



# 20 years

of strategic growth

Dechra Pharmaceuticals PLC  
Half Year Presentation 2018



**Half-Yearly Results Presentation**  
for the six months ended 31 December 2017



# Operational Highlights



## Portfolio Focus

— All species categories delivered growth



## Pipeline Delivery

— Several global registrations achieved



## Geographic Expansion

— New business in New Zealand



## Acquisition

— Major transaction: €340.0 million AST/Le Vet completed

# Financial Highlights



## Revenue Growth

- 11.2% to £194.1 million



## Underlying Operating Cash Generation

- 96.2% cash conversion



## Underlying EBIT Growth

- 22.3% to £47.4 million
- Operating margin expansion of 220 bps to 24.6%



## Shareholders' Value

- Underlying diluted EPS: 19.8% increase to 37.58 pence
- Interim dividend: 20.0% increase to 7.33 pence



# Our Strategy

To continue to develop our position as an international, high margin, cash generative, veterinary pharmaceuticals and related products business with a clear focus on key therapeutic areas:

- Endocrinology
- Dermatology
- Ophthalmology
- Equine medicine
- Anaesthesia and analgesia
- Cardiovascular disease
- Food producing animal antibiotics
- Poultry vaccines
- Pet diets
- Complementary generics



Generating and maximising returns and long term value for shareholders



Strategic Growth Drivers



Pipeline  
Delivery



Portfolio  
Focus



Geographic  
Expansion



Acquisition

# Underlying Financial Results

Sustained double digit growth

	Six months ended 31 December		Growth at AER <sup>(1)</sup> %	Growth at CER <sup>(2)</sup> %
	2017 £m <sup>(1)</sup>	2016 £m <sup>(1)</sup>		
Revenue	<b>194.1</b>	172.6	12.5%	<b>11.2%</b>
Underlying gross profit	<b>108.2</b>	92.2	17.3%	<b>16.3%</b>
<i>Underlying gross profit %</i>	<b>55.7%</b>	53.4%	230 bps	<b>250 bps</b>
Underlying operating profit	<b>47.4</b>	38.6	22.6%	<b>22.3%</b>
<b>Underlying EBIT %</b>	<b>24.4%</b>	22.4%	200 bps	<b>220 bps</b>
Underlying profit before tax	<b>44.3</b>	37.5	18.0%	<b>17.6%</b>
<b>Underlying EBITDA</b>	<b>51.0</b>	41.6	22.5%	<b>22.0%</b>
<b>Underlying diluted EPS (pence)</b>	<b>37.58</b>	31.25p	20.3%	<b>19.8%</b>
<b>Interim dividend per share (pence)</b>	<b>7.33p</b>	6.11p	20.0%	-

(1) Actual Exchange Rate

(2) Constant Exchange Rate

# Revenue by Segment

Strong performance in core and acquisitions

	Six months ended 31 December		Growth at AER <sup>(1)</sup> %	Growth at CER <sup>(2)</sup> %
	2017 £m <sup>(1)</sup>	2016 £m <sup>(1)</sup>		
<b>Revenue</b>				
EU Pharmaceuticals – Existing <sup>(3)</sup>	117.9	110.7	6.5%	3.2%
NA Pharmaceuticals – Existing	73.2	61.9	18.3%	20.7%
<b>Group Total - Existing</b>	<b>191.1</b>	<b>172.6</b>	<b>10.7%</b>	<b>9.5%</b>
EU Pharmaceuticals – Acquisitions <sup>(3)</sup>	3.0	-	-	-
NA Pharmaceuticals – Acquisitions	-	-	-	-
<b>Group Total – Acquisitions</b>	<b>3.0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>194.1</b>	<b>172.6</b>	<b>12.5%</b>	<b>11.2%</b>

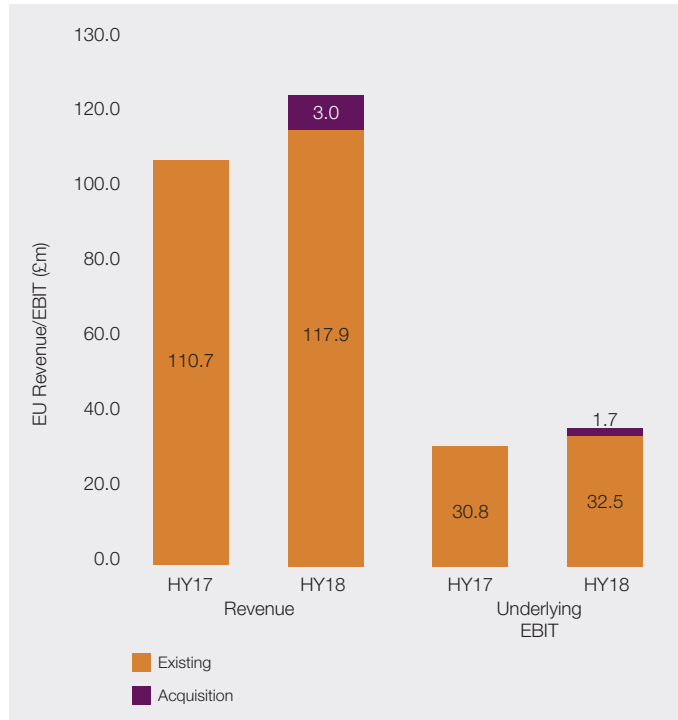
(1) Actual Exchange Rate

(2) Constant Exchange Rate

(3) As Apex was acquired on 14 October 2016, the amounts represented by EU Pharmaceuticals - Acquisitions is the Apex results for the period 1 July 2017 to 14 October 2017. In the current period and prior period, the results from 14 October to 31 December are included in the results: these are EU Pharmaceuticals - Existing referred to on a like-for-like basis.

