National Veterinary Care Ltd
Appendix 4D
Half-year report for the period ended 31 December 2016

1. Company details

Name of entity:	National Veterinary Care Ltd and its controlled entities
ABN:	17 166 200 059
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

	31 Dec 2016 $'000	31 Dec 2015 $'000	% Change
Revenues from ordinary activities	32,588	19,048	Up 71.1%
Profit/(loss) from ordinary activities attributable to shareholders	2,557	(302)	Up 946.7%
Profit/(loss) for the half-year attributable to shareholders	2,557	(302)	Up 946.7%
	Cents	Cents	% Change
Dividends	-	-	-
Basic earnings per share	4.96	(0.73)	Up 779.5%
Diluted earnings per share	4.91	(0.73)	Up 772.6%

An explanation of the above figures is contained in the 'Review of operations' included within the Director's Report in the attached Interim Financial Report.

3. Net tangible assets

	31 Dec 2016 Cents	31 Dec 2015 Cents
Net tangible assets per ordinary security	(47.18)	(22.02)

NVL does not have a large tangible asset base as it is a service organisation and its value is based on its ability to generate future profits.

4. Control gained over entities

UVG Holdings Pty Ltd
On 8 July 2016, National Veterinary Care Ltd acquired 100% of the ordinary shares in UVG Holdings Pty Ltd and its associated entities trading as United Veterinary Group ('UVG'), a leading procurement company. Total consideration for the acquisition was $5,900,000 including $5,043,000 in cash consideration, $593,000 in NVL shares, issued on 8 July 2016, and $264,000 in deferred consideration. The acquired business contributed revenue of $1,514,000 and profit before tax of $887,000 to the Group for the period from date of acquisition to 31 December 2016.

Refer to note 12 'Business combinations' in the attached Interim Financial Report for further details.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period
No dividends were declared by the Company for the half-year ended 31 December 2016.

Dividends of $216,000 were paid to non-controlling interests in the underlying entities during the reporting period.

Previous period
There were no dividends paid, recommended or declared during the previous reporting period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Audit qualification or review

The attached Interim Financial Report has been reviewed by the auditors and the Independent Auditor's Review Report is included in the Interim Financial Report. No disputes or qualifications are noted.

10. Attachments

Details of attachments (if any):

The Interim Financial Report of National Veterinary Care Ltd for the half-year ended 31 December 2016 is attached.

11. Signed

Laura Fanning
Company Secretary
Brisbane

Date: 27 February 2017

National Veterinary Care Ltd

ABN 17 166 200 059

Interim Financial Report - 31 December 2016

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'NVL') consisting of National Veterinary Care Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report, unless otherwise stated:

Susan Forrester
Tomas Steenackers
Dr Stephen Coles
Wesley Coote
Alison Sherry.

Company Secretaries

The Company Secretaries of the Company as at the date of this report are Janita Robba and Laura Fanning.

Principal activities

During the half-year, NVL's principal activities consisted of the provision of veterinary services throughout Australia and New Zealand.

Review of operations

NVL's result for the half-year ended 31 December 2016 ('the half-year') was a profit, after providing for income tax and non-controlling interests of $2.557 million compared with a loss of $0.302 million for the half-year ended 31 December 2015 ('the prior half-year').

NVL's underlying net profit for the half-year, after providing for income tax and non-controlling interests, was $3.052 million (2015: $1.807 million).

This is a strong result driven by growth in NVL's revenue and the achievement of cost efficiencies. NVL continues to pursue a three-tiered approach to growth. During the half-year NVL has acquired nine veterinary services businesses and achieved an uplift in the number of members in each of the wellness program and the management services and procurement group.

Result highlights

The following table highlights the key performance measures for NVL for the half-year. In addition to the statutory results, information about the underlying performance of the Group is presented, which excludes the impact of one-off acquisition, integration and restructuring costs. The underlying performance information is provided on an unaudited basis and a reconciliation between the statutory and underlying performance information is contained on page 4.

