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Animalcare Group PLC
30 March 2021

Animalcare Group plc

("Animalcare", the "Company" or the "Group")

Full Year Results for the 12 months ended 31 December 2020

30 March 2021. Animalcare Group plc (AIM: ANCR), the international animal health business, announces its audited full year results for the year ended 31 December 2020.

Financial Highlights

- Revenues of £70.5m, a 0.9% decline (2.0% at CER) on prior year (2019: £71.1m), demonstrating resilience in the face of COVID-19 disruption to key markets
- Underlying* EBITDA decreased by 8.0% to £12.1m (2019: £13.1m) mainly due to increased investment in growth in second half, partially offset by reduced SG&A spend in the first half
- Statutory profit before tax, incorporating non-underlying items, increased to £0.2m (2019: £1.6m loss), with reported basic profit per share at 0.4 pence (2019: 2.2 pence loss per share)
- Continued strong underlying* cash conversion of 102.9% (2019: 118.4%)
- Net debt further reduced by £4.2m to £13.6m. Net debt to underlying* EBITDA leverage ratio reduced to 1.1 times (2019: 1.4 times)
- Proposed final dividend of 2.0 pence per share

Strategic and Operational Highlights

- Creation of STEM Animal Health Inc., joint venture with Kane Biotech Inc. to commercialise and develop biofilm-targeting treatments
- Internal pipeline on track to deliver with Daxocox (enflicoxib) receiving positive opinion from Europe's CVMP in February 2021
- Significant progress in rebalancing, refocusing and defragmenting of product portfolio
- New organisation structure implemented to support delivery of growth strategy
- 11% improvement in employee engagement levels measured in annual Gallup survey
- Investment in sales and marketing excellence in advance of Daxocox and STEM launches in H2 2021

*Underlying measures are before the effect of non-underlying items which excludes fair value adjustments on acquired inventory, amortisation of acquired intangibles and acquisition and integration costs. A reconciliation to statutory measures is provided in the Chief Financial Officer's Review.

Commenting on the full year results, Chief Executive Officer, Jenny Winter said: *"It's testament to Animalcare's resilience, agility and focus that we were able to further strengthen our financial position and make significant strategic progress during an extraordinarily challenging year.*

"The impact of COVID-19 was felt across all our markets in 2020, especially in the second quarter and most acutely in the Companion Animals sector. But despite widespread disruption to the operation of veterinary practices, we returned revenues ahead of market expectations, delivered continuing strong cash conversion and further reduced our net debt while investing in drivers of future growth.

"Strategically, we made significant headway across all areas of focus. The CVMP's positive opinion for Daxocox in February 2021, and the product's anticipated launch in the second half of the year, represents a major milestone for our pipeline. On the business development front, our September 2020 agreement with Kane Biotech opens up near- and long-term opportunities for exciting biofilm-targeting technologies. Optimisation of our existing portfolio remains a priority and we have continued to rebalance, refocus and defragment our line-up of products with a target to improve margins and concentrate sales and marketing resources on a smaller number of bigger brands.

"The pandemic threw the importance of effective leadership into even sharper relief in 2020. So I'm especially pleased that our latest annual employee survey showed a striking improvement in engagement levels. We also reshaped our organisational structure to better drive our growth strategy.

"The encouraging trading levels over the early months of 2021, combined with the evident benefits of the mass vaccination programmes and the adaptations made by the Group, makes us confident that we will return to normal business conditions and growth this year.

"Thanks to the skills and commitment of our people across all our markets, Animalcare has entered 2021 in a strong position and we continue to execute our long-term growth strategy."

Analyst webcast
A briefing for analysts will be held at 10:30 BST on Tuesday 30 March 2021 via Zoom webcast. Analysts wishing to join should use the following link to register and receive access details.
https://stifel.zoom.us/webinar/register/WN__a7kMxBWRU6X4TyjaKTXrw

A copy of the analyst presentation will be made available on the Group website shortly after the webcast.

About Animalcare
Animalcare Group plc is a UK AIM-listed international veterinary sales and marketing organisation. Animalcare operates in seven countries and exports to approximately 40 countries in Europe and worldwide. The Group is focused on bringing new and innovative products to market through its own development pipeline, partnerships and via acquisition.

For more information about Animalcare, please visit www.animalcaregroup.com or contact:

Animalcare Group plc	+44 (0)1904 487 687
Jenny Winter, Chief Executive Officer	
Chris Brewster, Chief Financial Officer	
Media relations	communications@animalcaregroup.com
Stifel Nicolaus Europe Limited	+44 (0)20 7710 7600
(Nominated Adviser & Joint Broker)	
Ben Maddison	
Fred Walsh	
Nick Adams	
Panmure Gordon	+44 (0)20 7886 2500
(Joint Broker)	
Corporate Finance	
Freddy Crossley/Emma Earl	
Corporate Broking	
Rupert Dearden	

Chairman's Statement

By any measure, 2020 was an extraordinarily challenging year. For Animalcare it was also a year of significant achievement and strategic progress.

The resilience we demonstrated over the last 12 months has further strengthened our financial position, enabling us to continue the pursuit of our long-term growth strategy. While I would not claim that Animalcare has been immune to the pandemic, it's fair to say that the agility of our organisation and the decisive actions taken by our management team have enabled us to resist its worst effects.

