Animalcare Group plc

Interim Results for the six months ended 30 June 2020

29 September 2020. 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 2020.

The Group is pleased to report a resilient first half performance and remains well-placed to navigate the challenges due to COVID-19. We entered 2020 in a strong financial position and this has been maintained throughout the period, important both in terms of the Group's operational resilience and its ability to focus on the execution of our growth strategy.

Financial Highlights

- Resilient financial performance at higher end of the Board's range of pandemic scenario modelling
- Revenue £34.5m (2019: £36.1m), a decline of 4.4% (4.8% at CER) compared to prior year period due to COVID-19. Production Animals sales increased by 13.1%, partially offsetting the negative impact of government pandemic controls on the Companion Animals sector
- Underlying* EBITDA down 2.4% on the prior year, reflecting cost efficiencies generated in 2019 and decisive realignment of SG&A spend during Q2 2020
- Cash conversion rate of 56.9% (2019: 92.3%) for first half as a result of COVID-19 disruption and previously announced strategic stock build in relation to manufacturing transfers
- Net debt £18.1m as of 30 June 2020 (£17.8m at 1 January 2020), adversely impacted by currency variations
- Underlying* basic EPS 5.9 pence (6.4 pence for first half 2019)
- Declared interim dividend of 2.0 pence per share, in line with prior period. Funds initially allocated for 2019 final dividend retained for investment in growth opportunities

*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 (including post-period)

Despite disruption to Animalcare's markets caused by the COVID-19 pandemic, the Group has maintained a strong focus on delivery of its long-term growth strategy.

Business development

- Post-period end, Animalcare signs CA$5 million agreement with Kane Biotech to form an animal health company to target biofilm-related ailments. The Group will commercialise Kane Biotech's range of oral care products for companion animals outside the Americas while the jointly-owned company will focus on research and development of novel animal treatments based on biofilm targeting technology.
- The roll-out of Procanicare, the probiotic gastrointestinal treatment for dogs, progresses across markets despite disruption to operation of veterinary practices caused by COVID-19.

Pipeline

- Animalcare's novel COX-2 inhibitor pain treatment continues to progress through the regulatory process. Planned 2021 launch subject to approval.

Operational Highlights

- Sales and marketing excellence programme initiated to optimise launch and commercialisation of differentiated products.
- Review of operations to capitalise on the accelerated transition to digital working by veterinary practices, suppliers, distributors and other stakeholders.

Animalcare's Chief Executive Officer, Jenny Winter, commented: *"Animalcare has shown exceptional resilience in the face of unprecedented conditions caused by the pandemic. Our performance across the Group was at the upper end of the range of our scenario modelling, highlighting the strength of our financial position as well as the agility, commitment and deep market knowledge of our people.*

"While trading to the end of August was broadly in line with the same period last year, uncertainty about the economic and market impact of the pandemic prevails. However, the attractive fundamentals of the animal health sector, the steady recovery in our markets as veterinary practices adapt to life with COVID-19, combined with the impressive response of the Group to these difficult conditions and our maturing pipeline underpin our confidence in the future and further strengthen our long-term focus on growth.

"Notably, our continuing pursuit of value-creating growth opportunities resulted in the recently announced agreement with Kane Biotech centred on the treatment of biofilm-related ailments in companion animals. This is a significant deal that complements our existing portfolio and is an example of our focus on developing long-term sustainable commercial relationships."

Analyst briefing

A briefing for analysts will be held at 10:30 BST on Tuesday 29 September via teleconference. Analysts wishing to join should contact InvestorRelations@panmure.com to register and receive dial-in details. A copy of the analyst presentation will be made available on the Group website shortly after the analyst briefing.

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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 32 countries in Europe and a further 16 worldwide. The Group is focused on bringing new and innovative products to market through its own development pipeline, partnerships and via acquisition.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014 (MAR).

Chairman's Statement

Animalcare has demonstrated remarkable resilience and strategic focus during what has been an extraordinarily testing period for our sector.

That resilience is underlined by our financial performance over the first half of 2020. To have navigated such challenging trading conditions with a year-on-year decline in revenue and Underlying EBITDA of 4.4% and 2.4% respectively – at the higher end of our scenario modelling range – is testament to the agility of our business and the strength of the platform we had built coming into 2020. You can read more details about our performance in the Financial Review of this report.

This platform not only allows us to deal with the economic reverses, the cash it generates equips us to grow our business. Under our CEO Jenny Winter, the Group has succeeded in keeping our long-term growth strategy in sharp focus despite the disruption of COVID-19. The strengthened capability of our leadership team has enabled us to continue pursuing investment opportunities that will grow our business and create sustainable value for our shareholders. Our recently announced agreement with Canada's Kane Biotech is an excellent example of this approach and the Board is open to use the full range of appropriate funding options as we deliver on our business development objectives in the coming months and years.

The Group's internal pipeline has also reached an important phase with our differentiated COX-2 inhibitor pain treatment progressing in line with our expectations. We believe this novel drug has significant potential in all our markets. To maximise that opportunity, we have developed detailed plans to support a 2021 launch – regulatory approval permitting, of course.

There are many reasons to be optimistic as we execute our growth strategy. But while the worst of the pandemic may be behind us, the spread of the COVID-19 virus and its economic aftereffects create continued uncertainty.

In March this year the Board decided to defer payment of the second dividend for 2019, providing a platform to continue progressing opportunities during the pandemic crisis. In keeping with our undertaking at the time, we have now reviewed this deferral and have decided to retain the £1.4m initially allocated for the second 2019 dividend to support investment in growth. A proportion of these funds will now be directed to support the agreement with Kane Biotech. Reflecting the resilience of the business over the first half and post period end, as well as the confidence of the Board, we propose to resume payment of the dividend for 2020. We strongly believe that this approach is in the long-term interests of shareholders.

Our Company is in a strong position as a direct result of the hard work, expertise and market knowledge of our people across the organisation. I'd like to take this opportunity to thank our employees who have shown exceptional commitment during these unprecedented times.

Jan Boone, *Chairman*

Business Review

We continue to make progress on our five clear strategic priorities that are designed to deliver our goal of above market growth in three to five years.

Strong financial platform

Entering 2020 on a strong financial platform has enabled the Group to weather the disruption and challenges caused by COVID-19 while continuing to invest in opportunities for growth. While revenues were down by 4.4% year-on-year over the first half and underlying EBITDA declined 2.4%, overall performance metrics were at the upper end of the range in the Group's scenario modelling. The benefits of the Group's diverse portfolio were visible in the growth in Production Animals (up 13.1%) partially offsetting the 10.6% decline in the Companion Animals segment which was more impacted by government measures designed to combat spread of COVID-19.

Right people and capabilities

The Group continues to strengthen the leadership team and capabilities across the organisation. The roll-out of our Sales and Marketing excellence programme is designed to improve the quality and consistency of approach. This will be particularly important in supporting the market development, launch and ongoing commercialisation of differentiated products. With the pandemic accelerating the shift to digital working by veterinary practices, suppliers, distributors and other stakeholders, the Group has initiated a review of operations in order to capitalise on the rapidly developing "new normal".

Reinforcing our existing portfolio

We continue to move towards our target of generating 80% of revenue from the top 20 products by reducing the number of low revenue products and increasing sales and marketing activities on the largest products with highest margins and biggest growth prospects. Several products have been delisted or withdrawn during the period.

Building our pipeline

Animalcare's novel COX-2 inhibitor pain treatment (Enflicoxib E-6087) continues to progress through the regulatory process. Detailed plans are in place for a concerted 2021 launch across all direct markets and through international partners, subject to approval.

Business development

The Group is pursuing a number of opportunities that will reinforce the existing portfolio, generate increased revenues from a reduced number of differentiated products and extend geographical reach.

The recently announced CA$5 million agreement with Canadian company Kane Biotech will form an animal health company to target biofilm-related ailments. Under the terms of the deal, Animalcare will commercialise Kane Biotech's range of oral care products for companion animals outside the Americas while the new jointly-owned company, named STEM Animal Health Inc., will focus on the research and development of novel animal treatments based on biofilm targeting technology. Animalcare launches of Kane Biotech's coactiv+™ and DispersinB® products are planned for the second half of 2021 and the Board expects the agreement to be earnings enhancing in 2022.

The roll-out of Procanicare, the probiotic gastrointestinal treatment for dogs, is progressing across markets despite the disruption to the operation of veterinary practices caused by COVID-19, especially in the first half.

Financial Review

Overview of underlying financial results

The Group is pleased to report a resilient first half trading performance despite the disruption due to COVID-19. We entered the financial year in a strong financial position, which has been maintained throughout the period.
A summary of the underlying financial results, which the Directors believe provides a clearer understanding of business performance, is shown below.

Six Months to 30 June	**2020**	2019	% Change at AER
	£'000	£'000	%
Revenue	**34,520**	36,121	(4.4%)
Gross Profit	**17,937**	19,135	(6.3%)
Gross Margin %	**52.0%**	53.0%	(1.0%)
Underlying Operating Profit	**4,915**	5,178	(5.1%)
Underlying EBITDA	**6,606**	6,765	(2.4%)
Underlying EBITDA margin %	**19.1%**	18.7%	0.4%
Basic Underlying EPS (p)	**5.9p**	6.4p	(7.8%)

Revenue

Revenue for the period was £34.5m (2019: £36.1m) a decline of 4.4% (4.8% decline at CER). Revenue by product category is shown in the table below:

Six Months to 30 June	**2020**	2019	% Change at AER
	£'000	£'000	%
Companion Animals	**21,210**	23,724	(10.6%)
Production Animals	**10,543**	9,322	13.1%
Equine & other	**2,767**	3,075	(10.0%)
Total	**34,520**	36,121	(4.4%)

Companion Animals revenue declined by 10.6% to £21.2m largely reflecting the disruption to veterinary activity across Europe caused by the pandemic. As we entered Q2, while the veterinary market remained open for business, in the majority of our markets, lock-down and social distancing measures led to restricted opening hours and consultations. This disruption has reduced the opportunities for interaction with many veterinary practices with the effect that launches of new products have been slowed or deferred.

The COVID-19 impact was particularly prevalent within the UK, which was subject to large-scale closures of veterinary practices, with all but urgent and emergency cases being seen. Together, these measures resulted in a marked decline in the number of clients visiting a small animal vet practice. Evidence of a return to more normal customer activity in some markets was visible at the end of the first half and has continued to develop post period-end. However, uncertainty about the shape and extent of a recovery in demand prevails.

In contrast, Production Animals revenue grew by 13.1% vs prior period to £10.5m, largely driven by strong growth in Spain, which benefited from the recent restructuring and partial reversal of the de-stocking observed towards the

end of FY19. Large animal practices were in general less impacted due both to the requirement to protect the food chain and more industrial nature of this market. We expect this trend to continue through H2.

Equine and other sales decreased by 10.0% to £2.8m principally due to phasing of export sales.

Underlying operating results

Underlying EBITDA decreased by 2.4% to £6.6m (2019: £6.8m) principally reflecting the revenue decrease and higher percentage of lower margin Production Animals sales. However, Underlying EBITDA margin strengthened to 19.1% versus the prior period driven by the benefits from cost efficiencies generated during 2019 together with decisive action to realign SG&A spend during Q2. As a result, adjusted SG&A expenses as a percentage of revenue were 32.8% compared to 35.7%. Around half of the SG&A savings generated from deferred or contracted spend related to COVID-19 has been allocated to support continued investment in drivers of future growth including new product launches, pipeline projects and business development opportunities, which we expect to increase during the second half.

The underlying effective tax rate was 24.2% (2019: 20.9%) primarily reflecting the larger proportion of profits arising, and expected to arise, in higher rate tax jurisdictions. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS decreased by 7.8% to 5.8 pence (2019: 6.4 pence).

Non-underlying items

Non-underlying items totalling £3.9m (2019: £6.7m) 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 £2.9m (2019: £4.5m). The decrease versus 2019 reflects the prior period non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.
2. Restructuring, acquisition and integration costs of £0.7m (2019: £1.9m) largely relating to restructuring of the Production Animals business unit in Spain and manufacturing transfer costs as we work towards simplifying our supply chain. The prior period charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing headcount reduction.

Dividend

On 25 March 2020, the Group announced the deferral of its final dividend for 2019, preserving cash of £1.4m, with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. We noted that the decision would be reviewed later in the financial year once we had more clarity about the ongoing effects of the pandemic on our business, at which time any decision will consider what actions are in the best interest of long-term shareholder value.

After this review, the Board has decided to waive the final dividend for 2019 and re-allocate the £1.4m cash preserved to invest in growth. A proportion of these funds will be directed to support investment in the recently announced agreement with Kane Biotech.

In respect of the interim dividend, and reflecting the resilient first half trading performance, strong financial position and our more confident outlook, we are pleased to announce an interim dividend of 2.0 pence per share, in line with the prior period. The interim dividend will be paid on 20 November 2020 to shareholders whose names are on the Register of Members at close of business on 23 October 2020. The ordinary shares will become ex-dividend on 22 October 2020.

We strongly believe the above decisions are in the long-term interest of our stakeholders.

Cash flow, net debt and borrowing facilities

Establishing and maintaining a strong financial platform is at the core of our strategy. The Group remains committed to generating strong levels of operating cash and maintaining a solid balance sheet, important in providing capacity to invest in our business for growth.

	Six months to 30 June 2020 £'000	Six months to 30 June 2019 £'000
Underlying EBITDA	**6,606**	6,765
Net cash flow from operations	**3,076**	4,831
Non-underlying items	**686**	1,415
Underlying net cash flow from operations	**3,762**	6,246
Cash conversion %	**56.9%**	92.3%

The Group's underlying cash conversion at 56.9% (2019: 92.3%) was impacted by a £3.7m increase in working capital compared to £1.0m in the prior period, largely reflecting movement in our inventories since the start of the financial year. Within our 2019 full year results announcement on 28 May 2020, we highlighted that, following the £2.5m reduction in FY19, we expected to increase inventories by approximately £1.5m during 2020 due to strategic stock build, relating to manufacturing transfers, in certain key brands. At the half year, such stock build equated to approximately £1.1m of the overall £2.3m cash increase in our inventories. The balance primarily relates to the demand disruption in Q2 trading as a result of COVID-19. During the second half we plan to invest a further £0.9m in stock cover for a Top 5 brand to protect sales in FY21.

Non-underlying cash items principally relate to the restructuring costs and post-acquisition and integration costs as noted above. Net debt has increased in the period by £0.3m to £18.1m. Exchange rate variations adversely impacted the net debt position by £1.7m.

	£'000
Net debt at 1 January 2020	**(17,812)**
Net cash flow from operations	3,076
Net capital expenditure	(961)
Net finance expenses	(845)
Foreign exchange on cash and borrowings	(1,666)
Movement in IFRS16 lease liabilities	109
Net debt at 30 June 2020	**(18,099)**

During the period, all non-essential capex was put on hold, in effect preserving £0.4m. Net capital expenditure of £1.0m largely comprises investment in our novel pain product developed internally for use in dogs. This was submitted to the European Regulatory authority in January 2020 and the regulatory process is progressing in line with expectations. Subject to regulatory approval, we remain on track to launch during 2021.

The net debt to underlying EBITDA leverage ratio was 1.4 times (2019: 1.9 times) versus the bank covenant of 3.5 times. At 30 June 2020, total facilities were £47.0m, of which £18.5m, net of cash balances of £3.3m, was utilised, leaving headroom of £26.8m.

Going Concern

Banking Facilities and Covenants

At 30 June 2020, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities mature in March 2022.

The facilities are 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 2020, all covenant requirements were met with significant headroom across all three measures. As at 30 August 2020, the net debt to underlying EBITDA ratio was approximately 1.2 times. Headroom on the banking facilities, including cash on balance sheet, was £28.1m.

COVID-19 Scenario Analysis – Update
The Group entered the pandemic period in a strong financial position, which has been maintained post period end, supported by careful management of both our SG&A costs and capital expenditure.

In our full year results announced on 28 May 2020, we shared a scenario analysis, attempting to quantify the potential impact on our business through to June 2021 of a range of downside revenue estimates with mitigating actions on cost and cash flow. At that time, we modelled a rolling 12-month downturn of between 13% and 22% compared to 2019, with the most significant impact during a quarter in which lockdown measures are enforced. In the downside scenarios, a prolonged lockdown of six months, or a second wave mirroring Q2 2020, both with subsequent slower recovery, was considered.

While trading for the first half was down on the prior period, our overall performance during Q2 was above the higher end of the Company's range of scenario modelling, leading to, as noted previously, a resilient first half year.

We have continued to develop and update our scenario analysis as the financial year progresses. Evidence of a return to more normal customer activity in some markets was visible at the end of the first half and has continued to develop post period-end. Uncertainty about the shape and extent of a recovery in demand prevails. However, we have demonstrated that the Group can and will take swift mitigating actions to maintain our financial resilience, including reducing SG&A spend, stopping all non-essential and non-committed capital expenditure and deferring dividends to preserve cash.

The results of these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations for at least the next 12 months. Therefore, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of the Interim Report. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Summary and Outlook
Despite the unprecedented trading conditions caused by COVID-19, Animalcare has responded well to the challenge with a robust performance over the first half. The Group entered 2020 in a strong financial position, helping to protect Animalcare from the worst effects of the pandemic while continuing to make progress against strategic priorities.

