

Chief Financial Officer's Review



CHRIS BREWSTER
Chief Financial Officer



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

Underlying and statutory results

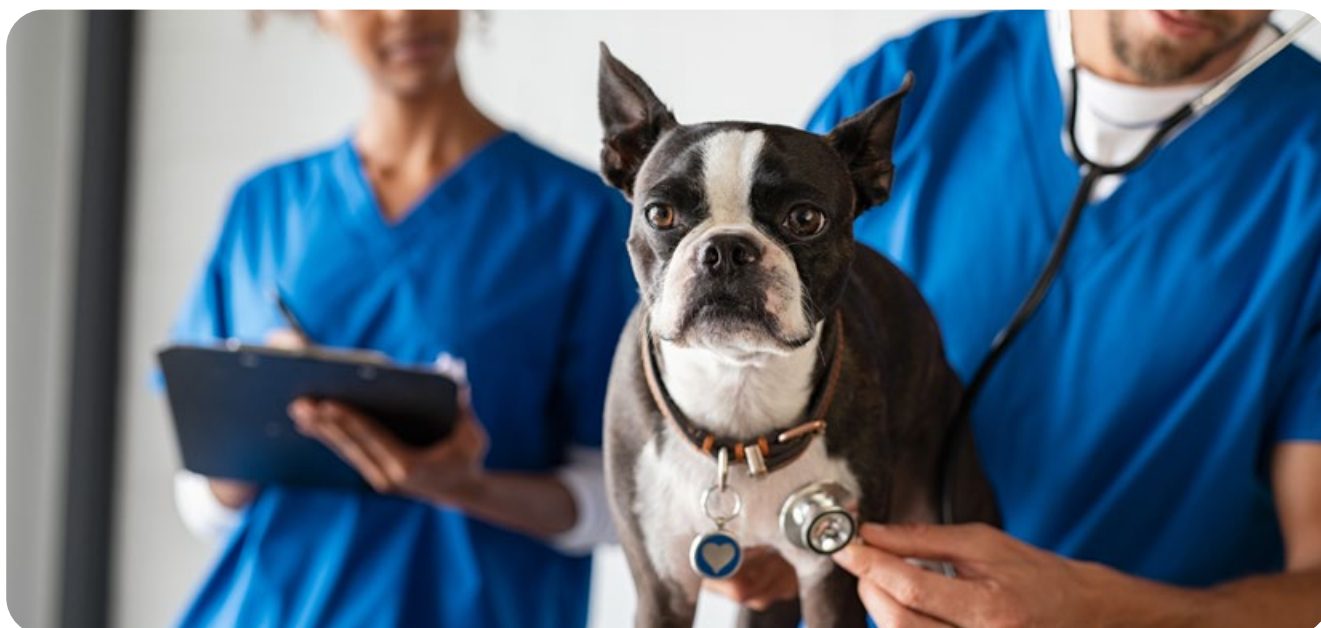
To provide comparability across reporting periods, the Group presents its results on both an underlying and statutory (IFRS) basis. The Directors believe that presenting our financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance. IFRS results include these items to provide the statutory

results. All figures are reported at actual exchange rates (AER) unless otherwise stated. Commentary will include references to constant exchange rates (CER) to identify the impact of foreign exchange movements. A reconciliation between underlying and statutory results is provided at the end of this financial review.

Overview of underlying financial results

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

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



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

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

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

Production Animal revenues, which are largely generated by our South Region business, declined by 7.7%

versus the prior year to £15.7m, predominantly due to the application of EU laws in Spain designed to further reduce the widespread use of antibiotics.

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

Revenues generated by our Top 40 brands, collectively accounting for approximately 78% of sales, reduced by 0.9%, predominantly impacted by the conclusion of distribution rights within our Companion Animals portfolio as noted earlier. The continuing commercial focus on these larger, higher-margin brands, together with a more favourable sales mix, are the key drivers of the 3.5% improvement in our gross margins. While the Group has been affected by inventory and logistic price increases, the net impact on gross and EBITDA margins during the year

has not been significant as we have taken mitigating pricing actions where possible. However, we remain alert to the accelerating inflationary pressures impacting our overall cost base as we progress into 2023.

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

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

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

Chief Financial Officer's Review CONTINUED

Overview of reported financial results

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

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

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

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

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

Dividends

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

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

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