Animalcare Group plc
("Animalcare", the "Company" or the "Group")
Preliminary Unaudited Results for the year ended 31 December 2022

28 March 2023. Animalcare Group plc (AIM: ANCR), the international animal health business, announces its preliminary unaudited results for the year ended 31 December 2022.

Financial Highlights

- Revenues of £71.6m (2021: £74.0m) reflecting growth from product launches offset by moderation in post-pandemic demand, conclusion of distribution agreements and application of EU laws in Spain to reduce antibiotic use
- Focus on Top 40 brands and an improved sales mix drove marked 3.5% improvement in gross margins
- Careful targeting of SG&A investment, including Orthros-related R&D, contributed to underlying* EBITDA of £13.1m (2021: £13.5m); underlying* EBITDA margin 18.3% (2021: 18.2%)
- Reported profit before tax was £2.5m (2021: £0.9m)
- Underlying* basic earnings per share increased by 5.0% to 12.6 pence (2021: 12.0 pence); reported basic earnings per share of 3.3 pence (2021: 0.1 pence loss per share)
- Supported by good rates of cash conversion, net debt was £5.4m at year end (2021: £5.3m) maintaining the Group's capacity to invest in growth strategy
- Board proposes final dividend of 2.4 pence per share, in line with 2021

Strategic and Operational Highlights

- Daxocox becomes a top 10 selling product in the Group's portfolio
- Plaqtiv+ dental range launched after receiving accreditation from Veterinary Oral Health Council
- Identicare re-positioned as subscription-based services business under specialist digital leadership
- Preclinical pipeline projects initiated following licensing and R&D collaboration agreement with Orthros Medical to explore therapeutic potential of VHH antibodies
- Tailored talent management programme implemented to identify and develop future leaders
- Doug Hutchens and Sylvia Metayer joined the Group Board as Non-Executive Directors
- Sustainability Task Force established to develop and drive Group-wide ESG strategy

** Alternative Performance Measures (APMs) are reconciled to reported results in the Chief Financial Officer's review and within the notes to the unaudited consolidated financial statements.*

Commenting on the full year results, Chief Executive Officer, Jenny Winter said: *"The way that Animalcare responded to a series of headwinds in 2022 underlines the resilience and agility of our business and the attractive fundamentals of the animal health market.*

"Revenue growth for the full year was impacted by a combination of moderating market demand, the discontinuation of some distribution contracts and implementation of EU laws to limit the use of antibiotics. Nevertheless, I am pleased that we were able to deliver against several of our key performance indicators, notably gross margins which benefited from our continuing focus on the Top 40 selling brands. Good rates of cash conversion kept our year-end net debt position well below our leverage target, maintaining the strong financial platform that supports the Group's pursuit of its long-term growth strategy.

"It's clear that much of the growth in veterinary pharmaceuticals is attributable to innovative new products. That's reflected in our numbers. Daxocox, our treatment for osteoarthritic pain in dogs continues to grow, comfortably becoming a Top 10 Animalcare brand during the year. In addition, Plaqtiv+ our dental health range, the first brand to emerge from our STEM joint venture, was launched in the second quarter to an enthusiastic response from many of our customers. This was also a year that Identicare began to come to the fore. Returning double-digit revenue growth over the period, Identicare responded positively to the re-positioning of the business to a subscription-based services model under specialist digital leadership.

"Operationally, we continue to make progress against our strategic objectives, including the ongoing pursuit of growth opportunities through M&A, partnerships and in-licensing. The licensing and research collaboration

agreement with Orthros Medical, which we signed in March 2022, provides us with an exciting foothold in the promising field of VHH antibodies and strengthens our early-stage pipeline. Investing in our people is critically important to the success of our business, not least in the field of sales and marketing excellence. Alongside this we reached all parts of our business with our tailored behavioural programme in 2022 and are now implementing a consistent approach to the development of our future leaders.

"Looking ahead to 2023, we have confidence in the continued resilience of our business and the attractive fundamentals of our markets. And while we recognise the inherent uncertainties in the current macroeconomic climate we anticipate a return to revenue growth over the full year."

Analyst webcast
A briefing for analysts will be held at 10:30 BST on Tuesday 28 March 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_ircSmi85QaSaRkXPtuScog

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.

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 or contact:

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Chair's Statement

Animalcare's performance in 2022 highlighted the resilience of our business and the markets in which we operate as we continued to make progress against our strategic priorities.

Revenues for the full year were £71.6m, a 3.3% decline that reflects a moderation in post-pandemic demand combined with factors such as the conclusion of product distribution agreements and the application of EU laws in Spain designed to reduce antibiotic usage.

At £13.1m, underlying EBITDA declined broadly in line with revenues thanks to a favourable product mix and disciplined management of SG&A costs. After adjusting for underlying items totalling £6.5m (2021: £8.6m), profit before tax on a reported basis was £2.5m (2021: £0.9m).

A good cash conversion rate of 78% (2021: 109%) maintained the healthy state of the Group's financial platform with net debt standing at £5.4m (2021: £5.3m) by the year end and leverage well below our stated target range of one to two times underlying EBITDA. This solid balance sheet position continues to support the Group's pursuit of value-creating opportunities that have the potential to grow our business over the coming years.

In March 2022 we reached an agreement with Netherlands-based Orthros Medical to secure a global licence for innovative VHH antibody candidates, initially addressing canine osteoarthritis. This exciting early-stage research and development collaboration helps build our pipeline in a fast-growing disease area that we know well. Elsewhere, we continue to seek out investments that can extend our geographic footprint and add to our product line-up in the shorter term, whether through M&A or partnerships.

Rationalisation of the Group's portfolio, which is now materially complete, continues to bear fruit. Management focus on larger more profitable products, combined with the discontinuation of several lower value "tail" treatments, has concentrated our firepower to the benefit of our gross margins. Against this backdrop it was particularly satisfying to see Daxocox, our innovative treatment for osteoarthritis-related pain in dogs, enter the top 10 selling products in our portfolio less than two years after coming to market. It was also pleasing to see the Plaqtiv+ dental range contribute to earnings following planned launches in the second quarter.

The Group's proven resilience and robust financial position support the Board's decision to propose a final dividend of 2.4 pence per share (2021: 2.4 pence per share).

The experience and skills of the Animalcare team drive our business forward. It's vital, therefore, that we continue to build the capabilities we need, now and into the future. In 2022 we rolled out a tailored programme to develop the next generation of leaders across the Group. We also invested in the sales and marketing excellence required to succeed in this dynamic and increasingly innovation-driven market.

In our previous Annual Report, we laid out our Group-wide approach to the environmental, social and governance (ESG) pillars of sustainable development. During the last 12 months we have noted an increasing interest in ESG-related topics among a number of our stakeholders. While recognising that we are at the early stage of our journey in this area, we have established important foundations with the creation of a dedicated Sustainability Task Force chaired by CFO Chris Brewster to advise on aspects of sustainability, including identification of material issues to our stakeholders and the potential impact on our business.

Despite the uncertain economic environment, we see reasons for optimism as we look ahead. The attractive fundamentals of our animal health markets and the strong position of the Group provide us with the confidence to continue investing in our long-term growth strategy.

Following the appointment of Doug Hutchens as a Non-Executive Director at the beginning of the year, we welcomed Sylvia Metayer to the Board in May 2022. Subsequently, she took over as Chair of the Audit and Risk Committee at the Group's AGM. Sylvia brings a wealth of financial and commercial experience gained most recently at Sodexo SA, a global leader in food and facility management outsourcing. I know that Sylvia will be of huge value as the Group continues to implement its long-term growth strategy.

No review of the year would be complete without recognition for the skills and commitment of the Animalcare team across all our markets. Our progress in 2022 was made possible through their efforts. I'd also like to thank you, our shareholders, for your continued support in our Company as we strive to achieve better animal health.

