ANIMALCARE
GROUP PLC

ANNUAL REPORT

for the year ended
31 December 2019

PARTNERING
FOR BETTER
ANIMAL HEALTH

WELCOME TO ANIMALCARE GROUP PLC

Animalcare is a passionate organisation committed to leading in animal health through innovative and trusted products and services to support the veterinary profession.
We care about the well-being of animals and the positive impact that healthy animals have on their owners and society.

Read about our **Business** on **page 08**

Read more online at **www.animalcaregroup.com**

We are focused on financial sustainability and long-term growth.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Significant improvement in cash performance and reduced net debt

Revenue
£71.1m

↓1.9%

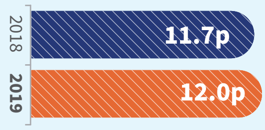
Underlying** EBITDA
£13.1m

↑11.3%

(+1.7% adjusted)

Underlying* Basic EPS
12.0p

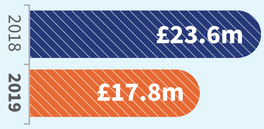
↑2.6%



Net debt
£17.8m

↓£5.8m

Net debt 2019 = £17.8m with net debt: underlying EBITDA leverage ratio at 1.4 times



STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Strengthened capability in strategically important areas of business development and marketing
- Significant progress towards goal of generating 80% of revenue from top 20 products in pursuit of a more profitable portfolio
- Newly introduced Companion Animal products contributing to sales with £1.5m generated in the year. Four 2019 product launches expected to show sales benefit in 2020
- Internal pipeline progressing with completion of clinical studies and regulatory submission post year end for Enflicoxib E6087 for treatment of pain in dogs
- Partnering efforts yield new distribution deals that strengthen treatment options in growth segments of Companion Animals and Equine

* A reconciliation of underlying to reported results can be found on page 20

** A reconciliation of underlying to reported results may be found on page 18

Strategic Report

Our Governance

Our Financials

CHAIRMAN'S STATEMENT

> ***"Our goal is to become a leading animal health company. Through delivery of our strategy we are now able to leverage our increasingly strong base to drive future business growth."***
>
> **Jan Boone**
> Non-Executive Chairman

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

I am pleased to report another year of solid progress for Animalcare Group as we continue to build a strong platform that will deliver sustainable, profitable growth.

Underlying group earnings for 2019 were in line with market expectations despite the impact on revenue of previously reported supply challenges and the continuing reduction in antibiotic usage for production animals. Consistent with our financial priorities, we reported a strong cash performance versus last year reflected in improved cash conversion and a reduction in net debt of more than 30%. We also demonstrated a notable improvement in operating efficiency. After underlying adjustments totalling £10.8m, the loss before tax on a reported basis was £1.6m (2018: £0.4m loss).

Our long-term goal is to become a leading animal health company. Through delivery of our strategy we are better able to leverage our strong base to drive future business growth. This will be achieved through a focus on current key brands as well as new products, particularly higher margin differentiated products within core therapy areas. Alongside this we will continue to work with high calibre partners to further build a pipeline of products that meets our criteria for growth.

Since joining Animalcare in October 2018, our CEO Jenny Winter has charted a clear path for the business based upon delivery against five strategic pillars. A key part of this strategy has been to build our capability in functions that will drive growth, most notably within business development and marketing where we have made some excellent additions to the team.

The Group's performance in 2019 means we entered 2020 in a strong financial position. This has never been more important as the world faces an unprecedented challenge posed by the coronavirus pandemic. Our financial strength will help maintain the Group's operational resilience while enabling us to remain focused on our long-term growth strategy. With this in mind, spending and overheads are being minimised while capital expenditure, where appropriate, has been frozen. And, as announced in March 2020, the Board has decided to defer payment of the final dividend, thereby preserving approximately £1.4 million in cash in the Group.

Our overarching priority is, as always, the safety and wellbeing of our employees. We were rapid adopters of home working to safeguard our people, their families and the wider community while allowing us to continue serving the needs of our customers.

At time of publication, it is too early to forecast the extent of any economic impact on the Group. After a strong performance in the first three months, it is clear, however, that significant disruption to the animal health sector is unavoidable with a resulting downturn in demand visible from the second quarter of 2020.

I'm confident that our agility, an intimate knowledge of our markets and a clear strategic focus – combined with our financial strength – positions us to emerge successfully from these unprecedented circumstances.

All this underlines the crucial importance of the people whose enthusiasm, expertise and skill drive this business forward every day. On behalf of the Board I want to offer a huge thanks to our staff for their continued dedication to Animalcare, particularly during this period of uncertainty.

I would also like to thank you, our shareholders, for your ongoing support and faith in this great business. We will keep you updated on our progress during the course of the year.

Jan Boone
Non-Executive Chairman

WHY ANIMALCARE?

Our relationship with key stakeholders

Strong Financial Platform

Establishing a strong financial platform is at the heart of our strategy and we set ourselves the target of identifying opportunities for revenue growth, improving cash conversion and reducing debt. Cash generation improved significantly during 2019, providing the funds we need to invest in growth.

Customer Relationships

With an agile business model, and strong brands in our core therapeutic areas, we work closely with our customers to support them as a trusted partner and to ensure we are aligned with their changing needs.

Partnerships

Animalcare offers access for companies and researchers seeking to commercialise novel and high quality pharmaceutical and OTC products to vets across Europe via our specialist sales organisations and strong third-party relationships; at the same time, we seek to commercialise our own innovation in markets outside Europe through best-in-class collaborations.

Organisation for success

We have continued to strengthen our leadership team and our capabilities across the organisation which is critical to our long-term success. As the veterinary market evolves with the introduction of corporate ownership of practices, we are continuing to build the right team and capabilities to work with this relatively new stakeholder group across Europe.

Read about how we create value for stakeholders in **Our Business Model** on page 08
Read about how we engage with stakeholders in **Our stakeholders** on page 10

1. **European animal healthcare company operating in companion, equine and production animal markets**

Read about our **Group at a glance** on page 04

2. **Product sales in 32 European markets through direct commercial presence and partnerships**

Read about our **Group at a glance** on page 04

3. **Supporting the needs of veterinary professionals in our core areas of pain management, dental, dermatology, disease prevention, surgery and microchipping**

Read about our **Business model** on page 08

4. **Developing a pipeline of novel and differentiated products from external and internal sources**

Read about **Delivering our Strategy** on page 12

We benefit from great products, a well established distribution network and strong relationships. These enable Animalcare to ensure the long term viability of our organisation and economic sustainability.

OUR GROUP AT A GLANCE

We develop, supply and market veterinary pharmaceutical products and services to support the veterinary profession.

What we do

- We develop and commercialise trusted pharmaceutical and OTC products that improve animal health and wellbeing. These are developed in house, acquired from other companies or in-licensed from our partners.
- We manage a complex international supply chain, including specialist veterinary wholesalers and distributors.
- We partner with companies to commercialise products across Europe.
- We sell products to veterinary practices and veterinary groups through our own highly skilled sales force.

Our products

Our products can be divided into three categories: Companion Animals, Production Animals and Equine. We have a broad portfolio of products targeted primarily at the veterinary profession and our Top 20 brands (including those listed in the table below) account for 46% of total revenue which we aim to increase over the next three to five years to 80%.

1. Aqupharm
Intravenous fluid range for companion and production animals used during routine operations and for the treatment of dehydration and shock.

2. Benazecare
Flavoured tablet for the treatment of congestive heart failure in dogs and the treatment of chronic renal insufficiency in cats.

3. Conofite
A topical suspension for cats and dogs with antifungal, antibiotic and anti-inflammatory properties used for the treatment of ear infections, ear mites and dermatitis.

4. Cosequin
A chewable range of joint supplements for cats, dogs and horses.

5. Danilon
A non-steroidal anti-inflammatory oral granule product for horses used in the treatment of pain and inflammation associated with musculoskeletal conditions.

