**Animalcare Group plc**

**("Animalcare", the "Company" or the "Group")**

**Full Year Results for the 12 months ended 31 December 2019**

**28 May 2020.** Animalcare Group plc (AIM: ANCR), the international animal health business, announces its unaudited full year results for the year ended 31 December 2019.

**Financial Highlights**

- Revenue for the year at £71.1m (2018: £72.5m), a decline of 1.9%; revenue impacted by supply challenges
- Underlying* EBITDA increased by 11.3% to £13.1m (2018: £11.8m)
  - Up 1.7% on a comparable IAS17 basis
- Statutory loss before tax, which incorporates non-underlying items, increased to £1.6m (2018: £0.4m loss) with reported basic loss per share at 2.2p (2018: 1.7p loss per share)
- Significantly improved underlying* cash conversion to 118.4% (2018: 79.9%)
- Net debt (before recognition of IFRS16 lease liabilities of £1.9m) reduced by £7.7m to £15.9m. Net debt to underlying* EBITDA leverage ratio at 1.4 times (2018: 2.0 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

* Underlying measures are before the effect of non-underlying items which excludes fair value adjustments on acquired inventory, amortisation of acquired intangibles and acquisition and integration costs. A reconciliation to statutory measures is provided in the Chief Financial Officer's Review.

**Commenting on the full year results, Chief Executive Officer, Jenny Winter said:** *"Our positive 2019 performance enabled the Animalcare Group to enter 2020 in a strong financial position with a solid platform from which to drive our growth strategy.*

*"We delivered in line with market expectations, improving cash conversion, increasing underlying EBITDA and reducing net debt despite a decline in revenues due to now-resolved product supply issues.*

*"Strategically, we boosted our capability in key areas such as business development and marketing while we made significant progress towards our goal of generating 80 per cent of revenues from the top 20 products in a more optimised portfolio. Our internal pipeline continued to progress with the regulatory submission in early 2020 of our candidate COX-2 inhibitor pain treatment for dogs. On the business development front the Group struck deals to support our Companion Animals and Equine segments.*

*"Since the turn of the year the importance of employee safety and balance sheet strength has been thrown into even sharper relief by COVID-19. Of course, we are not alone in facing this challenge, but I am satisfied that we were able to take early and decisive action to safeguard our people and protect our cash position.*

*“Performance over the first three months of the year was strong with the expected downturn in demand coming into view from Q2. The Companion Animals sector, where public health measures have often restricted veterinary activity to emergency treatments, has been the most affected. By contrast, the Production Animals segment has shown real resilience, helping to offset some of the decline in demand.*

*“Forecasting the exact shape and speed of the recovery will be difficult, though judging by the countries, like Germany, that have operated more normally through this period it is clear that the driver of the recovery in demand will be the speed with which vets return to work. We have noted the early signs of a return in some other countries more recently and continue to monitor the situation closely.*

*“What I can say with certainty is that our ambition to establish the Group as a leading company in the animal healthcare sector is unchanged by the current circumstances. We continue to pursue business development opportunities that can reinforce the competitiveness of our existing portfolio or add differentiated products with the potential for longer term returns and more sustainable margins.*

*“I’m immensely proud of our employees, not just for what they achieved in 2019, but also for responding to the rapidly evolving needs of vets while planning for a future that is certain to look different. It’s this commitment and organisational agility – backed by our strong balance sheet – that equip us for success in a dynamic market with attractive fundamentals.”*

**CHAIRMAN’S STATEMENT**

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

## CHIEF EXECUTIVE OFFICER'S REVIEW

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 continued 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 was 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

### 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** | 2018 | % Change at AER |
|---|---|---|---|
| | **£'000** | £'000 | % |
| 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** | 2018 (restated*) | % Change at AER |
|---|---|---|---|
| | **£'000** | £'000 | % |
| 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

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 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 developments 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).

**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, net debt and borrowing facilities**

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** | 2018 |
|---|---|---|
| | **£'000** | £'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.

| | **£'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. These bank facilities, together with the Group's operational cash flow, indicate that the Group has sufficient facilities available to fund its operations and allow for future investment.

**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, were 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 fewer 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 means Animalcare will continue to be well placed to take advantage of opportunities in a market with attractive fundamentals.

**Chris Brewster**
Chief Financial Officer

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**
Year ended 31 December 2019

| | | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Underlying 2019 £'000** | **Non-Underlying (note 4) 2019 £'000** | **Total 2019 £'000** | Underlying 2018 £'000 | Non-Underlying (note 4) 2018 £'000 | Total 2018 £'000 |
| Revenue | 3 | **71,124** | **–** | **71,124** | 72,470 | – | 72,470 |
| Cost of sales | | **(34,152)** | **–** | **(34,152)** | (35,131) | – | (35,131) |
| **Gross profit** | | **36,972** | **–** | **36,972** | 37,339 | – | 37,339 |
| Research and development expenses | | **(2,922)** | **(1,171)** | **(4,093)** | (3,466) | (1,296) | (4,762) |
| Selling and marketing expenses | | **(11,862)** | **–** | **(11,862)** | (12,435) | – | (12,435) |
| General and administrative expenses | | **(12,723)** | **(4,771)** | **(17,494)** | (11,877) | (4,789) | (16,666) |
| Net other operating (expense)/income | | **(3)** | **(4,811)** | **(4,814)** | 43 | (3,302) | (3,259) |
| **Operating profit/(loss)** | | **9,462** | **(10,753)** | **(1,291)** | 9,604 | (9,387) | 217 |
| Financial expenses | 6 | **(1,856)** | **–** | **(1,856)** | (840) | – | (840) |
| Financial income | 7 | **1,539** | **–** | **1,539** | 266 | – | 266 |
| **Profit/(loss) before tax** | | **9,145** | **(10,753)** | **(1,608)** | 9,030 | (9,387) | (357) |
| Income tax | 8 | **(1,966)** | **2,236** | **270** | (2,016) | 2,151 | 135 |
| **Net profit/(loss) from continuing operations** | | **7,179** | **(8,517)** | **(1,338)** | 7,014 | (7,236) | (222) |
| Net profit/(loss) from discontinuing operations | 3 | **–** | **–** | **–** | 40 | (816) | (776) |
| **Net profit/(loss)** | | **7,179** | **(8,517)** | **(1,338)** | 7,054 | (8,052) | (998) |
| Net profit/(loss) attributable to: | | | | | | | |
| The owners of the parent | | **7,179** | **(8,517)** | **(1,338)** | 7,056 | (8,052) | (996) |
| Non-controlling interest | | **–** | **–** | **–** | (2) | – | (2) |
| **Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:** | | | | | | | |
| Basic earnings per share | 9 | **12.0p** | | **(2.2p)** | 11.7p | | (0.4p) |
| Diluted earnings per share | 9 | **12.0p** | | **(2.2p)** | 11.7p | | (0.4p) |
| **Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:** | | | | | | | |
| Basic earnings per share | 9 | **12.0p** | | **(2.2p)** | 11.8p | | (1.7p) |
| Diluted earnings per share | 9 | **12.0p** | | **(2.2p)** | 11.8p | | (1.7p) |

