

CHIEF EXECUTIVE'S REVIEW



“We have made great progress in the year with increased revenues, our development pipeline delivering, exports growing and exploring exciting opportunities to invest in innovation.”

IAIN MENNEER Chief Executive Officer



Introduction

I am very pleased with the progress we have made this year. Our revenues have continued to grow, +8.6% to £14.7m (2015: £13.5m). Our export strategy is already making early gains from ‘low hanging fruit’ with more to follow once product registrations have been made in the various territories we serve.

We have been in an investment phase for almost three years now. As expected the products from that investment are now starting to flow from the development pipeline and, at the same time, our core business continues to perform well in a tough commercial environment. Projects further back in the development pipeline are also progressing well in accordance with plan.

Our shareholders can be assured that our plans are on track and we are confident they will continue to deliver.

Momentum in the period has been supported by further work to ensure the business has a strong platform for growth.

Business Review

Growth has come from all areas of the business.

Licensed Veterinary Medicines

The Licensed Veterinary Medicines group continued to grow strongly in the financial year increasing by 7.7% to over £9.2m (2015: £8.6m). In general the new products we have launched over the last five years continue to gain market share and grow revenues, while the older products in the final phases of their product life cycles are being eroded by commercial pressures and by substitution. However, five new pharmaceutical products were launched on distribution late in the prior year. With no new products to launch in this period this allowed us to focus on consolidating our market position for these products; the combined revenues of these five products increased by 262% to £0.95m (2015: £0.26m).

Companion Animal Identification

Compulsory microchipping of dogs became law in England, Scotland and Wales in April 2016. Not only is it a legal requirement for all dogs over the age of eight weeks to be microchipped it is also mandatory for the dog's keeper's name and contact details to be registered on a DEFRA approved database. We did not experience any uplift in microchip sales or database registrations until April when we had an unprecedented surge in both. Through careful planning and the considerable efforts of our staff and suppliers we managed to supply all our veterinary customers and ensure all registrations were fulfilled in a timely manner, unlike several of our competitors.

It is too soon after the disruption to the market caused by this legislative change to conclude the long-term impact, but we believe there will be a lasting reduction in realised prices and microchip volumes. This was predicted and so plans are in the advanced stage to evolve our business models and market offering.



CHIEF EXECUTIVE'S REVIEW CONTINUED

Animal Welfare Products

The Animal Welfare Product group grew again in the period with an increase of 5.1% to £2.8m (2015: £2.6m). Our Infusion Accessories range grew by almost 10% as a result of sales and marketing focus and withdrawal of a modest competitor during the year. The Hygiene Products range grew too as a result of renewed focus following the launch of a new range of hard surface cleaners in the period which increased by 12% to £0.67m.

Export

Martin Gore joined Animalcare on 1st July 2015 in the role of Head of Export Development to focus on growing our product distribution in existing and new territories in Europe as this had underperformed in the past due to lack of focus. A year on, this has proved to be a great success not only growing revenues of

existing products in existing territories but also sales of existing over-the-counter veterinary medicines products in new territories. This has resulted in export sales growth of almost 23% on the prior period. Martin has signed distribution agreements for some of our veterinary licensed products in territories well beyond Europe. Being regulated products there will be a modest delay until first sales while local licences are secured.

People

Animalcare, like any organisation, is only as good as its employees. Therefore we have worked hard over the last three years during our investment phase to make sure we have the right people in the right roles to deliver our plan. We are well through this process to ensure we have the necessary roles covered and have made further important progress during the period. Underpinning the changes we have made to our team was the introduction

of a Talent Management Programme which is a framework to make sure we recruit, develop, reward and engage all our employees as best we can.

In addition to recruitment in export sales, we have further strengthened our product development and registration team with appointments in both areas. To reflect the evolution of the UK veterinary customers towards consolidated corporate customers and buying groups we have strengthened our sales team yet further with experienced key account specialists now on the team.

We have conducted a review of our supply chain and identified key areas to improve supplier performance and demand planning. Consequently we have started to build a specialist supply chain team late in the period.



Product Development

Three years ago we overhauled our product development activities and embarked on a large number of new projects. These projects were expected to take approximately three years to reach commercial launch. It is therefore very satisfying to see the successful registration of three products in the period, right on target.

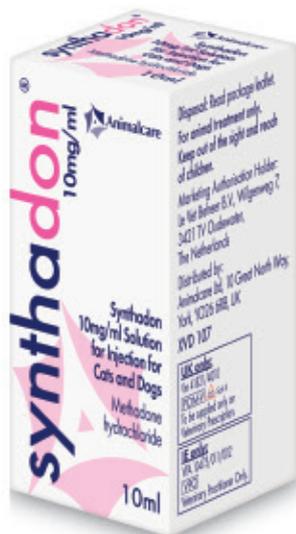
Two years ago Animalcare took the decision to move the contract manufacture of its largest product, Aquapharm I.V. Fluids, away from a global manufacturer to one better suited in terms of flexibility, cost, size and culture. This was the largest development and regulatory project tackled to date. I am pleased to report that the project went smoothly and was fully implemented in H2 FY16 with no product supply disruption or impact on our customers.

The impact of the contract manufacturing move detailed above meant the loss of UK distribution rights for a general anaesthetic, Isocare. We embarked on a project to register our own product. The product was successfully registered in H2 and has since been launched to the market, again with no disruption, in Q1 FY17.

Both these products were solely UK licensed so we took the opportunity to extend the product authorisations to several European territories.

Another product successfully registered in H2 was Acecare, a premedicant to complement our extensive anaesthetic and analgesic range. It is the first generic acepromazine on the UK veterinary market.

In all we submitted five licence applications during the period, a record number for Animalcare. Furthermore, during the period we prepared, entirely in-house, Animalcare's first dossier submission to the veterinary regulatory authorities. Until now we have relied to a varying degree on external consultancies. This is a measure of the level of experience and quality of personnel that now work in the technical and regulatory team.



The further strengthening of our product development and registration function gives us greater capacity to uncover novel and more complex product opportunities by expanding our network. We have a growing database of such ideas. We are also attracting more distribution opportunities from a wider pool of animal health companies, most from outside the UK.

Brexit

The referendum result in June 2016 will inevitably have an impact on our business, although the extent of this is, of course, still unclear. The timing of the result allowed us to put plans in place to incorporate the initial currency instability into our new financial year and we will continue to monitor the situation and take necessary and available action.

The encouraging early progress of our sales in territories outside Europe will go some way to diversifying our markets in the short-term. The launch of products will take one to two years to materialise due to the various pharmaceutical regulatory requirements in place.

Subsequent changes to the European pharmaceutical regulatory framework are of course currently unknown but we will monitor this closely and put plans in place to protect our business.

Summary and Outlook

I am confident that we have built a strong and scalable platform in the business. We will continue to focus hard on our in-house development pipeline and our efforts to source novel products. The strong progress made on our distribution territory expansion will be cemented and we will make further progress with regulatory registrations through the year. We recognise that it is vital for the future of the business that we identify the right products and invest in novel products. Animalcare will continue to be active on this key strategic front.

Whilst the animal health industry evolves with customer consolidations and supplier M&A we have shown that we can continue to grow organically through launching new products and providing a superior service to our customers.

With the first products successfully through our development pipeline we will start to see early revenue growth with more significant impact in subsequent periods. More product registrations are expected in the current period.

In summary, Animalcare is in good health, generating strong cash flows to invest in the business and at such a rate that we are in a position to step up our investment in products and wider opportunities to provide the long-term success of the business.

IAIN MENNEER
Chief Executive Officer

