grooming business is also strengthening

50% of sales from pet services

Higher sales and better profitability

Better productivity
(revenue per colleague hour)

Helps acquire new customers and drives visit frequency

High single digit LFL

Improving EBIT margin
We see a big opportunity to introduce further services to our pet care ecosystem

50% of sales from pet services

Expand subscription model further
- Already introduced cat flea & worm subscription products in H1 FY20
- Target further penetration of the UK dog & cat market
- Extend model to include bundles and personalised packages

Consider attractive adjacencies
- Formed a strategic partnership with Tailster, a leading online marketplace for pet walking, sitting and boarding services
- Explore investment opportunities for similar add-on services

Rolling out pet care centres
- Take learnings from new store format trials and look to create more event space
- Make stores a community hub for pet owners
We are investing in the people and systems to transform our data and analytical capabilities

Using our data to serve customers

People: recruited Chief Data Officer and a team of data scientists

Platform: taking management of VIP data in-house and migrating to a cloud-based platform

VIP
> Better quality customer & pet data
> Further VIP App enhancements
> New complementary CRM platform

AI & Analytics
> Building algorithms using machine learning
> Greater analytic sophistication and agility

More relevant, personalised communications
Incremental sales in FY21 and beyond
Use of data has already driven range optimisation in stores

Using our data to serve customers

Initial trials have led to further rollout

> United VIP spend data with range analysis software in trial stores:
  - Maximise availability on popular lines specific to each store
  - Reduced overall SKU count, allowing space to be dedicated to new customer experiences such as events
  - Learnings helping to optimise new pet care centre format

> Results from initial trial stores have accelerated as we optimise further:

  3.3%  Sales outperformance vs control group
  3.6%  Cash margin outperformance vs control group
The success of our Puppy and Kitten Clubs also demonstrates the power of our data

Using our data to serve customers

First graduates in Puppy Club

> >200,000 current puppies, c20% of the UK puppy population
> Puppy customers spend 21% more when compared to shoppers not in the club
> >160,000 graduates, and spend uplift continues in to adulthood

Kitten club proving equally successful

> Over 70,000 current members, c9% of UK kitten population
> Similar spend uplift as seen in Puppy Club

By capturing data specific to the pet, we create engaged and loyal customers

> Record number of >5m active VIPs
> Reduced churn of existing members, with further benefits to come from building a proprietary churn model
> Reactivation of previously lapsed VIPs
We are working more productively, and delivering even better service

Setting our people free to serve

Colleague productivity and customer NPS are increasing

> In stores, we are working smarter by reducing task and maximising the time available to spend with customers

> In H2, we will develop new capabilities to improve productivity at our Support Office through the use of robotics, allowing us to serve customers and partners even better
Automation at Northampton DC has created efficiencies and doubled capacity

Picking and packing for online orders

- Doubles maximum order capacity to allow for future growth of our omnichannel business
- Automates flea and worm subscription packing, whose numbers continue to grow
- All but the largest, bulkiest SKUs now benefit from some level of automation
Our pet care strategy is working

Bring the pet experience to life

30.2m
number of customer transactions¹

+4.4% y/y

Set our people free to serve

£100.7k
customer sales per colleague³

+5.6% y/y

Use data and VIP to better serve customers

£715.8m
VIP customer sales²

+23.2% y/y

50% of sales from pet services

35.4%
customer sales from services⁴

+99 bps y/y

1. Includes customer transactions in-store, online, in First Opinion vet practices, cases treated in Specialist Referral centres plus pets groomed in Groom Room salons
2. Customer sales known to be transacted by VIPs in stores, online, at First Opinion vet practices and in grooming salons. VIP customer sales are shown on a rolling 12 month basis rather than a year-to-date basis
3. Gross customer revenues divided by the number of full-time-equivalent colleagues employed by the Group
4. Includes gross customer sales made by First Opinion vet practices, plus revenue from our Specialist Referral centres, grooming services, subscriptions, pet sales and pet insurance commissions
Financial review of H1 FY20 results
Strong revenue growth has helped to increase profit whilst recalibrating our First Opinion business