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 detail in note 4 to these financial statements. The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

**Year ended 31 December 2019**

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| **Net (loss)/profit for the year** | **(1,338)** | (998) |
| **Other comprehensive income** | | |
| Cumulative translation differences* | **(795)** | 165 |
| **Other comprehensive income, net of tax** | **(795)** | 165 |
| **Total comprehensive (expense)/income for the year, net of tax** | **(2,133)** | (833) |
| Total comprehensive (expense)/income attributable to: | | |
| The owners of the parent | **(2,133)** | (831) |
| Non-controlling interest | **–** | (2) |

* May be reclassified subsequently to profit & loss

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

**Year ended 31 December 2019**

| | | For the year ended 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Notes | **£'000** | £'000 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 10 | **50,454** | 50,937 |
| Intangible assets | 11 | **43,000** | 51,334 |
| Property, plant and equipment | | **312** | 477 |
| Right-of-use assets | | **1,917** | – |
| Deferred tax assets | 8 | **1,524** | 1,699 |
| Other financial assets | | **59** | 59 |
| Other non-current assets | | **72** | 294 |
| **Total non-current assets** | | **97,338** | 104,800 |
| **Current assets** | | | |
| Inventories | | **11,102** | 14,891 |
| Trade receivables | | **10,891** | 13,084 |
| Other current assets | | **2,746** | 2,736 |
| Cash and cash equivalents | | **6,165** | 8,035 |
| **Total current assets** | | **30,904** | 38,746 |
| **Total assets** | | **128,242** | 143,546 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 12 | **(612)** | (648) |
| Lease liabilities | 15 | **(830)** | – |
| Trade payables | | **(10,334)** | (11,907) |
| Tax payables | | **(1,288)** | (1,016) |
| Accrued charges and deferred income | 13 | **(2,063)** | (2,325) |
| Other current liabilities | | **(2,799)** | (3,864) |

| | | | |
|---|---|---|---|
| **Total current liabilities** | | **(17,926)** | (19,760) |
| **Non-current liabilities** | | | |
| Borrowings | 12 | **(21,428)** | (30,975) |
| Lease liabilities | 15 | **(1,106)** | – |
| Deferred tax liabilities | 8 | **(5,176)** | (5,521) |
| Deferred income | 13 | **(599)** | (617) |
| Provisions | | **(118)** | (81) |
| **Total non-current liabilities** | | **(28,427)** | (37,194) |
| **Total liabilities** | | **(46,353)** | (56,954) |
| **Net assets** | | **81,889** | 86,592 |
| **Equity** | | | |
| Share capital | 14 | **12,012** | 12,012 |
| Share premium | | **132,729** | 132,729 |
| Reverse acquisition reserve | | **(56,762)** | (56,762) |
| Accumulated losses | | **(8,640)** | (4,732) |
| Other reserves | | **2,550** | 3,345 |
| Equity attributable to the owners of the parent | | **81,889** | 86,592 |
| Non-controlling interest | | **–** | – |
| **Total equity** | | **81,889** | 86,592 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

**Year ended 31 December 2019**

**Attributable to the owners of the parent**

| | Share capital £'000 | Share premium £'000 | Retained earnings/ Accumulated losses £'000 | Reverse acquisition reserve £'000 | Other reserve £'000 | Total £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2019** | 12,012 | 132,729 | (4,732) | (56,762) | 3,345 | 86,592 | – | 86,592 |
| Net loss | – | – | (1,338) | – | – | (1,338) | – | (1,338) |
| Other comprehensive income | – | – | – | – | (795) | (795) | – | (795) |
| **Total comprehensive expense** | – | – | (1,338) | – | (795) | (2,133) | – | (2,133) |
| Dividends paid | – | – | (2,642) | – | – | (2,642) | – | (2,642) |
| Share-based payments | – | – | 72 | – | – | 72 | – | 72 |
| **At 31 December 2019** | **12,012** | **132,729** | **(8,640)** | **(56,762)** | **2,550** | **81,889** | **–** | **81,889** |

**Attributable to the owners of the parent**

| | Share capital £'000 | Share premium £'000 | Retained earnings/ Accumulated losses £'000 | Reverse acquisition reserve £'000 | Other reserve £'000 | Total £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2018** | 11,983 | 132,588 | (1,347) | (56,762) | 3,180 | 89,642 | 2 | 89,644 |
| Net loss | – | – | (996) | – | – | (996) | (2) | (998) |
| Other comprehensive income | – | – | – | – | 165 | 165 | – | 165 |
| **Total comprehensive expense** | – | – | (996) | – | 165 | (831) | (2) | (833) |
| Dividends paid | – | – | (2,401) | – | – | (2,401) | – | (2,401) |
| Exercise of share options | 29 | 141 | – | – | – | 170 | – | 170 |
| Share-based payments | – | – | 12 | – | – | 12 | – | 12 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | **12,012** | **132,729** | **(4,732)** | **(56,762)** | **3,345** | **86,592** | **–** | **86,592** |

**Reverse acquisition reserve**
Reverse acquisition reserve represents the reserve that has been created upon the reverse acquisition of Animalcare Group plc.

