National Veterinary Care Ltd
Appendix 4D
Half-year report for the period ended 31 December 2017

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 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

	31 Dec 2017 $'000	31 Dec 2016 $'000	% Change
Revenues from ordinary activities	41,642	32,588	Up 27.8%
Profit/(loss) from ordinary activities attributable to shareholders	3,266	2,557	Up 27.7%
Profit/(loss) for the half-year attributable to shareholders	3,266	2,557	Up 27.7%
Underlying net profit for the year attributable to equity owners	3,086	3,052	Up 1.1%
Underlying EBITDA for the year (including non-controlling interest)	6,276	6,048	Up 3.8%
Underlying EBITDA to Revenue Margin %	15.7%	18.6%	Down 2.9%

	Cents	Cents	% Change
Dividends	-	-	N/a
Diluted earnings per share	5.41	4.91	Up 10.2%
Basic earnings per share	5.57	4.96	Up 12.3%
Underlying basic earnings per share	5.26	5.92	Down 11.1%

Underlying EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) is management's preferred measure of business profitability, and excludes all acquisition, integration and other one-off costs. Refer pages 3 and 4 of the attached Interim Financial Report for further details on the underlying adjustments.

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. Dividends

	2017 Cents	2016 Cents	Change Cents
Dividends paid:			
FY2017 final dividend per share paid 4 October 2017 - 100% franked	3.0	-	3.0

An interim dividend in respect of the current financial year has not been declared (2016: nil).
Dividends of $0.370 million (2016: $0.216 million) were paid to non-controlling interests in the underlying entities during the reporting period. The Company does not have a Dividend Reinvestment Plan (DRP).

4. Net tangible assets

	31 Dec 2017 Cents	31 Dec 2016 Cents
Net tangible assets per ordinary security	(39.07)	(47.18)

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.

5. Control gained or lost over entities

Not applicable during the reporting period.

6. Details of associates and joint venture entities

Not applicable during the reporting period.

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7. Foreign entities

Foreign entity financial statements used in compiling this report are based on International Financial Reporting Standards.

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8. Audit qualification or review

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

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9. Attachments

The Interim Financial Report of National Veterinary Care Ltd for the half-year ended 31 December 2017 is attached.

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10. Signed

Tomas Steenackers
Managing Director
Brisbane

Date: 26 February 2018

National Veterinary Care Ltd

ABN 17 166 200 059

Interim Financial Report - 31 December 2017

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 2017.

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
Kaylene Gaffney

Company Secretary

The Company Secretary as at the date of this report is Janita Robba. The Company Secretary role was held jointly with Laura Fanning until 30 November 2017, the date of Ms Fanning’s resignation.

Principal activities

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

Dividends

During the half-year, the company declared and paid a dividend of 3.0 cents per share, fully franked (2016: nil) in respect of the 2017 financial year with a record date of 11 September 2017 and a payment date of 4 October 2017. The total dividend paid was $1.768 million.

An interim dividend in respect of the current financial year has not been declared (2016: nil).

Dividends of $0.370 million were paid to non-controlling interests in the underlying entities during the half-year (2016: $0.216 million).

Review of operations

During the half-year ended 31 December 2017 (‘the half-year’), NVL grew from 55 to 60 veterinary service businesses delivering an increase in revenue to $41.642 million from $32.588 million for the half-year ended 31 December 2016 (‘the prior half-year’).

NVL’s result for the half-year was a profit, after providing for income tax and non-controlling interests of $3.266 million compared with a profit of $2.557 million for the prior half-year.

NVL’s underlying net profit for the half-year, after providing for income tax and non-controlling interests, was $3.086 million (2016: $3.052 million).

During the half-year NVL has acquired seven general practice veterinary clinics and disposed of two emergency clinics.
NVL achieved an uplift in the number of members in each of the wellness program (up 23%) and the management services and procurement group (up 16%).

The following Table 1 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, restructuring and other one-off costs. The underlying performance information is provided on an unaudited basis and a reconciliation between the statutory and underlying performance information is provided in Table 2.

