




Dechra
Pharmaceuticals PLC

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

(1) Actual Exchange Rate

(2) Constant Exchange Rate

Revenue by Segment

Strong performance in core and acquisitions

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

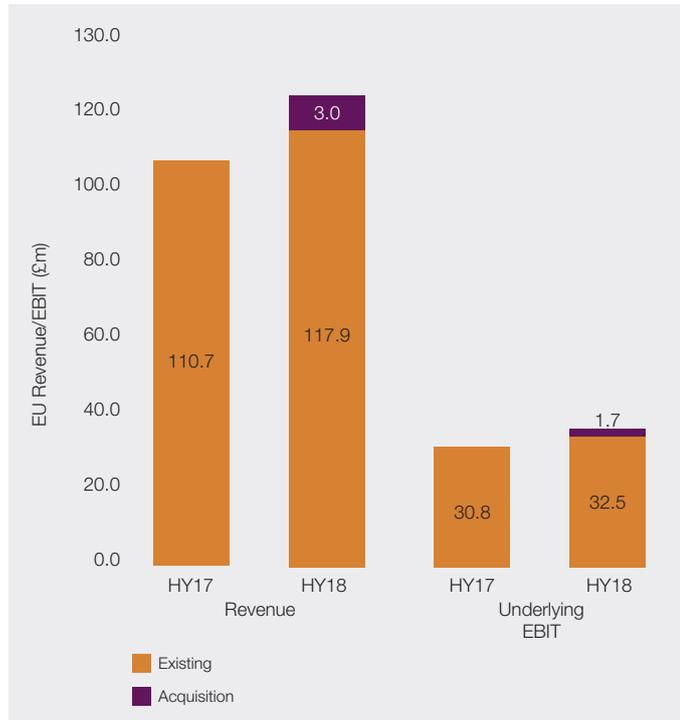
(1) Actual Exchange Rate

(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

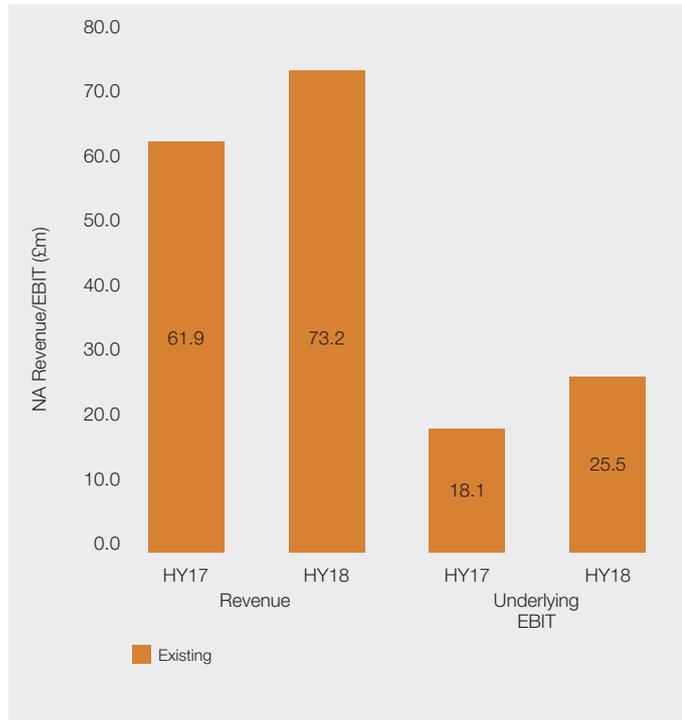
– **Underlying EBIT margin**

- +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.