> Group revenue growth 9.4% with LFL of 7.6%
  – Retail LFL revenue growth of 7.8%, supported by 31.7% growth in omnichannel
  – Vet Group LFL revenue growth of 6.4%, with First Opinion customer revenues growing at 11.8%
> Group underlying PBT of £45.0m, growth of 18.9% on a comparable pre-IFRS16 basis
> Non-underlying charge of £7.7m\(^1\), mainly relating to our Joint Venture buy out programme, which is now complete\(^2\)
> Solid underlying free cashflow of £24.9m
> Interim dividend maintained at 2.5 pence per share

1. H1 FY20 non-underlying charges included £7.6m relating to costs incurred for JV practices we have bought out and £0.1m relating to an accounting charge for the potential future acquisition of minority stakes owned by vet partners in the Specialist Referral centres
2. Total non-underlying charges since commencement of the buy out programme have been £48.0m

“We Our Retail business continues to perform strongly, whilst our actions in the Vet Group are already having the desired effect.”

Mike Iddon
Group CFO

November 2019
FY20 Interim Results
We have seen excellent revenue growth in Retail, with Vet Group revenues in line with our plan

<table>
<thead>
<tr>
<th>Group</th>
<th>Revenue (£m)</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>499.3</td>
<td>546.3</td>
<td>9.4%</td>
</tr>
<tr>
<td>Like-for-like</td>
<td></td>
<td>5.3%</td>
<td>7.6%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retail</th>
<th>Revenue (£m)</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>443.7</td>
<td>479.8</td>
<td>8.1%</td>
</tr>
<tr>
<td>Like-for-like</td>
<td></td>
<td>4.7%</td>
<td>7.8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vet Group</th>
<th>Revenue (£m)</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>55.6</td>
<td>66.5</td>
<td>19.6%</td>
</tr>
<tr>
<td>Like-for-like</td>
<td></td>
<td>11.9%</td>
<td>6.4%</td>
<td></td>
</tr>
</tbody>
</table>

1. Includes revenue from grooming services, pet sales and insurance commissions
2. Revenue from company managed practices, which is recognised in full from the point they become wholly owned and included a total of 46 practices at the half year end, 21 of which relate to former Joint Venture practices which we have bought out
3. H1 FY19 excluded fee income of £2.2m from Joint Venture practices which we subsequently bought out from Joint Venture Partners
Underlying gross margin reflects the strength of food sales in Retail and the actions we are taking in our Vet Group.

### Group underlying gross margin bridge

- **Retail (94) bps**
  - H1 FY19: 50.3%
  - H1 FY20: 49.0%

- **Vet Group (38) bps**
  - H1 FY19: 45.5%
  - H1 FY20: 42.8%

#### Components of the bridge:

- **Annualisation of price investment**
  - (74) bps

- **Growth of Food and online**
  - (20) bps

- **Recalibration actions**
  - (118) bps

- **Underlying performance¹**
  - +80 bps

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1. Includes the charge made to the underlying provision against funding made by Pets at Home to practices which we plan to retain as Joint Venture practices in the future. For such practices, we have adopted an average provision of c22%.
We continue to drive operational efficiencies whilst investing in strategic growth areas

Underlying operating cost bridge excluding D&A (pre-IFRS16)

Operational Efficiency

Investing in Growth

% of sales

1. Support office includes support centre colleagues and marketing, plus central costs
2. Established stores include all stores opened in FY18 or earlier
3. Includes growth in online and flea & worm subscriptions
4. Includes investment in our Data, Business Systems and Customer Service teams and capability
5. New stores includes all stores opened in FY19 and FY20
Underlying PBT is higher YoY, reflecting strong performance in Retail

<table>
<thead>
<tr>
<th></th>
<th>£m (pre-IFRS16)</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying EBITDA</strong></td>
<td></td>
<td>59.2</td>
<td>67.1</td>
<td>13.4%</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(19.4)</td>
<td>(19.9)</td>
<td></td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Underlying EBIT</strong></td>
<td>39.8</td>
<td>47.2</td>
<td></td>
<td>18.6%</td>
</tr>
<tr>
<td>EBIT margin %</td>
<td>8.0%</td>
<td>8.6%</td>
<td></td>
<td>67 bps</td>
</tr>
<tr>
<td>Net interest</td>
<td>(2.0)</td>
<td>(2.2)</td>
<td></td>
<td>11.7%</td>
</tr>
<tr>
<td><strong>Underlying PBT</strong></td>
<td>37.9</td>
<td>45.0</td>
<td></td>
<td>18.9%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>19%</td>
<td>20%</td>
<td></td>
<td>97 bps</td>
</tr>
<tr>
<td>Underlying basic EPS (pence)</td>
<td>6.1</td>
<td>7.2</td>
<td></td>
<td>17.5%</td>
</tr>
<tr>
<td>DPS (pence)</td>
<td>2.5</td>
<td>2.5</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-underlying items</strong></td>
<td>(29.9)</td>
<td>(7.7)</td>
<td></td>
<td>(74.2)%</td>
</tr>
<tr>
<td><strong>Statutory PBT</strong></td>
<td>8.0</td>
<td>37.3</td>
<td></td>
<td>368.8%</td>
</tr>
</tbody>
</table>

