

Animalcare Group plc

Full Year Results to 30th June 2012



Developing and Supplying
Veterinary Products for Companion Animals

Business Overview

“A leading supplier of generic veterinary medicines and animal identification products to companion animal veterinary markets in the UK and selected markets in the EU”

Overview of Results

A difficult year for some product groups but underlying performance very strong

- Not all key financial objectives for the year were met
- Interruption in the supply of Buprecare ampoules for the full year
- Difficult trading in all parts of the Companion Animal Identification (CAI) product group
- Our target to launch four new generic veterinary medicines in the financial year bettered with five products launched (Torphasol, Detonervin, Emdocam, Tilmodil and Buprecare MDV)
- New product development pipeline continues to deliver with Quattro, Stone 1 and Stone 2 in regulatory review and other projects entering development
- Reorganisation of senior management to better focus on key business streams
- Continued strong net cash flow from operating activities

Financial Summary

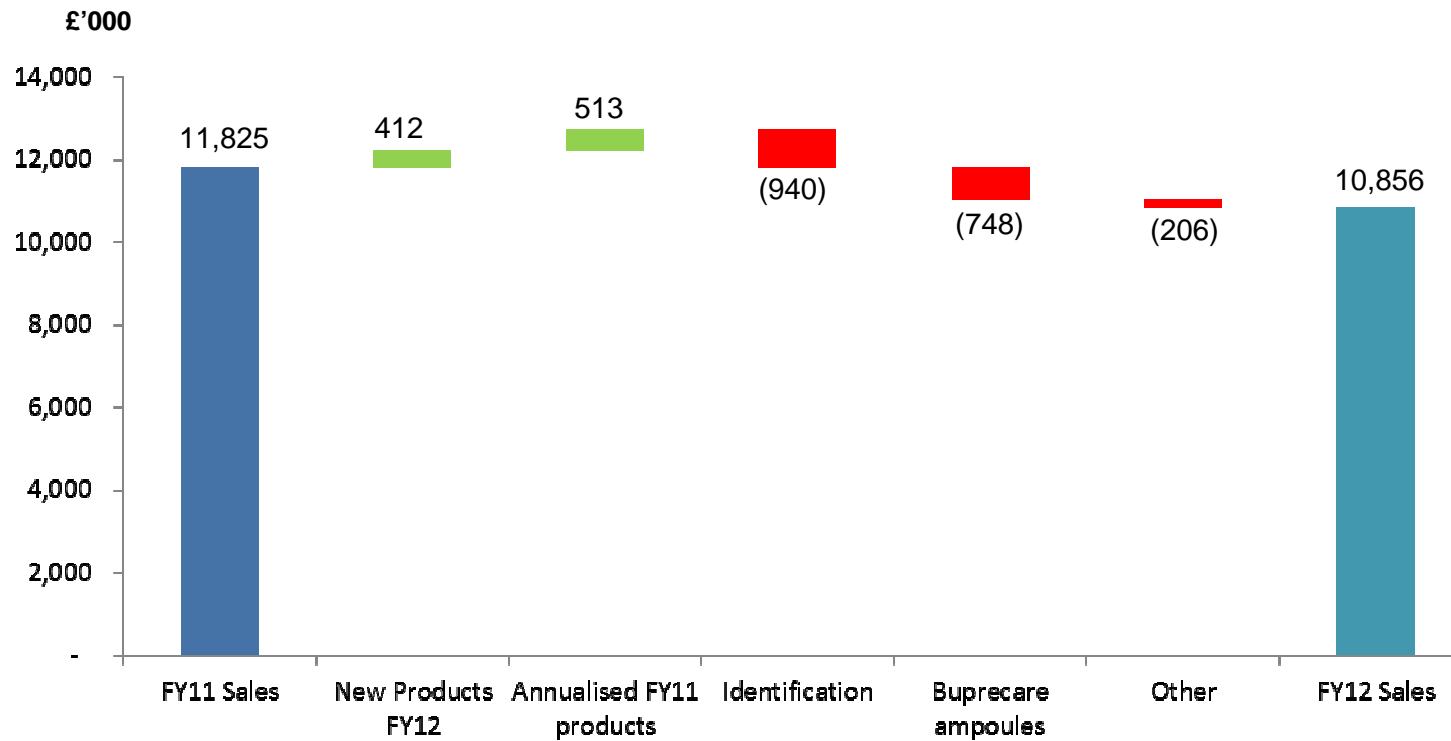
	Year ended 30 June 2012	Year ended 30 June 2011	
Revenue	£10.86m	£11.83m	(8.2%)
Underlying* operating profit	£2.29m	£3.05m	(24.9%)
Underlying* profit before tax	£2.30m	£3.00m	(23.6%)
Underlying* profit for the year	£1.90m	£2.29m	(17.0%)
Underlying* earnings per share – diluted	9.2p	11.2p	(17.9%)

