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Private Equity Challenge - Pets at Home Valuation

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Abstract

The European pet care market, encompassing pet food, accessories, and veterinary services, has grown significantly to £69bn, with macroeconomic and market trends indicating sustained expansion. This paper evaluates the strategic attractiveness of a private equity investment in Pets at Home (PaH), a leading player in the sector. It outlines five key value creation levers, supported by detailed financial projections, operational enhancements, and a comprehensive LBO model. The analysis concludes with a well-defined exit strategy via IPO. The individual component provides a detailed valuation analysis, triangulating a DCF, SoTP, trading comparables, and precedent transactions to determine PaH's value.

Key words

Private Equity, Pets at Home, Buyout, Valuation, Retail

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I. Group part

1 Executive summary

This investment committee paper evaluates the potential acquisition of Pets at Home (PaH), a leading UK-based pet care provider, by a private equity sponsor. The document outlines the investment thesis, value creation initiatives, business plan, financial projections, and exit strategy, providing a comprehensive analysis to support decision-making.

PaH, headquartered in Handforth, Cheshire, applies an omnichannel approach, operating over 450 retail stores and approximately 440 veterinary clinics. The firm employs 16,000 people and generates £1.48bn in revenue with an EBIT margin of 31% as of FY24. Its business model integrates retail revenues from pet food (55% of total revenues) and accessories (32%) with a growing veterinary services segment (10%), offering diagnostics and other high-margin services. The UK pet care market, valued at £42bn, represents approximately 10% of the European retail market, with the veterinary segment showing particularly strong growth at a CAGR of 4-6%. PaH's market position benefits from trends such as premiumisation and increased pet adoption during the COVID-19 pandemic, which have driven long-term growth. The financial health of PaH has been robust, with its historical (FY20-FY24) retail top-line growth outpacing the overall market at a CAGR of 4.9%. However, margin compression from 20.8% adjusted EBITDA in FY20 to 16.7% in FY24 highlights opportunities for operational improvement and cost optimisation. A valuation based on four methodologies (DCF, SoTP, trading comparables, and transaction comparables) implies an entry EV of c. £2.4bn with an EBITDA multiple of 9.5x, reflecting PaH's market-leading position and resilience. The investment thesis identifies five core value creation drivers: internationalising the veterinary business, introducing new verticals such as cremation and pharmaceutical retail, implementing pricing strategies, strengthening its VIP Club, and targeting operational improvements including workforce optimisation and distribution center integration. The business plan projects

conservative organic growth, with a significant step-up in FY25 driven by international acquisitions, alongside recovering margins. To finance the acquisition, PaH will use 47% debt, primarily in the form of Term Loan B (TLB) and Term Loan A (TLA), with an additional £100m capex facility to fund early bolt-on acquisitions. A sweet equity portion of 0.8% is allocated to management to ensure alignment of interests. An IPO is identified as the most likely and lucrative exit option after a five-year holding period. This paper provides a detailed assessment of the financial, operational, and market factors underpinning this investment, positioning PaH as a compelling opportunity for PE ownership.

2 Pets at Home – Company overview

PaH, headquartered in Handforth, Cheshire, is the UK's leading comprehensive pet care provider. Established in 1991, the company has developed an integrated business model that offers a seamless pet care experience, encompassing retail products, veterinary services, and grooming under a unified brand. With over 450 retail stores, over 440 veterinary practices, and a robust online presence, PaH is supported by approximately 16,000 employees. Since its initial public offering (IPO) in 2014, the firm has been a constituent of the FTSE 250 index, reflecting its stable growth trajectory and solidified market position. Under the leadership of CEO Lyssa McGowan, who brings over 25 years of strategic experience, and CFO Mike Iddon, a seasoned financial executive, the company has strategically positioned itself to align with evolving consumer trends like pet humanisation and premiumisation. Key strategic highlights include market leadership with a 23% share of the £8.2bn UK pet care market, the UK's largest VIP loyalty program with 7.8m active members with a decade of propriety date, and the operation of the most influential branded veterinary business in the UK (Pets at Home Group Plc 2024).

2.1 Retail Business

The retail segment of PaH serves as the foundation of its integrated pet care ecosystem, offering a comprehensive array of pet products, including food, toys, grooming essentials, and

accessories, both online and in-store. This segment contributed 90.1% of the company's revenue (£1,330m) and 59.2% of EBIT (£86.2m) in FY24 (Pets at Home Group Plc 2024).

2.2 Veterinary Business

The veterinary services segment is the second critical component of PaH's integrated pet care ecosystem, combining a strategic network of owned (~59) and unique Joint-Venture practices (~392), delivering preventive care, diagnostics, and routine treatments. This segment contributed 9.7% of the company's revenue (£147m) and 40.8% of EBIT (£59.3m) in FY24. 300 practices are co-located within retail stores, uniquely positioning PaH as a one-stop shop (Pets at Home Group Plc 2024).

2.3 Growth Drivers and Challenges

In retail, key drivers include the integrated omnichannel strategy, premiumisation trends, the VIP loyalty program, and the post-pandemic surge in pet ownership. However, it faces challenges such as rising competition from online retailers, economic pressures, reputational risks, and the need to uphold high animal welfare standards (Roland Berger 2022).

For the *veterinary segment*, growth is fueled by increased pet healthcare spending, advancements in veterinary care, strategic investments in recruitment and training, and the expansion of 24/7 telehealth services. However, the segment faces challenges such as veterinary staff shortages, increasing competition, rising operational costs, regulatory risks like the Capital Market Authority (CMA) investigation (see DD section), and sensitivity to economic downturns (Bain & Company 2024); (Bergmann, et al. 2022); (Cuberes, et al. 2022).

2.4 ESG and Governance

PaH's ESG strategy is built on three pillars: Planet, Pets, and People. *Planet*: Since 2016, the company has achieved a 44% reduction in Scope 1 and 2 emissions and is targeting net zero emissions by 2040. Sustainability initiatives include LED lighting, renewable energy, and a 79% recycling rate. However, only 40% of suppliers are audited for sustainability, underscoring

the need for stronger supply chain oversight. *Pets*: PaH also champions pet welfare through responsible breeding practices, training programs, and partnerships with 420 adoption centers, raising £9.2m for pet rescues through its Foundation. *People*: Staff training and career development especially in veterinary are priorities, with over 800 pet care experts, over 6,000 nutritionists trained, and 16,000+ community hours volunteered. Yet, diversity remains limited, with ethnic representation at 4.9%. *Governance* is robust, with a diverse and experienced board ensuring compliance with legal and regulatory requirements. The company's ESG performance is closely monitored and reported, reflecting its commitment to responsible business practices. Major institutional shareholders, like Schroder Investment Management, demonstrate confidence in the company's future through their significant holdings (Pets at Home Group Plc 2024).

3 Market overview

The European pet market, valued at approximately £69bn, is a dynamic sector characterised by robust growth, evolving consumer preferences, and diverse opportunities. Understanding the underlying commercial fundamentals is vital as they impact the demand and supply dynamics within PaH's market. Thus, this insight is essential for assessing the company's attractiveness as an investment target.

In recent years, the pet care landscape has experienced significant growth, driven by three key factors: (i) increased pet ownership, (ii) pet humanisation, and (iii) longer pet lifespans. As households become smaller and post-pandemic adoptions rise, pet ownership has expanded. This growing pet population, coupled with the trend of pet humanisation – where pets are seen as family members – has led to increased demand for premium products and veterinary services. At the same time, advancements in veterinary care and nutrition have extended pet lifespans, resulting in a greater need for specialised and routine care (Figure 1); (Cuberes, et al. 2022).

To align with these trends and differentiate itself from competitors, PaH has implemented a horizontal integration strategy, providing an omnichannel solution at the retail stage of the value chain, running both veterinary practices and a food and accessories business (Figure 2); (McKinsey & Company 2021).

3.1 Retail market

The pet retail market, comprising 61% of the total European pet market (£42bn), has historically grown at a moderate yet stable CAGR of 2-4%, with the UK contributing 10%. The landscape is hereby highly concentrated amongst only a few players (top 7% account for 79% of market share) (Bergmann, et al. 2022). It is defined by a competition between generalist supermarkets and specialist players like PaH, with more and more online platforms like Amazon entering the market. In the UK, generalists like Tesco dominate with 26% market share, while PaH leads the specialist segment with 22%. However, the rise of e-commerce is reshaping market dynamics, prompting traditional retailers to invest in digital capabilities. Alongside omnichannel retailers, specialised online players are experiencing the fastest growth across all pet supply categories. Already today, the majority of pet supplies are sold online (Roland Berger 2022).

3.2 Veterinary market

The veterinary services market, valued at £13.7bn in 2023 (representing 21% of the pet care market), has historically grown at a faster pace than the retail segment, with growth rates of 4-6%. The UK market, however, has experienced more moderate growth, averaging 4-5% annually due to its maturity. In contrast, regions such as Germany and Italy have seen significantly higher growth rates of 9.4% and 11.4%, respectively. Looking ahead, a similar trend likely continues. While the UK is expected to maintain steady growth of 4.9% annually through 2027, other countries like France are projected to outpace the UK with a growth rate of 6.5% (Figure 3). Alongside this, the UK veterinary services market is distinguished by a high

level of consolidation, with seven major players controlling around 70% of the sector. This includes prominent players such as IVC Evidensia, CVS, and VetPartners, along with PaH's own Vets for Pets, which holds an 11% share. In comparison, markets like France remain more fragmented, with consolidation still in the early stages (Figure 4); (Cuberes, et al. 2022).

Given the UK's relatively saturated market and advanced consolidation, it offers a solid platform. However, for continued expansion, PaH may need to consider exploring opportunities in other regions, where there is greater potential for growth and buy-and-build strategies.

4 Historical financials

Over the past five years, PaH has demonstrated strong top-line growth, with revenues increasing at a CAGR of 8.7%, reaching £1,476.6m in FY2024. This growth is primarily driven by the retail segment, which accounts for over 90% of revenues, led by the food category growing at ~12% annually since FY2020 and reaching £814m in FY2024. Food now represents more than 55% of total revenues, supported by trends (Figure 1), customer loyalty through the Pets Club, and the success of subscription services. In contrast, the veterinary segment, while smaller, has experienced robust growth in profitability, with revenue increasing at ~9.5% annually, driven by the maturation of company-managed practices and integration of telehealth. JV practices have shown slower growth due to their early stage of maturity and the company's strategic focus on existing operations (Figure 5); (Pets at Home 2024).

Cost of sales, comprising 53% of revenues in FY2024, has grown at a 9.8% CAGR, outpacing revenue due to inflation, increased logistics costs, and the transition to a new distribution center in 2023. While selling and distribution costs aligned with revenue growth, administrative expenses stabilised at ~8% of revenues in FY2024, reflecting investments in digital transformation and distribution infrastructure (Figure 6); (Pets at Home 2024).

The retail segment's profitability has been constrained by the dominance of the low-margin food category and rising input costs. Retail EBIT grew at only 1.3% annually from FY2020 to

FY2024, with margins declining to below 10%. In contrast, the veterinary segment has demonstrated superior profitability, with EBIT growing at a 20% CAGR over the same period. This has increased the veterinary segment's share of total EBIT from 20% in FY2020 to nearly 41% in FY2024, supported by synergies from company-managed practices and the divestment of less profitable specialist services that were not in line with the core vet business. (Figure 7); (Pets at Home 2024)

PaH has maintained strong cash flow generation. Maintenance capex has averaged ~3.7% of revenues, with a notable increase in FY2023 due to a £44m investment for the new distribution center. Depreciation and amortisation can be categorised into PPE, Right of Use assets and intangible assets and have been around £100m in recent years. Due to the nature of the retail business, PaH has negative net working capital between (7.4)% in 2020A and (6.1)% in 2024A resulting from inefficiencies due to the migration to the new DC. The company has maintained a strong historical free cash flow (pre-tax) which was about 88.2% of EBITDA in 2024A (Figure 8); (Pets at Home 2024).

