

Chief Executive's statement

I am pleased to report on another good year of progress and look forward to my first full year as Group Chief Executive



We enter our 26th year confident in the future. The pet market has proved over time to be more resilient than general retail, so whilst consumer confidence may be more fragile, we believe our drive to become more specialist and most loved by customers will deliver further progress.”

Ian Kellet
Group Chief Executive Officer

Strategic update

Strategic pillar: Expanding like-for-like growth

Growing loyalty from our VIP club members

Our loyalty scheme has continued to provide support to like-for-like growth this year, through tailored offers on both products and services, alongside achieving an increased level of engagement with our members.

The VIP club has reached over 4.5m members with over 13.5m pets registered on our database. The scheme is now over three years old, which has enabled us to take an initial view of the active customer base, as well as total membership. The number of VIP members who have actively used their card over the past 12 months is 3.3m. The active member participation rises for those customers who are multi-brand users, whether that be through our vet practices, grooming salons or online, reflecting the increased loyalty of such customers. We will therefore continue with our strategy to introduce vet and grooming services to our members through active marketing, as well as the rollout of services within the store estate, which remains a significant opportunity for us.

Our swipe rate of the card in stores reached 64% in Q4. We expect to see further progression in the swipe rate this year, but at a slower rate than we have seen previously, which is a normal trend reflective of the club's maturity.

Positively, we are seeing an increasing revenue contribution from our earliest enrolled members, which reaffirms our view that we are successfully using the club to drive incremental spend from customers.

4.5m

VIP club members

13.5m

pets registered on our database

Providing value for our customers

Our approach is to provide value for our customers, reflecting innovation, quality, expertise and customer service, as well as price.

As part of this, we have continued to refresh our range, with 40% of total products changed during the year. Growing Advanced Nutrition revenue remains core to our strategy and this year we extended Wainwright's into the frozen category, added Lily's Kitchen to our range and exclusively launched Wellness, which is the leading independent natural food brand in the US. We are also adding brands to assist customers with bridging the gap to the top tiers of Advanced Nutrition, which we believe is encouraging customers to trade out of the grocery food segment.

In March, we launched our Brandmatch promise for customers. Brandmatch compares the price of the branded products in our customers' baskets against both Tesco and Jollyes, and if there is a difference, generates a money back voucher for their next shop. This is automatically emailed to the customer if they are a VIP member. Brandmatch is still very new, but initial results indicate the vouchers are encouraging incremental spend from customers when they next purchase.

Delivering results from our seamless shopping investment

We have invested further in our seamless shopping strategy this year, through optimising our website, upgrading systems and expanding our colleague teams to deliver the plan. This has resulted in good traffic growth to our website, enhanced conversion rates and an improved customer experience.

As we have highlighted previously, customers are increasingly opting to collect their online orders in store. This method of pickup represented around 50% of our online revenues in the second half of the year, up from just over 40% in the prior year. This increase has been achieved through improving our collection service in-store and continual optimisation of the product range.

The VIP App is now in its final stages of development, ahead of a colleague, and then customer, launch. The App will give further benefits to our customers, making it simpler to both swipe without the need for a card and redeem offers without presenting a voucher.

Strategic initiatives in our veterinary business

Within our primary opinion vet practice network we are rolling out new practices, but at the same time, we have focused on strategies to deliver extra growth to our more mature practices. We have achieved this through space expansions to eight existing practices and trialling 24/7 or extended opening hours in six practices. Both space and opening hours extensions are bringing even greater convenience to our customers and are delivering additional revenue to these practices.

We have also built a presence in the specialist referrals market through acquisition. Specialist referral represents the premier tier of veterinary medicine, and by acquiring such centres, we gain access to an additional area of customer spend in the market, whilst improving the retention of customer revenue from our primary opinion practice network.

Chief Executive's statement continued

We now have four specialist referral centres and have focused on acquiring those with the best reputations for clinical excellence and service, in locations which are complementary to our primary practice network. We continue to explore opportunities in the wider veterinary services market that will deliver growth to our business, at an acceptable rate of return on our investment.

Engagement with our customers

Alongside our ongoing customer engagement through our colleagues in-store and the VIP club, we have continued with television advertising during the year, both with the Pets at Home and Vets4Pets brands. We are the only branded veterinary services business in the UK with the scale to advertise nationally.

Our customer engagement and advocacy levels are indicated through a net promoter score, which is collected through an online customer survey. Our net promoter score for the year was 88%, up from 86% in the prior year, having risen from 75% in FY11.

Strategic pillar: Space rollout and footprint development

We executed our rollout strategy successfully during the year, having achieved our store and services opening targets.

Our Pets at Home estate now numbers 419 superstores and we plan to open between 15 and 20 superstores in FY17. As we come closer to reaching our UK target of around 500 superstores, our location options narrow, and as we are mainly dependent upon space from new retail park openings, we are seeing an impact on our opening rate. During the year we continued with the rollout trial of our premium Barkers dog stores. We also commenced a new trial format, with a High Street based convenience store, branded 'Whiskers 'n Paws by Pets at Home'.



In Services, we ended the year with 388 veterinary practices, having opened 39 in new and existing stores, and 11 in standalone locations. Nearly 60% of our store estate now has a vet practice and we remain committed to working towards our target of 90% of stores with a practice. Grooming salon openings progressed strongly, with 60 new salons in both new and existing stores, taking the total number to 240. In the coming year, we expect to open 45–55 new veterinary practices and 50–60 grooming salons.

The performance and returns of new stores, vet practices and grooming salons remain in line with our expectations.

419

Pets at Home superstores

60

new grooming salons in both new and existing stores

Strategic pillar: Growing margins

We have seen a strong progression in the Group gross margin this financial year, growing by 31bps to 54.5%. Merchandise margin benefitted from our Advanced Nutrition growth and improved terms negotiations with suppliers. In Services, we saw positive support from the maturation of our vet practices, although this was partially offset by the number of immature grooming salons and the addition of lower margin specialist referral centres.

Our pre-exceptional EBITDA margin declined by 38bps to 16.0%, also reflecting the mix impact of specialist referral centres, alongside our commitment to strategic investment in seamless shopping and our colleagues, investments which we maintained despite some of the top line challenges we saw during the year.

Looking forward, we expect to see support to our Group gross margin from further Advanced Nutrition growth and services maturity, but this will be more than offset in the current financial year by the impact of weaker sterling. The National Living Wage ("NLW") will be incorporated into our colleague cost base this financial year and as we have previously highlighted, alongside our ongoing investment in seamless shopping, will cause some EBITDA margin dilution. Whilst the progression in NLW over the coming years is an ongoing cost pressure, we expect the maturity profile of our vet and grooming businesses to generate EBITDA margin expansion in the medium to long term.


Ian Kellett

Group Chief Executive Officer
25 May 2016

All 2016 financials refer to the 52 week proforma period to 24 March 2016.



Targeting new areas of the veterinary market through specialist referral centres

Our recent acquisitions have allowed us to access the most advanced tier of the veterinary market and will build the reputation of our brand with both vets and customers.

Specialist referral centres provide veterinary services that are too complex for primary opinion practice, through the advanced qualifications of the practising surgeons, state of the art operating theatres and diagnostic equipment.

We acquired two referral centres during the year:

- Northwest Surgeons, based in Cheshire, has ten veterinary specialists and acts as a referral centre for practices in the North West of England. It specialises in orthopaedic, soft tissue and spinal surgery and internal medicine with support in anaesthesia, pain management and diagnostic imaging.
- Anderson Moores veterinary specialists, based near Winchester, has 25 referral clinicians and provides referral expertise in internal medicine, soft tissue surgery, orthopaedic surgery, cardiology, neurology and neurosurgery, diagnostic imaging, dermatology and anaesthesia. Anderson Moores is equipped with dedicated MRI and CT scanners, state of the art operating theatres and a range of other specialist facilities.

