



April 27, 2017

VCA Inc. Reports First Quarter 2017 Results

- | Revenue increased 20.4% to a first quarter record of \$678.3 million
- | Gross profit increased 12.9% to \$154.5 million
- | Operating income increased 11.3% to \$95.8 million
- | Diluted earnings per common share increased 8.8% to \$0.62
- | Non-GAAP diluted earnings per common share increased 10.6% to \$0.73

LOS ANGELES, April 27, 2017 (GLOBE NEWSWIRE) -- [VCA Inc.](#) (NASDAQ:WOOF), a leading animal healthcare company in the United States and Canada, today reported financial results for the first quarter ended March 31, 2017, as follows: revenue increased 20.4% to a first quarter record of \$678.3 million; gross profit increased 12.9% to \$154.5 million; operating income increased 11.3% to \$95.8 million; net income increased 10.5% to \$51.1 million; and diluted earnings per common share increased 8.8% to \$0.62. Excluding transaction expenses related to the proposed acquisition of VCA by Mars, Incorporated ("Mars"), and acquisition-related amortization expense, our results for this quarter are as follows: Non-GAAP operating income increased 16.2% to \$110.6 million; Non-GAAP net income increased 11.0% to \$59.6 million; and Non-GAAP diluted earnings per common share increased 10.6% to \$0.73. Our results for the prior-year quarter included transaction expenses related to the acquisition of Companion Animal Practices, North America ("CAPNA") and other discrete items, detailed in the supplemental schedules of this press release.

Bob Antin, Chairman and CEO, stated, "We had a good quarter highlighted by 10.6% growth in our adjusted diluted earnings per common share. We continue to experience organic revenue growth and increasing gross margins in both our core Animal Hospital and Laboratory businesses.

"Animal Hospital revenue in the first quarter increased 23.9%, to \$568.2 million, driven by acquisitions made during the past 12 months and same-store revenue growth of 3.7%. Our same-store gross profit margin increased 30 basis points to 16.4%, and our total gross margin decreased 80 basis points to 15.2%. Excluding acquisition-related amortization expense, our Non-GAAP same-store gross profit margin remained flat at 17.2%; and Non-GAAP Animal Hospital total gross profit margin decreased 40 basis points to 16.8%. During the first quarter, we acquired 15 independent animal hospitals which had historical combined annual revenue of \$54.4 million.

"Our Laboratory internal revenue in the first quarter increased 5.5% to \$111.1 million; laboratory gross profit margin increased 50 basis points to 53.6% and our operating margin increased 120 basis points to 44.7%. Excluding acquisition-related amortization expense, Non-GAAP Laboratory gross profit increased 50 basis points to 54.0%; and Non-GAAP Laboratory operating margin increased 110 basis points to 45.0%."

Non-GAAP Financial Measures

We believe investors' understanding of our total performance is enhanced by disclosing Non-GAAP financial measures including Non-GAAP net income, Non-GAAP gross profit, Non-GAAP operating income and Non-GAAP diluted earnings per common share. We define these adjusted measures as the reported amounts, adjusted to exclude certain significant items and amortization of intangibles acquired in acquisitions.

Management believes these adjusted measures are useful to management and investors in evaluating the Company's operational performance and their use provides an additional tool for evaluating the Company's operating results and trends. As a result, these Non-GAAP financial measures help to provide meaningful comparisons of our overall performance from one reporting period to another and meaningful assessments of related trends.

There is a material limitation associated with the use of these Non-GAAP financial measures: our adjusted measures exclude the impact of these significant items, and as a result, our computation of adjusted diluted earnings per common share does not depict diluted earnings per common share in accordance with GAAP.

To compensate for the limitations in the Non-GAAP financial measures discussed above, our disclosures provide a complete understanding of all adjustments found in Non-GAAP financial measures, and we reconcile the Non-GAAP financial measures to the GAAP financial measures in the attached financial schedules titled "Supplemental Operating Data."

Forward-Looking Statements

We have included herein statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We generally identify forward-looking statements in this document using words like "believe," "intend," "expect," "estimate," "may," "plan," "should," "could," "forecast," "looking ahead," "possible," "will," "project," "contemplate," "anticipate," "predict," "potential," "continue," or similar expressions. You may find some of these statements below and elsewhere in this document. These forward-looking statements are not historical facts and are inherently uncertain and outside of our control. Any or all of our forward-looking statements in this document may turn out to be incorrect. They can be affected by inaccurate assumptions we might make, or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this document will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. Many factors could cause actual future events to differ materially from the forward-looking statements in this document, including but not limited to: (i) the risk that the proposed transaction with Mars may not be completed in a timely manner or at all, which may adversely affect the Company's business and the price of the common stock of the Company; (ii) the failure to satisfy or obtain waivers of the conditions to the consummation of the proposed transaction with Mars, including the receipt of certain governmental and regulatory approvals; (iii) the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transaction with Mars; (iv) the effect of the announcement or pendency of the proposed transaction on the Company's business relationships, operating results and business generally; (v) risks that the proposed transaction disrupts current plans and operations of the Company, including the risk of adverse reactions or changes to business relationships with customers, suppliers and other business partners of the Company; (vi) potential difficulties in the hiring or retention of employees of the Company as a result of the proposed transaction; (vii) risks related to diverting management's attention from the Company's ongoing business operations; (viii) potential litigation relating to the proposed transaction with Mars; (ix) unexpected costs, charges or expenses resulting from the proposed transaction; (x) competitive responses to the proposed transaction; and (xi) legislative, regulatory and economic developments. The foregoing list of factors is not exclusive. Additional risks and uncertainties that could affect the Company's financial and operating results are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the "SEC") on February 28, 2017, and the Company's more recent reports filed with the SEC. The Company can give no assurance that the conditions to the proposed transaction will be satisfied, or that it will close within the anticipated time period. Investors and security holders are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which statements were made. Except as required by applicable law, the Company undertakes no obligation to revise or update any forward-looking statement, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

About VCA Inc.

We own, operate and manage the largest networks of freestanding veterinary hospitals and veterinary-exclusive clinical laboratories in the country. We also supply diagnostic imaging equipment to the veterinary industry.

VCA Inc.
Condensed, Consolidated Income Statements
(Unaudited)
(In thousands, except per share amounts)

| | Three Months Ended | |
|-----------------|---------------------------|----------------|
| | March 31, | |
| | 2017 | 2016 |
| Revenue: | | |
| Animal hospital | \$ 568,181 | \$ 458,623 |
| Laboratory | 111,148 | 106,727 |
| All other | 22,569 | 19,413 |
| Intercompany | (23,647) | (21,324) |
| | <u>678,251</u> | <u>563,439</u> |
| Direct costs | 523,783 | 426,659 |
| Gross profit: | | |
| Animal hospital | 86,310 | 73,417 |
| Laboratory | 59,593 | 56,716 |
| All other | 8,686 | 6,910 |
| Intercompany | (121) | (263) |
| | <u>154,468</u> | <u>136,780</u> |

| | | |
|--|------------------|------------------|
| Selling, general and administrative expense: | | |
| Animal hospital | 17,611 | 12,085 |
| Laboratory | 9,906 | 10,296 |
| All other | 6,640 | 5,299 |
| Corporate | 24,244 | 22,448 |
| | <u>58,401</u> | <u>50,128</u> |
| Net loss on sale or disposal of assets | 250 | 563 |
| Operating income | 95,817 | 86,089 |
| Interest expense, net | 9,027 | 7,095 |
| Other income | (302) | (264) |
| Income before provision for income taxes | 87,092 | 79,258 |
| Provision for income taxes | 34,639 | 31,536 |
| Net income | 52,453 | 47,722 |
| Net income attributable to noncontrolling interests | 1,360 | 1,495 |
| Net income attributable to VCA Inc. | <u>\$ 51,093</u> | <u>\$ 46,227</u> |
| Diluted earnings per share | <u>\$ 0.62</u> | <u>\$ 0.57</u> |
| Weighted-average shares outstanding for diluted earnings per share | <u>82,179</u> | <u>81,523</u> |

VCA Inc.
Condensed, Consolidated Balance Sheets
(Unaudited)
(In thousands)

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|--|---------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 89,531 | \$ 81,409 |
| Trade accounts receivable, net | 85,611 | 85,593 |
| Inventory | 56,833 | 57,590 |
| Prepaid expenses and other | 38,432 | 44,752 |
| Prepaid income taxes | — | 11,705 |
| Total current assets | <u>270,407</u> | <u>281,049</u> |
| Property and equipment, net | 645,652 | 613,224 |
| Other assets: | | |
| Goodwill | 2,228,189 | 2,164,422 |
| Other intangible assets, net | 211,630 | 212,577 |
| Notes receivable | 2,136 | 2,147 |
| Other | 102,664 | 99,909 |
| Total assets | <u>\$ 3,460,678</u> | <u>\$ 3,373,328</u> |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Current portion of long-term obligations | \$ 43,877 | \$ 38,320 |
| Accounts payable | 61,532 | 68,587 |
| Accrued payroll and related liabilities | 73,247 | 97,806 |
| Income tax payable | 15,874 | — |
| Other accrued liabilities | 95,045 | 91,783 |
| Total current liabilities | <u>289,575</u> | <u>296,496</u> |
| Long-term obligations, net | 1,342,607 | 1,309,397 |
| Deferred income taxes, net | 147,851 | 142,535 |
| Other liabilities | <u>43,913</u> | <u>44,560</u> |

| | | |
|--------------------------------------|---------------------|---------------------|
| Total liabilities | 1,823,946 | 1,792,988 |
| Redeemable noncontrolling interests | 10,398 | 11,615 |
| VCA Inc. stockholders' equity: | | |
| Common stock | 81 | 81 |
| Additional paid-in capital | 37,012 | 32,157 |
| Retained earnings | 1,535,484 | 1,484,391 |
| Accumulated other comprehensive loss | (43,084) | (45,406) |
| Total VCA Inc. stockholders' equity | 1,529,493 | 1,471,223 |
| Noncontrolling interests | 96,841 | 97,502 |
| Total equity | 1,626,334 | 1,568,725 |
| Total liabilities and equity | <u>\$ 3,460,678</u> | <u>\$ 3,373,328</u> |

VCA Inc.
Condensed, Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

| | Three Months Ended | |
|---|---------------------------|------------------|
| | March 31, | |
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 52,453 | \$ 47,722 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,401 | 21,289 |
| Amortization of debt issue costs | 383 | 433 |
| Provision for uncollectible accounts | 1,794 | 851 |
| Net loss on sale or disposal of assets | 250 | 563 |
| Share-based compensation | 3,962 | 4,906 |
| Excess tax benefits from share-based compensation | — | (445) |
| Other | 884 | 4,489 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (1,594) | (3,339) |
| Inventory, prepaid expense and other assets | 5,507 | (7,569) |
| Accounts payable and other accrued liabilities | 3,491 | (4,801) |
| Accrued payroll and related liabilities | (24,748) | 12,955 |
| Income taxes | 27,508 | 16,855 |
| Net cash provided by operating activities | <u>100,291</u> | <u>93,909</u> |
| Cash flows from investing activities: | | |
| Business acquisitions, net of cash acquired | (81,721) | (160,385) |
| Property and equipment additions | (28,919) | (25,806) |
| Proceeds from sale of assets | 349 | 12 |
| Other | (6,203) | (7,346) |
| Net cash used in investing activities | <u>(116,494)</u> | <u>(193,525)</u> |
| Cash flows from financing activities: | | |
| Repayment of long-term obligations | (17,813) | (9,678) |
| Proceeds from revolving credit facility | 45,000 | 90,000 |
| Distributions to noncontrolling interest partners | (1,138) | (1,238) |
| Proceeds from formation of noncontrolling interests | 335 | — |
| Purchase of noncontrolling interests | (1,400) | (3,730) |
| Proceeds from issuance of common stock under stock incentive plans | 90 | 286 |
| Excess tax benefits from share-based compensation | — | 445 |
| Stock repurchases | (95) | (843) |
| Other | (812) | (333) |
| Net cash provided by financing activities | <u>24,167</u> | <u>74,909</u> |
| Effect of currency exchange rate changes on cash and cash equivalents | 158 | 299 |
| Increase (decrease) in cash and cash equivalents | <u>8,122</u> | <u>(24,408)</u> |

| | | |
|--|------------------|------------------|
| Cash and cash equivalents at beginning of period | 81,409 | 98,888 |
| Cash and cash equivalents at end of period | <u>\$ 89,531</u> | <u>\$ 74,480</u> |

VCA Inc.
Supplemental Operating Data
(Unaudited - In thousands, except per share amounts)

Table #1

| Reconciliation of net income attributable to VCA Inc., to Non-GAAP net income attributable to VCA Inc. ⁽¹⁾ | Three Months Ended March 31, | |
|---|---------------------------------|------------------|
| | 2017 | 2016 |
| Net income attributable to VCA Inc. | \$ 51,093 | \$ 46,227 |
| Adjustments to Other Long-term liabilities, net of tax ⁽²⁾ | — | 2,040 |
| Discrete tax items ⁽³⁾ | — | 1,045 |
| Transaction costs related to the CAPNA acquisition, net of tax ⁽⁴⁾ | — | 587 |
| Transaction costs related to the Mars transaction, net of tax ⁽⁵⁾ | 2,059 | — |
| Acquisitions related amortization, net of tax ⁽¹⁾ | 6,465 | 3,791 |
| Non-GAAP net income attributable to VCA Inc. | <u>\$ 59,617</u> | <u>\$ 53,690</u> |

Table #2

| Reconciliation of diluted earnings per share to Non-GAAP diluted earnings per share ⁽¹⁾ | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2017 | 2016 |
| Diluted earnings per share | \$ 0.62 | \$ 0.57 |
| Adjustments to Other Long-term liabilities, net of tax ⁽²⁾ | — | 0.02 |
| Discrete tax items ⁽³⁾ | — | 0.01 |
| Transaction costs related to the CAPNA acquisition, net of tax ⁽⁴⁾ | — | 0.01 |
| Transaction costs related to the Mars transaction, net of tax ⁽⁵⁾ | 0.03 | — |
| Acquisitions related amortization, net of tax ⁽¹⁾ | 0.08 | 0.05 |
| Non-GAAP diluted earnings per share | <u>\$ 0.73</u> | <u>\$ 0.66</u> |
| Shares used for computing diluted earnings per share | <u>82,179</u> | <u>81,523</u> |

Table #3

| Reconciliation of consolidated gross profit to Non-GAAP consolidated gross profit ⁽¹⁾ | Three Months Ended March 31, | |
|--|---------------------------------|-------------------|
| | 2017 | 2016 |
| Consolidated gross profit | \$ 154,468 | \$ 136,780 |
| Acquisitions related amortization ⁽¹⁾ | 10,151 | 6,228 |
| Non-GAAP consolidated gross profit | <u>\$ 164,619</u> | <u>\$ 143,008</u> |
| Non-GAAP consolidated gross profit margin | <u>24.3%</u> | <u>25.4%</u> |

VCA Inc.
Supplemental Operating Data (cont)
(Unaudited - In thousands, except per share amounts)

Table #4

| Reconciliation of consolidated operating income to Non-GAAP consolidated operating income ⁽¹⁾ | Three Months Ended March 31, | |
|--|---------------------------------|------|
| | 2017 | 2016 |

| | | |
|---|-------------------|------------------|
| Consolidated operating income | \$ 95,817 | \$ 86,089 |
| Adjustments to Other Long-term liabilities ⁽²⁾ | — | 1,954 |
| Transaction costs related to the CAPNA acquisition ⁽⁴⁾ | — | 966 |
| Transaction costs related to the Mars transaction ⁽⁵⁾ | 3,383 | — |
| Acquisitions related amortization ⁽¹⁾ | 11,425 | 6,228 |
| Non-GAAP consolidated operating income | <u>\$ 110,625</u> | <u>\$ 95,237</u> |
| Non-GAAP consolidated operating margin | <u>16.3%</u> | <u>16.9%</u> |

(1) Management believes that investors' understanding of our performance is enhanced by disclosing adjusted measures as the reported amounts, adjusted to exclude certain significant items and acquisition-related amortization. Non-GAAP net income, Non-GAAP diluted earnings per common share, Non-GAAP consolidated gross profit and Non-GAAP consolidated operating income measures are not, and should not be viewed as substitutes for U.S. generally accepted accounting principles (GAAP) net income, its components and diluted earnings per share.

(2) In the first quarter of 2016, we recorded a non-cash charge to adjust certain long-term liabilities for \$3.4 million, or \$2.0 million net of tax. \$2.0 million of this amount relates to compensation and \$1.4 million relates to interest accretion.

(3) In the first quarter of 2016, we recorded a tax adjustment to our income tax liabilities for \$1.0 million.

(4) In the first quarter of 2016, we recorded transaction costs of \$966,000 or \$587,000 net of tax related to our acquisition of CAPNA.

(5) During the first quarter of 2017, we have recorded transaction costs of \$3.4 million, or \$2.1 million net of tax, related to the proposed transaction with Mars.

VCA Inc.
Supplemental Operating Data (cont)
(Unaudited - In thousands, except per share amounts)

| | As of | |
|---|---------------------|----------------------|
| | March 31, 2017 | December 31, 2016 |
| Table #5 | | |
| Selected consolidated balance sheet data | | |
| Debt: | | |
| Senior term notes | \$ 863,500 | \$ 869,000 |
| Revolving credit | 445,000 | 400,000 |
| Other debt and capital leases | 84,297 | 85,415 |
| Total debt | <u>\$ 1,392,797</u> | <u>\$ 1,354,415</u> |

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2017 | 2016 |
| Table #6 | | |
| Selected expense data | | |
| Rent expense | <u>\$ 25,168</u> | <u>\$ 20,864</u> |
| Depreciation and amortization included | | |
| in direct costs: | | |
| Animal hospital | \$ 25,379 | \$ 17,524 |
| Laboratory | 2,872 | 2,748 |
| All other | 574 | 752 |
| Intercompany | <u>(686)</u> | <u>(586)</u> |

| | | |
|--|------------------|------------------|
| | \$ 28,139 | \$ 20,438 |
| Depreciation and amortization included in selling, general and administrative expense | 2,262 | 851 |
| Total depreciation and amortization | <u>\$ 30,401</u> | <u>\$ 21,289</u> |

| | | |
|--|--------|--------|
| Share-based compensation included in direct costs: | | |
| Laboratory | \$ 189 | \$ 177 |

| | | |
|--|-----------------|-----------------|
| Share-based compensation included in selling, general and administrative expense: | | |
| Animal hospital | 832 | 784 |
| Laboratory | 341 | 429 |
| All other | 154 | 153 |
| Corporate | 2,446 | 3,363 |
| | <u>3,773</u> | <u>4,729</u> |
| Total share-based compensation | <u>\$ 3,962</u> | <u>\$ 4,906</u> |

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