Animalcare GROUP

Better animal health

Annual Report for the year ended 31 December 2022

Animalcare Group plc is an international, development-focused sales and marketing organisation driven by a collective belief that healthy animals can have a hugely beneficial effect on their owners and wider society.

Listed on the UK's AIM market, Animalcare has a direct commercial presence in seven European countries and exports to around 40 countries in Europe and worldwide. The Group is focused on growing its business over the long term by bringing new and innovative animal health products to market through its own development pipeline, partnerships and via acquisition.

Why Animalcare?

Pipeline of novel products

The Group has shifted its R&D and business development focus from branded generics to novel, differentiated products with higher margin and growth potential. Daxocox, our medication for osteoarthritis-related pain in dogs, successfully emerged from our pipeline in 2021 while Plaqtiv+ dental health range reached the market with a series of launches in 2022. Adding to a series of life cycle management projects designed to expand the value of marketed brands, the Group further strengthened the pipeline in March 2022 through an early-stage licensing and collaboration agreement with Orthros Medical to develop innovative VHH antibody-based therapies.

Read more on **our strategy** on **page 10**

Read more on our **strategy in action** on **page 15**

Well positioned in attractive markets

The market for animal pharmaceuticals has enjoyed a period of robust global growth, a trend that is widely forecast to continue. While the Production Animals segment is benefiting from increasing demand for protein, the Companion Animals sector is growing at a faster rate, largely driven by exceptionally high levels of pet ownership and a greater willingness to spend on health and wellbeing. In 2022, we derived approximately 78% (2021: 77%) from Companion Animals and Equine. Consequently, Animalcare is structurally well positioned in a fast-growing and attractive market with strong long-term fundamentals.

Read more on **marketplace** on **page 04**

Streamlined portfolio

Rationalisation of the Group's product portfolio in recent years has delivered positive results. Focusing attention on the larger selling, higher potential Top 40 brands while disposing of several smaller, lower value "tail" products has created a more streamlined and manageable portfolio with improved margins.

Read more on **our strategy** on **page 12**

Financial flexibility enabling growth

Our focus on strengthening the Group's financial position in recent years has significantly reduced net debt levels. As a result, the Group has the capacity to invest in value-creating opportunities that will add to our pipeline or can be leveraged more immediately across our European operations and network of partners to accelerate growth.

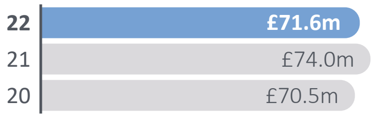
Read more on **performance** on **page 20**

Financial highlights

Animalcare's performance in 2022 highlighted the resilience of our business and of the animal health markets in which we operate. Good cash generation helped maintain our strong balance sheet with the leverage ratio at 0.4 times remaining well below the Group's target range of one to two times underlying EBITDA.

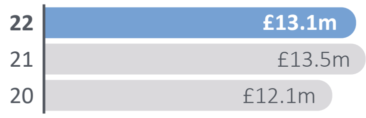
£71.6m ↓3.3%

REVENUE



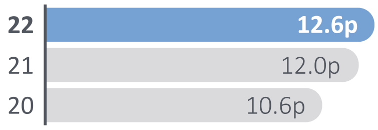
£13.1m ↓2.4%

UNDERLYING* EBITDA



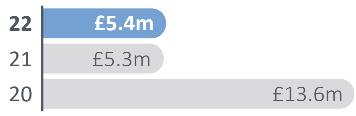
12.6p ↑5.0%

UNDERLYING EPS



£5.4m ↑£0.1m

NET DEBT



* Alternative Performance Measures (APMs) are reconciled to reported results in the Chief Financial Officer's review and within the notes to the consolidated financial statements.

Strategic and operational highlights

- Continuing focus on Top 40 brands contributes to strong increase in gross margins
- Daxocox becomes a top 10 selling product in the Group's portfolio
- Plaqtiv+ dental range launched after accreditation from influential Veterinary Oral Health Council
- Preclinical pipeline projects initiated following licensing and collaboration agreement with Orthros Medical to explore potential of VHH antibodies
- Tailored talent management programme implemented to identify and develop future leaders
- Doug Hutchens and Sylvia Metayer join the Group Board as Non-Executive Directors
- Sustainability Task Force established to develop and drive Group-wide ESG strategy

Chair's Statement

JAN BOONE
Non-Executive Chair

> Animalcare's performance in 2022 highlighted the resilience of our business and of the animal health markets in which we operate

Animalcare's performance in 2022 highlighted the resilience of our business and the markets in which we operate as we continued to make progress against our strategic priorities.

Revenues for the full year were £71.6m, a 3.3% decline that reflects a moderation in post-pandemic demand combined with factors such as the conclusion of product distribution agreements and the application of EU laws in Spain designed to reduce antibiotic usage.

At £13.1m, underlying EBITDA declined broadly in line with revenues thanks to a favourable product mix and disciplined management of SG&A costs. After adjusting for underlying items totalling £6.5m (2021: £8.6m), profit before tax on a reported basis was £2.5m (2021: £0.9m).

A good cash conversion rate of 78% (2021: 109%) maintained the healthy state of the Group's financial platform with net debt standing at £5.4m (2021: £5.3m) by the year end and leverage well below our stated target range of one to two times underlying EBITDA. This solid balance sheet position continues to support the Group's pursuit of value-creating opportunities that have the potential to grow our business over the coming years.

In March 2022 we reached an agreement with Netherlands-based Orthros Medical to secure a global licence for innovative VHH antibody candidates, initially addressing canine osteoarthritis. This exciting early-stage research and development collaboration helps build our pipeline in a fast-growing disease area that we know well. Elsewhere, we continue to seek out investments that can extend our geographic footprint and add to our product line-up in the shorter term, whether through M&A or partnerships.

Rationalisation of the Group's portfolio, which is now materially complete, continues to bear fruit. Management focus on larger more profitable products, combined with the discontinuation of several lower value "tail" treatments, has concentrated our firepower to the benefit of our gross margins. Against this backdrop it was particularly satisfying to see Daxocox, our innovative treatment for osteoarthritis-related pain in dogs, enter the top 10 selling products in our portfolio less than two years after coming to market. It was also pleasing to see the Plaqtiv+ dental range contribute to earnings following planned launches in the second quarter.

The Group's proven resilience and robust financial position support the Board's decision to propose a final dividend of 2.4 pence per share (2021: 2.4 pence per share).

The experience and skills of the Animalcare team drive our business forward. It's vital, therefore, that we continue to build the capabilities we need, now and into the future. In 2022 we rolled out a tailored programme to develop the next generation of leaders across the Group. We also invested in the sales and marketing excellence required to succeed in this dynamic and increasingly innovation-driven market.

In our previous Annual Report, we laid out our Group-wide approach to the environmental, social and governance (ESG) pillars of sustainable development. During the last 12 months we have noted an increasing interest in ESG-related topics among a number of our stakeholders.

While recognising that we are at the early stage of our journey in this area, we have established important foundations with the creation of a dedicated Sustainability Task Force chaired by CFO Chris Brewster to advise on aspects of sustainability, including identification of material issues to our stakeholders and the potential impact on our business.

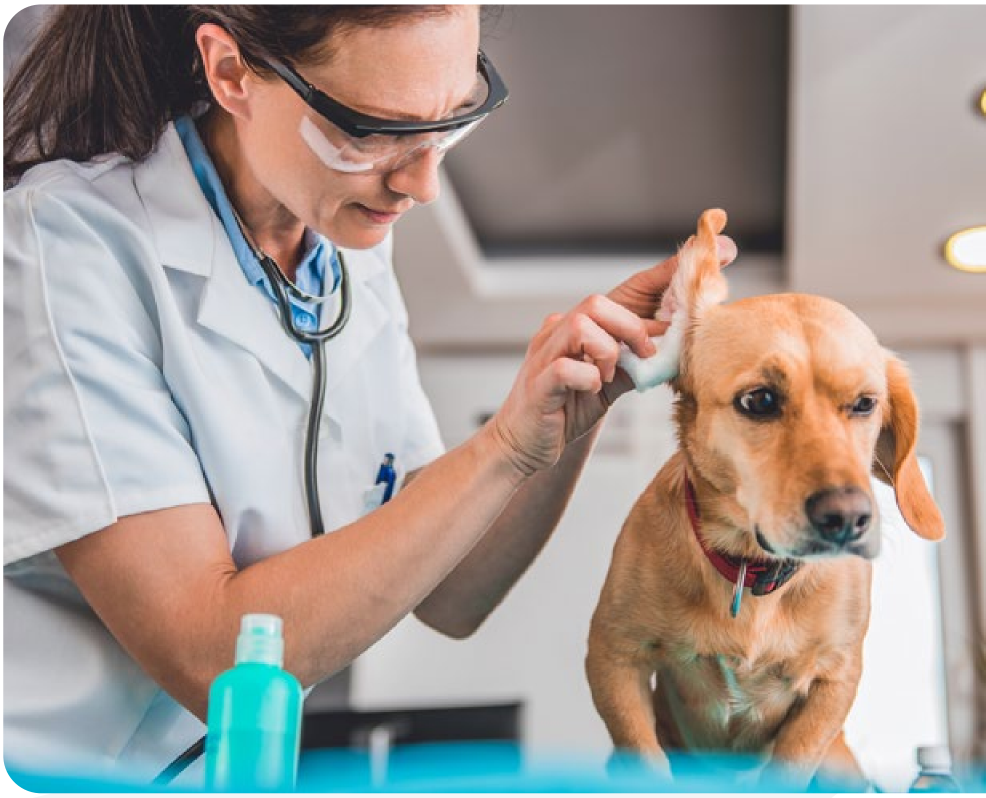
Despite the uncertain economic environment, we see reasons for optimism as we look ahead. The attractive fundamentals of our animal health markets and the strong position of the Group provide us with the confidence to continue investing in our long-term growth strategy.

Following the appointment of Doug Hutchens as a Non-Executive Director at the beginning of the year, we welcomed Sylvia Metayer to the Board in May 2022. Subsequently, she took over as Chair of the Audit and Risk Committee at the Group's AGM.

Sylvia brings a wealth of financial and commercial experience gained most recently at Sodexo SA, a global leader in food and facility management outsourcing. I know that Sylvia will be of huge value as the Group continues to implement its long-term growth strategy.

No review of the year would be complete without recognition for the skills and commitment of the Animalcare team across all our markets. Our progress in 2022 was made possible through their efforts. I'd also like to thank you, our shareholders, for your continued support in our Company as we strive to achieve better animal health.

JAN BOONE
Non-Executive Chair



Our Marketplace

Overview of our marketplace

The Group operates in three categories within the veterinary market: Companion Animals, Equine and Production Animals. We are focused on therapeutic areas with strong growth potential and where we have expertise, such as pain management, dental health and anti-infectives.

After exceptional growth in 2021, fuelled by the lifting of pandemic restrictions and increased levels of pet ownership, demand moderated across Europe over the course of 2022. Historically, the animal health industry has been resilient in previous economic downturns compared to other industries and we believe companies with products used by vets predominately in the vet practice are in a good position to see out any downturn.

Parasiticides and vaccines accounted for over 60% of the market with vaccines maintaining their number one position. The launch of novel products for cats and dogs has driven the pain management market to new highs with few signs of a slow-up in demand. Antimicrobials, which continued to decline in 2022 compared to the overall European animal health sector, have seen market share decrease by more than 50% over the last 10 years[1].

