

FY23 results ahead of expectations

10 July 2023

ECO Animal Health Group reported revenue for the year to 31 March 2023 of £85.3m (+4%YoY) and adjusted EBITDA of £7.2m (+34%YoY), ahead of market expectations¹. Revenue growth was led by S&SE Asia (+42%YoY) and LatAm (+15%YoY). Gross profitability improved from a 42.7% margin in FY22 to 45.0%, whilst the (adj.) EBITDA margin was also up from 6.6% in FY22 to 8.5%. The year closed with net cash² of £21.7m, with cash from operations of £15.9m (FY22: £(0.5)m), in addition to which the Group retained £10m in undrawn £10m RCF.

Regional performance

- Demand in China & Japan (£26.4m, 30.9% of total) although -7%YoY recovered in H2, reflecting the seasonality of demand and easing of COVID-19 restrictions boosting pork consumption.
- The pattern in North America (£15.2m, 17.8% of total), -7.5%YoY, reflected the relative maturity of markets and lower levels of disease in the US.
- In South and South-East Asia (£16.8m, 19.6% of total) demand was led by poultry in India and in Thailand.
- In Latin America markets (£18.1m, 21.2%), Brazil and Mexico proved strong.
- Europe (£6.1m, 7.1%), -6%YoY was somewhat weakened by the impact of regulatory changes in Spain. RoW/UK (£2.8m, 3.3%) -17% YoY.

R&D spend underpins medium-term prospects

ECO allocated the equivalent of 9.8% of revenue in R&D spend in FY23 (£8.34m); as the company notes "a primary driver of ECO success". The Group reports that two late-stage development projects are to be submitted in FY24; we note the collaboration (from 2022) with Imperial College London, and Moredun Research Institute in Scotland. Our medium-term cashflow outlook indicates ample resources to maintain the level of investment for over a dozen major projects underway or planned, alongside a healthy c£22m cash balance. A well-planned and well-resourced R&D and product development programme – the fruits of which are not factored into near-term estimates – form the basis for additional revenue streams which we estimate could add >£70m by FY28. We expect the group to update on R&D progress and spend before the end of this financial year.

Forecasts to FY25

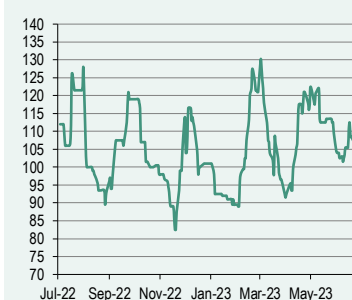
Yr to 31 March (£m)	2021	2022	2023	2024E	2025E
Revenue	105.6	82.2	85.3	87.4	91.2
EBITDA (adj.)	23.5	5.4	7.2	8.3	9.1
Pre-Tax Profit (adj.)	19.4	3.8	4.8	5.5	6.3
EPS (adj. dil. p)	10.85	(1.01)	1.47	2.29	3.03
Net debt (cash)	(18.3)	(12.8)	(18.1)	(29.4)	(28.6)
EV/EBITDA	2.4x	10.5x	7.9x	6.8x	6.3x
EV/Rev	0.54x	0.69x	0.67x	0.65x	0.62x

Source: Company data, Equity Development estimates. ¹ Average of published estimates. ² Excludes lease obligations, inclusive of which FY23 net was an estimated £18.06m (FY22: £12.80m).

Company Data

EPIC	EAH
Price (last close)	97p
52 weeks Hi/Lo	134/81p
Market cap	£67m
Proforma net debt (cash)	£(18.1)m

Share Price, p



Source: ADVFN

Description

Founded in 1995, ECO Animal Health Group specialises in the development, registration and distribution of pharmaceutical products for animal health markets worldwide, notably disease, bacterial infection and parasitic prevention for pigs, cattle, sheep and poultry (also horses and dogs).

The Group addresses markets in China and the Far East, SE Asia, North America, Latin America and Europe, and derives c.90% of revenue from its enteric and respiratory antibiotic Aivlosin[®], for the treatment of enteric and respiratory diseases in pigs and poultry.

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FY23 performance

Revenue growth of 3.8%YoY, with gross margin improvement to 45.0% underpinned by Sterling weakness (versus the US\$ and Yuan) boosting gross contribution growth to 9.2%YoY. Increased capitalisation of R&D spend (£2.4m in FY23; £1.3m in FY22) due to the longevity of projects reduced the P&L R&D spend (from £7.6m in FY22 to £5.9m). The absence of impairment costs of £2.1m in FY22 and reduced forex losses trimmed overall operating costs to -0.8%YoY, resulting in reported basis EBIT growth of 2.4x (£4.95m) and adjusted EBIT growth of 38.5%YoY to £5.36m, an improvement in margin from 4.7% to 6.3%.

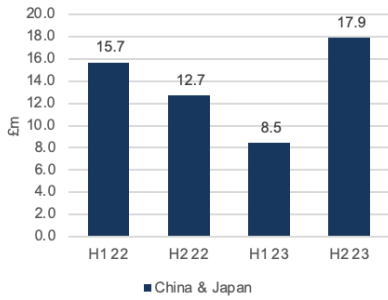
Adjusted EBITDA improved from £5.41m (6.6% margin) to £7.24m (8.5% margin), +33.8%YoY. Revenue of Aivlosin® - ECO's patented antimicrobial treatment for disease in pig and poultry rearing - totalled £75.9m (FY22: £72.9m), 89.0% of total (FY22: 88.7% of total) with increased demand in China and in Asia. Ecomectin® anti-parasitic revenue totalled £3.6m (FY22: £5.5m).