1. Underlying EBITDA is stated after IFRS2 charges of £2.4m (H1 FY19: £2.0m)
2. H1 FY20 non-underlying charges include £7.6m relating to costs incurred for JV practices we have bought out have been charged against gross margin (H1 FY19: £29.0m).
3. Also included is £0.1m relating to an accounting charge for the potential future acquisition of minority stakes owned by vet partners in the Specialist Referral centres, which have been charged against operating costs (H1 FY19: £0.9m)
## Capital investment is fully aligned to our strategic priorities

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
<th>Spend includes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New stores and groomers</td>
<td>4.3</td>
<td>0.9</td>
<td></td>
<td>1 store opening and 2 relocations</td>
</tr>
<tr>
<td>Existing store estate</td>
<td>3.3</td>
<td>5.6</td>
<td></td>
<td>Ongoing store refurbishment, plus launch of 3 further pet care centres</td>
</tr>
<tr>
<td>Business Systems and Omnichannel</td>
<td>4.7</td>
<td>4.1</td>
<td></td>
<td>Enhancing in-house data capabilities and investment in online customer experience</td>
</tr>
<tr>
<td>Vet Group</td>
<td>1.6</td>
<td>2.0</td>
<td></td>
<td>Expansion of Dick White Referrals</td>
</tr>
<tr>
<td>Distribution</td>
<td>2.9</td>
<td>2.9</td>
<td></td>
<td>Further automation of online order fulfilment at Northampton DC, doubling capacity</td>
</tr>
<tr>
<td>Other</td>
<td>0.5</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17.3</td>
<td>16.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Returns on capital

<table>
<thead>
<tr>
<th></th>
<th>H1 FY19</th>
<th>H1 FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROIC(^1)</td>
<td>18.3%</td>
<td>19.3%</td>
</tr>
</tbody>
</table>

1. Definition contained within the appendix
We have generated solid free cashflow, driven by the strength of trading within Retail

<table>
<thead>
<tr>
<th>£m (pre-IFRS16)</th>
<th>H1 FY19</th>
<th>H1 FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cashflow&lt;sup&gt;1&lt;/sup&gt;</td>
<td>60.5</td>
<td>65.9</td>
</tr>
<tr>
<td>Tax and interest</td>
<td>(9.7)</td>
<td>(22.1)</td>
</tr>
<tr>
<td>Debt issue costs</td>
<td>(1.8)</td>
<td>-</td>
</tr>
<tr>
<td>Net capex</td>
<td>(19.9)</td>
<td>(15.9)</td>
</tr>
<tr>
<td>Purchase of own shares to satisfy colleague options</td>
<td>(1.8)</td>
<td>(3.0)</td>
</tr>
<tr>
<td><strong>Underlying free cashflow</strong></td>
<td><strong>27.3</strong></td>
<td><strong>24.9</strong></td>
</tr>
<tr>
<td>Conversion&lt;sup&gt;2&lt;/sup&gt;</td>
<td>44.6%</td>
<td>35.9%</td>
</tr>
<tr>
<td>Ordinary Dividend</td>
<td>(24.8)</td>
<td>(24.8)</td>
</tr>
<tr>
<td>Acquisitions&lt;sup&gt;3&lt;/sup&gt;</td>
<td>(2.1)</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Net cash inflow upon completion of JV buy out programme&lt;sup&gt;4&lt;/sup&gt;</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>Non-underlying cash outflow&lt;sup&gt;5&lt;/sup&gt;</td>
<td>-</td>
<td>(15.8)</td>
</tr>
<tr>
<td><strong>Net retained/(used) cash</strong></td>
<td><strong>0.4</strong></td>
<td><strong>(15.8)</strong></td>
</tr>
<tr>
<td><strong>Leverage</strong>&lt;sup&gt;6&lt;/sup&gt; (ND: underlying EBITDA)</td>
<td><strong>1.1x</strong></td>
<td><strong>1.0x</strong></td>
</tr>
</tbody>
</table>