While our revenues and Underlying EBITDA were affected by disruption to our markets it's satisfying to report that our performance more than lived up to market expectations. In the second half of the year, when COVID-19 re-emerged across our markets, we grew our sales by 3.0% compared to the previous period. After underlying adjustments totalling £7.8m (2019: £10.8m) the profit before tax on a reported basis was £0.2m (2019: £1.6m loss before tax).

Transforming profit into cash has long been a priority for the Group so it was pleasing to see our cash conversion rate improve over the course of the year. The average conversion rate for 2019 and 2020 combined was above 100%, evidence of our ability to generate strong and sustained levels of cash. This improvement in cash generation was the main contributor to a further reduction in our net debt. At the year-end our net debt stood at £13.6m, down 24% compared to £17.8m as at 31 December 2019. And by 28 February 2021 it had been reduced to £12.9m.

Our 2020 performance stands out because we achieved it during a period of real uncertainty where our concern for the safety of our people and the communities around us required different ways of thinking and working. This agility allowed our employees to adapt to the rapidly evolving operational and therapeutic needs of veterinary practices, continuing to add value to our customers who themselves were often operating in uncharted territory. We were also able to flex our cost base, reviewing our capex priorities and making decisive changes to SG&A spend during the first half while continuing to invest in our people, our pipeline and business development opportunities.

Structurally, the diversity of our business came to the fore in 2020. Our balanced geographical footprint and significant presence in the Production Animals segment, which was less affected by the pandemic than Companion Animals, benefited our overall trading performance.

The strong platform we have built in recent years provided us with the capacity to pursue business development opportunities during 2020 and equips us with the full range of appropriate funding options into the future. In September we finalised a deal with Canada-based Kane Biotech to create STEM Animal Health Inc., a joint venture to exploit the potential of biofilm-targeting anti-infective technology. Animalcare will commercialise existing STEM products in markets outside the Americas while working together to develop new treatments. The agreement gives us access to attractive biofilm products today and influence over products of the future.

It has been an important period for our internal pipeline too. E-6087 - now known as Daxocox - is a novel and differentiated COX-2 inhibitor for the treatment of chronic pain in dogs. The February 2021 positive opinion from the Committee for Veterinary Medicinal Products is a significant milestone for the Group and represents many years of hard work and investment. We are confident that Daxocox will be a significant new treatment option for vets. It also has the potential to lift the Group into a high-value and fast-growing segment of the animal health market. Subject to final EU approval, we plan to launch Daxocox across our markets early in the second half of 2021.

As you read this year's annual report I hope you notice our new branding which we unveiled in March 2021. The redesign of our visual identity creates a consistent family look and feel across the Group and better supports our strategic growth ambitions over the coming years.

Looking ahead, it's evident that the economic and operational uncertainty that prevailed in 2020 will remain a feature in 2021. However, we expect that mass vaccination, combined with the lessons learned by veterinary practices and the adaptations made by Animalcare, will support a recovery in our markets. Over the longer term, the attractive fundamentals of the animal health sector and the strong position of the Group give us the confidence to continue investing in growth opportunities.

On behalf of the Board, I'd like to thank our employees for their exceptional performance during these challenging times. And thank you to all our shareholders for your continued support.

Jan Boone
Non-executive Chairman

Chief Executive Officer's Review

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% percent. 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 to approximately 200 brands. Increased management focus on a smaller number of bigger products was evident in a 3.2% growth rate for 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.

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

Chief Financial Officer's Review

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 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 & 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 product 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% offset in particular 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).

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	**(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	2019
	£'000	£'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.

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 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 had 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

Consolidated Income Statement

Year ended 31 December 2020

		For the year ended 31st December					
	Notes	**Underlying 2020 £'000**	**Non-Underlying (note 4) 2020 £'000**	**Total 2020 £'000**	Underlying 2019 £'000	Non-Underlying (note 4) 2019 £'000	Total 2019 £'000
Revenue	5	**70,494**	**–**	**70,494**	71,124	–	71,124
Cost of sales		**(33,935)**	**–**	**(33,935)**	(34,152)	–	(34,152)
Gross profit		**36,559**	**–**	**36,559**	36,972	–	36,972
Research and development expenses		**(2,386)**	**(1,100)**	**(3,486)**	(2,922)	(1,171)	(4,093)
Selling and marketing expenses		**(12,325)**	**–**	**(12,325)**	(11,862)	–	(11,862)
General and administrative expenses		**(13,302)**	**(4,800)**	**(18,102)**	(12,723)	(4,771)	(17,494)
Net other operating (expense)/income		**15**	**(1,858)**	**(1,843)**	(3)	(4,811)	(4,814)
Operating profit/(loss)		**8,561**	**(7,758)**	**803**	9,462	(10,753)	(1,291)
Financial expenses	6	**(1,051)**	**–**	**(1,051)**	(1,856)	–	(1,856)
Financial income	7	**540**	**–**	**540**	1,539	–	1,539
Financial net result		**(511)**	**–**	**(511)**	3,395	–	3,395
Share in net loss of joint ventures accounted for using the equity method	12	**(93)**	**–**	**(93)**	–	–	–
Profit/(loss) before tax		**7,957**	**(7,758)**	**199**	9,145	(10,753)	(1,608)
Income tax	8	**(1,604)**	**1,639**	**35**	(1,966)	2,236	270
Net profit/(loss)		**6,353**	**(6,119)**	**234**	7,179	(8,517)	(1,338)
Net profit/(loss) attributable to: The owners of the parent		**6,353**	**(6,119)**	**234**	7,179	(8,517)	(1,338)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	9	**10.6p**		**0.4p**	12.0p		(2.2p)
Diluted earnings per share	9	**10.6p**		**0.4p**	12.0p		(2.2p)

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in note 4 to these financial statements. The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	For the year ended 31st December	
	2020 £'000	2019 £'000
Net profit/(loss) for the year	**234**	(1,338)
Other comprehensive income		
Cumulative translation differences*	**508**	(795)
Other comprehensive income/(loss), net of tax	**508**	(795)
Total comprehensive income/(loss) for the year, net of tax	**742**	(2,133)
Total comprehensive income/(loss) attributable to: The owners of the parent	**742**	(2,133)

* May be reclassified subsequently to profit & loss.

Consolidated Statement of Financial Position

Year ended 31 December 2020

		For the year ended 31st December	
	Notes	**2020 £'000**	2019 £'000
Assets			
Non-current assets			
Goodwill	10	**50,987**	50,454
Intangible assets	11	**37,812**	43,000
Property, plant and equipment		**265**	312
Right-of-use-assets	16	**1,790**	1,917
Investments in joint ventures	12	**1,457**	–
Deferred tax assets	8	**2,220**	1,524
Other financial assets		**63**	59
Other non-current assets		**48**	72
Total non-current assets		**94,642**	97,338
Current assets			
Inventories		**12,797**	11,102
Trade receivables		**10,142**	10,891
Other current assets		**1,589**	2,746
Cash and cash equivalents		**5,265**	6,165
Total current assets		**29,793**	30,904
Total assets		**124,435**	128,242
Liabilities			
Current liabilities			

	Notes	2020	2019
Borrowings	13	**(637)**	(612)
Lease liabilities	16	**(951)**	(830)
Trade payables		**(11,348)**	(10,334)
Tax payables		**(553)**	(1,288)
Accrued charges and deferred income	14	**(2,686)**	(2,063)
Other current liabilities		**(3,202)**	(2,799)
Total current liabilities		**(19,377)**	(17,926)
Non-current liabilities			
Borrowings	13	**(16,432)**	(21,428)
Lease liabilities	16	**(861)**	(1,106)
Deferred tax liabilities	8	**(4,804)**	(5,176)
Deferred income	14	**(556)**	(599)
Provisions		**(96)**	(118)
Other non-current liabilities		**(717)**	(118)
Total non-current liabilities		**(23,466)**	(28,427)
Total Liabilities		**(42,843)**	(46,353)
Net assets		**81,592**	81,889
Equity			
Share capital	15	**12,012**	12,012
Share premium	15	**132,729**	132,729
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses		**(9,445)**	(8,640)
Other reserves		**3,058**	2,550
Equity attributable to the owners of the parent		**81,592**	81,889
Non-controlling interest		**–**	–
Total equity		**81,592**	81,889

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to the owners of the parents							
	Share capital £'000	Share premium £'000	Retained earnings/ Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January, 2020	12,012	132,729	(8,640)	(56,762)	2,550	81,889	–	81,889
Net profit	–	–	234	–	–	234	–	234
Other comprehensive income	–	–	–	–	508	508	–	508
Total comprehensive expense	–	–	234	–	508	742	–	742
Dividends paid	–	–	(1,201)	–	–	(1,201)	–	(1,201)
Share based payments	–	–	162	–	–	162	–	162
At 31st December, 2020	**12,012**	**132,729**	**(9,445)**	**(56,762)**	**3,058**	**81,592**	**–**	**81,592**

	Attributable to the owners of the parents							
	Share capital £'000	Share premium £'000	Retained earnings/ Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1st January, 2019	12,012	132,729	(4,732)	(56,762)	3,345	86,592	–	86,592
Net loss	–	–	(1,338)	–	–	(1,338)	–	(1,338)
Other comprehensive income	–	–	–	–	(795)	(795)	–	(795)
Total comprehensive expense	–	–	(1,338)	–	(795)	(2,133)	–	(2,133)
Dividends paid	–	–	(2,642)	–	–	(2,642)	–	(2,642)
Exercise of share options	–	–	–	–	–	–	–	–
Share based payments	–	–	72	–	–	72	–	72
At 31st December, 2019	**12,012**	**132,729**	**(8,640)**	**(56,762)**	**2,550**	**81,889**	**–**	**81,889**

Reverse acquisition reserve

Reverse acquisition reserve represents the reserve that has been created upon the reverse acquisition of Animalcare Group plc.

Other reserve

Other reserve mainly relates to currency translation differences. These exchange differences arise on the translation of subsidiaries with a functional currency other than Sterling.

