Animalcare Group plc

Interim Results for the six months ended 30 June 2021

28 September 2021. Animalcare Group plc ("the Company" or "Group") (AIM: ANCR), the international animal health business, announces its unaudited interim results for the six months ended 30 June 2021.

Animalcare has delivered a very strong first half with double-digit revenue and profit growth and a further strengthening of our financial position. Driven by the continuation of favourable trading conditions into the second half, the Board expects that underlying EBITDA and underlying basic EPS for the full year will be ahead of current market expectations.

Financial Highlights

- Revenue increased 13.3% (14.2% at CER) to £39.1m compared to prior period (H1 2020: £34.5m) with sales growth particularly strong within Companion Animals
- Gross profit margin increased 2.6% to 54.6% compared to prior period (H1 2020: 52.0%), benefiting from a continued focus on brands with higher growth and margin potential
- Underlying* EBITDA up 28.3% on the prior period to £8.5m, largely reflecting strong revenue growth coupled with higher margin sales mix
- Underlying basic EPS increased by 35.6% to 8.0 pence (H1 2020: 5.9 pence)
- Statutory profit before tax, incorporating non-underlying items was £0.8m (H1 2020: £0.8m), with reported basic EPS at 0.5 pence (H1 2020: 0.8 pence)
- Net debt further reduced by £3.5m to £10.1m as of 30 June 2021 supported by continued strong cash conversion. Net debt to underlying EBITDA leverage ratio reduced to approximately 0.7 times
- Board declares interim dividend of 2.0 pence per share

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

Strategic and Operational Highlights

Pipeline

- Following approval by EU and UK authorities, Daxocox launch activities commenced at the end of the first half while the STEM dental range of products remains on track to complete manufacturing transfer and launch in late Q4
- The Group plans to increase investment in the development pipeline versus the prior year and further still into 2022

Business development

- The Group continues to pursue business development opportunities that will further Animalcare's strategic priorities: strengthening and building the pipeline; enhancing earnings through sustainable commercial deals; and scaling up and extending the geographic footprint

Operational Highlights

- New organisation structure and streamlined leadership team implemented to support delivery of growth strategy

Animalcare's Chief Executive Officer, Jenny Winter, commented: "*We delivered a very strong set of results for the first six months supported by growing demand in our Companion Animals segment. Increased revenues and profit fed through to improvements in our balance sheet, further strengthening the Group's capacity to pursue value-creating opportunities that align with our growth strategy. Encouraged by the trading momentum carried into the third quarter we are confident that profit performance will be ahead of current market expectations for the full year.*

"Animalcare achieved a major milestone for our development pipeline in the first half with Daxocox receiving marketing approval across EU markets and in the UK. We are now in the early launch phase and have committed to increase investment as we maximise the potential of this differentiated new pain treatment over the coming years.

"The positive trading results and the strategic progress made in the first half are a credit to the commitment, focus and agility of our employees across the Group."

Analyst briefing/webcast
A briefing for analysts will be held at 10:30 BST on Tuesday 28 September 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_OSSRUqBXRkGzDxde3T-mVg

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

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About Animalcare www.animalcaregroup.com
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.

Chairman's Statement

Animalcare made a very positive start to the year as we benefited from a clear focus on our growth strategy and increased customer demand across our markets, particularly in the Companion Animals segment.

First half revenue grew by 13.3% to £39.1m helping drive underlying EBITDA to £8.5m, 28.3% ahead of the prior period. Continued improvement in underlying cash conversion, which keeps the Group on track to deliver our target of a 90%-100% conversion rate for the full year, was reflected in a further reduction of our net debt, down £3.5m to £10.1m at 30 June 2021. The Group's net debt to underlying EBITDA ratio of 0.7 times strengthens our overall financial position and capacity to pursue value-enhancing business development opportunities that support our growth strategy.

While we still anticipate growth in revenue and underlying EBITDA will be weighted towards the first half of 2021, the level of market demand we have seen during the third quarter gives us the confidence that underlying EBITDA and underlying basic EPS will exceed current market expectations for the full year. Against this backdrop, and alongside a continuing increase in investment in the pipeline, the Board has declared an interim dividend of 2.0 pence per share, in line with 2020.

One of the highlights of the first half was the grant of marketing authorisation for Daxocox, paving the way for the launch of our differentiated canine pain treatment in EU markets and the UK. This is a notable achievement for the Group and represents the culmination of many years of dedication and expertise of our internal development team. With the completion of manufacturing transfer, we also expect to add biofilm treatments from our STEM joint venture to our line-up of new products in the fourth quarter.

Our employees drive our business and deserve huge credit for these positive results. Under Jenny Winter's leadership, the Group has continued to strengthen the capabilities and focus of Animalcare. The establishment of a streamlined senior executive management team at the beginning of the year has facilitated more efficient decision-making while internal promotions and external hires have further bolstered the experience and talent at Group and country level.

A notable post period event saw Christiaan Cardon stand down from his role as Director following the sale of shares held by Ecuphar Invest NV. On behalf of the Group, I would like to offer my thanks to Christiaan for the valuable contribution he has made to the Company over several years. The Board also extends a warm welcome to the incoming shareholders who have demonstrated their support for the Group and the direction we are taking the Company.

Jan Boone, *Chairman*

Business Review

In the first half we continued to make progress on the five clear priorities of our growth strategy.

1. Strong financial platform

After showing resilience in the face of pandemic-related disruption in the prior year period, the Group delivered strong revenue growth of 13.3%, helped to a significant degree by increased demand from a resurgent Companion Animals segment. Underlying EBITDA, up 28.3% in the first half, benefited from positive revenue leverage and higher margin sales mix. In large part, this was due to a focus in recent years on brands that possess higher growth and margin potential. The cash conversion rate remains strong and on track to meet the Group's 90% to 100% target. This helped drive a further reduction in net debt to £10.1m as of 30 June 2021. This figure is inclusive of the full year 2020 dividend paid post period end. In addition, net debt to underlying EBITDA ratio reduced to 0.7 times in the period.

2. Right people and capabilities

The Group continues to strengthen capabilities in key areas across the organisation. The transition to a regional model and streamlined senior executive team is supporting more efficient decision making and increased focus on the growth strategy. Sales and Marketing excellence remains a priority, particularly with the addition of differentiated products and an accelerated evolution of customer work practices driven by COVID-19. A dedicated, experienced resource has been appointed to drive this critical programme while internal and external appointments have been made to further improve capabilities and Group-wide consistency in the areas of supply chain, technical veterninary support and financial management.

3. Building our pipeline

Daxocox, our novel COX-2 inhibitor pain treatment for dogs, received marketing authorisation for EU countries and the UK in April 2021. Early launch activities kicked off at the end of the first half and are under way across all our markets. R&D life cycle management programmes for Daxocox have been initiated to target new indications, new formulations and geographic expansion. For the STEM joint venture with Kane Biotech, biofilm pipeline projects have commenced, with a particular focus on otitis. To support delivery of pipeline opportunities, total R&D investment is expected to increase versus the prior year and further still into 2022.

4. Driving portfolio delivery

In recent years we have reduced the total number of products in our portfolio with the aim of increasing management focus and sales and marketing attention on brands that possess higher growth and margin potential. In the first half, revenues generated by our top 40 products, including products launched in 2021, increased by around 15%. This increased focus towards higher value products has been a meaningful contributor to the 2.6% increase in gross margin versus the prior period.

5. Business development

The Group continues to pursue a number of business development opportunities that have the potential to strengthen and build the pipeline, enhance earnings through sustainable commercial agreements and increase geographic scale and reach.

Financial Review

Overview of underlying financial results

We are pleased to report a very strong first half trading performance with the double-digit revenue growth and improved gross margin driving a significant increase in underlying EBITDA. The Group continues to deliver strong cash conversion which drove further reduction in net debt during the period.

A summary of the underlying financial results for the first six months of 2021, which the Directors believe provides a clearer picture of business performance, is shown below.

Six Months to 30 June	**2021**	2020	Change at AER
	£'000	£'000	%
Revenue	**39,121**	34,520	13.3%
Gross Profit	**21,354**	17,937	19.1%
Gross Margin %	**54.6%**	52.0%	2.6%
Underlying Operating Profit	**7,089**	4,915	44.2%
Underlying EBITDA	**8,474**	6,606	28.3%
Underlying EBITDA margin %	**21.7%**	19.1%	2.6%
Basic Underlying EPS (p)	**8.0p**	5.9p	35.6%

Revenue

Revenue performance by product category is shown in the table below:

Six Months to 30 June	**2021**	2020	Change at AER
	£'000	£'000	%
Companion Animals	**27,385**	21,210	29.1%
Production Animals	**9,263**	10,543	(12.1%)
Equine & other	**2,473**	2,767	(10.6%)
Total	**39,121**	34,520	13.3%

Companion Animals, which represents the majority of our business at around 70% of Group turnover, grew at 29.1% over the corresponding period last year. This growth can be attributed to strong market dynamics, particularly in Southern Europe where overall trading additionally benefited from the effects of phasing, newly introduced products and favourable comparisons to the prior period when the effects of COVID-19 were prevalent across the animal health industry.

