

# Animalcare Group

Trading update

Companion animals are good for the company

Pharma &amp; biotech

22 January 2015

**Price** **181.50p**  
**Market cap** **£38m**

Net cash (£m) at December 2014	5.0
Shares in issue	21.0m
Free float	100%
Code	ANCR
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	11.7	36.0	11.0
Rel (local)	8.8	28.3	12.5
52-week high/low	182.5p		130.0p

## Business description

Animalcare Group is a leading supplier of veterinary medicines and identification products to the companion animal market in the UK, Europe and other selected markets.

## Next events

H115 results	February 2015
FY15 results	September 2015
AGM	November 2015

## Analysts

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Animalcare's trading update confirms it is performing as we expected. The 7.2% rise (y-o-y) in group revenues was driven by a 10.6% increase in Licensed Veterinary Medicines. Three new product introductions are planned for H215. Companion Animal Identification revenues were up 5.0%, while the continuing streamlining of the Animal Welfare portfolio saw revenues drop 1%, but profitability was increased slightly. Cash generation remains strong, with cash of c £5.0m at December 2014. Our DCF valuation remains essentially unchanged at £41.9m (201p a share), against our previous £41.5m (198p a share).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/13	12.1	2.7	10.5	5.3	17.3	2.9
06/14	12.9	2.8	10.8	5.5	16.8	3.0
06/15e	13.5	3.0	10.9	5.5	16.7	3.0
06/16e	13.8	3.0	10.6	5.5	17.1	3.0

Note: \*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

## Licensed Veterinary Medicines sales up 10.6%

Licensed Veterinary Medicines benefited from solid organic growth coupled with a non-recurring boost in Buprecare sales as a competitor suffered from supply problems. Buprecare's high gross margin suggests H115 profit will benefit from the event, although this will not be sustained into H215. Animalcare is planning to launch a further three new products, sourced from its European development partners, during H215. Phasing of spend on new product development will be skewed towards the end of the financial year (and beyond).

## Companion Animal Identification grew by 5.0%

Companion Animal Identification continues to benefit from the new technology platform and focused marketing efforts with sales up 5.0% over H114. Promotions based on the 25th anniversary of the Identichip launch have been well received. The introduction of compulsory dog chipping in England in April 2016 remains Defra's goal and Animalcare's preparations are underway. The Welsh timetable has slipped to an as yet undecided date; it was due in March 2015.

## Animal Welfare sales down but profitability up

The phased withdrawal from a number of non-core and less profitable lines has continued and saw revenues down 1% over the period. However, as seen in the previous year, Animal Welfare's gross profitability increased slightly.

## Valuation: Maintained at £41.9m (201p a share)

The planned investment in R&D means Animalcare's earnings multiples over the next few years fail to reflect the value we expect to be generated over the longer term. Our valuation of £41.9m (201p a share) is based mainly on a DCF model, with the peer group earnings multiples essentially a reality check.

**Animalcare Group is a research client of Edison Investment Research Limited**

## Financials remain sound

Following the trading statement, we have revisited our model and updated our assumptions to allow for the higher than we expected revenues in Licensed Veterinary Medicines, notably the Buprecare windfall due to the competitor supply issues. The changes in our forecasts are summarised in Exhibit 1.

<b>Exhibit 1: New and previous forecasts</b>				
	<b>2015e previous</b>	<b>2015e new</b>	<b>2016e previous</b>	<b>2016e new</b>
Group revenues (£m)	12.5	13.5	12.8	13.8
Operating profit (before acq. amort. and except.) (£m)	2.0	3.0	2.3	3.0
PBT (£m)	2.0	3.0	2.3	3.0
Net income (£m)	1.7	2.4	1.8	2.4
EPS normalised (p)	7.7	10.9	8.3	10.6
Net cash (£m)	3.5	5.0	2.8	4.4
Source: Edison Investment Research				

Looking at FY15, we expect revenues to rise from our previous £12.5m to £13.5m, with operating profit up from £2.0m to £3.0m and PBT also up from £2.0m to £3.0m. We are conservatively forecasting the tax rate to remain around 20%, helped by the R&D tax credits, which should continue to flow through as R&D investment rises. As a result, our net income forecast increases from £1.7m to £2.4m, with EPS also increasing from 7.7p to 10.9p. We forecast the final dividend to remain unchanged at 5.5p.

We believe the strong balance sheet and operational cash flow will allow Animalcare to fund the increased investment in the development pipeline organically. We expect management to use the funds to acquire technologies (or technology licences) so that it can accelerate its development of patent-protected products (eg extended release drug formulations). Such drugs are more risky and costly to develop, but offer much greater returns. There is also a degree of transactional risk involved, however this should be comfortably offset by the material commercial rewards associated with such higher value-adding products.

**Exhibit 2: Financial summary**

	£'000s	2013	2014	2015e	2016e	2017e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		12,118	12,881	13,467	13,795	14,028
Cost of Sales		(5,337)	(5,739)	(5,941)	(5,953)	(5,925)
Gross Profit		6,781	7,142	7,525	7,842	8,102
Distribution costs		(271)	(257)	(337)	(345)	(351)
Administrative expenses		(3,688)	(3,823)	(4,067)	(4,318)	(4,278)
R&D expenses		(138)	(260)	(162)	(166)	(168)
EBITDA		2,916	3,281	3,200	3,201	3,635
Operating Profit (before except./acq. amort.)		2,684	2,802	2,960	3,014	3,305
Exceptionals/acquisition related amortisation		(392)	(119)	(119)	(119)	(119)
Operating Profit		2,292	2,683	2,841	2,895	3,186
Net Interest		27	27	19	25	22
Other		11	(38)	0	0	0
Profit Before Tax (norm)		2,711	2,791	2,979	3,039	3,327
Profit Before Tax (FRS 3)		2,330	2,672	2,860	2,920	3,208
Tax		(445)	(535)	(572)	(672)	(738)
Discontinued operations		0	0	0	0	0
Profit After Tax (norm)		2,176	2,256	2,407	2,367	2,589
Profit After Tax (FRS 3)		1,885	2,137	2,288	2,248	2,470
Average Number of Shares Outstanding (m)		20.7	20.8	22.1	22.4	22.7
EPS - normalised (p)		10.5	10.8	10.9	10.6	11.4
EPS - FRS 3 (p)		9.1	10.3	10.3	10.0	10.9
Dividend per share (p)		5.30	5.50	5.50	5.50	5.50
Gross Margin (%)		56.0	55.4	55.9	56.8	57.8
EBITDA Margin (%)		24.1	25.5	23.8	23.2	25.9
Operating Margin (before GW and except.) (%)		22.1	21.8	22.0	21.8	23.6
<b>BALANCE SHEET</b>						
Fixed Assets		14,661	14,410	14,795	16,367	17,827
Intangible Assets		14,249	14,038	14,420	15,988	17,445
Tangible Assets		412	372	375	379	382
Other		0	0	0	0	0
Current Assets		6,825	8,115	8,874	8,486	8,404
Stocks		1,418	2,420	2,103	2,154	2,191
Debtors		1,662	1,883	1,845	1,890	1,922
Cash		3,745	3,812	4,926	4,442	4,292
Other		0	0	0	0	0
Current Liabilities		(2,575)	(2,233)	(2,401)	(2,430)	(2,428)
Creditors		(2,344)	(1,991)	(2,248)	(2,276)	(2,284)
Short term borrowings		0	0	0	0	0
Other		(231)	(242)	(153)	(154)	(144)
Long Term Liabilities		(949)	(839)	(879)	(829)	(790)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(949)	(839)	(879)	(829)	(790)
Net Assets		17,962	19,453	20,390	21,594	23,013
<b>CASH FLOW</b>						
Operating Cash Flow		3,096	1,682	4,005	3,212	3,661
Net Interest		25	(27)	19	25	22
Tax		(265)	(561)	(663)	(647)	(721)
Capex		(508)	(229)	(744)	(1,878)	(1,909)
Acquisitions/disposals		0	0	0	0	0
Financing		24	305	12	21	30
Dividends		(932)	(1,103)	(1,145)	(1,217)	(1,233)
Other		0	0	(370)	0	0
Net Cash Flow		1,440	67	1,114	(484)	(151)
Opening net debt/(cash)		(2,305)	(3,745)	(3,812)	(4,926)	(4,442)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(3,745)	(3,812)	(4,926)	(4,442)	(4,292)

Source: Animalcare and Edison Investment Research

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