

CHIEF FINANCIAL OFFICER'S REVIEW



“The Group continues to make good progress which is reflected in our financial performance.”

Chris Brewster Chief Financial Officer

Presentation of results

We present our financial results on two bases. Underlying results show the performance of the business before exceptional and other items since the Directors believe this provides a clearer understanding of business performance. IFRS results include these items to give the statutory results.

Overview

We delivered another solid performance during the financial year to 30th June 2015, with underlying operating profit increasing by 11.0% compared with previous year to

£3.1m. This reflects our strong operational performance, both in revenue and margin terms, while continuing to make the necessary investment in our business to support future growth.

Our balance sheet strength continues to build, with Group cash balances of £5.8m at 30th June 2015. The Group's consistent profitable growth has enabled us to generate the funds we need to invest in our product development pipeline, a key part of our organic growth strategy.

Revenue and gross profit

Revenue £'000	2015	2014	% change
Licensed Veterinary Medicines	8,579	7,883	8.8%
Companion Animal Identification	2,309	2,418	(4.5%)
Animal Welfare Products	2,648	2,580	2.6%
TOTAL	13,536	12,881	5.1%

Overall revenues grew by 5.1% to £13.5m (2014: £12.8m). Our Licensed Veterinary Medicines group, which represents 63% of total revenue, again delivered good growth of 8.8%, 5.5% of which is like-for-like growth. As we noted in our Interim Report dated 31st December 2014, this includes a circa £0.2m non-recurring first half benefit from sales of Buprecare as a result of supply issues with a competitor product. The remaining growth is largely driven by sales of recently launched new products.

The strong performance in Licensed Veterinary Medicines was offset by a decline in Companion Animal Identification sales, mostly due to the phasing of export equine chip sales.

Our Animal Welfare Products group grew modestly driven by our growing infusion accessories range, which represents around 50% of the £2.6m sales.

Gross profit increased by 6.0% to £7.6m (2014: £7.1m). Our gross margins improved to 55.9% (2014: 55.4%), primarily due to the non-recurring Buprecare benefit noted above. Due to favourable sales mix, underlying gross margins remain comparable with the prior year.

The financial performance of each product group is reviewed in more detail within the Business Review section of the Chief Executive's Review.



CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Operating results

Revenue £'000	2015	2014	% change
Underlying EBITDA	3,423	3,162	8.3%
Depreciation & amortisation	(313)	(360)	
Underlying operating profit	3,110	2,802	11.0%
Profit before tax	3,010	2,672	12.7%

Underlying operating profit increased by 11.0% to £3.1m and our operating margin improved by 120 basis points to 23% (2014: 21.8%). Overheads, excluding research and development expenses, increased by £0.2m to £4.3m, as we continue to make the necessary investment, in particular in our management and support teams, to position the business for future growth. Research and development costs, which incorporate a share of the salaries of the product development team, have decreased by £0.1m against last year, reflecting the largely capital nature of the overall spend on our product pipeline.

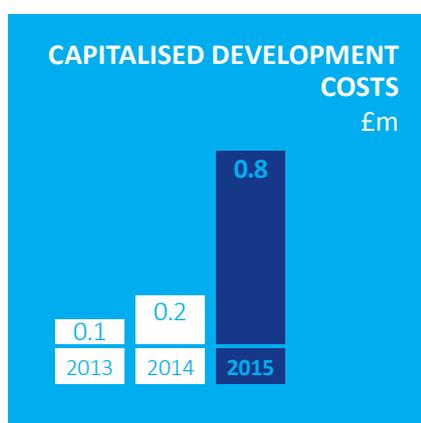
Non-underlying items principally incorporate the amortisation of acquired intangibles as detailed in note 4 on page 32.

Reflecting all of the above, Group profit before tax was up 12.7% to £3.0m (2014: £2.7m).

Cash flow

Our Group cash position grew by £2.0m to £5.8m as at 30th June 2015. Cash generated by operations was very strong at £4.5m (2014: £1.6m). We have focused on optimising our stock position following the peak seen in FY14 which has, to date, delivered a reduction of £0.8m. This project continues to ensure we maintain the necessary focus on our supply chain and the resulting impact of streamlining our working capital.

It is of primary importance that the Group reinvests the free cash in our business to support future growth and, as planned, during the year we have substantially increased our expenditure in our product development pipeline as shown in the chart below:



The four-fold increase in expenditure vs 2014 highlights the progress made in our pharmaceutical pipeline, as a result of the decisions made during FY14 to recruit additional resource within our Technical and Business Development teams.

Earnings per share ("EPS")

Basic underlying EPS improved by 16.7% to 12.6 pence (2014: 10.8 pence). Basic EPS rose by 17.5% to 12.1 pence (2014: 10.3 pence) reflecting the lower cost of exceptional items incurred during 2015.

Dividends

Since 2008 we have returned £5.5m to shareholders or 26.6 pence per share. This reflects the consistent and continuing strength of our operations, our balance sheet and cash position.

The Board is proposing a final dividend in respect of the year of 4.3 pence per share, giving a total dividend of 6.1 pence per share for 2015 (2014: 5.5 pence per share). This final dividend is subject to shareholder approval at the Annual General Meeting on 17th November 2015 and will be paid on 27th November 2015 to shareholders on the register at the close of business on 23rd October 2015. The Ordinary shares will become ex-dividend on 22nd October 2015.

The Board will continue to monitor the Group's cash position to ensure an appropriate balance between investment for future growth and dividend flow to deliver overall value for our shareholders.

Summary

The Group continues to make good progress which is reflected in our financial performance. We enter the 2016 financial year with a strong cash position, placing our business in an excellent position to take advantage of investment opportunities as and when they arise. Focused investment will continue, both within our employee base and product development pipeline, to deliver sustainable profitable growth in the coming years.

Chris Brewster
Chief Financial Officer