We continue to optimise and refine our existing portfolio to reduce fragmentation and increase commercial focus to drive growth within our higher margin core product range. In the first half, revenues generated by our top 40 products, including those launched in 2021, increased by around 15%. Consistent with this focus, as from 1 January 2021, the Group's Belgium subsidiary discontinued the local commercialisation of several antibiotics and other lower margin products under a legacy distribution contract. As a result, Production Animals revenue declined by 12.1% versus the prior period to £9.3m. Excluding the discontinuation of the commercial agreement in Belgium, sales of Production Animals grew over the first half.

As expected, Equine and other sales decreased by 10.6% to £2.5m principally due to the unwind of prior year customer stock build in advance of manufacturing transfers.

Underlying operating results

The strong revenue growth and higher margin product mix drove a significant improvement in our profitability with underlying EBITDA at £8.5m (2020: £6.6m), an increase of 28.3% versus prior period. We have continued to invest in our people and drivers of future growth including those related to new product launches, pipeline projects and business development opportunities. As a result, SG&A expenses increased by £1.5m, representing 32.9% of revenue, versus the comparator period, which included around £1.0m savings generated from reduced or deferred spend in response to the lower demand related to COVID-19.

The underlying effective tax rate was 24.4% (H1 2020: 24.2%; FY 2020: 20.1%) primarily reflecting the regional mix of profits arising, and expected to arise, in higher rate tax jurisdictions. This includes the one-off impact of the substantively enacted 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 increased by 35.6% to 8.0 pence (2020: 5.8 pence).

Non-underlying items

Non-underlying items totalling £5.6m (2020: £3.9m) relating to profit before tax have been incurred in the period, as set out in note 3. These principally comprise:

1. Amortisation and impairment of acquisition related intangibles of £5.4m (2020: £2.9m). The increase versus 2020 primarily reflects the non-cash impairment of a project that formed part of the acquired development pipeline at a fair value of £1.8m. The principal driver is the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare has ceased development of ranitidine for animal use due to the high level of regulatory uncertainty. Discontinuation of the ranitidine programme is not expected to have a material impact on the Group.
2. Expenses relating to acquisition, integration and restructuring costs of £0.6m (2020: £0.7m) largely relating to business development activities and reorganisation of our Belgium and UK operations;
3. £0.4m income in respect of product divestments as we continue to focus on our core higher margin brands.

Dividend

The Board is pleased to declare an interim dividend of 2.0 pence per share, in line with 2020. The interim dividend will be paid on 19 November 2021 to shareholders whose names are on the Register of Members at close of business on 22 October 2021. The ordinary shares will become ex-dividend on 21 October 2021.

Cash flow, net debt and borrowing facilities

Establishing and then maintaining a strong financial platform has been a core element of our strategy, providing capacity for acquisition and further investment in business development and pipeline opportunities that support our long-term growth. We entered 2021 in a strong financial position following further progress made during 2020 in generating positive levels of operating cash and strengthening our balance sheet.

Following a period of strong trading in which our underlying stock profile operated at normalised levels, we are pleased to report, as expected, a significant improvement in our first half underlying cash conversion performance at 79.5% (2020: 56.9%) as set out in the table below:

	Six months to 30 June 2021 £'000	Six months to 30 June 2020 £'000
Underlying EBITDA	**8,474**	6,606
Net cash flow from operations	**6,193**	3,076
Non-underlying items	**546**	686
Underlying net cash flow from operations	**6,739**	3,762
Cash conversion %	**79.5%**	56.9%

The Group's working capital increased by £1.3m compared to £3.7m in the prior period, largely reflecting the normalisation of our stock profile noted above. Within our 2020 half year results, there was an overall £2.3m cash increase in our inventories, primarily relating to £1.1m strategic stock build in advance of manufacturing transfers with the balance reflecting the demand disruption in Q2 trading as a result of COVID-19.

Non-underlying cash items principally relate to acquisition, integration and restructuring costs offset by the divestment proceeds as noted above.