Result highlights

Table 1: Key Performance Measures

	31 Dec 2017 $'000	31 Dec 2016 $'000
Statutory Performance		
Revenue	41,642	32,588
Gross Margin	29,733	24,344
Gross Margin %	74.3%	74.7%
EBITDA[1,2]	6,081	5,391
EBITDA margin[3]	14.6%	16.5%
Net Profit after Tax[5]	3,266	2,557
Cash Flows from Operating Activities (ungeared, pre-tax)	3,675	7,049
Cash conversion ratio[6]	60%	131%
Basic Earnings per Share (cents)	5.57	4.96
Underlying Performance		
Revenue	40,003	32,588
Gross Margin	29,733	24,344
Gross Margin %	74.3%	74.7%
EBITDA[1,4]	6,276	6,048
EBITDA margin	15.7%	18.6%
Net Profit after Tax[5]	3,086	3,052
Cash Flows from Operating Activities (ungeared, pre-tax)	5,237	7,706
Cash conversion ratio	83%	127%
Basic Earnings per Share (cents)	5.26	5.92

1 EBITDA – Earnings before interest, tax, depreciation and amortisation (Non-IFRS information). Includes non-controlling interest.
2 Includes costs relating to acquisition, integration, restructuring and other one-off costs.
3 EBITDA margin – EBITDA as a % of revenue.
4 Before the impact of costs relating to acquisition, integration, restructuring and other one-off costs.
5 Attributable to shareholders after deducting non-controlling interests.
6 Cash conversion ratio = Operating Cash Flows / EBITDA. Statutory conversion ratio impacted by acquisition costs classified as investing activities.

Table 2: Reconciliation of Statutory Performance to Underlying Performance

	Operating Cash Flows (ungeared, pre-tax)		EBITDA[1]		NPAT[2]	
	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000
Statutory Performance	3,675	7,049	6,081	5,391	3,266	2,557
Adjustments:						
Acquisition and other transaction costs	595	484	595	484	595	484
Restructuring and integration costs	365	173	365	173	365	173
Loss on disposal of business	-	-	272	-	272	-
Trading loss of disposed business	82	-	82	-	82	-
Writeback of contingent consideration	-	-	(1,639)	-	(1,639)	-
Other one-off[5]	520	-	520	-	520	-
Effective tax rate[4]	-	-	-	-	(375)	(162)
Total adjustments	1,562	657	195	657	(180)	495
Underlying Performance[3]	**5,237**	**7,706**	**6,276**	**6,048**	**3,086**	**3,052**

1 EBITDA - Earnings before interest, tax, depreciation and amortisation (Non-IFRS information). Includes non-controlling interest.
2 NPAT – Net profit after tax attributable to shareholders after allowing for non-controlling interests.
3 After excluding the impact of acquisition, integration, restructuring and other one-off costs.
4 Effective tax rate used on adjustments (excluding non-deductible stamp duty from acquisitions, and capital loss on disposal of business) is 30%.
5 Predominantly relate to the impact of the new remuneration policy implemented in FY2018 which resulted in a one-off duplication of employee benefits costs arising from transition year accounting

Revenue
The increase in revenue was primarily driven by acquisitions and organic growth in the existing portfolio.

During the half-year, NVL expanded its network by acquiring 7 veterinary services businesses in Australia. As at 31 December 2017, NVL owned and operated 60 veterinary service businesses.

Organic growth in NVL's general practice clinics of 3.11% was achieved, whilst organic growth in the total portfolio of businesses was 0.56%. Like for like sales growth reflects performance for sites held 12 months (excluding strategic divestment and clinic renovation periods).

Gross margin and gross margin %
Group gross margin of 74.3% was stable compared to the prior half-year. This is a solid result considering the current period experienced a full six month impact of the New Zealand operation's margin dilution effect (approximately 3.5 months in the prior half-year). On average, the New Zealand practices achieve a lower gross margin percentage 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.

EBITDA & EBITDA Margin %
EBITDA of $6.081 million (2016: $5.391 million) and EBITDA margin of 14.6% (2016: 16.5%) was influenced by several key factors including: the acquisition of 7 general practice veterinary clinics, the disposal of 2 emergency clinics, increased investment in clinic support functions and also by gains associated with the write-back/refund of contingent consideration.