# EU Pharmaceuticals Segment

## Consistent performance in key markets



- **Revenue 5.8% at CER to £120.9 million**

- Existing\*: 3.2% increase to £117.9 million
- Existing\*: excluding third party manufacturing (strategic exit) 4.2% increase

- **Underlying EBIT 8.8% at CER**

- Existing\*: 3.7% increase to £32.5 million
- Existing\*: excluding third party manufacturing (strategic exit) 4.2% increase

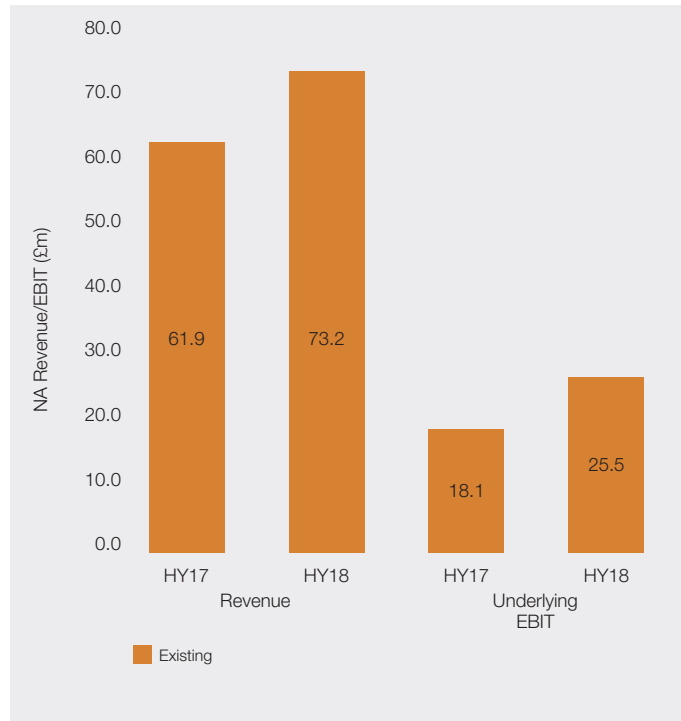
- **Underlying EBIT margin**

- +80 bps to 28.6%

\* As Apex was acquired on 14 October 2016, the amounts represented by EU Pharmaceuticals - Acquisitions is the Apex results for the period 1 July 2017 to 14 October 2017. In the current period and prior period, the results from 14 October to 31 December are included in the results: these are EU Pharmaceuticals - Existing referred to on a like-for-like basis.

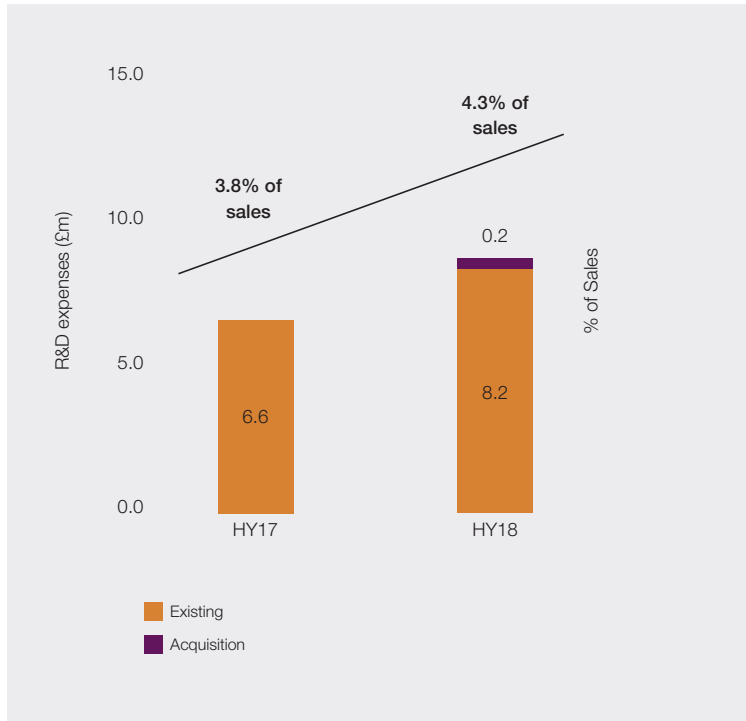
# NA Pharmaceuticals Segment

## Strong organic growth and leverage of Putney



- **Revenue 20.7% at CER to £73.2 million**
  - Existing: 20.7% increase to £73.2 million
- **Underlying EBIT 44.0% at CER**
  - Existing: 44.0% increase to £25.5 million
- **Underlying EBIT margin**
  - +560 bps to 34.9%
  - Strong operating leverage

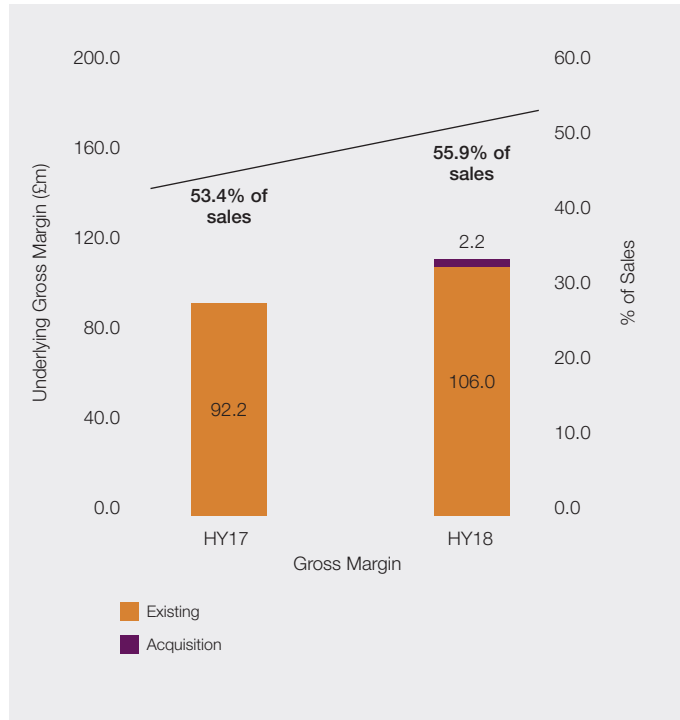
# Pharmaceutical Research & Development



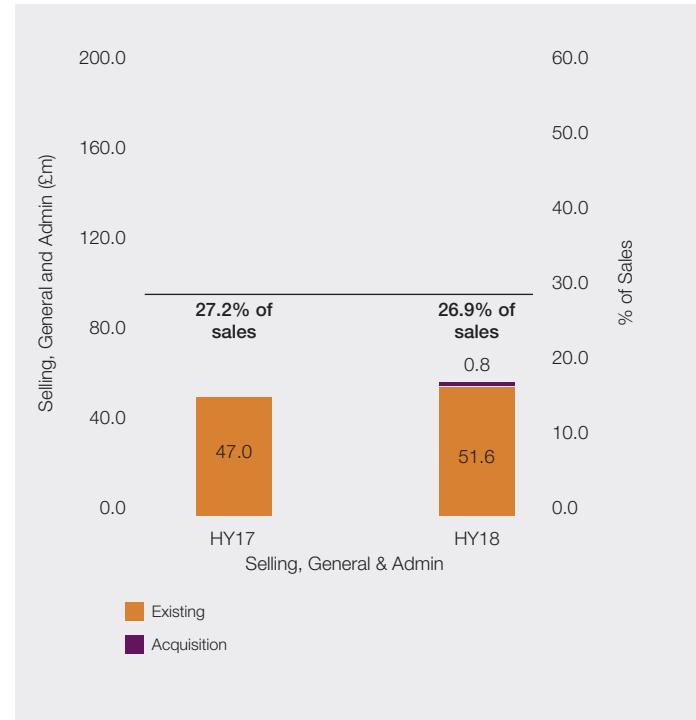
- Over 26.5% increase to £8.4 million at CER
- Addition of Apex
- Consistent investment in pipeline



# Gross Margin

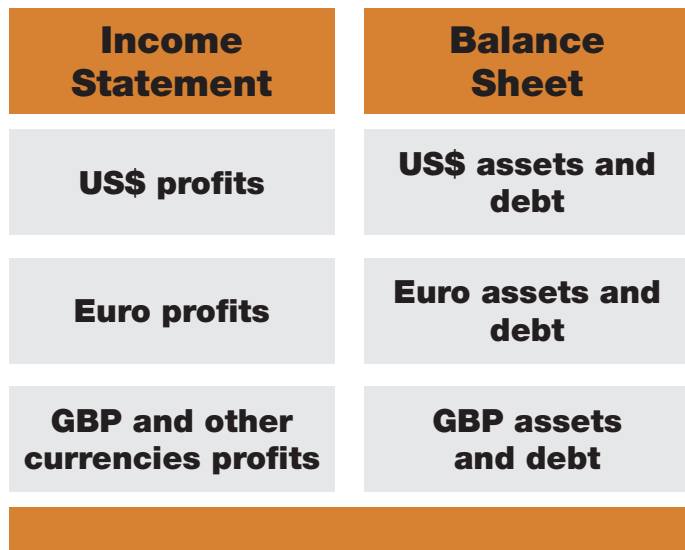


# Selling, General & Admin



# Currency Exposure

Balancing currency flows with financing strategy



	Average Rates		
	HY 2018	HY 2017	% change
£/€	1.1205	1.1698	(3.1)%
£/\$	1.3176	1.2886	2.3%

— Euro€  
1% variation in £/€ impacts underlying diluted EPS by approximately +/-0.9%

— US\$  
1% variation in £/\$ impacts underlying diluted EPS by approximately +/-0.7%

Current exchange rates are c. £/€1.134 and £/\$1.400

If these exchange rates had applied throughout the period, the underlying diluted EPS would be approximately 5.3% lower

