30 April 2019

Animalcare Group plc

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

Full Year Results for the 12 months ended 31 December 2018

Animalcare Group plc (AIM: ANCR), the European Animal Health business, announces its full year results for the year ended 31 December 2018.

Financial Highlights

- Reported revenue growth of 16.3% to £72.5m (2017: £62.3m)
  - Up 2.7% on a proforma basis
- Underlying* EBITDA increased by 21.7% to £11.8m (2017: £9.7m)
  - Up 2.8% on a proforma basis
- Statutory loss before tax, which incorporates non-underlying items, decreased to £0.4m (2017: £0.4m profit) with reported basic loss per share decreased to 1.7p (2017: 0.2p earnings per share)
- Improved underlying* cash conversion to 79.9% (2017: 65.9%) with net debt reduced by £2.3m to £23.6m
- Proposed final dividend of 2.4 pence per share giving a total dividend of 4.4 pence per share for 2018

Operational Highlights (including post-period)

- Jenny Winter, formerly of AstraZeneca, appointed Chief Executive Officer in October 2018
- Leadership team strengthened by appointment of Group Functional leaders in Supply Chain, Commercial, New Product Opportunities (CSO) and Technical / Regulatory functions and HR. In addition, we have appointed new country managers in Spain, the UK and Belgium
- Portfolio prioritisation performed including the sale of the non-core Wholesale business in Q3 2018, in line with focus on the higher-margin veterinary pharmaceuticals business
- Ten new products launched in 2018 with an additional six submissions made for products that are scheduled for launch in 2019 or early 2020
- Strategy was focussed to reflect the new combined Animalcare group and was approved by the Board post period. It builds on the experience and success of the legacy companies and reflects the rapidly growing and changing marketplace. The Board believe the five strategic priorities below will drive the future success of Animalcare and will contribute to both the short and long-term sustainable growth.
  - Build strong financial basis through revenue growth, cash conversion, EPS growth and EBITDA margin growth
  - Grow the business through a focussed portfolio of existing products and build a robust future pipeline in five key therapy areas in the companion animal and equine markets
  - Build on existing customer relationships with vets and other stakeholders to deliver trusted products and

services

- Business development focus with partners to in license and acquire innovative products
- Organisation for success, building leadership strength and attract, retain and develop talent for the future

*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.

Jan Boone, Chairman of Animalcare Group plc, commenting on the results said: *"Animalcare made good progress in 2018 as we focus on creating a competitive platform for future growth in the global animal health sector. We continue to improve the underlying profitability of the Group, and the disposal of our Wholesale Division was in line with our strategy to focus on the higher-margin veterinary pharmaceuticals business, a key growth driver. In order to maximise our potential as a significant player in the European and international animal health sector, we appointed Jenny Winter as CEO in October 2018 to maximise the potential of the business. With Jenny's leadership and expertise, I look forward to delivering our financial goals and strategic objectives over the coming years."*

Jenny Winter, CEO of Animalcare Group plc, said: *"Since joining Animalcare in October last year, I have been impressed by the competitive strengths of the business and the size of the growth opportunity. I have conducted a detailed review of all areas of the business and set out a strategy to enable us to build upon our capabilities. Our goal is to deliver sustainable and profitable growth and to achieve this, we will focus on meeting the needs of vets in therapeutic areas where we have existing strengths and can further add value. Improving cash generation is a key focus for the business and we will continue to drive improvements in supply chain efficiency and closely monitor our cost base, whilst selectively investing in future innovation. Achieving this will build an effective and focused organisation that is fit for the future and deliver growth over the next three to five years. "*

Analyst briefing today

Jenny Winter, Chief Executive Officer, and Chris Brewster, Chief Financial Officer, will host a meeting and conference call for analysts to provide an update the Company, followed by a Q&A session, at 09:00am BST today at the offices of Panmure Gordon & Co, One New Change, London, EC4M 9AF.

Dial-in details:

International and UK dial-in:

+44 (0) 2071 928000

Belgium dial-in:

080048740

Conference ID:

5769312

Presentation slides will be made available on Animalcare's website, www.animalcaregroup.co.uk, prior to the conference call.

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About Animalcare (www.Animalcaregroup.co.uk)

Animalcare Group plc is a UK AIM listed veterinary sales and marketing organisation resulting from the merger of Animalcare and Ecuphar NV in July 2017. Animalcare operates in 32 countries in Europe and a further 16 worldwide. The company is focused on bringing new and innovative products to market through its own development pipeline, partnerships and via acquisition.

CHAIRMAN'S STATEMENT

Animalcare continued to make steady progress in 2018 as we focus on creating a competitive platform for future growth in the international animal health sector. Group revenues from continuing operations were up 16.3% to £72.5m from £62.3m with underlying EBITDA increasing by 21.7% to £11.8m (2017: £9.7m). On a proforma basis, which is used by the Board for comparison of financial performance, as set out in the unaudited income statement in the Chief Financial Officer's Review, revenue and underlying EBITDA growth versus 2017 was 2.7% and 2.8% respectively. After underlying adjustments totalling £9.4m, the loss before tax for the year on a reported basis was £0.4m (2017: £0.4m profit).

Sales growth was affected towards the end of the year by supply challenges related to third-party manufacturers, some of which impacted the wider market. We also experienced some delays to new product launches and lower demand in the large animal portfolio, particularly for antibiotics which was reflective of an overall market decline in demand.

Strategically, we decided to dispose of the Wholesale Division in order to focus resources on the higher-margin veterinary pharmaceuticals business. We also continued to focus on integration, supply chain efficiency and optimising portfolios and product launches across our expanded network.

The Board is confident of the long-term prospects of the animal health market and is actively preparing the business to make the most of the opportunities. Our key competitive advantages include a significant presence across Europe, with products sold in 32 markets directly and through partners. We also benefit from specialisation in key therapeutic areas for the companion animal and equine markets and believe we can capitalise on a growing reputation as a chosen partner for non-European companies and researchers wanting to commercialise innovative products in Europe.

In order to maximise the potential of the business, the Board appointed Jenny Winter as CEO in October 2018. Jenny has an excellent track record in the pharmaceutical industry, most recently with AstraZeneca, with particular expertise in supply chain effectiveness, which we believe is fundamental to improving our overall performance. We are grateful to Chris Cardon for his contribution as CEO and for taking on the role of Chief Strategy Officer.

Jenny has initiated a full review and identified a clear path for Animalcare as a business focused around core therapy areas and higher margin products with the vet as our primary customer. We are also setting out financial goals, including growing faster than the markets in which we operate and improving cash generation to enable us to invest in future growth and innovation.

Further details of the new strategy are set out in the Chief Executive Officer's Review and are linked to our Key Performance Indicators.

I would like to thank our employees for their support and dedication during 2018. We look forward to 2019 and beyond with confidence. We believe Animalcare is excellently placed to leverage its geographic, structural and therapeutic strengths, and has the opportunity to become a significant and recognised brand across Europe, with global potential for innovative products through best-in-class partnerships.

We look forward to keeping you updated on our progress during the year.

Jan Boone
Non-Executive Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Since joining Animalcare in October 2018, I have been impressed by the competitive strengths of the business and the quality of the growth opportunity. Since joining and following the disposal of our wholesale business in September 2018, a thorough review has been undertaken. Following this review and detailed discussions with the Board, I have set out a strategy to enable us to build on the existing portfolio, experience and capabilities to become an important player in the European animal health market and beyond. I have also reviewed our pipeline and established the principles we will use to build a sustainable future.