Excluding acquisition, integration and other one-off style items resulted in an underlying EBITDA for the half-year of $6.276 million (2016: $6.048 million) and an underlying EBITDA margin of 15.7% (2016:18.6%). Lower EBITDA margins arose due to increased operating costs, primarily wages and IT costs, following strategic investment in people and systems to position NVL to capitalise on future synergies as the portfolio continues to grow. These investments added $0.55m in costs compared to the prior period. In addition, higher clinic wage costs were incurred due to use of additional locum staff due to a tightening of the labour market.

Finance costs
Finance costs increased marginally to $0.734 million during the half-year. As NVL continues to grow, business acquisitions will be funded through a mix of free cash, debt and equity in accordance with the Group's capital management policies.

Depreciation
Depreciation costs increased by $0.192 million to $0.635 million during the half-year as a result of the investment in acquired veterinary clinics.

Underlying items

During the year, the Group incurred $0.195 million in net pre-tax underlying expenses (2016: $0.657 million), which include costs related to business acquisition, business restructuring and integration and other one-off costs, together with losses relating to businesses disposed or closed (refer Table 2 for further details). Current period acquisition and integration 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 due diligence and settlement. Other underlying costs mainly relate to the impact of the new remuneration policy implemented in FY2018 which resulted in a one-off duplication of employee benefits costs arising from transition year accounting. Further, underlying adjustment items include other revenue of $1.639 million associated with contingent consideration not payable or refunded in relation to acquired clinics.

Financial Position

Key financial information in relation to NVL's financial position at 31 December 2017 is shown below:

Table 3: Snapshot of Financial Position

	31 Dec 2017	30 Jun 2017
Total Assets ($'000)	114,202	109,805
Net Assets ($'000)	69,703	68,972
Cash and cash equivalents ($'000)	8,103	13,105
Debt ($'000)	28,282	24,805
EBITDA Leverage ratio[1] (times)	2.41	2.04
Debt to capitalisation ratio[2] (%)	29	27
Shares on issue ($'000)	58,941	58,941
Dividends per security (cents)	3.0	-

1 EBITDA leverage ratio, calculated in accordance with the facility documents, equals Debt/EBITDA rolling annual basis including pro forma annualised contribution from acquisitions made during the 12 month period.
2 Debt to capitalisation ratio is calculated as Debt/(Debt plus Equity).

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

- Total assets increased by $4.397 million during the period with the acquisition of seven veterinary clinics and disposal of two emergency clinics. The acquisitions were predominantly funded with the proceeds from the share placement completed in June 2017. Note 13 contains further details about the value of the businesses acquired including the recognition of goodwill and other net assets acquired.
- Total liabilities increased by $3.666 million predominantly due to increased borrowings ($3.477 million) which were used to partially fund business acquisitions.
- Issued capital remained unchanged during the period.

Capital Management

Debt & Gearing

At 31 December 2017, the Group's total facility limit was $44.750 million (June 2017: $44.750 million), including a core debt facility of $42.000 million and additional bank guarantee and overdraft facilities totalling $2.750 million.

At balance date, $28.282 million had been drawn against the core debt facility (June 2017: $24.805 million) and $1.039 million had been drawn against the bank guarantee facilities (June 2017: $0.800 million).

The Group remains in compliance with its banking covenants. The debt facility expires in October 2019. Further details are contained in note 7.

Cash flow highlights

During the half-year, there was a net decrease in NVL's cash and cash equivalents of $5.002 million (2016: increase $0.809 million) predominantly arising from the purchase of seven veterinary clinics using cash from a share placement completed in June 2017.

