[This document has been updated to reflect the announcement made by the Company on 20 October 2022]

Animalcare Group plc

Interim Results for the six months ended 30 June 2022

27 September 2022. 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 2022.

Animalcare reports solid revenue performance and improved gross margins in H1 2022 as the Group maintains its strategic focus on the pursuit of sustainable growth opportunities.

Financial Highlights

- Revenue decreased 2.1% (0% at CER) to £38.3m compared to exceptional levels of demand in H1 2021
- Gross profit margin increased 1.4% to 56.0% (H1 2021: 54.6%), benefiting from a continued focus on brands with higher growth and margin potential and a positive sales mix
- Underlying* EBITDA declined by 5.3% to £8.0m, with improved gross margins offset by increased investment in the Orthros R&D programmes and people-related SG&A
- Underlying basic EPS decreased by 1.3% to 7.9 pence (H1 2021: 8.0 pence)
- Statutory profit before tax, incorporating non-underlying items was £3.4m (H1 2021: £0.8m), with reported basic EPS at 4.0 pence (H1 2021: 0.5 pence)
- Net debt increased by £2.1m to £7.4m as of 30 June 2022 largely reflecting significantly higher receivables as a result of revenue phasing towards the period end, with the net debt to underlying EBITDA leverage ratio comfortably below the Group's target range of 1 to 2 times
- Adjusted for the increase in Orthros R&D investment, the Group anticipates that full year earnings will be within market expectations despite intensification of macroeconomic headwinds
- Board declares interim dividend of 2.0 pence per share, in line with prior year

** 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

Business development

- Early-stage pipeline strengthened in key therapy area through research and development collaboration with Netherlands-based company, Orthros Medical in March 2022
- The Group continues to leverage its financial strength and flexibility in pursuit of sustainable value-creating opportunities through the likes of M&A activity, partnerships and pipeline projects

Pipeline

- Preclinical studies are under way after the Group secured a global exclusive licence from Orthros Medical for early-stage VHH candidates, initially addressing canine osteoarthritis, with second half research expenditure to accelerate with the FY 2022 investment anticipated to be in the region of £0.5m
- Launch activities for STEM's Plaqtiv+ range of oral health products have commenced following the award of the Seal of Acceptance from the Veterinary Oral Health Council ("VOHC") during Q2 2022

Leadership

- Doug Hutchens and Sylvia Metayer join Board as Non-Executive Directors. Sylvia Metayer appointed chair of the Audit and Risk Committee following the AGM in June 2022

Animalcare's Chief Executive Officer, Jenny Winter, commented: "*I am pleased that Animalcare was able to deliver solid revenue and gross margin performance compared to exceptional levels of post-COVID demand in H1 2021. Strategically, we maintained our focus on the pursuit of value-creating M&A and R&D opportunities made possible by our strong and flexible balance sheet.*

"Our confidence in the long-term prospects of Animalcare and the attractiveness of our markets is demonstrated in a projected R&D spend of approximately £0.5m for the full year as we invest in the early stage Orthros collaboration. We anticipate that the majority of any financial impact of current macroeconomic pressures in our markets will be offset by the expansion in gross profit margins and therefore expect EBITDA margin to be broadly in line with market consensus, adjusting for R&D, and full year earnings to be within market expectations.

"From a revenue perspective, against a backdrop of intensifying headwinds, we now anticipate a marginal bias to H1 versus H2 2022."

Analyst briefing/webcast

A briefing for analysts will be held at 10:30 BST on Tuesday 27 September 2022 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_vv3rHgW1RWu49pdL5peiOQ

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

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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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

Chairman's Statement

We are pleased to report that over the first six months Animalcare delivered good revenue performance against a tough comparator and improved gross margins as the Group continued to focus on investment in value-creating opportunities.

Total revenues were £38.3m, down 2.1% (0% at CER) compared to H1 2021, a period of exceptional growth as the lifting of COVID-19 counter measures released pent-up demand, particularly in the Companion Animals segment.

