To: Contentverse Support[support@computhink.com]; Fazal Khader[fkhader@computhink.com]
From: Susan McPartlan
Sent: Tue 11/29/2016 5:26:42 PM
Importance: Normal
Subject: FW: FW: Confidential -- DVM Board package for Omaha next THURS
Received: Tue 11/29/2016 5:27:23 PM
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Board slides_022516_final.pdf

This is the original email MSG that was loaded.

From: Rebecca Burke [mailto:rburke@vetsfirstchoice.com]
Sent: Friday, November 11, 2016 8:07 AM
To: corporaterecords@vetsfirstchoice.com
Subject: Fwd: FW: Confidential -- DVM Board package for Omaha next THURS

BOD Presentation

Rebecca Burke

Corporate Financial Controller

VetsFirstChoice.com

888.280.2221 +1260

---------- Forwarded message ----------
From: **Tim Ludlow** <tludlow@vetsfirstchoice.com>
Date: Thu, Nov 10, 2016 at 4:42 PM
Subject: FW: Confidential -- DVM Board package for Omaha next THURS
To: Rebecca Burke <rburke@vetsfirstchoice.com>

February (No mtg in Jan)

Tim Ludlow

CFO | Vets First Choice

VetsFirstChoice.com

215 498 5811

From: Benjamin Shaw [mailto:bshaw@blackpointgroup.com]
Sent: Friday, February 19, 2016 6:12 PM
To: dshaw@blackpointgroup.com; 'Kevin Bitterman' <kbitterman@polarispartners.com>; 'ychoi@hlmvp.com' <ychoi@hlmvp.com>; Phil Ferneau (pferneau@borealisventures.com) <pferneau@borealisventures.com>; 'Ted Mcnamara' <tmc.mcnamara@gmail.com>; Ravi Sachdev (RSachdev@cdr-inc.com) <RSachdev@cdr-inc.com>; Sarah Kim (SKim@cdr-inc.com) <SKim@cdr-inc.com>
Cc: 'Ed Cahill' <ECahill@hlmvp.com>; Todd Warden <twarden@hlcp.com>; 'Atluri, Anisha' <AAtluri@cdr-inc.com>; 'Tim Ludlow' <tludlow@vetsfirstchoice.com>; 'Brennan, Erin Powers' <erin.brennan@morganlewis.com>
Subject: Confidential -- DVM Board package for Omaha next THURS
Importance: High

Confidential

Directors,

Look forward to seeing everyone in Omaha next WED night and THURS in Omaha!

On WED night there will be a dinner at 6:30PM at a restaurant called The Boiler Room (1110 Jones Street, Omaha NE). We will start THURS at 8:30AM EST at the Vets First Choice pharmacy located at 5013 S 110th St, Omaha NE. Many folks have a 4PM CST flight, and so we will be caravanning to the airport by 3PM CST.

Aggressive, compelling goals.

We have established clear and aggressive targets for 2016 following a thoughtful budget / planning process last fall and culminating in a productive off site in early December. Our 2016 corporate goals reflect our strategy and focus on key long term growth / valuation drivers, including the shift to prescription management and launch into population health. Major emphasis has been placed on specialty pharmacy services, data platform and CareConnect programs, and all will have a material impact on gross margins.

Our corporate goals, with associated weighting are summarized below:

25%	1	Achieve stretch revenue target of $100MM and 40% gross margins, and Adjusted of EBITDA <$(1)MM
(10 pts)		a) $100MM revenues (125% of goal), $90MM revenues (100% of goal)
(10 pts)		b) 40% gross margin
(5 pts)		c) <(1)MM adjusted EBITDA loss
10%	2	Manage significant organizational and development goals, specifically as follows:
(3 equal parts)		a) Addition of a VP B2C to the executive team
		b) Broadly execute on company's hiring plans (+80 heads) across pharmacy, sales, marketing, engineering, operations and finance
		c) Strong #2s for all key functional areas
15%	3	Execute prescription management and population health management strategy:
(4 equal parts)		a) CareConnect strategy, enrolling 1,200 accounts by year end and generating sales of at least $9MM
		b) Compelling practice analytics platform and integrated PIMS/VFC Data Warehouse by Q3:16
		c) Mobile scripting capabilities for practitioners by Q2:16
		d) Two way integration with top 5 major PIMS for prescribing and ordering by Q2:16
10%	4	Expansion of specialty pharmacy service including national relicensing and accreditation, build-out of expanded compounding pharmacy facilities to support 3x growth capability, development of in-house analytical chemistry capabilities and achievement of redundant central fill pharmacy capabilities (an important risk management objective)
10%	5	Professionalization of service organization meeting exceptional NPS scores from customers and clients (60 or better)
10%	6	Documentation of impact on driving improved health and financial outcomes for customers and clients, including thought leadership (speaking events, white papers and KOL initiatives).
10%	7	Proactive review and pursuit of key investment themes, and serve up relevant opportunities for non-organic growth acceleration for board / shareholder

		consideration
10%	8	Position company with the option to IPO in FY17, including strong engagement with institutional investors, bankers and analysts as well as required internal processes and controls

The above 2016 corporate goals are fully adopted by management and the board, and these goals have been broken down by teams and translated into individual and team goals throughout the company. It has been a great process, and we will look to build on this process in 2016 and 2017. We will regularly report against these goals in our board meetings, of course, and the attached materials reflect progress towards these goals. Below I will add additional comments.

A good start to 2016.

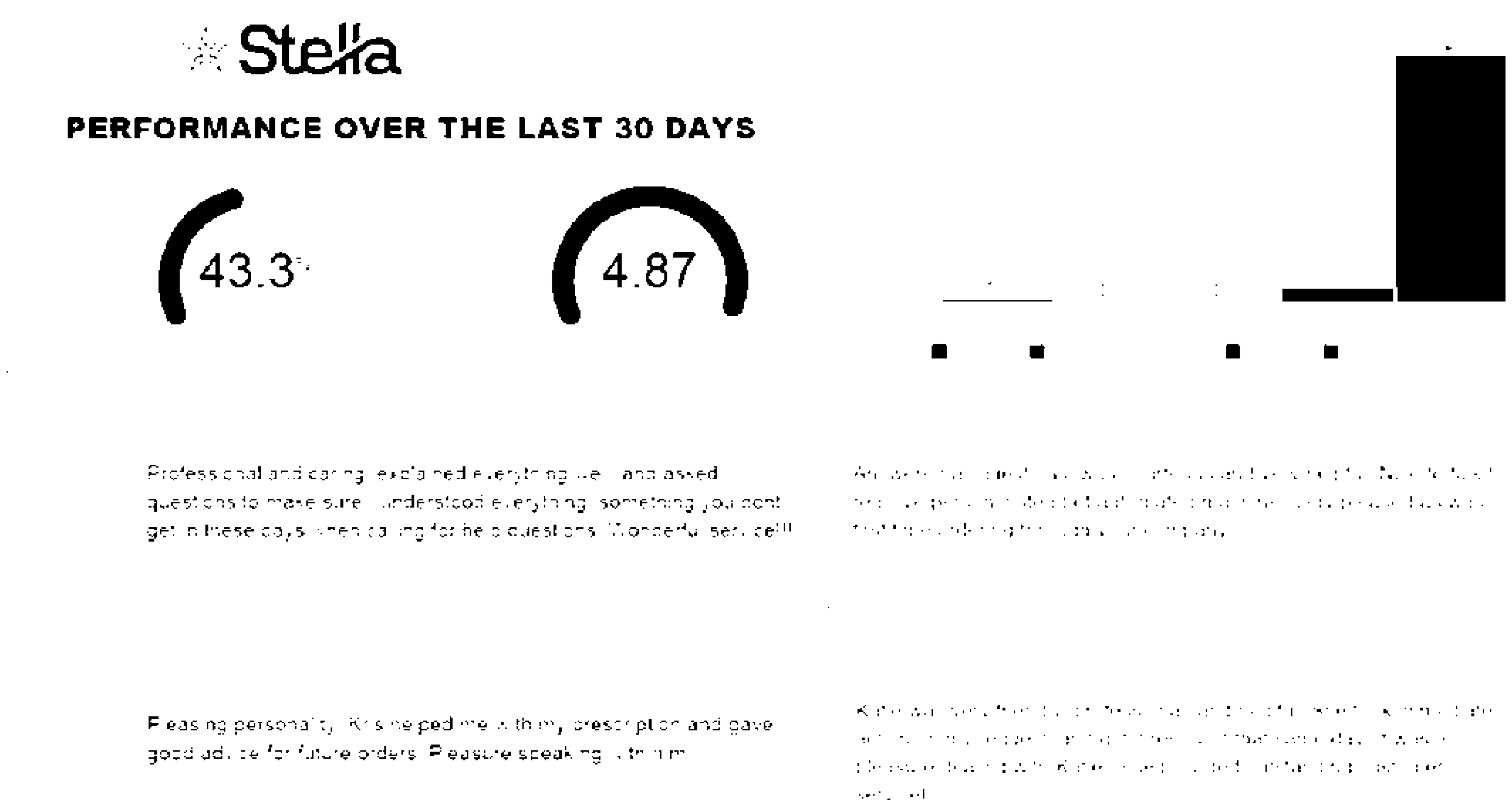
Lets get to some numbers before commenting on what was a very busy January for the company.