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

- Cash from operations was $1.357 million (2016: $5.981 million) is impacted by increases to income tax payments (timing), one-off effects of changes to employee Pay As You Go Withholding (PAYGW) payments (timing) and acquisition / integration costs;
- Cash used in investing activities was $7.851 million (2016: $14.190 million) primarily relating to the acquisition of 7 veterinary clinics during the half-year compared with 9 veterinary clinics / businesses in the prior half-year, less proceeds on sale of 2 emergency clinics and proceeds from the refund of contingent consideration; and
- Cash from financing activities was $1.489 million (2016: $9.018 million), being the net 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 due to available funds from the share placement in June 2017.

NVL's underlying business generated an ungeared pre-tax cash flow of $5.237 million (2016: $7.706 million) which represents an 83% underlying EBITDA conversion rate. Removing the effects of one-off factors, such as changes to employee PAYGW payment timing, improves cash conversion to approximately 100%.

Group Strategy

NVL has three core growth platforms: organic, acquisition, and development of the Management Services and Procurement Division. The table below outlines the key growth drivers within these platforms.

Growth Platform	Growth Drivers
Organic	Grow Veterinary Services by: • Expansion of the Wellness Program – Best for Pet. • Benchmarking of clinical standards across practices via the practice management system (leading to the identification of training opportunities to optimise product/service offer). • Better pet care, leading to increased revenue streams through the upskilling of veterinary professionals through the Veterinary Training Centre. • In-house provision of more complex services to reduce external referrals outside of NVL.
Acquisition	Significant opportunity for further industry consolidation in the veterinary services sector due to: • The fragmented nature of the industry. • The changing characteristics of the veterinary workforce.
Development of the Management Services and Procurement Division	Significant opportunity to grow the management services and procurement business unit by leveraging: • NVL's stronger buying power. • NVL's Veterinary Training Centre. • NVL's systems. • Providing bespoke service offerings and support to corporate groups in the health sector. • Providing support to smaller independent clinics (approx. 2,600 clinics in Australia and New Zealand).

Significant changes in the state of affairs

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

Matters subsequent to the end of the half-year

Acquisition of four veterinary clinics in Australia. In January 2018, NVL acquired four veterinary clinics located in existing NVL geographic clusters in Queensland and Victoria. Total consideration for the acquisition was $4.18 million including $3.28 million in cash consideration, $0.32 million in NVL shares and $0.58 million in contingent consideration. The contingent consideration will be payable after 12 months subject to satisfactorily meeting earnout conditions based on EBIT. These new clinics are expected to deliver annualised revenue and EBIT of $4.50 million and $0.79 million respectively. The financial effects of these transactions have not been taken into account at 31 December 2017.

No other matter or circumstance has arisen since 31 December 2017 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.

Susan Forrester
Chair

Tomas Steenackers
Director

26 February 2018
Brisbane

HLB Mann Judd

Accountants | Business and Financial Advisers

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 2017, 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.

A B Narayanan
Partner

Brisbane, Queensland
26 February 2018

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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 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Revenue	5	41,642	32,588
Expenses			
Direct expenses of providing services		(10,270)	(8,244)
Employee benefits expense		(17,880)	(13,558)
Consulting and professional fees		(244)	(303)
Depreciation expense		(635)	(443)
Advertising expense		(259)	(246)
Administration expense		(1,655)	(1,019)
Information technology and communications expense		(730)	(465)
Insurance expense		(123)	(128)
Occupancy expense		(2,715)	(2,292)
Travel and accommodation expense		(349)	(285)
Acquisition and other transaction costs		(595)	(484)
Restructuring and integrations		(365)	(173)
Share based payments expense		(104)	-
Loss on disposal of business		(272)	-
Finance costs		(734)	(684)
Profit before income tax expense for the half-year		4,712	4,264
Income tax expense		(1,135)	(1,396)
Profit after income tax expense for the half-year		3,577	2,868
Profit for the half-year is attributable to:			
Non-controlling interest		311	311
Owners of National Veterinary Care Ltd		3,266	2,557
		3,577	2,868
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(335)	-
Other comprehensive income for the half-year, net of tax		(335)	-
Total comprehensive income for the half-year		3,242	2,868
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		311	311
Owners of National Veterinary Care Ltd		2,931	2,557
		3,242	2,868
		Cents	**Cents**
Basic earnings per share		5.57	4.96
Diluted earnings per share		5.41	4.91

