Animalcare Group plc

Interim Report 2012

Stock code: ANCR

Animalcare Group plc **("Animalcare" or the "Group" or the "Company")**
Unaudited Interim Results for the six months ended 31 December 2011

Highlights

(Continuing Operations except Earnings per Share)

	6 months to 31 Dec 2011	6 months to 31 Dec 2010	% change
Revenue	£5.40m	£5.99m	– 10%
Operating profit	£1.09m	£1.43m	– 24%
Underlying operating profit*	£1.22m	£1.49m	– 18%
Profit before tax	£1.09m	£1.38m	– 21%
Underlying profit before tax*	£1.22m	£1.44m	– 15%
Basic underlying earnings per share – total operations	4.7p	5.0p	– 6%
Fully diluted earnings per share – total operations	4.7p	4.9p	– 4%
Borrowings	£0.00	£1.00m	– 100%
Net cash	£1.75m	£0.43m	+ 307%
Interim dividend	1.5p	1.0p	+50%

* 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 3 to these financial statements.

Other highlights

- H1 revenue levels reflect the temporary supply disruptions with our key product, Buprecare, and reductions in sales volumes in microchip identification products and related services.
- Driven by new product introductions licensed veterinary medicine sales excluding Buprecare increased by 14% compared to the same period last year.
- New products launched in previous year showing good growth above expectations.
- Four new product launches during the period hitting the annual target for new product launches by the end of October.
- Reintroduction of Buprecare based products achieved in France in December 2011 and planned for other key markets, including the UK, in Q3. Single dose ampoule being re-introduced in Q4 or early in the next financial year.
- Product development pipeline remains on track with Quattro and Stone 1 passing significant milestones.
- Appointment of Chris Brewster as Chief Financial Officer with effect from 31 May 2012.

Chairman's Statement

"During the first six months of this financial year we have overcome the temporary loss of supply of one of our key products, Buprecare ampoules. Reduced consumer confidence is however significantly affecting our companion animal identification business, but the strength of our portfolio of licensed veterinary medicines continues to deliver growth greater than the overall market. Whilst the second half of the year presents challenges, the board believes that overall trading for the full year will be in line with market expectations."

The first six months of the current financial year have been impacted by two factors. First, the temporary loss of production of one of our key licensed medicines, Buprecare single dose ampoules, resulted in revenue for this product which was £323K lower than in the comparable period in the prior financial year. Second, reduced sales of our companion animal identification products and services contributed a further £483K shortfall against the comparable period, largely due to the impact of reduced consumer spending and the discontinuation of sales of microchip activated cat flaps.

However, significant progress has been made in continuing to grow our veterinary medicines business with the launch of four new products during the first half of the financial year, achieving our annual target well before the half year stage. When excluding Buprecare this contributed to an increase of 14% in sales of licensed veterinary medicines during the period (3% when including Buprecare) and together with continued sales growth from products launched last year, this trend is expected to be maintained during the second half of the year.

Although overall revenues have decreased by 10%, the change in sales mix, with increased sales of higher margin veterinary medicines, has resulted in only a 4% reduction in fully diluted underlying earnings per share from total operations from 4.9p to 4.7p. Cash generation has been excellent with net cash rising from £0.43 million at 31 December 2010 and £1.18 million at 30 June 2011 to £1.75 million at 31 December 2011.

Last year was the first time your Company paid an interim dividend and your board is proposing to pay 1.5p per share on the 4 May 2012 to all shareholders on the register on the 10 April 2012 (2010: 1.0p).

As previously announced, we have taken steps to strengthen your board and I am delighted Raymond Harding has joined as a non-executive director. He was, until its sale in 2010, the owner and CEO of Cyton Biosciences Limited, a multi-service consultancy of both animal health and pharmaceutical industries and is a leading expert on the regulation of animal health products.

We also announced that Chris Brewster will become Chief Financial Officer, with effect from 31 May 2012. Chris joins us from Findus where he is Group Accounting Manager and was previously a senior manager in the audit group at KPMG. Further to the announcement made on 26 January, we can confirm that there is no further information that is required to be disclosed under Schedule 2(g) of the AIM Rules in connection with Mr. Brewster's appointment.

The outlook for the second half is positive with the re-introduction of Buprecare in a multi dose form already underway and the single dose ampoule re-introduction towards the end of the period or early in the next financial year. Your board believes that your Company will deliver results in line with market expectations.

James Lambert
Chairman

Financial Review

Operations

Group revenue from continuing operations of Animalcare Limited (previously the Companion Animal Division), fell by 10% to £5.40 million during the six months ended 31 December 2011 (2010: £5.99 million), principally reflecting volume losses in our microchip and related services business and the previously reported supply interruption of Buprecare single dose ampoules. Gross profit fell by 9% to £2.94 million in the same period (2010: £3.22 million). Gross profit margin for the six months ended 31 December 2011 increased to 54.5% (2010: 53.8%), reflecting increased sales from recently launched, higher margin, licensed veterinary medicines during the period and a concurrent reduction in sales of certain lower margin products.

Distribution costs fell to £0.13 million (2010: £0.15 million) as a consequence of reduced sales volumes and administrative expenses rose marginally to £1.60 million (2010: £1.58 million). A reduction in total salary costs was offset by an increase in development expenditure on new products and increased regulatory maintenance costs for our expanding licensed veterinary medicines portfolio.

Overall operating profit from continuing operations reduced to £1.09 million (2010: £1.43 million).

Taxation

The tax charge for the current period is expected to be 25%, reflecting the reduction in the headline rate of corporation tax from April 2012. The Group has, however, also negotiated a substantial research and development tax credit relating to its new product development programme. This research tax credit is in respect of financial years from 2008 onwards and the whole of the retrospective benefit will fall in the current year, as prudently we had not recognised any of the credit until negotiations with HMRC had been successful concluded. The effect of this credit has been to reduce our effective tax rate for this year to 19% (2010: 27%).

Cash Flow

EBITDA (earnings before interest, taxation, depreciation and amortisation) was £1.24 million for the first half (2010: £1.58 million), reflecting the reduction in operating profit. The charge for depreciation fell to £0.01 million (2010: £0.08 million) following the sale of the bulk of the Group's property, plant and equipment during the previous financial year. Working capital showed a net reduction of £0.17 million (2010: £0.01 million), an increase in payables and a decrease in receivables being partially offset by a marginal increase in inventories. Income taxes paid were £0.12 million (2010: £0.41 million), as we took advantage of the research and development tax credits referred to previously in order to reduce our instalment payments. Net interest paid was £nil (2010: £0.11 million), as the Group now has no borrowings and a positive cash balance. Overall, net cash flow from operating activities was £1.30 million (2010: £1.33 million).

Capital expenditure was £0.19 million (2010: £0.04 million), principally on developed intangible assets and the rewriting of our pet owner database. Share proceeds generated £0.07 million (2010: £0.14 million) with the issue of 136,493 ordinary shares in respect of approved employee share options. A dividend of £0.62 million (2010: £0.61 million) was paid in November 2011. At 31 December 2011 the Group had net cash balances of £1.75 million (2010: £0.43 million).

Stephen Wildridge
Chief Executive Officer

Consolidated Statement of Comprehensive Income – Unaudited

Six months ended 31 December 2011

	Note	6 months ended 31 December 2011 Underlying results* £'000	6 months ended 31 December 2011 Exceptional and other items* £'000	6 months ended 31 December 2011 Total £'000	6 months ended 31 December 2010 Underlying results* £'000	6 months ended 31 December 2010 Exceptional and other items* £'000	6 months ended 31 December 2010 Total £'000
Revenue		5,400	–	5,400	5,986	–	5,986
Cost of sales		(2,457)	–	(2,457)	(2,766)	–	(2,766)
Gross profit		2,943	–	2,943	3,220	–	3,220
Distribution costs		(125)	–	(125)	(152)	–	(152)
Administrative expenses		(1,598)	(130)	(1,728)	(1,580)	(59)	(1,639)
Operating profit/(loss)		1,220	(130)	1,090	1,488	(59)	1,429
Finance costs		–	–	–	(49)	(1)	(50)
Finance income		–	–	–	2	–	2
Profit/(loss) before tax		1,220	(130)	1,090	1,441	(60)	1,381
Income tax (expense)/credit	5	(249)	42	(207)	(388)	16	(372)
Total comprehensive income/(loss) for the period from continuing operations		971	(88)	883	1,053	(44)	1,009
Total comprehensive loss for the period from discontinued operations		–	–	–	(47)	–	(47)
Total comprehensive income/(loss) for the period		971	(88)	883	1,006	(44)	962
Basic earnings per share from total operations	7			4.3p			4.8p
Fully diluted earnings per share from total operations	7			4.3p			4.7p

Total comprehensive income/(loss) for the period is attributable to the equity holders of the parent.

* 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 3 to these financial statements.

Consolidated Statement of Comprehensive Income – Audited

Year ended 30 June 2011

	Note	Underlying results* '000	Exceptional and other items* £'000	Total £'000
Revenue		11,825	–	11,825
Cost of sales		(5,435)	–	(5,435)
Gross profit		6,390	–	6,390
Distribution costs		(292)	–	(292)
Administrative expenses		(3,045)	(118)	(3,163)
Operating profit/(loss)		3,053	(118)	2,935
Finance costs		(51)	(1)	(52)
Finance income		2	–	2
Profit/(loss) before tax		3,004	(119)	2,885
Income tax (expense)/credit	5	(717)	52	(665)
Total comprehensive income/(loss) for the year from continuing operations		2,287	(67)	2,220
Total comprehensive income for the year from discontinued operations		105	–	105
Total comprehensive income/(loss) for the year		2,392	(67)	2,325
Basic earnings per share from total operations	7			11.5p
Fully diluted earnings per share from total operations	7			11.4p

Total comprehensive income/(loss) for the year is attributable to the equity holders of the parent.

* 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 3 to these financial statements.

Condensed Statement of Changes in Shareholders' Equity

Six months ended 31 December 2011

	Note	6 months ended 31 December 2011 Unaudited £'000	6 months ended 31 December 2010 Unaudited £'000	Year ended 30 June 2011 Audited £'000
Balance at beginning of period		15,789	14,081	14,081
Total comprehensive income for the period		883	962	2,325
Transactions with owners of the Company, recognised in equity:				
Dividends paid	6	(615)	(609)	(812)
Issue of share capital		72	138	179
Share-based payments		6	15	16
Balance at end of period		16,135	14,587	15,789

Balance Sheet
31 December 2011

	31 December 2011 Unaudited £'000	31 December 2010 Unaudited £'000	30 June 2011 Audited £'000
Non-current assets			
Goodwill	12,711	12,711	12,711
Other intangible assets	1,843	1,879	1,820
Property, plant and equipment	59	284	47
	14,613	14,874	14,578
Current assets			
Inventories	1,439	955	1,346
Trade and other receivables	1,547	1,623	1,681
Cash and cash equivalents	1,750	1,425	1,179
	4,736	4,003	4,206
Total assets	19,349	18,877	18,784
Current liabilities			
Trade and other payables	(1,693)	(1,546)	(1,566)
Current tax liabilities	(407)	(394)	(320)
Bank overdraft and loans	–	(1,000)	–
Deferred income	(195)	(168)	(182)
	(2,295)	(3,108)	(2,068)
Net current assets	2,441	895	2,138
Non-current liabilities			
Deferred income	(854)	(857)	(862)
Deferred tax liabilities	(65)	(325)	(65)
	(919)	(1,182)	(927)
Total liabilities	(3,214)	(4,290)	(2,995)
Net assets	16,135	14,587	15,789
Capital and reserves			
Called up share capital	4,102	4,057	4,075
Share premium account	6,090	6,022	6,045
Retained earnings	5,943	4,508	5,669
Equity attributable to equity holders of the parent	16,135	14,587	15,789

Cash Flow Statement
Six months ended 31 December 2011

	6 months ended 31 December 2011 Unaudited £'000	6 months ended 31 December 2010 Unaudited £'000	Year ended 30 June 2011 Audited £'000
Comprehensive income for the period before tax	1,090	1,318	2,936
Adjustments for:			
Depreciation of property, plant and equipment	8	79	88
Amortisation of intangible assets	146	134	317
Finance costs	–	53	55
Finance income	–	(2)	(2)
Share-based payment award	6	15	16
Release of deferred income	5	33	53
Profit on disposal of property, plant and equipment	–	(3)	(2)
Loss on sale of businesses	–	230	94
Operating cash flows before movements in working capital	1,255	1,857	3,555
Increase in inventories	(93)	(167)	(596)
Decrease in receivables	134	643	572
Increase/(decrease) in payables	127	(481)	(471)
Cash generated by operations	1,423	1,852	3,060
Income taxes paid	(120)	(410)	(805)
Interest paid	–	(108)	(110)
Net cash flow from operating activities	1,303	1,334	2,145
Investing activities:			
Payments to acquire intangible assets	(169)	(18)	(134)
Payments to acquire property, plant and equipment	(20)	(21)	(18)
Interest received	–	2	2
Receipts from sale of property, plant and equipment	–	4	4
Receipts from sale of businesses	–	2,487	2,705
Net cash (used in)/generated by investing activities	(189)	2,454	2,559
Financing:			
Receipts from issue of share capital	72	138	179
Equity dividends paid	(615)	(609)	(812)
Repayment of bank loans	–	(3,456)	(4,456)
Net cash used in financing activities	(543)	(3,927)	(5,089)
Net increase/(decrease) in cash and cash equivalents	571	(139)	(385)
Cash and cash equivalents at start of period	1,179	1,564	1,564
Cash and cash equivalents at end of period	1,750	1,425	1,179
Comprising:			
Cash and cash equivalents	1,750	1,425	1,179

Condensed Notes to the Financial Statements
31 December 2011

1. GENERAL INFORMATION

Animalcare Group plc ("the Group") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out in the Chairman's Statement.

This Interim Report does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The information contained herein has not been reviewed by the Group's auditors.

The prior year comparatives are derived from the audited financial information as set out in the Group's Annual Report for the year ended 30 June 2011 and the unaudited financial information in the Group's Interim Report for the six months ended 31 December 2010. The comparative figures for the financial year ended 30 June 2011 are not the Group's statutory accounts. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include any reference to matters to which the auditors drew attention without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This Interim Report for the six months ended 31 December 2011 was approved by the board of directors on 20 February 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim financial information has been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU ("IFRS") as at 31 December 2011 that are effective (or available for early adoption) as at 30 June 2012. Based on these adopted IFRSs, the directors have applied the accounting policies, as set out below, which they expect to apply to the annual IFRS financial statements for the year ending 30 June 2012. However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 30 June 2012 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 30 June 2012.

Accounting policies

The accounting policies applied to the Interim Results for the six months ended 31 December 2011 are consistent with those of the Company's annual accounts for the year ended 30 June 2011.

Going concern

The principal risks and uncertainties facing the Group remain those set out in the latest Annual Report.

The Group has an undrawn overdraft facility of £100,000 which is available for general corporate and working capital requirements. At 31 December 2011 the Group had cash on hand of £1.75 million (30 June 2011: £1.18 million). In the directors' opinion, the Group's working capital requirements can be met from operating cash flow.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Overall, the directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

3. EXCEPTIONAL AND OTHER ITEMS
Six months ended 31 December 2011

	6 months ended 31 December 2011 Unaudited £'000	6 months ended 31 December 2010 Unaudited £'000	Year ended 30 June 2011 Audited £'000
Executive severance payments	71	–	–
Exceptional items – continuing operations	71	–	–
Amortisation of acquired intangible assets	59	59	118
Fair value movements on interest rate hedging	–	1	1
Other items – continuing operations	59	60	119
Total exceptional and other items	130	60	119

4. REVENUE AND OPERATING SEGMENTS

During the current period, the principal activities of the Group were the supply and distribution of veterinary medicines, identification and other welfare products to veterinary markets. Together, these activities comprise the Group's Companion Animal Division.

The Chief Operating Decision Maker ("CODM") considers the Companion Animal Division to constitute one operating and reporting segment as defined under IFRS 8. The CODM reviews the performance of the Group by reference to group-wide results against budget. The group-wide profit measures are gross profit and operating profit, both disclosed on the face of the consolidated statement of comprehensive income. Accordingly, no separate segmental analysis is provided.

5. INCOME TAX EXPENSE

Tax for the period ended 31 December 2011 is charged at 25% (year ended 30 June 2011: 21%, 6 months ended 31 December 2011: 27%).

The charge for taxation is based on an estimate of the likely effective tax rate for the year ending 30 June 2012 of 19% (year ended 30 June 2011: 21%, 6 months ended 31 December 2010: 27%) after application of research and development tax relief in relation to prior years.

Condensed Notes to the Financial Statements

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6. DIVIDENDS

	6 months ended 31 December 2011 Unaudited £'000	6 months ended 31 December 2010 Unaudited £'000	Year ended 30 June 2011 Audited £'000
Ordinary final dividend paid for the year ended 30 June 2010 of 3.0p per share	–	609	609
Ordinary interim dividend paid for the year ended 30 June 2011 of 1.0p per share	–	–	203
Ordinary final dividend paid for the year ended 30 June 2011 of 3.0p per share	615	–	–
	615	609	812

7. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the total comprehensive income for the period attributable to ordinary equity holders of the Company by the weighted average number of fully paid ordinary shares outstanding during the period.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the Company are share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

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

	6 months ended 31 December 2011 Unaudited Underlying earnings £'000	6 months ended 31 December 2010 Unaudited Underlying earnings £'000	Year ended 30 June 2011 Audited Underlying earnings £'000	6 months ended 31 December 2011 Unaudited Total earnings £'000	6 months ended 31 December 2010 Unaudited Total earnings £'000	Year ended 30 June 2011 Audited Total earnings £'000
Total comprehensive income attributable to equity holders of the Company	971	1,006	2,392	883	962	2,325
Total comprehensive income from continuing operations attributable to equity holders of the Company	971	1,053	2,287	883	1,009	2,220
Total comprehensive (loss)/ income from discontinued operations attributable to equity holders of the Company	–	(47)	105	–	(47)	105
	No.	**No.**	**No.**	**No.**	**No.**	**No.**
Basic weighted average number of shares	20,442,230	20,121,063	20,225,635	20,442,230	20,121,063	20,225,635
Dilutive potential ordinary shares	217,779	250,176	239,891	217,779	250,176	239,891
Fully diluted weighted average number of shares	20,660,009	20,371,239	20,465,526	20,660,009	20,371,239	20,465,526
Total earnings per share:						
Basic	4.7p	5.0p	11.8p	4.3p	4.8p	11.5p
Fully diluted	4.7p	4.9p	11.7p	4.3p	4.7p	11.4p
Earnings per share from continuing operations:						
Basic	4.7p	5.2p	11.3p	4.3p	5.0p	11.0p
Fully diluted	4.7p	5.2p	11.2p	4.3p	5.0p	10.8p

Condensed Notes to the Financial Statements

31 December 2011

8. CAUTIONARY STATEMENT

This Interim Management Report ("IMR") consists of the Chairman's Statement and Financial 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.

9. INTERIM REPORT

Additional copies of the interim report are available from the Company Secretary, Animalcare Group plc, Common Road, Dunnington, York YO19 5RU. A copy has been placed on the Company's website www.animalcaregroup.co.uk

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