GEOGRAPHIC MARKETS

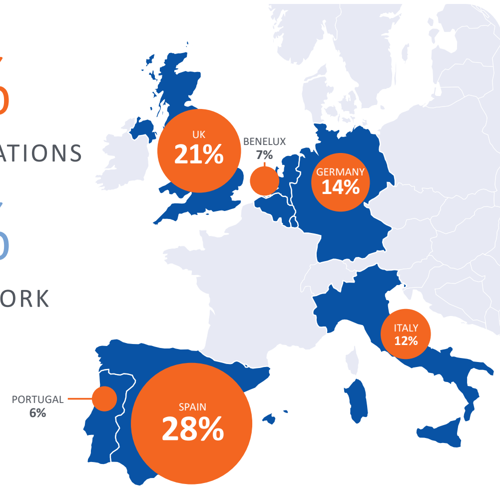
Europe, which accounted for 98% of our revenue in 2022, is the second largest market for animal health and represents about a third of global sales[2]. We sell our products either through our direct sales teams or distributors in all EU countries as well as the UK, Switzerland and Norway. We export to 15 countries outside Europe including Australia, New Zealand, Japan, Korea, Hong Kong, Brazil and Israel and are actively looking to increase our global footprint in the coming years.

88%

OUR OPERATIONS

12%

OUR NETWORK PARTNERS



THERAPEUTIC MARKETS

Pain management

The global market for animal pain control products in 2020 was approximately US$750m and comprises three key segments: acute pain control, chronic pain control and acute/chronic pain control combined. The acute/chronic segment represents around 60% of the market while the remaining 40% is equally split between chronic only and acute only products.

The pain market is forecast to grow annually by nearly 8%, compared with 5% for animal health overall. The single largest category in this segment is Non-Steroidal Anti-Inflammatory Drugs (NSAIDs) with a mix of generics and newer, more innovative patent-protected products such as the Group's Daxocox treatment. The 2021 approval in Europe of Nerve Growth Factors (NGF1) inhibiting monoclonal antibody therapies for dogs and cats has proved to be a notable source of growth.

The market is characterised by canine pain associated with osteoarthritis. Increased pet ownership during the pandemic should expand the market, especially when the current cohort of two and three year old dogs enters the geriatric phase.

Treatment compliance is another important factor. As most animals require daily medication, dosing by owners is a significant risk to long-term pain control in pets. New weekly and monthly options have become available in recent years which should improve treatment outcomes.

Innovation is also a key driver in this market. Newer products help to drive awareness of pain management and, consequently, greater compliance in use. These innovative treatments are expected to command higher margins and earnings.

Dental

Periodontal disease in dogs is a progressive condition caused by bacteria that damages gums, bone and other supportive structures of the teeth. It is estimated that more than 80% of dogs over the age of three years have some form of periodontal disease[6].

Most pet dental products are sold through non-veterinary channels and the market is fragmented. With the increased humanisation of pets and overall improvements to pet welfare, we view the veterinary dental market as a growth opportunity. Simple diagnostic tools to encourage dental conversations with pet owners will be key to identify the non-visible signs of periodontal disease and help drive dental sales in veterinary practice.

Innovative science-based products and the introduction of treatments for cats are expected to further drive the market in the near future.

Anti-infectives

Anti-infectives are used to treat or prevent infection and include antibiotics, antivirals, antifungals, antimalarials, antiprotozoals, anthelmintics and antituberculosis.

In Europe, sales of veterinary antimicrobials decreased by 47% between 2011 and 2021[7], a trend that is expected to continue due to the focus on reducing drug resistance and new EU regulations from January 2022 that ban the routine use of antibiotics in farmed animals. The new regulations mean only sick, individual animals (and not whole herds) may be administered antibiotics.

As sales of antimicrobials have decreased the search for effective alternatives, especially preventative measures, has become more of a priority. Among these therapy classes are microbiome, vaccines and anti-biofilms.

Gastrointestinal (GI) microbes play a fundamental role in animal health. In Production Animals, GI innovation is focused on the replacement of medicated feeds, improving production and even reducing methane. In Companion Animals we expect to see developments in microbiome treatments targeted at obesity, dental conditions and diabetes as well as more traditional GI diseases.

Longer term, opportunities exist for more sustainable use of antibiotics in association with other technologies.

ANIMAL SECTORS

Companion Animals

This category includes dogs, cats, small mammals, aquatic and non-food producing avian and accounts for approximately 47% of sales in animal health in Europe[3], a significant increase over 2021 reflecting the growth in pet numbers during COVID-19[4]

Demand drivers

- Pandemic-related increase in the number of pets
- Longer life expectancy of pets
- Move to smaller breeds of dogs
- Increased "humanisation" of pets

Production Animals

Livestock (cattle, sheep, pigs, etc) account for approximately 27% of spend; poultry and avian around 10% of sales

Demand drivers

- Human population growth increasing global demand for protein
- Decrease in pig meat production due to reduced export opportunities, strict environmental laws and African Swine Fever[5]
- Increasing industrialisation of meat and milk production combined with heightened animal welfare expectations

Equine

Equine accounts for just under 3% of the European market

Demand drivers

- Equine owners demand increasingly specialised services
- Increasing demand for medical care for horses
- Impact of inflation on costs of ownership

1 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
2 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
3 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
4 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
5 https://agriculture.ec.europa.eu/data-and-analysis/markets/outlook/medium-term_en
6 https://onlinelibrary.wiley.com/doi/epdf/10.1111/jsap.13132
7 https://www.ema.europa.eu/en/veterinary-regulatory/overview/antimicrobial-resistance/european-surveillance-veterinary-antimicrobial-consumption-esvac

Our Marketplace CONTINUED

Trends in the animal health market:

TREND	HOW WE ARE RESPONDING
1. High levels of pet ownership It is estimated that 90 million European households (46%) own a companion animal[8], with cats proving the most popular (113 million) followed by dogs (92 million) and birds (48 million). In the UK, pet ownership reached a record high of 62% of households in 2021/22, likely as a result of more time spent at home due to the pandemic. The increase in puppies and kittens should create a geriatric "boom" in six or seven years when many of these animals will require more veterinary treatment for the likes of pain management related to osteoarthritis, cancer, heart disease and kidney disease.	Animalcare is actively seeking potential partners that possess innovative technologies which we can develop and launch with exclusivity in the Companion Animals segment. In March 2022 we signed an exclusive licence agreement with Orthros Medical centred on two preclinical VHH antibody candidates. The initial focus of this collaboration is canine osteoarthritis, one of the leading reasons geriatric dogs visit the vet. Along with Daxocox, we aim to increase our market share of this large, growing market. **Link to strategic priority:**
2. Growth in pet expenditure The percentage of household income spent on animals and animal health continues to rise as launches of newer innovative medicines and new technologies[9] become available. While there is evidence that inflationary pressures are being felt by some owners, the overall effect has been small, highlighting the resilience of the pet industry.	We continue to supply a portfolio of key medical and surgical pharmaceutical products, primarily in the Companion Animals sector, and look to launch innovative and novel products to create sustainable growth. In some instances, we have been affected by significant increases to our cost of goods during 2022. As a result, we have taken mitigating pricing actions where possible while remaining mindful of market competitiveness. **Link to strategic priority:**
3. Sustainability While food production of animal-based protein is expected to decline per capita, the total global output should remain constant or increase due to human population growth. Sources of protein are likely to change too; the poultry and aqua industries should see increased demand, with the swine and ruminant industries declining in relative terms. We also expect that a reduction in antibiotic use across all species will drive an increase in vaccination and a move to less intense production systems.	Reducing our portfolio reliance on antibiotics is an important element of our strategy; this was a key rationale for our investment in STEM Animal Health Inc. which is enabling us to exploit biofilm-targeting technologies in anti-infective roles. Further information on antimicrobial resistance is provided in the Sustainability Report. **Link to strategic priority:**
4. Smaller dog breeds Smaller dogs will continue to be popular and more animals will be treated for medical conditions. Though dosing per head will reduce in smaller breeds, margins should be maintained. In Companion Animals we anticipate increased testing in the use of anti-infectives and increased adoption of vaccine prophylaxis for viral and bacterial diseases. This will result in greater focus on the therapies suited to ageing Companion Animals.	Smaller dogs tend to live longer than larger breeds so preventative products such as Plaqtiv+ and future microbiome treatments have a longer potential life span in such animals. Additionally, an ageing dog population should increase demand for future and existing products that have particular utility in the treatment of geriatric-related conditions, such as osteoarthritis. **Link to strategic priority:**

STRATEGIC PRIORITIES

Strong Finances · Key Leadership · Growth Portfolio · Business Development · Innovative Pipeline

TREND	HOW WE ARE RESPONDING
5. Humanisation of pets More time spent at home due to coronavirus restrictions has strengthened bonds between pets and their owners. According to a study in 2021[10], 71% of owners regarded their pets as part of the family. Humanisation tends to elevate pet care on an owner's list of spending priorities, making them essential rather than discretionary.	In 2022, Animalcare launched Plaqtiv+, an innovative range of dental products, and OraStripDx, a simple diagnostic tool designed to identify periodontal disease. These products can enable dogs and cats to achieve improved dental health and wellbeing by helping manage plaque and combat bad breath. Future launches of microbiome-based products in 2023 will focus on wellbeing issues such as canine "scooting" and unbalanced gut microbiota. **Link to strategic priority:**
6. Customer consolidation With corporate veterinary businesses now accounting for almost 60% of practices in the UK, established corporate vet groups are expanding across Europe to drive future growth. These groups are showing first signs of operating on a pan-European basis with at least one initiating a Europe-wide tender process. This creates both opportunities and risks for animal health companies and increases the importance of being in multiple countries across Europe.	Animalcare has upped headcount in the dedicated corporate accounts team and has moved reporting to Group level to get closer to our key customers, better co-ordinate our resources and ultimately maximise opportunities across Europe. Taking Danilon into the UK business gives the Group more control over pricing of this equine non-steroidal treatment as well as providing an established and trusted brand to further engage with corporate customers. **Link to strategic priority:**
7. Competitive landscape The takeover of several mid-sized players in 2022 pointed to a continued appetite for consolidation in the animal health pharmaceutical industry. Additionally, by making multiple, smaller acquisitions, some well-financed companies have begun to challenge a few of the more established players. The number of companies selling generics is increasing with some big animal pharma players seeing this class of product as an opportunity to generate relatively cheap top line growth. Additionally, the corporate vet groups are registering their own generics or creating "white label" products with a generic partner.	The Group continues to invest in business development opportunities that support our focus on novel and differentiated products and the pursuit of growth in niche areas such as dental. We are also strengthening our understanding of the decision-making drivers for corporate white label generics and are assessing potential pan-European opportunities. **Link to strategic priority:**
8. Increase in digital and online In light of COVID-19 and with the economic downturn, pet owners are increasingly going online to look for advice[11] or products before visiting a vet. Younger pet owners are more likely to purchase pet care items online via subscription than their older counterparts[12].	Identicare, the Group's pet microchipping and pet owner services company, was carved out of the UK pharmaceuticals business in 2021. Under new digitally focused and experienced management, we are seeking to grow the overall online subscription-based service to pet owners centred around pet protection. **Link to strategic priority:**

1 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
2 https://animalhealtheurope.eu/about-us/annual-reports/2022-2/key-figures-2022/
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5 https://agriculture.ec.europa.eu/data-and-analysis/markets/outlook/medium-term_en
6 https://onlinelibrary.wiley.com/doi/epdf/10.1111/jsap.13132
7 https://www.ema.europa.eu/en/veterinary-regulatory/overview/antimicrobial-resistance/european-surveillance-veterinary-antimicrobial-consumption-esvachttps://europeanpetfood.org/about/statistics/
8 https://www.euromonitor.com/article/humanisation-a-key-driver-of-pet-product-sales#:~:text=The%20humanisation%20trend%20is%20driving,areas%20such%20as%20pet%20healthcare.
9 https://www.statista.com/statistics/308235/estimated-pet-ownership-in-the-united-kingdom-uk/
10 https://www.veterinary-practice.com/2022/demand-for-remote-veterinary-care-continues-to-rise
11 https://www.americanpetproducts.org/press_releasedetail.asp?id=1252

Business Model

By focusing our resources on the development, supply and marketing of products and services to the veterinary profession, our business model creates value for a range of stakeholders.