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 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Assets			
Current assets			
Cash and cash equivalents		8,103	13,105
Trade and other receivables		3,036	3,075
Inventories		2,782	2,576
Assets held for sale		-	2,572
Other		396	116
Total current assets		14,317	21,444
Non-current assets			
Other financial assets		13	14
Property, plant and equipment		5,535	4,893
Intangibles	6	92,735	81,875
Deferred tax		1,602	1,579
Total non-current assets		99,885	88,361
Total assets		114,202	109,805
Liabilities			
Current liabilities			
Trade and other payables		6,949	7,786
Income tax		1,720	2,287
Employee benefits		2,087	2,198
Other		2,300	1,412
Revenue received in advance		740	579
Total current liabilities		13,796	14,262
Non-current liabilities			
Borrowings	7	28,282	24,805
Employee benefits		200	174
Other		2,221	1,592
Total non-current liabilities		30,703	26,571
Total liabilities		44,499	40,833
Net assets		69,703	68,972
Equity			
Issued capital	8	58,045	58,048
Reserves	9	(191)	40
Retained profits		5,890	4,490
Equity attributable to the owners of National Veterinary Care Ltd		63,744	62,578
Non-controlling interest	10	5,959	6,394
Total equity		69,703	68,972

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

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 8)	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 11)	-	-	-	(216)	(216)
Balance at 31 December 2016	43,046	33	2,671	6,401	52,151

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling Interest $'000	Total equity $'000
Balance at 1 July 2017	58,048	40	4,490	6,394	68,972
Profit after income tax expense for the half-year	-	-	3,266	311	3,577
Other comprehensive income for the half-year, net of tax	-	(335)	-	-	(335)
Total comprehensive income for the half-year	-	(335)	3,266	311	3,242
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 8)	(3)	-	-	-	(3)
Share-based payments - expense	-	104	-	-	104
Acquisition of non-controlling interest without change in control	-	-	(98)	(376)	(474)
Dividends paid (note 11)	-	-	(1,768)	(370)	(2,138)
Balance at 31 December 2017	58,045	(191)	5,890	5,959	69,703

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

National Veterinary Care Ltd
Consolidated statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		44,039	34,669
Payments to suppliers and employees (inclusive of GST)		(40,364)	(27,620)
Interest received		41	14
Interest and other finance costs paid		(659)	(906)
Income taxes paid		(1,700)	(176)
Net cash from operating activities		1,357	5,981
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired		(10,375)	(13,566)
Payments for purchase of non-controlling interests		(473)	-
Payments for property, plant and equipment		(917)	(624)
Proceeds on refund of contingent purchase consideration		1,549	-
Proceeds on sale of business		2,365	-
Net cash used in investing activities		(7,851)	(14,190)
Cash flows from financing activities			
Proceeds from issue of shares	8	-	-
Share issue and other transaction costs		(3)	(5)
Proceeds from borrowings		7,520	9,628
Repayment of borrowings		(4,000)	(318)
Dividends paid to NVL shareholders	11	(1,768)	-
Dividends paid to non-controlling interests	11	(370)	(216)
Repayments from /loans to related parties		110	(71)
Net cash from financing activities		1,489	9,018
Net increase in cash and cash equivalents		(5,005)	809
Effects of exchange rates		3	-
Cash and cash equivalents at the beginning of the half-year		13,105	4,301
Cash and cash equivalents at the end of the half-year		8,103	5,110

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.

All amounts in this report are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the Company in accordance with ASIC Corporations Instrument 2016/191.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2018.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 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 2017 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
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has 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)

Contingent consideration
The contingent 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 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. Revenue

	Consolidated	
	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue from continuing operations		
Sales of goods and rendering of services	39,962	32,574
Other revenue		
Interest income	41	14
Contingent consideration not payable / refunded where performance condition not met*	1,639	-
	1,680	14
	41,642	32,588

*Refer note 13 for further details on contingent consideration.

Note 6. Non-current assets – intangibles

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Goodwill - at cost	92,735	81,875

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

Consolidated	Goodwill $'000	Total $'000
Balance at 1 July 2017	81,875	81,875
Additions through business combinations (note 13)	11,248	11,248
Effects of foreign exchange translation	(388)	(388)
Balance at 31 December 2017	92,735	92,735

Note 7. Non-current liabilities - borrowings

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

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank loans	28,282	24,805

At 31 December 2017, the Group's total debt facilities were $44.750 million (June 2017: $44.750 million), including a term debt facility of $42.000 million, an overdraft of $0.750 million and a bank guarantee facility of $2.000 Million. The facilities expire in October 2019.

At balance date, $28.282 million had been drawn against the core debt facility (June 2017: $24.805 million) and $1.039 million had been drawn against the bank guarantee facilities (June 2017: $0.809 million).

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

a) Business acquisitions outlined in Note 13 ($3.520 million); and
b) Bank guarantees (net) provided to landlords ($0.230 million).

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 7. Non-current liabilities - borrowings (continued)

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

	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Total facilities		
Bank overdraft	750	750
Bank loans	42,000	42,000
Bank guarantees	2,000	2,000
	44,750	44,750
Used at the reporting date		
Bank overdraft	-	-
Bank loans	28,282	24,805
Bank guarantees	1,039	809
	29,321	25,614
Unused at the reporting date		
Bank overdraft	750	750
Bank loans	13,718	17,195
Bank guarantees	961	1,191
	15,429	19,136

Note 8. Equity - issued capital

	Consolidated 31 Dec 2017 Shares	Consolidated 30 Jun 2017 Shares	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Ordinary shares - fully paid	58,940,699	58,940,699	58,045	58,048

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2017	58,940,699		58,048
Issue of shares on acquisition of business		-	-	-
Less: share issue transaction costs		-		(3)
Balance	31 December 2017	58,940,699		58,045

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.

Refer note 13 for details of contingent obligations to issue ordinary shares in the future to vendors of acquired clinics.

Note 9. Equity – reserves

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Share Based Payment Reserves		
Share options reserve - Employee Incentive Plan (Loan Plan)	205	125
Performance rights reserve - Employee Incentive Plan	24	-
Total Share Based Payments Reserves	229	125
Foreign currency translation reserve	(420)	(85)
Total Reserves	(191)	40

Share Based Payment Reserves
The Employee Incentive Plan share options reserve and performance rights reserve is used to recognise the value of equity settled share based payments provided to employees, including key management personnel pursuant to the company's Employee Incentive Plan. No further grants will be awarded under the Employee Loan Plan, having been replaced during the period by the Employee Incentive Plan as approved by the Directors of the company and outlined in the Notice of Annual General Meeting & Explanatory Memorandum. During the half-year, grants of performance rights were made to the Chief Executive Officer (251,822) and other key executives (36,293).

Foreign currency translation reserve
The foreign currency reserve is used to recognise foreign exchange gains or losses on translation of the Group's New Zealand operations.

Note 10. Equity - non-controlling interest

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Issued capital	5,564	6,043
Retained profits	395	351
	5,959	6,394

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

Note 11. Equity – dividends

Owners of NVL
During the half-year, the company declared and paid a dividend of 3.0 cents per share, fully franked (2016: nil) in respect of the 2017 financial year with record date of 11 September 2017 and payment date of 4 October 2017. The total dividend paid was $1.768 million.

An interim dividend in respect of the current financial year has not been declared (2016: nil).

Non-controlling interests
Dividends totalling $0.370 million (2016: $0.216 million) were paid to non-controlling interests in respect to their interests in their underlying entities during the half-year ended 31 December 2017. At the date of signing, there are further dividends of $0.144 million declared and paid subsequent to 31 December 2017 for non-controlling interests.