FY23 results summary

Year to 31 March (£m)	FY21	FY22	FY23	H1 23	H2 23	FY23 YoY
Revenue	105.6	82.2	85.3	34.9	50.5	3.8%
Gross	52.7	35.1	38.4	15.8	22.6	9.2%
<i>Margin</i>	49.9%	42.7%	45.0%	45.3%	44.8%	5.2%
Other income	0.3	0.1	0.4	0.2	0.1	
R&D	(8.1)	(7.6)	(5.9)	(2.9)	(3.0)	-22.3%
Admin	(25.5)	(24.1)	(27.9)	(11.9)	(16.0)	15.8%
Impairment	0.0	(2.1)	0.0	0.0	0.0	
Sum Op-ex	(33.3)	(33.7)	(33.4)	(14.6)	(18.9)	-0.8%
Share-based payments	(0.1)	(0.3)	(0.4)	(0.2)	(0.2)	19.3%
Forex	2.2	(1.0)	(0.5)	2.6	(3.0)	-52.7%
EBIT (rptd.)	19.4	1.4	4.9	1.2	3.7	244%
EBIT (adj.)	19.6	3.9	5.4	1.4	3.9	38.5%
<i>Margin</i>	18.5%	4.7%	6.3%	4.0%	7.8%	33.4%
EBITDA (rptd.)	23.4	2.4	6.8	4.7	2.1	179%
EBITDA (adj.)	23.5	5.4	7.2	4.9	2.4	33.8%
<i>Margin</i>	22.3%	6.6%	8.5%	14.0%	4.7%	28.9%
Financial income	0.1	0.2	0.1	0.0	0.1	
Financial expense	(0.3)	(0.3)	(0.7)	(0.1)	(0.5)	
Associate	0.0	0.0	0.0	0.1	(0.0)	
PBT (rptd.)	19.3	1.4	4.4	1.2	3.3	220%
PBT (adj.)	19.4	3.8	4.8	1.4	3.5	27.0%
Tax	(3.5)	(2.1)	(1.3)	(0.9)	(0.4)	
PAT (rptd.)	15.8	(0.7)	3.1	0.3	2.8	
PAT (adj.)	16.0	1.7	3.5	0.4	3.1	
EPS rptd. basic (p)	10.86	(1.01)	1.49	1.96	(0.47)	
EPS rptd. dil. (p)	10.85	(1.01)	1.47	1.95	(0.47)	
EPS adj. basic (p)	10.86	(1.01)	1.49	1.96	(0.47)	
EPS adj. dil. (p)	10.85	(1.01)	1.47	1.95	(0.47)	

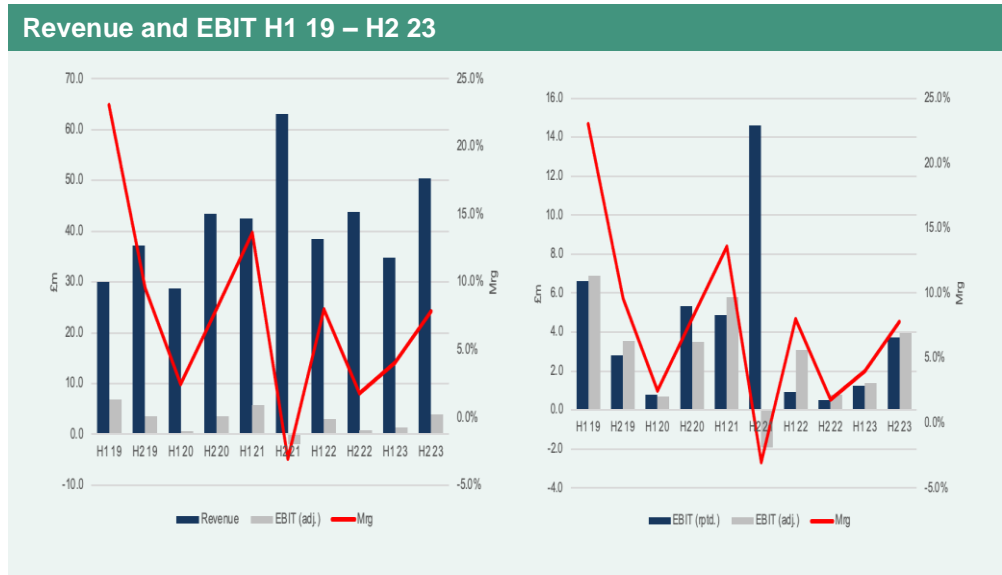
Source: Company data, Equity Development estimates.

FY23 in context



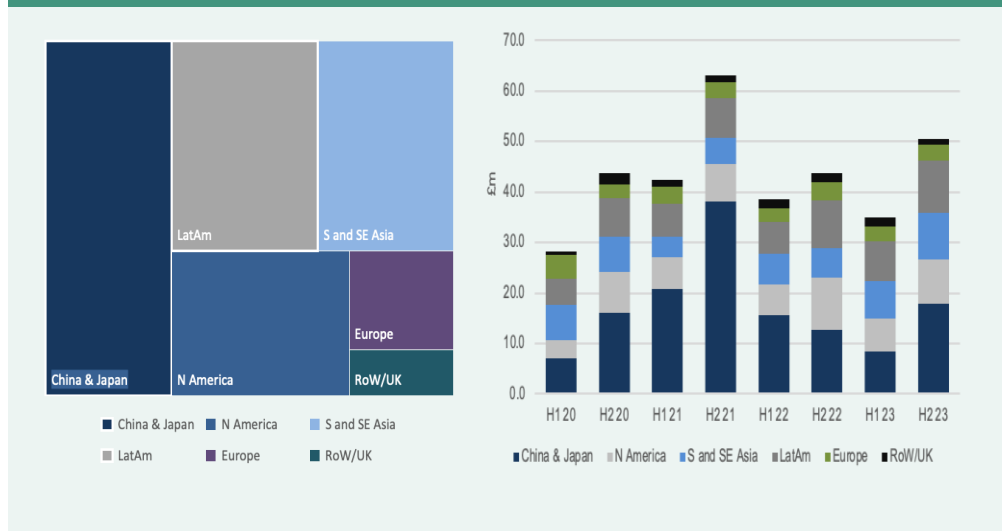
As illustrated, the semi-annual revenue trend from H122 (in the chart on the left) - and notably recent EBIT margin - show indications of consistent improvement, together with the normal second-half seasonal bias (59.1% of FY23 total) brought about by the prevalence of disease in pigs during the Northern Hemisphere winter months. FY23 H2 seasonality was underpinned by demand in China and Japan (67.9% of H2 revenue), abetted by the relaxation of COVID-19 restrictions in China and increased consumption of pork.

The pattern illustrated (left) reveals the impact of restocking in China post March 2021 (Japan represents <5% of the segment) and underlines the extent of improvement in demand and, by implications, producer profitability ... and therefore demand for treatments such as Aivoslin® which, where affordable, further improve yields.



Source: Company data, Equity Development estimates.

Key markets: 2023 revenue and semi-annual regional trends



Source: Company data, Equity Development estimates.

Outlook, FY24-25

Our projections to FY25 indicate a FY22-25E revenue CAGR of 5.1%, EBIT (adj.) at 12.9% and EBITDA (adj.) of 9.2%, with gross margins in FY24-25 averaging 42.9% (excluding the impact of currency weakness which boosted FY23 profitability); PAT CAGR indicated is 38%.