Dividend

Interim	1.5p	1.0p	+50%
Final	3.0p	3.0p	-
Net cash flow from operating activities	£2.12m	£2.15m	(1.4%)
Cash balances	£2.31m	£1.18m	+95.8%

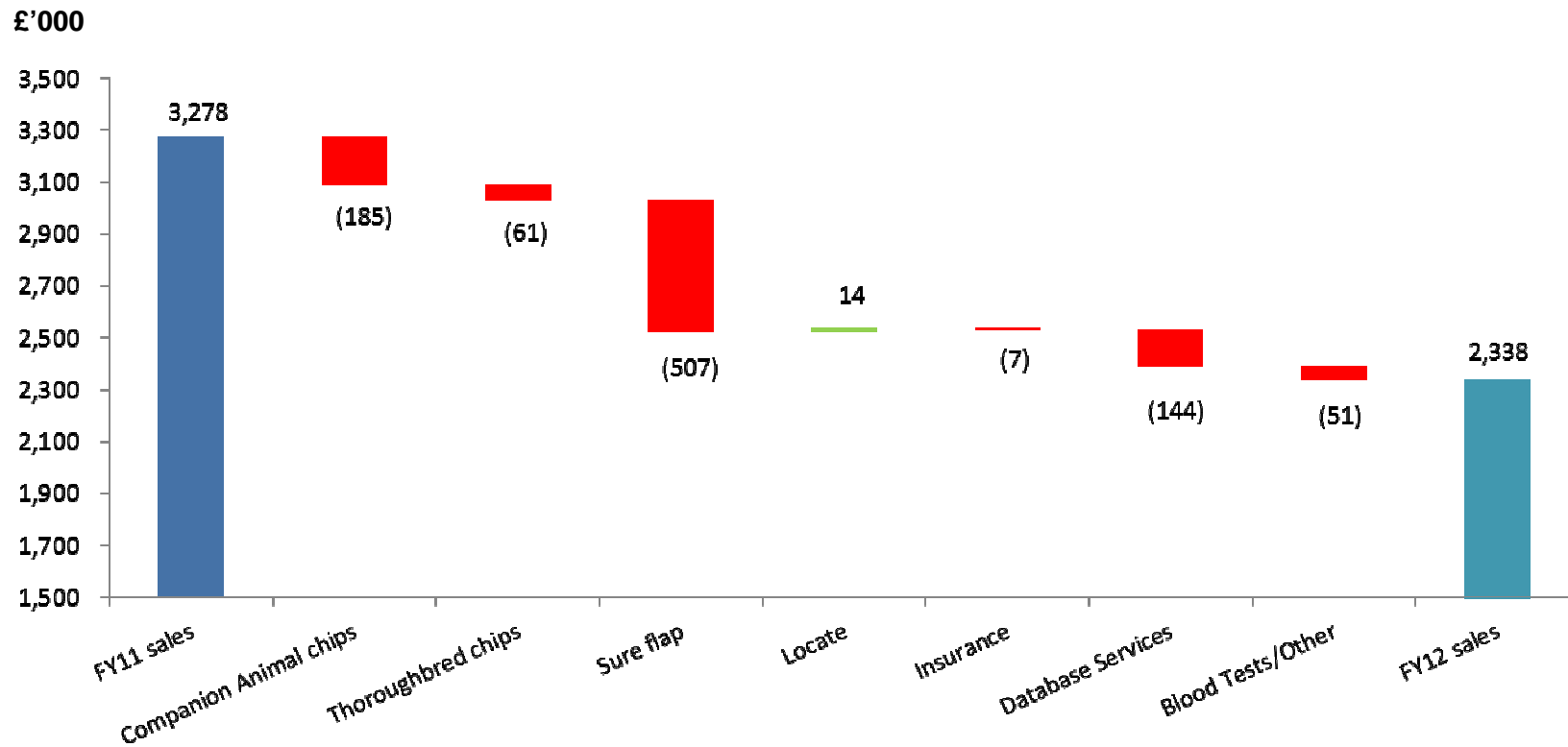
* Underlying measures exclude, where applicable, amortisation of acquired intangibles, fair value movements on interest hedging and other charges relating to Group reorganisation.

Full Business Revenue Bridge 2011-12



- Full year impact of loss of Buprecare ampoules counterbalanced by full and part year effects of more recent licensed veterinary medicine launches
- Downturn in microchip sales had knock-on effect on high margin associated services but new database starting to bear fruit in Q4
- Most notable impact on Animal Welfare group from I.V. Fluid Accessories supply issues compounded by Italian earthquake in Q4

CAI Bridge FY11-FY12



- Thoroughbred chip revenues directly linked to numbers of racehorse foals bred
- Full year impact of decision to cease distribution of low margin cat flaps
- Isolated loss of data processing revenues due to third party chip distributor moving their chip registration to alternative database
- As Identichip sales respond to renewed focus associated products and services' revenues will grow in addition to efficiencies from new database

Key Product Categories

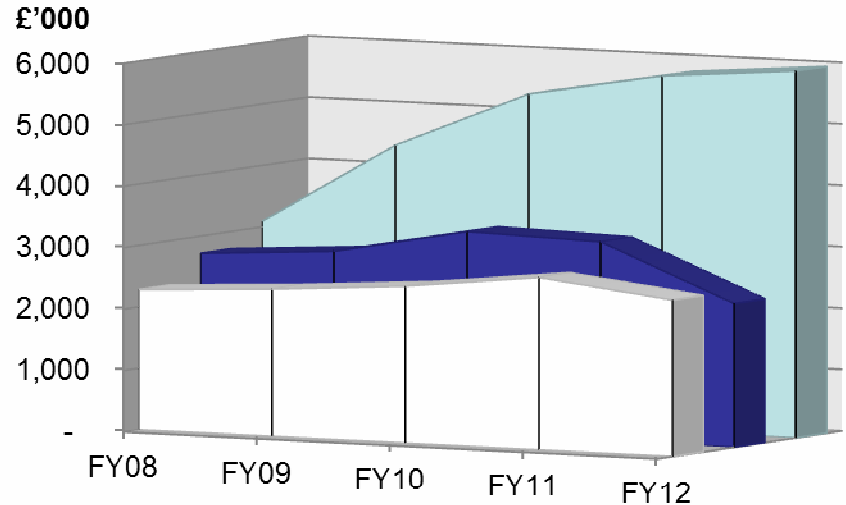
£'000	Year ended 30 June 2012	Year ended 30 June 2011	
Sales			
Licensed Veterinary Medicines	5,972	5,784	+3.3%
Companion Animal Identification	2,338	3,235	(27.7%)
Animal Welfare	2,546	2,806	(9.3%)
Total	10,856	11,825	(8.2%)
Gross Profit			
Licensed Veterinary Medicines	3,315	3,240	+1.2%
Companion Animal Identification	1,625	1,980	(17.9%)
Animal Welfare	921	1,170	(21.3%)
Total	5,862	6,390	(8.3%)
Gross Margin %			
Licensed Veterinary Medicines	56%	56%	-
Companion Animal Identification	70%	61%	+14.8%
Animal Welfare	36%	42%	(14.3%)
Total	54.0%	54.0%	-