5 Valuation

To derive a comprehensive valuation for PaH, we utilised a combination of intrinsic and relative valuation methodologies. The valuation date was set at 31 December 2024, and the analysis is based on the company's base business case, excluding any potential value creation initiatives, under the assumption of continued operations in its current form.

An intrinsic valuation was conducted using a Discounted Cash Flow (DCF) model. A Weighted Average Cost of Capital (WACC) of 8.6% and a perpetual growth rate (PGR) of 3% were employed, consistent with valuation standards. Sensitivity analysis was applied to the WACC (8.1%-9.1%) and PGR (2.5%-3.5%) yielding an implied enterprise valuation (EV) range of £2,167m to £2,470m, corresponding to an EV/2024E EBITDA multiple range of 8.6x to 9.8x.

Given robust cash flow generation capabilities, a 40% weight was attributed to this method. (EIKON 2024); (St. Louis Fed 2024); (Damadoran 2024).

Due to PaH's integrated business model of retail and veterinary services, there are no exact comparables in the market. However, the primary focus on retail enabled the use of a UK retailer peer group. Retailers were categorised into broadline, specialty, apparel, and food, and the EV/2025E EBITDA multiple derived ranged from 5.7x to 8.7x, implying a valuation range of £1,430m to £2,199m for PaH. Moreover, valuations on 2025E EBIT and 2025 EBITDA – Capex yield EVs of £1,655m and £2,180m respectively. Considering the lack of a highly comparable peer, this method was assigned a 10% weight in the final valuation (LSEG, 2024). A SoTP analysis was also conducted, valuing the retail and veterinary segments separately. Utilising a 11.6x EV/2025E EBIT multiple for the retail business (EBIT of £97m) and a 9.5x multiple for the veterinary business (EBIT of £67m), the implied EV ranged from £1,602m to £1,931m. This method was similarly weighted at 10% (EIKON 2024).

To capture the acquisition cost perspective, precedent transaction analysis was undertaken, focusing on 13 European retail transactions since 2014. The derived valuation range values the business between 10.3x and 12.3x 2024E EBITDA. This resulted in an implied valuation range of £2,611m to £3,105m. Given the higher relevance of acquisition multiples for public-to-private transactions, this approach was also weighted at 40% (EIKON 2024).

The resulting median weighted EV is £2,403m, representing an EV/2024E EBITDA multiple of 9.5x. This reflects a 40% premium over the market enterprise value as of 24 November 2024, aligning with typical premiums observed in public-to-private transactions (Figure 9).

6 Investment thesis and Value Creation

PaH, the UK's leading pet care business, presents a compelling investment opportunity within the resilient and growing pet care industry. Leveraging a differentiated model that combines retail, veterinary services, and digital solutions, PaH serves as a comprehensive one-stop

provider for pet owners. Its established brand, omnichannel reach, and integrated ecosystem enable PaH to thrive in a fragmented market characterised by significant growth potential. The industry's structural shift towards pet humanisation, where pets are regarded as family members, underpins resilient demand and sustained spending even during economic downturns. PaH's business model underpins its competitive edge by integrating its retail and veterinary offerings with subscription-based programs like the VIP Club, which enhances customer loyalty and provides valuable data for personalised services. The company's omnichannel strategy, combining a robust online presence with physical stores, ensures convenience and market capture across different customer segments. Meanwhile, the financial profile of PaH is characterised by strong cash flows, revenue visibility from recurring income streams, and opportunities for margin expansion through investments in logistics and operational efficiency.

PaH's value creation strategy is anchored in targeted initiatives that capitalise on its strengths and market dynamics. These include international expansion, grooming business growth, adjacent service offerings, pricing optimisation, expansion of the VIP offering and operational enhancements. The international expansion focuses on France's fragmented veterinary market, leveraging a buy-and-build strategy to consolidate market share and achieve economies of scale. This approach aligns with the company's focus on high-margin veterinary services, bypassing the complexities of the lower-margin retail segment. *The acquisition of Fovéa*, a French network of 47 veterinary clinics, provides a strong foundation for this strategy.

Domestically, it is planned to address "whitespace" in PaH's grooming services by adding salons to viable retail locations and broadening its offerings to include cat and small animal grooming. *The establishment of a Grooming Academy* will ensure the availability of skilled personnel, supporting growth. *Adjacent services*, such as cremation and OTC pharmaceuticals, align with PaH's veterinary business and provide high-margin revenue streams. Complementing the already broad offering of PaH comes with significant capex requirements

towards the early holding period in order to implement the infrastructure of cremation ovens, and the tied distribution. *The pricing strategy* targets both retail and service segments, using data-driven adjustments to optimise top- and bottom-line growth without eroding customer loyalty. This pricing adjustment is a delayed cost pass through of procurement inflation that has manifested post covid. Given the less price sensitive nature of pet owners, a continuous trend towards pet humanisation and premiumisation, tied with pricing expert assessment by strategy consultancy Simon Kucher, this initiative promises success without risking significant customer churn. *The VIP Club value creation initiative* is a key driver of customer loyalty and revenue growth, reinforcing its position as the UK's leading one-stop pet care provider. By FY2024, the Average Customer Value (ACV) for VIP members stood at £178, and the initiative targets a 4% annual growth in memberships via strategies such as referral incentives, personalised marketing, and exclusive offers like "Bring a Friend" discounts and influencer collaborations. *Operational improvements*, including the integration of a new distribution center and workforce optimisation, aim to reduce costs and enhance efficiency. The meticulous assessment of the FT workforce has led to the identification of significant cost cutting potential in customer service and internal overhead function, given the accelerated implementation of AI. Procurement initiatives, such as supplier consolidation and the newly build centralised distribution center, are set to further boost margin improvements. While several *additional initiatives*, including UK veterinary expansion, international retail expansion, growth of the private-label portfolio, focus on e-commerce development, and white-label pharmaceuticals, were evaluated, they were deemed less suitable due to alignment, feasibility, or limited financial impact within the five-year holding period. This disciplined approach underscores PaH's strategic focus on initiatives that align with its strengths, support sustainable growth, and enhance its margin profile, making it an attractive investment with robust mid-term value creation potential.

7 Business plan

The business plan for PaH has been structured in six case scenarios - base-case, upside-case, and downside-case each modeled with and without value creation initiatives. The base case without value creation assumes a conservative approach, projecting a top-line CAGR of 3.3% (2025–2029), driven by slower growth in food revenues compared to market forecasts, steady accessory growth, and services aligned with historical trends. Operational margins remain consistent, with cost of sales as a percentage of revenues returning to 2022 levels and other cost ratios held stable. Notably, impairment gains are excluded, and conservative assumptions are applied to depreciation and maintenance capital expenditure. The inclusion of value creation increases the top-line CAGR from 3.3% to 5.8% and the bottom-line CAGR from 3.8% to 8.8%, reflecting the success of PaH’s margin-accretive strategy through the execution of the value creation initiatives described in more detail in the Investment thesis and value creation section.

8 Financing

The chosen debt structure for the transaction is designed to balance financial stability with growth potential. After extensive scenario analysis, benchmarking against industry debt comps as well as expert interviews with a credit professional, the deal team recommended using £800.0m of debt, roll-over of £380.8m in existing lease liabilities, and £1,327.8m in equity. This provides a strong equity cushion of 53%, mitigating financial risk while supporting attractive returns. The debt consists of Term Loan A (£200m; 0.8x), Term Loan B (£500m; 2.0x), and a Capex Facility (£100m; 0.4x), which aligns with typical transaction structures (TLB \approx 2x TLA), ensuring flexibility for acquisitions and capital expenditures (Figure 10). Interest rates are pegged to 3M-SONIA plus a spread, offering transparency and managing borrowing costs. Financial covenants, including the DSCR and Net Leverage, are ensured to be met with enough headroom to provide lender protection (Figure 11). On the equity side, the structure includes a Fixed Return Instrument (£1,227.8m) and £100m of Ordinary Shares, split

80/20 between institutional investors and management, with management contributing £20m in sweat equity (~2x annual salary). This should serve as strong incentive in order to align interests to support the company's long-term prospects (Lehming 2024); (Debtwire 2024).

9 Returns analysis

The return analysis for the Leveraged Buyout (LBO) of PaH is grounded in several key assumptions and projections. The entry valuation is set at £2.4bn in enterprise value, based on a 9.5x multiple of the FY24E EBITDA of £252m. With a net leverage of 4.1x at entry, rapid deleveraging is anticipated due to the company's strong cash generation capabilities, leading to a net cash position at exit. The base case scenario, including full value creation rollout, projects an exit after a five-year holding period in 2029, yielding a gross IRR of 27.1% and a 3.3x money-on-money (MoM) return (Figure 12). Assuming no multiple expansion, the equity value at exit is estimated at £4,412m, based on a constant multiple of 9.5x applied to the FY29E EBITDA of £469m, and reduced remaining net debt. This results in a return of 24.3% (3.0x) for the financial sponsor and 91.9% (26.1x) for the management. Even in adverse scenarios, such as overpayment at entry or a downside case with reduced value creation, the investment still generates solid returns. An overpayment scenario projects a gross IRR of 19.2%, while a downside case with dropped "Whitespace" value creation levers still returns 19.1%. The investment case is primarily driven by EBITDA growth (~1.5x) and deleveraging (~0.9x), with no assumption of multiple expansion. EBITDA growth, the most significant value driver, is fueled by operational improvements on both the revenue and cost sides, as well as a strategic shift towards the veterinary business through M&A, which diversifies income streams. Deleveraging, facilitated by the business's strong cash generation, is the second strongest value driver. While no multiple arbitrage is considered conservative, a slight improvement might occur given the shift towards the high-margin veterinary business.

10 Exit options

Several exit options have been assessed, including strategic sale, secondary buyout, breaking up the company into retail and veterinary segments (SoTP), and an Initial Public Offering (IPO). Ultimately, the IPO option emerges as the most viable and attractive strategy for PaH, as it presents a long-term value creation opportunity. The IPO will enable the company to secure independence, enhancing its future financial flexibility. This option is expected to attract significant investor demand due to PaH's compelling equity story, which is supported by its integrated omnichannel business model, strong market share, and growth prospects. A staged sell-down approach in an IPO allows the company to benefit from potential future share price growth, further enhancing long-term value. Although the IPO may not provide a complete exit for all stakeholders, it offers the best potential for long-term capital appreciation. Given the limitations of strategic buyers, the restricted value add-ons from potential experienced sponsors, and the loss of branding synergies associated with a SoTP approach, the IPO is the most appropriate pathway to unlock the company's growth and maximise shareholder value.

11 Due diligence

Due diligence (DD) has been conducted across various key areas of PaH's business, including:

- *Commercial*: Market attractiveness, competitive landscape, customer segmentation
- *Financial*: Review of sales, quality of earnings, and projected capex schedules
- *Legal*: Corporate structure, litigation, and regulatory compliance
- *Tax*: Review of tax structure and historical compliance
- *Operational & IT*: Supply chain analysis and tech capabilities
- *ESG*: Sustainability reporting, governance, and talent retention

A comprehensive risk assessment and mitigation analysis have been conducted across several DD areas, including three in-depth examinations. *The first* focuses on the *Capital Market Authority (CMA) investigation* into veterinary sector transparency regarding ownership, referrals, and pricing, driven by rising customer costs. The analysis concludes that the CMA

investigation is unlikely to impact PaH significantly, owing to its unique Joint Venture model that promotes independent ownership by veterinary partners, thereby ensuring transparency and aligned interests. *The second deep dive* investigates the *historical margin contraction* from FY22 onwards. The findings indicate that the primary reasons for this decline are margin dilution due to the lower-margin food segment compared to higher-margin accessories and services in the retail business, as well as increased energy prices and price inflation leading to higher costs of goods sold (COGS). However, it is anticipated that a rebound in higher-margin segments like accessories, along with the passing through of costs as inflation stabilises and the resurgence of consumer spending, will mitigate further margin decline.

