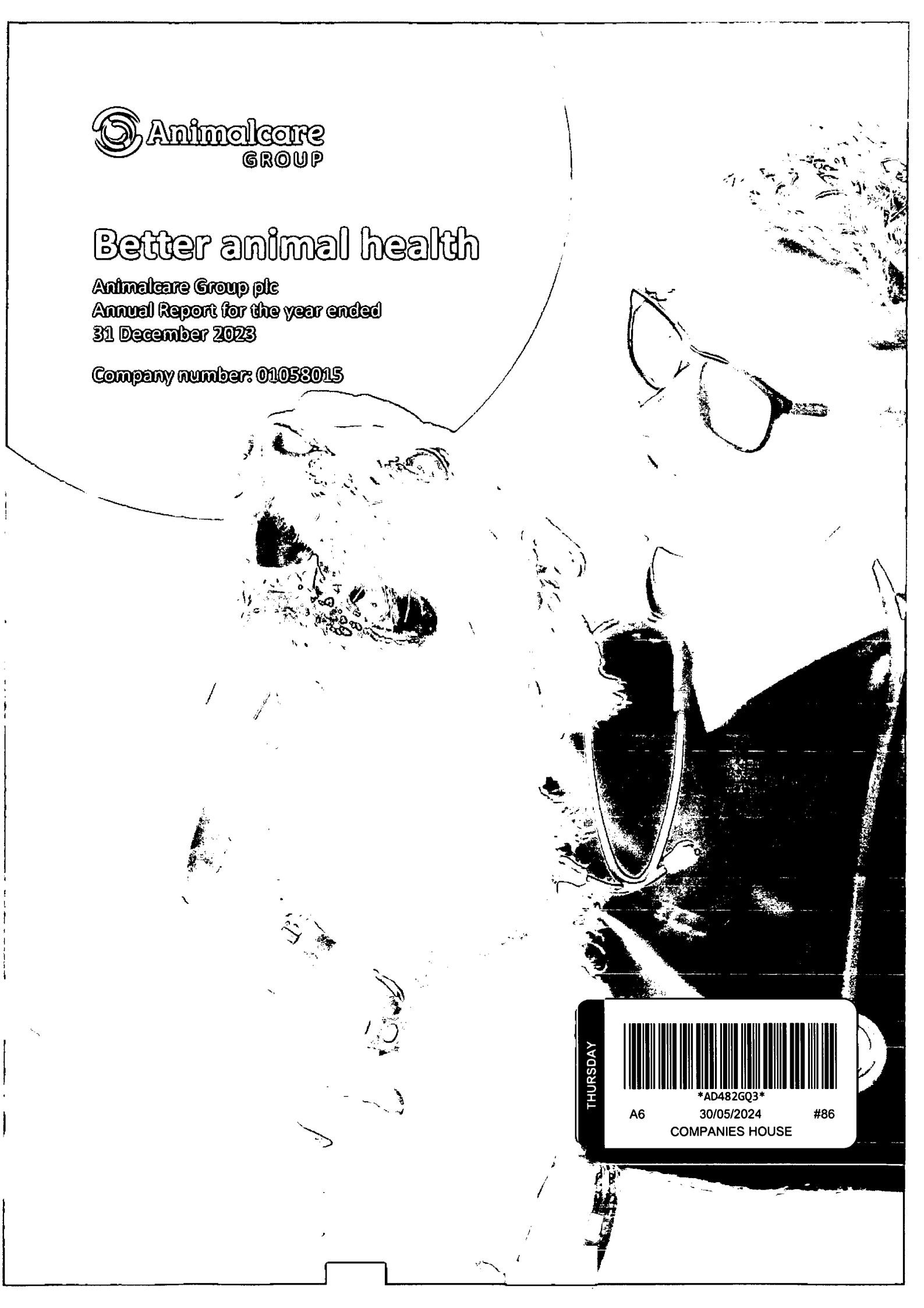




Better animal health

Animalcare Group plc
Annual Report for the year ended
31 December 2023

Company number: 01058015

A large, high-contrast black and white photograph of a dog, possibly a Labrador, wearing a pair of glasses. The dog is looking upwards and to the right. The image is grainy and has a high-contrast, almost stencil-like quality.

THURSDAY



AD482GQ3

A6 30/05/2024 #86

COMPANIES HOUSE

Introducing Our 2023 Annual Report

Animalcare Group plc is an international, development-focused sales and marketing organisation driven by a collective belief that healthy animals can have a hugely beneficial effect on their owners and wider society.

Listed on the UK's AIM market, Animalcare has a direct commercial presence in seven European countries and exports to around 40 countries in Europe and worldwide. The Group is focused on growing its business over the long term by bringing new and innovative animal health products to market through its own development pipeline, partnerships and via acquisition.



OUR CHOSEN CATEGORIES

Companion Animals

Our biggest segment accounting for around 70% of Group revenues. This fastest growing category of the animal health market is the main focus for our investment in new product development.

90m¹

EUROPEAN HOUSEHOLDS
OWN A PET

➞ Read more on page 04

Equine

A category often characterised by high spend per animal and specialist knowledge of the health needs of the patient. Equine revenues represent around 8.5% of Group turnover.

2.8%¹

PERCENTAGE OF ANIMAL
HEALTH SPEND IN EUROPE

➞ Read more on page 04

Production Animals

An important segment of the animal health market for the Group. Production Animals activities are concentrated in Spain and Portugal and account for 21% of Group revenues.

743m¹

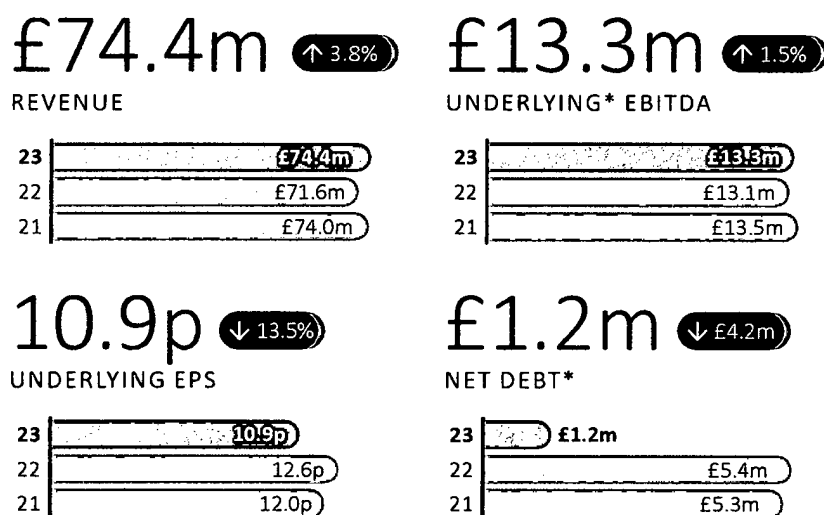
NUMBER OF LAYING HENS,
PIGS, GOATS, BOVINES AND
SHEEP ACROSS EUROPE

➞ Read more on page 04

¹ <https://animalhealth europe.eu/facts-and-figures/>

Financial highlights

Over the course of 2023, Animalcare delivered increased revenue and gross margins with positive cash generation, underpinning the Board's recommendation to increase the final dividend per share to 3.0 pence per share, increasing the full year dividend per share by 13.6% to 5.0 pence per share. With our strong balance sheet, significantly strengthened post year end through the disposal of Identicare, the Group is better placed than ever to accelerate growth in the future.



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

Strategic and operational highlights

- Commercial focus on larger-selling, more profitable products in the portfolio contributes to further strengthening of gross margin
- Plaqtiv+ dental range continued to respond positively to sales and marketing activities across markets
- Daxocox recorded double-digit growth across direct sales territories
- Return of Danilon to Group's sales and marketing contributes to increased revenues
- Increased internal resource and focus to aid pursuit of inorganic growth opportunities
- The Group's operational capability has been reinforced by the organisational changes and investments in people
- Early-stage VHH antibody collaboration and licensing programme with Orthros Medical progresses as targets expanded into horse species
- Majority stake in Identicare Ltd sold post year end for £24.9m
- Senior Independent Director, Ed Torr to assume role of Non-Executive Chair following Jan Boone's decision to stand down from the Board post year end. Ed brings extensive knowledge of the Company and the veterinary pharmaceutical industry to the position

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Chair's Statement



JAN BOONE
Non-Executive
Chair



The solid financial position of the Group, backed by strong operational capability, give us the confidence to continue investing, organically or inorganically, in our long-term growth strategy.

Animalcare Group performed strongly over the course of 2023 with a return to revenue growth, increased gross margins and a healthy balance sheet as we maintain focus on execution of our long-term growth strategy.

The animal health markets in which we operate continued to demonstrate their resilience and attractive fundamentals despite a normalisation in rates of demand and the effect of inflationary pressures. Total revenues increased by around 3.8% to £74.4m (2.5% at constant exchange rates).

Helping to drive this top line growth were recently launched products such as our Plaqtiv+ oral health range, which is proving popular with vets and pet owners alike, while Daxocox recorded double-digit growth across our direct sales operations. Additionally, the return of equine anti-infective Danilon to the Group's sales and marketing control also contributed to growth, as did the Identicare pet microchipping and consumer services business.

Gross margins expanded by 1.5% to 58.3% supported by our ongoing focus on the larger selling, more profitable brands in our portfolio and the effects of targeted pricing measures to help offset the impact of inflation during the period. Underlying EBITDA was £13.3m, reflecting investment in our business, chiefly in people-related overheads.

A cash conversion rate of approximately 86% supported the ongoing reduction in debt, arriving at a net cash position of £1.7m at the year end before accounting for IFRS 16 leases. Symbolically, this is an important achievement for the Group, but most significantly it equips us with additional flexibility and financial firepower to continue pursuit of investment opportunities that can grow our business.

Our balance sheet position was further strengthened in February 2024 when we announced the disposal of our majority stake in Identicare Ltd for a cash consideration of £24.9m. The sale of this non-core asset represents a significant crystallisation of value for the Group and its shareholders and validates the decisions taken by the Company to instil new leadership and with this, a strategic repositioning of the business to make it attractive to specialist investors. The disposal of Identicare significantly strengthens the balance sheet of the Group and enables us to accelerate our organic and inorganic growth initiatives and deliver long-term value creation for shareholders. Following the transaction, the Group's net cash position was around £27.0m.

In 2022 we reached an agreement with Netherlands-based Orthros Medical covering a licensing and collaboration deal to explore the utility of VHH antibody technology as an innovative treatment for canine osteoarthritis. The programme is progressing well and we are extending the scope of the work to explore the potential benefits in horses. While these are still early days for the collaboration, we believe this pipeline project represents an exciting and emerging area of science with real therapeutic promise.

In 2021 we shared specifics of our commitment to the environmental, social and governance (ESG) pillars of sustainable development. We believe that all organisations, large or small, have a duty to operate in a responsible manner in everything they do. The framework we laid out two years ago reflects the material needs and interests of our stakeholders and continues to guide us on our journey at the most senior levels of our Group as we grow our business.

Despite the current uncertain macroeconomic environment, we continue to be optimistic about the prospects of our business. The solid financial position of the Group, backed by a strong operational capability, give us the confidence to continue investing in our long-term growth strategy.

The Group's resilience, trading strength and solid financial position supports the Board's decision to propose a final dividend of 3.0 pence per share, increasing the full year dividend per share by 13.6% to 5.0 pence per share.

As you will have seen, my decision to retire from the Animalcare Board was announced on 9 April 2024. It has been an honour to serve this Company as chair for the last seven years, but I believe that the time has come for me to pass the baton. At the conclusion of the 2024 Annual General Meeting and subject to shareholder approval of his re-election as a director, my responsibilities as Non-Executive Chair will transfer to Ed Torr, our Senior Independent Director.

Ed's extensive experience of the veterinary pharmaceutical industry combined with his proven senior leadership capabilities make him an ideal candidate for the role of Chair as the Group continues to focus on delivery of our growth strategy. Ed joined the Animalcare Board in 2017 after an impressive management career that included 13 years as Commercial Director on the Board of Dechra Pharmaceuticals plc where he was responsible for the integration of several major acquisitions and global licensing and launches of key brands. With Ed's knowledge of Animalcare and, more widely, of the veterinary pharmaceutical industry, the Group could not be in better hands as we continue to focus on delivery of our strategy.

There's no doubt that our people drive our success. The positive progress we made in 2023 was delivered through their efforts and it's important to recognise our colleagues for their hard work and commitment. I'd also like to thank you, our shareholders, for your continuing support as we grow our Company by striving for better animal health.

JAN BOONE

Non-Executive Chair

11 April 2024



Our Marketplace

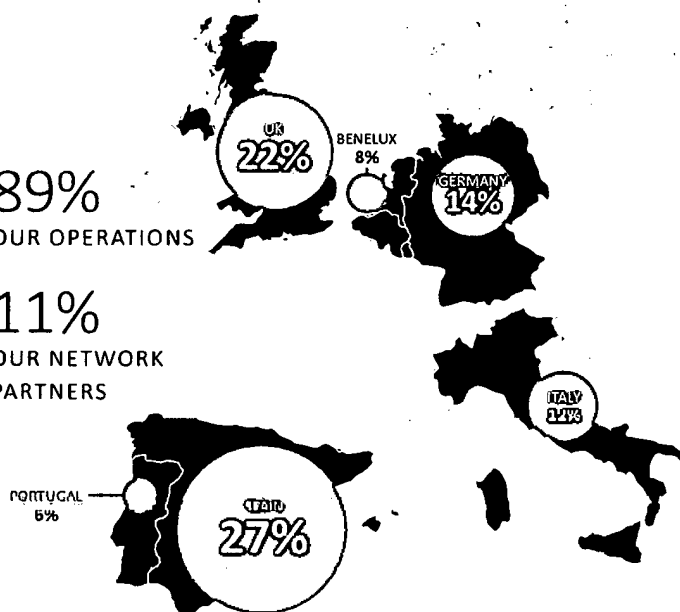
We operate in three categories within the veterinary pharmaceutical market: Companion Animals, Equine and Production Animals.

Animal health markets again demonstrated their strength and resilience as demand returned to more normal pre-pandemic levels across Europe despite cost-of-living increases caused by shocks to the global economic system.

Europe, which accounted for 98% of our revenue in 2023, is the second largest market for animal health and represents about a third of global sales. We sell our products either through our direct sales teams or distributors in all EU countries as well as the UK, Switzerland, Norway and Ukraine. We export to 16 countries outside Europe including Australia, New Zealand, Japan, Korea, Hong Kong, Brazil and Israel and are actively looking to increase our global footprint in the coming years.

89%
OUR OPERATIONS

11%
OUR NETWORK
PARTNERS



ANIMAL SECTORS

Companion Animals

This category includes dogs, cats, small mammals, aquatic and non-food producing avian. Companion Animals accounts for approximately 49% of animal health sales in Europe, a 3% increase over 2022², reflecting the marked growth in pet numbers during the pandemic

Demand drivers

- Increase in the number of pets
- Longer life expectancy of pets
- Move to smaller breeds of dogs
- Increased "humanisation" of pets

Production Animals

Livestock (cattle, sheep, pigs, etc.) account for approximately 25% of animal health spend in Europe; poultry and avian around 10% of sales²

Demand drivers

- Increased global demand for protein primarily caused by human population growth
- Increasing industrialisation of meat and milk production combined with heightened animal welfare expectations
- Regulatory restrictions on widespread use of antibiotics to combat spread of antimicrobial resistance

Equine

Equine accounts for just under 3% of the European market² and is typically served by companies with specialist products and services

Demand drivers

- Equine owners demand increasingly specialised services
- Increasing demand for medical care for horses
- Impact of inflation on costs of ownership

² <https://animalhealth-europe.eu/about-us/annual-reports/2023-2/key-figures-2023/>

³ <https://animalhealth-europe.eu/about-us/annual-reports/2022-2/key-figures-2022/>



Trends in the animal health market:

TREND	OUR RESPONSE	
High levels of pet ownership	Around 90m European households own a companion animal. The number of pets grew markedly during the pandemic as more people spent more time at home. Eventually, the increase in young animals is expected to feed into a larger geriatric cohort with associated health demands.	Animalcare is seeking innovative technologies that can address the growing need for effective treatments among Companion Animals. The R&D licensing and collaboration agreement with Orthros Medical, centred on preclinical VHH antibody candidates, is a good example, as is Daxocox. Link to strategic priority:   
Increased spending on pets	The percentage household spend on pet health has increased over recent years as newer, more innovative treatments become available. Inflationary pressures have had a relatively small impact on this trend.	We continue to provide an attractive portfolio of pharmaceutical products, primarily aimed at the Companion Animals segment. Where cost of goods has increased significantly we have taken targeted pricing measures while remaining mindful of our competitive position. Link to strategic priority:   
Sustainability	Globally, increases in demand for animal-based protein tend to be driven by human population growth and characterised by a shift to different sources such as poultry and fish industries. We expect to see a reduction in antibiotic use and a move to less intense production systems.	Our portfolio is less dependent on antibiotics and now features treatments that use alternative solutions – such as antibiofilm technologies from our investment in STEM – to treat infections. Link to strategic priority: 
Small dog breeds	Smaller dogs are expected to remain popular. Though dosing per head is lower in more compact breeds, they tend to live longer than larger canines. This will result in greater focus on therapies suited to ageing pets.	Our portfolio includes preventative treatments such as Plaqtiv+ and microbiome treatments, which have a longer potential utility in such animals. Drugs for geriatric-related conditions have a particular utility in dogs with a longer lifespan. Link to strategic priority:  
Humanisation of pets	More and more owners regard their pets as part of the family. This “humanisation” tends to elevate pet care on the list of spending options, moving from discretionary to essential.	Our Plaqtiv+ and OraStripDx products help dogs and cats achieve improved dental health and wellbeing. In 2023 we launched ProGlan and ProHibex, microbiome-based products that address canine gut-related quality-of-life issues. Link to strategic priority:   
Innovation driving growth	Much of the growth momentum in the animal health market is coming from differentiated pharmaceutical products, a notable example being the rapid uptake of a recently launched NGF monoclonal antibody therapy for canine and feline osteoarthritis.	When assessing pipeline opportunities, we seek to leverage our science focus and development capability to generate innovative treatments that have the potential to advance veterinary practice. Link to strategic priority: 
Customer consolidation	Various elements of the veterinary value chain have been coming together to unlock synergies and options to expand. The growth of corporate veterinary practices to loosely formed buying groups across Europe represents both risk and opportunity for animal health companies.	Animalcare has upped headcount to address specific needs of these consolidated and aligned businesses. In Europe, customer decisions continue to be made at a country level. Our structure reflects that. Link to strategic priority: 

STRATEGIC PRIORITIES

 Organic growth
  Inorganic growth
  New product development

Business Model – How We Create Value

By focusing our resources on the development, supply and marketing of products and services to the veterinary profession, our business model creates value for a range of stakeholders

OUR KEY RESOURCES

People

Having the right people, capabilities and engagement across the organisation is fundamental to delivering our strategy and the long-term success of the Group.

Industry knowledge

We have extensive knowledge of the Companion Animal, Equine and Production Animal markets in which we operate and the regulations that govern them. More than 20% of our people are qualified vets.

Customer relationships

The relationships with the individual vets and veterinary groups that represent our core customers are key. Our sales force has extensive experience and knowledge of their markets and products.

Partnerships

The Group has developed a series of critical partnerships that help us strengthen our pipeline, commercialise innovative products and establish research and manufacturing capabilities and capacity.

Balanced portfolio

Animalcare operates a portfolio of around 150 brands. We increase the quality of this portfolio by focusing on a smaller number of bigger, higher-margin brands with significant growth potential.

Financial platform

Our solid financial platform enables us to increase investment and leverage our stronger base to deliver future growth and value to our shareholders.

OUR KEY ACTIVITIES



Our core activities combine to create sustainable growth and long-term value for our stakeholders.

- We develop and commercialise novel pharmaceutical products for the animal health market. These are developed in-house with the help of contract research organisations, acquired from other companies or in-licensed from partners.
- Outside our direct geographic operations we seek to commercialise our products through international partnerships.
- We manufacture our products through a network of specialist contract manufacturing organisations.
- We supply products direct to our customers and via a network of specialist veterinary wholesalers and distributors.
- Using our sales and marketing capabilities, we sell products to veterinary practices and veterinary groups.
- The cash we generate from these activities helps fund investment in our people and in the pipeline of new products.

We are a business driven by our values, which are at the core of our activities:



One team



Passion

OUR STRENGTHS

Strong operational platform

We are equipped with the right capabilities, knowledge and processes to succeed in this sector.

Financial firepower

We have the financial flexibility and resources to invest in organic and inorganic opportunities to deliver our growth ambitions.

Resilient industry

We operate in markets that have attractive fundamentals with long-term growth potential.

VALUE CREATED FOR STAKEHOLDERS

Employees

Our people benefit from the ability to improve their skills and work in a challenging, innovation-driven and forward-thinking organisation.

Customers

Animalcare seeks to provide a choice of innovative and trusted products and services to support veterinary professionals and other customer stakeholders. Our agile business model and close customer relationships help ensure we are aligned with the changing needs of our markets.

Shareholders

Through execution of our growth strategy, we aim to consistently deliver strong and resilient financial performance for our shareholders, generating attractive returns over the long term.

Keepers of animals

Our veterinary products and services help maintain or improve the health and wellbeing of animals across our markets. That brings huge benefits to owners and wider society.

Suppliers

The Group does not own manufacturing facilities so it works with third-party manufacturers to supply finished products. We engage with these suppliers to develop and maintain trusting long-term relationships, creating mutual value.

Partners

Our partnerships are wide ranging in scope and help ensure the success and effective operation of our business. We create value through long-term collaborations on mutually agreed terms.



Integrity



Taking ownership



Have fun

Our Strategy

We aim to grow our business sustainably through investment in organic and inorganic opportunities in expanding veterinary markets.

OUR STRATEGY IS GUIDED BY THREE CORE OBJECTIVES THAT ENABLE US TO GROW

Organic growth



We develop and nurture new and existing veterinary brands that deliver sustainable revenue with attractive margins

Inorganic growth



We pursue external opportunities that enhance revenue and profitability, expand geographic reach and scale and strengthen the pipeline through early and late-stage in-licensing

New product development



We leverage our science focus and development capability to generate innovative treatments that have the potential to advance veterinary practice

How inorganic growth fuels organic growth

External investment through the likes of M&A or sustainable commercial alliances can add to the make-up and reach of our existing product portfolio

How inorganic growth fuels new product development

Through partnering deals with science-based organisations we can develop our pipeline of innovative veterinary treatments

UNDERPINNED BY OUR STRONG FOUNDATIONS

People

We have developed a highly capable team with an intimate knowledge of animal health customers across our markets

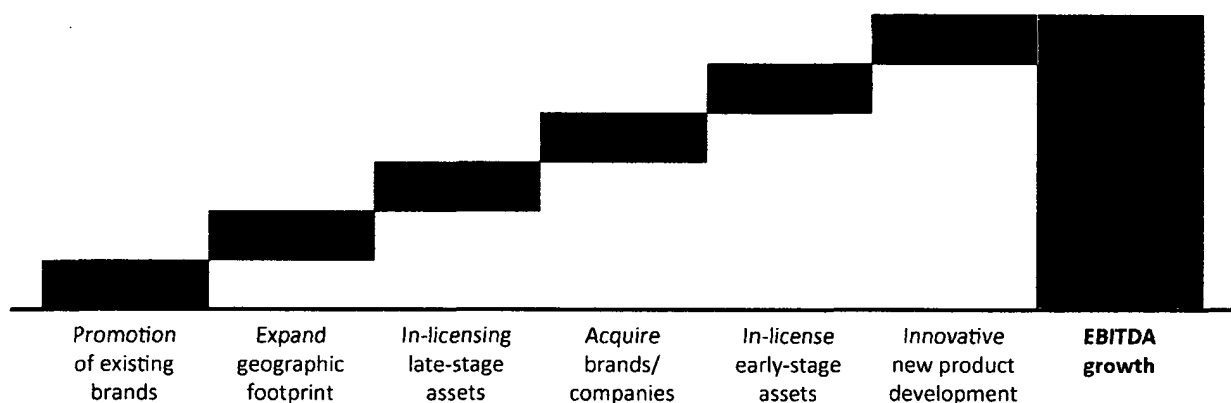
Strong finances

Our strong balance sheet provides the firepower and flexibility to pursue inorganic and organic growth opportunities

Operational excellence

We have mature capabilities and processes to capitalise on the opportunities that we identify

HOW WILL THIS CONTRIBUTE TO VALUE GROWTH



**ORGANIC GROWTH**

Developing and nurturing new and existing veterinary brands that deliver sustainable revenue with attractive margins

Key initiatives

- Optimise the quality of the portfolio; focus on smaller number of bigger-selling, higher-margin brands

Progress

- 3.8% increase in revenue in 2023, benefiting from sales growth generated by new products
- Investment in sales and marketing drives double-digit increase in Daxocox uptake in owned operations

LINKS TO RISKS

A B C G H I J

LINKS TO KPIS

1 2 3 4 5 6

**INORGANIC GROWTH**

Pursuing external opportunities that enhance revenue and profitability, expand geographic reach and scale and strengthen the pipeline through early and late-stage in-licensing

Key initiatives

- Seek opportunities for geographic expansion, in-licensing of late- and early-stage products and the acquisition of products and businesses that generate value-creating growth
- Build commercial partnerships to exploit growing global markets

Progress

- Senior Executive Team (SET) resources dedicated to pursuit of business development opportunities
- Crystallisation of value from non-core asset with £24.9m sale of majority stake in Identicare Ltd post year end

LINKS TO RISKS

B C E J

LINKS TO KPIS

1 2 3 4 5 6

**NEW PRODUCT DEVELOPMENT**

Leveraging science focus and development capability to generate innovative treatments that have the potential to advance veterinary practice

Key initiatives

- Strengthen pipeline of differentiated products through partnerships, in-licensing and acquisitions

Progress

- VHH antibody research collaboration with Orthros Medical progressing well
- Initially focused on canine osteoarthritis, research scope now extended to horses

LINKS TO RISKS

B C D I J

LINKS TO KPIS

1 2 3 4 5 6

RISKS

- | | |
|--|--|
| A Market and economic risk | F Foreign exchange translation risk |
| B Competitor risk | G Supply chain risk |
| C Portfolio risk | H IT systems and cybersecurity risk |
| D Product development and launch risk | I Regulatory risk |
| E Financing/Treasury risk | J People risk |

KPIS

- | |
|--|
| 1 Revenue Growth |
| 2 Underlying cash conversion |
| 3 Basic underlying earnings per share ("EPS") |
| 4 Underlying EBITDA margin |
| 5 New product revenue |
| 6 Net debt to underlying EBITDA leverage |
| 7 Employee engagement |

Our Strategy in Action

CASE STUDY

Flexible dealmaking combined with effective execution of commercial strategy

Overview

In the spring of 2022, we introduced Plactiv+ to an enthusiastic response from our customer base. Animalcare's range of veterinary recommended oral health products, Plactiv+ is now among the fastest-growing brands in our portfolio.

The launch and subsequent strong commercial start for Plactiv+ required creative thinking and a flexible approach, highlighting key elements of our strategy in action.

Inorganic growth

In early 2020, while researching opportunities that would complement Animalcare's well established and highly successful Orozyme dental health franchise, the Group's business development team identified a promising lead. Canada-based Kane Biotech, which specialises in the deployment of anti-biofilm technology to combat infection (without recourse to antibiotics), was looking for a partner to help develop and commercialise animal health products across European markets.

By the time both sides started to explore the detail the pandemic hit. Doing a deal would have to be delivered without meeting face to face: a first for Animalcare. Despite this unprecedented challenge we were able to remotely hatch out an innovative agreement that gave the Group a one-third

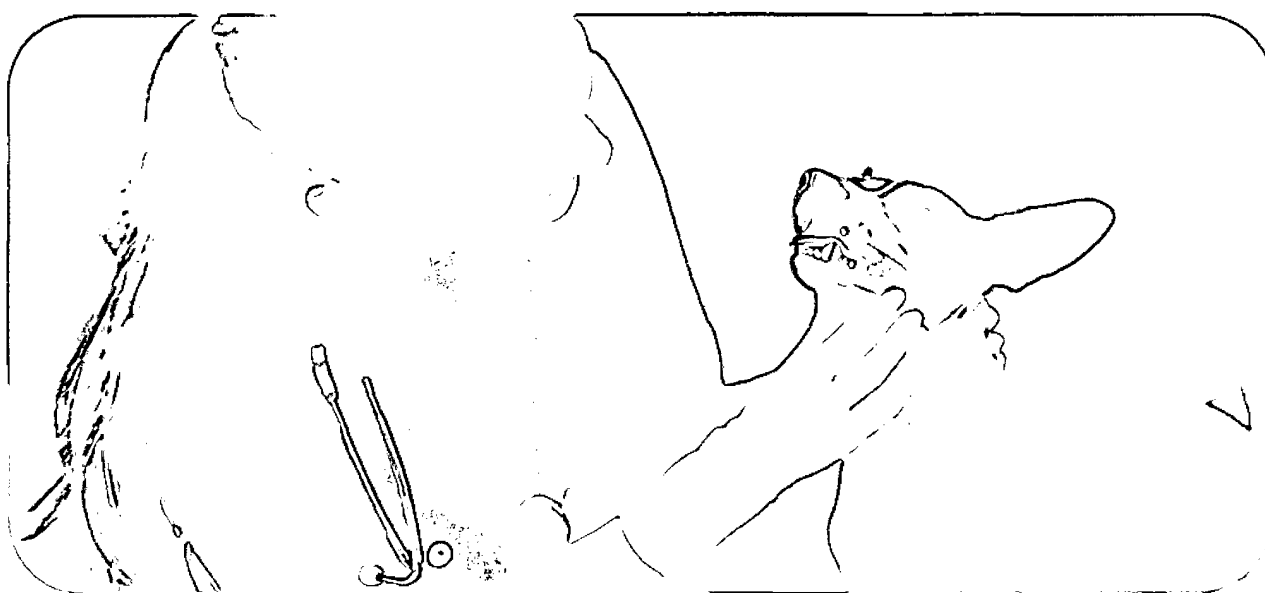
stake in the STEM Animal Health Inc. joint venture together with the license rights to commercialise Kane's patented coactive[™] and DispersinB[®] products in global veterinary markets outside of the Americas.

Contributing to portfolio

The Plactiv+ oral health range is the first brand to result from the STEM joint venture. Having secured the scientific endorsement of the Veterinary Oral Health Council (VOHC), a prestigious third-party accreditation for pet and humane products, Animalcare teams set about executing their sales and marketing strategy.

Alongside the support from key opinion leaders and the VOHC is a crucial consumer insight: owners have many different ways of ensuring good dental hygiene for their pets so they want different methods to choose from. That's why Plactiv+ offers a range of homecare products built on the patented coactive[™] technology. These include wipes, drinking water additives, toothpastes and sprays. And there are plans for chews to follow.

It's an approach that is proving popular as vets recommend Plactiv+ to an increasing number of their customers. Sales across the Group's direct operations were ahead of internal forecasts in 2023 and interest from further afield is expected to boost the export business.



Plactiv+ provides a range of homecare oral health products built on patented anti-biofilm technology.



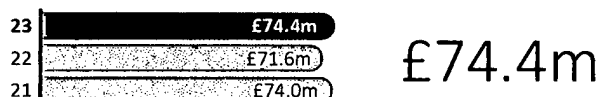
STRATEGIC REPORT

Amnatis Group de Arona

Our Key Performance Indicators

Financial KPIs

REVENUE GROWTH



Definition:

Organic revenue growth: including new products versus prior year, excluding the impact of acquisitions and disposals.

Why we measure this:

Revenue growth is an important barometer of the Group's success in delivering its strategy and is a key component of growing our profits and cash flow.

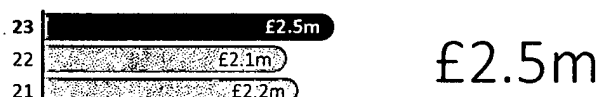
Commentary on performance:

Revenue for the year was £74.4m (2022: £71.6m), an increase of 3.8% at AER (2.5% at CER).

Links to Strategy:



NEW PRODUCT REVENUE



Definition:

Revenue from new products launched in the last two financial years.

Why we measure this:

New product revenues are a key driver of growth in Companion Animals and for maintaining our strong presence in Production Animals.

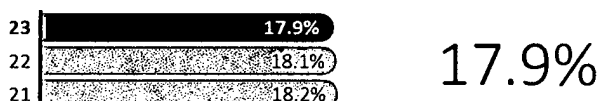
Commentary on performance:

Growth from newly introduced products contributed £2.5m of sales, principally driven by Plaqtiv+ and the introduction of a number of distribution products.

Links to Strategy:



UNDERLYING EBITDA MARGIN



Definition:

Underlying EBITDA as a percentage of sales.

Why we measure this:

This is a measure of the operating efficiency of the Group with focus on translation of sales growth to profit.

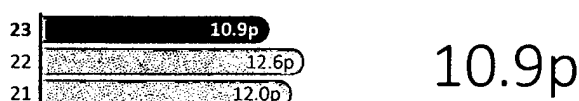
Commentary on performance:

Underlying EBITDA margin approximately in line with prior year reflecting improved gross margins while investing in our platform.

Links to Strategy:



BASIC UNDERLYING EARNINGS PER SHARE



Definition:

Underlying profit after tax divided by the weighted average number of shares.

Why we measure this:

Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders.

Commentary on performance:

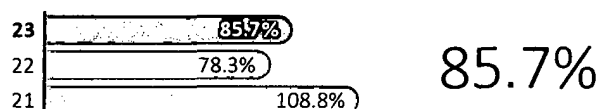
Underlying EPS has decreased versus 2022 largely due to the prior year benefiting from a very low effective tax rate of 16.4%.

Links to Strategy:



Non-financial KPIs

UNDERLYING CASH CONVERSION

**Definition:**

Cash generated from operations as a percentage of underlying EBITDA

Why we measure this:

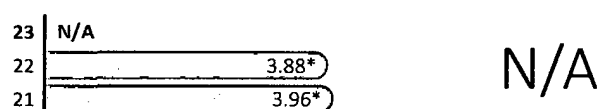
Our quality of earnings is reflected in our ability to turn underlying EBITDA into cash, an important enabler of investment in our innovative pipeline and people

Commentary on performance:

Underlying cash conversion has averaged c90% in the last three financial years demonstrating our ability to generate strong and sustained levels of operating cash

Links to Strategy:

EMPLOYEE ENGAGEMENT

**Definition:**

A measure of employee engagement based on the well-established Gallup Q12 index.

Why we measure this:

Employee engagement surveys enable comparison between the Group and other companies. The primary purpose of the survey is to guide leadership in how best to improve employee engagement.

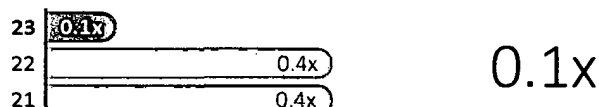
Commentary on performance:

Following completion of the annual engagement survey for FY22, the Group has implemented targeted action plans across various countries and group functions to enhance specific areas such as communication, reward, development and resilience. During 2024, we plan to launch "pulse surveys" that provide real-time feedback on employee engagement in the lead up to initiating the next employment engagement survey in early 2025.

Links to Strategy:

* Gallup Q12 engagement score.

NET DEBT TO UNDERLYING EBITDA LEVERAGE

**Definition:**

Leverage is net debt (total debt including IFRS 16 liabilities less cash balances) divided by underlying EBITDA.

Why we measure this:

We seek to maintain a strong balance sheet with a maximum leverage target of two times underlying EBITDA to allow capacity for investment in future growth.

Commentary on performance:

Net debt to underlying EBITDA leverage reduced to 0.1 times following another year of strong cash conversion.

Links to Strategy:

STRATEGIC PRIORITIES



Organic growth



Inorganic growth



New product development

Chief Executive Officer's Review



**JENNIFER
WINTER**
Chief Executive
Officer



Animalcare is better equipped than ever to drive growth over the long term, aided by a further strengthening of our balance sheet and growing organisational capabilities.

I'm pleased to report that 2023 was a positive year on several fronts for Animalcare. Over the 12-month period we delivered increased sales and gross margins across our operations while making progress against our strategic objectives. The Group is now better equipped than ever to drive growth over the long term, aided by a further strengthening of our balance sheet and growing organisational capabilities.

Strong performance

Group revenues totalled £74.4m, up 3.8% at actual exchange rates (2.5% at CER). Among the key contributors to this top-line growth were new products, notably annualised growth from the recently launched Plaqtiv+ range, demand for Danilon, our equine anti-inflammatory that reverted to Animalcare sales and marketing control from the beginning of 2023, and sales generated by the Identicare business.

In recent years we have focused our commercial attention on the larger-selling, more profitable products in our portfolio. Combined with carefully targeted pricing measures, this has helped deliver a 1.5% improvement in gross margins over the previous year. That also contributed to underlying EBITDA of £13.3m, up from £13.1m in the prior year, as we continue to make SG&A investments, primarily in the development of our people.

Positive revenue and margin performance alongside an improved cash conversion rate of approximately 86% (2022: approximately 77%) resulted in a strengthening of our balance to end the year in a net cash position before

accounting for IFRS 16 leases of £1.7m. This milestone for the Company equips us with greater financial flexibility and firepower to accelerate our strategy including through the pursuit of organic and inorganic investment opportunities.

Organic growth

Much of our success has been built on the strategic commitment to develop and nurture brands that offer sustainable revenues with attractive margins, thereby maximising the value of what we possess and the opportunities to add to our portfolio.

Our top selling brands represent an engine of organic growth for Animalcare. Revenues in 2023 were boosted in no small part by an enthusiastic customer response to our Plaqtiv+ dental health range, the first products to result from our STEM joint venture. Daxocox also continued to make headway in a competitive and innovative market, achieving a double-digit sales increase across our direct sales territories.

Each of our market segments saw revenue growth. Companion Animals was again the main driver of sales in absolute terms, while Equine benefited from our decision to return Danilon to the Animalcare fold, a decision that gives us more control over sales and marketing of this anti-inflammatory treatment. Production Animals, which remains an important part of our overall business, was up marginally on the prior year.



Inorganic growth

Pursuing external opportunities to drive sustainable growth is a strategic priority for the Group. This is reflected in the level of senior management focus dedicated to the identification and assessment of value-creating deals. Inorganic opportunities can manifest as M&A, in-licensing or partnering with the objective of expanding the make-up and reach of our existing portfolio or adding innovative new pharmaceutical products to the pipeline.

At all times Animalcare takes a disciplined approach to acquisitions and continues to see scope for further expansion with several prospects in development. We continue to identify plenty of opportunities giving us the confidence that we can execute attractive external deals aided by our strong financial platform.

Developing new products

Innovation is a key driver of growth in our industry. That's why we are increasing our R&D focus and capability on investigative drugs that we believe have the potential to change veterinary practice.

In 2022 we took a significant step to strengthen our novel pipeline in a pre-clinical collaboration and licensing deal with Orthros Medical, a Netherlands-based research company specialising in VHH antibody technology. Initially focused on treatment of osteoarthritic pain in dogs, we are now extending the investigative programme to horses. Overall, the project is progressing well and we are excited about the future potential of this area of medical science. Our development pipeline also features potentially value-creating lifecycle projects that aim to expand and extend the reach of products in our existing portfolio.

Strong foundations

Our future is being built on increasingly strong foundations. Financially, the reduction in our net debt from around £23.0m in 2019 to what was a net cash positive position of £1.7m at the 2023 year end, is a significant achievement and gives us more options as we continue to seek out value-creating opportunities.

Our balance sheet improved further in February 2024 with the disposal of UK-based Identicare Ltd. The sale of our majority stake in the non-core microchipping and pet owner-focused services company for £24.9m realised significant value for the Group and our shareholders. As a result, at the time of the announcement the Group's net cash position increased to around £27.0m.

I'm really proud of what we achieved after our decision to carve out the business under specialist leadership. The disposal was the logical next step for Animalcare, providing us with significant additional financial flexibility and resources

as we concentrate on growing our pharmaceutical-centred animal health business.

The skills, attitudes and values our people bring to the table are critical for delivery of our strategy. We have consistently invested in core skills, particularly in sales and marketing, and have adjusted our leadership as our marketplace and organisational needs evolve. Most recently, we have reconfigured the senior management team with the creation of a Chief Operating Officer to oversee the Group's pharmaceutical activities supported by a Group Finance Director. Operationally, I believe we are better placed than ever to drive future growth; we possess mature capabilities that match and support our ambitions.

Summary and outlook

In 2023, we delivered a strong set of results in line with the expectations of the market. Revenue growth, expanded gross margins and improved levels of cash conversion were all features of a positive performance for Animalcare.

Looking ahead to 2024, we will continue to push for profitable growth and cash generation in our existing operations as we focus on stepping up investment, whether inorganic or organic, to build our new product and R&D pipeline.

With our strong balance sheet, significantly enhanced through the post year end sale of Identicare, the Group is better equipped than ever to accelerate growth in the future.

I'd like to thank our people for driving such a positive performance in 2023 while wishing the Identicare team every success in the exciting next step in their journey.

Finally, I would also like to recognise the contribution of Jan Boone who has decided to stand down as Chair of the Board after seven years in the role. His support, advice and encouragement have been hugely valuable in the shaping and pursuit of our long-term growth strategy. I'm very much looking forward to working more closely with Jan's successor, Ed Torr, who as Senior Independent Director on the Board since 2017, has ideal credentials to take on the role of Non-Executive Chair. Ed's leadership skills have been honed over many years in the international veterinary pharmaceutical industry, most notably at Dechra Pharmaceuticals plc where his responsibilities spanned commercial operations, product development, manufacturing, licensing and launching of innovative global brands as well as the integration of key acquisitions into the business.

JENNIFER WINTER
Chief Executive Officer

11 April 2024

Chief Financial Officer's Review



03

The Group has returned to revenue growth and delivered a solid set of results, which alongside the very strong financial position following the sale of Identicare post year end, provides the platform and funding headroom to accelerate our strategy and deliver long-term value creation for shareholders.

Underlying and statutory results

To provide comparability across reporting periods, the Group presents its results on both an underlying and statutory (IFRS) basis. The Directors believe that presenting our financial results on an underlying basis, which 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

	2023 £'000	2022 £'000	% Change at AER
Revenue	74,351	71,616	3.8%
Gross Profit	43,346	40,659	6.6%
Gross Margin %	58.3%	56.8%	1.5%
Underlying Operating Profit	9,807	9,753	0.6%
Underlying EBITDA	13,327	13,131	1.5%
Underlying EBITDA margin %	17.9%	18.3%	(0.4%)
Underlying Basic EPS (p)	10.9p	12.6p	(13.5%)

Overall trading activity in 2023 reflected a normalisation in the rates of demand growth across our markets due to the changing macroeconomic environment and country-specific dynamics. The Group delivered an improved financial performance during the second half, returning to revenue growth in line with market expectations following a more challenging first half against a tough comparator for the prior period.

Group revenues improved to £74.4m (2022: £71.6m), an increase of 3.8% at AER (2.5% at CER). An analysis by product category is shown in the table below:

	2023 £'000	2022 £'000	% Change at AER
Companion Animals	52,214	50,217	4.0%
Production Animals	15,790	15,674	0.7%
Equine & other	6,347	5,725	10.9%
Total	74,351	71,616	3.8%

Revenue in Companion Animals improved by 4.0% to £52.2m, benefiting from sales growth generated by new products, which contributed £1.9m (2022: £2.1m), approximately half driven by Plaqtiv+ following its successful launch during Q2 2022. Identicare, our UK-based pet microchipping and consumer-focused services business, continued the strong momentum from FY 2022, with sales increasing by 34% to £3.6m. The Group continues to invest in sales and marketing activities to drive Daxocox uptake in our direct sales markets, with the expanding prescriber base delivering 16.7% revenue growth versus the prior year. These positive contributions to

revenue growth were partially offset by competitor dynamics against certain generic brands, cessation of distribution arrangements and disruption in supply of certain brands within the UK.

Production Animals revenues, which are chiefly generated by our Southern European and International Partners operations, were broadly in line with 2022 at £15.8m. The launch of a third-party distribution product in Spain, together with growth in a number of our larger-selling brands, were largely offset by phasing of orders and generic competition, notably within International Partners.

Equine and other revenues were £6.3m, with growth accelerating during the second half to 10.9%. This was principally driven by bringing Danilon, one of our largest products, back into the UK business in the second half of 2022, supported by focused sales and marketing resource.

The continuing commercial focus on our larger, higher-margin brands and services, together with a positive sales mix, are the key drivers of the 1.5% improvement in our gross margins. While the Group has been affected by input cost (COGS) 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, while maintaining our competitiveness. However, we remain alert to the accelerating inflationary pressures, notably around people, impacting our overall cost base as we progress through 2024.

Underlying EBITDA increased to £13.3m (2022: £13.1m), with EBITDA margins moderating to 17.9%. Underlying overheads, defined as gross profit less underlying EBITDA, increased during the year to £30.0m (2022: £27.5m), representing 40.4% of revenue compared to 38.4% in the prior year. People costs remain the largest component of our SG&A expenses, which increased by £1.5m, of which around 40% is inflation related. We continue to invest in building the skills and talent base that will drive our business forward and, during the year, we further aligned internal resources to accelerate delivery of our key strategic objectives, primarily sales and marketing excellence and the identification of potential M&A opportunities and the building of commercial alliances. The balance of the increase in overheads largely relates to R&D (Orthros), regulatory, quality, professional fees and IT licensing expenses.

The underlying effective tax rate of 26.6% (2022: 16.4%) has significantly increased versus prior year primarily reflecting the geographic mix of operating profits, level of non-deductible items and the prior year one-off impact of the recognition of tax losses in the UK (a non-cash item). We continue to review and optimise our tax efficiency due to changes in regional profit mix and the innovation tax relief environment.

Reflecting the points noted above, underlying basic EPS decreased to 10.9 pence (2022: 12.6 pence).

Overview of reported financial results

Reported Group profit after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £1.2m (2022: £2.0m), with reported earnings per share at 2.0 pence (2022: 3.3 pence per share).

	2023 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	2023 Reported results £'000	2022 Reported results £'000
Revenue	74,351	–	–	74,351	71,616
Gross profit	43,346	–	–	43,346	40,659
Selling, general & administrative expenses	(31,086)	(3,539)	(801)	(35,426)	(32,560)
Research & development expenses	(2,455)	(646)	–	(3,101)	(3,030)
Net other operating income/(expense)	2	–	(390)	(388)	(915)
Impairment losses	–	(22)	–	(22)	(918)
Operating profit/(loss)	9,807	(4,207)	(1,191)	4,409	3,236
Net finance expenses	(744)	–	–	(744)	(642)
Share in net loss of joint venture	(142)	–	–	(142)	(52)
Profit/(loss) before tax	8,921	(4,207)	(1,191)	3,523	2,542
Taxation	(2,376)	(207)	259	(2,324)	(577)
Profit/(loss) for the year	6,545	(4,414)	(932)	1,199	1,965
Basic earnings per share (p)	10.9p	–	–	2.0p	3.3p

Chief Financial Officer's Review CONTINUED

Non-underlying items totalling £5.4m (2022: £6.5m) relating to profit before tax have been incurred in the year, as set out in Note 4. This principally comprises amortisation and impairment of acquisition-related intangibles of £4.2m (2022: £5.4m). The current year charge encompasses amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV of £4.2m. In the prior year, a non-cash impairment charge of £0.9m was incurred in relation to research and development assets that formed part of the acquired development pipeline, the principal driver of which was manufacturing challenges that impacted resumption of supply at appropriate commercial returns.

The balance of the non-underlying charge, totalling £1.2m (2022: £1.2m) includes share-based payments in respect of Identicare Ltd of £0.8m (see Note 26) and costs relating to M&A and business development activities, including the disposal of Identicare post year end.

Dividends

An interim dividend of 2.0 pence per share was paid in November 2023.

The Board is proposing a final dividend of 3.0 pence per share (2022: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 20 June 2024, the final dividend will be paid on 19 July 2024 to shareholders whose names are on the Register of Members at close of business on Friday 21 June 2024. The ordinary shares will become ex-dividend on Thursday 20 June 2024. The deadline for the Dividend Re-Investment Programme (DRIP) election is Friday 28 June 2024.

The Board continues to closely monitor the dividend policy, recognising the Group's need for higher investment in organic and inorganic growth while maintaining dividend flow to deliver overall value to our shareholders.

Cash flow and net debt

The Group continues to generate strong cash flows, which we seek to reinvest into accelerating the strategy and delivering further value creation for shareholders.

Improved cash generation, ahead of the rate delivered in 2022, has further strengthened our balance sheet and with it our financial flexibility. The Group ended the financial year in a net cash position, pre IFRS 16 leases, of £1.7m (31 December 2022: £2.4m debt).

	2023	2022
	£'000	£'000
Underlying EBITDA	13,327	13,131
Working capital movement	(1,323)	(1,904)
Other	(1,077)	(1,798)
Net cash flow from operations	10,927	9,429
Non-underlying items	498	847
Underlying net cash flow from operations	11,425	10,276
Underlying cash conversion %	85.7%	78.3%

Underlying net cash flow generated by our operations increased to £11.4m (2022: £10.3m). Working capital increased by £1.3m in the year, the movement chiefly attributable to £3.3m decrease in payables offset by a higher than expected inventory reduction of £2.3m (2022: increase of £2.7m), driven by a combination of supply and sales phasing which we expect to normalise in the first half of 2024. Trade receivables were broadly in line with 2022.

We are again targeting a year-on-year improvement in cash conversion compared to 2023, in the range of 85–90%, which takes into account the post year end disposal of Identicare. As in the prior year, we expect the profile of our operating cash conversion to be lower in the first half versus second half, the key driver of which is the normalisation of our inventory as noted above.

Net debt decreased by £4.2m to £1.2m over the period. The net debt to underlying EBITDA leverage ratio was approximately 0.1 times (2022: 0.4 times), well below the maximum target of two times, enabling the Group to pursue external investment opportunities in support of its growth strategy.

	£'000
Net debt at 1 January 2023	(5,402)
Net cash flow from operations	10,927
Capital expenditure	(2,553)
Investments in joint venture	(306)
Net financing cashflows	(1,700)
Dividends paid	(2,644)
Foreign exchange on cash and borrowings	376
Movement in IFRS 16 lease liabilities	68
Net debt at 31 December 2023	(1,234)
<i>Comprising:</i>	
Net cash at bank	1,709
IFRS 16 lease liability	(2,943)

We continue to invest in new product development to strengthen our pipeline through a balance of early and later-stage opportunities and lifecycle products. We are placing an increasing emphasis on innovation in Companion Animals, while at the same time we are reviewing opportunities for novel and innovative additions to our equine portfolio.



Capital expenditure of £2.6m (2022:£2.9m) largely comprises investment in our product development pipeline and licence milestone payments to Orthros Medical and STEM totalling £1.6m. The balance of expenditure relates chiefly to investment in our business systems, including CRM, ERP and IT infrastructure within Identicare.

Borrowing facilities

As at 31 December 2023, the Group's total facilities of €51.5m, due to expire on 31 March 2025, consisted of 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.

Net cash at the year end, pre IFRS 16 leases, was £1.7m (31 December 2022: £2.4m debt) with the RCF unutilised, leaving headroom of £40.7m excluding the undrawn acquisition line.

As at 31 December 2023 and throughout the financial year, all covenant requirements were met with significant headroom across all measures.

We are currently in discussions with our four syndicate banks to increase our existing RCF from €41.5m to €44.0m with an extension of the maturity date to 31 March 2029. The acquisition line, which was drawn down by €3.4m at the year end, will be settled. We expect to complete the process by the end of April. The covenant requirements in the RCF will remain unchanged from the current RCF agreement, details of which are provided below.

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%.

Going concern

The Directors have prepared cashflow 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, in particular when taking into consideration the Group's financial position following the post year end sale of Identicare for £24.9m and 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 due to the cash proceeds received from the disposal of Identicare for the Directors to continue to adopt the going concern basis in preparing the financial statements without making assumptions concerning the extension of the RCF facility due to expire on 31 March 2025, and complies with all its banking covenants associated with the current committed facilities throughout the going concern assessment period.

Subsequent events

On 28 February 2024 we announced the disposal of our majority shareholding in Identicare to BG Bidco 21 Limited, a newly incorporated company owned by funds managed by Bridgepoint Advisors II Limited, for a cash consideration of £24.9m which was payable upon completion of this sale. This represents a significant crystallisation of value for the Group and with it, a significant further strengthening of our balance sheet.

On 11 April 2024 we announced that, subject to Kane Biotech Inc. shareholder approval, the Group will sell its one-third equity stake in STEM to Dechra Pharmaceuticals Limited (formerly known as Dechra Pharmaceuticals PLC) for a cash consideration of USD4.7m. Other items covered by the agreement will bring the total potential monetary value of the deal for the Group to approximately USD5.4m. The deal is expected to complete on 12 April 2024.

Summary and outlook

The Group has returned to revenue growth and delivered a solid set of results, in line with market expectations, with positive progress on gross margins and improved levels of cash conversion versus the prior year.

We will continue to drive profitable growth and cash flow in our existing operations while focusing on accelerating investment on developing and building our R&D and new product pipeline, underpinned by our confidence in our people, our strong operational and financial platform together with the resilience of the animal health sector in the light of continuing macroeconomic uncertainties across our markets.

With our strong balance sheet, significantly strengthened post year end through the disposal of Identicare, the Group is better placed than ever to accelerate growth in the future. Our capital allocation is closely aligned to our three strategic priorities. Alongside investment in organic growth, carefully selected and value-enhancing acquisitions and increasing the number of novel products in development are key factors in delivering the Group's long term growth strategy.

CHRIS BREWSTER

Chief Financial Officer

11 April 2024

Our Stakeholders

S172 statement

The following describes how the Directors have regard to the matters set out in Section 172(1) of the Companies Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so consider (among other matters):

- The likely consequence of any decision in the long term
- The interests of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Company

This section forms the Directors' statement under section 414CZA of The Companies Act 2006.

Key Board discussions and decisions

The Board received trading, financial and operational updates from the CEO and CFO and updates on team wellbeing, engagement and interactions with the Group's customers, suppliers and investors. An update was received from the Remuneration and Nomination Committee on proposals for incentives and remuneration and succession planning. The Audit and Risk Committee provided updates on the year-end audit process and a risk review carried out by the Group's third-party risk adviser.



Key discussions, decisions and considerations during the year to 31 December 2023 are set out below:

EMPLOYEE ENGAGEMENT

The Board received and considered a presentation on the results of the employee engagement survey and the areas of focus and action to be led by the People and Culture team for the coming year.

Considerations

Knowing that the Board will review and discuss the feedback provided by employees who completed the survey is critical for encouraging employees to engage in the process and for positive changes to be implemented. When determining which actions would be implemented, the Board considered the financial consequences and the impact on long-term value and growth for the shareholders.

OPERATIONAL REORGANISATION

In June 2023, the Board received and considered a proposal to further align our internal resources to the delivery of our key strategic objectives.

Considerations

The key objective underpinning the proposal was to accelerate the delivery of the Group's strategy, most notably sales and marketing excellence and M&A-related activity. A review of the organisational structure of the finance team was also undertaken to strengthen overall capabilities and ensure alignment with the new operational structure. The proposal included a restructure of the senior management team, with the creation of two senior roles: a Chief Operating Officer to oversee the Group's owned pharma operations and a Group Finance Director to business partner to the Chief Operating Officer as well as leading the day-to-day operational oversight of the finance team.

DIVIDEND

The Board agreed the proposed final dividend for 2022 of 2.4 pence per share and, in September, it agreed an interim dividend of 2.0 pence per share.

Considerations

The Board considered the Company's capital position and financial performance, together with the long-term investment needs of the business, while taking into account dividend flow to deliver overall value to our shareholders.

DELIVERY OF OUR STRATEGY

The Board received a number of presentations during the financial year from senior management including on current and forecast financial performance, budget FY24 and assessment of a number of potential M&A opportunities including the potential disposal of Identicare as detailed below.

Considerations

The Board considered the current and forecast financial performance, in particular revenue and EBITDA growth, cash conversion and R&D investment activity (notably Orthros), while assessing M&A opportunities to supplement organic growth.

DISPOSAL OF IDENTICARE

The Board considered a number of non-binding offers for the potential disposal of Identicare, recommending one offer conditional on completion of due diligence, the process for which commenced very shortly before the year end.

Considerations

The Board considered the merits of retaining the business versus potential disposal, concluding that the sale represented an opportunity to crystallise significant value for the Group and our shareholders from a non-core asset and with this, a significant strengthening of the balance sheet to provide additional financial flexibility to grow its core pharmaceutical-focused animal health business.

NEW PRODUCT DEVELOPMENT

During the year the Board was provided with updates on the status of the Group's new product pipeline, including progress of R&D programmes, associated risks and opportunities and funding requirements.

Considerations

The Board considered various aspects of the new product pipeline, from the innovative early stage VHH antibody collaboration with Orthros Medical, to lifecycle management projects designed to extend and enhance the competitiveness of the existing product portfolio.



Sustainability

Animalcare is committed to the environmental, social and governance (ESG) pillars of sustainable development.

In 2021 the Group began its sustainability journey. During 2022, led by the Chief Financial Officer, we created a separate, dedicated Sustainability Task Force (STF). This body advises on aspects of environmental and social sustainability while taking responsibility for the Group's sustainability agenda and strategy. Subsequently, we began to identify material issues of importance to our stakeholders and their potential impact on our business in order to guide our approach and our ability to thrive in a sustainable future over the coming years.

Throughout the year we have made progress in our understanding and quantification of climate risk while recognising we remain in the early stages of our journey. In our sustainability strategy we set out our wider programme of objectives for mitigating and adapting to the impacts of climate change.

Recognising the criticality of our sustainability agenda and the importance to the entire organisation, leadership has transferred to our CEO, Jennifer Winter, from 1 January 2024.

We have categorised activities under each of the three pillars of sustainability.



ENVIRONMENT

Climate change and greenhouse gas emissions

Under the umbrella of our strengthened Risk Management Framework, we designate climate change as a global issue with potential implications for the Group. Our initial work in this area addressed the carbon footprint of our UK operations, which achieved carbon neutral status in 2020. Building upon this work, we broadened our approach in 2022 to include Scope 1 and Scope 2 greenhouse gas emissions for Group-wide operations in Europe.

Our Group energy usage and carbon emissions

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

Scope	Activity	2023		2022 (restated ¹)	
		CO ₂ e	kWh	CO ₂ e	kWh
Scope 1	Company car travel	471	1,851,957	426	1,676,675
Scope 2	Grid supplied electricity	22	104,597	27	131,741
Intensity ratio (tCO ₂ e per £m revenue)		6.6		6.3	

¹ 2022 restated for revised conversion factors.

We have used the UK Government GHG conversion factors to calculate our total CO₂e emissions figures.

The increase in Scope 1 emissions is driven by growth in the size of our field sales teams and a further normalisation of face-to-face interactions post COVID, primarily in the UK. The STF will review and recommend actions in the light of this increase during 2024 including a phased adoption of electric vehicles in our company car fleet. Scope 2 emissions have been reduced by 21% which is substantially related to the full year effect of closing our Belgian warehouse in mid-2022.

CARBON OFFSET

To help offset emissions, we participate in various carbon offsetting initiatives, including tree planting in the UK and most recently elimination of invasive vegetation that risked threatening the natural ecosystem in the Parc Natural de Collserola, Catalonia, Spain.

SUPPLY CHAIN AND GREENHOUSE GAS EMISSIONS

Animalcare works with third parties to manufacture finished products while engaging with other partners to enable our international supply chain. Upstream emissions include those generated by a supplier's distribution activities and the production of raw materials or components purchased by the Company. Downstream covers emissions generated by the use or disposal of end products, as well as business travel.

Value chain emissions (Scope 3) represent a significantly higher proportion of our carbon footprint than operational emissions (Scope 1 and Scope 2). Calculating then eliminating these emissions is a challenge that requires effective partnerships built on trust. As we develop our sustainability strategy, we will consider further actions to estimate and reduce our value chain emissions.



Packaging and plastic offsetting

Flexible packaging keeps pharmaceuticals and medicinal products sterile and protected while safeguarding against tampering and counterfeiting. However, though useful and resource-efficient in many ways, its low volume and low weight properties present a challenge once this packaging becomes waste.

We recognise the environmental impact caused by use of plastics in our business and supply chain and are taking steps to develop more sustainable packaging. Where plastic packaging remains the most viable solution, and until the time we can transition from virgin plastic to mitigate plastic waste, we have implemented offsetting as an interim solution. During 2023, we supported a clean water initiative in Zambia which offset the CO₂e arising from sales of our IV fluids in the previous 12 months.

Antimicrobial resistance

Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi, and parasites evolve over time and learn to dodge the effect of medicines. As a result, treatments become ineffective and infections persist, increasing the risk of spread to others. The overuse and misuse of antibiotics in both humans and animals have accelerated the process by which

bacteria become resistant to this important class of drugs, threatening the ability to treat common infections.

AMR is a systemic risk that will impact multiple sectors including food and agriculture, pharmaceuticals, healthcare, and insurance industries. According to the World Bank, by 2050 AMR could shrink global GDP by as much as 3.8% while global animal production could decline by between 2.6% and 7.5% per year. Within the European animal health market, sales of veterinary antimicrobials decreased by 47% between 2011 and 2021.

Reducing our portfolio reliance on antibiotics, both in Production and Companion Animals, is a key focus which led to our investment in STEM Animal Health Inc. to exploit biofilm-targeting technologies in anti-infective roles. A glue-like substance that provides protection from the environment, biofilms can make bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants, and the host's immune system. Anti-biofilm technology can overcome these barriers, making conventional treatments more effective, potentially at more sparing doses.





SOCIAL

Our people

Our employees are our most valuable asset. Their contribution is critical to achieving our long-term success and our growth plans are dependent on our ability to attract, develop and retain high-calibre and experienced talent in key roles.

TALENT MANAGEMENT AND PEOPLE DEVELOPMENT

Overall employee engagement remains of paramount importance. Following the Gallup employee survey we carried out in 2022, we have implemented targeted plans across various countries to enhance specific areas such as communication, reward and development.

Our primary emphasis has been on implementing a competency development assessment as part of our talent review process. This is aligned with our competency framework and aims to bolster the skills of our sales and marketing managers. Additionally, our sales managers have undergone training to enhance their coaching abilities and we have extended our leadership development programme to our sales and marketing managers.

To nurture the development of our high-potential employees, we have introduced "The Pioneering Professional", a programme incorporating blended training methods and regular peer-to-peer coaching sessions.

To address reward and recognition we simplified our performance management process, reviewed our bonus strategy, implemented work anniversary rewards and continued with the roll out of our benchmarking process. These initiatives aim to enhance employee motivation, align compensation with performance, and maintain market competitiveness.

