CHIEF FINANCIAL OFFICER'S REVIEW

"2016 was a strong year for the Group achieving underlying operating profit ahead of market expectations ."

CHRIS BREWSTER Chief Financial Officer

Presentation of Results

We present our financial results on two bases. Underlying results show the performance of the business before exceptional and other items since the Directors believe this provides a clearer understanding of business performance. IFRS results include these items to give the statutory results.

Overview of Financial Results

The Group has delivered another year of strong top line growth whilst we continue to invest in our business. Underlying operating profit increased by 2.6% compared with previous year to £3.2m, slightly ahead of recently revised market forecasts of £3.1m.

We have maintained sound financial discipline and our balance sheet strength continues to build, reflecting the cash generative nature of our operations. Group cash balances increased to £7.1m as at 30th June 2016, providing the business with the funds we need to continue the momentum of our product development pipeline and support future growth.

Revenue

£'000	2016	2015	% change
Licensed Veterinary Medicines	**9,238**	8,579	7.7%
Companion Animal Identification	**2,680**	2,309	16.1%
Animal Welfare Products	**2,783**	2,648	5.1%
Total Revenue	**14,701**	13,536	8.6%

Revenue increased by 8.6% to £14.7m (2015: £13.5m) driven by growth in the UK of 7.2% and outside the UK of 25.8%. As a result export revenues contributed 8.2% (2015: 7.1%) of Group revenues.

The Licensed Veterinary Medicines group, which represents 63% of total revenue, continued its strong track record of growth, with sales up 7.7% to £9.2m, primarily reflecting full year sales of new products launched during FY15 which increased by £0.7m. Like-for-like sales declined by 0.3% with growth in our export business offsetting the prior year UK c£0.2m non-recurring first half benefit from sales of Buprecare in the UK as a result of supply issues with a competitor.

Companion Animal Identification sales increased by 16.1%. Legislation has been implemented making it compulsory to microchip dogs in the UK from April 2016 resulting in an incremental sales benefit of c£0.3m. Price competition amongst suppliers has adversely impacted gross margins as noted below.

Our Animal Welfare Products group grew by 5.1% driven by our growing Infusion Accessories range, which represents around 56% of the £2.8m sales.

The financial performance of each product group is reviewed in more detail within the Business Review section of the Chief Executive's Review.

Animalcare Group plc

Gross Profit

	2016	2015	% change
Gross Profit (£'000)	**7,999**	7,573	5.6%
Gross Margin (%)	**54.4%**	56.0%	(1.6ppts)

The strong sales performance led to gross profit increasing by 5.6% on prior year to £8.0m however our gross margin decreased from 56.0% to 54.4%. Microchip pricing was particularly competitive throughout the majority of the financial year in the run up to compulsory microchipping. Within our Licensed Veterinary Medicines group, overall gross margin has remained consistent with prior year.

We anticipate gross margins to improve across the business during FY17 through a combination of favourable sales mix and cost of goods initiatives.

Operating Results

£'000	2016	2015	% change
Underlying operating profit	**3,190**	**3,110**	**2.6%**
Exceptional and other items	**(173)**	(110)	
Reported operating profit	**3,017**	3,000	0.6%
Operating margin %	**20.5%**	22.2%	(1.7ppts)
Reported profit after tax	**2,634**	2,534	4.0%
Basic underlying EPS (p)	**13.0**	**12.6**	**3.2%**
Basic EPS (p)	**12.5**	12.1	3.3%

Underlying operating profit increased by 2.6% to £3.2m and our operating margin reduced by 170 basis points to 20.5%, the latter reflecting the continuing investment in our business, in particular our people for which employee costs increased by £0.3m, to position the business for future growth.

Exceptional and other items principally incorporate the amortisation of acquired intangibles as detailed in note 4.

Our effective tax rate has reduced from 15.8% to 14.6% as a result of the significant increase in product development investment on which research and development tax credits are claimed for qualifying expenditure.

Reflecting all of the above, reported profit after tax was up 4.0% to £2.6m (2015: £2.5m).

Basic underlying EPS improved by 3.2% to 13.0 pence (2015: 12.6 pence). Basic EPS, which incorporates non-underlying items, rose by approximately the same amount to 12.5 pence (2015: 12.1 pence).

Dividends

The Board is proposing a final dividend in respect of the year of 4.7 pence per share, giving a total dividend of 6.5 pence per share for 2016 (2015: 6.1 pence per share). This final dividend is subject to shareholder approval at the Annual General Meeting on 15th November 2016 and will be paid on 25th November 2016 to shareholders on the register at the close of business on 21st October 2016.

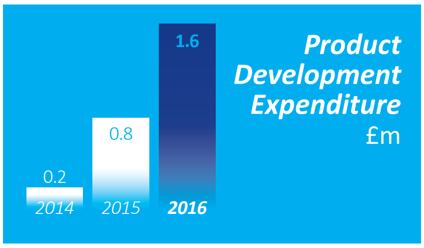
The ordinary shares will become ex-dividend on 20th October 2016.

The Board will continue to monitor the Group's cash position to ensure an appropriate balance between investment for future growth and dividend flow to deliver overall value for our shareholders.

Cash Flow

The Group cash position grew by £1.3m to £7.1m as at 30th June 2016, with the business continuing to generate strong levels of operating cash. We maintain focus on robust working capital management however expect a net investment within working capital during FY17 to support growth.

The strong momentum in building value within our product development pipeline continues, with planned investment substantially increasing as shown in the chart below.



Summary and Outlook

Whilst the decision by the people of the UK to leave the EU has not as yet resulted in any current legal or regulatory change, it is clear there are immediate secondary effects of this decision, in particular political and economic uncertainty, as well as significant exchange rate volatility. Nevertheless, as yet we have not observed major disruption to our operating activities and our strategic objectives remain at this present time unchanged – we will continue to invest in our business for future growth. Sterling weakness has impacted on our costs of goods, in particular our pharmaceutical products imported from mainland Europe. The business is taking steps to mitigate certain of this exposure and the growth in our export business will provide some natural hedge. Our strong balance sheet will help absorb the uncertainty in the macroeconomic environment.

Overall the Group continues to make good progress in executing its strategy to drive future growth, which is reflected in our financial performance and level of investment in the business.

CHRIS BREWSTER
Chief Financial Officer