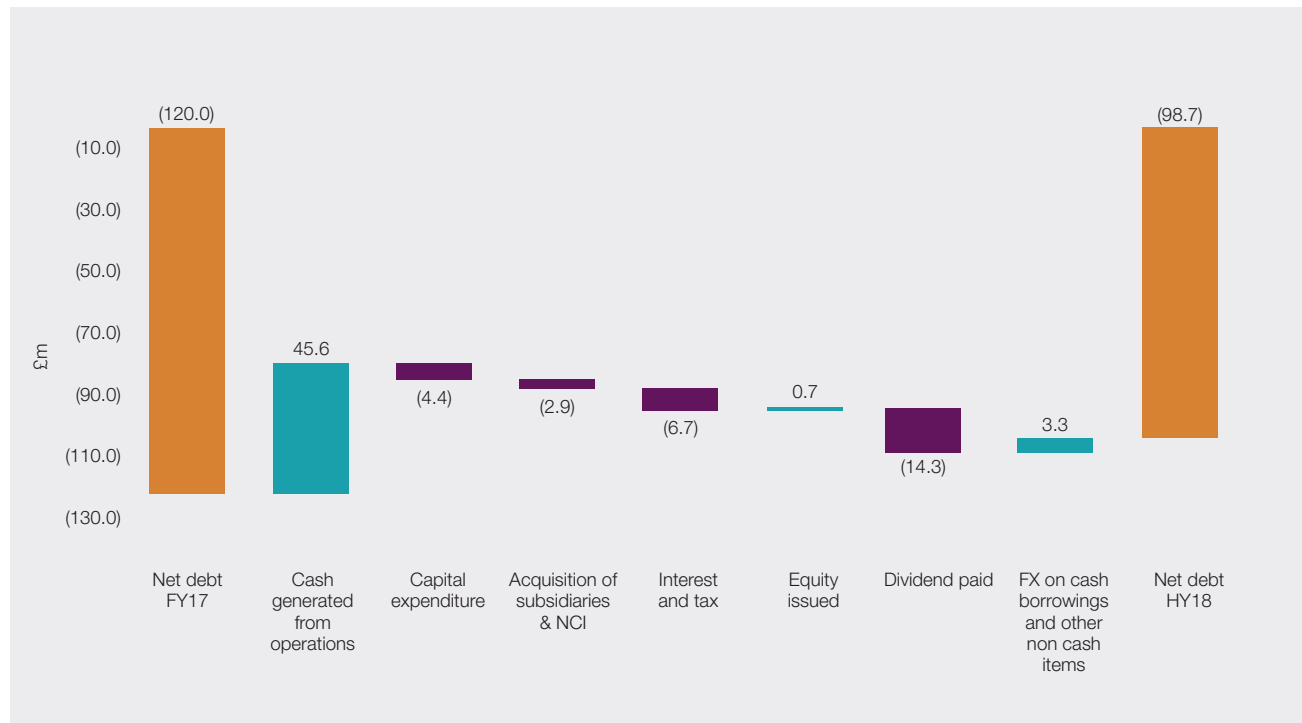
# Cash Flow

## Continuing strong cash generation

	31 December	
	2017	2016
	£m	£m
Underlying operating profit	47.4	38.6
Depreciation and amortisation	3.6	3.0
<b>EBITDA</b>	<b>51.0</b>	41.6
<i>EBITDA %</i>	<b>26.3%</b>	24.1%
Working capital	(6.4)	7.6
Other	1.1	1.3
<b>Net cash generated from operations before non-underlying items</b>	<b>45.7</b>	50.5
Non-underlying items	(0.1)	(2.6)
<b>Net cash generated from operations</b>	<b>45.6</b>	47.9
 <b>Cash conversion %</b>	 <b>96.2%</b>	 124.0%

# Net Debt

Net debt/EBITDA leverage reduced from 1.4 times to 1.0 times



# Tax

## USA Tax Cuts and Jobs Act Benefit (TCJA)

- Group underlying effective tax rate (ETR) reduced slightly to 20.5% (2017 full year: 21.9%)
- Reduction in USA corporate rate following Tax Cuts and Jobs Act from 35.0% to 21.0%, excluding State taxes
- Full year USA effect in 2019
- Group underlying ETR guidance of c. 21.0 % for 2019 inclusive of TCJA and AST/Le Vet
- Reported ETR of 41.5% credit includes a one-off tax credit of £10.8 million (non-underlying) from revaluation of deferred tax assets and liabilities



# Other Financial Items

- **Non-underlying items £25.3 million (2017: £24.8 million)**

- Increase of £0.6 million in amortisation of acquired intangibles to £19.1 million
- Acquisition costs £1.5 million
- Rationalisation of manufacturing footprint costs of £0.4 million
- Non-underlying finance costs associated with unwind of discounts and foreign exchange on deferred consideration £4.1 million

- **Dividend**

- Interim dividend increased to 7.33p per share (2017: 6.11p)

- **Banking**

- Net debt of £98.7 million at the period end (2017: £138.0 million)
- Leverage covenant is 1.0 at the period end (2017: 1.9); cannot be higher than 3.0:1
- Interest covenant is 18.5 at the period end (2017: 13.4); cannot be lower than 4:1
- New Term Loan facility for acquisitions (see appendices)





# Portfolio Focus

## Strong growth in key territories

### — EU Pharmaceuticals

- Existing pharmaceutical range increased by 4.2% at CER (excluding third party manufacturing) and treating Apex like-for-like
- Planned reduction in non core business continues
- Consolidated growth 5.8% at CER

### — NA Pharmaceuticals

- Existing pharmaceutical growth 20.7% at CER
- Delivered against challenging market
  - Distributor white label goods and natural disasters in US
- Sales team expanded
  - 24 new sales personnel



**Four leading brands.**  
**One powerful leader in endocrinology.**

Brands like Zycortal, Vetoryl, Forthyrone and Felimazole, combined with better understanding and support deliver effective control and management of Addison's, Cushing's disease, hypothyroidism and hyperthyroidism.