OUR KEY RESOURCES

People

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group.

Industry knowledge

We have extensive knowledge of the Companion Animal, Equine and Production Animal markets in which we operate and the regulations that govern them. More than 20% of our people are qualified vets.

Customer relationships

The relationships with the individual vets and veterinary groups that represent our core customers are key. Our sales force has extensive experience and knowledge of their markets and products.

Partnerships

The Group has developed a series of critical partnerships that help us strengthen our pipeline, commercialise innovative products and establish research and manufacturing capabilities and capacity.

Balanced portfolio

Animalcare operates a portfolio of around 150 brands. We aim to increase the quality of this portfolio by focusing on a smaller number of bigger, higher-margin brands with significant growth potential.

Financial platform

Our solid financial platform enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

OUR KEY ACTIVITIES

Our core activities combine to create sustainable growth and long-term value for our stakeholders.

- We develop and commercialise novel pharmaceutical products for the animal health market. These are developed in-house with the help of contract research organisations, acquired from other companies or in-licensed from partners.
- Outside our direct geographic operations we seek to commercialise our products through international partnerships.
- We manufacture our products through a network of specialist contract manufacturing organisations.
- We supply products direct to our customers and via a network of specialist veterinary wholesalers and distributors.
- Using our sales and marketing capabilities, we sell products to veterinary practices and veterinary groups.
- The cash we generate from these activities helps fund investment in our people and in the pipeline of new products.

We are a business driven by our values, which are at the core of our key activities.

One team

Passion

VALUE CREATED FOR STAKEHOLDERS

Employees

Employees benefit from the ability to improve their skills and work in a challenging, innovation-driven and forward-thinking organisation.

Customers

Animalcare seeks to provide a choice of innovative and trusted products and services to support veterinary professionals and other customer stakeholders. Our agile business model and close customer relationships help ensure we are aligned with the changing needs of our markets.

Shareholders

Through execution of our growth strategy, we aim to consistently deliver a strong and resilient financial performance for our shareholders, generating attractive returns over the long term.

Keepers of animals

Our veterinary products and services – including the Group's pet reunification service provided by Identicare – help maintain or improve the health and wellbeing of animals across our markets. That brings huge benefits to owners and wider society.

Suppliers

As the Group does not own manufacturing assets it works with third-party manufacturers to supply finished products. We engage with suppliers to develop and maintain trusting long-term relationships and to create mutual value.

Partners

Our partnerships are wide ranging in scope and help ensure the success and effective operation of our business. We create value through long-term collaborations on mutually agreed terms.

Integrity

Taking ownership

Have fun

Our Strategy

We are pursuing our strategic ambition of becoming a leading player in all our markets. In 2022 we continued to focus on the five pillars of our growth strategy.

STRONG FINANCES

Financial sustainability through revenue growth, strong cash conversion, EPS growth and EBITDA margin growth

Revenue growth

Key initiatives

- Focus on segments and products with highest potential
- New product launches
- Leverage strengths across all our direct markets
- Maximise opportunities in other high growth markets through partnerships or acquisition

Progress

- New product sales of £2.1m (2021: £2.2m) predominantly driven by Daxocox and launch of Plaqtiv+ (from the STEM biofilm range)
- 0.9% revenue decline in the Top 40 products due to loss of distribution and changes in the antibiotic market

2023 Priorities

- Continue to drive operational excellence in sales and marketing
- Maximise growth potential of Daxocox in dynamic market and drive growth of Plaqtiv+ range in all markets

LINKS TO RISKS

A B C G

LINKS TO KPIs

1 4 5

Cash conversion and net debt

Key initiatives

- Maintain net debt to underlying EBITDA leverage ratio between one and two times
- Optimise inventory turnover
- Tax efficiency

Progress

- Good underlying cash conversion of 78.3% (2021: 108.8%)
- Strong balance sheet maintained with net debt at year end of £5.4m (2021: £5.3m)
- Net debt comfortably below target range

2023 Priorities

- Support investment in growth strategy by sustaining strong cash conversion within a 80%-100% range
- Maintain EBITDA leverage in the range of one to two times

LINKS TO RISKS

C E F

LINKS TO KPIs

2 6

Underlying EBITDA margin and EPS growth

Key initiatives

- Focus on higher margin products
- Operating efficiency and leverage

Progress

- Total number of brands in portfolio close to steady state target of 150
- Underlying EBITDA margin approximately in line with prior year supported by strong improvement in gross margins while managing SG&A investment
- Underlying EPS of 12.6 pence (2021: 12.0 pence)

2023 Priorities

- Continue to drive operational excellence in sales and marketing
- Evolve and align the organisation to the external market and internal opportunities to maximise effectiveness and efficiencies in order to scale profitability

LINKS TO RISKS

C E F

LINKS TO KPIs

3 4

KEY LEADERSHIP

Organisation for success; leadership strength and core capabilities

Attract, retain and develop talented people

Key initiatives

- Strengthen leadership capabilities
- Align reward to performance
- One-team culture
- Drive effective communication and collaboration
- Improve diversity

Progress

- Sandra Single joined SET as Strategic Product and Portfolio Director
- Embedded "High Challenge, High Support" leadership programme and implemented "Pioneering Professional" talent management process
- Annual mean employee engagement score of 3.88 (2021: 3.96)
- Wellbeing programme uptake in line with expectations

2023 Priorities

- Implement actions from employee engagement survey
- New Global People Portal intranet launched to improve two-way communication

LINKS TO RISKS

C D J

LINKS TO KPIs

7

Organisation for growth

Key initiatives

- Create an organisation to drive sustainable and profitable growth

Progress

- Senior Executive Team (SET) focused on delivery
- Roll out of our own-branded commercial excellence programme, supported by Group-wide CRM implementation

2023 Priorities

- Evolve and align the organisation to the external market and internal opportunities to maximise effectiveness and efficiencies in order to scale profitability
- Sustain strong momentum in embedding commercial excellence across all markets

LINKS TO RISKS

B G I

LINKS TO KPIs

1 7

RISKS KEY

- A Market risk
- B Competitor risk
- C Portfolio risk
- D Product development risk
- E Financing/Treasury risk
- F Foreign exchange translation risk
- G Supply chain risk
- H IT systems and cyber security risk
- I Regulatory risk
- J People risk

KPI KEY

1. Revenue growth
2. Underlying cash conversion
3. Basic underlying earning per share ("EPS")
4. Underlying EBITDA margin
5. New product revenue
6. Net debt to underlying EBITDA leverage
7. Employee engagement

Our Strategy CONTINUED

GROWTH PORTFOLIO

Focused portfolio in key therapy areas in growing market segments

Focus on existing core brands that generate sustainable growth and margins

Key initiatives

- Improve quality of portfolio; focus on smaller number of bigger-selling, higher-margin brands

Progress

- Focus on Top 40 products contributed to strengthened gross margins
- Daxocox is now a Top 10 selling Animalcare product and we have successfully launched the Plaqtiv+ range

2023 Priorities

- Drive growth in Companion Animals and maintain strong presence in Production Animals
- Continued focus on bigger-selling, higher-margin products
- Further investment in product launch capability

LINKS TO RISKS

C D

LINKS TO KPIs

1 3 4

BUSINESS DEVELOPMENT

Work with partners to build a pipeline of products that meets our criteria for growth

In-license or acquire products and develop network partnerships

Key initiatives

- In-license or acquire innovative pipeline or market-ready products
- Establish Animalcare as partner of choice, especially for companies selling into Europe
- Build partnerships to exploit growing global markets

Progress

- Ongoing distribution partnership with Virbac for Daxocox extended to additional markets globally
- UK Identibase business continues to develop and grow post carve out with focus on services centred around pet protection

2023 Priorities

- Continue to pursue value-creating partnerships and in-licensing opportunities

LINKS TO RISKS

B G I

LINKS TO KPIs

1 5

INNOVATIVE PIPELINE

Building a pipeline of novel and differentiated products

Launch new products and develop differentiated and innovative pipeline of products for the future

Key initiatives

- Strengthen internal pipeline of differentiated products through partnerships, in-licensing and acquisitions
- Prioritise and accelerate in-house R&D projects

Progress

- Research collaboration with Orthros Medical progressing well – focus on lead candidates and new indications for the VHH antibody technology
- Daxocox clinical studies in new indications on track

2023 Priorities

- Continued development of lead indications for the Orthros technology including initiation of clinical programmes
- Pursue potential additional indications for the Orthros technology

LINKS TO RISKS

A D E I

LINKS TO KPIs

1 3 5

For **strategy and risks key** please see **page 11**

Our Strategy in Action

Orthros Medical – Delivering on our strategy

In March 2022 we took a major step forward in the development of our longer-term pipeline through a collaboration and licensing deal with Orthros Medical, a Netherlands-based company focused on novel VHH antibody technology.

VHH antibodies have been shown to possess a number of clinical uses that are relevant in animal health. Indeed, VHH antibody products have received regulatory approval for use in human medicine.

Under the terms of our agreement, Animalcare is working in a research partnership with Orthros Medical to develop VHH antibodies in animal health indications. This collaboration provides Animalcare with access to the excellent scientists at Orthros Medical and the project is run through a joint steering committee. Animalcare will have the opportunity to license and commercialise animal health products that result from this partnership. While there is much to do to bring any new product from early stage to launch, we see significant opportunities to develop our longer-term growth portfolio through this agreement.

The licensing deal with Orthros Medical focuses on the development and launch of specific products that have already been identified.

In recognition of the inherent risks associated with new product development, we have built in milestones and “stage gates” to ensure that the level of investment is aligned to the phase of development. Consequently, investment is designed to step up as we approach and pass through regulatory approval and launch.

This is an exciting advance for Animalcare. We are delighted with how the relationship with Orthros Medical is working and the progress made in the initial phase of the collaboration. One year into our agreement, it’s clear that supporting earlier stage research in tandem with experts in the field fits our model well and provides an opportunity to develop innovative products that can deliver sustainable future growth.

Derived from llamas, VHH antibodies have been shown to possess a number of clinical uses.

Our Key Performance Indicators

Financial KPIs

REVENUE GROWTH

22	£71.6m
21	£74.0m
20	£70.5m

£71.6m

Definition

Organic revenue growth including: new products versus prior year, excluding the impact of acquisitions and disposals

Why we measure this

Revenue growth is an important barometer of the Group's success in delivering its strategy and is a key component of growing our profits and cash flow

Commentary on performance

Revenue for the year was £71.6m (2021: £74.0m), a decrease of 3.3% at AER (2.5% at CER)

LINKS TO STRATEGY

UNDERLYING CASH CONVERSION

22	78.3%
21	108.8%
20	102.9%

78.3%

Definition

Cash generated from operations as a percentage of underlying EBITDA

Why we measure this

Our quality of earnings is reflected in our ability to turn underlying EBITDA into cash, an important enabler of investment in our innovative pipeline and people

Commentary on performance

Underlying cash conversion has averaged more than 90% over the last three financial years demonstrating our ability to generate strong and sustained levels of cash

LINKS TO STRATEGY

NEW PRODUCT REVENUE

22	£2.1m
21	£2.2m
20	£2.2m

£2.1m

Definition

Revenue from new products launched in the last two financial years

Why we measure this

New product revenues are a key driver of growth in Companion Animals and support our strong presence in Production Animals

Commentary on performance

Growth from newly introduced products contributed £2.1m of sales principally driven by Daxocox and Plaqtiv+

LINKS TO STRATEGY

NET DEBT TO UNDERLYING EBITDA LEVERAGE

22	0.4x
21	0.4x
20	1.1x

0.4x

Definition

Leverage is net debt (total debt less cash balances) divided by underlying EBITDA

Why we measure this

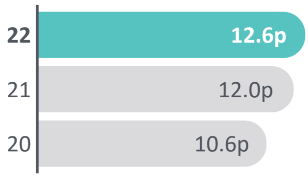
We seek to maintain a strong balance sheet with EBITDA leverage in the range of one to two times to allow capacity for investment in future growth

Commentary on performance

Net debt to underlying EBITDA leverage ratio maintained at 0.4 times

LINKS TO STRATEGY

BASIC UNDERLYING EARNINGS PER SHARE



12.6p

Definition

Underlying profit after tax divided by the weighted average number of shares

Why we measure this

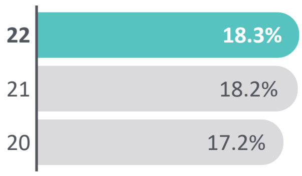
Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders

Commentary on performance

Underlying EPS 5.0% ahead of 2021 at 12.6p benefiting from a lower effective tax rate

LINKS TO STRATEGY

UNDERLYING EBITDA MARGIN



18.3%

Definition

Underlying EBITDA as a percentage of sales

Why we measure this

This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit

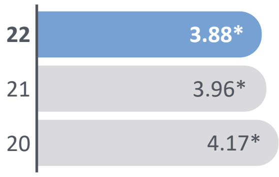
Commentary on performance

Underlying EBITDA margin is approximately in line with prior year at 18.3% reflecting improved gross margins and managing investment in our cost base

LINKS TO STRATEGY

Non-financial KPIs

EMPLOYEE ENGAGEMENT



3.88

Definition

Measure of employee engagement based on well established Gallup Q12 process

Why we measure this

Employee engagement surveys enable comparison between the Group and other companies. The primary purpose of the survey is to guide leadership about how best to improve employee engagement

Commentary on performance

The Group's 2022 engagement score declined by 2% on the prior year. The survey highlighted a positive view among employees about their ability to deliver high quality work as well as opportunities to further develop and progress in their roles

*Gallup Q12 engagement score

LINKS TO STRATEGY

STRATEGIC PRIORITIES

- Strong Finances
- Key Leadership
- Growth Portfolio
- Business Development
- Innovative Pipeline

Chief Executive Officer's Review

JENNY WINTER
Chief Executive Officer

> In 2022, the Group stepped up R&D investment as we continued to build an innovative pipeline that is capable of generating sustainable growth

Looking back at 2022, we have reasons to be pleased with several of our key indicators – not least positive margin growth and good cash conversion – as we continue to benefit from a strong balance sheet in the pursuit of our long-term growth strategy.

Strong finances

Revenues for the full year reflected a moderation in demand after the pronounced spike in post-pandemic veterinary activity seen in 2021 across Europe. Termination of certain Companion Animals distribution agreements and the application of EU regulations in Spain designed to reduce the widespread use of antibiotics in Production Animals, exerted further downward pressure on overall revenues. As a result, the headline sales figure of £71.6m was down 3.3% at actual exchange rates (2.5% at constant exchange rates).

Our focus on bigger-selling, more profitable products in our portfolio continued to deliver results, driving much improved gross margins of 56.8% (2021: 53.3%). Carefully targeted interventions on pricing also helped us mitigate the impact of inventory and logistics inflation.

56.8%
GROSS MARGIN

Following on from the significant progress we have made in recent years to reduce our debt and improve our balance sheet, the Group delivered positive cash conversion in line with our goals. As a result, net debt stood at £5.4m at the year end with leverage well below the target range of one to two times underlying EBITDA (0.4 times underlying EBITDA). Maintaining such a strong financial platform is critical to our strategy, enabling us to pursue value-creating opportunities through a combination of M&A, partnerships and pipeline projects.

Key leadership

In 2022 we continued to invest in building the skills and behaviours that will drive our business forward. Identifying and developing the next generation of leaders has been a clear theme over the course of the year with the introduction of a consistent approach to the management of our talent. This initiative is also designed to dovetail with our branded "High Challenge High Support" programme of behavioural development.

Market data show that innovative products are driving much of the growth in the animal health sector. This dynamic is hard-wired into our business strategy. It's crucial, therefore, that our people are equipped with industry-leading skills to engage with customers and explain how these new technologies can benefit animal health and wellbeing in the appropriate settings. That's why we intensified our focus on sales and marketing excellence during 2022.

3.88

ENGAGEMENT SCORE

In partnership with Gallup, we carry out an annual survey of employee engagement. Recognising that we recorded a decline of 2% in our overall 2022 score, the data we gather through this process provides us with a rich source of insights as we seek to identify areas for improvement down to team level.

We extended a warm welcome to two new Non-Executive Directors to the Company in 2022. Doug Hutchens joined the company in February while Sylvia Metayer assumed her role in May. Doug's impressive background in veterinary medicine and R&D and Sylvia's senior level commercial leadership experience are already making a positive mark on the Group.

Growth portfolio

Our product portfolio acts as both a solid platform and a driver of growth. In recent years we have refined our product line-up, concentrating attention on larger-selling, higher margin brands while disposing of smaller "tail" products, some of which offered little more than a distraction. This rationalisation programme is now effectively complete with approximately 150 brands offering a comprehensive yet manageable portfolio. Though our Production Animals business remains a valuable part of the overall mix, it is evident that the Companion Animals segment offers greater growth potential. Consequently, that's where we direct more of our investment.

In 2022, our top 40 selling brands accounted for approximately 78% of total product sales, marginally down on the prior year. It was particularly satisfying to see Daxocox, our novel treatment for osteoarthritis-related pain in dogs, comfortably enter the top 10 ranking of Animalcare products. Additionally, our Plaqtiv+ dental health range, the first product to emerge from the STEM joint venture with Kane Biotech Inc., contributed to earnings following the later than expected accreditation from the influential Veterinary Oral Health Council (VOHC).

Identicare Ltd, the Group's UK-based pet microchipping and pet owner-focused services company, which we carved out from our pharmaceutical business under specialist leadership during 2021, delivered double-digit revenue growth over the period.

Chief Executive Officer's Review CONTINUED

Business development

Achieving growth via inorganic business development routes is a core strategic objective for the Group. This is made possible by a financial platform that has been materially strengthened in recent years. Over the course of 2022 our dedicated business development team focused their efforts on the identification and pursuit of value-creating deals that can build our pipeline, add to revenues at attractive levels of profitability and extend our operational footprint and sales and marketing reach.

Our agreement with Netherlands-based Orthros Medical, signed in March 2022, secured an exclusive licence for VHH antibody technology, with an initial focus on canine osteoarthritis. Though still in the early stages, the partnership has all the hallmarks of a collaborative template for our business.

Innovative pipeline

In 2022 the Group stepped up R&D investment as we continued to build an innovative pipeline that is capable of generating sustainable growth; we expect to further increase spend as a proportion of sales in 2023.

The aforementioned licencing and collaboration agreement with Orthros Medical has generated a number of preclinical projects exploring the potential for VHH antibodies, initially for the treatment of osteoarthritis-related pain in dogs. This is an expanding area of the market in which we are recognised for our knowledge and expertise. Following the European approval of Daxocox in 2021, we are also leveraging our product development capability to pursue life cycle management opportunities that can extend the therapeutic and commercial reach of our long-acting COX-2 inhibitor.

Summary and outlook

Though the Group fell short of its revenue expectations in 2022 due to a combination of moderating market demand and other more specific factors, we made positive progress on gross margins, helping us maintain our strong financial position, and with it our ability to invest in growth opportunities.

Looking ahead, we remain confident in the resilience of our business and the wider animal health market which has seen record levels of pet ownership in many countries. We continue to be mindful of macroeconomic uncertainties, including inflationary pressures, but we anticipate a return to revenue growth for the full year.

Our people deserve huge credit for the commitment they have shown in 2022. I'd like to record my thanks for their hard work as we continue to deliver on our long-term growth strategy.

JENNY WINTER
Chief Executive Officer

Chief Financial Officer's Review

CHRIS BREWSTER
Chief Financial Officer

> With our strong balance sheet, the Group remains well placed to deliver on our long-term growth strategy and we continue to explore business and product development opportunities

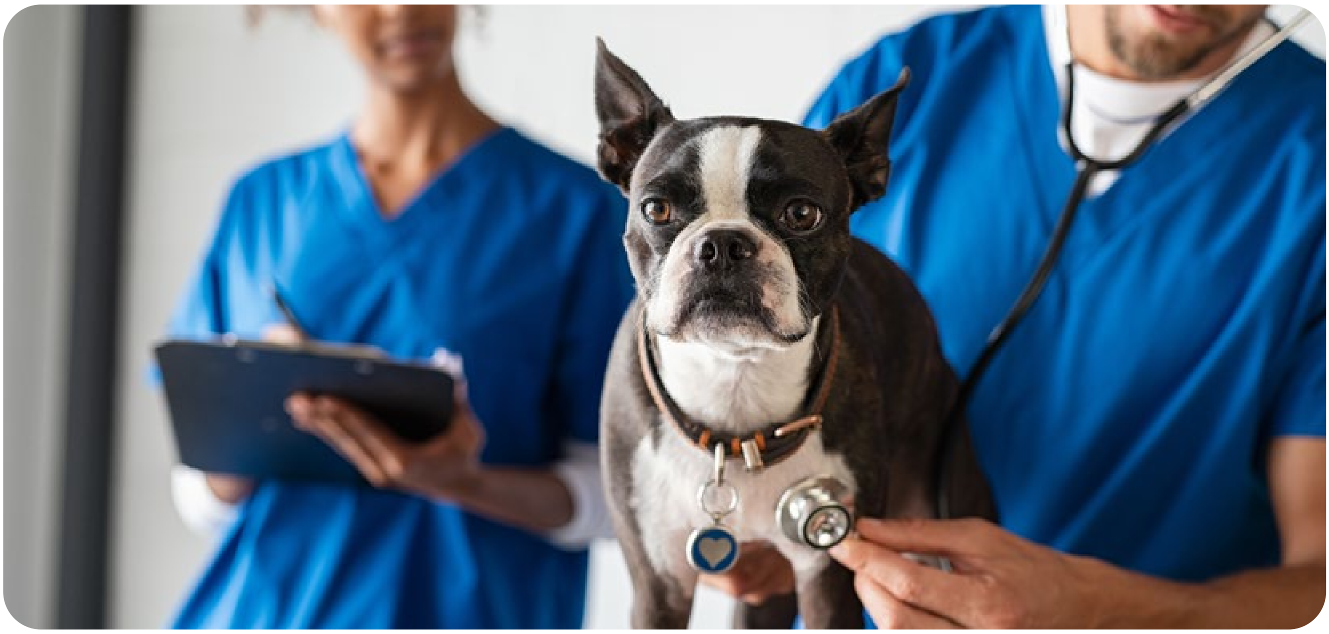
Underlying and statutory results

To provide comparability across reporting periods, the Group presents its results on both an underlying and statutory (IFRS) basis. The Directors believe that presenting our financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance. IFRS results include these items to provide the statutory results. All figures are reported at actual exchange rates (AER) unless otherwise stated. Commentary will include references to constant exchange rates (CER) to identify the impact of foreign exchange movements. A reconciliation between underlying and statutory results is provided at the end of this financial review.

Overview of underlying financial results

	2022 £'000	2021 £'000	% Change at AER
Revenue	**71,616**	74,024	(3.3%)
Gross Profit	**40,659**	39,418	3.2%
Gross Margin %	**56.8%**	53.3%	3.5%
Underlying Operating Profit	**9,753**	10,593	(7.9%)
Underlying EBITDA	**13,131**	13,455	(2.4%)
Underlying EBITDA margin %	**18.3%**	18.2%	0.1%
Underlying Basic EPS (p)	**12.6p**	12.0p	5.0%

Trading activity in 2022 reflected the continued moderation of market growth across Europe from the exceptionally high levels of post pandemic-related demand in 2021. The continuing commercial focus on our larger, higher margin brands was the main driver of much-improved gross margins. The Group's strong balance sheet and good levels of cash generation allow us to continue to invest to support future growth.



