

# ANIMALCARE GROUP INTERIM RESULTS TO 30 JUNE 2019

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CFO Chris Brewster



24 September 2019

*Animalcare is committed to being a leader  
in animal health through innovative and  
trusted products and services*



**ANIMALCARE**  
GROUP PLC

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# AGENDA - FY19 INTERIM RESULTS

1. Interim results for the six months ended June 2019

2. Growth Strategy

3. Strong finances

4. Key leadership

5. Growth portfolio

6. Business development

7. Innovative pipeline

8. Summary/outlook

# INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 2019

The Group continues to meet the Board's expectations on revenue and EBITDA and progress against the strategic priorities, building a strong foundation for growth

## 1H 2019 Highlights

### Financial

- Strong sales growth across several territories (offset by temporary supply challenges)
- EBITDA in line with expectations and prior year
- Continued strong cash conversion and on track to deliver improvement vs FY2018
- On track to deliver market expectations for the full year

### Strategic (including post-period end)

- Portfolio refocussed on higher margin products
- Approval granted for three new products from the pipeline, to be launched by year end
- Two new distribution agreements signed
- Launched Orozyme with Chinese partner
- Strengthened management team



# GROWTH STRATEGY



## Strong finances

Financial sustainability through revenue growth, cash conversion, EPS growth and EBITDA margin growth



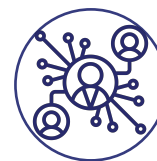
## Key leadership

Organisation for success; leadership strength and core capabilities



## Growth portfolio

Focussed portfolio in key therapy areas in growing market segments



## Business development

Work with partners to build a pipeline of products that meet our criteria for growth



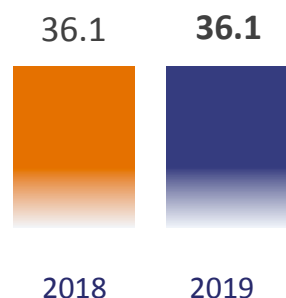
## Innovative pipeline

Launch new products and develop differentiated and innovative pipeline of products for the future

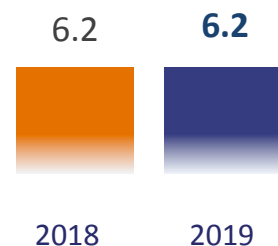
# OVERVIEW OF 2019 INTERIM RESULTS

Delivering our strategic priorities: strong finances

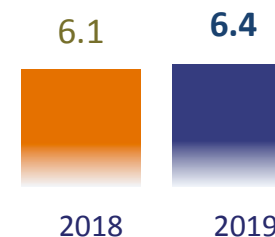
Revenue  
£m



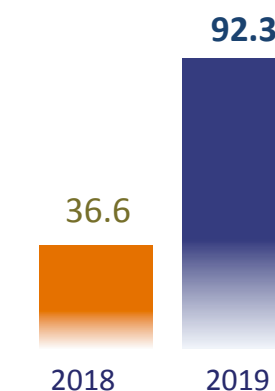
Adjusted Underlying\*  
EBITDA  
£m



Underlying\* Basic EPS  
Pence



Operating Cash  
Conversion\*  
%



- Revenue in line with prior period at **£36.1m** – worked hard to offset the unexpected supply challenges
- Adjusted underlying\* EBITDA and EBITDA margin maintained at **£6.2m** and 17.3% respectively. Underlying\* Basic EPS up 4.9% to **6.4p**
- Underlying\* operating cash conversion improved to **92.3%**. Well on track to deliver the 85% target for FY2019. Net debt reduced to **£20.9m**
- Declared interim dividend of **2.0p** (2018: 2.0p)

\* The Group presents a number of non-GAAP Alternative Performance Measures (APMs) which exclude non-underlying items

# P&L – PHARMA

## Growth from new products offset supply challenges

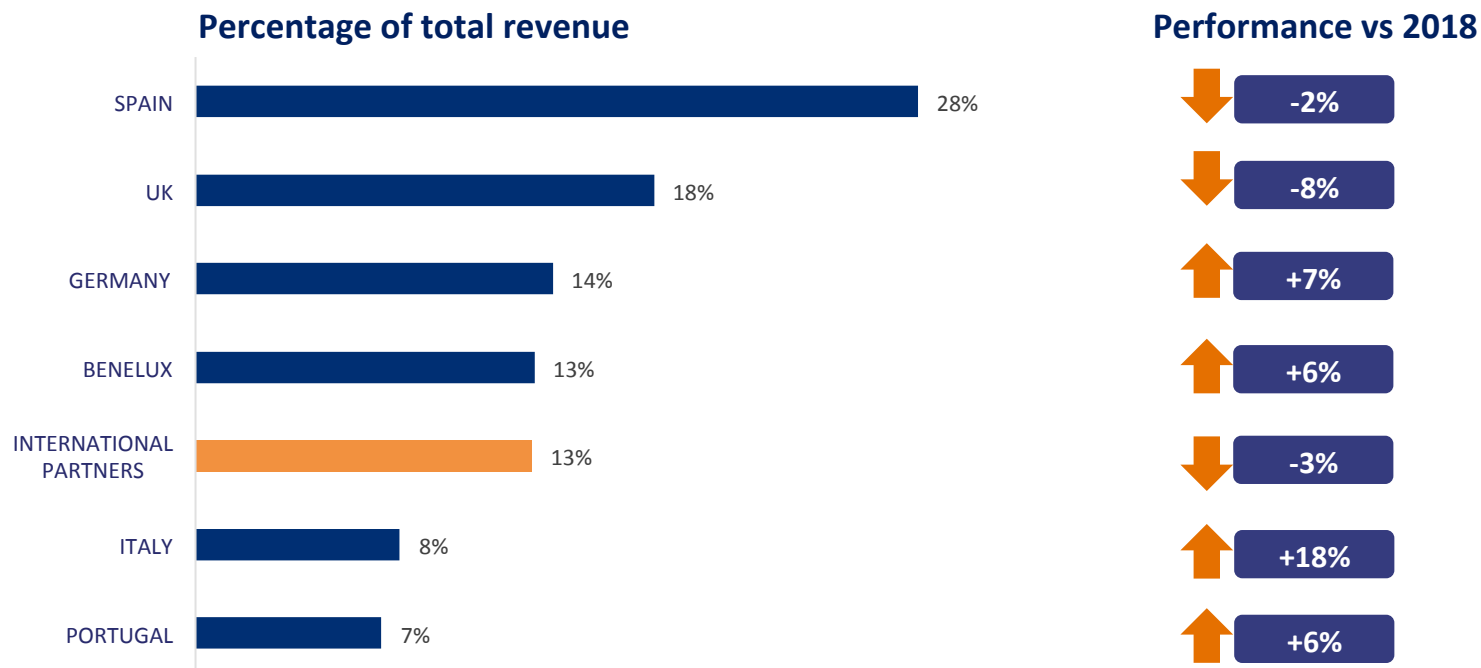
	2019 £'m	2018 £'m	Change at AER %
Revenue by Product Category			
Companion Animals	23.7	23.8	(0.3%)
Production Animals	9.3	9.4	(0.4%)
Equine & other	3.1	2.9	5.6%
<b>Revenue</b>	<b>36.1</b>	<b>36.1</b>	<b>-</b>
<b>Gross Profit</b>	<b>19.1</b>	<b>19.3</b>	<b>(2.2%)</b>
<b>Gross Margin %</b>	<b>53.0%</b>	<b>53.5%</b>	<b>(0.5%)</b>
<b>Underlying EBITDA (adjusted)</b>	<b>6.2</b>	<b>6.2</b>	<b>-</b>
<b>Underlying Basic EPS</b>	<b>6.4p</b>	<b>6.1p</b>	<b>4.9%</b>

- Growth from new products (2019 and annualised 2018) helped to offset supply challenges in CA. PA modestly down against continuing background of declining antibiotic usage
- Gross margins declined by 0.5% reflecting lower margin sales mix in CA
- Adjusted Underlying EBITDA (exc IFRS16 benefit of £0.5m) in line with prior period. SG&A costs reduced to 35.7% of sales
- Lower effective tax rate (20.9% vs 25.3%) reflects tax planning initiatives to optimise R&D credits and utilisation of losses – supported basic EPS increase to 6.4p



# REVENUE BY MARKET

Several countries continue to grow



- Strong revenue growth in our smaller countries driven by new products (2019 and annualised 2018) and core portfolio
- Supply challenges impacted our two largest operations

# CASH CONVERSION

Strong progress in improving cash generation to invest in the integration & future growth

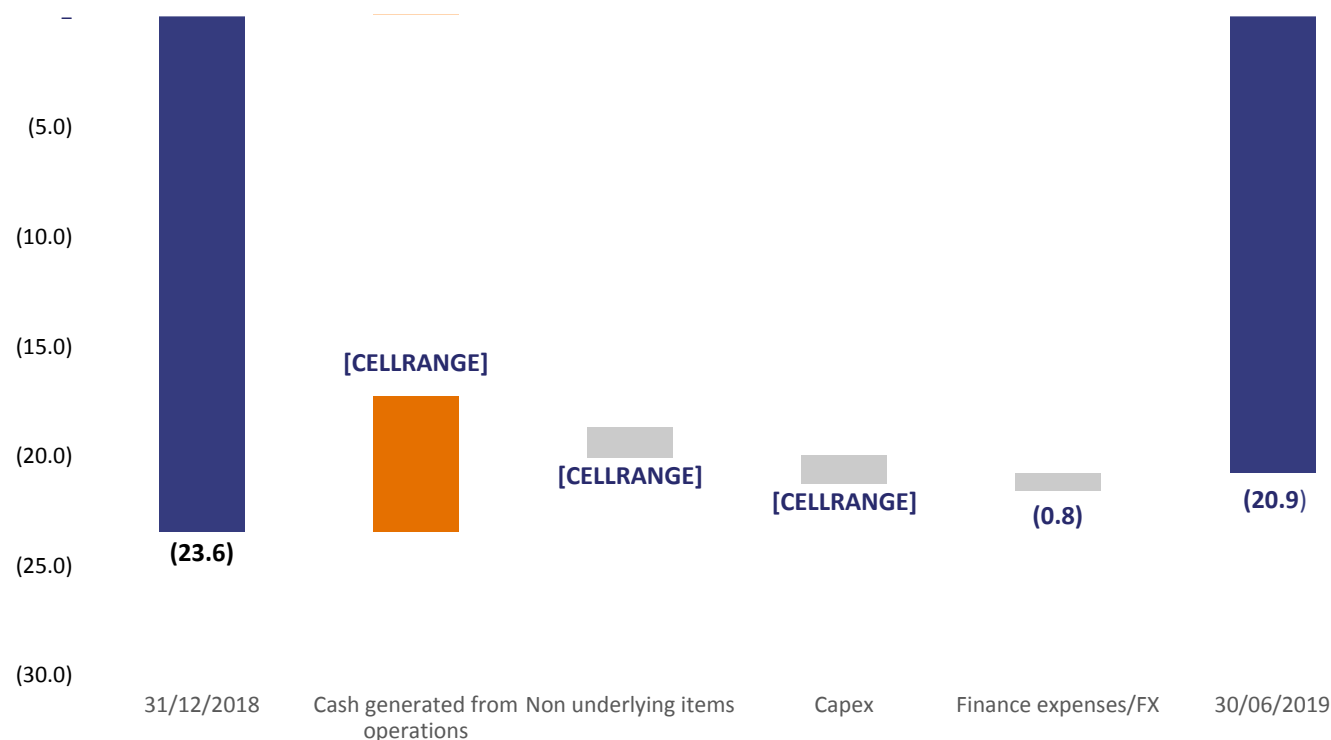
£m	2019	2018
<b>Underlying EBITDA (statutory)</b>	<b>6.8</b>	<b>6.2</b>
<i>EBITDA %</i>	<i>18.7%</i>	<i>17.3%</i>
Working capital	(1.0)	(3.3)
Other	(1.0)	(1.4)
<b>Net cash flow from operations</b>	<b>4.8</b>	<b>1.5</b>
Non-underlying items	1.4	0.7
<b>Underlying net cash flow from operations</b>	<b>6.2</b>	<b>2.2</b>
<b>Cash conversion %</b>	<b>92.3%</b>	<b>36.6%</b>