We believe that even animals with marginal diseases should be given the opportunity to live life to their full potential. Successfully treating these challenging diseases means taking back control and restoring quality of life to both the animal and the owner.



# Portfolio Focus

All therapeutic areas performing well

## Therapeutic Areas

Existing portfolio continues to drive growth

CAP major driver of growth

Solid FAP growth against market decline in antibiotic use

Equine growth driven by Osphos offset by Equipalazone decline

Diets returning to modest growth

	Six months ended 31.12.17 £m	Growth at CER %
<b>Revenue</b>		
CAP	124.7	18.4
Equine	16.4	19.3
FAP	24.2	3.2
<b>Subtotal Pharmaceuticals</b>	<b>165.3</b>	<b>16.1</b>
Diets	14.8	2.9
Other	14.0	(21.6)
<b>Total</b>	<b>194.1</b>	<b>11.2</b>



# Geographic Expansion

## Increasing area of focus

- Internal reorganisation
  - Dedicated management
  - Additional marketing
  - More product registration resource
- All recently entered countries delivering growth
- Global expansion continues organically and through acquisition:  
Australia and New Zealand





# Pipeline Delivery

## EU FAP:

- Solacyl, Turkey Anti Inflammatory
- Diamtrim, Cattle Antibiotic
- Avishield IBH 120, Poultry Vaccine

## International:

- New products registered in New Zealand, Thailand, Kazakhstan, Australia

## NA:

- Fluids and full range of Amoxi- Clav in US
- Osphos, Vetoryl, Cyclopray in Mexico





# Pipeline Delivery

- Progress continues on robust range of opportunities
- Proof of concept studies commenced on new molecules
- Pipeline further enhanced by acquisition
- New products acquired through licencing deals
  - BioEquine Herpes, Redonyl Ultra, Vetrodent
- Working with Animal Ethics to accelerate registration of Tri-Solfen





# Acquisition

## Supplementing Portfolio, Pipeline and Geography

- Small CAP business, RxVet, acquired December 2017
  - Provides access to New Zealand market
- Major acquisition of AST Farma /Le Vet for Euro 340.0 million completed 13 February 2018, post Period end
  - £105.0 million placing
  - Strengthens our EU segment
  - Direct to vet through AST in Netherlands
  - Enhances pipeline
  - Initial phase of integration progressing well
  - Acquisition on track to deliver expectations







# Strategic Enablers – Manufacturing

## Change to support our future

### – Manufacturing

- Progress made on five year plan to rationalise and improve efficiency
- Continue to reduce low value third party business
- Driving ongoing efficiencies within our key sites





# Strategic Enablers – IT and People

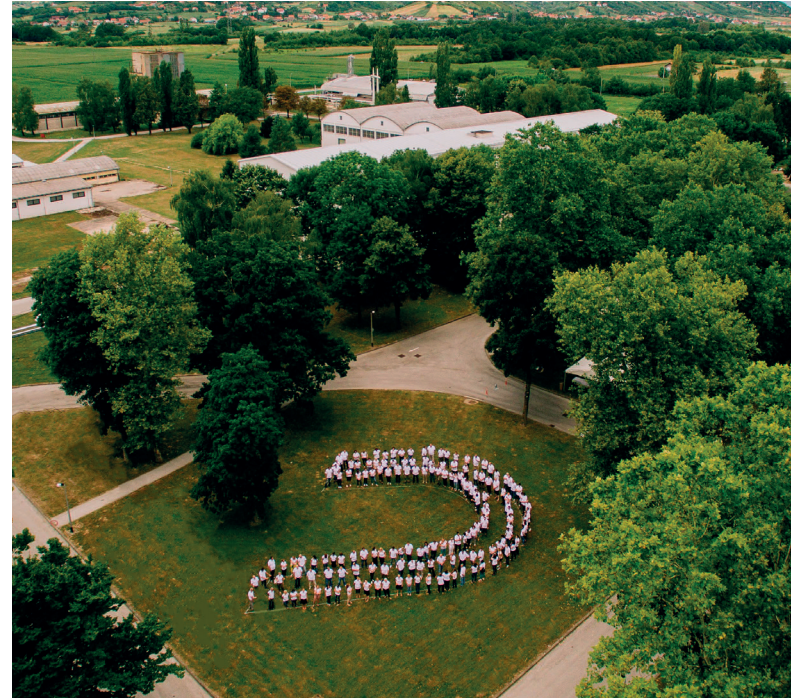
## Change to support our future

### — People

- Appointed Andrea Dodds to new Senior Executive Team role, Global Marketing Director
- Appointed experienced Supply Chain Director
- Strengthened HR team in Manufacturing and Mexico

### — IT

- Oracle ERP progressing well
- Implementation expected by end of 2018 financial year



# Outlook

## Our strategy continues to outperform

- Strategic acquisitions completed
- Pipeline strengthened
- New opportunities being explored
- Current trading in line with management expectations
- Well positioned to deliver future growth

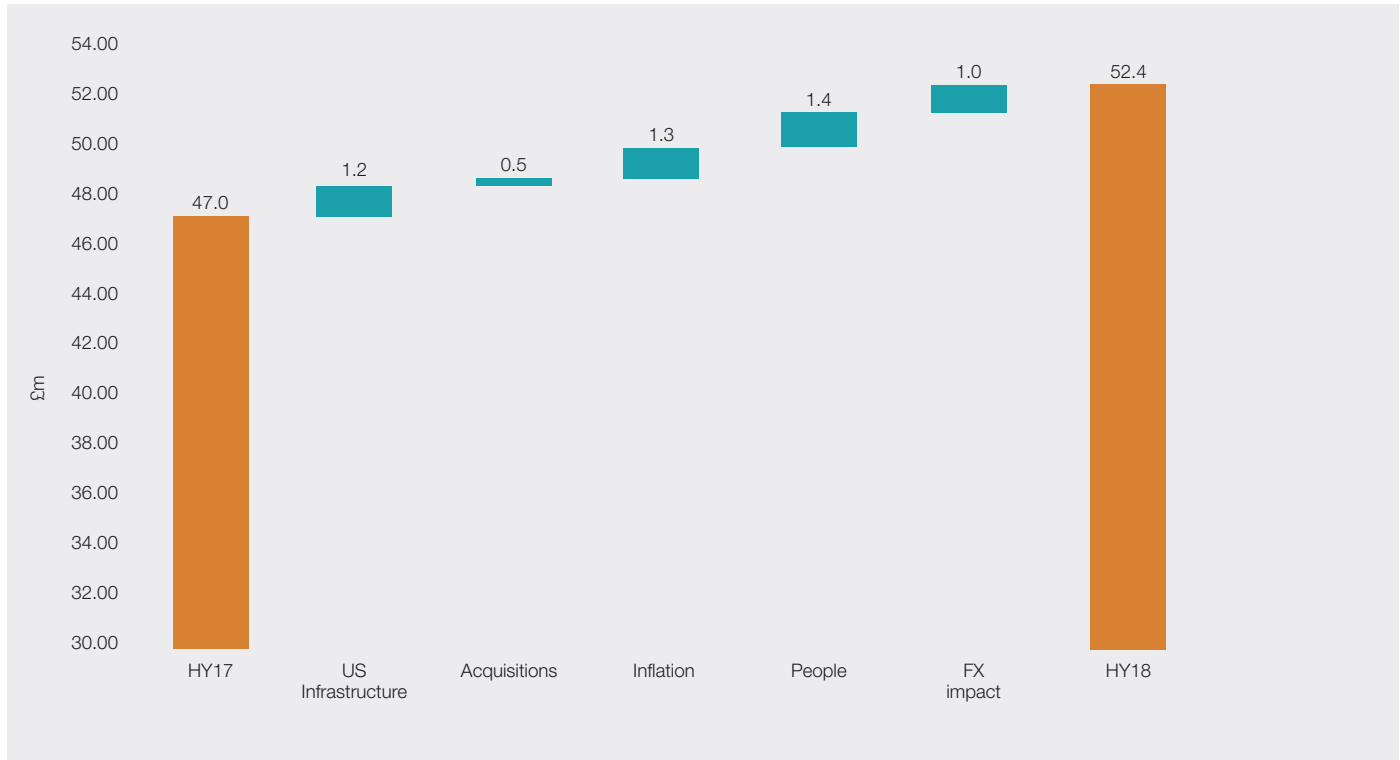




# Underlying Gross Margin

<b>HY 2017 – Existing Business</b>	<b>53.4%</b>
Product Mix	2.2%
<b>HY 2018 – Existing Business</b>	<b>55.6%</b>
Acquisition	0.3%
<b>HY 2018 – Consolidated</b>	<b>55.9%</b>

# Underlying Selling, General & Admin Expenses





# Balance Sheet

	31 December	
	2017 £m	Restated 2016 £m
Total non-current assets (excluding deferred tax assets)	427.3	434.1
Working capital	69.3	62.2
Cash and cash equivalents	75.8	49.2
Borrowings	(174.5)	(187.2)
Corporate and deferred tax	(37.7)	(61.4)
Other liabilities	(44.9)	(12.1)
Total net assets	315.3	284.8
<b>Net (debt)/cash</b>	<b>(98.7)</b>	<b>(138.0)</b>
<b>Leverage covenant* – 3.0:1</b>	<b>1.0</b>	<b>1.9</b>