The strategy is built around five pillars:

- Strong finances
- Growth portfolio
- Customer relationships
- Focused business development
- The organisation for success

In the seven European markets where we have commercial operations we market and sell our own products. We also market and sell products from other companies through our established sales teams. In countries where we do not have sales teams, we work with our network partners to commercialise our own products. With this footprint we are active in 32 countries in Europe and a further 16 in the rest of the world.

We employ over 110 fully trained sales representative and technical experts who are working closely with our customers including dedicated Key Account Managers who work with our larger Corporate Partners

We have a broad portfolio of licensed drugs, vaccines and care products including nutraceuticals in the companion animal, equine and production animal segments of the market. In the UK we are also one of the leading providers of pet microchips and have a successful pet reunification service.

2018 Operational performance:

Financials

On a proforma basis, sales in 2018 increased by 2.7% to £72.5m versus the prior year and were in line with the market growth for the countries and segments in which we operate. This increase is driven by organic growth in companion animals (+6.0%) offset by a decline in production animal sales of 3.6%.

Growth in Companion Animals was driven by the launch of new products including Cosequin (Spain) and the annualised impact of products launched in 2017. Equine sales were flat and the decline in sales in production animals is driven by the reduction in the use of antibiotics and our antibiotics sales versus 2017 declined at 15%. Belgium and Italy saw the largest decline.

Our top three selling products in 2018 were Dinalgen Injection for the treatment of pain, Conofite, an antifungal treatment and Orozyme, an established oro-dental product and accounted for 12% of sales.

The top 20 products accounted for 47% of our total sales. Filavac (+38%), Aqupharm fluids (+27%) and Cosequin (joint supplement) (+230%) were the most significant growth drivers in the portfolio. Our microchip business in the UK continued to perform well with growth of 31%. Whilst overall sales in farm animal declined, Dinalgen Injection performed strongly with revenue up 31%.

Our operating overheads increased by +0.7% with a mix of increases in employee costs and decreases in other operational expenses.

Underlying EBITDA increased by 2.8% driven by growth in Germany and the UK, offset by a decline in Belgium and Spain. Overall growth was impacted by some out of stocks due to supply chain challenges, some delays in approvals for new products and the pace of the decline in antibiotic prescribing.

New product launches and regulatory filings.

We have been building our product portfolio and technical efficiencies in 2018. We have made 17 submissions for products that are either new to our portfolio, or new in a specific country both within Europe and Globally. We have made over 50 submissions including extensions to the life cycle of existing products that will increase efficiency and decrease costs.

We launched ten new products in 2018 and will see the full year impact of these launches in 2019.

In 2018 we completed a strategic review of our development pipeline and re focused our activities to drive growth in the next five years.

We have accelerated the development programme for our novel pain treatment by four months and we terminated the development of two products, either due to commercial or technical reasons.

Six projects were submitted to the regulatory authorities in 2018 including extensions to our "Care" range across multiple countries that will strengthen our portfolio in the key therapeutic areas. Launches are planned for these products throughout 2019 and into early 2020.

People

We have continued the work that was done in 2017 to strengthen our Leadership Team and have established a core team to drive simplicity and avoid duplication. We have appointed Martin Gore as our Group Head of Commercial, to drive excellence within our Sales and Marketing teams. Stephen Pearson has been appointed Group Head of Supply Chain and will be focussed on improving customer service and on time in full delivery to our customers as well as managing inventory. Karolyn Tapper continues to lead our Technical team and Christiaan Cardon has taken the role of Chief Strategy Officer with responsibility for identifying new opportunities for the Group.

The newly created Leadership Team consists of the Group functions and Country Managers to ensure that we remain close to our customers through the leaders in each country. Post year end, we have further strengthened our Country Manager team with the appointment of Sara Maddens to lead the team in Benelux.

Having the right people in place is critical to our long-term success. I am determined that Animalcare will develop a positive and unified culture, with a rewards system and career development path to attract and retain the best talent in our industry. We plan to introduce a Long-Term Incentive Plan in May 2019 to reward senior employees for sustained performance.

Integration

Animalcare has not yet seen the benefit of the combined organisation in the financial returns however great progress has been made on the 5 key areas outlined in plan in the past six months. Our highest priorities are:

1. Drive maximum value from the combined portfolio.
2. Establish a robust supply chain.
3. Align our pipeline to the growth strategy
4. Align our people strategy including our reward system.
5. Drive commercial excellence

We have established a new Leadership Team and organisational structure to facilitate the implementation of the integration plan and to drive performance including through simplification, focus and cross functional working. Clear targets are in place to track our progress.

Our growth strategy

To deliver sustainable and profitable growth we will focus on therapeutic areas where we have existing capabilities and with the greatest growth potential, through higher margin innovation, expansion of our geographic reach and careful control of our costs. By growing faster than the markets where we operate, controlling OPEX and improving operating cash conversion, we can focus resources where they will bring the best returns while continuing to reward shareholders.

Our future Pipeline

Our pipeline will focus on five therapeutic areas in the companion animal and equine markets where we are already strong and have the potential to add value through innovation. These are pain management, dermatology, dental, disease prevention and surgery. Animalcare also owns identichip, the UK's leading pet microchipping business and database, with significant scope for growth in the UK and internationally.

We will continue to support our production animal business through targeted products with specific customer groups.

Our customers
We will focus on vets and veterinary groups as our main customers, benefiting from our existing expertise and strong relationships. We want to become the chosen partner in Europe for innovative animal health products for companies around the world. We will seek to improve the quality and profitability of our portfolio by in-licensing and acquiring late- and commercial-stage products, and accelerating our own R&D through targeted investment.

Our footprint
We have established networks in 25 countries in Europe and another 16 globally. We will continue to develop these networks to maximise the sales of our products and where it makes sense to establish a presence we will do so – either as a stand-alone business or in partnership.

Summary and outlook
We are building an effective and focussed organisation that is fit for the future and we have a clear strategy to grow over the next 3 to 5 years. One of the critical things for our organisation is to track progress and we have established goals, objectives and measures so we can ensure we achieve our financial targets. We have established clear milestones and will report against those. To deliver on the expectations we set,we will focus on generating cash for investing, for rewarding our shareholders and for paying our debt. Success will be driven by the 5 pillars of our strategy - Strong finances, a portfolio for growth, our customer relationships, our business development and most importantly – our organisation of highly engaged and talented people.

I look forward to sharing more details over the coming weeks, months and years as we implement our strategy for success.

Jenny Winter
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

Introduction and presentation of results

On 13th July 2017, Animalcare Group plc completed the reverse acquisition of Ecuphar NV. 2018 therefore reflects the first full year of trading as a combined Group. On a statutory basis, and in accordance with IFRS3, the results for the comparative year ended 31st December 2017 represent twelve months of Ecuphar NV and approximately five and a half months of Animalcare Group plc as previously constituted.

In addition, following the divestment of our Wholesale business on 4th September 2018, both the 2018 and 2017 financial information have been presented to show the Pharmaceuticals segment as continuing operations separately from the Wholesale segment, which has been classified as discontinued.

Accordingly, to help Shareholders to assess the Group, an unaudited Proforma Consolidated Income Statement has been provided, which reflects twelve months of trading from the continuing Pharmaceuticals segment for both entities for 2018 and 2017. The Board believes that this statement provides the most appropriate basis for comparison of current and future operating performance. On this basis, the Group has delivered proforma revenue growth of 2.7% to £72.5m (2017: £70.6m) and proforma underlying EBITDA growth of 2.8% to £11.8m (2017: £11.5m). On a statutory basis, including non-underlying items, the Group delivered a loss after tax of £0.8m (2017: £0.2m profit).

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.

Financial Review

Pro forma Consolidated Income Statement (unaudited)

Compared to the statutory results for 2018, the unaudited Pro forma Consolidated Income Statement set out below represents the continuing pharmaceuticals segment for both 2018 and 2017, with the 2017 comparatives including an additional 28 weeks of Animalcare Group plc's results prior to the reverse acquisition. This has the impact of increasing 2017 revenue and underlying EBITDA by £8.3m and £1.8m respectively as set out in the table below

:

	Unaudited	Unaudited		
	Continuing Operations 2018 £'000	Continuing Operations –Post-acquisition 2017 £'000	Animalcare pre-acquisition 2017 £'000	Total proforma Continuing Operations 2017 £'000
Revenue	**72,470**	62,291	8,267	70,558
Gross Profit	**37,339**	32,325	4,464	36,789
Operating expenses	**(37,122)**	(31,309)	(5,753)	(37,062)
Operating profit/(loss)	**217**	1,016	(1,289)	(273)
Depreciation, amortisation & impairment	**9,588**	6,480	199	6,679
Non-underlying items	**1,993**	2,202	2,867	5,069
Underlying EBITDA	**11,798**	9,698	1,777	11,475
Net financial expenses	**(574)**	(639)	(1)	(640)
Profit/(loss) before tax	**(357)**	377	(1,290)	(913)
Taxation	**135**	(292)	(82)	(374)
Net (loss)/profit	**(222)**	85	(1,372)	(1,287)
Underlying net profit	**7,016**	5,175	1,309	6,484
Underlying basic EPS (p)	**11.7p**	–	–	10.8p

Revenue
On a proforma basis, the Group delivered revenue growth of 2.7% to £72.5m (2017: £70.6m), split by product category as shown in the table below:

	Unaudited	Unaudited	
	2018 £'000	2017 £'000	% Change at AER %
Companion Animals	**44,465**	41,937	6.0%
Production Animals	**22,824**	23,680	(3.6%)
Equine and other	**5,181**	4,941	1.4%
Total	**72,470**	70,558	2.7%

Companion Animals revenue continues to be the largest proportion of the Group's business, representing 61.4% of total sales, up from 59.4%. As our existing portfolio continues to mature and be impacted by pricing pressure and changes in the competitor landscape, new products remain the main driver for the overall revenue growth of 6.0% to £44.5m (2017: £41.9m). We launched seven new products during the year including the nutritional supplement Cosequin in Spain, which contributed £2.4m sales in total. This was supplemented by £0.8m annualised growth of products launched in 2017 that were sourced from our partners, principally in Germany. Overall growth was impacted by supply challenges towards the year end relating to certain third-party manufacturers.

Production Animals revenue contracted by 3.6% versus prior year period largely driven by lower demand for antibiotics offset in part by higher export sales of in particular Dinalgen (anti-inflammatory). Equine and other sales were broadly flat at £5.2m.

Underlying proforma continuing EBITDA increased by 2.8% to £11.8m with corresponding margin consistent with prior year at 16.3%. Gross margins at 51.5% modestly declined compared to prior year (2017: 52.1%) primarily reflecting lower margin sales mix in Companion Animals and the competitive environment. SG&A costs as a percentage of revenue reduced in the year from 35.9% to 35.2% as the business has continued to focus on costs efficiencies whilst investing in our people to support the integration and future growth.

Underlying proforma continuing basic EPS increased by 8.3% for the year to 11.7p, based on a weighted average number of shares of 60.0m applied to both 2018 and 2017. The effective tax rate was 22.3% (2017: 23.0%) primarily reflecting increased research and developments tax credits and partial utilisation of tax losses.

Underlying and Statutory Results

As a result of the reverse acquisition of Ecuphar NV, both the underlying and statutory basis for reporting results for the year ended 31st December 2017 include approximately five and a half months of Animalcare Group plc as previously constituted. The 2018 results are those noted in the unaudited Proforma Consolidated Income Statement above.

Overview of Underlying financial results – Continuing Operations

	2018	2017	% Change at AER
	£'000	£'000	%
Revenue	**72,470**	62,291	16.3%
Gross Profit	**37,339**	32,325	15.5%
Gross Margin %	**51.5%**	51.9%	(0.4%)
Underlying Operating Profit	**9,604**	7,560	27.8%
Underlying EBITDA	**11,798**	9,698	21.7%
Underlying EBITDA margin %	**16.34%**	15.6%	0.8%
Basic Underlying EPS (p)	**11.7p**	12.3p	(4.9%)

We delivered revenue of £72.5m and underlying EBITDA of £11.8m, representing growth of 16.3% and 21.7% respectively compared to the previous year. This was achieved through a combination of modest underlying growth as noted in the proforma results review together with a full year trading impact of the acquired Animalcare operations.

Underlying EBITDA margin improved to 16.3% largely reflecting the higher margin Animalcare business together with overall focus on costs to improve operating leverage. This focus includes a restructuring of our UK commercial team to put more emphasis on supporting larger corporate customers as well as continuing to provide strong service levels to independent practices. We expect this trend to continue and will closely monitor and adapt the Group's operations accordingly.

Basic underlying EPS decreased to 11.7 pence reflecting the 35.6% increase in underlying profit after tax to £7.0m offset by the significant increase in the weighted average number of shares resulting from the full year impact of the reverse acquisition (see note 8).

Overview of reported financial results

Including the loss from the discontinued operations and non-underlying items, the Group reported a loss after tax of £1.0m (2017: £0.2m profit).

A reconciliation of underlying results to reported results for the year to 31st December 2018 is shown in the table below:

	2018 Underlying results	Discontinued operations	Amortisation and impairment of intangibles	Acquisition, restructuring, integration and other costs	**2018 Reported results**	2017 Reported results (restated)
	£'000	£'000	£'000	£'000	**£'000**	£'000
Revenue	**72,470**	–	–	–	**72,470**	62,291
Gross Profit	**37,339**	–	–	–	**37,339**	31,924
Selling, general & administrative expenses	**(24,312)**	–	(4,789)	–	**(29,101)**	(26,396)
Research & development expenses	**(3,466)**	–	(1,296)	–	**(4,762)**	(2,799)
Net other operating income (expenses)	**43**	–	(1,309)	(1,993)	**(3,259)**	(1,713)
Operating Profit	**9,604**	–	(7,394)	(1,993)	**217**	1,016
Net finance expenses	**(574)**	–	–	–	**(574)**	(639)
Profit/(loss) before tax	**9,032**	–	(7,394)	(1,993)	**(357)**	377
Taxation	**(2,016)**	–	1,822	329	**135**	(292)
Profit/(loss) after tax	**7,016**	–	(5,573)	(1,664)	**(222)**	85
Loss/(profit) from discontinued operations	**–**	(776)	–	–	**(776)**	99
Profit/(loss) for the year	**7,016**	(776)	(5,573)	(1,664)	**(998)**	184
Basic EPS (p)	**11.7p**				**(1.7p)**	0.2p

The sale of our wholesale division was completed on 4th September 2018 with financial effect from 1st July 2018. The loss from discontinued operations was £0.8m which primarily represents the loss on disposal. Additional details are shown in note 4. Of the total £3.0m consideration, £2.4m has been received with a further £0.4m payable to the Group on 30th June 2019 in relation to the remaining intercompany balance owed. The balance of approximately £0.2m is subject to achieving specific revenue targets between 1st July 2019 and 30th June 2020 and payable in July 2020.

The amortisation and impairment of intangibles charge of £7.4m (pre-tax) principally comprises £4.6m charge arising on the acquired intangibles relating to the reverse acquisition and £2.5m charge in respect of previous acquisitions made by Ecuphar NV, namely Esteve SA which was acquired on 30th April 2015.

The remaining statutory items totalling £2.0m largely relate to restructuring and integration costs as detailed in note 5. Restructuring costs of £1.2m principally relate to executive changes, senior management restructuring and the UK commercial team reorganisation as noted earlier.

The reported basic loss per share, which incorporates non-underlying items, decreased to 1.7 pence (2017: 0.2 pence earnings per share).

Dividends
The Board is proposing a final dividend of 2.4 pence per share, adding to the interim dividend of 2.0 pence per share paid in November 2018, giving a total dividend of 4.4 pence per share for the year ended 31st December 2018, the first full financial year as a combined Group. The Board continues to monitor the dividend policy, recognising the need for a balance between investment to support future growth and dividend flow to deliver overall value to our shareholders.

Cash flow, net debt and borrowing facilities
The Group is committed to improving cash generation, important to generate the funds we need to invest for growth and to maintain dividend payments. We will monitor progress using cash conversion as a percentage of underlying EBITDA as set out in the table below:

	2018 **£'000**	2017 £'000
Underlying EBITDA	**11,798**	9,698
Net cash flow from operations	**7,430**	2,425
Non-underlying items	**1,993**	3,968
Underlying net cash flow from operations	**9,423**	6,393
Cash conversion %	**79.9%**	65.9%

The Group's underlying cash conversion significantly improved during the year to 79.9%, with net cash flow generated by our operations increasing to £7.4m (2017: £2.4m). Working capital increased by £0.9m, largely relating to further increased stocks. Our Group Head of Supply Chain has a clear target to reduce inventory levels over the next two years. Cash taxes of £2.2m were significantly higher than 2017 largely due to settlement of prior year taxes in Belgium and higher cash tax in Spain.

	£'000
Net debt at 1st January 2018	**(25,908)**
Net cash generated from operations	7,430
Net capital expenditure	(4,781)
Proceeds from divestment of wholesale operations	2,403
Net finance expenses	(626)
Dividends paid	(2,401)
Receipts from issue of share capital	170
Other cash movements	474
Foreign exchange on cash and borrowings	(349)
Net debt at 31st December 2018	**(23,588)**

Net capital expenditure of £4.8m largely comprises investment in our product development pipeline of £4.2m from which six new products are expected to be launched during 2019 and into early 2020. The balance of expenditure largely relates to investment in our IT infrastructure which has made strong progress. This includes a new CRM system in Italy and SAP in the UK which went live on 1st January 2019. Both represent important steps in delivering our objective of common platforms across the Group which will help to drive integration and improve efficiencies.

The net borrowing position at the end of the year was £23.6m, representing net debt to underlying EBITDA leverage of 2.0 times (maximum bank covenant ratio is 3.5 times). At 31st December 2018, total facilities were £46.4m, of which £29.8m, net of cash balances, was utilised, leaving headroom of £16.6m. 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.

Brexit
Whilst the outcome of the Brexit negotiations remain unclear our contingency preparations are on track to maintain commercial supply. We expect to incur one-off costs of circa £0.3m in relation to transfer of product registrations during 2019.

Summary and outlook

The Group delivered continued revenue growth in the year and translation through to both underlying profit and cash conversion is beginning to improve. We remain focused on our medium to long-term objective of delivering sustainable profit growth and improved cash generation, with cash flow expected to be supported by lower inventories.

Strategically and operationally it continues to be a time of change for the Group with the pace of integration of our businesses accelerating given the greater focus by our Leadership Team. During 2019, the drive for improved efficiency and integration across the business will continue including the integration of our Product Development and Regulatory teams. We will also focus on portfolio optimisation, improving service and driving efficiencies in our supply chain, all of which will require investment.

Whilst our performance was not as strong as originally expected, we have made steady progress across the business over the last 12 months and delivered growth at a time of much change within our business and the market. We will continue to seek opportunities to grow our business and I believe we are well placed to deliver medium to long-term shareholder value.

Chris Brewster
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31ST DECEMBER 2018

		For the year ended 31 December					
£'000	Notes	**Underlying 2018**	**Non-Underlying (note 4) 2018**	**Total 2018**	Underlying 2017 (Restated)	Non-Underlying (note 4) (Restated) 2017 (Restated)	Total 2017 (Restated)
Revenue	5	**72,470**	**–**	**72,470**	62,291	–	62,291
Cost of sales		**(35,131)**	**–**	**(35,131)**	(29,966)	(401)	(30,367)
Gross profit		**37,339**	**–**	**37,339**	32,325	(401)	31,924
Research and development expenses		**(3,466)**	**(1,296)**	**(4,762)**	(2,048)	(751)	(2,799)
Selling and marketing expenses		**(12,435)**	**–**	**(12,435)**	(12,592)	–	(12,592)
General and administrative expenses		**(11,877)**	**(4,789)**	**(16,666)**	(10,214)	(3,591)	(13,805)
Net other operating income / (expenses)		**43**	**(3,302)**	**3,259)**	89	(1,801)	(1,713)
Operating profit/(loss)		**9,604**	**(9,387)**	**217**	7,560	(6,544)	1,016
Financial expenses	6	**(840)**	**–**	**(840)**	(735)	–	(735)
Financial income	7	**266**	**–**	**266**	96	–	96
Profit/(loss) before tax		**9,032**	**(9,387)**	**(357)**	6,922	(6,544)	377
Income tax	8	**(2,016)**	**2,151**	**135**	(1,746)	1,454	(292)
Net profit from continuing operations		**7,016**	**(7,236)**	**(222)**	5,176	(5,090)	85
Net profit/(loss) from discontinuing operations	3	**40**	**(816)**	**(776)**	109	(10)	99
Net profit/(loss)		**7,056**	**(8,052)**	**(998)**	5,285	(5,100)	184
Net profit/(loss) attributable to:							
The owners of the parent		**7,058**	**(8,052)**	**(996)**	5,285	(5,100)	184
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	**11.7p**		**(0.4p)**	12.3p		0.2p
Diluted earnings per share	9	**11.7p**		**(0.4p)**	12.3p		0.2p

Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:					
Basic earnings per share	9	**11.8p**	**(1.7p)**	12.6p	0.4p
Diluted earnings per share	9	**11.8p**	**(1.7p)**	12.5p	0.4p

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 this financial information. The accompanying notes form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31ST DECEMBER 2018

£'000	**2018**	2017
Net (loss)/profit for the year	**(998)**	184
Other comprehensive income		
Cumulative translation differences*	**165**	664
Other comprehensive income, net of tax	**165**	664
Total comprehensive (expense)/income for the year, net of tax	**(833)**	848
Total comprehensive (expense)/income attributable to:		
The owners of the parent	**(831)**	848
Non-controlling interest	**(2)**	–

* May be reclassified subsequently to profit & loss

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEAR ENDED 31ST DECEMBER 2018

		For the year ended 31 December	
£'000	Notes	**2018**	2017
Assets			
Non-current assets			
Goodwill	10	**50,937**	51,413
Intangible assets	11	**51,334**	54,037
Property, plant & equipment		**477**	825
Deferred tax assets	8	**1,699**	1,603
Other financial assets		**59**	72
Other non-current assets		**294**	–
Total non-current assets		**104,800**	107,950
Current assets			
Inventories		**14,891**	16,795
Trade receivables		**13,084**	16,680
Available-for-sale financial assets		**–**	464
Other current assets		**2,736**	1,934
Cash and cash equivalents		**8,035**	7,579
Total current assets		**38,746**	43,452
Total assets		**143,546**	151,402
Liabilities			
Current liabilities			
Borrowings	12	**(648)**	(633)
Trade payables		**(11,907)**	(14,128)
Tax payables		**(1,016)**	(1,520)
Accrued charges & deferred income	13	**(2,325)**	(2,116)
Other current liabilities		**(3,864)**	(3,201)
Total current liabilities		**(19,760)**	(21,598)
Non-current liabilities			

Borrowings	12	**(30,975)**	(32,854)
Deferred tax liabilities	8	**(5,521)**	(6,454)
Deferred income	13	**(617)**	(780)
Provisions		**(81)**	(72)
Total non-current liabilities		**(37,194)**	(40,160)
Total Liabilities		**(56,954)**	(61,758)
Net Assets		**86,592**	89,644
Equity			
Share capital	14	**12,012**	11,983
Share premium		**132,729**	132,588
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses		**(4,732)**	(1,347)
Other reserves		**3,345**	3,180
Equity attributable to the owners of the parent		**86,592**	89,642
Non-controlling interest	14	**–**	2
Total equity		**86,592**	89,644

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2018

	Attributable to the owners of the parents								
£'000	Share capital	Share premium	Treasury shares	Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling interest	Total equity
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**

£'000	Share capital	Share premium	Treasury shares	Retained earnings/Accumulated losses	Reverse acquisition reserve	Other reserve	Total	Non-controlling interest	Total equity
At 1 January, 2017	4,244	6,687	–	1,258	5,146	2,518	19,853	2	19,855
Net profit	–	–	–	184	–	–	184	–	184
Other comprehensive income	–	–	–	–	–	662	662	–	662
Total comprehensive income	–	–	–	184	–	662	846	–	846
Dividends paid	–	–	–	(2,816)	–	–	(2,816)	–	(2,816)
Shares issued as consideration	5,750	94,880	–	–	–	–	100,630	–	100,630
Exercise of share options	275	3,953	–	–	–	–	4,228	–	4,228
Share issue cost	–	(1,218)	–	–	–	–	(1,218)	–	(1,218)
Arising on reverse acquisition	–	–	–	–	(61,908)	–	(61,908)	–	(61,908)
Issue of new shares	1,714	28,286	–	–	–	–	30,000	–	30,000

Cash consideration for Ecuphar	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	27	–	–	27	–	27
At 31 December, 2017	**11,983**	**132,588**	**–**	**(1,347)**	**(56,762)**	**3,180**	**89,642**	**2**	**89,644**

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
YEAR ENDED 31ST DECEMBER 2018

£'000	Notes	**2018**	2017
Operating activities			
Loss/profit before tax from continuing operations		**(357)**	377
Loss/profit before tax from discontinued operations	3	**(776)**	167
Loss/Profit before tax		**(1,133)**	544
Non-cash and operational adjustments			
Depreciation of property, plant & equipment		**333**	327
Amortization of intangible assets	11	**7,965**	6,053
Impairment of intangible assets	11	**852**	–
Impairment of goodwill	10	**456**	–
Share-based payment expense		**12**	27
Loss/(gain) on disposal of property, plant & equipment		**(2)**	2
Loss on disposal of subsidiary	3	**682**	–
Movement allowance for bad debt and inventories		**620**	652
Financial income		**(254)**	(91)
Financial expense		**879**	747
Impact of foreign currencies		**16**	25
Other		**2**	(30)
Movements in working capital			
Increase in trade receivables		**(540)**	(2,079)
Increase in inventories		**(1,207)**	(1,359)
Increase /(decrease) in payables		**904**	(2,115)
Income tax paid		**(2,155)**	(278)
Net cash flow from operating activities		**7,430**	2,425
Investing activities			
Purchase of property, plant & equipment		**(213)**	(184)
Purchase of intangible assets	11	**(4,568)**	(2,379)
Proceeds from the sale of property, plant & equipment (net)		**6**	31
Payments to acquire subsidiaries	3	**–**	(33,145)
Cash and cash equivalents acquired under reverse acquisition	3	**–**	6,293
Proceeds from sale of subsidiary	3	**2,403**	–
Sale/(purchase) of available for sale financial investments		**459**	(45)
Net cash flow used in investing activities		**(1,913)**	(29,429)

£'000	Notes	**For the year ended 31 December 2018**	2017
Financing activities			
Proceeds from loans and borrowings and convertible debt		**–**	8,298

Repayment of loans and borrowings		**(2,257)**	(649)
Receipts from issue of share capital		**170**	29,402
Dividends paid		**(2,401)**	(2,816)
Interest paid		**(637)**	(528)
Other financial expense		**11**	(129)
Net cash flow (used in)/from financing activities		**(5,114)**	33,578
Net increase of cash and cash equivalents		**403**	6,574
Cash and cash equivalents at beginning of year		**7,579**	951
Exchange rate differences on cash and cash equivalents		**53**	54
Cash and cash equivalents at end of year		**8,035**	7,579

		For the year ended 31 December	
£'000	Notes	**2018**	2017
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**403**	6,574
Cash flow from decrease/(increase) in debt financing		**2,257**	(7,649)
Foreign exchange differences on cash and borrowings		**(349)**	(1,051)
Movement in net debt in the year		**2,311**	(2,126)
Net debt at the start of the year		**(25,908)**	(23,782)
Debt transferred on sale of subsidiary	3	**9**	–
Net debt at the end of the year		**(23,588)**	(25,908)

1. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31st December 2018 but is derived from the 2018 accounts. The statutory accounts of Animalcare Group plc for the year ended 31st December 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course. The external auditor has reported on those accounts; the report was (i) unqualified, (ii) did not include references to any matters to which the external auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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 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 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied.

The consolidated financial statements cover the year ended 31st December 2018 and comprise the consolidated results of the Group. On 13th July 2017 the Group completed the reverse acquisition of Ecuphar NV ("Ecuphar"). In the comparatives financial statements, for the year ending 31st December 2017, the results of the group are included as of the 13th of July 2017. For the period from 1st January 2017 to the date of the reverse acquisition the results of Ecuphar, the substance of the reverse acquisition, are solely shown.

Wholesale divestment 2018

Following the divestment of the Wholesaling business Medini NV registered in Belgium, Legeweg 157i, 8020 Oostkamp on 4th September 2018, 2017 financial information have been restated in accordance with IFRS 5, to show continuing operations separately from discontinued operations. Both continuing and discontinued operations were restated to include elements relating to transactions between entities which were previously eliminated in the consolidation as intra-group.

Reverse acquisition Animalcare Group Plc 2017

The accounting policy adopted by the Directors applies 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).

This policy reflects the commercial substance of this transaction as follows:

- The original shareholders of the legal subsidiary undertaking were the most significant shareholders following admission to AIM, owning 46.9% of the issued share capital;
- The assets and liabilities of the legal subsidiary Ecuphar NV are recognised and measured in the Group financial statements at the pre-combination carrying amounts without restatement to fair value;
- The retained earnings and other equity balances recognised in the Group financial statements reflect the retained earnings and other equity balances of Ecuphar NV immediately before the business combination;
- The results of the period from 1st January 2017 to the date of the business combination are those of Ecuphar NV;
- The equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the business combination and adjusted in accordance with IFRS 3. This results in the creation of a 'reverse acquisition reserve' as at 1st January 2017, being the difference between the Company equity structure and that of Ecuphar NV.

3. Business Combinations and disposals of subsidiaries

Business combinations

Reverse acquisition of Animalcare Group plc

On 13th July 2017 Animalcare Group plc acquired 100% of the share capital of Ecuphar NV for a total consideration of £133,775k, satisfied through a combination of a share-for-share exchange and £33,145k in cash net of commissions.

The acquisition of Ecuphar NV by Animalcare Group plc is deemed to be a reverse acquisition under the provisions of IFRS 3 "Business Combinations".

In accounting for a reverse acquisition (rather than an acquisition) the combined financial statements are deemed to be a continuation of the books of the legal acquiree (Ecuphar NV) rather than a continuation of those of the legal acquirer (Animalcare Group plc).

The assets and liabilities of the Ecuphar NV are recognised and measured in the Group financial statements at the pre-combination carrying amounts, without restatement to fair value and no goodwill arises in relation to them.

Conversely, the assets of Animalcare Group plc and Animalcare Ltd are consolidated at their fair values.

The overall effect is that the consolidated financial statements are prepared from an Ecuphar NV perspective rather than Animalcare Group plc, and in summary this means:

- The comparative consolidated financial information is that of Ecuphar NV rather than that of Animalcare Group plc;
- The result for the year and consolidated cumulative profit and loss reserves are those of the Ecuphar NV plus the post-acquisition results of the Animalcare Group plc;
- A reverse acquisition reserve of £ (56,762)k has been created;
- The share capital and share premium account are that of Animalcare Group plc; and
- The cost of the combination has been determined from the perspective of Ecuphar NV.

Goodwill arises on the reverse acquisition when comparing the deemed fair value consideration of Animalcare Group plc acquiring the shares of Ecuphar NV. The fair value of the consideration is the market capitalisation of Animalcare Group plc at the acquisition date based on the closing share price on 12th July of 355p per share.

Reverse Acquisition Animalcare Group Plc

£'000	Carrying value at acquisition date	Fair value adjust-ments	Fair value at acquisi-tion date
Assets			
Historical goodwill	12,711	(12,711)	–
Intangible assets	4,658	30,957	35,615
Tangible assets	227	–	227
Deferred tax asset	149	885	1,034
Inventory	2,014	401	2,415
Trade receivables	3,392	–	3,392
Other current assets	559	–	559
Cash	6,293	–	6,293

	30,003	**19,532**	**49,535**
Liabilities			
Deferred tax liabilities	(414)	(6,843)	(7,257)
Trade payables	(3,948)	–	(3,948)
Other liabilities	(4,040)	–	(4,040)
	(8,402)	**(6,843)**	**(15,245)**
Total identified assets and liabilities	**21,601**	**12,689**	**34,290**
Goodwill			41,048
Fair value of consideration	**–**	**–**	**75,338**

The acquisition consideration, net assets and goodwill are based upon the reverse acquisition of Animalcare Group plc by Ecuphar NV. The fair value of the consideration is the market capitalisation of Animalcare Group plc at the closing share price of 355p per share on 12th July 2017. Transaction costs of equity transactions relating to the issue and readmission of the Company's shares are accounted for as a deduction from equity where they relate to the issue of new shares.

The fair value of the net assets acquired and shown in the table above was £34,290k. The fair value of the consideration was £75,338k resulting in goodwill on reverse acquisition of £41,048k. In addition, the fair value uplift of inventory amounted to £401k, the fair value uplift of the identified intangibles amounted to £30,957k. Deferred tax assets and liabilities respectively were increased by £885k and £(6,843)k.

Disposal of subsidiaries

On 4th September 2018, the Group announced and completed the disposal of its Wholesaling 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 ending 31st December 2018. This is based on the total consideration of £2,989k and a net asset value of £3,622k, excluding intercompany debt. The Group has 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 is payable to on 30th June 2019 in relation to the remaining intercompany balance owed. The balance of approximately £214k is subject to achieving specific revenue targets between 1st July 2019 and 30th June 2020 and payable in July 2020.

In accordance with IFRS 5, the income statement for the twelve months ended 31 December 2017 and 2018 have been restated to show continuing operations separately from discontinued operations. Both continuing and discontinued operations were restated 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.

£'000	**Continuing operations 2018**	**Discontinued operations 2018**	**Consolidation adjustments 2018**	**Total continuing and discontinued operations 2018**
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)**	**(762)**	**2**	**(4,019)**
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)**

£'000	Continuing operations 2017	Discontinue operations 2017	Consolidation adjustments 2017	As reported last year 2017
Revenue	62,291	23,938	(2,553)	83,676
Cost of sales	(30,367)	(21,523)	2,477	(49,413)

Gross profit	31,924	2,415	(76)	34,263
Research and development expenses	(2,799)	–	–	(2,799)
Selling and marketing expenses	(12,592)	(1,594)	88	(14,098)
General and administrative expenses	(13,805)	(625)	26	(14,404)
Net other operating expenses	(1,713)	(12)	(38)	(1,762)
Operating profit	1,016	184	–	1,200
Financial expenses	(735)	(30)	18	(747)
Financial income	96	13	(18)	91
Profit before tax	377	167	–	544
Income tax	(292)	(68)	–	(360)
Net profit	85	99	–	184

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

	For the year ended 31 December	
£'000	**2018**	2017
Net cash flow from operating activities	**133**	107
Net cash flow used in investing activities	**(94)**	(83)
Net cash flow used in financing activities	**(28)**	(30)
Net increase/(decrease) of cash & cash equivalents	**11**	(6)

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

£'000	
Non-current assets	
Goodwill	106
Intangible assets	2
Property, plant & 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 & 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

£'000	For the year ended 31 December 2018	2017
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**1,296**	751
Classified within General and administrative expenses	**4,789**	3,591
Classified within net other operating expenses	**513**	-
Total amortisation and impairment of acquisition related intangibles	**6,598**	4,342
Fair value uplift of inventory acquired through reverse acquisition	**-**	401
Restructuring costs	**1,235**	-
Acquisition and integration costs	**485**	1,454
Impairment on goodwill and intangibles	**796**	-
Other non-underlying items	**273**	347
Total non-underlying items before taxes	**9,387**	6,544
Tax impact	**(2,151)**	(1,454)
Total non-underlying items after taxes from continuing operations	**7,236**	5,090
Other non-underlying items from discontinued operations	**134**	10
Loss on disposal	**682**	-
Total non-underlying items after taxes	**8,052**	5,100

The amortisation charge of acquisition-related intangibles largely relates to the Esteve acquisition of £2,037k (2017: £2,017k) and the reverse acquisition of Animalcare Group plc of £3,676k (2017: £1,685k, which was the amortization impact from the acquisition date, 12th of July 2017, until the 31st of December 2017).

Restructuring costs of £1,235 k include £203k in relation to compensation for loss of office in respect of Iain Menneer and a further £382k for other senior management.

5. Segment information – from continuing operations

For management purposes, the Group was organised into 2 segments: the Pharmaceuticals and the Wholesale segments. From 2018 onwards, the Group will only report one segment, being Pharmaceuticals, due to the sale of its Wholesaling business.

The Pharmaceutical segment is active in the development and marketing of innovative pharmaceutical products that provide significant benefits to animal health.

The Wholesale segment focused on the sale of veterinary pharmaceuticals, supplies and instruments in the Belgian market and is presented under discontinued operations in the financial information.

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 each of the reportable periods. 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.

£'000	Pharma	Wholesale	Total segments	Adjustments and eliminations	Consolidated
For the year ended 31 December 2018					
Revenues	**72,470**	–	**72,470**	–	**72,470**
Gross Margin	**37,339**	–	**37,339**	–	**37,339**
Gross Margin %	**52%**		**52%**		**52%**
Segment underlying EBITDA	**11,798**	–	**11,798**	–	**11,798**
Segment underlying EBITDA %	**16%**		**16%**		**16%**
Segment EBITDA	**9,805**	–	**9,805**	–	**9,805**
Segment EBITDA %	**14%**		**14%**		**14%**

For the year ended 31 December 2017					
Revenues	62,291	–	62,291	–	62,291
Gross Margin	31,924	–	31,924	–	31,924
Gross Margin %	51%		51%		51%
Segment underlying EBITDA	9,698	–	9,698	–	9,698
Segment underlying EBITDA %	16%		16%		16%
Segment EBITDA	7,496	–	7,496	–	7,496
Segment EBITDA %	12%		12%		12%

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

	For the year ended 31 December	
£'000	**2018**	2017
Segment EBITDA	**9,805**	7,496
Depreciation, amortization and impairment	**(9,588)**	(6,480)
Operating profit	**217**	1,016
Financial expenses	**(840)**	(735)
Financial income	**266**	96
Income taxes	**(869)**	(592)
Deferred taxes	**1,004**	300
Net (loss)/profit	**(222)**	85

Non-current 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	
£'000	**2018**	2017
Belgium	**18,423**	19,691
Spain	**2,127**	2,170
Portugal	**4,122**	4,101
UK	**73,913**	76,010
Other	**4,510**	4,375
Non-current assets excluding deferred tax assets and financial instruments	**103,101**	106,347

Revenue by product category

	For the year ended 31 December	
£'000	**2018**	2017
Companion animals	**44,465**	33,670
Production animals	**22,824**	23,680
Horses	**4,618**	4,682
Petfood, Instrumentation and Services	**563**	259
Total	**72,470**	62,291

Revenue by geographical area:

	For the year ended 31 December	
£'000	**2018**	2017
Europe	**71,507**	61,424
Belgium	**8,260**	8,781
The Netherlands	**1,719**	1,142
United Kingdom	**16,802**	9,459
Germany	**9,784**	8,907

Spain	**20,706**	20,909
Italy	**4,984**	4,458
Portugal	**4,600**	4,514
European Union – other	**4,652**	3,254
Asia	**558**	471
Middle East Africa	**139**	45
Other	**266**	351
Total	**72,470**	62,291

Revenue by category:

	For the year ended 31 December	
£'000	**2018**	2017
Product sales	**71,025**	62,162
Services sales	**1,445**	129
Total	**72,470**	62,291

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.

Share Options:
During the year Iain Menneer exercised 5,142 share options granted in 2014 under the Save As You Earn scheme (SAYE) at an option price of £1.05 per share. The value of this exercise was £5,399. The SAYE options held by Chris Brewster, totalling options over 8,571 shares, lapsed during the year. As at 31st December 2018, no options are held or have been granted to the Directors.

6 Financial expenses – from continuing operations
Financial expenses includes the following elements:

	For the year ended 31 December	
£'000	**2018**	2017
Interest expense	**637**	527
Foreign currency losses	**119**	111
Other financial expenses	**84**	97
Total	**840**	735

7 Financial income – from continuing operations
Financial income includes the following elements:

	For the year ended 31 December	
£'000	**2018**	2017
Foreign currency exchange gains	**192**	64
Other financial income	**74**	32
Total	**266**	96

8 Income tax – from continuing operations

Income tax

The following table shows the breakdown of the tax expense for 2018 and 2017:

	For the year ended 31 December	
£'000	**2018**	2017
Current tax charge	**(963)**	(770)
Tax adjustments in respect of previous years	**94**	178
Total current tax charge	**(869)**	(592)

Deferred tax – origination and reversal of temporary differences	**597**	300
Deferred tax – adjustments in respect of previous years	**407**	–
Total deferred tax charge	**1,004**	300
Total tax income/(expense) for the year	**135**	(292)

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

	For the year ended 31 December	
£'000	**2018**	2017
(Loss)/profit before tax	**(357)**	377
Tax at 19% (2017: 19.25%)	**68**	(73)
Effect of:		
Overseas tax rates	**(64)**	126
Non-deductible expenses	**(156)**	(201)
Income not subject to tax	**215**	66
Other tax credits and tax deductions	**–**	(1)
Other permanent tax differences	**(133)**	(56)
Other taxes	**(38)**	(37)
Changes in statutory enacted tax rate	**(15)**	(294)
Tax adjustments in respect of previous year	**501**	178
Non recognition of deferred tax on current year losses	**(195)**	–
Share based payment deductions	**(48)**	–
Income tax credit/(expense) as reported in the consolidated income statement	**135**	(292)

The tax credit of £2,151k (2017: £1,454k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax credit of £135k (2017, tax charge of £292k) relates to the items in note 5.

The tax rates used for the 2018 and 2017 reconciliation above are the corporate tax rates of 29.58% in 2018 and 33.99% in 2017 (Belgium), 25% (the Netherlands), 30.7% in 2018 and 29% in 2017 (Germany), 33% (France), 25% (Spain), 24% in (Italy), 21% (Portugal) and 19% (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% from 1st April 2020.

A similar tax reform in Belgium was substantially enacted in December 2017. The tax rate will gradually decrease from 33.99% (current) to 29.58% in 2018 and 2019 and to 25% 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	
£'000	**2018**	2017	**2018**	2017	**2018**	2017
Goodwill	**23**	(7)	**(632)**	(362)	**(609)**	(369)
Intangible assets	**834**	515	**(4,969)**	(6,118)	**(4,135)**	(5,603)
Property, plant and equipment	**45**	28	**(43)**	(25)	**2**	3
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**3**	51	**(21)**	(24)	**(18)**	27
Trade and other payables/receivables	**3**	297	**43**	–	**46**	297
Accruals and deferred income	**–**	19	**–**	75	**–**	94
Tax losses carried forward	**790**	699	**101**	–	**891**	699
Total	**1,699**	1,603	**(5,521)**	(6,454)	**(3,822)**	(4,851)

(b) Movements during the year

Movement of deferred taxes during 2018:

£'000	Balance at 1 January 2018	Recognised in income	Disposal of subsidiaries	Acquired through business combinations	Foreign exchange adjustments	**Balance at 31 December 2018**

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)**

Movement of deferred taxes during 2017:

£'000	Balance at 1 January 2017	Recognised in income	Disposal of subsidiaries	Acquired through business combinations	Foreign exchange adjustments	Balance at 31 December 2017
Goodwill	(220)	(138)	–	–	(11)	(369)
Intangible assets	175	565	–	(6,356)	13	(5,603)
Property, plant and equipment	13	27	–	(38)	1	3
Financial fixed assets	1	–	–	–	–	1
Inventory	46	57	(4)	(76)	3	26
Trade and other payables/receivables	565	(285)	–	–	18	298
Accruals and deferred income	173	(331)	–	247	5	94
Tax losses carry forward and other tax benefits	292	405	(13)	–	15	699
Net deferred tax	1,045	300	(17)	(6,223)	44	(4,851)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £3,141k for 2018 (2017: £2,636k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £788k (2017: £699k). 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			
£'000	**2018 Underlying**	2017 Underlying	**2018 Total**	2017 Total
Net profit/(loss) from continuing operations	**7,016**	5,175	**(222)**	85
Net profit/(loss) from discontinuing operations	**40**	109	**(776)**	99
Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,056**	5,284	**(998)**	184

Average number of shares (basic and diluted)

	For the year ended 31 December			
number of shares	**2018 Underlying**	2017 Underlying	**2018 Total**	2017 Total
Weighted average number of ordinary shares for basic earnings per share	**60,008,714**	41,998,692	**60,008,714**	41,998,692

Dilutive potential ordinary shares	**5,452**	178,191	**5,452**	178,191
Weighted average number of ordinary shares adjusted for effect of dilution	**60,014,166**	42,176,883	**60,014,166**	42,176,883

Basic earnings/(loss) per share

	For the year ended 31 December			
	2018 Underlying Pence	2017 Underlying Pence	**2018 Total Pence**	2017 Total Pence
From continuing operations attributable to the ordinary equity holders of the company	**11.7**	12.3	**(0.4)**	0.2
From discontinued operation	**0.1**	0.3	**(1.3)**	0.2
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the company	**11.8**	12.6	**(1.7)**	0.4

Diluted earnings/(loss) per share

	For the year ended 31 December			
	2018 Underlying Pence	2017 Underlying Pence	**2018 Total Pence**	2017 Total Pence
From continuing operations attributable to the ordinary equity holders of the company	**11.7**	12.3	**(0.4)**	0.2
From discontinued operation	**0.1**	0.3	**(1.3)**	0.2
Total basic earnings/(loss) per share attributable to the ordinary equity holders of the company	**11.8**	12.5	**(1.7)**	0.4

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. These cash-generating units correspond to the nature of the business, following the separate divisions Pharmaceuticals and Wholesale. The goodwill has been allocated to the cash-generating units ("CGU") as follows:

	For the year ended 31 December	
£'000	**2018**	2017
CGU: Pharmaceuticals	**50,937**	50,856
CGU: Wholesale	**–**	557
Total	**50,937**	51,413

The changes in the carrying value of the goodwill can be presented as follows for the years 2018 and 2017:

£'000	**Total**
At 1 January 2017	**9,958**
Additions	41,048
Currency translation	406
At 31 December 2017	**51,413**
Disposals	(106)
Impairment	(456)
Currency translation	86
At 31 December 2018	**50,937**

The goodwill balance decreased as a result of the disposal of Medini nv in 2018 by £106k (see note 3) and 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. As of 31 December 2018, no goodwill is allocated to the Wholesale CGU following the disposal of Medini nv.

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

	2018	2017
Discount rate (pre-tax)	10.5	10.2
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 three-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 a change in assumptions used, most notably the discount rates and the perpetuity growth rates.

A 1% increase in discount rates would cause the value in use of the CGU to reduce by £14.0m but would not give rise to an impairment.

A 1% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £12.5m but would not give rise to an impairment.

The CGU is highly sensitive to any reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 15% reduction in total annual cash flows would give rise to an impairment of £0.5m in the CGU. An increase in discount rates of 2.21% or a reduction in perpetuity growth rates of 2.6% would also give rise to an impairment in the CGU of £48k and £235k respectively.

11. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2018 and 2017:

£'000	In Process R&D	Patents, distribution rights & licenses	Product portfolios & product development costs	Capitalized software	Total
Acquisition value					
At 1 January 2017	2,839	12,437	16,956	187	32,419
Additions	550	187	1,174	468	2,379
Change due to business combinations	10,013	4,561	21,041	–	35,615
Disposals	–	(29)	–	–	(29)
Currency translation	116	510	704	14	1,344
Other	–	19	–	48	67
At 31 December 2017	**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**
Amortization					
At 1 January 2017	**(467)**	**(2,351)**	**(8,298)**	**(57)**	**(11,173)**
Additions	(751)	(2,523)	(2,589)	(190)	(6,053)
Currency translation	(23)	(124)	(359)	(5)	(511)
Other	–	8	5	(34)	(21)
At 31 December 2017	**(1,241)**	**(4,990)**	**(11,241)**	**(286)**	**(17,758)**
Additions	(1,423)	(2,716)	(3,504)	(322)	(7,965)
Change due to business combinations	–	29	3	–	32
Impairments	(852)	–	–	–	(852)
Currency translation	(10)	(64)	(76)	(6)	(156)
Transfers	–	–	–	(15)	(15)
Other	(10)	20	2	–	12

At 31 December 2018	**(3,536)**	**(7,721)**	**(14,816)**	**(629)**	**(26,702)**
Net carrying value					
At 31 December 2018	13,543	11,387	25,852	552	51,334
At 31 December 2017	12,277	12,695	28,634	431	54,037

12. Borrowings

The loans and borrowings include the following:

£'000	Interest rate	Maturity	**For the year ended 31 December 2018**	2017
Other loans	1.56%		**22**	51
Revolving credit facilities	Euribor +1.50%	March 22	**25,513**	26,768
Roll over investment facility	Euribor +1.50%	March 22	**2,063**	2,676
Acquisition loan	Euribor +1.75%	March 22	**4,025**	3,992
Total loans and borrowings			**31,623**	33,487
of which non -current			**30,975**	32,854
current			**648**	633

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 agreements consist of:

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

The loans have a variable, EURIBOR based interest rate, increased with a margin of 1.5% 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. Deferred income and accrued charges

Deferred income and accrued charges consist of the following:

£'000	**For the year ended 31 December 2018**	2017
Accrued charges	**2,133**	1,868
Deferred income - due within one year	**190**	219
Other	**2**	29
Total due within one year	**2,325**	2,116
Deferred income – Due after one year	**617**	780

Accrued charges mainly relate to accrued product development expenses of £1,188k (2017: £757k) and several accrued charges relating to commissions and bonuses in Ecuphar Veterinaria for an amount of £255k (2017: £333k) and £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:

£'000	For the year ended 31 December 2018	2017
Balance at the beginning of the year	**999**	–
Acquired through business combinations	**–**	925
Income deferred to following periods	**139**	181
Release of income deferred from previous periods	**(331)**	(107)
Balance at the end of the year	**807**	999

14. Equity

Share capital

Number of shares	For the year ended 31 December 2018	2017
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,057,161**	59,913,900

£'000	For the year ended 31 December 2018	2017
Allotted, called up and fully paid Ordinary Shares of 20p each	**12,012**	11,983

The following share transactions have taken place during the year ended 31st December 2018:

£'000, except share data	For the year ended 31 December 2018	2017
At 1 January 2018	**59,913,900**	11,983
Exercise of share options	**143,261**	29
At 31 December 2018	**60,057,161**	12,012

On 13th July 2017, the Group completed the reverse acquisition of Animalcare Group plc. In aggregate, 37,322,894 new Ordinary Shares were allotted and issued, comprising 8,571,428 new placing shares and 28,751,466 consideration shares.

During the year a total of 143,261 shares were issued in relation to the grant of options over the Company's share by Animalcare Ltd under the Animalcare Group plc Executive Share Option Scheme and the Save As You Earn (SAYE) Share Option Scheme.

Dividends

£'000, except share data	For the year ended 31 December 2018	2017
Ordinary interim dividend for the period ended 30th June 2017 of 4.7p per share	**–**	2,816
Ordinary final dividend paid for the year ended 31st 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**	–
	2,401	2,816

The proposed final dividend of 2.4 pence per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability as at 31st December 2018, in accordance with IAS 10 "Events After the Balance Sheet Date".

Non-controlling interest

The non-controlling interest is £nil at 31st December 2018 (2017: £2k). The decrease to £nil during 2018 is due to the sale of the Wholesaling business.

15. 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 31st December 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.co.uk and will also be available from the Company's registered office address: 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB