Our Strategy

In 2019, we set a strategic ambition to deliver above market growth in three to five years on the way to becoming a leading player in the European animal health market. In spite of the extreme headwinds of COVID-19, we made tangible progress against our short-term and long-term goals during 2020.

Our strategic pillars

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Strong finances Financial sustainability through revenue growth, cash conversion, EPS growth and EBITDA margin growth				
Revenue growth Link to Risks A G	• 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 selective acquisition	• New product sales of £2.2m (2019: £1.8m) • Fast growing contribution from Italy • c3.2% like-for-like growth from top 40 products in base portfolio	• Continue to scale up in fast-growing countries • UK and Belgium return to growth • Successful launch of Daxocox and STEM biofilm range in H2	Revenue Growth Underlying EBITDA margin Number of partners
Cash conversion and net debt Link to Risks C E F	• Optimise inventory • Tax efficiency • Net debt reduction	• Strong underlying cash conversion of 102.9% • £13.6m net debt; reduced by 24% over course of 2020 • Net debt to underlying EBITDA leverage ratio further reduced to 1.1 times	• Maintain strong cash conversion focus to provide investment for growth strategy • Maintain EBITDA leverage in the range of 1 to 2 times	Basic Underlying Earnings per share (“EPS”) Number of products in portfolio Number of countries selling in/to
Underlying EBITDA margin and EPS growth Link to Risks C E F	• Focus on higher margin products • Operating efficiency and leverage	• Low margin tail products reduced to around 200 (c330 at time of merger) • Underlying EBITDA margin 17.2% reflecting decisive management of SG&A costs and increased investment in people, business development and pipeline • Underlying EPS of 10.6 pence	• Investment in new product launches and other growth opportunities while maintaining focus on operational efficiency	Basic Underlying Earnings per share (“EPS”) Number of products in portfolio Number of countries selling in/to

Risks

- 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

STRATEGIC REPORT

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Key leadership Organisation for success; leadership strength and core capabilities				
Attract, retain and develop talented people Link to Risks C D	• Build leadership capabilities • Align reward to performance • One-team culture • Drive effective communication and collaboration • Improve diversity	• 11% improvement in annual engagement survey score • Strengthened business development and sales and marketing capabilities • Regular pulse surveys during pandemic, supporting well-being • Performance management process rolled out	• Implement actions from employee engagement survey • Improve two-way employee communication • Implement Group-wide talent management programme • Live our new brand	Underlying cash conversion Underlying EBITDA margin Number of countries selling in/to
Organisation for growth Link to Risks B G I	• Reorganisation to drive growth agenda with clear leadership accountabilities	• Launched new structure to support delivery of growth strategy (February 2021) • Creation of streamlined Senior Executive Team (SET)	• Complete recruitment of SET roles • Embed new structure and ways of working	Employee engagement Number of partners Number of countries selling in/to
Growth portfolio Focused portfolio in key therapy areas in growing market segments				
Focus on existing core brands that generate sustainable growth and margins Link to Risks C D	Improve quality of portfolio; focus on smaller number of bigger selling, higher margin brands	• 100 smaller tail products removed since merger: now around 200 brands • £2.2m of new product sales with launches of Procanicare, Doxycare and Metrocare helping to reinforce base portfolio • Strengthened sales and marketing excellence	• Drive growth in Companion Animals and maintain strong presence in Production Animals • Continue to reduce tail with long-term portfolio target of c150 brands while maintaining or growing revenues • Continued investment in product launch capability	Underlying cash conversion Underlying EBITDA margin Number of countries selling in/to

Our Strategy CONTINUED

Risks

- 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

Key goals	Key initiatives	Progress	2021 priorities	Link to KPIs
Business Development Work with partners to build a pipeline of products that meet our criteria for growth				
In-license or acquire products and develop network partnerships Link to Risks B G I	• 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	• STEM joint venture gives access to companion animal biofilm-targeting products today and influence over development of products in the future	• Continue to pursue value-creating partnerships and in-licensing opportunities • Recruit and onboard Strategic Product and Business Development Director to continue capability build • Complete carve-out of UK Identibase business to increase management focus and facilitate growth opportunities	Employee engagement Number of partners Number of countries selling in/to
Innovative Pipeline Building a pipeline of novel and differentiated products				
Launch new products and develop differentiated and innovative pipeline of products for the future Link to Risks A E	• Strengthen internal pipeline of differentiated products through partnerships, in-licensing and acquisitions • Prioritise and accelerate in-house R&D projects	• CVMP recommends approval for Daxocox in EU (February 2021) • Initiation of life cycle management (LCM) programmes for Daxocox to support new indications and geographical expansion • Completed development of branded generics pipeline to reinforce base portfolio	• Increase investment in pipeline versus 2020 • Execute clinical and regulatory programme for Daxocox LCM • Drive launch of Daxocox and STEM products • Identify potential development opportunities from STEM joint venture	Revenue Growth Basic Underlying Earnings per share ("EPS")

CASE STUDY

STEM Animal Health Inc - delivering on our strategy

Animalcare Group and Kane Biotech Inc. join forces through creative deal structure to commercialise and develop biofilm-targeting treatments for animal health.

In September 2020, Animalcare signed a partnership deal with Kane Biotech Inc. to exploit the animal health potential of the Canadian firm's extensive biofilm-targeting expertise.

Biofilms are formed when bacteria or yeast adhere to surfaces and excrete a resin-like substance that acts as an anchor and provides protection from external factors such as host immune system defences and antifungal or antibacterial drugs. Biofilms can make bacteria up to 1,000 times more resistant to antibiotics, disinfectants and the host immune system.

This is a significant business development deal for Animalcare which provides the Group with access to attractive anti-biofilm products today and influence over innovative products of the future.

Under the terms of the agreement, Kane Biotech has created a new subsidiary called STEM Animal Health Inc. For a phased investment of CA$3m, Animalcare has acquired a one-third plus one share equity interest in the STEM joint venture which has a global license over Kane Biotech's existing range of animal health oral care products. In collaboration with Animalcare, STEM will also focus on the research and development of novel animal treatments based on biofilm-targeting technology.

Additionally, in exchange for receiving the right to commercialise Kane's coactiv+TM and DispersinB® products in global veterinary markets outside the Americas, Animalcare will pay licensing fees up to a maximum of CA$2m as well as ongoing royalties. Animalcare plans to launch the STEM products in its markets in the second half of 2021.

Animalcare believes the creative structure of the deal befits Kane Biotech's innovative biofilm technology and underlines the commitment of both parties to a long-term sustainable commercial relationship.

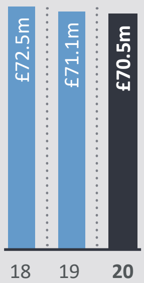
Link to strategic priority:

> **"This is a significant business development deal for Animalcare which provides the Group with access to attractive anti-biofilm products today and influence over innovative products of the future."**

Our
Key Performance Indicators

Financial KPIs

Revenue Growth



£70.5m

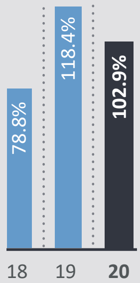
Link to Strategy

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 £70.5m (2019: £71.1m) a decline of 0.9% (2.0% decline at CER). Sales from new products launched in the year was £2.2m (2019: £1.8m)

Underlying cash conversion



102.9%

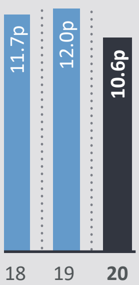
Link to Strategy

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 growth strategy

Commentary on performance
Underlying cash conversion has averaged over 100% since 2019, demonstrating our ability to generate strong and sustained levels of cash

Basic Underlying Earnings per share ("EPS")



10.6p

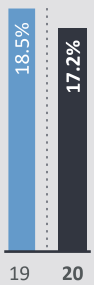
Link to Strategy

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 decreased by 11.7%, reflecting the lower underlying profit before tax and a 1.4% reduction in the effective tax rate

Underlying EBITDA margin



17.2%

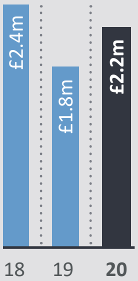
Link to Strategy

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 declined to 17.2%, reflecting decisive management of SG&A costs in Q2 to align with sales and increased investment in people and drivers of future growth

New product revenue



£2.2m

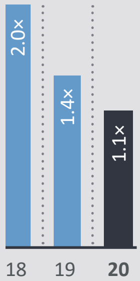
Link to Strategy

Definition
Revenue from new products launched in the last three financial years

Why we measure this
New product revenues are a key driver of growth in Companion Animals and maintaining our strong presence in Production Animals

Commentary on performance
Growth from newly introduced products contributed £2.2m of sales principally driven by Metrocare, Doxycare and Procanicare

Net debt to underlying EBITDA leverage



1.1x

Link to Strategy

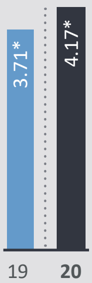
Definition
Leverage is net debt (total debt less cash balances) divided by underlying EBITDA

Why we measure this
We seek to maintain a strong balance sheet with EBITDA leverage in the range of 1 to 2 times to allow capacity for investment in future growth

Commentary on performance
Net debt to underlying EBITDA leverage ratio further reduced in 2020 to 1.1 times

Non-financial KPIs

Employee engagement



4.17*

Link to Strategy

Definition
A measure of employee engagement based on the well-established Gallup Q12 index

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
11% increase in engagement levels despite the challenges of COVID-19. In particular, positive results were seen in terms of employee recognition, involvement in decisions affecting employees and the process of regular feedback across the Group.

*Gallup Q12 engagement score

Strategic priorities

- **Strong finances**
- **Key leadership**
- **Growth portfolio**
- **Business development**
- **Innovative pipeline**

Our 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.

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. Our ongoing objective is to create a high-performing business driven by a skilled, unified and committed team.

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 are our core customers are key and our sales force has extensive experience and knowledge of their markets and products to support the needs of these customers.

Partnerships
The Group has developed a series of partnerships that help support the success and smooth running of the business. These range from joint ventures that strengthen our pipeline and commercialisation agreements that increase the reach of innovative products through to long-standing relationships with contract research and manufacturing organisations.

Balanced portfolio
Animalcare operates a portfolio of around 200 brands with particular strengths in our core therapy areas of pain management, allergy and non-antibiotic anti-infectives. We continue to increase the quality of our portfolio through the development of novel differentiated products and a focus on a smaller number of bigger, higher margin brands.

Financial platform
Critical to our future growth is the further development of our product portfolio. Our solid financial platform, with improved cash generation and reduced net debt, 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, acquired from other companies or in-licensed from partners.
- Outside our direct markets we seek to commercialise our own products through international partnerships.
- We manufacture our products through a network of specialist contract manufacturing organisations.
- We manage an extensive international supply chain, including specialist veterinary wholesalers.
- Through our close relationship with stakeholders and 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 pipeline of new products and supports the continuing development of our sales and marketing capabilities.

Value created for stakeholders

Employees
Employees benefit from the ability to improve their skills and work in a challenging and expanding international organisation.

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

Keepers of animals
Our veterinary products and services help maintain or improve the health and well-being of animals across our markets. That brings huge benefits to owners and wider society.

Suppliers
The Group does not own manufacturing assets so 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.

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

Our people represent a competitive advantage

Agility: Our agility, expertise and local knowledge means we know our markets and are able to adapt to evolving needs.

Trust: We have built trusted relationships with individual veterinary practices and larger veterinary groups.

Innovation: We are increasingly focused on differentiated therapies that can meet the needs of our customers while delivering sustainable above-sector growth.

Partner of choice: We are positioned as a preferred international partner for companies that want to develop new treatments or bring their innovative products into the European marketplace

Chief Executive Officer's Review

Jennifer Winter
Chief Executive Officer

> **"The Group's performance in 2020 speaks volumes for the resilience of our business and the agility of our organisation while our strategic progress demonstrates our capacity and commitment to target sustainable growth."**

Despite the disruption experienced by our markets due to the pandemic I'm delighted to report that we made significant advances against all five of our strategic priorities over the course of the year.

The Group's performance in 2020 speaks volumes for the resilience of our business and the agility of our organisation while our strategic progress demonstrates our capacity and commitment to target sustainable growth.