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1. Operating cashflow is calculated as underlying EBITDA before IFRS2 charges and with any change in working capital added back
2. Calculated as underlying free cashflow as a percentage of underlying EBITDA
3. In H1 FY19, includes the purchase of two mature, JV practices from Joint Venture Partners for £2.1m, which are now operated as company managed practices. In H1 FY20, includes an investment in Tailster and in certain company managed practices
4. Representing the cash inflow as a result of movement in working capital related to the JV practice buy out programme, which is outside of our underlying operating cashflow
5. Includes £9.4m relating to practices that we have bought out, plus £6.4m in relation to payments made to certain Shared Venture Partners in our Specialist Referral centres to acquire remaining minority stake
6. Calculated before the effect of IFRS16
Working capital remains positive, and we are seeing a reduced need to extend operating loans

<table>
<thead>
<tr>
<th>£m</th>
<th>H1 FY19 movement</th>
<th>H1 FY20 movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>(4.9)</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>13.3</td>
<td>11.5</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>(6.4)</td>
<td>(6.6)</td>
</tr>
<tr>
<td><strong>Trading cash working capital</strong></td>
<td>2.0</td>
<td>1.2</td>
</tr>
<tr>
<td>(Increase)/decrease in gross operating loans to JV vet practices(^1)</td>
<td>(5.2)</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Group cash working capital movement</strong></td>
<td>(3.2)</td>
<td>1.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating loan balances to JV vet practices (£m)</th>
<th>FY19</th>
<th>H1 FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross operating loans</td>
<td>42.2</td>
<td>34.6</td>
</tr>
<tr>
<td>Non-underlying provision(^1)</td>
<td>(7.2)</td>
<td>-</td>
</tr>
<tr>
<td>Underlying provision(^2)</td>
<td>(7.1)</td>
<td>(7.7)</td>
</tr>
<tr>
<td><strong>Net operating loan balance</strong></td>
<td>27.9</td>
<td>26.9</td>
</tr>
</tbody>
</table>

1. In H1 FY20 there was a net repayment of operating loans made by ongoing JV practices of £0.4m (H1 FY19: net outflow to ongoing practices of £5.2m)
2. For practices where we have completed a buy out during H1 FY20, we have utilised the non-underlying provision from FY19 when writing off the gross operating loan balance, such that all operating loan balances relating to these practices are now £nil
3. Underlying provision refers to our provisioning methodology for funding made by Pets at Home to practices which we intend to retain as Joint Venture practices in the future. For such practices, we have adopted an average provision of c22%.
In summary: H1 FY20 key financial measures

**Revenue & like-for-like growth**
- +6.4%
- +7.8%
- £479.8m
- £66.5m

**Underlying gross margin¹ & YoY change**
- (268) bps
- (106) bps
- 42.8%
- 49.9%

**Underlying EBIT¹,²,³ & margin**
- 26.2%
- 7.0%
- £33.8m
- £17.4m

**Underlying free cashflow⁴ & conversion⁵**
- 63.4%
- 37.3%
- £20.0m
- £12.3m

---

¹. Excludes non-underlying charges of £7.6m relating to costs incurred for JV practices we have bought out which have been charged against gross margin (H1 FY19: £29.0m).
². Before the effect of IFRS16
³. Excludes a non-underlying charge of £0.1m (H1 FY19: £0.9m) for the potential future acquisition of minority stakes owned by vet partners in the Specialist Referral centres
⁴. Excludes £(7.4)m of free cashflow allocated as central
⁵. Calculated as underlying free cashflow as a percentage of underlying EBITDA excluding IFRS2 charges
Becoming the best pet care business in the world

- Strong revenue and profit growth in H1 FY20
- Continue to make excellent progress on our new strategy
- Pet market remains in solid growth and we expect our market share gains to continue
- We are confident about the second half of FY20 and now expect to return to profit growth ahead of plan, with full year underlying PBT towards the top end of current market expectations
- Focused on generating further profit and free cashflow growth from FY21