January net revenues were ~$5.1MM, or +74% growth to the PY and in-line with Plan. January is a traditionally slow month in veterinary medicine, principally due to a notable lack of bugs, so this is an encouraging start to the new year. Consider that we processed more orders in January (65,000 orders) than we did at peak in 2015 (!).

Gross margins in January were 40% vs 42% Plan, which is below Plan and reflect lower revenue contribution from VDS and VPA than planned. For VDS, this is a timing issue on CareConnect enrollments. For VPA, we had spread out 2016 revenue targets evenly across all months ($6MM goal divided by 12 months), whereas key growth initiatives are planned for Q2-Q3, and so we expect VPA revenues will catch up over the coming months. Clearly the 92% gross margin revenue at VPA and 100% gross margin revenue at VDS are critical towards achieving our profitability targets in 2016. I will add that there was higher discounting activity in January than planned associated with new enrollment welcome emails, and Trevor is now carefully managing all discounting activity for VFC on a go-forward basis.

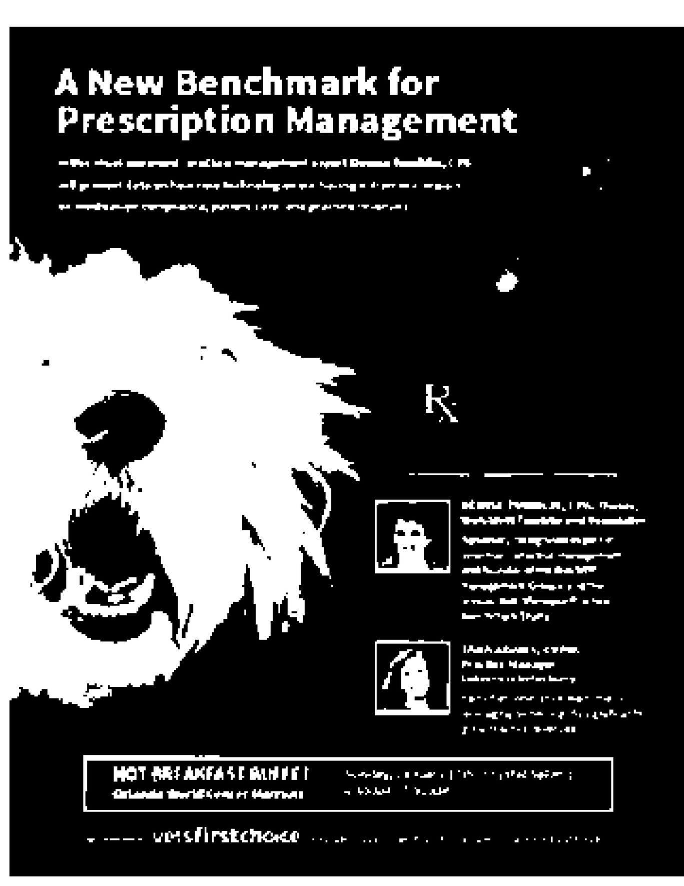
Core assumptions in our plan reflect an expected demand curve for "engaged" and "highly engaged" accounts. We also expect a defined level of productivity from our account managers (30 new enrollments per quarter per rep). The demand curves reflect historical patterns in utilization based on time on service (Q1-Q6). We saw strong demand across these account segments in a manner consistent with our demand curves. Enrollment rates for new accounts also met our plans on a QTD basis, and were supported via strong tradeshow activity (i.e. NAVC). Specifically, we had 378 highly engaged customers (+67% vs PY) and 1,712 engaged customers (+36% vs PY), which combined are collectively prescription management customers, which compares to 227 and 1260 respectively in Jan 2015 and 287 and 1759 respectively in December 2015 (5 week month).

Importantly, service levels have been very high and client feedback reflects high NPS scores. Our Stella Connect service shows a 4.87/5.0 in the last 30 days based on feedback from 43% of clients… that's impressive. Its crucial that we are able to create significant revenue growth (+74%) and maintain high service scores at the same time.

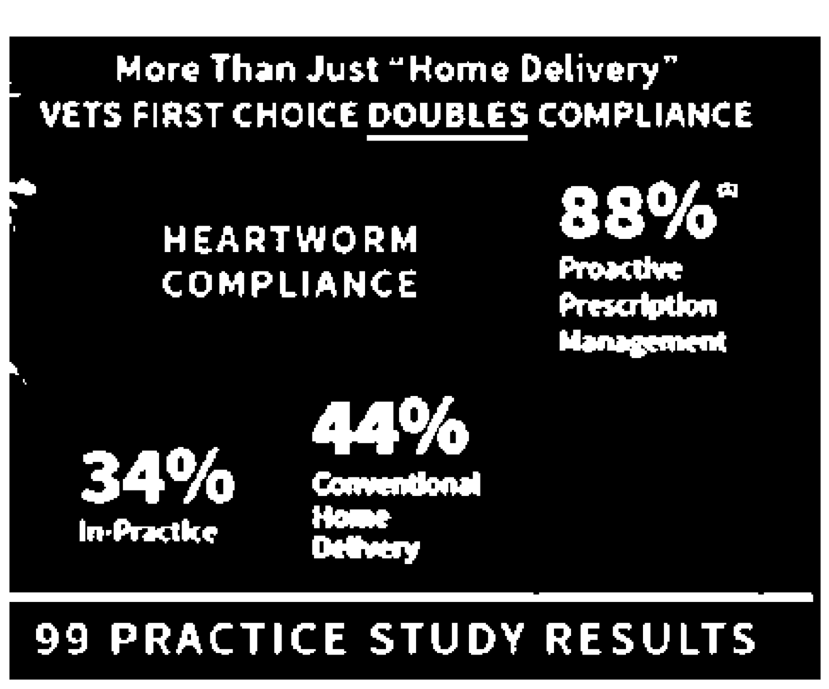


NAVC was epic --- great emphasis on prescription management, and a new gear in manufacturer relations.

Practice insights into walk-outs and improved compliance via VFC prescription management set up a great NAVC speaking event for NAVC. Denise Tumblin, CPA, and Tara Adams, CVPM and Practice Manager at Lakecross in NC, provided compelling talk points on the benefits of the VFC platform. Denise is a nationally recognized expert in veterinary practice management, and founder of the WellMP Management Groups and annual Well-Managed Practice Benchmark Survey. And Lakecross presented very compelling data on their growth and profitability from VFC this past few years.



Trevor and Denise analyzed 99 practices PIMS data from an average group of accounts. An analysis of these 99 practices showed an additional $400,000+ revenue opportunity per practice in preventatives alone by closing the gap on non-compliant walk-outs. Walk outs are clients seen by the practice, overdue to refill and walk out without products. Further, the speakers reported 88% compliance when a practice uses Vets First Choice, and a 32% overall increase in preventatives only revenue.



We had a full room at 6:30AM on Sunday, and generated significant lead generation and new account closes from the event.

NAVC is always a busy event and this year was just that much crazier. Consider we had a major KOL program aimed at thought leadership around prescription management, a significant trade presence in the exhibit area where we enrolled a record number of new accounts, VPA exhibit area aimed at specialty pharmacy and demo of new novel dose forms (tablets and chews), VetData presentations to major industry partners to support APP store development programs (pet insurance, microchipping, lab services, client communications and inventory management software), 40+ manufacturer supply chain meetings to renew 2016 contracts, 30+ CareConnect meetings to position client engagement programs for top brand managers, we launched our integrative medicine line with Emerson Ecologics, and met with most of our key and corporate accounts in-person. Across the board we delivered a very compelling argument for Prescription Management:

My highlight from the event was the significant shift in manufacturer attention and visibility --- leadership from all / most major manufacturers participated in our supply chain conversations for the first time ever, and openly recognized that prescription management was a game changer for the category and really helped distinguish us firmly from distributor pharmacy services. We came away recognizing that we need to invest in leadership to support our supply chain relationships, and to develop a more sophisticated manufacturer coop program and sales partnership to better leverage these relationships to drive account engagement and new account acquisition. Without exception, all of our manufacturer meetings went well and all are seeking increased engagement on prescription management in 2016.

Pat and David are leveraging the work with Denise and Tara to launch a group of Pharmacy Study Groups ™, and these groups will be aimed at facilitating best practices and shared insights among a mix of highly engaged and less engaged customers. We intend to set up two such groups near-term, one in companion animal and another in equine.

Sales team is cranking.

New account enrollments are on pace for Q1 goals with 110 new enrollments YTD. In addition to new enrollments, the team has completed significant numbers of re-trainings / refreshers with existing accounts --- approx. 544 in 2H15 and hundreds more in January. There is some promising data to show that these refreshers are very productive. Consider that weekly run-rate revenues per account increased 24% in Q1:16 vs Q4:15 for Q4:15 refreshers, and 22% in Q1:16 vs Q3:15 for Q3:15 refreshers in aggregate.