Consolidated Cash Flow Statement

Year ended 31 December 2020

		For the year ended 31st December	
	Notes	**2020 £'000**	2019 £'000
Operating activities			
Profit/(loss) before tax		**199**	(1,608)
Non-cash and operational adjustments			
Share in net result of joint ventures	12	**93**	–
Depreciation of property, plant and equipment		**1,243**	1,270
Amortisation of intangible assets	12	**8,149**	8,222
Impairment of intangible assets	12	**19**	1,632
Share-based payment expense		**162**	72
(Gain)/loss on disposal of fixed assets		**(16)**	35
Non-cash movement in provisions		**534**	694
Movement allowance for bad debt and inventories		**509**	648
Financial income		**(219)**	(608)
Financial expense		**815**	1,250
Impact of foreign currencies		**(82)**	(330)
Loss/gain on disposal of IFRS16 & initial recognition		**1**	–
Non-cash movement on transition to IFRS 16		**–**	3
Other		**(2)**	(21)
Movements in working capital			
Decrease/(Increase) in trade receivables		**640**	3,098
Decrease/(Increase) in inventories		**(1,615)**	2,492
(Decrease)/increase in payables		**883**	(3,842)

Income tax (paid)/received		**(196)**	99
Net cash flow from operating activities		**11,117**	13,106
Investing activities			
Purchase of property, plant and equipment		**(177)**	(48)
Purchase of intangible assets	12	**(2,258)**	(2,343)
Proceeds from the sale of property, plant and equipment (net)		**122**	–
Capital contribution in joint venture	13	**(593)**	–
Net cash flow used in investing activities		**(2,906)**	(2,391)
Financing activities			
Proceeds from loans and borrowings and convertible debt		**(6,002)**	(8,070)
Repayment of loans and borrowings		**(5)**	(30)
Repayment of IFRS16 lease liability	17	**(1,081)**	(1,053)
Dividends paid	16	**(1,201)**	(2,642)
Interest paid		**(516)**	(617)
Other financial expense		**(53)**	(27)
Net cash flow used in financing activities		**(8,858)**	(12,439)
Net decrease in cash and cash equivalents		**(647)**	(1,724)
Cash and cash equivalents at beginning of year		**6,165**	8,035
Exchange rate differences on cash and cash equivalents		**(253)**	(146)
Cash and cash equivalents at end of year		**5,265**	6,165
Reconciliation of net cash flow to movement in net debt			
Net decrease in cash and cash equivalents in the year		**(647)**	(1,724)
Cash flow from decrease in debt financing		**6,007**	8,100
Foreign exchange differences on cash and borrowings		**(1,290)**	1,336
Movement in net debt during the year		**4,070**	7,712
Net debt at the start of the year		**(17,812)**	(23,588)
Movement in lease liabilities during the year	17	**124**	(1,936)
Net debt at the end of the year		**(13,618)**	(17,812)

Notes to the Consolidated Financial Statement

Year ended 31 December 2020

1. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 and 31 December 2019. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the Registrar of Companies. The Auditor has reported on the 2019 accounts; their report was (i) unqualified, (ii) included reference to a material uncertainty related to going concern to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The external auditor has reported on the 2020 accounts; the report was (i) unqualified, (ii) did not include references to any matters to which the external auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulations (EC) NO 1606/2002 as it applies in the European Union. They have also been prepared in accordance with the requirements of the AIM Rules.

The consolidated financial statements cover the year ended 31 December 2020 and compromise the consolidated results of the Group.

The notes to this preliminary announcement are unaudited in relation to 2020 and extracted from the audited financial statements in relation to 2019.

3. Summary of significant accounting policies

Going concern

An analysis of the factors likely to impact on the Group's future business activities, performance and strategy are set out in the Chief Executive's Review and Chief Financial Officer's Review. The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis.

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.

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 are 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%

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

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 time, 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.

4. Non-recurring

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	**1,100**	1,171
Classified within general and administrative expenses	**4,800**	4,771
Classified within net other operating expenses	**-**	1,619
Total amortisation and impairment of acquisition-related intangibles	**5,900**	7,561
Restructuring costs	**415**	1,795
Acquisition and integration costs	**698**	550
Brexit-related costs	**5**	243
Divestments and business disposals	**85**	173
COVID-19	**283**	-
Other non-underlying items	**372**	431
Total non-underlying items before taxes	**7,758**	10,753
Tax impact	**(1,639)**	(2,236)
Total non-underlying items after taxes	**6,119**	8,517

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,047k (2019: £2,020k), the Riemser acquisition of £373k (2019: £369k) and the reverse acquisition of Animalcare Group plc of £3,479k (2019: £3,629k). The prior year impairment charge of £1,619k largely reflects the non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.

During the year the Group incurred restructuring costs of £415k (2019: £1,795k) largely relating to reorganisation of the Production Animals business unit in Spain. The prior year charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing the headcount reduction.

Acquisition and integration costs of £698k (2019: £550k) include 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.

5. Segment information

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

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

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. As a performance indicator, the Chief Operating Decision Maker controls performance by the Group's revenue, gross margin, Underlying EBITDA and EBITDA. EBITDA is defined by the Group as net profit plus finance expenses, less financial income, plus income taxes and deferred taxes, plus depreciation, amortisation and impairment. Underlying EBITDA equals EBITDA plus non-underlying items.