WELLBEING

During 2023 we launched our Global Wellbeing & Resilience Strategy, *We Care*, with the aim to strengthen individual and organisational engagement, involvement and resilience through providing resources to support employees with their overall wellbeing and change management.

As part of our "*We Care*" wellbeing strategy we aim to integrate ESG-related activities to contribute to our broader sustainability goals, encourage a positive organizational culture, enhance our brand reputation, and mitigate risks associated with environmental and social issues.

In addition to the above, the Group operates an external employee assistance programme, Workplace Options. This includes a confidential around-the-clock counselling and information service to assist employees with personal or work-related challenges that may affect health, wellbeing or performance.



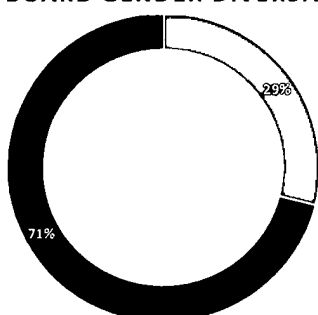
DIVERSITY AND INCLUSION

Animalcare's policy is that recruitment, promotion and any other selection exercises will be conducted on the basis of merit against objective criteria that avoid discrimination. No individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability, and this extends to Board appointments.

The Board recognises the benefits of diversity, including gender diversity, both on the Board and Senior Executive Team. Appointments will be made on merit but with due consideration to the need for diversity and to ensure there is an appropriate balance of skills and experience.

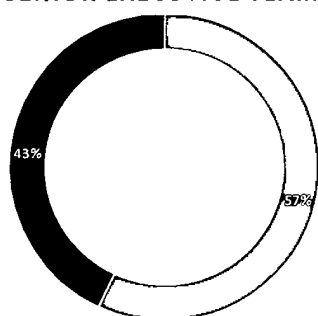
Recognising that diverse and inclusive workplaces earn deeper trust and more commitment from their employees, a Diversity and Inclusion Task Force was created to develop our approach, build on activities and implement a formal strategy across the Group.

BOARD GENDER DIVERSITY



○ Female ● Male

SENIOR EXECUTIVE TEAM



○ Female ● Male

The Board currently consists of 71% (five) male and 29% (two) female members. As at the year end, the Senior Executive Team consisted of 43% (three) male and 57% (four) female members.

Future appointments will continue to be made on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience across the Group.

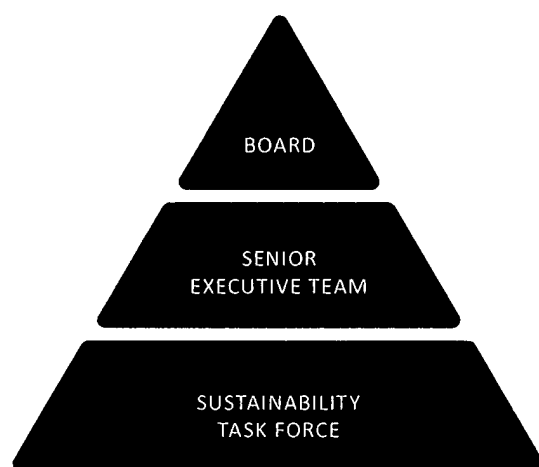




GOVERNANCE STRUCTURE

In September 2022 we created our Sustainability Task Force (STF) made up of Chris Brewster, our CFO, and a cross section of employees representing key functions and our geographical presence.

The composition of the STF is built upon a foundation that aligns with and complements the existing business model and organisational structures. This kind of governance structure is typically more successful.



Members of the STF take collective responsibility for the Group's sustainability agenda, the implementation of a sustainability action plan linked to the delivery of our strategy and will review the internal sustainability scorecard each quarter.



Stakeholder engagement

Throughout the year we utilised the Animalcare Group materiality assessment as a vehicle with several stakeholders to address their concerns, explore sustainability areas of mutual interest and share priorities.

This informal and formal dialogue showed that there is increasing demand from stakeholders to understand our environmental strategy, including our approach to climate change, responsible animal testing and ethical procurement and sales.

In connection with this, Animalcare Ltd is in partnership with Vet Sustain, a UK-based social enterprise working to enable and inspire veterinary professionals to continually improve the health and wellbeing of animals, people and the environment, centred around their six goals for sustainability which provide a framework for contributing to the UN's Sustainability Development Goals.

We will further engage with stakeholders during 2024 and continue to embed sustainability into our business in an agile and prioritised way.

SALES AND MARKETING

Our values and behaviours (one team, passion, integrity, taking ownership, have fun) guide employee conduct along with the Group's Code of Conduct and supporting policies which help us ensure we do business in the right way.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

Animalcare does not own any manufacturing assets and we work with contract manufacturers of finished goods, mainly across Europe and with suppliers that are not in 'Highest Risk' countries which are prone to political unrest, poor regulatory practices or low voice and accountability. One of our key principles with external suppliers is to ensure they share the same commitment as we do to being a responsible and ethical employer, both to their own staff and their suppliers. The Group's external suppliers are required to conform to Good Manufacturing Practice (GMP) and Good Distribution Practice (GDP) requirements. This means there are audits and inspections performed and recorded by National Regulators. We ourselves have to conform to GDP practices which we embrace and completely support.

Sustainability objectives and development of a Sustainability Action Plan

From the materiality assessment we prioritised six initial high-level objectives to help build the foundations of our sustainability strategy

SUSTAINABILITY STRATEGY

Objective 1: Create a formal governance structure with remit and terms of reference to effectively implement sustainability strategy across the business.

Objective 2: Develop and publish an Animalcare Group sustainability action plan (and supporting internal scorecard) for 2023 and beyond.

CLIMATE CHANGE AND CARBON FOOTPRINT

Objective 3: Expand reporting of Scope 1 and Scope 2 greenhouse gas emissions for Animalcare Group beyond that of Animalcare's UK trading subsidiary. Initiate Scope 3 reporting.

Objective 4: Assess the feasibility of achieving carbon neutral status for the Animalcare Group by end of financial year 2025. Post the feasibility assessment, initiate roll out of a regional phased approach.

SUPPLY CHAIN AND RESPONSIBLE PROCUREMENT

Objective 5: Establish a screening process across Animalcare Group's major suppliers to highlight any risks associated with modern-day slavery and human rights.

SUSTAINABLE PACKAGING

Objective 6: Develop a Group-wide approach to sustainable packaging with both reduction and recycling.

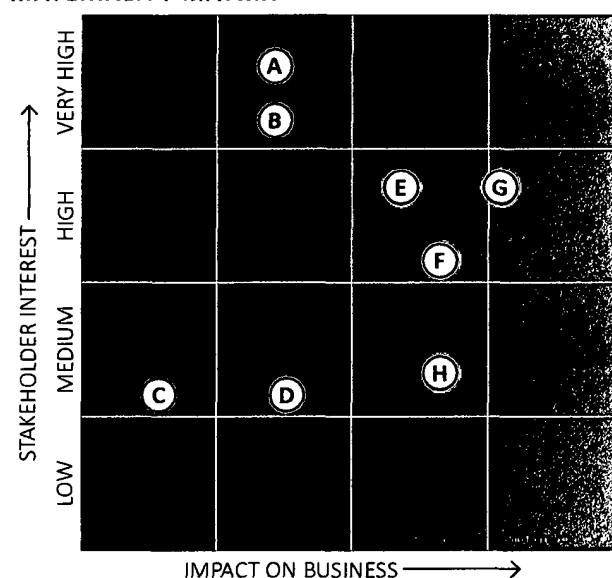
The above goals act as the foundation for a formal framework that implement our corporate commitments and develop a relevant Sustainability Action Plan (SAP), ultimately helping create value for the Group in line with our business strategy. As the SAP continues to evolve, it will address internal risk drivers identified within our risk management framework and define the Group's actions to respond to external stakeholder expectations, including those of potential investors and shareholders.

OUR MATERIALITY ASSESSMENT

Materiality

To guide and support the development of our sustainability strategy, we undertook an initial materiality assessment via an internal employee focus group and informal stakeholder engagement. From this, we have identified the material issues of importance to our stakeholders and their potential impact on our business.

MATERIALITY MATRIX



- A** Climate change, energy and water management
- B** Animal testing (animal welfare, 3Rs – replacement, reduction, refinement)
- C** Antimicrobial resistance
- D** Diversity and inclusion
- E** Supply chain and responsible procurement
- F** Sustainable Packaging
- G** Employee wellbeing, health and safety
- H** Ethical promotion of veterinary medicines

This will help guide our strategy by identifying the issues that matter most to Animalcare and our stakeholders and shows where we can have the most positive impact.

Our Principal Risks

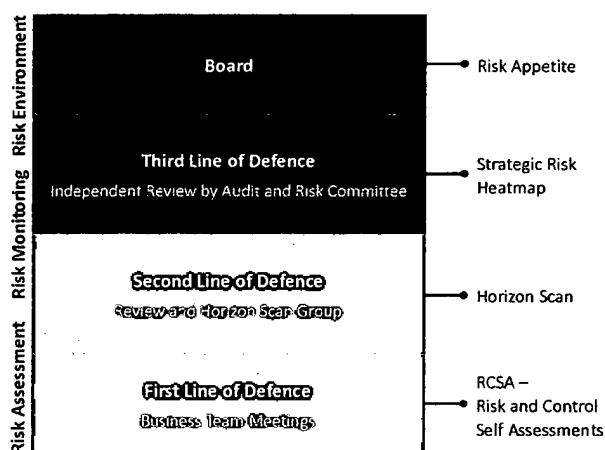
Managing our risks

The Board has overall responsibility for the Group's risk appetite and risk management strategy. In doing so, the objective of the Board is to foster and embed an organisational culture of strong risk management to effectively execute the Group's strategy.

The day-to-day identification, management and mitigation of risk is delegated to the Group's management, executed through our risk management framework (RMF). In 2022 the RMF was broadened with the formal set-up of the Sustainability Task Force (STF) to manage and address the Group's sustainability and climate-related risks as set out in the Sustainability section. During 2023, with support from our external risk consultants who performed our Q3 review, we have further developed and refined the RMF, with emphasis on our readiness to leverage our platform to accelerate growth and notably R&D, both commensurate to our strategy to grow our business through investment in inorganic opportunities and develop differentiated and innovative products for the future.

We believe the developments and refinements made during 2023 further strengthen our RMF and our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our stakeholders.

Risk management framework



The RMF is based on an industry standard three lines of defence model (3LoD) and includes updated risk inventory, metrics and thresholds. The 3LoD model is combined with an approach to Assess, Monitor, Manage, Respond and Communicate the Group's critical risks.

To be effective, risk management relies on the engagement of all parts of the business, which is an integral part of our framework and culture. The RMF has been developed in support of our operating model – being a combination of operating businesses and Group functions, overseen by the Senior Executive Team (SET) who owns the risk management process and is responsible for managing specific Group risks. Within that structure, our operational management teams as well as Group function heads are expected to identify, manage and mitigate risks in their part of the business. They manage this process through a consistently applied Risk and Control Self Assessment (RCSA). This process includes assessing each risk for its impact and likelihood, scored both before and after applying key controls. A standardised risk-scoring methodology and template is now used to ensure a consistent approach across the Group. This part of our framework represents the First Line of Defence.

Our Second Line of Defence is executed through a small, centralised team who work alongside local finance managers and Group functions to lead the assessment and validation of all RCSAs from the business. This team prepares consolidated risk reporting in the form of a Horizon Scan across the organisation, which in turn ensures independent oversight and consistency.

The Horizon Scan is reviewed by the executive team and mapped against the five pillars of the Group's strategy in the form of a Strategic Risk Heatmap.

In accordance with our governance practices, oversight of risk management and risk assessment is undertaken by the A&RC, which, operating as our Third Line of Defence, provides updates and reports to the Board, based on the Horizon Scan and Strategic Risk Heatmap, to assist the Board in fulfilling its corporate governance duties and oversees responsibilities in relation to financial reporting, internal control and risk management.

Sustainability and climate change

As noted above, the Board has overall responsibility for ensuring risk is appropriately managed across the Group. This includes risks relating to environmental, social and governance (ESG) matters and climate change.

Through the STF, established in 2022, and in conjunction with our ESG adviser, we have conducted materiality assessments and developed a sustainability materiality matrix to help us identify and prioritise the issues that matter most to our business and stakeholders.

The STF has assisted in the identification of climate-related risks and has overseen modifications to our RMF, to ensure that it captures climate-related risks.

Emerging risks

Emerging risks are new risks that are unlikely to impact the Group in the next year but have the potential to evolve over a longer term and could have a significant impact on our ability to achieve our objectives. They may develop into key risks or may not arise at all. As part of our risk management process, both the Board and the SET are tasked with identifying and assessing our emerging risks. No material emerging risks have been identified in the current financial year.

Principal risks

We map all aspects of our risks against six categories that best outline our key challenges, namely: strategic, financial, operational (operations and technology), regulatory compliance, legal and people.

We believe that our most significant challenges are strategic in nature. Our strategic plans for the business are based on organic and inorganic growth as we continue to pursue geographical expansion and seek new product opportunities. The table below describes the current principal strategic and other risks and uncertainties facing the Group. In addition to summarising the strategic risks and uncertainties, the table below gives examples of how we mitigate those risks.

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Market and economic risk Animal health market growth has normalised post COVID – there is a risk of further decline in the market driven by macroeconomic uncertainty. In certain territories the veterinary market continues to trend towards consolidation via growth of corporate customers and buying groups who are looking for value from the products and services we provide.		Reduction in consumer confidence and spending on veterinary products and services in light of inflationary pressures. The continuing expansion of corporate customers and buying groups represents an opportunity for sales volume growth but may result in reduced margins through leverage of buying power.	Veterinary is considered to be an essential service and our product portfolio largely consists of pharmaceuticals used in the vet practice, which are less prone to pet owner discretionary spending pressure. We continue to develop and strengthen our relationships with our larger customers, managed through dedicated key account teams, with support from the Sustainability Task Force in regard to ESG, to better serve our changing customer base and their evolving requirements, both on a national and a European basis.		

STRATEGIC PRIORITIES



Organic growth



New product development



Inorganic growth

RISK KEY



Low



Medium



High

TREND KEY



Up



Down



No change

Our Principal Risks CONTINUED

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Competitor risk Launch of competitor products against our key brands, for example other generic or more innovative products. Although our product portfolio is broad, our larger and well-established brands operate in a market that continues to be attractive to competitors.	 	Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products. Operating costs may increase to protect market share.	We are increasing focus on lifecycle management strategies for our key brands. We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact. We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities, including novel pharmaceuticals.		
Portfolio risk Approximately 36% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.	 	Loss of one or more distribution contracts may reduce overall sales. Where we are successful in developing and growing the market, the distribution partner may terminate the contract through geographic expansion of their own footprint or a different route to market, resulting in lost sales. Distribution may cease due to change of control of the contracting parties.	Continue to explore and secure new distribution opportunities. A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products. Low quality distribution products remain subject to portfolio optimisation. Significant existing contracts are reviewed to assess and mitigate, where possible, business continuity risks. Build and grow our owned and long-term licence product portfolio to reduce reliance on third-party distribution partners.		

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Product development and launch risk Failure to successfully register and launch products from our pipeline, including those that we develop through license. Projects that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.		Significant delay or failure in launching a product from our pipeline could adversely affect our ability to deliver revenue and shareholder expectations. Failure of a project in the development phase, or where we are unable to recover the costs incurred in developing and launching a product, would result in impairment of recognised intangible assets.	Robust pipeline monitoring processes are in place. The pipeline is discussed regularly by senior management, including the CEO, COO and CFO. Before more costly pivotal studies are initiated, smaller proof of concept studies are conducted to assess the effects of the drug on target species and for the target indication. The Group's objective is to create a balanced pipeline in terms of risk and reward and to establish a broader investment approach to launching new products other than from our own pipeline. In respect of significant new product launches, detailed sales and marketing plans are established and evolved over time, with progress regularly monitored against these plans by our commercial teams.	(M)	

STRATEGIC PRIORITIES



Organic growth



New product development



Inorganic growth

RISK KEY



Low



Medium



High

TREND KEY



Up



Down



No change

Our Principal Risks CONTINUED

Other risks

Beyond strategic risks as outlined above, the following tables show other key risks that are potentially impactful in executing our strategic plan. It is our perspective that in order to execute successfully we need to maintain strong finances and an efficient operation that is compliant with the laws and regulations of each country of business – all of which needs to be supported by the best people with the right skills to execute against our strategic plan.

Financial strength

We carefully track our financial performance against a wide range of financial measures – including capital, liquidity and margin. We also recognise that our results are subject to foreign exchange translation exposure, which is closely monitored and reported. We acknowledge that our future growth is highly dependent on a solid financial platform and strong balance sheet and have a range of risk assessments associated with both, including:

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Financing/ Treasury risk Debt facilities are committed for a finite period, and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain various covenants with which we must comply.	  	Investing for growth constrained by lack of access to capital/ financial resource and/or reduced profitability.	We continue to focus on maintaining both strong cash conversion and a strong balance sheet with a maximum net debt to EBITDA leverage target of two times, reducing the risk of non-compliance with covenants. Our existing bank facilities, through a syndicate of four banks with whom we have strong relationships with, expires on 31 March 2025. We expect to complete the increase and extension of our RCF to 31 March 2029 by the end of April. Post year end, the Group significantly strengthened its cash position following the sale of Identicare in February 2024 for a cash consideration of £24.9m. As such, the Group does not foresee utilisation of its bank facilities for operational purposes in the coming year.	(L)	→
Foreign exchange translation risk The majority of the Group's revenues are denominated in euros. However, the Group's presentational currency is sterling and therefore the reported revenues, profits and net debt levels will be impacted by exchange rates prevailing during the relevant financial period.	 	There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate. This may impact our net debt to EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.	We conduct a central review of foreign currency exposures and we assess possible hedging strategies to mitigate risk via derivatives. Matching currency flows and financing will limit the covenant exposure. The Group presents key financial measures on a CER basis to enable shareholders to assess performance with the impact of foreign exchange eliminated.	(L)	→

Operational performance

The success of our operation relies heavily on both our supply chain and technology platforms; therefore we highlight below how we manage, monitor and mitigate those risks.

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Supply chain risk The Group relies solely on a large base of third-party suppliers for finished products and to a lesser extent raw materials, whether with our own brands or those sold on behalf of our partners via distribution arrangements. It is not commercially viable to implement a secondary sourcing strategy.		Any disruption, interruption or failure of supply may result in lost sales and damage the Group's reputation with its customers. Rising inflation costs impacting cost of product and adversely affecting margins. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or supply delays.	Due to our broad supply base we have a relatively low dependency on any single supplier. We monitor the performance of our supplier base and respond promptly where potential issues are identified, whether that be from a quality and/or regulatory perspective. The Group's largest suppliers operate under a programme of regular meetings and audits to manage and support our Contract Manufacturing Organisations (CMOs) to deliver quality products on time and in full to our regulatory specifications. Following the appointment of our new Supply Chain Director, further development and refinements to our structure and processes are expected to be implemented during 2024 to improve areas such as demand forecasting and supplier performance management. As part of our finance organisation review, we have allocated dedicated resource to the monitoring of KPIs and the continuing impact and mitigation of inflation.	(M)	↑

STRATEGIC PRIORITIES



Organic growth



New product development



Inorganic growth

RISK KEY



Low



Medium



High

TREND KEY



Up



Down



No change

Our Principal Risks CONTINUED

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
IT systems and cybersecurity risk The Group relies heavily on information technology and key systems to support the business. The risk of cyber attacks that cause system disruption and the potential for data and financial fraud, are increasing.		A general outage of our IT systems may cause disruption to, or prevention of, normal operations, and/or additional costs. Cyber attacks could result in system and business disruption and/or availability of data. Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation and/or financial fraud.	The Group has maintained focus on mitigating the increasing cyber threat while continuing to accommodate hybrid working practices, including: - Continued investment in our cloud-based IT systems and security tools to safeguard the IT infrastructure. - We engage with security-aware, reliable and certified IT service global providers. - Internal policies surrounding security, user access, change control and the ability to download and install software. - We hold global cyber insurance, which provides specialist technical and legal support in the event of a cyber incident. We regularly conduct large-scale security reviews and tests to reduce our risk of phishing attacks. We continuously perform a critical (master) data evaluation to categorise our data and implement appropriate safeguards.		

Regulatory compliance

Given we operate in a highly regulated market it is evident that the success of our business is dependent on compliance with product regulations in each country of operation, therefore we highlight below how we manage, monitor and mitigate those risks.

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
Regulatory risk We operate in a highly regulated animal health environment, which is designed to ensure the safety, efficacy, quality and ethical promotion of pharmaceutical products. Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture, distribute or promote our products.	 	Non-compliance with regulatory requirements may result in delays to supply and/or lost sales. Delays in regulatory reviews and approvals could impact the timing of a product launch and impact sales. Increasing regulatory burden including compliance with the European Medicine Agency's (EMA) Union Product Database has resulted in additional regulatory and quality control requirements and associated costs.	The Group Technical and Regulatory team has established systems and procedures to monitor and maintain compliance which are subject to regular internal and external audits. Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes. We operate a robust Pharmacovigilance (PV) process to report any adverse reactions and product complaints related to the use of our products.	(M)	→

STRATEGIC PRIORITIES



Organic growth



New product development



Inorganic growth

RISK KEY



Low



Medium



High

TREND KEY



Up



Down



No change

Our Principal Risks CONTINUED

People

In order to successfully deliver our growth strategy in a highly regulated business, we need to attract and retain a high-calibre and diverse pool of talent, therefore, our people risk is managed, monitored and mitigated as follows:

RISK	LINK TO STRATEGY	POTENTIAL IMPACT	MITIGATION	RISK LEVEL	TREND
People risk Failure to structure and resource the business to deliver our strategic ambitions from both an organic and inorganic growth perspective. Our growth plans are dependent on our ability to attract, develop and retain high-calibre and experienced talent in key roles.	  	Failure to structure and resource our business with quality people could result in: • Loss of expertise • Potential business disruption • Reduced growth • Insufficient or overstretched resources • High cost of organisational restructuring in certain countries. The rising cost of living and ongoing wage inflation have the ability to impact workforce stability and continuity as well as our profitability.	Our Group People & Culture Director has overall responsibility for setting and overseeing the execution of the Group's overall people strategy. Alongside fellow SET members, the organisational structure is reviewed as required to confirm that it meets our operational and strategic requirements, with appropriate actions taken where necessary. Steadfast focus on enhancing overall employee engagement continues in order that we can position Animalcare as a "Great Place to Work". This includes: • A strong performance management culture supported by our Competency Framework. • Competitive remuneration packages supported by regular benchmarking. • Investment in staff training and development including our "High Challenge High Support" leadership and "Pioneering Professional" programmes. • Group recruitment and onboarding framework. • Wellbeing programme, "We Care", to support mental and physical wellbeing as well as personal development. We continue to use a team of highly skilled contractors to bridge short-term gaps in key resource areas and support key project delivery.	(M)	

STRATEGIC PRIORITIES



Organic growth



New product development



Inorganic growth

RISK KEY



Low



Medium



High

TREND KEY



Up



Down



No change



Admiral's group in Washington, D.C.

Board of Directors



JAN BOONE
Non-Executive Chair

Appointment:

Jan has been Non-Executive Chair of the Group since 2017.

Committee membership:



Member of the Remuneration and Nomination Committee.

Responsibilities, relevant skills and experience:

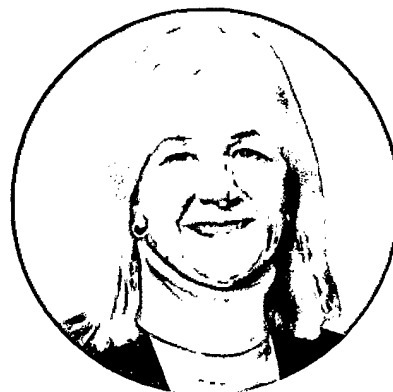
As Chair, Jan provides leadership of the Board, promoting a culture of openness and debate.

He is Chief Executive Officer of Lotus Bakeries, which is listed on Euronext Brussels, and brings significant experience of M&A, strategic development and change management.

Jan started his career at PwC and holds a Master's degree in Applied Economics from KU Leuven and a Master's degree in Audit from the University of Mons-Hainaut in Belgium. Between 2000 and 2005, he served as Head of Corporate Controlling and a member of the Executive Committee and Board of Directors of Omega Pharma NV. Jan was appointed Managing Director of Lotus Bakeries in 2005 and Chief Executive Officer in 2011.

Key external appointments:

Jan is Chief Executive Officer of Lotus Bakeries Corporate NV. He also serves as Vice-President of Club Brugge KV.



JENNIFER WINTER
Chief Executive Officer

Appointment:

Jennifer joined the Group as Chief Executive Officer of the Group in 2018.

Committee membership:



N/A; attends some Committee meetings by invitation.

Responsibilities, relevant skills and experience:

As CEO, Jennifer has responsibility for developing and executing the Group's strategy as approved by the Board and drives the performance and results of the Group. With her background in the healthcare sector, including senior commercial roles at AstraZeneca and GlaxoSmithKline, Jennifer brings significant experience of strategic product development, change management, marketing and communications. She is also the Board member responsible for Sustainability.

She was a Non-Executive Director of Allied Irish Bank from 2004 to 2010, and Chief Executive Officer of Barretstown from 2003 to 2007, transforming it into a successful, leading children's charity.

Jennifer has a BSc in Physiology and Pharmacology from the University of Southampton.

Key external appointments:

Jennifer is a Non-Executive Director of EKF Diagnostics Holdings plc and a Trustee Director and Chair of the Trustees of Royal Brompton and Harefield Hospitals Charity.

**CHRIS BREWSTER**

Chief Financial Officer & Company Secretary

Appointment:

Chris was appointed Chief Financial Officer in 2012.

Committee membership:

N/A; attends the Audit and Risk Committee by invitation.

Responsibilities, relevant skills and experience:

Since joining Animalcare in 2012, Chris has gained significant animal health sector experience and works alongside Jennifer in developing and executing the Group strategy. His responsibilities cover finance, risk management, Group IT and legal.

Chris is a Chartered Accountant, having qualified with KPMG in 2003. Before joining Animalcare he worked as Group Accounting Manager at Findus.

Key external appointments:

None

**MARC COUCKE**

Non-Executive Director

Appointment:

Marc was appointed as a Non-Executive Director in 2017.

Committee membership:

N/A

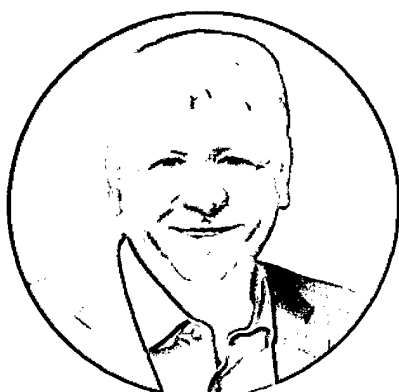
Responsibilities, relevant skills and experience:

As a Non-Executive Director, Marc brings significant experience of maximising value creation and developing strategy. Marc founded Omega Pharma NV in 1987, developing the company into a leading pan-European OTC health and personal care business and serving as both Chairman and Chief Executive Officer. Following the sale of Omega Pharma in 2015, he invested, via his private investment firm Alychlo NV, in several listed and non-listed companies.

Key external appointments:

Marc currently serves as Non-Executive Director of Smartphoto Group NV, a Belgian company, in addition to a number of private companies.

Board of Directors CONTINUED



DR DOUG HUTCHENS

Independent Non-Executive Director

Appointment:

Doug was appointed to the Board in February 2022.

Committee membership:



Member of the Remuneration and Nomination Committee and the Audit and Risk Committee.

Responsibilities, relevant skills and experience:

Doug has held several senior positions in research and development (R&D) and regulatory affairs at leading global animal health companies. As part of the executive team at Bayer Animal Health, he was an Executive Vice President and Chief Veterinary Officer where he led both drug discovery and product development on a global basis.

Before joining the animal health pharmaceutical industry, Doug was an Assistant Professor at the University of Illinois College of Veterinary Medicine where he conducted studies for most of the major animal health companies and participated in the development of multiple new products for companion and production animals. Early in his career, he was a practising veterinarian. He holds a Doctor of Veterinary Medicine degree and a PhD in pathobiology with an emphasis in immuno-parasitology from the University of Illinois.

Key external appointments:

Doug is Chief Scientific Officer at Animol Discovery, Inc. in the US and on the advisory board of ClinGlobal Limited, which is based in Mauritius.



SYLVIA METAYER

Independent Non-Executive Director

Appointment:

Sylvia was appointed to the Board in May 2022.

Committee membership:



Chair of the Audit and Risk Committee.

Responsibilities, relevant skills and experience:

After beginning her career as an auditor, Sylvia has gone on to build a highly successful career, initially holding key financial roles in leading international organisations and then in customer-focused commercial senior leadership roles, most recently at Sodexo. She joined Sodexo in 2006 as Group Financial Controller and was appointed CFO for Europe in 2008, President International Large Accounts in 2010, and CEO of Sodexo's Corporate Services Worldwide segment, the largest business in Sodexo in 2014. Before joining Sodexo, Sylvia was COO at Houghton Mifflin, a Boston-based educational publisher. Sylvia gained a business degree from the French École des Hautes Études Commerciales (HEC) and is a graduate of both Queen's University, Canada and of the University of Ottawa, Canada.

Key external appointments:

Sylvia is an independent Non-Executive Director for PageGroup plc, and an independent Non-Executive of Groupe ADP (Aéroports de Paris SA), chairing their Nomination and Remuneration Committees. She is also a member of the Supervisory Board of Keolis, SAS and Chair of the Audit and Compliance Committee.

**ED TORR**

Senior Independent Director

Appointment:

Ed was appointed to the Board in 2017.

Committee membership:

Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Responsibilities, relevant skills and experience:

As Senior Independent Director, Ed brings significant experience of business development and product development in the animal health sector.

He was part of the management buyout team that set up Dechra Veterinary Products in 1997 and an Executive Director on the board of Dechra Pharmaceuticals plc from 2000 until 2013, responsible for business development and managing the European business unit and instrumental in setting up the US business. Since 2014, Ed has independently advised various companies on sales and marketing structures, M&A opportunities, “in” and “out” licensing of products and investment opportunities within the veterinary and animal health sector.

Key external appointments:

Ed was a Non-Executive Director of Intervacc AB, a Swedish biotechnology company listed on Nasdaq Stockholm, until 23 November 2023.

COMMITTEE MEMBERSHIP

Audit and Risk Committee



Remuneration and Nomination Committee



By invitation



Chair of Committee



Corporate Governance Statement



Our Board and governance structures help to ensure we are well positioned to deliver the long-term objectives of the Group.

Dear shareholder,

I am pleased to present the Corporate Governance Report for 2023. The Board is committed to promoting high standards of corporate governance and our governance framework has continued to operate effectively during the year, enabling the Board to support the management team in making decisions and taking appropriate actions.

The principles of corporate governance

Compliance with the QCA Corporate Governance Code (the “QCA Code”)

We recognise the need for our governance practices and disclosures to continue to evolve in order to ensure that they support the growth and strategic progress of the Group and the effective application of these principles. Our approach to governance provides a framework of clearly established roles, policies and procedures designed to support our compliance with the QCA Code, the AIM Rules and other legal, regulatory and compliance requirements which apply to the Group. We regularly review our approach to governance to ensure that it develops in line with the Group’s strategic and long-term growth plans and shareholder expectations. The Board followed all 10 principles of the QCA Code during the year under review.

Following the publication of the updated QCA Code which will apply from the financial year 2025, the Board has started to consider the key changes and a review of our corporate governance framework will be carried out against the new QCA Code during 2024. Our review of the new code and how it will be applied will be reported on in our 2024 Annual Report and Accounts.

Further details of our corporate governance framework and activities are set out in our Corporate Governance Report.

Supporting strategy through effective governance

The Board has collective responsibility for setting the Group’s strategic aims and objectives. Our strategy is articulated in the Strategic Report section of this report and on our website, along with our business model. The Board considers the expectations of the Company’s shareholder base and its wider stakeholder and corporate social responsibilities when making decisions in furtherance of the Group’s strategic aims.

The Board also has oversight of the Group’s internal control and risk management systems. Alongside evaluating commercial opportunities, the Board regularly considers and reviews the Group’s principal and emerging risks and ensures that effective and appropriate mitigation strategies are in place. During the year, we have continued to review the operation of the Group’s risk management framework, as explained in our Audit and Risk Committee Report. Details of the risk management framework are set out in our Principal Risks section.

Stakeholder engagement and corporate culture

The Board places great importance on effective engagement with key stakeholders and aims to understand the views and interests of stakeholders so that these can be appropriately considered as part of its decision-making. The Strategic Report includes a description of how this engagement has worked in practice during the year under review and a statement about how the Directors have discharged their duty under s172 of the Companies Act 2006.

We aim for a happy, well-motivated and committed workforce to deliver long-term success for the Group. As such, it is important to the Board that our employees know they are valued and recognise that our success depends on their continued invaluable contribution. This is reflected in the way that the Board and Senior Executive Team (SET) operate. A more detailed explanation of the Board and SET's interaction and their monitoring of culture is given in the Corporate Governance Report.

Build trust

The Board recognises the importance of disseminating clear and understandable information about the Group and its activities and maintaining regular dialogue with our stakeholders to ensure their views are understood and considered. The Board receives information on the Group's employee engagement programme, including details of the results of the annual employee engagement survey, and regular feedback from the Executive Directors on their discussions with shareholders, potential investors, suppliers, partners and customers.

Board capabilities

The Board comprises seven experienced Directors who collectively have considerable expertise in the following areas:

- Strong industry experience and knowledge of the animal health and pharmaceuticals sector
- Leading organisational change and integration
- Managing a global supply chain
- Research and development
- Business planning and development
- Corporate finance and mergers and acquisitions
- Financial
- Risk management
- Governance

Board evaluation

An internal Board evaluation was conducted in 2023 by way of individual meetings between the Chair and each member of the Board. More information on our Board evaluation process is provided in the Remuneration and Nomination Committee Report.

JAN BOONE

Non-Executive Chair

11 April 2024



Corporate Governance Report

Composition of the Board and its Committees

Board composition

The Company maintains a robust framework of corporate governance, with clearly defined roles and responsibilities for the Board and its formally constituted Committees, as detailed below. This ensures the safeguarding of long-term shareholder value as well as the provision of a robust platform upon which to deliver the Group's strategy.

BOARD OF DIRECTORS

Chair Responsible for establishing the Company's strategic direction and overseeing a robust framework of governance.	Jan Boone	Independent Non-Executive Chair
Executive Directors Responsible for day-to-day management of the Company's operations and delivery of Group strategy.	Jennifer Winter	Chief Executive Officer
	Chris Brewster	Chief Financial Officer and Company Secretary
Non-Executive Directors Providing independent challenge to, and oversight of, the performance of the Executive Directors.	Marc Coucke	Non-Independent Non-Executive Director
	Ed Torr	Senior Independent Director
	Doug Hutchens	Independent Non-Executive Director
	Sylvia Metayer	Independent Non-Executive Director

BOARD COMMITTEES

Audit and Risk Committee

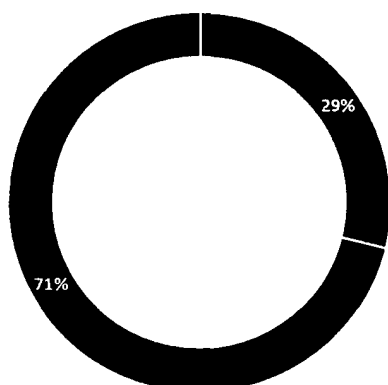
Responsible for monitoring the integrity of the Company's financial statements and overseeing the effectiveness of the Company's systems of risk management and internal control. The Audit and Risk Committee Report is within the Governance section of the Annual Report.

Remuneration and Nomination Committee

Responsible for the structure, size, composition and succession planning of the Board, as well as setting fixed and variable Executive Director remuneration and monitoring senior management remuneration levels. The Remuneration and Nomination Committee Report is within the Governance section of the Annual Report.

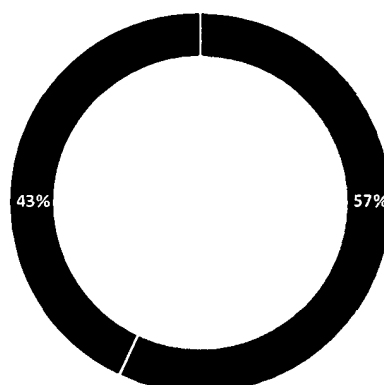
A breakdown by gender of the Board and the Senior Executive Team is provided below.

BOARD GENDER DIVERSITY



● Female ● Male

SENIOR EXECUTIVE TEAM



● Female ● Male

The Board recognises the benefits of diversity, including gender balance, and is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments.

The Board's composition is designed to ensure that no one individual can dominate decision-making processes.

As at the date of this report, the Board comprises two Executive Directors, the Non-Executive Chair and four Non-Executive Directors. Directors' biographies can be found in the Board of Directors section.

Collectively, the Non-Executive Directors have an appropriate balance of skills and experience such that they are able to provide constructive support and challenge to the Executive Directors. The Directors believe that the Board as a whole possesses the necessary combination of skills, experience, capabilities, diversity and personal qualities to deliver the Group's strategy for the benefit of the Company's shareholders and wider stakeholders over the medium to long term.

The Board keeps under review the mix of experience and skills that are needed on the Board as the Group continues to grow so that Board composition can be adjusted if necessary over time. The Remuneration and Nomination Committee is responsible for succession planning for Board Directors and other Senior Executives.

The Non-Executive Directors attend external events from time to time to receive updates on matters such as financial reporting requirements and corporate governance. The Company's corporate governance and company secretarial adviser, Prism Cosec, also provides updates to the Board about developments in corporate governance practice and forthcoming changes to legislation or regulation which may impact on the Company.

Independence

The Non-Executive Chair, Jan Boone, Senior Independent Director, Ed Torr and Non-Executive Directors, Dr Doug Hutchens and Sylvia Metayer, are all considered to be independent. The Board therefore applies the QCA Code in respect of Director independence.

24.54% of the issued share capital is held by Alychlo NV, an entity wholly owned by Marc Coucke, non-independent Non-Executive Director.

Appointments to the Board and re-election

The Board has delegated to the combined Remuneration and Nomination Committee the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors. Further details on the role of the Remuneration and Nomination Committee and its activities during the year are set out in its report within the Governance section of the Annual Report.

The Directors have the power to appoint Directors during the year but any person so appointed must stand for election at the next Annual General Meeting ("AGM"), as required by the Company's Articles of Association ("Articles").

In accordance with corporate governance best practice, all Directors retire and offer themselves for election or re-election at the AGM each year. The Board considers that each of the Directors continues to make a valuable contribution to the Board and to demonstrate commitment to the Group.

How the Board operates

The Board is responsible for the Group's strategy and overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which sets out the Board's responsibilities and covers a number of areas including:

- The Group's strategic aims and objectives
- The structure and capital of the Group, and dividend policy
- Financial reporting and internal controls
- Risk and the Group's risk management
- The approval of significant contracts and expenditure
- Effective communication with shareholders
- Board structure, size and composition

The schedule of matters reserved for Board approval is available on the Company's website (www.animalcaregroup.com).

Corporate Governance Report CONTINUED

Board meetings

The Board met formally four times during the year.

Non-Executive Directors maintain a direct and regular line of communication with Executive Directors and senior management between formal Board meetings.

Directors are expected to attend all meetings of the Board and the Committees on which they sit, and to devote sufficient time to the Group's affairs to enable them to fulfil their duties as Directors. This requirement is made clear in their letters of appointment. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chair so that their contribution can be included in the wider Board discussion. The Board is satisfied that each of the Non-Executive Directors devotes sufficient time to the business, in accordance with the time commitment requirements set out in their letters of appointment.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate.

The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also a Senior Executive Team composed of the CEO, the CFO and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

The table below shows Directors' attendance at formal scheduled Board and Committee meetings during the year:

Director	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Jan Boone	4/4	–	2/2
Chris Brewster ¹	4/4	–	–
Marc Coucke	4/4	–	–
Doug Hutchens	4/4	5/5	2/2
Sylvia Metayer	4/4	5/5	–
Ed Torr	4/4	5/5	2/2
Jennifer Winter ²	4/4	–	–

¹ Chris Brewster attends meetings of Audit and Risk Committee by invitation.

² Jennifer Winter is invited to attend meetings of the Remuneration and Nomination and Audit and Risk Committees from time to time.

Board decisions and activity during the year

The Board has an agreed schedule of activity for the financial year covering regular business updates and operational, financial and governance issues. Each Board Committee also has an agreed schedule of activity. This ensures that all areas for which the Board has overall responsibility are addressed during the year. These schedules of activity are reviewed at least once a year to ensure that matters are considered at an appropriate time.

Board and Committee agendas and papers are circulated to the Board in good time in advance of the meetings and each meeting is minuted.

Strategy	New product development and M&A opportunities
	Board strategy discussions
Performance	Trading updates
	Review of budgets and forecasts
	Going concern and cash flow
	Approval of 2022 Annual Report, final dividend recommendation, 2023 Interim Results and interim dividend
Governance	Review of progress on actions identified as part of the internal Board performance evaluation
	Succession planning
	Review of conflicts of interest
Stakeholders	People and Learning & Development update
	Investor relations and share register analysis
	Review of AGM business

The Board agenda includes a business review covering progress against strategy, financial performance, key business initiatives, leadership activities and new product development. Investor relations updates, financial reports and consideration of reports from the Board Committees are also covered on the Board agenda. Details of the Board's key discussions and stakeholder considerations are set out in the Strategic Report.



Board Committees

The Board has delegated specific responsibilities to its two Board Committees, the Audit and Risk Committee and the Remuneration and Nomination Committee, which are each comprised of three independent Non-Executive Directors, in accordance with the QCA Code.

Each Board Committee has written Terms of Reference setting out their duties, authority and reporting responsibilities. These Terms of Reference were reviewed and approved by the Board during the year and are available on the Company's website (www.animalcaregroup.com).

Details of the operation of the Board Committees are set out in their respective reports below. Each of the Board Committees is authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

Senior Executive Team

The Senior Executive Team (SET) comprises the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Strategic Alliance & Acquisitions Director, Commercial Strategy Director, Group People & Culture Director, Group Supply Chain Director, Group Finance Director and Strategic Product and Portfolio Director. The team meets weekly, monthly and quarterly and its responsibilities include tracking financial performance, progress against our strategic and operational objectives, leadership development, improving employee engagement and all aspects of the operational leadership of the organisation.

External advisers

The Board seeks advice on various matters from Stifel Nicolaus Europe Ltd, its nominated adviser, corporate finance adviser and joint broker (with Panmure Gordon & Co). Advice is also provided by the Company's lawyers, Squire Patton Boggs (UK) LLP, and by its corporate governance and company secretarial adviser, Prism Cosec, which also provides company secretarial support.

Development, information and support

Prism Cosec provides a quarterly report to the Board regarding changes in relevant legislation and corporate governance best practice. Executive Directors are subject to the Company's performance development review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered. Non-Executive Directors are encouraged to raise any personal development or training needs with the Chair or Company Secretary.

Risk management

The Board has ultimate responsibility for setting the Group's risk appetite and risk management strategy and for reviewing the effectiveness of the Group's framework for risk management and internal control. Oversight of risk management is undertaken by the Audit and Risk Committee, which reports to the Board at least three times a year. During the year, the Group's risk adviser, The Value Circle, undertook a risk review and reported its findings to the Audit and Risk Committee. Further details on risk management are set out in the Audit and Risk Committee Report and in Our Principal Risks in the Strategic Report.



Corporate Governance Report CONTINUED

Internal controls

The Board has ultimate responsibility for the Group's system of internal controls and for the ongoing review of their effectiveness.

Systems of internal control can only identify and manage risks and not eliminate them entirely. As a result, such controls cannot provide an absolute assurance against misstatement or loss. The Board considers that the internal controls that have been established and implemented are appropriate for the size, complexity and risk profile of the Group.

The main elements of the Group's internal control system include:

- Close management of the day-to-day activities and financial performance of the Group by the Senior Executive Team and other senior management
- An organisational and IT systems structure with defined levels of responsibility and user access
- Specified contract approval levels and financial authority limits
- An annual budgeting process that is approved by the Board
- A quarterly reforecasting process that forms part of the financial performance review cycle
- Controls to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained

The Board continues to review the system of internal controls to ensure it is fit for purpose and appropriate for the size and nature of the Company's operations and resources. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

Board evaluation

An internal Board evaluation was conducted in 2023 by way of individual meetings between the Chair and members of the Board. The output from these meetings was discussed by the Board and actions were agreed and monitored during the course of the year. Further details of this process are set out in the Remuneration and Nomination Committee Report. The Board intends to conduct a formal Board evaluation during the next year.

Succession planning

The Remuneration and Nomination Committee considers succession planning in its work and formulates plans for the succession of all Directors. Further details can be found in the Committee's report.

Conflicts of interest

The Company has procedures in place for managing conflicts of interest. These include a requirement for Directors to declare any interests in the matters to be discussed at each Board or Committee meeting. Directors also have a continuing duty to notify the Company of any changes to their potential or actual conflicts and are regularly reminded of this. The Company's Articles provide for the Board to authorise any actual or potential conflicts of interest if deemed appropriate to do so.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible for advice on corporate governance matters to the Board and can receive guidance from the Group's corporate governance and company secretarial adviser, Prism Cosec.

Directors' and officers' liability insurance

The Company has Directors' and officers' liability insurance in place, as permitted by the Company's Articles.

Relations with shareholders

The Group maintains communication with institutional shareholders through individual meetings with Executive Directors, generally following publication of the Group's interim and full year results. Shareholders have the opportunity to pose questions to our Directors at the AGM and the Chair and independent Non-Executive Directors will attend meetings with investors and analysts as required. Information about the Group is available on the Group's website (www.animalcaregroup.com), including an overview of the Group's activities and details of all recent Group announcements.

A review of the share register is circulated to the Board on a quarterly basis and key changes are discussed by the Board.



Board monitoring of culture and employee engagement

The Board and the SET recognise the importance of promoting an ethical culture by leading from the top. We believe that by encouraging the right way of thinking and behaving across the Group, we will reinforce our corporate governance culture, enabling us to conduct business ethically and responsibly, drive our growth and customer-focused, people-led strategy and deliver value for our shareholders.

The SET holds regular business and functional meetings at the Company's offices in different locations to promote interactions and engagement with the wider business. Members of the SET present to the Board on key strategic matters when appropriate and the Board holds meetings in the Group's different locations when possible. Members of the Non-Executive Director team interact with members of the SET on current issues where they share the benefit of their experience and offer support. Such interactions provide an invaluable opportunity to engage with, and ascertain the views and interests of, our employees. It also allows a valuable insight into our corporate culture and assists the Board in monitoring and promoting a healthy culture throughout the business by setting a positive tone from the top.

Early in the year, the Board received an update on the results of the 2022 employee engagement survey and the actions planned to address any issues raised. This also covered key people initiatives being undertaken during the year, which included the talent review process, learning and development initiatives and the leadership development programme.

We recognise the need to maintain a proactive focus on culture as the Group grows and it continues to be a focus during the coming year.

Further details of the Group's focus on employee engagement and culture are set out under Sustainability.

AGM

The Company's AGM is scheduled for Thursday 20 June 2024. Further details of the AGM arrangements can be found in the Notice of 2024 AGM, which is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/aggm/.



Audit and Risk Committee Report



The Committee brings key oversight to the Group's risk management activities and control environment.

I am pleased to present the Audit and Risk Committee's Report for the year ended 31 December 2023.

The Audit and Risk Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on. Its role includes monitoring the integrity of the Group's financial statements, reviewing significant financial reporting matters, monitoring the effectiveness of the Company's internal controls, the appropriateness and effectiveness of the risk management framework and with it the maintenance of a strong risk-focused culture and overseeing the relationship with the external auditors. It is also responsible for establishing, monitoring and reviewing procedures and controls for ensuring compliance with the AIM Rules.

Members of the Audit and Risk Committee during the year

I am the Chair of the Committee and Doug Hutchens and Ed Torr each served with me on the Committee throughout the year. The Committee is entirely comprised of independent Non-Executive Directors.

The relevant skills and experience of the Committee members are set out in their biographies within the Board of Directors section. The Board is satisfied that I have recent and relevant financial experience. I began my career as an auditor and I fully understand the Committee's responsibilities having held a variety of key financial and commercial positions in leading international groups and a number of non-executive roles. My Committee colleagues and I are experienced Non-Executive Directors.

Only Committee members have the right to attend meetings. Other individuals, such as the Chief Financial Officer, other members of the finance team and members of other internal teams are invited to attend meetings, for all or part of the meeting as appropriate. Representatives from the external auditors attend at least two Committee meetings during the year to present their audit and their audit plan for the following year. Other advisers may be invited to attend meetings on occasion.



Key responsibilities

The role and responsibilities of the Committee are set out in its Terms of Reference, which are reviewed annually, taking into account relevant regulatory changes and recommended best practice. The current Terms of Reference were approved by the Board on 14 December 2023 and are available on the Company's website (www.animalcaregroup.com).

The main duties of the Committee include:

- Maintaining and monitoring the quality and integrity of the Group's financial statements, including its annual and half-yearly reports, and other formal announcements relating to financial performance, and reviewing significant financial reporting issues and judgements;
- Reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems;
- Reviewing the overall approach to setting risk appetite, tolerance levels, risk exposure and any changes to the risk management framework;
- Overseeing the relationship with the external auditors, including recommendations on their remuneration, approving their terms of engagement, assessing annually their independence and objectivity, their expertise and resources and the effectiveness of the audit process; and
- Reporting formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee challenges both the external auditors and the management of the Group and reports the findings and recommendations of the external auditors to the Board. The Committee meets to review the proposed audit work, review the results of the audit work and consider any recommendations arising from the audit.



Activities undertaken by the Committee during the year

The duties contained in the Terms of Reference form the basis for the Committee's focus and scope of work across each financial year and the Committee meets at appropriate times in the reporting and audit cycle and at such other times as is necessary to discharge its duties. The Committee met five times during the year. Committee meetings are arranged to coincide with key dates in the financial reporting calendar and audit cycle. Committee members' attendance at the meetings held during the year is set out in the Corporate Governance Report; every Committee member attended all scheduled Committee meetings during 2023.

The main activities of the Committee during the year are set out below.

Annual and interim financial statements

The Committee reviewed the full year and interim financial statements including consideration of significant audit risks identified by the external auditors, and the key accounting judgements and estimates. The Committee's response to the significant accounting judgements and estimates in respect of the 2023 financial statements is set out below. The Committee also reviewed the principal risks disclosures.

Risk management framework

In 2023, the Committee continued to oversee the operation of the risk management framework (RMF). This included a risk review carried out by our external consultants, The Value Circle, across all countries and business functions that concluded that the RMF continued to evolve and develop in line with the Group's strategy. The Committee is satisfied that the Group's RMF enables the Board to monitor, manage and mitigate the key risks in the Group's strategic plan for the benefit of stakeholders.

Review of the structure of the Finance team

During the year, a review of the finance organisation was undertaken to strengthen overall capabilities and ensure alignment with the new organisational structure. Following the review, a new role of Group Finance Director was created and subsequently Lorna Miall was appointed in November 2023. *Recognising the importance of this new role, which combines business partnering to the Chief Operating Officer as well as leading the day-to-day operational oversight of the finance organisation, Lorna joined the Senior Executive Team.*

Audit and Risk Committee Report CONTINUED

Review of provisions and contingent liabilities

The Committee receives a report on current potential contingent liabilities at each scheduled Committee meeting and considers the appropriateness of the disclosures and provisions in the financial statements.

Going concern and liquidity

The Committee is responsible for reviewing statements and disclosures made in respect of going concern, as outlined in the Chief Financial Officer's review and the Note to the Consolidated Financial Statements that provides a Summary of Significant Accounting Policies. In considering such disclosures, the Committee paid particular attention to the robustness of stress testing scenarios, the cash flows forecast by the Group, bank covenant compliance and the requirement for bank facilities following the post year end sale of Identicare in the period under review and beyond. The external auditors reviewed management's assessment and discussed this review with the Committee.

Role of the external auditors

The Committee oversees the relationship with the external auditors, PricewaterhouseCoopers LLP (PwC), to ensure that the auditors' independence, objectivity and effectiveness are maintained.

The Committee takes into account a number of areas when reviewing the external auditors' appointment, including the auditors' performance in discharging the audit, the scope of the audit, the terms of engagement, and its independence and objectiveness.



PwC were first appointed as the Group's external auditors in 2018 as the result of a post-merger tender process. In accordance with audit regulation, PwC operates a policy of rotating the Audit Partner at least every five years. The current Group Audit Partner, Jonathan Greenaway, was assigned to the Animalcare audit during October 2023.

As part of its review, the Committee also considers the fees payable to PwC and monitors the provision of non-audit services. On occasion there may be advantages in using the external auditors to provide non-audit services given their knowledge of the business. Where material non-audit services are required, a business case would need to be made to use the auditors rather than another provider and Committee sign-off would be required to ensure there is no impact on the auditors' objectivity and independence. The breakdown of fees between audit and non-audit services is provided in the Notes to the Consolidated Financial Statements.

The Committee also reviews the external auditors' management letter and detailed presentations are made to the Committee by the auditors at least twice a year. There is an active ongoing discussion between the Committee and the auditors on any recommendations to improve the efficiency of the audit process.

Audit process

The audit process commences each year when the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key audit matters and their intended areas of focus. This plan is reviewed and agreed in advance by the Committee.

The Committee reviews the quality and effectiveness of the external audit process on an annual basis, considering the views of both the external audit team, and the CFO, as well as assessing the Committee's own interactions with the external auditors. As part of the review of the 2022 year-end audit, the Committee and the Group's Audit Partner discussed the process and agreed that, while effective, certain refinements would be made to improve the efficiency of the external audit process for the 2023 year end. As a result, the Committee focused more time reviewing the 2023 external audit plan, project management of the engagement and timing of deliverables. It will review the 2023 year-end audit process during the course of 2024.

Internal audit

The Committee has undertaken its annual review of the need for an internal audit function and continues to be of the view that, given the size and nature of the Group's operations and finance team, there is no current requirement to establish a separate internal audit function.

Significant issues considered in relation to the financial statements

As part of the monitoring of the integrity of the financial statements, significant issues and accounting judgements identified by the finance team, and the external audit process are reviewed by the Committee and reported to the Board. The key matters considered by the Committee in respect of the year ended 31 December 2023 are set out below:

Carrying value of investments (Company only)	Consideration of the carrying value of investments and the key assumptions underlying the impairment review. The judgements in relation to the valuation primarily relate to the assumptions underlying the cash flows of the long-term business plans, including revenues from the R&D pipeline, the discount rate and the long-term growth rate. The assumptions are sensitised to demonstrate there is adequate headroom between the recoverable amount and the carrying value of the investment being tested for impairment.
Recognition and valuation of judgemental provisions and liabilities	Determining the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions and liabilities, which principally relate to customer rebates, contingent liabilities and, in addition, due to the estimation uncertainty, the fair value of the cash-settled portion of the Identicare share based payment scheme.
Presentation of underlying profit adjustments	Classification and size of items as non-underlying, which is subject to judgement, including amortisation and impairment of acquired intangibles, acquisition and integration costs and the cash-settled element of the share based payments in respect of Identicare Ltd.

The Committee was satisfied that each of the matters set out above had been fully and adequately addressed by the Executive Directors, appropriately tested by the external auditors and that the disclosures made in this Annual Report and Accounts were appropriate.

Risk management, internal controls and key activities for 2024

The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Committee has continued to monitor the risk management framework (RMF). Following the operational reorganisation early in the second half of the financial year to further align internal resources to accelerate delivery of our key strategic objectives, a risk review was undertaken by the Group's risk adviser, The Value Circle. The Committee received a report of this review at their September meeting and discussed the findings and recommendations. Further details of the Group's system of internal controls can be found in Our Principal Risks. The Committee is satisfied that the risk management framework and internal control systems are operating effectively.

Activities in 2024

We continue to refine and strengthen our internal control framework, where required, in response to changes in the risk profile of our business. Our supply chain processes continue to be a focus area for 2024. We also plan to further review the management of our R&D pipeline risk given the early-stage nature of the licensing and R&D collaboration agreements with Orthros Medical.

Share dealing

The Group operates a share dealing code in conformity with the requirements of Rule 21 of the AIM Rules. All employees, including new joiners, are required to agree to comply with this code.

Whistleblowing

The Group has in place whistleblowing procedures which set out the formal process by which staff may, in confidence, report any suspicion of fraud, financial irregularity or other malpractice. The Committee is satisfied that the procedures are operating effectively.

SYLVIA METAYER

Chair of the Audit and Risk Committee

11 April 2024

Remuneration and Nomination Committee Report



The Committee considers the Group's strategy and financial performance when recommending the appointment of Directors and setting and reviewing remuneration.

I am pleased to present our Remuneration and Nomination Committee Report, which sets out details of the composition, structure and operation of the Committee, our work during the year, our remuneration policy and remuneration paid to Directors during the year.

Members of the Remuneration and Nomination Committee during the year

During the year, the Committee comprised the following independent Non-Executive Directors:

- Ed Torr (Chair)
- Jan Boone
- Doug Hutchens

Key responsibilities

The Committee considers Group strategy when recommending the appointment of Directors and setting and reviewing remuneration. The Committee works closely with the Board to consider Board composition, to formulate remuneration policy and to consider succession plans and possible internal candidates for future Board roles, having regard to the views of shareholders and the recommendations of the QCA Corporate Governance Code and the AIM Rules for Companies.

The main duties of the Committee are set out in its Terms of Reference, which are available on the Company's website (www.animalcaregroup.com) and include the following responsibilities:

Nomination

- Reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any necessary changes;
- Considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company; and
- Leading the process and making recommendations for all potential appointments to the Board.

Remuneration

- Setting remuneration for the Executive Directors, including pension allowance and awards under the Long-Term Incentive Plan (LTIP);
- Approving the design of, and determining targets for the annual performance-related bonus schemes and LTIP and approving the total payments or awards made under these schemes; and
- Recommending and monitoring the level and structure of remuneration for the Senior Executive Team.

The Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

Terms of Reference are reviewed annually and the Board approved the current Terms of Reference in December 2023.

Activities during the year

The duties contained in the Terms of Reference form the basis for the Committee's work plan across each financial year and the Committee meets at such times as is necessary to discharge its duties. The Committee met twice during the year and on one occasion since the year end. Committee members' attendance at the meetings held during the year is set out in the Corporate Governance Report.

Although only members of the Committee have the right to attend meetings, other individuals, such as the Chief Executive and external advisers, may be invited to attend for all or part of any meeting.

In March 2023, the Committee considered the Executive Director bonus for 2022, reviewing performance criteria against the financial performance in that year and also the performance targets for the 2023 bonus scheme.

LTIP awards were granted to certain members of the Senior Executive Team in October 2023. Awards to certain members of the SET, including the Executive Directors, were deferred due to MAR-related restrictions and it is intended that these awards will be made after the announcement of the full year results in April 2024.

Achievement of the performance criteria of the 2020 awards was considered by the Committee in December 2023. Following assessment of performance criteria post year end, the 2020 awards vested in part. Further details are set out in the Directors' Remuneration Report.

In December 2023, the Committee also discussed the remuneration of the Directors and, after due consideration, it was agreed that Executive Directors' salaries would increase by 3% with effect from 1 January 2024, in line with the discretionary increase applied across the Group. It was further agreed that the Non-Executive Directors' fees were considered below market and it was proposed and the Board agreed that the standard fee for Non-Executive Directors would be £45,000 with effect from 1 January 2024.

The Committee also reviewed the LTIP and agreed that no material changes were required to its overall structure for 2024.

Full details are set out in the Directors' Remuneration Report.

Chair succession

As announced on 9 April 2024, Jan Boone will retire from the Board as Non-Executive Chair and Non-Executive Director at the AGM on 20 June 2024. As I was considered a suitable candidate, my Committee colleagues, Sylvia Metayer and Doug Hutchens jointly managed the process to consider Jan's succession and I was not involved in this process. They considered the merits of seeking an external candidate for the role of Chair. However, after careful consideration, as the Senior Independent Director, and given my deep knowledge of the Company and extensive experience of the animal pharmaceutical sector, they recommended me as the preferred candidate and the Board unanimously agreed with

their recommendation. Subject to shareholder approval of my re-election as a director, I look forward to taking up my role as Chairman of the Board at the conclusion of the AGM. Over the next few months, the Board will consider the composition of its Board Committees and also whether the Board would be strengthened with the appointment of an additional independent Non-Executive Director in due course.

Board evaluation

After considering the approach to the Board evaluation process for 2024, the Committee agreed that the Chair would hold individual meetings with each member of the Board to discuss how the Board operates and the output from these meetings would be discussed by the Board, with actions agreed and monitored during the year. Actions arising from the evaluation included increased Board focus on strategic topics and changes to the Board meeting schedule to allow more time to focus on these topics at Board meetings. The Committee has proposed to the Board that the next full evaluation would be carried out during the next year.

Induction and development

On appointment, an induction programme is agreed and includes meetings with each of the Directors and members of the Senior Executive Team to develop their knowledge and understanding of Animalcare's operations.

In addition, the Company's nominated adviser and joint broker, Stifel Nicolaus Europe Ltd, provides briefings for the newly appointed Directors on their legal duties and responsibilities as directors of an AIM company.

We are confident that all Board members have the knowledge, ability and experience to perform the functions required of a director of an AIM company.

Diversity and inclusion

The Company's policy is that recruitment, promotion and any other selection exercises will be conducted on the basis of merit against objective criteria that avoid discrimination. No individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability, and this extends to Board appointments.

The Board recognises the benefits of diversity, including gender diversity, both on the Board and Senior Executive Team. Appointments will be made on merit but with due consideration to the need for diversity and to ensure there is an appropriate balance of skills and experience. The Board currently consists of 71% (five) male and 29% (two) female members. The Senior Executive Team consists of 43% (three) male and 57% (four) female members.

ED TORR

Chair of the Remuneration and Nomination Committee

11 April 2024

Directors' Remuneration Report (unaudited)

The following disclosures are made in accordance with best practice governance standards as an AIM company and to provide transparency about how our Directors are rewarded.

This report covers the financial year ended 31 December 2023.

The Remuneration and Nomination Committee

The Board has delegated certain responsibilities for Executive remuneration to the Remuneration and Nomination Committee ("the Committee"). Details of the Committee, its remit and its activities are set out in the Remuneration and Nomination Committee Report.

The Committee is, among other things, responsible for setting the remuneration policy for Executive Directors and the Chair and recommending and monitoring the level and structure of remuneration for senior management.

Remuneration policy

The objective of the remuneration policy is to promote the long-term success of the Company, having regard to the views of shareholders and other stakeholders.

In formulating remuneration policy for the Executive Directors, the Committee considers a number of factors designed to:

- Have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains Directors of the highest quality;
- Reflect the Directors' personal performance; and
- Link individual remuneration packages to the Group's long-term performance and continued success through the award of annual bonuses and share-based incentive schemes.

Executive Directors

Current components of the Executive Directors' remuneration are base salary, annual bonus and share-based incentive schemes.

Base salary

Base salary is reviewed annually by the Committee.

As reported in the Remuneration and Nomination Committee Report, the Committee agreed that the Executive Directors would receive a 3% salary increase with effect from 1 January 2024, in line with the discretionary salary increase across the Group.

Annual bonus

The Committee has agreed performance conditions for the Executive Directors' annual bonus based on the achievement of certain financial and operational KPIs. Each Executive Director has performance conditions related to the profitable growth of the Group and additional performance conditions relevant to their own areas of responsibility.

For the CEO, 90% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (45%) and underlying EBITDA (45%)) and 10% is dependent on achievement of personal objectives. The maximum bonus opportunity is 50% of salary.

For the CFO, 90% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (35%), underlying EBITDA (30%) and underlying cash conversion (20%)) and 10% is dependent on achievement of personal objectives. The maximum bonus opportunity is 40% of salary.

The Committee reviewed the performance targets in respect of the CEO and CFO bonus plans for the year. They agreed that Group EBITDA and Group cash conversion targets and personal objectives had been achieved in full and 97% of the Group revenue target had been achieved and approved bonus payments accordingly in line with the agreed bonus plans.

Malus and clawback provisions will apply to enable the Company to recover sums paid or withhold the payment of any sum in the event of a material misstatement resulting in an adjustment to the audited consolidated accounts of the Group or action or conduct that, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct.

Long-Term Incentive Plan

The Animalcare Group plc Long-Term Incentive Plan 2017 ("the LTIP") was approved by the Board in June 2017. A summary of the LTIP was set out in the circular sent to shareholders on 24 June 2017, which is available on the Company's website (www.animalcaregroup.com).

On 30 October 2023, the Board approved the grant of nil-cost options under the LTIP over a total of 194,346 ordinary shares with a nominal value of 20.0 pence per share ("the Options") to certain members of the Senior Executive Team and senior management. The Executive Directors and some members of the Senior Executive Team were excluded from the grant due to MAR-related restrictions. As such, the award of 439,690 Options was deferred until April 2024. The LTIP awards will vest on confirmation of achievement of performance criteria being met over the three-year financial period ending 31 December 2026. The Options will vest to the extent the following performance conditions based on EPS and TSR are met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight-line basis

Rank of the Company's TSR compared to the Comparator Group	Extent to which the TSR tranche will vest
Upper quartile or above	100%
Between median and upper quartile	Pro rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part. The details of the LTIP are set out in Notes to the Consolidated Financial Statements.

Non-Executive Directors are not eligible to participate in the LTIP.

Other benefits

A range of benefits may be provided including company car allowance, private medical insurance, life assurance, travel insurance, general employee benefits and travel and related expenses. The Committee also retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees.

Service agreements and termination payments

Details of the Executive Directors' service agreements are set out below.

Director	Date of contract	Unexpired term	Notice period by Company	Notice period by Director
Chris Brewster	25 September 2017	Rolling contract	6 months	6 months
Jennifer Winter	2 August 2018	Rolling contract	6 months	6 months

The Executive Directors may be put on gardening leave during their notice period, and the Company can elect to terminate their employment by making a payment in lieu of notice of up to the applicable notice period.



Directors' Remuneration Report CONTINUED

Letters of appointment

Details of the Non-Executive Directors' letters of appointment are set out below.

Director	Date of contract	Renewed on	Term expires	Notice period by Company	Notice period by Director
Jan Boone	17 June 2017	13 June 2023	2026 AGM	3 months	3 months
Marc Coucke	17 June 2017	13 June 2023	2026 AGM	3 months	3 months
Ed Torr	17 June 2022	13 June 2023	2026 AGM	3 months	3 months
Doug Hutchens	10 February 2022	–	2025 AGM	3 months	3 months
Sylvia Metayer	3 May 2022	–	2025 AGM	3 months	3 months

Employees' pay

Employees' pay and conditions across the Group are considered when reviewing remuneration policy for Executive Directors.

Non-Executive Directors

The remuneration payable to Non-Executive Directors (other than the Chair) is decided by the Chair and Executive Directors.

Fees are designed to ensure the Company attracts and retains high-calibre individuals. They are reviewed annually, taking account of the level of fees paid by companies of a similar size and complexity. Non-Executive Directors do not participate in any annual bonus, share options or pension arrangements. The Company repays the reasonable expenses that Non-Executive Directors incur in carrying out their duties as Directors. During the year, the Remuneration and Nomination Committee reviewed Non-Executive Director fees taking into account that the standard fee had not been increased since 2017 and that it was at the lower end of the range paid by peer group companies. The Committee agreed that the standard fee for Non-Executive Directors would be £45,000 with effect from 1 January 2024. An additional fee of £5,000 is paid for chairing a Committee.

Remuneration policy for 2024

The remuneration policy for 2024 will operate as follows:

		Basic salary/fee	
	Role	£'000	Maximum bonus potential
Executive			
Jennifer Winter	Chief Executive Officer	346	50%
Chris Brewster	Chief Financial Officer	237	40%
Non-Executive			
Jan Boone	Chair	75	–
Sylvia Metayer	Chair of Audit and Risk Committee	50	–
Ed Torr	Chair of Remuneration and Nomination Committee	50	–
Marc Coucke	Non-Executive Director	45	–
Doug Hutchens	Non-Executive Director	45	–

Statutory information

The following information includes disclosures required by the AIM Rules and UK company law in respect of Directors who served during the year to 31 December 2023.

Directors' remuneration

The following table summarises the gross aggregate remuneration of the Directors who served during the year to 31 December 2023:

£'000		Salary and fees	Annual bonus	Benefits	Pension	Total
Executive						
Jennifer Winter ¹	2023	336	155	15	–	506
	2022	336	–	15	–	351
Chris Brewster ²	2023	230	86	16	29	361
	2022	230	–	14	22	266
Non-Executive						
Jan Boone	2023	70	–	–	–	70
	2022	70	–	–	–	70
Marc Coucke	2023	40	–	–	–	40
	2022	40	–	–	–	40
Nick Downshire ³	2023	–	–	–	–	–
	2022	17	–	–	–	17
Doug Hutchens ⁴	2023	45	–	–	–	45
	2022	38	–	–	–	38
Sylvia Metayer ⁵	2023	45	–	–	–	45
	2022	30	–	–	–	30
Ed Torr ⁶	2023	45	–	–	–	45
	2022	45	–	–	–	45
Total	2023	811	241	31	29	1,112
	2022	806	–	29	22	857

¹ Jennifer Winter's benefits comprised a car allowance (£10,500) and private medical insurance (£4,400).

² Chris Brewster's benefits comprised a company car (£13,800) and private medical insurance (£2,400). Pension contributions for 2023 were £26,734 plus a backdated payment of £2,508 which was deferred from 2022.

³ Nick Downshire ceased to be a director on 7 June 2022; his pro-rated annual fee to his date of resignation was £17,436.

⁴ Doug Hutchens received a fee of £40,000 from the date of his appointment on 10 February 2022 until 7 June 2022 when his fee increased to £45,000.

⁵ Sylvia Metayer received an annual fee of £40,000 and an additional annual fee of £5,000 for her role as Chair of the Audit & Risk Committee; in 2022, her fees were pro-rated from her date of appointment on 3 May 2022.

⁶ Ed Torr received an annual fee of £40,000 and an additional fee of £5,000 for his role as Chair of the Remuneration and Nomination Committee.

Long-Term Incentive Plan

During the year, a total of 194,346 options over ordinary shares were granted to certain members of the Senior Executive Team and senior management. Due to MAR related restrictions, the award of 439,690 options was deferred until April 2024. The total number of options granted in respect of the 2023 award including deferred options awarded in April 2024 was 634,037 options over ordinary shares.

Details of the performance targets set and actual achievement against them in respect of the 2020 LTIP awards vesting, based on three-year performance to 31 December 2023, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2023	11.6p	13.4p	11.0p	0%
TSR	50%	31 December 2023	Median	Upper quartile	Upper quartile	100%

On assessment of the three-year performance period as set out above, a total of 164,982 options granted to the Executive Directors and members of the Senior Executive Team vested under this award.

These options have yet to be exercised; the participants have seven years in which to exercise these options.

Directors' Remuneration Report CONTINUED

The individual interests of the Executive Directors under the LTIP are set out below:

	Date of grant	End of three-year performance period	Number of LTIP nil cost options awarded	Vested but not exercised	Lapsed	Total remaining
Jennifer Winter	06/06/19	06/06/22	177,570	73,732	103,838	73,732
	17/11/20	31/12/23	165,761	82,880	82,881	82,880
	05/11/21	31/12/24	106,844	–	–	106,844
	28/04/22	01/07/25	130,620	–	–	130,620
Chris Brewster	06/06/19	06/06/22	76,636	31,821	44,815	31,821
	17/11/20	31/12/23	66,848	33,424	33,424	33,424
	05/11/21	31/12/24	43,806	–	–	43,806
	28/04/22	01/07/25	53,488	–	–	53,488

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company as at 31 December 2023 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2023	Acquired/(disposed) during the period	Number of shares held as at 31 December 2023	Percentage of ISC as at 31 December 2023
Jan Boone	137,890	–	137,890	0.23
Chris Brewster	280,513	–	280,513	0.47
Marc Coucke ¹	14,558,974	192,700	14,751,674	24.54
Ed Torr	107,455	–	107,455	0.18
Jennifer Winter	7,000	–	7,000	0.01

¹ Marc Coucke acquired 192,700 shares pursuant to the Company's dividend reinvestment plan on 24 July 2023.

There were no changes in the Directors' interests in shares between 31 December 2023 and the date of these financial statements.

ED TORR

Chair of the Remuneration and Nomination Committee

11 April 2024

Directors' Report

The Directors present their report, together with the audited financial statements of the Group and the Company for the year ended 31 December 2023.

Principal activities

Animalcare Group plc is a public limited company incorporated in England and Wales with registered number 01058015, which is listed on AIM, London Stock Exchange.

The principal activity of the Group during the year was the development, sale and distribution of licensed veterinary pharmaceuticals and identification products and services to Companion Animal, Production Animal and Equine veterinary markets.

Statutory information contained elsewhere in the Annual Report

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated below, and is incorporated into this report by reference:

Financial highlights, key performance indicators and a review of financial performance in the Chief Executive Officer's Review and Chief Financial Officer's Review are contained within the Strategic Report.

Details of the Group's corporate governance framework and compliance with the principles of the QCA Code can be found in the Corporate Governance Statement and Corporate Governance Report.

The Group's financial risk management objectives can be found in the Corporate Governance Report.

Details of the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk can be found in the Notes to the Consolidated Financial Statements.

Salaries, bonuses, benefits and share interests of Directors are detailed in the Directors' Remuneration Report.

Environmental disclosures can be found within the Sustainability part of the Strategic Report.

Details of the key issues and stakeholder considerations discussed by the Board during the year and how the Company engages with its stakeholders are set out in the Strategic Report, which includes the s172 Statement.

The Statement of Directors' Responsibilities is included at the end of the Governance section.

Likely future events are disclosed within the Strategic Report.

Dividends

An interim dividend of 2.0 pence per share was paid on 17 November 2023 to shareholders whose names were on the Register of Members at close of business on 20 November 2023.

Reflecting its continued confidence in the long-term prospects of the Group, the Board is recommending a final dividend of 3.0 pence per share (2022: 2.4 pence per share), giving a total dividend for the year of 5.0 pence per share (2022: 4.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on Thursday 20 June 2024, the final dividend will be paid on 19 July 2024 to shareholders whose names are on the Register of Members at close of business on Friday 21 June 2024. The ordinary shares will become ex-dividend on Thursday 20 June 2024.

Post balance sheet events

On 28 February 2024, the Group announced the disposal of its majority shareholding in Identicare to BG Bidco 21 Limited, a newly incorporated company owned by funds managed by Bridgepoint Advisors II Limited, for a cash consideration of £24.9m payable upon completion of the sale.

On 11 April 2024 we announced that, subject to Kane Biotech Inc. shareholder approval, the Group will sell its one-third equity stake in STEM to Dechra Pharmaceuticals Limited (formerly known as Dechra Pharmaceuticals PLC) for a cash consideration of USD4.7m. Other items covered by the agreement will bring the total potential monetary value of the deal for the Group to approximately USD5.4m. The deal is expected to complete on 12 April 2024.

Directors

Details of the current Directors of the Company up to the date of signing the financial statements and their biographical details are shown in the Board of Directors section.

Share capital structure

The Company's issued share capital as at 31 December 2023 was £12,021,585.20 divided into 60,107,926 ordinary shares of 20.0 pence each. Full details relating to the Company's issued share capital can be found in the Notes to the Consolidated Financial Statements.

The Company's ordinary shares rank *pari passu* in all respects with each other, including for voting purposes and for all dividends. Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands, every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll, every shareholder who is present in person or by proxy shall have one vote for every share they hold. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. Further information on the voting and other rights of shareholders are set out in the Company's Articles of Association, which are available on the Company's website (www.animalcaregroup.com).

Directors' Report CONTINUED

Other than the general provisions of the Articles of Association (and prevailing legislation), there are no specific restrictions on the size of a holding or on the transfer of any class of shares in the Company. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority for the Company to purchase its own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares that have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

At the AGM on 13 June 2023, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 6,009,216 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire on the date of this year's AGM.

Research and development

Our new product development programme is key to the future long-term growth and success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers. Further information in relation to product development can be found in the Chief Executive Officer's Review. During the period under review, the Group incurred research and development expenditure, including additions to intangibles of £3.9m (2022: £4.1m).

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. Amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

Financial instruments and risk management

Disclosures regarding risk management and financial instruments are provided within the Strategic Report and in the Notes to the Consolidated Financial Statements.

Directors' indemnities and liability insurance

The Company's Articles of Association (the "Articles") provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers. The Company has made qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006 for the benefit of its Directors during the period and these remain in force at the date of this report.

The Group purchases and maintains Directors' and officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 31 December 2023 and remains in place at the date of this report. The Company reviews its level of cover annually.

Political donations

No political donations were made during the year (2022: £nil).

Modern slavery

In compliance with the Modern Slavery Act 2015, the Company's Modern Slavery Statement can be found on the Company's website at www.animalcaregroup.com.

Stakeholder engagement and key decisions

Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decisions are set out in the Our Stakeholders part of the Strategic Report.

Employees

The Board recognises that the Group's performance and success are directly related to our ability to attract, retain and motivate high-calibre employees. We are committed to linking reward to business and individual performance, thereby giving employees the opportunity to share in the financial success of the Group. Employees are typically provided with financial incentives related to the performance of the Group in the form of annual bonuses that are linked to local business unit performance and/or Group performance. The Board also recognises senior management contribution through the use of long-term incentive plans within overall remuneration.

Applications for employment by disabled persons are given full and fair consideration. When existing employees become disabled, every effort is made to provide continuing employment wherever possible.

Significant shareholdings

The Company has been notified of the following interests or is otherwise aware of the following interests, representing 3% or more of the issued share capital of the Company as at 29 February 2024:

Name of holder	No. of ordinary shares	% Holding ¹
Alychlo NV	14,751,674	24.54
Liontrust Asset Management	7,541,124	12.55
SEB Investment Management AB	4,688,370	7.80
Harwood Capital LLP	4,325,000	7.20
Canaccord Genuity Wealth Management Inc.	3,849,366	6.41
BGF Investment Management Ltd	3,571,544	5.94
BlackRock, Inc.	2,776,955	4.62

¹ Please note that percentage holdings are shown to two decimal places; full details of holdings can be found in the notifications of major holdings available on the London Stock Exchange website.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

In reaching this conclusion the Directors have undertaken an assessment of the future prospects of the Group, taking into account the position, inclusive of the £24.9m proceeds received post year end in respect of the sale of Identicare and principal risks. This review considered forecasts of future trading, including working capital and investment requirements for 12 months from the reporting date that take into account reasonably possible changes in trading performance, in particular a “severe but plausible” downside scenario to factor in a range of downside revenue estimates, and higher-than-expected inflation across our cost base, with corresponding mitigating actions. Further details are included in the statement on going concern in the Notes to the Consolidated Financial Statements.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of this Annual Report confirms that:

- So far as the Directors are aware, there is no relevant audit information of which the Company’s auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group’s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and resolutions seeking to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

At the 2023 Annual General Meeting, all resolutions put to shareholders were passed by a majority. The Company’s 2024 Annual General Meeting is scheduled to be held on Thursday 20 June 2024. The Notice of 2024 Annual General Meeting, including the resolutions to be proposed, is set out in a separate Notice of Meeting, which accompanies this report and is available on the Company’s website www.animalcaregroup.com/investors/shareholder-centre/agm/.

Approval

The Strategic Report and this Directors’ Report were approved by the Board on 11 April 2024 and signed on its behalf by



CHRIS BREWSTER

Chief Financial Officer and Company Secretary

11 April 2024

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

11 April 2024





Independent Auditors' Report to the members of Animalcare Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Animalcare Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated and Company statements of financial position as at 31 December 2023; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- The Group is organised into 13 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size.
- We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L.U and Ecuphar GmbH were audited by PwC component auditors.
- Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.
- Three reporting components were also subject to audit procedures performed by the Group engagement team. Belpfar LDA required procedures over deferred tax liabilities, Ecuphar Italia srl required procedures over cash and cash equivalents and Identicare Limited required procedures over services sales and contract liabilities, due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.
- As a result of this scoping we obtained coverage over 79% of the Group's revenues and 73% of the Group's absolute underlying EBITDA.

Key audit matters

- Classification of items as non-underlying (group)
- Risk of material misstatement in customer rebates (group)
- Risk of impairment of investments in subsidiaries (parent)

Materiality

- Overall group materiality: £333,000 (2022: £325,000) based on 2.5% of Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA').
- Overall company materiality: £160,000 (2022: £290,000) based on 1% of total assets (capped below Group materiality).
- Performance materiality: £249,750 (2022: £243,750) (group) and £120,000 (2022: £217,500) (company).



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Risk of material misstatement in customer rebates (group) is a new key audit matter this year. Carrying value of intangibles relating to products in development (group), which was a key audit matter last year, is no longer included because of the proportionately low value of intangible assets relating to products in development in comparison to the wider intangible financial statement line item, alongside there being significant headroom presented within the impairment models. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<i>Classification of items as non-underlying (group)</i>	
'Underlying EBITDA' is one of the Group's Alternative Performance Measures. Management uses this measure to improve the transparency and clarity of the Group's financial performance. Non-underlying items before taxes total £5.4 million (2022: £6.5 million) representing: • Amortisation and impairment of acquired intangible assets (£4.2 million); • Long term incentive plan (£0.8 million); • Expenses relating to M&A and business development activities (£0.2 million); and • Other non-underlying items where Management considers their nature and expected frequency of events giving rise to them, merit separate disclosure (£0.2 million) The risk we have focussed on is that the determination of which items are to be excluded from underlying results is subject to judgement and therefore the users of the Group financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies and Note 4 within the Consolidated financial statements for details of non-underlying items.	We considered whether the classification of non-underlying items was appropriate. We performed the following procedures: • We reviewed management's definition and classification of non-underlying items, including the sub-categorisation of these items; • We obtained supporting evidence to corroborate the accuracy and completeness of non-underlying items; • We challenged management on the classification of non-underlying items through consideration of the application of the accounting policy including those items classified as 'other non-underlying items'; and • We challenged management over disclosures relating to non-underlying items to ensure that these were appropriate and consistent with the individual exceptional items and the work performed. Based on the procedures performed, we found no material issues and the non-underlying items are appropriately classified in accordance with the stated accounting policy.

Independent Auditors' Report

to the members of Animalcare Group plc CONTINUED

Key audit matter	How our audit addressed the key audit matter
<i>Risk of material misstatement in customer rebates (group)</i>	
The group provides rebate agreements with buying groups, corporate and independent vets practices. These are contractual in nature and vary by customer and product type. We have assigned the significant risk specially to customer rebates within UK due to the nature of the rebate arrangement and high degree of estimation uncertainty within. At a UK entity level the rebate obligation is estimated at the point a sale is made to a wholesaler based on an average rebate percentage for a product line over the prior 12 months. Rebates are then payable at the point an onward sale is made by the wholesaler to an end customer. Rebates are recognised in the Consolidated income statement as a deduction to revenue. Any rebate amounts unsettled as at the year end are recognised in the Consolidated statement of financial position within Trade payables. Further to this, given contractual terms are negotiated at a veterinary buying group level, and as a result differ from one to another there is a high degree of manual calculation behind the balances disclosed and as such this is inherently more prone to misstatement due to error. See the summary of significant accounting policies section within the Consolidated financial statements for disclosure of the related accounting policies for customer rebates, within the revenue recognition policy.	To test customer rebates we have completed the following procedures: • Performed a reconciliation of the FY23 movement and for a sample of agreements tied the key inputs noted through to bank and rebate % claimed through to underlying contract; • Substantively tested the year end accrual through tracing the post year end payment through to cash, where settled; • As a large portion of the year end rebate accrual relates to an estimate of rebates owed on unsold stock held by the wholesalers as at the year end. We have gained comfort over the accuracy of this balance through reviewing wholesaler stock listings, recalculated the 12 month weighted average rebate % by agreeing inputs back to third party service provider reports, agreed the pricing through to approved price listings and tested the mathematical accuracy of management's year end calculation; and • We have target tested a sample of product lines using a risk-based approach (based on the biggest range between potential estimate methodologies), challenging management on the appropriateness of the 12 month average percentage utilised for these. Based on the procedures completed we found no material underlying issues across the group's customer related rebate balances.

Key audit matter**How our audit addressed the key audit matter*****Risk of impairment of investments in subsidiaries (parent)***

The parent company has investments in subsidiary companies of £148.1 million (2022: £147.9 million), which is reviewed annually for impairment indicators with an impairment review performed where necessary. An impairment trigger has been identified due to the market capitalisation of the Group falling below the investment carrying value. No impairment charge has been recorded by management in the current year with respect to the carrying value of the investments in subsidiary companies balance within Animalcare Group plc.

The risk we have focused on is that the investments in subsidiaries balance could be overstated and an impairment charge may be required. We focused on this area because the determination of whether or not the investments in subsidiaries are impaired involves significant assumptions about the future results and cash flows of the business and these assumptions are highly sensitive to reasonably possible changes.

The headroom for the carrying value of investments is calculated by comparing the value in use of the Group, adjusted by net debt with the carrying value of the investments in subsidiaries balance. The determination of the value in use includes a number of key assumptions which include:

- Forecast cash flows for the next five years;
- A long-term (terminal) growth rate applied beyond the end of the five-year forecast period; and
- A discount rate applied to the model.

See the significant accounting policies section within the Company only financial statements for disclosure of the related accounting policies, judgements and estimates and Note 5 within the Company only financial statements for details of the investments in subsidiaries, including sensitivities for the impact of reasonably possible change in assumptions.

We understood and evaluated management's budgeting and forecasting process. We obtained the impairment analysis and performed the following procedures:

- We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments balance to the balance sheet;
- We challenged management's calculated Group weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the Group and benchmarking this against comparable organisations;
- We traced the forecast financial information within the model to the latest Board approved budget. We have also compared FY23 actuals to the FY24–FY28 forecasts and challenged management to provide support to corroborate trading and growth assumptions, support for operating and capital expenditure, including where required for new products, and considered the accuracy of previous forecasts;
- We assessed the long-term growth rate used by comparing it to third-party forecast long-term growth rates utilising valuation experts;
- We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions; and
- We challenged management over disclosures to ensure that these were appropriate and reflective of the sensitivity of key assumptions.

In summary, we found, based on our audit work, the carrying value of investments in subsidiaries to be reasonable, albeit the assessment is highly sensitive to reasonably possible changes in assumptions, as disclosed within Note 5 within the Company only financial statements.

Independent Auditors' Report to the members of Animalcare Group plc CONTINUED

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group is organised into 13 reporting components and the Group financial statements are a consolidation of these reporting components. The reporting components vary in size. Our audit scope was determined by considering the significance of each component's contribution to underlying EBITDA, as well as considering the level of coverage obtained for each individual financial statement line item.

We identified five components that required a full scope audit of their financial information due to either their size or risk characteristics. Of these, Animalcare Group plc and Animalcare Ltd were audited by the Group engagement team. Ecuphar N.V., Ecuphar Veterinaria S.L.U, and Ecuphar GmbH were audited by PwC component auditors.

Additionally, STEM Animal Health Inc. was included for a full scope audit due to material disclosures with respect to its financial position and results that are included within the consolidated financial statements. This audit was undertaken by a non-PwC component auditor.

Three reporting components were also subject to audit procedures performed by the Group engagement team. Belphar LDA required procedures over deferred tax liabilities, Ecuphar Italia srl required procedures over cash and cash equivalents and Identicare Limited required procedures over services sales and contract liabilities, due to the contribution to the overall financial statement line items in the consolidated financial statements. The Group engagement team also audited material consolidation journals.

The Group audit team supervised the direction and execution of the audit procedures performed by the PwC and non-PwC component audit teams.

Our involvement in their audit process, including reviewing their risk assessment, attending component clearance meetings, review of their reporting results and review of the supporting working papers for the five components in scope due to either their size or risk characteristics, together with the additional procedures performed at Group level, gave us the evidence required for our opinion on the consolidated financial statements as a whole.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group's financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact.

We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management used in their impairment analyses. We discussed with management the ways in which climate change disclosures should continue to evolve as the Group continues to develop its response to the impact of climate change. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2023.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£333,000 (2022: £325,000).	£160,000 (2022: £290,000).
How we determined it	2.5% of Earnings Before Interest, Tax, Depreciation and Amortisation, adjusted for non-underlying items ('underlying EBITDA')	1% of total assets (capped below Group materiality)
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying EBITDA, is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets are considered to be appropriate as the standalone entity is not a profit-oriented company. The Company is a holding company only and total assets is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £70,000 and £310,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £249,750 (2022: £243,750) for the group financial statements and £120,000 (2022: £217,500) for the company financial statements.

In determining the performance materiality, we considered a number of factors- the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls- and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £16,650 (group audit) (2022: £16,250) and £16,650 (company audit) (2022: £16,250) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We assessed management's basecase forecast, as well as their severe but plausible downside scenario, which have formed the basis for the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We have considered the Group's need for bank lending facilities over the going concern period;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the forecasts;
- We held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We compared the latest trading results for the year to date in 2024 to management's forecast; and
- We reviewed the disclosures within the Annual Report with respect to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditors' Report to the members of Animalcare Group plc CONTINUED

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to legislation specific to the veterinary sector in which the Group operates (such as the Veterinary Medicines Regulations 2013), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, reduce expenditure or reclassify items above or below the EBITDA line to manipulate the financial performance of the business, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Audit procedures performed by the group engagement team and/or component auditors included:

- Evaluation of management's controls designed to prevent and detect fraudulent financial reporting;
- Enquiries with component auditors;
- Obtaining direct confirmations from legal advisers;
- Identifying and testing unusual journal entries which increase revenue, reduce expenditure or reclassify items above or below the EBITDA line to manipulate the financial performance of the business;
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. The key judgements and estimates for the Group relate to the carrying value of investments, customer rebates and the classification of non-underlying items; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Jonathan Greenaway
(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

11 April 2024

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2023

For the year ended 31 December

		Non-underlying			Non-underlying		
		Underlying	(Note 4)	Total	Underlying	(Note 4)	Total
	Note	2023	2023	2023	2022	2022	2022
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	5	74,351	–	74,351	71,616	–	71,616
Cost of sales	6.1	(31,005)	–	(31,005)	(30,957)	–	(30,957)
Gross profit		43,346	–	43,346	40,659	–	40,659
Research and development expenses	6.2	(2,455)	(646)	(3,101)	(2,363)	(667)	(3,030)
Selling and marketing expenses	6.3	(12,316)	–	(12,316)	(13,547)	–	(13,547)
General and administrative expenses	6.4	(18,770)	(4,340)	(23,110)	(15,000)	(4,013)	(19,013)
Net other operating (expense)/income	6.5	2	(390)	(388)	4	(919)	(915)
Impairment losses	6.6	–	(22)	(22)	–	(918)	(918)
Operating profit		9,807	(5,398)	4,409	9,753	(6,517)	3,236
Finance costs	6.8	(1,419)	–	(1,419)	(1,752)	–	(1,752)
Finance income	6.9	675	–	675	1,110	–	1,110
Finance costs net		(744)	–	(744)	(642)	–	(642)
Share of net loss of joint venture accounted for using the equity method	11	(142)	–	(142)	(52)	–	(52)
Profit before tax		8,921	(5,398)	3,523	9,059	(6,517)	2,542
Income tax expense	6.10	(2,376)	52	(2,324)	(1,487)	910	(577)
Profit for the period		6,545	(5,346)	1,199	7,572	(5,607)	1,965
Net profit attributable to: The owners of the parent		6,545	(5,346)	1,199	7,572	(5,607)	1,965
Earnings per share for profit attributable to the ordinary equity holders of the Company:							
Basic earnings per share	7	10.9p	–	2.0p	12.6p	–	3.3p
Diluted earnings per share	7	10.8p	–	2.0p	12.5p	–	3.2p

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 consolidated financial statements.



Consolidated Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER 2023

	For the year ended 31 December	
	2023 £'000	2022 £'000
Profit	1,199	1,965
Other comprehensive (expense)/income		
Exchange differences on translation of foreign operations	(290)	488
Other comprehensive (expense)/income, net of tax	(290)	488
Total comprehensive income for the year, net of tax	909	2,453
Total comprehensive income attributable to:		
The owners of the parent	909	2,453
Non-controlling interest	–	–

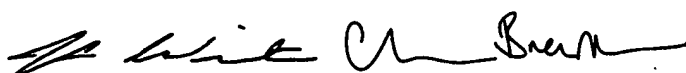
Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2023

	Notes	As at 31 December	
		2023 £'000	2022 £'000
Assets			
Non-current assets			
Goodwill	8	50,656	50,853
Intangible assets	9	20,584	25,283
Property, plant and equipment	10	403	448
Right-of-use-assets	23	2,819	2,924
Investments in joint ventures	11	1,119	1,305
Deferred tax assets	6.10	1,726	3,567
Other financial assets	13	70	70
Total non-current assets		77,377	84,450
Current assets			
Inventories	12	10,062	13,474
Trade receivables	13	13,294	13,568
Other current assets	13	1,417	715
Cash and cash equivalents	14	4,642	6,035
Total current assets		29,415	33,792
Total assets		106,792	118,242
Liabilities			
Current liabilities			
Lease liabilities	23	(914)	(852)
Trade payables	15	(10,808)	(15,497)
Current tax liabilities	6.10	(125)	(623)
Accrued charges and contract liabilities	19	(1,159)	(1,276)
Other current liabilities	20	(5,412)	(4,027)
Total current liabilities		(18,418)	(22,275)
Non-current liabilities			
Borrowings	16	(2,933)	(8,426)
Lease liabilities	23	(2,029)	(2,159)
Deferred tax liabilities	6.10	(4,015)	(4,773)
Contract liabilities	19	(293)	(372)
Provisions	17	(160)	(340)
Other non-current liabilities	18	(1,049)	(911)
Total non-current liabilities		(10,479)	(16,981)
Total liabilities		(28,897)	(39,256)
Net assets		77,895	78,986
Equity			
Share capital	22	12,022	12,019
Share premium		132,798	132,798
Reverse acquisition reserve		(56,762)	(56,762)
Accumulated losses		(12,781)	(11,977)
Other reserves		2,618	2,908
Equity attributable to the owners of the parent		77,895	78,986
Total equity		77,895	78,986

The accompanying notes on pages 80 to 127 form an integral part of these consolidated financial statements.

The financial statements on pages 74 to 127 were approved by the board of directors and authorised for issue on 11 April 2024. They were signed on their behalf by:



JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2023

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserve £'000	Total equity £'000
At 1 January 2023	12,019	132,798	(11,977)	(56,762)	2,908	78,986
Net profit	-	-	1,199	-	-	1,199
Other comprehensive expense	-	-	-	-	(290)	(290)
Total comprehensive income	-	-	1,199	-	(290)	909
Dividends paid	-	-	(2,644)	-	-	(2,644)
Exercise of share options	3	-	-	-	-	3
Share-based payments	-	-	641	-	-	641
At 31 December 2023	12,022	132,798	(12,781)	(56,762)	2,618	77,895

	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	12,019	132,798	(11,977)	(56,762)	2,908	78,986

Reverse acquisition reserve

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

Other reserve

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

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2023

	Notes	For the year ended 31 December	
		2023 £'000	2022 £'000
Operating activities			
Profit before tax		3,523	2,542
<i>Non-cash and operational adjustments</i>			
Share in net loss of joint venture	11	142	52
Depreciation of property, plant and equipment	10/23	1,092	1,118
Amortisation of intangible assets	9	6,613	6,685
Impairment of intangible assets	9	22	918
Share-based payment expense	26	1,278	542
Gain on disposal of intangible assets		–	(146)
Non-cash movement in provisions		(2)	202
Movement allowance for bad debt, inventories and provisions		757	105
Finance income		(675)	(260)
Finance expense		1,419	1,001
Impact of foreign currencies		–	(235)
Fair value adjustment contingent consideration		–	140
Gain from IFRS 16 lease modification		(9)	(6)
Exercise of share options	22	3	–
Movements in working capital			
Increase in trade receivables		(319)	(5,875)
Decrease/(increase) in inventories		2,257	(2,735)
(Decrease)/increase in payables		(3,261)	6,706
Income tax paid		(1,913)	(1,325)
Net cash flow from operating activities		10,927	9,429
Investing activities			
Purchase of property, plant and equipment	10	(52)	(407)
Purchase of intangible assets		(2,501)	(2,540)
Proceeds from the sale of intangible assets		–	153
Capital contribution in joint venture	11	(306)	(325)
Net cash flow used in investing activities		(2,859)	(3,119)
Financing activities			
Repayment of loans and borrowings		(5,252)	(1,320)
Repayment of IFRS 16 lease liability	23	(955)	(996)
Dividends paid	22	(2,644)	(2,644)
Interest paid		(646)	(444)
Other financial expense		(99)	(292)
Net cash flow used in financing activities		(9,596)	(5,696)
Net (decrease)/increase of cash and cash equivalents		(1,528)	614
Cash and cash equivalents at beginning of year	14	6,035	5,633
Exchange rate differences on cash and cash equivalents		135	(212)
Cash and cash equivalents at end of year	14	4,642	6,035



		For the year ended 31 December	
	Note	2023 £'000	2022 £'000
Reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents in the year		(1,528)	614
Cash flow from decrease in debt financing		5,252	1,320
Foreign exchange differences on cash and borrowings		376	(715)
Movement in net debt during the year		4,100	1,219
Net debt at the start of the year		(5,402)	(5,330)
Movement in lease liabilities during the year	23	68	(1,291)
Net debt at the end of the year		(1,234)	(5,402)

Notes to the Consolidated Financial Statements

YEAR ENDED 31 DECEMBER 2023

1. Financial information

Animalcare Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Moorside, Monks Cross, York, YO32 9LB. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out within the Directors' Report. Details of the subsidiaries can be found in Note 28.

2. Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("IFRS") and the applicable legal requirements of the Companies Act 2006 under the historical cost convention except for certain financial assets and liabilities measured at fair value. They have also been prepared in accordance with the requirements of the AIM Rules.

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

Note that Animalcare Group plc has provided a guarantee under section 479a of the Companies Act 2006 to Animalcare Limited and Identicare Limited for the companies to take exemption from audit.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3. The accounting policies have been applied consistently.

Changes to significant accounting policies are described in Note 3, if applicable.

The consolidated financial statements cover the year ended 31 December 2023 and comprise the consolidated results of the Group.

In preparing the financial statements of the Group we have considered the impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability Report. There has been no material impact on the financial statements for the current year, including estimates and judgements made in respect of impairment and going concern analyses. The Directors have also assessed climate change is not expected to have a meaningful impact on the Group in the medium term.

The Group's analysis on the impact of climate change continues to evolve as part of our ESG agenda.

Going concern

As at 31 December 2023, the Group's total facilities of €51.5m, due to expire 31 March 2025, consisted of 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.

We are currently in discussions with our four syndicate banks to increase our existing RCF from €41.5m to €44.0m with an extension of the maturity date to 31 March 2029. The acquisition line, which was drawn down by €3.4m at the year end, will be settled. We expect to complete the process by the end of April. The covenant requirements in the RCF will remain unchanged from the current RCF agreement, details of which are provided below.

Net debt to underlying EBITDA ratio of 3.5x; underlying EBITDA to interest ratio of minimum 4x; and solvency (total assets less goodwill/total equity less goodwill) greater than 25%. As at 31 December 2023 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report.

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, in particular when taking into consideration the Group's financial position following the post year end sale of Identicare for £24.9m and 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 due to the cash proceeds received from the disposal of Identicare for the Directors to continue to adopt the going concern basis in preparing the financial statements without making assumptions concerning the extension of the RCF facility due to expire on 31 March 2025, and complies with all its banking covenants associated with the current committed facilities throughout the going concern assessment period.

3. Summary of material accounting policies

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries.

Entities are fully consolidated from the date of acquisition, which is the date when the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the entities are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-Group balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends are fully eliminated.

The Group attributes profit or loss and each component of other comprehensive income to the owners of the parent Company and to the non-controlling interest based on present ownership interests, even if the results in the non-controlling interest have a negative balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over the subsidiary, it will derecognise the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the other components that are equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in profit or loss. If the Group retains an interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost.

The proportion allocated to the parent and non-controlling interests in preparing the consolidated financial statements is determined based solely on present ownership interests.

Non-underlying items

The Directors believe that presenting the Group's financial results on an underlying basis, which excludes non-underlying items, offers a clearer picture of business performance and hence provides useful information for shareholders. These measures are used by the Board and management for planning, internal reporting and setting Director and management incentive arrangements. In addition, they are used by the investor analyst community and are aligned to our strategy and KPIs. Underlying measures are not intended to be a substitute for, or superior to, IFRS results which include non-underlying items to provide the statutory results.

Non-underlying items are items of income or expense which, because of either their size, nature and/or the expected frequency of the events giving rise to them, merit separate presentation and disclosure as detailed in Note 4. The following key items are adjusted for in the calculation of underlying operating profit:

- Amortisation and impairment of acquired intangible assets through business combinations – these items are a result of past transactions, principally the reverse acquisition of Animalcare Group plc and the pre-reverse acquisition of Esteve, and while they are recorded as a cost to the Group each financial year, are not reflective of the underlying costs of the Group. Impairment is classified as non-underlying due to the significance and one-off nature.
- Acquisition and integration costs – these items principally relate to acquisition and subsequent integration activity which we view as strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations.
- Restructuring costs – the Group has recognised restructuring costs in a number of financial years since the reverse acquisition in 2017 and we expect such costs will likely arise in future as the Group develops and evolves. Certain of the more significant historic restructuring activities have spanned financial years, while in more recent years, notwithstanding costs are presented in the current and prior period, the costs are associated with separate and unrelated organisational restructuring and rationalisation activities. As such, the specific nature of the activities will be explained in Note 4 or its future equivalent. As with acquisition and integration costs, we consider restructuring costs strategic in nature, and therefore they are excluded from underlying EBITDA, hence underlying operating profit, as this is principally used to manage the performance of our operations.
- Gains and losses on divestment of fixed and intangible assets – the Group has made certain product divestments while undertaking a strategic review and rationalisation of our product portfolio. Gains and losses arising from such divestments are excluded from underlying results given their infrequency and non-trading nature.
- Share based payments in respect of Identicare Ltd (see Note 26) – while the Group continues to recognise share-based payment costs in relation to the long-term incentive plan within its underlying results, the charge in relation to the Identicare share-based payment arrangement inceptioned on 1 January 2022 has been treated as non-underlying. The key driver of this treatment and presentation is that the growth shares issued deliver value to the holder based on either the sale of Identicare, or after five years, the market (equity) value via a put option. As such, the plan is connected to the future value of Identicare and not trading (as the Group does not have a history of trading investments). In addition, as part of the arrangement is treated as cash-settled, this has and will likely create significant volatility in our results arising from movements in the fair value of this arrangement. Identicare Limited has been disposed of subsequent to the date of statement of financial position (See Note 29).
- Expenses relating to M&A and business development activities – these costs primarily relate to legal and professional fees associated with these activities and are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the costs of acquiring or disposing of a business rather than organically developed, these costs have been excluded from underlying EBITDA, hence underlying operating profit.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

3. Summary of material accounting policies CONTINUED

Non-controlling interests

The Group has the choice, on a transaction-by-transaction basis, to initially recognise any non-controlling interest in the acquiree that is a present ownership interest and entitles its holders to a proportionate share, of the entity's net assets in the event of liquidation at either acquisition date fair value or, at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other components of non-controlling interest such as outstanding share options are generally measured at fair value.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee. Operating segments are aggregated when they have similar economic characteristics which is the case when there is similarity in terms of: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment.

Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

The Group's consolidated financial statements are presented in pounds sterling ("GBP"), which is the Group's presentational currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using the functional currency. The functional currency of most subsidiaries of the Group is the euro. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for both the years ended 31 December 2022 and 2023. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "Exchange differences on translation of foreign operations".

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into functional currency at spot rate at the transaction date. Monetary items in the statement of financial position are translated at the closing rate at each reporting date and the relevant translation adjustments are recognised in financial or operating result depending on its nature.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

• Equipment	5 years
• Office furniture and office equipment	3-5 years or lease term if shorter
• Leasehold improvements	5 years or lease term if shorter
• Warehouse and office fittings	5-10 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Leases

The Group leases various vehicles and buildings. Rental contracts are typically made for fixed periods 1-10 years but may have extension options. Contracts may contain both lease and non-lease components. However, for lease of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate, which is the rate that the individual lessee would have to pay to borrow the funds

necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The term varies between four to five years.

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

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is attributable to one cash-generating unit for the purpose of impairment testing, being the lowest level at which business operations are monitored for internal management purposes.

Intangible assets

Intangible assets comprise the acquired product portfolios, research and development assets, licensing and distribution rights, customers acquired in connection with business combinations, product portfolios and product development costs, capitalised software and assets under construction related to intangible assets.

The useful life of the intangible assets is as follows:

Capitalised software	5 years
Patents, distribution rights and licenses	7-12 years
Product portfolios and product development	10 years
R&D assets	10 years

Intangible assets not yet available for use are assessed annually for impairment. Assets under construction are not amortised.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement based on its function which may be "cost of sales", "sales and marketing expenses", "research and development expenses" and "general and administrative expenses".

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

3. Summary of material accounting policies CONTINUED

Further, the Group has acquired certain intangible assets related to licenses with a fixed and variable consideration contingent upon the realisation of certain milestones and sales volumes. Due to the recognition of this license asset, the Group extends its accounting policies on intangible assets as follows:

The Group recognises an intangible asset for licenses obtained initially measured at the fixed consideration paid. The variable consideration subject to the realisation of the milestones will only be recognised when the milestones are met and will be recognised as an addition to the intangible license asset. Once market authorisation is obtained, the Group will start amortising the intangible asset over its useful life and recognise any future milestone payments as a cost of sale.

Internally generated intangible assets — research and development expenditures

Research and development includes the costs incurred by activities related to the development of software solutions (new products, updates and enhancements), guides and other products. Expenditures in research and development activities are recognised as an expense in the period in which they are incurred.

Development activities involve the application of research findings or other knowledge to a plan or a design of new or substantially improved (software) products before the start of the commercial use.

Internal development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Internal development expenditures not satisfying the above criteria and expenditures on the research phase are recognised in the consolidated income statement as incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets which are acquired separately.

Impairment of non-financial assets

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest Group of assets to which it belongs for which there are separately identifiable cash flows: its cash-generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

Impairment charges are included in profit or loss, except, where applicable, to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in joint ventures

The Group carries an investment in a joint venture STEM Animal Health Inc. ("STEM"). The Group's investments in its joint venture are accounted for using the equity method.

Under the equity method, the investment in the joint venture was initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of the joint venture is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of the change in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Group's interest in the joint venture (higher of value in use and fair value less costs to sell), and then recognises the loss as "Share of profit or loss of joint ventures" in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis; and
- Goods purchased for resale: purchase cost on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Financial assets

Financial assets are classified at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not at fair value through profit or loss or OCI. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost; and
- Financial assets at fair value through profit or loss.

Financial assets measured at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets, trade and other receivables, cash and cash equivalents at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial instruments measured at fair value through profit or loss

The Group has the following financial assets classified as financial assets at fair value through profit or loss:

- A call option on an additional stake in STEM as disclosed in Note 11 on investments in joint ventures.

Those financial assets are carried in the statement of financial position at fair value with changes recognised in the income statement in the lines financial income/expense.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

3. Summary of material accounting policies CONTINUED

Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the assets.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. A loss allowance is recognised at each reporting date based on lifetime ECLs. The Group established a provision matrix that is based on its historical loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

For all other receivables, ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Financial liabilities

The Group has financial liabilities measured at amortised cost which include loans and borrowings, trade payables and other payables and financial liabilities resulting from an interest rate swap.

Financial liabilities at amortised cost

Those financial liabilities are recognised initially at fair value plus directly attributable transaction costs and are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Derivative financial liabilities

The Group uses derivative financial instruments to hedge the exposure to changes in interest rates; however, the use of derivatives is limited and does not represent significant amounts. Derivative financial instruments are initially measured at fair value. After initial recognition, the financial instruments are measured at fair value through profit or loss.

Such hedging transactions do not qualify for hedge accounting criteria, although they offer economic hedging according to the Group's risk policy. Changes in the fair value of such instruments are recognised directly in the consolidated statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Share capital

Financial instruments issued by the Group are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends paid are recognised within the statement of changes in equity only when an obligation to pay the dividends arises prior to the year end.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions (with a corresponding movement in equity).

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value of the shares issued under the new long-term incentive plan were valued on a discounted cash flow basis in conjunction with a third-party valuation specialist.

For cash-settled share-based payments, a liability is recognised for the goods and services acquired, measured initially at the fair value of the liability. At the balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period. This policy is also applied to shares already in issue and subject to potential redemption by the Group, which are in effect redeemable shares.

Details of the arrangements in place are given in Note 26, along with details of the derivation of fair value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

The Group has short-term employee benefits which are recognised when the service is performed as a liability and expense. The short-term employee benefit is the undiscounted amount expected to be paid.

MANAGEMENT INCENTIVE PLANS

The Group operates incentive plans for certain of its employees. The liability recognised is the undiscounted amount expected to be paid.

EMPLOYEE BENEFITS – PENSIONS

The Group operates a stakeholder pension scheme available to eligible employees. Payments to this scheme are charged as an expense as they fall due.

Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods has passed to the customer. This review and the corresponding recognition of revenue encompass a number of factors which includes reviewing delivery arrangements and whether the buyer has accepted title, recognising revenue at the point at which full title has passed.

Provision for rebates and discounts is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and discounts are based on contractual and legal obligations, and historical trends and averages based on the last 12 months.

Sales of services

The Group recognises service revenue by reference to the stage of completion. As 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. Service sales includes commission income which is recognised at a point in time.

Up-front income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

Interest income

For all financial instruments measured at amortised cost, interest income would be recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income would be included under financial income in the income statement.

Financing costs

Financing costs relate to interests and other costs incurred by the Group related to the borrowing of funds. Such costs mostly relate to interest charges on short- and long-term borrowings as well as the amortisation of additional costs incurred on the issuance of the related debt. Financing costs are recognised in profit and loss for the year or capitalised in case they are related to a qualifying asset.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

3. Summary of material accounting policies CONTINUED

Other financial income and expenses

Other financial income and expenses include mainly foreign currency gains or losses on financial transactions and bank-related expenses.

Taxes

CURRENT INCOME TAX

Income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date.

Current income tax relating to items that are recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

DEFERRED TAX

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Events after balance sheet date

Events after the balance sheet date that provide additional information about the Company's position as at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes where material.

New standards adopted as of 2023

STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE ANNUAL PERIOD BEGINNING ON OR AFTER 1 JANUARY 2023

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (effective immediately – disclosures are required for annual periods beginning on or after 1 January 2023)

The Group has no transactions that would be affected by the newly effective standards or its accounting policies are already consistent with the new requirements. The Group has not early adopted any standards.

STANDARDS AND INTERPRETATIONS PUBLISHED, BUT NOT YET APPLICABLE FOR THE ANNUAL PERIOD BEGINNING ON 1 JANUARY 2023

The IFRS accounting standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective. These new standards will have no material impact on the Group's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the EU)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (applicable for annual periods beginning on or after 1 January 2024)
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (applicable for annual periods beginning on or after 1 January 2024, but not yet endorsed in the EU)
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (applicable for annual periods beginning on or after 1 January 2025, but not yet endorsed in the EU)

Material accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities for future periods.

On an ongoing basis, the Group evaluates its estimates, assumptions and judgements, including those related to revenue recognition, development expenses, income taxes, impairment of goodwill, intangible assets and property, plant and equipment and investments in joint ventures.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Internally developed intangible assets

Under IAS 38, internally generated intangible assets from the development phase are recognised if certain conditions are met. These conditions include the technical feasibility, intention to complete, the ability to use or sell the asset under development, and the demonstration of how the asset will generate probable future economic benefits. The cost of a recognised internally generated intangible asset comprises all directly attributable costs necessary to make the asset capable of being used as intended by management. In contrast, all expenditures arising from the research phase are expensed as incurred.

Determining whether internally generated intangible assets from development are to be recognised as intangible assets requires significant judgement, particularly in determining whether the activities are considered research activities or development activities, whether the product enhancement is substantial, whether the completion of the asset is technically feasible considering a company-specific approach, and the probability of future economic benefits from the sale or use.

Management has determined that the conditions for recognising internally generated intangible assets resulting from product development activities are fulfilled only when the product attains technical and commercial feasibility. The Group continually evaluates this assessment to ensure compliance with established criteria.

Income taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As at 31 December 2023, the Group had £1,636k (2022: £2,565k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group (Note 6.10).

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

3. Summary of material accounting policies CONTINUED

Impairment of goodwill

The Group has goodwill for a total amount of £50,656k (2022: £50,853k), which has been subject to an impairment test. The goodwill is tested for impairment based on the value in use ("VIU"). The key assumptions for the VIU calculations are disclosed and further explained in Note 8.

Impairment of slow-moving and obsolete inventory

The Group performs regular stockholding reviews, in conjunction with sales and market information, to help determine any slow-moving or obsolete lines. Where identified, adequate provision is made in the financial statements for writing down or writing off the value of such lines in order to reflect the realisable value of its stock.

STEM Animal Health Inc. – Joint control

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 CAD\$3.0m, of which CAD\$2.0m was paid in prior years, CAD\$0.5m during the financial year and CAD\$0.5m payable in September 2024.

The Group has a call option, for a period until 28 September 2026, to acquire an additional 18.0% in STEM for CAD\$4.0 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 through the equity method in the consolidated financial statements.

Separately, the Group also entered into a licensing agreement under which it will invest a further CAD\$2.0m, 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 of the Americas.

Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

The Group has made license payments totalling CAD\$1.2m of which CAD\$0.7m was paid during the current financial year. The first sales-related milestone is expected to be paid in 2024, resulting in a short-term payment of CAD\$387k or £229k. The second and final sales-related milestone is due after 2024, hence considered as a long-term payable, the expected settlement amount of which is CAD\$361k or £214k.

Further, for the capital contribution, the outstanding short-term liability is £297k (2022: £292k), shown in the balance sheet as other current liability.

In determining the appropriate accounting treatment for STEM, management applied significant judgement. If management's judgements were to change, this would result in consolidating STEM.

The following are the key considerations and judgements applied by management in concluding:

- STEM established during 2020 with a global license over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free right and license in the market and to develop, manufacture and commercialise the products and to practice the licensed intellectual property.
- Management is of the view that the Group does not have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management considers that the call option is not substantive and not favourable as of 31 December 2023 in terms of future benefits and the value attached to the option.
- The Group will continuously and on an annual basis monitor whether the call option is substantive or not. As such, it is possible that, in the future, management may have to conclude that the potential voting rights become substantive and that the potential voting rights together with the existing voting rights provide the Group control over STEM.
- Management is of the view that based on the nature of the pre-agreed decisions that require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group does not have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that, based on the IFRS 11 – 'Joint Arrangement' flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

Orthros Medical – Pre-paid research

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, Animalcare has made upfront payments to Orthros Medical.

When a milestone is met, the Group assesses whether the subsequent upfront payment is for the acquisition of an intangible or for pre-paid research recognised as cost in the p&l. The pre-paid research proportion of the upfront license payments is measured by identifying the estimated research expenses by Orthros Medical for the next stage of research up to the next milestone payment and allocating the portion of this cost attributable to the Group based on the Group's share of Orthros' total funding scheme.

Cash-settled share-based payment arrangements

The Group has entered into an arrangement whereby growth shares have been issued in a subsidiary, Identicare Ltd, which ties to employment and could be obligated to be bought back by the Group in certain instances. The Directors have determined that this share-based payment arrangement is partially cash-settled and partially equity-settled. Details of the arrangement and its valuation are provided in Note 26.

Disposal of Identicare Limited

As set out in Note 29, the Group disposed of its subsidiary, Identicare Limited, subsequent to the date of the statement of financial position. The disposal was assessed against the criteria of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations and was found to not meet the criteria for an asset held for sale at the date of the statement of financial position due to not being assessed as highly probable at that date as due diligence activities did not commence until post year end.

4. Non-underlying items

	For the year ended 31 December	
	2023 £'000	2022 £'000
Amortisation and impairment of acquisition related intangibles		
Classified within research and development expenses	646	667
Classified within general and administrative expenses	3,539	3,794
Impairment losses	22	895
Total amortisation and impairment of acquisition-related intangibles	4,207	5,356
Restructuring costs	14	282
Acquisition and integration costs	–	335
Impairment on intangibles	–	23
Divestments and business disposals	–	(146)
COVID-19	–	2
Long-term incentive plan Identicare Ltd	801	220
UK and Spain office relocation costs	5	182
Expenses relating to M&A and business development activities	193	–
Other non-underlying items	178	263
Total non-underlying items before taxes	5,398	6,517
Tax impact	(52)	(910)
Total non-underlying items after taxes	5,346	5,607

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

4. Non-underlying items CONTINUED

The following table shows the breakdown of non-underlying items before taxes by category for 2023 and 2022:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Classified within research and development expenses	646	667
Classified within general and administrative expenses	4,340	4,013
Classified within net other operating (expense)/income	390	919
Impairment losses	22	918
Total non-underlying items before taxes	5,398	6,517

The current year £4,340k general and administrative expenses principally encompass amortisation and impairment of acquisition related intangibles of £3,539k and a share based payment charge of £801k of which £637k is related to the cash settled portion of the share based payment arrangement of Identicare Ltd (see Note 26).

Non-underlying items totalling £5,398k (2022: £6,517k) relating to profit before tax incurred in the year principally comprise:

- Amortisation and impairment of acquisition-related intangibles of £4,207k (2022: £5,356k). The current year charge comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV of £4,185k (2022: £4,461k) and a non-cash impairment charge of in-process R&D assets £22k (2022: £895k) that formed part of the acquired development pipeline. The principal driver for the prior year charge was manufacturing challenges that significantly impacted the timing and costs to resume supply with appropriate commercial returns. This brand has subsequently been withdrawn from the market.
- Restructuring costs of £14k (2022: £282k) primarily relate to costs associated with the reorganisation of our Benelux operations.
- Costs associated with the relocation of our Spain and UK operations totalling £5k (2022: £182k) include one-off move costs and dilapidation provisions.
- Expenses relating to M&A and business development activities of £193k (2022: £nil) represent legal and professional fees incurred on these activities, including the disposal of Identicare post year end.
- Other non-underlying items largely relating to legal costs.

Non-underlying items are excluded for KPI purposes as shown in the section on Key Performance Indicators.

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 2023 and 2022. As management's internal reporting structure is principally revenue and profit-based, the reporting information does not include assets and liabilities by segment and is as such not presented per segment.

	For the year ended 31 December	
	2023 £'000	2022 £'000
Revenues ('000)	74,351	71,616
Gross profit ('000)	43,346	40,659
Gross profit %	58	57
Segment underlying EBITDA ('000)	13,327	13,131
Segment underlying EBITDA %	18	18
Segment EBITDA ('000)	12,136	11,993
Segment EBITDA %	16	17

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

	For the year ended 31 December	
	2023 £'000	2022 £'000
Underlying EBITDA	13,327	13,131
Non-recurring expenses (excluding amortisation and impairment)	(1,191)	(1,138)
EBITDA	12,136	11,993
Depreciation, amortisation and impairment	(7,727)	(8,757)
Operating profit	4,409	3,236
Finance costs	(1,419)	(1,752)
Finance income	675	1,110
Share of net loss of joint venture accounted for using the equity method	(142)	(52)
Income taxes	(1,258)	(1,637)
Deferred taxes	(1,066)	1,060
Profit for the period	1,199	1,965

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

5. Segment information CONTINUED

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

	As at 31 December	
	2023 £'000	2022 £'000
Belgium	9,484	7,510
Spain	3,458	3,695
Portugal	4,080	4,234
UK	56,252	59,184
Other	2,377	6,260
Non-current assets excluding deferred tax assets	75,651	80,883

Revenue by product category

	For the year ended 31 December	
	2023 £'000	2022 £'000
Companion animals	52,214	50,217
Production animals	15,790	15,674
Equine	6,339	5,698
Other	8	27
Total	74,351	71,616

Revenue by geographical area

	For the year ended 31 December	
	2023 £'000	2022 £'000
Belgium	3,560	3,354
The Netherlands	2,115	1,627
United Kingdom	16,860	15,257
Germany	10,045	10,056
Spain	20,419	19,724
Italy	8,785	8,404
Portugal	4,357	4,215
European Union- other	6,875	7,199
Asia	490	494
Middle East & Africa	12	17
Other	833	1,269
Total	74,351	71,616



Revenue by category

	For the year ended 31 December	
	2023 £'000	2022 £'000
Product sales	71,411	69,642
Services sales	2,940	1,974
Total	74,351	71,616

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. Income and expenses

6.1 Cost of sales

Cost of sales includes the following expenses:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Purchase of goods and services	28,411	29,780
Stock write off	441	462
Movement in stock provision	591	(349)
Payroll expenses	99	174
Other expenses	1,463	890
Total	31,005	30,957

6.2 Research and development expenses

Research and development expenses include the following:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Amortisation and depreciation	1,018	1,239
Payroll expenses	1,583	1,403
Other R&D expenses	500	388
Total	3,101	3,030

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

6. Income and expenses CONTINUED

6.3 Selling and marketing expenses

Selling and marketing expenses include the following:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Transport costs of sold goods	856	1,023
Promotion costs	1,786	2,035
Payroll expenses	9,134	9,220
Amortisation and depreciation	1	1
Other	539	1,268
Total	12,316	13,547

6.4 General and administrative expenses

General and administrative expenses include the following:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Amortisation and depreciation	6,686	6,561
Payroll expenses	6,417	4,904
Other	10,007	7,548
Total	23,110	19,013

The expenses in "Other" mainly relate to fees paid for services, training and seminars, IT and software-related costs, and travel and representation.

6.5 Net other operating (expense)/income

The net other operating (income)/expense can be detailed as follows:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Re-invoicing of costs	2	(8)
Non-cash movement in IFRS 16 liability	(11)	(6)
Other operating income	–	(243)
Other operating expenses	397	1,172
Total	388	915

Other operating expenses of £397k (2022: £1,172k) principally relate to the non-underlying items disclosed in Note 4.

Other operating income in 2023 and 2022 mainly relates to income on the sale of several product divestments in connection with the cessation of the production animals portfolio in Benelux.



6.6 Expenses by nature

The table below relates to operating expenses and does not include cost of sales.

	For the year ended 31 December	
	2023 £'000	2022 £'000
Other operating lease rentals/short-term leases	180	946
Employee expenses	17,134	15,527
Depreciation and amortisation	7,705	7,803
Transport costs sold goods	856	1,023
Promotion costs	1,786	2,035
Other operating expense- Note 6.5	388	915
Impairment losses	22	918
Other expenses	10,866	8,256
Total expenses	38,937	37,423

6.7 Payroll expenses

The following table shows the breakdown of payroll expenses for 2023 and 2022:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Wages and salaries	14,775	13,450
Social security costs	2,112	2,002
Other pension costs	346	249
Total	17,233	15,701
The monthly average number of employees during the year was as follows:		
Sales and administration	226	219
Distribution	–	1

Included in the payroll expenses for the year is the total charge in respect of all share-based payments of £1,278k (2022: £542k), including £801k (2022: £220k) in non underlying items (see Note 4 and Note 26 for further details).

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

6. Income and expenses CONTINUED

DIRECTORS EMOLUMENTS

The various elements of remuneration received by each Director were as follows:

	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Total £'000
Year ended 31 December 2023					
J Boone*	70	–	–	–	70
C Brewster	230	86	29	16	361
M Coucke*	40	–	–	–	40
D Hutchens*	45	–	–	–	45
S Metayer*	45	–	–	–	45
E Torr*	45	–	–	–	45
J Winter	336	155	–	15	506
Total	811	241	29	31	1,112

	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Total £'000
Year ended 31 December 2022					
J Boone*	70	–	–	–	70
C Brewster	230	–	22	14	266
M Coucke*	40	–	–	–	40
N Downshire *	17	–	–	–	17
D Hutchens*	38	–	–	–	38
S Metayer*	30	–	–	–	30
E Torr*	45	–	–	–	45
J Winter	336	–	–	15	351
Total	806	–	22	29	857

* Indicates Non-Executive Directors

Chris Brewster's benefits during 2023 comprise a company car (£13.8k) and private medical insurance (£2.4k). Pension contributions for 2023 were £26.7k plus a backdated payment of £2.5k which was deferred from 2022. 2022 benefits comprised a car allowance pro-rated to 31 August (£7.0k) which was replaced by a company car from 1 September, with a pro-rated lease cost of £4.5k from 1 September to 31 December, and private medical insurance (£2.4k).

Nick Downshire ceased to be a Director on 7 June 2022. His annual fee of £40.0k was pro-rated to his date of resignation; the pro-rated fee for 2022 was £17.4k.

Doug Hutchens received a fee of £45.0k for 2023. Doug was appointed as a Director on 10 February 2022 for an annual fee of £40.0k. He was appointed to the two Board committees on 7 June 2022 and his annual fee was increased to £45k. Annual fees were pro-rated from the dates of appointment; the total fee paid in 2022 was £38.1k.

Sylvia Metayer received a fee of £40.0k and an additional annual fee of £5.0k for her role as Chair of the Audit & Risk Committee. In 2022 the total fee received was £29.9k pro-rata with effect from 3 May 2022 appointment.

Ed Torr received an annual fee of £40.0k (2022: £40.0k) and an additional fee of £5.0k (2022: £5.0k) for his role as Chair of the Remuneration and Nomination Committee.

Jennifer Winter's benefits comprise a car allowance of £10.5k (2022: £10.5k) and private medical insurance of £4.4k (2022: £4.4k).

Long Term Incentive Plan

During the year, a total of 194,346 options over ordinary shares were granted to certain members of the Senior Executive Team and senior management. Due to MAR related restrictions, the award of 439,690 options was deferred until April 2024. The total number of options granted in respect of the 2023 award including deferred options awarded in April 2024 was 634,037 options over ordinary shares.

Details of the performance targets set and actual achievement against them in respect of the 2020 LTIP awards vesting, based on three-year performance to 31 December 2023, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2023	11.6p	13.4p	11.0p	0%
TSR	50%	31 December 2023	Median	Upper quartile	Upper quartile	100%

On assessment of the three-year performance period as set out above, a total of 164,982 options granted to the Executive Directors and members of the Senior Executive Team vested under this award.

These options have yet to be exercised; the participants have seven years in which to exercise these options.

The individual interests of the Executive Directors under the LTIP are set out below:

	Date of grant	End of three-year performance period	Number of LTIP nil cost options awarded	Vested but not exercised	Lapsed	Total remaining
Jennifer Winter	06/06/19	06/06/22	177,570	73,732	103,838	73,732
	17/11/20	31/12/23	165,761	82,880	82,881	82,880
	05/11/21	31/12/24	106,844	–	–	106,844
	28/04/22	01/07/25	130,620	–	–	130,620
Chris Brewster	06/06/19	06/06/22	76,636	31,821	44,815	31,821
	17/11/20	31/12/23	66,848	33,424	33,424	33,424
	05/11/21	31/12/24	43,806	–	–	43,806
	28/04/22	01/07/25	53,488	–	–	53,488

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company as at 31 December 2023 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2023	Acquired/ (disposed) during the period	Number of shares held as at 31 December 2023	Percentage of ISC as at 31 December 2023
Jan Boone	137,890	–	137,890	0.23
Chris Brewster	280,513	–	280,513	0.47
Marc Coucke ¹	14,558,974	192,700	14,751,674	24.54
Ed Torr	107,455	–	107,455	0.18
Jennifer Winter	7,000	–	7,000	0.01

¹ Marc Coucke acquired 192,700 shares pursuant to the Company's dividend reinvestment plan on 24 July 2023.

There were no changes in the Directors' interests in shares between 31 December 2023 and the date of these financial statements.

Further information relating to Directors' share options is set out in Note 26.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

6. Income and expenses CONTINUED

6.8 Finance costs

Finance costs include the following elements:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Interest expense	646	444
Foreign currency losses	456	985
Unwind of discount on other liabilities	104	124
Other finance costs	213	199
Total	1,419	1,752

6.9 Finance income

Finance income includes the following elements:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Foreign currency exchange gains	501	1,060
Income from financial assets	124	39
Other finance income	50	11
Total	675	1,110

6.10 Income tax expense

CURRENT TAX LIABILITIES

Current tax liabilities solely relate to income taxes of £125k (2022: £623k).

INCOME TAX EXPENSE

The following table shows the breakdown of the tax expense for 2023 and 2022:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Current tax charge	(1,354)	(1,685)
Tax adjustments in respect of previous years	96	48
Total current tax charge	(1,258)	(1,637)
Deferred tax – origination and reversal of temporary differences	(945)	774
Deferred tax – adjustments in respect of previous years	(121)	286
Total deferred tax (charge)/credit	(1,066)	1,060
Total tax expense for the year	(2,324)	(577)



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

	For the year ended 31 December	
	2023 £'000	2022 £'000
Profit before tax	3,523	2,542
Share of net loss of joint ventures	142	52
Profit before tax, excl. share in net loss of joint venture	3,665	2,594
Tax at 23.5% (2022: 19.0%)	(861)	(493)
Effect of:		
Overseas tax rates	(66)	(389)
Non-deductible expenses	(432)	(99)
Use of tax losses previously not recognised	-	(24)
Changes in statutory enacted tax rate	(1,001)	93
Tax adjustments in respect of previous year	(25)	334
Non-recognition of deferred tax on current year losses	(15)	(21)
Non-recognised deferred tax assets on timing differences	108	15
R&D relief	-	53
Other	(32)	(46)
Income tax expense as reported in the consolidated income statement	(2,324)	(577)

The tax credit of £52k (2022: credit of £910k) shown within "Non-underlying items" on the face of the consolidated income statement, which forms part of the overall tax charge of £2,324k (2022: £577k), relates to the items in Note 4.

The tax rates used for the 2023 and 2022 reconciliation above are the corporate tax rates of 25.0% (Belgium), 19.0% (the Netherlands), 30.7% (Germany), 33.0% (France), 25.0% (Spain), 24.0% (Italy), 21.0% (Portugal) and 23.5% (the United Kingdom rate representing a blended rate of 19.0% up until 1 April 2023 then 25.0% thereafter). 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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Goodwill	-	-	(1,444)	(1,290)	(1,444)	(1,290)
Intangible assets	335	329	(2,860)	(2,722)	(2,525)	(2,393)
Property, plant and equipment	-	-	(645)	(707)	(645)	(707)
Financial fixed assets	1	1	-	-	1	1
Inventory	-	-	(54)	(54)	(54)	(54)
Trade and other receivables/(payables)	30	71	-	-	30	71
Borrowings	580	565	-	-	580	565
Provisions	-	4	-	-	-	4
Accruals and deferred income	132	32	-	-	132	32
Tax losses carried forward	1,636	2,565	-	-	1,636	2,565
Total	2,714	3,567	(5,003)	(4,773)	(2,289)	(1,206)

The table above presents deferred tax assets and liabilities on a gross basis prior to allowable offsetting within tax jurisdictions as presented on the face of the Consolidated statement of financial position.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

6. Income and expenses CONTINUED

(b) MOVEMENTS DURING THE YEAR

Movement of deferred taxes during 2023:

	Balance as at 1 January 2023 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	Balance as at 31 December 2023 £'000
Goodwill	(1,290)	(181)	27	(1,444)
Intangible assets	(2,393)	(125)	(7)	(2,525)
Property, plant and equipment	(707)	48	14	(645)
Financial fixed assets	1	-	-	1
Inventory	(54)	-	-	(54)
Trade and other receivables/(payables)	71	(28)	(13)	30
Accruals and deferred income	32	100	-	132
Borrowings	565	26	(11)	580
Provisions	4	-	(4)	-
Tax losses carry forward and other tax benefits	2,565	(906)	(23)	1,636
Net deferred tax	(1,206)	(1,066)	(17)	(2,289)

Movement of deferred taxes during 2022:

	Balance at 1 January 2022 £'000	Recognised in income £'000	Foreign exchange adjustments £'000	Balance at 31 December 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)

Tax losses

The Group has unused tax losses, tax credits and notional interest deduction available in an amount of £6,549k for 2023 (2022: £11,361k). The tax losses carry forward indefinitely, as there is no expiration date prescribed for their utilisation.

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,636k (2022: £2,565k). 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 £325k of the deferred tax asset will be recovered within the next 12 months and the remaining £1,311k 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 £108k in 2023 (2022: £15k). The total unrecognised tax losses as at 31 December 2023 were £2,497k (2022: £2,605k).



7. 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 for the period

	As at 31 December			
	Underlying 2023 £'000	Underlying 2022 £'000	Total 2023 £'000	Total 2022 £'000
Net profit for the year	6,545	7,572	1,199	1,965
Net profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	6,545	7,572	1,199	1,965

Average number of shares (basic and diluted)

	As at 31 December			
	Underlying 2023 Number	Underlying 2022 Number	Total 2023 Number	Total 2022 Number
Number of shares				
Weighted average number of ordinary shares for basic earnings per share	60,231,020	60,175,407	60,231,020	60,175,407
Dilutive potential ordinary share options	423,222	629,087	423,222	629,087
Weighted average number of ordinary shares adjusted for effect of dilution	60,654,242	60,804,494	60,654,242	60,804,494

Basic earnings per share

	As at 31 December			
	Underlying 2023 pence	Underlying 2022 pence	Total 2023 pence	Total 2022 pence
From operations attributable to the ordinary equity holders of the company	10.9	12.6	2.0	3.3
Total basic earnings per share attributable to the ordinary equity holders of the company	10.9	12.6	2.0	3.3

Diluted earnings per share

	As at 31 December			
	Underlying 2023 pence	Underlying 2022 pence	Total 2023 pence	Total 2022 pence
From operations attributable to the ordinary equity holders of the Company	10.8	12.5	2.0	3.2
Total diluted earnings per share attributable to the ordinary equity holders of the Company	10.8	12.5	2.0	3.2

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

8. Goodwill

On acquisition, goodwill acquired in a business combination is allocated to the cash-generating units ("CGUs") which are expected to benefit from that business combination. This CGU corresponds to the nature of the business, being pharmaceuticals. The goodwill has been allocated to the CGU as follows:

	As at 31 December	
	2023 £'000	2022 £'000
CGU: Pharmaceuticals	50,656	50,853
Total	50,656	50,853

The changes in the carrying value of the goodwill can be presented as follows for the years 2023 and 2022:

	Total £'000
As at 1 January 2022	50,337
Currency translation	516
As at 31 December 2022	50,853
As at 1 January 2023	50,853
Currency translation	(197)
As at 31 December 2023	50,656

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 more significantly following the reverse acquisition of Animalcare Group plc in 2017 which gave rise to goodwill of £41,048k.

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

	2023 %	2022 %
Discount rate (pre-tax)	13.3	14.2
Growth rate (in perpetuity)	2.0	2.0

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a 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 £18.0m 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 £13.7m but would not give rise to an impairment.



9. Intangible assets

The changes in the carrying value of the intangible assets can be presented as follows for the years 2023 and 2022:

	R&D assets £'000	Patents, distribution rights and licenses £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Intangible assets under construction £'000	Total £'000
Acquisition value/cost						
As at 1 January 2022	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	12,799	19,008	41,058	4,399	127	77,391
At 1 January 2023	12,799	19,008	41,058	4,399	127	77,391
Additions	294	29	452	889	427	2,091
Disposals	(52)	–	–	(261)	–	(313)
Transfers	(204)	31	485	37	(349)	–
Currency translation	(94)	(291)	(372)	(61)	(2)	(820)
As at 31 December 2023	12,743	18,777	41,623	5,003	203	78,349

	R&D assets £'000	Patents, distribution rights and licenses £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Intangible assets under construction £'000	Total £'000
Accumulated amortisation						
As at 1 January 2022	(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	(6,537)	(16,392)	(26,346)	(2,833)	–	(52,108)
At 1 January 2023	(6,537)	(16,392)	(26,346)	(2,833)	–	(52,108)
Amortisation	(1,019)	(1,061)	(3,209)	(1,324)	–	(6,613)
Disposals	52	–	–	261	–	313
Impairments	(22)	–	–	–	–	(22)
Currency translation	58	268	297	42	–	665
As at 31 December 2023	(7,468)	(17,185)	(29,258)	(3,854)	–	(57,765)

Net carrying value						
As at 31 December 2023	5,275	1,592	12,365	1,149	203	20,584
As at 31 December 2022	6,262	2,616	14,712	1,566	127	25,283

R&D relates 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 R&D costs for which the capitalisation criteria are met. Patents, distribution rights and licenses 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.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

9. Intangible assets CONTINUED

The net book value of non-commercialised development projects is £2,047k (2022: £1,513k) and is allocated to R&D assets for £1,613k and Product Portfolios and product development costs for £434k. No amortisation was charged.

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 2023 is £6,613k (2022: £6,685k), which is included in lines R&D expenses, selling and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation charge is £4,185k (2022: £4,461k) relating to acquisition-related intangibles and £2,428k (2022: £2,224k) relating to other intangibles.

A total impairment charge of £22k (2022: £918k) was recorded during the financial year. Thereof £22k (2022: £895k) is related to a non-cash impairment charge of acquisition-related intangibles of R&D assets. In 2023, Animalcare Group plc invested £2,091k (2022: £2,540k) in intangible assets.

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, Animalcare has made upfront payments to Orthros Medical totalling €400k in the prior year, and €200k during the period. Of which €530k is recognised as intangible asset under "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 €11m, 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.

The transfers of intangible assets under construction involves the allocation of internally generated assets to various R&D projects, including those relating to patents, distribution rights, licences, as well as product portfolios and development costs. Transfers from R&D assets to product portfolios and development costs occur when an R&D project advances to a stage where it is ready for commercialisation. Subsequently, the transferred value of these assets initiates depreciation in accordance with their remaining useful life.



10. Property, plant and equipment

The changes in the carrying value of the property, plant and for 2023 and 2022 are presented below:

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fittings £'000	Leasehold improvements £'000	Total £'000
Acquisition value/cost					
As at 1 January 2022	254	1,553	169	302	2,278
Additions	99	166	142	–	407
Disposals	(100)	(97)	(169)	(32)	(398)
Currency translation	15	65	–	15	95
As at 31 December 2022	268	1,687	142	285	2,382
As at 1 January 2023	268	1,687	142	285	2,382
Additions	2	50	–	–	52
Disposals	(9)	(337)	–	–	(346)
Currency translation	(5)	(25)	–	(6)	(36)
As at 31 December 2023	256	1,375	142	279	2,052
Accumulated depreciation					
As at 1 January 2022	(249)	(1,466)	(149)	(282)	(2,146)
Depreciation charge for the year	(11)	(59)	(21)	(4)	(95)
Disposals	99	94	165	32	390
Currency translation	(10)	(59)	–	(14)	(83)
As at 31 December 2022	(171)	(1,490)	(5)	(268)	(1,934)
At 1 January 2023	(171)	(1,490)	(5)	(268)	(1,934)
Depreciation charge for the year	(11)	(57)	(20)	(3)	(91)
Disposals	9	337	–	–	346
Currency translation	3	23	–	4	30
As at 31 December 2023	(170)	(1,187)	(25)	(267)	(1,649)
Net book value					
As at 31 December 2023	86	188	117	12	403
As at 31 December 2022	97	197	137	17	448

Borrowing costs

No borrowing costs were capitalised during the year ended 31 December 2023 or 31 December 2022.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

11. 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 CAD\$3m, of which CAD\$2.0m was paid in prior years, CAD\$0.5m (£306k) during the financial year and CAD\$0.5m payable in September 2024. Both the remaining equity investment in STEM and the licensing fee are expected to be paid from existing cash resources.

The Group has a call option, for a period until 28 September 2026, to acquire an additional 18% stake in STEM for CAD\$4m. Based on the existing voting rights (33.34%) and other contractual arrangements, the Group does not have power over the investee. Further disclosure is provided in Note 3. Accordingly, the investment in STEM is accounted for through the equity method in the consolidated financial statements.

Separately, the Group also entered into a licensing agreement, under which it will invest a further CAD\$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.

The Group has made license payments totalling CAD\$1.2m, of which CAD\$0.7m was paid during the current financial year. The first sales-related milestone is expected to be paid in 2024, resulting in a short-term payment of CAD\$387k or £229k. The second and final sales-related milestone is due after 2024, hence considered as a long-term payable, the expected settlement amount of which is CAD\$361k or £214k.

Further, for the capital contribution, the outstanding short-term liability is £297k (2022: £292k), shown in the balance sheet as other current liability.

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2023 %	2022 %			2023 £'000	2022 £'000
STEM Animal Health Inc.	Canada	33.34%	33.34%	Joint Venture	Equity method	1,119	1,305

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 joint venture followed by Animalcare's share of those amounts.

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Non-current assets	94	321
Current assets	1,459	1,511
Total assets	1,553	1,832
Current liabilities	865	825
Total liabilities	865	825
Net assets	688	1,007



The below table shows the Animalcare group share at 33%:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Net assets	229	336
Goodwill	570	561
Fair value identified intangibles	435	555
Deferred tax liability	(115)	(147)
Investment value in joint venture	1,119	1,305

Summarised statement of comprehensive income:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Sales	1,576	1,581
Operating expenses	(1,872)	(1,651)
Financial result, net	12	65
Net loss for the year	(284)	(5)

The below table shows the Animalcare group share at 33%:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Group share in net loss for the year	(95)	(2)
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	(47)	(50)
Total Group share in net loss for the year	(142)	(52)
Other comprehensive (expense)/income	(44)	67
Group share in total comprehensive (expense)/income	(186)	15

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

	£'000	£'000
As at 1 January	1,305	1,290
Acquisition in joint venture	-	-
Group share of net loss for the year	(142)	(52)
Foreign currency translation differences	(44)	67
As at 31 December	1,119	1,305

On 11 April 2024 we announced that, subject to Kane Biotech Inc. shareholder approval, the Group will sell its one-third equity stake in STEM to Dechra Pharmaceuticals Limited (formerly known as Dechra Pharmaceuticals PLC). The deal is expected to complete on 12 April 2024. Further details are provided in Note 29.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

12. Inventories

Inventories include the following:

	As at 31 December	
	2023 £'000	2022 £'000
Raw materials	1,826	2,179
Goods purchased for resale	8,236	11,295
Total inventories (at cost or net realisable value)	10,062	13,474

The amount of inventory recognised as an expense during 2023 amounts to £28,411k (2022: £29,780k). The inventory includes a provision for write-off of £896k (2022: £354k). Inventory write-offs during 2023 amounted to £441k (2022: £462k). These costs are classified as part of the costs of goods sold.

13. Trade receivables, other current assets and other non current financial assets

Trade receivables include the following:

	As at 31 December	
	2023 £'000	2022 £'000
Trade receivables	13,326	13,631
Expected credit loss	(32)	(63)
Total	13,294	13,568

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. Trade receivables are non-interest-bearing and are generally on payment terms of between 30 and 90 days.

As at 31 December 2023, trade receivables of an initial value of £32k (2022: £63k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

	£'000
As at 1 January 2022	(77)
Reversal impairment	19
Exchange difference	(5)
As at 31 December 2022	(63)
At 1 January, 2023	(63)
Reversal impairment	44
Exchange difference	(13)
Aa as 31 December 2023	(32)

Other current assets include the following:

	As at 31 December	
	2023 £'000	2022 £'000
Other receivables	1,129	688
Deferred charges	288	27
Total	1,417	715

Other current assets amount to £1,417k (2022: £715k) at the end of the reporting year and mainly include reclaimable current income taxes and recoverable VAT.

Deferred charges mainly include prepayments totalling £288k (2022: £27k).

Other non-current financial assets are cash guarantees and amount to £70k (2022: £70k) at the end of the reporting year.



14. Cash and cash equivalents

Cash and cash equivalents include the following:

	As at 31 December	
	2023 £'000	2022 £'000
Cash at bank	4,642	5,976
Cash equivalents	–	59
Total	4,642	6,035

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. There were no restrictions on cash during 2023 and 2022.

15. Trade payables

	As at 31 December	
	2023 £'000	2022 £'000
Trade payables	10,808	15,497
Total	10,808	15,497

The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Borrowings

The loans and borrowings include the following:

	Interest rate	Maturity	As at 31 December	
			2023 £'000	2022 £'000
Revolving credit facilities	Euribor +1.50%	March 2025	–	4,435
Acquisition loan	Euribor +1.75%	March 2025	2,933	3,991
Lease liabilities	See Note 23		2,943	3,011
Total loans and borrowings			5,876	11,437
Of which				
Non-current			4,962	10,585
Current			914	852

Borrowing facilities

As at 31 December 2023, the Group had total facilities of €51.5m, due to expire 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 had a bullet maturity in March 2025.

We are currently in discussions with our four syndicate banks to increase our existing RCF from €41.5m to €44.0m with an extension of the maturity date to 31 March 2029. The acquisition line, which was drawn down by €3.4m at the year end, will be settled. We expect to complete the process by the end of April. The covenant requirements in the RCF will remain unchanged from the current RCF agreement, details of which are provided below.

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.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

16. Borrowings CONTINUED

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

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

Net cash at the year end, pre IFRS16 leases, was £1.7m (31 December 2022: £2.4 million debt) with the RCF unutilised, leaving headroom of £40.7m excluding the undrawn acquisition line.

As at 31 December 2023 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

Net debt reconciliation

	For the year ended 31 December	
	2023 £'000	2022 £'000
Net debt		
Cash and cash equivalents	4,642	6,035
Borrowings	(2,933)	(8,426)
Lease liabilities	(2,943)	(3,011)
Total	(1,234)	(5,402)

	Liabilities from financing activities		Other assets	Total £'000
	Borrowings £'000	Leases £'000	Cash £'000	
Net debt as at 1 January 2022	(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	(148)	(145)	(212)	(506)
Interest expense	(354)	(90)	-	(444)
Net debt as at 31 December 2022	(8,426)	(3,011)	6,035	(5,402)
Financing cash flows	5,780	1,073	(1,528)	5,325
New leases	-	(941)	-	(941)
Foreign exchange adjustments	241	54	135	430
Interest expense	(528)	(118)	-	(646)
Net debt as at 31 December 2023	(2,933)	(2,943)	4,642	(1,234)

17. Provisions

Provisions consist of the following:

	As at 31 December	
	2023 £'000	2022 £'000
Service warranties	7	106
Onerous contract	-	108
Severance payments	132	104
Other	21	22
Total	160	340

Service warranties provision relate to claims in respect of products sold that are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year. Onerous contract provision related to one specific customer contract, operating to September 2023, where the costs of meeting the obligations under the contract exceeded the economic benefits expected to be received. Severance payment provisions relate to legal obligations towards commercial agents in Italy.

	Service warranties £'000	Onerous contract £'000	Severance payments £'000	Other £'000	Total £'000
2023					
Carrying amount at start of the year	106	108	104	22	340
Charged/(credited) to profit and loss					
– Additional provision	–	–	30	–	30
– Unused amounts reversed	(39)	–	–	–	(39)
Amounts used during the year	(60)	(108)	–	–	(168)
Exchange difference	–	–	(2)	(1)	(3)
Carrying amount at end of the year	7	0	132	21	160

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 a part of the claim, amounting to €157,988 (£139,988), may be valid. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim; instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court, however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762 (£383,824). The process involving the expert auditor is now complete. We expect the court to hold another hearing and make its decision in summer 2024. Other than the €157,836 (£139,988), which may be valid, and is written off from the outstanding other receivable from Vetdis, no further provision in respect of this matter has been included in the consolidated financial statements.

18. Other non-current liabilities

Other non-current liabilities consist of the fair value of the outstanding payable of the STEM licensing agreement (£214k), as detailed in Note 11, and a liability in respect of the Identicare share-based payment arrangement (£835k), more information for which is shown in Note 26.

	As at 31 December	
	2023 £'000	2022 £'000
Non-current liabilities	1,049	911
Total	1,049	911

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

19. Accrued charges and contract liabilities

Accrued charges and contract liabilities consists of the following:

	As at 31 December	
	2023 £'000	2022 £'000
Accrued charges	286	777
Contract liabilities- due within one year	873	512
Other	-	(13)
Total due within one year	1,159	1,276
Contract liabilities – due after one year	293	372

Accrued charges of £286k (2022: £777k) mainly include Ecuphar NV (£89k), Belpfar (£20k) and UK (£166k), 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 number 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 five and 14 years.

Throughout 2023, 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:

	As at 31 December	
	2023 £'000	2022 £'000
Balance at the beginning of the year	884	843
Contract liabilities to following years	815	418
Release of contract liabilities from previous years	(533)	(377)
Balance at the end of the year	1,166	884

The contract liabilities fall due as follows:

	As at 31 December	
	2023 £'000	2022 £'000
Within one year	873	512
After one year	293	372
Balance at the end of the year	1,166	884



20. Other current liabilities

Other current liabilities include the following:

	As at 31 December	
	2023 £'000	2022 £'000
Payroll-related liabilities	3,041	1,715
Indirect taxes payable	1,843	1,552
Other current liabilities	528	760
Total	5,412	4,027

Indirect taxes payable mainly relate to outstanding VAT payable.

The other current liabilities mainly consist of £229k for a licensing agreement and £297k (2022: £292k) for a capital contribution liability, both with STEM Animal Health Inc. as the beneficiary. See Note 11.

21. Fair value

Financial assets

The carrying value and fair value of the financial assets for 31 December 2023 and 2022 are presented as follows:

	Carrying value		Fair value	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial assets measured at amortised cost				
Trade and other receivables (current)	13,294	13,568	13,294	13,568
Other financial assets (non-current)	70	70	70	70
Other current assets	1,129	715	1,129	715
Cash and cash equivalents	4,642	6,035	4,642	6,035
Total financial assets measured at amortised cost	19,135	20,388	19,135	20,388

The fair value of the financial assets has been determined on the basis of the following methods and assumptions:

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- Trade and other receivables are being evaluated on the basis of their credit risk and interest rate. Their fair value is not different from their carrying value on 31 December 2023 and 2022.

Call option to acquire an additional 18% share in joint venture STEM Animal Health Inc.

- The Group has a call option to acquire an additional 18% stake in its joint venture STEM Animal Health Inc. exercisable for a period of six years until 28 September, 2026. The call option is valued at fair value through profit and loss and is remeasured every year. As at 31 December 2023 the call option has a carrying value of £nil as it has been assessed as not substantive and not favourable when considering the future forecasts of STEM Animal Health Inc. and therefore the value attached to the option. The call option is considered at level 3 in the fair value hierarchy. Further disclosure is provided in Note 3.

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

21. Fair value CONTINUED

Financial liabilities

The carrying value and fair value of the financial liabilities for 31 December 2023 and 2022 are presented as follows:

	Carrying value		Fair value	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial liabilities measured at amortised cost				
Borrowings	2,933	8,426	2,933	8,426
Lease liabilities	2,943	3,011	2,943	3,011
Trade payables	10,808	15,497	10,808	15,497
Other non-current liabilities	1,049	911	1,049	911
Other current liabilities	5,412	6,297	5,412	6,297
Total financial liabilities measured at amortised cost	23,145	34,142	23,145	34,142
Total non-current	6,011	11,496	6,011	11,496
Total current	17,134	22,646	17,134	22,646

The fair value of the financial liabilities has been determined on the basis of the following methods and assumptions:

- The carrying value of trade payables and other liabilities approximates their fair value due to the short-term character of these instruments.
- Loans and borrowings are evaluated based on their interest rates and maturity date. Most interest-bearing debts have floating interest rates and their fair value approximates to their amortised cost value.

Fair value hierarchy

The fair value hierarchy is described in Note 3. The financial liabilities are calculated based on level 1.

22. Share capital

	As at 31 December	
	2023 Number	2022 Number
Allotted, called up and fully paid ordinary shares of 20 pence each	60,107,926	60,092,161

	As at 31 December	
	2023 £'000	2022 £'000
Allotted, called up and fully paid ordinary shares of 20 pence each	12,022	12,019

The Company does not have a limited amount of authorised share capital.

The following share transactions have taken place during the year ended 31 December 2023:

	2023	
	Number	£'000
At 1 January 2023	60,092,161	12,019
Exercise of share options	15,765	3
At 31 December 2023	60,107,926	12,022



Dividends

	As at 31 December	
	2023 £'000	2022 £'000
Ordinary final dividend as at 31 December 2021 of 2.4 pence per share	-	1,442
Ordinary interim dividend paid as at 31 December 2022 of 2.0 pence per share	-	1,202
Ordinary final dividend as at 31 December 2022 of 2.4 pence per share	1,442	-
Ordinary interim dividend paid as at 31 December 2023 of 2.0 pence per share	1,202	-
	2,644	2,644

The interim dividend of 2.0 pence per share was paid in November 2023.

The Board is proposing a final dividend of 3.0 pence per share (2022: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 20 June 2024, the final dividend will be paid on 19 July 2024 to shareholders whose names are on the Register of Members at close of business on 21 June 2024. The ordinary shares will become ex-dividend on 20 June 2024.

23. IFRS 16 Leases

The balance sheet shows the following amounts relating to leases as at 31 December 2023:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Buildings	1,585	1,639
Vehicles	1,220	1,257
Other	14	28
Total right-of-use assets	2,819	2,924
Current lease liabilities	914	852
Non-current lease liabilities	2,029	2,159
Total lease liabilities	2,943	3,011

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

23. IFRS 16 Leases CONTINUED

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

	Land and buildings £'000	Vehicles £'000	Other £'000	Total £'000
Acquisition value/cost				
As at 1 January 2022	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	2,114	2,756	33	4,903
Additions	—	678	4	682
Disposals	—	(682)	(4)	(686)
Currency translation	(41)	(50)	—	(91)
Contract modifications	287	(5)	(14)	268
As at 31 December 2023	2,360	2,697	19	5,076
Accumulated depreciation				
As at 1 January 2022	(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	(475)	(1,499)	(5)	(1,979)
Depreciation charge for the year	(310)	(687)	(4)	(1,001)
Disposals	—	682	4	686
Currency translation	10	27	—	37
As at 31 December 2023	(775)	(1,477)	(5)	(2,257)
Net book value				
At 31 December 2022	1,639	1,257	28	2,924
At 31 December 2023	1,585	1,220	14	2,819

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

	Lease liability £'000
As at 1 January 2023	3,011
Additions	677
Interest expense	118
Payments	(1,073)
Modifications	264
Currency translation adjustment	(54)
As at 31 December 2023	2,943

The following amounts are recognised in the income statement:

	As at 31 December	
	2023 £'000	2022 £'000
Depreciation expense of right-of-use assets	(1,001)	(1,023)
Interest expense on lease liabilities	(118)	(90)
Gain on IFRS 16 modification	9	6
Expense relating to short-term leases and low-value assets	(180)	(108)
Total amount recognised in the income statement	(1,290)	(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. In the current and prior year, the cashflow for these items equalled the charge to the income statement.

24. Risks

In the exercise of its business activity, the Group is exposed to credit, liquidity and market risks.

Credit risk

As at 31 December 2023 the Group's maximum exposure to credit risk is £13,294k, which is the amount of the trade receivables in the consolidated financial statements (2022: £13,568k).

To control this risk, the Group has set up a strict credit collection process. Historically, no major bad debts have been recorded. The Group has no individual customers who represent a significant part of the consolidated turnover, nor of the trade receivables at year-end.

The following is an ageing schedule of trade receivables:

	Total £'000	Non-due £'000	< 30 days £'000	31-60 days £'000	61-90 days £'000	91-180 days £'000	> 181 days £'000	Expected loss rate
31 December 2023	13,294	12,134	877	156	95	71	(39)	0.2%
Receivables	13,326	12,134	877	156	95	71	(7)	
Expected credit loss	32	-	-	-	-	-	32	
31 December 2022	13,568	12,989	681	32	(70)	16	(80)	0.5%
Receivables	13,631	12,989	681	32	(70)	16	(17)	
Expected credit loss	63	-	-	-	-	-	63	

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

24. Risks CONTINUED

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The Group expects to meet its obligations related to the financing agreements through operating cash flows. Additionally, the Group ensures there is sufficient headroom on the existing credit lines to have an additional working capital buffer. As at 31 December 2023, the Group had the following sources of liquidity available:

- Cash and cash equivalents: £4,642k
- Undrawn credit facilities with four banks: £36,065k
- Undrawn acquisition financing: £5,757k

The table below provides an analysis of the maturity dates of the financial liabilities:

	< 1 year £'000	1-3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31 December 2023					
Borrowings	-	(2,933)	-	-	(2,933)
Lease liabilities	(914)	(1,478)	(386)	(287)	(3,065)
Trade payables	(10,808)	-	-	-	(10,808)
Other current liabilities	(5,412)	-	-	-	(5,412)
Total	(17,134)	(4,411)	(386)	(287)	(22,218)

	< 1 year £'000	1-3 years £'000	4-5 years £'000	> 5 years £'000	Total £'000
At 31 December 2022					
Borrowings	-	(8,426)	-	-	(8,426)
Lease liabilities	(852)	(1,553)	(394)	(439)	(3,238)
Trade payables	(15,497)	-	-	-	(15,497)
Other current liabilities	(4,027)	-	-	-	(4,027)
Total	(20,376)	(9,979)	(394)	(439)	(31,188)

The amounts disclosed in the table above are the contractual undiscounted cash flows. The lease liabilities are translated at closing rate. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

The Group's indebtedness and its restrictions and covenants agreed upon in the financing agreements may adversely affect the Group's liquidity position. Any breach of covenants can lead to loans being immediately due and payable.

The Company has an international cash pool with different banks to limit excess cash. The Company closely monitors cash balances within the Group and uses short-term withdrawals on the credit lines to minimise the cash balances.

As disclosed in Note 29, Subsequent events, on 28 February 2024 we announced the disposal of our majority shareholding in Identicare to BG Bidco 21 Limited, a newly incorporated company owned by funds managed by Bridgepoint Advisors II Limited, for a cash consideration of £24.9m which was payable upon completion of this sale. This represents a significant crystallisation of value for the Group and with it, a significant further strengthening of our balance sheet and liquidity position.

Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies which give rise to the risks associated with currency exchange rate fluctuations. Exposures are managed by a combination of matching foreign currency income and expenditure, maintaining foreign currency deposits and the use of forward contracts. The carrying values of the Group's foreign currency assets and liabilities, including intercompany balances, at the reporting date were:

	As at 31 December			
	Assets 2023 £'000	Assets 2022 £'000	Liabilities 2023 £'000	Liabilities 2022 £'000
EUR/GBP	28,406	26,471	50,621	38,335
GBP/EUR	22,612	18,494	35,968	29,020
EUR/USD	(96)	(108)	1	297
GBP/USD	(14)	(14)	145	138
EUR/HUF	-	-	-	4
EUR/CAD	-	-	768	1,533
EUR/SEK	6	7	-	-

The cumulative effect of the foreign currency translation effects is reported as other reserve in the statement of financial position and amounts to £2,618k (2022: £2,908k) with the movement of £290k charge (2022: credit of £597k) recognised through the consolidated statement of comprehensive income.

At the end of the reporting year, the Group is mainly exposed to EUR, USD and CAD. The following table details the effect of a 10.0% increase and decrease in the exchange rate of these currencies against the functional currencies GBP and EUR when applied to outstanding monetary items denominated in foreign currency as at 31 December 2023. A positive number indicates that an increase in profit would arise from a 10.0% change in value of GBP or EUR against these currencies; a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
EUR/GBP	2,222	(2,222)
GBP/EUR	1,336	(1,336)
EUR/USD	10	(10)
GBP/USD	16	(16)
EUR/CAD	77	(77)

Interest rate risk

The maturity dates and interest rates of the financial debts and liabilities are detailed in Note 16. The exposure to interest rate risks is mainly related to existing borrowing facilities. The current loans of credit institutions have variable interest rates. There are no significant differences between the nominal interest rates as listed in Note 16 and the effective interest rates of the loans.

If the interest rates would have been 100bp higher/lower, the financial result would have been £54k lower/higher in 2023 and £78k lower/higher in 2022.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholders' equity which amounts to £77,895k as at 31 December 2023 (2022: £78,986k).

The Group consistently reviews its capital structure and makes adjustments in light of changing economic conditions and performances of the Group. The Group made no changes to its capital management objectives, policies or processes during the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements CONTINUED

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25. Remuneration paid to the Company's auditors

	For the year ended 31 December	
	2023 £'000	2022 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	212	120
The audit of the Company's subsidiaries pursuant to legislation	337	227
Total audit fees	549	347
Other services	3	8
Total non-audit fees	3	8
Total auditors' remuneration	552	355

26. Share-based payments

The Group operates a number of equity-settled share-based payment programmes that allow employees to acquire shares in the Group. The Group also operates long-term incentive plans for certain members of the Senior Executive team and other members of the Leadership team. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the long-term incentive plan have been determined using both the Black-Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Long-term incentive plan ("LTIP")

The Group has made a number of awards pursuant to the long-term incentive plan as follows:

	2023 LTIP option	2022 LTIP option	2021 LTIP option	2020 LTIP option	2019 LTIP option
Outstanding at 1 January 2023	–	302,037	255,750	342,587	–
Granted during the year	194,346	–	–	–	–
Vested during the year	–	–	–	(164,982)	–
Lapsed during the year	–	(8,175)	(7,136)	(177,605)	–
Outstanding at 31 December 2023	194,346	293,862	248,614	–	–
Exercisable at 31 December 2023				164,982	129,617

The options outstanding and exercisable at the year-end have a weighted average remaining contractual life of 7.9 years.

The options granted in 2023, 2022 and 2021 will vest subject to the following performance conditions based on EPS being met:

Earnings per share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight line basis

The 2020 options were subject to the following performance conditions based on EPS being met:

Earnings Per Share growth	Extent to which EPS tranche will vest
Less than 3%	0%
3%	25%
8%	100%
Between 3% and 8%	Between 25% and 100% on a straight-line basis



All options granted are subject to the same TSR performance criteria as per the table below:

Rank of the Company's TSR compared to the comparator group

group	Extent to which the TSR tranche will vest
Upper quartile or above	100%
Between median and upper quartile	Pro rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

2023 LTIP Options

On 30 October 2023, the Board approved the grant of nil-cost options under the LTIP over a total of 194,346 ordinary shares with a nominal value of 20.0 pence per share which were awarded to certain members of the Senior Executive Team and Leadership Team. The LTIP awards will vest on 31 December 2026 subject to the performance criteria being met over the three-year financial period ending 31 December 2026. On vesting, awards can be exercised until 30 October 2033, being the tenth anniversary of the date of grant.

50% of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP have been determined using both the Black-Scholes (for the EPS performance condition) and Monte Carlo (for the TSR performance condition) simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£1.73
Weighted average exercise price	£Nil
Expected volatility	31.8%
Expected life	3.2 years
Expected dividend yield	2.55%
Fair value per option – EPS tranche	£1.59
Fair value per option – TSR tranche	£1.08
Risk-free rate	4.39%

2022 LTIP options

On 28 April 2022, the Board approved the grant of nil-cost options under the LTIP over a total of 302,037 ordinary shares with a nominal value of 20.0 pence per share which were awarded to the Company's Executive Directors and certain members of the Senior Executive Team and Leadership Team. During the year 8,175 of the options lapsed due to cessation of employment, leaving 293,862 options outstanding.

The LTIP awards will vest on 1 July 2025 subject to the performance criteria being met over the three-year financial period ending 30 June 2025. On vesting, awards can be exercised until 28 April 2032, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the option award will vest in part.

The fair value of the options issued under the LTIP have been determined using both the Black-Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

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YEAR ENDED 31 DECEMBER 2023

26. Share-based payments CONTINUED

Inputs into the option pricing models were as follows:

Weighted average share price	£3.23
Weighted average exercise price	£nil
Expected volatility	30.1%
Expected life	3.2 years
Expected dividend yield	1.24%
Fair value per option – EPS tranche	£3.10
Fair value per option – TSR tranche	£2.57
Risk-free rate	1.58%

2021 LTIP options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During the prior year 9,231 of the options lapsed due to cessation of employment, leaving 255,750 options outstanding. During the current year 7,136 of the options lapsed due to cessation of employment, leaving 248,614 options outstanding.

The awards will normally vest three years after the date of grant subject to the performance criteria being met over the three-year financial period ending 31 December 2024. On vesting, awards can be exercised until 5 November 2031, being the tenth anniversary of the date of grant.

Fifty per cent of the option award will be subject to the EPS performance condition and the remaining 50% will be subject to the TSR performance condition. Accordingly, if one of the performance conditions is met but the other is not, the Option award will vest in part.

The fair value of the options issued under the LTIP was determined using both the Black-Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Inputs into the option pricing models were as follows:

Weighted average share price	£3.62
Weighted average exercise price	£Nil
Expected volatility	32.0%
Expected life	3.2 years
Expected dividend yield	1.10%
Fair value per option – EPS tranche	£3.50
Fair value per option – TSR tranche	£2.56
Risk-free rate	0.39%

2020 LTIP options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20p per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. During 2021 and 2022, 16,555 and 17,978 options lapsed respectively due to cessation of employment, leaving 342,587 options outstanding as at 1 January 2023. During 2023, a further 12,623 options lapsed due to cessation of employment, leaving 329,964 options subject to vesting as at 31 December 2023.

On 31 December 2023, 164,982 options vested, with the remaining 164,982 options lapsed. These vested options have yet to be exercised; the participants have 6.9 years in which to exercise these options.

Details of the performance targets set and actual achievement against them in respect of the 2020 LTIP awards vesting, based on three-year performance to 31 December 2023, are set out in the table below:

Performance measure	Weighting	Performance period end	Threshold (25% vesting)	Maximum (100% vesting)	Actual	% vesting for this part of the award
Underlying EPS	50%	31 December 2023	11.6p	13.4p	11.0p	0%
TSR	50%	31 December 2023	Median	Upper quartile	Upper quartile	100.0%

2019 LTIP options

On 6 June 2022, 145,382 options vested, with the remaining 198,709 options lapsed. Of the 145,382 vested options brought forward to 1 January 2023, 15,765 options were exercised during the year, leaving 129,617 options unexercised as at 31 December 2023. The participants have 5.4 years in which to exercise these options.

Identicare share-based payment arrangement

On 1 January 2022, the Group entered into a share-based payments arrangement in respect of growth shares issued in its subsidiary, Identicare Limited ("Identicare"). The ownership of the shares requires ongoing employment and carries value to the holder on either the sale of Identicare, or after five years the holder can obligate the Group to repurchase the shares at market value via a put option. The Group can also obligate the holder to sell the shares to the Group at market value via a call option. The shares carry preferential rights to return upon the sale of Identicare with an increasing ratchet depending on the equity value of Identicare.

The exit terms on the shares qualify for value at 15% of proceeds if the equity value on sale or market value is less than £20m, 17% in the range £20–£40m, and 20% above £40m. The shares were acquired on the arrangement's inception date of 1 January 2022 for unrestricted market value as determined at that date. The shares carry no voting rights nor rights to distributions from Identicare. The arrangement carries a cash repurchase requirement by the Group at the acquisition cost within five years from the inception of the agreement should the employee cease to be employed. This represents an event outside of the Group's control for which a future payment may need to be made, and therefore a liability of £33k is recognised within non-current liabilities.

Given the terms applied to the shares, the Group has accounted for these as equivalent to redeemable shares, and as a result of the requirement for ongoing employment have applied the principles of IFRS 2 'Share-based Payments' to the arrangement. The arrangement stipulates that a minimum of 50% of the shares are to be purchased in cash upon redemption, with the remaining 50% having choice of settlement, at the discretion of the Group, to either issue shares in the Group or purchase with further cash. In line with IFRS 2, 50% of the arrangement has therefore been accounted for as a cash-settled share-based payment arrangement, reflecting the Group's potential obligation to repurchase the shares in the event that no exit occurs, with the other 50% of the arrangement being treated as an equity-settled share-based payment due to there being no present obligation to settle in cash.

Fair value – cash settled portion

As at 31 December 2022 the arrangement has been valued using a Monte Carlo simulation, reflecting the ratchet nature of potential exit outcomes. The following inputs have been used to determine the fair value of the arrangement:

	At 31.12.23
Starting value of Identicare	£22.8m
Expected volatility	32.06%
Risk-free rate	3.62%
Expected dividend yields	0.00%
Expected remaining life	3 years

Notes to the Consolidated Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

26. Share-based payments CONTINUED

The resulting fair value of the scheme is £4,009k as at the year end, 50% of which is cash settled and represents the total expected liquidity risk to the Group as at the year end. As the arrangement has been in place for two years of its expected five-year life, the value as at the year end reflects this proportion.

The fair value of the arrangement, based on 50% being cash-settled, is £802k, being a liability held at fair value through profit and loss. The liability is included in the consolidated statement of financial position under other non-current liabilities and is carried currently at £802k plus the original £33k paid for the shares totalling £835k. The charge to profit and loss of £637k is included as a non-underlying item in the consolidated income statement, and disclosed separately in Note 4, to reflect the potential volatility arising from movements in the value of this arrangement. No non-market conditions have been included in the calculation of the charge to profit and loss.

Fair value – equity settled portion

The fair value of the equity-settled portion of the arrangement (50%) was £547k, determined at the date of issue of the shares using a Monte Carlo simulation, in conjunction with a third-party valuation specialist, taking into account the exit terms noted earlier.

The following inputs were used to determine the fair value:

Valuation data	1 January 2022
Starting enterprise value	£6.9m
Closing net debt	£3.3m
Expected volatility	32.75%
Risk-free rate	0.72%
Expected dividend yield	0%
Expected life	5 years

The Group recognised a total charge in respect of all share-based payments of £1,278k (2022: £542k), including £801k (2022: £220k) in non underlying items.

27. Related party transactions

This disclosure provides an overview of all transactions with related parties. Interests in subsidiaries are disclosed in Note 28.

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

Transactions with investments in joint venture is described in Note 11.

Remuneration of the Executive Directors, who are the key management personnel of the Group, is included in the Directors' Remuneration Report, and further disclosed below:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Short-term employee benefits	947	672
Post-employment benefits	29	22
Share based payments	299	204
Total	1,275	898



28. Subsidiary undertakings

Name	Country of incorporation	Registered address	% equity interest		Consolidation method
			2023	2022	
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	100%	100%	Fully consolidated
Ecuphar BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	100%	100%	Fully consolidated
Ecuphar Veterinary Products BV	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	100%	100%	Fully consolidated
Ornis SA	France	Rue de Roubaix 33, 59200 Tourcoing	100%	100%	Fully consolidated
Ecuphar GmbH	Germany	Brandteichstraße 20, 17489 Greifswald	100%	100%	Fully consolidated
Euracon Pharma Consulting und Trading GmbH	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	100%	100%	Fully consolidated
Ecuphar Veterinaria SA	Spain	C/ Cerdanya, 10-12, pl 6. 08173 Sant Cugat del Vallés Barcelona	100%	100%	Fully consolidated
Ecuphar Italia	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	100%	100%	Fully consolidated
Belphear IDA	Portugal	Sintra Business Park, Edifício 1, Escritório 2K 2710-089 Sintra	100%	100%	Fully consolidated
Animalcare Ltd	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	100%	100%	Fully consolidated
Identicare Ltd.	United Kingdom	Moorside, Monks Cross, York, YO32 9LB	100%	100%	Fully consolidated
STEM Animal Health Inc.	Canada	Innovation Drive Winnipeg 162-196, Manitoba, R3T 2N2	33%	33%	Equity method

29. Subsequent events

On 28 February 2024 we announced the disposal of our majority shareholding in Identicare to BG Bidco 21 Limited, a newly incorporated company owned by funds managed by Bridgepoint Advisors II Limited, for a cash consideration of £24.9m which was payable upon completion of this sale. This represents a significant crystallisation of value for the Group and with it, a significant further strengthening of our balance sheet.

On 11 April 2024 we announced that, subject to Kane Biotech Inc. shareholder approval, the Group will sell its one-third equity stake in STEM to Dechra Pharmaceuticals Limited (formerly known as Dechra Pharmaceuticals PLC) for a cash consideration of USD4.7m. Other items covered by the agreement will bring the total potential monetary value of the deal for the Group to approximately USD5.4m. The deal is expected to complete on 12 April 2024. The sale of the minority stake secures a positive return on investment while further strengthening the Group's cash position.

Both disposals were assessed against the criteria of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations and were found to not meet the criteria for an asset held for sale at the date of the statement of financial position due to not being assessed as highly probable at that date as due diligence activities did not commence until post year end.

Company Statement of Financial Position

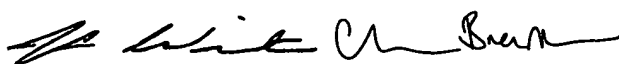
AS AT 31 DECEMBER 2023

	Note	As at 31 December	
		2023 £'000	2022 £'000
Non-current assets			
Investments in subsidiary companies	5	148,114	147,917
Right-of-use-assets	9	32	44
Deferred tax asset	10	7	662
		148,153	148,623
Current assets			
Trade and other receivables	6	5,283	4,376
Cash and cash equivalents	7	15	24
		5,298	4,400
Total assets		153,451	153,023
Current liabilities			
Trade and other payables	8	(854)	(456)
Lease liabilities	9	(12)	(12)
		(866)	(468)
Net current assets		4,432	3,931
Non-current liabilities			
Lease liabilities	9	(20)	(32)
		(20)	(32)
Total liabilities		(886)	(500)
Net assets		152,565	152,523
Capital and reserves			
Called up share capital	11	12,022	12,019
Share premium account		132,798	132,798
Retained earnings		7,745	7,706
Total shareholders' funds		152,565	152,523

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £2,042k (2022: £1,363k).

The Notes on pages 130 to 137 are an integral part of these financial statements.

The financial statements of Animalcare Group plc, registered number 01058015, on pages 128 to 137, were approved by the Board of Directors and authorised for issue on 11 April 2024. They were signed on their behalf by:



JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Company Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total shareholders' funds £'000
Balance at 1 January 2022		12,019	132,798	8,609	153,426
Total comprehensive income for the year		—	—	1,363	1,363
Transactions with owners of the Company, recognised in equity:					
Dividends paid	4	—	—	(2,644)	(2,644)
Share-based payments	12	—	—	378	378
Balance at 31 December 2022 and 1 January 2023		12,019	132,798	7,706	152,523
Total comprehensive income for the year		—	—	2,042	2,042
Transactions with owners of the Company, recognised in equity:					
Exercise of share options	11	3	—	—	3
Dividends paid	4	—	—	(2,644)	(2,644)
Share-based payments	12	—	—	641	641
Balance at 31 December 2023		12,022	132,798	7,745	152,565

Notes to the Company Financial Statements

YEAR ENDED 31 DECEMBER 2023

1. Material accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

Financial Information

Animalcare Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is domiciled in the United Kingdom. The address of its registered office is Moorside, Monks Cross, York, YO32 9LB.

The company's principal activities are that of a holding company for the Group's subsidiaries.

Basis of preparation

The Company financial statements cover year from 1 January 2023 to 31 December 2023.

The financial statements have been prepared and approved by the Directors under the historical cost convention, in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) and in conformity with the requirements of the Companies Act 2006. They have also been prepared in accordance with the requirements of the AIM Rules.

The Company has elected to adopt FRS 101 for the year ended 31 December 2023 for the first time. In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but has made amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions. The Company has departed from consistent accounting policies with the Group as the Group financial statements are prepared under UK-adopted international accounting standard and the Company Directors have taken the decision to prepare the Company financial statements in accordance with FRS 101.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present a separate Profit and Loss account in these separate financial statements. The profit dealt with in the financial statements of the Company was £2,042k (2022: £1,363k profit).

Changes in accounting framework

The Company has transitioned to FRS 101 with a transition date of 1 January 2023. Prior to this date, the financial statements were prepared under UK-adopted international accounting standards (IFRS). The Company has reviewed the guidance in FRS 100 and considered any changes between IFRS and FRS 101 and noted these to have no material impact

on the financial statements. In line with guidance, we have not applied the provisions or disclosures of IFRS 1 First Time Adoption of International Reporting Standard.

Disclosure exemptions adopted

Under FRS 101, the following disclosures exemptions have been adopted:

- Preparation of a cash flow statement – IAS 7 Statement of Cashflows
- Paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment requiring the details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of the Group as they are wholly owned within the Group
- Paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- Paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- IFRS 7 Financial Instruments: Disclosure

Going concern

As at 31 December 2023, the Group's total borrowing facilities of €51.5m, due to expire on 31 March 2025, consisted of 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.

We are currently in discussions with our four syndicate banks to increase our existing RCF from €41.5m to €44.0m with an extension of the maturity date to 31 March 2029. The acquisition line, which was drawn down by €3.4m at the year end, will be settled. We expect to complete the process by the end of April. The covenant requirements in the RCF will remain unchanged from the current RCF agreement, details of which are provided below. 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 2023 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures. The principal risks and uncertainties facing the Group are set out in the Strategic Report.

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 Company and Group will

have sufficient funds and liquidity to meet its obligations as they fall due, in particular when taking into consideration the Group's financial position following the post year end sale of Identicare for £24.9m and 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 due to the cash proceeds received from the disposal of Identicare for the Directors to continue to adopt the going concern basis in preparing the financial statements without making assumptions concerning the extension of the RCF facility due to expire on 31 March 2025, and complies with all its banking covenants associated with the current committed facilities throughout the going concern assessment period.

Employee benefits – pensions

The Company operates a stakeholder pension scheme available to all eligible employees. Payments to this scheme are charged as an expense as they fall due.

Investments in subsidiaries

Investments in Group companies are stated at cost less provisions for impairment losses.

Impairment indicator assessments are undertaken annually at the financial year end.

Whenever events or changes in circumstances indicate that the carrying amount of investments may not be recoverable, they are subject to impairment tests.

Where the carrying value of investments exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the investments are written down accordingly.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows projected after the fifth year.

Impairment charges are included in profit or loss.

Dividends

Dividends paid are recognised within the statement of changes in equity only when an obligation to pay the dividend arises prior to the year end.

Share-based payments

The Company operates a number of equity-settled share-based payment programmes that allow employees to acquire shares of the Company via a Long Term Incentive Plan for certain members of the Leadership Team and Executive Directors. Equity-settled share-based payments are measured

at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions (with a corresponding movement in equity).

The fair value of the options issued under the Long Term Incentive Plan has been determined using both the Black-Scholes and Monte Carlo simulation models, in conjunction with a third-party valuation specialist.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

1. Material accounting policies CONTINUED

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits repayable on demand, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Material accounting judgements, estimates and assumptions

CARRYING VALUE OF INVESTMENTS IN SUBSIDIARY COMPANIES

Investments in subsidiaries are reviewed annually for impairment when indicators for impairment are identified. Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investment's value in use or consideration of the net asset value of the entity. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. Such calculations are prepared in conjunction with the impairment test in relation to goodwill, details of which are provided in Note 8 of the consolidated financial statements.

2. Audit Fees

The analysis of remuneration paid to the Company's auditors for the audit of the Company's financial statements is as follows:

	For the year ended 31 December	
	2023 £'000	2022 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	212	120
Total audit fees	212	120

3 Directors' remuneration and interests

Information relating to Directors' emoluments and share options, including awards made during the financial year, is set out in the Note 6.7 of the Group's consolidated financial statements.

4. Dividends

	For the year ended 31 December	
	2023 £'000	2022 £'000
Ordinary final dividend for the year ended 31 December 2021 of 2.4p per share	-	1,442
Ordinary interim dividend paid for the year ended 31 December 2022 of 2.0p per share	-	1,202
Ordinary final dividend for the year ended 31 December 2022 of 2.4p per share	1,442	-
Ordinary interim dividend paid for the year ended 31 December 2023 of 2.0p per share	1,202	-
	2,644	2,644

An interim dividend of 2.0 pence per share was paid in November 2023. The Board is proposing a final dividend of 3.0 pence per share (2022: 2.4 pence per share). Subject to shareholder approval at the Annual General Meeting to be held on 13 June 2024, the final dividend will be paid on 14 July 2024 to shareholders whose names are on the Register of Members at close of business on 16 June 2024. The ordinary shares will become ex-dividend on 15 June 2024.

5. Investments in subsidiary companies

Subsidiary undertakings

Cost and net book value	2023 £'000
At 1 January	147,917
LTIP granted to employees of subsidiaries	197
At 31 December	148,114

Investments in subsidiaries are assessed annually to determine if there is any indication that these may be impaired.

The recoverable amount of investments in subsidiaries was determined based on a value in-use calculation. The discount rate and growth rate (in perpetuity) used for these calculations are as follows:

	2023	2022
Discount rate (pre-tax) %	13.3	14.2
Growth rate (in perpetuity) %	2.0	2.0

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

5. Investments in subsidiary companies CONTINUED

Cash flow forecasts are prepared using the current financial budget approved by the Directors, which covers a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate. The cash flow forecasts assume revenue and profit growth in line with the five pillars of our growth strategy. The key assumptions surrounding revenue growth incorporate an average annual growth rate over the five-year forecast period for the existing core brands, based on past performance and expectations of the animal health market development, together with well above-market growth for recently launched and expected to be launched new products and services. 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 investments in subsidiaries is limited.

The Group's impairment review is sensitive to change in assumptions used, most notably the expected future cash flows arising from growth in new products and services, discount rates and the perpetuity growth rates.

If the expected revenue growth and related cost of sales in the five year forecast period in relation to recently launched and expected to be launched new products and services (as explained in Our Strategy within the Annual Report) was 5% lower than management's estimates, with prudently, no corresponding mitigation in SG&A costs, the value in use would reduce by £6.2m but would not give rise to an impairment. A 10% reduction in the forecast revenues and related cost of sales for these products and services across the five year forecast period would result in a reduction of the value in use of £12.3m, but would not give rise to an impairment. A 1.0% increase in discount rate would cause the value in use to reduce by £20.0m and would not give rise to an impairment. A 2.0% increase in discount rate would lead to an impairment of £4.3m. A 1.0% reduction in perpetuity growth rates would reduce the value in use by £10.2m and would not give rise to an impairment. Reducing the long-term growth to 0.0% would reduce the value in use by £27.6m and would not give rise to an impairment. Overall forecast compound revenue growth over the five-year period for all products is 6.9%. Headroom is reduced to nil if this rate falls to 5.4%, assuming gross margin percentages remain consistent with forecast and with no corresponding mitigation in SG&A costs.

A list of the subsidiary undertakings at the date of the statement of financial position, all of which are wholly owned, is given below.

Name	Country of registration or incorporation	Registered address	Principal activity	Class
Ecuphar NV	Belgium	Legeweg 157i, 8020 Oostkamp	Holding company, marketer of veterinary pharmaceuticals	Ordinary
Animalcare Limited ¹	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Developer and marketer of veterinary pharmaceuticals	Ordinary
Identicare Limited ¹	United Kingdom	Moorside, Monks Cross, York YO32 9LB	Microchipping and other associated services	Ordinary
Ecuphar BV ¹	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Veterinary Products BV ¹	The Netherlands	Verlengde Poolseweg 16, 4818 CL Breda	Non-trading	Ordinary
Ornis SARL ¹	France	Rue de Roubaix 33, 59200 Tourcoing	Non-trading	Ordinary
Ecuphar GmbH ¹	Germany	Brandteichstraße 20, 17489 Greifswald	Marketer of veterinary pharmaceuticals	Ordinary
Euracon Pharma Consulting & Trading GmbH ¹	Germany	Max-Planck Str. 11, 85716 Unterschleißheim	Non-trading	Ordinary
Ecuphar Veterinaria SL ¹	Spain	Carrer Cerdanya, 10, 12, 08173 Sant Cugat del Vallès, Barcelona	Developer and marketer of veterinary pharmaceuticals	Ordinary
Ecuphar Italia SRL ¹	Italy	Viale Francesco Restelli, 3/7, piano 1, 20124 Milano	Marketer of veterinary pharmaceuticals	Ordinary
Belphar IDA ¹	Portugal	Sintra Business Park , nº 7, Edifício 1 – Escritório 2K, 2710 089 Sintra	Marketer of veterinary pharmaceuticals	Ordinary

¹ These subsidiaries are indirectly owned through related undertakings in the list.



6. Trade and other receivables

	As at 31 December	
	2023 £'000	2022 £'000
Corporation tax – Group relief	2,102	1,265
Prepayments and accrued income	54	86
Amounts due from subsidiaries	3,127	3,024
	5,283	4,375

The Directors consider that the carrying amount of other receivables approximates to their fair value.

Amounts due by Group undertakings at 31 December 2023 are unsecured, have no fixed date of repayment and are repayable on demand.

7. Cash and cash equivalents

	As at 31 December	
	2023 £'000	2022 £'000
Cash and cash equivalents	15	24

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less.

8. Other financial liabilities

	As at 31 December	
	2023 £'000	2022 £'000
<i>Current liabilities</i>		
Trade payables	256	354
Lease liabilities	12	12
Taxes and social security costs	326	33
Other creditors	20	11
Accruals	252	58
Total current liabilities	866	468
<i>Non-current liabilities</i>		
Lease liabilities	20	31
Total non-current liabilities	20	31
Total financial liabilities	886	499

Other taxes and social security costs mainly consist of VAT payables on closing date. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the Company Financial Statements CONTINUED

YEAR ENDED 31 DECEMBER 2023

9. IFRS 16 Leases

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

	2023 £'000	2022 £'000
Vehicles	32	44
Total right-of-use assets	32	44
Current lease liabilities	12	12
Non-current lease liabilities	20	32
Total lease liabilities	32	44

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

	Vehicles £'000	Total £'000
Acquisition value/cost		
At 1 January 2023 and 31 December 2023	48	48
Accumulated depreciation		
At 1 January 2023	(4)	(4)
Depreciation charge for the year	(12)	(12)
At 31 December 2023	(16)	(16)
Net book value		
At 31 December 2023	32	32

The following amounts are recognised in the income statement:

	For the year ended 31 December 2023 £'000
Depreciation expense of right-of-use assets	(12)
Total amount recognised in the income statement	(12)

Interest expense on lease liabilities recognised in the income statement amounted to less than £1k and is therefore not disclosed in the table above. There was no expense incurred during the current or prior year in respect of short-term leases, low-value assets or variable lease payments.

The cash outflow in the year for leases was £11k (2022: £5k).



10. Deferred tax asset

The following are the major components of the deferred tax assets recognised by the Company, and the movements thereon, during the current and prior reporting period:

	Accelerated tax depreciation £'000	Tax losses £'000	Other £'000	Total £'000
Balance at 1 January 2023	(2)	(633)	(27)	(662)
Charge to income	–	633	22	655
At 31 December 2023	(2)	–	(5)	(7)

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would move to 25% (rather than remain at 19%, as previously enacted). Deferred taxes as at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. Called up share capital

Share capital

	As at 31 December	
	2023 Number	2022 Number
Allotted, called up and fully paid ordinary shares of 20p each	60,107,926	60,092,161

	As at 31 December	
	2023 £'000	2022 £'000
Allotted, called up and fully paid ordinary shares of 20p each	12,022	12,019

The Company does not have a limited amount of authorised share capital.

The following share transactions have taken place during the year ended 31 December 2023:

	2023	
	Number	£'000
At 1 January 2023	60,092,161	12,019
Exercise of share options	15,765	3
At 31 December 2023	60,107,926	12,022

12. Share-based payments

For details of the company's share-based payments arrangements see Note 26 of the Group's consolidated financial statements.

The cash settled element portion and associated liability sits within the company's indirect subsidiary, Animalcare Limited.

Directors and Advisers

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C J Brewster
E Torr
J Boone
J Winter
M Coucke
S Metayer

Secretary

C J Brewster

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