6. Dinalgen
A non-steroidal anti-inflammatory injectable product for cows, pigs and horses used in the treatment of pain and inflammation.

7. Filavac
A rabbit vaccine to prevent against Rabbit Haemorrhagic Disease Types 1 and 2.

8. Leisguard
An oral suspension product to protect dogs against leishmaniasis disease (parasitic disease).

9. Orozyme
Dental range consisting of palatable rawhide chews and a hygiene gel for dogs formulated with enzymes selected to remove plaque from teeth and gums.

10. Seponver
Antiparasitic oral suspension for sheep.

OUR GEOGRAPHIC PRESENCE

We have direct commercial presence in seven European countries, with product sales in 32 markets. Animalcare is a partner for companies selling into and across Europe.

Our Companies

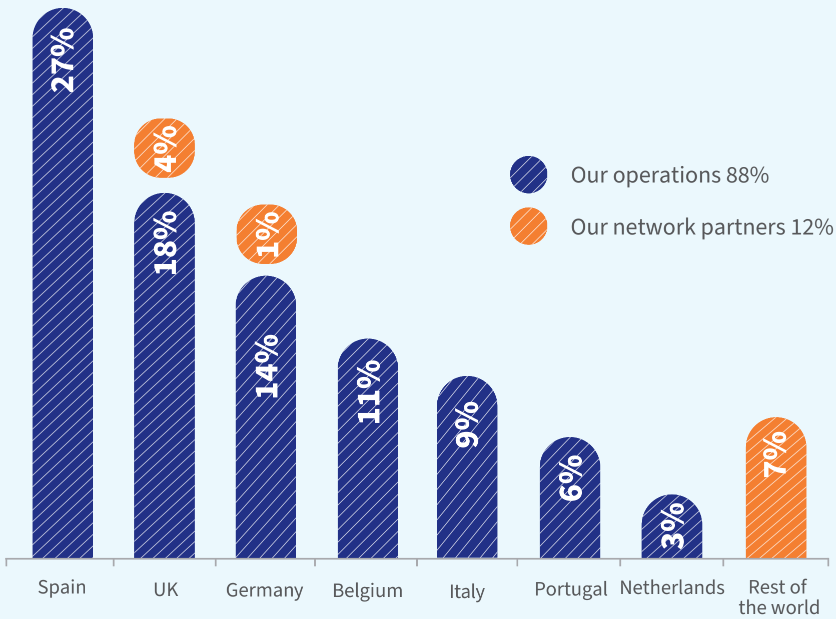
We operate in seven countries, each responsible for their respective sales and marketing activities. Our principal operating subsidiaries are as follows:

- Ecuphar NV
- Ecuphar BV
- Ecuphar GmbH
- Ecuphar Veterinaria SLU
- Ecuphar Italia Srl
- Belphar Lda
- Animalcare Ltd

KEY

- Our operations
- Our network partners

Revenue % by country



Read about our **Business model at a glance** on page 08

OUR MARKETPLACE

We monitor the market trends in order to understand the opportunities for Animalcare. We are focused on the therapeutic areas with good growth potential such as pain, disease prevention and dermatology.

Therapeutic markets

Pain

With improving health management and better access to veterinary medicines, companion animals are living longer than ever before. Chronic conditions such as Osteoarthritis affect up to a quarter of dogs[1] creating the need for novel medical solutions supported by non-prescription supplements.

Disease Prevention

Disease prevention promotes the health and wellbeing of animals. The decrease in sales of antibiotics has been partially replaced by an increase in vaccines and other prophylaxes alongside improved diagnostics.

Surgery

A core staple of all veterinary practices and key area of expertise and focus for the group.

Internal Medicine

Allergy and immunology, cardiology, endocrinology, haematology, gastroenterology, nephrology and oncology are specialist areas in a veterinary practice that require specialist products.

Dermatology

The canine atopic dermatitis market is forecast to have an impressive CAGR of 12.5% between 2019 and 2029 primarily driven by the growth of JAK inhibitors, new monoclonal antibody products and improved awareness and diagnoses[2].

Dental

Dental disease is very common in companion animals and it is estimated that 80% of dogs and 70% of cats develop gum disease by the age of three[3].

Our Competitive position

Animalcare is focused on providing an extensive range of trusted, high quality products in target therapeutic areas with high potential for growth in our home markets and through our international partners.

1. American College of Veterinary Surgeons
2. Canine Atopic Dermatitis Treatment Market – Future Market insights
3. Pet Oral Care products market – growth, trends and forecast (2020 – 2025), Mordor Intelligence

MARKET TRENDS

1.

The market for animal health is growing rapidly

We are focusing on the high growth areas of the market including dermatology, dental and disease prevention and moving away from declining and low margin areas.

Geographically we continue to expand our international partners network to take our products to new markets where we do not have the infrastructure or the brands to successfully enter the markets ourselves.

2.

Veterinary practice is changing and new stakeholders are becoming increasingly important

We continue to work closely with our key customer, the vet, to understand their environment and be responsive to the changes. Corporate accounts continue to expand across the continent and we leverage our strong European presence to offer European-wide solutions.

We have in-house experts such as specialist Equine vets, Key Account managers and experienced Animal health marketeers to align with the corporate structures and requirements while still focusing on and understanding the importance of the individual vet, especially in countries with low corporate account penetration such as Germany.

3.

Pet ownership is increasingly focused on pet health and wellbeing and new technologies are becoming available that prolong and increase quality of life

We continue to build on our heritage in the areas of surgery, dermatology and pain by adding the fast-growing area of disease prevention as one of our core focus areas. We expanded our existing pet health range by adding a novel gastro-intestinal product to the portfolio that already includes dental and joint supplements and continue to work on future developments or partnerships in this key area.

65.5 million
Number of dogs in the EU

19.4 million
Number of small mammals in the EU

75.3 million
Number of cats in the EU

10.6 million
Number of Equines in the EU

Geographic market

Europe is the second largest animal medicines market in the world and represents around one-third of the global market with a market value in 2019 estimated at just over €6.6bn, a 10% increase on 2018. While the total value of the industry is growing rapidly, the trends in the market remain constant.

80 million households in the EU are estimated to own at least one pet with 23% of households owning a cat and 25% owning a dog. There are more pet cats than dogs (75.3m versus 65.5m) with both cat and dog numbers stable.

Vaccines and parasiticides dominate the market and account for 61% of sales although parasiticides as a percentage of the total market have declined for the last five years while vaccines have increased over the same time period and are now the largest area of the market. The market share of antibiotics continues to drop as governments and consumers continued pressure to cut their use and find alternative solutions.

Pan European corporate vet practices continue to expand geographically acquiring practices in new countries including Belgium, France, Ireland and Italy in 2019. Wholesalers are consolidating or changing their business models with some repositioning themselves as technology companies while others are introducing larger ranges of own label products and competing with their historical customer base.

Read about our **Business Model** on page 08

4.

Diagnostic and digital technology are increasing

We are experienced in the use of technology for pet reunification through our Microchip and Identibase business in the UK and are continuing to develop this in line with the new technologies and to look for opportunities to expand in other countries and fully utilise our database.

The diagnostic market is forecast to grow at 8.8% compound annual growth rate (CAGR) from now until 2023 creating a $4bn market. The integration of internet of things (IoT) in pet wearables is expected to have a significant effect on medical treatments and diagnosis of medical problems and contribute to a forecast CAGR of 14.3% for pet wearables up until 2027.

5.

Changes in the use of antibiotics

Sales of antibiotics have dropped from 17.0% of the total European market in 2012 to just 12.2% in 2019 and we have reduced our focus on our antibiotics range accordingly.

