Animalcare Group plc

Interim Results for the six months ended 30 June 2019

24 September 2019 - Animalcare Group plc ("the Company" or "Group") (AIM: ANCR), the European Animal Health business, announces its interim results for the six months ended 30 June 2019.

The Group continues to trade in line with market expectations for the full year on revenue and EBITDA and is making continued progress against its strategic priorities, building a strong foundation for growth.

Financial Highlights

- Revenue in line with the same period last year at £36.1m (increase of c. 0.9% at CER, 1H18: £36.1m)
    - Strong sales growth across several key territories driven by successful new product launches
    - Growth offset by temporary supply challenges related to third-party manufacturers

- Underlying* EBITDA increased by 8.6% to £6.8m (1H18: £6.2m). On a comparable basis, excluding the impact of IFRS16, underlying* EBITDA and EBITDA margin were flat at £6.2m (1H18: £6.2m) and 17.3% (1H18: 17.3%) respectively

- Our focus on freeing up cash to reinvest in the pipeline has driven underlying* cash conversion of 92.3%, on track to improve on the 80% achieved for the full year 2018

- Net debt reduction to £20.9m (31 December 2018: £23.6m; 30 June 2018: £26.0m) largely driven by improved cash conversion, which is ahead of plan

- Underlying* basic EPS at 6.4 pence (1H18: 6.1 pence). Statutory loss before tax, which incorporates non-underlying items, of £1.6m (1H18: £0.1m profit)

- Declared interim dividend of 2.0 pence per share, in line with the prior period

Strategic progress

The Group continues to focus on driving sales and profitable growth through portfolio optimisation, strengthening capabilities and creation of a robust pipeline:

Product portfolio

- Resources focused on the promotion of higher margin products. 25% of product brands to be delisted or divested by the end of 2019, with no significant impact to profit

Pipeline

- Regulatory approval granted for three new products to be launched in late 2019. A further two approvals are expected by year end

- Clinical trials initiated on a novel pain product

Business development

- Significant progress to expand our sales in new territories and strengthen our existing portfolio

- Two new distribution agreements signed:
    - An exclusive distribution agreement for an equine pain product across Europe
    - A new distribution agreement for Proccanius®, the first product to be launched across all of the Group's seven territories (post-period end)

- Two existing distribution agreements have been extended to distribute Animalcare's products in new markets within the period and an additional three distribution contracts have been signed post-period end for further products and territories

- Launched Orozyme in China in partnership with a local Chinese distributor (post-period end)

Operational Highlights

- Strengthened management team, including the appointment of a new Benelux Country Manager
    - New long-term incentive plan introduced to encourage retention of key staff and align their interests with those of shareholders

- Completed the restructure and centralisation of the R&D and Technical and Regulatory teams, delivering the planned headcount reduction of nine employees in Spain and the UK at a one-off cost of £1.4m

Animalcare's Chief Executive Officer, Jenny Winter, commented: *"Over the last six months we have made strong progress in delivering our five-pillar strategy to create a more focused and effective organisation to capitalise on growth in the animal health market. Optimising our product portfolio and rebuilding the pipeline has been a key focus and I am pleased to report on the recently signed agreements, including the first product to be marketed in all seven of our territories.*

"Our cash conversion is on track to deliver an improvement on the prior year, which underpins our capacity to invest in short and longer- term growth opportunities and to deliver sustainable, profitable growth. We remain confident of delivering on market expectations for the current financial year."

*The Group presents a number of non-GAAP Alternative Performance Measures (APMs) which exclude non-underlying items as set out in note 3. EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation.

Analyst briefing today

Jenny Winter, Chief Executive Officer, and Chris Brewster, Chief Financial Officer, will host a meeting and conference call for analysts to provide an update the Company, followed by a Q&A session, at 08:30am BST today at the offices of Panmure Gordon & Co, One New Change, London, EC4M 9AF.

Dial-in details:

International and UK dial-in:

+44 (0) 2071 928000

Belgium dial-in:

080048740

Conference ID:

7066649

Presentation slides will be made available on Animalcare's website, www.animalcaregroup.com , prior to the conference call.

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About Animalcare www.animalcaregroup.com

Animalcare Group plc is a UK AIM listed veterinary sales and marketing organisation resulting from the merger of Animalcare and Ecuphar NV in July 2017. Animalcare operates in 32 countries in Europe and a further 16 worldwide. The company is focused on bringing new and innovative products to market through its own development pipeline, partnerships and via acquisition.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014 (MAR).

Chairman's Statement

Animalcare has made good progress over the first half of 2019, accelerating the integration of our business and executing upon our five strategic priorities to build the strong foundations from which to deliver sustainable growth over the medium to long-term.

