Animalcare Group

Interim Report 2010

Animalcare, the supplier of pharmaceutical and other premium products and services to the veterinary industry and the manufacturer and supplier of quality livestock products to agricultural retailers, announces its interim results for the six months ended 31 December 2009.

Chairman's statement

On behalf of your board I am pleased to report the unaudited results for Animalcare Group plc for the six months to 31 December 2009 which show a substantial increase in revenue to £8.93 million (2008 – £7.76 million) and EBITDA (earnings before interest, taxation, depreciation and amortisation) to £1.21 million (2008 – £0.82 million).

The companion animal business continued to deliver excellent revenue and profit growth with both the core business and the recently introduced licensed veterinary medicines making strong progress. Sales of Benazecare, Buprecare and Cephacare continue to grow in line with our expectations.

The livestock business delivered modest revenue growth but suffered a loss due to one off costs and pressure on profit margins. The bulk of the loss related to the withdrawal from low margin activities unrelated to our ongoing business. In addition the business suffered a modest loss due to higher product costs arising from the sharp fall in the New Zealand $/GB £ exchange rate and a decline in sheep identification market volumes ahead of the implementation of new identification regulations.

Adjusted profit before tax (excluding amortisation of acquired intangible assets, impairment of goodwill and fair value losses on interest rate hedging) was £0.89 million (2008 – £0.38 million) and adjusted operating profit (excluding amortisation of acquired intangible assets and impairment of goodwill) was £0.98 million (2008 – £0.60 million). Adjusted basic earnings per share (excluding amortisation of acquired intangible assets, impairment of goodwill and fair value losses on interest rate hedging) increased to 3.1 pence (2008 – 1.4 pence). Basic earnings per share increased to 2.8 pence (2008 – 0.3 pence). Net cash flow from operating activities was £0.93 million (2008 – £0.94 million) and at 31 December 2009 the group had net debt (total borrowings less cash and cash equivalents) of £3.82 million (2008 – £4.99 million).

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

Trading in the second half is in line with market expectations.

The companion animal market remains strong and we are confident that our licensed veterinary medicines will continue to deliver revenue and profit growth in line with market expectations. I am pleased to report that we have been granted a Marketing Authorisation in the United Kingdom and certain other EU markets for a further licensed veterinary medicine which will be launched in the next few months.

The market for our key livestock products is challenging due to the implementation of the new regulations for the electronic identification of sheep and downward pressure on identification tag pricing. We are confident that our livestock business is well placed to deliver an improved performance in the traditionally stronger second half of our financial year.

Your board will continue to focus on delivering strong profit growth behind organic sales growth and, in line with our strategy, will consider acquisitions that will strengthen our market position and enhance earnings.

J.S. Lambert
Chairman

Highlights

	6 months ended December 2009	6 months ended December 2008	% Change
Revenue	£8.93m	£7.76m	+15%
Adjusted operating profit*	£0.98m	£0.60m	+62%
Operating profit	£0.92m	£0.55m	+69%
Adjusted Profit before tax†	£0.89m	£0.38m	+138%
Profit before tax	£0.80m	£0.09m	+784%
Adjusted Earnings per share†			
Basic	3.1p	1.4p	
Fully Diluted	2.9p	1.3p	
Earnings per share			
Basic	2.8p	0.3p	
Fully Diluted	2.6p	0.3p	
Borrowings	£5.07m	£5.95m	
Cash and cash equivalents	£1.25m	£0.96m	
Net debt	£3.82m	£4.99m	-23%

* Excluding amortisation of acquired intangibles and impairment of goodwill.
† Excluding amortisation of acquired intangibles, impairment of goodwill and fair value movements on interest rate hedging.

FINANCIAL REVIEW

In the six months to 31 December 2009 the Group achieved consolidated revenue of £8.93 million (2008 – £7.76 million), operating profit of £0.92 million (2008 – £0.55 million) and profit before tax of £0.80 million (2008 – £0.09 million).