**Other reserve**
Other reserve mainly relates to currency translation differences. These exchange differences arise on the translation of subsidiaries with a functional currency other than sterling.

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

**Year ended 31 December 2019**

| | | **For the year ended 31 December** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | Notes | **£'000** | £'000 |
| **Operating activities** | | | |
| Loss before tax from continuing operations | | **(1,608)** | (357) |
| Loss before tax from discontinued operations | 3 | **–** | (776) |
| **(Loss)/profit before tax** | | **(1,608)** | (1,133) |
| *Non-cash and operational adjustments* | | | |
| Depreciation of property, plant and equipment | | **1,270** | 333 |
| Amortisation of intangible assets | 11 | **8,222** | 7,965 |
| Impairment of intangible assets | 11 | **1,632** | 852 |
| Impairment of goodwill | 10 | **–** | 456 |
| Share-based payment expense | | **72** | 12 |
| (Gain)/loss on disposal of fixed assets | | **35** | (2) |
| Non-cash movement in provisions | | **694** | – |
| Loss on disposal of subsidiary | 3 | **–** | 682 |
| Doubtful debts and inventories written off | | **648** | 620 |
| Financial income | | **(608)** | (254) |
| Financial expense | | **1,250** | 879 |
| Impact of foreign currencies | | **(330)** | 16 |
| Non-cash movement on transition to IFRS 16 | | **3** | – |
| Other | | **(21)** | 2 |
| **Movements in working capital** | | | |
| Decrease/(Increase) in trade receivables | | **3,098** | (540) |
| Decrease/(Increase) in inventories | | **2,492** | (1,207) |
| (Decrease)/increase in payables | | **(3,842)** | 904 |
| Income tax received/(paid) | | **99** | (2,155) |
| **Net cash flow from operating activities** | | **13,106** | 7,430 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(48)** | (213) |
| Purchase of intangible assets | 10 | **(2,343)** | (4,568) |
| Proceeds from the sale of property, plant and equipment (net) | | **–** | 6 |
| Proceeds from sale of subsidiary | 3 | **–** | 2,403 |
| Sale/(purchase) of available-for-sale financial investments | | **–** | 459 |
| **Net cash flow used in investing activities** | | **(2,391)** | (1,913) |
| **Financing activities** | | | |
| Repayment of loans and borrowings | | **(8,100)** | (2,257) |
| Repayment of IFRS 16 lease liability | | **(1,053)** | – |
| Receipts from issue of share capital | | **–** | 170 |
| Dividends paid | | **(2,642)** | (2,401) |

| | | | |
|---|---|---|---|
| Interest paid | | **(617)** | (637) |
| Other financial (expense)/income | | **(27)** | 11 |
| **Net cash flow (used in)/from financing activities** | | **(12,439)** | (5,114) |
| Net (decrease)/increase of cash and cash equivalents | | **(1,724)** | 403 |
| Cash and cash equivalents at beginning of year | | **8,035** | 7,579 |
| Exchange rate differences on cash and cash equivalents | | **(146)** | 53 |
| **Cash and cash equivalents at end of year** | | **6,165** | 8,035 |
| **Reconciliation of net cash flow to movement in net debt** | | | |
| Net increase in cash and cash equivalents in the year | | **(1,724)** | 403 |
| Cash flow from decrease/(increase) in debt financing | | **8,100** | 2,257 |
| Foreign exchange differences on cash and borrowings | | **1,336** | (349) |
| **Movement in net debt in the year** | | **7,712** | 2,311 |
| Net debt at the start of the year | | **(23,588)** | (25,908) |
| Debt transferred on sale of subsidiary | 3 | **–** | 9 |
| Lease liabilities at end of the year | 15 | **(1,936)** | – |
| **Net debt at the end of the year** | | **(17,812)** | (23,588) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 and 31 December 2018. The financial information for 2018 is derived from the statutory accounts for 2018 which have been delivered to the Registrar of Companies. The Auditor has reported on the 2018 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2019 is not yet complete and the audit report is expected to include reference to a material uncertainty related to going concern. The statutory accounts for 2019 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

### 2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and interpretations issued by the IFRS interpretations committee and the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

This is the first set of the Group's annual financial statements in which IFRS 16 Leasing has been applied.

The consolidated financial statements cover the year ended 31 December 2019 and compromise the consolidated results of the Group.

The notes to this preliminary announcement are unaudited in relation to 2019 and extracted from the audited financial statements in relation to 2018.

### Going concern

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis. The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis.

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 maximum 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)

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.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

**Reverse acquisition of Animalcare Group plc in 2017**
As explained in depth in the Financial Statements of 2017 and 2018, on 13 July 2017 the Group completed the reverse acquisition of Ecuphar NV ("Ecuphar"). The accounting policy adopted by the Directors applied the principles of IFRS 3 (Revised) 'Business Combinations' in identifying the accounting parent as Ecuphar NV and the presentation of the Group consolidated statements of the Company (the legal parent) as a continuation of financial statements of the accounting parent or legal subsidiary (Ecuphar NV).

**Wholesale divestment 2018**
Following the divestment of the Wholesaling business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp on 4 September 2018, the 2018 financial information has been presented in accordance with IFRS 5, to show continuing operations separately from discontinued operations. Both continuing and discontinued operations have been presented to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group.

**Restatement of segment information**

Following review of the revenue by product category disclosures in the 2018 Annual Report, the 2018 comparative segmental information required by IFRS 8 has been restated to better align the classification of a small number of products to the markets in which they operate and are managed by the Group. As a result, Companion Animals revenue has increased by £1.5m, Production Animals decreased by £2.0m and Equine & other increased by £0.5m. There is no impact on total revenues.

**3. Business combinations and disposals of subsidiaries**

**Disposal of subsidiaries**

On 4 September 2018, the Group announced and completed the disposal of its Wholesale business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp.

The Group recognised a loss including expenses in relation to the disposal of £682k during the year ended 31 December 2018. This is based on the total consideration of £2,989k and unaudited net asset value of £3,622k, excluding intercompany debt.

The Group received an initial cash consideration of £2,413k including intercompany loan balances due from the Wholesale Division to other Animalcare Group plc companies. A further £362k was payable to the Group on 30 June 2019 in relation to the remaining intercompany balance owned.

In accordance with IFRS 5, the income statement for the twelve months ended 31 December 2018 has been presented to show continuing operations separately from discontinued operations. Both continuing and discontinued operations have been presented to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group. The effect of including these elements is shown as consolidation adjustments.

| | Continuing operations 2018 £’000 | Discontinued operations 2018 £’000 | Consolidation adjustments 2018 £’000 | Total continuing and discontinued operations 2018 £’000 |
|---|---|---|---|---|
| Revenue | 72,470 | 16,572 | (719) | 88,323 |
| Cost of sales | (35,131) | (15,059) | 689 | (49,501) |
| **Gross profit** | 37,339 | 1,513 | (30) | 38,822 |
| Research and development expenses | (4,762) | – | – | (4,762) |
| Selling and marketing expenses | (12,435) | (1,111) | 46 | (13,500) |
| General and administrative expenses | (16,666) | (387) | (18) | (17,071) |
| Net other operating expenses | (3,259) | (761) | 2 | (4,018) |
| **Operating profit/(loss)** | 217 | (746) | – | (529) |
| Financial expenses | (840) | (39) | 20 | (859) |
| Financial income | 266 | 9 | (20) | 255 |
| **Loss before tax** | (357) | (776) | – | (1,133) |
| Income tax | 135 | – | – | 135 |
| **Net loss** | (222) | (776) | – | (998) |

The net cash flow by discontinued operations can be found below:

| | For the year ended 31 December 2018 £’000 |
|---|---|
| Net cash flow from operating activities | 133 |
| Net cash flow used in investing activities | (94) |
| Net cash flow used in financing activities | (28) |
| **Net increase/(decrease) of cash and cash equivalents** | 11 |

The major classes of assets and liabilities of the Wholesale business at the disposal date can be found below:

| | £’000 |
|---|---|
| **Non-current assets** | |
| Goodwill | 106 |
| Intangible assets | 2 |
| Property, plant and equipment | 244 |
| **Current assets** | |
| Inventories | 2,669 |
| Trade receivables | 2,451 |
| Other current assets | 77 |
| Cash and cash equivalents | 10 |
| **Total assets classified as held for sale** | 5,559 |
| **Current liabilities** | |
| Borrowings | (9) |
| Trade payables | (1,690) |
| Tax payables | (52) |
| Accrued charges and deferred income | (12) |
| Other current liabilities | (169) |
| **Non-current liabilities** | |
| Deferred tax liabilities | (5) |
| **Liabilities associated with assets classified as held for sale** | (1,937) |
| **Total net assets** | 3,622 |
| Consideration received or receivable: | |
| Cash | 2,413 |
| Receivable | 576 |
| **Total disposal consideration** | 2,989 |
| **Carrying amount of net assets sold** | (3,622) |
| **Loss on sale before reclassification of foreign currency translation reserve** | (633) |
| Reclassification of foreign currency translation reserve | (49) |
| **Loss on sale** | (682) |
| Loss attributable to minority | (2) |
| Loss attributable to owners of the parent | (680) |
| Selling price received in cash | 2,413 |
| Cash and cash equivalents transferred | (10) |
| **Total cash flow** | 2,403 |

**4. Non-underlying items**

| | **For the year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| | **£’000** | £’000 |
| **Amortisation and impairment of acquisition related intangibles** | | |
| Classified within research and development expenses | **1,171** | 1,296 |
| Classified within general and administrative expenses | **4,771** | 4,789 |
| Classified within net other operating expenses | **1,619** | 513 |
| **Total amortisation and impairment of acquisition-related intangibles** | **7,561** | 6,598 |
| Restructuring costs | **1,795** | 1,235 |

| | | |
|---|---|---|
| Acquisition and integration costs | **550** | 485 |
| Impairment on goodwill and intangibles | **–** | 796 |
| Brexit-related costs | **243** | – |
| Divestments and business disposals | **173** | – |
| Other non-underlying items | **431** | 273 |
| **Total non-underlying items before taxes** | **10,753** | 9,387 |
| Tax impact | **(2,236)** | (2,151) |
| Total non-underlying items after taxes from continuing operations | **8,517** | 7,236 |
| Other non-underlying items from discontinued operations | **–** | 134 |
| Loss on disposal | **–** | 682 |
| **Total non-underlying items after taxes** | **8,517** | 8,052 |

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,020k (2018: £2,037k), the Riemser acquisition of £369k (2018: £372k) and the reverse acquisition of Animalcare Group plc of £3,629k (2018: £3,676k).

During the year the Group incurred restructuring costs of £1,795k. This principally relates to the R&D and technical and regulatory team centralisation which resulted in a headcount reduction in the UK and Spain.

The impairment charge of £1,619k for acquisition related intangibles relates 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.

**5. Segment information – from continuing operations**

Following the sale of the wholesale business on 4 September 2018, the Group now only reports one 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. As a performance indicator, the Chief Operating Decision Maker controls performance by the Group's revenue, gross margin, Underlying EBITDA and EBITDA. EBITDA is defined by the Group as net profit plus finance expenses, less financial income, plus income taxes and deferred taxes, plus depreciation, amortisation and impairment. Underlying EBITDA equals EBITDA plus non-underlying items.