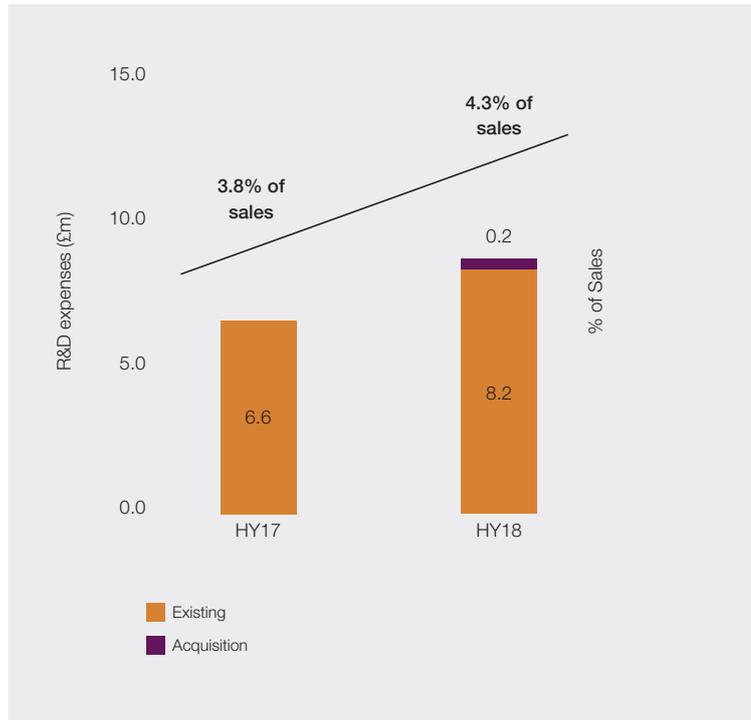
NA Pharmaceuticals Segment

Strong organic growth and leverage of Putney



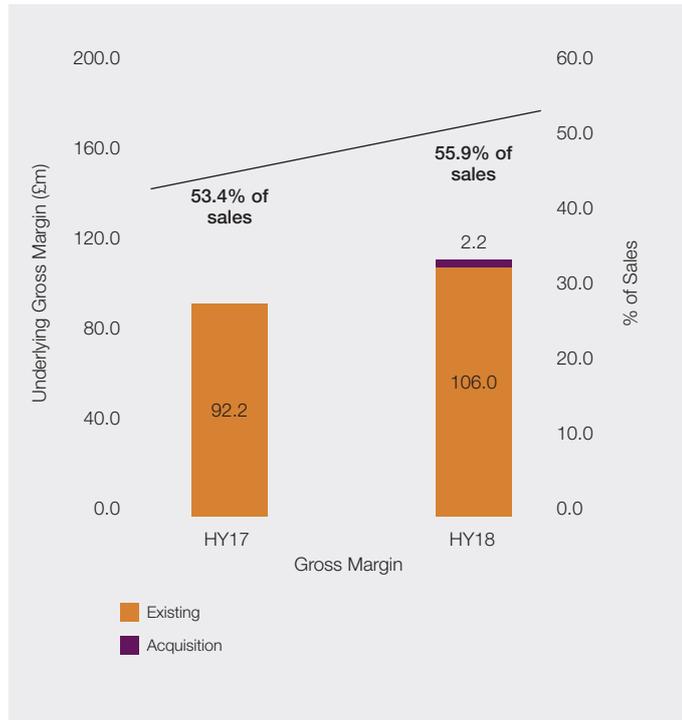
- **Revenue 20.7% at CER to £73.2 million**
 - Existing: 20.7% increase to £73.2 million
- **Underlying EBIT 44.0% at CER**
 - Existing: 44.0% increase to £25.5 million
- **Underlying EBIT margin**
 - +560 bps to 34.9%
 - Strong operating leverage