Reported profitability reflects charges of £0.06 million (2008 – £0.06 million) in respect of the amortisation of acquired intangible assets and £0.03 million (2008 – £0.23 million) in respect of fair value movements on interest rate hedging. Excluding these items, adjusted operating profit and pre tax profit for the six months to 31 December 2009 were £0.98 million (2008 – £0.60 million) and £0.89 million (2008 – £0.38 million) respectively.

Consolidated revenue growth was largely driven by the companion animal division as detailed in the Chairman's Statement. The six months to 31 December represents the seasonal low period for the livestock 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 2009 was £4.68 million (2008 – £4.40 million) which represents a gross margin of 52.4 per cent (2008 – 56.7 per cent). The reduction in gross margin arises from one off factors, such as changes to overhead cost recovery and the withdrawal from historic business activities, plus underlying pressure on livestock margins as detailed in the Chairman's Statement.

Distribution and administrative expenses, excluding amortisation of acquired intangible assets, totalled £3.70 million (2008 – £3.80 million); these costs continue to be tightly controlled.

Net finance costs for the six months to 31 December 2009 were £0.12 million (2008 – £0.45 million) which include a £0.03 million (2008 – £0.23 million) charge in respect of fair value movements on interest rate hedging.

After provision for corporation tax of £0.26 million (2008 – £0.03 million), retained profit for the period was £0.55 million (2008 – £0.07 million).

Net cash flow from operating activities in the six months to 31 December 2009 was £0.93 million (2008 – £0.94 million). After capital expenditure of £0.40 million (2008 – £0.18 million), proceeds from the issue of shares of £0.07 million (2008 – nil), dividends of £0.49 million (2008 – £0.45 million) and loan repayments of £0.39 million (2008 – £0.74 million), net cash utilised was £0.29 million (2008 – £0.42 million utilised).

Share issue proceeds relate to the issue of 129,859 ordinary shares of 20 pence in respect of approved employee share options.

At 31 December 2009 net debt (borrowings less cash and cash equivalents) was £3.82 million (2008 – £4.99 million) representing 25 per cent of shareholders' funds. Group borrowings totalled £5.07 million (2008 – £5.95 million) comprising £4.24 million repayable over five years and £0.83 million repayable over ten years. Additionally, the Group had an undrawn overdraft facility at 31 December 2009 to the value of £0.1 million which is available for general corporate and working capital requirements until 28 February 2011. At 31 December 2009 the Group held cash and cash equivalents to the value of £1.25 million (2008 – £0.96 million). Further disclosures regarding financing, liquidity and risk are contained in Notes 2 and 8 to the financial statements.

The financial performance of the Group continues to be comfortably ahead of its banking covenants.

CAUTIONARY STATEMENT

This Interim Management Report ('IMR') consists of the Chairman's Statement and the 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 subsidiary undertakings when viewed as a whole.

CONDENSED CONSOLIDATED INCOME STATEMENT
Six months ended 31 December 2009

	Note	6 month period ended 31 December 2009 Before other items Unaudited £'000	6 month period ended 31 December 2009 Other items (*) Unaudited £'000	6 month period ended 31 December 2009 Total Unaudited £'000	6 month period ended 31 December 2008 Before other items Unaudited £'000	6 month period ended 31 December 2008 Other items (*) Unaudited £'000	6 month period ended 31 December 2008 Total Unaudited £'000
Revenue		8,933	—	8,933	7,761	—	7,761
Cost of sales		(4,256)	—	(4,256)	(3,359)	—	(3,359)
Gross profit		4,677	—	4,677	4,402	—	4,402
Distribution costs		(289)	—	(289)	(272)	—	(272)
Administrative expenses		(3,410)	(59)	(3,469)	(3,526)	(59)	(3,585)
Operating profit/(loss)		978	(59)	919	604	(59)	545
Finance costs		(85)	(31)	(116)	(277)	(225)	(502)
Finance income		1	—	1	48	—	48
PROFIT/(LOSS) BEFORE TAX		894	(90)	804	375	(284)	91
Income tax expense	5	(282)	25	(257)	(106)	80	(26)
PROFIT/(LOSS) FOR THE PERIOD	4	612	(65)	547	269	(204)	65
Basic earnings per share	6	3.1p	(0.3p)	2.8p	1.4p	(1.1p)	0.3p
Diluted earnings per share	6	2.9p	(0.3p)	2.6p	1.3p	(1.0p)	0.3p

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

(*) "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 acquired intangible assets (acquired brands and customer relationships), the impairment of goodwill and fair value movements on interest rate hedging. Amortisation of developed intangible assets (new product development and developed software) is treated as a charge against underlying earnings. Prior to 2009 and in last year's interim report amortisation of developed intangible assets was included in "other items". The December 2008 interim results have been restated in line with current practice so as to be comparable with the December 2009 results.

CONDENSED CONSOLIDATED INCOME STATEMENT
Twelve months ended 30 June 2009

	Note	12 month period ended 30 June 2009 Before other items Audited £'000	12 month period ended 30 June 2009 Other items (*) Audited £'000	12 month period ended 30 June 2009 Total Audited £'000
Revenue		17,638	—	17,638
Cost of sales		(7,749)	—	(7,749)
Gross profit		9,889	—	9,889
Distribution costs		(693)	—	(693)
Administrative expenses		(6,819)	(252)	(7,071)
Operating profit/(loss)		2,377	(252)	2,125
Finance costs		(387)	(227)	(614)
Finance income		16	—	16
PROFIT/(LOSS) BEFORE TAX		2,006	(479)	1,527
Income tax expense	5	(585)	97	(488)
PROFIT/(LOSS) FOR THE PERIOD	4	1,421	(382)	1,039
Basic earnings per share	6	7.2p	(1.9p)	5.3p
Diluted earnings per share	6	6.8p	(1.8p)	5.0p

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

(*) "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 acquired intangible assets (acquired brands and customer relationships),the impairment of goodwill and fair value movements on interest rate hedging. Amortisation of developed intangible assets (new product development and developed software) is treated as a charge against underlying earnings.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 31 December 2009

	6 month period ended 31 December 2009 Unaudited £'000	6 month period ended 31 December 2008 Unaudited £'000	12 month period ended 30 June 2009 Audited £'000
Balance at 1 July	15,382	14,645	14,645
Net profit for the period	547	65	1,039
Dividends paid	(494)	(445)	(445)
Share based payment charges	50	47	143
Issue of shares	72	—	—
Balance at end of period	15,557	14,312	15,382

CONDENSED CONSOLIDATED BALANCE SHEET
31 December 2009

	31 December 2009 Unaudited £'000	31 December 2008 Unaudited £'000	30 June 2009 Audited £'000
NON-CURRENT ASSETS			
Goodwill	15,254	15,388	15,254
Other intangible assets	2,302	1,985	2,139
Property, plant and equipment	1,766	1,732	1,817
	19,322	19,105	19,210
CURRENT ASSETS			
Inventories	2,193	2,054	2,032
Trade and other receivables	2,574	2,150	2,589
Cash and cash equivalents	1,245	963	1,532
	6,012	5,167	6,153
TOTAL ASSETS	25,334	24,272	25,363
CURRENT LIABILITIES			
Trade and other payables	(2,697)	(2,275)	(2,603)
Current tax liabilities	(412)	(173)	(339)
Bank overdraft and loans	(883)	(883)	(883)
Deferred consideration	(91)	(91)	(91)
Derivative financial instruments	(111)	(166)	(145)
CURRENT LIABILITIES	(4,194)	(3,588)	(4,061)
NET CURRENT ASSETS	1,818	1,579	2,092
NON-CURRENT LIABILITIES			
Bank loans	(4,182)	(5,065)	(4,573)
Deferred income	(937)	(818)	(883)
Deferred tax liabilities	(464)	(489)	(464)
	(5,583)	(6,372)	(5,920)
TOTAL LIABILITIES	(9,777)	(9,960)	(9,981)
NET ASSETS	15,557	14,312	15,382
CAPITAL AND RESERVES			
Called up share capital	3,977	3,951	3,951
Share premium account	5,870	5,824	5,824
Profit and loss account	5,710	4,537	5,607
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	15,557	14,312	15,382

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
Six months ended 31 December 2009

	6 month period ended 31 December 2009 Unaudited £'000	6 month period ended 31 December 2008 Unaudited £'000	12 month period ended 30 June 2009 Audited £'000
Operating profit	919	545	2,125
Adjustments for:			
Depreciation of property, plant and equipment	158	160	251
Amortisation of intangible assets	133	116	237
Goodwill impairment charge	—	—	134
Share based payment award	50	47	94
Deferred income	55	43	108
Profit on disposal of property, plant and equipment	—	—	(7)
Operating cash flows before movements in working capital	1,315	911	2,942
Increase in inventories	(161)	(236)	(214)
Decrease/(increase) in receivables	15	288	(151)
Increase in payables	13	341	671
Cash generated by operations	1,182	1,304	3,248
Income taxes paid	(184)	(132)	(405)
Interest paid	(70)	(277)	(410)
Interest and investment income received	1	48	16
Net cash inflow from operating activities	929	943	2,449
Investing activities:			
Payments to acquire intangible assets	(296)	(76)	(311)
Payments to acquire property, plant and equipment	(107)	(108)	(336)
Receipts from sale of property, plant and equipment	—	—	18
Net cash used in investing activities	(403)	(184)	(629)
Financing:			
Receipts from issue of share capital	72	—	—
Equity dividends paid	(494)	(445)	(445)
Repayment of bank loans	(391)	(735)	(1,227)
Net cash used in financing activities	(813)	(1,180)	(1,672)
Net (decrease)/increase in cash and cash equivalents	(287)	(421)	148
Cash and cash equivalents at start of period	1,532	1,384	1,384
Cash and cash equivalents at end of period	1,245	963	1,532
Comprising:			
Cash and cash equivalents	1,245	963	1,532
	1,245	963	1,532

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
31 December 2009

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 435 of the Companies Act 2006, and should be read in conjunction with the 2009 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 2009 has been derived from the audited financial statements of Animalcare Group 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 498 (2) or (3) of the Companies Act 2006.

2. BASIS OF PREPARATION – GOING CONCERN

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 5 years. Additionally, the Group had an undrawn overdraft facility at 31 December 2009 to the value of £0.1 million which is available for general corporate and working capital requirements until 28 February 2011.

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 2009 with the exception of new standards adopted in the current period (see below). There have been no changes in the nature of key estimates and judgements made in applying the Group's accounting polices as explained in the 2009 Annual Report and Financial Statements which has been published on the Group's website at: http://www.animalcaregroup.co.uk/key-financial-information/default.aspx.

The Group has adopted IFRS 8 "Operating Segments" for the first time in this interim report. This standard requires the Group to report segmental information on the basis of internal reports which are regularly reviewed by the Group Board and used to allocate the resources of the business, and supersedes IAS 11 "Segmental Reporting". The Group has complied fully with the requirements of IFRS 8 in the period which apply to disclosure matters only.

The Group has also adopted IAS 1 "Presentation of Financial Statements" (revised 2007) for the first time in this interim report. The Group has complied fully with the requirements of IAS 1 in the period which apply to disclosure matters only.

4. REVENUE AND OPERATING SEGMENTS

Following the adoption of IFRS 8 "Operating Segments" the Group has identified its reportable segments as those upon which the Group Board bases its assessment of performance.

The Group continues to deem it appropriate to aggregate its reportable segments into two: the companion animal division and the livestock division. The constituent reporting segments have been aggregated because they have similar products and services, processes, types of customer, regulatory environments and economic characteristics.

Principal activities are as follows:

The companion animal division supplies and distributes veterinary medicines, identification and other welfare products to the veterinary market.

The livestock division manufactures and distributes livestock identification and welfare products.

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

	Companion Animal 6 months ended 31 December 2009 £'000	**Livestock 6 months ended 31 December 2009 £'000**	**Eliminations 6 months ended 31 December 2009 £'000**	**Consolidated 6 months ended 31 December 2009 £'000**	**Companion Animal 6 months ended 31 December 2008 £'000**	**Livestock 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	5,374	3,559	—	8,933	4,313	3,448	—	7,761
Inter-segment sales	36	—	(36)	—	18	—	(18)	—
Total revenue	5,410	3,559	(36)	8,933	4,331	3,448	(18)	7,761
Result								
Segment result before amortisation of acquired intangibles	1,360	(139)	—	1,221	783	42	—	825
Amortisation of acquired intangible assets	(59)	—	—	(59)	(59)	—	—	(59)
Segment result	1,301	(139)	—	1,162	724	42	—	766
Unallocated corporate expenses				(243)				(221)
Operating profit				919				545
Net finance costs				(115)				(454)
Profit before tax				804				91
Tax				(257)				(26)
Profit after tax				547				65

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
31 December 2009

4. REVENUE AND OPERATING SEGMENTS continued

	Companion Animal 12 months ended 30 June 2009 £'000	Livestock 12 months ended 30 June 2009 £'000	Eliminations 12 months ended 30 June 2009 £'000	Consolidated 12 months ended 30 June 2009 £'000
Revenue				
External sales	9,606	8,032	—	17,638
Inter-segment sales	89	9	(98)	—
Total revenue	9,695	8,041	(98)	17,638
Result				
Segment result before amortisation	2,303	543	—	2,846
Other items*	(118)	(134)	—	(252)
Segment result	2,185	409	—	2,594
Unallocated corporate expenses				(469)
Operating profit				2,125
Net finance costs				(598)
Profit before tax				1,527
Tax				(488)
Profit after tax				1,039

* Amortisation of acquired intangibles and impairment of goodwill

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.

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

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 period 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.

6. EARNINGS PER SHARE continued

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

	6 month period ended 31 December 2009 Unaudited	6 month period ended 31 December 2009 Unaudited	6 month period ended 31 December 2009 Unaudited	6 month period ended 31 December 2008 Unaudited	6 month period ended 31 December 2008 Unaudited	6 month period ended 31 December 2008 Unaudited	12 month period ended 30 June 2009 Audited	12 month period ended 30 June 2009 Audited	12 month period ended 30 June 2009 Audited
	Before other items	**Other items (*)**	**Total**	**Before other items**	**Other items (*)**	**Total**	**Before other items**	**Other items (*)**	**Total**
Net profit/(loss) attributable to equity holders of the parent £'000	612	(65)	547	269	(204)	65	1,421	(382)	1,039
Basic weighted average number of shares	19,773,961	19,773,961	19,773,961	19,756,225	19,756,225	19,756,225	19,756,225	19,756,225	19,756,225
Dilutive potential ordinary shares: Employee share options	1,148,353	1,148,353	1,148,353	1,185,124	1,185,124	1,185,124	1,153,176	1,153,176	1,153,176
Diluted weighted average number of shares	20,922,314	20,922,314	20,922,314	20,941,349	20,941,349	20,941,349	20,909,401	20,909,401	20,909,401

* As defined within the condensed consolidated income statement.

7. DIVIDENDS

	6 month period ended 31 December 2009 Unaudited £'000	6 month period ended 31 December 2008 Unaudited £'000	12 month period ended 30 June 2009 Audited £'000
Final dividend paid for the year ended 30 June 2009 of 2.5p per share	494	—	—
Final dividend paid for the year ended 30 June 2008 of 2.25p per share	—	445	445

8. **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company's principal risks and uncertainties remain those set out in the last annual report together with the additional uncertainties connected to the electronic identification of sheep.

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

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