Under the leadership of Jenny Winter, the Board has identified a clear path forward to achieve financial success through a focus on five core therapy areas and higher margin products, whilst aiming to grow faster than the markets in which we operate. This is alongside building fruitful relationships with our stakeholders and attracting and retaining the best people to drive success.

In line with our strategic priorities, we continue to focus on building a strong financial base for future growth. New product launches and annualised growth of products launched in 2018 continue to be the main driver of growth, with seven new products launched in the period. However, this was offset by temporary supply challenges related to third-party manufacturers. As a result, Group revenue was in line with the same period last year. Our underlying EBITDA was also flat on a comparable basis and we continue to closely monitor our cost base alongside a focus on top line growth. The Group's cash performance was strong, with cash conversion improving to 92.3% versus the 80% achieved in the 2018 financial year and net debt reduced to £20.9m. Further details on the financial performance can be found in the Financial Review of this report.

During late 2018, we completed a strategic review of our development pipeline and refocused our activities to drive growth over the next three to five years. The first phase of the product prioritisation is now complete and we continue to divest products which make insignificant contributions to our profit. Alongside this, we are reviewing our product development pipeline with a focus on continuing the development of products which have the greatest potential to deliver future growth.

The Board is pleased to declare an interim dividend of 2.0 pence per share, in line with prior period. We will continue to closely monitor the current dividend policy to ensure an appropriate balance between investment for future growth and returning capital to shareholders.

I would like to thank the executive team and employees within our organisation for their continued hard work as we deliver on our strategic objectives.

Jan Boone, *Chairman*

Business Review

Introduction

During the first six months of 2019 we have taken steps to execute our strategy to focus the Company on its core portfolio, integrate our operations, build a strong financial base and drive forward new opportunities to deliver sustainable, profitable growth over the next three to five years.

Trading during the period, in the continuing Pharmaceuticals segment, was in line with market expectations and prior period in terms of both revenue and underlying profitability. We made a commitment to improving the Group's cash conversion during 2019 financial year, principally via a targeted inventory reduction of £1 million for the full year. We are on track to deliver this target which in turn has supported the reduction observed in our net debt since the 2018-year end.

Operational Review

Our strategy is built on five priorities and we have demonstrated progress in the period under each of these:

1) **Strong finances**

   We delivered solid sales growth across several key territories in the period and we continue to focus on top line growth, whilst closely monitoring our cost base. Cash conversion has been particularly strong, and we are well financed to invest in future growth.

2) **Key leadership**

   The delivery of our strategy heavily relies on the management team and in order to incentivise and retain our key employees we implemented a new LTIP for the Leadership Team and rolled-out performance-based bonus plans. We also strengthened our Country Manager team with appointment of Sara Maddens in Benelux.

   During the first half of 2019 we have accelerated the pace of integration to drive simplification and improve efficiency. We completed the restructure and centralisation of the R&D and Technical & Regulatory centralisation teams, delivering the planned headcount reduction of nine employees in the UK and Spain.

   Following the appointment of Stephen Pearson as Group Head of Supply Chain in late 2018, significant progress has been made in creating an integrated, sustainable and efficient supply chain. We have streamlined supply across Southern Europe, supporting delivery of our inventory reduction target of £1.0m for the current financial year. Investment in SAP ERP will commence shortly to drive further efficiencies during 2020 and beyond.

3) **Growth portfolio**

   Over the last six months we have delivered the first phase of the portfolio review with the long-term objective of creating a focused and more balanced product portfolio closely aligned to the growth segments of our market and where we have existing capabilities. Following this review 25% of brands that are insubstantial in terms of revenue and insignificant in terms of EBITDA contribution are expected to be delisted or divested by the end of the year with a further c20% reduction anticipated during 2020. We will continue to support our production animal business through targeted products within specific segments and customer groups.

4) **Business development**

   We continue to strengthen our relationships with key stakeholders including our international partners and we recently launched, Orozyme, our first product with our partner in China.

In addition, we are focused on securing distribution agreements and in the period we completed one significant distribution deal and a further distribution deal was signed after period close. In the first half we signed an exclusive distribution agreement with a partner for an equine pain product that is aligned to our strategy.

In August, we were pleased to secure an agreement with Vetcare in Finland for the distribution of Proccanius, the first and only canine product with three important live Lactobacillus strains isolated from healthy dogs, and the first product to be launched across all seven territories in which we operate. We expect sales to commence late 2019 with a full year effect in 2020 into a market which is estimated to be around £10m and growing.

5) **Innovative pipeline**

Alongside the business development initiative, the internal product pipeline has progressed, with approval granted for three new products, Butazocare, Doxycare and Metrocare. All three are anticipated to be launched as planned during H2 and we expect two further approvals by the end of 2019 for launch in the first half of 2020. We are continuing to seek to broaden our product portfolio through strategic partnerships and we are exploring a number of opportunities including novel pharmaceuticals

Our Identichip and Identibase business is an asset, with its database of 5.4 million pet owners, that we believe could have significant value. It has continued to perform well and we are reviewing opportunities to expand the potential of this business and develop the technology.

Brexit

The outcome of the Brexit negotiations remains unclear and we continue with our contingency preparations, which are on track to ensure that there is minimal impact to our business operations. We continue to closely monitor the situation.

Financial Review

Overview of underlying financial results – Continuing Operations

A summary of the underlying financial results, which the Directors believe provides a clearer understanding of business performance, is shown below. The Group adopted IFRS 16 'Leases' on 1 January 2019, the impact of which is set out in note 9. Comparative financial measures have not been restated. Commentary has been made upon both an IFRS16 and IAS17 (the previous accounting standard) to allow meaningful comparison to prior periods.

Six Months to 30 June	**2019**	2018	% Change at AER
	£'000	£'000	%
Revenue	**36,121**	36,057	0.2%
Gross Profit	**19,135**	19,291	(2.2%)
Gross Margin %	**53.0%**	53.5%	(1.3%)

Underlying Operating Profit	**5,178**	5,155	0.4%
Underlying EBITDA	**6,765**	6,227	8.6%
Underlying EBITDA margin %	**18.7%**	17.3%	1.4%
Underlying Profit after tax	**3,857**	3,684	4.7%
Basic Underlying EPS (p)	**6.4p**	6.1p	4.9%

Revenue

The Group delivered revenue growth of 0.2% (0.9% at CER) from continuing operations to £36.1m, split by product category as shown in the table below:

Six Months to 30 June	**2019**	2018	% Change at AER
	£'000	£'000	%
Companion Animals	**23,724**	23,805	(0.3%)
Production Animals	**9,322**	9,358	(0.4%)
Equine & other	**3,075**	2,894	5.6%
Total	**36,121**	36,057	0.2%

Companion Animals revenue declined by 0.3% to £23.7m. Growth from new product launches and annualised sales of products launched in 2018 was offset by supply issues which impacted sales by £1.1m versus prior period. We expect these supply challenges to be largely resolved by the end of the financial year. Production Animals revenue declined by 0.4% on prior period primarily driven by 2.3% lower demand for antibiotics. Equine and other sales increased by 5.6% to £3.1m due to growth within our existing portfolio.

Underlying operating results

Underlying EBITDA increased by 8.6% to £6.8m (2018: £6.2m) however on a comparable IAS17 basis, adjusted underlying EBITDA was £6.2m, in line with prior year. On an adjusted basis, EBITDA margins at 17.3% were in line with prior period. The gross margin decrease to 53.0% reflects lower margin sales mix towards distribution products and our Equine product category. We have maintained our focus on operating costs, with SG&A expenses as a percentage of revenue reducing from 36.2% to 35.7%.

The effective tax rate was 20.9% (2018: 25.3%) primarily reflecting our tax planning initiatives to optimise research and developments tax credits and utilisation of tax losses.

Non-underlying items

Non-underlying items totaling £6.7m (2018: £3.8m) relating to profit before tax have been incurred in the period, as set out in note 3. These principally comprise:

1. Amortisation and impairment of acquisition related intangibles of £5.1m (2018: £3.0m). The increase versus prior period reflects the non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.

2. Restructuring costs of £1.8m (2018: £nil) largely relating to the R&D and Technical & Regulatory team centralisation and associated costs of implementing headcount reduction in the UK and Spain at a cost of £1.4m

Interim dividend

The Board is proposing an interim dividend of 2.0 pence per share, in line with 2018. The interim dividend will be paid on 22 November 2019 to shareholders whose names are on the Register of Members at close of business on 25 October 2019. The ordinary shares will become ex-dividend on 24 October 2019.

Cash flow, net debt and borrowing facilities

The Group is committed to improving cash generation, important to generate the funds we need to invest for growth. We monitor progress using cash conversion as a percentage of underlying EBITDA, as set out in the table below. We have set a target in 2019 to improve on the 80% achieved for the full year 2018.

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year ended 31 December 2018 £'000
Underlying EBITDA	**6,765**	6,227	11,798
Net cash flow from operations	**4,831**	1,558	7,430
Non-underlying items	**1,415**	719	1,993
Underlying net cash flow from operations	**6,246**	2,227	9,423
Cash conversion %	**92.3%**	36.6%	79.9%

The Group's underlying cash conversion significantly increased vs prior period and improved on the 79.9% delivered in 2018. Working capital increased by £1.0m (2018: £3.3m increase), largely relating to decreased trade payables. The main drivers of the significant progress versus 2018 is twofold. Firstly we have reduced inventory by £1.5m since the year end and are on track to deliver our stated target of a £1.0m reduction by the end of 2019. Secondly, cash taxes were £1.0m lower due to a combination of phasing and increased cash receipts in respect of R&D tax credits.

	£'000
Net debt at 1 January 2019	**(23,588)**
Net cash generated from operations	4,831
Net capital expenditure	(1,312)
Net finance expenses	(829)
Foreign exchange on cash and borrowings	(14)
Other cash movements	(1)
Net debt excluding IFRS16 lease liabilities at 30 June 2019	**(20,913)**
Recognition of lease liabilities	(2,214)
Net debt at 30 June 2019	**(23,127)**

Net capital expenditure of £1.3m largely comprises investment in a novel pain product within our product development pipeline.

The net borrowing position at the end of the period was £20.9m, a £2.7m reduction versus the 2018 year end. At 30 June 2019, total facilities were £46.2m, of which £23.1m, net of cash balances, was utilised. These bank facilities, together with the Group's operational cash flow, indicate that the Group has sufficient facilities available to fund its operations and allow for future investment.

Summary and outlook

We reiterate our outlook as set out at the time of our full year results in May and continue to expect trading for the full year 2019 to be in line with market expectations. We are building an effective and focussed organisation that is fit for the future and we have a clear strategy to grow over the next three to five years. Looking forward, we expect the supply issues which have been impacting revenue to be largely resolved by the end of the year, and will continue to drive cash generation for investing, rewarding our shareholders and reducing our debt. Success will be driven by the five pillars of our strategy and we will continue to report our progress against these.

Condensed consolidated income statement

	Notes	Underlying 2019 £'000	Non-Underlying (note 3) 2019 £'000	Total 2019 £'000	Underlying 2018 £'000	Non-Underlying (note 3) 2018 £'000	Total 2018 £'000
		For the six months ended 30 June					
Revenue		**36,121**	**–**	**36,121**	36,057	–	36,057
Cost of sales		**(16,986)**	**–**	**(16,986)**	(16,766)	–	(16,766)
Gross profit		**19,135**	**–**	**19,135**	19,291	–	19,291
Research and development expenses		**(1,662)**	**(622)**	**(2,284)**	(1,598)	(647)	(2,245)
Selling and marketing expenses		**(6,222)**	**–**	**(6,222)**	(6,591)	–	(6,591)
General and administrative expenses		**(6,109)**	**(2,380)**	**(8,489)**	(5,974)	(2,387)	(8,361)
Net other operating income / (expenses)		**36**	**(3,711)**	**(3,675)**	26	(719)	(693)
Operating profit/(loss)		**5,178**	**(6,713)**	**(1,535)**	5,155	(3,754)	1,402
Financial expenses		**(515)**	**–**	**(515)**	(475)	–	(475)
Financial income		**216**	**–**	**216**	250	–	250
Profit/(loss) before tax		**4,879**	**(6,713)**	**(1,834)**	4,930	(3,754)	1,177
Income tax		**(1,022)**	**1,268**	**246**	(1,246)	809	(437)
Net profit/(loss) from continuing operations		**3,857**	**(5,445)**	**(1,588)**	3,684	(2,945)	740
Result from discontinued operations	8	**–**	**–**	**–**	36	(719)	(683)
Net Profit/(loss)		**3,857**	**(5,445)**	**(1,588)**	3,720	(3,664)	57
Net profit/(loss) attributable to:							
The owners of the parent		**3,857**	**(5,445)**	**(1,588)**	3,720	(3,664)	57
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company:							
Basic		6.4p		(2.6p)	6.1p		0.1p
Diluted		6.4p		(2.6p)	6.1p		0.1p
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:							
Basic		6.4p		(2.6p)	6.2p		0.1p
Diluted		6.4p		(2.6p)	6.2p		0.1p

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

Condensed consolidated statement of comprehensive income

	For the six months ended 30 June	
	2019	2018
	£'000	£'000
Net (loss)/profit for the period	**(1,588)**	57
Other comprehensive expense		
Cumulative translation differences *	**(90)**	(20)
Other comprehensive expense, net of tax	**(90)**	(20)
Total comprehensive (expense)/income for the period, net of tax	**(1,678)**	37
Total comprehensive (expense)/income attributable to:		
The owners of the parent	**(1,678)**	37

* May be reclassified subsequently to profit & loss

Condensed consolidated statement of financial position

	Notes	30 June 2019	31 December 2018
		£'000	£'000
Assets			
Non-current assets			
Goodwill		**50,940**	50,937
Intangible assets		**47,085**	51,334
Property, plant and equipment		**403**	477
Right-of-use assets	9	**2,194**	–
Deferred tax assets		**1,925**	1,699
Other financial assets		**60**	59
Other non-current assets		**291**	294
Total non-current assets		**102,898**	104,800
Current assets			
Inventories		**12,895**	14,891
Trade receivables		**12,046**	13,084
Other current assets		**3,230**	2,736
Cash and cash equivalents		**3,887**	8,035
Total current assets		**32,058**	38,746
Total assets		**134,956**	143,546
Liabilities			
Current liabilities			
Borrowings		**(324)**	(648)
Lease liabilities	9	**(938)**	–
Trade payables		**(9,581)**	(11,907)
Tax payables		**(1,896)**	(1,016)
Accrued charges and deferred income		**(2,299)**	(2,325)
Other current liabilities		**(3,371)**	(3,864)
Total current liabilities		**(18,409)**	(19,760)
Non-current liabilities			
Borrowings		**(24,477)**	(30,975)
Lease liabilities	9	**(1,276)**	–
Deferred tax liabilities		**(5,154)**	(5,521)
Deferred income		**(606)**	(617)
Provisions		**(106)**	(81)
Total non-current liabilities		**(31,619)**	(37,194)
Total Liabilities		**(50,028)**	(56,954)
Net Assets		**84,929**	86,592
Equity			
Share capital		**12,012**	12,012
Share premium		**132,729**	132,729
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses		**(6,305)**	(4,732)
Other reserves		**3,255**	3,345
Equity attributable to the owners of the parent		**84,929**	86,592
Total equity		**84,929**	86,592

Condensed consolidated statement of changes in equity

	Attributable to the owners of the parents							
	Share capital	Share premium	Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2018	11,983	132,588	(1,347)	(56,762)	3,180	89,642	2	**89,644**
Net profit	–	–	57	–	–	57	–	**57**
Other comprehensive expense	–	–	–	–	(20)	(20)	–	**(20)**
Total comprehensive income/(expense)	–	–	57	–	(20)	37	–	**37**
Share-based payments	–	–	28	–	–	28	–	**28**
Share capital issued	21	90	–	–	–	111	–	**111**
At 30 June 2018	12,004	132,678	(1,262)	(56,762)	3,160	89,818	2	**89,820**

	Attributable to the owners of the parents							
	Share capital	Share premium	Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2019	**12,012**	**132,729**	**(4,732)**	**(56,762)**	**3,345**	**86,592**	**–**	**86,592**
Net loss	**–**	**–**	**(1,588)**	**–**	**–**	**(1,588)**	**–**	**–**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(90)**	**(90)**	**–**	**(90)**
Total comprehensive expense	**–**	**–**	**(1,588)**	**–**	**(90)**	**(1,678)**	**–**	**(1,678)**
Share-based payments	**–**	**–**	**16**	**–**	**–**	**16**	**–**	**16**
At 30 June 2019	**12,012**	**132,729**	**(6,305)**	**(56,762)**	**3,255**	**84,929**	**–**	**84,929**

Condensed consolidated cash flow statements

	Notes	For the six months ended 30 June 2019 £'000	For the six months ended 30 June 2018 £'000
Operating activities			
(Loss)/profit before tax from continuing operations		**(1,834)**	1,177
Loss before tax from discontinued operations	8	**–**	(683)
(Loss)/profit before tax		**(1,834)**	494
Adjustments for:			
Depreciation of property, plant and equipment		**618**	180
Amortisation of intangible assets		**3,968**	3,961
Impairment of intangible assets		**1,518**	–
Share-based payment expense		**16**	28
Loss/(gain) on disposal of property, plant and equipment		**–**	(1)
Non-cash impairment on assets held for sale		**–**	664
Movement in allowance for bad debt and inventories		**433**	234
Financial income		**(72)**	(238)
Financial expense		**409**	484
Impact of foreign currencies		**(46)**	–
Non-cash restructuring expenses		**778**	–
Other		**(2)**	(9)
Movements in working capital			
Decrease in trade receivables		**1,550**	1,938
Decrease /(increase) in inventories		**1,533**	(1,627)
Decrease in payables		**(4,071)**	(3,618)
Income tax received/(paid)		**33**	(932)
Net cash flow from operating activities		**4,831**	1,558