The following table summarises the segment reporting from continuing operations for 2020 and 2019. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	Pharma £'000
For the year ended 31st December 2020	
Revenues	**70,494**
Gross Profit	**36,559**
Gross Profit %	**52%**
Segment underlying EBITDA	**12,091**
Segment underlying EBITDA %	**17%**
Segment EBITDA	**10,231**
Segment EBITDA %	**15%**
For the year ended 31st December 2019	
Revenues	71,124
Gross Profit	36,972
Gross Profit %	52%
Segment underlying EBITDA	13,137
Segment underlying EBITDA %	18%
Segment EBITDA	9,925
Segment EBITDA %	14%

The segment EBITDA is reconciled with the consolidated net profit/(loss) of the year as follows:

	For the year ended 31st December	
	2020 £'000	2019 £'000
Segment EBITDA	**10,231**	9,925
Depreciation, amortisation and impairment	**(9,428)**	(11,216)
Operating profit/(loss)	**803**	(1,291)
Financial expenses	**(1,051)**	(1,856)
Financial income	**540**	1,539
Share in net loss of joint ventures	**(93)**	-
Income taxes	**(985)**	36
Deferred taxes	**1,020**	234
Net profit/(loss)	**234**	(1,338)

Segment assets excluding deferred tax assets and financial instruments located in Belgium, Spain, Portugal, the United Kingdom and other geographies are as follows:

	For the year ended 31st December	
	2020 £'000	2019 £'000
Belgium	**11,353**	14,325
Spain	**2,476**	2,424
Portugal	**4,276**	3,997
UK	**68,042**	70,572
Other	**6,275**	4,496
Non-current assets excluding deferred tax assets and financial instruments	**92,422**	95,814

Revenue by product category

	For the year ended 31st December	
	2020 £'000	2019 £'000
Companion animals	**44,808**	46,464
Production animals	**19,720**	18,844
Horses	**5,947**	5,681
Petfood, Instrumentation and Services	**19**	135
Total	**70,494**	71,124

Revenue by geographical area

	For the year ended 31st December	
	2020 £'000	2019 £'000
Belgium	**9,502**	9,303
The Netherlands	**1,326**	2,106
United Kingdom	**11,553**	14,137
Germany	**10,746**	10,337
Spain	**17,990**	18,644
Italy	**7,935**	6,142
Portugal	**4,554**	4,598
European Union - other	**5,621**	4,925
Asia	**782**	471
Middle East Africa	**81**	44
Other	**404**	417
Total	**70,494**	71,124

Revenue by category

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Product sales	**69,443**	69,946
Services sales	**1,051**	1,178
Total	**70,494**	71,124

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

6. Financial expenses

Financial expenses include the following elements:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Interest expense	**516**	618
Foreign currency losses	**418**	1,120
Change in fair value - losses on financial instruments	**17**	-
Other financial expenses	**100**	118
Total	**1,051**	1,856

7. Financial income

Financial income includes the following elements:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Foreign currency exchange gains	**518**	1,509
Income from financial assets	**13**	30
Other financial income	**9**	–
Total	**540**	1,539

8. Income tax

Income tax

The following table shows the breakdown of the tax expense for 2020 and 2019:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Current tax charge	**(830)**	(617)
Tax adjustments in respect of previous years	**(155)**	653
Total current tax charge	**(985)**	36
Deferred tax - origination and reversal of temporary differences	**950**	272
Deferred tax - adjustments in respect of previous years	**70**	(38)
Total deferred tax credit	**1,020**	234
Total tax income/(expense) for the year	**35**	270

The total tax expense can be reconciled to the accounting profit as follows:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Profit/(loss) before tax	**199**	(1,608)
Share in net loss of joint ventures	**93**	–
Profit/(loss) before tax, excl. share in net loss of joint ventures	**292**	(1,608)
Tax at 19.00% (2019: 19.00%)	**(55)**	305
Effect of:		
Overseas tax rates	**(262)**	(181)
Non-deductible expenses	**(109)**	(146)
Income not subject to tax	**–**	31
Derecognition of formerly recognised deferred tax assets	**–**	(3)
Other permanent tax differences	**–**	–
Other taxes	**(7)**	(60)
Use of tax losses previously not recognised	**181**	109
Changes in statutory enacted tax rate	**(4)**	27
Tax adjustments in respect of previous year	**(85)**	615
Non recognition of deferred tax on current year losses	**(423)**	(429)
Recognition of formerly recognised deferred tax assets on TLCF	**821**	(6)
Current tax-to be booked	**–**	8
Other	**(22)**	–
Income tax expense as reported in the consolidated income statement	**35**	270

The tax credit of £1,639k (2019: £2,236k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £35k (2019: £270k) relates to the items in note 4.

The tax rates used for the 2020 and 2019 reconciliation above are the corporate tax rates of 25.00% (Belgium), 25.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above-mentioned countries on taxable profits under tax law in that jurisdiction.

The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%. If deferred tax was calculated using the 25% rate the net deferred tax liability recognised at the balance sheet date would be increased from £3,747k to £5,005k.

A similar tax reform in Belgium was substantially enacted in December 2017. The tax rate will gradually decrease from 33.99% (2017) to 29.58% in 2018 and 2019 and to 25.00% from 2020 onwards.

Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Goodwill	**(150)**	(7)	**(785)**	(765)	**(935)**	(772)

Intangible assets	**275**	719	**(4,048)**	(4,490)	**(3,773)**	(3,771)
Property, plant and equipment	**(309)**	(244)	**(130)**	(155)	**(439)**	(399)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**(22)**	(8)	**(19)**	(21)	**(41)**	(29)
Trade and other payables/receivables	**120**	3	**46**	(1)	**166**	2
Borrowings	**272**	295	**132**	112	**404**	407
Accruals and deferred income	**104**	6	**-**	–	**104**	6
Tax losses carried forward	**1,929**	759	**–**	144	**1,929**	903
Total	**2,220**	1,524	**(4,804)**	(5,176)	**(2,584)**	(3,652)

(b) Movements during the year

Movement of deferred taxes during 2020:

	Balance at 1 January 2020 £'000	Recognised in income £'000	Disposal of subsidiaries £'000	Foreign exchange adjustments £'000	**Balance at 31st December 2020 £'000**
Goodwill	(772)	(118)	–	(45)	**(935)**
Intangible assets	(3,771)	(37)	–	35	**(3,773)**
Property, plant and equipment	(399)	(21)	–	(19)	**(439)**
Financial fixed assets	1	–	–	–	**1**
Inventory	(29)	(10)	–	(2)	**(41)**
Trade and other payables/receivables	2	165	–	(1)	**166**
Accruals and deferred income	6	97	–	1	**104**
Borrowings	407	(24)	–	21	**404**
Tax losses carry forward and other tax benefits	903	968	–	58	**1,929**
Net deferred tax	(3,652)	1,020	–	48	**(2,584)**

Movement of deferred taxes during 2019:

	Balance at 1 January 2019 £'000	Recognised in income £'000	Disposal of subsidiaries £'000	Foreign exchange adjustments £'000	Balance at 31st December 2019 £'000
Goodwill	(609)	(197)	–	34	(772)
Intangible assets	(4,135)	405	–	(41)	(3,771)
Property, plant and equipment	2	(411)	–	10	(399)
Financial fixed assets	1	–	–	–	1
Inventory	(18)	(13)	–	2	(29)
Trade and other payables/receivables	46	(44)	–	–	2
Accruals and deferred income	–	6	–	–	6
Borrowings	–	420	–	(13)	407
Tax losses carry forward and other tax benefits	891	68	–	(56)	903
Net deferred tax	(3,822)	234	–	(64)	(3,652)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £7.532k for 2020 (2019: £3,014k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,929k (2019: £759k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

9. Earnings per share

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

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

Profit/(loss) before continuing operations

	For the year ended 31st December			
	2020 Underlying £'000	2019 Underlying £'000	**2020 Total £'000**	2019 Total £'000
Net profit/(loss)	**6,353**	7,179	**234**	(1,338)
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**6,353**	7,179	**234**	(1,338)

Average number of shares (basic and diluted)

	For the year ended 31st December			
Number of shares	**2020 Underlying**	2019 Underlying	**2020 Total**	2019 Total
Weighted average number of ordinary shares for basic earnings per share	**60,057,161**	60,057,161	**60,057,161**	60,057,161
Dilutive potential ordinary shares	**42,581**	–	**42,581**	–
Weighted average number of ordinary shares adjusted for effect of dilution	**60,099,742**	60,057,161	**60,099,742**	60,057,161

Basic earnings/(loss) per share

	For the year ended 31st December			
	2020 Underlying in pence	2019 Underlying in pence	**2020 Total in pence**	2019 Total in pence
From operations attributable to the ordinary equity holders of the company	**10.6**	12.0	**0.4**	(2.2)
Total basic earnings per share attributable to the ordinary equity holders of the company	**10.6**	12.0	**0.4**	(2.2)

Diluted earnings/(loss) per share

	For the year ended 31st December			
	2020 Underlying in pence	2019 Underlying in pence	**2020 Total in pence**	2019 Total in pence
From operations attributable to the ordinary equity holders of the Company	**10.6**	12.0	**0.4**	(2.2)
Total basic earnings per share attributable to the ordinary	**10.6**	12.0	**0.4**	(2.2)

equity holders of the Company

10. Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. This cash-generating unit corresponds to the nature of the business, following the separate division Pharmaceuticals. The goodwill has been allocated to the cash-generating unit "CGU" as follows:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
CGU: Pharmaceuticals	**50,987**	50,454
Total	**50,987**	50,454

The changes in the carrying value of the goodwill can be presented as follows for the years 2020 and 2019:

	Total £'000
At 1st January 2019	50,937
Disposals	–
Currency translation	(483)
At 31st December 2019	**50,454**
At 1st January 2020	50,454
Disposals	–
Impairment	–
Currency translation	533
At 31st December 2020	**50,987**

Goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Pharmaceuticals NV and the reverse acquisition of Animalcare Group plc in 2017.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2020	2019
Discount rate (pre-tax) %	**10.2**	11.8
Growth rate (in perpetuity) %	**2.0**	2.0

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities.

The Group's impairment review is sensitive to change in assumptions used, most notably the discount rates and the perpetuity growth rates.

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £21.8m but would not give rise to an impairment. A 1.0% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £16.8m, but would not give rise to an impairment. "The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 59.5% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 20.7% or a reduction in perpetuity growth rates to (18.8%) would each give rise to an impairment in the CGU of £100k.

11. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2020 and 2019:

	In-process R&D £'000	Patents, distribution rights and licenses £'000	Product portfolios and product development costs £'000	Capitalized software £'000	Total £'000
Acquisition value					
At 1st January 2019	17,079	19,108	40,668	1,181	78,036
Additions	1,582	251	208	302	2,343
Disposals	(1,830)	(62)	(46)	–	(1,938)
Transfers	(88)	(136)	(3)	88	(139)
Currency translation	(217)	(723)	(826)	(61)	(1,827)
Other	1,395	–	(1,395)	6	6
At 31st December 2019	17,921	18,438	38,606	1,516	76,481
Additions	**1,592**	**39**	**51**	**573**	**2,255**
Disposals	**(1,104)**	**–**	**(1,957)**	**(14)**	**(3,075)**
Transfers	**–**	**–**	**–**	**–**	**–**
Currency translation	**246**	**789**	**916**	**74**	**2,025**
Other	**–**	**–**	**–**	**–**	**–**
At 31st December 2020	**18,655**	**19,266**	**37,616**	**2,149**	**77,686**
Amortisation					
At 1st January 2019	(3,536)	(7,721)	(14,816)	(629)	(26,702)
Amortisations	(1,546)	(2,851)	(3,490)	(335)	(8,222)
Disposals	1,828	62	13	–	1,903
Impairments	(1,632)	–	–	–	(1,632)
Transfers	–	136	3	–	139
Currency translation	72	405	521	39	1,037
Other	1	–	–	(5)	(4)
At 31st December 2019	(4,813)	(9,969)	(17,769)	(930)	(33,481)
Amortisations	**(1,473)**	**(2,805)**	**(3,508)**	**(363)**	**(8,149)**
Disposals	**1,080**	**–**	**1,958**	**14**	**3,052**
Impairments	**–**	**(19)**	**–**	**–**	**(19)**
Currency translation	**(93)**	**(511)**	**(619**	**(54)**	**(1.277)**
Transfers	**44**	**–**	**–**	**(44)**	**–**
Other	**–**	**–**	**–**	**–**	**–**
At 31st December 2020	**(5,255)**	**(13,304)**	**(19,938)**	**(1,377)**	**(39,874)**
Net carrying value					
At 31st December 2020	**13,400**	**5,962**	**17,678**	**772**	**37,812**
At 31st December 2019	13,108	8,469	20,837	586	43,000

In-process research and development relates to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2017 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2017.

Product portfolios and product development costs relate to amounts paid for acquired brands as well as external and internal product development costs capitalised on the development projects in the pipeline for which the capitalisation criteria are met.

The total amortisation charge for 2020 is £8,149k (2019: £8,222k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £5,900k (2019: £7,561k) relating to acquisition related intangibles.

In 2020, Animalcare Group plc recorded an impairment charge of £19k (2019: £1,632k).

12. Investments in joint ventures

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, via its 100% subsidiary Ecuphar NV, 33,34% in STEM for a cash consideration of CA$3m, payable over 48 months, of which CA$1m was paid during the financial year. Based on the existing voting rights (33%) and other contractual arrangements, the Group does not have power over the investee. Accordingly, the investment such accounted for the investment in STEM through the equity method in its consolidated financial statements.

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

		% of ownership interest				Carrying amount	
Name of entity	Place of business/country of incorporation	**2020 %**	2019 %	Nature of relationship	Measurement method	**2020 £'000**	2019 £'000
STEM Animal Health Inc.	Canada	**33.34%**	0	Joint Venture	Equity method	**1,457**	0

The tables below provide summarised financial information for the Joint Venture in STEM Animal Health Inc. which is material to the group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not Animalcare's share of those amounts.

	For the year ended 31st December 2020 £'000
Non-current assets	**760**
Current assets	**911**
Total assets	**1,671**
Non-current liabilities	**0**
Current liabilities	**297**
Total liabilities	**297**
Net assets	**1,374**
Group Share	**458**
Goodwill	**552**
Fair value identified intangibles	**608**
Deferred tax liability	**(161)**
Investment value in joint venture	**1,457**

Summarised statement of comprehensive income:

	For the year ended 31st December 2020 £'000
Sales	**134**
Operating expenses	**(378)**
Financial result, net	**(1)**
Net loss for the year	**(245)**
Group share in net loss for the year	**(82)**
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	**(11)**
Total group share in net loss for the year	**(93)**
Other comprehensive expense	**(18)**
Group share in total comprehensive expense	**(111)**

Reconciliation of the aforementioned financial information with the net carrying amount of the investment of STEM Animal Health Inc. in the consolidated financial statements:

As per 31 December 2019	0
Acquisition in joint venture	1,568
Group share of net profit/(loss) for the year	-93
Foreign currency translation differences	-18
As per 31 December 2020	**1,457**

13. Borrowings

The loans and borrowings include the following:

	Interest rate	**Maturity**	**For the year ended 31st December 2020 £'000**	2019 £'000
Other loans	1.56%		**–**	9
Revolving credit facilities	Euribor +1.50%	Mar-22	**12,227**	16,845
Roll over investment facility	Euribor +1.50%	Mar-22	**797**	1,358
Acquisition loan	Euribor +1.75%	Mar-22	**4,045**	3,828
Lease liabilities	See note 22		**1,812**	1,936
Total loans and borrowings			**18,881**	23,976
Of which				
Non-current			**17,293**	22,534
Current			**1,588**	1,442

Revolving credit facilities and roll over investment facilities

The Group's financing arrangements are split equally amongst four syndicate banks. The current agreements consist of:

- €41.5m revolving credit facilities
- €10m available acquisition financing
- €4.08m investment loans

The loans have a variable, EURIBOR based interest rate, increased with a margin of 1.50% or 1.75%. As at 31 December 2020 the revolving credit facilities and the acquisition financing had a bullet maturity in March 2022.

During March 2021 we agreed an extension to our existing banking facilities with our syndicate of banks, extending the maturity date to 31 March 2025.

14. Accrued charges and deferred income

Accrued charges and deferred income consist of the following:

For the year ended 31st December	
2020	2019

	£'000	£'000
Accrued charges	**2,450**	1,898
Deferred income - due within one year	**234**	173
Other	**2**	(8)
Total due within one year	**2,686**	2,063
Deferred income - due after one year	**556**	599

Accrued charges mainly relate to accrued product development expenses of £882k (2019: £790k) and several accrued charges relating to commissions and bonuses in Animalcare for an amount of £653k (2019: £508k), Ecuphar Veterinaria for an amount of £538k (2019: £294k) and £307k (2019: £261k) for Belphar. Deferred income are contract liabilities that arise from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront payment, Animalcare Ltd commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. There is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between eight and 14 years.

Movements in the Group's deferred income liabilities during the current year are as follows:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Balance at the beginning of the year	**772**	807
Income deferred to following years	**201**	160
Release of income deferred from previous years	**(183)**	(195)
Balance at the end of the year	**790**	772

The deferred income liabilities fall due as follows:

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Within one year	**234**	173
After one year	**556**	599
Balance at the end of the year	**790**	772

15. Equity

Share capital

	For the year ended 31st December	
Number of shares	**2020**	2019
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	60,057,161

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	12,012

Dividends

	For the year ended 31st December	
	2020	2019
	£'000	£'000
Ordinary final dividend paid for the period ended 31st December 2018 of 2.4p per share	**–**	1,441
Ordinary interim dividend paid for the period ended 31st December 2019 of 2.0 per share	**–**	1,201
Ordinary final dividend paid for the period ended 31st December 2020 of 2.0 per share	**1,201**	–
	1,201	2,642

The proposed final dividend of 2.0 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31st December 2020, in accordance with IAS 10 "Events After the Balance Sheet Date".

16. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31st December 2020:

	31 December 2020	**1 January 2020**
	£'000	**£'000**
Buildings	**831**	**893**
Vehicles	**958**	**989**
Other	**1**	**35**
Total right-of-use assets	**1,790**	**1,917**
Current lease liabilities	**951**	**830**
Non-current lease liabilities	**861**	**1,106**
Total lease liabilities	**1,812**	**1,936**

Below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Land and buildings	Vehicles	Other	Total
	£'000	£'000	£'000	£'000
Acquisition value				
At 31st December 2019	1,271	1,587	81	2,939
Additions	**343**	**583**	**-**	**926**
Disposals and contract modifications	**(30)**	**(225)**	**(2)**	**(257)**
Transfers	**(71)**	**-**	**-**	**(71)**
Currency Translation	**57**	**84**	**5**	**146**
At 31st December 2020	**1,570**	**2,029**	**84**	**3,683**
Depreciation				
At 31st December 2019	(378)	(598)	(46)	(1,022)
Depreciation charge for the year	(433)	(619)	(31)	(1,083)
Disposals and contract modifications	22	181	(3)	200
Transfers	71	-	-	71
Currency translation	(21)	(35)	(3)	(59)

At 31st December 2020	**(739)**	**(1,071)**	**(83)**	**(1,893)**
Net book value				
At 31st December 2020	**831**	**958**	**1**	**1,790**

Below are the values for the movements in lease liability during the year:

	Lease Liability £'000
At January 1st 2020	**1,936**
Additions	926
Disposals	(57)
Interest expense	59
Payments	(1,140)
CTA	88
At December 31st 2020	**1,812**

The following amounts are recognised in the income statement:

	For the year ended 31st December 2020 £'000
Depreciation expense of right-of-use assets	**(1,083)**
Interest expense on lease liabilities	**(59)**
(Loss)/gain on disposal of IFRS16 assets	**-**
Expense relating to short-term leases and low-value assets	**(187)**
Total amount recognised in the income statement	**(1,329)**

Cash-flows relating to leases are presented as follows:

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

17. Events after balance sheet date

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.

18. Annual Report

This Preliminary financial information is not being sent to Shareholders.

A further announcement will be made when the Annual Report and Accounts for the year ended 31st December 2020 will be made available on the Company's website and copies sent to shareholders.

Further copies will be available to download on the Company's website at: www.animalcaregroup.com and will also be available from the Company's registered office address: 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB