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

Interim Results for the six months ended 30 June 2023

26 September 2023. Animalcare Group plc (AIM: ANCR), the international animal health business, announces its unaudited interim results for the six months ended 30 June 2023.

Animalcare is pleased to report strong gross margins and improved cash generation in a period that saw growth in veterinary markets return to more pre-Covid growth rates. Over the first half, the Group continued to invest in drivers of future success and made progress through focus on growth opportunities, notably the Orthros pipeline, STEM and Identicare as well as on potential M&A.

Financial highlights

- Revenues £36.7m (H1 2022: £38.3m), a 4.1% decrease at AER (6.8% down at CER); strong contributions from new products such as Plaqtiv+ offset by a return to pre-pandemic levels of demand growth and sales phasing due in part to distributor de-stocking since the FY22 year end
- Underlying* EBITDA margin at 19.5%, reflecting a 1.5% gross margin expansion to 57.5% combined with disciplined SG&A investment, partially mitigating the decrease in revenue. Underlying EBITDA of £7.2m (H1 2022: £8.0m)
- Underlying basic EPS decreased by 17.7% to 6.5 pence (H1 2022: 7.9 pence) predominantly driven by movement in underlying EBITDA
- Improved cash conversion to 52.5% drove a reduction in net debt to £3.8m (FY22: £5.4m), materially below the Group's target leverage ratio, maintaining the strong financial platform to invest in growth opportunities
- Statutory profit before tax incorporating non-underlying items was £2.4m (H1 2022: £3.4m), with reported basic EPS at 2.7 pence (H1 2022: 4.0 pence)
- Board declares interim dividend of 2.0 pence per share, in line with prior year period

** The Group presents a number of non-GAAP Alternative Performance Measures (APMs) which exclude non-underlying items as set out in note 3. EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation.*

Strategic and Operational highlights

- Orthros Medical pre-clinical studies on track and showing positive results for the VHH antibody technology. Potential third candidate identified under research collaboration
- Identicare continues to deliver strong revenue and profit growth, benefiting from repositioning
- Plaqtiv+ dental range from STEM joint venture performing well. Extensions to range and new products based on patented DispersinB technology expected to be launched from 2024. The Group continues to invest in sales and marketing activities to drive Daxocox uptake and is gaining prescribers in our direct sales markets
- The Group is assessing the opportunities generated by Kane Biotech's decision to review its majority equity interest in the STEM joint venture with Animalcare
- Internal resources further realigned to drive sales and marketing excellence and increase focus on M&A

Outlook

We are pleased to have delivered improved gross margins and increased cash conversion for the first half while recognising the revenue effects of a market that has returned to a more normalised level of growth. We anticipate an improvement in our second half performance versus FY 2022 and with it, a return to revenue growth for the full year and EBITDA to be also in line with market expectations.

Identifying appropriate business development opportunities remains a priority for Animalcare and the Group continues to explore sustainable value-creating opportunities through acquisitions, partnerships and pipeline projects. With low levels of net debt, significantly below our target leverage ratio of one to two times underlying EBITDA, this creates material headroom to invest in these opportunities.

Animalcare's Chief Executive Officer, Jenny Winter, commented: "*Animalcare has established itself as a profitable, cash generative business with strong margins and low levels of debt. That is further underlined by our financial performance in the first half of 2023 with positive progress on gross margins and cash conversion despite a return to more pre-pandemic levels of demand growth across our markets. Looking ahead to the full year, we anticipate a return to revenue growth and EBITDA to be also in line with market expectations.*

"Notably, the Group continues to make progress against our stated objectives, the licensing and research collaboration agreement with Orthros Medical generating positive pre-clinical results and identifying new potential candidates in the promising field of VHH antibodies. Additionally, Identicare delivered strong revenue and profit growth in the period as the business continues its transition towards a scalable recurring-revenue subscription platform. And alongside our development and commercialisation of products from the STEM joint venture, we are exploring opportunities generated by Kane Biotech's decision to review its majority equity interest in STEM.

"The strong financial platform we've built enables the Group to invest in organic and inorganic drivers of growth, including M&A where we are seeing increased levels of activity. Animalcare remains firmly in the hunt for value-creating opportunities in our key areas of interest.

"Over the long-term, we remain confident in the prospects of the Group and the attractive fundamentals of the animal health sector."

Analyst briefing/webcast
A briefing for analysts will be held at 10:30 BST on Tuesday 26 September 2023 via Zoom webcast. Analysts wishing to join should use the following link to register and receive access details.

https://stifel.zoom.us/webinar/register/WN_EiQJ0GgdTiCHL0vG8o-YSA

A copy of the analyst presentation will be made available on the Group website shortly after the webcast.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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About Animalcare
Animalcare Group plc is a UK AIM-listed international veterinary sales and marketing organisation. Animalcare operates in seven countries and exports to approximately 40 countries in Europe and

worldwide. The Group is focused on bringing new and innovative products to market through its own development pipeline, partnerships and via acquisition. For more information about Animalcare, please visit www.animalcaregroup.com

Chairman's statement

I'm pleased to report that Animalcare delivered improved gross margins and increased cash conversion for the first half as the Group maintained a clear focus on its strategic objectives and opportunities in pursuit of future growth.

Against a tough comparator period, total revenues declined by 4.1% at AER to £36.7m due to some easing in the rate of veterinary market growth combined with the effect of distributor de-stocking since the end of 2022.

The Group's ongoing focus on larger selling, more profitable brands in our portfolio, together with a stable sales mix and carefully judged pricing designed to mitigate input cost inflation, are key factors in a 1.5% improvement in gross margins.

Our commitment to strengthen our financial platform over recent years puts us materially below our target leverage ratio of one to two times underlying EBITDA. Thanks to an improved rate of cash conversion we have further reduced our net debt over the period to £3.8m, down from £5.4m at the end of 2022. Importantly, this gives us the investment flexibility and firepower to seek out external value-creating opportunities that can grow our business through M&A activity, licensing and partnerships. Work to identify appropriate business development opportunities remains a priority for the Company.

During the first half, Animalcare also continued to demonstrate focus and resolve in capitalising on existing options for growth.

For instance, Identicare, our wholly-owned pet reunification business, built further sales momentum in the first half with revenues up 28% as it benefited from strategic repositioning under specialist leadership. And our pipeline licensing agreement with Orthros Medical, which centres on two pre-clinical VHH antibody candidates, is progressing well while a further potential licence candidate has been identified under the research collaboration element of the deal.

The Plaqtiv+ dental range continues to enjoy an enthusiastic reception from customers following its launch in the first half of 2022. We plan additions to the Plaqtiv+ range and new products based on patented technology from our STEM Animal Health Inc. joint venture. Kane Biotech, which is majority owner of the joint venture, has announced a review of its equity interest in the business.

Subsequently, we are exploring the opportunities that this presents for the Group as we regard the STEM partnership as a valuable contributor to the Group's current and future product mix.

Our people play a critical role in the success of this Company. Investing in leadership and skills has long been a priority, therefore, and this is reflected in our SG&A spend profile. With this in mind we have further aligned our internal resources to the delivery of our key strategic objectives, most notably sales and marketing excellence and M&A-related activity.

I'd like to use this opportunity to thank the Animalcare team for delivering a positive first half performance despite a normalisation in demand and other trading headwinds. Long-term, we believe the dynamics driving the ongoing growth in the animal health market remain attractive and the Group is well placed to take advantage of these fundamentals. Consequently, the Board has declared an interim dividend of 2.0 pence a share, in line with 2022.

Jan Boone, *Chairman*

Business and Financial review

Overview of underlying financial results

We are pleased with our first half trading performance; positive progress was achieved on gross margins and cash conversion while recognising a normalisation in the rates of demand growth across our markets due to the changing macro-economic environment and country specific dynamics. The Group's strong balance sheet has been maintained and with it our ability to continue pursuing attractive external opportunities and invest in long-term drivers of growth.

A summary of the underlying financial results for the first six months of 2023, which the Directors believe offers a clearer picture of business performance, is shown below.

Six months to 30 June	**2023** **£'000**	2022 £'000	Change at AER %
Revenue	**36,712**	38,286	(4.1%)
Gross Profit	**21,107**	21,430	(1.8%)
Gross Margin %	**57.5%**	56.0%	1.5%
Underlying Operating Profit	**5,479**	6,502	(15.7%)
Underlying EBITDA	**7,157**	8,026	(10.8%)
Underlying EBITDA margin %	**19.5%**	21.0%	(1.5%)
Basic Underlying EPS (p)	**6.5p**	7.9p	(17.7%)

Revenues for the period totalled £36.7m, a decrease of 4.1% (6.8% at CER) against a strong prior year comparator in which sales were broadly in line with the exceptional first half of 2021. We continued to see a return to pre-Covid levels of demand growth in European veterinary markets while sales were also impacted by distributor de-stocking in certain territories across the firm's portfolio, as well as higher purchases in the fourth quarter of FY 2022 ahead of expected price increases and the effect of promotional activities. Based on external data from distributors and veterinary clinics, our product sales from distributors to our end customers increased vs H1 2022, affirming the healthy fundamentals of the animal health market in Europe.

Revenue performance by product category is shown in the table below:

Six months to 30 June	**2023**	2022	Change at AER
	£'000	£'000	%
Companion Animals	**25,957**	26,634	(2.5%)
Production Animals	**7,737**	8,814	(12.2%)
Equine & other	**3,018**	2,838	6.3%
Total	**36,712**	38,286	(4.1%)

Companion Animals revenue, which continues to represent around 70% of Group turnover, declined by 2.5% to £26.0m impacted by a return to more normal levels of demand growth across Europe and wholesaler de-stocking in certain territories as noted above. In part, this was offset by strong sales growth from our dental portfolio including Plaqtiv+ which was launched during Q2 2022. Identicare continues the strong revenue and profit momentum from FY 2022, with sales increasing in the period by 28% to around £1.5m, which we expect to accelerate in the second half, benefiting from strategic repositioning of the business towards a scalable, high margin, recurring-revenue subscription platform. The Group continues to invest in sales and marketing activities to drive Daxocox uptake and is gaining prescribers in our direct sales markets. Our largest selling brands in the Companion Animals product range remained broadly flat versus the prior period.

Production Animal revenues, which are chiefly generated by our Southern European and International Partners operations, declined by 12.2% versus the prior period to £7.7m, predominantly driven by phasing of orders and generic competition.

Equine and other sales increased by 6.3% to £3.0m, benefiting from bringing Danilon, one of our largest brands, back into the UK business in the second half of FY 2022. We expect Danilon growth to accelerate during the second half due to stock in channel placed by our previous distributor at the end of FY 2022.

Underlying EBITDA declined by 10.8% to £7.2m, with EBITDA margins decreasing to 19.5% (H1 2022: 21.0%). The continuing commercial focus on our larger, higher margin brands and services, together with a stable sales mix and pricing actions to help offset supply cost inflation, are the key drivers of the 1.5% improvement in our gross margins to 57.5%. The Group continues to be affected by inventory and, to a lesser extent, logistic price increases, and we will continue to take mitigating pricing actions that safeguard our competitive position.

Overheads increased during the first half to £13.9m (H1 2022: £13.4m), representing 37.9% of revenue (H1 2022: 35.0%; FY 2022: 38.4%). People costs remain the largest component of our SG&A expenses which increased by £0.3m in the period as we continue to invest in building the skills and behaviours that will drive our business forward. Shortly after the period end, we further aligned internal resources to accelerate delivery of our key strategic objectives, primarily sales and marketing excellence and the identification of potential M&A opportunities and the building of commercial alliances. The balance of the increase in overheads primarily relate to regulatory, quality, professional fees and IT licencing expenses.

Stepping up investment in our R&D pipeline to deliver greater novelty and sustainable growth is a key pillar of our strategy. Our efforts remain centred around the licensing and R&D collaboration agreements with Orthros Medical, initially focusing on canine osteoarthritis. The early-stage research activities of the two candidates under the licensing deal are on track, with the data continuing to show positive results for the VHH antibody technology. In addition, the research collaboration has identified an exciting new potential licence candidate that we are further exploring. The lower R&D expenses in the first half are reflective of the timing of project spend and not a reduction in our expected R&D spend for the full year.

Underlying basic EPS decreased by 17.7% to 6.5 pence (H1 2022: 7.9 pence) driven by the reduction in underlying EBITDA as noted above, a £0.2m increase in amortisation and depreciation costs and a decrease in the contribution from the STEM joint venture due to normalisation of licence income recognition. The underlying effective tax rate was 22.7%, broadly comparable to the prior period. As anticipated, this was a return to more normalised levels vs the FY 2022 rate of 16.4% which benefited from the recognition of tax losses in the UK.

Reported results and non-underlying items

Reported Group profit after tax for the period after accounting for the non-underlying items detailed below was £1.6m (2022: £2.4m), with reported basic earnings per share at 2.7 pence (H1 2022: 4.0 pence).

Non-underlying items totalling £2.7m (H1 2022: £2.7m) relating to profit before tax have been incurred in the period, as set out in note 3. These principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £2.1m (H1 2022: £2.4m). As historically, the charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV.

- £0.3m (H1 2022: £nil) charge in respect of the Identicare share-based payments arrangement. The fair value of this long-term incentive plan is connected to the future value of Identicare and not trading, hence has been treated as non-underlying since inception on 1 January 2022.

Dividend

The Board is pleased to declare an interim dividend of 2.0 pence per share, in line with the prior period. The interim dividend will be paid on 17 November 2023 to shareholders whose names are on the Register of Members at close of business on 20 October 2023. The ordinary shares will become ex-dividend on 19 October 2023.

Cash flow, net debt and borrowing facilities

We entered FY23 in a strong financial position with the net debt to underlying EBITDA leverage ratio well below our stated target range of one to two times. Due to improved cash conversion versus prior period, as set out in the table below, we have further reduced net debt, which now principally encompasses IFRS16 lease liabilities of £3.1m, to £3.8m as of 30 June 2023 (31 December 2022: £5.4m). This equips Animalcare with the financial strength and flexibility to continue the pursuit of value-creating opportunities through M&A, partnerships and pipeline deals.

	Six months to 30 June 2023 £'000	Six months to 30 June 2022 £'000
Underlying EBITDA	**7,157**	8,026
Net cash flow from operations	**3,482**	1,428
Non-underlying items	**277**	382
Underlying net cash flow from operations	**3,759**	1,810
Underlying cash conversion %	**52.5%**	22.6%

Net cash flow generated by our operations increased to £3.5m (H1 2022: £1.4m). Net working capital increased by £3.4m during the period (H1 2022: £5.6m increase), chiefly attributable to £1.0m higher receivables, largely as a result of the geographic mix of revenue towards the period end, and a reduction in payables of £3.6m principally relating to the inventory build during Q4 2022, which normalised during the first half leading to an inventory decrease of £1.2m. Tax cash outflows at £0.6m were broadly comparable to the prior period.

We are targeting a year-on-year improvement in cash conversion versus the 78% delivered in FY 2022, the achievement of which will be largely dependent on trading patterns during the second half and any decisions the Group may take in connection with strategic stock cover to support surety of supply going into 2024.

Net debt decreased by £1.6m to £3.8m over the period largely driven by the improved cash conversion noted above.

	£'000
Net debt at 1 January 2023	**(5,402)**
Net cash flow from operations	3,482
Net capital expenditure	(1,304)
Net finance expenses	(897)
Foreign exchange on cash and borrowings	416
Movement in IFRS16 lease liabilities	(76)
Net debt at 30 June 2022	**(3,781)**

Net capital expenditure of £1.3m (H1 2022: £1.4m) largely comprises investment in our product development pipeline of £0.5m and a £0.4m milestone payment to STEM in respect of the VOHC (Veterinary Oral Health Council) accreditation relating to Plaqtiv+. The balance of expenditure relates chiefly to investments in our IT systems, including within Identicare.

Current STEM new product development projects include extensions to the Plaqtiv+ dental range with a focus on cat specific products, an under-represented area of the dental market, and development of an otitis rinse using the patented DispersinB anti-biofilm technology. Development of the newly formulated dental chew has taken longer than expected and is now forecast to launch during 2024.

Net debt to underlying EBITDA leverage ratio was approximately 0.3 times (H1 2022: 0.6 times), well below the target net debt to underlying EBITDA range of one to two times, enabling the Group to pursue external investment opportunities in support of its growth strategy.

Borrowing facilities and covenants

The Group's financing arrangements consisted of a committed revolving credit facility of €41.5m and a €10.0m acquisition line, the latter of which cannot be utilised to fund our operations.

The facilities remain subject to the following covenants which are in operation at all times:

- Net debt to underlying EBITDA ratio of 3.5 times
- Underlying EBITDA to interest ratio of minimum 4 times
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%

As at 30 June 2023, and throughout the period, all covenant requirements were met with significant headroom across all three measures. As at 30 June 2023, total facilities were £44.2m with headroom on our revolving credit facility, including cash on balance sheet, of £38.8m.

Summary and outlook

We are pleased to have delivered improved gross margins and increased cash conversion for the first half while recognising the revenue effects of a market that has returned to a more normalised level of growth. We anticipate an improvement in our second half performance versus FY 2022 and with it a return to revenue growth for the full year and EBITDA to be also in line with market expectations.

Our balance sheet remains strong and with it our strategic commitment to invest in attractive external opportunities that are key long-term drivers of growth.

The Group continues to make progress against strategic objectives, with focus on developing and building our R&D and new product pipeline centred around the licensing and R&D collaboration agreements with Orthros Medical and additions to the growing Plaqtiv+ range based on patented technology from our STEM Animal Health Inc. joint venture. In addition, Identicare continues the positive growth momentum from FY 2022 driven by the repositioning of the business under specialist leadership.

Looking further ahead, we remain confident in the prospects of the Group and the attractive fundamentals of the animal health sector and remain ready to employ our strong financial position to invest in drivers of growth.

Jenny Winter
Chief Executive Officer

Chris Brewster
Chief Financial Officer

Condensed consolidated income statement

		For the six months ended 30 June					
	Notes	Underlying	Non-Underlying (note 3)	Total	Underlying	Non-Underlying (note 3)	Total
		2023	2023	2023	2022	2022	2022
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4	**36,712**	**–**	**36,712**	38,286	–	38,286
Cost of sales		**(15,605)**	**–**	**(15,605)**	(16,856)	–	(16,856)
Gross profit		**21,107**	**–**	**21,107**	21,430	–	21,430
Research and development expenses		**(1,099)**	**(304)**	**(1,403)**	(1,403)	(331)	(1,734)

Selling and marketing expenses		**(6,470)**	**–**	**(6,470)**	(6,235)	–	(6,235)
General and administrative expenses		**(8,057)**	**(1,769)**	**(9,826)**	(7,308)	(2,024)	(9,332)
Net other operating income / (expenses)		**(2)**	**(586)**	**(588)**	18	(352)	(334)
Operating profit/(loss)		**5,479**	**(2,659)**	**2,820**	6,502	(2,707)	3,795
Finance expenses		**(711)**	**–**	**(711)**	(699)	–	(699)
Finance income		**379**	**–**	**379**	328	–	328
Finance net result		**(332)**	**–**	**(332)**	(371)	–	(371)
Share of net (loss)/profit of joint venture accounted for using the equity method		**(107)**	**–**	**(107)**	16	–	16
Profit/(loss) before tax		**5,040**	**(2,659)**	**2,381**	6,147	(2,707)	3,440
Income tax expense		**(1,145)**	**370**	**(775)**	(1,429)	396	(1,033)
Net profit/(loss) for the period		**3,895**	**(2,289)**	**1,606**	4,718	(2,311)	2,407
Net profit/(loss) attributable to:							
The owners of the parent		**3,895**	**(2,289)**	**1,606**	4,718	(2,311)	2,407
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:							
Basic earnings per share	5	6.5p		2.7p	7.9p		4.0p
Diluted earnings per share	5	6.5p		2.6p	7.9p		4.0p

In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in note 3.

Condensed consolidated statement of comprehensive income

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000

Net profit / loss for the period	**1,606**	2,407
Other comprehensive income/(expense)		
Exchange differences on translation of foreign operations *	**(429)**	283
Other comprehensive income/(expense), net of tax	**(429)**	283
Total comprehensive income/(expense) for the period, net of tax	**1,177**	2,690
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**1,177**	2,690

* May be reclassified subsequently to profit & loss

Condensed consolidated statement of financial position

	30 June 2023	30 June 2022	31 December 2022
	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	**50,537**	50,536	50,853
Intangible assets	**22,384**	27,777	25,283
Property, plant and equipment	**747**	945	448
Right-of-use assets	**2,989**	2,638	2,924
Investments in joint venture	**1,158**	1,430	1,305
Deferred tax assets	**2,389**	2,043	3,567
Other financial assets	**69**	65	70
Other non-current assets	**–**	–	–
Total non-current assets	**80,273**	85,434	84,450
Current assets			
Inventories	**11,579**	12,074	13,474
Trade receivables	**13,857**	13,812	13,568
Other current assets	**1,468**	1,430	715
Cash and cash equivalents	**6,609**	5,136	6,035
Total current assets	**33,513**	32,452	33,792
Total assets	**113,786**	117,886	118,242
Liabilities			
Current liabilities			
Lease liabilities	**(856)**	(794)	(852)
Trade payables	**(12,265)**	(11,326)	(15,497)
Current tax liabilities	**(1,018)**	(1,955)	(623)
Accrued charges and contract liabilities	**(1,339)**	(1,478)	(1,276)
Other current liabilities	**(3,567)**	(4,842)	(4,027)
Total current liabilities	**(19,045)**	(20,395)	(22,275)
Non-current liabilities			
Borrowings	**(8,138)**	(10,924)	(8,426)
Lease liabilities	**(2,231)**	(1,904)	(2,159)
Deferred tax liabilities	**(3,516)**	(4,120)	(4,773)
Contract liabilities	**–**	–	(372)
Provisions	**(326)**	(389)	(340)
Other non-current liabilities	**–**	–	(911)
Total non-current liabilities	**(14,211)**	(17,337)	(16,981)

Total Liabilities	**(33,256)**	(37,732)	(39,256)
Net Assets	**80,530**	80,154	78,986
Equity			
Share capital	**12,019**	12,019	12,019
Share premium	**132,798**	132,798	132,798
Reverse acquisition reserve	**(56,762)**	(56,762)	(56,762)
Accumulated losses	**(10,004)**	(10,604)	(11,977)
Other reserves	**2,479**	2,703	2,908
Equity attributable to the owners of the parent	**80,530**	80,154	78,986
Total equity	**80,530**	80,154	78,986

Condensed consolidated statement of changes in equity

	Attributable to the owners of the parents					
	Share capital	**Share premium**	**Accumulated losses**	**Reverse acquisition reserve**	**Other reserve**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2023	**12,019**	**132,798**	**(11,977)**	**(56,762)**	**2,908**	**78,986**
Net profit	–	–	1,606	–	–	**1,606**
Other comprehensive expense	–	–	–	–	(429)	**(429)**
Total comprehensive income	**–**	**–**	**1,606**	**–**	**(429)**	**1,177**
Share based payments	–	–	367	–	–	**367**
At 30 June 2023	**12,019**	**132,798**	**(10,004)**	**(56,762)**	**2,479**	**80,530**

	Attributable to the owners of the parents					
	Share capital	**Share premium**	**Accumulated losses**	**Reverse acquisition reserve**	**Other reserve**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**
Net profit	–	–	2,407	–	–	**2,407**
Other comprehensive income	–	–	–	–	283	**283**
Total comprehensive income	**–**	**–**	**2,407**	**–**	**283**	**2,690**
Dividends	–	–	(1,442)	–	–	**(1,442)**
Share based payments	–	–	107	–	–	**107**
At 30 June 2022	**12,019**	**132,798**	**(10,604)**	**(56,762)**	**2,703**	**80,154**

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.

Condensed consolidated cash flow statements

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Operating activities		
Profit before tax	**2,381**	3,440
Profit before tax	**2,381**	3,440
Non-cash and operational adjustments:		
Share in net result of joint venture	**106**	(16)
Depreciation of property, plant and equipment	**541**	538
Amortisation of intangible assets	**3,210**	3,291
Impairment of intangible assets	**–**	32
Share-based payment expense	**558**	135
Gain on disposal of property, plant and equipment	**–**	(165)
Non-cash movement in provisions	**(8)**	103
Movement in allowance for bad debt and inventories	**339**	34
Finance income	**(235)**	(82)
Finance expense	**654**	375
Impact of foreign currencies	**(88)**	58
Other	**(22)**	14
Movements in working capital		
Increase in trade receivables	**(1,003)**	(6,465)
Decrease/(increase) in inventories	**1,212**	(1,572)
(Decrease)/increase in payables	**(3,610)**	2,387
Income tax paid	**(553)**	(679)
Net cash flow from operating activities	**3,482**	1,428
Investing activities		
Purchase of property, plant and equipment	**(225)**	(373)
Purchase of intangible assets	**(1,090)**	(1,209)
Proceeds from the sale of property, plant and equipment (net)	**11**	166
Net cash flow used in investing activities	**(1,304)**	(1,416)
Financing activities		
Proceeds from loans and borrowings and convertible debt	**–**	420
Repayment of loans and borrowings	**(863)**	–
Repayment IFRS16 lease liability	**(477)**	(499)
Interest paid	**(297)**	(207)
Other finance expense	**(123)**	(87)
Increase in other financial assets	**–**	(28)

Net cash flow used in financing activities	**(1,760)**	(401)
Net decrease in cash and cash equivalents	**418**	(389)
Cash and cash equivalents at beginning of period	**6,035**	5,633
Exchange rate differences on cash and cash equivalents	**156**	(108)
Cash and cash equivalents at end of period	**6,609**	5,136

Reconciliation of net cash flow to movement in net debt

Net decrease in cash and cash equivalents in the period	**418**	(389)
Cash flow from decrease in debt financing	**863**	(420)
Foreign exchange differences on cash and borrowings	**416**	(315)
Movement in net debt in the period	**1,697**	(1,124)
Net debt at the start of the period	**(5,402)**	(5,329)
Movement in lease liabilities during the period	**(76)**	(978)
Net debt at the end of the period	**(3,781)**	(7,431)

Notes to the consolidated interim report

1 General information

Animalcare Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Moorside, Monks Cross, York, YO32 9LB. The condensed set of financial statements as at, and for, the six months ended 30 June 2023 comprises the Company and its subsidiaries (together referred to as the "Group"). The nature of the Group's operations and its principal activities are set out in the latest Annual Report.

2 Basis of preparation and significant accounting policies

Basis of preparation and accounting policies

This interim financial information for each of the six month periods ended 30 June 2023 and 30 June 2022 has not been audited and does not constitute statutory accounts as defined in Section 43s of the Companies Act 2006. The comparative information for the year ended 31 December 2022 does not constitute statutory accounts however is based on the statutory accounts for that year, on which the Group's auditors issued an unqualified report and which have been filed with the Register of Companies.

The consolidated financial statements are presented in thousands of pound sterling (k£ or thousands of £) and all "currency" values are rounded to the nearest thousand (£000), except when otherwise indicated.

The Interim Report for the six months ended 30 June 2023 was approved by the Board of Directors and authorised for issue on 26 September 2023.

The condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared using accounting policies consistent with those of the Company's annual accounts for the year ended 31 December 2022.

Taxes on income in the interim periods are accrued using the estimated tax rate that would be applicable for the full financial year.

New standards, interpretations and amendments adopted by the Group

The following new Standards, Interpretations and Amendments issued by the IASB and the IFRIC as adopted by the European Union are effective for the financial period:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (effective immediately but not yet endorsed in the EU - disclosures are required for annual periods beginning on or after 1 January 2023)

The adoption of these new standards and amendments has not led to major changes in the Group's accounting policies.

New and revised standards not yet adopted

The Group elected not to early adopt the following new Standards, Interpretations and Amendments, which have been issued by the IASB and the IFRIC but are not yet effective as of June 30, 2023, and/or not yet adopted by the European Union as of June 30, 2023. Standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the EU)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the EU).
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the EU)

Going Concern

Banking Facilities and Covenants

At 30 June 2023, the Group's financing arrangements consisted of a committed revolving credit facility of €41.5m (£35.6m) and a €10m (£8.6m) acquisition line, the latter cannot be utilised to fund our operations.
The facilities remain subject to the following covenants which are in operation at all times:

- Net debt to underlying EBITDA ratio of 3.5 times
- Underlying EBITDA to interest ratio of minimum 4 times
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%

As at 30 June 2023, and throughout the period, all covenant requirements were met with significant headroom across all three measures. As at 30 June 2023, total facilities were £44.2m with headroom on the revolving credit facility, including cash on balance sheet, of £38.8m.

3 Non-underlying items

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within Research and development expenses	**304**	331
Classified within General and administrative expenses	**1,769**	2,024
Classified within net other operating expenses	**11**	32
Total amortisation and impairment of acquisition related intangibles	**2,084**	2,387
Restructuring costs	**–**	179
Acquisition and integration costs	**34**	136
Divestments and business disposals	**11**	(146)
Long term incentive plan	**308**	–
Other non-underlying items	**222**	151
Total non-underlying items before taxes	**2,659**	2,707
Tax impact	**(370)**	(395)
Total non-underlying items after taxes	**2,289**	2,312

The amortisation and impairment of acquisition-related intangibles charge totalling £2,084k (2022: £2,387k) largely relates to the Esteve acquisition of £577k (2022: £826k) and the reverse acquisition of Animalcare Group plc of £1,497k (2022: £1,529k).

During 2022 the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary Identicare Limited ("Identicare"). The fair value of this long-term incentive plan is connected to the future value of Identicare and not trading, hence has been treated as non-underlying since inception on 1 January 2022. The Group recognised a charge in respect of non-underlying share-based payments of £308k.

4 Segment information

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 and is an alternative performance measure. Underlying EBITDA equals EBITDA plus non-underlying items and is an alternative performance measure. EBITDA and underlying EBITDA are reconciled to statutory measures below.

The following table summarises the segment reporting from continuing operations for 2023 and 2022. As management's controlling instrument is principally revenue and profit-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the six months ended 30 June	
	2023	**2022**
	Pharma	**Pharma**
	£'000	£'000
Revenues	**36,712**	38,286
Gross Margin	**21,107**	21,430
Gross Margin %	**57.5%**	56.0%
Segment underlying EBITDA	**7,157**	8,026
Segment underlying EBITDA %	**19.5%**	21.0%
Segment EBITDA	**6,582**	7,706
Segment EBITDA %	**17.9%**	20.1%

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

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Segment EBITDA	**6,582**	7,706
Depreciation, amortisation and impairment	**(3,763)**	(3,911)

Operating profit	**2,819**	3,795
Finance expenses	**(711)**	(699)
Finance income	**379**	328
Share in net result of joint ventures	**(107)**	16
Income taxes	**(876)**	(1,246)
Deferred taxes	**102**	213
Net profit	**1,606**	2,407

Revenue by product category:

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Companion animals	**25,953**	26,634
Production animals	**7,736**	8,814
Equine and Other	**3,023**	2,838
Total	**36,712**	38,286

Revenue by geographical area:

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Belgium	**1,505**	1,593
The Netherlands	**938**	749
United Kingdom	**7,655**	7,269
Germany	**4,731**	4,766
Spain	**11,846**	12,165
Italy	**4,409**	4,610
Portugal	**1,784**	2,230
European Union - other	**3,543**	3,927
Asia	**268**	182
Other	**33**	795
Total	**36,712**	38,286

Revenue by category:

	For the six months ended 30 June	
	2023	**2022**
	£'000	£'000
Product sales	**35,414**	37,376
Services sales	**1,298**	910
Total	**36,712**	38,286

Product revenue is recognised when the performance obligation is satisfied at a point in time. Service revenue is recognised by reference to the stage of completion. Services sales includes £228k (2022: £227k) of commission income recognised at a point in time.

5 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

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

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

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2023	**2022**	**2023**	**2022**
	£'000	£'000	**£'000**	
Net profit	**3,895**	4,718	**1,606**	2,407
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**3,895**	4,718	**1,606**	2,407

Average number of shares (basic and diluted):

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2023	**2022**	**2023**	**2022**
	Number	Number	**Number**	Number
Weighted average number of ordinary shares for basic earnings per share	**60,237,694**	60,092,161	**60,237,694**	60,092,161
Dilutive potential ordinary shares	**569,632**	542,465	**569,632**	542,465
Weighted average number of ordinary shares adjusted for effect of dilution	**60,807,326**	60,634,626	**60,807,326**	60,634,626

Basic earnings per share:

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**

	2023	2022	2023	2022
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**6.5**	7.9	**2.7**	4.0
Total basic earnings per share attributable to the ordinary equity holders of the company	**6.5**	7.9	**2.7**	4.0

Diluted earnings per share:

	For the six months ended 30 June			
	Underlying	**Underlying**	**Total**	**Total**
	2023	**2022**	**2023**	**2022**
	Pence	Pence	**Pence**	Pence
From operations attributable to the ordinary equity holders of the company	**6.5**	7.9	**2.6**	4.0
Total diluted earnings per share attributable to the ordinary equity holders of the company	**6.5**	7.9	**2.6**	4.0

6 Dividends

The final dividend for the year ended 31 December 2022 of 2.4 pence per share was paid to shareholders on 14 July 2023.

The directors have declared an interim dividend of 2.0 pence per share. The interim dividend will be paid on 17 November 2023 to shareholders whose names are on the Register of Members at close of business on 20 October 2023. The ordinary shares will become ex-dividend on 19 October 2023.

As the dividend was declared after the end of the period being reported, it has not been included as a liability as at 30 June 2023 in accordance with IAS 10 'Events after the Balance Sheet date'.

7 Contingent liabilities

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim, however Ecuphar considers it likely that a part of the claim, amounting to €157,988 (£139,988), may be valid. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762 (£383,824). The process involving the expert auditor is now complete. We expect the court to hold another hearing and make its decision in 2024. Other than the €157,836 (£139,988), which may be valid, and is written off from the outstanding other receivable from Vetdis, no further provision in respect of this matter has been included in the condensed interim financial statements.

8 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, are eliminated in the Consolidated Financial Statements and no information is provided thereon in the section. The Group carries an investment in a joint venture (STEM Animal Health Inc.). The Group's investment in its joint venture is accounted for using the equity method.

9 Events after the reporting period

There are no events after the reporting period.

10 Cautionary statement

This Interim Management Report ("IMR") consists of the Chairman's Statement and the Business Review, which have been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied upon by any other party or for any other purpose.

The IMR contains a number of forward-looking statements. These statements are made by the Directors in good faith based upon the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

This IMR has been prepared for the Group as a whole and therefore emphasises those matters which are significant to Animalcare Group plc and its subsidiaries when viewed as a whole.

11 Interim report

The Group's Interim Report for the six months ended 30 June 2023 was approved and authorised for issue on 26 September 2023. Copies will be available to download on the Company's website at: www.animalcaregroup.com.

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