Condensed consolidated cash flow statements (continued)

	Notes	For the six months ended 30 June 2019 £'000	2018 £'000
Investing activities			
Purchase of property, plant and equipment		**(29)**	(147)
Purchase of intangible assets		**(1,294)**	(1,825)
Proceeds from the sale of property, plant and equipment (net)		**11**	4
Proceeds from sale of available for sale financial investments		**–**	459
Net cash flow used in investing activities		**(1,312)**	(1,509)
Financing activities			
Proceeds from loans and borrowings and convertible debt		**–**	521
Repayment of loans and borrowings		**(6,508)**	(287)
Principal elements of lease payments		**(491)**	–
Receipts from issue of share capital		**–**	111
Interest paid		**(327)**	(356)
Other financial (expense)/income		**(11)**	110
Net cash flow (used)/from financing activities		**(7,337)**	99
Net (decrease)/increase in cash and cash equivalents		**(3,819)**	148
Cash and cash equivalents at beginning of period		**8,035**	7,579
Exchange rate differences on cash and cash equivalents		**(329)**	2
Cash and cash equivalents reclassified as held for sale		**–**	(10)
Cash and cash equivalents at end of period		**3,887**	7,719

Reconciliation of net cash flow to movement in net debt

	Notes	2019 £'000	2018 £'000
Net (decrease)/increase in cash and cash equivalents in the period		**(3,819)**	148
Cash flow from decrease/(increase) in debt financing		**6,508**	(234)
Foreign exchange differences on cash and borrowings		**(14)**	11
Movement in net debt in the period		**2,675**	(75)
Net debt at the start of the period		**(23,588)**	(25,908)
Net debt reclassified as held for sale		**–**	(1)
Lease liabilities at end of period	9	**(2,214)**	–
Net debt at the end of the period		**(23,127)**	(25,984)

Notes to the consolidated interim report

1 General Information

Animalcare Group plc ("Animalcare" or "the Company") is a public 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 30 June 2019 comprises the Company and its subsidiaries (together referred to as the "Group"). The nature of the Group's operations and its principal activities are set out in the latest Annual Report.

2 Basis of preparation and significant accounting policies

Basis of preparation and accounting policies

This interim financial information for each of the six month periods ended 30 June 2019 and 30 June 2018 has not been audited and does not constitute statutory accounts as defined in Section 43s of the Companies Act 2006. The comparative information for the year ended 31 December 2018 does not constitute statutory accounts however is based on the statutory accounts for that year, on which the Group's auditors issued an unqualified report and which have been filed with the Register of Companies.

The Interim Report for the six months ended 30 June 2019 was approved by the Board of Directors and authorised for issue on 24 September 2019.

Except as described below, the condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs"), and which will form the basis of the 2019 Annual Report.

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 standards and amendments were adopted from 1 January 2019, the start of the new financial year:

- IFRIC 23 Uncertainty over income tax treatments
- IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The impact of the adoption of IFRS 16 "Leases" on the Group's financial statements is set out in note 9.

Going Concern

The principal risks and uncertainties facing the Group remain those set out in the latest Annual Report on pages 26, 27 and 28.

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

The Group meets its day-to-day general corporate and working capital requirements through existing cash and bank facilities.

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the condensed interim financial information remains appropriate.

3 Non-Underlying items

	For the six months ended 30 June	
	2019	**2018**
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**622**	647
Classified within General and administrative expenses	**2,380**	2,387
Classified within net other operating expenses	**1,518**	–
Total amortisation and impairment of acquisition related intangibles	**4,520**	3,034
Restructuring costs	**1,823**	–
Acquisition and integration costs	**77**	156
Brexit-related costs	**118**	–
Other non-underlying items	**175**	563
Total non-underlying items before taxes	**6,713**	3,753
Tax impact	**(1,268)**	(809)
Total non-underlying items after taxes from continuing operations	**5,445**	2,945
Other non-underlying items from discontinued operations	**–**	55
Impairment on disposal	**–**	664
Total non-underlying items after taxes	**5,445**	3,664

The amortisation charge of acquisition related intangibles largely relates to the Esteve acquisition £1,005k (30 June 2018: £1,012k) and the reverse acquisition of Animalcare Group plc £1,814k (30 June 2018: £1,838k).

The impairment charge of £1,518k for acquisition related intangibles relate to an impairment of projects within the R&D pipeline which are deemed no longer economically viable due to technical difficulties in the development process (30 June 2018: £nil).

During the period the Group incurred restructuring costs of £1,823k. This principally relates to the R&D and Technical & Regulatory team centralisation which resulted in a headcount reduction of nine employees in the UK and Spain.

During the prior period, an impairment loss of £664k was recognised relating to discontinued operations representing the estimated difference between the fair value of the consideration either received or receivable (as described in note 8) and the original book value of assets including allocated goodwill.

4 Segment information

Following the sale of the wholesale business on 4 September 2018, the Group will only report one segment, being "Pharmaceuticals". This reporting segment is used for management purposes.

The Pharmaceutical segment is active in the development and marketing of innovative pharmaceutical products that provide significant benefits to animal health.

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. The Chief Operating Decision Maker assesses performance based on the Key Performance Indicators set out on page 14 of the latest Annual Report which include revenue and underlying EBITDA, excluding the effect of non-underlying items.

The following table shows an analysis of the segment reporting from continuing operations. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

For details on the impact of the adoption of IFRS 16, please see note 9.

	For the six months ended 30 June	
	2019	**2018**
	Pharma	**Pharma**
	£'000	£'000
Revenues	**36,121**	36,057
Gross Margin	**19,135**	19,281
Gross Margin %	**53.0%**	53.5%
Segment underlying EBITDA	**6,765**	6,227
Segment underlying EBITDA %	**18.7%**	17.3%
Segment EBITDA	**4,573**	5,508
Segment EBITDA %	**12.7%**	15.3%

The segment EBITDA is reconciled with the consolidated net profit for the period as follows:

	For the six months ended 30 June	
	2019	**2018**
	£'000	£'000
Segment EBITDA	**4,573**	5,508
Depreciation, amortisation and impairment	**(6,108)**	(4,106)
Operating (loss)/profit	**(1,535)**	1,402
Financial expenses	**(515)**	(475)
Financial income	**216**	250
Income taxes	**(346)**	(1,215)
Deferred taxes	**592**	778
Net (loss)/profit	**(1,588)**	740

Revenue by product category:

	For the six months ended 30 June	
	2019	2018
	£'000	£'000
Companion animals	**23,724**	23,924
Production animals	**9,322**	9,270
Horses	**2,970**	2,821
Petfood, Instrumentation and Services	**105**	42
Total	**36,121**	36,057

Revenue by geographical area:

	For the six months ended 30 June	
	2019	2018
	£'000	£'000
Belgium	**4,351**	3,801
The Netherlands	**1,090**	716
United Kingdom	**7,211**	8,879
Germany	**5,081**	5,052
Spain	**9,771**	9,953
Italy	**2,857**	2,500
Portugal	**2,575**	2,549
European Union - other	**2,612**	2,145
Asia	**238**	197
Middle East Africa	**23**	22
Other	**312**	243
Total	**36,121**	36,057

Revenue by category:

	For the six months ended 30 June	
	2019	2018
	£'000	£'000
Product sales	**35,551**	35,535
Services sales	**570**	522
Total	**36,121**	36,057

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference to the stage of completion.

5 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holder of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all potential dilutive ordinary shares.

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

	For the six months ended 30 June			
	Underlying	Underlying	Total	Total
	2019	2018	2019	2018
	£'000	£'000	**£'000**	£'000
Net profit/(loss) from continuing operations	**3,857**	3,684	**(1,588)**	740
Net profit/(loss) from discontinuing operations	**–**	36	**–**	(683)
Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**3,857**	3,720	**(1,588)**	57

Average number of shares (basic and diluted):

	For the six months ended 30 June			
	Underlying	Underlying	Total	Total
	2019	2018	2019	2018
	Number	Number	**Number**	Number
Weighted average number of ordinary shares for basic earnings per share	**60,057,161**	59,986,095	**60,057,161**	59,986,095
Dilutive potential ordinary shares	**–**	43,241	**–**	43,241
Weighted average number of ordinary shares adjusted for effect of dilution	**60,057,161**	60,029,336	**60,057,161**	60,029,336

Basic earnings/(loss) per share:

	For the six months ended 30 June			
	Underlying	Underlying	Total	Total
	2019	2018	2019	2018
	Pence	Pence	**Pence**	Pence
Basic earnings/(loss) per share attributable to ordinary owners of the parent				
From continuing operations	**6.4**	6.1	**(2.6)**	0.1
From discontinued operations	**–**	0.1	**–**	(0.1)
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the company	**6.4**	6.2	**(2.6)**	0.1

Diluted earnings/(loss) per share:

	For the six months ended 30 June			
	Underlying	Underlying	Total	Total
	2019	2018	2019	2018
	Pence	Pence	**Pence**	Pence
Diluted earnings/(loss) per share attributable to ordinary owners of the parent				
From continuing operations	**6.4**	6.1	**(2.6)**	0.1
From discontinued operations	**–**	0.1	**–**	(0.1)
Total diluted earnings/(loss) per share attributable to the ordinary equity holders of the company	**6.4**	6.2	**(2.6)**	0.1

6 Dividends

The final dividend for the year ended 31 December 2018 of 2.4 pence per share was paid by the company on 5 July 2019 hence is not included in the results for the six months ended 30 June 2019.

The directors have declared an interim dividend of 2.0 pence per share (2018: 2.0 pence per share) costing £1,201k. It is payable on 22 November 2019 to shareholders whose names are on the Register of Members at close of business on 25 October 2019. The ordinary shares will become ex-dividend on 24 October 2019.

As the dividend was declared after the end of the period being reported, it has not been included as a liability as at 30 June 2019 in accordance with IAS 10 ‘Events after the Balance Sheet date’

7 Related party transactions

There have been no new related party transactions that have taken place in the six months ended 30 June 2019.

8 Business Combinations

Disposal of subsidiaries

On 4 September 2018, the Group announced and completed the disposal of its Wholesale business Medini NV registered in Belgium, for an initial cash consideration of £2,413k and total estimated consideration, including deferred consideration, of £2,989k. Full details regarding the disposal are disclosed in note 4 of the latest Annual Report.

For the period ended 30 June 2018, and in accordance with IFRS 5, the Wholesale business was classified as held for sale and presented as discontinued within the income statement. An impairment charge of £664k was recognised as shown in note 3. An analysis of the discontinued loss of £683k, which includes the impairment charge, is shown below:

For the six months ended 30 June 2018:

	Continuing operations	**Discontinued operations**	**Consolidation adjustments**	**Total continuing and discontinued operations**
	2018	**2018**	**2018**	**2018**
	£'000	£'000	£'000	£'000
Revenue	36,057	12,429	(718)	47,769
Cost of sales	(16,766)	(11,232)	689	(27,309)
Gross Profit	19,291	1,197	(29)	20,459
Research and development expenses	(2,245)	–	–	(2,245)
Selling and marketing expenses	(6,591)	(833)	46	(7,378)
General and administrative expenses	(8,361)	(290)	(18)	(8,669)
Net other operating income / (expenses)	(693)	(736)	1	(1,427)
Operating profit/(loss)	1,402	(662)	–	740
Financial expenses	(475)	(29)	20	(484)
Financial income	250	7	(20)	238
Profit/(loss) before tax	1,177	(683)	–	494
Income tax	(437)	–	–	(437)
Net profit/(loss)	740	(683)	–	57

The net cash flow by discontinued operations can be found below:

	For the six months ended 30 June
	2018
	£'000
Net cash flow from operating activities	133
Net cash flow used in investing activities	(94)
Net cash flow from financing activities	(28)
Net increase of cash & cash equivalents	11

9 Changes to accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

The Group leases various offices, vehicles and IT equipment. Rental contracts are typically made for fixed periods of 3 to 9 years, possibly with extension options; one contract has a lease term of more than 10 years. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 1 January 2019, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the lessee's incremental borrowing rate. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.2%.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

A reconciliation between IAS 17 and IFRS 16 is shown below for the position at 1 January 2019:

	£'000
Non-cancellable operating lease commitments disclosed as at 31 December 2018	2,760
Weighted average incremental borrowing rate at 1 January 2019	3.2%
Discounted using the Group's incremental borrowing rate	2,606
Add: finance lease liabilities recognised as at 31 December 2018	22
Lease liability recognised as at 1 January 2019	2,628
Of which are:	
Current lease liabilities	910
Non-current lease liabilities	1,718

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
	£'000	£'000
Buildings	**1,085**	1,275
Vehicles	**1,044**	1,269
Other	**65**	84
Total right-of-use assets	**2,194**	2,628
Current lease liabilities	**938**	910
Non-current lease liabilities	**1,276**	1,718
Total lease liabilities	**2,214**	2,628

Cash flows relating to leases are presented as follows:

- Cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- Cash payments for the interest portion consistent with presentation of interest payments chosen by the Group, and;
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

(I) Impact on EBITDA and earnings per share

EBITDA and underlying EBITDA increased by £530k for the six months to 30 June 2019 as a result of the change in accounting policy. There is no material impact on net result and earnings per share in the period.

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

10 Cautionary statement

This Interim Management Report (“IMR”) consists of the Chairman’s Statement and the Business 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.

11 Interim report

The Group’s Interim Report for the six months ended 30 June 2019 was approved and authorised for issue on 24 September 2019. Copies will be available to download on the Company’s website at: www.animalcaregroup.com.