OUR BUSINESS MODEL

By focusing our resources on the development, supply and marketing of products and services to the veterinary profession, our business model creates value for a range of stakeholders.

Our key resources

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group. Our ongoing objective is to create a high performing business driven by a skilled, unified and committed team.

We have strong knowledge of the Companion Animal, Equine and Farm Animal markets in which we operate and the regulations that govern them.

The relationships with the individual vets and veterinary groups that are our core customers are key and our sales force has excellent experience and knowledge of their markets and products to support the needs of these customers.

Animalcare operates a portfolio of over 300 brands with particular strengths in our core areas of pain management, dental, dermatology, disease prevention, surgery and microchipping.

Critical to our future growth is the further development of our pipeline.

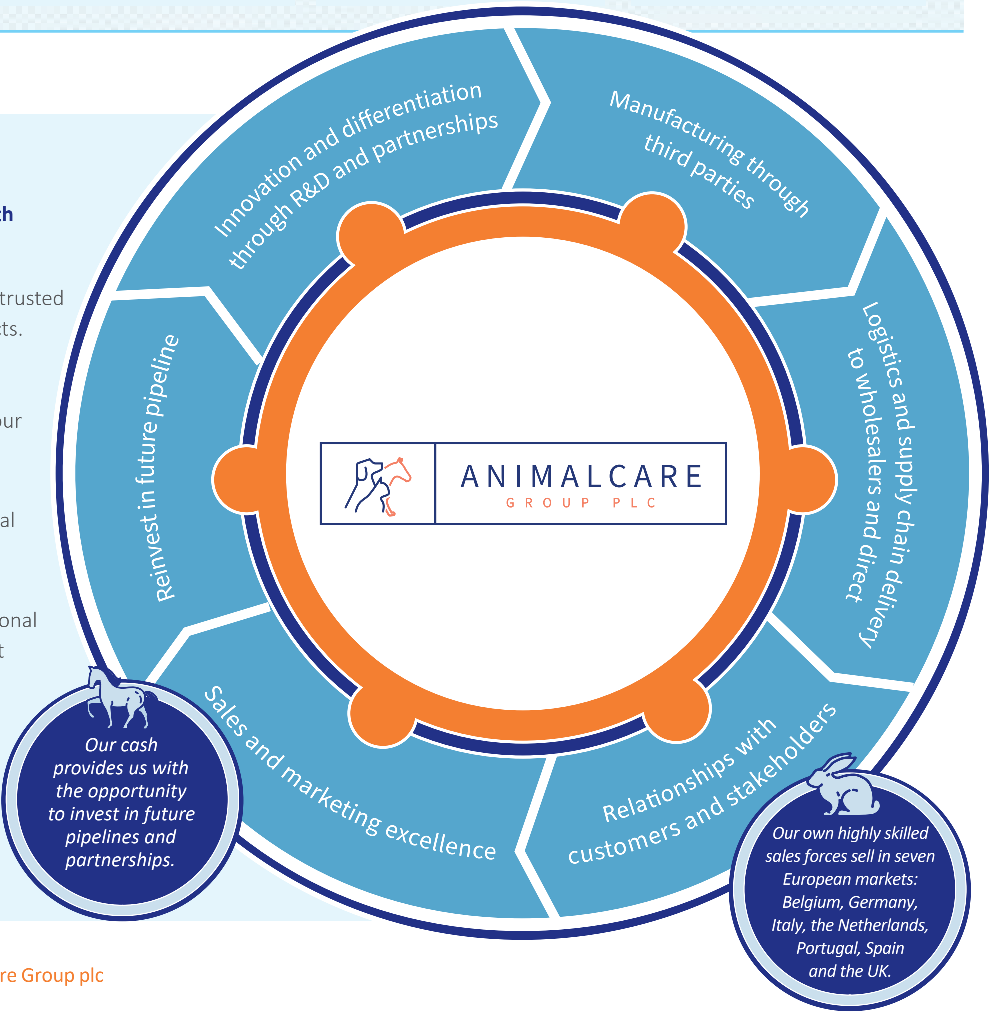
Our strong financial platform enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

Our key activities

This diagram represents how our core activities work together to create sustainable profitable growth of Animalcare.

- We develop and commercialise trusted pharmaceutical and OTC products. These products are developed in-house, acquired from other companies or in-licensed from our partners.
- We also seek to commercialise our own products in international markets through best-in-class collaborations.
- We manage a complex international supply chain, including specialist veterinary wholesalers

Through our close relationship with stakeholders and our sales and marketing capabilities we are able to sell products to veterinary practices and veterinary groups.



How we create value

The Board recognises that the long-term success of the Group is enhanced by positive relationships with all stakeholders, including employees, customers, suppliers and shareholders.

Generating strong cash flow enables us to invest in the business to grow, manage our debt, and deliver returns to our shareholders. Trust from our shareholders is key to delivering our strategy as access to capital will be important to the long-term performance of our business.

Read about **Our Stakeholders** on **page 10**

Value created for stakeholders

Employees

Employees benefit from the ability to improve their skills and work in a challenging and expanding organisation.

Customers

With an agile business model and close customer relationships, Animalcare seeks to provide a choice of innovative and trusted products and services to support veterinary professionals and other stakeholders to ensure we are aligned with their changing needs.

Suppliers

As the Group does not own manufacturing assets it works with a large base of third-party manufacturers for supply of finished products. We engage with suppliers to develop and maintain trusting long-term relationships and to create mutual value.

Shareholders

Through delivering our strategy, we aim to consistently deliver a strong financial performance for our shareholders and generate attractive returns over the long term.

Our competitive advantages underpin our business

1. **Our agility, expertise and local knowledge means we know our markets and are able to adapt to evolving needs.**

2. **We have developed trusted relationships with individual veterinary practices and larger veterinary groups.**

3. **We are increasingly focused on differentiated therapies that can meet the needs of our customers while delivering sustainable above-sector growth.**

4. **We are positioned as a preferred international partner for companies that want to develop new treatments or bring their innovative products into the European market place.**

Read about **Delivering our strategy** on **page 12**

OUR STAKEHOLDERS

S172 Statement

The Directors are well aware of their duty under Section 172(1) of the Company Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequence of any decision in the long term
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Company.

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under section 414CZA of The Companies Act 2006.

Our key stakeholders and how we engage with them

The Board considers its key stakeholders to be its employees, its customers, its suppliers and partners and its shareholders and the communities and environment in which we operate.

Our People

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group. Our ongoing objective is to create a high performing business driven by a skilled, unified and committed team.

Stakeholder key interests

- Career development
- Reward and recognition
- Engagement
- Training and development
- Wellbeing
- Health and safety

How we engage

- Employee engagement surveys
- Board meetings held at business units
- Enhanced internal communications via our 'People Portal'
- Leadership Development programmes

Customers

As the veterinary market continues to evolve, understanding the needs of our customers enables us to support them as a trusted partner. We continue to work closely with veterinary professionals and other stakeholders to ensure we are aligned with their changing needs.

Stakeholder key interests

- Safety, quality and reliability
- Product availability and effectiveness
- Competitiveness
- Our availability and responsiveness
- Relationship
- Compliance
- Range of products

How we engage

- Meetings/maintaining close relationships with veterinary practices and veterinary groups
- Participation in industry forums and events
- Product launch events
- Social media and commercial websites
- Contract negotiation, implementation and management of ongoing relationships
- Customer-specific events

Suppliers & partners

As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements. We need to maintain trusting relationships with suppliers and partners for mutual benefit and to ensure they are meeting our standards and conducting business ethically.

Stakeholder key interests

- Quality management
- Cost-efficiency
- Long-term relationships
- Responsible procurement, trust and ethics

How we engage

- Meetings with specialist veterinary wholesalers and distributors
- Meetings with key suppliers that represent 70% of purchasing spend
- Supplier forums and networking meetings
- Quality Management Reviews

Shareholders

Trust from our shareholders is key to delivering our strategy as access to capital will be important to the long-term success of our business. We ensure that we provide fair, balanced and understandable information to shareholders, potential investors and investment analysts and work to ensure that they have a strong understanding of our strategy and performance.

Stakeholder key interests

- Financial performance
- Governance and transparency
- Operating and financial information
- Confidence and trust in the Group's leadership team
- Total shareholder returns

How we engage

- Regular market updates
- Investor roadshows, meetings and presentations
- Dedicated investor section on corporate website
- Shareholder consultations
- Annual reports
- Annual General Meetings

Communities and Environment

Animalcare is committed to being a responsible member of our community and consider the environmental impact of our operations

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

- Support local and national charity partnerships
- Employee-matched fundraising
- Member of animal health trade associations
- More sustainable business practices including reducing travel

Key Board decisions

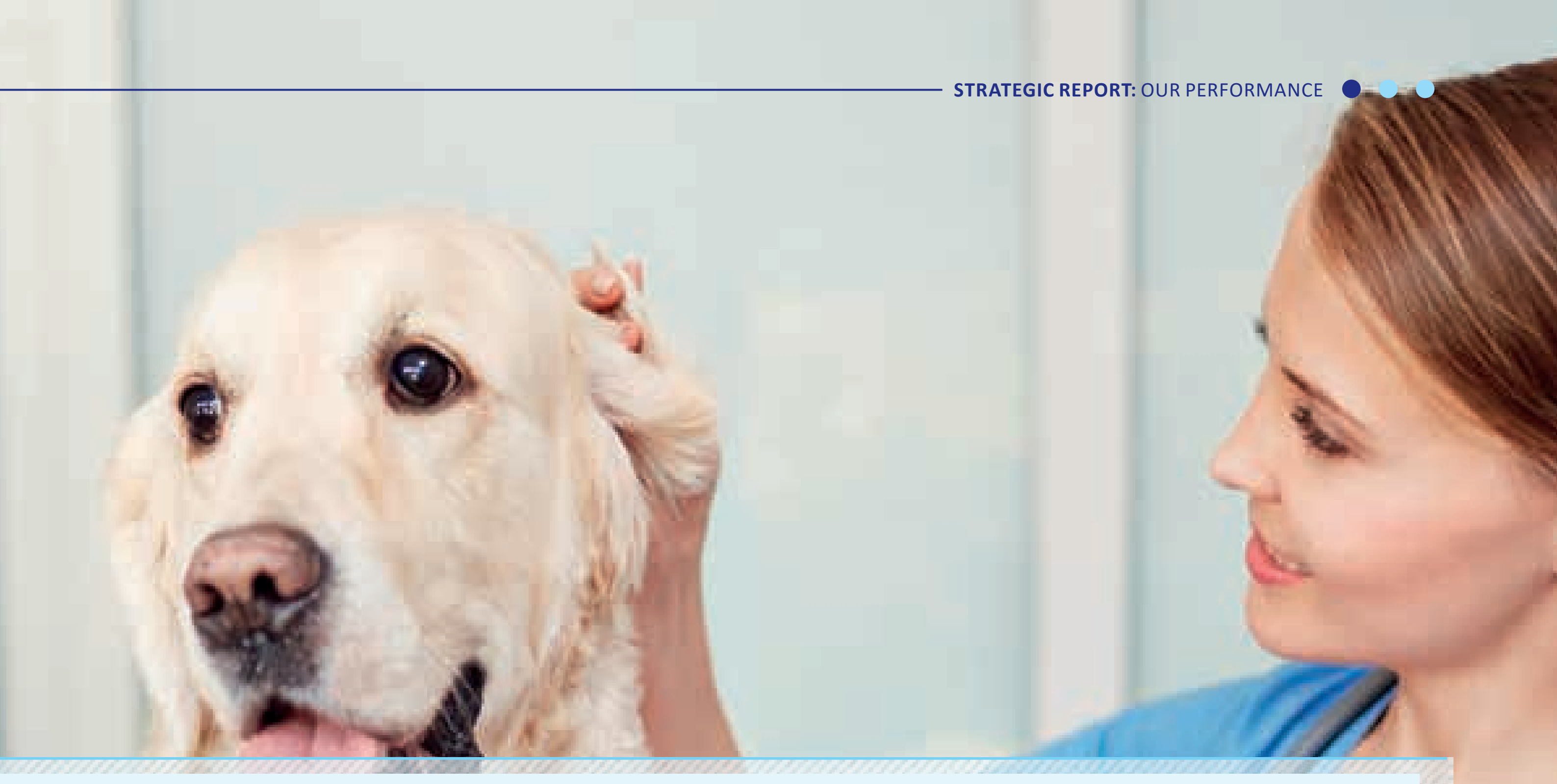
The Board considers the following to be some of the key discussions, decisions and considerations it has made during the year to 31 December 2019:

	Board discussions and decisions	Considerations
February	The Board reviewed the results of the employee engagement survey and a number of initiatives to be carried out in response to the results of the survey.	Consideration of the feedback provided by employees who completed the survey and taking appropriate actions is critical for employees to engage in the process and for positive changes to be implemented. When determining which actions would be implemented, the Board considered the financial consequences and the impact on long-term value and growth for the shareholders.
April	The Board received and considered a report of a review of supply chain processes which outlined opportunities to improve customer service and inventory management.	The need to review and continually improve the effectiveness of the Group's supply chain, from key suppliers to end customers, for the benefit of our stakeholders.
	The Board approved the release of the 2018 Full Year Results.	The need to provide transparent and accurate information to the market.
	The Board agreed the final dividend for 2018 of 2.4p per share.	The need to address the interests of shareholders in the context of the long-term, whilst maintaining appropriate levels of reserves to run the business effectively.
June	The Board considered Board composition following the resignation of a Non-Executive Director.	The need to ensure an appropriate balance between Executive and Non-Executive Directors.
	The Board reviewed its internal Board evaluation.	The need to ensure that the Board remained a high performing team for the benefit of our stakeholders.
September	The Board approved release of the Interim Results for the six months ended 30th June 2019.	The need to provide transparent and accurate information to the market.
	The Board agreed the interim dividend of 2p per share.	The need to address the interests of shareholders in the context of the long-term, whilst maintaining appropriate levels of reserves to run the business effectively.
December	The Board considered the Budget for FY 2020.	The need to consider all shareholders so that they all benefit from the successful delivery of our plan.
	The Board received a report on new product opportunities.	The need to consider growth opportunities for the long term success of the company.

DELIVERING OUR STRATEGY

We are pursuing a clear strategy to deliver our goal of above market growth in three to five years and become a leading player in the European animal health market. During 2019 we have made significant progress in all areas, delivering our short-term goals and building our organisation for the future.

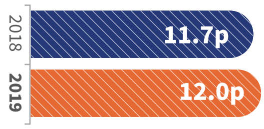
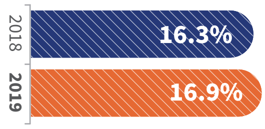
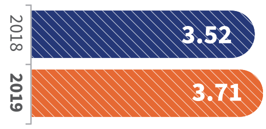
Key Goals	Key Initiatives	Progress	2020 Priorities
Strong finances Financial sustainability through revenue growth, cash conversion, EBITDA margin and EPS growth			
Revenue growth	• Focus on therapeutic areas with highest potential • Leverage strengths across all markets in which we operate • Maximise opportunities in high growth markets through partnerships or selective acquisition	• New product sales of £1.8m which partly compensated supply issues that lead to the overall revenue decline • Double digit growth in key brands such as Danilon and Orozyme • Tail products identified and actions in place	• Scale up of small, fast-growing operations • Spain and UK return to growth • Plan for key 2021 launches including novel pain product • Active BD programme to develop robust and balanced portfolio
Cash conversion and net debt	• Optimise inventory • Tax efficiency • Debt reduction	• Significant increase in underlying cash conversion to 118.4% • Net debt to underlying EBITDA leverage ratio reduced to 1.4 times	• Maintain strong cash focus to provide investment for revenue growth • Maintain EBITDA leverage ratio in the range of 1 to 2 times
Underlying EBITDA margin and EPS growth	• Focus on higher margin products • Operating efficiency and leverage	• Tail products identified and actions in place • Adjusted EBITDA margin 16.9% • EPS growth of 2.6%	• Maintain SG&A costs as a % of sales in line with 2019 – reinvesting efficiency gains for growth
Key Leadership Organisation for success; the right people, capabilities and behaviours			
Attract, retain and develop talented people	• Build leadership capabilities • Align reward to performance • Unified culture • Drive effective communication and collaboration • Improve diversity	• Established Values and Behaviours • Strengthened our Business Development and Sales and Marketing capabilities • Second group-wide employee engagement survey complete • New bonus structure and LTIP for Leadership Team	• Implement actions from employee engagement surveys • Regular leadership development • Build Talent Management programme



Key Goals	Key Initiatives	Progress	2020 Priorities
Growth portfolio Focussed portfolio in key therapy areas in growing markets			
Focus on existing core brands that generate sustainable growth and margin	• 80% of revenue from the top 20 products • Build on capabilities in core therapeutic areas	• Tail products identified and actions in place • Strengthened our Sales and Marketing capabilities • Double digit growth in key brands such as Danilon and Orozyme • New product sales of £1.8m	• Focus on growth in companion animals and equine, while maintaining our existing presence in the production animal segment • Life cycle management of key brands including potential manufacturing transfers • Develop international partners strategy and plan • New product launch excellence
Business development Work with partners to build a portfolio and pipeline of products that meet our criteria for growth			
In-licence or acquire products and develop network partnerships	• In-licence and acquire innovative products • Be selected partner for companies selling into Europe • Build ongoing partnerships in growing market globally	• Two new contracts signed to relaunch Adequan in Europe and distribution of Procanicare	Focus on developing leads in three categories: • Near Term – products which will be accretive in the next 12-18 months. These are likely to be distribution deals which complement our existing portfolio • Medium Term – more innovative products which may require some further development • Long Term – new products we will develop and launch as our own which will have the largest sales potential and geographic coverage • Identibase optimisation • Continue to build Business Development and in-licensing capabilities
Innovative pipeline Building a pipeline of novel and differentiated products			
Launch new products on time and develop differentiated and innovative products for the future	• Prioritise and accelerate in-house R&D to deliver a flow of new products in future years	• Four new products launched during 2019- Cortacare, Butazocare, Doxycare and Metrocare • Defined new R&D investment criteria – ceasing projects that did not meet these criteria	• Regulatory filing of novel pain product (submitted January 2020) • Planned regulatory approval for one new product – completing the roll out of the branded generics pipeline • Initiate new pipeline projects for future growth from any source • Portfolio prioritisation established to drive robust short, mid and longer-term pipeline

OUR KEY PERFORMANCE INDICATORS (KPIs)

Strategic Driver	KPI & Definition	Why we measure this	Commentary on performance
Strong Finances	**Revenue Growth** Organic revenue growth including new products versus prior year revenue, which excludes the impact of acquisitions and disposals.	Revenue growth is an important barometer of the Group's success in delivering its strategy and is a key component of growing our profits and cash flow.	2018 £72.5m 2019 £71.1m Revenue for the year from continuing operations was £71.1m (2018: £72.5m) a decline of 1.9% (1.0% decline at CER). Sales from new products launched in the year was £1.8m (2018: £2.4m).
	Underlying cash conversion Cash generated from operations as a percentage of underlying EBITDA.	Our quality of earnings is reflected in our ability to turn underlying EBITDA in to cash, important to generate the funds we need to invest in growth.	2018 79.9% 2019 118.4% Underlying cash conversion improved significantly in the year due to focus on inventory reduction and lower cash taxes.

Strategic Driver	KPI & Definition	Why we measure this	Commentary on performance
Strong Finances	**Basic Underlying Earnings per share ("EPS")** Underlying profit after tax divided by the weighted average number of shares.	Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders.	 Underlying EPS increased by 2.6% in the year driven by a 1.3% increase in underlying profit before tax and a 0.8% decrease in the effective tax rate.
	Underlying EBITDA margin (adjusted) Underlying EBITDA as a percentage of sales, adjusted for the impact of IFR16.	This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit.	 Underlying EBITDA margin, measured on a comparable IAS17 basis, has strengthened by 0.6%, reflecting the higher margin sales mix and maintained focus on operational leverage.
Key Leadership	**Employee engagement** A measure of employee engagement based on the well-established Gallup Q12 index.	Employee engagement surveys enable comparison between the Group and other companies. The primary purpose of the survey is to provide guidance to the Leadership Team about how they can improve employee engagement.	 Our 2019 Employee Engagement results show an overall higher score vs 2018. The highest score is on employee recognition. This score reflects the implementation of our purpose & core values and the introduction of a process of regular feedback/121s across our whole business. Our key focus areas for 2020 include Performance Management & Development and the roll out of a Talent Management program across the business.

CHIEF EXECUTIVE OFFICER'S REVIEW

> *"2019 was a significant step forwards, delivering our short-term goals, creating a strong platform for growth and building our organisation for the future."*

Jennifer Winter
Chief Executive Officer

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

Read about our **Financial Review** on **page 18**

In 2019 we set ourselves five clear strategic priorities to deliver our goal of above market growth in three to five years. We have made significant progress against these objectives.

Establishing a strong financial platform so we can invest in our future

Establishing a strong financial platform is at the heart of our strategy and we set ourselves the target of identifying opportunities for revenue growth, improving cash conversion and reducing debt. We are pleased with our progress, recognising that our future growth is dependent on a solid financial base and efficient use of cash to invest in the business. In the Companion Animal segment our revenue grew by 1.0% versus 2018, with growth from new and recently launched products offset by the impact of supply interruptions by third party manufacturers, including one of our most significant Companion Animal products, Isoflurane, which impacted our revenue by £1.5m. In Production Animals, we continue to see an expected decline, which was 9.4% in 2019 (2018: 15.0%), primarily driven by the global focus on reducing the use of antibiotics in this segment.

The right people, capabilities and behaviours for success

At Animalcare we are creating a high performing business driven by a skilled, committed team unified by a shared sense of purpose and common culture.

We have continued to strengthen our leadership team and our capabilities across the organisation. Compensation is now aligned with performance across the leadership team, with the implementation of a new bonus structure based on revenue and EBITDA targets and a new long-term incentive plan ('LTIP') from June 2019. We have actively built capabilities through internal and external recruitment and have strengthened our Business Development and Sales and Marketing capabilities to drive commercial excellence. We have established the values for the organisation and rolled out group-wide policies to strengthen them, creating solid foundations for sustainable growth.

As the veterinary market evolves with the introduction of corporate ownership of practices, we are continuing to build the right team and capabilities to work with this emerging stakeholder group across Europe. The pace of change in veterinary practice has increased and we continue to work closely with veterinary professionals and other stakeholders to ensure we are aligned with their changing needs

Prioritising our existing portfolio for growth

The Animalcare portfolio of products was broad and fragmented. This is being addressed, and in 2019 we made good progress towards our goal of reducing the fragmentation and generating 80% of revenue from the top 20 products. We successfully reduced the number of low revenue products and increased the sales and marketing activities on the largest products with highest margins that are sustainable for the future. We will maintain this focus and we have already seen sustained growth in some of our top five brands, including Danilon and Orozyme.

From a market segment perspective, our strategy is to grow in Companion Animals and Equine and maintain our existing and important presence in Production Animals. To support these objectives, we are focusing our future investment and research to achieve our growth ambitions in Companion Animal and Equine products, while sustaining our profitable Production Animal business in the key markets through both our own channels and distribution products.

Companion Animals

Growth from newly introduced products contributed £1.5m of sales. The internal pipeline progressed with four new product launches: Cortacare, Butazocare, Doxycare and Metrocare. The sales benefit from these will be observable in 2020. In addition, post period end we gained regulatory approval for one product and expect a further approval late in 2020.

These recent and expected launches will complete the roll-out of the branded generics pipeline.

Equine

We have increased our focus on the Equine segment and while small, it grew at 2.8% as a result. Danilon is a leading product for us in this segment and sales increased by 10.0% versus 2018. We intend to further strengthen our presence in this important growth area.

Production Animals

The decline of antibiotics in Production Animals has been evident in the market for some time now, driven by the link between use of antibiotics in these animals and the increase in resistant bacteria. Governments are closely monitoring the situation and have established targets. Our antibiotic portfolio includes some products that are still recommended and we will continue to support these as long as they are viable. However the rest of this portfolio will continue to decline in line with the market as strategically we reduce focus on these products.

Building our pipeline of differentiated products

Critical to our future growth is the further development of our pipeline to achieve our goal of generating 80% of our revenue from novel and differentiated products from external and internal sources. With this objective in mind we have strengthened our business development team and are engaging in discussions with potential partners to in-licence and co-develop exciting and new products. In 2019 we completed significant distribution deals with Vetcare for Procanicare (the first “For Dogs, From Dogs” GI support) and with American Regent for the European rights to sell Adequan (an intramuscular treatment of lameness due to degenerative aseptic joint disease in horses).

Our internal pipeline also progressed significantly with the completion of the clinical studies for Enflicoxib (E-6087), a novel product developed internally for the treatment of pain in dogs. This product was submitted to the European regulatory authority in January 2020 for a planned launch in 2021.

We have defined the criteria for R&D investment to align with our strategy in Companion Animals and Equine and in 2019 we ceased development of three assets that did not meet these criteria, for either technical or commercial reasons.

COVID-19

The most significant post-period event is, of course, the COVID-19 pandemic. While it’s too early to accurately assess the economic impact on the Group, given the social restrictions that have affected most of our European markets, it is inevitable that the animal health sector will experience significant disruption in 2020. Our strong trading performance over the first three months were followed by the expected downturn in demand from the second quarter. The timing and extent of the recovery is harder to predict though I’m sure that the driver of that recovery will be vets returning to normal working.

The primary concern of management and the Board will always be the safety and wellbeing of our people, their families and the communities in which we live and work. The pandemic throws this responsibility into sharper relief. We have adopted a number of measures, including adherence to official guidelines. A switch to home working, for example, was made possible by our common, cloud-based IT platform and rapidly became the norm across the Group. Operationally, we have focused on supporting veterinary professionals as their needs and priorities evolve through the crisis. With this in mind we are working closely with suppliers to secure the availability of key products.

As our Chairman points out, we entered 2020 in a strong financial position, thanks in part to our solid performance in 2019. To maintain that strength, we have taken a number of steps, such as cutting overheads, careful management of inventory and a capital expenditure freeze for all but key development programmes and manufacturing transfers. This will limit cash outflows, thereby protecting our operational resilience and ability to pursue growth opportunities.

This pandemic will pass and we will return to some form of new normality. When that happens I believe Animalcare will be well placed to succeed through a combination of financial strength, knowledge of our markets and close relationships with our customers, operational agility and a clear strategic direction.

Summary and outlook

I am pleased with the progress we made in 2019, especially the strengthening of our financial position, creating a strong platform for growth. We have also made good progress in ensuring that we have the right capabilities in place for the future. The regulatory submission for Enflicoxib represents a major step forwards, as does the two new contracts for Adequan and Procanicare. Notwithstanding the effect of the COVID-19 pandemic, I am looking forward to leveraging our stronger base to drive growth in the coming years.

Jennifer Winter
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

"The focus for the year was creating a strong financial platform for growth. We are particularly pleased with the improvement in margins and cash conversion"

Chris Brewster
Chief Financial Officer

Read about our **Group at a glance** on **page 04**

Read about our **Strategy** on **page 12**

Underlying and Statutory Results

To provide comparability across reporting periods, the Group presents its results on both an underlying and statutory (IFRS) basis. The Directors believe that presenting our financial results on an underlying basis, which exclude non underlying items, provides a clearer understanding of business performance. IFRS results include these items to provide the statutory results. All figures are reported at actual exchange rates (AER) unless otherwise stated. Commentary will include references to constant exchange rates (CER) to identify the impact of foreign exchange movements. A reconciliation between underlying and statutory results is provided at the end of this financial review.

The Group adopted IFRS 16 'Leases' on 1 January 2019, the impact of which is set out in note 22. Comparative financial measures have not been restated. Commentary has been made upon both an IFRS16 and IAS17 (the previous accounting standard) basis to allow meaningful comparison to prior periods.

Overview of Underlying financial results – Continuing Operations

	2019 £'000	2018 £'000	% Change at AER %
Revenue	**71,124**	72,470	(1.9%)
Gross Profit	**36,972**	37,339	(1.0%)
Gross Margin %	**52.0%**	51.5%	0.5%
Underlying Operating Profit	**9,462**	9,604	(1.5%)
Underlying EBITDA	**13,137**	11,798	11.3%
Underlying EBITDA margin %	**18.5%**	16.3%	2.2%
Underlying Basic EPS (p)	**12.0p**	11.7p	2.6%

Revenue for the year from continuing operations was £71.1m (2018: £72.5m) a decline of 1.9% (1.0% decline at CER). Revenue by product category is shown in the table below:

	2019 £'000	2018 (restated*) £'000	% Change at AER %
Companion Animals	**46,464**	46,018	1.0%
Production Animals	**18,844**	20,793	(9.4%)
Equine & other	**5,816**	5,659	2.8%
Total	**71,124**	72,470	(1.9%)

*Restated as per note 2, basis of preparation

Revenue at ***£71.1m***

Companion animals revenue represents ***65.3%*** *of total sales*

Underlying EBITDA was ***£13.1m***

Underlying basis EPS growth of ***2.6%***

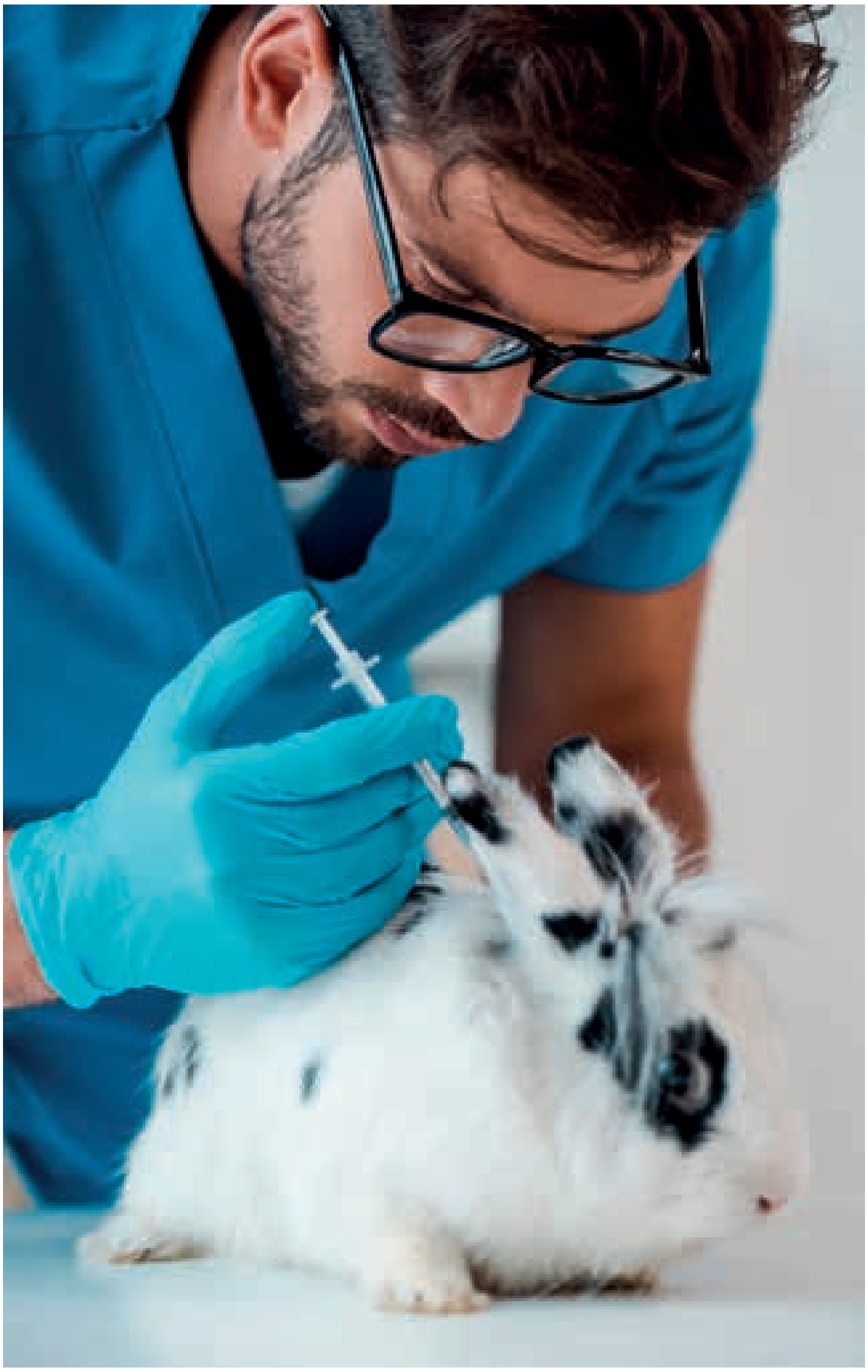
Companion Animals revenue increased by 1.0% to £46.4m. Growth from new product launches and annualised sales of products launched in 2018 partly compensated for previously reported supply issues with certain contract manufacturers, which impacted sales by £1.5m versus prior year. While a number of these supply challenges have been mitigated post year end, work continues to resolve the remaining specific anaesthesia supply issue where the Active Pharamaceutical Ingredient (API) source was moved to China, including the potential transfer of manufacture.

Production Animals revenue declined by 9.4% on prior year to £18.8m primarily driven by the £1.0m (15.2%) lower demand for antibiotics and distributor destocking in Spain. Equine and other sales increased by 2.8% to £5.8m due to growth within our existing export portfolio.

Underlying EBITDA increased by 11.3% to £13.1m (2018: £11.8m). However on a comparable IAS17 basis, adjusted underlying EBITDA was £12.0m, 1.7% higher than prior year. On an adjusted basis, EBITDA margin at 16.9% has strengthened by 0.6% versus 2018, reflecting the higher margin sales mix, observed in our gross margin improvement, together with our maintained focus on operational leverage. As a result, notwithstanding the revenue decline noted earlier, adjusted SG&A expenses as a percentage of revenue at 35.2% remain in line with prior year (2018: 35.2%).

The underlying effective tax rate was 21.5% (2018: 22.3%) primarily reflecting our tax planning initiatives to optimise research and development tax credits, and utilisation of tax losses.

Reflecting the points noted above, underlying basic EPS increased by 2.6% to 12.0 pence (2018: 11.7 pence).



CHIEF FINANCIAL OFFICER'S REVIEW
CONTINUED

Cash conversion at *118.4%* of underlying EBITDA

Overview of reported financial results

Reported Group loss after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £1.3m (2018: £1.0m). The reported basic loss per share increased to 2.2 pence (2018: 1.7 pence).

	2019 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2019 Reported results £'000**	2018 Reported results £'000
Revenue	**71,124**	–	–	**71,124**	72,470
Gross Profit	**36,972**	–	–	**36,972**	37,339
Selling, general and administrative expenses	**(24,585)**	(4,771)	–	**(29,356)**	(29,101)
Research and development expenses	**(2,922)**	(1,171)	–	**(4,093)**	(4,762)
Net other operating expenses	**(3)**	(1,619)	(3,192)	**(4,814)**	(3,259)
Operating profit/(loss)	**9,462**	(7,561)	(3,192)	**(1,291)**	217
Net finance expenses	**(317)**	–	–	**(317)**	(574)
Profit/(loss) before tax	**9,145**	(7,561)	(3,192)	**(1,608)**	(357)
Taxation	**(1,966)**	1,479	757	**270**	135
Profit/(loss) after tax	**7,179**	(6,082)	(2,435)	**(1,338)**	(222)
Loss/(profit) from discontinued operations	**–**	–	–	**–**	(776)
Profit/(loss) for the year	**7,179**	(6,082)	(2,435)	**(1,338)**	(998)
Basic EPS (p)	**12.0p**			**(2.2p)**	(1.7p)

Non-underlying items totalling £10.8m (2018: £9.4m) relating to profit before tax have been incurred in the year, as set out in note 5. These principally comprise:

1. Amortisation and impairment of acquisition related intangibles of £7.6m (2018: £6.6m). This charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV. The increase versus prior year reflects the non-cash impairment of three projects within the acquired product development pipeline at a fair value of £1.5m that failed to meet technical, competitive or commercial milestones.
2. Restructuring costs of £1.8m (2018: £1.2m) largely relating to the R&D and Technical & Regulatory team centralisation and associated costs of implementing headcount reduction in the UK and Spain at a cost of £1.4m.
3. Post-acquisition and integration costs of £0.6m (2018: £0.5m). This includes the integration costs associated with the acquisition of Ecuphar NV, including manufacturing transfer costs as we work towards simplifying our supply chain.
4. Brexit-related costs of £0.2m (2018: £nil) – this represents regulatory transfer and other supply-chain costs incurred in advance of Brexit.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2019. On 25 March 2020, the Group announced that payment of the final dividend had been deferred with the aim of supporting our financial strength and providing a platform to continue progressing opportunities during the global COVID-19 pandemic. This decision by the Board, which had the effect of retaining an additional approximately £1.4m in cash, will be reviewed later in 2020. At that point, the Board will consider what actions are in the best interests of shareholders. More broadly, the Board continues to closely monitor the dividend policy, recognising the Group's need for investment to drive future growth and dividend flow to deliver overall value to our shareholders.

Cash flow and net debt

The Group committed to improving its cash performance and reducing net debt during 2019, a key component of our 'strong finances' strategic objective, in order to provide the funds we need to invest in growth. In line with the first objective, the Group has significantly improved its underlying cash conversion to 118.4% versus 79.9% achieved in 2018 as set out in the table below:

	2019 £'000	2018 £'000
Underlying EBITDA	**13,137**	11,798
Net cash flow from operations	**13,071**	7,430
Non-underlying items	**2,485**	1,993
Underlying net cash flow from operations	**15,556**	9,423
Cash conversion %	**118.4%**	79.9%

Net cash flow generated by our operations increased to £13.1m (2018: £7.4m). Working capital decreased by £1.7m, largely driven by the £2.5m reduction in our inventory levels, well ahead of the planned £2.0m reduction by the end of 2020. We expect inventories to increase by approximately £1.5m during 2020 due to strategic stock build of three key brands as part of their lifecycle management. Net cash tax income was £0.1m versus an outflow of £2.2m in 2018 mainly due to a combination of phasing of payments in Spain, increased cash receipts in respect of R&D tax credits and the settlement of prior year taxes in Belgium during 2018. It is anticipated that cash taxes will be circa £0.5m in 2020. Non-underlying cash items principally relate to the restructuring costs and post-acquisition and integration costs as noted in the overview of reported results.

Net debt (before recognition of IFRS16 lease liabilities of £1.9m) reduced by £7.7m to £15.9m as at 31 December 2019, the reduction largely driven by the higher cash conversion noted above.

CHIEF FINANCIAL OFFICER'S REVIEW
CONTINUED

	£'000
Net debt at 1 January 2019	**(23,588)**
Net cash generated from operations	13,071
Net capital expenditure	(2,391)
Net finance expenses	(1,696)
Dividends paid	(2,643)
Foreign exchange on cash and borrowings	1,336
Other cash movements	35
Net debt excluding IFRS16 lease liabilities at 31 December 2019	**(15,876)**
Recognition of lease liabilities	(1,936)
Net debt at 31 December 2019	**(17,812)**

Net capital expenditure of £2.4m (2018: £4.8m) largely comprises investment in our product development pipeline of £1.8m, the most significant being the completion of the clinical studies for Enflicoxib (E-6087) which was submitted to the European Regulatory authority in January 2020 for a planned launch during 2021. Regulatory approval for one new product is expected later in 2020, completing the roll out of the branded generics pipeline. The balance of expenditure largely relates to continuing investment in our IT infrastructure to deliver our objective of common platforms across the Group.

The net debt to underlying EBITDA leverage ratio was 1.4 times (2018: 2.0 times) versus the bank covenant of 3.5 times. At 31 December 2019, total facilities were £43.8m, of which £20.7m, net of cash balances, was utilised, leaving headroom of £24.6m.

Going Concern

Banking Facilities and Covenants

At 31 December 2019, 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 31 December 2019, all covenant requirements were met with significant headroom across all three measures.

As at 30 April 2020, the net debt to underlying EBITDA ratio was approximately 1.3 times (31 December 2019: 1.4 times). Headroom on the banking facilities, including cash on balance sheet, was £25.8m (31 December 2019: £24.6m)

COVID-19 Scenario Analysis

The Group entered the pandemic period in a strong financial position. In recent weeks we have seen an inevitable impact on the markets where we operate and a resulting downturn in demand starting in the second quarter.

While it's too early to accurately assess the economic impact on the Group, the uncertain future impact of COVID-19 has been considered as part of the Group's adoption of the going concern basis.

The Group has run a series of future trading scenarios to June 2021 to factor in a range of downside revenue estimates with mitigating actions on cost and cash flow. On revenue 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.

To maintain our operational and financial resilience, we have already taken a number of steps to reduce or defer costs to align with revenue, carefully manage inventory in light of demand shifts and implement a capital expenditure freeze for all but essential projects, including key development programmes and manufacturing transfers.

As announced in our trading update of 25 March 2020, the Board deferred the payment of the final dividend. This decision will be reviewed later in the year once we have more clarity about the ongoing effects of the pandemic on our business. At that point the Board will consider what actions are in the best interests of all shareholders.

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 throughout the period to June 2021. The Directors do, however, note the inherent uncertainty as to the future effect of COVID-19. A potential more prolonged impact outside of those modelled in our future trading scenarios could result in a potential breach of the leverage covenant. In the event that a covenant test is breached, we would need to work with our banking syndicate to obtain a covenant relaxation or waiver in order for the borrowing facilities to continue to be available. The Directors note that this could represent a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, the Directors are confident that they would be able to obtain this covenant waiver if required and, 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 these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis of preparation.

Summary and outlook

We have made strong progress against our strategic objective of strengthening our financial base and are pleased to report a significant improvement in cash performance, improving operating margins and substantial reduction in net debt versus 2018. Our business is becoming more agile and efficient, giving us confidence to increase investment to leverage our stronger base to deliver future growth.

In reflecting on the advances made in 2019, we could not have anticipated the economic uncertainty that would be caused by COVID-19. Performance over the first three months of the year was strong, helped by customer stockpiling ahead of the pandemic. The anticipated downturn in demand became visible from April, particularly in the companion animal sector where government measures restricted both veterinary practice and the mobility of owners. By contrast, the production animal sector has been relatively resilient, partially offsetting the rate of decline in demand. Forecasting the economic impact across 2020 with any accuracy is difficult, but data from countries that have been operating with less restrictions through the pandemic, such as Germany, clearly show that the driver of recovery will be vets returning to normal working patterns. We have noted the early start of a return in some other countries more recently.

As announced in our trading update of 25 March 2020, we have taken steps to protect our employees as we continue to support our customers during this period. We've also moved quickly to preserve cash and to re-align SG&A spending to reflect the rapidly changing trading environment, maintaining the Group's financial resilience and preserving the ability to invest as we progress towards a recovery. At 30 April 2020, both net debt and the net debt to underlying EBITDA leverage ratio were at similar levels to 31 December 2019.

Whatever challenges 2020 presents, we are confident that the Group's strong finances and its focus on a clear growth strategy mean Animalcare will continue to be well placed to take advantage of opportunities in a market with attractive fundamentals.

Chris Brewster
Chief Financial Officer

OUR PRINCIPAL RISKS

Risk Management Framework

Accountability for reviewing and monitoring

Responsibility for implementation

The Board

The Board of Directors has overall responsibility for the Group's risk appetite and risk management strategy. The objective: to foster a culture of risk management to effectively execute our strategy.

Audit & Risk committee

In accordance with our governance practices, oversight of risk management is undertaken by the Audit Committee which supports the Board by monitoring the Group's risk management framework and internal control systems.

Management & group functions

Operational management are responsible for ensuring that the day-to-day risk management controls, policies and procedures are implemented and monitored. Group functions such as legal, IT, finance, supply chain and quality reinforce the risk management process by providing guidance, support and challenge to management.

The most significant risk faced by the Group is the economic disruption caused by the post-year end COVID-19 pandemic. Our response to the pandemic is discussed in the Chairman's statement and the Chief Executive Officer's review. The implications for the Group are included in the Chief Financial Officer's review, note 3 Summary of Significant Accounting Policies and note 28 Events after balance sheet date. This risk is managed by the Board as a whole and is the subject of, at least, weekly meetings.

The table describes the current principal risks and uncertainties facing the Group. In addition to summarising the material risks and uncertainties, the table below gives examples of how we mitigate those risks.

Risk	Link to strategy	Potential impact	Mitigation	Risk Level	Trend
Market risk In certain territories the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in lower margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support to better serve our changing customer base, both on a national and, in future, a European basis	M	↑
Competitor risk Launch of competitor products against our key brands, for example other generic or more innovative products. Although our product portfolio is broad, the Top 20 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.		Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products. Operating costs may increase to protect market share.	We are increasing focus on lifecycle management strategies for our key brands. We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact. We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities including novel pharmaceuticals.	M	↑
Supply chain risk As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.		Any disruption, interruption or failure of supply from our third-party suppliers whether COVID-19 related or otherwise, could result in lost sales and damage the Group's reputation with its customers. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.	The Group has placed more focus on risk management during 2019. An initial risk assessment has been completed for our own key products and will be completed during 2020 for those on distribution. Actions are underway to simplify our supply chain. We continue to hold safety stock of key products. We have engaged with our [key suppliers/supply base] in order to understand the resilience of our supply chain to potential COVID-19 issues and to collaborate with them to mitigate issues where we can. To this end we have requested all our suppliers to advise us of their Covid-19 risk management plan.	H	↔

Strategic links

Strong finances · Key leadership · Growth Portfolio · Business Development · Innovative Pipeline

Risk Key

M Medium · H High

Trend Key

↑ Up · ↔ Flat · ↓ Down