

Animalcare

Interim Report 2009



Animalcare, the supplier of pharmaceutical and other premium products and services to the veterinary industry and the manufacturer and supplier of premium quality livestock products to agricultural retailers announces its interim results for the six months ended 31 December 2008.

Chairman's statement



I am pleased to report the unaudited results for Animalcare Group plc for the six months to 31 December 2008 which show a substantial increase in both group revenue to £7.76 million (2007 - £3.41 million) and EBITDA (earnings before interest, taxation, depreciation and amortisation) to £0.82 million (2007 - £0.12 million), reflecting the impact of the acquisition of Animalcare Limited in January 2008.

The Animalcare Limited business continued to perform in line with expectations. Revenue across the period was £4.3 million, which compares favourably with £3.9 million across the same period in 2007, prior to acquisition. The two recently introduced generic veterinary medicines, Benazecare and Buprecare, have performed satisfactorily and we are pleased to announce that we have been granted an extension of the marketing authorisation for Benazecare to include the treatment of renal failure in cats. In addition we have been granted marketing authorisations in the UK and other European markets for Cephacare, a generic version of the antibiotic Cephalexin for the treatment of skin conditions in dogs and cats.

The Ritchey livestock business delivered revenue of £3.4 million, in line with the same period in 2007, achieving modest growth offset by the change to trading arrangements with a major supplier as detailed in the 2008 annual report.

Adjusted operating profit (excluding intangible asset amortisation, impairment of goodwill and fair value losses on interest rate hedging) was £0.66 million (2007 – £0.01 million loss) and operating profit was £0.55 million (2007 - £0.01 million loss). Adjusted basic earnings per share (excluding intangible asset amortisation, impairment of goodwill and fair value losses on interest rate hedging) increased to 1.5p (2007 – 0.1p loss). Basic earnings per share increased to 0.3p (2007 – 0.1p loss). Net cash flow from operating activities was £0.94 million (2007 - £0.12 million outflow) and at 31 December 2008 the Group had net debt (total borrowings less cash and cash equivalents) of £4.99 million (2007 - £0.23 million cash).

In line with previous years the Company is not declaring an interim dividend.

A handwritten signature in white ink, appearing to read 'J S Lambert', written over a dark blue background.

J S Lambert
Chairman



“I am pleased to report that trading across the second half of the year is in line with your Board’s expectations. The companion animal market remains strong and we are confident that our veterinary medicine development programme will continue to deliver satisfactory results. Whilst livestock farmers benefited from higher selling prices in 2008, market volumes declined slightly behind the ongoing decline in livestock numbers.

Your Board will continue to focus on delivering profitable growth through organic sales growth and, in line with our stated strategy, we will also consider acquisitions that will strengthen our market position and enhance earnings.”

James Lambert, Chairman.

Highlights

	6 months ended December 2008	6 months ended December 2007	12 months ended June 2008
Revenue	£7.76m	£3.40m	£11.76m
Adjusted operating profit/(loss)*	£0.66m	(£0.01m)	£1.38m
Operating profit	£0.55m	(£0.01m)	£1.28m
Adjusted Profit before tax*	£0.43m	(£0.01m)	£1.21m
Profit before tax	£0.09m	(£0.01m)	£1.11m
Adjusted Earnings per share*			
Basic	1.5p	(0.1p)	8.4p
Fully diluted	1.4p	(0.1p)	8.3p
Earnings per share			
Basic	0.3p	(0.1p)	7.7p
Fully Diluted	0.3p	(0.1p)	7.6p
Dividend	—	—	2.25p

* Excluding intangible asset amortisation cost, impairment of goodwill and fair value losses on interest rate hedging.



FINANCIAL REVIEW

In the six months to 31 December 2008 the Group achieved consolidated revenue of £7.76 million (2007 - £3.41 million), operating profit of £0.55 million (2007 - £0.01 million loss) and profit before tax of £0.09 million (2007 - £0.01 million loss).

Reported profitability reflects charges of £0.12 million (2007 - nil) in respect of the amortisation of intangibles and £0.23 million (2007 - nil) in respect of an adverse movement in the fair value of interest rate swap contracts held by the Company following the unprecedented reduction in LIBOR during the period under review. Excluding these items, adjusted operating profit and pre tax profit for the six months to 31 December 2008 were £0.66 million (2007 - £0.01 million loss) and £0.43 million (2007 - £ 0.01 million loss) respectively.

Consolidated revenue, including the effects of the Animalcare Limited acquisition, is discussed in the Chairman's Statement. The six months to 31 December represents the seasonal low period for the Ritchey division which typically enjoys a higher proportion of its revenues in the second half of the year.

Consolidated gross profit for the six months to 31 December 2008 was £4.40 million (2007 - £2.03 million) which represents a gross margin of 56.7% (2007 - 59.7%); the reduction in gross margin reflects the relatively lower gross margin of the Animalcare Division.

Distribution and administrative expenses, excluding amortisation of intangibles, totalled £3.74 million (2007 - £2.03 million); these costs continue to be tightly controlled.

Net finance costs for the six months to 31 December 2008 were £0.45 million (2007 - nil) which include a £0.23 million charge detailed previously in respect of adverse movement in the fair value of interest rate swap contracts at the reporting date.

After provision for corporation tax of £0.03 million (2007 - nil), retained profit for the period was £0.07 million (2007 - £0.01 million loss).

Net cash inflow from operating activities in the six months to 31 December 2008 was £0.94 million (2007 - £0.12 million outflow). After capital expenditure of £0.18 million (2007 - £0.11 million), dividends of £0.45 million (2007 - nil) and loan repayments of £0.74 million (2007 - nil), net cash utilised was £0.42 million (2007 - £0.27 million utilised).

At 31 December 2008 net debt (borrowings less cash and cash equivalents) was £4.99 million (2007 - £0.23 million cash) representing 35% of shareholders funds. Group borrowings totalled £5.95 million comprising £5.03 million repayable over four years and £0.92 million repayable over 11 years. Additionally, the Group had undrawn committed borrowing facilities at 31 December 2008 to the value of £700,000 which is available for general corporate and working capital requirements until 14 June 2009. At 31 December 2008 the Group held cash and cash equivalents to the value of £0.96 million (2007 - £0.38 million). Further disclosures regarding financing, liquidity and risk are contained in Notes 2 and 8 to the financial statements.

Cautionary Statement

This Interim Management Report ('IMR') consists of the Chairman's Statement and the Finance Review, which have been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied upon by any other party or for any other purpose.

The IMR contains a number of forward-looking statements. These statements are made by the directors in good faith based upon the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

This interim management report has been prepared for the Group as a whole and therefore emphasises those matters which are significant to Animalcare Group plc and its subsidiary undertakings when viewed as a whole.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 31 December 2008

	6 month period ended 31 December 2008	6 month period ended 31 December 2008	6 month period ended 31 December 2008	6 month period ended 31 December 2007	12 month period ended 30 June 2008	12 month period ended 30 June 2008	12 month period ended 30 June 2008
	Before other items Unaudited £'000	Other items (*) Unaudited £'000	Total Unaudited £'000	Total (*) Unaudited £'000	Before other items Audited £'000	Other items (*) Audited £'000	Total Audited £'000
Note							
Revenue	7,761	—	7,761	3,406	11,755	—	11,755
Cost of sales	(3,359)	—	(3,359)	(1,376)	(5,070)	—	(5,070)
Gross profit	4,402	—	4,402	2,030	6,685	—	6,685
Distribution costs	(272)	—	(272)	(164)	(440)	—	(440)
Administrative expenses	(3,469)	(116)	(3,585)	(1,870)	(4,869)	(98)	(4,967)
Operating profit/(loss)	661	(116)	545	(4)	1,376	(98)	1,278
Investment income	48	—	48	12	85	—	85
Finance costs	(277)	(225)	(502)	(15)	(250)	—	(250)
PROFIT/(LOSS) BEFORE TAX	432	(341)	91	(7)	1,211	(98)	1,113
Tax	5 (121)	95	(26)	2	(237)	17	(220)
PROFIT/(LOSS) FOR THE PERIOD	4 311	(246)	65	(5)	974	(81)	893
Basic earnings/(loss) per share	6 1.5p	(1.2p)	0.3p	(0.1)p	8.4p	0.7p	7.7p
Diluted earnings/(loss) per share	6 1.4p	(1.1p)	0.3p	(0.1)p	8.3p	0.7p	7.6p

The profit and loss account has been prepared on the basis that all operations are continuing operations.

(*) IAS1 encourages additional measures where relevant to understanding financial performance and certain "Other items" have been disclosed separately to give an indication of the underlying earnings of the group; these "Other items" relate to the amortisation of intangibles, the impairment of goodwill and fair value gains and losses on financial instruments.

The directors amended the definition of "Other items" during the current period to include fair value gains and losses on financial instruments and have restated the presentation of previous periods accordingly. There were no such items during the 6 month period to 31 December 2007.

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Six months ended 31 December 2008

	6 month period ended 31 December 2008 Unaudited £'000	6 month period ended 31 December 2007 Unaudited £'000	12 month period ended 30 June 2008 Audited £'000
Profit/(loss) for the financial period	65	(5)	893
Total recognised income and expense	65	(5)	893

CONDENSED CONSOLIDATED BALANCE SHEET

Six months ended 31 December 2008

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
NON-CURRENT ASSETS			
Goodwill	15,388	2,677	15,388
Other intangible assets	1,985	94	2,065
Property, plant and equipment	1,732	1,670	1,743
	19,105	4,441	19,196
CURRENT ASSETS			
Inventories	2,054	1,352	1,818
Trade and other receivables	2,150	1,200	2,438
Cash and cash equivalents	963	377	1,420
Derivative financial instruments	—	—	59
	5,167	2,929	5,735
TOTAL ASSETS	24,272	7,370	24,931
CURRENT LIABILITIES			
Trade and other payables	(2,275)	(709)	(1,934)
Current tax liabilities	(173)	(31)	(187)
Bank overdraft and loans	(883)	(147)	(919)
Deferred consideration	(91)	(65)	(91)
Derivative financial instruments	(166)	—	—
CURRENT LIABILITIES	(3,588)	(952)	(3,131)
NET CURRENT ASSETS	1,579	1,977	2,604
NON-CURRENT LIABILITIES			
Bank loans	(5,065)	—	(5,800)
Deferred income	(818)	—	(775)
Deferred consideration	—	(34)	—
Deferred tax liabilities	(489)	(252)	(580)
	(6,372)	(286)	(7,155)
TOTAL LIABILITIES	(9,960)	(1,238)	(10,286)
NET ASSETS	14,312	6,132	14,645
CAPITAL AND RESERVES			
Called up share capital	3,951	1,132	3,951
Share premium account	5,824	943	5,824
Profit and loss account	4,537	4,057	4,870
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14,312	6,132	14,645

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 31 December 2008

	6 month period ended 31 December 2008 Unaudited £'000	6 month period ended 31 December 2007 Unaudited £'000	12 month period ended 30 June 2008 Audited £'000
Operating profit/(loss)	545	(4)	1,278
Adjustments for:			
Depreciation of property, plant and equipment	160	111	249
Amortisation of intangible assets	116	15	98
Share based payment award	47	—	42
Deferred income	43	—	59
Loss on disposal of property, plant and equipment	—	—	(6)
Operating cash flows before movements in working capital	911	122	1,720
Increase in inventories	(236)	(234)	(27)
Decrease in receivables	288	200	93
Increase/(decrease) in payables	341	(206)	19
Cash generated by/(utilised in) operations	1,304	(118)	1,805
Income taxes paid	(132)	—	(123)
Interest paid	(277)	(15)	(247)
Interest and investment income received	48	12	23
Net cash inflow/(outflow) from operating activities	943	(121)	1,458
Investing activities:			
Payments to acquire intangible assets	(76)	(54)	(216)
Payments to acquire property, plant and equipment	(108)	(51)	(186)
Receipts from sale of property, plant and equipment	—	—	19
Acquisition of Animalcare Limited	—	—	(14,395)
Settlement of deferred consideration	—	(46)	(54)
Net cash used in investing activities	(184)	(151)	(14,832)
Financing:			
Receipts from issue of share capital	—	—	7,700
Equity dividends paid	(445)	—	(127)
New bank loans	—	—	6,900
Repayment of bank loans	(735)	—	(217)
Net cash used in financing activities	(1,180)	—	14,256
Net (decrease)/increase in cash and cash equivalents	(421)	(272)	882
Cash and cash equivalents at start of period	1,384	502	502
Cash and cash equivalents at end of period	963	230	1,384
Comprising:			
Cash and cash equivalents	963	377	1,420
Bank overdrafts	—	(147)	(36)
	963	230	1,384

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

1. GENERAL INFORMATION

The unaudited financial information contained in this half yearly report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS). These condensed consolidated accounts do not include all of the information required for full annual financial statements.

This half-yearly report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985, and should be read in conjunction with the 2008 Annual Report. The information contained herein has not been reviewed by the Company's auditors, nor has it been delivered to the Registrar of Companies.

The financial information for the year ended 30 June 2008 has been derived from the audited financial statements of Animalcare Group plc (formerly Ritchey plc) as delivered to the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2. BASIS OF PREPARATION

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement. The Chairman's Statement also includes a summary of the Group's financial position, its cash flows and borrowing facilities.

The Group's principal committed financing facilities are not due for renewal within the next 4 years. Additionally, the Group had undrawn committed borrowing facilities at 31 December 2008 to the value of £700,000 which is available for general corporate and working capital requirements until 14 June 2009.

Overall, the directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements of Animalcare Group plc are prepared in accordance with the IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

The accounting policies and methods of computation applied are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2008. There have been no changes in the nature of key estimates and judgments made in applying the Group's accounting policies as explained in the 2008 Annual Report and Financial Statements which has been published on the Group's website at: <http://www.animalcaregroup.co.uk/corporate-documents-and-shareholders-communications/default.aspx>.

4. REVENUE AND OPERATING SEGMENTS

For management purposes, the Group continues to be organised into two operating divisions – the companion animal division (Animalcare Ltd) and the livestock division (Ritchey). These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

The Animalcare Ltd division supplies and distributes animal medicines, identification technology and other products to the veterinary market; and

The Ritchey division manufactures and distributes livestock identification, cleaning and other livestock products.

Segment information is presented below. Unallocated corporate expenses relate to administrative costs of centralised Group management.

No comparatives are presented for the 6 months ended 31 December 2007 as all activities for that period fell entirely within the Ritchey division.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

	Animalcare Ltd 6 months ended 31 December 2008 £'000	Ritchey 6 months ended 31 December 2008 £'000	Eliminations 6 months ended 31 December 2008 £'000	Consolidated 6 months ended 31 December 2008 £'000
Revenue				
External sales	4,331	3,448	—	7,779
Inter-segment sales	(18)			(18)
Total revenue	4,313	3,448	—	7,761
Result				
Segment result before amortisation	826	56	—	882
Amortisation of intangible assets	(102)	(14)	—	(116)
Segment result	724	42	—	766
Unallocated corporate expenses				(221)
Operating profit				545
Net finance costs				(454)
Profit before tax				91
Tax				(26)
Profit after tax				65

	Animalcare Ltd 12 months ended 30 June 2008 £'000	Ritchey 12 months ended 30 June 2008 £'000	Eliminations 12 months ended 30 June 2008 £'000	Consolidated 12 months ended 30 June 2008 £'000
Revenue				
External sales	3,971	7,784	—	11,755
Inter-segment sales	—	—	—	—
Total revenue	3,971	7,784	—	11,755
Result				
Segment result before amortisation	955	484	—	1,439
Amortisation of intangible assets	(74)	(24)	—	(98)
Segment result	881	460	—	1,341
Unallocated corporate expenses				(63)
Operating profit				1,278
Net finance costs				(165)
Profit before tax				1,113
Tax				(220)
Profit after tax				893

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation is based on an estimate of the likely effective tax rate for the full year.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted earnings per share computations.

No diluted loss per share has been calculated for the 6 month period ended 31 December 2007 since loss making during that period would cause the share options to be anti-dilutive.

	6 month Period ended 31 December 2008	6 month period ended 31 December 2008	6 month period ended 31 December 2008	6 month period ended 31 December 2007	12 month period ended 30 June 2008	12 month period ended 30 June 2008	12 month period ended 30 June 2008
	Before other items	Other items (*)	Total	Total	Before other items	Other items (*)	Total
Net profit/(loss) attributable to equity holders of the parent (£'000)	311	(246)	65	(5)	974	(81)	893
Basic weighted average number of shares	19,756,225	19,756,225	19,756,225	5,593,953	11,617,422	11,617,422	11,617,422
Dilutive potential ordinary shares:							
Employee share options	1,185,124	1,185,124	1,185,124	38,590	160,480	160,480	160,480
Diluted weighted average number of shares	20,941,349	20,941,349	20,941,349	5,632,543	11,777,902	11,777,902	11,777,902

* As defined within the condensed consolidated income statement.

7. DIVIDENDS

	6 month period ended 31 December 2008 Unaudited £'000	6 month period ended 31 December 2007 Unaudited £'000	12 month period ended 30 June 2008 Audited £'000
Final dividend paid for the year ended 30 June 2007 of 2.25p per share	—	—	127
Final dividend paid for the year ended 30 June 2008 of 2.25p per share	445	—	—

8. PRINCIPAL RISKS AND UNCERTAINTIES

Trading in the period since 31 December 2008 has been in line with the directors' expectations and prospects appear positive for the remainder of the financial year. The company's principal risks and uncertainties remain those set out in the last annual report; however the directors are mindful of the current turmoil in financial markets and of the climate of economic pessimism. Although the Group has experienced no significant effects attributable to the deterioration in general economic conditions this now represents an additional risk to its trading prospects.

9. COPIES OF STATEMENT

A copy of this report will be posted to shareholders today and will be available on request from the Company's registered office at Fearby Road, Masham, Ripon, North Yorkshire HG4 4ES and will shortly be available to download from its website at www.animalcaregroup.co.uk

Notes:





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