Financial Review

Chris Brewster Chief Financial Officer

The Group delivered another solid performance during the financial year to 30th June 2014. Underlying operating profit, our measure of trading performance excluding exceptional costs, grew by 4.4% to £2.8m. This reflects our continued strong revenue growth together with increased investment in our business to provide a solid platform for future growth.

We continue to operate a strong, debt-free, balance sheet. This not only provides us with the ability to invest significantly in new product development opportunities to drive long-term growth, but also maintenance of the dividend during our planned investment cycle.

Revenue and gross profit

Group revenues increased by 6.3%, broadly comparable to the 5.9% delivered in the first half of the financial year. Our Licensed Veterinary Medicines product group continues to be the main driver for growth, with sales up 9.5% on prior year to £7.9m, 8.5% of which is like-for-like growth.

Our Companion Animal Identification grouping has returned to growth, delivering an overall increase in sales of 7.8% to £2.4m. This growth rate was approximately evenly spread across both microchips and database services.

"Building on the strong, solid foundations laid down during the year, we will continue to invest in the long-term growth and development of the business".

As stated in the Chief Executive's Review, we took action to rationalise some of the older, uncompetitive and less profitable products from the Animal Welfare Products group. This planned rationalisation led to a reduction in revenues of 3.6% to £2.6m however with gross margins improving, overall gross profitability has been maintained.

Gross profit increased by 5.2% to £7.1m. Our gross margins fell modestly to 55.4% (2013: 56.0%) reflecting the higher proportion of export sales, which are generally at lower margin, together with the continued competitive market conditions.

Operating results

	2014	2013	% change
Underlying* EBITDA	**3,162**	2,916	8.4%
Depreciation & amortisation	**(360)**	(232)	
Underlying* operating profit	**2,802**	2,684	4.4%
Profit before tax	**2,672**	2,330	14.7%

Underlying* operating profit increased by 4.4% to £2.8m which was achieved by increasing gross profits whilst maintaining overheads (excluding research and development expenses) at around 32% of revenue. This was in part achieved through a thorough review of selected operational overheads which generated an average of 5% to 10% savings on an annualised basis.

As noted in the Chairman's Statement, the business took a decision during the last financial year, in light of our continued solid trading performance, to invest in the infrastructure and senior management team to position ourselves for future growth. This investment included the relocation to our new premises during March 2013 together with the increase and strengthening of our employee base, in particular, our senior management, sales and product development teams.

Research and development costs, which incorporate a share of the enhanced product development team, are separately analysed in the income statement for the first time in preparation for the expected significant increase from FY15.

Non-underlying items of £0.2m are £0.2m lower than prior year, principally reflecting the one-off costs incurred during 2013 in respect of executive Board changes and head office relocation costs. Further details are provided in note 4.

Reflecting all of the above, Group profit before tax was up 14.7% to £2.7m.

Cash flow

Cash flows generated by operations were £1.6m (2013: £3.1m). During the year, the Group increased its stock levels by £1.0m to ensure we have the inventory depth to improve surety of supply of key products and in addition, to support certain strategic projects.

The increase in our stock levels was planned; similarly we expect to see a reduction of circa £0.3m during the next financial year as the run up to compulsory microchipping concludes.

Net income taxes paid increased by £0.3m to £0.6m, the movement primarily reflecting the lower cash benefit in relation to prior year research and development tax credits. We continue to take full advantage of the UK's R&D tax relief where appropriate.

Following the relocation of our offices in March 2013, total capital expenditure reduced by £0.3m to £0.2m. The 2014 expenditure primarily related to product development which remained broadly in line with prior year. Whilst our spend was lower than anticipated, the positive impact of the enhanced focus on our product pipeline is clear.

Group cash balances at 30th June 2014 were £3.8m (2013: £3.7m).

Earnings per share ("EPS")

Basic underlying* EPS improved by 2.9% to 10.8 pence (2013: 10.5 pence). Basic earnings per share rose more significantly by 13.2% to 10.3 pence (2013: 9.1 pence) reflecting the lower cost of exceptional items incurred during 2014.

Dividend

As stated during our interim reporting at 31st December 2013, the Board intends to maintain the dividend flow during the investment cycle. This reflects the continuing strength of our balance sheet and cash position. The Board will monitor the Group's cash balances, paying particular regard to future investment opportunities.

As a result, the Board is proposing a final dividend in respect of the year of 4.0 pence per share, giving a total dividend of 5.5 pence per share for 2014 (2013: 5.3 pence per share). This final dividend is subject to shareholder approval at the Annual General Meeting on 18th November 2014 and will be paid on 28th November 2014 to shareholders on the register at the close of business on 24th October 2014. The ordinary shares will become ex-dividend on 23rd October 2014. The total dividend is covered 2.0 times underlying* earnings (2013 - 2.0 times)

Summary and outlook

Current trading during the first three periods of the year is in line with management expectations.

Building on the strong, solid foundations laid down during the year, we will continue to invest in the long-term growth and development of the business. In the shorter term, this will lead to higher research and development costs, which will impact both our cost base as well as capital expenditure. Nonetheless, short-term revenue growth is important to the business, and we expect to benefit from the sales and marketing investments made in the second half of 2014.

Chris Brewster
Chief Financial Officer

* Underlying measures are before the effect of exceptional costs and other items. These are disclosed in note 4 to the financial statements.