Animalcare Group plc

Interim Report for the six months to 31st December 2013
www.animalcaregroup.co.uk
Stock Code: ANCR

Developing & Supplying

Veterinary Products for Companion Animals

Animalcare
Group plc

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 directly in the UK and through distribution and development partners in key markets in Western Europe.

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

Financial Highlights

	6 months to 31st Dec 2013	6 months to 31st Dec 2012	% change
Revenue	£6.46m	£6.10m	5.9%
Underlying* EBITDA	£1.58m	£1.57m	0.4%
Underlying* operating profit	£1.44m	£1.47m	(2.9%)
Profit before tax	£1.38m	£1.34m	3.5%
Basic underlying* earnings per share	5.5p	5.8p	(5.2%)
Interim dividend	1.5p	1.5p	–
Cash and cash equivalents	£3.64m	£2.96m	+23.1%

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

Operational Highlights

- Strong revenue growth from Licensed Veterinary Medicines, supported by three new product launches in the period, comfortably ahead of the wider UK licensed veterinary medicines market
- Companion Animal Identification returned to growth with sales of both microchips and database services increasing
- Product development pipeline progressing on schedule. Recruitment underway to expand the product development team and support growth plans
- Maintained strong cash position, providing investment capital to support the significant new product development opportunities identified in the strategic plan

Chairman's Statement

"I am pleased to report a solid start to our new financial year with continued progress in the repositioning of your Company away from lower margin animal welfare products (-6.5%), towards a greater focus on Licensed Veterinary Medicines (+10.7%). In addition the Companion Animal Identification group has returned to growth with sales increasing by 6.5% in the half year. Together, these improvements have contributed to a 5.9% increase in total Company sales."

Your Board took a decision during the last financial year to invest in the infrastructure and senior management team within the business to optimise sales growth over the coming years. This has led to overheads rising by 11.7% in the period and a reduction in basic underlying earnings per share from 5.8 pence to 5.5 pence. However I am pleased to announce that, on the basis of the continued strength of our balance sheet and cash position, we are maintaining the interim dividend of 1.5 pence per share.

Given the robust cash position, strong cashflow and our success at licensing and marketing generic veterinary medicines, the Board has taken a strategic decision to substantially increase the investment in our product development pipeline over the next five years, focusing primarily on enhanced generic medicines whilst continuing to launch generic veterinary pharmaceuticals to complement our existing portfolio. Whilst this will impact our distributable cash, the Board intends to maintain the dividend flow during this investment cycle.

I am pleased that Iain Menneer, in his first year as CEO, and his new senior management team are performing well in refocusing your business for future growth. Your business continues to trade in line with management expectations for the financial year ending 30th June 2014.

James Lambert
Chairman

Operational and Financial Review

Operations

The business has continued to perform well in the six months to 31st December 2013. It is pleasing to report this good performance is balanced across the three product groupings, albeit for contrasting reasons within each of the groups.

The veterinary market has shown signs of growth in the same period. Sales of companion animal veterinary pharmaceuticals moving annual total to June 2013 (reported by the National Office of Animal Health) show a rise of 7.6%. The Licensed Veterinary Medicines group has performed comfortably ahead of the market with revenues increasing by 10.7% versus the prior period. Recently launched products, not yet at maturity, and the three new products launched during H1 are driving our growth, underpinned by a core of older products.

The Companion Animal Identification group has benefitted from increased, like for like, microchip sales and the continued growth of database services revenue. This is in part due to an improvement in the wider economy and an increase in the number of pet owners moving home. The government is introducing legislation to make microchipping of all dogs compulsory in England from 6th April 2014. In the light of this, Dogs Trust is launching a "Free Microchipping through Vets" campaign that will operate for the 12 months commencing 1st April 2014. Animalcare is well placed to serve this dynamic market over the coming months and beyond.

We took action to rationalise some of the older, uncompetitive and less profitable products from the Animal Welfare Products group during the period. Whilst revenue has been lower as a result, the group has delivered a higher gross margin and achieved a group profit group profit consistent with the prior period.

Revenue by product group

Revenue	**6 months to 31st Dec 2013**	6 months to 31st Dec 2012	% change
Licensed Veterinary Medicines	**3,975**	3,590	10.7%
Companion Animal Identification	**1,201**	1,137	5.6%
Animal Welfare	**1,286**	1,376	(6.5%)
TOTAL	**6,462**	6,103	5.9%

Gross profit increased by 5.7% to £3.6m (2012: £3.4m). Gross margins at 55.6% (2012: 55.7%) remain broadly comparable to the prior period reflecting the continued challenging market conditions.

Underlying* operating profit decreased marginally to £1.4m (2012: £1.5m) largely reflecting the impact on operating costs of the relocation to our new premises during March 2013 together with investment in our staff base. As a result, underlying* operating margins have reduced to 22.2% (2012: 24.1%) however have remained consistent with that delivered in the year ended 30th June 2013.

Taxation

The taxation charge of £0.3m reflects the estimated effective tax rate for the full financial year of 21% (2012: 20%). The effective rate is lower than the standard rate of corporation tax, principally due to research and development tax credits.

Earnings per share ("EPS")

Basic underlying* EPS decreased by 5.2% to 5.5 pence (2012: 5.8 pence). The statutory basic EPS remained at 5.2 pence principally due to the lower cost of exceptional items in the period.

Cash Flow

Cash flows generated by operations were £0.9m (2012: £1.3m). This reduction is in line with management expectations and is principally driven by higher working capital requirements. Inventory levels have increased by £0.4m due to higher stocking of certain commercially important products.

Net income taxes paid were £0.3m compared to £0.04m received in 2012. This movement reflects the lower cash benefit in relation to prior year research and development tax credits.

Capital expenditure principally relates to IT projects including a new CRM system. As we move ahead with the planned investment in our portfolio of licensed medicines, we are investigating several product technology platforms which will require significant capital investment. The specific timing, phasing and magnitude of these investments is, as yet, still unclear but the Board anticipates these will be financed from cash generated from the business.

In the light of the strong performance achieved in the year ended 30th June 2013, we announced an increased final dividend of 3.8 pence per share (2012: 3.0 pence per share) that was paid in November 2013. This resulted in a £0.2m higher cash outflow versus 2012.

Cash balances at 31st December 2013 were £3.6m compared to £3.7m at 30th June 2013 and £3.0m at 31st December 2012.

Dividend

The Board is pleased to maintain the interim dividend at 1.5 pence per share which will be paid on 8th May 2014 to shareholders on the register on 11th April 2014. The interim dividend is covered 3.7 times by underlying* earnings (2012: 3.9 times).

Outlook

The business remains on target to perform in line with management expectations in H2 and for the full year to 30th June 2014. As anticipated the market remains challenging thus resulting in continued pressure on margins. The Board is committed to it's strategy to invest in enhanced generic medicines that will deliver growth and protectable revenue in the medium to long-term.

Recent changes to the product development team 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 further opportunities available to Animalcare the team needs further investment and recruitment of additional resource has started.

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

Iain Menneer	**Chris Brewster**
Chief Executive Officer	Chief Financial Officer

Condensed Consolidated Statement of Comprehensive Income – Unaudited

Six months ended 31st December 2013

		6 months ended 31st December 2013			6 months ended 31st December 2012		
	Note	**Underlying results* £'000**	**Exceptional and other items (i) £'000**	**Total £'000**	Underlying results* £'000	Exceptional and other items (i) £'000	Total £'000
Revenue		**6,462**	**–**	**6,462**	6,103	–	6,103
Cost of sales		**(2,867)**	**–**	**(2,867)**	(2,701)	–	(2,701)
Gross profit		**3,595**	**–**	**3,595**	3,402	–	3,402
Distribution costs		**(144)**	**–**	**(144)**	(134)	–	(134)
Administrative expenses		**(2,016)**	**(59)**	**(2,075)**	(1,800)	(139)	(1,939)
Operating profit/loss		**1,435**	**(59)**	**1,376**	1,468	(139)	1,329
Finance income/(expense)		**14**	**(14)**	**–**	14	–	14
Profit/(loss) before tax		**1,449**	**(73)**	**1,376**	1,482	(139)	1,343
Income tax (expense)/credit	5	**(305)**	**16**	**(289)**	(288)	19	(269)
Total comprehensive income/(loss) for the period		**1,144**	**(57)**	**1,087**	1,194	(120)	1,074
Basic earnings per share	7	**5.5p**		**5.2p**	5.8p		5.2p
Fully diluted earnings per share	7	**5.5p**		**5.2p**	5.8p		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 2013

	Note	Underlying results* £'000	Exceptional and other items (i) £'000	Total £'000
Revenue		12,118	–	12,118
Cost of sales		(5,337)	–	(5,337)
Gross profit		6,781	–	6,781
Distribution costs		(271)	–	(271)
Administrative expenses		(3,826)	(392)	(4,218)
Operating profit/(loss)		2,684	(392)	2,292
Finance income		27	11	38
Profit/(loss) before tax		2,711	(381)	2,330
Income tax (expense)/credit	5	(535)	90	(445)
Total comprehensive income/(loss) for the year		2,176	(291)	1,885
Basic earnings per share	7	10.5p		9.1p
Fully diluted earnings per share	7	10.4p		9.0p

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

* 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 2013

	Note	**6 months ended 31st December 2013 Unaudited £'000**	6 months ended 31st December 2012 Unaudited £'000	Year ended 30th June 2013 Audited £'000
Balance at beginning of period		**17,962**	16,837	16,837
Total comprehensive income for the period		**1,087**	1,074	1,885
Transactions with owners of the Company, recognised in equity:				
Dividends paid	6	**(788)**	(622)	(932)
Issue of share capital		**15**	24	24
Share-based payments		**65**	42	148
Balance at end of period		**18,341**	17,355	17,962

Condensed Consolidated Balance Sheet

31st December 2013

	31st December 2013 Unaudited £'000	31st December 2012 Unaudited £'000	30th June 2013 Audited £'000
Non-current assets			
Goodwill	**12,711**	12,711	12,711
Other intangible assets	**1,379**	1,633	1,538
Property, plant and equipment	**403**	98	412
	14,493	14,442	14,661
Current assets			
Inventories	**1,800**	1,430	1,418
Trade and other receivables	**1,528**	1,676	1,662
Cash and cash equivalents	**3,640**	2,956	3,745
	6,968	6,062	6,825
Total assets	**21,461**	20,504	21,486
Current liabilities			
Trade and other payables	**(1,579)**	(1,473)	(1,982)
Current tax liabilities	**(475)**	(464)	(362)
Deferred income	**(231)**	(205)	(231)
	(2,285)	(2,142)	(2,575)
Net current assets	**4,683**	3,920	4,250
Non-current liabilities			
Deferred income	**(764)**	(827)	(790)
Deferred tax liabilities	**(71)**	(180)	(159)
	(835)	(1,007)	(949)
Total liabilities	**(3,120)**	(3,149)	(3,524)
Net assets	**18,341**	17,355	17,962
Capital and reserves			
Called up share capital	**4,152**	4,149	4,149
Share premium account	**6,204**	6,192	6,192
Retained earnings	**7,985**	7,014	7,621
Equity attributable to equity holders of the parent	**18,341**	17,355	17,962

Cash Flow Statement

Six months ended 31st December 2013

	6 months ended 31st December 2013 Unaudited £'000	6 months ended 31st December 2012 Unaudited £'000	Year ended 30th June 2013 Audited £'000
Comprehensive income for the period before tax	**1,376**	1,343	2,330
Adjustments for:			
Depreciation of property, plant and equipment	**49**	10	32
Amortisation of intangible assets	**151**	151	319
Finance income	**(14)**	(14)	(27)
Share-based payment award	**65**	42	149
Loss on disposal of property, plant and equipment	**–**	21	21
Operating cash flows before movements in working capital	**1,627**	1,553	2,824
(Increase)/decrease in inventories	**(382)**	(10)	2
Decrease/(increase) in receivables	**134**	(379)	(365)
Decrease/(increase) in payables	**(402)**	157	665
Movement in deferred income liabilities	**(26)**	(19)	(30)
Cash generated by operations	**949**	1,302	3,096
Income taxes (paid)/received	**(264)**	35	(265)
Net cash flow from operating activities	**685**	1,337	2,831
Investing activities:			
Payments to acquire intangible assets	**(6)**	(71)	(129)
Payments to acquire property, plant and equipment	**(25)**	(29)	(379)
Interest received	**14**	12	25
Net cash used in investing activities	**(17)**	(88)	(483)
Financing:			
Receipts from issue of share capital	**15**	24	24
Equity dividends paid	**(788)**	(622)	(932)
Net cash used in financing activities	**(773)**	(598)	(908)
Net (decrease)/increase in cash and cash equivalents	**(105)**	651	1,440
Cash and cash equivalents at start of period	**3,745**	2,305	2,305
Cash and cash equivalents at end of period	**3,640**	2,956	3,745
Comprising:			
Cash and cash equivalents	**3,640**	2,956	3,745

Condensed Notes to the Financial Statements

31st December 2013

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 2013 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 Chairman's Statement.

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 2013 and the unaudited financial information in the Group's Interim Report for the six months ended 31st December 2012. The comparative figures for the financial year ended 30th June 2013 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 2013 was approved by the Board of Directors on 26th February 2014.

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 2013 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 30th June 2013, 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 2013:

- Annual Improvements to IFRS's 2009-2011
- IAS 19 Post-employment benefits (amended)
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 13 Fair value measurement

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

Condensed Notes to the Financial Statements

31st December 2013

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 2013 the Group had cash on hand of £3.6 million (30th June 2013: £3.7 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 2013 Unaudited £'000	6 months ended 31st December 2012 Unaudited £'000	Year ended 30th June 2013 Audited £'000
Management/Executive severance payments	**–**	41	152
Amortisation of acquired intangible assets	**59**	59	119
Head office relocation	**–**	35	121
Fair value movements on foreign currency hedging	**14**	4	(11)
Total exceptional and other items	**73**	139	381

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.

5. Income Tax Expense

The charge for taxation for the six months ended 31st December 2013 is based on an estimate of the likely effective tax rate for the year ending 30th June 2014 of 21% (year ended 30th June 2013: 19.1%, 6 months ended 31st December 2012: 20%). The effective rate is lower than the standard rate of corporation tax principally due to research and development tax credits.

Reductions in the UK corporation tax rate to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015) were substantively enacted on 2nd July 2013. Deferred tax balances have been calculated at an effective rate of 20%, being the substantively enacted rate at 31st December 2013.

6. Dividends

	6 months ended 31st December 2013 Unaudited £'000	6 months ended 31st December 2012 Unaudited £'000	Year ended 30th June 2013 Audited £'000
Ordinary final dividend paid for the year ended 30th June 2012 of 3.0p per share	**–**	621	621
Ordinary interim dividend paid for the year ended 30th June 2013 of 1.5p per share	**–**	–	311
Ordinary final dividend paid for the year ended 30th June 2013 of 3.8p per share	**788**	–	–
	788	621	932

7. 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 2013

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

	6 months ended 31st December 2013 Unaudited	6 months ended 31st December 2012 Unaudited	Year ended 30th June 2013 Audited	**6 months ended 31st December 2013 Unaudited**	6 months ended 31st December 2012 Unaudited	Year ended 30th June 2013 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	**1,144**	1,194	2,176	**1,087**	1,074	1,885
	No.	No.	No.	**No.**	No.	No.
Basic weighted average number of shares	**20,746,630**	20,720,339	20,732,636	**20,746,630**	20,720,339	20,732,636
Dilutive potential ordinary shares	**226,725**	34,702	124,519	**226,725**	34,702	124,519
Fully diluted weighted average number of shares	**20,973,361**	20,755,041	20,857,155	**20,973,361**	20,755,041	20,857,155
Total earnings per share:						
Basic	**5.5p**	5.8p	10.5p	**5.2p**	5.2p	9.1p
Fully diluted	**5.5p**	5.8p	10.4p	**5.2p**	5.2p	9.0p

8. 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.

9. Interim Report

The Group's interim and annual reports are available from the Company's website: www.animalcaregroup.co.uk

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