Revenues generated by our top 40 brands continued to grow, up 2.4% thanks largely to new product launches including Daxocox. Our promotional focus on larger, higher margin brands, in addition to a favourable sales mix, was a further driver of gross margin expansion to 56.0% (H1 2021: 54.9%). Underlying EBITDA tracked broadly in line with revenues, declining 5.3% to £8.0m. The effect of higher product margins was offset by investment in people-related SG&A costs and our development pipeline, most notably in relation to additional R&D investment in programmes related to the early-stage agreement with Orthros Medical announced in March 2022.

As anticipated, cash conversion in H1 2022 reduced significantly compared to the rates delivered over the last two years. Consequently, net debt increased by £2.1m to £7.4m. Overall, we maintain a strong financial position with our underlying EBITDA to net debt leverage ratio still comfortably below our target range of 1 to 2 times.

This healthy leverage position equips us to seek out attractive external growth opportunities, including the strengthening of our R&D pipeline as demonstrated by our agreement with Orthros Medical which centres on preclinical VHH candidates with an initial focus on canine osteoarthritis. Additionally, during Q2 2022, following the award of the Veterinary Oral Health Council (VOHC) seal of approval, we celebrated the launch of oral health range Plaqtiv+ across our markets towards the end of the period. Plaqtiv+ is the first antibiofilm product from the STEM joint venture.

Continuing to build the Group's leadership capability is a key objective of our strategy and I'm delighted to see how active we have been in this space during the first half. Sandra Single joined the Senior Executive Team at the beginning of the year, taking on the newly-created role of Strategic Product and Portfolio Director. Her extensive experience in research, development and licensing is already proving its worth as we pursue growth from internally and externally sourced products. We also welcomed Doug Hutchens and Sylvia Metayer to the Board during the first half with Sylvia succeeding Nick Downshire as chair of the Audit and Risk Committee after the Annual General Meeting in June 2022. Both Doug and Sylvia will be real assets to the Group.

The entire Animalcare team deserves recognition for its first half performance despite increasingly stiff macroeconomic headwinds and a moderation in demand growth from a post-COVID high. The fundamentals of the animal health market remain attractive, supported by historically high levels of pet ownership; the Group is well positioned to take advantage of these trends to deliver continued success over the longer term. On that basis the Board has declared an interim dividend of 2.0 pence a share, the same level as 2021.

Jan Boone, *Chairman*

Business and Financial Review

Overview of underlying financial results

We are pleased to report a positive first half trading performance with improved gross margins against a strong prior period comparator. The Group's financial strength has been maintained with the net debt to underlying EBITDA leverage ratio comfortably below our stated target range of 1 to 2 times, enabling us to continue pursuing attractive external opportunities and invest in long-term drivers of growth.

A summary of the underlying financial results for the first six months of 2022, which the Directors believe provides a clearer picture of business performance, is shown below.

Six months to 30 June	**2022**	2021	Change at AER
	£'000	£'000	%
Revenue	**38,286**	39,121	(2.1%)
Gross Profit	**21,430**	21,354	0.4%
Gross Margin %	**56.0%**	54.6%	1.4%
Underlying Operating Profit	**6,502**	7,089	(8.3%)
Underlying EBITDA	**8,026**	8,474	(5.3%)
Underlying EBITDA margin %	**21.0%**	21.7%	(0.7%)
Basic Underlying EPS (p)	**7.9p**	8.0p	(1.3%)

Revenues for the period totalled £38.3m, a decrease of £0.8m or 2.1% (0% at CER) compared to H1 2021 which experienced exceptional growth as markets bounced back following the easing of COVID-19 counter measures.

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

Six months to 30 June	**2022**	2021	Change at AER
	£'000	£'000	%
Companion Animals	**26,634**	27,385	(2.7%)
Production Animals	**8,814**	9,263	(4.9%)
Equine & other	**2,838**	2,473	14.8%
Total	**38,286**	39,121	(2.1%)

Companion Animals revenue, which represents around 70% of Group turnover, declined by 2.7% to £26.6m. Throughout the period and into the second half of the financial year, we have seen demand levels moderate as markets across Europe return to more normalised growth. Within the North Region, our performance has been impacted by a reduction in wholesaler inventory levels, built up to secure supply through Brexit and COVID, while in Southern Europe, overall trading was slightly ahead of the prior period, benefiting from the effects of phasing.

Sales growth from new products contributed £1.5m, predominantly driven by Daxocox and Plaqtiv+, the latter launching during Q2 following the later than expected VOHC (Veterinary Oral Health Council) approval. This growth helped offset a revenue reduction due to the loss of distribution rights.

Production Animal revenues, which are chiefly generated by our South Region business, declined by 4.9% versus the prior period to £8.8m, predominantly driven by legislation implemented to further reduce the general usage of antibiotics, as well as supply disruptions.

Equine and other sales increased by 14.8% to £2.8m principally due to the resumption of normalised trading patterns following a decrease in sales during 2021 due to customer stock build in 2020 in advance of the manufacturing transfer of Danilon.

Revenues generated by our top 40 brands, collectively accounting for approximately 79% of sales, increased by 2.4%, predominantly driven by new product launches. The continuing commercial focus on these larger, higher margin brands, together with a more favourable sales mix, is the key driver of the 1.4% improvement in our gross margins. While the

Group has been affected by inventory and logistic price increases, the net impact on gross and EBITDA margins during the first half has not been significant as we have taken mitigating pricing actions where possible. However, we remain alert to the accelerating inflationary pressures impacting our overall cost base in the second half and into 2023.

Underlying EBITDA declined by 5.3% to £8.0m, broadly in line with revenues. SG&A expenses in the first half increased by £0.5m to £13.4m, representing 35.0% of revenue (H1 2021: 32.9%; FY 2021: 35.1%). We have continued to invest in our people and drivers of future growth including those related to new products and pipeline projects, the latter including R&D expenditure of approximately £0.1m in relation to the early-stage agreement with Orthros Medical. We expect second half research expenditure to accelerate with the FY 2022 investment anticipated to be in the region of £0.5m.

The underlying effective tax rate was 23.2%, broadly comparable to both the prior period and FY 2021 rate of 24.4%.

Reflecting the points noted above, underlying basic EPS decreased by 1.3% to 7.9 pence (H1 2021: 8.0 pence).

Reported results and non-underlying items

Reported Group profit after tax for the period after accounting for the non-underlying items detailed below was £2.4m (2021: £0.3m), with reported basic earnings per share at 4.0 pence (H1 2021: 0.5 pence).

Non-underlying items totalling £2.7m (H1 2021: £5.6m) relating to profit before tax have been incurred in the period, as set out in note 3. These principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £2.4m (H1 2021: £5.4m). The decrease versus 2021 primarily reflects the prior period non-cash impairment of three projects that formed part of the acquired development pipeline, the principal driver for which was the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare ceased development of ranitidine for animal use.
- Expenses relating to acquisition, integration and restructuring costs of £0.3m (H1 2021: £0.6m) largely relating to the relocation of our Spanish office together with the reorganisation of our UK operations and associated carve out of Identicare Ltd, the Group's microchipping and consumer-focused services business.

Dividend

The Board is pleased to declare an interim dividend of 2.0 pence per share, in line with the prior period. The interim dividend will be paid on 18 November 2022 to shareholders whose names are on the Register of Members at close of business on 21 October 2022. The ordinary shares will become ex-dividend on 20 October 2022.

Cash flow, net debt and borrowing facilities

Significant progress was made during FY 2021 in reducing our debt and increasing the Group's financial strength. With the net debt to underlying EBITDA leverage ratio comfortably below our stated target range of 1 to 2 times, we continue to pursue value-creating opportunities through M&A, partnerships and pipeline projects.