The following table summarises the segment reporting from continuing operations for 2019 and 2018. 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 details on the impact of the adoption of IFRS 16, please see note 15.

| | **Pharma £'000** |
|---|---|
| **For the year ended 31 December 2019** | |
| Revenues | **71,124** |
| Gross Margin | **36,972** |
| Gross Margin % | **52%** |
| Segment underlying EBITDA | **13,137** |
| Segment underlying EBITDA % | **18%** |
| Segment EBITDA | **9,925** |
| Segment EBITDA % | **14%** |
| **For the year ended 31 December 2018** | |
| Revenues | 72,470 |
| Gross Margin | 37,339 |
| Gross Margin % | 52% |
| Segment underlying EBITDA | 11,798 |

| | |
|---|---|
| Segment underlying EBITDA % | 16% |
| Segment EBITDA | 9,805 |
| Segment EBITDA % | 14% |

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

| | **For the year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| **Segment EBITDA** | **9,925** | 9,805 |
| Depreciation, amortisation and impairment | **(11,216)** | (9,588) |
| **Operating profit** | **(1,291)** | 217 |
| Financial expenses | **(1,856)** | (840) |
| Financial income | **1,539** | 266 |
| Income taxes | **36** | (869) |
| Deferred taxes | **234** | 1,004 |
| **Net (loss)/profit** | **(1,338)** | (222) |

Segment assets excluding deferred tax assets and financial instruments located in Belgium, Spain, Portugal, the United Kingdom and other geographies are as follows:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Belgium | **14,325** | 18,423 |
| Spain | **2,424** | 2,127 |
| Portugal | **3,997** | 4,122 |
| UK | **70,572** | 73,913 |
| Other | **4,496** | 4,379 |
| **Non-current assets excluding deferred tax assets and financial instruments** | **95,814** | 102,964 |

**Revenue by product category**

| | **For the year ended 31 December** | |
|---|---|---|
| | **2019** | 2018 (Restated) |
| | **£'000** | £'000 |
| Companion animals | **46,464** | 46,018 |
| Production animals | **18,844** | 20,793 |
| Horses | **5,681** | 5,212 |
| Petfood, Instrumentation and Services | **135** | 447 |
| **Total** | **71,124** | 72,470 |

At 31 December 2019, the figures for the year ended 31 December 2018 have been restated (see note 2).

**Revenue by geographical area**

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Belgium | **9,303** | 8,260 |
| The Netherlands | **2,106** | 1,719 |
| United Kingdom | **14,137** | 16,802 |
| Germany | **10,337** | 9,784 |
| Spain | **18,644** | 20,706 |
| Italy | **6,142** | 4,984 |
| Portugal | **4,598** | 4,600 |
| European Union – other | **4,925** | 4,652 |
| Asia | **471** | 558 |
| Middle East Africa | **44** | 139 |
| Other | **417** | 266 |
| **Total** | **71,124** | 72,470 |

**Revenue by category**

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Product sales | **69,946** | 71,025 |
| Services sales | **1,178** | 1,445 |
| **Total** | **71,124** | 72,470 |

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference of the stage of completion.

**6. Financial expenses – from continuing operations**

Financial expenses include the following elements:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Interest expense | **618** | 637 |
| Foreign currency losses | **1,120** | 119 |
| Other financial expenses | **118** | 84 |
| **Total** | **1,856** | 840 |

**7. Financial income – from continuing operations**

Financial income includes the following elements

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Foreign currency exchange gains | **1,509** | 192 |
| Income from financial assets | **30** | – |
| Other financial income | **–** | 74 |
| **Total** | **1,539** | 266 |

### 8. Income tax – from continuing operations

**Income tax**

The following table shows the breakdown of the tax expense for 2019 and 2018:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Current tax charge | **(617)** | (963) |
| Tax adjustments in respect of previous years | **653** | 94 |
| **Total current tax charge** | **36** | (869) |
| Deferred tax – origination and reversal of temporary differences | **272** | 597 |
| Deferred tax – adjustments in respect of previous years | **(38)** | 407 |
| **Total deferred tax credit** | **234** | 1,004 |
| **Total tax income/(expense) for the year** | **270** | 135 |

The total tax expense can be reconciled to the accounting profit as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Loss before tax | **(1,608)** | (357) |
| Tax at 19.00% (2018: 19.00%) | **305** | 68 |
| Effect of: | | |
| Overseas tax rates | **(181)** | (64) |
| Non-deductible expenses | **(146)** | (156) |
| Income not subject to tax | **31** | 215 |
| Derecognition of formerly recognised deferred tax assets | **(3)** | – |
| Other permanent tax differences | **–** | (133) |
| Other taxes | **(60)** | (38) |
| Use of tax losses previously not recognised | **109** | – |
| Changes in statutory enacted tax rate | **27** | (15) |
| Tax adjustments in respect of previous year | **615** | 501 |
| Non-recognition of deferred tax on current year losses | **(429)** | (195) |
| Share-based deductions | **(6)** | (48) |
| Other | **8** | – |
| **Income tax expense as reported in the consolidated income statement** | **270** | 135 |

The tax credit of £2,236k (2018: £2,151k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £270k (2018: £135k) relates to the items in note 4.

The tax rates used for the 2019 and 2018 reconciliation above are the corporate tax rates of 29.58% (Belgium), 25.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above mentioned countries on taxable profits under tax law in that jurisdiction.

Changes to the UK corporation tax rate were substantially enacted as part of the Finance Bill 2017 (on 6th September 2016).

They include reductions to the main rate to reduce the rate to 17.00% from 1 April 2020.

A similar tax reform in Belgium was substantially enacted in December 2017. The tax rate will gradually decrease from 33.99% (2017) to 29.58% in 2018 and 2019 and to 25.00% from 2020 onwards.

Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

**Deferred tax**

**(a) Recognised deferred tax assets and liabilities**

| | Assets | | Liabilities | | Total | |
|---|---|---|---|---|---|---|
| | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Goodwill | **(7)** | 23 | **(765)** | (632) | **(772)** | (609) |
| Intangible assets | **719** | 834 | **(4,490)** | (4,969) | **(3,771)** | (4,135) |
| Property, plant and equipment | **(244)** | 45 | **(155)** | (43) | **(399)** | 2 |
| Financial fixed assets | **1** | 1 | **–** | – | **1** | 1 |
| Inventory | **(8)** | 3 | **(21)** | (21) | **(29)** | (18) |
| Trade and other payables/receivables | **3** | 3 | **(1)** | 43 | **2** | 46 |
| Borrowings | **295** | – | **112** | – | **407** | – |
| Accruals and deferred income | **6** | – | **–** | – | **6** | – |
| Tax losses carried forward | **759** | 790 | **144** | 101 | **903** | 891 |
| **Total** | **1,524** | 1,699 | **(5,176)** | (5,521) | **(3,652)** | (3,822) |

**(b) Movements during the year**

Movement of deferred taxes during 2019:

| | **Balance at 1 January 2019 £'000** | **Recognised in income £'000** | **Disposal of subsidiaries £'000** | **Foreign exchange adjustments £'000** | **Balance at 31 December 2019 £'000** |
|---|---|---|---|---|---|
| Goodwill | **(609)** | **(197)** | **–** | **34** | **(772)** |
| Intangible assets | **(4,135)** | **405** | **–** | **(41)** | **(3,771)** |
| Property, plant and equipment | **2** | **(411)** | **–** | **10** | **(399)** |
| Financial fixed assets | **1** | **–** | **–** | **–** | **1** |
| Inventory | **(18)** | **(13)** | **–** | **2** | **(29)** |
| Trade and other payables/receivables | **46** | **(44)** | **–** | **–** | **2** |
| Accruals and deferred income | **–** | **6** | **–** | **–** | **6** |
| Borrowings | **–** | **420** | **–** | **(13)** | **407** |
| Tax losses carry forward and other tax benefits | **891** | **68** | **–** | **(56)** | **903** |
| **Net deferred tax** | **(3,822)** | **234** | **–** | **(64)** | **(3,652)** |

Movement of deferred taxes during 2018:

| | Balance at 1 January 2018 £'000 | Recognised in income £'000 | Disposal of subsidiaries £'000 | Foreign exchange adjustments £'000 | Balance at 31 December 2018 £'000 |
|---|---|---|---|---|---|
| Goodwill | (369) | (234) | – | (6) | (609) |
| Intangible assets | (5,603) | 1,458 | – | 10 | (4,135) |
| Property, plant and equipment | 3 | (1) | – | – | 2 |
| Financial fixed assets | 1 | – | – | – | 1 |
| Inventory | 26 | (50) | 5 | 1 | (18) |
| Trade and other payables/receivables | 298 | (250) | – | (2) | 46 |
| Accruals and deferred income | 94 | (94) | – | – | – |

| | | | | | |
|---|---|---|---|---|---|
| Tax losses carry forward and other tax benefits | 699 | 175 | – | 17 | 891 |
| **Net deferred tax** | (4,851) | 1,004 | 5 | 20 | (3,822) |

**Tax losses**

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £3,014k for 2019 (2018: £3,141k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £759k (2018: £788k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

**9. Earnings per share**

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

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

**Profit/(loss) from continuing and discontinuing operations**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2019 Underlying £'000** | 2018 Underlying £'000 | **2019 Total £'000** | 2018 Total £'000 |
| Net profit/(loss) from continuing operations | **7,179** | 7,014 | **(1,338)** | (222) |
| Net profit/(loss) from discontinuing operations | **–** | 40 | **–** | (774) |
| **Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution** | **7,179** | 7,054 | **(1,338)** | (996) |

**Average number of shares (basic and diluted)**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| Number of shares | **2019 Underlying** | 2018 Underlying | **2019 Total** | 2018 Total |
| **Weighted average number of ordinary shares for basic earnings per share** | **60,057,161** | 60,008,714 | **60,057,161** | 60,008,714 |
| Dilutive potential ordinary shares | **–** | 5,452 | **–** | 5,452 |
| **Weighted average number of ordinary shares adjusted for effect of dilution** | **60,057,161** | 60,014,166 | **60,057,161** | 60,014,166 |

**Basic earnings/(loss) per share**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2019 Underlying in pence** | 2018 Underlying in pence | **2019 Total in pence** | 2018 Total in pence |
| From continuing operations attributable to the ordinary equity holders of the Company | **12.0** | 11.7 | **(2.2)** | (0.4) |
| From discontinued operation | **0.0** | 0.1 | **0.0** | (1.3) |
| **Total basic earnings per share attributable to the ordinary equity holders of the Company** | **12.0** | 11.8 | **(2.2)** | (1.7) |

**Diluted earnings/(loss) per share**

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2019 Underlying in pence** | 2018 Underlying in pence | **2019 Total in pence** | 2018 Total in pence |
| From continuing operations attributable to the ordinary equity holders of the Company | **12.0** | 11.7 | **(2.2)** | (0.4) |
| From discontinued operation | **0.0** | 0.1 | **0.0** | (1.3) |
| **Total basic earnings per share attributable to the ordinary equity holders of the Company** | **12.0** | 11.8 | **(2.2)** | (1.7) |

**10. Goodwill**

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units which are expected to benefit from that business combination. Following the disposal of the wholesale division during 2018, there is now only one cash-generating unit to allocate the acquired goodwill to, being the pharmaceuticals division. The goodwill has been allocated to the cash-generating unit ("CGU") as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| CGU: Pharmaceuticals | **50,454** | 50,937 |
| **Total** | **50,454** | 50,937 |

The changes in the carrying value of the goodwill can be presented as follows for the years 2019 and 2018:

| | 2018 £'000 |
|---|---|
| At 1 January 2018 | 51,413 |
| Disposals | (106) |
| Other | (456) |
| Currency translation | 86 |
| At 31 December 2018 | 50,937 |
| Currency translation | (483) |
| **At 31 December 2019** | **50,454** |

During 2018 the goodwill balance decreased as a result of the disposal of Medini in 2018 by £106k (see note 3) and the impairment of goodwill relating to the non-core Orthopaedics business by £456k.