Table 1: Key Performance Measures

	31 Dec 2016 $'000	31 Dec 2015 $'000
Statutory Performance		
Revenue	32,588	19,048
EBITDA[1,2]	5,391	952
EBITDA margin[3]	16.5%	5.0%
Net Profit/(Loss) after Tax[5]	2,557	(302)
Basic Earnings per Share (cents)	4.96	(0.73)
Underlying Performance		
Revenue	32,588	19,048
EBITDA[1,4]	6,048	3,577
EBITDA margin	18.6%	18.8%
Net Profit after Tax[5]	3,052	1,807
Basic Earnings per Share (cents)	5.92	4.39

1 EBITDA – Earnings before interest, tax depreciation and amortisation (Non-IFRS information)
2 Includes costs relating to acquisitions and integrations
3 EBITDA margin – EBITDA as a % of revenue
4 Before the impact of costs relating to acquisitions and integrations
5 Attributable to shareholders after allowing for non-controlling interests

Financial Overview – Statutory Performance

The table below provides a breakdown of NVL's statutory net profit for the half-year.

Table 2: Statutory Performance

	31 Dec 2016 $'000	31 Dec 2015 $'000
Revenue from continuing operations	**32,588**	**19,048**
Direct expenses of providing services	(8,244)	(4,451)
Gross Margin	**24,344**	**14,597**
Gross Margin (%)	**74.7%**	**76.6%**
Acquisition and integration expenses	(657)	(2,625)
Operating expenses	(18,296)	(11,020)
EBITDA[1]	**5,391**	**952**
EBITDA Margin (%)[2]	**16.5%**	**5.0%**
Depreciation	(443)	(210)
Finance costs	(684)	(322)
Income tax expense	(1,396)	(405)
Profit after income tax expense	**2,868**	**15**
Non-controlling interest	(311)	(317)
Net profit after income tax expense attributable to the shareholders of NVL	**2,557**	**(302)**
Basic Earnings per share (cents)	4.96	(0.73)

1 EBITDA – Earnings before interest, tax depreciation and amortisation (Non-IFRS information)
2 EBITDA as a % of Revenue

Revenue

The increase in revenue was primarily driven by the acquisitions made during FY16 and HY1 2017 and organic growth in the initial portfolio.

During the half-year, NVL expanded its network by acquiring 9 veterinary services businesses including seven veterinary clinics in New Zealand, one in Australia and United Veterinary Group (UVG), the largest veterinary services procurement group in Australia. As at 31 December 2016, NVL had invested in 50 veterinary services businesses.

NVL also achieved growth in the Best for Pet wellness program which was launched on 1 November 2015. At 31 December 2016 this program had 7,951 members (June 2016: 4,332). This program is a key organic growth initiative.

Gross margin and gross margin %

Group gross margin of 74.7% (2015: 76.6%), was 1.0% lower than the 75.7% gross margin achieved for the full year ended 30 June 2016. The reduction in margin is mainly due to the acquisition of veterinary services businesses in New Zealand. On average, New Zealand practices achieve a lower gross margin % than the Australian clinics due to the veterinary product and service mix which results in higher direct costs. However, lower operating expenditure in New Zealand means the Australian and New Zealand clinics have similar results at the EBITDA margin level. The introduction of UVG into the Group in July 2016 enabled negotiations with suppliers to further reduce direct and other expenses.

The entry into the New Zealand market provides NVL with the platform and scale to review and renegotiate supply agreements in New Zealand with a view to increasing supplier rebates and margins in this market.

EBITDA & EBITDA Margin %

EBITDA of $5.391 million (2015: $0.952 million) and EBITDA margin of 16.5% (2015: 5.0%) were a significant improvement on the prior half-year. Growth in the number of clinics as well as management of operating expenditure were the drivers of this result. Acquisition and other transaction and integration costs were lower than in the prior half-year due to the lower number of veterinary services businesses being acquired. The costs of the initial public offering were also included in the prior year result. The support office structure has been utilised to provide a platform for the Group to realise its three-tiered approach to growth. Overhead costs will continue to be monitored and rationalised as required.

Finance costs

Finance costs increased by $0.362 million to $0.684 million during the half-year as a result of increased borrowings which were used to partially fund the acquired veterinary clinics in the current and prior year. As NVL continues to grow, business acquisitions will continue to be funded through free cash and the existing debt facility, which was increased during the half-year as noted below.

Depreciation
Depreciation costs increased by $0.233 million to $0.443 million during the half-year as a result of the investment in acquired veterinary clinics in both the current and prior year and the depreciation attributable to the fitout of the Centre of Excellence Training Academy.

Acquisition and other transaction and integration expenses
During the half-year, the Group incurred acquisition and integration costs of $0.657 million (2015: $2.625 million). Current period costs include professional fees and stamp duty, as well as the provision of an integrations team to provide IT support for business acquisitions and an acquisitions team to provide support for their settlement and roll-out. In the prior half-year, costs were higher due to the acquisition and integration of 34 clinics and the initial public offering.

These costs are not considered to form part of NVL's underlying earnings as discussed in the following section.

Financial Overview - Underlying Earnings
In order to assist readers of the financial statements to gain a better understanding of NVL's underlying performance, certain items which are one-off, non-cash and/or relate to specific transactions can be excluded from the reported result.

A reconciliation of NVL's reported profit or loss to the underlying profit, as assessed by the Directors, is set out below. The acquisition and integration expenses noted above have been excluded.

Table 3: Reconciliation of Statutory Performance to Underlying Performance

	EBITDA[1]		NPAT[2]	
	31 Dec 2016 $'000	31 Dec 2015 $'000	31 Dec 2016 $'000	31 Dec 2015 $'000
Statutory Performance	5,391	952	2,557	(302)
Adjustments:				
Acquisition and other transaction costs	484	2,250	484	2,250
Integration costs	173	375	173	375
Effective tax rate	-	-	(162)	(516)
Total adjustments	657	2,625	495	2,109
Underlying Performance[3]	**6,048**	**3,577**	**3,052**	**1,807**
Revenue	32,588	19,048		
EBITDA Margin[4]	**18.6%**	**18.8%**		

1 EBITDA - Earnings before interest, tax, depreciation and amortisation (Non-IFRS information)
2 NPAT – Net profit after tax attributable to shareholders
3 After excluding the impact of acquisition and integration costs
4 EBITDA as a % of Revenue

Underlying Revenue and Gross margin
There are no differences between statutory and underlying revenue and gross margin for the half-year. Please refer to the earlier commentary about these items.

Underlying EBITDA & EBITDA Margin %
The exclusion of one-off acquisition, integration and restructuring costs results in an underlying EBITDA for the half-year of $6.048 million (2015: $3.577 million) and an underlying EBITDA margin of 18.6% (2015:18.8%).

The EBITDA margin has remained consistent with the prior half-year. Operating expenditure has reduced as a percentage of overall revenue.

Dividends
No dividends were declared by the Company for the half-year or up to the date of signing (2015: nil).

Dividends of $0.216 million were paid to non-controlling interests in the underlying entities during the half-year (2015: nil).

Financial Position

Key financial information in relation to NVL's financial position at 31 December 2016 is shown below:

Table 4: Snapshot of Financial Position

	31 Dec 2016	30 Jun 2016
Total Assets ($'000)	92,972	76,159
Net Assets ($'000)	52,151	48,761
Cash and cash equivalents ($'000)	5,110	4,301
Debt ($'000)	27,882	18,572
EBITDA Leverage ratio[1] (times)	2.60	2.48
Debt to capitalisation ratio[2] (%)	35	28
Shares on issue ($'000)	52,283	51,184
Dividends per security (cents)	-	-

1 EBITDA leverage ratio, calculated in accordance with the facility documents, equals Debt/EBITDA including pro forma annualised contribution from acquisitions made during the year.
2 Debt to capitalisation ratio, calculated in accordance with the facility documents, equals Debt/(Debt plus Equity).

Significant balance sheet movements during the half-year were as follows:

- Total assets increased by $16.813 million, primarily due to the acquisition of veterinary services business during the period and the resulting recognition of goodwill and associated business assets. Note 12 contains further details about the value of the businesses acquired.
- Total liabilities increased by $13.423 million due to increased borrowings ($9.310 million) which were used to fund business acquisitions, the deferred consideration relating to these acquisitions ($1.184 million), recognition of the income tax liability attributable to the profit for the period and an increase in trade payables in line with NVL's working capital management.
- Issued capital increased by $1.188 million following the issue of 1.1 million new shares during the half-year as consideration for business acquisitions.

Capital Management

Debt & Gearing

NVL's debt facility with Australia and New Zealand Banking Group (ANZ) was renegotiated during the half-year, resulting in a $15.000 million increase in the facility limit. At 31 December 2016, the Group's total facility limit was $44.750 million (June 2016: $29.750 million), including a core debt facility of $42.000 million and additional bank guarantee and overdraft facilities totalling $2.750 million. The increased facility will provide a source of funding for future acquisitions and expansion.

At balance date, $27.882 million had been drawn against the core debt facility (June 2016: $18.572 million) and $0.804 million had been drawn against the bank guarantee facilities (June 2016: $0.620 million).

During the half-year and at 31 December 2016, the Group was in compliance with its banking covenants. The debt facility expires in October 2019. Further details are contained in note 6.

Cash flow highlights

During the half-year, there was a net increase in NVL's cash and cash equivalents of $0.809 million (2015: $5.490 million). Most of the Group's free cashflow from operations was redeployed to fund business acquisitions in line with the Group's investment strategy.

Key cashflow movements during the half-year were as follows:

- Cash from operations was $6.465 million (2015: $7.537 million) reflecting strong gross and EBITDA margins and a full six months' trading of clinics acquired in the prior year;
- Cash used in investing activities was $14.674 million (2015: $47.507 million) primarily relating to the acquisition of 9 veterinary services businesses during the half-year compared with 34 in the prior half-year. The investing cashflow for the half-year also includes payments for post-settlement adjustments related to acquisitions made at the end of FY2016 and the acquisition of an additional 13% of Brunswick Central Operations Pty Ltd; and
- Cash from financing activities was $9.018 million (2015: $45.460 million), being the debt drawn down to fund business acquisitions, less dividends and other payments made to non-controlling interests. The net proceeds of borrowings are lower than the prior half-year because fewer acquisitions were made in HY1 2017 and free cash was also able to be used.

NVL's underlying business generated an ungeared pre-tax cash flow of $7.706 million (2015: $8.354 million) which represents a 127% underlying EBITDA conversion rate. Based on this cash flow conversion rate the Group has headroom in its current debt facility to fund the targeted annual expansion rate of 6 veterinary services businesses per year.

The following table shows provides a reconciliation of the underlying ungeared pre-tax cashflow.

Table 5: Underlying Cash Flows

	31 Dec 2016 $'000	31 Dec 2015 $'000
Net cash flow from operating activities	6,465	7,537
Adjustments		
Net interest and finance costs paid	892	442
Income taxes paid	176	-
Acquisition and integration expenses[1]	173	375
Ungeared, pre-tax operating cash flows	**7,706**	**8,354**
Underlying EBITDA[2]	6,048	3,557
Conversion Rate	**127%**	**235%**

1 Cashflow from operating activities includes integration expenses which are not considered to be part of the underlying operations. Acquisition and other transaction expenses are included in cashflows from investing activities and financing activities.
2 EBITDA – Earnings before interest, tax depreciation and amortisation (Non -IFRS Information), before the impact of acquisition, other transaction and integration costs.

Group Strategy

As noted above, NVL has a three-tiered approach to growth: organic, acquisition, and development of the Management Services and Procurement Group.

Organic

Organic growth from existing clinics will be driven by benchmarking and rolling-out best practices across the Group. The revenue potential from the Best for Pet program is already being realised, with considerable scope for growth as the program is offered through more clinics. Also, more complex and higher-yielding care options will become available through more practices as vets acquire greater skills through the ongoing training programs offered by the Centre of Excellence Training Academy.

Acquisition

The fragmented nature of the Australian and New Zealand veterinary industry means there is still considerable opportunity for consolidation. NVL will continue to target acquisitions in attractive geographic clusters to build on the existing network of clinics.

Management Services and Procurement Group

There is also significant scope to grow the Management Services and Procurement Group by leveraging NVL's growing buying power, the offerings from the Centre of Excellence Training Academy, the NVL administrative systems and management support to both Australia and New Zealand's 1,500 smaller independent clinics.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

Acquisition of two veterinary clinics in New South Wales, Australia.

On 21 February 2017, NVL acquired two veterinary clinics in New South Wales, building on the existing cluster in NSW. Total consideration for the acquisition was $4.000 million including $3.200 million in cash consideration and $0.800 million in NVL shares, which were issued on 21 February 2017 (382,959 shares issued at $2.089 per share). The issued shares are subject to claw back provisions. These new clinics are expected to deliver annualised revenue and EBIT of $3.390 million and $0.790 million respectively. The financial effects of this transaction have not been taken into account at 31 December 2016.

Acquisition of two clinics in Wellington, New Zealand expected to settle before April 2017.
On 14 February 2017, NVL announced the planned acquisition of two additional clinics in New Zealand, subject to final due diligence, board approval and lease assignments. The total consideration for the acquisitions is NZ$3.480 million in cash, with NZ$0.696 million being deferred and partially subject to claw back provisions. These new clinics are expected to deliver annualised revenue and EBIT of NZ$4.400 million and NZ$0.690 million respectively. The financial effects of this transaction have not been taken into account at 31 December 2016.

Change of Chief Financial Officer and Company Secretary
Ms Katherine Baker, NVL's Chief Financial Officer and Company Secretary, resigned on 10 February 2017. Laura Fanning and Janita Robba were subsequently appointed as interim joint Chief Financial Officers and Company Secretaries.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Susan Forrester	Tomas Steenackers
Chair	Director

27 February 2017
Brisbane

HLB Mann Judd

Accountants | Business and Financial Advisers

NATIONAL VETERINARY CARE LTD
ABN 17 166 200 059

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of National Veterinary Care Ltd for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of National Veterinary Care Ltd and the entities it controlled during the period.

C J M King
Partner

Brisbane, Queensland
27 February 2017

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National Veterinary Care Ltd
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Consolidated	
	31 Dec 2016 $'000	31 Dec 2015 $'000
Revenue	32,588	19,048
Expenses		
Direct expenses of providing services	(8,244)	(4,451)
Employee benefits expense	(13,558)	(8,490)
Consulting and professional fees	(303)	(115)
Depreciation expense	(443)	(210)
Advertising expense	(246)	(94)
Administration expense	(1,019)	(420)
Information technology and communications expense	(465)	(298)
Insurance expense	(128)	(150)
Occupancy expense	(2,292)	(1,344)
Travel and accommodation expense	(285)	(109)
Acquisition and other transaction costs	(484)	(2,250)
Restructuring and integrations	(173)	(375)
Finance costs	(684)	(322)
Profit before income tax expense	4,264	420
Income tax expense	(1,396)	(405)
Profit after income tax expense for the half-year	2,868	15
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive income for the half-year	2,868	15
Profit for the half-year is attributable to:		
Non-controlling interest	311	317
Owners of National Veterinary Care Ltd	2,557	(302)
	2,868	15
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	311	317
Owners of National Veterinary Care Ltd	2,557	(302)
	2,868	15
	Cents	Cents
Basic earnings per share	4.96	(0.73)
Diluted earnings per share	4.91	(0.73)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

National Veterinary Care Ltd
Consolidated statement of financial position
As at 31 December 2016

	Note	Consolidated 31 Dec 2016 $'000	Consolidated 30 Jun 2016 $'000
Assets			
Current assets			
Cash and cash equivalents		5,110	4,301
Trade and other receivables		2,091	2,116
Inventories		2,422	2,156
Other		591	165
Total current assets		10,214	8,738
Non-current assets			
Property, plant and equipment		4,512	4,057
Intangibles	5	76,818	62,088
Deferred tax		1,428	1,276
Total non-current assets		82,758	67,421
Total assets		92,972	76,159
Liabilities			
Current liabilities			
Trade and other payables		6,084	4,874
Income tax		2,091	762
Employee benefits		1,664	1,624
Revenue received in advance		463	511
Total current liabilities		10,302	7,771
Non-current liabilities			
Borrowings	6	27,882	18,572
Employee benefits		512	145
Other		2,125	910
Total non-current liabilities		30,519	19,627
Total liabilities		40,821	27,398
Net assets		52,151	48,761
Equity			
Issued capital	7	43,046	41,858
Reserves	8	33	-
Retained profits		2,671	114
Equity attributable to the owners of National Veterinary Care Ltd		45,750	41,972
Non-controlling interest	9	6,401	6,789
Total equity		52,151	48,761

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015	814	-	(1,041)	-	(227)
Profit/(loss) after income tax expense for the half-year	-	-	(302)	317	15
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	(302)	317	15
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	40,819	-	-	-	40,819
Recognition of non-controlling interest	-	-	-	6,507	6,507
Balance at 31 December 2015	41,633	-	(1,343)	6,824	47,114

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2016	41,858	-	114	6,789	48,761
Profit after income tax expense for the half-year	-	-	2,557	311	2,868
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	2,557	311	2,868
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 7)	1,188	-	-	-	1,188
Share-based payments	-	33	-	-	33
Recognition of non-controlling interest	-	-	-	(464)	(464)
Transactions with non-controlling interest	-	-	-	(19)	(19)
Dividends paid (note 10)	-	-	-	(216)	(216)
Balance at 31 December 2016	43,046	33	2,671	6,401	52,151

National Veterinary Care Ltd
Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Note	Consolidated 31 Dec 2016 $'000	31 Dec 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		34,669	18,841
Payments to suppliers and employees (inclusive of GST)		(27,136)	(10,862)
Interest received		14	-
Interest and other finance costs paid		(906)	(442)
Income taxes paid		(176)	-
Net cash from operating activities		6,465	7,537
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	12	(13,566)	(45,272)
Payments for expenses relating to business acquisitions		(484)	(1,418)
Payments for property, plant and equipment		(624)	(817)
Net cash used in investing activities		(14,674)	(47,507)
Cash flows from financing activities			
Proceeds from issue of shares	7	-	30,085
Share issue and other transaction costs		(5)	(2,215)
Proceeds from borrowings		9,628	17,712
Repayment of borrowings		(318)	-
Dividends paid	10	(216)	-
Loans to related parties		(71)	(122)
Net cash from financing activities		9,018	45,460
Net increase in cash and cash equivalents		809	5,490
Cash and cash equivalents at the beginning of the financial half-year		4,301	192
Cash and cash equivalents at the end of the financial half-year		5,110	5,682

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

This half-year financial report has been prepared for National Veterinary Care Ltd and its controlled entities. The financial statements are presented in Australian dollars, which is National Veterinary Care Ltd's functional and presentation currency.

National Veterinary Care Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 1
28 Burnside Road
Ormeau QLD 4208

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2017.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Where necessary, comparative information has been reclassed to achieve consistency in disclosure with current financial year amounts and other disclosures.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Goodwill and other indefinite life intangible assets
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Deferred consideration
The deferred consideration liability is the difference between the total purchase consideration, usually on an acquisition of a business combination, and the amounts paid or settled up to the reporting date, discounted to net present value. The Group applies provisional accounting for any business combination. Any reassessment of the liability during the earlier of the finalisation of the provisional accounting or 12 months from acquisition-date is adjusted for retrospectively as part of the provisional accounting rules in accordance with AASB 3 'Business Combinations'. Thereafter, at each reporting date, the deferred consideration liability is reassessed against revised estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss. The increase in the liability resulting from the passage of time is recognised as a finance cost.

Business combinations
Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 4. Operating segments

Identification of reportable operating segments
The Group operates in one segment, being the operation of veterinary practices and related services across Australia and New Zealand. This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Note 5. Non-current assets - intangibles

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Goodwill - at cost	76,818	62,088

A reconciliation of the written down value of goodwill at the beginning and end of the current financial half-year is set out below:

Consolidated	Goodwill $'000	Total $'000
Balance at 1 July 2016	62,088	62,088
Additions through business combinations (note 12)	14,738	14,738
Adjustments resulting from completion of provisional accounting	(8)	(8)
Balance at 31 December 2016	76,818	76,818

Note 6. Non-current liabilities - borrowings

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Bank loans	27,882	18,572

In October 2016, the Group renegotiated its debt facility with Australia and New Zealand Banking Group ('ANZ') resulting in a $15,000,000 increase in the facility limit. At 31 December 2016, the Group's total debt facilities were $44,750,000 (June 2016: $29,750,000), including a term debt facility of $42,000,000, an overdraft of $750,000 and a bank guarantee facility of $2,000,000. The facilities expire in October 2019.

At balance date, $27,882,000 had been drawn against the core debt facility (June 2016: $18,572,000) and $804,000 had been drawn against the bank guarantee facilities (June 2016: $620,000).

The amount of this facility used in the half-year relates to:

a) Business acquisitions outlined in Note 10 ($9,310,000); and
b) Bank guarantees provided to landlords ($184,000).

The facility contains the following covenants:

- Leverage ratio (Debt:EBITDA[1])
- Fixed Charge Cover Ratio (EBITDA + rent expense) / (interest + rent expense); and
- Debt to Capitalisation Ratio (Debt / Debt + book value of equity).

There have been no events of default, including covenant breaches, on the financing arrangements during the half-year.

1 EBITDA for leverage ratio, equals EBITDA adjusted for proforma EBITDA of businesses acquired during the period.

Assets pledged as security
The facility is secured by a fixed and floating charge over all existing and future assets of the Group.

Note 6. Non-current liabilities - borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Total facilities		
Bank overdraft	750	750
Bank loans	42,000	27,000
Bank guarantees	2,000	2,000
	44,750	29,750
Used at the reporting date		
Bank overdraft	-	-
Bank loans	27,882	18,572
Bank guarantees	804	620
	28,686	19,192
Unused at the reporting date		
Bank overdraft	750	750
Bank loans	14,118	8,428
Bank guarantees	1,196	1,380
	16,064	10,558

Note 7. Equity - issued capital

	Consolidated			
	31 Dec 2016 Shares	30 Jun 2016 Shares	31 Dec 2016 $'000	30 Jun 2016 $'000
Ordinary shares - fully paid	52,282,740	51,183,602	43,046	41,858

Note 7. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2016	51,183,602		41,858
Issue of shares on acquisition of business	8 July 2016	453,914	$1.307	593
Issue of shares on acquisition of business	6 September 2016	120,328	$1.635	197
Issue of shares on acquisition of business	3 October 2016	224,896	$1.791	403
Issue of shares per Employee Loan Plan	21 October 2016	250,000	$1.000	-
Issue of shares per Employee Loan Plan	21 October 2016	50,000	$2.050	-
Less: share issue transaction costs				(5)
Balance	31 December 2016	52,282,740		43,046

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Employee Loan Plan
Details of shares issued under the Employee Loan Plan are provided in Note 8.

Note 8. Equity - reserves

On 21 October 2016, NVL issued 250,000 shares at $1.00 per share to Tomas Steenackers (CEO/Managing Director) under the National Veterinary Care Limited Employee Loan Plan ('Loan Plan').

NVL also issued a further 50,000 shares at $2.05 per share to Keith Nicholls (Acquisitions Manager) under the Loan Plan.

The new issue brings the total number of shares issued under the Loan Plan to 525,000 (2015: 225,000) or approximately 1.00% of the issued securities of the Company.

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Employee Loan Plan reserve	33	-

Note 9. Equity - non-controlling interest

	Consolidated	
	31 Dec 2016 $'000	30 Jun 2016 $'000
Issued capital	6,096	6,507
Retained profits	305	282
	6,401	6,789

The reduction in issued capital attributable to non-controlling interests relates to NVL's acquisition of an additional 13% of Brunswick Operations Pty Ltd (refer Note 12).

Note 10. Equity - dividends

No dividends were declared by the Company for the half-year ended 31 December 2016 or up to the date of signing.

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2016 $'000	31 Dec 2015 $'000
Dividends paid to non-controlling interests in the underlying entities during the half-year	216	-

Note 11. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 12. Business combinations

Veterinary clinics
During the half-year, NVL acquired 100% of the business assets of 8 veterinary service businesses for the total consideration of $9,499,000 including $7,972,000 in cash consideration, $600,000 in NVL shares and $920,000 in deferred consideration. Total consideration includes $7,000 in exchange gains. The acquired businesses contributed revenues of $2,973,000 and profit before tax of $226,000 to the Group for the period from dates of acquisition to 31 December 2016.

UVG Holdings Pty Ltd
On 8 July 2016, NVL acquired 100% of the ordinary shares in UVG Holdings Pty Ltd and its associated entities trading as United Veterinary Group (‘UVG’), a leading procurement company. Total consideration for the acquisition was $5,900,000 including $5,043,000 in cash consideration, $593,000 in NVL shares, issued on 8 July 2016, and $264,000 in deferred cash. The acquired business contributed revenue of $1,514,000 and profit before tax of $887,000 to the Group for the period from date of acquisition to 31 December 2016.

Note 12. Business combinations (continued)

Details of the acquisitions are as follows:

	Veterinary clinics Fair value $'000	UVG Holdings Pty Ltd Fair value $'000	Total Fair value $'000
Trade receivables	47	308	355
Inventories	316	-	316
Other current assets	49	2	51
Plant and equipment	256	-	256
Deferred tax asset	44	-	44
Trade payables	-	(216)	(216)
Employee benefits	(145)	-	(145)
Net assets acquired	567	94	661
Goodwill	8,932	5,806	14,738
Acquisition-date fair value of the total consideration transferred	9,499	5,900	15,399
Representing:			
Cash paid or payable to vendor	7,972	5,043	13,015
National Veterinary Care Ltd shares issued to vendor	600	593	1,193
Contingent consideration	920	264	1,184
Exchange gain	7	-	7
	9,499	5,900	15,399
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	9,499	5,900	15,399
Less: contingent consideration [1]	(920)	(264)	(1,184)
Less: shares issued by Company as part of consideration	(600)	(593)	(1,193)
Less: exchange gain	(7)	-	(7)
Net cash used	7,972	5,043	13,015

1 Where the Company has contingent consideration in the table above, the Company has a contractual liability to pay the former vendor of the clinic deferred consideration in the event that the clinic meets their contractual performance hurdles in accordance with their Sale Agreement.

The values identified in relation to the acquisitions are provisional as at 31 December 2016.

Additional 13% acquisition of Brunswick Central Operations Pty Ltd
During the half-year, NVL acquired an additional 13% share in Brunswick Central Operations Pty Ltd for cash consideration of $483,000.

During the half-year end, NVL paid an additional $68,000 in post settlement adjustments for clinics acquired at the end of financial year 2016.

Note 13. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests:

		Parent		Non-controlling interest	
Name	**Country of incorporation**	**Ownership interest 31 Dec 2016 %**	**Ownership interest 30 Jun 2016 %**	**Ownership interest 31 Dec 2016 %**	**Ownership interest 30 Jun 2016 %**
NVC Operations Pty Ltd	Australia	100%	100%	-	-
NVC Operations NSW Pty Ltd	Australia	100%	100%	-	-
Brunswick Central Operations Pty Ltd	Australia	87%	74%	13%	26%
Fitzroy Operations Pty Ltd	Australia	51%	51%	49%	49%
KEST Pty Ltd	Australia	55%	55%	45%	45%
Albion Vet Surgery Pty Ltd	Australia	100%	100%	-	-
UVG Holdings Pty Ltd	Australia	100%	-	-	-
UVG (Aust) Pty Ltd	Australia	100%	-	-	-
UVG (IP) Pty Ltd	Australia	100%	-	-	-
UVG (USA) Pty Ltd	Australia	100%	-	-	-
NVC Operations (NZ) Pty Ltd	New Zealand	100%		-	-

Note 14. Events after the reporting period

Acquisition of two veterinary clinics in New South Wales, Australia.
On 21 February 2017, NVL acquired two veterinary clinics in New South Wales, building on the existing cluster in NSW. Total consideration for the acquisition was $4,000,000 including $3,200,000 in cash consideration and $800,000 in NVL shares, which were issued on 21 February 2017 (382,959 shares were issued at $2.089 per share).. The issued shares are subject to claw back provisions. These new clinics are expected to deliver annualised revenue and EBIT of $3,390,000 and $790,000 respectively. The financial effects of this transaction have not been taken into account at 31 December 2016.

Acquisition of two clinics in Wellington, New Zealand expected to settle before April 2017.
On 14 February 2017, NVL announced the planned acquisition of two additional clinics in New Zealand, subject to final due diligence, board approval and lease assignments. The total consideration for the acquisitions is NZ$3,480,000 in cash, with NZ$696,000 being deferred and partially subject to claw back provisions. These new clinics are expected to deliver annualised revenue and EBIT of NZ$4,400,000 and NZ$690,000 respectively. The financial effects of this transaction have not been taken into account at 31 December 2016.

Change of Chief Financial Officer and Company Secretary Ms Katherine Baker, NVL's Chief Financial Officer and Company Secretary, resigned on 10 February 2017. Laura Fanning and Janita Robba were subsequently appointed as interim joint Chief Financial Officers and Company Secretaries.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Susan Forrester	Tomas Steenackers
Chair	Director

27 February 2017
Brisbane

HLB Mann Judd

Accountants | Business and Financial Advisers

Independent auditor's review report to the members of National Veterinary Care Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of National Veterinary Care Ltd ("the company") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of National Veterinary Care Ltd is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

C J M King
Partner

Brisbane, Queensland
27 February 2017