Franking Credits

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
The amount of the franking credits available for subsequent reporting periods are:		
Balance at the end of reporting period	1,574	777
Franking credits that will arise from the payment of the amount of provision for income tax	481	1,401
	2,055	2,178

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 12. Fair value measurement

Fair value hierarchy
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Contingent consideration	-	-	4,351	4,351
Borrowings (NZD)	2,580	-	-	2,580
Total liabilities	2,580	-	4,351	6,931

Consolidated – June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Contingent consideration	-	-	2,848	2,848
Borrowings (NZD)	2,702	-	-	2,702
Total liabilities	2,702	-	2,848	5,550

Note 12. Fair value measurement (continued)

There were no transfers between levels during the financial year.

The recorded values of the financial assets and liabilities represents their fair values.

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.

Level 1 assets and liabilities
Movements in level 1 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Financial Liabilities Borrowings (NZD) $'000	Total $'000
Balance at 30 June 2017	2,702	2,702
Foreign exchange movements	(122)	(122)
Balance as at 31 December 2017	2,580	2,580

Valuation techniques for fair value measurements categorised within level 2 and level 3
The fair value of the contingent consideration has been estimated at the present value of the deferred amount payable under the Business Acquisition Contracts.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Deferred consideration $'000	Total $'000
Balance at 30 June 2017	2,848	2,848
Additions - new acquisitions	1,984	1,984
Decreases - writeback to P&L	(90)	(90)
Decreases - payment of contingent liabilities	(353)	(353)
Decreases - other	(38)	(38)
Balance as at 31 December 2017	4,351	4,351

Note 13. Business combinations

Veterinary clinics
During the half-year, NVL acquired 100% of the business assets of 7 veterinary service businesses for total consideration of $11.878 million including $9.894 million in cash consideration and $1.984 million in contingent consideration. The contingent consideration comprises $1.080 million in NVL shares and $0.904 million in cash (discounted value), payable in future periods up to 24 months subject to satisfactorily meeting earnout conditions based on EBIT. The acquired businesses contributed revenues of $3.437 million and profit before tax of $0.804 million to the Group for the period from dates of acquisition to 31 December 2017. Had the acquisitions occurred on 1 July 2017, the full half-year contributions would have been revenues of $4.893 million and profit before tax of $1.075 million.

Note 13. Business combinations (continued)

Details of the acquisitions are as follows:

	Veterinary clinics Fair value $'000	Total Fair value $'000
Inventories	384	384
Other current assets	17	17
Plant and equipment	344	344
Deferred tax asset	49	49
Employee benefits	(164)	(164)
Net assets acquired	630	630
Goodwill	11,248	11,248
Acquisition-date fair value of the total consideration transferred	11,878	11,878
Representing:		
Cash paid or payable to vendor	9,894	9,894
National Veterinary Care Ltd shares issued to vendor	-	-
Contingent consideration	1,984	1,984
	11,878	11,878
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	11,878	11,878
Less: contingent consideration [1]	(1,984)	(1,984)
Less: shares issued by Company as part of consideration	-	-
Net cash used	9,894	9,894

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 contractual performance hurdles in accordance with the Business Sale Agreement.

The values identified in relation to the acquisitions are provisional as at 31 December 2017.

Note 13. Business combinations (continued)

Contingent consideration
Details of movements in contingent consideration during the half-year:

	Equity – Issued Capital**	Cash held in trust	Contingent consideration liability ***	Total
	$'000	$'000	$'000	$'000
Opening balance – 1 Jul 2017	4,701	1,196	2,848	8,745
Writeback to P&L* - at fair value	(1,107)	(442)	(90)	(1,639)
Fair value adjustment**	677			677
Payment / vesting of consideration	(2,852)	(699)	(353)	(3,904)
Contingent consideration for new acquisitions			1,984	1,984
Notional interest unwind			31	31
Movements in foreign currency exchange			(69)	(69)
Closing balance – 31 Dec 17	1,419	55	4,351	5,825

*The fair value of the contingent consideration is written back to profit and loss statement as other revenue in circumstances where the associated performance conditions are not met (refer note 3).
**The issued capital amounts represent the original issue price at date of acquisition, except for fair value adjustments on writeback to profit and loss (as disclosed above). Where performance conditions have not been met and contingent share consideration has been returned to NVL, the shares have been promptly disposed at fair value to third parties.
***The contingent consideration liability includes amounts relating to possible future obligations to be settled in cash or by the issue of a variable number of NVL shares (classified as a financial liability under AASB 2)

Additional 13% acquisition of Brunswick Central Operations Pty Ltd
During the half-year, NVL acquired the remaining 13% minority interest share in Brunswick Central Operations Pty Ltd for cash and scrip consideration totalling $0.473 million.