Following the very strong cash conversion performance in FY 2021 of 108.8%, we are reporting, as anticipated, a reduction in our first half underlying cash conversion to 22.6% (H1 2021: 79.5%) as set out in the table below:

	Six months to 30 June 2022 £'000	Six months to 30 June 2021 £'000
Underlying EBITDA	**8,026**	8,474
Net cash flow from operations	**1,428**	6,145
Non-underlying items	**382**	594
Underlying net cash flow from operations	**1,810**	6,739

Underlying cash conversion %	**22.6%**	79.5%

Net cash flow generated by our operations reduced to £1.4m (H1 2021: £6.2m). Net working capital increased by £5.6m during the period (H1 2021: £1.4m increase), largely reflecting significantly higher receivables as a result of revenue phasing towards the period end. In addition, inventories increased by £1.6m primarily driven by normalisation of our stock profile following restocking of delayed supply from the end of 2021. Tax cash outflows at £1.0m were comparable to the prior period.

We expect cash conversion for the full year at around 70%, the achievement of which will be largely dependent on trading patterns during the second half and any decisions the Group may take in connection with strategic stock cover to support surety of supply going into 2023.

Net debt increased by £2.1m to £7.4m over the period largely driven by the reduced cash conversion noted above and a significant increase in IFRS16 lease liabilities primarily in relation to the relocation of our Spanish office.

	£'000
Net debt at 1 January 2022	**(5,330)**
Net cash flow from operations	1,428
Net capital expenditure	(1,416)
Net finance expenses	(821)
Foreign exchange on cash and borrowings	(314)
Movement in IFRS16 lease liabilities	(978)
Net debt at 30 June 2022	**(7,431)**

Net capital expenditure of £1.4m (H1 2021: £1.5m) largely comprises investment in our product development pipeline of £1.1m, including £0.3m in relation to the first licence milestone payment to Orthros Medical. The balance of expenditure relates chiefly to ERP and BI investments as we continue to harmonise and strengthen our IT infrastructure.

Net debt to underlying EBITDA leverage ratio was approximately 0.6 times (H1 2021: 0.4 times), below the Group's target net debt to underlying EBITDA range of 1 to 2 times.

Going Concern
Banking Facilities and Covenants

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 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 2022, and throughout the period, all covenant requirements were met with significant headroom across all three measures. As at 30 June 2022, total facilities were £44.2m with headroom, including cash on balance sheet, was around £39.5m.

Summary and outlook

Animalcare posted solid revenues and an expansion in gross margins in the first half against a tough prior year comparison as we continued to focus on execution of our long-term growth strategy.

The Group's progress in the first half has been made despite increasingly stiff headwinds, including inflationary pressures, and a moderation of the exceptional post-COVID growth seen in the first half of 2021. In light of these factors, we anticipate a marginal revenue bias to H1 versus H2 2022.

Our commitment to grow our business through innovation is reflected in a planned R&D spend of £0.5m for the full year as we invest in the early-stage Orthros collaboration. We anticipate that the majority of any financial impact of current macroeconomic pressures in our markets will be offset by the expansion in gross profit margins. We therefore expect our EBITDA margin to be broadly in line with market consensus, adjusting for R&D, and full year earnings to be within market expectations.

Over the long term, we believe the fundamentals of the animal health market remain attractive, underpinned by historically high levels of pet ownership. This backdrop, in combination with the Group's strong and flexible financial platform, with net debt well below our target leverage range, provides us with the confidence and means to continue investing in growth opportunities through the likes of M&A, partnerships and R&D collaborations.

The Animalcare team deserves real credit for maintaining a tight focus on all elements of our long-term growth strategy.

Jenny Winter
Chief Executive Officer

Chris Brewster
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**
	2022 £'000	**2022 £'000**	**2022 £'000**	**2021** £'000	**2021** £'000	**2021** £'000
Revenue	**38,286**	**–**	**38,286**	39,121	–	39,121
Cost of sales	**(16,856)**	**–**	**(16,856)**	(17,767)	–	(17,767)
Gross profit	**21,430**	**–**	**21,430**	21,354	–	21,354
Research and development expenses	**(1,403)**	**(331)**	**(1,734)**	(1,212)	(547)	(1,759)
Selling and marketing expenses	**(6,235)**	**–**	**(6,235)**	(6,285)	–	(6,285)
General and administrative expenses	**(7,308)**	**(2,024)**	**(9,332)**	(6,818)	(2,373)	(9,191)
Net other operating income / (expenses)	**18**	**(352)**	**(334)**	50	(2,685)	(2,635)
Operating profit/(loss)	**6,502**	**(2,707)**	**3,795**	7,089	(5,605)	1,484
Financial expenses	**328**	**–**	**328**	(1,131)	–	(1,131)
Financial income	**(699)**	**–**	**(699)**	574	–	574
Financial net result	**(371)**	**–**	**(371)**	(557)	–	(557)
Share in net (loss)/profit of joint ventures accounted for using the equity method	**16**	**–**	**16**	(136)	–	(136)
Profit/(loss) before tax	**6,147**	**(2,707)**	**3,440**	6,396	(5,605)	791
Income tax	**(1,429)**	**396**	**(1,033)**	(1,563)	1,100	(463)
Net profit/(loss)	**4,718**	**(2,311)**	**2,407**	4,833	(4,505)	328
Net profit/(loss) attributable to:						
The owners of the parent	**4,718**	**(2,311)**	**2,407**	4,833	(4,505)	328
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:						
Basic	7.9p		4.0p	8.0p		0.5p
Diluted	7.9p		4.0p	8.0p		0.5p

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	
	2022	**2021**
	£'000	£'000
Net profit for the period	**2,407**	328
Other comprehensive income/(expense)		
Cumulative translation differences *	**283**	(468)
Other comprehensive income/(expense)/, net of tax	**283**	(468)
Total comprehensive income/(expense) for the period, net of tax	**2,690**	(140)
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**2,690**	(140)

* May be reclassified subsequently to profit & loss

Condensed consolidated statement of financial position

	30 June 2022	31 Dec 2021
	£'000	£'000
Assets		
Non-current assets		
Goodwill	**50,536**	50,337
Intangible assets	**27,777**	29,719
Property, plant and equipment	**945**	626
Right-of-use assets	**2,638**	1,658
Investments in joint ventures	**1,430**	1,290
Deferred tax assets	**2,043**	1,963
Other financial assets	**65**	90
Other non-current assets	**–**	24
Total non-current assets	**85,434**	85,707
Current assets		
Inventories	**12,074**	10,328
Trade receivables	**13,812**	7,135
Other current assets	**1,430**	1,200
Cash and cash equivalents	**5,136**	5,633
Total current assets	**32,452**	24,296
Total assets	**117,886**	110,003
Liabilities		
Current liabilities		
Borrowings	**–**	–
Lease liabilities	**(794)**	(723)
Trade payables	**(11,326)**	(10,021)
Tax payables	**(1,955)**	(471)
Accrued charges and deferred income	**(1,478)**	(1,083)
Other current liabilities	**(4,842)**	(2,156)
Total current liabilities	**(20,395)**	(14,454)
Non-current liabilities		
Borrowings	**(10,924)**	(9,243)
Lease liabilities	**(1,904)**	(996)
Deferred tax liabilities	**(4,120)**	(4,271)
Deferred income	**–**	(675)
Provisions	**(389)**	(408)
Other non-current liabilities	**–**	(1,157)
Total non-current liabilities	**(17,337)**	(16,750)
Total Liabilities	**(37,732)**	(31,204)
Net Assets	**80,154**	78,799
Equity		
Share capital	**12,019**	12,019
Share premium	**132,798**	132,798
Reverse acquisition reserve	**(56,762)**	(56,762)
Accumulated losses	**(10,604)**	(11,676)
Other reserves	**2,703**	2,420
Equity attributable to the owners of the parent	**80,154**	78,799
Total equity	**80,154**	78,799

Condensed consolidated statement of changes in equity

	Attributable to the owners of the parents					
	Share capital	**Share premium**	**Accumulated losses**	**Reverse acquisition reserve**	**Other reserve**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**
Net profit	–	–	2,407	–	–	**2,407**
Other comprehensive income	–	–	–	–	283	**283**
Total comprehensive income	**–**	**–**	**2,407**	**–**	**283**	**2,690**
Dividends	–	–	(1,442)	–	–	**(1,442)**
Share based payments	–	–	107	–	–	**107**
At 30 June 2022	**12,019**	**132,798**	**(10,604)**	**(56,762)**	**2,703**	**80,154**

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

Condensed consolidated cash flow statements

	Notes	For the six months ended 30 June	
		2022	**2021**
		£'000	£'000
Operating activities			
Profit before tax		**3,440**	791
Profit before tax		**3,440**	791
Adjustments for:			
Share in net result of joint ventures		**(16)**	136
Depreciation of property, plant and equipment		**538**	574
Amortisation of intangible assets		**3,291**	3,746
Impairment of intangible assets		**32**	2,417
Share-based payment expense		**135**	124
Gain on disposal of property, plant and equipment		**(165)**	(396)
Non-cash movement in provisions		**103**	163
Movement in allowance for bad debt and inventories		**34**	233
Financial income		**(82)**	(86)
Financial expense		**375**	673
Impact of foreign currencies		**58**	(34)
Other		**14**	2
Movements in working capital			
Increase in trade receivables		**(6,465)**	(88)
(Increase)/decrease in inventories		**(1,572)**	257
Decrease/(increase) in payables		**2,387**	(1,610)
Income tax paid		**(679)**	(757)
Net cash flow from operating activities		**1,428**	6,145

Condensed consolidated cash flow statements (continued)

Investing activities			
Purchase of property, plant and equipment		**(373)**	(265)
Purchase of intangible assets		**(1,209)**	(1,566)
Proceeds from the sale of property, plant and equipment (net)		**166**	337
Net cash flow used in investing activities		**(1,416)**	(1,494)
Financing activities			
Proceeds from loans and borrowings and convertible debt		**420**	(2,807)
Repayment of loans and borrowings		**–**	(582)
Repayment IFRS16 lease liability		**(499)**	(520)
Receipts from issue of share capital		**–**	44
Interest paid		**(207)**	(239)
Other financial expense		**(87)**	(247)
Increase in other financial assets	*6*	**(28)**	(1,201)
Net cash flow used in financing activities		**(401)**	(5,552)
Net decrease in cash and cash equivalents		**(389)**	(901)
Cash and cash equivalents at beginning of period		**5,633**	5,265
Exchange rate differences on cash and cash equivalents		**(108)**	186
Cash and cash equivalents at end of period		**5,136**	4,550

Reconciliation of net cash flow to movement in net debt

Net decrease in cash and cash equivalents in the period	**(389)**	(901)
Cash flow from decrease in debt financing	**(420)**	3,389
Foreign exchange differences on cash and borrowings	**(315)**	853
Movement in net debt in the period	**(1,124)**	3,341
Net debt at the start of the period	**(5,329)**	(13,617)
Movement in lease liabilities during the period	**(978)**	167
Net debt at the end of the period	**(7,431)**	(10,109)

Notes to the consolidated interim report

1. General information

Animalcare Group plc ("the Company") is a public company incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Unit 7, 10 Great North Way, York Business Park, York, YO26 6RB. The condensed set of financial statements as at, and for, the six months ended 30 June 2022 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 2022 and 30 June 2021 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 2021 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 consolidated financial statements are presented in thousands of pound sterling (k£ or thousands of £) and all "currency" values are rounded to the nearest thousand (£000), except when otherwise indicated.

The Interim Report for the six months ended 30 June 2022 was approved by the Board of Directors and authorised for issue on 27 September 2022.

Except as described below, the condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 31 December 2021, except for the intangible assets as explained below, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs").

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

Changes in accounting policies

The Group has acquired certain intangible assets related to licenses with a fixed and variable consideration contingent upon the realization of certain milestones and sales volumes. Due to the recognition of this license asset, the group will extend its accounting policies on intangible assets as follows:

The Group will recognise an intangible asset for the licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset. Once market authorization is obtained, the Group will start amortizing the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

New standards, interpretations and amendments adopted by the Group

The following new Standards, Interpretations and Amendments issued by the IASB and the IFRIC as adopted by the European Union are effective for the financial period:

- IFRS 3 Business Combinations – Amendments updating a reference to the Conceptual Framework (May 2020)
- IAS 16 Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use (May 2020)
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous (May 2020)

- Annual improvements to IFRSs 2018-2020 Cycle (May 2020)
- IFRS 16 Leases - Amendment COVID-19-Related Rent Concessions beyond June 30, 2021 (March 2021)

The adoption of these new standards and amendments has not led to major changes in the Group's accounting policies.

New and revised standards not yet adopted

The Group elected not to early adopt the following new Standards, Interpretations and Amendments, which have been issued by the IASB and the IFRIC but are not yet effective as of June 30, 2022, and/or not yet adopted by the European Union as of June 30, 2022. Standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- IAS 1 Presentation of Financial Statements – Amendments regarding the classification of liabilities (January 2020)* and Amendment to defer the effective date of the January 2020 amendments (July 2020)* and Amendments regarding the disclosure of accounting policies (February 2021)
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of accounting estimates (February 2021)
- IAS 12 Income Taxes - Amendments regarding deferred tax on leases and decommissioning obligations and related to assets and liabilities arising from a single transaction (May 2021)*

  * Not yet endorsed by the EU as of 30 June 2022

Going Concern

Banking Facilities and Covenants

At 30 June 2022, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m and a €10m acquisition line, the latter which cannot be utilised to fund our operations. 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 2022, and throughout the period, all covenant requirements were met with significant headroom across all three measures. As at 30 June 2022, total facilities were £44.2m with headroom, including cash on balance sheet, was around £39.5m.

3. Non-underlying items

	For the six months ended 30 June	
	2022	**2021**
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**331**	547
Classified within General and administrative expenses	**2,024**	2,373
Classified within net other operating expenses	**32**	2,432
Total amortisation and impairment of acquisition related intangibles	**2,387**	5,352
Restructuring costs	**179**	457
Acquisition and integration costs	**136**	164
Divestments and business disposals	**(146)**	(368)
Other non-underlying items	**151**	–
Total non-underlying items before taxes	**2,707**	5,605
Tax impact	**(395)**	(1,100)
Total non-underlying items after taxes	**2,312**	4,505

The amortisation and impairment of acquisition-related intangibles charge totalling £2.4m (2021: £5.4m) largely relates to the Esteve acquisition of £0.8m (2021: £1.0m) and the reverse acquisition of Animalcare Group plc of £1.5m (2020: £1.7m). The decrease versus 2021 primarily reflects the non-cash impairment of a project that formed part of the acquired development pipeline, the principal driver for which was the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare ceased development of ranitidine for animal use.

During the period the Group incurred acquisition, integration and restructuring costs of £0.3m (30 June 2021: £0.6m) which include the carve out and partnership of Identicare Ltd, our microchipping and database services business, with effect from 1 January 2022, and the cessation of supply due to manufacturing issues. Further, strong focus on our core higher margin brands has led to several product divestments with associated income on sale of £146k (2021: £368k).

Finally, other non-underlying items of £151k largely relate to the relocation of our Spanish office.

4. Segment information

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 2022 and 2021. 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	
	2022	**2021**
	Pharma	**Pharma**
	£'000	£'000
Revenues	**38,286**	39,121
Gross Margin	**21,430**	21,354
Gross Margin %	**56.0%**	54.6%
Segment underlying EBITDA	**8,026**	8,474
Segment underlying EBITDA %	**21.0%**	21.7%
Segment EBITDA	**7,706**	8,237
Segment EBITDA %	**20.1%**	21.1%

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

	For the six months ended 30 June	
	2022	**2021**
	£'000	£'000
Segment EBITDA	**7,706**	8,237
Depreciation, amortisation and impairment	**(3,911)**	(6,753)
Operating profit	**3,795**	1,484
Financial expenses	**328**	(1,131)
Financial income	**(699)**	574
Share in net result of joint ventures	**16**	(136)
Income taxes	**(1,246)**	(959)
Deferred taxes	**213**	496
Net profit	**2,407**	328

Revenue by product category:

	For the six months ended 30 June	
	2022	**2021**
	£'000	£'000
Companion animals	**26,634**	27,385
Production animals	**8,814**	9,263
Equine and Other	**2,838**	2,473
Total	**38,286**	39,121

Revenue by geographical area:

	For the six months ended 30 June	
	2022	**2021**
	£'000	£'000
Belgium	**1,593**	2,210
The Netherlands	**749**	687
United Kingdom	**7,269**	7,395
Germany	**4,766**	5,397
Spain	**12,165**	11,509
Italy	**4,610**	4,906
Portugal	**2,230**	2,394
European Union - other	**3,927**	3,828
Asia	**182**	324
Other	**795**	471
Total	**38,286**	39,121

Revenue by category:

	For the six months ended 30 June	
	2022	**2021**
	£'000	£'000
Product sales	**37,376**	38,504
Services sales	**910**	617
Total	**38,286**	39,121

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. Licensing and R&D collaboration agreements with Orthros Medical BV

On 24 March 2022, the Group entered into two early-stage agreements with Netherlands-based Orthros Medical, a company focused on the research and early development of VHH antibodies, also known as small single chain antibody fragments. Under the terms of the deal, and during the period, Animalcare made upfront payments to Orthros Medical totalling €500,000. As the two licensed preclinical candidates progress, Orthros Medical may receive development, regulatory and commercial milestone payments up to a total value of €11 million, a significant proportion of which are linked to successful commercialisation. In addition, single digit royalties will be due on the net sales of the products. These payments are expected to be paid out of the Group's operating cash flow.

6. 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 were used in the earnings per share computations:

	For the six months ended 30 June			
	Underlying 2022	**Underlying 2021**	**Total 2022**	**Total 2021**
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**4,718**	4,833	**2,407**	328

Average number of shares (basic and diluted):

	For the six months ended 30 June			
	Underlying 2022	**Underlying 2021**	**Total 2022**	**Total 2021**
	Number	Number	**Number**	Number
Weighted average number of ordinary shares for basic earnings per share	**60,092,161**	60,058,266	**60,092,161**	60,057,161
Dilutive potential ordinary shares	**542,465**	466,871	**542,465**	466,871
Weighted average number of ordinary shares adjusted for effect of dilution	**60,634,626**	60,525,137	**60,634,626**	60,524,032

Basic earnings per share:

	For the six months ended 30 June			
	Underlying 2022	**Underlying 2021**	**Total 2022**	**Total 2021**
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**7.9**	8.0	**4.0**	0.5
Total basic earnings per share attributable to the ordinary equity holders of the company	**7.9**	8.0	**4.0**	0.5

Diluted earnings per share:

	For the six months ended 30 June			
	Underlying 2022	**Underlying 2021**	**Total 2022**	**Total 2021**
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**7.9**	8.0	**4.0**	0.5
Total diluted earnings per share attributable to the ordinary equity holders of the company	**7.9**	8.0	**4.0**	0.5

7. Dividends

The final dividend for the year ended 31 December 2021 of 2.4 pence per share was paid to shareholders on 8 July 2022. The directors have declared an interim dividend of 2.0 pence per share. The interim dividend will be paid on 18 November 2022 to shareholders whose names are on the Register of Members at close of business on 21 October 2022. The ordinary shares will become ex-dividend on 20 October 2022.

As the interim dividend was declared after the end of the period being reported, it has not been included as a liability as at 30 June 2022 in accordance with IAS 10 'Events after the Balance Sheet date'.

8. Contingent liabilities

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) 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 majority of the claim, however Ecuphar considers it likely that a part of the claim, amounting to €126,430, may be valid. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 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 the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762. The process involving the expert auditor is ongoing. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements.

9. Related party transactions

The Group holds, via its subsidiary Ecuphar NV, a 33.3% share in STEM Animal Health inc. In 2020 the Group entered into a licensing agreement to commercialise products in global veterinary markets outside the Americas.
There have been no transactions with STEM during the period in relation to these agreements.

10. 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.

11. Interim report

The Group's Interim Report for the six months ended 30 June 2022 was approved and authorised for issue on 27 September 2022. Copies will be available to download on the Company's website at: www.animalcaregroup.com.