Net debt reduced by £3.5m over the period and stood at £10.1m on 30 June 2021. This improvement was largely driven by the continued strong cash conversion noted above and is inclusive of accounting for the £1.2m FY20 final dividend paid to shareholders on 2 July 2021. Exchange rate variations benefited the net debt position by £0.9m.

	£'000
Net debt at 1 January 2021	**(13,618)**
Net cash flow from operations	6,193
Net capital expenditure	(1,541)
Net finance expenses	(1,006)
Issue of equity	44
Dividends paid	(1,201)
Foreign exchange on cash and borrowings	853
Movement in IFRS16 lease liabilities	167
Net debt at 30 June 2021	**(10,109)**

Net capital expenditure of £1.5m (2020: £1.0m) largely comprises investment in our product development pipeline of £1.1m, the most significant components of which relate to Daxocox and STEM. The balance of expenditure largely relates to continuing investment in our IT infrastructure.

The net debt to underlying EBITDA leverage ratio was approximately 0.7 times (FY20: 1.1 times) versus the bank covenant of 3.5 times. At 30 June 2021, total facilities were £44.2m, of which £12.8m, net of cash balances, was utilised, leaving headroom of £31.3m.

Going Concern
Banking Facilities and Covenants

During the first half we completed an exercise with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025.

At 30 June 2021, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m and a €10m acquisition line, which cannot be utilised to fund our operations. The investment loan facility was repaid in full at the time of renewal.

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%

As at 30 June 2021, all covenant requirements were met with significant headroom across all three measures. As at 30 August 2021, net debt further reduced to approximately £7.6m. Headroom on the banking facilities, including cash on balance sheet, was around £33.8m.

Summary and outlook

The Animalcare team delivered excellent revenue and profit growth in the first six months, further strengthening our financial position which underpins the Group's long-term growth strategy.

Market dynamics in the animal health market have been strong over the period, notably in the Companion Animals segment which has been boosted by positive fundamentals such as increased pet ownership across many countries. We continue to assume that full year growth will be weighted towards the first half, largely as a result of phasing. However, we have been encouraged by demand levels during the third quarter which makes us confident that underlying EBITDA and underlying basic EPS for the full year will exceed current market expectations.

We are allocating resources to growth opportunities including new products such as Daxocox – which is early in its launch phase – and the STEM biofilm range of treatments for which we expect to complete manufacturing transfer ahead of introduction to our markets in the fourth quarter.

Looking further ahead, our strong financial platform and confident outlook enable us to pursue value creating business development opportunities that have the potential to generate earnings and margins growth through commercial agreements, increase our geographic scale and reach and build and strengthen our pipeline. We intend to increase our investment in the pipeline over the prior year and further still into 2022.

We would like to recognise the commitment, agility and expertise of the Animalcare team who made these first half results possible and continue to build the platform that underpins our long-term sustainable growth strategy.

Jennifer Winter	**Chris Brewster**
Chief Executive Officer	Chief Financial Officer

Condensed consolidated income statement

	For the six months ended 30 June					
	Underlying	**Non-Underlying (note 3)**	**Total**	**Underlying**	**Non-Underlying (note 3)**	**Total**
	2021	**2021**	**2021**	**2020**	**2020**	**2020**
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	**39,121**	**–**	**39,121**	34,520	–	34,520
Cost of sales	**(17,767)**	**–**	**(17,767)**	(16,583)	–	(16,583)
Gross profit	**21,354**	**–**	**21,354**	17,937	–	17,937
Research and development expenses	**(1,212)**	**(547)**	**(1,759)**	(1,163)	(547)	(1,710)
Selling and marketing expenses	**(6,285)**	**–**	**(6,285)**	(5,685)	–	(5,685)
General and administrative expenses	**(6,818)**	**(2,373)**	**(9,191)**	(6,235)	(2,376)	(8,611)
Net other operating income / (expenses)	**50**	**(2,685)**	**(2,635)**	61	(986)	(925)
Operating profit/(loss)	**7,089**	**(5,605)**	**1,484**	4,915	(3,909)	1,006
Financial expenses	**(1,131)**	**–**	**(1,131)**	(488)	–	(488)
Financial income	**574**	**–**	**574**	244	–	244
Financial net result	**(557)**	**–**	**(557)**	(244)	–	(244)
Share in net (loss)/profit of joint ventures accounted for using the equity method	**(136)**	**–**	**(136)**	–	–	–
Profit/(loss) before tax	**6,396**	**(5,605)**	**791**	4,671	(3,909)	763
Income tax	**(1,563)**	**1,100**	**(463)**	(1,129)	832	(297)
Net Profit/(loss)	**4,833**	**(4,505)**	**328**	3,542	(3,077)	466
Net profit/(loss) attributable to:						
The owners of the parent	**4,833**	**(4,505)**	**328**	3,542	(3,077)	466
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:						
Basic	8.0p		0.5p	5.9p		0.8p
Diluted	8.0p		0.5p	5.9p		0.8p

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

Condensed consolidated statement of comprehensive income

	For the six months ended 30 June	
	2021	**2020**
	£'000	£'000
Net profit for the period	**328**	466
Other comprehensive (expense)/income		
Cumulative translation differences *	**(468)**	672
Other comprehensive (expense)/income, net of tax	**(468)**	672
Total comprehensive (expense)/income for the period, net of tax	**(140)**	1,138
Total comprehensive (expense)/income attributable to:		
The owners of the parent	**(140)**	1,138

* May be reclassified subsequently to profit & loss

Condensed consolidated statement of financial position

	30 June 2021	31 Dec 2020
	£'000	£'000
Assets		
Non-current assets		
Goodwill	**50,534**	50,987
Intangible assets	**33,400**	37,812
Property, plant and equipment	**442**	265
Right-of-use assets	**1,622**	1,790
Investments in joint ventures	**1,339**	1,457
Deferred tax assets	**2,470**	2,220
Other financial assets	**92**	63
Other non-current assets	**25**	48
Total non-current assets	**89,924**	94,642
Current assets		
Inventories	**11,955**	12,797
Trade receivables	**10,233**	10,142
Other current assets	**2,949**	1,589
Cash and cash equivalents	**4,550**	5,265
Total current assets	**29,687**	29,793
Total assets	**119,611**	124,435
Liabilities		
Current liabilities		
Borrowings	**(152)**	(637)
Lease liabilities	**(769)**	(951)
Trade payables	**(9,581)**	(11,348)
Tax payables	**(1,849)**	(553)
Accrued charges and deferred income	**(2,221)**	(2,686)
Other current liabilities	**(2,874)**	(3,202)
Total current liabilities	**(17,446)**	(19,377)
Non-current liabilities		
Borrowings	**(13,641)**	(16,432)
Lease liabilities	**(875)**	(861)
Deferred tax liabilities	**(4,612)**	(4,804)
Deferred income	**(468)**	(556)
Provisions	**(232)**	(96)
Other non-current liabilities	**(717)**	(717)
Total non-current liabilities	**(20,545)**	(23,466)
Total Liabilities	**(37,991)**	(42,843)
Net Assets	**81,620**	81,592
Equity		
Share capital	**12,016**	12,012
Share premium	**132,769**	132,729
Reverse acquisition reserve	**(56,762)**	(56,762)
Accumulated losses	**(8,993)**	(9,445)
Other reserves	**2,590**	3,058
Equity attributable to the owners of the parent	**81,620**	81,592
Total equity	**81,620**	81,592

Condensed consolidated statement of changes in equity

	Attributable to the owners of the parents							
	Share capital	Share premium	Accum-ulated losses	Reverse acqui-sition reserve	Other reserve	Total	Non-controll-ing interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2020	12,012	132,729	(8,640)	(56,762)	2,550	81,889	–	**81,889**
Net profit	–	–	466	–	–	466	–	**466**
Other comprehensive expense	–	–	–	–	672	672	–	**672**
Total comprehensive income	–	–	466	–	672	1,138	–	**1,138**
Share-based payments	–	–	43	–	–	43	–	**43**
At 30 June 2020	12,012	132,729	(8,130)	(56,762)	3,223	83,072	–	**83,072**

	Attributable to the owners of the parents							
	Share capital	Share premium	Accum-ulated losses	Reverse acqui-sition reserve	Other reserve	Total	Non-controll-ing interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2021	**12,012**	**132,729**	**(9,445)**	**(56,762)**	**3,058**	**81,592**	**–**	**81,592**
Net profit	**–**	**–**	**328**	**–**	**–**	**328**	**–**	**–**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(468)**	**(468)**	**–**	**(468)**
Total comprehensive income/(expense)	**–**	**–**	**328**	**–**	**(468)**	**(140)**	**–**	**(140)**
Exercise of share options	**4**	**40**	**–**	**–**	**–**	**44**	**–**	**44**
Share based payments	**–**	**–**	**124**	**–**	**–**	**124**	**–**	**124**
At 30 June 2021	**12,016**	**132,769**	**(8,993)**	**(56,762)**	**2,590**	**81,620**	**–**	**81,620**

Condensed consolidated cash flow statements

	Notes	For the six months ended 30 June	
		2021	**2020**
		£'000	£'000
Operating activities			
Profit before tax		**791**	763
Profit before tax		**791**	763
Adjustments for:			
Share in net result of joint ventures		**136**	–
Depreciation of property, plant and equipment		**574**	610
Amortisation of intangible assets		**3,746**	4,020
Impairment of intangible assets		**2,417**	–
Share-based payment expense		**124**	43
Gain on disposal of property, plant and equipment		**(396)**	(16)
Non-cash movement in provisions		**163**	300
Movement in allowance for bad debt and inventories		**233**	362
Financial income		**(86)**	(148)
Financial expense		**673**	467
Impact of foreign currencies		**(34)**	(79)
Other		**2**	(3)
Movements in working capital			
Increase in trade receivables		**(88)**	(582)
Decrease/(Increase) in inventories		**257**	(2,342)
Decrease in payables		**(1,610)**	(797)
Income tax (paid)/received		**(757)**	478
Net cash flow from operating activities		**6,145**	3,076

Condensed consolidated cash flow statements (continued)

Investing activities			
Purchase of property, plant and equipment		**(265)**	(49)
Purchase of intangible assets		**(1,566)**	(961)
Proceeds from the sale of property, plant and equipment (net)		**337**	49
Proceeds from sale of subsidiary		**–**	–
Net cash flow used in investing activities		**(1,494)**	(961)
Financing activities			
Proceeds from loans and borrowings and convertible debt		**(2,807)**	–
Repayment of loans and borrowings		**(582)**	(3,760)
Repayment IFRS16 lease liability		**(520)**	(526)
Receipts from issue of share capital		**44**	–
Interest paid		**(239)**	(264)
Other financial expense		**(247)**	(55)
Increase in other financial assets	*6*	**(1,201)**	–
Net cash flow used in financing activities		**(5,552)**	(4,605)
Net decrease in cash and cash equivalents		**(901)**	(2,490)
Cash and cash equivalents at beginning of period		**5,265**	6,165
Exchange rate differences on cash and cash equivalents		**186**	(333)
Cash and cash equivalents at end of period		**4,550**	3,342

Reconciliation of net cash flow to movement in net debt

Net decrease in cash and cash equivalents in the period	**(901)**	(2,490)
Cash flow from decrease in debt financing	**3,389**	3,760
Foreign exchange differences on cash and borrowings	**853**	(1,666)
Movement in net debt in the period	**3,341**	(396)
Net debt at the start of the period	**(13,617)**	(17,812)
Movement in lease liabilities during the period	**167**	109
Net debt at the end of the period	**(10,109)**	(18,099)

Notes to the consolidated interim report

1 General information

Animalcare Group plc ("Animalcare" or "the Company") is a public company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 30 June 2021 comprises the Company and its subsidiaries (together referred to as the "Group"). The nature of the Group's operations and its principal activities are set out in the latest Annual Report.

2 Basis of preparation and significant accounting policies

Basis of preparation and accounting policies

This interim financial information for each of the six month periods ended 30 June 2021 and 30 June 2020 has not been audited and does not constitute statutory accounts as defined in Section 43s of the Companies Act 2006. The comparative information for the year ended 31 December 2020 does not constitute statutory accounts however is based on the statutory accounts for that year, on which the Group's auditors issued an unqualified report and which have been filed with the Register of Companies.

The Interim Report for the six months ended 30 June 2021 was approved by the Board of Directors and authorised for issue on 28 September 2021.

Except as described below, the condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 31 December 2020 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and the amendment to IFRS 16 – COVID-19 related rent concessions, and which will form the basis of the 2021 Annual Report.

Taxes on income in the interim periods are accrued using the estimated tax rate that would be applicable for the full financial year.

New standards, interpretations and amendments adopted by the Group
Several amendments and interpretations, issued in August 2020, are effective for annual periods beginning on or after 1 January 2021.

- Interest Rate Benchmark Reform
- Phase 2: Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards to ease adoption of alternative interest rate benchmarks. These reliefs relate to modifications of financial instruments and lease contracts or hedge relationships driven by the replacement of a benchmark interest rate in a contract with a new alternative benchmark rate. The Phase 2 amendments also require disclosure of the effect of interest rate benchmark reforms on an entity's financial instruments and risk management strategy.

New and revised standards not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (applicable for annual periods beginning on or after January 1, 2023, but not yet approved in the European Union)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (applicable for annual periods beginning on or after January 1, 2023 but not yet endorsed in the European Union)

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after January 1, 2023 but not yet adopted in the European Union)
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (applicable for financial years after April 1, 2021, but not yet approved in the European Union)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IFRS 3 Business Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 16 Property, Plant and Equipment: received for use (applicable for annual periods beginning on or after January 1, 2022)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Compensation (applicable for years beginning January 1, 2022)
- Annual procedure 2018–2020 (applicable for financial years from January 1, 2022)

Going Concern

Banking Facilities and Covenants

During the first half we completed an exercise with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025.

At 30 June 2021, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m and a €10m acquisition line, which cannot be utilised to fund our operations. The investment loan facility was repaid in full at the time of renewal. 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%

As at 30 June 2021, all covenant requirements were met with significant headroom across all three measures. As at 30 August 2021, net debt has further reduced to approximately £7.6m. Headroom on the banking facilities, including cash on balance sheet, was around £33.8m.

3 Non-underlying items

	For the six months ended 30 June	
	2021	2020
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**547**	547
Classified within General and administrative expenses	**2,373**	2,376
Classified within net other operating expenses	**2,432**	–
Total amortisation and impairment of acquisition related intangibles	**5,352**	2,923
Restructuring costs	**457**	351
Acquisition and integration costs	**164**	304
Divestments and business disposals	**(368)**	49
Brexit-related costs	**–**	2
Other non-underlying items	**–**	280
Total non-underlying items before taxes	**5,605**	3,909
Tax impact	**(1,100)**	(832)
Total non-underlying items after taxes	**4,505**	3,077

The amortisation charge of acquisition related intangibles largely relates to the Esteve acquisition of £1.0m (30 June 2020: £1.0m), the Riemser acquisition of £0.1m (30 June 2020: £0.1m) and the reverse acquisition of Animalcare Group plc £1.7m (30 June 2020: £1.7m). The impairment of acquisition related intangibles reflects the non-cash impairment of a project that formed part of the acquired development pipeline at a fair value of £1.8m. The principal driver is the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare has ceased development of ranitidine for animal use due to the high level of regulatory uncertainty.

During the period the Group incurred acquisition, integration and restructuring costs of £0.6m (30 June 2020: £0.7m) largely relating to business development activities and reorganisation of our Belgium and UK operations. The prior period charge principally related to restructuring of the Production Animals business unit in Spain and manufacturing transfer costs as we work towards simplifying our supply chain.

Product divestments include £0.4m income as we continue to focus on our core higher margin brands.

4 Segment information

The Group reports one business segment, being “Pharmaceuticals”. This reporting segment is used for management purposes. The Pharmaceutical segment is active in the development and marketing of innovative pharmaceutical products that provide significant benefits to animal health.

The measurement principles used by the Group in preparing this segment reporting are also the basis for segment performance assessment. The Board of Directors of the Group acts as the Chief Operating Decision Maker. The Chief Operating Decision Maker assesses performance based on the Key Performance Indicators set out on page 14 of the latest Annual Report which include revenue and underlying EBITDA, excluding the effect of non-underlying items. The following table shows an analysis of the segment reporting from continuing operations. As management’s controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the six months ended 30 June	
	2021	**2020**
	Pharma	**Pharma**
	£'000	£'000
Revenues	**39,121**	34,520
Gross Margin	**21,354**	17,936
Gross Margin %	**54.6%**	52.0%
Segment underlying EBITDA	**8,474**	6,606
Segment underlying EBITDA %	**21.7%**	19.1%
Segment EBITDA	**8,237**	5,634
Segment EBITDA %	**21.1%**	16.3%

The segment EBITDA is reconciled with the consolidated net profit of the year as follows:

	For the six months ended 30 June	
	2021	**2020**
	£'000	£'000
Segment EBITDA	**8,237**	5,634
Depreciation, amortisation and impairment	**(6,753)**	(4,628)
Operating profit	**1,484**	1,006
Financial expenses	**(1,131)**	(488)
Financial income	**574**	244
Share in net result of joint ventures	**(136)**	–
Income taxes	**(959)**	(402)
Deferred taxes	**496**	106
Net profit	**328**	466

Revenue by product category:

	For the six months ended 30 June	
	2021	**2020**
	£'000	£'000
Companion animals	**27,385**	21,210
Production animals	**9,263**	10,543
Horses	**2,407**	2,758
Petfood, Instrumentation and Services	**66**	–
Total	**39,121**	34,520

Revenue by geographical area:

	For the six months ended 30 June	
	2021	**2020**
	£'000	£'000
Belgium	**2,210**	4,840
The Netherlands	**687**	659
United Kingdom	**7,395**	4,255
Germany	**5,397**	5,209
Spain	**11,509**	9,650
Italy	**4,906**	3,895
Portugal	**2,394**	2,379
European Union - other	**3,828**	2,608
Asia	**324**	603
Middle East Africa	**1**	26
Other	**470**	396
Total	**39,121**	34,520

Revenue by category:

	For the six months ended 30 June	
	2021	**2020**
	£'000	£'000
Product sales	**38,504**	34,000
Services sales	**617**	520
Total	**39,121**	34,520

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.

5 Earnings per share

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

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

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

	For the six months ended 30 June			
	Underlying	Underlying	**Total**	Total
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Net profit	**4,833**	3,542	**328**	466
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**4,833**	3,542	**328**	466

Average number of shares (basic and diluted):

	For the six months ended 30 June			
	Underlying	Underlying	**Total**	Total
	2021	2020	**2021**	2020
	Number	Number	**Number**	Number
Weighted average number of ordinary shares for basic earnings per share	**60,058,266**	60,057,161	**60,057,161**	60,057,161
Dilutive potential ordinary shares	**466,871**	256,510	**466,871**	256,510
Weighted average number of ordinary shares adjusted for effect of dilution	**60,525,137**	60,313,671	**60,524,032**	60,313,671

Basic earnings per share:

	For the six months ended 30 June			
	Underlying	Underlying	**Total**	Total
	2021	2020	**2021**	2020
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**8.0**	5.9	**0.5**	0.8
Total basic earnings per share attributable to the ordinary equity holders of the company	**8.0**	5.9	**0.5**	0.8

Diluted earnings per share:

	For the six months ended 30 June			
	Underlying	Underlying	**Total**	Total
	2021	2020	**2021**	2020
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**8.0**	5.9	**0.5**	0.8
Total diluted earnings per share attributable to the ordinary equity holders of the company	**8.0**	5.9	**0.5**	0.8

6 Dividends

The final dividend for the year ended 31 December 2020 of 2.0 pence per share was paid to shareholders on 3 July 2021. However, settlement was made to our registrar prior to the period end. The payment totalling £1.2m is included with the Condensed consolidated cash flow statement as part of the cash used in financing activities. However, the dividend is not included in the results (accumulated losses) for the six months ended 30 June 2021.

The directors have declared an interim dividend of 2.0 pence per share (2020: 2.0 pence per share). The interim dividend will be paid on 19 November 2021 to shareholders whose names are on the Register of Members at close of business on 22 October 2021. The ordinary shares will become ex-dividend on 21 October 2021.

As the dividend was declared after the end of the period being reported, it has not been included as a liability as at 30 June 2021 in accordance with IAS 10 'Events after the Balance Sheet date'.

7 Contingent liabilities

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the basis and the value of the claim. Vetdis issued formal court papers on 29 May 2020. A court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. In a judgment issued on 30 March 2021, the court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay certain amounts counterclaimed by Ecuphar and on 4 May 2021, Vetdis made a payment to Ecuphar of €432,762. We are now engaging in the process involving the expert auditor, which we expect will take until at least Q4 2021.

8 Related party transactions

There have been no new related party transactions that have taken place in the six months ended 30 June 2021.

9 Cautionary statement

This Interim Management Report ("IMR") consists of the Chairman's Statement and the Business Review, which have been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied upon by any other party or for any other purpose.

The IMR contains a number of forward looking statements. These statements are made by the Directors in good faith based upon the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

This IMR has been prepared for the Group as a whole and therefore emphasises those matters which are significant to Animalcare Group plc and its subsidiaries when viewed as a whole.

10 Interim report

The Group’s Interim Report for the six months ended 30 June 2021 was approved and authorised for issue on 28 September 2021. Copies will be available to download on the Company’s website at: www.animalcaregroup.com