The long-term fundamentals of the animal health market remain attractive: companion animal ownership and willingness to spend on treatment and wellbeing are increasing globally and demand for animal protein is growing. In the more immediate future, our customer base is showing continued signs of recovery post period as veterinary practices find ways to operate successfully in a world with COVID-19; in terms of revenue, for the eight months to the end of August, we traded broadly in line with the previous year.

Strategically, the Group continues to deliver on its growth ambitions with the post-period end agreement with Canadian company Kane Biotech to jointly target biofilm-related ailments in animals. Launches by Animalcare of Kane Biotech's oral care products outside the Americas are planned for the second half of 2021 and the Board expects the agreement to be earnings enhancing in 2022.

The Board acknowledges that a significant level of market and economic uncertainty remains, predominately due to COVID-19. Marked variations between different countries and factors such as the slower uptake of new products caused by disruption to the operation of veterinary practices make it difficult to forecast performance with any precision.

But whatever challenges the remainder of 2020 present, we are confident that the Group's strong finances, its proven agility and focus on a clear growth strategy mean Animalcare will continue to be well placed to take advantage of opportunities and generate long-term value for our shareholders.

Jenny Winter, ***Chief Executive Officer***
Chris Brewster, ***Chief Financial Officer***

Condensed consolidated income statement

	Note	Underlying 2020 £'000	Non-Underlying (note 3) 2020 £'000	Total 2020 £'000	Underlying 2019 £'000	Non-Underlying (note 3) 2019 £'000	Total 2019 £'000
		For the six months ended 30 June					
Revenue	4	**34,520**	**–**	**34,520**	36,121	–	36,121
Cost of sales		**(16,583)**	**–**	**(16,583)**	(16,986)	–	(16,986)
Gross profit		**17,937**	**–**	**17,937**	19,135	–	19,135
Research and development expenses		**(1,163)**	**(547)**	**(1,710)**	(1,662)	(622)	(2,284)
Selling and marketing expenses		**(5,685)**	**–**	**(5,685)**	(6,222)	–	(6,222)
General and administrative expenses		**(6,235)**	**(2,376)**	**(8,611)**	(6,109)	(2,380)	(8,489)
Net other operating income / (expenses)		**61**	**(986)**	**(925)**	36	(3,711)	(3,675)
Operating profit/(loss)	4	**4,915**	**(3,909)**	**1,006**	5,178	(6,713)	(1,535)
Financial expenses		**(488)**	**–**	**(488)**	(515)	–	(515)
Financial income		**244**	**–**	**244**	216	–	216
Profit/(loss) before tax		**4,671**	**(3,909)**	**763**	4,879	(6,713)	(1,834)
Income tax		**(1,129)**	**832**	**(297)**	(1,022)	1,268	246
Net Profit/(loss)	4	**3,542**	**(3,077)**	**466**	3,857	(5,445)	(1,588)
Net profit/(loss) attributable to:							
The owners of the parent		**3,542**	**(3,077)**	**466**	3,857	(5,445)	(1,588)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:							
Basic		5.9p		0.8p	6.4p		(2.6p)
Diluted		5.9p		0.8p	6.4p		(2.6p)

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	
	2020	**2019**
	£'000	£'000
Net profit/(loss) for the period	**466**	(1,588)
Other comprehensive income/(expense)		
Cumulative translation differences *	**672**	(90)
Other comprehensive income/(expense), net of tax	**672**	(90)
Total comprehensive income/(expense) for the period, net of tax	**1,138**	(1,678)
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**1,138**	(1,678)

* May be reclassified subsequently to profit & loss

Condensed consolidated statement of financial position

	30 June 2020 unaudited	30 June 2019 unaudited	31 December 2019 audited
	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	**51,135**	50,940	50,454
Intangible assets	**41,097**	47,085	43,000
Property, plant and equipment	**292**	403	312
Right-of-use assets	**1,805**	2,194	1,917
Deferred tax assets	**1,544**	1,925	1,524
Other financial assets	**63**	60	59
Other non-current assets	**49**	291	72
Total non-current assets	**95,985**	102,898	97,338
Current assets			
Inventories	**13,826**	12,895	11,102
Trade receivables	**11,852**	12,046	10,891
Other current assets	**1,032**	3,230	2,746
Cash and cash equivalents	**3,342**	3,887	6,165
Total current assets	**30,052**	32,058	30,904
Total assets	**126,037**	134,956	128,242
Liabilities			
Current liabilities			
Borrowings	**(328)**	(324)	(612)
Lease liabilities	**(874)**	(938)	(830)
Trade payables	**(10,355)**	(9,581)	(10,334)
Tax payables	**(686)**	(1,896)	(1,288)
Accrued charges and deferred income	**(2,707)**	(2,299)	(2,063)
Other current liabilities	**(2,021)**	(3,371)	(2,799)
Total current liabilities	**(16,971)**	(18,409)	(17,926)
Non-current liabilities			
Borrowings	**(19,286)**	(24,477)	(21,428)
Lease liabilities	**(952)**	(1,276)	(1,106)
Deferred tax liabilities	**(5,028)**	(5,154)	(5,176)
Deferred income	**(600)**	(606)	(599)
Provisions	**(128)**	(106)	(118)
Total non-current liabilities	**(25,994)**	(31,619)	(28,427)
Total Liabilities	**(42,965)**	(50,028)	(46,353)
Net Assets	**83,072**	84,929	81,889
Equity			
Share capital	**12,012**	12,012	12,012
Share premium	**132,729**	132,729	132,729
Reverse acquisition reserve	**(56,762)**	(56,762)	(56,762)
Accumulated losses	**(8,130)**	(6,305)	(8,640)
Other reserves	**3,223**	3,255	2,550
Equity attributable to the owners of the parent	**83,072**	84,929	81,889
Total equity	**83,072**	84,929	81,889

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	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2019	12,012	132,729	(4,732)	(56,762)	3,345	86,592	–	**86,592**
Net profit	–	–	(1,588)	–	–	(1,588)	–	**(1,588)**
Other comprehensive expense	–	–	–	–	(90)	(90)	–	**(90)**
Total comprehensive income/(expense)	–	–	(1,588)	–	(90)	(1,678)	–	**(1,678)**
Share-based payments	–	–	16	–	–	16	–	**16**
At 30 June 2019	12,012	132,729	(6,305)	(56,762)	3,255	84,929	–	**84,929**

	Attributable to the owners of the parents							
	Share capital	Share premium	Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling 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 loss	**–**	**–**	**466**	**–**	**–**	**466**	**–**	**–**
Other comprehensive expense	**–**	**–**	**–**	**–**	**672**	**672**	**–**	**672**
Total comprehensive expense	**–**	**–**	**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**

Condensed consolidated cash flow statements

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Cash flows from operating activities		
Profit/(loss) before tax	**763**	(1,834)
Profit/(loss) before tax	**763**	(1,834)
Adjustments for:		
Depreciation of property, plant and equipment	**610**	618
Amortisation of intangible assets	**4,020**	3,968
Impairment of intangible assets	**–**	1,518
Share-based payment expense	**43**	16
Loss/(gain) on disposal of property, plant and equipment	**(16)**	–
Non-cash movement in provisions	**300**	–
Movement in allowance for bad debt and inventories	**362**	433
Financial income	**(148)**	(72)
Financial expense	**467**	409
Impact of foreign currencies	**(79)**	(46)
Non-cash restructuring expenses	**–**	778
Other	**(3)**	(2)
Movements in working capital		
(Increase)/decrease in trade receivables	**(582)**	1,550
(Increase)/decrease in inventories	**(2,342)**	1,533
Decrease in payables	**(797)**	(4,071)
Income tax received	**478**	33
Net cash flow from operating activities	**3,076**	4,831

Condensed consolidated cash flow statements (continued)

Investing activities		
Purchase of property, plant and equipment	**(49)**	(29)
Purchase of intangible assets	**(961)**	(1,294)
Proceeds from the sale of property, plant and equipment (net)	**49**	11
Net cash flow used in investing activities	**(961)**	(1,312)
Financing activities		
Repayment of loans and borrowings	**(3,760)**	(6,508)
Repayment IFRS16 lease liability	**(526)**	(491)
Interest paid	**(264)**	(327)
Other financial (expense)/income	**(55)**	(11)
Net cash flow used in financing activities	**(4,605)**	(7,337)
Net decrease in cash and cash equivalents	**(2,490)**	(3,819)
Cash and cash equivalents at beginning of period	**6,165**	8,035
Exchange rate differences on cash and cash equivalents	**(333)**	(329)
Cash and cash equivalents at end of period	**3,342**	3,887
Reconciliation of net cash flow to movement in net debt		
Net decrease in cash and cash equivalents in the period	**(2,490)**	(3,819)
Cash flow from decrease in debt financing	**3,760**	6,508
Foreign exchange differences on cash and borrowings	**(1,666)**	(14)
Movement in net debt in the period	**(396)**	2,675
Net debt at the start of the period	**(17,812)**	(23,588)
Movement in lease liabilities during the period	**109**	(2,214)
Net debt at the end of the period	**(18,099)**	(23,127)

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 2020 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

This interim financial information for each of the six month periods ended 30 June 2020 and 30 June 2019 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 2019 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 2020 was approved by the Board of Directors and authorised for issue on 29 September 2020.

