Animalcare Group plc

Interim Report for the six months to 31st December 2012

Stock code: ANCR

Developing and Supplying

Veterinary Products for Companion Animals

Animalcare Group plc
is focused on growing its veterinary business.

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

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

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

Financial Highlights

	6 months to 31st December 2012	6 months to 31st December 2011	% change
Revenue	**£6.10m**	£5.40m	+13.0%
Underlying EBITDA*	**£1.57m**	£1.32m	+19.4%
Underlying operating profit*	**£1.47m**	£1.22m	+20.3%
Underlying profit before tax*	**£1.48m**	£1.22m	+21.5%
Profit for the period	**£1.07m**	£0.88m	+21.6%
Basic underlying earnings per share	**5.8p**	4.7p	+23.4%
Interim dividend	**1.5p**	1.5p	–
Cash and cash equivalents	**£2.96m**	£1.75m	+69.1%

* The Directors believe that presenting underlying results before the effect of exceptional and other items (details in note 3) provide a better understanding of underlying business performance.

Operational Highlights

- Launch of two veterinary medicines:
  - Buprecare ampoules — an analgesic for cats and dogs
  - Vitofyllin — for problems associated with canine ageing
- Strong growth delivered within the Licensed Veterinary Medicines product group
- Companion Animal Identification range is performing in line with management expectations
- Product development pipeline progressing on target and investment in Project Sustain continuing
- Operational cash flows remain strong with cash balances at £3.0m
- Executive management changes now in place with hand over period underway; strengthening of sales and marketing senior management team complete

Chairman's Statement

The first six months of the current financial year has seen your Company return to solid growth. The key driver for this is the contribution from our continuing and successful launch programme of generic medicines for cats and dogs.

First half revenues increased by 13%, driven almost entirely by growth of the veterinary medicines business with the consequent effect of raising the gross profit percentage from 54.5% to 55.7%. Higher net cash generation has been driven by these improved profits and lower cash tax following the settlement of a prior year research and development tax credit.

Basic underlying earnings per share has risen in line with profits, increasing by 23% to 5.8 pence. The strong cash position has enabled your Board to maintain an interim dividend of 1.5 pence payable on 3rd May 2013 to all shareholders on the register on the 12th April 2013.

As announced in January I am delighted your Board has promoted Dr Iain Menneer to Group CEO, a worthy and able replacement to Stephen Wildridge, the architect of Animalcare's successful development into one of the UK's leading animal health companies. I would personally like to record your Board's thanks for all Stephen has achieved on your behalf and I am delighted he is staying until October 2013 as a Director on the Board and in an executive role as Director of Strategy and Business Development.

Much of the increased sales in the first half have been achieved through the sale of generic medicines launched either this financial year or last financial year and still not at maturity, for example Vitofyllin and Buprecare multi-dose vial respectively. Your Board is also pleased that 2013 has started with the resumption in sales of our important product Buprecare single dose ampoules after an enforced break of 18 months.

As well as continuing to grow our Licensed Veterinary Medicine business during the first half we have managed to stabilise the Companion Animal Identification and Animal Welfare groups. Prospects for the second half of this financial year look good and the Group is trading in line with market expectations for the year as a whole. Our target is again to launch four veterinary medicines during this financial year and to keep the pipeline stocked for the next several years, so continuing Animalcare's growth record.

Your Board is delighted with the first half results of Animalcare and it remains positive about the opportunities ahead for the future development of your Company.

James Lambert
Chairman

Operational and Financial Review

Operations

In the first half of the financial year overall performance has been solid with Group revenue up 13% to £6.10m (2011: £5.40m). This performance largely reflects the strong growth in our Licensed Veterinary Medicines product group which has again performed better than the wider animal medicines market. Our Companion Animal Identification product group continues to operate in a competitive market however is showing evidence of recovery in performance with improved sales from database services (in particular insurance commissions and the Locate pet finding service). Animal Welfare Products sales have made good progress on the same period last year.

Revenue by product group

Revenue	6 months to 31st December 2012 £'000	6 months to 31st December 2011 £'000	% change
Licensed Veterinary Medicines	**3,591**	2,916	+23.1%
Companion Animal Identification	**1,137**	1,202	-5.4%
Animal Welfare	**1,376**	1,282	+7.3%
TOTAL	**6,103**	5,400	+13.0%

Gross profit increased by 16% to £3.40m in the same period (2011: £2.94m). Gross profit percentage for the six months ended 31st December 2012 increased to 55.7% (2011: 54.5%), as a result of greater sales of higher margin Licensed Veterinary Medicine products.

Distribution costs increased moderately to £0.134m (2011: £0.125m) as a consequence of the increased sales volumes and administrative expenses rose to £1.80m (2011: £1.60m). Salary costs have risen reflecting in part the strengthening of the senior management team. Development costs have been lower in the period but this is a phasing issue; development costs for the full year are anticipated to be in line with the markets full year expectations.

Underlying* operating profit increased 20.3% to £1.47m (2011: £1.22m) and underlying profit before tax was up 21.5% to £1.48m (2011: £1.22m).

Taxation

The taxation charge of £0.3m reflects the estimated effective tax rate for the full financial year of 20% (2011: 19%). The effective rate is lower than the standard rate of corporation tax, principally due to prior year research and development tax credits.

Cash Flow

Operating cash flows for the period at £1.3m were £0.1m lower than 2011 largely as a result of an increase in working capital of £0.2m which principally reflects the increased level of sales towards the period end.

Net income taxes received were +£0.04m due to the settlement of a prior year research development tax credit.

Capital expenditure at £0.1m was lower than the prior period (2011: £0.2m). However this is expected to increase significantly in the second half of the financial year driven by our business relocation and planned new product development expenditure including progress on enhanced generics.

Cash balances at 31st December 2012 were £3.0m compared to £2.3m at 30th June 2012 and £1.8m at 31st December 2011.

Dividend

The Board is pleased to announce an interim dividend of 1.5 pence per share which will be paid on 3rd May 2013 to all shareholders on the register on 12th April 2013. The interim dividend is covered 3.9 times by underlying earnings (2011: 3.1 times).

Outlook

The Group enters the second half of the financial year with confidence and remains committed to its strategy of developing a pipeline of new licensed veterinary medicine products delivering up to four launches a year. Work on the Sustain product development platform is continuing and will deliver new products that, where possible, will include patent protectable technology. We believe that our strong balance sheet will allow us to fund this from operational cash flows.

Whilst the overall economic climate remains challenging, full year results to 30th June 2013 are expected to be in line with market expectations.

* Underlying results are before the effect of exceptional costs, amortisation of acquired intangible assets and other items as disclosed in note 3 to the financial statements.

Iain Menneer
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Condensed Consolidated Statement of Comprehensive Income – Unaudited

Six months ended 31st December 2012

		6 months ended 31st December 2012			6 months ended 31st December 2011		
	Note	Underlying results* £'000	Exceptional and other items* £'000	Total £'000	Underlying results* £'000	Exceptional and other items* £'000	Total £'000
Revenue		**6,103**	**–**	**6,103**	5,400	–	5,400
Cost of sales		**(2,701)**	**–**	**(2,701)**	(2,457)	–	(2,457)
Gross profit		**3,402**	**–**	**3,402**	2,943	–	2,943
Distribution costs		**(134)**	**–**	**(134)**	(125)	–	(125)
Administrative expenses		**(1,800)**	**(139)**	**(1,939)**	(1,598)	(130)	(1,728)
Operating profit/loss		**1,468**	**(139)**	**1,329**	1,220	(130)	1,090
Finance income		**14**	**–**	**14**	–	–	–
Profit/(loss) before tax		**1,482**	**(139)**	**1,343**	1,220	(130)	1,090
Income tax (expense)/credit	5	**(288)**	**19**	**(269)**	(249)	42	(207)
Total comprehensive income/(loss) for the period		**1,194**	**(120)**	**1,074**	971	(88)	883
Basic earnings per share	7	**5.8p**		**5.2p**	4.7p		4.3p
Fully diluted earnings per share	7	**5.8p**		**5.2p**	4.7p		4.3p

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

* In order to aid understanding of underlying business performance, the directors have presented underlying results before the effect of exceptional costs, amortisation of acquired intangible assets and other items. These are analysed in note 3 to the financial statements.

Condensed Consolidated Statement of Comprehensive Income – Audited

Year ended 30th June 2012

	Note	Underlying results* £'000	Exceptional and other items* £'000	Total £'000
Revenue		**10,856**	**–**	**10,856**
Cost of sales		**(4,994)**	**–**	**(4,994)**
Gross profit		**5,862**	**–**	**5,862**
Distribution costs		**(262)**	**–**	**(262)**
Administrative expenses		**(3,306)**	**(190)**	**(3,496)**
Operating profit/(loss)		**2,294**	**(190)**	**2,104**
Finance income		**2**	**–**	**2**
Profit/(loss) before tax		**2,296**	**(190)**	**2,106**
Income tax (expense)/credit	5	**(395)**	**18**	**(377)**
Total comprehensive income/(loss) for the year		**1,901**	**(172)**	**1,729**
Basic earnings per share	7	**9.3p**		**8.4p**
Fully diluted earnings per share	7	**9.2p**		**8.4p**

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

* In order to aid understanding of underlying business performance, the directors have presented underlying results before the effect of exceptional costs, amortisation of acquired intangible assets and other items. These are analysed in note 3 to the financial statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity

Six months ended 31st December 2012

	Note	6 months ended 31st December 2012 Unaudited £'000	6 months ended 31st December 2011 Unaudited £'000	Year ended 30th June 2012 Audited £'000
Balance at beginning of period		**16,837**	15,789	15,789
Total comprehensive income for the period		**1,074**	883	1,729
Transactions with owners of the Company, recognised in equity:				
Dividends paid	6	**(622)**	(615)	(926)
Issue of share capital		**24**	72	197
Share-based payments		**42**	6	48
Balance at end of period		**17,355**	16,135	16,837

Condensed Consolidated Balance Sheet

31st December 2012

	31st December 2012 Unaudited £'000	31st December 2011 Unaudited £'000	30th June 2012 Audited £'000
Non-current assets			
Goodwill	**12,711**	12,711	12,711
Other intangible assets	**1,633**	1,843	1,728
Property, plant and equipment	**98**	59	83
	14,442	14,613	14,522
Current assets			
Inventories	**1,430**	1,439	1,420
Trade and other receivables	**1,676**	1,547	1,297
Cash and cash equivalents	**2,956**	1,750	2,305
	6,062	4,736	5,022
Total assets	**20,504**	19,349	19,544
Current liabilities			
Trade and other payables	**(1,473)**	(1,693)	(1,316)
Current tax liabilities	**(464)**	(407)	(169)
Deferred income	**(205)**	(195)	(207)
	(2,142)	(2,295)	(1,692)
Net current assets	**3,920**	2,441	3,330
Non-current liabilities			
Deferred income	**(827)**	(854)	(844)
Deferred tax liabilities	**(180)**	(65)	(171)
	(1,007)	(919)	(1,015)
Total liabilities	**(3,149)**	(3,214)	(2,707)
Net assets	**17,355**	16,135	16,837
Capital and reserves			
Called up share capital	**4,149**	4,102	4,144
Share premium account	**6,192**	6,090	6,173
Retained earnings	**7,014**	5,943	6,520
Equity attributable to equity holders of the parent	**17,355**	16,135	16,837

Cash Flow Statement

Six months ended 31st December 2012

	6 months ended 31st December 2012 Unaudited £'000	6 months ended 31st December 2011 Unaudited £'000	Year ended 30th June 2012 Audited £'000
Comprehensive income for the period before tax	**1,343**	1,090	2,106
Adjustments for:			
Depreciation of property, plant and equipment	**10**	8	19
Amortisation of intangible assets	**151**	146	307
Finance income	**(14)**	–	(2)
Share-based payment award	**42**	6	48
Movement in deferred income liabilities	**(19)**	5	7
Loss on disposal of property, plant and equipment	**21**	–	–
Operating cash flows before movements in working capital	**1,534**	1,255	2,485
Increase in inventories	**(10)**	(93)	(74)
(Increase)/decrease in receivables	**(379)**	134	384
Increase/(decrease) in payables	**157**	127	(250)
Cash generated by operations	**1,302**	1,423	2,545
Income taxes received/(paid)	**35**	(120)	(422)
Net cash flow from operating activities	**1,337**	1,303	2,123
Investing activities:			
Payments to acquire intangible assets	**(71)**	(169)	(215)
Payments to acquire property, plant and equipment	**(29)**	(20)	(55)
Interest received	**12**	–	2
Net cash used in investing activities	**(88)**	(189)	(268)
Financing:			
Receipts from issue of share capital	**24**	72	197
Equity dividends paid	**(622)**	(615)	(926)
Net cash used in financing activities	**(598)**	(543)	(729)
Net increase in cash and cash equivalents	**651**	571	1,126
Cash and cash equivalents at start of period	**2,305**	1,179	1,179
Cash and cash equivalents at end of period	**2,956**	1,750	2,305
Comprising:			
Cash and cash equivalents	**2,956**	1,750	2,305

Condensed Notes to the Financial Statements

31st December 2012

1. General information

Animalcare Group plc ("the Company") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31st December 2012 comprises the Company and its subsidiaries (together referred to as the "Group"). The nature of the Group's operations and its principal activities are set out in the Chairman's Statement.

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

The prior year comparatives are derived from the audited financial information as set out in the Group's Annual Report for the year ended 30th June 2012 and the unaudited financial information in the Group's Interim Report for the six months ended 31st December 2011. The comparative figures for the financial year ended 30th June 2012 are not the Group's statutory accounts. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include any reference to matters to which the auditors drew attention without qualifying their report and did (iii) not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This Interim Report for the six months ended 31st December 2012 was approved by the board of directors on 21st February 2013.

2. Significant accounting policies

Basis of preparation and accounting policies

Except as described below, the condensed consolidated interim financial information for the six months ended 31st December 2012 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 30th June 2012, which were prepared in accordance with IFRSs as adopted by the European Union.

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

The following new standards and amendments are mandatory for the first time for the financial period beginning 1st July 2012:

IFRS7 Financial Instruments: Disclosures (amended)

IAS1 Presentation of Items in Other Comprehensive Income (amended)

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

Going concern

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

During the period the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 31st December 2012 the Group had cash on hand of £2.96m (30th June 2012: £2.31m).

Based on the Group's forecasts and projections, taking account of reasonable possible changes in trading performance, the directors believe that the Group will have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis of preparation remains appropriate.

3. Exceptional and other items

Six months ended 31st December 2012

	6 months ended 31st December 2012 Unaudited £'000	6 months ended 31st December 2011 Unaudited £'000	Year ended 30th June 2012 Audited £'000
Management/Executive severance payments	**41**	71	71
Amortisation of acquired intangible assets	**59**	59	119
Head office relocation	**35**	–	–
Fair value movements on foreign currency hedging	**4**	–	–
Total exceptional and other items	**139**	130	190

4. Revenue and operating segments

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

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

5. Income tax expense

The charge for taxation for the six months ended 31st December 2012 is based on an estimate of the likely effective tax rate for the year ending 30th June 2013 of 20% (year ended 30th June 2012: 18%, 6 months ended 31st December 2011: 19%). The effective rate is lower than the standard rate of corporation tax principally due to prior year research and development tax credits.

On 23rd March 2012, the Chancellor of the Exchequer announced the reduction in the main rate of UK corporation tax to 23.0% for the year starting 1st April 2013 and a further 1.0% reduction to 22.0% in April 2014. On 5th December 2012, the Chancellor of the Exchequer also announced the further reduction in the main rate of UK corporation tax to 21.0% for the year starting 1st April 2014. The proposed rate reduction will reduce the amount of cash tax payments to be made by the Group.

Condensed Notes to the Financial Statements
31st December 2012

6. Dividends

	6 months ended 31st December 2012 Unaudited £'000	6 months ended 31st December 2011 Unaudited £'000	Year ended 30th June 2012 Audited £'000
Ordinary final dividend paid for the year ended 30th June 2011 of 3.0p per share	**–**	615	615
Ordinary interim dividend paid for the year ended 30th June 2012 of 1.5p per share	**–**	–	311
Ordinary final dividend paid for the year ended 30th June 2012 of 3.0p per share	**622**	–	–
	622	615	926

7. Earnings per share

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

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

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

	6 months ended 31st December 2012 Unaudited	6 months ended 31st December 2011 Unaudited	Year ended 30th June 2012 Audited	6 months ended 31st December 2012 Unaudited	6 months ended 31st December 2011 Unaudited	Year ended 30th June 2012 Audited
	Underlying earnings £'000	Underlying earnings £'000	Underlying earnings £'000	Total earnings £'000	Total earnings £'000	Total earnings £'000
Total comprehensive income attributable to equity holders of the Company	**1,194**	971	1,901	**1,074**	883	1,729
	No.	No.	No.	No.	No.	No.
Basic weighted average number of shares	**20,720,339**	20,442,230	20,546,961	**20,720,339**	20,442,230	20,546,961
Dilutive potential ordinary shares	**34,702**	217,779	58,085	**34,702**	217,779	58,085
Fully diluted weighted average number of shares	**20,755,041**	20,660,009	20,605,046	**20,755,041**	20,660,009	20,605,046
Total earnings per share:						
Basic	**5.8p**	4.7p	9.3p	**5.2p**	4.3p	8.4p
Fully diluted	**5.8p**	4.7p	9.2p	**5.2p**	4.3p	8.4p

Condensed Notes to the Financial Statements

31st December 2012

8. Cautionary statement

This Interim Management Report ("IMR") consists of the Chairman's Statement and Financial Review, which have been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied upon by any other party or for any other purpose.

The IMR contains a number of forward looking statements. These statements are made by the directors in good faith based upon the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

This IMR has been prepared for the Group as a whole and therefore emphasises those matters which are significant to Animalcare Group plc and its subsidiaries when viewed as a whole.

9. Interim peport

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

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