\* Net debt/(cash) to EBITDA

# Working Capital

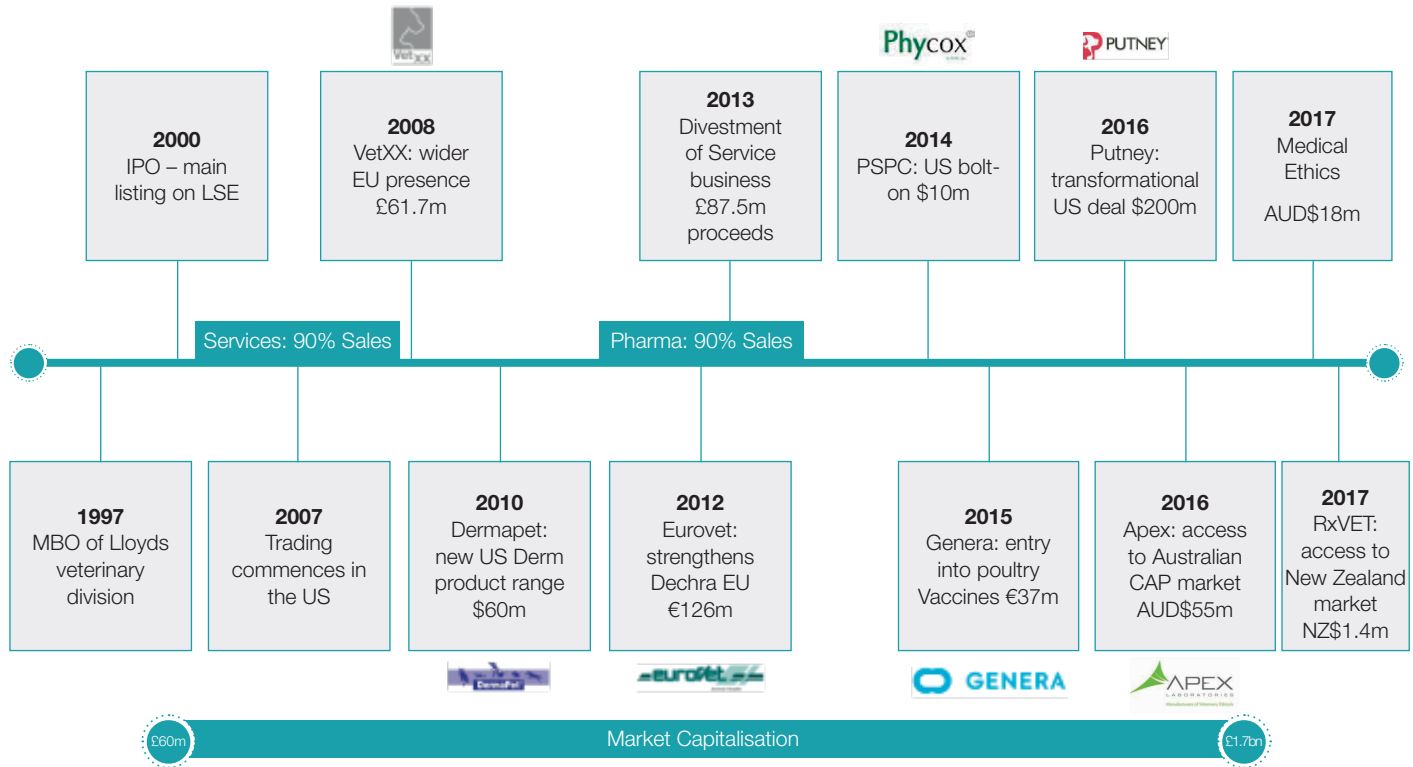


# New Debt Facilities

- £350 million multi-currency term loan facility, maturing 31 December 2020
- Available to draw until 30 June 2018
- Additional to existing Revolving Credit Facility of July 2017
- Initial Margin of 1.70% until 30 June 2018
  - Thereafter ranging from 1.10% to 2.00% (according to Net Debt: EBITDA leverage ratio)
- Balance of Facility available for any further acquisitions before 30 June 2018



# Our History



# Our Structure

## DVP EU

- **Wide range of approved pharmaceuticals**
  - Market leading brands
  - Multi species (CAP, FAP and Equine)
  - Specialist niche markets
  - Generic markets
  - Specific range of veterinary exclusive diets
- **Mature infrastructure**
- **Sales and marketing in 19 EU countries**
- **425 FTEs**



➤ **The Group has a strong market position in focus therapeutic sectors**

## DVP International

- **Increased area of management focus**
  - Experienced Director recently appointed
- **Newly established organisational structure**
  - Increased area of Group investment
- **Export to over 50 countries worldwide**
  - Accessed through network of distribution partners
- **Increased regulatory focus to accelerate product approvals**
  - Create critical mass
  - Long term aim to establish Dechra subsidiaries
- **2017 investment to acquire RxVET provided access to NZ market**
- **58 FTEs**



# Our Structure

## DVP NA

### ➤ **Range of specialist approved pharmaceuticals**

- Five own developed products FDA approved (CAP, Equine)
- Acquired ranges
- In-licensed products
- New range of Putney generics

### ➤ **Ongoing investment in infrastructure**

### ➤ **Sales and marketing in US, Canada and Mexico**

### ➤ **204 FTEs**

# Our Structure

## Manufacturing & Supply Chain

- **Three major sites**
  - Skipton, UK
  - Bladel, the Netherlands
  - Zagreb, Croatia
- **Three minor sites**
  - Melbourne, Florida US
  - Mexico City, Mexico
  - Sydney, Australia
- **Internally manufacture wide range of dosage forms**
- **Several approvals including FDA at Skipton**
- **Provide contract manufacturing services**
  - Human and animal health products
- **50% of the volume supplied by 42 contract manufacture sites**
- **Logistics hubs in Denmark for EU & Kansas City for NA**
- **511 FTEs**

# Our Structure

## PDRA

- **Majority of targets utilise molecules developed for human medicine**
- **Formulation suitable for species, dosage level / dosage form**
- **Clinical trial capabilities**
- **Wide range of projects, FAP / CAP / Equine, novel, generic and poultry vaccines**
- **Proven track record of pipeline delivery**
- **Develop and license novel and generic products**
- **Maintain existing licences**
- **Operate in five countries**
  - USA, UK, Netherlands, Croatia, Australia
  - Three development and formulation laboratories
  - Clinical trials in US and EU
- **Spend (£16.0 million in 2017) is development, not research orientated**
  - Expertise in innovation, formulation, clinical trials and regulatory affairs
- **100 FTEs**





# Worldwide Economic Drivers Create Sustainable Demand



## Population growth

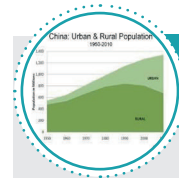
- Increased reliance on livestock
- Need for healthier and more productive animals
- 7 billion people consume animal protein
- Forecast CAGR to 2018 for livestock 5–6% <sup>(1)</sup>

(1) Vetnosis Storm forecast 2014



## Growing middle class

- Pets integrated in the household
- Veterinarians' competencies increasing
- Improved nutrition
- Pet spending growing



## Increased urbanisation

- 225 million dogs in homes globally
- 125 million cats in homes globally
- Pet ownership increasing in developing countries
- Forecast CAGR to 2018 for companion animals 5–6% <sup>(1)</sup>

# Key Drivers of the Veterinary Market

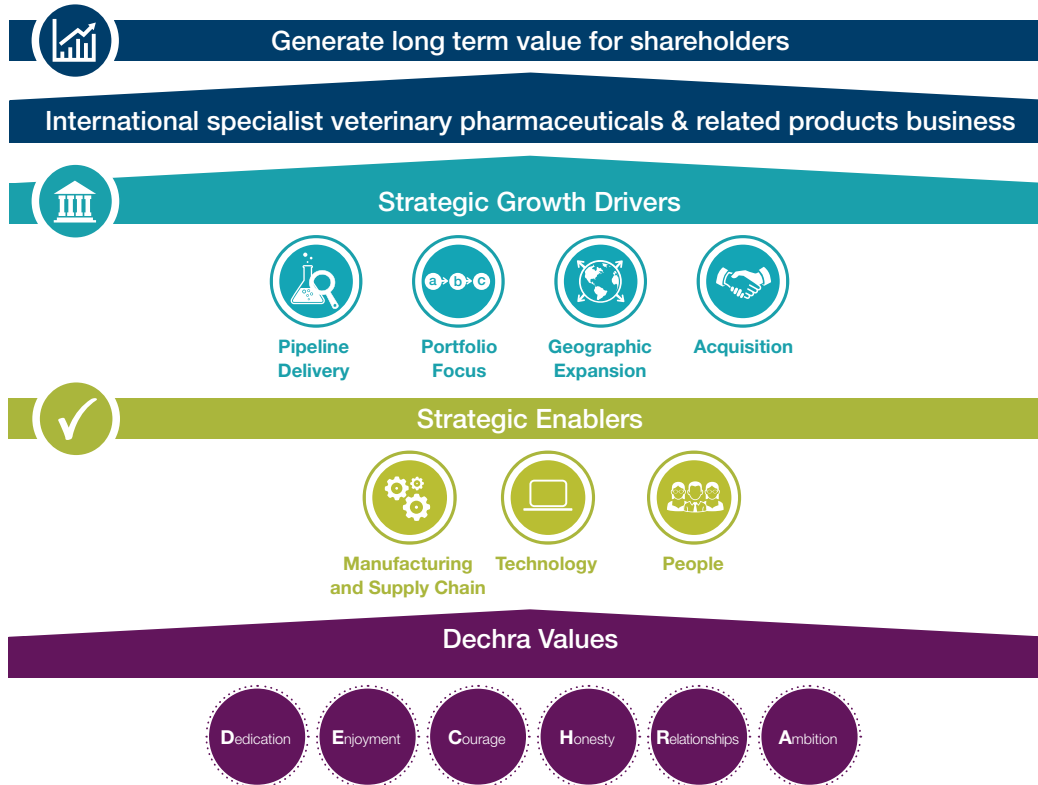
## CAP

- + Increased demand for new treatments and medicines
- + Increase in owners' compassion for their pets
- + Little pricing pressure; generics do not de-value markets to the extent of human products
- + EU Cascade supports licensed product use

## FAP

- + Increased world demand for animal protein
- + Improved meat quality requires high quality pharmaceuticals
- Decline in use of antibiotics in Western Europe
- + Increased use of vaccines
- + Animal welfare

# Our Strategy



# Selection of Ranges



**OSPHOS**  
(clodronate injection)

# Glossary

**AER:** Actual Exchange Rate

**CAP:** Companion Animal Products

**CER:** Constant Exchange Rate

**EPS:** Earnings Per Share

**EU:** Europe

**FAP:** Food producing Animal Products

**FX:** Foreign Exchange

**NA:** North America

**Underlying results:** excludes amortisation of acquired intangibles and impairment of acquired intangibles, impairment of investments, acquisition expenses, fair value uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration

# Forward-Looking Statements

This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involve a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

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