Animalcare Group plc

Interim Report
for the six months to **31st December 2014**
www.animalcaregroup.co.uk
Stock Code: **ANCR**

Supplying & Supporting
veterinary professionals throughout the UK

Animalcare Group plc

About Animalcare

Animalcare Group plc is focused on growing its veterinary business.

Animalcare is a leading supplier of generic veterinary medicines and animal identification products to companion animal veterinary markets.

It develops and sells goods and services to veterinary professionals principally for use in companion animals, operating through UK wholesalers and distribution and development partners in key markets in Western Europe.

Its main product lines are licensed veterinary medicines and companion animal identification products and services.

Investment Case

Animalcare is a sustainable growing business in a growing market. In the period ended 31st December 2014 Animalcare recorded revenue and gross profit growth of 7.2% and 10.0% respectively, continuing its track record of top line growth.

Animalcare is cash generative and debt free, and in a strong financial position to invest in future growth.

Animalcare is dividend paying and, given its strong balance sheet, expects to maintain its current dividend policy during the investment phase.

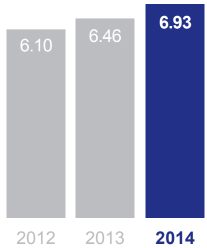
Animalcare has a clear strategy for growth by developing enhanced veterinary generic pharmaceuticals which will accelerate the Group's progress over the next three to five years.

Highlights

Financial Highlights

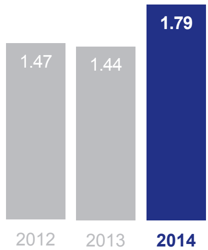
Revenue
£m

+7.2% at £6.93m



Underlying* operating profit
£m

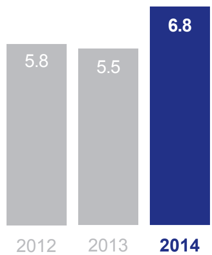
+24.7% at £1.79m



* Underlying measures are before the effect of exceptional costs and other items. These are analysed in note 3.

Underlying* basic EPS
Pence

+23.6% at 6.8p



Operational Highlights

- Strong revenue growth from our Licensed Veterinary Medicines group, up 10.6% to £4.40m (2013: £3.98m) in part due to a non-recurring benefit from sales of Buprecare as a result of competitor supply issues.
- Companion Animal Identification group continued to perform well, delivering revenue growth of 5.0% to £1.26m (2013: £1.20m). Sales of both microchips and database services increased in the period.
- Continued focus on investment in our product development pipeline, with expenditure weighted to the second half. Further recruitment planned to expand the business development team and support growth plans.
- Cash generation in the period was stronger than expected, with Group cash balances up £1.23m to £5.04m (2013: £3.64m).
- Interim dividend increased by 20% to 1.8 pence per share (2013: 1.5p per share).

Chairman's Statement

"I am delighted to report a solid first half in all three areas of the business leading to an overall increase in sales of 7.2% to £6.9m."

The strategy to focus on both the Licensed Veterinary Medicines and the Companion Animal Identification products and services has delivered this result. This has flowed through to basic underlying earnings per share of 6.8p (2013: 5.5p), a year on year increase of over 19%.

The 10.6% growth in Licensed Veterinary Medicines revenue was driven by organic growth and a one-off benefit from sales of Buprecare, as a result of supply issues experienced by one of our competitors. This more than offset reduced sales of some of our lower margin pharmaceuticals.

Sales in our Companion Animal Identification group generated growth of 5.0% with a small increase in gross profit. The commercial and political opportunities and threats that the compulsory chipping of dogs in 2016 will bring to Animalcare are much clearer now and I believe there should be modest benefits to us.

Sales from our Animal Welfare Products group fell by 1.2% with a small increase in gross margin, leaving the profitability broadly flat year on year.

Operating cash flow growth was created by a general reduction in stock, increased profits and a below originally planned investment in new products.

As I stated in our 2014 Annual Report, we have gathered a strong team and are increasing the level of investment in our Licensed Veterinary Medicines new product development pipeline, which will provide added benefits to both the veterinary practitioner and the animals in their care. Progress is being made on projects in the development pipeline with several new opportunities identified in the period. An uplift in investment is expected in the second half and in subsequent years.

I am very pleased to welcome Mr George Gunn on to the Board of Animalcare. George joined the Board in February 2015 having stepped down recently as Head of the Animal Health Division and from the Executive Committee of Novartis AG on completion of the sale of that division on 1st January 2015. He has extensive experience in Animal Health Pharmaceuticals over a career that has spanned 30 years within the industry.

George will complement the skills of the existing Board members and bring additional commercial and product development experience to the team to help deliver our strategy.

Given the strong trading in the first half and the structural improvements to the business, the Board remains confident about the prospects and outcome for the full year and beyond.

James Lambert
Chairman

Business Review

Introduction

The Group delivered another solid trading performance during the six month period ended 31st December 2014, building on the firm foundations established during the previous financial year. This performance resulted in a 7.2% increase in revenues to £6.93m (2013: £6.46m) and a 24.7% increase in underlying operating profit, our measure of trading performance before exceptional items, to £1.79m (2013: £1.44m).

Our robust balance sheet and cash position continues to reflect the highly cash generative nature of our operations, supported in the first half by planned activity to reduce our inventory levels.

Strategically, we continue to focus on delivering growth from our current core business and our product development pipeline to accelerate our organic expansion from 2016 onwards.

Our sustained trading performance and balance sheet strength prompted the Board to increase the dividend by 20% to 1.8 pence per share (2013: 1.5 pence per share).

Operating results

Revenue £'000	**6 months to 31st December 2014**	6 months to 31st December 2013	% change
Licensed Veterinary Medicines	**4,396**	3,975	10.6%
Companion Animal Identification	**1,261**	1,201	5.0%
Animal Welfare Products	**1,271**	1,286	(1.2%)
Total	**6,928**	6,462	7.2%

The Licensed Veterinary Medicines group, representing around 60% of overall business revenues, continues to be our main growth driver with sales up 10.6% versus prior period to £4.40m, 8.7% of which is like-for-like. This increase includes a circa £0.2m non-recurring first half benefit from sales of Buprecare as a result of supply issues with a competitor product. The remaining growth has come from products launched during FY14 which have performed well in the first half.

Our Companion Animal Identification group has continued to perform well, delivering an overall increase in sales of 5.0% to £1.26m. With increasing competition in the pet insurance market, much of this growth was driven by microchip revenues following further sales and marketing focus.

Revenues from our Animal Welfare Products group fell modestly to £1.27m however, as observed in the previous financial year, overall gross profitability has been broadly maintained as a result of improved sales mix, including growth in the infusion accessories range.

Gross profit increased by 10.0% to £4.0m (2013: £3.6m). Our gross margins increased to 57.1% (2013: 55.6%) primarily reflecting the non-recurring benefit of higher than expected sales of Buprecare as noted above, however underlying gross margins have also modestly improved due to favourable sales mix.

Business Review continued

Underlying* operating profit increased by 24.7% to £1.79m (2013: £1.44m) largely as a result of improved gross profits whilst maintaining control of overall overheads, excluding research and development costs, at similar levels to H1 FY13. During the period, we completed the restructuring of our UK sales team, including the introduction of a telesales function. We expect to continue to invest in our staff base in a planned and measured way to support our growth strategy.

Cash flow

Cash flows generated by operations were £2.55m (2013: £0.95m). During the period, as planned, the Group has focused on reducing its inventory levels from the peak seen in FY14. Whilst the £0.48m stock decrease was higher than expected, partly due to strong December sales, we continue to focus on optimising our inventory mix whilst ensuring our customers' requirements are met.

Net income taxes paid at £0.29m include a £0.10m cash benefit in relation to FY13 research and development tax credits.

Capital expenditure in the period principally relates to investment in our product development pipeline. Whilst significantly higher than prior period, this was lower than originally planned. This is an important activity for the Group and is progressing well and has benefitted from the additions made to the Technical and Business Development teams during FY14. We expect overall FY15 expenditure to be weighted to the second half.

Group cash balances at 31st December 2014 were £5.04m (30th June 2014: £3.81m, 31st December 2013: £3.64m).

Earnings per share ("EPS")

Basic underlying* EPS increased by 23.6% to 6.8 pence (2013: 5.5 pence). The statutory basic EPS increased by 26.9% to 6.6 pence (2013: 5.2 pence) reflecting the lower cost of exceptional items in the period.

Dividend

Given the solid trading performance and strong financial position of the Group, the Board is pleased to announce a 20% increase in the interim dividend to 1.8 pence per share (2013: 1.5 pence per share), which follows the 4.0% increase in the final dividend for FY14. The interim dividend will be paid on 7th May 2015 to shareholders on the register on 10th April 2015.

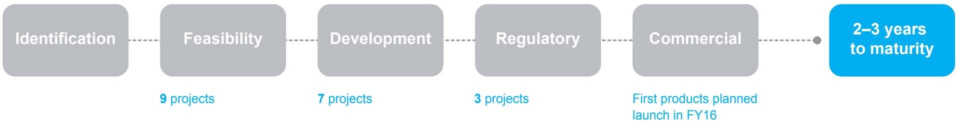
The Board will continue to monitor the Group's cash position to ensure an appropriate balance between investment for growth and return for shareholders.

* Underlying measures are before the effect of exceptional costs and other items as disclosed in note 3.

New Product Development

As previously stated, we have a strategy to grow the business through investment in the Licensed Veterinary Medicines group. Though it inevitably takes time for this progress to be visible externally, the activity in our product development pipeline has increased significantly in the last 18 months.

As can be seen in the table below, the projects in our pipeline are moving forward through the stages.



In addition, the number of potential projects short-listed from our structured product identification process has increased significantly in H1 FY15. These projects will be assessed for their technical and commercial feasibility before Board assessment and the start of investment.

More novel technologies are being reviewed as part of our enhanced generic strategy and we believe that George Gunn's appointment to the Board as a Director will undoubtedly enhance the quality and number of opportunities available to Animalcare.

Summary and outlook

Changes to the product development team and processes are having a positive effect on the progress of our new pharmaceutical product pipeline. In order to maintain momentum and explore the extensive range of business opportunities available to Animalcare, we are starting to recruit additional resource.

We expect to launch three new pharmaceutical products in the second half of the financial year, on distribution from one of our European partners, which will keep up the momentum in the core part of our business.

Introduction of compulsory microchipping for dogs in Wales has been delayed from March 2015 and may now coincide with its introduction in England in April 2016. Industry changes to the Animalcare pet and owner database requested by DEFRA are almost complete ahead of schedule. Engagement by dog owners in preparation for the deadline in England in April 2016 has been slow but as this gathers momentum Animalcare is well placed to benefit.

The Board is committed to its strategy to invest in enhanced generic medicines that will deliver growth and protectable revenue in the medium to long-term. As anticipated, the market remains challenging which results in continued pressure on margins, however the business remains on target to perform in line with management expectations in H2 and for the full year to 30th June 2015.

Iain Menneer
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Condensed Consolidated Statement of Comprehensive Income – Unaudited

Six months ended 31st December 2014

	Note	6 months ended 31st December 2014 Underlying results £'000	Exceptional and other items (i) £'000	Total £'000	6 months ended 31st December 2013 Underlying results £'000	Exceptional and other items (i) £'000	Total £'000
Revenue		**6,928**	**–**	**6,928**	6,462	–	6,462
Cost of sales		**(2,971)**	**–**	**(2,971)**	(2,867)	–	(2,867)
Gross profit		**3,957**	**–**	**3,957**	3,595	–	3,595
Distribution costs		**(135)**	**–**	**(135)**	(144)	–	(144)
Administrative expenses		**(1,948)**	**(49)**	**(1,997)**	(1,883)	(59)	(1,942)
Research & development expenses		**(84)**	**–**	**(84)**	(133)	–	(133)
Operating profit/loss		**1,790**	**(49)**	**1,741**	1,435	(59)	1,376
Finance income/(expense)		**13**	**1**	**14**	14	(14)	–
Profit/(loss) before tax		**1,803**	**(48)**	**1,755**	1,449	(73)	1,376
Income tax (expense)/credit		**(374)**	**10**	**(364)**	(305)	16	(289)
Total comprehensive income/(loss) for the period		**1,429**	**(38)**	**1,391**	1,144	(57)	1,087
Basic earnings per share	6	**6.8p**		**6.6p**	5.5p		5.2p
Fully diluted earnings per share	6	**6.8p**		**6.6p**	5.5p		5.2p

Total comprehensive income/(loss) for the period is attributable to the equity holders of the parent.

(i) In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These items are analysed in note 3.

Condensed Consolidated Statement of Comprehensive Income – Audited

Year ended 30th June 2014

	Note	Underlying results £'000	Exceptional and other items (i) £'000	Total £'000
Revenue		12,881	–	12,881
Cost of sales		(5,739)	–	(5,739)
Gross profit		7,142	–	7,142
Distribution costs		(257)	–	(257)
Administrative expenses		(3,823)	(119)	(3,942)
Research & development expenditure		(260)	–	(260)
Operating profit/(loss)		2,802	(119)	2,683
Finance income		27		27
Finance expense		–	(38)	(38)
Profit/(loss) before tax		2,829	(157)	2,672
Income tax (expense)/credit		(570)	35	(535)
Total comprehensive income/(loss) for the year		2,259	(122)	2,137
Basic earnings per share	6	10.8p		10.3p
Fully diluted earnings per share	6	10.8p		10.2p

Total comprehensive income/(loss) for the year is attributable to the equity holders of the parent.

(i) In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional costs and other items. These items are analysed in note 3.

Condensed Consolidated Statement of Changes in Shareholders' Equity

Six months ended 31st December 2014

	Note	**6 months ended 31st December 2014 Unaudited £'000**	6 months ended 31st December 2013 Unaudited £'000	Year ended 30th June 2014 Audited £'000
Balance at beginning of period		**19,453**	17,962	17,962
Total comprehensive income for the period		**1,391**	1,087	2,137
Transactions with owners of the Company, recognised in equity:				
Dividends paid	5	**(838)**	(788)	(1,103)
Issue of share capital		**11**	15	242
Share-based payments		**73**	65	215
Balance at end of period		**20,090**	**18,341**	**19,453**

Condensed Consolidated Balance Sheet

31st December 2014

	31st December 2014 Unaudited £'000	31st December 2013 Unaudited £'000	30th June 2014 Audited £'000
Non-current assets			
Goodwill	**12,711**	12,711	12,711
Other intangible assets	**1,395**	1,379	1,327
Property, plant and equipment	**330**	403	372
	14,436	14,493	14,410
Current assets			
Inventories	**1,938**	1,800	2,420
Trade and other receivables	**2,165**	1,528	1,883
Cash and cash equivalents	**5,037**	3,640	3,812
	9,140	6,968	8,115
Total assets	**23,576**	21,461	22,525
Current liabilities			
Trade and other payables	**(1,976)**	(1,579)	(1,606)
Current tax liabilities	**(481)**	(475)	(385)
Deferred income	**(242)**	(231)	(242)
	(2,699)	(2,285)	(2,233)
Net current assets	**6,441**	4,683	5,882
Non-current liabilities			
Deferred income	**(703)**	(764)	(730)
Deferred tax liabilities	**(84)**	(71)	(109)
	(787)	(835)	(839)
Total liabilities	**(3,486)**	(3,120)	(3,072)
Net assets	**20,090**	**18,341**	**19,453**
Capital and reserves			
Called up share capital	**4,194**	4,152	4,192
Share premium account	**6,400**	6,204	6,391
Retained earnings	**9,496**	7,985	8,870
Equity attributable to equity holders of the parent	**20,090**	**18,341**	**19,453**

Cash Flow Statement

Six months ended 31st December 2014

	6 months ended 31st December 2014 Unaudited £'000	6 months ended 31st December 2013 Unaudited £'000	Year ended 30th June 2014 Audited £'000
Comprehensive income for the period before tax	**1,755**	1,376	2,672
Adjustments for:			
Depreciation of property, plant and equipment	**55**	49	69
Amortisation of intangible assets	**141**	151	410
Finance income	**(13)**	(14)	(27)
Share-based payment award	**73**	65	152
Release of deferred income	**(26)**	(26)	(49)
Operating cash flows before movements in working capital	**1,985**	1,627	3,227
(Increase)/decrease in inventories	**482**	(382)	(1,002)
Decrease/(increase) in receivables	**(282)**	134	(221)
Increase/(decrease) in payables	**368**	(402)	(376)
Cash generated by operations	**2,553**	949	1,628
Income taxes paid	**(293)**	(264)	(561)
Net cash flow from operating activities	**2,260**	685	1,067
Investing activities:			
Payments to acquire intangible assets	**(195)**	(6)	(199)
Payments to acquire property, plant and equipment	**(26)**	(25)	(32)
Receipts from sale of property, plant and equipment	**–**	–	2
Interest received	**13**	14	27
Net cash used in investing activities	**(208)**	(17)	(202)
Financing:			
Receipts from issue of share capital	**11**	15	305
Equity dividends paid	**(838)**	(788)	(1,103)
Net cash used in financing activities	**(827)**	(773)	(798)
Net (decrease)/increase in cash and cash equivalents	**1,225**	(105)	67
Cash and cash equivalents at start of period	**3,812**	3,745	3,745
Cash and cash equivalents at end of period	**5,037**	3,640	3,812
Comprising:			
Cash and cash equivalents	**5,037**	3,640	3,812

Condensed Notes to the Financial Statements

31st December 2014

1. General information

Animalcare Group plc ("the Company") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31st December 2014 comprises the Company and its subsidiaries (together referred to as the "Group"). The nature of the Group's operations and its principal activities are set out in the latest Annual Report.

This Interim Report does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The information contained herein has not been reviewed by the Group's auditor.

The prior year comparatives are derived from the audited financial information as set out in the Group's Annual Report for the year ended 30th June 2014 and the unaudited financial information in the Group's Interim Report for the six months ended 31st December 2013. The comparative figures for the financial year ended 30th June 2014 are not the Group's statutory accounts. Those accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include any reference to matters to which the auditors drew attention without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This Interim Report for the six months ended 31st December 2014 was approved by the Board of Directors and authorised for issue on 24th February 2015.

2. Significant accounting policies

Basis of preparation and accounting policies

Except as described below, the condensed consolidated interim financial information for the six months ended 31st December 2014 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 30th June 2014, which were prepared in accordance with IFRSs as adopted by the European Union.

Taxes on income in the interim periods are accrued using the estimated tax rate that would be applicable for the full financial year.

The following new standards and amendments are mandatory for the first time for the financial period beginning 1st July 2014:

- IFRS 10: Consolidated Financial Statements
- IFRS 12: Disclosure of Interest in Other Entities
- Amendments to IFRS 13: Fair Value Measurement
- IAS 27 (Amended): Separate Financial Statements
- Amendments to IAS 32: Financial Instruments: Disclosures – Offsetting Financial Assets and Liabilities
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

Adoption where applicable has not had a material effect on the Group's financial information.

Condensed Notes to the Financial Statements

31st December 2014

Going concern

The principal risks and uncertainties facing the Group remain those set out in the latest Annual Report.

For the purposes of their assessment of the appropriateness of the preparation of the interim financial information on a going concern basis, the Directors have considered the current cash position and forecasts of future trading including working capital and investment requirements.

During the period the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 31st December 2014 the Group had cash on hand of £5.0 million (30th June 2014: £3.8 million).

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the interim financial information remains appropriate.

3. Exceptional and other items

	6 months ended 31st December 2014 Unaudited £'000	6 months ended 31st December 2013 Unaudited £'000	Year ended 30th June 2014 Audited £'000
Amortisation of acquired intangible assets	**59**	59	119
Supplier legal dispute	**(10)**	–	–
Interest rate swap refund	**(18)**		
Fair value movements on foreign currency hedging	**17**	14	38
Total exceptional and other items	**48**	73	157

4. Revenue and operating segments

During the period, the principal activity of the Group was the supply and distribution of veterinary medicines, identification and other products for companion animals.

The Chief Operating Decision Maker ("CODM") is considered to be the Chief Executive Officer of Animalcare Group plc. Performance assessment is principally based on underlying operating profit. The Group solely comprises one reportable segment, being Companion Animal.

An analysis of revenue by product group is disclosed within the Business Review.

5. Dividends

	6 months ended 31st December 2014 Unaudited £'000	6 months ended 31st December 2013 Unaudited £'000	Year ended 30th June 2014 Audited £'000
Ordinary final dividend paid for the year ended 30th June 2013 of 3.8p per share	**–**	788	788
Ordinary interim dividend paid for the year ended 30th June 2014 of 1.5p per share	**–**	–	315
Ordinary final dividend paid for the year ended 30th June 2014 of 4.0p per share	**834**	–	–
	834	788	1,103

The interim dividend was approved by the Board of Directors on 24th February 2015 and has not been included as a liability as at 31st December 2014.

6. Earnings per share

Basic earnings per share amounts are calculated by dividing the total comprehensive income for the period attributable to ordinary equity holders of the Company by the weighted average number of fully paid ordinary shares outstanding during the period.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares from the start of the period. The only dilutive potential ordinary shares of the Company are share options.

Condensed Notes to the Financial Statements

31st December 2014

The following income and share data was used in the earnings per share computations:

	6 months ended 31st December 2014 Unaudited	6 months ended 31st December 2013 Unaudited	Year ended 30th June 2014 Audited	**6 months ended 31st December 2014 Unaudited**	6 months ended 31st December 2013 Unaudited	Year ended 30th June 2014 Audited
	Underlying earnings £'000	Underlying earnings £'000	Underlying earnings £'000	**Total earnings £'000**	Total earnings £'000	Total earnings £'000
Total comprehensive income attributable to equity holders of the Company	**1,429**	1,144	2,259	**1,391**	1,087	2,137
	No.	No.	No.	**No.**	No.	No.
Basic weighted average number of shares	**20,962,390**	20,746,630	20,824,931	**20,962,390**	20,746,630	20,824,931
Dilutive potential ordinary shares	**16,222**	226,725	126,980	**16,222**	226,725	126,590
Fully diluted weighted average number of shares	**20,978,612**	20,973,361	20,951,911	**20,978,612**	20,973,361	20,951,911
Total earnings per share:						
Basic	**6.8p**	5.5p	10.8p	**6.6p**	5.2p	10.3p
Fully diluted	**6.8p**	5.5p	10.5p	**6.6p**	5.2p	10.2p

7. Cautionary statement

This Interim Management Report ("IMR") consists of the Chairman's Statement and the Operational and Financial 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 IMR has been prepared for the Group as a whole and therefore emphasises those matters which are significant to Animalcare Group plc and its subsidiaries when viewed as a whole.

8. Interim report

The Group's Interim Report for the six months ended 31st December 2014 was approved and authorised for issue on 24th February 2015. Further copies are available to download on the Company's website at: www.animalcaregroup.co.uk and from the Company's head office at 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB.

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