Goodwill allocated to the Pharmaceuticals CGU includes goodwill recognised as a result of past business combinations of Esteve, Equipharma NV, Ecuphar BV, Cardon Pharmaceuticals NV and the reverse acquisition of Animalcare Group plc in 2017.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate (pre-tax) % | **11.8** | 10.5 |
| Growth rate (in perpetuity) % | **2.0** | 2.0 |

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities.

The Group's impairment review is sensitive to change in assumptions used, most notably the discount rates and the perpetuity growth rates.

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £17 million but would not give rise to an impairment. A 1.0% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £12.7million, but would not give rise to an impairment.

The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 44.0% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 17.1% or a reduction in perpetuity growth rates to 2.6% would each give rise to an impairment in the CGU of £100k.

**11. Intangible assets**

The changes in the carrying value of the intangible assets can be presented as follows for the years 2019 and 2018:

| | In-Process R&D £'000 | Patents, distribution rights and licences £'000 | Product portfolios and product development costs £'000 | Capitalized software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Acquisition value** | | | | | |
| **At 1 January 2018** | 13,518 | 17,685 | 39,875 | 717 | 71,795 |
| Additions | 3,525 | 1,340 | 670 | 452 | 5,987 |
| Change due to business combinations | – | (29) | (5) | – | (34) |
| Currency translation | 36 | 104 | 128 | 12 | 280 |
| Other | – | 8 | – | – | 8 |
| **At 31 December 2018** | 17,079 | 19,108 | 40,668 | 1,181 | 78,036 |
| Additions | 1,582 | 251 | 208 | 302 | 2,343 |
| Disposals | (1,830) | (62) | (46) | – | (1,938) |
| Transfers | (88) | (136) | (3) | 88 | (139) |
| Currency translation | (217) | (723) | (826) | (61) | (1,827) |
| Other | 1,395 | – | (1,395) | 6 | 6 |
| **At 31 December 2019** | **17,921** | **18,438** | **38,606** | **1,516** | **76,481** |
| **Amortisation** | | | | | |
| **At 1 January 2018** | (1,241) | (4,990) | (11,241) | (286) | (17,758) |
| Amortisation charge | (1,423) | (2,716) | (3,504) | (322) | (7,965) |
| Change due to business combinations | – | 29 | 3 | – | 32 |
| Impairments | (852) | – | – | – | (852) |
| Transfers | – | – | – | (15) | (15) |
| Currency translation | (10) | (64) | (76) | (6) | (156) |
| Other | (10) | 20 | 2 | – | 12 |
| **At 31 December 2018** | (3,536) | (7,721) | (14,816) | (629) | (26,702) |
| Amortisation charge | (1,546) | (2,851) | (3,490) | (335) | (8,222) |
| Disposals | 1,828 | 62 | 13 | – | 1,903 |
| Impairments | (1,632) | – | – | – | (1,632) |
| Currency translation | – | 136 | 3 | – | 139 |
| Transfers | 72 | 405 | 521 | 39 | 1,037 |
| Other | 1 | – | – | (5) | (4) |
| **At 31 December 2019** | **(4,813)** | **(9,969)** | **(17,769)** | **(930)** | **(33,481)** |
| **Net carrying value** | | | | | |
| **At 31 December 2019** | **13,108** | **8,469** | **20,837** | **586** | **43,000** |

| | | | | | |
|---|---|---|---|---|---|
| At 31 December 2018 | 13,543 | 11,387 | 25,852 | 552 | 51,334 |

In-process research and development relates to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2018 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2018.

Product portfolios and product development costs relate to amounts paid for acquired brands as well as external and internal product development costs capitalised on the development projects in the pipeline for which the capitalisation criteria are met.

The total amortisation charge for 2019 is £8,222k (2018: £7,965k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £7,561k (2018: £6,598k) relating to acquisition related intangibles.

In 2019, Animalcare Group plc recorded an impairment charge of £1,632k (2018: £852k).

In the total additions of £2,343k in 2019 (2018: £5,987k), an amount of £237k (2018: £1,419k) is included for the expected contractual pay-outs under a licence agreement over a two-year period starting on 1 January 2019.

**12. Borrowings**

The loans and borrowings include the following:

| | | | **For the year ended 31 December** | |
|---|---|---|---|---|
| | Interest rate | Maturity | **2019 £'000** | 2018 £'000 |
| Other loans | 1.56% | | **9** | 22 |
| Revolving credit facilities | Euribor +1.50% | March 22 | **16,845** | 25,513 |
| Roll over investment facility | Euribor +1.50% | March 22 | **1,358** | 2,063 |
| Acquisition loan | Euribor +1.75% | March 22 | **3,828** | 4,025 |
| Lease liabilities | See note 15 | | **1,936** | – |
| **Total loans and borrowings** | | | **23,976** | 31,623 |
| Of which: | | | | |
| Non-current | | | **22,534** | 30,975 |
| Current | | | **1,442** | 648 |

**Revolving credit facilities and roll over investment facilities**
In mid-2016, the Group refinanced all of its outstanding investment loans with different banks. Financing arrangements were entered into with four Belgian banks. These financing arrangements have been split equally amongst these four banks. The current agreements consist of:

- €41.5 million revolving credit facilities
- €10 million available acquisition financing
- €4.08 million investment loans

The loans have a variable, EURIBOR based interest rate, increased with a margin of 1.50% or 1.75%. The revolving credit facilities and the acquisition financing have a bullet maturity in March 2022. The investment loans are repaid in 23 monthly instalments.

**13. Accrued charges and deferred income**

Accrued charges and deferred income consists of the following:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Accrued charges | **1,898** | 2,133 |
| Deferred income – due within one year | **173** | 190 |
| Other | **(8)** | 2 |
| **Total due within one year** | **2,063** | 2,325 |
| **Deferred income – due after one year** | **599** | 617 |

Accrued charges mainly relate to accrued product development expenses of £790k (2018: £1,188k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £294k (2018: £255k) and £261k (2018: £181k) for Belphar.

Deferred income are contract liabilities that arise from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront payment, Animalcare Ltd commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. There is no contractual restriction on the amount of times the customer makes use of the services. At the commencement of the contract, it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently between 8 and 14 years.