The final deep dive involves a *market analysis due to increasing competition*, particularly from online-only players. Despite the intense competition in the pet care market, PaH is well-positioned to defend its market share and manage slowing demand. This is attributed to its broad and convenient offering, as well as favorable industry trends such as pet humanisation, premiumisation, and enhanced customer experience across the pet lifecycle, all of which positively impact PaH's business model.

II. Individual Part – Maximilian Ralph Raddue

Pets at Home Valuation

Pets at Home was valued as of 31 December 2024 using a multi-methodological approach, yielding an EV of £2,403m, corresponding to a 9.5x multiple of our forecasted December 2024 EBITDA. This comprehensive analysis ensures robustness by triangulating insights from four distinct valuation methodologies: Discounted Cash Flow (DCF), Sum of the Parts (SOTP), Trading Comparables, and Precedent Transactions. Below, methodologies employed, and their respective implications are described in further detail. Importantly, the valuation is based on the company's standalone operations, with no adjustments made for potential value creation from future strategic initiatives.

1 Discounted Cash Flow Analysis

The Discounted Cash Flow method is highly appropriate for valuing Pets at Home as it captures the intrinsic value of the business by focusing on its capacity to generate future cash flows. This approach is particularly well suited to a mature yet structurally growing market like pet care, characterized by recurring revenue streams such as subscription plans and highly predictable cash flows. These attributes, coupled with the company's leading position in the market, allow the DCF to effectively account for its long-term value creation. The range used starts in December 2024 and ends in 2030 with the terminal year thereafter.

1.1 Calculation of the Weighted Average Cost of Capital (WACC)

The WACC, calculated at 8.56%, serves as the discount rate for the DCF analysis, reflecting the company's cost of financing. It incorporates the weighted contributions of equity and debt in the target capital structure and adjusts for the risks and returns associated with each component. This ensures that the DCF appropriately balances the expectations of both equity investors and debt holders.

The cost of equity is derived using the Capital Asset Pricing Model (CAPM), to quantify the return required by equity investors. Several critical inputs underpin this calculation:

- **Risk-Free Rate:** The UK 10-year government bond yield of 4.20% serves as the risk-free rate, representing the baseline return on a zero-risk investment and is applicable as Pets at Home is solely operating in the UK. (St. Louis Fed 2024)
- **Equity Risk Premium (ERP):** Set at 5.84%, the ERP reflects the additional return investors demand for assuming the risks of equity markets. This figure is aligned with UK equity market conditions and based on data from Aswath Damodaran (2024), a professor at NYU Stern who is regarded as one of the most knowledgeable academic in valuation research.
- **Beta:** The beta measures the company's sensitivity to broader market fluctuations. An unlevered beta of 0.86 was derived from a peer group of UK retailers, representing the business specific risks excluding financial leverage. We relever this beta on the average peer group debt-to-equity ratio of 63.2% (or 33.5% debt-to-value), which we identified as the target leverage ratio, yielding a levered beta of 1.18. (Figure 13)

These components combine to yield a cost of equity of 10.68%, which represents the return equity investors expect for funding Pets at Home's operations and growth initiatives.

The cost of debt reflects the effective interest rate Pets at Home pays on its borrowings, adjusted for the tax shield provided by the deductibility of interest expenses. The company's implied credit rating, based on its interest coverage ratio of 6.78, is assessed as A2/A equivalent. This credit rating translates into a default spread of 1.07%, which, when combined with the UK credit default spread of 0.51%, results in a debt premium of 1.58% (Damadoran 2024). Adding this premium to the risk-free rate produces a pre-tax cost of debt of 5.78%. After applying the UK corporate tax rate of 25% (Pets at Home 2024), the post-tax cost of debt is reduced to 4.33%.

As explained earlier, the target capital structure for Pets at Home is estimated at 66.5% equity and 33.5% debt based on the retailer peer group that is analysed in the transaction comparables chapter. This balance reflects the optimal financing mix to support the company's long-term growth while minimizing its overall cost of capital. By integrating the cost of equity and the post-tax cost of debt in these proportions, the WACC is calculated at 8.56%. (Figure 14)

1.2 Terminal Value and DCF Valuation

The perpetual growth rate (PGR), applied in the final year of the DCF model, is set at 3%, a figure consistent with industry norms and reflective of the pet care sector's structural growth prospects. This incorporates underlying market trends such as the pet humanisation, increasing demand for premium products, and growth in subscription based revenue streams. The sum of the discounted cash flows amounts to £720.4m (31% of EV) and the terminal value is at £1,584 (69% of EV), yielding a valuation of £2,304m. To account for variability in assumptions, the DCF valuation was sensitized across a range of scenarios. Sensitivity analysis considered a PGR between 2.5% and 3.5% and a WACC range of 8.1% to 9.1%. This comprehensive analysis ensures robustness in the valuation outcomes and highlights the potential impact of changes in key assumptions. The range used in the final valuation is between £2,167m (25th percentile of sensitivity) and £2,470m (75th percentile of sensitivity). (Figure 15)

2 Trading Comparables

Trading comparables provide a market-based perspective aligning the company's valuation with industry benchmarks and investor expectations. This approach contextualizes its performance within broader retail and pet care markets, capturing both real-time market dynamics and forecasted industry and consumer trends.

Due to the absence of a direct public competitor with Pets at Home's unique business model, the peer group focuses on UK retailers, reflecting the company's exclusive market operations within the UK. This selection acknowledges the distinct regulatory frameworks, consumer

preferences, and competitive dynamics of the UK market. Factors such as pet ownership trends, spending behaviours, and the availability of veterinary services are highly localized, making comparisons with global pet retailers or veterinary service providers less applicable. By focusing on UK-based retailers, the peer group provides a realistic benchmark for Pets at Home's operating environment.

To provide a nuanced analysis, we divided the peer group into four retail sub-sectors: broadline retailers, specialty retailers, apparel retailers, and food retailers. This classification accounts for complementary aspects of Pets at Home's operations and offers insights into its financial and strategic positioning.

2.1 Broadline Retailers

Broadline retailers such as Kingfisher, Marks & Spencer (M&S), Travis Perkins, Howdens, and Wickes provide useful benchmarks for Pets at Home's scale, omnichannel strategies, and customer acquisition efforts. For instance:

- **Kingfisher:** A broadline retail model leveraging economies of scale and extensive store networks aligns with Pets at Home's large-scale operations and omnichannel investments.
- **M&S:** Known for brand loyalty and premiumization, M&S parallels Pets at Home's strategy of fostering customer loyalty through high quality products and services.
- **Travis Perkins:** Combines trade and retail operations, offering insights into supply chain efficiencies relevant to Pets at Home.
- **Howdens:** A specialist in kitchen and joinery markets, Howdens mirrors Pets at Home's targeted customer segmentation and service driven model.
- **Wickes:** A discount retailer focusing on affordability and omnichannel services, similar to Pets at Home's cost efficient and integrated pet care offerings.

2.2 *Specialty Retailers*

This group comprises WH Smith, Halfords, Dunelm, Card Factory, and DFS, which operate in niche markets, akin to Pets at Home's focus on pet care. These peers demonstrate category leadership and customer loyalty strategies:

- **WH Smith:** With strong brand recognition and diversification, it aligns with Pets at Home's efforts to expand into veterinary care and strengthen consumer engagement.
- **Halfords:** Known for cross-selling loyalty and programs, Halfords reflects Pets at Home's integrated ecosystem approach to driving repeat purchases.
- **Dunelm:** Focuses on fostering customer loyalty through repeat engagement, mirroring Pets at Home's efforts in subscription plans and VIP club strategies.
- **Card Factory:** Specializes in high-volume, lower-cost items, offering a parallel to Pets at Home's accessory and consumable segments.
- **DFS:** Provides insights into managing high-value, durable goods, comparable to Pets at Home's premium veterinary services and specialized products.

2.3 *Apparel Retailers*

N Brown Group, Next, and Associated British Foods (Primark) share operational similarities with Pets at Home in inventory management, branding, and consumer engagement:

- **N Brown Group:** Emphasizes e-commerce and data-driven strategies, comparable to Pets at Home's investments in digital platforms and omnichannel capabilities.
- **Next:** A leader in customer retention and multi-channel strategies, aligning with Pets at Home's efforts to integrate retail, services, and customer loyalty programs.
- **Primark:** Relies on a low-cost, high-volume model, reflecting operational efficiencies similar to Pets at Home's private-label product strategies.

2.4 *Food Retailers*

Pet food is a significant revenue stream for Pets at Home, making grocery retailers like Tesco and Sainsbury's relevant peers:

- **Tesco:** Offers insights into large-scale logistics, private-label branding, and customer loyalty programs, directly applicable to Pets at Home's food and consumables segments.
- **Sainsbury's:** Provides benchmarks for pricing, private-label strategies, and supply chain management, paralleling Pets at Home's approach to pet food and accessories.

2.5 *Excluded Peers and Rationale*

Global pet retailers and veterinary service providers, including North American firms like Pet Valu and PetCo, were excluded due to differing market dynamics and regulatory frameworks. Similarly, CVS Group, a UK-based veterinary services provider, lacks the retail integration necessary for direct comparability. While Finland-based Musti Group might have been a suitable peer, it was recently taken private.

2.6 *Valuation Multiples and Analysis*

While for the final valuation, a range between the 1st and 3rd quartile was used, the peer group's trading multiples provide additional key insights (Figure 16):

- **EV/2025E EBITDA:** Food retailers trade at an average of 5.8x, reflecting lower growth expectations and margins. Broadline retailers trade at 6.6x, while apparel retailers command the highest multiples at 8.2x, driven by premiumization and capital expenditure.
- **EBIT Multiples:** Valuations converge across sectors, ranging from 10.3x (food) to 11.5x (broadline), highlighting profitability consistency among peers.
- **EBITDA-Capex Multiples:** Apparel retailers lead due to higher capital expenditure requirements, underscoring Pets at Home's relatively balanced investment profile.

Moreover, historical analysis reveals that Pets at Home has traded at 6.5x EV/NTM EBITDA over the past year, below UK broadline (6.9x) and apparel (8.7x) retailers but above specialty (5.8x) and food retail (5.8x). Over a decade, its 9.0x average valuation aligns closely with UK apparel (9.2x) and exceeds broadline (8.4x) and specialty retail (8.8x). The premium reflects its stable cash flows, dominance in the less cyclical pet care market, and resilience during macroeconomic pressures. Especially, during Covid, valuations spiked again due to the increased pet demand. Pets at Home's IPO multiple of 13.8x in 2014 underscores its strong financials at the time, with current valuations impacted by an economic downturn and regulatory concerns due to the CMA investigation. (Figure 17)

3 Sum of the Parts Analysis

Valuing Pets at Home using a SOTP provides valuation insights by separately assessing its distinct business segments - retail and veterinary services. This method is particularly relevant given the complementary yet distinct nature of these segments, in terms of financials, regulations and market dynamics which collectively drive the company's overall value proposition.

To ensure a robust valuation, segmental profits were assessed on an EBIT basis, consistent with Pets at Home's historical financial disclosures. As a market-based valuation, the methodology employs a forward-looking 2025E EBIT multiple, leveraging the segmental EBIT contributions from FY2024 as a foundation. Based on historical data, the retail segment is projected to contribute approximately 59% of the total EBIT, while veterinary services account for the remaining 41%. The total calendarized FY2025E EBIT of £164.1m was allocated based on these percentages, resulting in £96.8m for retail and £67.3m for veterinary services.

For the retail segment, the previously discussed peer group of UK retail companies was selected, reflecting Pets at Home's operational scale, omnichannel strategy, and competitive

positioning in the domestic market. Based on this peer group, a median 2025E EBIT multiple of 11.6x was applied, resulting in an Enterprise Value of £1,132m for the retail business.

The veterinary business was valued using CVS Group as the primary comparable. As one of the largest and the only listed operator of veterinary clinics in the UK, CVS represents the closest peer to Pets at Home's veterinary services, which rank as the second-largest in the country. A 2025E EBIT multiple of 9.5x was applied, yielding an EV of £635m for the veterinary business. It is important to note that CVS's valuation is currently influenced by the ongoing CMA investigation into the veterinary market, which has depressed its trading multiple. Historically, CVS traded at higher multiples, indicating potential upside for PaH's veterinary valuation if the investigation outcome is favourable and regulatory pressures ease.

By combining the retail and veterinary segment valuations, Pets at Home achieves a blended EV/2025E EBIT multiple of 10.8x, resulting in a total Enterprise Value of £1,767m. This blended multiple reflects the weighted contribution of the two segments, capturing the synergies of their integrated operations while acknowledging their distinct market dynamics. (Figure 18) Despite current macroeconomic pressures and regulatory challenges in the veterinary market, the SOTP valuation underscores Pets at Home's potential for value appreciation. The veterinary segment, in particular, offers upside potential once regulatory uncertainties are resolved, which could lead to multiple expansions in line with historical trading levels. Similarly, the retail segment's focus on omnichannel growth and private-label offerings supports sustained profitability and market leadership.

4 Precedent Transactions

Precedent transactions are a critical valuation methodology for Pets at Home, offering market-based evidence of the valuation multiples applied in similar deals. This approach provides valuable insights into the premiums paid for businesses with strong market positions and brands as well as synergies across multiple revenue streams.

Pets at Home's purchase by KKR in 2010 at a 13.6x EV/EBITDA multiple acts as a useful reference point but is not included in our rationale. This acquisition occurred when Pets at Home was a less mature company, underscoring the premium associated with its market potential, albeit under different market conditions.

4.1 Identifying Comparable Transactions

Precedent transactions were filtered to align with Pets at Home's industry, geography and scale using LSEGs platform (2024). This approach ensured the transactions selected were directly comparable, reflecting similar market dynamics and strategic motivations.

1. **Industry:** Precedents were drawn from sectors such as Miscellaneous Retail Trade, Retail Trade-Food Stores, Retail Trade-General Merchandise and Apparel, and Retail Trade-Home Furnishings. These sectors align with Pets at Home's main operations, encompassing retail, pet food, and associated services.
2. **Timeframe:** Transactions announced between 1 September 2014 and 13 September 2024 were included. This ten-year window captures various economic cycles and market conditions, ensuring the selected transactions reflect contemporary valuations.
3. **Geographical Scope:** Western European transactions were prioritized, with an emphasis on the UK, ensuring comparability in regulatory, economic, and consumer environments. Pets at Home's exclusive UK operations make this geographical focus particularly relevant.
4. **Enterprise Value:** Only deals with an enterprise value exceeding £500m were considered, ensuring a comparable scale to Pets at Home. Jollyes, a smaller UK competitor, was included as an exception due to its direct relevance to the pet care market.
5. **Deal Type:** The analysis focused on M&A transactions with disclosed transaction values, ensuring transparency and providing robust valuation multiples.

4.2 Key Comparable Transactions

- **Zooplus (63.0x EV/EBITDA, 2021):** Online pet retailer that was taken private in a bidding war amongst sponsors, driving up the price. EV / LTM Revenue multiple with 1.7x c. twice group average (0.8x) but less extreme than EV / EBITDA. Another crucial factor were the then elevated pet industry valuations driven by Covid.
- **Musti Group (13.8x EV/EBITDA, 2014):** Musti, a Nordic pet care retailer, parallels Pets at Home with its integrated business model combining retail and pet services. This public to private acquisition highlights the valuation of regional market leaders in the pet care sector. The transaction's multiple of 13.8x reflects Musti's diversification across product and service offerings, akin to Pets at Home's ecosystem of retail, veterinary, and grooming services.
- **Jollyes (9.1x EV/EBITDA, 2024):** Jollyes, a direct competitor in the UK pet care market, offers the most relevant benchmark for Pets at Home. Despite its smaller scale, Jollyes shares Pets at Home's customer demographics and market conditions. While it is not a listed company, its valuation multiple of 9.1x provides a baseline for UK-specific pet care transactions.

4.3 Median and Range of Precedent Transactions

Across the precedent transactions peer set, the overall median multiple is 11.0x EV/EBITDA, with an average of 14.0x. The average is skewed by Zooplus's outlier valuation, reflecting its unique circumstances. For UK transactions specifically, the median is 10.3x, and the average is 9.5x. These figures account for the slightly lower multiples typically observed in the UK market compared to broader European trends.

The pet care industry's median multiple is higher at 13.8x, reflecting the premium associated with integrated pet care businesses like Musti. Using these data points, the lower bound of Pets at Home's valuation range is anchored at the UK median (10.3x), while the upper bound aligns

with the third quartile of the broader peer set (12.3x). This range implies an Enterprise Value of £2,611m to £3,096m for Pets at Home. (Figure 19)

5 Valuation Synthesis

The enterprise value of £2,403m for Pets at Home is the result of a carefully weighted approach across multiple valuation methodologies, each selected for its relevance and robustness. Specifically, the valuation assigns a 40% weight to both the DCF analysis and Precedent Transactions, reflecting their strength in capturing the intrinsic and market-based valuation perspectives. SOTP and Trading Comparables contribute 10% each, providing additional context through segmented and peer-relative analyses. We regard them as less relevant, as Pets at Home has a unique business model that has no direct comparable, and the market is currently valued rather low compared to historic levels. Therefore, this comprehensive weighting ensures a balanced perspective on Pets at Home's financial and strategic position.

The resulting EV corresponds to a multiple of 9.5x the forecast FY2024 EBITDA of £252m, which was used as the entry multiple in our LBO valuation. This valuation incorporates a 40% premium above the market enterprise value as of 24 November 2024, which stood at £1,720m (derived from a market capitalization of £1,352m and net debt of £369m). The premium is justified by the DCF and precedents that indicate a considerably higher amount to be paid than trading multiples. (Figure 9)

The 40% premium aligns closely with historical trends in take-private transactions led by private equity buyers, where the median premium paid is approximately 39.8%. (Figure 20) This demonstrates that the valuation is both realistic and consistent with industry benchmarks and captures the upside potential in Pets at Home's business model.

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Appendix

Figure 1: Overview of key market trends









		Description	Impact on market
1		Pet population penetration	
		<ul style="list-style-type: none"> Long-term demographics trends in Western and Southern Europe, e.g. having fewer kids and at older age, support a gradual increase in pet ownership penetration One time penetration increase due to increased pet purchases during COVID 	<ul style="list-style-type: none"> Increasing pet population partially supported by COVID leads to substantial uptick in veterinary service demand throughout the next 2-10 years (due to higher demand towards the end of pet's lives)
2		Pet humanisation	
		<ul style="list-style-type: none"> In countries where pets are treated as family members, pets are taken to vets more often compared to countries where pets are treated as animals Survey indicates an increasing share of humanisation which has been fuelled by perceived loneliness throughout the COVID lockdown period, with an increasing share of owners letting pets sleep in their bed 	<ul style="list-style-type: none"> Increasing share under regular care, increased frequency of vet visits, and increasing share of more expensive complex care
3		Pet life expectancy	
		<ul style="list-style-type: none"> Avg. life expectancy of pets are increasing, which is both an effect of and further increasing # of vet visits and spend per pet – pets in older age groups typically have more complex conditions and need more frequent and advanced treatments 	<ul style="list-style-type: none"> Older pets have higher vet visit frequency and require more expensive complex and specialist care
4		Insurance & health plan penetration	
		<ul style="list-style-type: none"> Pet owners with insurance and/or health plans tend to spend more on vet services as they become less price sensitive and visit vet more frequently Market participant results indicate trend of increasing penetration of insurance and health plans continuing across most countries 	<ul style="list-style-type: none"> Pets with insurance or health plan have higher vet visit frequency with more preventative and specialist care, owners become less price sensitive, and lifetime spend becomes more consistent
5		Growth of (specialist) care	
		<ul style="list-style-type: none"> Specialist care (e.g. referral centres, 24h emergency rooms) are becoming more profitable and outgrowing generalist segment Treatments are more complex and typically more expensive than generalist care. Care in general is partially driven by the regulatory environment – e.g. as of 2024 all cats in the UK are required to be microchipped 	<ul style="list-style-type: none"> Increasing number of visits as pets receive care for more complex conditions and live longer, and spend as specialist treatments are significantly more expensive
6		Premiumisation	
		<ul style="list-style-type: none"> Tied to the humanisation of pets, there is a notable premiumisation trend mainly related to food, as owner treat pets like family members (i.e. high-quality food, non-processed food, and premium services) Owners become increasingly sophisticated - considering ingredients, health implications and sustainability 	<ul style="list-style-type: none"> Leads to higher willingness to pay for products and services in the premium segment and by that increase the overall market size
7		Like-for-like price development	
		<ul style="list-style-type: none"> Like-for-like prices for treatments are expected to be gradually increasing, partly driven by the consolidation as vet chains implement more professionalised pricing practices At the same time, pressure from insurance companies and customers to reduce prices 	<ul style="list-style-type: none"> Gradually increasing as vets professionalize pricing In some countries, pressure to reduce or stop price increases
8		Online shopping of medicine and food	
		<ul style="list-style-type: none"> Medicine, food & other product sales are increasingly moving to online channels (although still a small share), accelerated by Covid-19 as pet owners were encouraged to stay home While leading to more competition for clinics, vet chains with well-established online channels are in strong position to capture share 	<ul style="list-style-type: none"> Increasing spend per pet from up-selling as basket size typically increases online Potentially decreasing price level and increased competition against other suppliers

Figure 2: Pet care value chain

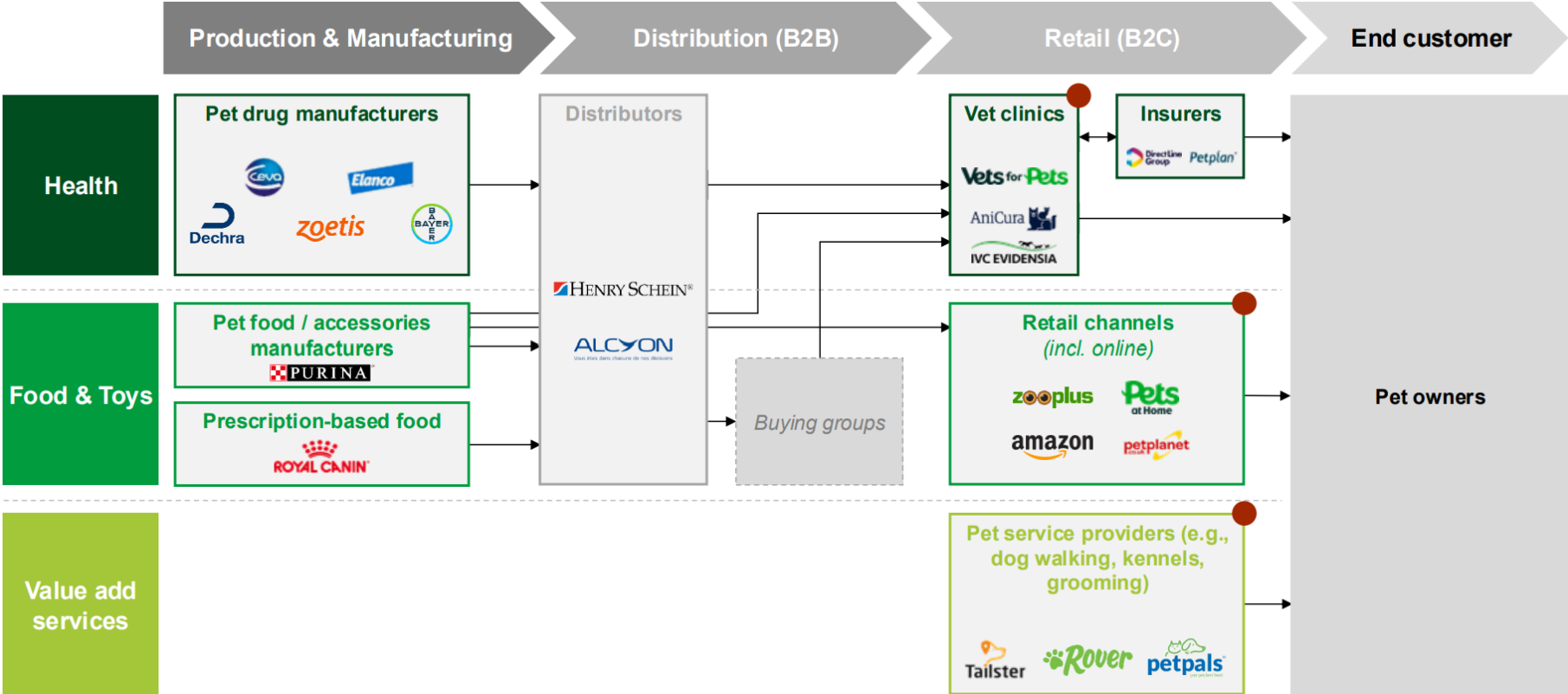


Figure 3: Vet market size & growth

Vet Services market in focus countries
(2017-2027F, in £B)

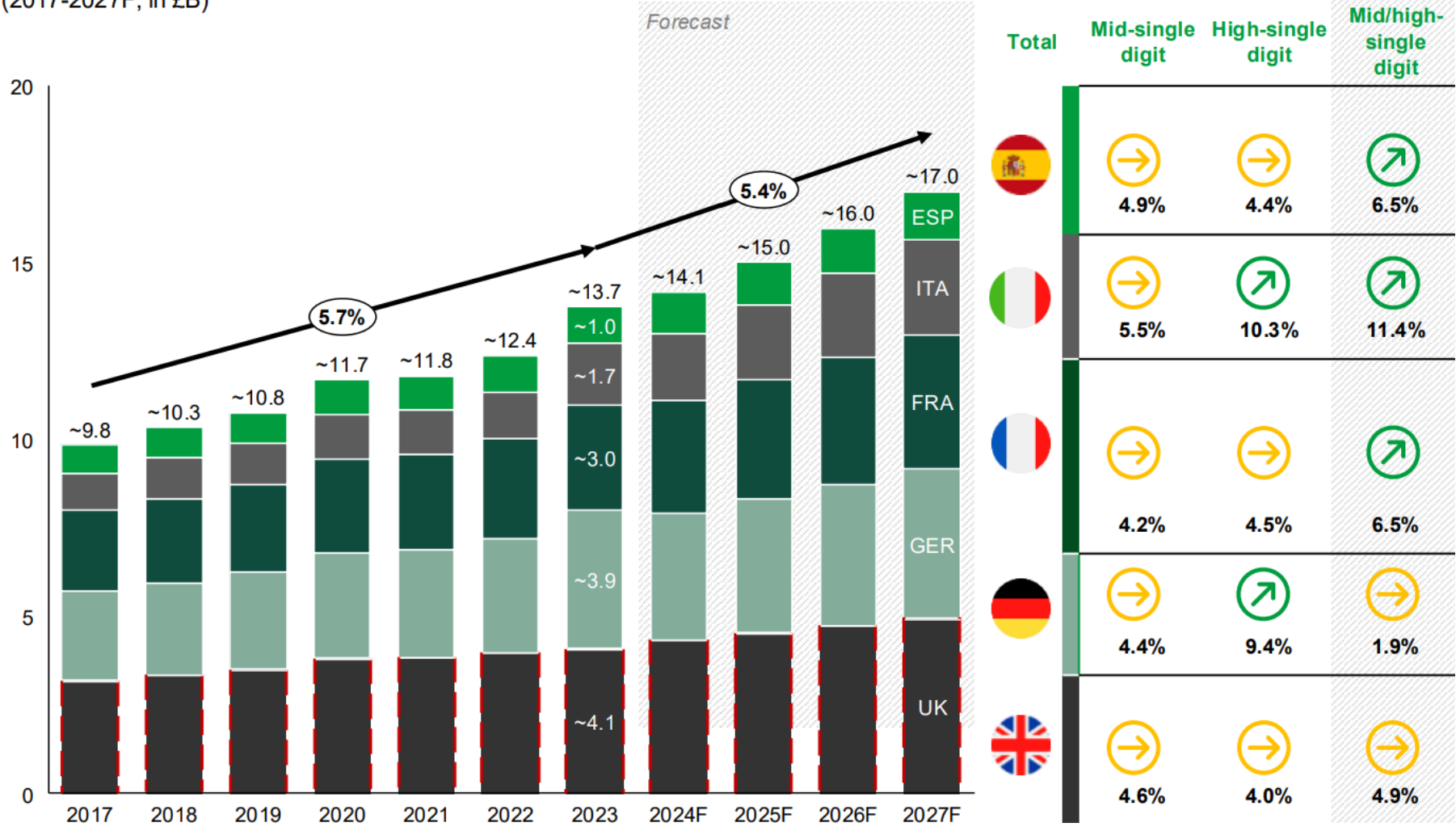


Figure 4: Competitive overview UK vet market

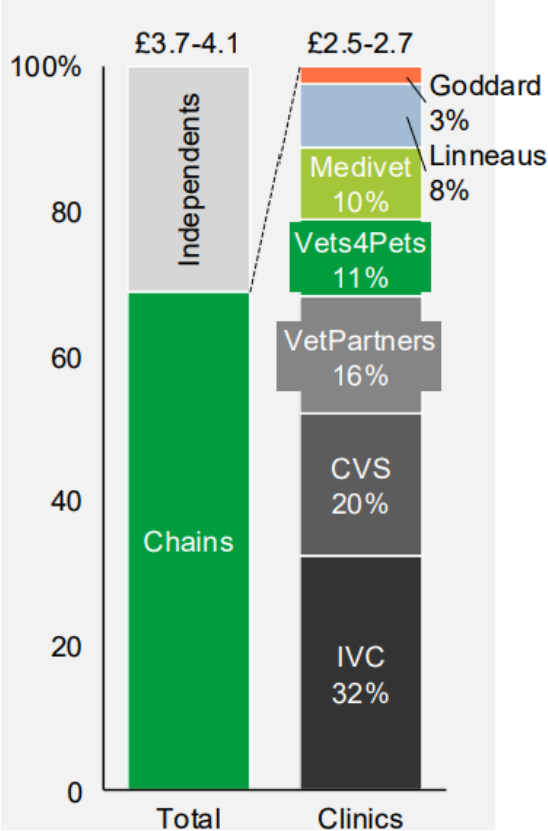


Figure 5: Top Line Growth

(in £m)	Actuals					CAGR 20-24A
	FY2020	FY2021	FY2022	FY2023	FY2024	
Retail						
Food	517.4	551.5	668.8	744.8	814.2	12.0%
Accessories	375.3	431.4	490.6	486.4	465.5	5.5%
Services	44.9	36.0	47.5	47.5	50.4	2.9%
Total retail revenues	937.6	1,018.9	1,206.9	1,278.7	1,330.1	9.1%
Vet						
JV fee income	93.4	90.9	69.9	77.2	89.3	(1.1%)
Company managed practices	21.6	25.5	31.2	37.5	44.6	19.9%
Other ¹⁾	6.2	7.5	9.8	10.8	12.6	19.4%
Total vet revenues	121.2	123.9	110.9	125.5	146.5	4.9%
Total revenues	1,058.8	1,142.8	1,317.8	1,404.2	1,476.6	8.7%
In % of total revenues						
Food	48.9%	48.3%	50.8%	53.0%	55.1%	
Accessories	35.4%	37.7%	37.2%	34.6%	31.5%	
Services	4.2%	3.2%	3.6%	3.4%	3.4%	
JV fee income	8.8%	8.0%	5.3%	5.5%	6.0%	
Company managed practices	2.0%	2.2%	2.4%	2.7%	3.0%	
Other ¹⁾	0.6%	0.7%	0.7%	0.8%	0.9%	
Total Vet Revenues (incl. JV)	351.3	376.8	457.1	492.9	563.6	12.5%
Joint venture fee income	(53.8)	(57.0)	(69.9)	(77.2)	(89.3)	13.5%
% of total vet practices revenue	15.3%	15.1%	15.3%	15.7%	15.8%	
Revenue by company managed practices	(21.6)	(25.5)	(31.2)	(37.5)	(44.6)	19.9%
% of total vet practices revenue	6.1%	6.8%	6.8%	7.6%	7.9%	
JV revenues (without PaH share)	275.9	294.3	356.0	378.2	429.7	11.7%
% of total vet practices revenue	78.5%	78.1%	77.9%	76.7%	76.2%	
Consumer revenues²⁾						
Group revenue	1,058.8	1,142.8	1,317.8	1,404.2	1,476.6	8.7%
% of consumer revenue	79.3%	79.5%	78.7%	78.8%	77.5%	
Total vet revenues	275.9	294.3	356.0	378.2	429.7	11.7%
% of consumer revenue	20.7%	20.5%	21.3%	21.2%	22.5%	
Consumer revenue	1,334.7	1,437.1	1,673.8	1,782.4	1,906.3	9.3%
Subscription revenue	93.9	90.0	100.4	119.4	190.6	19.4%
% of consumer revenue	7.0%	6.3%	6.0%	6.7%	10.0%	

Figure 6: Cost Structure

(in £m)	Actuals					CAGR 20-24A
	FY2020	FY2021	FY2022	FY2023	FY2024	
Total revenues	1,058.8	1,142.8	1,317.8	1,404.2	1,476.6	8.7%
Total costs						
Cost of sales	(540.0)	(583.2)	(670.6)	(729.6)	(785.3)	9.8%
Selling and distribution expenses	(313.8)	(321.0)	(393.9)	(416.1)	(442.2)	9.0%
Administrative expenses	(92.8)	(142.0)	(121.2)	(121.0)	(116.3)	5.8%
Payroll costs	(227.5)	(254.4)	(264.8)	(293.5)	(317.7)	8.7%
% of selling and distribution & Admin. Exp.	56.0%	54.9%	51.4%	54.6%	56.9%	
Total Employees	9,561	10,004	10,795	11,377	12,031	5.9%
Payroll costs per employee	0.024	0.025	0.025	0.026	0.026	2.6%
Total costs	(946.6)	(1,046.2)	(1,185.7)	(1,266.7)	(1,343.8)	9.2%
In % of total revenues						
Cost of sales	(51.0%)	(51.0%)	(50.9%)	(52.0%)	(53.2%)	
Selling and distribution expenses	(29.6%)	(28.1%)	(29.9%)	(29.6%)	(29.9%)	
Administrative expenses	(8.8%)	(12.4%)	(9.2%)	(8.6%)	(7.9%)	
Total	(89.4%)	(91.5%)	(90.0%)	(90.2%)	(91.0%)	
Other income and expenses ¹⁾	(0.9)	(0.8)	12.4	12.2	12.7	
Adj. EBIT	111.3	95.8	144.5	149.7	145.5	6.9%
% margin	11%	8%	11%	11%	10%	
PPE Depreciation	28.3	26.9	25.4	25.7	26.5	
% of PPE	22.9%	23.0%	25.5%	24.0%	20.9%	
RoU assets depreciation	71.1	70.3	69.7	66.8	65.1	
% of RoU assets	15.0%	16.5%	18.9%	19.8%	19.1%	
Intangibles amortization	9.9	8.2	8.8	9.8	10.1	
% of intangibles	1.0%	0.8%	0.9%	1.0%	1.0%	
Total D&A	109.3	105.4	103.9	102.3	101.7	
Adj. EBITDA	220.6	201.2	248.4	252.0	247.2	2.9%
% margin	20.8%	17.6%	18.8%	17.9%	16.7%	
Net Income	74.9	61.6	105.8	112.0	98.9	7.2%
Excluded non-recurring expenses and gains						
Non-recurring cost of sales	(6.9)	0.6	0.1	-	-	
Non-recurring Impairment gain / (loss) on receivables	0.3	-	-	-	-	
Profit on disposal of subsidiary	-	30.2	19.2	-	-	
Non-recurring selling and distribution expenses	-	-	-	(10.1)	(21.4)	
Non-recurring administrative expenses	(1.0)	(1.9)	-	(2.8)	(4.8)	
Adj. for Depreciation and Amortisation in non-recurring items	-	-	-	1.1	7.9	

Figure 7: Segment Analysis

(in £m)	Actuals					CAGR 20-24A
	FY2020	FY2021	FY2022	FY2023	FY2024	
Total revenue	1,058.8	1,142.8	1,317.8	1,404.2	1,476.6	8.7%
Total EBITDA	220.6	201.2	248.4	252.0	247.2	2.9%
Total EBIT	111.3	95.8	144.5	149.7	145.5	6.9%
Retail						
Revenue	937.6	1,018.9	1,206.9	1,278.7	1,330.1	9.1%
% growth		8.7%	18.5%	5.9%	4.0%	
EBITDA	186.0	162.9	202.5	na	na	na
% margin	19.8%	16.0%	16.8%	-	-	
EBIT	81.7	63.1	102.2	98.7	86.2	1.3%
% margin	8.7%	6.2%	8.5%	7.7%	6.5%	
Vet						
Revenue	121.2	123.9	110.9	125.5	146.5	4.9%
% growth		2.2%	(10.5%)	13.2%	16.7%	
EBITDA	34.7	38.3	45.9	na	na	na
% margin	28.6%	31.0%	41.4%	-	-	
EBIT	29.6	32.7	42.3	51.0	59.3	19.0%
% margin	24.4%	26.4%	38.1%	40.6%	40.5%	
In % of total revenues						
Retail	88.6%	89.2%	91.6%	91.1%	90.1%	
Vet	11.4%	10.8%	8.4%	8.9%	9.9%	
In % of total EBITDA						
Retail	84.3%	80.9%	81.5%	na	na	
Vet	15.7%	19.1%	18.5%	na	na	
In % of total EBIT						
Retail	73.4%	65.8%	70.8%	65.9%	59.2%	
Vet	26.6%	34.2%	29.2%	34.1%	40.8%	

Figure 8: Free Cash Flow (Pre-tax)

Free cash flow and cash conversion

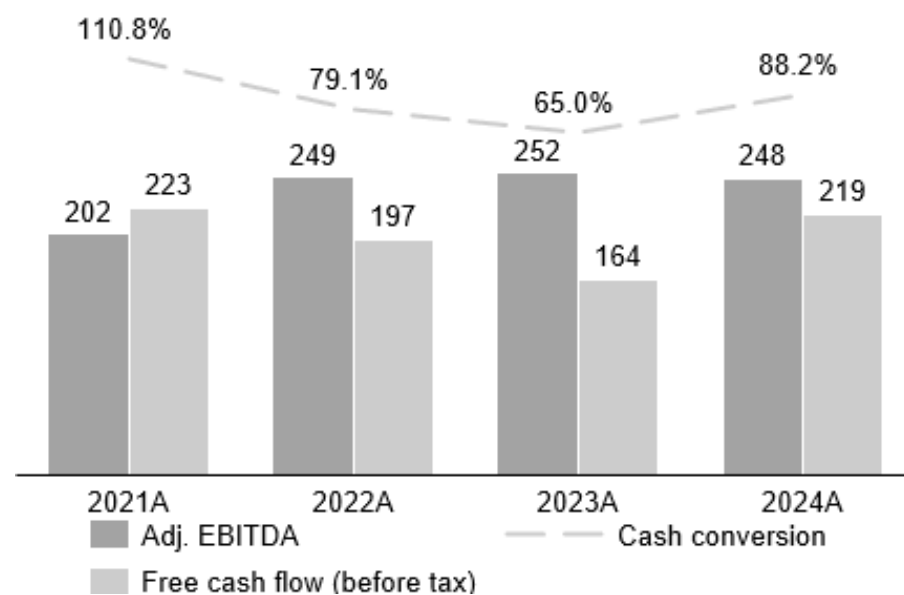






Figure 9: Football Field

Valuation Date: 31-Dec-2024

Methodology	EBITDA (£m) Metric	Implied Enterprise Value Range (£m)	Implied EV/2024E Adj. EBITDA Range	Key assumptions	Relevance
DCF		<p>Market EV (£1,720m) based on market Cap (£1,352m) and net debt (£368m) as of 24-Nov-24</p> <p>£1,720m / 6.8x £2,403m / 9.5x</p> <p>2,167 2,470</p>	8.6x – 9.8x	<ul style="list-style-type: none"> Low: WACC of 9.1% and TV based on PGR of 2.5% Mid: WACC of 8.6% and TV based on PGR of 3.0% High: WACC of 8.1% and TV based on PGR of 3.5% <p>40% weight to reflect strong cash flow</p>	 40% weight
Sum of the parts	<p>97 FY2025E Retail EBIT¹</p> <p>67 FY2025E Vet EBIT¹</p>	<p>1,602 1,931</p> <p>£2,403m EV 9.5x 2024E EBITDA 40% Premium above market EV</p>	6.3x – 7.6x	<ul style="list-style-type: none"> Retail: Based on Retail Peer Group Median EV/EBIT 2025E (11.6x) Vet: Based on CVS Group EV/EBIT 2025E (9.5x) Range: +/-1x 2024E EBIT <p>10% weight as segment reporting is not very detailed</p>	 10% weight
Trading comps	265 FY2025E EBITDA ¹	1,430 2,199	5.7x – 8.7x	<ul style="list-style-type: none"> Low: 1st Quartile of Retail peer group EV/2024E EBITDA High: 3rd Quartile of Retail peer group EV/2024E EBITDA 	
	164 FY2025E EBIT ¹	1,655 2,180	6.6 – 8.6x	<ul style="list-style-type: none"> Low: 1st Quartile of Retail peer group EV/2025E EBIT High: 3rd Quartile of Retail peer group EV/2025E EBIT 	 10% weight
	201 FY2025E EBITDA-Capex ¹	1,503 2,366	6.0x – 9.4x	<ul style="list-style-type: none"> Low: 1st Quartile of Retail peer group EV/2025E (EBITDA – Capex) High: 3rd Quartile of Retail peer group EV/2025E (EBITDA-Capex) <p>10% weight as there is no true comparable peer. UK Retail peer group taken due to overall similar market dynamics (see appendix)</p>	
Precedent transactions	252 FY2024E EBITDA ¹	2,611 3,105	10.3x – 12.3x	<ul style="list-style-type: none"> Low: UK Retail Median (10.3x) Mid: Total Precedents Median (11.0x) High: 3rd Quartile Precedents (12.3x) <p>40% weight as being public likely requires high premium</p>	 40% weight

25th to Median Median to 75th Market EV Estimated EV

Figure 10: Capitalisation table

Sources	£m	%	Uses	£m	%
Debt financing	800.0	32%	Purchase price of EV	2,029.7	80.9%
Equity financing	1,327.8	53%	Net debt refinancing (ex. Leases)	(11.9)	(0.5%)
Lease liabilities roll-over	380.8	15%	Lease liabilities	380.8	15.2%
			Fees & expenses	110.0	4.4%
Total Sources	2,508.6	100%	Total Uses	2,508.6	100%

Sources	£m	x LTM EBITDA	%
Term Loan A	200.0	0.8x	8%
Term Loan B	500.0	2.0x	20%
Mezzanine	-	0.0x	-
Capex Facility	100.0	0.4x	4%
Financial debt	800.0	3.0x	32%
Lease Liabilities	380.8	1.5x	15%
Total debt	1,180.8	4.7x	47%
Equity	1,327.8	5.3x	53%
Total capitalization	2,508.6	9.9x	100%

Dec-24E adj. EBITDA

252.5

Figure 11: Indicative terms

Facility:	Indicative terms ¹			
	Term Loan A	Term Loan B	Mezzanine	Capex Facility
Amount: in £m	200	500	0	100
Multiple:	0.8x	2.0x	0.0x	0.4x
Assumed rating:	A-	BB+	B	BB+
Spread:	3.25%	3.75%	8.00%	3.75%
Fees:	1.50%	1.50%	0.00%	1.50%
Annual repayment:	20%	-	20%	-
Currency:	£	£	£	£
Maturity:	5y	5y	5y	5y
Pricing:	S + 325bps	S + 375bps	S + 800bps	S + 375bps
Financial Covenant:	DSCR; Net leverage	DSCR; Net leverage	NC12/101	DSCR; Net leverage

Figure 12: Return sensitivities

Scenario		IRR Sensitivity					
Exit in 2028 A	Exit EV/NTM Cash EBITDA (x)	Entry EV / NTM Cash EBITDA (x)					
			7.5	8.5	9.5	10.5	11.5
		7.5	38.1%	29.2%	22.5%	17.3%	13.1%
		8.5	42.9%	33.7%	26.8%	21.4%	17.0%
		9.5	47.3%	37.8%	30.7%	25.1%	20.6%
		11.5	55.0%	45.0%	37.5%	31.7%	26.9%
Exit in 2029 B	Exit EV/NTM Cash EBITDA (x)	Entry EV / NTM Cash EBITDA (x)					
			7.5	8.5	9.5	10.5	11.5
		7.5	33.4%	26.4%	21.2%	17.1%	13.6%
		8.5	36.8%	29.7%	24.3%	20.1%	16.5%
		9.5	39.9%	32.6%	27.1%	22.8%	19.2%
		11.5	45.4%	37.8%	32.1%	27.6%	23.9%
Exit in 2030 C	Exit EV/NTM Cash EBITDA (x)	Entry EV / NTM Cash EBITDA (x)					
			7.5	8.5	9.5	10.5	11.5
		7.5	30.1%	24.4%	20.1%	16.7%	13.9%
		8.5	32.7%	26.9%	22.5%	19.0%	16.1%
		9.5	35.1%	29.2%	24.7%	21.1%	18.2%
		11.5	39.2%	33.2%	28.6%	24.9%	21.8%

Figure 13: Peer Group WACC Input

Company	Beta	D/E	Tax rate	Unl. Beta
Kingfisher	1.29	36.2%	27%	1.02
Marks and Spencer	1.15	18.4%	27%	1.01
Travis Perkins	1.38	51.2%	33%	1.03
Howden Joinery	1.43	11.6%	23%	1.31
B&M	1.38	61.7%	26%	0.94
Wickes Group	1.69	151.1%	26%	0.79
WH Smith	1.30	62.4%	23%	0.88
Halfords Group	1.35	109.1%	25%	0.74
Dunelm Group	1.21	12.9%	26%	1.11
Card Factory	0.84	58.6%	24%	0.58
DFS Furniture	1.12	177.9%	25%	0.48
N Brown Group	1.16	117.7%	25%	0.62
Next	0.69	14.6%	25%	0.63
ABF	1.12	10.6%	23%	1.04
Tesco	0.65	38.2%	25%	0.50
J Sainsbury	1.65	79.4%	29%	1.06
Average	1.21	63.2%	26%	0.86

