

Chief Executive's statement

We have successfully delivered across all strategic pillars in 2015 and we look forward to further expansion and profitable growth.



Nick Wood
Chief Executive Officer



I am delighted to report on another year of progress as we continue to deliver on our targets for growth, with strong cash flows allowing us to deliver a dividend payment at the top end of our commitment.

We have seen excellent progress in Advanced Nutrition, a product area that benefits significantly from the specialist knowledge of our highly-trained colleagues and where we have a strong market presence through our private brand, Wainwright's. We have also seen excellent growth in pet services as we rollout new vet practices and groom rooms and the existing estate continues to mature. I am particularly proud of our colleagues whose passion for pets mirrors that of our customers and helps to keep our focus firmly on customer engagement.

Strategic update

Expanding like-for-like growth

VIP club

Our loyalty scheme, VIP club, is a key underpin to like-for-like growth and customer engagement. Analysing our customers' spend, combined with our knowledge of their pet type, breed and age, allows us to send personalised marketing offers across both Merchandise products and Services to grow our share of spend with these customers.

VIP club reached 3.2 million members at year end, adding 1.2 million members during the year, and has over 10.5 million pets registered. VIP card swipe rate represented 65% of revenues captured on store tills in the final quarter of FY15, compared with 52% at the end of FY14. Although the scheme is still immature, we are seeing that VIP members spend more with us the longer they are a VIP member.

Encouraging VIP members' participation in vet and grooming services is a significant opportunity through which we can grow incremental sales. As part of this strategy, we successfully launched the VIP Groom Room Rewards programme during the year, where new VIPs receive a 25% discount on a full dog groom and further discount vouchers after any subsequent grooms.

Product and pricing

Our annual customer survey continues to demonstrate that innovative and unique products are highly valued by Pets at Home shoppers. To ensure our customers are seeing something new and different each time they visit, we have continued to refresh our product range, changing more than 3,100 SKUs (Stock Keeping Units) in the year, representing 44% of the total range. Of those products refreshed, over 40% were private or own labels.

Range expansion and refreshment within Advanced Nutrition is vital for attracting new customers, who are often very brand loyal, as well as offering innovation and choice to our existing customers. We added new brands during the year, such as Meowing Heads, as well as introducing new high protein products, including a private label, Evolution Naturally, and branded alternative, Aatu. We believe there is significant capacity for further growth in Advanced Nutrition, through stocking additional brands, widening our own brand and private label ranges and entering new Advanced Nutrition segments.

During the year we also invested in pricing, widening our ranges to create entry price products in wild bird food, small animal cages and large accessories. In the coming year, we will continue to increase product breadth with lower entry price products in a number of other categories.

Omni-channel

We are on a journey to create a seamless shopping experience, giving our customers access to a wide product range whether they wish to shop in-store, order online, receive their delivery at home or, as is becoming increasingly popular, collect at their convenience in our stores.

During the year, the development of our exclusive online-only product range increased nearly four-fold, taking our online product range to more than 11,500 SKUs, an uplift of more than 4,400 to those in-store. All of the extended range can be ordered for pickup in-store with no delivery charge. Our Click & Collect and Deliver To Store services have been key contributors to omni-channel sales, representing over 40% of online revenues in the final quarter. As part of developing a seamless shopping experience, we implemented the JDA supply chain system in both our distribution centres, which provides a unified view of product across the Group. We also recently launched a dedicated mobile version of our website.

In the year ahead, we will invest in the omni-channel shopping experience through a number of strategic initiatives. We will launch an App for VIP customers which, in its first phase, will give members an electronic copy of their loyalty card and enable promotions and offers to be scanned, removing the need to bring vouchers into store. We are rolling out Wifi across our estate so that ordering from our extended online range can be facilitated by colleagues on PetPads or by customers using their own devices. Ordering from the extended range whilst in-store will also become significantly easier, as we install 'order in store' kiosks and develop digital screens to showcase our extended range. We will also be investing in richer online content and imagery, and additional colleagues and systems to support the seamless shopping strategy.

We are actively evaluating opportunities to further develop and extend our online business organically and through bolt-on acquisitions. Our focus remains on building the UK's leading Pet focussed omni-channel business whilst securing appropriate returns for shareholders.

Chief Executive's statement

continued

Services

Retrofitting of veterinary practices and Groom Rooms to existing stores increases like-for-like Merchandise sales by enhancing our overall proposition, driving store footfall and enabling cross-selling of products. Retrofitting vet practices also offsets a portion of our store property costs through a service charge to the practice for the space occupied. During the year, just over half of both vet practice and Groom Room openings were retrofits into the existing store estate, converting the equivalent square footage of more than six stores into services.

We also commenced a number of strategic initiatives in the Vet Group, to increase like-for-like growth in our existing Joint Venture practice network. These included space extensions to our more mature practices, our first trials of 24/7 opening and extended hours, and the development of our pet care plans to increase customer loyalty and spend.

Engagement

Colleague expertise and engagement is central to our success, creating a great shopping experience for customers and their pets. Our specialist colleagues continue to learn and develop with us, allowing us to maintain our industry leading retention rate of 81% (FY14: 81%). Engagement levels, which we measure through an annual colleague survey, improved to 94% (FY14: 93%).