Peter Pritchard
Group CEO

Bring the pet experience to life
Use data and VIP to better serve customers
50% of sales from pet services
Set our people free to serve

Vision
Be the best Pet Care business in the world
(sustainable, unique, rewarding)
Questions
Appendix
The UK pet care market remains in solid growth

**Market dynamics**

- Online penetration c15%
- Steady pet population
- Increasing spend per pet
- Continued humanisation and premiumisation
- Increase in pet insurance penetration

**Market growth rates and Pets at Home share in CY2018**

<table>
<thead>
<tr>
<th>Category</th>
<th>Market size</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>£2.7bn</td>
<td>+3.2%</td>
</tr>
<tr>
<td>Accessories</td>
<td>£850m</td>
<td>+42%</td>
</tr>
<tr>
<td>Veterinary</td>
<td>£2.4bn</td>
<td>+4.8%</td>
</tr>
<tr>
<td>Grooming</td>
<td>£263m</td>
<td>+4.2%</td>
</tr>
</tbody>
</table>

Source: Pets at Home and UK pet market reports, OC&C 2017
Note: Food and accessories market data includes online spend. Food market contains Advanced Nutrition segment, which is estimated at c£350m in value. Veterinary market includes First Opinion and Specialist Referral.
The principles of our JV model for new practice openings remains the same.

50% of sales from pet services

Example financials when the practice reaches mature levels of customer revenue generation:

- Practice revenue: £1m+
- Fee income: £160,000+
- Salary: c£40-50,000
  - Dividend: c£70-80,000
- Financing repaid as the practice matures

- £30,000 JVP loan
- Up to £450,000 loan repayable over 10 years
- £30,000 initial corporate loan
- Additional corporate funding should not be required, but a second loan of £30,000 is available after Year 1 if needed

Clinical expertise

Business support services
Impact of transition to IFRS16: decreasing PBT but leaving FCF unchanged

<table>
<thead>
<tr>
<th>£m</th>
<th>Pre IFRS16</th>
<th>Exclude rent</th>
<th>Include depreciation</th>
<th>Include interest</th>
<th>Post IFRS16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>546.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>546.3</td>
<td>-</td>
</tr>
<tr>
<td>Operating lease rentals</td>
<td>(42.7)</td>
<td>42.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42.7</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(19.9)</td>
<td>-</td>
<td>(38.2)</td>
<td>-</td>
<td>(58.1)</td>
<td>(38.2)</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>47.2</td>
<td>42.7</td>
<td>(38.2)</td>
<td>-</td>
<td>51.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Underlying operating margin</td>
<td>8.6%</td>
<td></td>
<td></td>
<td></td>
<td>9.5%</td>
<td>82 bps</td>
</tr>
</tbody>
</table>

Finance income | 0.2 | - | - | - | 0.2 | - |
Finance expense | (2.4) | - | - | (7.8) | (10.2) | (7.8) |
Underlying PBT | 45.0 | 42.7 | (38.2) | (7.8) | 41.7 | (3.3) |

<table>
<thead>
<tr>
<th>£m</th>
<th>Pre IFRS16</th>
<th>Add back rent</th>
<th>Replace with interest &amp; capital repayment</th>
<th>Post IFRS16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group operating cashflow</td>
<td>65.9</td>
<td>42.7</td>
<td>-</td>
<td>108.6</td>
<td>42.7</td>
</tr>
<tr>
<td>Tax</td>
<td>(20.2)</td>
<td>-</td>
<td>(7.8)</td>
<td>(28.0)</td>
<td>(7.8)</td>
</tr>
<tr>
<td>Interest</td>
<td>(1.9)</td>
<td>-</td>
<td>-</td>
<td>(1.9)</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of lease obligations</td>
<td>-</td>
<td>-</td>
<td>(34.9)</td>
<td>(34.9)</td>
<td>(34.9)</td>
</tr>
<tr>
<td>Net capex</td>
<td>(15.9)</td>
<td>-</td>
<td>-</td>
<td>(15.9)</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of own shares</td>
<td>(3.0)</td>
<td>-</td>
<td>-</td>
<td>(3.0)</td>
<td>-</td>
</tr>
</tbody>
</table>
Group free cashflow | 24.9 | 42.7 | (42.7) | 24.9 | - |
Capital allocation priorities

- Invest our cash generation in areas that will expand the Group and deliver appropriate returns, including organic capital investment and the working capital needs of our vet business.

- Maintain the cash value of our ordinary dividend, despite the adoption of IFRS16 leading to a reduction in reported profits.

- Return any surplus free cashflow to shareholders in the form of a special dividend or share buyback.
IFRS16 does not change how we run the business

> We have adopted the modified retrospective approach to implementation of IFRS16
  – Simplest methodology and ensures consistency between Group and subsidiary financial statements
  – Total value of the leases on the Group’s Balance Sheet at H1 FY20 is £489m

> Applies to all property leases covering 452 stores, 2 Distribution Centres, 2 Support Offices and 46 vet practices which are wholly owned by the Group
  – Each lease has been assessed individually, with a discount rate of 2.3 – 3.3% applied depending on the remaining term

> We have significant operational flexibility across our store property portfolio
  – Average total lease length is 16.6 years
  – Average unexpired total lease term is 6.5 years
  – 210 stores have a lease renewal or break coming up in the next 5 years
  – Most rent reviews are open market upward only, with a significant proportion capped
  – Remain focused on optimising economic returns during each renewal negotiation
# Updated financial guidance for FY20

## FY20 Group underlying guidance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue growth</td>
<td>Ahead of market</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation (excluding IFRS16)</td>
<td>£39-41m</td>
</tr>
<tr>
<td>Net finance expense (excluding IFRS16)</td>
<td>£4-5m</td>
</tr>
<tr>
<td>Underlying profit before tax (excluding IFRS16)#</td>
<td>Towards the top end of current market consensus</td>
</tr>
<tr>
<td>Impact of IFRS16 on Group underlying profit before tax#</td>
<td>Reduction of £6-7m</td>
</tr>
<tr>
<td>Underlying tax rate</td>
<td>c20%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Up to £40m</td>
</tr>
<tr>
<td>Underlying free cashflow#</td>
<td>Broadly flat year on year</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>In line with prior year</td>
</tr>
</tbody>
</table>

## H2 FY20 non-underlying financial items relating to the Vet Group

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-underlying income statement charge</td>
<td>Further accounting charge for Specialist Referrals of c£0.3m. We anticipate no further charges relating to the First Opinion business recalibration</td>
</tr>
<tr>
<td>Non-underlying cash costs</td>
<td>Up to £3m cash outflow relating to the completion of the First Opinion business recalibration</td>
</tr>
</tbody>
</table>
# Accounting treatment of veterinary specialist referral centres

## Specialist referral centre ownership is structured to incentivise growth

- Ownership of four referral centres
  - Three centres wholly owned subsidiaries by Pets at Home
  - One centre >90% share owned by Pets at Home
  - Remaining shares owned by Shared Venture Partners (SVPs)

- PAH has option to buy SVP’s shares (from 3 or 5 years after acquisition)

- Accounting requirement of the option is treated as a forward contract

## Accounting treatment required

- Balance sheet & cashflow
  - Full consolidation

- Income statement
  - Discounted future value of SVP’s shares recognised as expense over period to exercise on a risk adjusted basis
**Financial definitions**

‘Like-for-like’ sales growth comprises total revenue in a financial period compared to revenue achieved in a prior period, for stores, online operations, grooming salons, vet practices & referral centres that have been trading for 52 weeks or more.

**EBITDA** being Earnings before interest, tax, depreciation & amortization before the effect of non-underlying items in the period.

**Free Cashflow** being net cash from operating activities, after tax, less net cash used in investing activities (excluding acquisitions), less interest paid & debt issue costs, and is stated before cash flows for non-underlying items

**CROIC** being Cash Return on Invested Capital, represents cash returns divided by the average of gross capital invested (GCI) for the last twelve months. Cash returns represent underlying operating profit before property rentals and share based payments subject to tax then adjusted for depreciation and amortisation. GCI represents Gross Property, Plant and Equipment plus Software and other intangibles excluding the goodwill created on the acquisition of the group by KKR (£906,445,000) plus net working capital, plus capitalised rent multiplied by a factor of 8x.