Figure 14: WACC Build-up

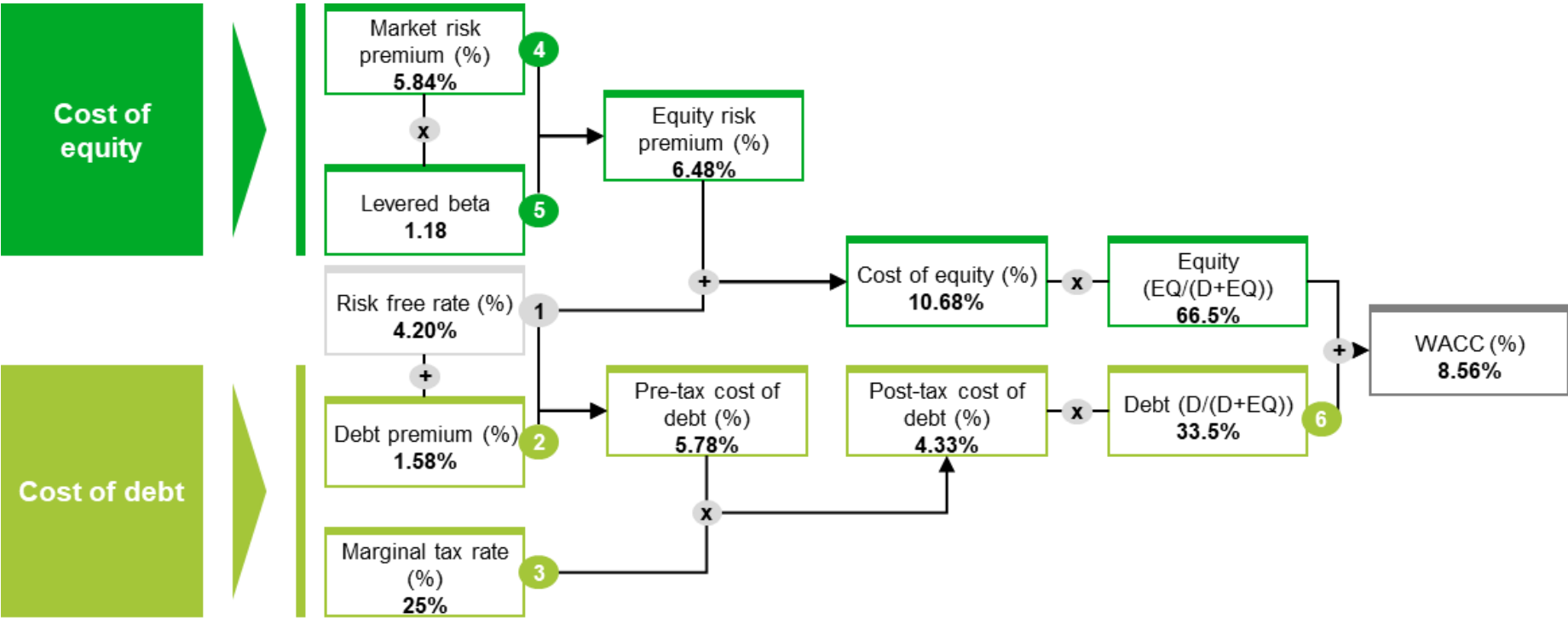


Figure 15: DCF Overview

Key assumptions		
Valuation date	31-Dec	
Tax rate	25%	
WACC	8.6%	
Terminal value		
PGR	3.0%	
EBITDA margin	17.0%	
D&A / Sales	5.0%	
Capex / Sales	6.8%	
Valuation summary		
Present value of	£m	% total
Cash flows	720.4	31.3%
Terminal value	1,584.0	68.7%
Enterprise value	2,304.4	100.0%
Implied EV / Adj. EBITDA		
2024E: £252.5m	9.1x	
2025E: £264.6m	8.7x	
2026E: £276.8m	8.3x	

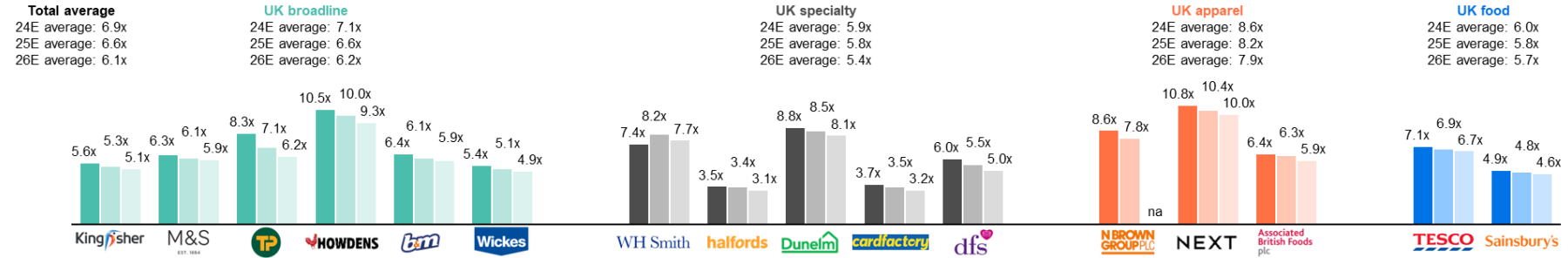
Key financial items in £m	Mar-23A	Mar-24A	Dec-24E	Dec-25E	Dec-26E	Dec-27E	Dec-28E	Dec-29E	Dec-30E	TV
Revenue	1,404.2	1,476.6	1,534.4	1,614.6	1,691.1	1,773.5	1,853.1	1,903.0	1,945.0	2,003.4
<i>growth %</i>	6.6%	5.2%	5.2%	5.2%	4.7%	4.9%	4.5%	2.7%	2.2%	3.0%
Adj. EBITDA	252.0	247.2	252.5	264.6	276.8	290.2	305.7	318.5	330.8	340.7
<i>margin %</i>	17.9%	16.7%	16.5%	16.4%	16.4%	16.4%	16.5%	16.7%	17.0%	17.0%
(-) D&A	(102.3)	(101.7)	(101.1)	(100.4)	(99.8)	(99.3)	(98.8)	(98.4)	(98.0)	(101.0)
Adj. EBIT	149.7	145.5	151.4	164.1	177.0	190.9	206.9	220.1	232.7	239.7
(-) Tax	(26.8)	(36.5)	(37.8)	(41.0)	(44.2)	(47.7)	(51.7)	(55.0)	(58.2)	(59.9)
NOPAT	122.9	109.0	113.5	123.1	132.7	143.2	155.2	165.1	174.6	179.8
(+) D&A	102.3	101.7	101.1	100.4	99.8	99.3	98.8	98.4	98.0	101.0
<i>% sales</i>	(7.3%)	(6.9%)	(6.6%)	(6.2%)	(5.9%)	(5.6%)	(5.3%)	(5.2%)	(5.0%)	(5.0%)
(-) Capex	(75.7)	(51.5)	(57.0)	(63.8)	(72.2)	(82.6)	(95.6)	(112.0)	(132.8)	(136.8)
<i>% sales</i>	5.4%	3.5%	3.7%	4.0%	4.3%	4.7%	5.2%	5.9%	6.8%	6.8%
(-) ΔNWC	14.2	(10.0)	(5.1)	3.6	3.3	3.5	2.9	1.3	0.8	0.0
FCF	163.7	149.2	152.6	163.3	163.6	163.4	161.3	152.8	140.6	144.0
FCF (discounted)				150.4	138.9	127.7	116.2	101.3	85.9	

Implied EV

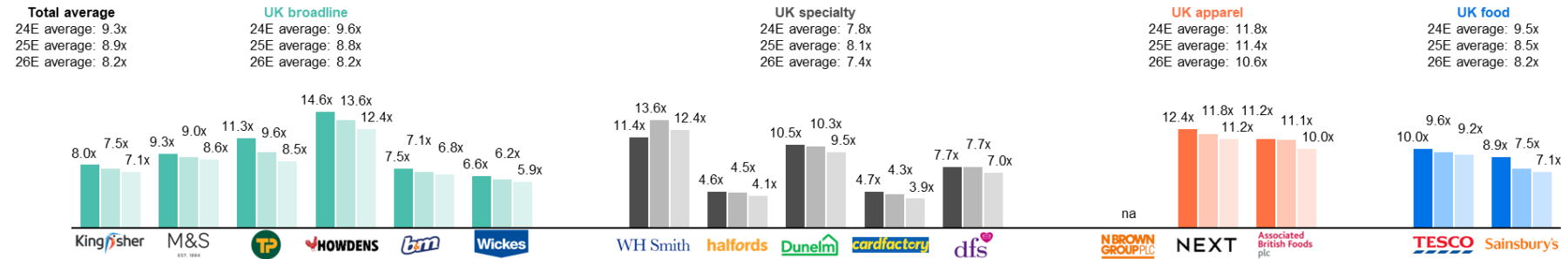
		WACC (%)				
		7.6%	8.1%	8.6%	9.1%	9.6%
PGR (%)	2.0%	2,400	2,211	2,050	1,911	1,791
	2.5%	2,573	2,352	2,167	2,009	1,874
	3.0%	2,784	2,521	2,304	2,124	1,970
	3.5%	3,047	2,727	2,470	2,258	2,082
	4.0%	3,384	2,984	2,671	2,420	2,214

Figure 16: Trading Comparables Overview

EV / EBITDA 24E-26E



EV / EBITDA - Capex 24E-26E



EV / EBIT 24E-26E

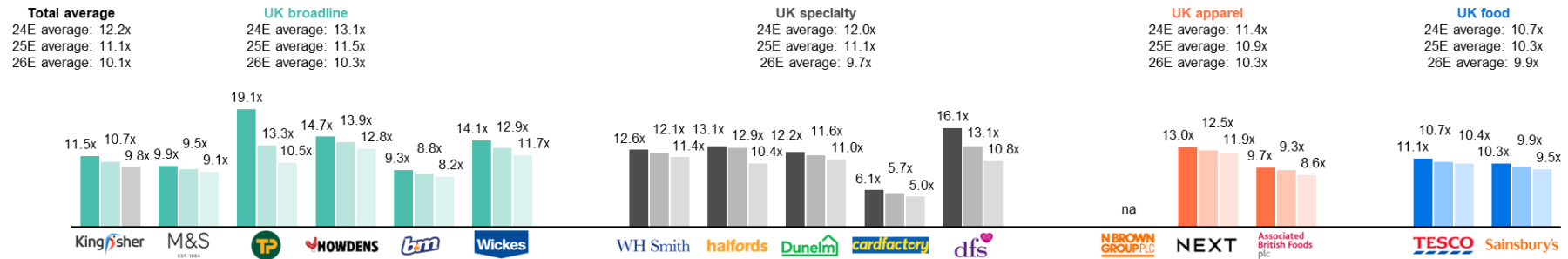


Figure 17: EV / NTM EBITDA Multiples over time

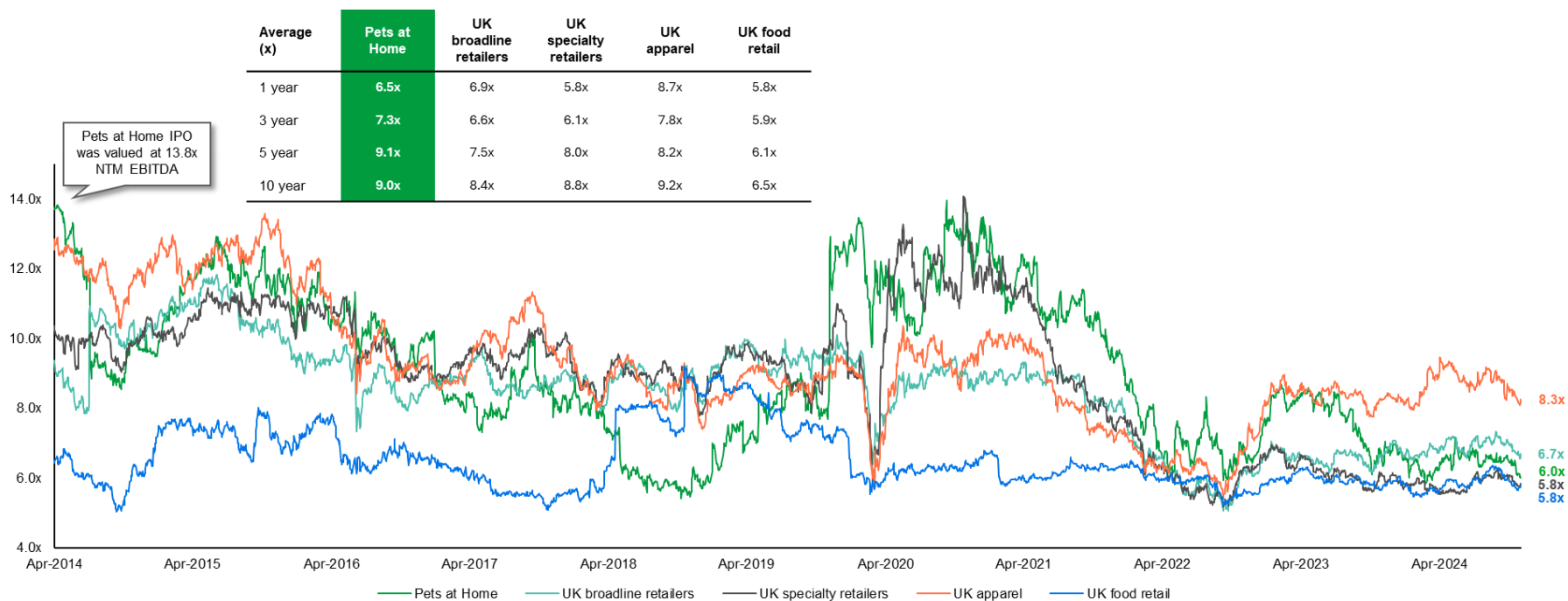
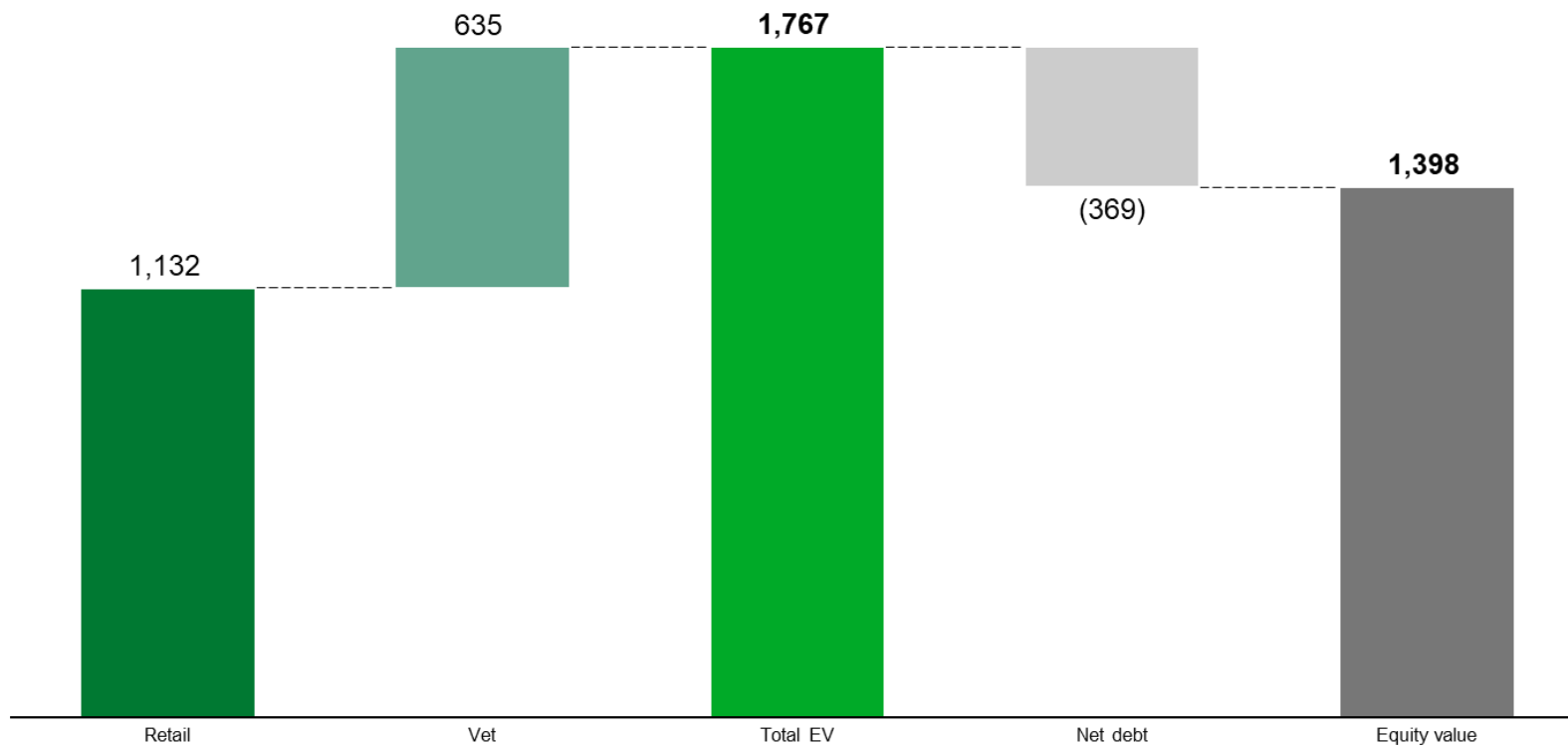


Figure 18: SOTP Overview



2025E Adj. EBIT	97.2	66.9	164.1	
EV / Adj. EBIT 2025E	11.6x	9.5x	10.8x	

Figure 19: Precedent Transactions Overview

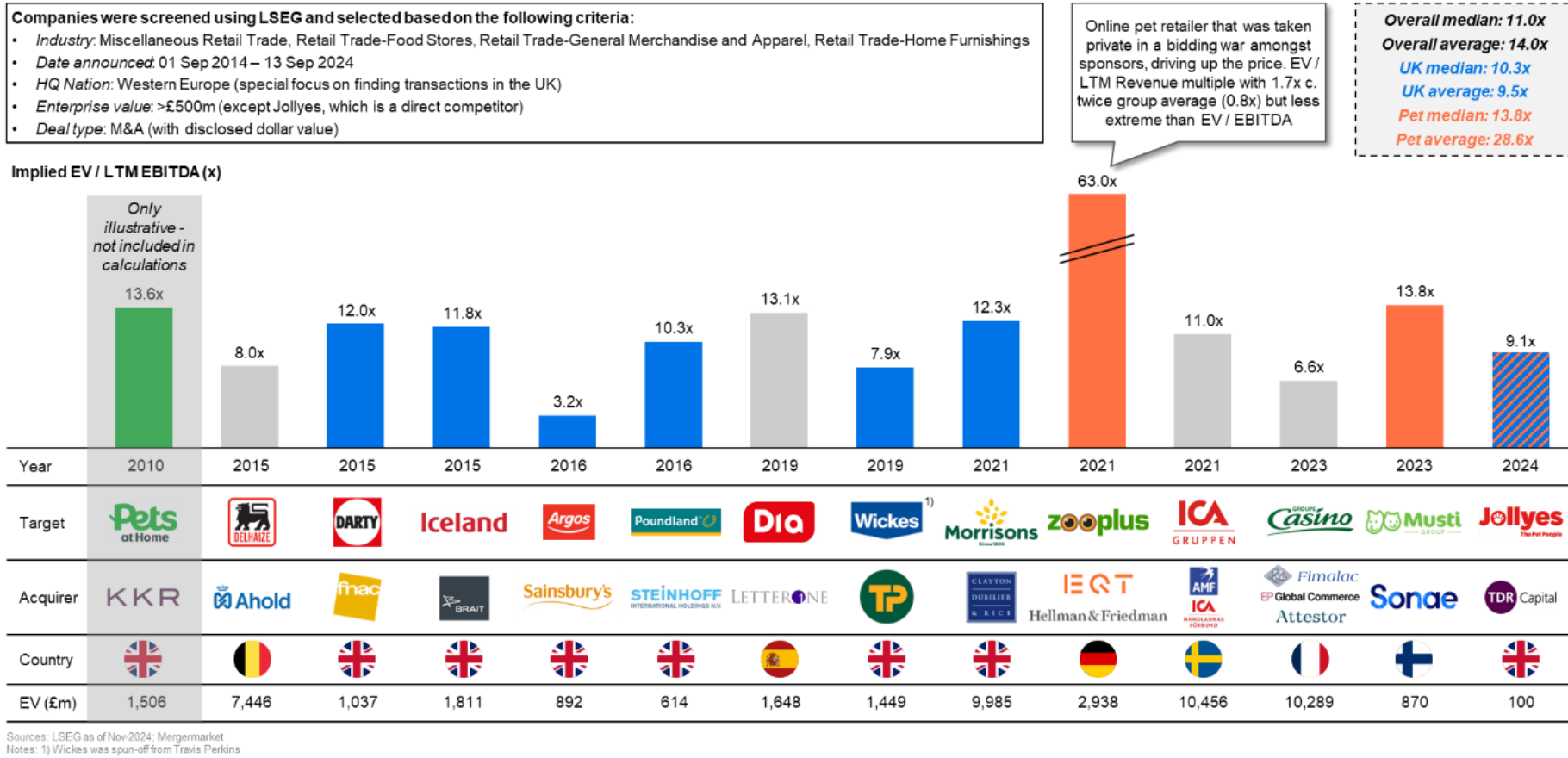
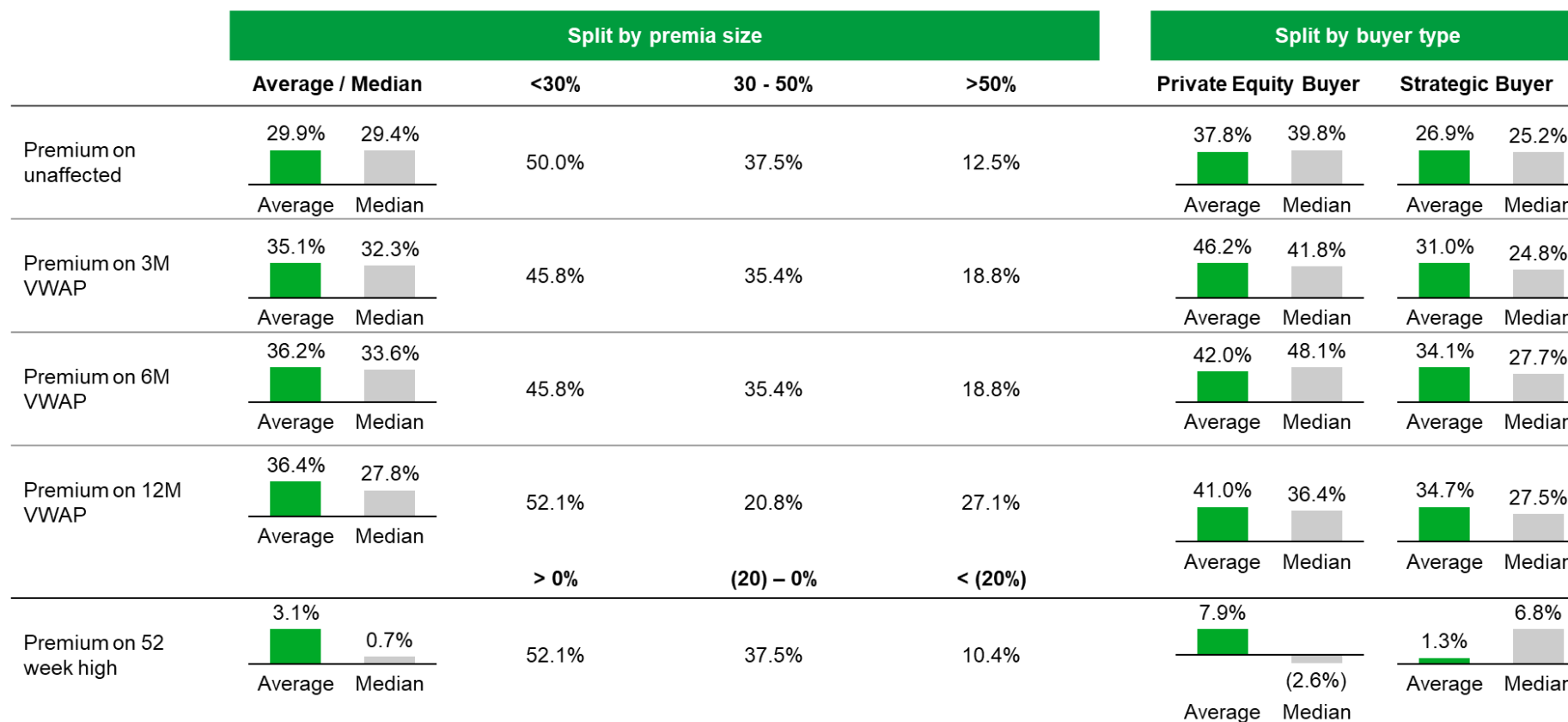


Figure 20: Acquisition Premia Analysis



Sources: Bafin
Notes: Based on transactions since 2019