Jan Boone
Non-Executive Chair

Chief Executive Officer's Review

Looking back at 2022, we have reasons to be pleased with several of our key indicators – not least positive margin growth and good cash conversion – as we continue to benefit from a strong balance sheet in the pursuit of our long-term growth strategy.

Strong finances

Revenues for the full year reflected a moderation in demand after the pronounced spike in post-pandemic veterinary activity seen in 2021 across Europe. Termination of certain Companion Animals distribution agreements and the application of EU regulations in Spain designed to reduce the widespread use of antibiotics in Production Animals, exerted further downward pressure on overall revenues. As a result, the headline sales figure of £71.6m was down 3.3% at actual exchange rates (2.5% at constant exchange rates).

Our focus on bigger-selling, more profitable products in our portfolio continued to deliver results, driving much improved gross margins of 56.8% (2021: 53.3%). Carefully targeted interventions on pricing also helped us mitigate the impact of inventory and logistics inflation.

Following on from the significant progress we have made in recent years to reduce our debt and improve our balance sheet, the Group delivered positive cash conversion in line with our goals. As a result, net debt stood at £5.4m at the year end with leverage well below the target range of one to two times underlying EBITDA (0.4 times underlying EBITDA). Maintaining such a strong financial platform is critical to our strategy, enabling us to pursue value-creating opportunities through a combination of M&A, partnerships and pipeline projects.

Key leadership

In 2022 we continued to invest in building the skills and behaviours that will drive our business forward. Identifying and developing the next generation of leaders has been a clear theme over the course of the year with the introduction of a consistent approach to the management of our talent. This initiative is also designed to dovetail with our branded "High Challenge High Support" programme of behavioural development.

Market data show that innovative products are driving much of the growth in the animal health sector. This dynamic is hard-wired into our business strategy. It's crucial, therefore, that our people are equipped with industry-leading skills to engage with customers and explain how these new technologies can benefit animal health and wellbeing in the appropriate settings. That's why we intensified our focus on sales and marketing excellence during 2022.

In partnership with Gallup, we carry out an annual survey of employee engagement. Recognising that we recorded a decline of 2% in our overall 2022 score, the data we gather through this process provides us with a rich source of insights as we seek to identify areas for improvement down to team level.

We extended a warm welcome to two new Non-Executive Directors in 2022. Doug Hutchens joined the company in February while Sylvia Metayer assumed her role in May. Doug's impressive background in veterinary medicine and R&D and Sylvia's senior level commercial leadership experience are already making a positive mark on the Group.

Growth portfolio

Our product portfolio acts as both a solid platform and a driver of growth. In recent years we have refined our product line-up, concentrating attention on larger-selling, higher margin brands while disposing of smaller "tail" products, some of which offered little more than a distraction. This rationalisation programme is now effectively complete with approximately 150 brands offering a comprehensive yet manageable portfolio. Though our Production Animals business remains a valuable part of the overall mix, it is evident that the Companion Animals segment offers greater growth potential. Consequently, that's where we direct more of our investment.

In 2022, our top 40 selling brands accounted for approximately 78% of total product sales, marginally down on the prior year. It was particularly satisfying to see Daxocox, our novel treatment for osteoarthritis-related pain in dogs, comfortably enter the top 10 ranking of Animalcare products. Additionally, our Plaqtiv+ dental health range, the first product to emerge from the STEM joint venture with Kane Biotech Inc., contributed to earnings following the later than expected accreditation from the influential Veterinary Oral Health Council (VOHC).

Identicare Ltd, the Group's UK-based pet microchipping and pet owner-focused services company, which we carved out from our pharmaceutical business under specialist leadership during 2021, delivered double-digit revenue growth over the period.

Business development

Achieving growth via inorganic business development routes is a core strategic objective for the Group. This is made possible by a financial platform that has been materially strengthened in recent years. Over the course of 2022 our dedicated business development team focused their efforts on the identification and pursuit of value-creating deals that can build our pipeline, add to revenues at attractive levels of profitability and extend our operational footprint and sales and marketing reach.

Our agreement with Netherlands-based Orthros Medical, signed in March 2022, secured an exclusive licence for VHH antibody technology with an initial focus on canine osteoarthritis. Though still in the early stages, the partnership has all the hallmarks of a collaborative template for our business.

Innovative pipeline

In 2022 the Group stepped up R&D investment as we continued to build an innovative pipeline that is capable of generating sustainable growth; we expect to further increase spend as a proportion of sales in 2023.

The aforementioned licensing and collaboration agreement with Orthros Medical has generated a number of preclinical projects exploring the potential for VHH antibodies, initially for the treatment of osteoarthritis-related pain in dogs. This is an expanding area of the market in which we are recognised for our knowledge and expertise. Following the European approval of Daxocox in 2021, we are also leveraging our product development capability to pursue life cycle management opportunities that can extend the therapeutic and commercial reach of our long-acting COX-2 inhibitor.

Summary and outlook

Though the Group fell short of its revenue expectations in 2022 due to a combination of moderating market demand and other more specific factors, we made positive progress on gross margins, helping us maintain our strong financial position, and with it our ability to invest in growth opportunities.

Looking ahead, we remain confident in the resilience of our business and the wider animal health market which has seen record levels of pet ownership in many countries. We continue to be mindful of macroeconomic uncertainties, including inflationary pressures, but we anticipate a return to revenue growth for the full year.

Our people deserve huge credit for the commitment they have shown in 2022. I'd like to record my thanks for their hard work as we continue to deliver on our long-term growth strategy.

Jenny Winter

Chief Executive Officer

Chief Financial Officer's Review

Underlying and statutory results

To provide comparability across reporting periods, the Group presents its results on both an underlying and UK-adopted international accounting standards ("IFRS") basis. The Directors believe that presenting our financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture 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.

Overview of underlying financial results

	Unaudited 2022 £'000	2021 £'000	% Change at AER
Revenue	**71,616**	74,024	(3.3%)
Gross Profit	**40,659**	39,418	3.2%
Gross Margin %	**56.8%**	53.3%	3.5%
Underlying Operating Profit	**9,753**	10,593	(7.9%)
Underlying EBITDA	**13,131**	13,455	(2.4%)
Underlying EBITDA margin %	**18.3%**	18.2%	0.1%
Underlying Basic EPS (p)	**12.6p**	12.0p	5.0%

Trading activity in 2022 reflected the continued moderation of market growth across Europe from the exceptionally high levels of post pandemic-related demand in 2021. The continuing commercial focus on our larger, higher margin brands was the main driver of much-improved gross margins. The Group's strong balance sheet and good levels of cash generation allow us to continue to invest to support future growth.

Revenues were £71.6m (2021: £74.0m), a decline of 3.3% at AER (2.5% at CER). An analysis by product category is shown in the table below:

	Unaudited 2022 £'000	2021 £'000	% Change at AER
Companion Animals	**50,217**	51,326	(2.2%)
Production Animals	**15,674**	16,980	(7.7%)
Equine & other	**5,725**	5,718	0.1%
Total	**71,616**	74,024	(3.3%)

Companion Animals revenue, which continues to represent around 70% of Group turnover, declined by 2.2% to £50.2m, impacted by moderating demand levels across Europe as noted above together with the loss of distribution rights of certain key brands. In part, this was offset by sales growth from new products, which contributed £2.1m (2021: £2.2m), predominantly driven by Daxocox and Plaqtiv+, the latter launching during Q2 following the later than expected VOHC (Veterinary Oral Health Council) accreditation. In addition, Identicare, the Group's small but growing UK-based pet microchipping and pet owner-focused services business, delivered 13% revenue growth over the period. One year on from bringing in specialist leadership, we are pleased with the progress in transitioning the business to a subscription-based services model with recurring revenues.

Production Animal revenues, which are largely generated by our South Region business, declined by 7.7% versus the prior year to £15.7m, predominantly due to the application of EU laws in Spain designed to further reduce the widespread use of antibiotics.

Equine and other sales were broadly flat versus 2021 at £5.7m during a period in which we took Danilon, one of our largest brands, back into the UK business, giving the Group more control over supply and our commercial offering.

Revenues generated by our Top 40 brands, collectively accounting for approximately 78% of sales, reduced by 0.9%, predominantly impacted by the conclusion of distribution rights within our Companion Animals portfolio as noted earlier. The continuing commercial focus on these larger, higher-margin brands, together with a more favourable sales mix, are the key drivers of the 3.5% improvement in our gross margins. While the Group has been affected by inventory and logistic price increases, the net impact on gross and EBITDA margins during the year has not been significant as we have taken mitigating pricing actions where possible. However, we remain alert to the accelerating inflationary pressures impacting our overall cost base as we progress into 2023.

Underlying EBITDA declined by 2.4% to £13.1m, broadly in line with revenues. Disciplined management of SG&A costs in the light of the moderating revenues enabled us to deliver EBITDA margins at approximately the same level as the prior year. SG&A expenses increased during the year to £27.5m (2021: £26.0m) as we continue to invest in our people and drivers of future growth such as new products and pipeline projects, the latter including R&D expenditure related to the early-stage collaboration with Orthros Medical.

The underlying effective tax rate of 16.4% (2021: 24.4%) has decreased versus 2021 primarily reflecting the geographic mix of profits and the prior year one-off impact of the enactment of the increase in corporate tax rates in the UK (from 19% to 25% effective 1 April 2023) on deferred tax balances. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS was 5.0% ahead of prior year at 12.6 pence (2021: 12.0 pence).

Overview of statutory financial results

Statutory Group profit after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £2.0m (2021: £0.1m loss), with statutory earnings per share at 3.3 pence (2021: 0.1 pence loss per share).

	Unaudited				
	2022 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	**2022 Statutory results £'000**	2021 Reported results £'000
Revenue	**71,616**	–	–	**71,616**	74,024
Gross profit	**40,659**	–	–	**40,659**	39,418
Selling, general & administrative expenses	**(28,547)**	(3,794)	(219)	**(32,560)**	(31,339)
Research & development expenses	**(2,363)**	(667)	-	**(3,030)**	(3,132)
Net other operating income/(expense)	**4**	–	(919)	**(915)**	(197)
Impairment losses	**–**	(918)	-	**(918)**	(2,761)
Operating profit/(loss)	**9,753**	(5,379)	(1,138)	**3,236**	1,989
Net finance expenses	**(642)**	–	–	**(642)**	(856)
Share in net loss of joint ventures	**(52)**	–	–	**(52)**	(188)
Profit/(loss) before tax	**9,059**	(5,379)	(1,138)	**2,542**	945
Taxation	**(1,487)**	725	185	**(577)**	(1,022)
Profit/(loss) for the year	**7,572**	(4,654)	(953)	**1,965**	(77)
Basic earnings/(loss) per share (p)	**12.6p**	–	–	**3.3p**	(0.1p)

Underlying EBITDA is reconciled to the statutory measures in the table above and within the notes to the unaudited consolidated financial statements.

Non-underlying items totalling £6.5m (2021: £8.6m) relating to profit before tax have been incurred in the year, as set out in note 4. These principally comprise:

1. Amortisation and impairment of acquisition-related intangibles of £5.4m (2021: £8.3m). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV (£4.5m) and a non-cash impairment charge of Research & Development assets that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns.
2. Expenses relating to acquisition, business development, integration, restructuring and other costs of £1.1m (2021: £0.3m) including the reorganisation and restructuring of our Benelux and UK operations, the latter relating to the carve-out of Identicare in 2021, manufacturing transfers and relocation of our Spain and UK offices.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

The Board continues to closely monitor the dividend policy, recognising the Group's need for investment to drive future growth and dividend flow to deliver overall value to our shareholders.

Cash flow and net debt

We entered 2022 in a healthy position following the significant progress made during 2021 in reducing our debt and increasing the Group's financial strength. With the net debt to underlying EBITDA leverage ratio comfortably below our stated target range of one to two times, we continue to pursue value-creating opportunities through M&A, partnerships and pipeline projects.

The Group delivered good cash generation during the year following the very strong cash conversion performance in 2021. In line with our expectations, our cash conversion moderated during the financial year, while remaining on average within the previous target 90-100% range over 2021 and 2022.

	Unaudited 2022 £'000	2021 £'000
Underlying EBITDA	**13,131**	13,455
Net cash flow from operations	**9,429**	14,023
Non-underlying items	**847**	611
Underlying net cash flow from operations	**10,276**	14,634
Underlying cash conversion %	**78.3%**	108.8%

Net cash flow generated by our operations reduced to £9.4m (2021: £14.0m). Working capital increased by £1.9m in the year compared to a £2.2m reduction during 2021. This movement, chiefly attributable to significantly higher receivables as a result of revenue phasing towards the year end, was largely offset by increased payables. Inventories increased by £2.7m from the lower than expected position at the end of 2021, primarily driven by normalisation of our stock profile following restocking of delayed supply together with some investment in strategic inventories to maintain strong service levels. The increase in working capital was in part offset by a £0.7m reduction in cash taxes mainly due to a combination of geographic mix of profits and lower settlement of prior year taxes.

We are targeting a year-on-year improvement in cash conversion for the financial year ending 31 December 2023, with a profile broadly consistent with the first and second halves of 2022.

	£'000
Net debt at 1 January 2022	**(5,330)**
Net cash flow from operations	9,429
Net capital expenditure	(2,794)
Investments in joint venture	(325)
Net finance expenses	(1,732)
Dividends paid	(2,644)
Foreign exchange on cash and borrowings	(715)
Movement in IFRS 16 lease liabilities	(1,291)
Net debt at 31 December 2022 (Unaudited)	**(5,402)**

Net capital expenditure of £2.8m (2021: £2.7m) largely comprises investment in our product development pipeline of £1.3m, including £0.4m in relation to the first licence milestone payment to Orthros Medical. The balance of expenditure relates chiefly to investment in our business systems, including CRM, ERP and IT infrastructure within Identicare, and the relocation of our UK office.

The net debt to underlying EBITDA leverage ratio was approximately 0.4 times, consistent with 2021 and comfortably below the Group's stated target range of one to two times underlying EBITDA.

Borrowing facilities

The Group has total facilities of €51.5m (£45.7m) to 31 March 2025, provided by a syndicate of four banks comprising a committed revolving credit facility (RCF) of €41.5m (£36.8m) and a €10.0m (£8.9m) acquisition line, the latter of which cannot be utilised to fund operations.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

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; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Going concern

The Directors have prepared cash flow forecasts for a period of at least 12 months from the release of these results (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into consideration market conditions, the profile of cash generation, the Group's financial position (including the level of headroom available within the bank facilities and compliance with the financial covenants associated with these facilities), bank facility maturity and principal risks.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Summary and outlook

While our revenue performance, which was impacted by a combination of factors, was not as strong as expected, the Group has made positive progress on gross margins and demonstrated agility in managing our cost base in line with trading levels. Good levels of cash conversion have also maintained our strong financial platform.

Mindful of the current economic environment, we are confident in the resilience of the Group and the animal health sector, underpinned by historically high levels of pet ownership.

With our strong balance sheet, we believe the Group remains well placed to deliver on our long-term growth strategy and we continue to explore business and product development opportunities.

Chris Brewster

Chief Financial Officer

28 March 2023

Consolidated Income Statement (Unaudited)
Year ended 31 December 2022

		For the year ended 31 December					
			Unaudited				
		Underlying	**Non-Underlying (note 4)**	**Total**	Underlying	Non-Under-lying (note 4)	Total
		2022	**2022**	**2022**	2021	2021	2021
	Notes	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	5	**71,616**	**–**	**71,616**	74,024	–	74,024
Cost of sales		**(30,957)**	**–**	**(30,957)**	(34,606)	–	(34,606)
Gross profit		**40,659**	**–**	**40,659**	39,418	–	39,418
Research and development expenses		**(2,363)**	**(667)**	**(3,030)**	(2,181)	(951)	(3,132)
Selling and marketing expenses		**(13,547)**	**–**	**(13,547)**	(12,277)	–	(12,277)
General and administrative expenses		**(15,000)**	**(4,013)**	**(19,013)**	(14,482)	(4,580)	(19,062)
Net other operating income/(expense)		**4**	**(919)**	**(915)**	115	(312)	(197)
Impairment losses		**–**	**(918)**	**(918)**	–	(2,761)	(2,761)
Operating profit/(loss)		**9,753**	**(6,517)**	**3,236**	10,593	(8,604)	1,989
Finance costs	6	**(1,752)**	**–**	**(1,752)**	(2,613)	–	(2,613)
Finance income	7	**1,110**	**–**	**1,110**	1,757	–	1,757
Finance costs net		**(642)**	**–**	**(642)**	(856)	–	(856)
Share of net loss of joint venture accounted for using the equity method	12	**(52)**	**–**	**(52)**	(188)	–	(188)
Profit/(loss) before tax		**9,059**	**(6,517)**	**2,542**	9,549	(8,604)	945
Income tax expense	8	**(1,487)**	**910**	**(577)**	(2,325)	1,303	(1,022)
Profit/(loss) for the period		**7,572**	**(5,364)**	**1,956**	7,224	(7,301)	(77)
Net profit/(loss) attributable to:							
The owners of the parent		**7,572**	**(5,607)**	**1,965**	7,224	(7,301)	(77)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:							
Basic earnings per share	9	12.6p	–	3.3p	12.0p	–	(0.1p)
Diluted earnings per share	9	12.5p	–	3.2p	12.0p	–	(0.1p)

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 categorised as 'non-underlying' and are analysed in detail in note 4 to these financial statements. The accompanying notes form an integral part of these unaudited consolidated financial statements.

Consolidated statement of comprehensive income (unaudited)

Year ended 31 December 2022

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Profit/(loss)	**1,965**	(77)
Other comprehensive income/(expense)		
Exchange differences on translation of foreign operations*	**488**	(638)
Other comprehensive income/(expense), net of tax	**488**	(638)
Total comprehensive income/(expense) for the year, net of tax	**2,453**	(715)
Total comprehensive income/(expense) attributable to:		
The owners of the parent	**2,453**	(715)

* May be reclassified subsequently to profit and loss

Consolidated statement of financial position (unaudited)

Year ended 31 December 2022

	Notes	**Unaudited 2022 £'000**	Restated* 2021 £'000
		For the year ended 31 December	
Assets			
Non-current assets			
Goodwill	10	**50,853**	50,337
Intangible assets	11	**25,283**	30,213
Property, plant and equipment		**448**	132
Right-of-use-assets	16	**2,924**	1,658
Investments in joint ventures	12	**1,305**	1,290
Deferred tax assets	8	**3,567**	1,963
Other financial assets		**70**	90
Other non-current assets		**–**	24
Total non-current assets		**84,450**	85,707
Current assets			
Inventories		**13,474**	10,328
Trade receivables		**13,568**	7,135
Other current assets		**715**	1,200
Cash and cash equivalents		**6,035**	5,633
Total current assets		**33,792**	24,296
Total assets		**118,242**	110,003
Liabilities			
Current liabilities			
Lease liabilities	16	**(852)**	(723)
Trade payables		**(15,497)**	(10,021)
Current tax liabilities		**(623)**	(471)
Accrued charges and contract liabilities	14	**(1,276)**	(1,083)
Other current liabilities		**(4,027)**	(2,156)
Total current liabilities		**(22,275)**	(14,454)
Non-current liabilities			
Borrowings	13	**(8,426)**	(9,243)
Lease liabilities	16	**(2,159)**	(996)
Deferred tax liabilities	8	**(4,773)**	(4,271)
Contract liabilities	14	**(372)**	(675)
Provisions		**(340)**	(408)
Other non-current liabilities		**(911)**	(1,157)
Total non-current liabilities		**(16,981)**	(16,750)
Total Liabilities		**(39,256)**	(31,204)
Net assets		**78,986**	78,799
Equity			
Share capital	15	**12,019**	12,019
Share premium	15	**132,798**	132,798
Reverse acquisition reserve		**(56,762)**	(56,762)
Accumulated losses		**(11,977)**	(11,676)
Other reserves		**2,908**	2,420
Equity attributable to the owners of the parent		**78,986**	78,799
Total equity		**78,986**	78,799

***Restated as detailed in note 18**

Consolidated statement of changes in equity (unaudited)
Year ended 31 December 2022

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2022	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**
Net profit	–	–	**1,965**	–	–	**1,965**
Other comprehensive income	–	–	–	–	**488**	**488**
Total comprehensive income	–	–	**1,965**	–	**488**	**2,453**
Dividends paid	–	–	**(2,644)**	–	–	**(2,644)**
Share-based payments	–	–	**378**	–	–	**378**
At 31 December 2022 (Unaudited)	**12,019**	**132,798**	**(11,977)**	**(56,762)**	**2,908**	**78,986**

	Attributable to the owners of the parents					
	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2021	**12,012**	**132,729**	**(9,445)**	**(56,762)**	**3,058**	**81,592**
Loss of the year	–	–	**(77)**	–	–	**(77)**
Other comprehensive expense	–	–	–	–	**(638)**	**(638)**
Total comprehensive expense	–	–	**(77)**	–	**(638)**	**(715)**
Dividends paid	–	–	**(2,403)**	–	–	**(2,403)**
Exercise of share options	**7**	**69**	–	–	–	**76**
Share-based payments	–	–	**249**	–	–	**249**
At 31 December 2021	**12,019**	**132,798**	**(11,676)**	**(56,762)**	**2,420**	**78,799**

Reverse acquisition reserve

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

Other reserve

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

Consolidated cash flow statement (unaudited)
Year ended 31 December 2022

	Notes	**For the year ended 31 December**	
		Unaudited	
		2022	2021
		£'000	£'000
Operating activities			
Profit before tax		**2,542**	945
Non-cash and operational adjustments			
Share in net loss of joint venture	12	**52**	188
Depreciation of property, plant and equipment		**1,118**	1,185
Amortisation of intangible assets	11	**6,685**	7,217
Impairment of intangible assets	11	**918**	2,761
Share-based payment expense		**542**	249
Gain on disposal of fixed assets		**(146)**	(396)
Non-cash movement in provisions		**202**	120
Movement allowance for bad debt and inventories		**105**	760
Finance income		**(260)**	(459)
Finance expense		**1,001**	1,221
Impact of foreign currencies		**(235)**	88
Fair value adjustment contingent consideration		**140**	(17)
Gain on disposal of IFRS 16 and initial recognition		**(6)**	–
Movements in working capital			
(Increase)/decrease in trade receivables		**(5,875)**	3,541
(Increase)/decrease in inventories		**(2,735)**	1,356
Increase/(decrease) in payables		**6,706**	(2,698)
Income tax paid		**(1,325)**	(2,038)
Net cash flow from operating activities		**9,429**	14,023
Investing activities			
Purchase of property, plant and equipment	11	**(407)**	(557)
Purchase of intangible assets		**(2,540)**	(2,658)
Proceeds from the sale of property, plant and equipment (net)		**153**	540
Capital contribution in joint venture	12	**(325)**	(289)
Net cash flow used in investing activities		**(3,119)**	(2,964)
Financing activities			
Repayment of loans and borrowings		**(1,320)**	(6,952)
Repayment of IFRS 16 lease liability	16	**(996)**	(1,024)
Receipts from issue of share capital		**–**	76
Dividends paid	15	**(2,644)**	(2,403)
Interest paid		**(444)**	(447)
Other financial expense		**(297)**	(213)
Decrease in other financial assets		**5**	–
Net cash flow used in financing activities		**(5,696)**	(10,963)
Net increase of cash and cash equivalents		**614**	96
Cash and cash equivalents at beginning of year		**5,633**	5,265
Exchange rate differences on cash and cash equivalents		**(212)**	272
Cash and cash equivalents at end of year		**6,035**	5,633

	Notes	Unaudited 2022 £'000	2021 £'000
		For the year ended 31 December	
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents in the year		**614**	96
Cash flow from decrease in debt financing		**1,320**	6,952
Foreign exchange differences on cash and borrowings		**(715)**	1,146
Movement in net debt during the year		**1,219**	8,194
Net debt at the start of the year		**(5,330)**	(13,616)
Movement in lease liabilities during the year	16	**(1,291)**	92
Net debt at the end of the year		**(5,402)**	(5,330)

Notes to the unaudited consolidated financial statements
Year ended 31 December 2022

1. Financial information

The unaudited financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 and 31 December 2021. The financial information for the year ended 31 December 2021 is derived from the statutory accounts for 2021 which have been delivered to the Registrar of Companies. The Auditor has reported on those accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2022 is not yet complete. Accordingly, the financial information for 2022 is presented unaudited in the preliminary announcement.

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors. The financial information has been prepared in accordance with UK-adopted international accounting standards ("IFRS") and the applicable legal requirements of the Companies Act 2006, except for the revaluation of certain financial instruments. They have also been prepared in accordance with the requirements of the AIM Rules.

3. Summary of significant accounting policies

Going concern

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m (£36.8m) and a €10.0m (£8.9m) 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; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of signing of these financial statements (the going concern assessment period). These forecasts indicate that the Group will have sufficient funds and liquidity to meet its obligations as they fall due, taking into account the potential impact of "severe but plausible" downside scenarios to factor in a range of downside revenue estimates and higher than expected inflation across our cost base, with corresponding mitigating actions. The output from these scenarios shows the Group has adequate levels of liquidity from its committed facilities and complies with all its banking covenants throughout the going concern assessment period. Accordingly, the Directors continue to adopt the going concern basis of preparation.

4. Non-underlying items

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**3,794**	4,580
Impairment losses	**895**	2,761
Total amortisation and impairment of acquisition-related intangibles	**5,356**	8,292
Restructuring costs	**282**	17
Acquisition and integration costs	**335**	188
Impairment on intangibles	**23**	-
Divestments and business disposals	**(146)**	(462)
COVID-19	**2**	11
Long-term incentive plan	**220**	-
UK and Spain office relocation costs	**182**	111
Other non-underlying items	**263**	447
Total non-underlying items before taxes	**6,517**	8,604
Tax impact	**(910)**	(1,303)
Total non-underlying items after taxes	**5,607**	7,301

The following table shows the breakdown of non-underlying items before taxes by category for 2022 and 2021:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Classified within research and development expenses	**667**	951
Classified within general and administrative expenses	**4,013**	4,580
Classified within net other operating (income)/expense	**919**	312
Impairment losses	**918**	2,761
Total non-underlying items before taxes	**6,517**	8,604

The 2022 £4,013k general and administrative expenses principally encompasses amortisation and impairment of acquisition related intangibles of £3,794k plus the £220k long-term incentive plan charge.

Non-underlying items totalling £6,517k (2021: £8,604k) relating to profit before tax have been incurred in the year. These principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £5,356k (2021: £8,292k). The current year charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV of £4,461k (2021: £5,531k) and a non-cash impairment charge of Research & Development assets (£895k; 2021: £ 2,761k) that formed part of the acquired development pipeline, the principal driver for which was manufacturing challenges that have significantly impacted the timing and costs to resume supply with appropriate commercial returns.

- Expenses relating to restructuring costs of £282k (2021: £17k) principally relate to the closure of our warehouse in Belgium and subsequent out-sourcing to a third-party logistics provider, together with costs associated with the reorganisation of our UK operations following the carve-out of Identicare in 2021.
- Acquisition and integration costs of £335k (2021: £188k) primarily relate to costs associated with manufacturing transfers and the cessation of production animals sales in Benelux.
- Costs associated with the relocation of our Spain and UK operations totalling £182k (2021: £111k) include one-off move costs and dilapidation provisions.

5. 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 finance 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 2022 and 2021. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the year ended 31 December	
	Unaudited 2022 £'000	2021 £'000
Revenues	**71,616**	74,024
Gross Profit	**40,659**	39,418
Gross Profit %	**57%**	53%
Segment underlying EBITDA	**13,131**	13,455
Segment underlying EBITDA %	**18%**	18%
Segment EBITDA	**11,971**	13,143
Segment EBITDA %	**17%**	18%

The underlying and segment EBITDA is reconciled with the consolidated net profit/(loss) for the year as follows:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Underlying EBITDA	**13,131**	13,455
Non-recurring expenses (excluding amortisation and impairment)	**(1,160)**	(312)
EBITDA	**11,971**	13,143
Depreciation, amortisation and impairment	**(8,735)**	(11,154)
Operating profit	**3,236**	1,989
Finance costs	**(1,752)**	(2,613)
Finance income	**1,110**	1,757
Share of net loss of joint venture accounted for using the equity method	**(52)**	(188)
Income taxes	**(1,637)**	(1,371)
Deferred taxes	**1,060**	349
Profit/ (loss) for the period	**1,965**	(77)

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

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Belgium	**7,510**	8,834
Spain	**3,695**	2,811
Portugal	**4,234**	4,061
UK	**59,184**	62,157
Other	**6,260**	5,881
Non-current assets excluding deferred tax assets	**80,883**	83,744

Revenue by product category

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Companion animals	**50,217**	51,326
Production animals	**15,674**	16,980
Equine	**5,698**	5,637
Other	**27**	81
Total	**71,616**	74,024

Revenue by geographical area

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Belgium	**3,354**	4,023
The Netherlands	**1,627**	1,769
United Kingdom	**15,257**	15,471
Germany	**10,056**	10,373
Spain	**19,724**	21,035
Italy	**8,404**	8,885
Portugal	**4,215**	4,193
European Union - other	**7,199**	6,971
Asia	**494**	681
Middle East Africa	**17**	1
Other	**1,269**	622
Total	**71,616**	74,024

Revenue by category

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Product sales	**69,642**	72,651
Services sales	**1,974**	1,373
Total	**71,616**	74,024

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.

6. Finance costs

Finance costs include the following elements:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Interest expense	**444**	447
Foreign currency losses	**985**	1,912
Change in fair value - losses on financial instruments	**124**	85
Other finance costs	**199**	169
Total	**1,752**	2,613

7. Finance income

Finance income includes the following elements:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Foreign currency exchange gains	**1,060**	1,754
Income from financial assets	**39**	1
Other finance income	**11**	2
Total	**1,110**	1,757

8. Income tax

Current tax liabilities

The tax payable relates to income taxes of £623k (2021: £471k).

The following table shows the breakdown of the tax expense for 2022 and 2021:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Current tax charge	**(1,685)**	(1,371)
Tax adjustments in respect of previous years	**48**	–
Total current tax charge	**(1,637)**	(1,371)
Deferred tax - origination and reversal of temporary differences	**774**	458
Deferred tax - adjustments in respect of previous years	**286**	(109)
Total deferred tax credit	**1,060**	349
Total tax expense for the year	**(577)**	(1,022)

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

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Profit before tax	**2,542**	945
Share of net loss of joint ventures	**52**	188
Profit before tax, excl. Share in net loss of joint venture	**2,594**	1,133
Tax at 19.00% (2021: 19.00%)	**(493)**	(215)
Effect of:		
Overseas tax rates	**(389)**	(386)
Non-deductible expenses	**(99)**	(180)
Use of tax losses previously not recognised	**(24)**	76
Changes in statutory enacted tax rate	**93**	(273)
Tax adjustments in respect of previous year	**334**	(109)
Non-recognition of deferred tax on current year losses	**(21)**	(105)
Usage of formerly non-recognised deferred tax assets on timing differences	**15**	50
R&D relief	**53**	200
Other	**(46)**	(80)
Income tax expense as reported in the consolidated income statement	**(577)**	(1,022)

The tax credit of £910k (2021: £1,303k) shown within "non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £577k (2021: £1,022k), relates to the items in note 4.

The tax rates used for the 2022 and 2021 reconciliation above are the corporate tax rates of 25.00% (Belgium), 19.00% (the Netherlands), 30.70% (Germany), 33.00% (France), 25.00% (Spain), 24.00% (Italy), 21.00% (Portugal) and 19.00% (the United Kingdom). These taxes are payable by corporate entities in the above-mentioned countries on taxable profits under tax law in that jurisdiction.

Deferred taxes at the balance sheet date have been measured using the UK enacted tax rate, being 25% from 1 April 2023.

Deferred tax

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Total	
	Unaudited		Unaudited		Unaudited	
	2022	2021	2022	2021	2022	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Goodwill	**–**	(125)	**(1,290)**	(923)	**(1,290)**	(1,048)
Intangible assets	**329**	243	**(2,722)**	(3,435)	**(2,393)**	(3,192)
Property, plant and equipment	**–**	(186)	**(707)**	(195)	**(707)**	(381)
Financial fixed assets	**1**	1	**–**	–	**1**	1
Inventory	**–**	(11)	**(54)**	(40)	**(54)**	(51)
Trade and other receivables/(payables)	**71**	94	**–**	59	**71**	153
Borrowings	**565**	182	**–**	223	**565**	405
Provisions	**4**	3	**–**	–	**4**	3
Accruals and deferred income	**32**	13	**–**	40	**32**	53
Tax losses carried forward	**2,565**	1,749	**–**	–	**2,565**	1,749
Total	**3,567**	1,963	**4,773**	(4,271)	**(1,206)**	(2,308)

(b) Movements during the year

Movement of deferred taxes during 2022:

	Balance as at 1 January 2022 £'000	**Recognised in income £'000**	**Foreign exchange adjustments £'000**	**Balance as at 31 December Unaudited 2022 £'000**
Goodwill	(1,048)	(176)	(66)	**(1,290)**
Intangible assets	(3,192)	782	17	**(2,393)**
Property, plant and equipment	(381)	(296)	(30)	**(707)**
Financial fixed assets	1	–	–	**1**
Inventory	(51)	–	(3)	**(54)**
Trade and other receivables/(payables)	153	(62)	(20)	**71**
Accruals and deferred income	53	(23)	2	**32**
Borrowings	405	133	27	**565**
Provisions	3	–	1	**4**
Tax losses carry forward and other tax benefits	1,749	702	114	**2,565**
Net deferred tax	**(2,308)**	**1,060**	**42**	**(1,206)**

Movement of deferred taxes during 2021:

	Balance at 1 January 2021 £'000	**Recognised in income** £'000	**Foreign exchange adjustments** £'000	**Balance at 31 December 2021** £'000
Goodwill	(935)	(174)	61	(1,048)
Intangible assets	(3,773)	600	(19)	(3,192)
Property, plant and equipment	(439)	34	24	(381)
Financial fixed assets	1	–	–	1
Inventory	(41)	(13)	3	(51)
Trade and other receivables/(payables)	166	(11)	(2)	153
Accruals and deferred income	104	(44)	(7)	53
Borrowings	404	27	(26)	405
Provisions	–	–	3	3
Tax losses carry forward and other tax benefits	1,929	(70)	(110)	1,749
Net deferred tax	(2,584)	349	(73)	(2,308)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £11,361k (2021: £7,435k).

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £ 2,565k (2021: £ 1,749k). This was based on management's estimate that sufficient positive taxable profits will be generated in the near future for the related legal entities with fiscal losses. It is expected that £32k of the deferred tax asset will be recovered within the next 12 months and the remaining £2,533k of the deferred tax asset will be recovered after 12 months.

The non-recognised deferred tax assets of Ecuphar NV on temporary differences decreased by £15k in 2022 (2021: £50k).

9. Earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders 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) before continuing operations

	For the year ended 31 December			
	Unaudited 2022 Underlying £'000	2021 Underlying £'000	**Unaudited 2022 Total £'000**	2021 Total £'000
Net profit/(loss) for the year	**7,572**	7,224	**1,965**	(77)
Net profit/loss attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**7,572**	7,224	**1,965**	(77)

Average number of shares (basic and diluted)

	For the year ended 31 December			
Number of shares	**Unaudited 2022 Underlying**	2021 Underlying	**Unaudited 2022 Total**	2021 Total
Weighted average number of ordinary shares for basic earnings per share	**60,175,407**	60,081,167	**60,175,407**	60,081,167
Dilutive potential ordinary share options	**629,087**	376,836	**629,087**	376,836
Weighted average number of ordinary shares adjusted for effect of dilution	**60,804,494**	60,458,003	**60,804,494**	60,458,003

Basic earnings/(loss) per share

	For the year ended 31 December			
	Unaudited 2022 Underlying in pence	2021 Underlying in pence	**Unaudited 2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	-0.1
Total basic earnings per share attributable to the ordinary equity holders of the company	**12.6**	12.0	**3.3**	-0.1

Diluted earnings/(loss) per share

	For the year ended 31 December			
	Unaudited 2022 Underlying in pence	2021 Underlying in pence	**Unaudited 2022 Total in pence**	2021 Total in pence
From operations attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	-0.1
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**12.5**	12.0	**3.2**	-0.1

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. This cash-generating unit corresponds to the nature of the business, being Pharmaceuticals. The goodwill has been allocated to the cash-generating unit ("CGU") as follows:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
CGU: Pharmaceuticals	**50,853**	50,337
Total	**50,853**	50,337

The changes in the carrying value of the goodwill can be presented as follows for the years 2022 and 2021:

	Total
	£'000
As at 1 January 2021	50,988
Disposals	–
Other	–
Currency translation	(651)
As at 31 December 2021	50,337
As at 1 January 2022	**50,337**
Disposals	–
Impairment	–
Currency translation	516
As at 31 December 2022	**50,853**

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

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

	Unaudited	
	2022	2021
Discount rate (pre-tax) %	**14.2**	11.8
Growth rate (in perpetuity) %	**2.0**	1.9

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows, using the long-term growth rate, beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability report and consider that the impact on the valuation of goodwill is limited.

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

A 1.0% increase in discount rates would cause the value in use of the CGU to reduce by £15.5m but would not give rise to an impairment. A 1.0% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £11.6m but would not give rise to an impairment.

11. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2022 and 2021:

	Research & Development assets £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	*Assets under construction £'000	As restated Total* £'000
Acquisition value/cost						
As at 1 January 2021	18,655	19,266	37,616	2,149	51	77,737
Additions	1,247	-	1,030	1,080	499	3,856
Disposals	(4,934)	(57)	(134)	(20)	(43)	(5,188)
Transfers	(2,195)	-	2,195	-	-	-
Currency translation	(327)	(961)	(1,140)	(119)	(13)	(2,560)
As at 31 December 2021 (Restated*)	12,446	18,248	39,567	3,090	494	73,845
Additions	**719**	**-**	**603**	**1,218**	**-**	**2,540**
Disposals	**(982)**	**-**	**(90)**	**(55)**	**(4)**	**(1,131)**
Transfers	**375**	**-**	**-**	**-**	**(375)**	**-**
Currency translation	**241**	**760**	**978**	**146**	**12**	**2,137**
As at 31 December 2022 (Unaudited)	**12,799**	**19,008**	**41,058**	**4,399**	**126**	**77,391**
Amortisation						
As at 1 January 2021	(5,255)	(13,304)	(19,938)	(1,377)	-	(39,874)
Amortisation	(1,387)	(1,897)	(3,303)	(630)	-	(7,217)
Disposals	4,211	57	46	55	-	4,369
Impairments	(2,671)	-	(77)	(13)	-	(2,761)
Currency translation	147	770	855	79	-	1,851
As at 31 December 2021 (Restated*)	(4,955)	(14,374)	(22,417)	(1,886)	-	(43,632)
Amortisation	**(1,239)**	**(1,325)**	**(3,233)**	**(888)**	**-**	**(6,685)**
Disposals	**676**	**-**	**89**	**61**	**-**	**826**
Impairments	**(868)**	**-**	**(32)**	**(18)**	**-**	**(918)**
Currency translation	**(151)**	**(693)**	**(753)**	**(102)**	**-**	**(1,699)**
As at 31 December 2022 (Unaudited)	**(6,537)**	**(16,392)**	**(26,346)**	**(2,833)**	**-**	**(52,108)**
Net carrying value						
As at 31 December 2022 (Unaudited)	**6,262**	**2,616**	**14,712**	**1,566**	**126**	**25,283**
As at 31 December 2021 (restated*)	7,491	3,874	17,150	1,204	494	30,213

*Restatement as described in note 18

Research and development assets relate to acquired development projects as part of the Esteve business combination in 2015, the reverse acquisition of Animalcare Group plc in 2017 and external and internal in-process R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licences include amounts paid for exclusive distribution rights as well as distribution rights acquired as part of the Esteve business combination in 2015 and the reverse acquisition of Animalcare Group plc in 2017.

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

The capitalised software includes IT driven by accelerated CRM software investment and website and platform development relating to Identicare Ltd.

The total amortisation charge for 2022 is £6,685k (2021: £7,217k) which is included in the lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation is £4,461k (2021: £5,531k) relating to acquisition-related intangibles and £2,224k (2021: £1,686k) relating to other intangibles.

A total impairment charge of £918k (2021: £2,761k) was recorded during the financial year. Thereof £895k (2021: £2,761k) is related to a non-cash impairment charge of acquisition-related intangibles of Research & Development assets.

In 2022, Animalcare Group plc invested in intangibles for an amount of £2,540k (2021: £3,357k).

On 24 March 2022, the Group entered into two early-stage agreements with Netherlands-based Orthros Medical, a company focused on the research and early development of VHH antibodies, also known as small single-chain antibody fragments. Under the terms of the deal, and during the period, Animalcare made upfront payments to Orthros Medical totalling €500k. These are included as intangible assets "product portfolios and product development costs". As the two licensed preclinical candidates progress, Orthros Medical may receive development, regulatory and commercial milestone payments up to a total value of €11 million, a significant proportion of which are linked to successful commercialisation. In addition, single digit royalties will be due on the net sales of the products. These payments are expected to be paid out of the Group's operating cash flow.

12. Investments in joint ventures

On 28 September 2020 the Group announced that it has entered into an agreement with Canada-based biotech company Kane Biotech Inc. under which the parties formed STEM Animal Health Inc. ("STEM"), a company dedicated to treating biofilm-related ailments in animals. The Group acquired, via its 100% subsidiary Ecuphar NV, 33.34% in STEM for a cash consideration of CA$3m, of which CA$1.5m was already paid in prior years, CA$0.5m during the financial year and CA$1.0m still payable over 20 months.

The Group has a call option, for a period until 28 September 2026, to acquire an additional 18% stake in STEM for CA$4 million. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

Separately, we also announced that we had entered into a licensing agreement, under which we will invest a further CA$2m, consisting of an initial payment along with a series of potential payments linked to various milestones, for rights to commercialise products in global veterinary markets outside the Americas.

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources. In the prior year, the Group made its first licence payment of CA$0.5m. The following payment is due in 2023, resulting in a short-term payment of CA$692k or £425k, and a long-term payable of CA$748k or £459k.

Further, for the capital contribution, the outstanding short-term liability is £371k (2021: £277k), shown in the balance sheet as other current liability. The outstanding long-term liability is £254k (2021: £502k), shown in the balance sheet as other non-current liability.

Name of entity	Place of business/ country of incorporation	% of ownership interest 2022	2021	Nature of relationship	Measurement method	Carrying amount Unaudited 2022 £'000	2021 £'000
STEM Animal Health Inc.	Canada	33.34%	33.34%	Joint Venture	Equity method	**1,305**	1,290

The tables below provide summarised financial information for the Joint Venture in STEM Animal Health Inc. which is material to the group. The information disclosed first reflects the amounts presented in the financial statements of the relevant joint venture followed by Animalcare's share of those amounts.

	Unaudited For the year ended 31 December 2022	**For the year ended 31 December 2021**
	£'000	**£'000**
Non-current assets	321	547
Current assets	1,511	945
Total assets	**1,832**	**1,492**
Current liabilities	825	525
Total liabilities	**825**	**525**
Net assets	**1,007**	**967**
Group Share	336	322
Goodwill	561	561
Fair value identified intangibles	555	554
Deferred tax liability	(147)	(147)
Investment value in joint venture	**1,305**	**1,290**

Summarised statement of comprehensive income:

	Unaudited For the year ended 31 December 2022	**For the year ended 31 December 2021**
	£'000	**£'000**
Sales	1,581	856
Operating expenses	(1,651)	(1,338)
Financial result, net	65	55
Net loss for the year	**(5)**	**(427)**
Group share in net loss for the year	**(2)**	**(142)**
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	(50)	(46)
Total Group share in net loss for the year	**(52)**	**(188)**
Other comprehensive income	67	21
Group share in total comprehensive income/ (expense)	**15**	**(167)**

Reconciliation of the aforementioned financial information with the net carrying amount of the investment of STEM Animal Health Inc. in the consolidated financial statements:

	Unaudited For the year ended 31 December 2022 £'000	For the year ended 31 December 2021 £'000
As at 1 January	**1,290**	**1,457**
Acquisition in joint venture	–	–
Group share of net loss for the year	(52)	(188)
Foreign currency translation differences	67	21
As at 31 December	**1,305**	**1,290**

13. Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	For the year ended 31 December Unaudited 2022 £'000	 2021 £'000
Revolving credit facilities	Euribor +1.50%	March 25	**4,435**	5,462
Acquisition loan	Euribor +1.75%	March 25	**3,011**	1,719
Lease liabilities	See note 16		**11,437**	10,962
Total loans and borrowings				
Of which				
Non-current			**10,585**	10,239
Current			**852**	723

Borrowing facilities

The Group has total facilities of €51.5m to 31 March 2025, provided by a syndicate of four banks, comprising a committed revolving credit facility (RCF) of €41.5m and a €10.0m acquisition line, the latter of which cannot be utilised to fund operations.

The loans have a variable, Euribor-based interest rate, increased with a margin of 1.50% or 1.75%. The revolving credit facilities and the acquisition financing have a bullet maturity in March 2025.

The Group manages its banking arrangements centrally through cross-currency cash pooling. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

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; and
- Solvency (total assets less goodwill/total equity less goodwill) greater than 25%.

Net of cash balances totalling £6.0m, £4.4m of the RCF was utilised at the year end, leaving headroom of £38.4m.

As at 31 December 2022 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Net debt reconciliation

	As at 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Net debt		
Cash and cash equivalents	**6,035**	5,633
Borrowings	**(8,426)**	(9,244)
Lease liabilities	**(3,011)**	(1,719)
Total	**(5,402)**	(5,330)

	Liabilities from financing activities		Other assets	
	Borrowings	**Leases**	**Cash**	**Total**
	£'000	£'000	£'000	£'000
Net debt as at 1 January 2020	(17,069)	(1,812)	5,265	(13,616)
Financing cash flows	6,952	1,077	96	8,125
New leases	–	(1,037)	–	(1,037)
Foreign exchange adjustments	–	105	272	377
Other charges				
Interest Income / (expense)	873	(53)	–	820
Net debt as at 31 December 2021	**(9,244)**	**(1,720)**	**5,633**	**(5,331)**
Financing cash flows	1,320	1,086	614	3,020
New leases	–	(2,142)	–	(2,142)
Foreign exchange adjustments	–	(145)	(212)	(357)
Other charges				
Interest expense	(502)	(90)	–	(592)
Net debt as at 31 December 2022 (Unaudited)	**(8,426)**	**(3,011)**	**6,035**	**(5,402)**

14. Accrued charges and contract liabilities

Accrued charges and contract liabilities consists of the following:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Accrued charges	**777**	923
Contract liabilities - due within one year	**512**	168
Other	**(13)**	(8)
Total due within one year	**1,276**	1,083
Contract liabilities - due after one year	**372**	675

Accrued charges of £777k (2021: £923k) mainly include Ecuphar Veterinaria (£406k), Ecuphar NV (£64k), Belphar (£235k) and UK (£70k) and are mostly related to payroll and accrued bank interest costs.

Contract liabilities are liabilities that arise from certain services sold by the Group's subsidiary Identicare Limited. Historically, and in return for a single upfront payment, Identicare Limited committed to providing certain database, pet reunification and other support services to customers over the life of the pet. 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 eight and 14 years.

Throughout 2022, Identicare Limited also operated both monthly and annual subscription-based services to pet owners, with income recognised accordingly over the period of the subscription.

Movements in the Group's contract liabilities tables outstanding:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Balance at the beginning of the year	**843**	790
Contract liabilities to following years	**418**	170
Release of contract liabilities from previous years	**(377)**	(117)
Balance at the end of the year	**884**	843

The contract liabilities fall due as follows:

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Within one year	**512**	168
After one year	**372**	675
Balance at the end of the year	**884**	843

15. Number of shares to be disclosed

Share Capital

	For the year ended 31 December	
	Unaudited	
Number of shares	**2022**	2021
Allotted, called up and fully paid ordinary shares of 20p each	**60,092,161**	60,092,161

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Allotted, called up and fully paid ordinary shares of 20p each	**12,019**	12,019

The following share transactions have taken place during the year ended 31 December 2022:

	For the year ended 31 December	
	Number of shares	£'000
At 1 January 2022	60,092,161	12,019
At 31 December 2022 (Unaudited)	**60,092,161**	**12,019**

Dividends

	For the year ended 31 December	
	Unaudited	
	2022	2021
	£'000	£'000
Ordinary final dividend as at 31 December 2020 of 2.0p per share	**–**	1,201
Ordinary interim dividend paid as at 31 December 2021 of 2.0p per share	**–**	1,202
Ordinary final dividend as at 31 December 2021 of 2.4p per share	**1,442**	–
Ordinary interim dividend paid as at 31 December 2022 of 2.0p per share	**1,202**	–
	2,644	2,403

An interim dividend of 2.0 pence per share was paid in November 2022.

The Board is proposing a final dividend of 2.4 pence per share (2021: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2023, the final dividend will be paid on 14 July 2023 to shareholders whose names are on the Register of Members at close of business on 16 June 2023. The ordinary shares will become ex-dividend on 15 June 2023.

16. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2022:

	Unaudited As at 31 December 2022 £'000	As at 31 December 2021 £'000
Buildings	**1,639**	579
Vehicles	**1,257**	1,079
Other	**28**	-
Total right-of-use assets	**2,924**	1,658
Current lease liabilities	**852**	723
Non-current lease liabilities	**2,159**	996
Total lease liabilities	**3,011**	1,719

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

	Land and buildings	Vehicles	Other	Total
	£'000	£'000	£'000	£'000
Acquisition value/cost				
As at 1 January 2021	1,570	2,029	84	3,683
Additions	336	881	-	1,217
Disposals	(286)	(425)	(63)	(774)
Transfers	3	-	(3)	-
Currency Translation	(84)	(134)	(2)	(220)
Contract modifications	(12)	(61)	-	(73)
As at 31 December 2021	1,527	2,290	16	3,833
Additions	1,343	678	30	2,051
Disposals	(855)	(415)	(14)	(1,284)
Currency Translation	104	128	1	233
Contract modifications	(5)	75	-	70
As at 31 December 2022 (Unaudited)	**2,114**	**2,756**	**33**	**4,903**
Depreciation				
As at 1 January 2021	**(739)**	**(1,071)**	**(83)**	**(1,893)**
Depreciation charge for the year	(428)	(634)	(4)	(1,066)
Disposals	173	393	63	629
Transfers	(6)	-	6	-
Contract modifications	9	31	-	40
Currency translation	43	70	2	115
As at 31 December 2021	(948)	(1,211)	(16)	(2,175)
Depreciation charge for the year	**(358)**	**(662)**	**(3)**	**(1,023)**
Disposals	**855**	**415**	**14**	**1,284**
Contract modifications	**-**	**27**	**-**	**27**
Currency translation	**(24)**	**(68)**	**-**	**(92)**
As at 31 December 2022 (Unaudited)	**(475)**	**(1,499)**	**(5)**	**(1,979)**
Net book value				
At 31 December 2022	**1,639**	**1,257**	**28**	**2,924**

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

	Lease Liability
	£'000
As at 1 January 2022	**1,719**
Additions	2,066
Disposals	(6)
Interest expense	90
Payments	(1,086)
Modifications	82
Currency translation adjustment	146
As at 31 December 2022 (Unaudited)	**3,011**

The following amounts are recognised in the income statement:

	Unaudited For the year ended 31 December 2022 £'000
Depreciation expense of right-of-use assets	(1,023)
Interest expense on lease liabilities	(90)
Gain on disposal of IFRS 16 assets	6
Expense relating to short-term leases and low-value assets	(108)
Total amount recognised in the income statement	**(1,215)**

Cash-flows relating to leases are presented as follows:

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

17. Contingent liability relating to the sale of Medini NV

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 part of the claim, amounting to €157,836 (£139,988), may be valid. Following various discussions and correspondence, during which the parties were unable to reach an 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 ongoing. Other than the €157,836 (£139,988), which may be valid, and is written off from the outstanding other receivables from Vetdis, no further provision in respect of this matter has been included in the financial statements.

18. Restatement of comparative figures

Intangible Assets (note 11) has been restated to reclassify 'Assets under construction' that were previously presented as Property, Plant and Equipment as Intangible Assets as they related to research and development. The impact on the balances for the year ended 31 December 2021 and 1 January 2022 is as follows:

	As at 31 December 2021 £'000
Previously stated	
Intangible assets	29,719
Property, plant and equipment	626
Adjusted	
Intangible assets	494
Property, plant and equipment	(494)
Restated	
Intangible assets	30,213
Property, plant and equipment	132

19. Annual Report

This unaudited preliminary financial information is not being sent to Shareholders.

A further announcement will be made when the Annual Report and Accounts for the year ended 31 December 2022 will be made available on the Company's website and copies sent to shareholders.

Further copies will be available to download on the Company's website at: www.animalcaregroup.com and will also be available from the Company's registered office address: Moorside, Monks Cross, York, YO32 9LB, United Kingdom.