Pat's team continues to expand. We now have 3 key account managers, 13 account managers, 11 associate account managers, 2 corporate account managers and 3 trainers, as well as the addition of David Ball (Director of B2B Marketing) and Matt Curtis (sales analyst). Matt came to us via Hannaford Bros and previously worked with George, and is helping to provide day to day analytical support to the team to understand key work baskets, lead sources and funnel management. David joins with significant experience in B2B sales, content marketing expertise, inbound marketing programs and thought leadership initiatives, and is really helping to drive definition around best practices and selling collateral.

There has been a lot of new info to share with customers, including the availability of expanding compounding pharmacy capabilities (more below), the launch of our naturopathic programs with Emerson (more below) and launch of CareConnect programs. I will comment more specifically on CareConnect below, but we have launched the ELANCO program for TRIFEXIS and INTERCEPTOR which are significant initiatives. Enrollments now exceed 750 installs for TRIFEXIS, QUELLIN and SENTINEL programs. Woot!

Of course, corporate accounts is a big opportunity and we've invested significantly this past 6 weeks in our new partnership with VIP PetCare. For the first 6 weeks of launch, VIP generated $115,000 in net revenues via their phone teams, which has helped de-bug a number of custom integration issues, documentation needs and pricing considerations. A key focus will be to maximize peak season and focus to get phase 2 underway (active recommendation at each of their 2,000 locations). More below on corporate accounts.

VPA is a big focus, and a lot of activity underway.

Recall we closed on Veterinary Pharmacies of America middle of November, and everything has gone very well. We've built strong working relationships with the Houston team, developed an important strategic relationship with Summit and started to unpack a lot of operational insights into opportunities / challenges of this business. Revenues for our compounding formulary are stable, and were ~$408k in January, but do not reflect any commercialization efforts by either team given basic integration and licensure work underway.

There are 5 key areas of focus.

First, we are continuing to work the re-licensing and re-accreditation effort for VPA in all 50 states. We have completed our re-licensing in 34 states, and have secured our new DEA permit as well. VPA pharmacists are busy taking their pharmacy exams in MA, MI, and NE to support expanded requirements from various states as well as to bridge our facilities in NE. We have also initiated the PCAB process, and have started to evaluate the gaps in documentation, process, training and other areas needed to support this process. Jennifer, Talia, and our outside legal firm have performed gap assessments to USP 795, USP 800, FDA 503b, PCAB and VFC pharmacy processes. The results of these assessments are helping to shape our key facility enhancements, new equipment acquisition and updates in pharmacy policies and procedures. At this time we are planning to complete relicensing in the existing facility, but to plan for PCAB accreditation upon relo into our new operations.

Second, and on this last point, we now expect to relocate the Houston pharmacy into a new facility which would more than double the current space and be less disruptive / more efficient than renovating the current lab space. This new facility is needed to support growth, to house a new in-house chemistry lab, create needed meeting / office spaces and to allow for needed changes to meet accreditation requirements. The facility will also include needed enhancements in powder management, staff training and documentation to support PCAB. The new in-house chemistry laboratory will be critical to our ability to support ongoing potency, stability and documentation for all orders and to confirm key QA/QC/QI initiatives --- in this area, we have identified some gaps that we seek to address in the process, and imagine this will be a key competitive advantage in the market.

Third, we are actively integrating workflow between VFC and VPA to support prescription transfer between both operations. Compounded medications from VPA have been fulfilled by VFC, and vice versa, which now has proven our ability to provide redundant support across labs. We also have begun to scope requirements to replace systems that support ordering, prescribing and CRM, as well as back-end systems that support billing, inventory management, shipping, communications and finishing stage. Development resources have been assigned to tackle high priority efforts, one of which is the substitution of our shipping software to access favorable fedex rates (~$1MM savings per year!). Additional efforts will seek to automate VFC transfers (reduce data entry) and to enable better management reporting on throughput, service levels, production capacity and financial performance.

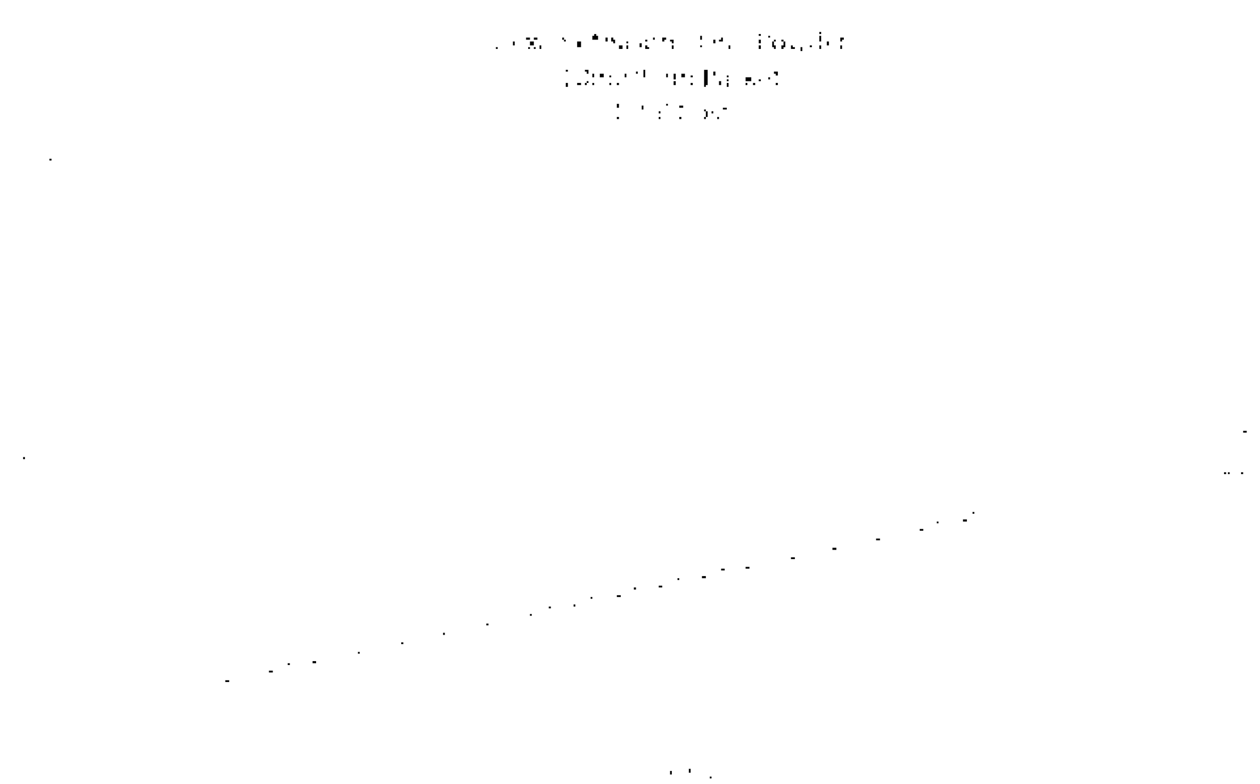
Fourth, we have spent considerable energy to review and expand the combined compounding formulary. This work is composed of a number of phased initiatives which seek to combine volumes between VPA and VFC for maximum production efficiency, improve stocking levels for top products, expand our equine offering and to upsell expanded dose forms on VFC (new transdermals, chews and tablets). Our teams are also working out alignment of the VFC/VPA pricing strategies which is quite complex as we work to sort out costs, dose forms, package quantities, shipping dynamics, competitive landscapes and stock/custom decisions. We have an opportunity to adopt a new pricing strategy for compounded medications on VFC that helps drive volume towards stock formulations (vs custom), larger package quantities (vs smaller orders), influence dose forms (tablets vs chews vs capsules), home delivery vs office use, considers sensitive products (i.e. top 10) vs insensitive, and to support upsell to AutoShip. We believe chewables and tablets are key sources of competitive advantage for VPA and we intend for our pricing strategies to shift volume here vs capsules --- see the below example to highlight the variance in per dose pricing for example. So, for 5mg cisapride, VPA pricing for chews is significantly below VFC and Wedgewood, and VPA tablets are 3/5 the cost of chewables. Adoption of pricing pegged at category leader Wedgewood would result in an incremental profit margin of $0.25 per capsule, which still reducing VFC pricing by 10% --- that assumes the order qualified as stock, autoship, larger pack quantity, etc, but the pricing would be 25% higher if custom, non-autoship and small pack size.

Cisapride Pricing

	VPA				Vets First Choice		Wedgewood			
		Dose Form								
Dose	Capsule	Chew	Flav Tab	MiniTab	Capsule	Chew	Capsule	Chew	FlavTab	TinyTab
0.5mg										
1.5mg							$0.56			
1.25mg										
1mg										
2.5mg					$0.54-1.39	$0.54-1.39	$0.56-1.04	$0.78-1.70	$0.34-.95	$0.30-.87
2mg										
3.5mg										
3mg										
4mg										
5mg					$0.54-1.39	$0.75-1.60		$0.78-1.70	$0.34-.95	$0.30-1.18
6mg										
7.5mg										
10mg					$0.54-1.39	$0.75-1.60	$0.59-1.20	$0.78-1.70	$0.34-.95	$0.30
15mg										
20mg										
25mg										
30mg			30	130,000						
35mg										

- Across dose forms, strengths, and quantity breaks, VPA's prices are generally lower than VFC and Wedgewood by a large margin

To stick with this topic for a moment, we have a number of scenarios where VFC has not previously been competitive for notably sensitive formulations. For dexamethasone oral power 10mg/5gm packets, VFC currently charges $250 for 60 units whereas VPA charges less than $100 and Wedgewood is $120 per unit. It hurts VFC's reputation to be this far off on a key formulation. We have an opportunity to reduce the price by 50% on VFC, but use incentives for autoship, stock and larger pack quantity to drive closer to VPA pricing (but still a 20-25% premium) but then maintain higher pricing when clients choose not to autoship, choose custom formulations or choose smaller pack sizes.



We are just starting to explore cross sell of customers and capabilities. VPA has one field sales rep, who is now reporting into Pat's team and has been driving customers onto VFC. We have significant needs to learn more about the VPA value prop and how to most effectively position this newly expanded capability to our respective customers. So far, so good.

We will get into more details on VPA at the board meeting in April.

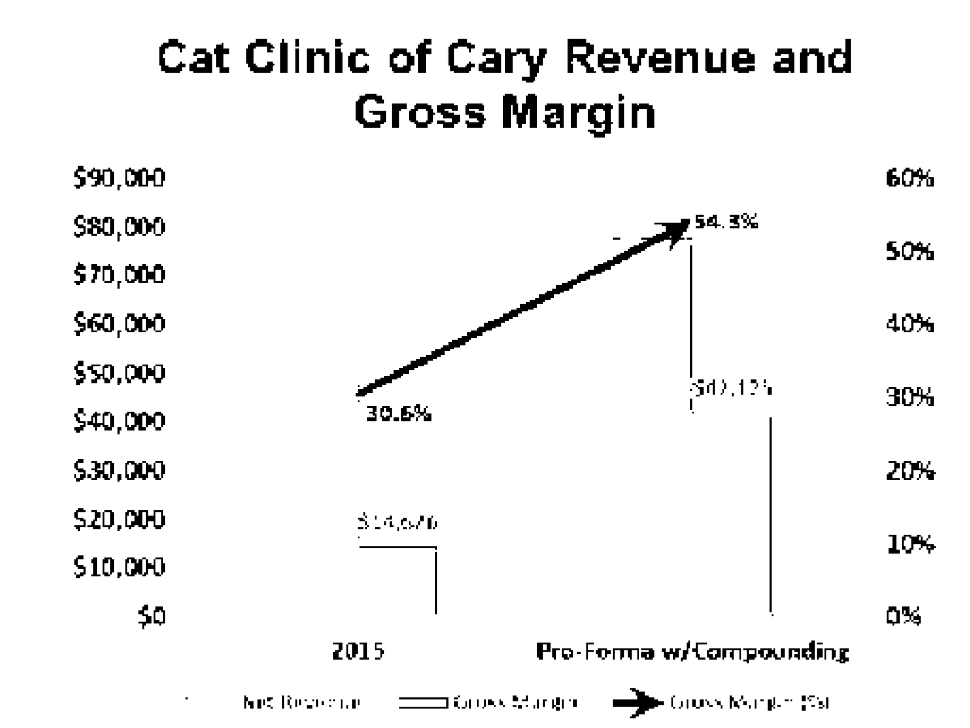
Unit economic analysis underway

A key topic of discussion at the Board retreat in December was a recognition that we need to better outline the long term unit economics for Vets First Choice. This was reiterated at JPM as a key aspect of the story that we'll need to be able to explain in a compelling manner. Significant work is underway to consider application of traditional measures of CAC and LTV models on our business, both from a customer and client perspective.

We continue to explore the impact of client activation (by species), product mix, pricing strategy, cost of customer acquisition, LTV considerations, manufacturer funds, and other initiatives, and the resulting impact on gross margins and contribution margins. There are many different levers available to the company to drive growth and profitability, and just a matter of prioritization, resource allocation and other execution considerations.

Consider as part of this analysis just the impact of specialty pharmacy at 92% margin, even prior to the above ideas for pricing strategy and optimization. Our feline practitioners prescribe $1250 per veterinarian per month in compounded medications, and more like $2500 per practice (2 doctor practices more common). Consider that leverage VFC's strong prescribing platform, autoship capabilities and incredible service offering allows us to be highly competitive in winning the compounding business. Success here can have a very substantial impact on gross margins --- even without factoring the many other opportunities for improvement (service fees, vet price, manufacturer programs, data fees, practice analytics, etc). At the Cat Clinic of Cary, securing the incremental $1250 per month in compounding revenue would have a 78% impact on gross margins ---- the resulting gross margin for the practice to VFC would be over 54% (up from 31% currently).

Significant single-unit gross margin impact



	2015	Compound Revenue	Pro-Forma w/Compound	% Variance
Net Revenue	$ 47,871	$ 30,000	$ 77,871	63%
Gross Margin	$ 14,626	$ 27,750	$ 42,376	190%
Gross Margin (%)	31%	93%	54%	78%

- $1,250 compounding revenue / vet / mo
  - Does NOT factor in improved compliance or price increase moving from VPA to VFC
- Cat Clinic of Cary is a 2-vet practice (3,500 feline practices in the US)
- Clients ordering compounded medications have chronic illness, and make ancillary purchases (diets, etc)
- Other gross margin levers:
  - Product mix
  - Manufacturer incentives
  - Service fees
  - Autoship subscription (refills)
  - Marketing services
  - Marketplace apps
  - Practice analytics

We had a similar discussion with equine practices. Top equine customers would gladly outsource their $25,000-50,000 in compounding pharmacy services to Vets First Choice given the convenience of our platform, e-prescribing capabilities, autoship and outstanding service platform ---- assuming a competitive assortment (advanced dose forms) and reasonably competitive pricing (vs Wedgewood) for top compounded medications.

Just making the point that we have great opportunities to deliver exciting improvements in single unit economics (gross margins, contribution margins and EBITDA).

Equine is a sweet spot, and equine compounding a bullseye

Susan has set a $5MM revenue target for equine and has clear line of sight to achieve the plan via growth of existing customers, new key accounts and an expanded product offering. We continue to enjoy a strong relationship with Luitpold and their sales team, and look forward to a busy year of joint sales initiatives across in 2016. We are working hard to bolster our relationships with other manufacturers including BIV, Merial, Zoetis and particularly Merck --- growth in key accounts is helping to provide needed leverage, and we expect these manufacturers will open up by mid-year. Key new agreements with EBMS (30 accounts), Oculus (60 accounts) and Inova (20 accounts) provide the needed visibility to top equine practice owners and their practice managers, and an ideal environment to onboard qualified accounts and share best practices. We met this past week with Dr Magnus in Maine, owner of Wisconsin Equine and founder of EBMS and Oculus, and have renewed a major partnership with his teams that creates significant and visible endorsement and credibility for VFC in the equine category. Dr Magnus has agreed to work with us in 2016 to establish an equine Pharmacy Study Group ™ of VFC customers to share best practices, review key performance metrics and tackle hot topics such as pricing strategy, team alignment / compensation, product mix, active recommendation, and more.

VFC participated in several key industry events in January, including FAEP in Occala Florida, Uculus in Scottsdale AZ and key account visits with South Shore Equine, Fairfield Equine and Steinbeck Equine. We met our equine target revenues for

January, and the team is well on target towards its 350 net new equine account enrollments for 2016.

Key opportunities to drive engagement and favorable product mix include the launch of our IOS mobile app (for mobile equine vets), 2-way integration with HVMS software and availability of a competitive compounding formulary from VPA. All are on track for delivery in 1H16.

As per above, I'm particularly enthusiastic about the availability of our enhanced compounding formulary and believe we can secure "preferred compounding pharmacy" as a standard expectation from all customers. Overcoming custom compounding, office use ordering, growth / lab capacity and pricing strategy work are key next steps.

<u>Integrative medicine is launched.</u>

We have begun to commercialize our integrative medicine platform with Emerson Ecologics. Recall we expect this will be a $2.8MM revenue stream in 2016. In January, sales of integrative medical products increased 57% to $150,000 over the PY period, and tracking to plan….we really have not even fully launched the service or begun upsell to Emerson accounts.

In January, Mike completed a thoughtful survey of our holistic veterinarian customers to confirm our product / brand selections and to gain insights into gaps. We also create a product information library for healthcare teams to gain access to product info to avoid any fear or push back that might come from offering products unfamiliar to veterinarians. We have loaded top brands of nutraceuticals from Rx Vitamins, Thorne, Nordic Naturals, American Biosciences, homeopathics from Zeel, Traumeel, Medinatura, Natural Veterinary Pharmaceuticals, Pet Alive, and ayurvedics from Ayush Herbs. The products are all ideally suited for our autoship services and prescription management model, and all fundamentally hard to find products for veterinarians (not supported by distribution).

Mike is doing a great job managing a unified launch strategy with both teams (Emerson), and gaining early excitement from customers, manufacturers and trade groups. He has been meeting with the Board of Directors at AHVMA and the American Veterinary Acupuncture Assoc to plan our participation and launch efforts at their conferences this year, and we will have strong exhibiting presence as well as sponsored speaking events which is exciting.

Training of internal teams has begun, and announcements to customers and manufacturers is happening both for VFC and Emerson. A key opportunity for us to upsell this offering to Emerson's 1,000 veterinary practice customers for upsell to our platform.

<u>CapsuleNet acquisition complete, and member upsell underway</u>

We finalized the acquisition of Capsulenet in mid-December and have integrated Dale into our sales team. There was no disruption in the business which was welcomed news. We are actively upselling Dale's ~500 active members to Vets First Choice, for which 32 are active customers and the rest new prospects. We intend to launch a steady stream of new promotions to these members aimed at utilization opportunities at Vets First Choice and Veterinary Pharmacies of America. CapsuleNet customers will be encouraged to enroll in these services, and to take advantage of important new promotions, services and benefits. To recap, the acquisition price of $30,000 was 0.5x 2015 net revenue of $60,000 on total purchasing activity of $2.5MM or 1.5x EBITDA of $20,000. We will recognize ~$60,000 in admin fees as net revenues in 2016, and provide up to $40,000 in performance based quarterly fees to Dale Bizarri to manage the business and achievement of agreed milestones (100 new VFC customers). Ultimately the primary benefits are the upsell of members to Vets First Choice and Veterinary Pharmacies of America, and the learning / insights into purchases of human cross over medications and medical surgical supplies to guide DVM Direct development efforts.

We are still actively working with Cardinal to identify opportunities to expand the formulary, and access medical surgical products. Ravi and I had a good visit to Assuramed in January, and we believe independence medical may be an opportunity to support an expanded offering of medical products. This is underway.

We have been presented several recent opportunities for continued acquisition and consolidation of veterinary GPOs and will learn more about these opportunities in the coming weeks.

<u>Corporate account team launched VIP, and is preparing to support Phase 2.</u>

As noted above,Corporate account revenue targets in 2016 are $5.4MM, which is significantly driven by VIP PetCare plus steady growth from other corporate accounts including NVA, PetPartners, Caring Hands, CornerVet and others.

Corporate Group	Strategy	Q4 Actual Net	Q1 QTD Week 6	Q1 Target	% to Goal	Current # Practices	Potential	%
VIP	*Transition and grow*	$ -	$ 114,936	$ 500,000	23%			
NVA	*New+ grow individually*	$ 173,721	$ 116,531	$ 270,931	43%	79	303	26%
PetPartners	*New+corporate training*	$ 93,249	$ 51,384	$ 116,245	44%	30	60	50%
Coyne Group	*Rx Management training*	$ 60,472	$ 33,732	$ 77,914	43%	12	12	100%
The Corner Vet	*Marketing collaboration*	$ 22,832	$ 14,832	$ 34,712	43%	10	10	100%
AZ Vet	*Refresh the relationship*	$ 19,781	$ 9,495	$ 24,818	38%	20	20	100%
VitalPet	*New+ grow individually*	$ 18,297	$ 15,011	$ 35,154	43%	6	15	40%
		$ 388,352	$ 355,921	$ 1,059,773	34%	157	420	37%
VetCor	*New+ corporate buy in*					6	161	4%
VPG	*Store/onboarding*					50	600	8%
PVCC	*Corporate buy in*					2	60	3%
TOTAL						58	821	7%
GRAND TOTAL						215	1,241	17%

Our new partnership with VIP PetCare launched in late December. This is a critical new account for us. Revenues QTD are $115,000, and we expect this account will grow significantly throughout the year. Of course VIP is a very seasonally impacted business with significant exposure to flea/tick/heartworm. Work is underway to ensure that we can support mobile apps for active recommendation in advance of the peak season, and this will be the key to unlocking significant engagement from their 2,000 veterinarians (!). The VIP launch was quite complex given the needed integration into their custom PIMS software, large / remote veterinary staff and coordinated cut-over from a competitor pharmacy to ensure proper prescription management / transfer. Also we have been needing to work closely with major manufacturers to support contract pricing for VIP and also to work out field sales support / awareness for the conversion. This is a very high profile account and was on everyone's radar at NAVC.

We continue to gain traction with other key corporate accounts, and are working to expand our team to provide greater management capabilities.

<u>CareConnect moving at a blistering pace.</u>

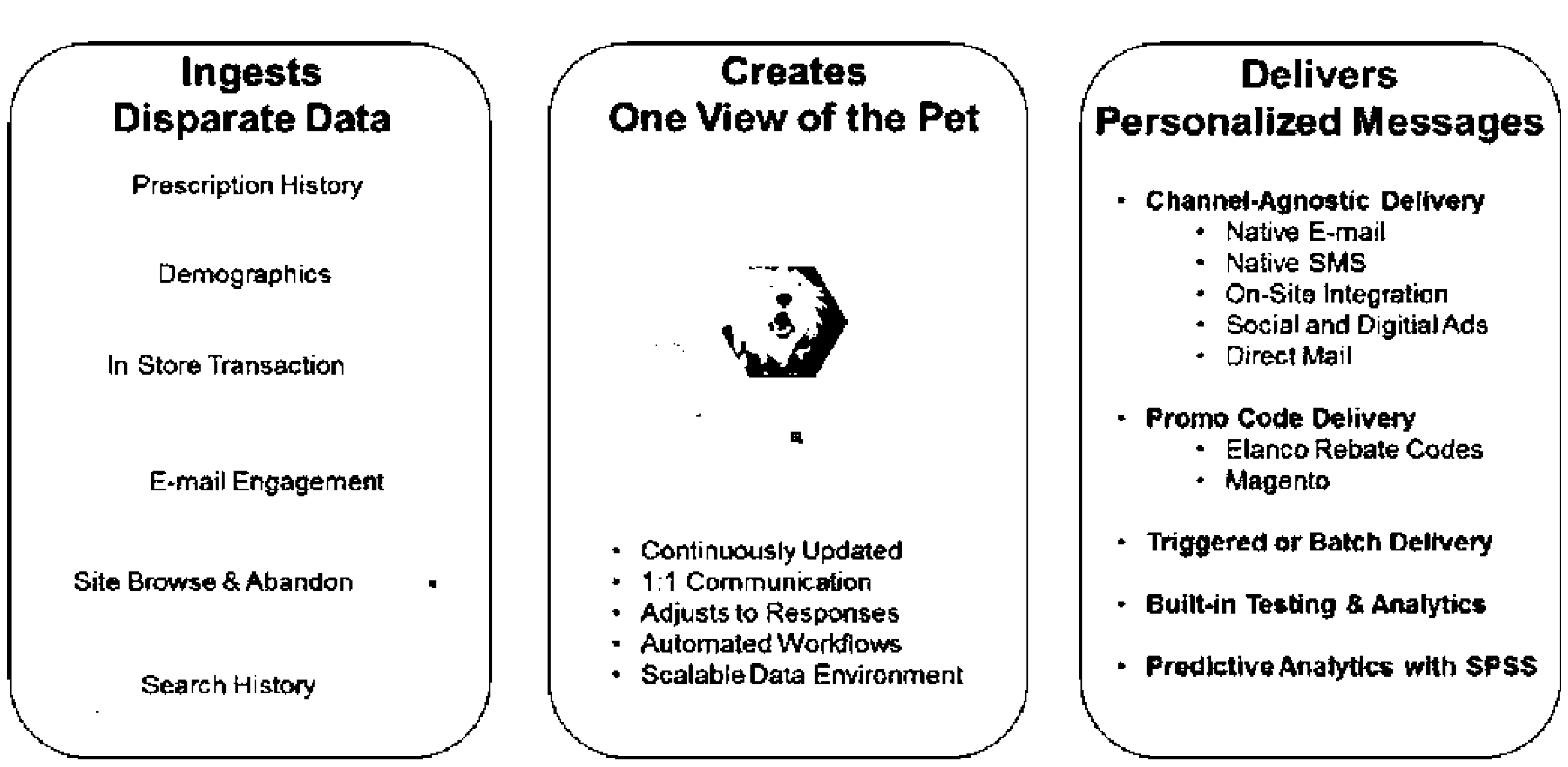
Wow. January has been a very intensive month for CareConnect teams, and hard to even know how to summarize this past 4 weeks. Let me start by reminding us of the purpose of CareConnect ---- CAREconnect enables manufacturer sponsored, permission based PIMS integrated client marketing and engagement programs, and represent an ideal leverage of the combined capabilities of VDS data services and VFC prescription management. We secured several commitments from manufacturer for CareConnect programs in 2015 – Bayer QUELLIN, Virbac SENTINEL and more recently Elanco for TRIFEXIS and INTERCEPTOR. In these programs, manufacturers will enroll practices into programs to clients that are Loyal Coming Due (Retain), Loyal Lapsed (Reacquisition), Competitive Coming Due & Competitive Lapsed (Acquisition), Non-Users & New Users (Acquisition). The CareConnect team facilitates enrollment with the manufacturer reps, accesses veterinary PIMS, normalizes transaction data, identifies patients that meet campaign criteria, facilitates active recommendation (scripts) and client marketing activity (email, dmail) to drive orders. There are four sources of value to us – a) data services fees of $240 per practice per year, b) marketing fees per practice per year, c) qualified new account enrollments / acquisition by manufacturer sales reps, and d) pharmacy revenues generated from active scripting and proactive emails/dmails/text/calls.

I would break up the report into 5 key topics as follows:

1. <u>Infrastructure.</u>

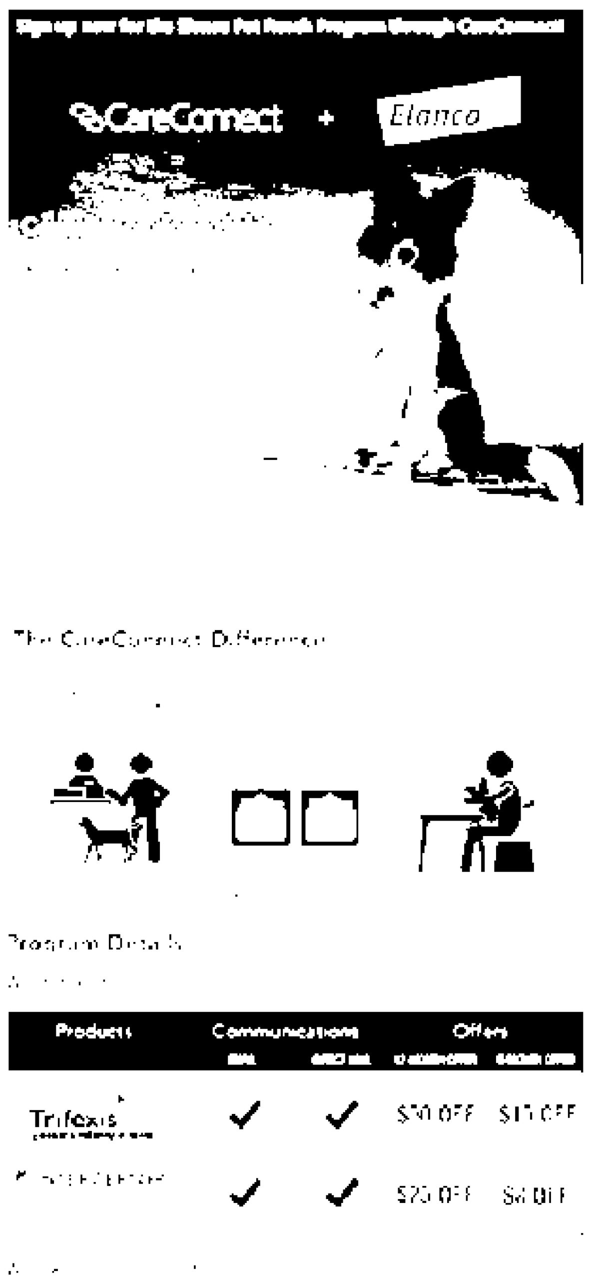
In late December / early January we made a decision to deploy IBM Marketing Cloud (Unica) as our campaign management platform to complement the ongoing Data Warehouse build. Unica will provide us the ability to quickly build, validate and execute complex marketing campaigns across channels, with an initial focus on the 2016 CareConnect programs but quickly also all aspects of our prescription management communications streams. A majority of IBM implementation work is being managed by a third party and they remain on track and on plan for implementation in March. There is a three year agreement with PinPoint (the third party) to help support implementation and management, and after that time DVM will own the solution as well as the associated IP, and can choose to renew the service agreement, or take full control of the stack.

To summarize the campaign management capabilities of Unica, we've prepared the below diagram:



FYI, we negotiated a substantial discount on IBM as part of a year end deal – more than 70% below list price. The package includes the software, support functions, licenses as well as SilverPop (email), native sms, social / digital integration, direct mail and other needed communication stream integration points.

2. Active campaigns.



We have enrolled more than ~750 accounts into CareConnect and are now sending client engagement emails. We have 140,000 emails ready to be sent for Sentinel in February (soft recommendations) which is really exciting. We are working to develop and refine templates, re-map content, confirm promotions and to explain why clients are receiving these emails. Remember --- these clients are significantly lapsed and so they are the hard nuts, and may be purchasing medications elsewhere.

In addition to significant continued progress towards Virbac and Bayer program implementation, we also launched a massive scale program with Elanco in January. The Elanco initiative is a client engagement program aimed at driving sales of TRIFEXIS and INTERCEPTOR at 2,000 practices selected and enrolled by Elanco's 300 field sales reps. In January, our teams trained all Elanco reps in-person in support of an early Feb launch which is now in full swing. This is significant -- just 2 years ago we were considered a nuisance and a distraction, and now we are the sole focus on the entire Elanco sales organization. Elanco's executive leadership team is focused on this effort, and they are eager to scale the program upon the earliest signs of success… and so not surprising to realize that this is consuming a lot of our B2C and engineering resources at the moment.

As Elanco is rapidly enrolling practices onto our platform (151 in week 2), VDS teams are madly normalizing PIMS data. I had a chance to visit the team two weeks ago in Lexington KY, and can offer that it's total madness as folks are installing, extracting, normalizing and reporting data at an furious rate. I tried to normalize one product at one practice worth of data and have deep respect for the work of that team, which is hard, fast and meticulous. NO ONE will ever be capable of doing what theyre doing.

Meanwhile, VFC is building the B2C campaign management infrastructure with Unica to support implementation of the campaign, and hoping that we can build the capability to support this program prior to anyone noticing that we don't yet have this capability…. Trevor and his team of outsourced data ninjas are literally working miracles and we have a lot of confidence that they will make this happen. Engineering teams led by Rob Ledford are building a massive PIMS data warehouse to support the b2c campaign platform, and that too is insanely funny to watch in a not so funny for Rob sort of way. The key hurdle underway is to figure out how to match up in-clinic PIMS data with online VFC transaction data --- how to confirm the clients are the same clients… it's likely a manual matching process.

3. Business development.

New contracts are coming our way at a rapid clip --- active contract discussions underway with Merial, BIV, Ceva, Bayer, Zoetis, Hills, Merck, RC and others. Virbac has extended our pilot program to a two year 1,000 practice and $1.4MM contract… an awesome extension for an unlaunched pilot program. This virbac program will include development of key account practice reports, and all accounts will be enrolled by the Virbac sales team (yeah!).

Also, I will call out the discussions with Zoetis which has been a senior level discussion involving a large scope of work aimed at practice insights, digital marketing programs, lifestage management, kitting strategies, rewards systems and pet wellness report cards. A third major meeting is scheduled with Zoetis management in March to review a refined list of top priorities, and we expect this may result in a 2016-17 engagement of significance. Stay tuned.

Across the board, there is a desire for us to develop and commercialize a robust aggregated de-identified data syndication platform (think IMS) and this would be quickly adopted by all of these manufacturers…. It's a big opportunity, and a hot topic of discussion for the team.

Ravi connected us to Ben Wolin at Everyday Health, which is a useful analog for the CareConnect business. We have some key advantages over EVDY whereas we are the pharmacy, and therefore can more easily measure and manage transactional activity. But EVDY has helped us think about best practices in terms of contract terms, and consider a more aggressive pay for performance model based on a % of incremental product revenue above baseline (i.e. 30-60% of sales above baseline). We are reviewing this feedback and will be factoring into upcoming discussions. The feedback is highly appreciated and amazingly helpful!

4. Team.

An incredible mix of skills sets, personalities and experience has been brought together to support this platform. Major recruiting is underway to fill project management, digital marketing, sales trainer and other positions. B2C teams will expect to significantly support the requirements from the above outlined efforts, and the VDS data normalization team could benefit from an incremental army of highly experience vet techs. Big organizational development topics at play here for both the short term and long term.

The success of this venture also has an impact on VDS and how VDS gets positioned to the market moving forward. As part of the visit to Lexington, Chad, Gary, Jared and I had an opportunity to frame options on how we describe the evolving relationship between VDS-VFC. We believe the rapid growth of CareConnect, plus expanded teams to support VDS inventory management software and marketplace solutions, creates an opportunity to focus the news on the expanded team and organizational design to support this rocket ship… more on this later.

5. Revenue.

We expect to enroll 1200 net new customers into CareConnect by end of year, with incremental VFC pharmacy revenues of ~$9MM plus $200,000+ in VDS data revenues. The team is hard charging against these targets, and there's no question that CareConnect has the potential to be a significantly important service to VFC. We just need the time to ensure B2B2C campaign optimization to ensure a great client engagement experience.

Also, the CareConnect platform has created the opportunity for a serious discussion of "LOYAL LAPSED" --- the ability to turn on a population health management service for ALL customers without need for manuf sponsorship aimed at driving engagement for patients that dropped off therapy. B2C and Unica teams will be making LOYAL LAPSED programming a major goal in 2016, and we expect this will become a central theme to our prescription management platform over the next 5 years.

Trevor owns B2C

Trevor has quickly assumed all responsibility for the B2C channel, and is breathing life and sense of opportunity into this key dimension of our business.

The board package includes an extended view from Trevor on his plans for the B2C channel and recap of specific goals. In a word, it's awesome.

Short term, B2C will be preparing to maximize peak season. This involves 5 key initiatives which are intended to drive a 150+% increase in Careminder revenue for Q2:16 vs Q2:15.

- Execute on CareConnect with Virbac, Bayer and particularly Elanco.
- Loyal Lapsed --- a new service offering derived from CareConnect, and will be a key new driver for Rx management
- Peak season communications plan --- we have a calendar of campaign and promotion activity, and will be fiercely testing offers, content and landing pages.
- Onsite experience --- a new presentation of pricing dubbed "strikethrough" pricing is underway and will be launched in March. Other refinements in landing pages, hero images and navigation is also underway for peak season readiness.
- Client experience --- we are professionalizing our ability to track, manage and respond to client feedback. And a cross functional team has been set up to own NPS scores and client feedback, which is terrific and we expect will generate a great focus on client experience for peak.

Longer term, B2C has established 5 areas of focus for 2016.

- Capitalize on prescription management. This effort will maximize the effectiveness of communications streams via Unica, improve client targeting and promotions planning, and help drive CareConnect and our Loyal Lapsed initiatives.
- Ecommerce expertise will be managed via improved instrumentation and greater leverage of first party data in SEM / social campaigns. Fundamentally, the team seeks to implement a greater A/B testing platform to optimize content, pricing, landing pages, usability and more. More adventurous, we hope to leverage our advantaged position in product assortment and pricing to win in SEM programs for high LTV keywords (i.e. methimazole for hyperthyroid cats).

- Brand perception and tracking is a core corporate goal for 2016 – Trevors team aims to help professionalize NPS tracking and reputation management solutions. The good news starting point here is that VFC enjoys very positive NPS scores from pet owners, and so we would expect that greater tracking, insight and prioritization could push us up and into an epic place.

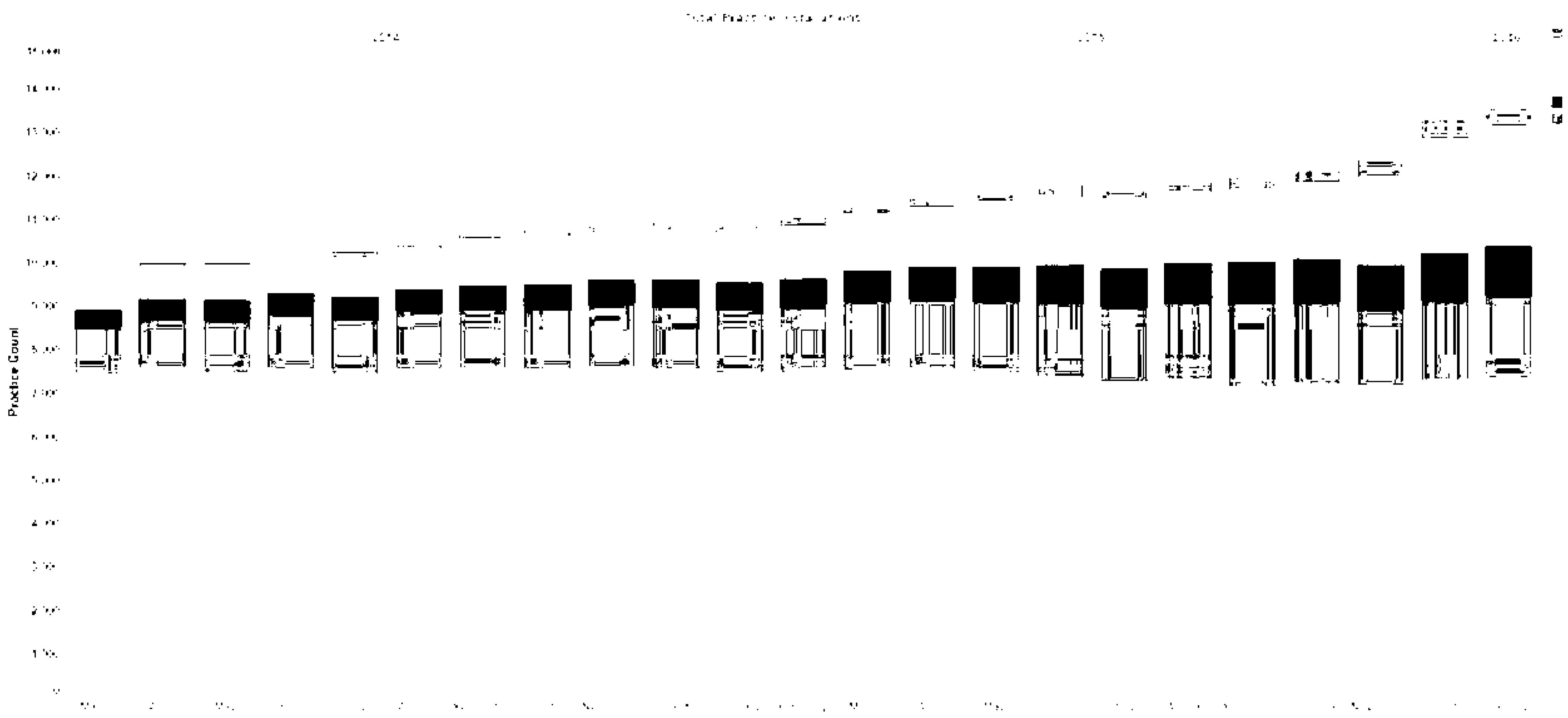
- Practice dashboards – we seek to commercialize a robust portfolio of practice insights for use by VFC teams, manufacturers and of course VHCTs. Virbac becomes our first customer for key account dashboards, and quickly we expect to innovate and move into more advanced views on walk-outs, compliance and gaps, as well as more innovative capabilities for delivery and reporting (vs pdfs).

- Build the B2C team – Trevor seeks to expand to 14 FTEs in B2C, and has quickly started to build out campaign management expertise as well as SCRUM-like project management cycles.

Expect for this to be a key topic in Omaha.

VetData cranking on data normalization and beyond.

VetData is more than just a little busy with data normalization to support CareConnect programs, and actively keeping up with other customer groups. We see significant potential in their inventory management solutions for corporate accounts, as well as opportunities to support pet insurance providers with an efficient claims service. Major new agreements from MWI, Embrace, Tsys and other providers are expected to help VDS achieve 2016 revenues and to achieve the target earn-out in July 1, 2016. Marketplace growth below reflects the big boost from CareConnect below.



Revenue from data services was $243k in January, and we expect to pick up significantly with the growth in CareConnect and other key partnerships over the coming months. For ex, January does not include any enrollments from Elanco.

As I said above, a recent visit to Lexington was very productive in terms of preparing for mid-year communications on key developments at VDS. Some important news to share:

1. Chad is eager to play an ongoing leadership role following the earn-out period, and we are delighted that he will be staying with us.

2. **Gary Watson is moving his family to KY this week**to provide greater onsite leadership and to more fully integrate with their teams.

3. Over the next few months we will seek to expand their leadership team to drive business development and to their manage their enterprise inventory management software business. This expanded team, plus the significant growth of CareConnect will be the focus of upcoming news to share with partners.

4. We are exploring IP harvesting opportunities at VDS with outside counsel.

5. VDS is moved into their new offices in Lexington --- check it out:

Happy times at VDS.

Engineering in midst of AWS conversion.

It's all hands at the moment to prepare for and manage the all important conversion from Rackspace to AWS. This is a nerve racking affair, although I have high confidence as per usual in our team led by Matt Pelletier. To summarize, next week we will move all of VFC, all storefronts, practice admin, PAW, WAG, DVM Admin and flow of funds processing from Rackspace to AWS. The only items not moved right now are PCI environment and transactional reporting which will be a second step.

AWS enables a vast array of advantages for us, and we are able to access a number of specific technologies that will be important. Amazon EC2 (virtual cloud servers), AWS elastic beanstalk (auto-scaling web apps is key), elastic load balancing, Amazon S3 for scalable storage, Amazon CloudFront (for content delivery network), AWS CloudFormation (creating and managing resources with templates), Amazon CloudSearch /. Elastic Search (search optimization), Amazon SQS (message queue services), etc. More generally, I see 4 key significant and immediate benefits beyond a long list of technical advantages:

1. Storefront auto-scaling is significant. We can now increase concurrent user sessions rapidly without loss in performance, which will be key for peak season moments. We have stress tested the system at 32,000 orders/hour which is pretty impressive.

2. We're on a path to on-demand order flow, versus batch-based processes. There is real disadvantage to our batch process, and contributes minutes of inefficiency in our order flow per order as we wait for scheduled jobs to run every 1 or 5 minutes… that goes away and is replaced by a queue based real-time on-demand service.

3. Improved reliability and automation in back-ups and failover systems. DevOps shift to infrastructure as code.

4. Full 4-tier architecture for development, testing, staging and production.

Also, we have successfully engaged, managed and supported an offshore QA testing team in Mumbai India. We were able to scale up to 14 qualified QA testing team members in a few weeks running 300+ test cases over-and-over at a very low cost. It worked really well and we were able to identify and resolve hundreds of cases. We're excited for this resource and have started using the team to test our mobile apps and more.

JPM Healthcare Conference went well… tracking for 1H17 IPO readiness

Vets First Choice presented on Tuesday morning at JPM. I think our presentation resonated well, and good engaged from investment bankers, institutional investors and strategics from the human healthcare market from my perspective. The founder/CEO speaker could have tried to be a little more enthusiastic and passionate in my opinion☺We had opportunities to meet with banking teams from JPM, Goldman, Morgan Stanley, Stefel and others. We met with cross over investors from Morgan, Wellington, Rock Springs, FMR, T Rowe, Redmile and more. Tim and I learned a lot, and appreciated all of the support from those able to join us.

Meanwhile we have made a critical hire to support our IPO readiness. On March 14th, Rebecca Burke will be joining Vets First Choice as our new Corporate Financial Controller. Rebecca has 20 years of Financial, Accounting and Leadership experience. Rebecca spent the last 8 years of her career with ConforMIS Inc. a medical technology company that manufactures and sells customized joint replacement implants -- she held both the Corporate Financial Controller and Senior Director of Finance positions. ConforMIS successfully completed an Initial Public Offering in 2015 for which Rebecca played a key role in that process. Rebecca comes to us with a wealth of financial, accounting, and public company experience including US GAAP financial reporting, SEC reporting, implementation of Sarbanes Oxley and strong overall accounting and financial knowledge.

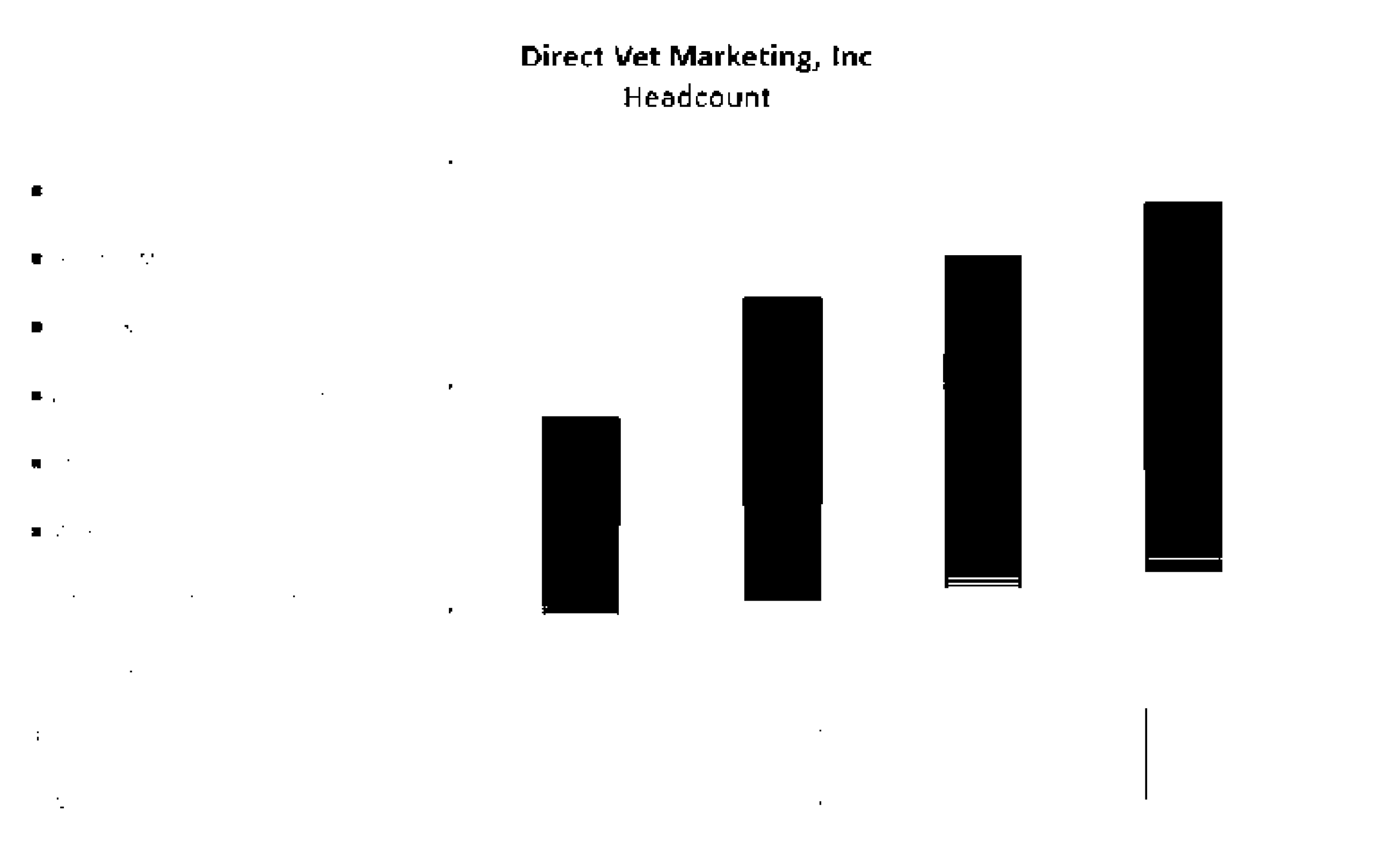
New facilities in TX, ME, KY and KS, and pursuing options in NE (show dog food delivery)

We have completed our moves into new offices in ME and KY this past few weeks, and we are preparing for upcoming relocations in TX and KS. In KS, we have identified new office space in Manhattan KS (known as the "little apple" and near KS State) that is a short drive for our operations in Wamego KS. This will provide a much needed expanded call center space, more bathrooms (!) and greater access to KS State for recruiting and other purposes. In Texas, we now plan to move VPA into a new building to support a much expanded laboratory space for expanded tablet production area, analytical chemistry / quality lab, and additional stock production areas. In Portland, we moved our sales team into a new office next door on Pearl St (~10,000 sq ft) which provided an expanded 3rd floor for the engineering team. In Portland, we also have an option to take over the 2nd floor of our current building which is awesome and will avoid a need for a full relo anytime soon. New sales office at Pearl St looks like this:

We will have an opport to review the new layout in Omaha, and efforts to better utilize space to support rapid growth this year. And there's work underway to think about the food fulfillment center, which is quite a scene given the growth in order volume. We're processing about 30,000 pounds of food per week from Omaha with 2 FTEs, and the pic below is a typical 2-3x per week look at the receiving process...

Organization continues to expand at a rapid rate.

We have ~283 FTEs, and have added important new hires in January. Per above, David Ball joins as Director of B2B Marketing, Andrew Papamichael joins as B2C marketing campaign manager and Jenny McDonald joins as e-marketing campaign lead. A summary of the team by functional area is below, and note a truly diverse period table of people and talents.



Department	Oct 2015	Nov 2015	Dec 2015	Jan 2016	% of Total
Warehouse	12	12	12	15	5%
Sales	23	25	26	42	15%
Pharmacy	27	26	31	27	10%
Pet Owner Practice Support	28	30	30	33	12%
Marketing	5	5	6	7	2%
Information Services	26	28	37	39	14%
Veterinary Pharmacies of America	0	39	43	43	15%
Finance & Admin	17	18	21	21	7%
Executive Mgmt	6	7	8	8	3%
Engineering	25	29	34	48	17%
Total Headcount	187	240	259	283	100%

Board meeting in Omaha --- meet the team and understand the process

We will be meeting THURS at 8:30AM at the VFC pharmacy. The goal is to use the time as follows:

1) 8:30AM. Get settled, checked in and recap agenda

2) 9-10AM. Jennifer will provide a tour of the operations

3) 10-12:30. We will hear from several key team members on key aspects of the operation, including pet owner services, warehouse, inventory management, regulatory, quality and pharmacy services. Each of these team members will intro themselves and provide some notes on their function, context and reflect on key 2016 goals. It will be fun for you to hear directly from these team leaders, and get a chance for direct engagement....and vice versa.

4) 12:30-2:00. We will swing into a broader board agenda topics including a chance for Trevor to recap key B2C goals (45 min). We will also update on key B2B updates and growth initiatives, as well as hearing from engineering on the key AWS effort underway.

5) 2-3PM. Executive session.

6) We need to be headed for the airport at ~3PM local time.

Administrative topics.

- Approve December board meeting minutes

Look forward to the discussion,

Ben