Disposal of Emergency Clinics
During the period NVL disposed of two emergency clinics, details of the consideration received and carrying value of the net assets at date of disposal are:

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash consideration received	2,365	-
Carrying value of net assets disposed:		
Goodwill	2,336	-
Accounts receivable	18	
Inventory	110	-
Plant & equipment	221	-
Employee leave entitlements	(69)	-
Deferred tax asset	21	-
Loss on sale	272	-

Note 14. 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 2017 %	Ownership interest 30 Jun 2017 %	Ownership interest 31 Dec 2017 %	Ownership interest 30 Jun 2017 %
NVC Operations Pty Ltd	Australia	100%	100%	-	-
NVC Operations NSW Pty Ltd	Australia	100%	100%	-	-
Brunswick Central Operations Pty Ltd	Australia	100%	87%	-	13%
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%	100%	-	-
UVG (Aust) Pty Ltd	Australia	100%	100%	-	-
UVG (IP) Pty Ltd	Australia	100%	100%	-	-
UVG (USA) Pty Ltd	Australia	100%	100%	-	-
NVC Operations (NZ) Pty Ltd	New Zealand	100%	100%	-	-
Lower Hutt Veterinary Services Ltd	New Zealand	99%	99%	1%	1%

Note 15. Contingent Assets and Liabilities

Contingent Assets
A contingent asset exists in relation to the potential clawback of contingent consideration paid in respect of acquired businesses. This contingent consideration paid includes amounts currently held as cash deposits on trust by third parties and NVL's ordinary shares issued to vendors which are subject to escrow restrictions. At balance date the probable outcome could not be determined, however it will continue to be assessed at the earlier of the earnout period completion or next reporting period. Should clawback occur, the Group would then receive control over these assets. As at 31 December 2017 total contingent assets amounted to:

- $0.055 million (June 2017: $1.196 million) cash deposits on trust held by third parties, and
- 746,598 (June 2017: 3,847,669) NVL ordinary shares issued.

Contingent liabilities
Cross guarantees of the Group's banking and financing facilities total $44.75 million (June 2017: $44.75 million) of which $29.32 million (June 2017: $25.61 million) was drawn at balance date. Included in the drawn amount above, the Group has bank guarantees outstanding of $1.04 million (June 2017: $0.81 million) at balance date.

The following entities are party to a Deed of Cross Guarantee, whereby the subsidiary companies are relieved from the requirements to prepare a Financial Report and Directors' Report under Class Order 98/1418 issued by the Australian Securities and Investments Commission: National Veterinary Care Ltd, NVC Operations Pty Ltd, NVC Operations NSW Pty Ltd, UVG Holdings Pty Ltd, and UVG (Aust) Pty Ltd.

Note 16. Events after the reporting period

Acquisition of four veterinary clinics in Australia. In January 2018, NVL acquired four veterinary clinics located in existing NVL geographic clusters in Queensland and Victoria. Total consideration for the acquisition was $4.18 million including $3.28 million in cash consideration, $0.32 million in NVL shares and $0.58 million in contingent consideration. The contingent consideration will be payable after 12 months subject to satisfactorily meeting earnout conditions based on EBIT. These new clinics are expected to deliver annualised revenue and EBIT of $4.50 million and $0.79 million respectively. The financial effects of these transactions have not been taken into account at 31 December 2017.

No other matter or circumstance has arisen since 31 December 2017 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 2017 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.

Susan Forrester
Chair

Tomas Steenackers
Director

26 February 2018
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

Conclusion

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 2017, 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.

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 2017 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*.

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 gives a true and fair view and 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 2017 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.

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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.

Independence

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

A B Narayanan
Partner

Brisbane, Queensland
26 February 2018