Outlook to FY25 E					
£m	FY23	FY24E	FY25E	YoY 24E	YoY 25E
China & Japan	26.4	26.0	26.5	-1.4%	2.0%
N America	15.2	15.8	16.6	4.1%	5.0%
S & SE Asia	16.8	17.8	18.9	6.2%	6.0%
LatAm	18.1	18.4	19.3	1.6%	5.0%
Europe	6.1	6.4	6.7	5.4%	5.0%
RoW/UK	2.8	3.0	3.2	6.1%	6.0%
Revenue	85.3	87.4	91.2	2.4%	4.3%
Gross	38.4	37.3	39.2	-2.8%	5.1%
<i>Margin</i>	<i>45.0%</i>	<i>42.7%</i>	<i>43.0%</i>		
EBIT (rptd.)	4.9	5.6	6.4	13.6%	13.7%
EBIT (adj.)	5.4	6.0	6.7	11.5%	12.9%
<i>Margin</i>	<i>6.3%</i>	<i>6.8%</i>	<i>7.4%</i>		
EBITDA (rptd.)	6.8	8.0	8.7	16.7%	9.6%
EBITDA (adj.)	7.2	8.3	9.1	15.0%	9.2%
<i>Margin</i>	<i>8.5%</i>	<i>9.5%</i>	<i>10.0%</i>		
Finance (net)	(0.6)	(0.5)	(0.5)		
Associate	0.0	0.1	0.1		
PBT (rptd.)	4.4	5.2	5.9	16.4%	14.8%
PBT (adj.)	4.8	5.5	6.3	13.9%	13.9%
PAT (rptd.)	3.1	3.6	4.2	17.3%	15.2%
PAT (adj.)	3.5	4.0	4.5	13.6%	13.9%
PAT attributable	1.0	1.6	2.1	55.8%	32.6%
Non-controlling interest	2.1	2.1	2.1		
EPS rptd. basic (p)	1.49	2.32	3.07	55.8%	32.6%
EPS rptd. dil. (p)	1.47	2.29	3.03	55.8%	32.6%
EPS adj. basic (p)	1.49	2.32	3.07	55.8%	32.6%
EPS adj. dil. (p)	1.47	2.29	3.03	55.8%	32.6%

Source: Company data, Equity Development estimates.

Medium-term outlook – well-funded R&D programme

Our growth projections for revenue from current products in N. America, Asia and Latin America indicate that the medium-term contribution from China should stabilise at c.30% of total. The **key driver for the medium-term outlook remains the pipeline of next generation products under development**, currently numbering thirteen, each of which has a 6 - 8 years timeline from initial research to commercial launch, with projects starting in 2024 through to 2028. ECO estimates the cumulative NPV of new products at above c.£220m, accepting the risk that a given project may not proceed past key stages of development or receive regulatory approval. We outline the prospective long-term contribution to revenue, in addition to the run rate of Aivlosin[®] and related products in the market (see pp 9, 10).

As each project reaches commercialisation, this indicates a potential additional contribution to revenue which we estimate at £11m in FY25, rising to an estimated £35m by 2026 and, by 2028, a potential additional £128m. We expect the company to provide regular updates on progress.

FY 23 regional revenue trends

Illustrated below are the semi-annual revenue trends for each of ECO's target markets, H1 20 - H2 23. FY23 performance by market was:

- China & Japan: -7.1% YoY, 30.9% of total.
- North America: -7.5% YoY, 17.8% of total. Reduced revenue in North America reflected the maturity of the Canadian market with high Aivlosin® market share, and the US where disease prevalence was more muted.
- South and SE Asia: -41.8% YoY, 19.6% of total. Here growth was concentrated in the poultry segments in India and Thailand, against backdrop of overall firm demand.
- Latin America: +14.8% YoY, 21.2% of total, led by Brazil and the swine and poultry segments in Mexico.
- Europe: -5.6% YoY, 7.1% of total. This included a hiatus in demand from Spain due to regulatory changes to the delivery of macrolides, from an in-feed to water-soluble format.
- RoW & UK: -16.5% YoY, 3.3% of total.

Semi-annual revenue H1 20 – H2 23 by region



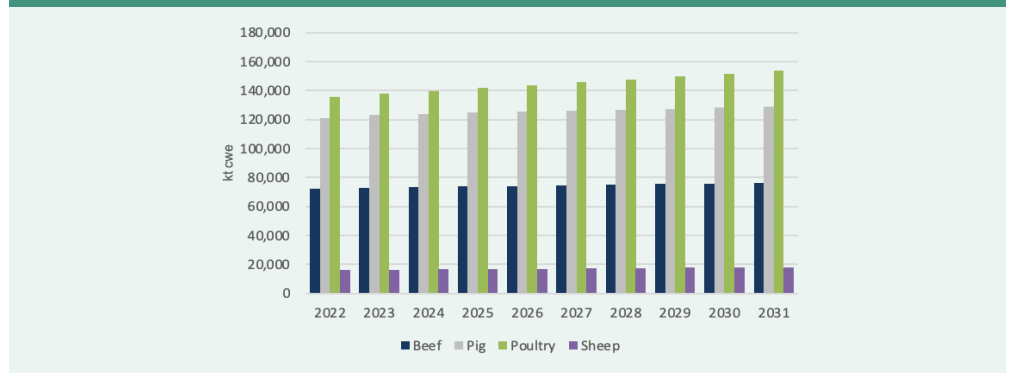
Source: Company data, Equity Development estimates.

Major market indicators

Pigs are important - poultry is the future

Although production of pig meat remains significant, in its *Agricultural Outlook 2022-2031* the OECD-FAO concludes that “The long-term shift in meat consumption toward poultry continues to strengthen. In high-income countries ... due to a rising preference for white meats that are more convenient to prepare, and which are perceived as a better food choice.” In addition, in less-developed countries poultry has the attraction of being lower priced. As a proportion of total global production (kt cwe) pig meat is expected to decline from 35.0% in 2022 to 34.2% by 2031, whilst poultry is expected to rise from 39.4% to 40.8%, a combined 2.2% shift (beef and veal comprises 20.9% and sheep meat, 4.7%). Near term, the OECD expects that “pig meat production will remain limited in the first years of the Outlook [2022-2024] due to the ongoing recovery from the outbreaks of ASF (African Swine Flu) in China, the Philippines and Viet Nam.”.

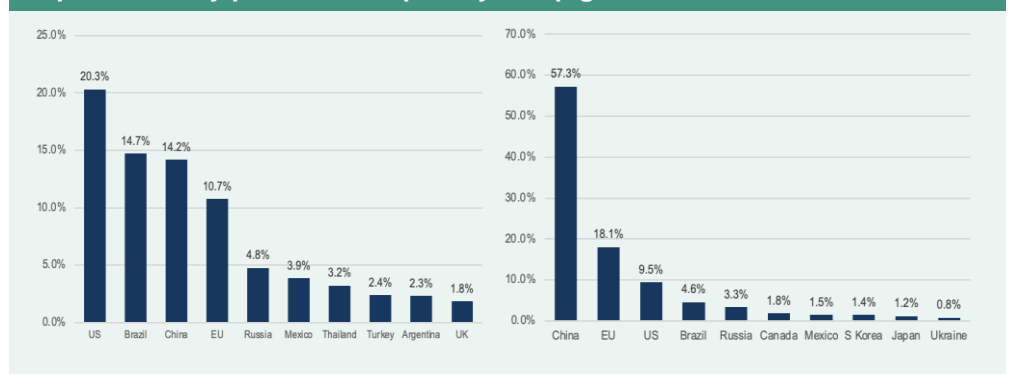
OECD-FAO projected global meat consumption 2022-2031



<https://www.oecd-ilibrary.org/sites/ab129327-en/index.html?itemId=/content/component/ab129327-en>

As illustrated, China leads in pig rearing, with c.450m animals, 57.3% of world total, whilst the US has a leading 20.3% of production of poultry (20.525m tonnes in 2022). China is also the world’s largest producer of table eggs, with “more than a third of the world’s laying birds” (Eco Annual report 2022, p12).

Top ten country producers of poultry and pig meat



Source: Statista. Poultry in kt cwe; pigs in millions.

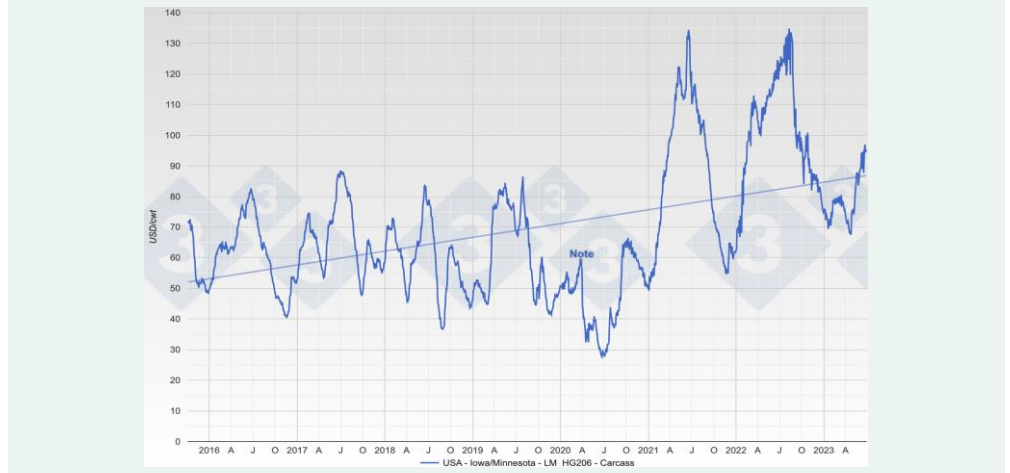
China (Mainland China, Hong Kong and Macau) leads in pork consumption with 2022 showing growth of 4.1%YoY to c.52 kg/person/year. In terms of major markets, the European Union ranks 2nd at 41.1kg/p/yr (and the UK 15th at 21.1kg/p/yr: although both markets have declined since the early 2000’s), with South Korea next at 37.9kg/p/yr. Consumption in the US market ranks 6th at 29.5kg/p/yr; consumption has consistently increased from 28.0kg/p/yr in 2010 and is set to overtake beef post-2023 (source: pig333.com).

With 35% of (FY22) revenue from China and Japan, and 19% from N. America, ECO has a strong presence in these markets, although Latin America and Asia together comprise 34%.

Price trends – pig meat

Near term, end-user market prices remain important as the impact one end-user economics influences demand for (and affordability of) animal health products. As illustrated, there are recent indications that US pig carcass prices have stabilised close to the longer-term trend, following a period of volatility in 2021-22.

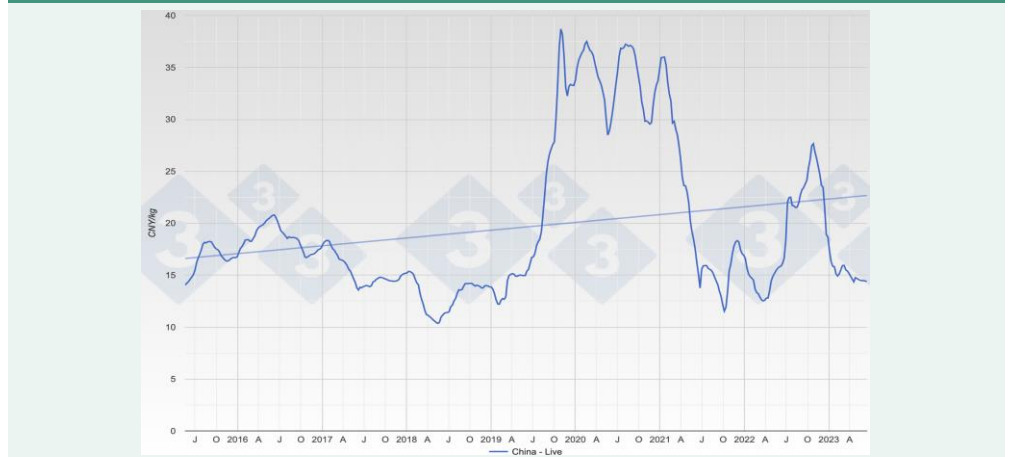
US pig price trend, 2016 – 2023, US\$/cwt



Source: https://www.pig333.com/markets_and_prices/usa-iowa-minnesota_93/. 'Note' indicates the inception of COVID-19.

Similarly, price trends in China, although recently weak, show indications of stabilising, but below the 2016-2020 trend. The recent sharp decline in sales of Aivlosin[®] was partially offset by its use as an anti-inflammatory, mitigating side-effects in porcine reproductive and respiratory syndrome (PRRS) virus.

China pig price trend, 2016 – 2023 CNY/kg

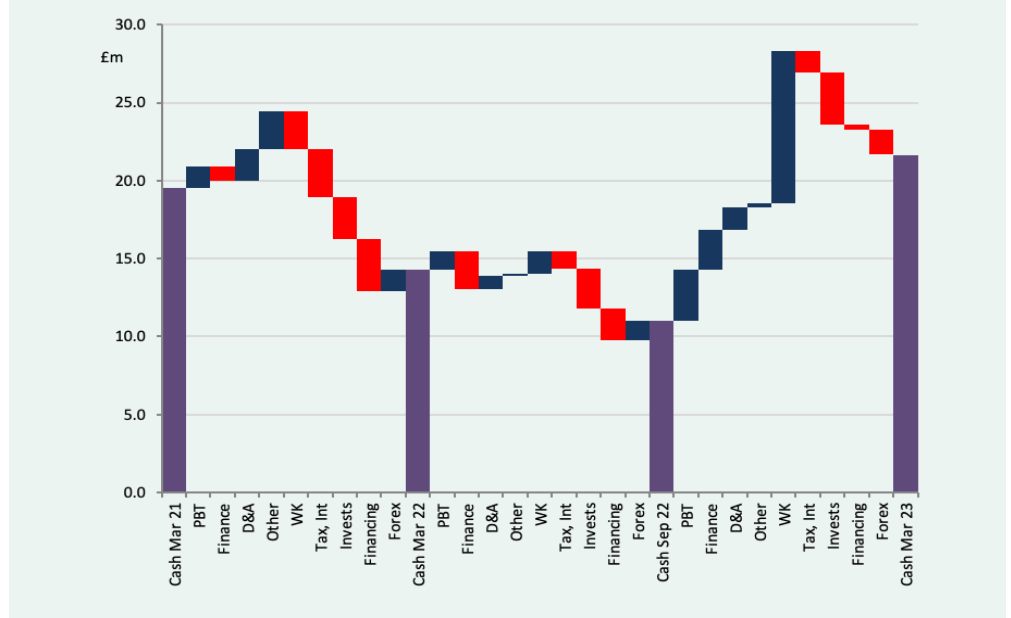


Source: https://www.pig333.com/markets_and_prices/china_106/#

Cashflow – carefully managed

As illustrated, FY23 cashflow improved significantly in the second half. H2 operating cashflow of £7.24m compared to £(0.26)m in H1; £7.24m for the year, with a positive £11.17m contribution from working capital, resulting in net cash from operations of £15.91m (FY22: £(0.55)m). Cap-ex rose from £1.62m to £3.56m. The resulting year-end cash position was £21.6m (+7.6m); net of lease obligations, £18.06m.

Cashflow, FY21 - H2 23

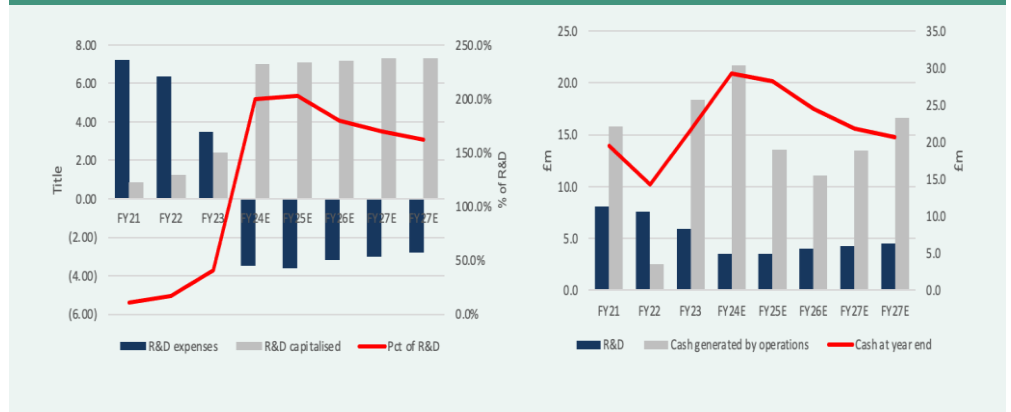


Source: Company data, Equity Development estimates

Commitment to R&D

We note that R&D spend was 9.8% of revenue (divided 71% P&L, 29% capitalised, a trend we expect to reverse in coming years), at £8.34m -6%YoY (FY22: £8.88m, 10.8% of revenue).

R&D and cashflow projection
















Source: Company data, Equity Development estimates

A well-planned roadmap for future growth

Central to ECO's growth prospects is the emphasis on the identification and development of novel vaccines and anti-microbials which address a range of diseases affecting the two most significant markets for commercial protein production – poultry and pigs. **ECO has an established process** for clinical innovation leading to viable commercial delivery, involving continual assessment of viability and progress towards regulatory approval.

As illustrated below, the Group currently supports a total of eight swine-related and five poultry-related pharmaceutical projects on time horizons of up to five years to the point of target regulatory approval; ranging from 2024/5 (2 projects) to 2025/26 (6), 2027 (4), and into 2028 (1). Based on the projected revenue contribution 5 years after approval, we estimate that the total potential contribution from products under development could reach c. £250m by 2033; inclusive of development risks, ECO estimates the NPV of the current R&D pipeline at £220m¹. This compares to the current run-rate of £87.4m (FY24E), rising towards the >£100m mark over the same period.

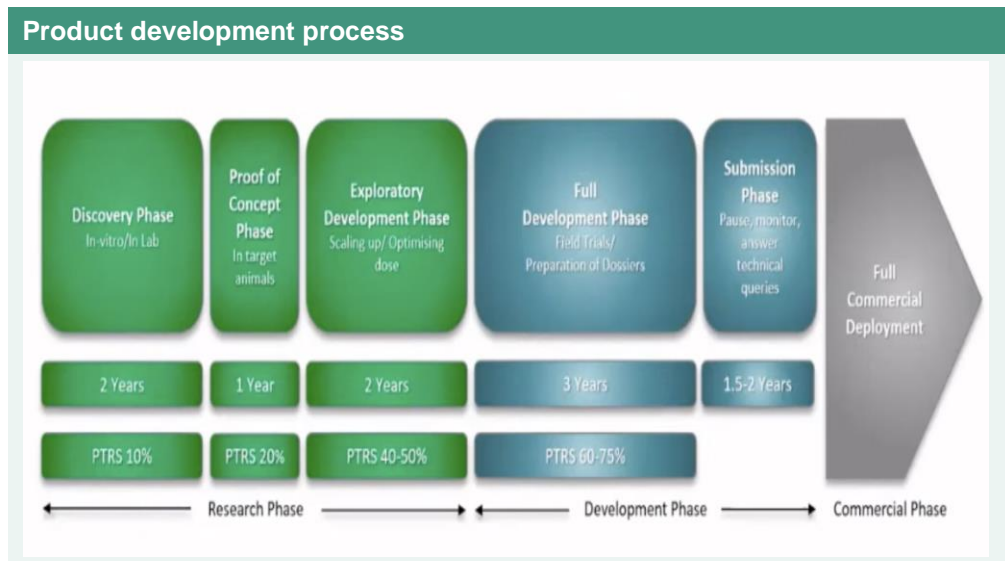
ECO products under development, timeline and potential contribution							
Product		2024	2025	2026	2027	2028	Est'd peak (£m)*
Poultry							
M. gallisepticum vacc.	2024/25						15.0
M. synoviae vacc.	2024/25						11.0
Enteric disease vacc.	Q3 26						17.0
Antiviral biologic	Q3 27						8.0
Multivalent vector vacc.	Q1/27						21.0
Anti-parasitic vaccine	Q1/27						36.0
Enteric disease biol'	Q3/27						40.0
Anti-parasitic biologic	Q4/27						24.0
Sum poultry		2.6	7.7	23.7	48.5	84.8	172.0
Pigs							
Novel anti-microbial	Q2/25						6.0
Bivalent resp' vaccine	Q1/26						22.0
PRRSV biologic	Q2/26						18.0
PRRSV vaccine A	Q3/26						19.0
PRRSV vaccine B	Q1/28						15.0
Sum pigs		0.6	3.4	11.1	24.1	42.9	80.0
						Total	252.0

Source: Company data, Equity Development estimates. * Contribution at peak +5-year deployment, total at FY33. ¹ Capital Markets Day January 2022.