Pharmaceutical Research & Development

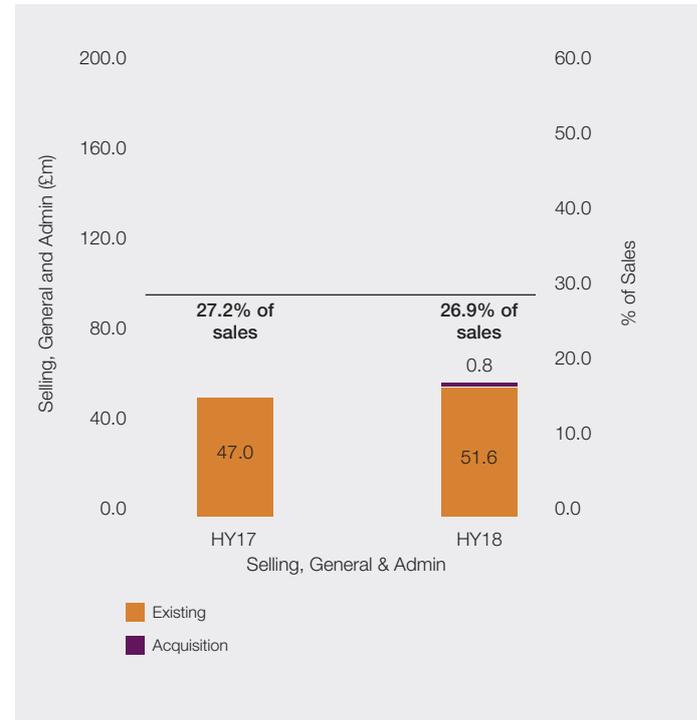


- Over 26.5% increase to £8.4 million at CER
- Addition of Apex
- Consistent investment in pipeline

Gross Margin

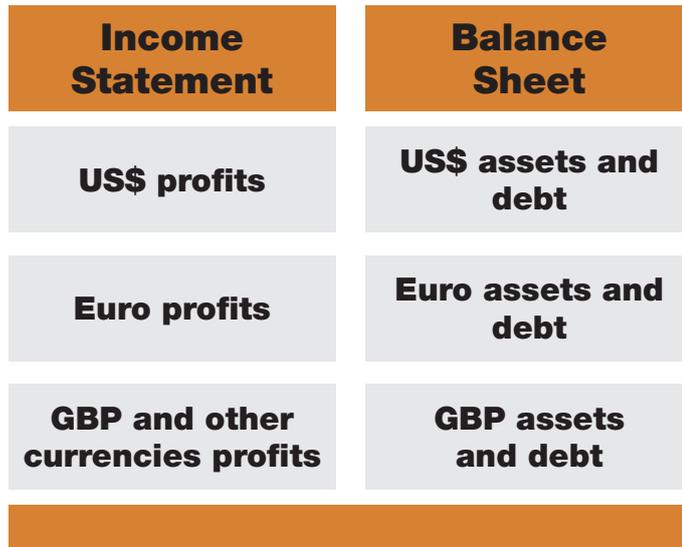


Selling, General & Admin



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

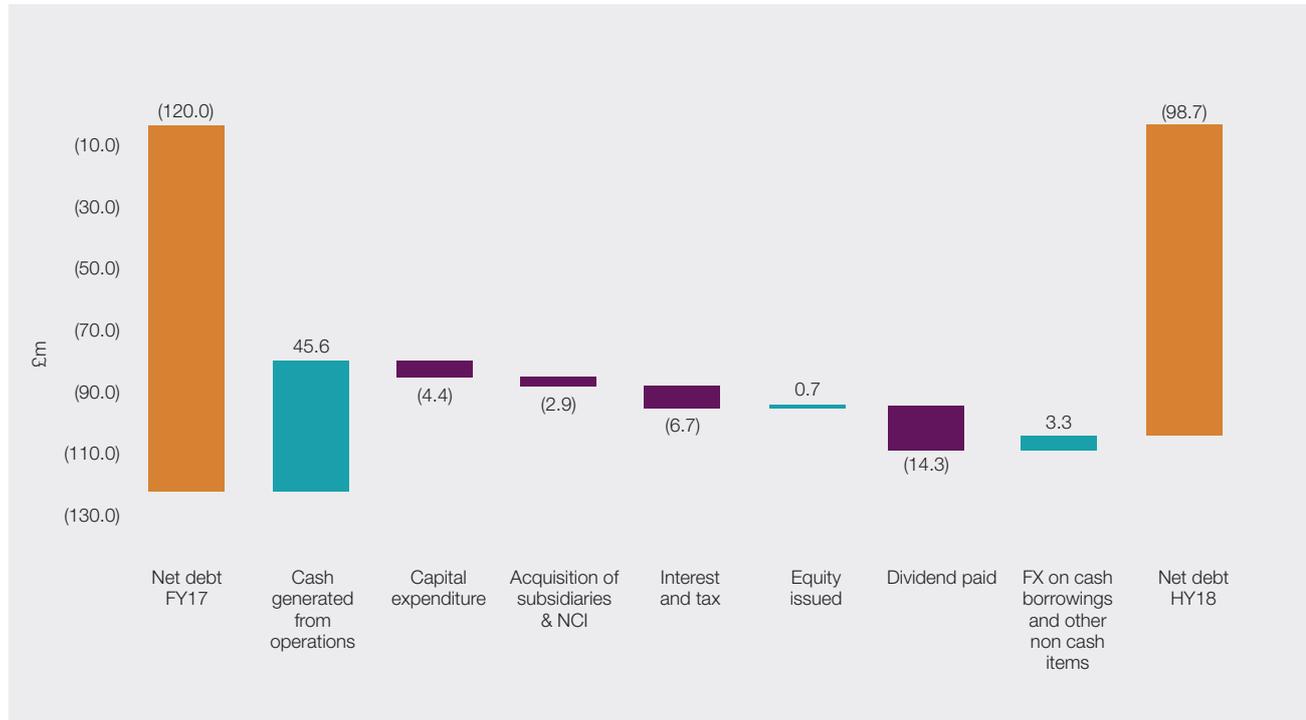
Cash Flow

Continuing strong cash generation

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

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



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

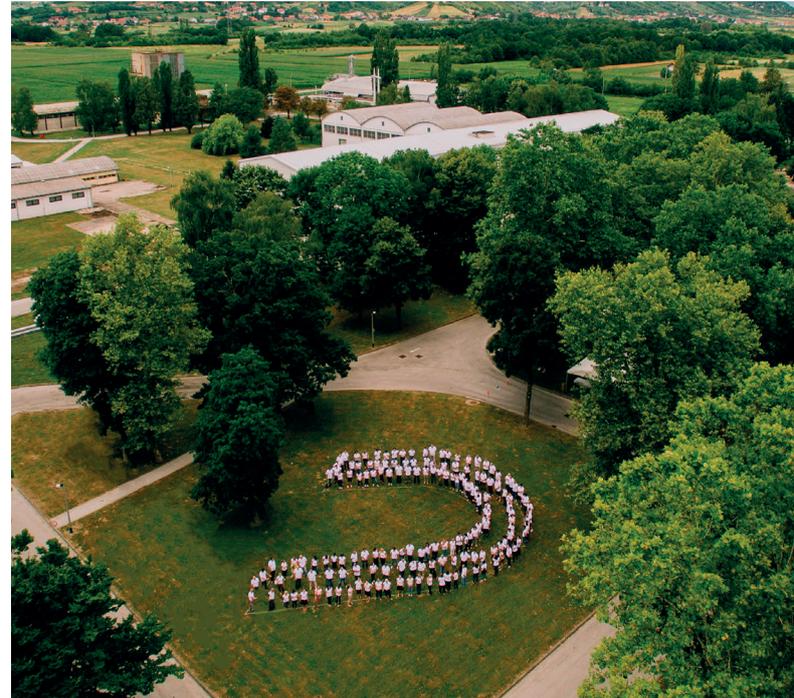
Change to support our future

– 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



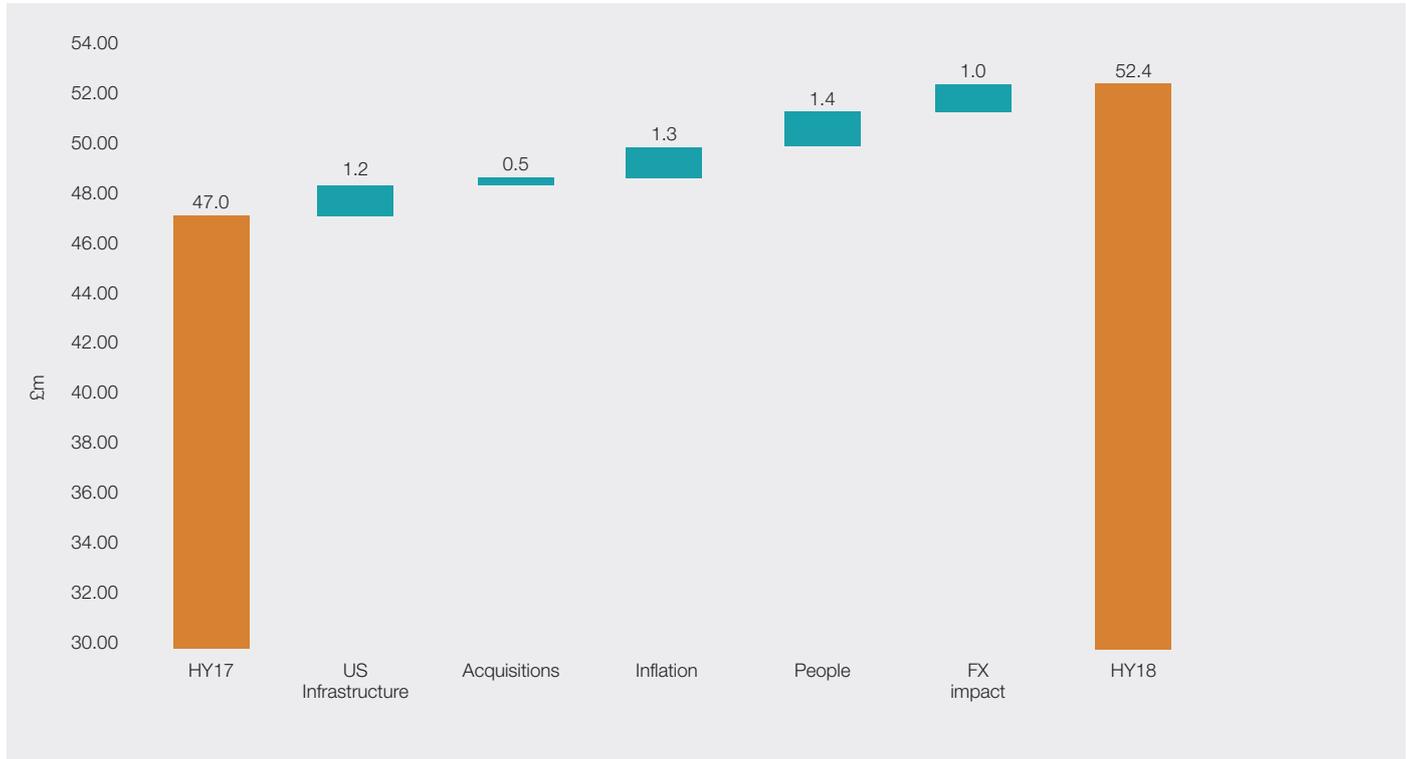



Dechra
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Appendices

Underlying Gross Margin

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

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
Net (debt)/cash	(98.7)	(138.0)
Leverage covenant* – 3.0:1	1.0	1.9

* Net debt/(cash) to EBITDA

Working Capital

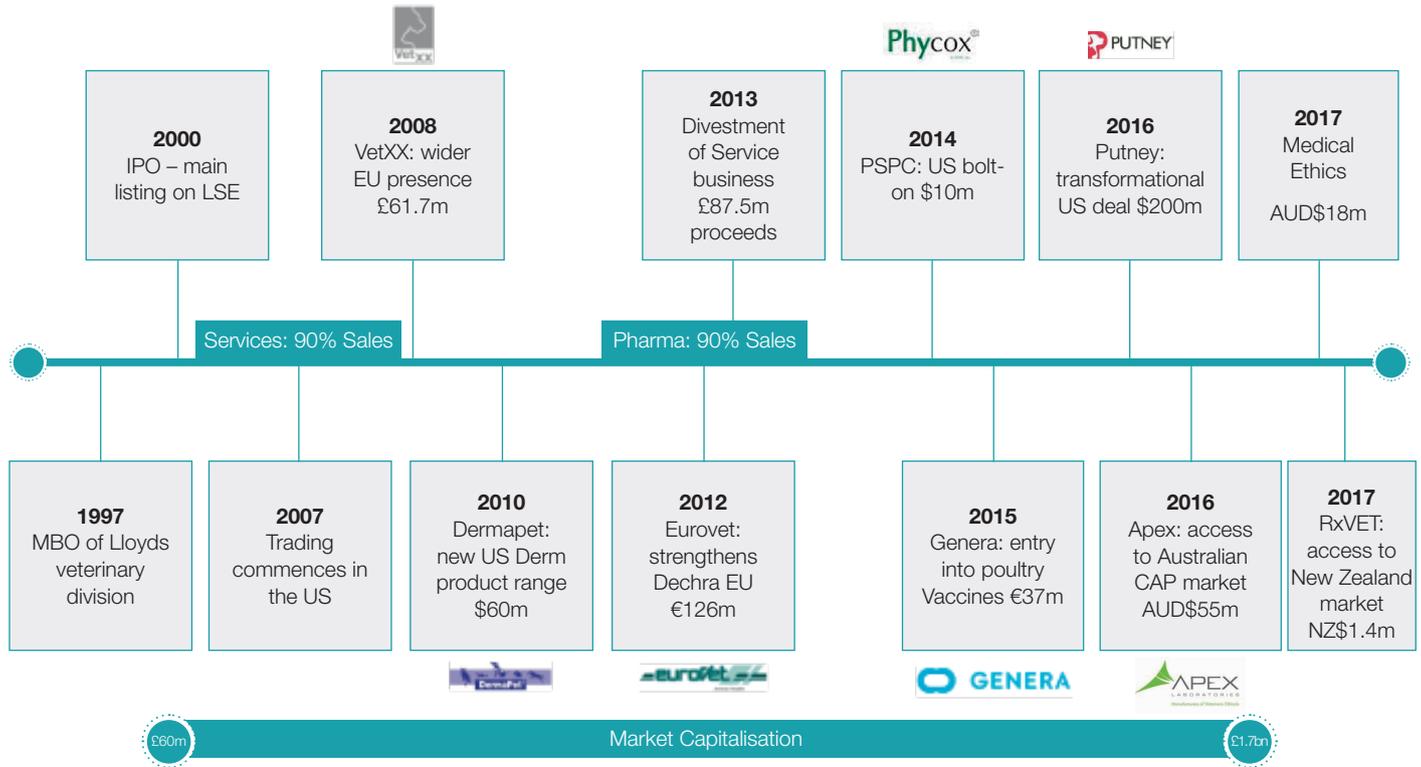


New Debt Facilities

- £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**



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**

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



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

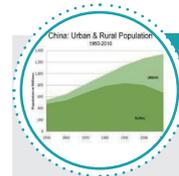
- Increased reliance on livestock
- Need for healthier and more productive animals
- 7 billion people consume animal protein
- Forecast CAGR to 2018 for livestock 5–6%⁽¹⁾

(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%⁽¹⁾

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



Generate long term value for shareholders

International specialist veterinary pharmaceuticals & related products business



Strategic Growth Drivers



Pipeline
Delivery



Portfolio
Focus



Geographic
Expansion



Acquisition



Strategic Enablers



Manufacturing
and Supply Chain



Technology



People

Dechra Values



Dedication



Enjoyment



Courage



Honesty



Relationships



Ambition

Selection of Ranges



OSPPOS
(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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Dechra

Pharmaceuticals PLC

Dechra Pharmaceuticals PLC

24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

T: +44 (0) 1606 814730

F: +44 (0) 1606 814731

E: corporate.enquiries@dechra.com

www.dechra.com

Stock code: DPH