Strong finances

Our growth strategy is enabled by a strong financial platform. With that in mind we continue to pursue opportunities that drive revenues and improve margins while maintaining our focus on cash conversion and the management of net debt.

Total revenues for 2020 were £70.5m (2019: £71.1m), a decline of 0.9% year-on-year (2.0% decline at constant exchange rates) due to the impact of COVID-19 with the negative impact weighted towards the first half. For the six months to the end of December 2020, sales were up 3.0% to £36.0m (2019: £35.0m). Reversing a pattern seen in recent years, the 4.6% growth in the Production Animals segment was higher than in Companion Animals. This reflects the restrictions placed on public-facing veterinary practices during the pandemic and underlines the continued importance of Production Animals to our balanced and diverse business. We expect revenues to assume a more recognisable shape during 2021 as controls on Companion Animal practices are relaxed and eventually return to normal.

At £12.1m, underlying EBITDA reflected the decisive actions to reduce SG&A and capex spend in the first half followed by increased investment in growth drivers for the six months to the end of December. Profit before tax on a statutory basis was £0.2m. Cash conversion improved in the second half of the year and the average rate for 2019 and 2020 combined was in excess of 100% of underlying EBITDA, demonstrating our ability to generate strong and sustained levels of cash.

We further reduced net debt by £4.2m to £13.6m at the end of 2020, largely as a result of the second half improvement in cash conversion. This equates to a year-on-year reduction in net debt of 24%. Indeed, the net debt figure stood at £12.9m by 28 February 2021. The Group's improving financial position provides capacity for further investment in business development and pipeline opportunities that support our long-term growth strategy.

Key leadership

During 2020 we continued to build a highly skilled and high performing team driven by a shared sense of purpose and values.

Our business development capability – a key enabler of our growth strategy – has been further strengthened. And as we prepare for 2021 launches of Daxocox and products from our STEM joint venture, we are investing in commercial excellence skills across the Group.

Two notable milestones in the development of our organisation came as post-period events – the restructuring of our senior leadership and the read-out of the 2020 employee engagement survey.

In January 2021, we unveiled a new organisation structure designed to support delivery of our growth strategy. The move to a smaller and highly experienced Senior Executive Team (SET) will support clear, informed and rapid decision-making. The team will focus on maintaining our existing business; achieving new product launch excellence; and driving future growth.

We've created three new roles: Directors for North Europe and South Europe to drive operations in the countries and a Strategic Product and Business Development Director to lead future growth strategy, including all business development activities and the clinical and technical development of new products.

Just as feedback from our customers helps us refine our approach to great customer service, our employee engagement survey shows us how we're doing from the perspective of our employees.

We use the Gallup Q12-survey results to understand what our teams value most in their workplace, to identify opportunities for improvement and to track our progress over time.

In 2019 we conducted our first company-wide survey. Our 2020 Gallup survey, which completed in January 2021, saw employee participation increase to 89%. Despite the challenge of COVID-19, our overall 2020 survey results were very positive with an 11% increase in engagement levels compared to the previous year. I'm proud of that improvement which puts us in the upper percentile rank of Gallup's participant database.

Growth portfolio

Maintaining the health of our existing business is a core objective of our strategy. A strong base creates sustainable value for shareholders and generates the cash flows to invest in differentiated products which will drive future growth.

From a market segment perspective, we continue to target Companion Animals and Equine where we see the biggest growth opportunities over the long term. For Production Animals, we aim to maintain our important presence in our chosen markets. These priorities are mirrored in our research and development targets.

We also continue to make significant headway in our efforts to rebalance, refocus and defragment our portfolio of products. Reducing the number of smaller "tail" or lower value products allows us to concentrate our commercial resources on assets with growth prospects and higher margins. In 2017, the portfolio consisted of around 330 brands which subsequently has been reduced by 100 products, bringing the total to approximately 200 brands. Increased management focus on a smaller number of bigger products was evident in 3.2% growth rate from the top 40 brands in 2020.

Tracking progress is crucial as we continue to improve the quality and shape of our portfolio. With that objective in mind, we are committed to grow total revenues and improve gross margins while reducing the number of brands over the longer term to approximately 150.

Products can exit our portfolio for a variety of reasons. That can be as a result of our rationalisation programme, due to the natural expiry of a contract or because the product is no longer a strategic fit. In this latter category is Adequan which Animalcare had planned to launch in Europe under an agreement with American Regent Animal Health. In light of regulatory delays, this agreement was mutually terminated in January 2021. The decision is not expected to have a significant impact on future revenues.

Business development

Critical to our growth ambitions is our ability to discover and pursue attractive opportunities that originate outside the Company. It is no surprise that our business development team has been particularly active in 2020, in spite of the pandemic. Reinforcing our capability in this space, which we expect to further develop during 2021, has enabled us to identify attractive opportunities more efficiently and determine their potential more rapidly. Currently, we are involved in a number of discussions that have the potential to offer value-creating partnerships or in-licensing opportunities. We also believe we have the necessary financial strength to realise the right deals and are open to use the full range of appropriate funding options to deliver growth opportunities.

In September 2020 we signed a CA$5 million agreement with Canada-based firm, Kane Biotech Inc. to create a joint venture called STEM Animal Health Inc. that is responsible for commercialising and developing products based on biofilm-targeting anti-infective technology. Under the agreement, we will market and sell Kane Biotech's existing Companion Animal range of oral care products in European and Asian markets as well as collaborate on the development of new biofilm treatments for animals. We plan to launch STEM products in the second half of 2021 following completion of the manufacturing transfer process to a European base.

This is a sustainable agreement with a creative deal structure that gives us access to attractive products today and influence over the development pipeline of biofilm products of the future.

Chief Executive Officer's Review CONTINUED

The new organisation structure is designed to increase focus on drivers of growth

	Chief Executive Officer Jenny Winter	
Group Commercial Director Martin Gore	**Chief Financial Officer** Chris Brewster	**North Europe Director** Bernhard Putz
Group HR Director Carla De Schepper	**Strategic Product and Business Development Director** Recruitment under way	**South Europe Director** Maria Lasagabaster

Innovative pipeline

Our internal pipeline showed important signs of bearing fruit with our novel COX 2 inhibitor making steady progress through its regulatory review over the period. Daxocox (enflicoxib) was submitted for EU and UK approval in January 2020 for the treatment of pain in dogs and received a positive opinion from the Committee for Medicinal Products for Veterinary Use (CVMP) in February 2021. Following the CVMP's recommendation, a decision on marketing authorisation is expected early in the second quarter.