Revenues declined to £71.6m (2021: £74.0m), a decline of 3.3% at AER (2.5% at CER). An analysis by product category is shown in the table below:

	2022 £'000	2021 £'000	% Change at AER
Companion Animals	**50,217**	51,326	(2.2%)
Production Animals	**15,674**	16,980	(7.7%)
Equine & other	**5,725**	5,718	0.1%
Total	**71,616**	74,024	(3.3%)

Companion Animals revenue, which continues to represent around 70% of Group turnover, declined by 2.2% to £50.2m, impacted by moderating demand levels across Europe as noted above together with the loss of distribution rights of certain key brands. In part, this was offset by sales growth from new products, which contributed £2.1m (2021: £2.2m), predominantly driven by Daxocox and Plaqtiv+, the latter launching during Q2 following the later than expected VOHC (Veterinary Oral Health Council) accreditation. In addition, Identicare, the Group's small but growing UK-based pet microchipping and pet owner-focused services business, delivered 13% revenue growth over the period. One year on from bringing in specialist leadership, we are pleased with the progress in transitioning the business to a subscription-based services model with recurring revenues.

Production Animal revenues, which are largely generated by our South Region business, declined by 7.7% versus the prior year to £15.7m, predominantly due to the application of EU laws in Spain designed to further reduce the widespread use of antibiotics.

Equine and other sales were broadly flat versus 2021 at £5.7m during a period in which we took Danilon, one of our largest brands, back into the UK business, giving the Group more control over supply and our commercial offering.

Revenues generated by our Top 40 brands, collectively accounting for approximately 78% of sales, reduced by 0.9%, predominantly impacted by the conclusion of distribution rights within our Companion Animals portfolio as noted earlier. The continuing commercial focus on these larger, higher-margin brands, together with a more favourable sales mix, are the key drivers of the 3.5% improvement in our gross margins. While the Group has been affected by inventory and logistic price increases, the net impact on gross and EBITDA margins during the year has not been significant as we have taken mitigating pricing actions where possible. However, we remain alert to the accelerating inflationary pressures impacting our overall cost base as we progress into 2023.

Underlying EBITDA declined by 2.4% to £13.1m, broadly in line with revenues. Disciplined management of SG&A costs in the light of the moderating revenues enabled us to deliver EBITDA margins at approximately the same level as the prior year. SG&A expenses increased during the year to £27.5m (2021: £26.0m) as we continue to invest in our people and drivers of future growth such as new products and pipeline projects, the latter including R&D expenditure related to the early-stage collaboration with Orthros Medical.

The underlying effective tax rate of 16.4% (2021: 24.4%) has decreased versus 2021 primarily reflecting the geographic mix of profits and the prior year one-off impact of the enactment of the increase in corporate tax rates in the UK (from 19% to 25% effective 1 April 2023) on deferred tax balances. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS was 5.0% ahead of prior year at 12.6 pence (2021: 12.0 pence).

Chief Financial Officer’s Review CONTINUED

Overview of reported financial results

Reported Group profit after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £2.2m (2021: £0.1m loss), with reported earnings per share at 3.7 pence (2021: 0.1 pence loss per share).

	2022 Underlying results £’000	Amortisation and impairment of intangibles £’000	Acquisition, restructuring, integration and other costs £’000	**2022 Reported results £’000**	2021 Reported results £’000
Revenue	**71,616**	–	–	**71,616**	74,024
Gross profit	**40,659**	–	–	**40,659**	39,418
Selling, general & administrative expenses	**(28,547)**	(3,794)	(219)	**(32,560)**	(31,339)
Research & development expenses	**(2,363)**	(667)	–	**(3,030)**	(3,132)
Net other operating income/(expense)	**4**	–	(919)	**(915)**	(197)
Impairment losses	**–**	(918)	–	**(918)**	(2,761)
Operating profit/(loss)	**9,753**	(5,379)	(1,138)	**3,236**	1,989
Net finance expenses	**(642)**	–	–	**(642)**	(856)
Share in net loss of joint ventures	**(52)**	–	–	**(52)**	(188)
Profit/(loss) before tax	**9,059**	(5,379)	(1,138)	**2,542**	945
Taxation	**(1,487)**	725	185	**(577)**	(1,022)
Profit/(loss) for the year	**7,572**	(4,654)	(953)	**1,965**	(77)
Basic earnings/(loss) per share (p)	**12.6p**	–	–	**3.3p**	(0.1p)

Underlying EBITDA is reconciled to the statutory measures in the table above within the notes to the consolidated financial statements.

Non-underlying items totalling £6.5m (2021: £8.6m) relating to profit before tax have been incurred in the year, as set out in note 4. These principally comprise:

1. Amortisation and impairment of acquisition-related intangibles of £5.4m (2021: £8.3m). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV (£4.5m) and a non-cash impairment charge on Research & Development assets that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns.
2. Expenses relating to acquisition, business development, integration, restructuring and other costs of £1.1m (2021: £0.3m) including the reorganisation and restructuring of our Benelux and UK operations, the latter relating to the carve-out of Identicare in 2021, manufacturing transfers and relocation of our Spain and UK offices.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

The Board continues to closely monitor the dividend policy, recognising the Group’s need for investment to drive future growth and dividend flow to deliver overall value to our shareholders.

Cash flow and net debt

We entered 2022 in a healthy position following the significant progress made during 2021 in reducing our debt and increasing the Group's financial strength. With the net debt to underlying EBITDA leverage ratio comfortably below our stated target range of one to two times, we continue to pursue value-creating opportunities through M&A, partnerships and pipeline projects.

The Group delivered good cash generation during the year following the very strong cash conversion performance in 2021. In line with our expectations, our cash conversion moderated during the financial year, while remaining on average within the previous target 90-100% range over 2021 and 2022.

	2022 £'000	2021 £'000
Underlying EBITDA	**13,131**	13,455
Net cash flow from operations	**9,429**	14,023
Non-underlying items	**847**	611
Underlying net cash flow from operations	**10,276**	14,634
Underlying cash conversion %	**78.3%**	108.8%

Net cash flow generated by our operations reduced to £9.4m (2021: £14.0m). Working capital increased by £1.9m in the year compared to a £2.2m reduction during 2021. This movement, chiefly attributable to significantly higher receivables as a result of revenue phasing towards the year end, was largely offset by increased payables. Inventories increased by £2.7m from the lower than expected position at the end of 2021, primarily driven by normalisation of our stock profile following restocking of delayed supply together with some investment in strategic inventories to maintain strong service levels. The increase in working capital was in part offset by a £0.7m reduction in cash taxes mainly due to a combination of geographic mix of profits and lower settlement of prior year taxes.

We are targeting a year-on-year improvement in cash conversion for the financial year ending 31 December 2023, with a profile broadly consistent with the first and second halves of 2022.

	£'000
Net debt at 1 January 2022	**(5,330)**
Net cash flow from operations	9,429
Net capital expenditure	(2,794)
Investments in joint venture	(325)
Net finance expenses	(1,732)
Dividends paid	(2,644)
Foreign exchange on cash and borrowings	(715)
Movement in IFRS 16 lease liabilities	(1,291)
Net debt at 31 December 2022	**(5,402)**

Net capital expenditure of £2.8m (2021: £2.7m) largely comprises investment in our product development pipeline of £1.3m, including £0.4m in relation to the first licence milestone payment to Orthros Medical. The balance of expenditure relates chiefly to investment in our business systems, including CRM, ERP and IT infrastructure within Identicare, and the relocation of our UK office.

The net debt to underlying EBITDA leverage ratio was approximately 0.4 times, consistent with 2021 and comfortably below the Group's stated target range of one to two times underlying EBITDA.

Chief Financial Officer's Review CONTINUED

Borrowing facilities

The Group has total facilities of €51.5m (£45.7m) to 31 March 2025, provided by a syndicate of four banks comprising a committed revolving credit facility (RCF) of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund operations.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

The facilities remain subject to the following covenants which are in operation at all times:

- Net debt to underlying EBITDA ratio of 3.5 times;
- Underlying EBITDA to interest ratio of minimum 4 times; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Going concern

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into consideration market conditions, the profile of cash generation, the Group's financial position (including the level of headroom available within the bank facilities and compliance with the financial covenants associated with these facilities), bank facility maturity and principal risks.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Summary and outlook

While our revenue performance, which was impacted by a combination of external and internal factors, was not as strong as expected, the Group has made positive progress on gross margins and demonstrated agility in managing our cost base in line with trading levels. Good levels of cash conversion have also maintained our strong financial platform.

Mindful of the current economic environment, we are confident in the resilience of the Group and the animal health sector, underpinned by historically high levels of pet ownership.

With our strong balance sheet, we believe the Group remains well placed to deliver on our long-term growth strategy and we continue to explore business and product development opportunities.

CHRIS BREWSTER
Chief Financial Officer

Our Principal Risks

Managing our risks

The Board has overall responsibility for the Group's risk appetite and risk management strategy. In doing so, the objective of the Board is to foster and embed an organisational culture of strong risk management to effectively execute the Group's strategy.

The day-to-day identification, management and mitigation of risk is delegated to the Group's management, executed through our Risk Management Framework (RMF). In 2022 the RMF was broadened with the formal set-up of the Sustainability Task Force (STF) to manage and address the Group's sustainability and climate-related risks as set out in the Sustainability section. In addition, and with guidance from the external advisors who supported the initial implementation of the RMF, a review is underway to further develop and refine the RMF for adoption during 2023, with emphasis on R&D, commensurate to our strategy to develop differentiated and innovative products for the future.

We believe the developments and refinements made during 2022 and planned for 2023 will further strengthen our RMF and our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our stakeholders.

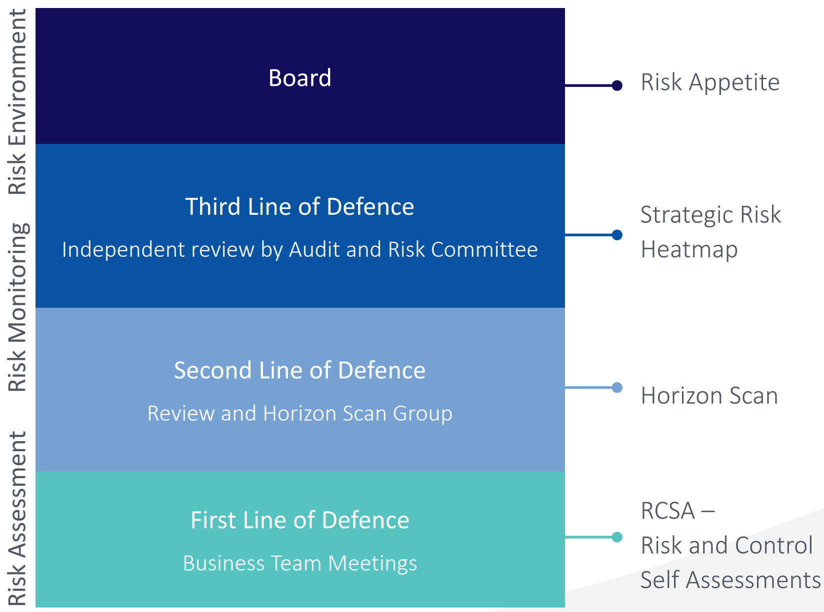
The RMF is based on an industry standard three lines of defence model (3LoD) and includes updated risk inventory, metrics and thresholds. The 3LoD model is combined with an approach to Assess, Monitor, Manage, Respond and Communicate the Group's critical risks.

To be effective, risk management relies on the engagement of all parts of the business, which is an integral part of our framework and culture. The RMF has been built in support of our regional model – Northern and Southern Europe, overseen by the Senior Executive Team. Within that structure, our regional management teams as well as Group function heads are expected to identify, manage and mitigate risks in their part of the business. They manage this process through a consistently applied Risk and Control Self Assessment (RCSA). This process includes assessing each risk for its impact and likelihood, scored both before and after applying key controls. A standardised risk-scoring methodology and template is now used to ensure a consistent approach across the Group. This part of our framework represents the First Line of Defence.

Our Second Line of Defence is executed through a small centralised team working alongside local finance managers and Group functions to lead the assessment and validation of all RCSAs from the business. This team prepares consolidated risk reporting in the form of an Horizon Scan across the organisation which in turn ensures independent oversight and consistency.

The Horizon Scan is reviewed by the executive team and mapped against the five pillars of the Group's strategy in the form of a Strategic Risk Heatmap.

In accordance with our governance practices, oversight of risk management and risk assessment is undertaken by the A&RC which, operating as our Third Line of Defence, provides updates and reports to the Board, based on the Horizon Scan and Strategic Risk Heatmap, to assist the Board in fulfilling its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and risk management.



Our Principal Risks CONTINUED

Sustainability and climate change

As noted above, the Board has overall responsibility for ensuring risk is appropriately managed across the Group. This includes risks relating to Environmental, Social and Governance (ESG) matters and climate change.

In 2021 we commenced our sustainability journey and identified issues of importance to our stakeholders and business. Through the STF, established in 2022, and in conjunction with our external ESG advisor, we have conducted a materiality assessment and developed a sustainability materiality matrix to help us identify and prioritise the issues that matter most to our business and stakeholders.

The STF has assisted in the identification of climate-related risks and has overseen modifications to our RMF, to ensure that it captures climate-related risks.

COVID-19

We have continued to monitor the operational impact of COVID-19 on the business during the financial year. While the virus has not had a material impact on our trading performance during 2022, the pandemic has had, and may continue to have, an adverse effect on our supply chain as we experience disruptions or delays in shipments of certain products or components of our products.

Ukraine

Russia's invasion of Ukraine has had little direct impact on our revenues. Our sales to Russia, while not material, were ceased. However, the conflict has created some additional supply chain uncertainty which we will continue to monitor.

Principal risks

We map all aspects of our risks against six categories that best outline our key challenges, namely: strategic, financial, operational (operations and technology), regulatory compliance, legal and people.

We believe that our most significant challenges are strategic in nature. Our strategic plans for the business are based on organic and inorganic growth as we continue to pursue geographical expansion and seek new product opportunities. The table below describes the current principal strategic and other risks and uncertainties facing the Group. In addition to summarising the strategic risks and uncertainties, the table below gives examples of how we mitigate those risks.

STRATEGIC PRIORITIES

Strong Finances

Growth Portfolio

Innovative Pipeline

Key Leadership

Business Development

TREND KEY

Up

Down

No change

RISK KEY

L Low

M Medium

H High

1 MARKET AND ECONOMIC RISK

M

Detailed Risk

Animal health market growth has moderated across Europe during 2022 – there is a risk of further decline in the market driven by macroeconomic uncertainty.

In certain territories the veterinary market continues to trend towards consolidation and growth of corporate customers and buying groups who are looking for value from the products and services we provide.

Potential Impact

Reduction in consumer confidence and spending on veterinary products and services in light of inflationary pressures.

The continuing emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in reduced margins through leverage of buying power.

Existing Mitigation Controls

Veterinary is considered to be an essential service and our product portfolio largely consists of pharmaceuticals used in the vet practice which are less prone to pet owner discretionary spending pressure.

We continue to develop and strengthen our relationships with our larger customers, managed through dedicated key account teams, with support from the Sustainability Task Force in regard to ESG, to better serve our changing customer base and their evolving requirements, both on a national and a European basis.

2 COMPETITOR RISK

M

Detailed Risk

Launch of competitor products against our key brands, for example other generic or more innovative products.

Although our product portfolio is broad, the Top 40 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.

Potential Impact

Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products.

Operating costs may increase to protect market share.

Existing Mitigation Controls

We are increasing focus on life cycle management strategies for our key brands.

We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact.

We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities, including novel pharmaceuticals.

Our Principal Risks CONTINUED

3 PORTFOLIO RISK

Detailed Risk

Approximately 36% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.

Potential Impact

Loss of one or more distribution contracts may reduce overall sales.

Where we are successful in developing and growing the market, the distribution partner may terminate the contract through geographic expansion of their own footprint or a different route to market, resulting in lost sales.

Distribution may cease due to change of control of the contracting parties.

Existing Mitigation Controls

Continue to explore and secure new distribution opportunities. A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products.

Low quality distribution products remain subject to portfolio optimisation.

Significant existing contracts are reviewed to assess and mitigate business continuity risks, where possible.

Build and grow our owned and long-term licence product portfolio to reduce reliance on third-party distribution partners.

4 PRODUCT DEVELOPMENT RISK

Detailed Risk

Failure to successfully register and launch products from our pipeline, including those that we develop through license.

Projects that initially appear promising may be delayed or fail to meet clinical or commercial expectations or face delays in regulatory approval.

Potential Impact

Significant delay or failure in launching a product from our pipeline could adversely affect our ability to deliver revenue and meet shareholder expectations.

Failure of a project in the development phase, or where we are unable to recover the costs incurred in developing and launching a product, would result in impairment of recognised intangible assets.

Existing Mitigation Controls

Robust pipeline monitoring processes are in place. The pipeline is discussed regularly by senior management, including the CEO and CFO.

The Group's objective is to create a balanced pipeline in terms of risk and reward and to establish a broader investment approach to launching new products other than from our own pipeline.

In respect of significant new product launches, detailed sales and marketing plans are established and evolved over time, with progress regularly monitored against these plans by our commercial teams.

STRATEGIC PRIORITIES

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Key Leadership
Business Development

TREND KEY

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Down
No change

RISK KEY

L Low
M Medium
H High

Other risks

Beyond strategic risks as outlined above, the following tables show other key risks that are potentially impactful in executing our strategic plan. It is our perspective that in order to execute successfully we need to maintain strong finances and an efficient operation that is compliant with the laws and regulations of each country of business – all of which needs to be supported by the best people with the right skills to execute against our strategic plan.

Financial strength

We carefully track our financial performance against a wide range of financial measures – including capital, liquidity and margin. We also recognise that our results are subject to foreign exchange translation exposure, which is closely monitored and reported. We acknowledge that our future growth is highly dependent on a solid financial platform and strong balance sheet and have a range of risk assessments associated with both, including:

5 FINANCING/TREASURY RISK

L

Detailed Risk

Debt facilities are committed for a finite period and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain various covenants with which we must comply.

Potential Impact

Investing for growth constrained by lack of access to capital/financial resource and/or reduced profitability.

Existing Mitigation Controls

We continue to focus on maintaining both strong cash conversion and a strong balance sheet with a target net debt to EBITDA leverage within the one to two times range, reducing the risk of non-compliance with covenants.

Our existing banking facilities through a syndicate of four banks, with whom we have strong relationships, are in place until 31 March 2025. A review of our facilities will be conducted during FY23 with the intention to renew well in advance of the 31 March 2025 maturity date.

6 FOREIGN EXCHANGE TRANSLATION RISK

M

Detailed Risk

The majority of the Group's revenues are denominated in euros. However, the Group's presentational currency is sterling and therefore the reported revenues, profits and net debt levels will be impacted by exchange rates prevailing during the relevant financial period.

Potential Impact

There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate.

This may impact our net debt to EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.

Existing Mitigation Controls

We carry out a central review of foreign currency exposures and we assess possible hedging strategies to mitigate risk via derivatives.

Matching currency flows and financing will limit the covenant exposure.

The Group presents key financial measures on a CER basis to enable shareholders to assess performance with the impact of foreign exchange eliminated.

Operational performance

The success of our operation relies heavily on both our supply chain and technology platforms, therefore we highlight below how we manage, monitor and mitigate those risks.

7 SUPPLY CHAIN RISK

M

Detailed Risk

As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.

Potential Impact

Any disruption, interruption or failure of supply from our third-party suppliers, whether pandemic-related or otherwise, could result in lost sales and damage the Group's reputation with its customers.

Rising inflation impacting cost of product and adversely affecting margins.

Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.

Existing Mitigation Controls

Our supplier base is continually under review with the objective of consolidating our key products with reliable suppliers.

Under the umbrella of the Group's key partner management programme we continue to invest resource in strengthening ties with our existing supplier base, together with managing and supporting our suppliers to deliver quality products on time and in full to our regulatory specifications.

We have allocated more dedicated finance resource to the monitoring and impact of inflation during 2022 and have taken mitigating pricing actions where possible.

8 IT SYSTEMS AND CYBER SECURITY RISK

H

Detailed Risk

The Group relies heavily on information technology and key systems to support the business.

The risk of cyber attacks that cause system disruption and the potential for data and financial fraud, is increasing.

Potential Impact

A general outage of our IT systems may cause disruption to, or prevention of, normal operations, and/or additional costs.

Cyber attacks could result in system and business disruption and/or impact availability of data.

Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation and/or financial fraud.

Existing Mitigation Controls

The Group has maintained focus on mitigating the increasing cyber threat while accommodating remote working practices, including:

- Continued investment in our cloud-based IT systems and security tools to safeguard the IT infrastructure.
- We engage with security-aware, reliable and certified IT service global providers.
- Internal policies surrounding security, user access, change control and the ability to download and install software.
- We hold global cyber insurance which provides specialist technical and legal support in the event of a cyber incident.

During 2022 we have conducted wide-scale security testing to reduce our risk of phishing attacks. We have conducted a critical data assessment to categorise our data and recommend appropriate safeguards.

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Regulatory compliance

Given we operate in a highly regulated market, it is evident that the success of our business is dependent on compliance with product regulations in each country of operation, therefore we highlight below how we manage, monitor and mitigate those risks.

9 REGULATORY RISK

M

Detailed Risk

We operate in a highly regulated animal health environment which is designed to ensure the safety, efficacy, quality and ethical promotion of pharmaceutical products.

Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture or promote our products.

Potential Impact

Non-compliance with regulatory requirements may result in delays to supply and/or lost sales.

Delays in regulatory reviews and approvals could impact the timing of a product launch and impact sales.

Brexit has resulted in additional regulatory and quality control requirements and associated costs.

Existing Mitigation Controls

The Group Technical and Regulatory team has established systems, which were subject to significant investment during 2021, and procedures to monitor and maintain compliance, which are subject to regular internal and external audits.

Regular dialogue is maintained with relevant authorities in each country to ensure we retain a thorough understanding of regulatory changes.

People

In order to successfully deliver our growth strategy in a highly regulated business, we need to attract and retain a high-calibre and diverse pool of talent, therefore, our people risk is managed, monitored and mitigated as follows.

10 PEOPLE RISK

M

Detailed Risk

Failure to structure and resource the business properly to deliver our strategy.

We may not be able to attract, develop and retain high-calibre, diverse and experienced individuals in key roles.

Potential Impact

Failure to structure and resource our business properly could result in:

- Loss of expertise.
- Potential business disruption.
- Insufficient resources to deliver strategy.
- High cost of organisational restructuring in certain countries.

Existing Mitigation Controls

We want to focus on key areas that will maximise individual potential and increase organisational capability so that we can position Animalcare as a "Great Place to Work".

This includes:

- A strong performance management process supported by our Competency Framework.
- Competitive rewards and benefits through regular benchmarking.
- Focused development including our "High Challenge High Support" leadership and "Pioneering Professional" programmes.
- New Global Recruitment and Onboarding framework.
- Global employee assistance programme to support mental and physical wellbeing as well as personal development.

We continue to use a team of highly skilled contractors to bridge short-term gaps in key resource areas and support key project delivery.

Our Stakeholders

Our key stakeholders and how we engage with them

The Board considers its key stakeholders to be the Group's employees, customers, the Company's shareholders, suppliers, the communities and environment in which we operate.

OUR PEOPLE

Why we engage

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group. Our ongoing objective is to create a high performing business driven by a skilled, unified and committed team.

Stakeholder key interests

- Career development
- Reward and recognition
- Engagement
- Training and development
- Wellbeing
- Health and safety

How we engage

We seek our people's views on a regular basis, notably through our annual Gallup survey which identifies opportunities for improvement and allows us to track the evolution of engagement from year to year.

Employees are compensated through incentives related to performance targets while individual and team development programmes create an environment that fosters continuing learning and growth. Recognising the importance of mental and physical health, we provide a confidential counselling and information service alongside a tailored programme to support wellbeing.

The increasing role of digital tools provides another opportunity to engage with our people. An enhanced Company intranet is helping to inform and connect our team.

CUSTOMERS

Why we engage

As the veterinary market continues to evolve, understanding the needs of our customers enables us to support them as a trusted partner. We continue to work closely with veterinary professionals and other stakeholders to ensure we are aligned with their changing needs.

Stakeholder key interests

- Safety, quality and reliability
- Product availability and effectiveness
- Competitiveness
- Our availability and responsiveness
- Customer relationships
- Compliance
- Range of products
- Sustainability of products and business practices

How we engage

Regular meetings with veterinary practices and larger veterinary groups help us understand the evolving needs and attitudes of our customers as well as providing a platform for commercial contract negotiations. Product launch and training events keep customers abreast of innovative new treatments. We also provide information about our business through a range of digital channels and participate in industry forums and events to engage with a range of customer types.

SHAREHOLDERS

Why we engage

Trust from our shareholders is key to delivering our strategy as access to capital will be important to the long-term success of our business. We ensure that we provide fair, balanced and understandable information to shareholders, potential investors and investment analysts and work to ensure that they have a strong understanding of our strategy and performance.

Stakeholder key interests

- Financial performance
- Governance and transparency
- Operating and financial information
- Confidence and trust in the Group's leadership team
- Total shareholder returns

How we engage

The Group provides regular updates to the market in line with AIM requirements and encourages an ongoing dialogue through investor roadshows, meetings and presentations as well as consulting on relevant topics. The dedicated investor section of the Company's website provides valuable information for existing shareholders and potential investors.

PARTNERS

Why we engage

A central aim of our Company strategy is to bring innovation to our customers through development of new products. With this in mind we engage with partners – and potential partners – that possess new technologies which promise to complement our R&D pipeline or existing portfolio of animal health treatments. Recent examples include the STEM joint venture with Kane Biotech Inc., and the early-stage licence agreement with Orthros Medical to research VHH antibody candidates, initially in canine osteoarthritis.

Stakeholder key interests

- R&D capability
- Animal health regulatory experience
- Track record of commercialising new products
- Attractive returns on successful market penetration
- Long-term trusting relationships

How we engage

Key members of the Animalcare team are involved in scanning for and assessing the potential of pipeline and portfolio partners. We apply a range of methods to identify these opportunities including industry networks, investor conferences and through links with the financial community. Once partnerships have been struck, we regularly engage through meetings and other forums that foster collaboration and co-ordination between the parties.

SUPPLIERS

Why we engage

As the Group does not own any manufacturing facilities, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements. We need to maintain trusting relationships with suppliers and partners for mutual benefit and to ensure they are meeting our standards and conducting business ethically.

Stakeholder key interests

- Quality management
- Cost-efficiency
- Long-term relationships
- Responsible procurement, trust and ethics

How we engage

Under the umbrella of the Group's key partner management programme, we meet with specialist veterinary wholesalers and distributors as well as key suppliers that between them represent 70% of purchasing spend. We carry out quality management reviews and facilitate supplier forums and networking meetings.

COMMUNITIES AND ENVIRONMENT

Why we engage

Animalcare is committed to being a responsible member of our community and considers the environmental impact of our operations.

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

We aim to conduct our business in a sustainable way, in line with the expectations of the communities in which we live and work. Active membership of animal and health trade associations provides the Group with an important voice on key industry topics and we support local and national charitable partnerships, including through employee-matched fundraising.

Our Stakeholders CONTINUED

s172 Statement

The following describes how the Directors have regard to the matters set out in Section 172(1) of the Companies Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so consider (among other matters):

- The likely consequence of any decision in the long term
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Company.

This section forms the Directors' statement under section 414CZA of The Companies Act 2006.

Key Board discussions and decisions

The Board received trading, financial and operational updates from the CEO and CFO and updates on team wellbeing, engagement and interactions with the Group's customers, suppliers and investors. An update was received from the Remuneration and Nomination Committee on progress with the selection of an independent Non-Executive Director, resulting in a recommendation to the Board to appoint Sylvia Metayer. The Audit and Risk Committee provided updates on the Group's risk management framework with the inclusion of climate change as an evolving risk and an outline of the Group's plan for its sustainability journey. Key discussions, decisions and considerations during the year to 31 December 2022 are set out below:

EMPLOYEE ENGAGEMENT

The Board received and considered a presentation on the results of the employee engagement survey and the areas of focus and action to be led by the People and Culture team for the coming year.

Considerations

Knowing that the Board will review and discuss the feedback provided by employees who completed the survey is critical for employees to engage in the process and for positive changes to be implemented. When determining which actions would be implemented, the Board considered the financial consequences and the impact on long-term value and growth for the shareholders.

APPOINTMENT OF NEW NON-EXECUTIVE DIRECTOR

The Board approved, in principle, the appointment of a new Non-Executive Director.

Considerations

It is important to shareholders and potential investors that the Company is led by a Board with the right combination of skills and experience to support the Company's strategic plans. After a rigorous selection process, the Board was able to appoint a candidate with the requisite level of financial and audit experience.

ORTHROS MEDICAL COLLABORATION

The Board approved the Group entering into two early-stage agreements with Orthros Medical, a company focused on the research and early development of VHH antibodies.

Considerations

The partnership represents a key building block in the Group's long-term growth strategy, offering the potential to expand product ranges to meet evolving customer needs.

DIVIDEND

The Board agreed the final dividend for 2021 of 2.4 pence per share and in September it agreed an interim dividend of 2.0 pence per share.

Considerations

The Board considered the Company's capital position and financial performance, together with the long-term investment needs of the business, while taking into account dividend flow to deliver overall value to our shareholders.

EXECUTION OF STRATEGY DURING FY 2023

The Board received presentations from senior management including on the Budget for FY 2023 and potential M&A opportunities.

Considerations

The Board considered the forecast financial performance, in particular cash generation and net debt to underlying EBITDA leverage ratios, while assessing M&A opportunities to support delivery of our strategy and long-term growth.

Sustainability

Animalcare is committed to the environmental, social and governance (ESG) pillars of sustainable development.

From a Group perspective we are at the early stages of our sustainability journey. In November 2021, a small team led by the Chief Financial Officer met to discuss the broader issue of sustainability and relevant Company-wide ESG issues. This year we have created a separate, dedicated Sustainability Task Force (STF). This body advises on aspects of environmental and social sustainability while taking responsibility for the Group's sustainability agenda and strategy. Subsequently, we have begun to identify material issues of importance to our stakeholders and their potential impact on our business. This will help guide our approach in the coming years.

We have categorised activities under each of the three pillars of sustainability.

ENVIRONMENT

Climate change and greenhouse gas emissions

In 2020, under the umbrella of our strengthened Risk Management Framework, we designated climate change as a global issue with potential implications for the Group. Our initial work in this area addressed the carbon footprint of our UK operations. In the UK, Animalcare Ltd has achieved carbon neutral status as part of a commitment to run our business sustainably. We undertook a detailed assessment of our carbon emissions (UK-based operations) and have made reductions while also instituting offsetting measures. Building upon this work, we broadened our approach in 2022 to include Scope 1 and Scope 2 greenhouse gas emissions for Group-wide operations in Europe.

Our Group[1] energy usage and carbon emissions

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

		2022		2021 (restated[1])	
Scope	Activity	**CO_2e**	**kWh**	CO_2e	kWh
Scope 1	Company car travel	**449**	**1,662,021**	391	1,444,344
Scope 2	Grid supplied electricity	**33**	**125,489**	55	207,880
Intensity ratio (tCO_2e per £m revenue)		**6.7**		6.0	

1 (Germany, Italy, Portugal, Spain, UK, Belgium. 2021 restated to include these countries)

We have used the EU-27 factor 2020 to calculate our total CO_2e emissions figures.

The increase in Scope 1 emissions is driven by a return to regular business travel, in particular our field sales teams, following the COVID-19 pandemic. The STF will review and recommend actions in the light of this increase during 2023.

CARBON OFFSET

To help offset emissions, we participated in the Brazil Verified Carbon Standard REED project. In April 2021, Animalcare planted more than 200 native British broad-leaved trees at a primary school close to our UK offices.

SUPPLY CHAIN AND GREENHOUSE GAS EMISSIONS

Animalcare works with third parties to manufacture finished products while engaging with other partners to enable our international supply chain. Upstream emissions include those generated by a supplier's distribution activities and the production of raw materials or components purchased by the Company. Downstream covers emissions generated by the use or disposal of end products, as well as business travel.

Value chain emissions (Scope 3) represent a significantly higher proportion of our carbon footprint than operational emissions (Scope 1 and Scope 2). Calculating then eliminating these emissions is a challenge that requires effective partnerships built on trust. As we develop our sustainability strategy, we will consider further actions to estimate and reduce our value chain emissions.

Packaging and plastic offsetting

Flexible packaging keeps pharmaceuticals and medicinal products sterile and protected while safeguarding against tampering and counterfeiting. However, though useful and resource-efficient in many ways, its low volume and low weight properties present a challenge once this packaging becomes waste.

We recognise the environmental impact caused by use of plastics in our business and supply chain and are taking steps to develop more sustainable packaging. Where plastic remains the most viable packaging solution, we are also exploring offsetting as an interim solution while we explore opportunities to move away from virgin plastic and mitigate plastic waste.

Antimicrobial resistance

Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi, and parasites evolve over time and learn to dodge the effect of medicines. As a result, treatments become ineffective and infections persist, increasing the risk of spread to others. The overuse and misuse of antibiotics in both humans and animals have accelerated the process by which bacteria become resistant to this important class of drugs, threatening the ability to treat common infections.

AMR is a systemic risk that will impact multiple sectors including food and agriculture, pharmaceuticals, healthcare, and insurance industries. According to the World Bank, by 2050 AMR could shrink global GDP by as much as 3.8% while global animal production could decline by between 2.6% and 7.5% per year. Within the European animal health market, sales of veterinary antimicrobials decreased by 47% between 2011 and 2021.

Reducing our portfolio reliance on antibiotics, both in Production and Companion Animals, is a key focus which led to our investment in STEM Animal Health Inc. to exploit biofilm-targeting technologies in anti-infective roles. A glue-like substance that provides protection from the environment, biofilms can make bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants, and the host's immune system. Anti-biofilm technology can overcome these barriers, making conventional treatments more effective, potentially at more sparing doses.

SOCIAL

Our people

TALENT MANAGEMENT AND PEOPLE DEVELOPMENT

We aim to attract, develop, and retain talented people, building leadership capabilities, creating a one-team culture and driving effective communication and collaboration.

During 2022, we began to implement our Talent Review Process supported by our competency framework. This will enable us to define what success looks like in each role and identify strengths and development needs so we can support everyone to become the best version of themselves. This framework will also help us identify high potential employees who could fit into future leadership positions.

Our branded “High Challenge High Support” leadership programme will continue to support our leaders by challenging the comfortable and comforting the challenge so they can model excellence within our organisation and offer the right balance of support to their team members.

To help develop our next generation of senior leaders we kicked off with the launch of our “Pioneering Professional” programme. This is based on the central mindset of “Responsible Initiative” with a set of seven key skills. These “Pioneering Professionals” will be allocated to cross-country and cross-departmental projects to help further develop their potential and grow into senior executive roles within Animalcare Group.

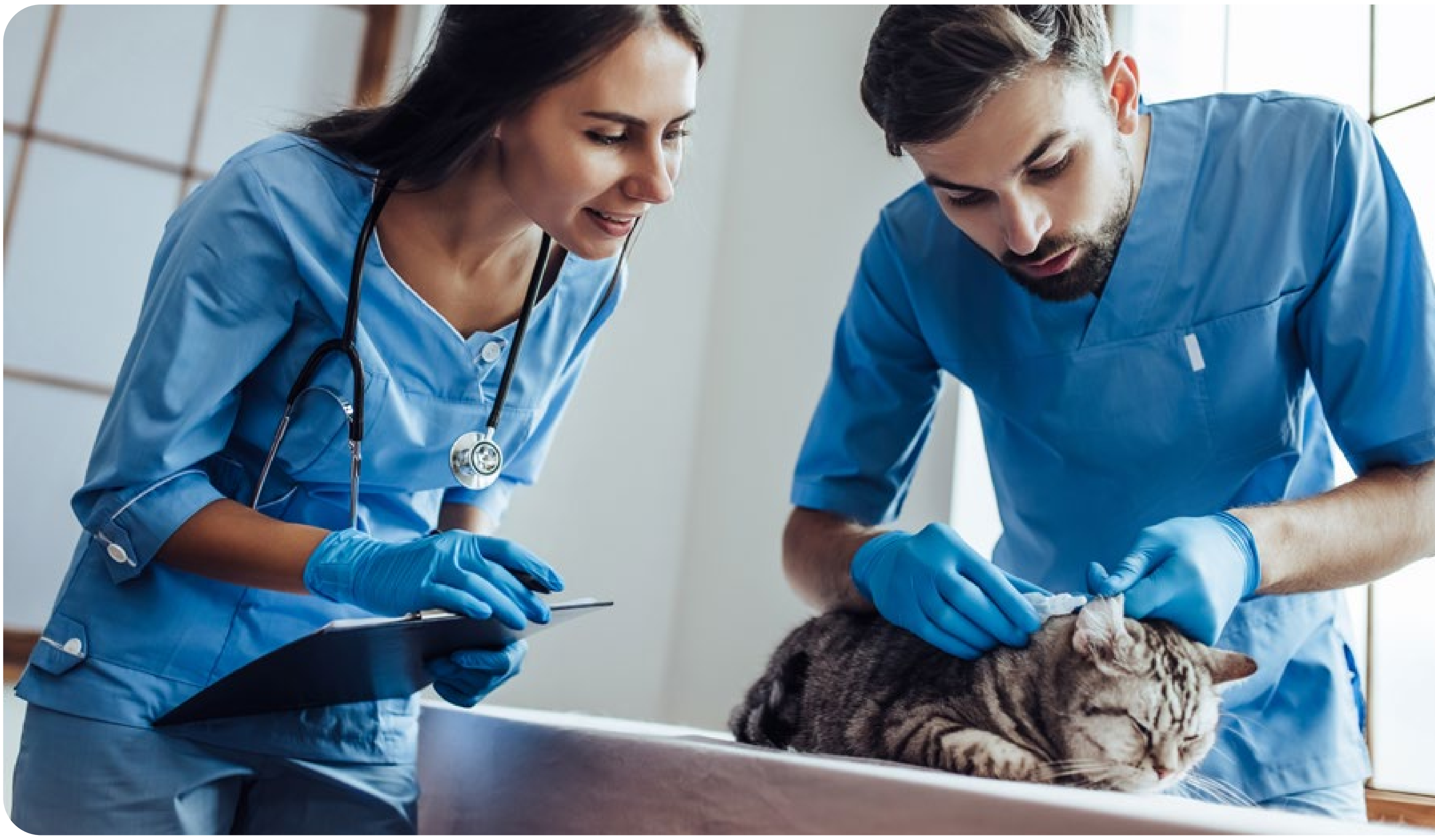
WELLBEING

To support our teams, during 2021 the Group launched an employee assistance programme: *Smile@Animalcare*. This includes a confidential around-the-clock counselling and information service to assist employees with personal or work-related challenges that may affect health, wellbeing or performance.

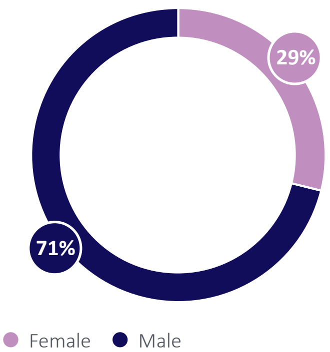
We will further focus on activities to support our team members’ personal resilience and wellbeing. This includes the launch of our Global Wellbeing & Resilience Strategy, *We Care*, in order to support our team members with personal resilience.

DIVERSITY AND INCLUSION

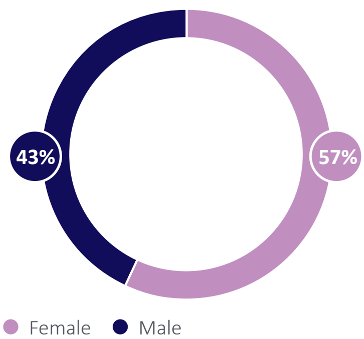
Animalcare recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind. This extends to Board appointments.



BOARD GENDER DIVERSITY



SENIOR EXECUTIVE TEAM



Recognising that diverse and inclusive workplaces earn deeper trust and more commitment from their employees, a Diversity and Inclusion Task Force has been created to review our current approach, build on activities and implement a formal strategy across the Group.

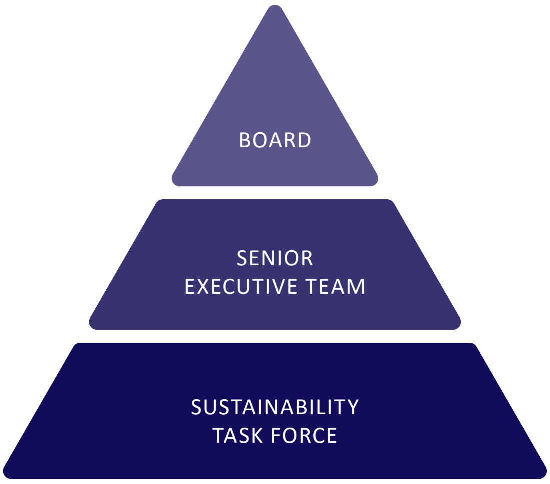
Following the 2022 appointment of Sylvia Metayer and Doug Hutchens, and the retirement of Nick Downshire, the Board currently consists of 71% (five) male and 29% (two) female members. The Senior Executive Team is made up of 43% (three) male and 57% (four) female members.

Future appointments will continue to be made on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience on the Board.

GOVERNANCE STRUCTURE

In September 2022 we held the first meeting of our Sustainability Task Force (STF) made up of Chris Brewster, our CFO, and a cross section of employees representing key functions and our geographical presence.

The composition of the STF is built upon a foundation that aligns with and complements the existing business model and organisational structures. This kind of governance structure is typically more successful.



Members of the STF will take collective responsibility for the Group's sustainability agenda, the implementation of a sustainability action plan linked to the delivery of our strategy and will review the internal sustainability scorecard each quarter.

Stakeholder engagement

Throughout the year we utilised the Animalcare Group materiality assessment as a vehicle with several stakeholders to address their concerns, explore sustainability areas of mutual interest and share priorities.

This informal dialogue showed that there is increasing demand from stakeholders to understand our environmental strategy, including our approach to climate change, responsible animal testing and ethical procurement and sales.

We plan to engage with stakeholders more formally during 2023 and continue to embed sustainability into our business in an agile and prioritised way.

SALES AND MARKETING

Our values and behaviours (one team, passion, integrity, taking ownership, have fun) guide employee conduct along with the Group's Code of Conduct and supporting policies which help us ensure we do business in the right way.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

We work with key suppliers to understand and develop risk mitigation strategies, end to end. We are also investing in "Partner Management" to strengthen ties with our existing supplier base, and we hold regular engagement meetings with key suppliers that represent 70% of purchasing spend.

Sustainability objectives and development of a Sustainability Action Plan

From the materiality assessment we prioritised six initial high-level objectives to help build the foundations of our sustainability strategy.

SUSTAINABILITY STRATEGY

Objective 1: Create a formal governance structure with remit and terms of reference to effectively implement sustainability strategy across the business.

Objective 2: Develop and publish an Animalcare Group sustainability action plan (and supporting internal scorecard) for 2023 and beyond.

CLIMATE CHANGE AND CARBON FOOTPRINT

Objective 3: Expand reporting of Scope 1 and Scope 2 greenhouse gas emissions for Animalcare Group beyond that of Animalcare's UK trading subsidiary. Initiate Scope 3 reporting.

Objective 4: Assess the feasibility of achieving carbon neutral status for the Animalcare Group by end of financial year 2025. Post the feasibility assessment, initiate roll out of a regional phased approach.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

Objective 5: Establish a screening process across Animalcare Group's major suppliers to highlight any risks associated with modern-day slavery and human rights.

SUSTAINABLE PACKAGING

Objective 6: Develop a Group-wide approach to sustainable packaging with both reduction and recycling.

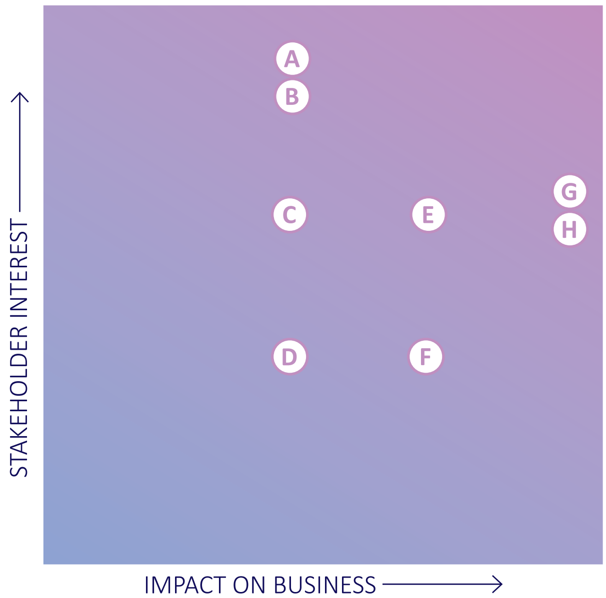
The above goals will act as the starting point for a formal framework that will implement our corporate commitments and develop a relevant Sustainability Action Plan (SAP), ultimately helping create value for the Group in line with our business strategy. As the SAP evolves it will address internal risk drivers identified within our risk management framework and define the Group's actions to respond to external stakeholder expectations, including those of potential investors and shareholders.

OUR MATERIALITY ASSESSMENT

Materiality

To guide and support the development of our sustainability strategy, we undertook an initial materiality assessment via an internal employee focus group and informal stakeholder engagement. From this, we have identified the material issues of importance to our stakeholders and their potential impact on our business.

MATERIALITY MATRIX



- A Climate change, energy and water management
- B Animal testing (animal welfare, 3Rs – replacement, reduction, refinement)
- C Antimicrobial resistance
- D Diversity and inclusion
- E Supply chain and responsible procurement
- F Packaging
- G Employee wellbeing, health and safety
- H Sales and marketing ethics

This will help guide our strategy by identifying the issues that matter most to Animalcare and our stakeholders and shows where we can have the most positive impact.