Key Product Categories

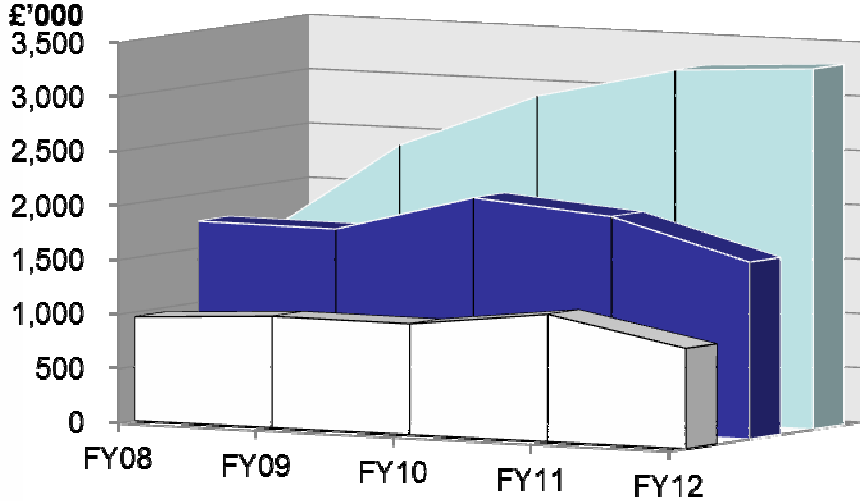
	% of Total Company Year ended 30 June 2012		% of Total Company Year ended 30 June 2011	
	Revenue	Gross Margin	Revenue	Gross Margin
Licensed Veterinary Medicines	55.0%	56.6%	48.9%	50.7%
Companion Animal Identification	21.5%	27.7%	27.4%	31.0%
Animal Welfare	23.5%	15.7%	23.7%	18.3%

Segmental Analysis

Revenue



Gross Profit



- Licensed Veterinary Medicines
- Companion Animal Identification
- Animal Welfare

Financials – Profit and Loss

	Year ended 30 June 2012	Year ended 30 June 2011	
	£'000	£'000	
Revenue	10,856	11,825	(8.2%)
Gross profit	5,862	6,390	(8.3%)
Overheads	(3,568)	(3,337)	(6.0%)
Underlying operating profit	2,294	3,053	(24.9%)
Finance income/(expense)	2	(49)	-
Underlying profit before tax	2,296	3,004	(23.6%)
Exceptional and other items	(190)	(119)	(60.0%)
Profit before tax	2,106	2,885	(27.0%)
Taxation	(377)	(665)	+43.3%
Profit after tax - continuing	1,729	2,220	(22.1%)

- Gross profit margins consistent with 2011 at 54%
- Maintained tight control over operating costs
- Borrowing costs eliminated
- Effective tax rate reduced to 17.9% from 23.1%

Financials – Balance Sheet and Cash Flow

Balance sheet

£'000	Year ended 30 June 2012	Year ended 30 June 2011
Intangible Assets	14,439	14,531
Plant and equipment	83	47
Non-current assets	14,522	14,578
Net working capital	1,401	1,461
Cash	2,305	1,179
Current tax	(169)	(320)
Deferred tax	(171)	(65)
Deferred income	(1,051)	(1,044)
Net assets	16,837	15,789

- Net working capital in line with prior year – positioned to support future growth
- Strong cash position at £2.3 million
- Net assets £1.0 million higher than 2011

Cash flow

£'000	Year ended 30 June 2012	Year ended 30 June 2011
Operating cash flows	2,485	3,555
Movement in working capital	60	(495)
Taxation and interest	(422)	(915)
Net cash flow from operating activities	2,123	2,145
Net capital expenditure	(270)	(148)
Disposal of business	-	2,705
Financing activities	(729)	(5,089)
Net cash generated/(used)	1,126	(385)

- Continued strong net cash flow from operating activities to fund working capital and NPD requirements
- Cash tax benefits from prior year research and development tax credits
- 12.5% increase in cash dividend
- Net cash generation of £1.1million resulting in high year end cash position

2012/13 Prospects

Current trading comfortably ahead of last year and in line with expectations

Veterinary Medicines

- New products launched in 2011 and 2012 still not at maturity
- Project Quattro complete and launched as Vitofyllin in September

Companion Animal Identification

- Microchip market very competitive but new business being won
- Database software development complete giving cost saving and revenue growth opportunities

NPD pipeline

- Stone 1 Marketing Authorisation (MA) granted 26th September
- Stone 2 In regulatory review with no known issues
- Poppy II moving towards completion
- Two projects moved to next development phase

Business Strategy

The successful implementation of strategies around the development and sale of generic veterinary medicines principally in the UK, has given the Group a platform from which it is now capable of making stepwise changes in the growth of the business.

In an importance evolution of the business the introduction of licensed veterinary medicines that have intellectual property (IP) protection will provide the medium-term motor for this growth.

The strategies we will follow during 2012-13 are;

- continue our new product development of differentiated generic medicines at the current pace
- apply senior management time and effort to increase the sales of our current products outside the UK through
 - better penetration in current markets
 - increased geographic cover particularly within the EU and North America
- selective strengthening of the UK Companion Animal Identification range of goods and services
- remove resources from and allow the decline of non-core product groups
- accelerate Project Sustain ► initially in enhanced generics ► and then in novel veterinary medicines
- reorganise senior business leadership and operational management to reflect our focus and concentration on the pharmaceutical side of our business

New Product Development Pipeline

Project	Sector	Expected launch*	Target Markets	Years to Maturity
Differentiated and undifferentiated generics				
Stone 1	Livestock	2013	Limited EU	5
Stone 2	Companion Animal	2013	Limited EU	3
Poppy II	Companion Animal	2013	Selected EU	2
Raleigh	Companion Animal	2014	EU and others	3
Amigo	Companion Animal	2014	Selected EU	3
Calm	Companion Animal	2014	Selected EU	3
Isle	Companion Animal	2015	EU and others	3
Beat	Companion Animal	2015	EU and others	3
Sustain Projects				
Archipelago	Companion Animal	2016	EU and others	2
Phoenix	Companion Animal	2016	Selected EU	3
Sally	Companion Animal	2017	EU and others	2
Cardinal	Companion Animal and Livestock	2018	EU and others	-

*All dates are calendar year

- At maturity UK sales are expected to be between £5 to £7 million

Business Overview

“A leading supplier of (generic) veterinary medicines and animal identification products to companion animal veterinary markets in the UK, (and selected markets in) the EU and selected other markets ”

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Appendix

Consolidated Income Statement

	Underlying results before exceptional and other items	Exceptional and other items(*)	Total	Underlying results before exceptional and other items	Exceptional and other items(*)	Total
	2012 £'000	2012 £'000	2012 £'000	2011 £'000	2011 £'000	2011 £'000
Revenue	10,856	-	10,856	11,825	-	11,825
Cost of sales	(4,994)	-	(4,994)	(5,435)	-	(5,435)
Gross profit	5,862	-	5,862	6,390	-	6,390
Distribution costs	(262)	-	(262)	(292)	-	(292)
Administrative expenses	(3,306)	(190)	(3,496)	(3,045)	(118)	(3,163)
Operating profit/(loss)	2,294	(190)	2,104	3,053	(118)	2,935
Finance costs	-	-	-	(51)	(1)	(52)
Finance income	2	-	2	2	-	2
Profit/(loss) before tax	2,296	(190)	2,106	3,004	(119)	2,885
Income tax (expense)/credit	(395)	18	(377)	(717)	52	(665)
Total comprehensive income/(loss) for the year from continuing operations	1,901	(172)	1,729	2,287	(67)	2,220
Total comprehensive income for the year from discontinued operations	-	-	-	105	-	105
Total comprehensive income/(loss) for the year	1,901	(172)	1,729	2,392	(67)	2,325
Total basic earnings per share	9.3p		8.4p	11.8p		11.5p
Total fully diluted earnings per share	9.2p		8.4p	11.4p		11.1p
Basic earnings per share from continuing operations	9.3p		8.4p	11.3p		11.0p
Fully diluted earnings per share from continuing operations	9.2p		8.4p	11.2p		10.8p

*In order to aid understanding of underlying business performance, the directors have presented underlying results before the effect of exceptional and other items

Consolidated Balance Sheet

	2012 £'000	2011 £'000
Non-current assets		
Goodwill	12,711	12,711
Other intangible assets	1,728	1,820
Property, plant and equipment	83	47
Investments in subsidiary companies	-	-
Deferred tax asset	-	-
	14,522	14,578
Current assets		
Inventories	1,420	1,346
Trade and other receivables	1,297	1,681
Cash and cash equivalents	2,305	1,179
	5,022	4,206
Total assets	19,544	18,784
Current liabilities		
Trade and other payables	(1,316)	(1,566)
Current tax liabilities	(169)	(320)
Deferred income	(207)	(182)
	(1,692)	(2,068)
Net current assets/(liabilities)	3,330	2,138
Non-current liabilities		
Deferred income	(844)	(862)
Deferred tax liabilities	(171)	(65)
	(1,015)	(927)
Total liabilities	(2,707)	(2,995)
Net assets	16,837	15,789
Capital and reserves		
Called up share capital	4,144	4,075
Share premium account	6,173	6,045
Retained earnings	6,520	5,669
Equity attributable to equity holders of the parent	16,837	15,789

Consolidated Cash Flow Statement

	2012	2011
	£'000	£'000
Comprehensive income/(loss) for the year before tax	2,106	2,936
Adjustments for:		
Depreciation of property, plant and equipment	19	88
Amortisation of intangible assets	307	317
Finance costs	-	55
Finance income	(2)	(2)
Share-based payment award	48	16
Release of deferred income	7	53
Profit on disposal of property, plant and equipment	-	(2)
Loss on sale of businesses	-	94
Operating cash flows before movements in working capital	2,485	3,555
Increase in inventories	(74)	(596)
Decrease in receivables	384	572
(Decrease)/increase in payables	(250)	(471)
Cash generated by operations	2,545	3,060
Income taxes (paid)/received	(422)	(805)
Interest paid	-	(110)
Net cash flow from operating activities	2,123	2,145
Investing activities:		
Payments to acquire intangible assets	(215)	(134)
Payments to acquire property, plant and equipment	(55)	(18)
Interest received	2	2
Dividends received	-	-
Receipts from sale of property, plant and equipment	-	4
Receipts from sale of businesses	-	2,705
Net cash (used in)/generated by investing activities	(268)	2,559
Financing:		
Receipts from issue of share capital	197	179
Equity dividends paid	(926)	(812)
Repayment of bank loans	-	(4,456)
Net cash used in financing activities	(729)	(5,089)
Net increase/(decrease) in cash and cash equivalents	1,126	(385)
Cash and cash equivalents at start of year	1,179	1,564
Cash and cash equivalents at end of year	2,305	1,179

What is a generic veterinary medicine?

To obtain a Marketing Authorisation a licensed generic has to be "essentially similar" to the originator product. Pharmaceutical performance in particular must be almost identical i.e. not substantially better or worse than the originator product.

Within Animalcare we classify generic veterinary medicines in three broad types;

- undifferentiated generics - these are generics whose pharmaceutical action is the same as the originator product and are almost identical in all aspects (packaging, composition, dosage size) to the originator product
- differentiated generics - these are generics whose pharmaceutical action is the same as the originator product but they have one or more aspect of packaging, flavouring, coating, tablet size etc., modified to improved its acceptance by vets, owners or pets
- enhanced generics - these are generics using well established veterinary medicines but which have been formulated in such a way that their pharmaceutical performance is better than the originator product.