Except as described below, the condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 31 December 2019 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*, which will form the basis of the 2020 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.
Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the Interim Report of the Company:

- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 3 Business Combinations – Amendments to clarify the definition of a business
- IAS 1 Presentation of Financial Statements – Amendments regarding the definition of material
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Amendments regarding the definition of material
- IFRS 9, IAS 39 and IFRS 7 - Amendments regarding the Interest Rate Benchmark Reform
- IFRS 16 amendment – Covid-19-related rent concessions.

Going Concern

Banking Facilities and Covenants
At 30 June 2020, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m, a €10m acquisition line, which cannot be utilised to fund our operations, and €4.1m investment loans. All facilities mature in March 2022.
The facilities are 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 2020, all covenant requirements were met with significant headroom across all three measures.
As at 30 August 2020, the net debt to underlying EBITDA ratio was approximately 1.2 times. Headroom on the banking facilities, including cash on balance sheet, was £28.1m.

COVID-19 Scenario Analysis - Update
The Group entered the pandemic period in a strong financial position, which has been maintained post period end, supported by careful management of both our SG&A costs and capital expenditure.

In our full year results announced on 28 May 2020, we shared a scenario analysis, attempting to quantify the potential impact on our business through to June 2021 of a range of downside revenue estimates with mitigating actions on

cost and cash flow. At that time, we modelled a rolling 12-month downturn of between 13% and 22% compared to 2019, with the most significant impact during a quarter in which lockdown measures are enforced. In the downside scenarios, a prolonged lockdown of six months, or a second wave mirroring Q2 2020, both with subsequent slower recovery, was considered.

While trading for the first half was down on the prior period, our overall performance during Q2 was above the higher end of the Company's range of scenario modelling, leading to, as noted previously, a resilient first half year.
We have continued to develop and update our scenario analysis as the financial year progresses. Evidence of a return to more normal customer activity in some markets was visible at the end of the first half and has continued to develop post period-end. Uncertainty about the shape and extent of a recovery in demand prevails. However, we have demonstrated that the Group can and will take swift mitigating actions to maintain our financial resilience, including reducing SG&A spend, stopping all non-essential and non-committed capital expenditure and deferring dividends to preserve cash.

The results of these scenarios indicate that the Group would operate well within its committed revolving credit facility of €41.5m and maintain headroom against all covenant obligations for at least the next 12 months. Therefore, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating for at least 12 months from the approval date of the Interim Report. Accordingly, the Directors continue to adopt the going concern basis of preparation.

3 Non-underlying items

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**547**	622
Classified within General and administrative expenses	**2,376**	2,380
Classified within net other operating expenses	**–**	1,518
Total amortisation and impairment of acquisition related intangibles	**2,923**	4,520
Restructuring costs	**351**	1,823
Acquisition and integration costs	**304**	77
Divestments and business disposals	**49**	–
Brexit-related costs	**2**	118
Other non-underlying items	**280**	175
Total non-underlying items before taxes	**3,909**	6,713
Tax impact	**(832)**	(1,268)
Total non-underlying items after taxes	**3,077**	5,445

The amortisation charge of acquisition related intangibles largely relates to the Esteve acquisition £1,001k (30 June 2019: £1,005k) and the reverse acquisition of Animalcare Group plc £1,740k (30 June 2019: £1,814k).

Restructuring, acquisition and integration costs of £0.7m (2019: £1.9m) largely relating to restructuring of the Production Animals business unit in Spain and manufacturing transfer costs as we work towards simplifying our supply chain. The prior period charge primarily relates to the R&D and Technical & Regulatory team centralisation and associated costs of implementing headcount reduction.

In 2019, the Group recorded an impairment charge of £1,518k for acquisition related intangibles that related to an impairment of projects within the R&D pipeline who are deemed no longer economically viable due to technical difficulties in the development process.

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	
	2020	**2019**
	Pharma	**Pharma**
	£'000	£'000
Revenues	**34,520**	36,121
Gross Margin	**17,936**	19,135
Gross Margin %	**52.0%**	53.0%
Segment underlying EBITDA	**6,606**	6,765
Segment underlying EBITDA %	**19.1%**	18.7%
Segment EBITDA	**5,634**	4,573
Segment EBITDA %	**16.3%**	12.7%

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

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Segment EBITDA	**5,634**	4,573
Depreciation, amortisation and impairment	**(4,628)**	(6,108)
Operating profit/(loss)	**1,006**	(1,535)
Financial expenses	**(488)**	(515)
Financial income	**244**	216
Income taxes	**(402)**	(346)
Deferred taxes	**106**	592
Net profit/(loss)	**466**	(1,588)

Revenue by product category:

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Companion animals	**21,210**	23,724
Production animals	**10,543**	9,322
Equine	**2,758**	2,970
Pet food, Instrumentation and Services	**–**	105
Total	**34,520**	36,121

Revenue by geographical area:

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Belgium	**4,840**	4,351
The Netherlands	**659**	1,090
United Kingdom	**4,255**	7,211
Germany	**5,209**	5,081
Spain	**9,650**	9,771
Italy	**3,895**	2,857
Portugal	**2,379**	2,575
European Union - other	**2,608**	2,612
Asia	**603**	238
Middle East Africa	**26**	23
Other	**396**	312
Total	**34,520**	36,121

Revenue by category:

	For the six months ended 30 June	
	2020	**2019**
	£'000	£'000
Product sales	**34,000**	35,551
Services sales	**520**	570
Total	**34,520**	36,121

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference to 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 were used in the earnings per share computations:

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2020	**2019**	**2020**	**2019**
	£'000	£'000	**£'000**	£'000
Net profit/(loss)	**3,542**	3,857	**466**	(1,588)
Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**3,542**	3,857	**466**	(1,588)

Average number of shares (basic and diluted):

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2020	**2019**	**2020**	**2019**
	Number	Number	**Number**	Number
Weighted average number of ordinary shares for basic earnings per share	**60,057,161**	60,057,161	**60,057,161**	60,057,161
Dilutive potential ordinary shares	**256,510**	-	**256,510**	-
Weighted average number of ordinary shares adjusted for effect of dilution	**60,313,671**	60,057,161	**60,313,671**	60,057,161

Basic earnings/(loss) per share:

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2020	**2019**	**2020**	**2019**
	Pence	Pence	**Pence**	Pence
Basic earnings/(loss) per share attributable to the ordinary equity holders of the company	**5.9**	6.4	**0.8**	(2.6)

Diluted earnings/(loss) per share:

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2020	**2019**	**2020**	**2019**
	Pence	Pence	**Pence**	Pence
Diluted earnings/(loss) per share attributable to the ordinary equity holders of the company	**5.9**	6.4	**0.8**	(2.6)

6 Dividends

On 25 March 2020, the Group announced the deferral of its final dividend for 2019, preserving cash of £1.4m, with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. We noted that the decision would be reviewed later in the financial year once we had more clarity about the ongoing effects of the pandemic on our business, at which time any decision will consider what actions are in the best interest of long-term shareholder value.

After this review, the Board has decided to waive the final dividend for 2019 and re-allocate the £1.4m cash preserved to invest in growth.

In respect of the interim dividend, and reflecting the resilient first half trading performance, strong financial position and our more confident outlook, we are pleased to announce an interim dividend of 2.0 pence per share, in line with the prior period. The interim dividend will be paid on 20 November 2020 to shareholders whose names are on the Register of Members at close of business on 23 October 2020. The ordinary shares will become ex-dividend on 22 October 2020.

We strongly believe the above decisions are in the long-term interest of our stakeholders.

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 2020 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 disputed the basis and the value of the claim. Following various discussions and correspondence, during which the parties have been unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A preliminary court hearing took place on 3 September 2020 and a procedural calendar has been set by the court up to 31 January 2021 to submit legal briefs. The Company strongly disagrees with the claim and has not made any provision in respect of this matter in the financial statements. As part of our defence we have counter-claimed for the outstanding amounts due to Ecuphar under the SPA.

8 Related part transactions

There have been no new related party transactions that have taken place in the six months ended 30 June 2020.

9 Subsequent events

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. (TSX-V:KNE; OTCQB:KNBIF) under which the parties will form STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. Animalcare will invest CA$5 million, consisting of CA$3 million to acquire a one-third stake in STEM, and a further CA$2 million for rights to commercialise products in global veterinary markets outside of the Americas.

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 2020 was approved and authorised for issue on 29 September 2020. Copies will be available to download on the Company's website at: www.animalcaregroup.com.