During the year, customer advocacy measured by a Net Promoter Score, improved again to 86% (FY14: 84%), having risen from 75% in FY11.

Marketing

We returned to TV advertising this year, through the launch of the 'My Pet Moments' campaign, which features crowd sourced clips of our customers' pets, as well as sponsoring 'For The Love Of Dogs', one of ITV's highest rating programmes. Our Vet Group also participated in TV advertising under the Vets4Pets brand. We will continue to invest in our brands and new customer acquisition in the coming year.

Space rollout and footprint development

A key part of the Group's strategy is to increase the number of stores, in-store and standalone veterinary practices, and Groom Room salons. We finished the year with 400 stores; opening 25 new stores, closing one end of lease store, and temporarily closing our Rugby store which will relocate in the first half of FY16. We are becoming increasingly space efficient with new stores, our FY15 openings had smaller ground floor footprints, with 60% receiving a mezzanine floor installation.

We opened 61 vet practices in FY15, bringing the total portfolio to 338. Over half of our store estate now has a vet practice and we remain committed to working towards our eventual target of 90% of stores with a vet practice. Since the financial year end, we have commenced our entry into the specialist referral veterinary care market, acquiring Northwest Surgeons based in Cheshire. The practice specialises in orthopaedic, soft tissue and spinal surgery and internal medicine. Northwest Surgeons will continue to operate as a stand-alone brand and business within our practice network and we will seek to develop a shared ownership model, similar to our joint venture model. We will look to build upon our entry into the specialist referral veterinary market with further standalone acquisitions.

Groom Room openings progressed strongly, with 50 new salons, taking the total number of Groom Rooms to 179.

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

Looking forward, we plan to open at least 20–25 Pets at Home stores, 50–55 vet practices and 55–60 Groom Rooms in the coming financial year. We will also open five Barkers stores, moving to a phase of trialling the concept in other locations across the UK. Barkers is our dog focused local high street format, currently based in one location in Wilmslow, Cheshire. Barkers offers premium and exclusive products, a high end grooming spa and has differentiated brands and merchandising to those available in Pets at Home. In its first year of opening, Barkers of Wilmslow has exceeded our expectations and we view the format as an important strategic asset that reaffirms our specialist credentials in the pet market, giving us access to a valuable customer segment.

Focus on margins

Advanced Nutrition growth and own brand participation are supportive to Merchandise gross margin, which expanded by 19bps to 56.3% in FY15 (FY14: 56.1%).

Own brand and private label products represented 42.6% of store revenues during FY15 (FY14: 42.4%).

Advanced Nutrition revenues grew by 17.2% to £145.4m (FY14: £124.0m), with our private label brand Wainwright's an important contributor, growing by 44.1% to £40.1m (FY14: £27.8m). Wainwright's growth has been boosted by new additions such as Grain Free for dogs and Wainwright's for cats, which were launched in H2 FY14, alongside Grain Free for cats which launched in FY15. Advanced Nutrition now represents 40% of total Food revenues (FY14: 38%).

Services gross margin, which was 32.6% in FY15 (FY14: 26.3%), has expanded through the growing maturity of our veterinary practices and incremental synergies from the integration of Vets4Pets, which was acquired in FY14. We also saw good gross margin expansion in our grooming business through its growing maturity and measures taken to improve profitability across the portfolio.



Looking forward, we will continue to drive Advanced Nutrition growth and participation in the Food business. Whilst we will broaden our own brand and private label ranges to ensure we offer great value to customers, we will not seek to increase their participation at the expense of the brands our customers are loyal to. Within our higher operating margin Services business, as our vet practices mature there is an opportunity for our revenue stream to increase without a significant rise in our cost base, delivering margin leverage. Whilst the Groom Room business is also maturing, the large number of new openings in the past and coming year will continue to moderate margin improvement within Services in the short term.

Investing in the organisation

Our business has grown significantly in recent years and we are continuing to rollout our stores and services at a fast pace. We see significant growth opportunities across the Group and have therefore decided to implement a new management structure to drive performance across the business. Ian Kellett will take up a new role as CEO of the Retail Division. Sally Hopson, previously Customer and People Director and CEO of our Vet Group, will take on an enhanced role as the CEO of the Services Division. Both will report to Nick Wood who, as Group CEO, will continue to focus on overall Group operations and strategy.

The search for a new Group CFO is starting with immediate effect. During this process, Ian Kellett will remain as CFO and commence the transition to his new role.

Nick Wood

Chief Executive Officer
3 June 2014

Specialist veterinary referrals

Making our entry into the referral market

Our Vet Group operates the largest small animal first opinion veterinary practice network in the UK.

Within the veterinary services market, there will be complex patient cases which require treatment that cannot be met within first opinion practice and need to be referred to a specialist practice.

We recently made our entry into the specialist referral market, acquiring Northwest Surgeons based in Cheshire. Northwest Surgeons specialises in orthopaedic, soft tissue and spinal surgery, and internal medicine. This is an important strategic move for us as it offers an opportunity to capture an additional segment of the market. It also means we can further support our Joint Venture Partners with additional expertise from within the Group, underlining our commitment to quality.

Northwest Surgeons will continue to operate as a stand-alone brand and business within our practice network and we will seek to develop a shared ownership model, similar to our joint venture model, in the future.