We see this as a hugely important step in the journey to market for Daxocox, a product that has the potential to play a leading role in the Animalcare growth story. Subject to final approval, we plan to launch Daxocox across European markets in the second half of 2021. It's a source of pride that Daxocox is the sole property of the Group and the development programme is led and managed by the Animalcare team with support from an external CRO.

While we continue to pursue opportunities to strengthen our internal pipeline, we have initiated a number of lifecycle management projects to support our commercial ambitions for Daxocox and are adding biofilm-targeting programmes from our STEM joint venture. Creating a pipeline of differentiated products – whether generated in-house or through partnerships, in-licensing or acquisitions – is one of the key elements of our growth strategy.

New look, same commitment

By now I hope you have noticed our rebranding of the Group companies. A strong brand will support our growth ambitions. And we believe this consistent "family feel" better reflects the qualities of Animalcare Group: our scale and reach; our science-driven approach; our blend of local knowledge and global co-ordination; our agility; and our approachability. It's a new look, but with the same all-in commitment to our customers and to the cause of better animal health.

Summary and outlook

We entered 2020 in a solid financial position. And despite the uncertainty and disruption wreaked by the pandemic we emerged from this testing year with an even stronger platform enabling us to continue investing in our growth strategy.

Looking ahead to 2021, it's prudent to assume that the coronavirus will have other challenges for us. However, the efficacy of the new vaccines combined with the proven adaptability of the veterinary sector and the agility of our own organisation makes us confident that normality will return to our markets during 2021.

We are encouraged by demand levels we are seeing in the first quarter of the year and barring further disruption from COVID-19 we expect revenues to grow over the course of 2021. We also plan to invest in new product launches of Daxocox and the STEM oral health range while continuing to seek opportunities to strengthen our pipeline.

The resilience and commitment of our people throughout this period has been remarkable. We've supported each other and have remained focused on our priorities. That has been evident in our business performance and in our strategic achievements in 2020. I'd like to thank all our employees for their extraordinary efforts in extraordinary times. That experience will serve us well as we continue to implement our growth strategy.

Jennifer Winter
Chief Executive Officer

Employee engagement

Higher levels of engagement are associated with increased productivity, longer retention rates and a better customer experience – all factors that contribute to our long-term growth and success. The Group started to use the Gallup Q12-survey to measure engagement in 2019. This tool helps identify opportunities for improvement and track progress over time.

Our 2020 Gallup survey, which completed in January 2021, saw employee participation increase to 89% and overall engagement levels jump 11% compared to the previous year. This puts Animalcare in the upper percentile rank of the Gallup's participants database.

The survey results are shared internally in a way that ensures anonymity. The different teams then develop a customised action plan for their specific department to address key focus areas identified by the survey.

Moving ahead

In 2021, the Group will continue to expand employee engagement efforts by:

- Creating clear objectives and additional opportunities for our teams to provide constructive feedback
- Providing a Global Leadership Mindset and personal (including leadership development) and team development training
- Implementing a talent management programme across the Group
- Conducting employee focus groups to further identify what a "Great place to work" means to our teams and how we can achieve that goal.

Read more about OUR STRATEGY on page 10

Read more about OUR BUSINESS MODEL on page 16

CASE STUDY

Daxocox achieves major milestone with EU recommendation

Differentiated treatment for osteoarthritis-related pain and inflammation emerges from internal R&D pipeline with potential to play a leading role in the Animalcare growth story.

On 18 February 2021, Animalcare received a positive opinion from the Committee for Medicinal Products for Veterinary Use (CVMP) recommending a marketing authorisation for Daxocox (enflicoxib) in Europe.

This recommendation followed a detailed assessment of our submission to the European regulators, filed at the beginning of 2020. It represents a major achievement by the Group's in-house development team and is the culmination of many years of hard work and commitment to better animal health.

Daxocox is a novel COX 2 inhibitor for the treatment of pain and inflammation associated with osteoarthritis (or degenerative joint disease) in dogs. Following the CVMP's positive opinion, a marketing authorisation decision from the European Commission is anticipated early in the second quarter of 2021. If approved, the authorisation will be valid in all member states of the European Union as well as Norway, Liechtenstein and Iceland.

The equivalent regulatory review of Daxocox for the UK is running largely in parallel with the European Union's schedule and we expect a decision on UK marketing authorisation within the same timeframe.

This is a hugely important step in the journey to market for Daxocox, a product that has the potential to play a leading role in the Animalcare growth story. Subject to final approval, the Group plans to launch Daxocox across European markets in the second half of 2021 and expects the product to contribute to revenues before the end of the year.

The development programme for Daxocox is led and managed by the Animalcare team, with support from contract research organisations, under the pipeline project name E-6087. Daxocox is the sole property of Animalcare Group plc.

Animalcare has initiated a number of lifecycle management projects to support commercial ambitions for Daxocox and expects to add biofilm-targeting programmes from STEM Animal Health Inc., our joint venture with Canadian company, Kane Biotech. Strengthening our pipeline of differentiated products – whether generated in-house or through partnerships, in-licensing or acquisitions – is a key element of our growth strategy.

Link to strategic priority:

Chief Financial Officer's Review

Chris Brewster
Chief Financial Officer

"We are pleased to report a resilient trading performance through the COVID-19 pandemic and our improving financial position provides an increasingly strong platform for investment in our strategy and growth."

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 – continuing operations

	2020 £'000	2019 £'000	% Change at AER %
Revenue	**70,494**	71,124	(0.9%)
Gross Profit	**36,559**	36,972	(1.1%)
Gross Margin %	**51.9%**	52.0%	(0.1%)
Underlying Operating Profit	**8,561**	9,462	(9.5%)
Underlying EBITDA	**12,091**	13,137	(8.0%)
Underlying EBITDA margin %	**17.2%**	18.5%	(1.3%)
Underlying Basic EPS (p)	**10.6p**	12.0p	(11.7%)

Despite significant disruption to the animal health market caused by COVID-19, the Group's trading performance was resilient with revenues at £70.5m (2019: £71.1m), a decline of 0.9% year-on-year (2.0% decline at CER). Revenue by product category is shown in the table below:

	2020 £'000	2019 £'000	% Change at AER %
Companion Animals	**44,808**	46,464	(3.6%)
Production Animals	**19,720**	18,844	4.6%
Equine and other	**5,966**	5,816	2.6%
Total	**70,494**	71,124	(0.9%)

Companion Animals revenue decreased by 3.6% to £44.8m, principally reflecting pandemic-related disruption to veterinary activity across Europe, particularly during the first half. As we entered Q2, veterinary practices remained open for business in the majority of our markets though virus containment measures restricted opening hours and consultations. The impact of COVID-19 was felt most strongly in the UK, which saw large-scale closures of veterinary practices and all but urgent and emergency cases being seen.

Evidence of a return to more normal customer activity in the majority of our markets was observed during the second half, with revenues up c3.0% versus the prior period.

The greater emphasis on emergency-only treatments reduced opportunities for interaction with many veterinary practices. This had the effect of slowing or deferring new products launches. Notwithstanding these dynamics, growth from newly introduced products contributed £1.9m of sales (2019: £1.5m) principally driven by Metrocare, Doxycare and Procanicare.

In contrast, Production Animals revenue improved by 4.6% on the prior year to £19.7m, largely driven by growth in Italy and Spain, with the latter benefiting from the restructuring initiated at the end of 2019. Large animal practices in general were less impacted by COVID-19 due to the more industrial nature of this market.

Equine and other sales increased by 2.6% to £6.0m. This was primarily due to stock build within our international partner channel in advance of a manufacturing transfer, which will unwind during 2021.

Our existing portfolio continues to be shaped by focus on our core higher margin brands, initiatives to reduce fragmentation and expiry or cessation of distribution deals. Our top 40 products grew by 3.2% vs 2019, offset by termination of distribution deals within our Companion Animal portfolio effected during 2018.

Underlying EBITDA decreased by 8.0% to £12.1m (2019: £13.1m) with EBITDA margin declining to 17.2% (2019: 18.5%). During the first half we took decisive action to realign SG&A spend with revenue. Together with the benefit of cost efficiencies generated during 2019, this resulted in a reduction in SG&A costs as a percentage of sales. As we previously reported, and due to the confidence in the resilience of our business, we subsequently increased investment in our people and drivers of future growth, including those related to business development, sales and marketing excellence and our new novel product Daxocox. As a result, SG&A expenses as a percentage of revenue increased to 34.8% (2019: 33.5%).

The underlying effective tax rate of 20.1% (2019: 21.5%) has reduced versus prior year, principally driven by recognition and utilisation of tax losses. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS decreased by 11.7% to 10.6 pence (2019: 12.0 pence).

Chief Financial Officer's Review continues overleaf.

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 £0.2m (2019: £1.3m loss), with reported earnings per share at 0.4 pence (2019: 2.2 pence loss per share).

	2020 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	2020 Reported results £'000	2019 Reported results £'000
Revenue	**70,494**	–	–	**70,494**	71,124
Gross Profit	**36,559**	–	–	**36,559**	36,972
Selling, general and administrative expenses	**(25,627)**	(4,800)	–	**(30,427)**	(29,356)
Research and development expenses	**(2,386)**	(1,100)	–	**(3,486)**	(4,093)
Net other operating income/(expense)	**15**	–	(1,858)	**(1,843)**	(4,814)
Operating profit/(loss)	**8,561**	(5,900)	(1,858)	**803**	(1,291)
Net finance expenses	**(511)**	–	–	**(511)**	(317)
Share in net loss of joint ventures accounted for using the equity method	**(93)**	–	–	**(93)**	–
Profit/(loss) before tax	**7,957**	(5,900)	(1,858)	**199**	(1,608)
Taxation	**(1,604)**	1,197	442	**35**	270
Profit/(loss) for the year	**6,353**	(4,703)	(1,416)	**235**	(1,338)
Basic EPS (p)	**10.6p**			**0.4p**	(2.2p)

Non-underlying items totalling £7.8m (2019: £10.8m) 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 £5.9m (2019: £7.6m). This charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV. The decrease versus 2019 largely reflects the prior year 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. Acquisition and integration costs of £0.7m (2019: £0.6m). This includes costs associated with the STEM Animal Health transaction and integration costs in connection with the acquisition of Ecuphar NV, including manufacturing transfer costs as we continue to strengthen and simplify our supply chain.
3. Restructuring costs of £0.4m (2019: £1.8m) largely relating to further reorganisation of the Production Animals business unit in Spain that was initiated in late 2019. The prior year charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing the headcount reduction.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2020.

The Board is proposing a final dividend of 2.0 pence per share (2019: Nil pence per share) reflecting the resilient trading performance, strong financial position and our confident outlook. Subject to shareholder approval at the Annual General Meeting to be held on 9 June 2021, the final dividend will be paid on 2 July 2021 to shareholders whose names are on the Register of Members at close of business on 4 June 2021. The ordinary shares will become ex-dividend on 3 June 2021.

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 2020 in a strong financial position following the significant progress made during 2019 in improving our cash conversion and reducing our net debt – both important in providing capacity for further investment in business development and pipeline opportunities that support our long-term growth strategy.

As projected, following a significant improvement in the second half of the year as our underlying stock profile returned to nearer historic levels, we are pleased to report that the Group has delivered another strong underlying cash conversion performance of 102.9% (2019: 118.4%) as set out in the table below:

	2020 £'000	2019 £'000
Underlying EBITDA	**12,091**	13,137
Net cash flow from operations	**11,117**	13,071
Non-underlying items	**1,324**	2,485
Underlying net cash flow from operations	**12,446**	15,556
Cash conversion %	**102.9%**	118.4%

Net cash flow generated by our operations decreased to £11.1m (2019: £13.1m). Working capital was broadly flat year-on-year with the £1.6m increase in our inventories offset by movements in other trade working capital. In line with expectations, the increase in inventories was principally due to strategic stock build in respect of manufacturing transfers across three key brands as part of their lifecycle management, certain of which will be held through to the second half of 2022.

Net debt reduced by £4.2m over the full year and stood at £13.6m on 31 December 2020. This improvement was largely driven by the continued strong cash conversion noted above.

	£'000
Net debt at 1 January 2020	**(17,812)**
Net cash generated from operations	**11,117**
Net capital expenditure	**(2,313)**
Investments in joint venture	**(593)**
Net finance expenses	**(1,650)**
Dividends paid	**(1,201)**
Foreign exchange on cash and borrowings	**(1,290)**
Movement in IFRS16 lease liabilities	**124**
Net debt at 31 December 2020	**(13,618)**

Net capital expenditure of £2.3m (2019: £2.4m) largely comprises investment in our product development pipeline of £1.7m. The most significant component of this figure relates to the completion of the initial clinical programme for Daxocox (enflicoxib). Following the CVMP's positive opinion in February 2021, and subject to receipt of marketing authorisation expected in Q2, Daxocox will launch early in the second half. The balance of expenditure largely relates to continuing investment in our IT infrastructure to deliver our objective of common platforms across the Group.

The net debt to underlying EBITDA leverage ratio was 1.1 times (2019: 1.4 times) versus the bank covenant of 3.5 times. At 31 December 2020, total facilities were £46.3m, of which £16.3m, net of cash balances, was utilised, leaving headroom of £30.3m.

Chief Financial Officer's Review CONTINUED

Borrowing facilities

At 31 December 2020, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities were due to expire on 31 March 2022.

As at 31 December 2020, all covenant requirements were met with significant headroom across all three measures.

During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.

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

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

Acquisitions

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired a one-third stake in STEM for a cash consideration of CA$3m, payable over 48 months, of which CA$1m (£0.6m) was paid during the financial year. The Group has an option, for a period of six years, to acquire an additional one-sixth stake in STEM for CA$4m.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the equity investment in STEM and the licensing fee are expected to be paid from existing cash resources. We expect the agreement to be earnings enhancing in 2022.

Going concern

The Group continued to build a solid financial platform in 2020 and, despite the uncertainty and challenges caused by COVID-19, entered 2021 in a further improved financial position. As at 28 February 2021 net debt was £12.9m (31 December 2020: £13.6m). Headroom on the banking facilities, including cash on balance sheet, was £29.3m (31 December 2020: £30.3m).

In the early part of 2021 demand has been encouraging as both Animalcare and the veterinary market continue to demonstrate resilience during the pandemic. While our trading performance remains robust, the Directors have assessed the principal risks and considered the impact of a "severe but plausible" downside scenario for COVID-19 for the next 12 months as part of the Group's adoption of the going concern basis. The major variables are the depth and the duration of COVID-19 and the Group has run a series of future trading scenarios to June 2022 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. These downside scenarios principally mirror the challenging conditions observed during Q2 2020, over a range of timescales, where the impact of the pandemic was most significant. As demonstrated in H1 2020, our scenario planning also reflects our agility in responding to a downturn via reducing or deferring costs to align with revenue and carefully managing our cash flows.

The outputs from these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations throughout the period to June 2022. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Summary and outlook

We continue to deliver against our strategic objective of strengthening our financial base and are pleased to report another strong cash performance and further reduction in both net debt and net debt to underlying EBITDA leverage versus 2019.

Market demand in the first quarter is showing positive signs with a marked increase in revenues compared to the same period in 2020. Looking further ahead, and subject to the receipt of marketing authorisation in the EU and the UK, we continue to prepare for the launch of Daxocox during the second half. Together with the STEM oral health range, we expect these new products to support revenue growth over the full financial year and more significantly from 2022.

We will also continue to optimise and refine our existing portfolio. This will reduce fragmentation and increase commercial focus to drive growth within our higher margin core product range. In connection with this, the Group's Belgium subsidiary discontinued the local commercialisation of several antibiotics and other lower margin products under a legacy distribution contract. There is not expected to be an impact on market expectations for 2021 and beyond where the focus will, consistent with the Group's strategy, continue to be on higher margin products.

Our strong balance sheet provides the capacity to assess investment opportunities that support our long-term growth strategy. We expect to increase investment versus prior year to build and strengthen our pipeline.

Whatever further challenges 2021 presents, we are confident that the Group's financial platform and its focus on a clear growth strategy mean Animalcare will continue to be well placed to take advantage of opportunities in a market with attractive fundamentals.

Chris Brewster
Chief Financial Officer and
Company Secretary

30 March 2021

Our Principal Risks

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

As part of our commitment to strong governance and risk management, during 2020 the Board, through the Audit and Risk Committee (A&RC), requested a review of our governance structure with a focus on risk reporting. As a result, we have identified and incorporated a further strengthening of our Risk Management Framework (RMF). In particular we have:

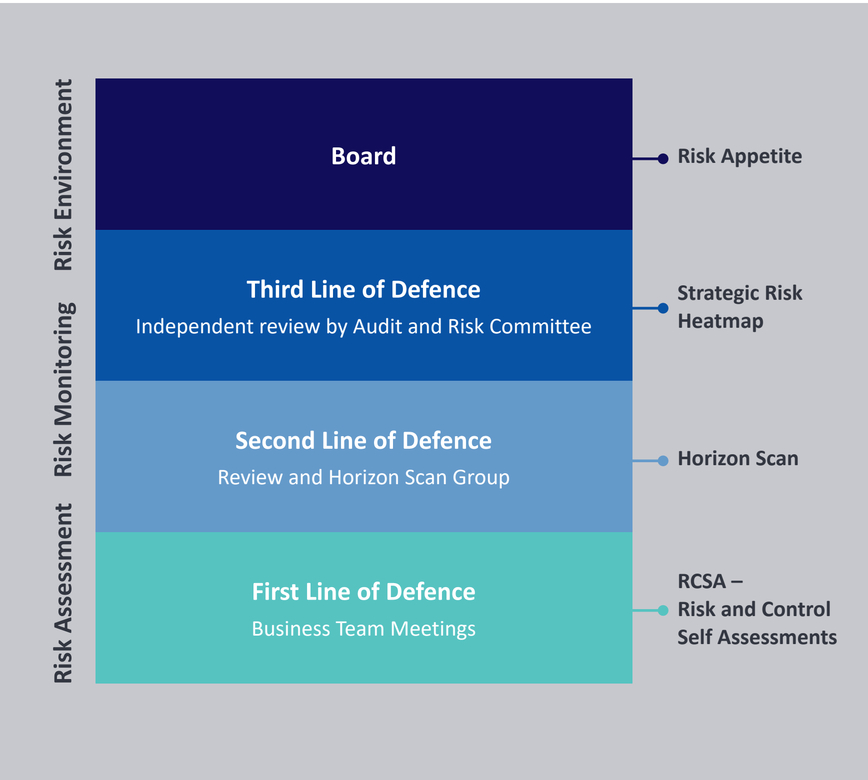
- strengthened the demarcation of responsibilities across the three lines of defence model
- reviewed and updated our risk management inventory, metrics and thresholds; and
- during 2021 we will introduce our revised risk reporting mechanisms

Our RMF is built around the Three Lines of Defence model and builds upon the core approach which is to Assess, Monitor, Manage, Respond and Communicate.

To be effective, risk management relies on the engagement of all parts of the business. This approach is an integral part of the framework and culture. Country Managers and Group function heads are expected to own and manage their own risk and control self-assessments (RCSA). This process includes assessing each risk for its impact and likelihood scored both before and after applying controls. A standardised risk-scoring methodology and template is used to ensure a consistent approach is adopted across the Group. This represents the First Line of Defence.

Local Finance Managers, with support from Group functions such as legal, IT, finance, supply chain and quality control, review the RCSAs and generate a Horizon Scan that provides an overview of risks across the organisation. This ensures independent oversight and consistency of assessment. This represents Second Line of Defence.

The Horizon Scan is reviewed by the executive team. This is followed by the assessment, ratification and mapping of the significant risks to the five core components of our strategy. This is represented on the Strategic Risk Heatmap.



In accordance with our governance practices, oversight of risk management is undertaken by the A&RC which supports the Board by monitoring the Group's RMF and internal control systems. The A&RC provides reports to the Board three times per annum. The A&RC is in receipt of both the Horizon Scan and Strategic Risk Heatmap and provides the Third Line of Defence and assurance to the Group Board.

We believe the changes to our Risk Management Framework will strengthen our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our shareholders, clients and staff.

Risk assessment and reporting

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, including, for example, the economic disruption caused by the COVID-19 pandemic and the potential for post-BREXIT disruption in some of our major markets through changes to our supply chain and regulations. We continue to carefully monitor strategic risks and review our risk assessments regularly at Group level to ensure that our most senior management are heavily involved in the identification and mitigation of those risks.

The operational impact of COVID-19 on the business during the financial year and the actions we have taken in response are described in various parts of the Strategic and Governance Reports. While the virus has had a significant impact on how we conduct our day-to-day activities, we have continued to operate successfully throughout the pandemic and trading has remained resilient. Economic and market uncertainty remains due to COVID-19 and we will continue to monitor and respond to further changes where required.

Our strategic plans for the business are based on organic and inorganic growth as we continue to seek expansion in new markets and new products. 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.

Our Principal Risks CONTINUED

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Market risk In certain territories the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in lower margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support to better serve our changing customer base, both on a national and, in future, a European basis	M	
Competitor 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 20 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.		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.	We are increasing focus on lifecycle 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.	M	
Portfolio risk Approximately 45% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.		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, resulting in lost sales. Distribution may cease due to change of control of the contracting parties.	A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products. Low quality distribution products are subject to the portfolio optimisation. Significant contracts are being reviewed to assess and mitigate business continuity risks.	M	
Product development risk Failure to successfully register and launch products from our pipeline. Projects that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.		Significant delay or failure in launching a product from our own pipeline could adversely affect our ability to deliver revenue expectations. Failure of a development project would result in impairment of intangible assets	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 to establish a broader investment approach to launching new products other than from our own pipeline.	M	

Strategic priorities

Strong finances

Key leadership

Growth portfolio

Business development

Innovative pipeline

Risk key

L Low | M Medium | H High

Trend key

Up | Flat | Down

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:

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Financing/Treasury risk Debt facilities are committed for a finite period of time 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.	Strong finances	Investing for growth constrained by lack of access to capital/financial resource and/or reduced profitability.	We continue to focus on maintaining both strong cash conversion and a strong balance sheet with net debt to EBITDA leverage within the 1.0 to 2.0 times range. During the first quarter we have been in discussions with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025. We have completed renewals with three of the four banks and expect to finalise the remaining documentation with the fourth in early April.	L	Flat
Foreign exchange translation 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.	Strong finances	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.	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.	M	Flat

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.

Our
Principal Risks CONTINUED

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Supply chain 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.		Any disruption, interruption or failure of supply from our third-party suppliers, whether COVID-19 related or otherwise, could result in lost sales and damage the Group's reputation with its customers. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.	In 2020 we put our actions into place from the high-level risk assessment done in 2019. Some site transfers for key products are completed and some ongoing. This work will further reduce our supplier base and will consolidate key products with suppliers with proven reliable performance. Our stock policies have again been reviewed and we now start work with key suppliers to understand and develop risk mitigation strategies end to end. We are also investing in 'Partner Management' which will strengthen ties with our existing supplier base.	H	
IT systems and cyber security risk The Group relies heavily on information technology and key systems to support the business. Risk of cyber attacks and failure of our IT systems.		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 availability of data. Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation.	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 2020 we significantly invested in and updated the application on which we run our Identibase business.	H	

Strategic priorities

Strong finances
Key leadership
Growth portfolio
Business development
Innovative pipeline

Risk key

L Low
M Medium
H High

Trend key

Up
Flat
Down

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.

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
Regulatory 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.		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.	The Group Technical and Regulatory team have established systems and procedures to monitor and maintain compliance. Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes.	M	→

People

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
People 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 and experienced individuals in key roles.		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.	We want to focus on key areas that will maximise individual potential and increase organisational capability so that we can position Animalcare as an "Employer of choice" This includes: • A strong Performance Management Process. • A competitive rewards strategy with a consistent and objective benchmarking process. • Personal and Team Development Programmes. • A Global Leadership Mindset "High Challenge High Support" model and Programme. • Use of high-skilled contract staff to bridge short-term gaps in key resource areas.	M	↓

Climate Change

Climate change is a global issue that has implications for our customers, employees, suppliers, partners and, therefore, the Group itself. Moreover, the European Commission has emphasised animal health in its Farm to Fork strategy, a central part of the Green Deal designed to help Europe reach its 2050 climate neutrality objective.

We have carried out an initial assessment of climate change impact, factoring in the European Green Deal, and have concluded that there are likely to be some longer-term risks which would need to be managed. Generally, it is anticipated that climate change will affect the types and prevalence of diseases seen in Europe, notably those caused by parasites, bacteria, viruses and protozoa. An increased emphasis on sustainability in the food system will likely impact the Production Animals sector driven, for example, by a trend towards more plant-based diets, further reductions in the use of anti-microbials and increased stimulus of organic farming.

We also recognise the environmental impact caused by the use of plastics in our business and supply chains and are taking steps to develop more sustainable packaging, which may increase our costs in future.

Our Stakeholders

Our key stakeholders and how we engage with them

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

Our 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. 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
- Well-being
- Health and safety

How we engage

- Leadership Development programmes
- Financial incentives related to performances in the form of annual bonuses
- Employee incentive plans
- Annual employee engagement survey
- Enhanced internal communications via our 'People Portal'
- Well-being programme- Smile@Animalcare
- Employee assistance programme – 24/7 confidential counselling and information service
- Online teambuilding activities
- Insight Discovery sessions to receive local feedback
- Communication Focus Groups
- Workplace Ambassador Programme
- Mentoring Programme

Customers

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

How we engage

- Visits, virtual meetings and telephone calls with veterinary practices and veterinary groups
- Participation in industry forums and events
- Product launch events
- Technical support and training
- Social media and commercial websites
- Contract negotiation, implementation and management of ongoing relationships

Suppliers and partners

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. 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

- Implementation of Key Partner Management programme
- Meetings with specialist veterinary wholesalers and distributors
- Meetings with key suppliers that represent 70% of purchasing spend
- Supplier forums and networking meetings
- Quality Management Reviews

Shareholders

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

- Regular market updates
- Investor roadshows, meetings and presentations
- Dedicated investor section on corporate website
- Shareholder consultations

Communities and Environment

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

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

- More sustainable business practices, including reducing travel
- Member of animal and health trade associations
- Supporting local and national charity partnerships
- Employee-matched fundraising

Our Stakeholders CONTINUED

S172 Statement

The Directors are well aware of their duty under Section 172(1) of the Company 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 have regard (amongst other matters) to:

- 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.

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under section 414CZA of The Companies Act 2006

Key Board decisions

At each meeting the Board receives trading, financial and operational updates from the Chief Executive Officer and Chief Financial Officer. In addition to this routine business, the table below sets out the key discussions, decisions and considerations the Board has made during the year to 31 December 2020:

Board discussions and decisions

March

The Board agreed, in consultation with advisers, to follow the FCA's request for all listed companies to delay results in the light of the COVID-19 crisis and agreed to defer the publication of the Group's 2019 Full Year Results, originally scheduled for 31 March 2020.

Considerations
The need to provide transparent and accurate information to the market.

In light of the uncertainty around the impact of the COVID-19 crisis on the operations and performance of the Group, the Board agreed to defer payment of its final dividend.

Considerations
The need to address the interests of shareholders in the context of the long-term, while maintaining appropriate levels of reserves to run the business effectively.

The Board approved the announcement of a trading update to the market.

Considerations
The need to provide transparent and accurate information to the market.

In the light of the uncertainty relating to the COVID-19 crisis on the operations and performance of the Group, the Board agreed to defer the payment of the Executive Directors' bonus awards for FY 2019 and to defer the grant of options under the Long Term Incentive Plan.

Considerations
The need to address the interests of all stakeholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

May

The Board approved the release of the Group's 2019 Full Year Results.

Considerations
The need to provide transparent and accurate information to the market.

July

The Board considered and approved a trading update to the market.

Considerations
The need to provide transparent and accurate information to the market.

September

The Board held a Group Strategy session with presentations from members of the Senior Leadership and Business Development teams.

Considerations
The need to consider the strategy to ensure for the long-term success of the Company for all stakeholders.

The Board agreed to proceed with pre-launch investment at risk in respect of Daxocox, a novel COX 2 inhibitor, in 2021.

Considerations
The need to invest in growth opportunities for the long-term success of the Company.

The Board agreed to enter into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties would form STEM Animal Health Inc., a company dedicated to treating biofilm-related ailments in animals.

Considerations
The need to invest in growth opportunities for the long-term success of the Company.

The Board approved release of the Interim Results for the six months ended 30 June 2020.

Considerations
The need to provide transparent and accurate information to the market.

The Board decided to waive the final dividend for 2019 and re-allocate the £1.4m cash preserved to invest in future growth.

Considerations
The need to address the interests of shareholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

The Board approved an interim dividend of 2p.

Considerations
The need to address the interests of shareholders in the context of the long term, while maintaining appropriate levels of reserves to run the business effectively.

November

Following the deferral of awards under the Long Term Incentive Plan (LTIP) in March 2020, the Board approved the grant of options to Executive Directors and certain members of the Senior Leadership Team under the LTIP, subject to agreed performance criteria.

Considerations
The need to provide performance-related awards to incentivise senior management to successfully deliver our strategic plan.

December

The Board approved the Budget for FY 2021.

Considerations
The need to consider all shareholders so that they all benefit from the successful delivery of our strategic plan.

The Board agreed to appoint Stifel as Joint Broker and NOMAD following completion of the necessary on-boarding procedures.

Considerations
The need to consider growth opportunities for the long-term success of the Company.

The Board agreed to carry out its internal 2020 Board evaluation process.

Considerations
The need to ensure that the Board remains a high-performing team for the benefit of our stakeholders.