Cashflow underpins the R&D programme

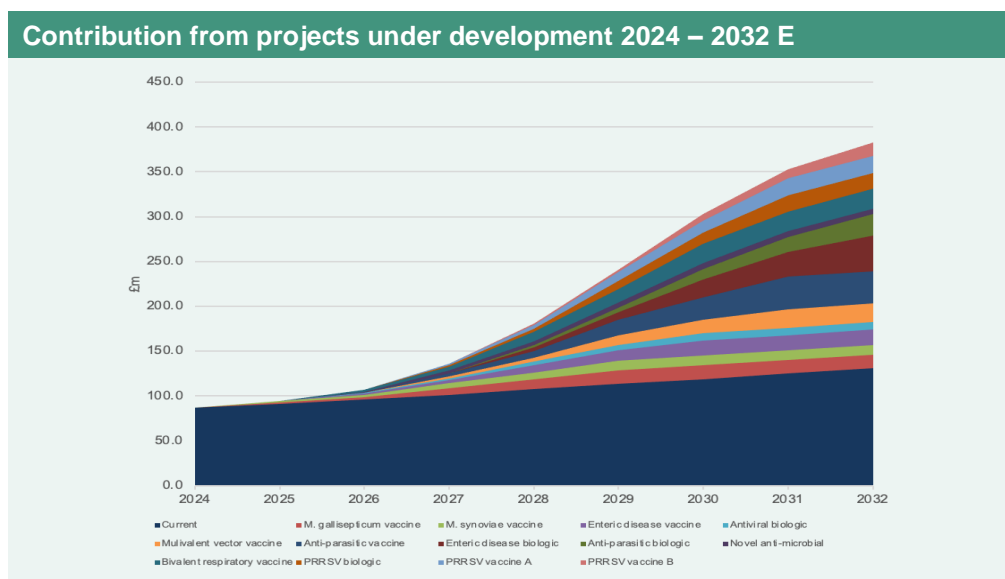
Over the period FY21-FY23 ECO allocated a total of just over £26m to R&D, equating to 9.6% of revenue over the three periods. We estimate that spending on R&D will exceed c.£55m over the coming five years, a figure supported by predicted cashflow. Inclusive of administrative and commercial input, each project costs an estimated £7.0m (company data) over the 10-12 years required to progress from discovery and further development phases to regulatory approval and commercial deployment.

As the company notes, cost to deployment tapers towards the point of initial sale, as products are optimised to market conditions in the setting of commercial rearing; ECO is mindful of the required economics of the end-user.



Source: Source: Company data, Capital Markets Day January 2022

Below illustrates the potential additional contribution to earnings from projects under development, from 2024 up to 2032.



Source: Company data, Equity Development estimates

Valuation considerations

Leading position

ECO Animal Health ranks third in terms of revenue derived from its specific offering alongside the leading providers of antimicrobials for livestock, Zoetis Inc. (the Pfizer spin-off), and Elanco Animal Health Inc., (formerly a division of Eli Lilly). Unlike ECO, Elanco and Zoetis derive a significant proportion of revenue from (higher margin) companion health products: Elanco, 49% (FY21); Zoetis, 64% (FY22).

We highlight:

- **Benchmark PLC** (FY22 revenue £158.3m, (adj.) EBITDA £31.2m), a Norwegian developer and supplier of feed supplements for fish farming, leading supplier of eggs for the farmed salmon market, and specialist in the treatment of disease (notably sea lice) in fish.
- **Anpario PLC** (FY22 revenue £33.1m, (adj.) EBITDA £5.2m), based in Nottinghamshire, manufacturer of animal feed additives, distributed across Europe, Australasia, China, MENA and Latin America.
- **Dechra Pharmaceuticals PLC** (FY23 Interim revenue £377.4m, (adj.) EBITDA, £98.9m), specialist in veterinary endrocrinological and dermatological products, distributed across 63 countries.
- **Genus PLC** (FY23 Interim revenue £350.2m, (adj.) operating profit £56.0m) which specialises in improved animal strains, breeding and the development of animal growth factors and health.

Elanco Inc., market cap. US\$4.98bn, and **Zoetis Inc.**, market cap. US\$76.4bn, are not included as comparatives due to (i) scale, and (ii) focus on companion (pet) animal health products.

Market share, branded animal antimicrobials

	EAH	Zoetis Inc.	Zoetis Inc.	Elanco	Elanco	Elanco
Brand	Aivlosin	Draxxin	Lincomix	Tylan	Denagard	Pulmotil
Active ing.	Tyvalosin	Tulathromycin	Tulathromycin	Tylosin	Tiamulin	Tilmicosin
Atimicrobial	New	Triamilide	Lincosamide	Macrolide	Pleuromutilin	Novel
US\$	100.5	50.0	51.0	133.0	198.0	81.0
Share	16.4%	8.1%	8.3%	21.7%	32.3%	13.2%

Source: Company data, 22 January 2022 Capital Markets Day presentation. US\$ 1.227:GB£ 1.00.

Comparative valuation

Company	Code	Mkt cap £m	EV/EBITDA		EV/Rev	
			-1 Yr	+1Yr	-1 Yr	+1Yr
ECO Animal Health PLC	EAH.L	69.8	7.6x	7.2x	0.7x	0.7x
Benchmark Holdings	BMK.L	290.5	11.1x	9.5x	2.2x	2.0x
Anpario PLC	ANP.L	49.0	6.4x	6.1x	1.0x	1.0x
Dechra Pharma	DPH.L	4,170	24.4x	23.2x	6.4x	5.8x
Genus PLC	GNS.L	1,416	16.6x	15.8x	2.6x	2.5x
Average ex EAH			14.6x	13.7x	3.1x	2.8x

Source: Company data, Equity Development estimates.

Appendix I: Aivlosin®

Effectiveness and application

First authorised by the European Medical Agency (EMA) in 2004, ECO Animal Health's Aivlosin® contains the active ingredient the antibiotic tylvalosin tartrate. This is effective against Gram-positive¹ (and some Gram-negative) organisms and mycoplasma¹, by inhibiting cell protein synthesis; as a macrolide antibiotic, tylvalosin interferes with protein synthesis to halt growth in rapidly dividing organisms.

It is therefore effective in preventing or controlling outbreaks of disease which would otherwise spread rapidly both within animals and between animals, particularly in intensively reared spaces. Applications include treatments for disease in pigs and poultry (chickens, turkeys, pheasants), notably:

- in pigs: swine enzootic pneumonia; porcine proliferative enteropathy (ileitis), or PPE; swine dysentery (*Brachyspira hyodysenteriae*).
- in poultry: mycoplasma pneumonia, ornithobacterium rhinotracheale (ORT), and necrotic enteritis.

Tylvalosin has the key attribute of rapid action, being quickly absorbed (orally) and therefore effective within a matter of hours. Applied in a granulated dosage or dissolved in water, the product may be stored for up to three years and has no adverse reactions or contraindications. The trend is towards water-based dosage, rather than as a dry feed additive, as this can be more effectively directed at specific groups of infected animals. See: https://www.ema.europa.eu/en/documents/product-information/aivlosin-epar-product-information_en.pdf. https://www.ema.europa.eu/en/search/search?search_api_views_fulltext=Aivlosin.

ECO Animal Health provides a full overview of the chemical properties of Aivlosin® at <https://www.ecoanimalhealthgroupplc.com/-/media/Files/E/Eco-Animal-Health-Group/Attachments/pdf/judicious-antibiotic-use-in-food-animals.pdf>.

Issue of overuse of antibiotics in animal rearing

The availability and use of antibiotics has revolutionised clinical medicine since introduction in the 1940's; however, more recently concerns have arisen over evidence of the dwindling effectiveness of a range of antibiotics against infection. This is attributed in part to the potentially indiscriminate application of antibiotics in animal rearing as a preventive rather than a reactive measure, thus introducing the possibility of increased antibiotic resistance into the food chain. In particular, the use of antibiotics for antimicrobial growth promotion (AGP) purposes in animal rearing in the 1960's raised concern to the extent that AGPs were increasingly banned across Europe countries, and from 2006, completely.

The US FDA has also introduced a series of measures to monitor and control the use of drugs in animals. This has resulted in a *judicious* risk-assessed approach, and a process designed to identifying the potential for transmission of antibiotic-resistant bacteria from animals to humans.

ECO Animal Health notes that Aivlosin® "fully complies" with the US approach, particularly in adherence to the correct dosage for a particular treatment, also under the supervision of a licensed vet or authority.

¹ GRAM+ or GRAM- bacteria are differentiated by the thickness the cell wall (peptidoglycan layer, and outer lipid membrane). Mycoplasma bacteria typically affect the respiratory system, skin or urinary tract and are distinguished by small size and the absence of a cell wall.

Appendix II: ECO development pipeline projection

Estimated progression towards peak year-5 revenue contribution

Illustrated below is our estimate of progression towards peak revenue contribution (based on company data) from the estimated start of regulatory approval for each of the major products currently under development.

Products under development, est'd progression towards year-5 peak revenue contribution										
£m	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Poultry										
M. gallisepticum vaccine		1.5	3.0	7.5	10.5	15.0	15.0	15.0	15.0	15.0
M. synoviae vaccine		1.1	2.2	5.5	7.7	11.0	11.0	11.0	11.0	11.0
Enteric disease vaccine			1.7	3.4	8.5	11.9	17.0	17.0	17.0	17.0
Antiviral biologic			0.8	1.6	4.0	5.6	8.0	8.0	8.0	8.0
Multivalent vector vaccine				2.1	4.2	10.5	14.7	21.0	21.0	21.0
Anti-parasitic vaccine				3.6	7.2	18.0	25.2	36.0	36.0	36.0
Enteric disease biologic					4.0	8.0	20.0	28.0	40.0	40.0
Anti-parasitic biologic					2.4	4.8	12.0	16.8	24.0	24.0
Sum poultry		2.6	7.7	23.7	48.5	84.8	122.9	152.8	172.0	172.0
Pigs										
Novel anti-microbial		0.6	1.2	3.0	4.2	6.0	6.0	6.0	6.0	6.0
Bivalent respiratory vaccine			2.2	4.4	11.0	15.4	22.0	22.0	22.0	22.0
PRRSV biologic				1.8	3.6	9.0	12.6	18.0	18.0	18.0
PRRSV vaccine A				1.9	3.8	9.5	13.3	19.0	19.0	19.0
PRRSV vaccine B					1.5	3.0	7.5	10.5	15.0	15.0
Sum pigs		0.6	3.4	11.1	24.1	42.9	61.4	75.5	80.0	80.0
Sum		3.2	11.1	34.8	72.6	127.7	184.3	228.3	252.0	252.0
Current (Aivlosin)	87.4	91.5	95.7	101.5	107.9	113.3	118.9	124.9	131.1	137.7

Source: Company data, Equity Development estimates. Five-year peak revenue highlighted: company data.

Summary financial data

P&L					
Year to 31 March (£m)	FY21	FY22	FY23	FY24E	FY25E
China & Japan	58.9	28.4	26.4	26.0	26.5
N America	13.9	16.4	15.2	15.8	16.6
S & SE Asia	9.1	11.8	16.8	17.8	18.9
LatAm	14.3	15.8	18.1	18.4	19.3
Europe	6.6	6.4	6.1	6.4	6.7
RoW/UK	2.9	3.4	2.8	3.0	3.2
Revenue	105.6	82.2	85.3	87.4	91.2
Gross	52.7	35.1	38.4	37.3	39.2
<i>Margin</i>	49.9%	42.7%	45.0%	42.7%	43.0%
COGS	(52.9)	(47.1)	(46.9)	(50.1)	(52.0)
Other income	0.3	0.1	0.4	0.0	0.0
R&D	(8.1)	(7.6)	(5.9)	(3.5)	(3.5)
Admin	(25.5)	(24.1)	(27.9)	(28.2)	(29.3)
Impairment	0.0	(2.1)	0.0	0.0	0.0
Sum Op-ex	(33.3)	(33.7)	(33.4)	(31.7)	(32.8)
Share-based payments	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)
Forex	2.2	(1.0)	(0.5)	0.0	0.0
EBIT (rptd.)	19.4	1.4	4.9	5.6	6.4
EBIT (adj.)	19.6	3.9	5.4	6.0	6.7
<i>Margin</i>	18.5%	4.7%	6.3%	6.8%	7.4%
Amortisation	(0.9)	(1.1)	(1.1)	(1.1)	(1.1)
Amortisation RoU	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Depreciation	(0.4)	(0.5)	(0.8)	(0.8)	(0.8)
EBITDA (rptd.)	23.4	2.4	6.8	8.0	8.7
EBITDA (adj.)	23.5	5.4	7.2	8.3	9.1
<i>Margin</i>	22.3%	6.6%	8.5%	9.5%	10.0%
Financial income	0.1	0.2	0.1	0.1	0.1
Financial expense	(0.3)	(0.3)	(0.7)	(0.6)	(0.6)
Associate	0.0	0.0	0.0	0.1	0.1
PBT (rptd.)	19.3	1.4	4.4	5.2	5.9
PBT (adj.)	19.4	3.8	4.8	5.5	6.3
Tax	(3.5)	(2.1)	(1.3)	(1.5)	(1.8)
PAT (rptd.)	15.8	(0.7)	3.1	3.6	4.2
PAT (adj.)	16.0	1.7	3.5	4.0	4.5
Basic wtd. Av. shares (m)	67.6	67.7	67.7	67.7	67.7
Diluted wtd. av. shares (m)	67.6	67.7	68.6	68.6	68.6
EPS rptd. basic (p)	10.9	(1.0)	1.5	2.3	3.1
EPS rptd. dil. (p)	10.9	(1.0)	1.5	2.3	3.0
EPS adj. basic (p)	10.9	(1.0)	1.5	2.3	3.1
EPS adj. dil. (p)	10.9	(1.0)	1.5	2.3	3.0

Source: Company data, Equity Development estimates.

Summary financial data

Cashflow					
Year to 31 March (£m)	FY21	FY22	FY23	FY24E	FY25E
PBT (rptd.)	19.3	1.4	4.4	5.2	5.9
Finance (net)	0.2	0.1	0.6	0.5	0.5
Forex	0.6	(1.0)	(0.5)	0.0	0.0
Amortisation	0.9	1.1	1.1	1.1	1.1
Amortisation RoU	0.4	0.4	0.5	0.5	0.5
Depreciation	0.4	0.5	0.8	0.8	0.8
Impairment	0.0	2.1	0.0	0.0	0.0
Associate	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Share-based payments	0.1	0.3	0.4	0.4	0.4
Other	0.0	0.1	(0.0)	0.0	0.0
Operating Cash Flow	21.9	4.9	7.2	8.3	9.1
Working capital					
(Increase)/Decrease inventories	(3.7)	(8.6)	7.8	3.3	0.4
(Increase)/Decrease in receivables	(4.0)	7.6	(0.7)	6.5	0.9
Increase/(Decrease) in payables	0.8	(2.9)	2.7	2.2	2.0
Provisions	0.9	1.4	1.4	1.5	1.5
Movement in working capital	(6.0)	(2.4)	11.2	13.5	4.8
Cash generated by operations	15.8	2.5	18.4	21.8	13.9
Interest paid	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)
Tax (paid)/received	(3.8)	(3.0)	(2.1)	(1.3)	(1.5)
Net cash from operations	12.0	(0.5)	15.9	20.0	11.9
Investing activities					
PPE	(0.2)	(1.6)	(3.6)	(3.7)	(3.8)
Sale of PPE	0.0	0.0	0.0	0.0	0.0
Capitalised R&D	(0.9)	(1.3)	(2.4)	(7.0)	(7.1)
Finance	0.1	0.2	0.1	0.1	0.1
Net cash used in investing	(0.9)	(2.7)	(5.9)	(10.6)	(10.8)
Net OpFCF	11.0	(3.2)	10.0	9.4	1.1
Financing activities					
Shares issued	0.4	0.1	0.0	0.0	0.0
Interest on leases	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
Leases	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Dividends	(0.6)	(2.9)	(1.8)	(1.2)	(1.4)
Net cash from financing	(0.7)	(3.3)	(2.4)	(1.7)	(1.9)
Net increase in cash / equivalents	10.4	(6.5)	7.6	7.7	(0.8)
Cash at beginning of year	9.8	19.5	14.3	21.7	29.4
Forex	(0.7)	1.3	(0.3)	0.0	0.0
Cash at year end	19.5	14.3	21.7	29.4	28.6
Net debt / (cash)	(18.3)	(12.8)	(18.1)	(29.4)	(28.6)

Source: Company data, Equity Development estimates.

Summary financial data

Balance sheet					
Year to 31 March (£m)	FY21	FY22	FY23	FY24E	FY25E
Fixed Assets					
Intangible Assets Net	36.1	34.3	35.6	41.5	47.6
PPE net	2.2	3.5	6.1	9.0	11.9
RoU Assets Net	1.4	1.8	4.3	5.6	7.0
Property Investments	0.3	0.2	0.0	0.0	0.0
Investments	0.2	0.2	0.3	0.3	0.3
Deferred Tax	0.3	0.5	0.6	0.6	0.5
Sum Fixed Assets	40.4	40.5	46.8	56.9	67.3
Current Assets					
Inventories	20.5	30.1	22.4	19.2	18.7
Trade receivables	32.5	26.0	26.9	20.4	19.5
Tax assets, other	4.0	2.7	3.6	0.0	0.0
Cash, Equivalents	19.5	14.3	21.7	29.4	28.6
Sum Current Assets	76.5	73.1	74.5	68.9	66.8
Total Assets	116.9	113.6	121.3	125.7	134.1
Current Liabilities					
Trade payables	(14.5)	(13.0)	(14.5)	(16.8)	(18.7)
Provisions	(1.8)	(3.9)	(5.2)	(5.2)	(5.2)
Tax, Other	(3.8)	(0.9)	(2.4)	(2.4)	(2.4)
Dividends	(0.1)	(0.1)	(0.1)	0.0	0.0
Sum Current Liabilities	(20.2)	(17.7)	(22.2)	(24.4)	(26.3)
Total Assets less Current Liabilities	96.7	95.9	99.1	101.4	107.7
Long-term Liabilities					
Deferred tax	(0.2)	0.0	0.0	0.0	0.0
Leases	(1.2)	(1.5)	(3.6)	0.0	0.0
Sum Long-term liabilities	(1.4)	(1.5)	(3.6)	0.0	0.0
Total liabilities	(21.6)	(19.3)	(25.8)	(24.4)	(26.3)
Net Assets	95.3	94.3	95.6	101.4	107.7
Capital & Reserves					
Share Capital	3.4	3.4	3.4	3.4	3.4
Share Premium	63.3	63.3	63.3	65.5	67.7
Reserves	1.9	3.0	2.6	2.6	2.6
Retained earnings	13.4	12.4	13.9	17.6	21.7
Non-controlling interests	13.4	12.3	12.3	12.3	12.3
Equity	95.3	94.3	95.6	101.4	107.7
Net debt / (cash)	(18.3)	(12.8)	(18.1)	(29.4)	(28.6)

Source: Company data, Equity Development estimates.



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