Movements in the Group's deferred income liabilities during the current year are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Balance at the beginning of the year | **807** | 999 |
| Income deferred to following years | **160** | 139 |
| Release of income deferred from previous years | **(195)** | (331) |
| **Balance at the end of the year** | **772** | 807 |

The deferred income liabilities fall due as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Within one year | **173** | 190 |
| After one year | **599** | 617 |
| **Balance at the end of the year** | **772** | 807 |

**14. Equity**

**Share capital**

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Number of shares | **£'000** | £'000 |
| Allotted, called up and fully paid Ordinary Shares of 20p each | **60,057,161** | 60,057,161 |

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Number of shares | **£'000** | £'000 |
| Allotted, called up and fully paid Ordinary Shares of 20p each | **12,012** | 12,012 |

The following share transactions have taken place during the year ended 31 December 2019:

| | For the year ended 31 December 2019 | |
|---|---|---|
| | **£'000** | **£'000** |
| At 1 January 2019 | **60,057,161** | **12,012** |
| Exercise of share options | **–** | **–** |
| **At 31 December 2019** | **60,057,161** | **12,012** |

**Dividends**

| | For the year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Ordinary final dividend paid for the year ended 31 December 2017 of 2.0p per share | **–** | 1,200 |
| Ordinary interim dividend paid for the period ended 30th June 2018 of 2.0 per share | **–** | 1,201 |
| Ordinary final dividend paid for the period ended 31 December 2018 of 2.4p per share | **1,441** | – |
| Ordinary interim dividend paid for the period ended 30th June 2019 of 2.0 per share | **1,201** | – |
| | **2,642** | 2,401 |

**15. Changes to accounting policies**

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases.

The Group leases various offices, vehicles and IT equipment. Rental contracts are typically made for fixed periods of 3 to 9 years, possibly with extension options; one contract has a lease term of more than 10 years. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 1 January 2019, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the lessee's incremental borrowing rate. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.20%.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

A reconciliation between IAS 17 and IFRS 16 is shown below for the position at 1 January 2019:

| | £'000 |
|---|---|
| Non-cancellable operating lease commitments disclosed as at 31 December 2018 | 2,760 |
| Weighted average incremental borrowing rate at 1 January 2019 | 3.2% |
| Discounted using the Group's incremental borrowing rate | 2,606 |
| Add: finance lease liabilities recognised as at 31 December 2018 | 22 |
| **Lease liability recognised as at 1 January 2019** | 2,628 |
| Of which: | |
| Current lease liabilities | 910 |
| Non-current lease liabilities | 1,718 |

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The balance sheet shows the following amounts relating to leases as at 31 December 2019:

| | 31 December 2019 £'000 | 1 January 2019 £'000 |
|---|---|---|
| Buildings | **893** | 1,275 |
| Vehicles | **989** | 1,269 |
| Other | **35** | 84 |
| **Total right-of-use assets** | **1,917** | 2,628 |
| Current lease liabilities | **830** | 910 |
| Non-current lease liabilities | **1,106** | 1,718 |
| **Total lease liabilities** | **1,936** | 2,628 |

Below are the carrying amounts of right-of-use assets recognised and the movements during the year:

| | Land and buildings | Vehicles | Other | Total |
|---|---|---|---|---|
| **Acquisition value** | | | | |
| **At 31 December 2018** | – | – | – | – |
| Initial measurement at 1 January | 1,275 | 1,269 | 84 | 2,628 |
| Additions | 28 | 424 | – | 452 |
| Disposals and contract modifications | – | (56) | – | (56) |
| Currency Translation | (32) | (50) | (3) | (85) |
| **At 31 December 2019** | **1,271** | **1,587** | **81** | **2,939** |
| **Depreciation** | | | | |
| **At 31 December 2018** | – | – | – | – |
| Depreciation charge for the year | (387) | (634) | (47) | (1,068) |
| Disposals and contract modifications | – | 20 | – | 20 |
| Currency translation | 9 | 16 | 1 | 26 |
| **At 31 December 2019** | **(378)** | **(598)** | **(46)** | **(1,022)** |
| **Net book value** | **893** | **989** | **35** | **1,917** |

Below are the values for the movements in lease liability during the year:

| | Lease Liability £'000 |
|---|---|
| **At 1 January 2019** | 2,628 |
| Additions | 452 |
| Disposals | (33) |
| Interest expense | 74 |
| Payments | (1,127) |
| CTA | (58) |
| **At 31 December 2019** | **1,936** |

The following amounts are recognised in the income statement:

| | For the year ended 31 December 2019 £'000 |
|---|---|
| Depreciation expense of right-of-use assets | **(1,068)** |
| Interest expense on lease liabilities | **(74)** |
| (Loss)/gain on disposal of IFRS 16 assets | **(3)** |
| Expense relating to short-term leases and low-value assets | **(119)** |
| **Total amount recognised in the income statement** | **(1,264)** |

Cash flows relating to leases are presented as follows:

- Cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- Cash payments for the interest portion consistent with presentation of interest payments chosen by the Group; and
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

**Impact on EBITDA and earnings per share**

EBITDA and underlying EBITDA increased by £1,127k for the year 2019 as a result of the change in accounting policy. There is no material impact on net result and earnings per share for the year.

**Practical expedients applied**

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

**16. Events after balance sheet date**

The Directors consider the Covid-19 pandemic to be a material non-adjusting post balance sheet event. The circumstances surrounding the pandemic and the subsequent economic impact did not arise until after 31 December 2019, and therefore no adjustment to the Group's financial statements as at 31 December 2019 has been made. The estimated potential effect on the Group's future financial results and financial position is considered in the Chief Financial Officer's Review and within note 2.

**17. Annual Report**

This Preliminary financial information is not being sent to Shareholders.

A further announcement will be made when the Annual Report and Accounts for the year ended 31 December 2019 will be made available on the Company's website and copies sent to shareholders.

Further copies will be available to download on the Company's website at: www.animalcaregroup.com and will also be available from the Company's registered office address: 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB