Becoming the best pet care business in the world

FY19 preliminary results presentation
Today’s presentation

Group strategic update

Financial review of FY19 preliminary results
Group strategic update
“We are trading strongly and taking share. We launched our pet care strategy last year and are already making good progress, bringing our Retail and Vet businesses closer together.”

**Peter Pritchard**
Group CEO

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Becoming the best pet care business in the world

> FY19 financial performance ahead of expectations

  - Our price position remains competitive and Retail has returned to profit growth faster than expected

  - Vet Group recalibration is on track and core business performing well

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

> Customer KPIs showing good progress; growth in VIP members, website conversion and subscription customers

> Making good progress on our new strategy to become the best pet care business in the world
Our strategy: building the best pet care business

Bring the pet experience to life

> Renew and right size our store network
> Put our pets centre stage in-store
> Digitise our business and become the specialist market leader for online pet care
> Keep prices competitive and cheaper than competitors for our most loyal customers
> Grow private labels to 50% of our sales.
Our strategy: building the best pet care business

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50% of sales from pet services

- Develop our stores of tomorrow, with more space dedicated to pet care and services
- Extend our subscription expertise into pet care plans
- Recalibrate our First Opinion vet business and realise free cashflow growth
- Grow our Specialist Referral business through existing hospitals and opening new...
Our strategy: building the best pet care business

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- Digitise our business and become the specialist market leader for online pet care
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Use data and VIP to better serve customers

- Connect our data across the retail and vet businesses
- Personalise customer experience and offers
- Give colleagues information to better serve customers at the point of sale
- Utilise data across the business to drive strategic decision making and automation

50% of sales from pet services

- Develop our stores of tomorrow, with more space dedicated to pet care and services
- Extend our subscription expertise into pet care plans
- Recalibrate our First Opinion vet business and realise free cashflow growth
- Grow our Specialist Referral business through existing hospitals and opening new
Our strategy: building the best pet care business

**带来宠物体验的活力**

- 重振并适时调整我们的门店网络
- 将我们的宠物中心放在店内
- 将我们的业务数字化，并成为宠物护理市场的专家
- 保持价格竞争力，比竞争对手更便宜，对最忠诚的客户
- 成长自有品牌，占销售的50%

**将我们的人员解放出来服务**

- 给我们的受过培训的店员和客户更多的时间
- 建立系统以支持我们的新策略，并降低业务的运营成本
- 确保我们正在建立能够交付我们计划的正确团队

**利用数据和VIP来更好地服务客户**

- 连接我们的数据跨越零售和兽医业务
- 个性化客户体验和优惠
- 给同事信息，以便在销售点更好地服务客户
- 利用数据跨越业务来驱动战略决策和自动化

**全球宠物护理业务中成为最好的**

(sustainable, unique, rewarding)

**50%的销售来自宠物服务**

- 开发我们的门店的未来，提供更多的空间用于宠物护理和服务
- 延伸我们的订阅专业知识到宠物护理计划
- 重新校准我们的First Opinion兽医业务，并实现自由现金流增长
- 通过现有医院和新开业的医院发展我们的Specialist Referral业务
We are making good progress on our strategy

**Bring the pet experience to life**

59.2m
number of customer transactions

+5.3% y/y

**Set our people free to serve**

£174k
customer sales per colleague

+3.9% y/y

**Use data and VIP to better serve customers**

£591.6m
VIP customer sales

+17.7% y/y

50% of sales from pet services

34.0%
customer sales from services

+175 bps y/y

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1. Includes customer transactions in-store, online, in First Opinion 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 practices and in grooming salons
3. Gross customer revenues divided by the number of full-time-equivalent colleagues employed by the Group
4. Includes gross customer sales made by our First Opinion vet practices, plus revenue from our Specialist Referral centres, grooming services, subscriptions, pet sales and pet insurance commissions
Nine quarters of growth in Retail

Bring the pet experience to life

FY19 LFL growth in all channels
> Store\(^1\) growth 2%
> Online\(^2\) growth 27%
> Omnichannel\(^3\) growth 43%

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
3. Refers to Retail revenues 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, or by colleagues through the sale of flea product subscription sales in-store which are delivered to the customers’ home
Compelling price position vs the closest competitor

Bring the pet experience to life

- **<5%**
  - Only slightly more expensive on comparable products\(^1\)

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

- **(2)%**
  - Cheaper for customers who opt into ‘Easy Repeat’ delivery\(^3\)

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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 17/05/19
Customer metrics continue to improve

Bring the pet experience to life

- **Growth in number of active VIP members**: 12% y/y
- **Growth in PetsAtHome.com website traffic**: 20% y/y
- **Growth in number of VIPs who buy products and a service**: 22% y/y
- **Private label participation of dog & cat food**: 1.2 percentage points y/y
We are enhancing the digital customer experience

Bring the pet experience to life

Digital channel redesign

Grooming online booking

Relaunched VIP App

Collect in practice trial
We have launched our new pet care centre format
We are building lifetime relationships with pet owners

**Success of Puppy Club**

- Over 230,000 owners joined the Club, c20% of the puppy population
- Customers spend 17% more when compared to shoppers not in the club

**Replicated in kitten**

- Over 40,000 kittens signed up since launch in September 2018
- Customers receive a 10% shopping discount and the first month free on our flea prevention subscription
- Similar spend uplift as seen in Puppy Club
Our biggest opportunity is driving customers into pet care

50% of sales from pet services

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

Customers who channel shift spend more overall

- Store customer: 6x
- Omnichannel customer (store + online): 12x
- Omnichannel + vet customer: 24x
- Omnichannel + vet + grooming customer: >35x

Annual visit frequency

+9%
+65%
+78%
+60%

Growth in customer numbers YoY
practice maturity is our biggest value creation driver

50% of sales from pet services

Practice age and FCF in FY19

<table>
<thead>
<tr>
<th>Practice age</th>
<th>Vet Group FCF in FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4 years</td>
<td>£20m</td>
</tr>
<tr>
<td>5 - 9 years</td>
<td></td>
</tr>
<tr>
<td>10 years+</td>
<td></td>
</tr>
</tbody>
</table>

Practice age and FCF in the future at maturity

0 - 4 years | 5 - 9 years | 10 years+

Up to £60m

1. Assuming each existing practice is individually mature, and without opening any new practices
Adjusting our JV model to create free cashflow growth

50% of sales from pet services

<table>
<thead>
<tr>
<th>Complete buyout and closure programme</th>
<th>Adjust model for existing practices</th>
<th>Launch new model for future openings¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; New practice openings: up to 5</td>
<td>&gt; We are providing some existing JV practices with support through temporary adjustments to their fee agreements</td>
<td></td>
</tr>
<tr>
<td>&gt; Further practice buyouts: 5 – 10</td>
<td>&gt; Cashflow benefits to both JVPs and Pets at Home</td>
<td></td>
</tr>
<tr>
<td>&gt; Practice closures to complete: 10 – 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; In line with our original plans</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Practices and JVPs become debt free more swiftly

Reduced need for PaH to provide additional funding

¹. Further detail contained within the Appendix
Investing for growth in Specialist Referrals

50% of sales from pet services

Growing Dick White Referrals organically

> We have begun a program of capacity extensions at DWR which will take 3 years to complete

> Releases capacity constraints by increasing total space c2.5x

> Powerful enabler of recruiting the number and calibre of colleagues required to drive continued sales and profit growth

> Cements the hospital as a world leading centre of excellence and one of the largest in Europe
We are building a strong subscription business

50% of sales from pet services

Over 700,000 customers are on a form of subscription

Extension of Easy Repeat
- Recently added flagship own brands in Advanced Nutrition
- Rewards loyal customers with our best prices

Vet practice healthplans
- Range of plans tailored to pet species and age
- Over 27,000 plans sold through recommendations from store colleagues

Enhancements to subscription platform
- Growing new sign-ups and reduced cancellations
- New products to be added in FY20

Grooming Bubble Bundle
- Different services being trialled as a package
- Encourage customer loyalty and increase store footfall
We are using our data to drive intelligent decision making

Using our data to serve customers

Range optimisation in store driving multiple benefits

> United VIP spend data with range analysis software in trial stores:
  - Maximise availability on popular lines specific to each store
  - Reduce range in some areas, replacing with new products

> Results from trial so far have been promising:

  2.1% Sales outperformance vs control group

  2.3% Cash margin outperformance vs control group

> Ambition to trial further in FY20 before rolling out to more stores
Uniting Retail and Vet customer data

Using our data to serve customers

Our plan

> Appointed Chief Data Officer
> Create in-house expertise
  - Team of data scientists
  - Reduce reliance on third parties
  - Take control of our data management
> Invest in capability and the systems to implement

Expected outcomes

> Coming this year
  - Highly tailored marketing to VIPs through ‘Pet Care Journeys’
  - Improve quality of customer/pet data
  - Increase frequency of communications

> Longer term
  - Create a single view of customer data
  - Use Artificial Intelligence to improve the customer experience
Customer sales growth through increased efficiency

Setting our people free to serve

> Created efficiencies in-store through use of headsets, ipads and iPhones, to improve communications and streamline activities
> Removed paperwork and digitised processes
> Store deliveries organised and packed in a more efficient manner
Financial review of FY19 preliminary results
Strong revenue growth helped us return the business to profit growth faster than planned

> Group revenue growth 6.9% with LFL 5.7%
  – Retail revenue growth of 6.2%, supported by omnichannel LFL of 43.0%
  – Vet Group revenue growth of 13.1%, with mature practices growing ahead of the market
> Group underlying PBT of £89.7m, growth of 6.1%
> Non-underlying charges of £40.1m, mainly due to actions in our First Opinion vet business
> Solid underlying free cashflow growth of 14.0% to £63.6m
> Full year dividend maintained at 7.5 pence per share

“Our Retail business has performed ahead of expectations, whilst the financial impact of our actions in the Vet Group has been as planned.”

Mike Iddon
Group CFO
We have seen strong customer revenue growth across both Retail and the Vet Group

<table>
<thead>
<tr>
<th>Group</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total¹</td>
<td>898.9</td>
<td>961.0</td>
<td>6.9%</td>
</tr>
<tr>
<td>Like-for-like¹</td>
<td>5.5%</td>
<td>5.7%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retail</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>421.9</td>
<td>455.4</td>
<td>7.9%</td>
</tr>
<tr>
<td>Accessories</td>
<td>343.5</td>
<td>357.0</td>
<td>3.9%</td>
</tr>
<tr>
<td>Other²</td>
<td>39.5</td>
<td>42.2</td>
<td>7.0%</td>
</tr>
<tr>
<td>Total</td>
<td>804.9</td>
<td>854.6</td>
<td>6.2%</td>
</tr>
<tr>
<td>Like-for-like</td>
<td>4.6%</td>
<td>5.1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vet Group</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee income from JV vet practices¹</td>
<td>50.0</td>
<td>52.6</td>
<td>5.2%</td>
</tr>
<tr>
<td>Specialist Referral centres</td>
<td>33.7</td>
<td>37.0</td>
<td>9.9%</td>
</tr>
<tr>
<td>Company managed practices³</td>
<td>3.1</td>
<td>8.1</td>
<td>164.0%</td>
</tr>
<tr>
<td>Other veterinary income</td>
<td>7.3</td>
<td>8.7</td>
<td>18.9%</td>
</tr>
<tr>
<td>Total</td>
<td>94.1</td>
<td>106.4</td>
<td>13.1%</td>
</tr>
<tr>
<td>Like-for-like¹</td>
<td>15.0%</td>
<td>11.2%</td>
<td></td>
</tr>
</tbody>
</table>

1. FY19 excludes fee income of £4.1m from Joint Venture practices which we have already bought out, or will offer to buy out from Joint Venture Partners in the future. In FY18, £3.8m in fee income from these practices is included in total revenue growth, but excluded from LFL growth.

2. Includes revenue from grooming services, pet sales and insurance commissions.

3. Revenue from company managed practices, which is recognised in full.
Underlying gross margin reflects our planned price investment in Retail

Group underlying gross margin\(^1\) bridge

<table>
<thead>
<tr>
<th>FY18</th>
<th>Planned price investment</th>
<th>Mix</th>
<th>Underlying performance(^2)</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>51.7%</td>
<td>(88) bps</td>
<td></td>
<td>+28 bps</td>
<td>50.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Retail underlying gross margin
- FY18: 52.2%
- FY19: 51.0%

Vet Group underlying gross margin\(^1\)
- FY18: 47.1%
- FY19: 48.0%

1. FY19 excludes £40.4m relating to non-underlying charges made against Vet Group, and Group, non-underlying gross profit (FY18: £nil).
2. 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 adopt a c20% provision.
We have driven operational efficiencies whilst investing in strategic growth areas.

Underlying operating cost bridge excluding D&A

Operational Efficiency

Investing in Growth

<table>
<thead>
<tr>
<th>Category</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Office</td>
<td>£341.3m</td>
<td>£343.3m</td>
<td>£2.0m</td>
</tr>
<tr>
<td>Distribution Centre</td>
<td></td>
<td></td>
<td>£1.3m</td>
</tr>
<tr>
<td>Established Stores</td>
<td></td>
<td></td>
<td>£2.8m</td>
</tr>
<tr>
<td>Omnichannel</td>
<td></td>
<td></td>
<td>£5.3m</td>
</tr>
<tr>
<td>Vet Group</td>
<td></td>
<td></td>
<td>£4.1m</td>
</tr>
<tr>
<td>Immature Stores</td>
<td></td>
<td></td>
<td>£4.2m</td>
</tr>
</tbody>
</table>

% of sales

<table>
<thead>
<tr>
<th>Category</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of sales</td>
<td>38.0%</td>
<td>37.1%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

1. Support office includes support centre colleagues and marketing
2. Established stores include all stores open since FY17
3. New stores includes all stores opened in FY18 and FY19
We have returned the business to underlying profit growth

<table>
<thead>
<tr>
<th>£m</th>
<th>FY18</th>
<th>FY19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying EBITDA</td>
<td>123.3</td>
<td>130.0</td>
<td>5.5%</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(34.5)</td>
<td>(36.8)</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Underlying EBIT</strong></td>
<td><strong>88.8</strong></td>
<td><strong>93.2</strong></td>
<td><strong>5.0%</strong></td>
</tr>
<tr>
<td>EBIT margin %</td>
<td>9.9%</td>
<td>9.7%</td>
<td>(18) bps</td>
</tr>
<tr>
<td>Net interest</td>
<td>(4.3)</td>
<td>(3.5)</td>
<td>(17.3)%</td>
</tr>
<tr>
<td><strong>Underlying PBT</strong></td>
<td><strong>84.5</strong></td>
<td><strong>89.7</strong></td>
<td><strong>6.1%</strong></td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>20%</td>
<td>21%</td>
<td>139 bps</td>
</tr>
<tr>
<td>Underlying basic EPS (pence)</td>
<td>13.5</td>
<td>14.1</td>
<td>4.2%</td>
</tr>
<tr>
<td>DPS (pence)</td>
<td>7.5</td>
<td>7.5</td>
<td>-</td>
</tr>
<tr>
<td>Non-underlying items(^1,2)</td>
<td>(4.9)</td>
<td>(40.1)</td>
<td>NM</td>
</tr>
<tr>
<td>Statutory PBT</td>
<td>79.6</td>
<td>49.6</td>
<td>(37.7)%</td>
</tr>
</tbody>
</table>

1. FY19 non-underlying charges include £40.4m relating to a provision made against the balance of funding provided by Pets at Home, recognition of guaranteed third party liabilities plus those where the likelihood of having to settle is probable, the cost of additional operating cash outflows forecast to be incurred by the Group through to buy out and all associated closure costs, for JV practices we have already bought out, or intend to buy out in the future (FY18: £nil). Also included is £0.4m 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 (FY18: £1.6m), plus a release of £0.7m relating to provisions previously recognised associated with the closure of Barkers
2. FY18 non-underlying costs included £2.7m associated with the closure of Barkers and £0.6m of M&A related expenses for transactions that were not completed
Capital investment is fully aligned to our strategic priorities

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
<th>Spend includes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New stores and groomers</td>
<td>7.3</td>
<td>3.7</td>
<td>Fewer new stores, groomers and vets</td>
</tr>
<tr>
<td>Existing store estate</td>
<td>12.8</td>
<td>8.8</td>
<td>Ongoing store refurbishment, plus launch of 2 new format trial stores</td>
</tr>
<tr>
<td>Business Systems and Omnichannel</td>
<td>10.0</td>
<td>10.8</td>
<td>Website re-launch across all platforms, building digital assets and in-house data capabilities</td>
</tr>
<tr>
<td>Vet Group</td>
<td>5.5</td>
<td>3.0</td>
<td>Expansion of Specialist Referral centres, plus ongoing investment in Support Office capabilities</td>
</tr>
<tr>
<td>Distribution</td>
<td>1.1</td>
<td>5.7</td>
<td>Installation of automated online order picking to support growth of omnichannel</td>
</tr>
<tr>
<td>Energy savings programme</td>
<td>2.3</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1.7</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40.7</strong></td>
<td><strong>34.5</strong></td>
<td></td>
</tr>
</tbody>
</table>

Returns on capital

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROIC</strong>(^1)</td>
<td><strong>19.4%</strong></td>
<td><strong>18.9%</strong></td>
</tr>
</tbody>
</table>

1. Definition contained within the appendix
We have maintained the dividend payment, as well as taking the right actions in the Vet Group

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating cashflow</strong></td>
<td>126.8</td>
<td>126.5</td>
</tr>
<tr>
<td><strong>Tax and interest</strong></td>
<td>(23.0)</td>
<td>(21.4)</td>
</tr>
<tr>
<td><strong>Debt issue costs</strong></td>
<td>0.0</td>
<td>(2.5)</td>
</tr>
<tr>
<td><strong>Capex</strong></td>
<td>(44.0)</td>
<td>(37.2)</td>
</tr>
<tr>
<td><strong>Purchase of own shares to satisfy colleague options</strong></td>
<td>(4.0)</td>
<td>(1.8)</td>
</tr>
<tr>
<td><strong>Underlying free cashflow</strong></td>
<td>55.8</td>
<td>63.6</td>
</tr>
<tr>
<td><strong>Conversion(^1)</strong></td>
<td>45.3%</td>
<td>48.9%</td>
</tr>
<tr>
<td><strong>Ordinary Dividend</strong></td>
<td>(37.3)</td>
<td>(37.2)</td>
</tr>
<tr>
<td><strong>Acquisitions(^2)</strong></td>
<td>0.0</td>
<td>(2.8)</td>
</tr>
<tr>
<td><strong>Non-underlying cash outflow(^3)</strong></td>
<td>0.0</td>
<td>(8.9)</td>
</tr>
<tr>
<td><strong>Net retained cash</strong></td>
<td>18.5</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>Leverage (ND: underlying EBITDA)</strong></td>
<td>1.1x</td>
<td>0.9x</td>
</tr>
</tbody>
</table>

1. Calculated as underlying free cashflow as a percentage of underlying EBITDA
2. Includes the purchase of two mature, JV practices from Joint Venture Partners for £2.1m, which are now operated as company managed practices, £(0.3)m of net cash acquired by purchasing three other existing JV practices, and deferred consideration of £1.0m relating to one of our Specialist Referral centres
3. Includes £8.8m relating to practices that we have already bought out, plus £0.1m in relation to payments made to certain Shared Venture Partners in our Specialist Referral centres to acquire remaining minority stakes
Working capital remains strong, and our net operating loan balance has decreased

<table>
<thead>
<tr>
<th>£m</th>
<th>FY18 movement</th>
<th>FY19 movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>9.6</td>
<td>14.5</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>3.9</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Trading cash working capital</strong></td>
<td><strong>9.4</strong></td>
<td><strong>12.1</strong></td>
</tr>
<tr>
<td>Increase in gross operating loans to Joint Venture vet practices</td>
<td>(14.8)</td>
<td>(9.6)</td>
</tr>
<tr>
<td><strong>Group cash working capital movement</strong></td>
<td><strong>(5.4)</strong></td>
<td><strong>2.5</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating loan balances to JV vet practices (£m)</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross operating loans</td>
<td>38.0</td>
<td>42.2</td>
</tr>
<tr>
<td>Non-underlying provision¹</td>
<td>(4.1)</td>
<td>(7.2)</td>
</tr>
<tr>
<td>Underlying provision²</td>
<td>(4.2)</td>
<td>(7.1)</td>
</tr>
<tr>
<td><strong>Net operating loan balance</strong></td>
<td><strong>29.7</strong></td>
<td><strong>27.9</strong></td>
</tr>
</tbody>
</table>

1. For practices which we intend to offer to buy out, we have provided, in full, for any funding already made by Pets at Home to those practices. In FY19, this has been charged against non-underlying Vet Group, and Group, gross margin. In FY18, any increase in the provision relating to these practices was treated as underlying, but has been shown separately above for ease of comparability.

2. 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 adopt a 20% provision against funding made by Pets at Home to the practice.
In summary: FY19 key financial metrics

### Revenue\(^1\) & like-for-like growth
- **Revenue**: £854.6m
- **YoY change**: +5.1%

### Underlying gross margin\(^2\) & YoY change
- **Gross margin**: 51.0%
- **YoY change**: 11.2%

### Underlying EBIT\(^2,3\) & margin
- **EBIT**: £67.2m
- **EBIT margin**: 7.9%

### Underlying free cashflow\(^4\) & conversion
- **Free cashflow**: £57.3m
- **Conversion**: 56.4%

---

1. Excludes fee income of £4.1m from practices which we have already bought out, or intend to buy out in the future. £3.8m of fee income from these practices in FY18 is excluded from LFL growth.
2. Excludes a non-underlying charge of £40.4m (FY18: £nil), relating to costs incurred in association with those JV practices which we have already bought out, or intend to buy out in the future.
3. Excludes a non-underlying charge of £0.4m (FY18: £1.6m) for the potential future acquisition of minority stakes owned by vet partners in the Specialist Referral centres.
4. Excludes (£13.4m) of free cashflow allocated as central.
Becoming the best pet care business in the world

- Delivered FY19 result ahead of expectations
- Already making strong progress on our new strategy
- Pet market remains in good growth and we expect our market share gains to continue
- We are confident about the year ahead, entering FY20 with good momentum
- Focus remains on generating 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
Questions
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

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

- **JVP**
  - Salary: £40-50,000
  - Dividend: £70-80,000

- **Practice revenue**: £1m+

- **Fee income**: £160,000+

- **Financing repaid as the practice matures**
  - £30,000 JVP loan
  - Up to £450,000 loan repayable over 10 years
  - £30,000 initial corporate loan

- **Commercial bank**
  - 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**
Recalibration of our Joint Venture vet business is on track

50% of sales from pet services

Having bought out 48 JV practices, closing 19¹

- 457 existing First Opinion practices
- 406 Joint Venture practices
- 317 practices repaying loans to 3rd party lenders or PAH
- 89 practices debt free & JVPs receiving a dividend
- 51 company managed with no debt

FY20 expectation

> New practice openings: up to 5
> Further practice buyouts: 5 – 10
> Practice closures to complete: 10 – 15

¹ Correct as of 17/5/19

In line with our original plans
Model for new JV practices allows a quicker path to maturity

50% of sales from pet services

Fee income is lower in early years

* Average customer revenues are based on the actual revenue performance seen in the existing practice base
## Financial guidance for FY20

### FY20 Group underlying guidance (excluding IFRS16)

<table>
<thead>
<tr>
<th>Category</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue growth</td>
<td>Ahead of market</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>£39-41m</td>
</tr>
<tr>
<td>Net finance expense</td>
<td>£4-5m</td>
</tr>
<tr>
<td>Underlying profit before tax#</td>
<td>Slight decline y/y</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>Decline y/y</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>In line with prior year</td>
</tr>
</tbody>
</table>

### FY20 non-underlying financial items relating to the Vet Group remain largely as previously guided

<table>
<thead>
<tr>
<th>Category</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-underlying income statement charge</td>
<td>Up to £9m: includes First Opinion business recalibration of c£8.5m and accounting charge for Specialist Referrals of c£0.5m</td>
</tr>
<tr>
<td>Non-underlying cash costs</td>
<td>Up to £27m: includes First Opinion business recalibration of c£19m, and up to £8m if the options to purchase shareholdings from Partners in our Specialist Referral centres are exercised</td>
</tr>
</tbody>
</table>
IFRS16 will impact the Group in FY20, but will 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 brought onto the Group’s Balance Sheet at the start of FY20 will be £508m
  – At FY19, this would have increased our leverage ratio from 0.9x to 3.0x

> Applies to all property leases covering 452 stores, 2 Distribution Centres, 2 Support Offices and 50 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 17.1 years
  – Average unexpired total lease term is 7.0 years
  – c210 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 focussed on optimising economic returns during each renewal negotiation
Pro-forma FY19 financial statements would have shown a decrease to reported PBT, but leave FCF unchanged

<table>
<thead>
<tr>
<th>£m (unaudited)</th>
<th>Pre-IFRS 16</th>
<th>Exclude rent</th>
<th>Include depn</th>
<th>Include interest</th>
<th>Post-IFRS 16</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>961.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>961.0</td>
<td>No change</td>
</tr>
<tr>
<td>Operating lease rentals</td>
<td>(78.6)</td>
<td>78.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>(36.8)</td>
<td>-</td>
<td>(69.8)</td>
<td>-</td>
<td>(106.6)</td>
<td>Straight line depreciation charge added</td>
</tr>
<tr>
<td>Operating profit</td>
<td>93.2</td>
<td>78.6</td>
<td>(69.8)</td>
<td>-</td>
<td>102.0</td>
<td>Operating profit increases</td>
</tr>
<tr>
<td>Finance income</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Finance expense</td>
<td>(4.1)</td>
<td>-</td>
<td>-</td>
<td>(15.0)</td>
<td>(19.1)</td>
<td>Higher interest charge</td>
</tr>
<tr>
<td>Underlying PBT</td>
<td>89.7</td>
<td>78.6</td>
<td>(69.8)</td>
<td>(14.9)</td>
<td>83.6</td>
<td>PBT (and therefore EPS) decreases</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>£m (unaudited)</th>
<th>Pre-IFRS 16</th>
<th>Add back rent</th>
<th>Replace with interest &amp; capital repayment</th>
<th>Post-IFRS 16</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group operating cashflow</td>
<td>126.5</td>
<td>78.6</td>
<td>-</td>
<td>205.1</td>
<td>Increases as lease rental removed</td>
</tr>
<tr>
<td>Tax and interest</td>
<td>(21.4)</td>
<td>-</td>
<td>(8.6)</td>
<td>(30.0)</td>
<td>Interest element of lease payments added</td>
</tr>
<tr>
<td>Repayment of lease obligations</td>
<td>-</td>
<td>-</td>
<td>(70.0)</td>
<td>(70.0)</td>
<td>Capital element of lease payments added</td>
</tr>
<tr>
<td>Net capex</td>
<td>(37.2)</td>
<td>-</td>
<td>-</td>
<td>(37.2)</td>
<td>No change</td>
</tr>
<tr>
<td>Other cashflow items</td>
<td>(4.3)</td>
<td>-</td>
<td>-</td>
<td>(4.3)</td>
<td>No change</td>
</tr>
<tr>
<td>Group free cashflow</td>
<td>63.6</td>
<td>78.6</td>
<td>(78.6)</td>
<td>63.6</td>
<td>FCF remains unchanged</td>
</tr>
</tbody>
</table>
### Income statement

- No fee income for practices we have already bought out, or will offer to buy out in the future, has been recognised within revenue.
- For the purposes of the LFL revenue growth calculation, fee income from these practices has been removed from both FY19 and FY18.
- Provision, or write off, of liabilities for these practices:
  - Practice funding owed to Pets at Home
  - Third party bank loans
  - Property leases for standalone practices
  - Business closure and employee costs
- Non-underlying income statement cost of £40.4m in FY19 and up to £8.5m in FY20.
- We continue to recognise all fee income from practices we intend to retain as a JV.
- We have also provided against a proportion of any funding made by Pets at Home to those practices at c20%.

### Cashflow impacts

- Repayment of liabilities for practices we have already bought out, or will offer to buy out in the future:
  - Third party bank loans
  - Property leases for standalone practices
  - Business closure and employee costs
- Non-underlying cash cost of £8.8m in FY19 and up to £19m in FY20.
- Further cash funding in FY19 of £7.1m to practices we intend to retain as a JV to support.
Accounting treatment of veterinary specialist referral centres

Specialist referral centre ownership is structured to incentivise growth

> Ownership of four referral centres
  - Two centres wholly owned subsidiaries by Pets at Home
  - Two centres ≥75% 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
‘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.