

Disposal of non-core equine treatment for €1.3m

4th April 2024

Eco Animal Health has announced the disposal of its treatment for equine parasitic infections, *ECOMectin*[®] Horsepaste, to its long-term Italian manufacturing partner, ACME Drugs S.r.l. ACME will acquire all *ECOMectin*[®] Horsepaste intellectual property, manufacturing and inventory, distribution and marketing. Our Fair Value range remains 137p-146p which contrasts with the current share price, suggesting that the potential contribution to earnings from the product development pipeline deserves far closer attention.

Total consideration: €1.3m

The total consideration for the deal is €1.3m (£1.1m), comprising €0.5m paid on signature of the sale and purchase agreement and two further payments of €0.4m payable 18 months and 36 months post-completion, each of which is unconditional and supported with a bank guarantee to be put in place within 45 days¹. Revenue derived from *ECOMectin*[®] horse paste amounted to £814,000 for the year to 31 March 2024 (FY 23: £988,000), 0.9% of ED FY24 estimated total. ACME will acquire marketing authorisations principally for the UK and EU, and *ECOMectin*[®] trade mark licence.

ECOMectin[®] Horsepaste: non-core to product development focus

ECOMectin[®] Horsepaste is a highly effective orally-administered treatment for equine parasites. However, *ECOMectin*[®] is non-core to the focus of ECO's product range and target markets. The Group derives c.90% of revenue from its proprietary Aivlosin[®] antibacterial treatment for gastrointestinal and respiratory diseases in pigs and poultry, which is marketed globally. Further, the development of novel treatments for diseases in swine and poultry remains the focus of an extensive R&D programme, with at present six major projects underway, including Ecovaxxin[®] MG and Ecovaxxin[®] MS for avian mycoplasmosis, and Ecovaxxin[®] PCV2 / Mhp, a pig vaccine. It is intended that funds from the disposal will be used to augment provision for current R&D programmes, although we note that at the Interim results EAH had a healthy net cash reserve of £20.6m. Following the Group's November 2023 Capital Markets Day presentation (Equity Development report 8 December 2023 Interim results generate more cash), we highlighted the extent to which EAH's programme for next-generation products is mapped out and monitored throughout each stage of progress from initial development to manufacture and distribution as a commercial product.

Recent trading update

In the recent 21 March Trading Update for the year ended 31 March 2024, the Group reported that it expects FY24 revenue to be in line with a market consensus estimate of £88.7m, with continued progress in both the second half and Q4, and sustained demand for Aivlosin[®] across its worldwide target markets: China, Japan and SE Asia, the Americas and Europe.

Company Data

EPIC	EAH
Price (last close)	85p
52 weeks Hi/Lo	125p/83p
Market cap	£57.6m
Proforma net debt (cash)	£(20.6)m

Share Price, p



Source: ADVFN

Description

Founded in 1995, ECO Animal Health 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.

Forecasts to FY25

Yr to 31 March (£m)	2021	2022	2023	2024E	2025E
Revenue	105.6	82.2	85.3	87.4	90.4
EBITDA (adj.)	23.5	5.4	7.2	7.6	7.8
Pre-Tax Profit (adj.)	19.4	3.8	4.8	4.8	5.0
EPS (adj. dil. p)	10.85	(1.01)	1.47	1.55	1.73
Net debt (cash)	(18.3)	(12.8)	(18.1)	(20.1)	(18.0)
EV/EBITDA	1.6x	6.9x	5.1x	4.9x	4.7x
EV/Rev	0.4x	0.5x	0.4x	0.4x	0.4x

Source: Company data, Equity Development estimates. ¹Earnings estimates amended accordingly.

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Summary financial data

Note: our earnings outlook is amended to adjust for the disposal of the ECOmectin® Horsepaste operation.

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	2.4
Revenue	105.6	82.2	85.3	87.4	90.4
Gross	52.7	35.1	38.4	37.3	39.4
<i>Margin</i>	49.9%	42.7%	45.0%	42.7%	43.6%
COGS	(52.9)	(47.1)	(46.9)	(50.1)	(51.0)
Other income	0.3	0.1	0.4	0.0	0.0
R&D	(8.1)	(7.6)	(5.9)	(4.2)	(4.6)
Admin	(25.5)	(24.1)	(27.9)	(28.2)	(29.6)
Impairment	0.0	(2.1)	0.0	0.0	0.0
Sum Op-ex	(33.3)	(33.7)	(33.4)	(32.4)	(34.2)
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	4.9	5.1
EBIT (adj.)	19.6	3.9	5.4	5.3	5.5
<i>Margin</i>	18.5%	4.7%	6.3%	6.0%	6.1%
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	7.3	7.5
EBITDA (adj.)	23.5	5.4	7.2	7.6	7.8
<i>Margin</i>	22.3%	6.6%	8.5%	8.7%	8.7%
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	4.5	4.7
PBT (adj.)	19.4	3.8	4.8	4.8	5.0
Tax	(3.5)	(2.1)	(1.3)	(1.3)	(1.4)
PAT (rptd.)	15.8	(0.7)	3.1	3.1	3.3
PAT (adj.)	16.0	1.7	3.5	3.5	3.6
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)	10.86	(1.01)	1.49	1.58	1.76
EPS rptd. dil. (p)	10.85	(1.01)	1.47	1.55	1.73
EPS adj. basic (p)	10.86	(1.01)	1.49	1.58	1.76
EPS adj. dil. (p)	10.85	(1.01)	1.47	1.55	1.73

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	4.5	4.7
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	7.6	7.8
Working capital					
(Increase)/Decrease inventories	(3.7)	(8.6)	7.8	(0.6)	(0.5)
(Increase)/Decrease in receivables	(4.0)	7.6	(0.7)	(0.7)	0.3
Increase/(Decrease) in payables	0.8	(2.9)	2.7	2.2	0.6
Provisions	0.9	1.4	1.4	1.5	1.5
Movement in working capital	(6.0)	(2.4)	11.2	2.4	1.8
Cash generated by operations	15.8	2.5	18.4	10.1	9.7
Interest paid	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)
Tax (paid)/received	(3.8)	(3.0)	(2.1)	(1.3)	(1.3)
Net cash from operations	12.0	(0.5)	15.9	8.3	7.9
Investing activities					
PPE	(0.2)	(1.6)	(3.6)	(2.5)	(2.6)
Sale of PPE	0.0	0.0	0.0	0.4	0.0
Capitalised R&D	(0.9)	(1.3)	(2.4)	(4.5)	(4.0)
Finance	0.1	0.2	0.1	0.1	0.1
Net cash used in investing	(0.9)	(2.7)	(5.9)	(6.5)	(6.5)
Net OpFCF	11.0	(3.2)	10.0	1.8	1.4
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)	(2.8)	(3.0)
Net cash from financing	(0.7)	(3.3)	(2.4)	(3.3)	(3.5)
Net increase in cash / equivalents	10.4	(6.5)	7.6	(1.6)	(2.1)
Cash at beginning of year	9.8	19.5	14.3	21.7	20.1
Forex	(0.7)	1.3	(0.3)	0.0	0.0
Cash at year end	19.5	14.3	21.7	20.1	18.0
Net debt / (cash)	(18.3)	(12.8)	(18.1)	(20.1)	(18.0)

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	39.0	42.0
PPE net	2.2	3.5	6.1	7.8	9.5
RoU Assets Net	1.4	1.8	4.3	7.2	10.2
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	54.8	62.5
Current Assets					
Inventories	20.5	30.1	22.4	23.0	23.5
Trade receivables	32.5	26.0	26.9	27.5	27.2
Tax assets, other	4.0	2.7	3.6	0.0	0.0
Cash, Equivalents	19.5	14.3	21.7	20.1	18.0
Sum Current Assets	76.5	73.1	74.5	70.6	68.8
Total Assets	116.9	113.6	121.3	125.4	131.3
Current Liabilities					
Trade payables	(14.5)	(13.0)	(14.5)	(16.8)	(17.3)
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)	(24.9)
Total Assets less Current Liabilities	96.7	95.9	99.1	101.1	106.4
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)	(24.9)
Net Assets	95.3	94.3	95.6	101.1	106.4
Capital & Reserves					
Share Capital	3.4	3.4	3.4	3.4	3.4
Share Premium	63.3	63.3	63.3	65.7	67.8
Reserves	1.9	3.0	2.6	2.6	2.6
Retained earnings	13.4	12.4	13.9	17.0	20.3
Non-controlling interests	13.4	12.3	12.3	12.3	12.3
Equity	95.3	94.3	95.6	101.1	106.4
Net debt / (cash)	(18.3)	(12.8)	(18.1)	(20.1)	(18.0)

Source: Company data, Equity Development estimates.



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