- Cash conversion significantly improved vs H1 2018 and on the 80% delivered in FY2018 – well on track to deliver our 85% target
- Inventory reduced by £1.5m versus high position (against benchmark) at year end
- Cash taxes £nil at half year – phasing and optimising R&D tax credits
- £1.4m cash non-underlying items mainly integration/restructuring related (Spain/UK R&D and T&R)



# NET DEBT

Net borrowing reduced by £2.7m



- Net debt reduced by £2.3m vs 2018 year end – free cash generation of £3.5m
- £1.3m capital expenditure – mainly clinical trials for our novel pain product
- IFRS16 liabilities of £2.2m at H12019 – now part of leverage calculations. Leverage at 1.9X underlying EBITDA



## 2019 H1 Summary – Good progress

- Revenue stable despite unexpected supply challenges
- Maintained EBITDA % at 17.3% - continue to focus on overheads and efficiency relative to sales
- Significant improvement in cash conversion – on track to achieve 85% target for 2019
- Cash conversion main driver for reduced net debt – capacity to invest in future growth
- Board remains confident in outlook for the year



# STRATEGIC PRIORITY 2: KEY LEADERSHIP

Continued strengthening of the team and capabilities

## Leadership

- Leadership team strengthened with key hire: Belgium / Benelux Country Manager, Sara Maddens
- Long-term incentive plans for Senior Leaders with performance-based bonus plans

## Organisation for success

- Completed restructure and centralisation of R&D and Technical & Regulatory centralisation teams
- Supply Chain – led by Head of Supply Chain, Stephen Pearson (appointed November 2018)
- Working as one organisation to drive improved efficiency





# STRATEGIC PRIORITY 3: GROWTH PORTFOLIO

Creating a focussed and balanced portfolio closely aligned to high growth areas

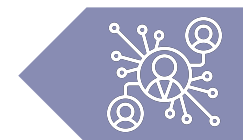
- Core brands continue to demonstrate double-digit growth, including:
  - Dinalgen (production animals - pain)
  - Orozyme (dental enzymes)
  - Filavac (vaccine)
- Benazecare (CV) and Celphalexin (antibiotic) were both successfully launched across the Group, creating greater alignment
- Tail brands
  - 25% of our portfolio being discontinued or divested by year end, with no significant impact to profit
  - Further c. 20% reduction anticipated during 2020



# STRATEGIC PRIORITY 4: BUSINESS DEVELOPMENT

Good progress made on new international partnerships, targeted distribution products and externally sourced new products

- An active Business Development programme has been established
- Recently launched Orozyme, our first product with our partner in China
- Completed one significant distribution deal with a further distribution deal signed after period end
- Two deals with international partners to promote Animalcare products in new territories were signed within the period with an additional three signed post-period end



Market segment (eg Equine CAP, PA)	Phase (pre-clin/clin/ regulatory/ launch)	Expected 1 <sup>st</sup> launch date
Equine GI	Launch	Q4 2019
CAP GI	Launch	1H 2020
Equine Pain	Regulatory	2021

# STRATEGIC PRIORITY 5: INNOVATIVE PIPELINE

We continue to launch products from our own pipeline and develop new products that will launch in the next 3-5 years

- Approval granted for three new products, Butazocare, Doxycare and Metrocare with launch before year end
- Two further approvals expected by end of 2019 for launch in 1H 2020

Market segment (eg Equine CAP, PA)	Phase (pre-clin/clin/ regulatory/ launch)	Expected 1 <sup>st</sup> launch date
EQ Pain	Launch	Q4 2019
CAP Antibiotic	Launch	Q4 2019
CAP Antibiotic	Launch	Q4 2019
CAP Endocrine	Regulatory	1H 2020
CAP GI	Regulatory	1H 2020
CAP Antibiotic	Clinical	2021
CAP Pain	Clinical	2021
CAP Pain	Pre-clinical	2023





**3-5 year**  
target for top 20  
products to  
contribute 80%  
to total Group  
revenue

- **Pain**
- **Dental**
- **Dermatology**
- **Disease prevention**
- **Surgery**
- **Microchipping**

# SUMMARY/OUTLOOK

Looking forward we will:



Deliver sustainable profitable growth



Generate cash to invest in growth



Build a robust pipeline



Have a clear therapeutic focus in growth areas



Grow our network of mutually beneficial partnerships



Deliver sustained stakeholder returns



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