Dechra®
Pharmaceuticals PLC

SUSTAINING GROWTH THROUGH EXPERTISE

Half Year Presentation 2020

Dechra is a **global veterinary pharmaceuticals** and related products business. Our expertise is in the **development, manufacture, and sales and marketing** of high quality products **exclusively for veterinarians** worldwide.

For more information please visit **www.dechra.com**

Companion Animal Products (CAP)

Species: Dogs and cats.

Key therapeutic sectors: Endocrinology, dermatology, analgesia and anaesthesia, antibiotics, cardiovascular and critical care.

Food producing Animal Products (FAP)

Species: Poultry, pigs and an increasing presence in cattle.

Key therapeutic sectors: Water soluble antibiotics, poultry vaccines, locomotion (lameness) and pain management.

Equine

Species: Horses and ponies.

Key therapeutic sectors: Lameness and pain management.

Nutrition

Species: Dogs and cats.

Key therapeutic sectors: Our pet diets are available to support the well being of cats and dogs with numerous therapeutic conditions, such as allergies, obesity, heart and kidney disease.

Operational Highlights

Delivering our strategy

Portfolio Focus

- All product categories delivering growth
- Outperformance in European markets
- Strong comparator and temporary supply issues restricted NA performance

Pipeline Delivery

- Rebalanced pipeline in favour of novel products through new technology
- New registrations achieved

Geographic Expansion

- Brazil and ANZ performing well
- Improving performance from distribution business

Acquisition

- Osurnia, asset purchase agreement
- Ampharmco

Financial Highlights

Management expectations remain unchanged

Revenue Growth

- 7.1% to £248.5 million

Operating Cash Generation

- 99.7% cash conversion

Underlying EBIT Growth

- Small increase to £61.1 million
- Investment in cost base and research & development

Shareholders' Value

- Underlying diluted EPS +3.8% increase to 43.46 pence
- Interim dividend: +8.3% increase to 10.29 pence

Underlying Financial Results

	Six months ended 31 December			
	2019 £m[1]	2018 £m[1]	Growth at AER[1] %	**Growth at CER**[2] **%**
Revenue	**248.5**	231.4	7.4%	**7.1%**
Underlying gross profit	**143.9**	134.2	7.2%	**6.9%**
Underlying gross profit %	***57.9%***	*58.0%*		
Underlying operating profit	**61.1**	60.8	0.5%	**0.2%**
Underlying EBIT %	***24.6%***	*26.3%*	(170bps)	**(170bps)**
Underlying profit before tax	**56.8**	54.2	4.8%	**4.4%**
Underlying EBITDA	**67.9**	65.3	4.0%	**3.5%**
Underlying diluted EPS (pence)	**43.46**	41.76	4.1%	**3.8%**
Dividend per share (pence)	**10.29p**	9.50p	8.3%	**8.3%**

(1) Actual Exchange Rate
(2) Constant Exchange Rate

Underlying results excludes items associated with areas such as amortisation of acquired intangibles, acquisition expenses and subsequent integration costs, fair value of 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.

IFRS 16 has been adopted in the period using the modified retrospective approach and accordingly comparatives have not been restated.

Revenue by Segment

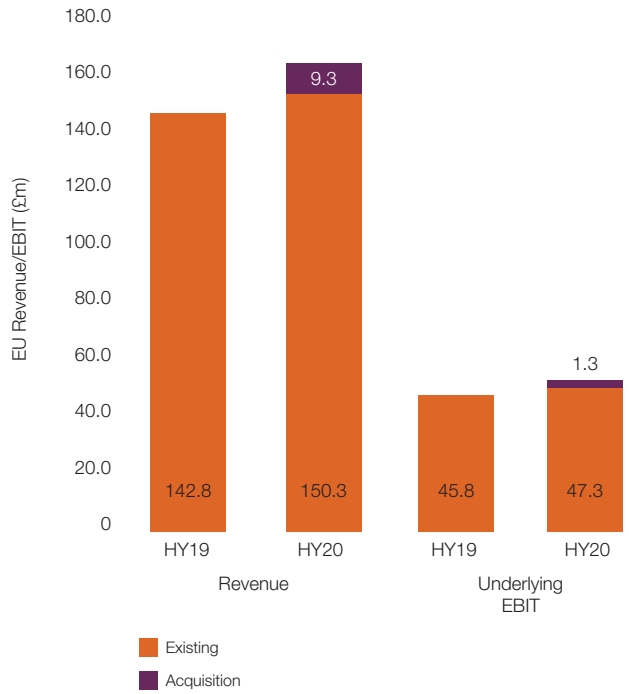
Growth from existing business and acquisition

Revenue	Six months ended 31 December 2019[1] £m	2018[1] £m	Growth at AER[1] %	Growth at CER[2] %
EU Pharmaceuticals – Core	**145.1**	134.2	8.1%	**9.2%**
EU Pharmaceuticals – Third Party Contract Manufacturing	**5.2**	8.6	(39.5%)	**(39.5%)**
EU Pharmaceuticals – Existing[3]	**150.3**	142.8	5.3%	**6.3%**
NA Pharmaceuticals – Existing	**87.7**	88.6	(1.0%)	**(3.8%)**
Group Total – Existing	**238.0**	231.4	2.9%	**2.4%**
EU Pharmaceuticals – Acquisition[4]	**9.3**	–	–	–
NA Pharmaceuticals – Acquisition[5]	**1.2**	–	–	–
Group Total – Acquisition	**10.5**	–	–	–
Total	**248.5**	231.4	7.4%	**7.1%**

(1) Actual Exchange Rate
(2) Constant Exchange Rate
(3) EU Pharmaceuticals – Existing including like-for-like for Caledonian and third party contract manufacturing (strategic exit)
(4) EU Pharmaceuticals – Acquisition comprises Caledonian and Venco
(5) NA Pharmaceuticals – Acquisition comprises Ampharmco

EU Pharmaceuticals Segment

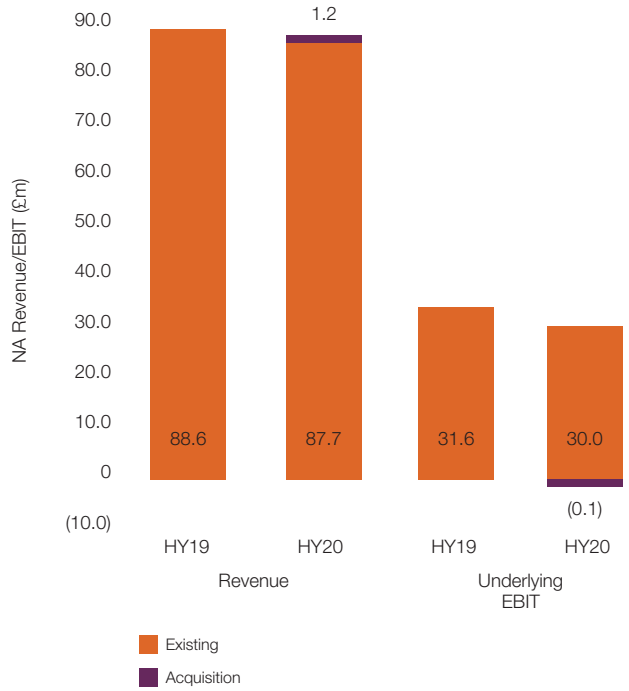
Existing business above market growth; acquisitions performing well



- **Revenue +13.0% to £159.6 million**
  - Existing: 6.3% increase to £150.3 million; 9.2% increase excluding strategically declining third party manufacturing
  - Acquisition: £9.3 million contributed from the balance of Caledonian and Venco
- **Underlying EBIT +7.0% to £48.6 million**
  - Existing: 4.1% increase to £47.3 million
  - Acquisition: Contributed £1.3 million
- **Underlying EBIT margin**
  - Existing: Operating leverage down 70 bps to 31.5%, increase 160 bps to 33.4% excluding strategically declining third party manufacturing
  - Acquisition: margin at 14.0% due to Venco being predominately FAP
  - Consolidated: 170 bps decrease in margin to 30.5%

NA Pharmaceuticals Segment

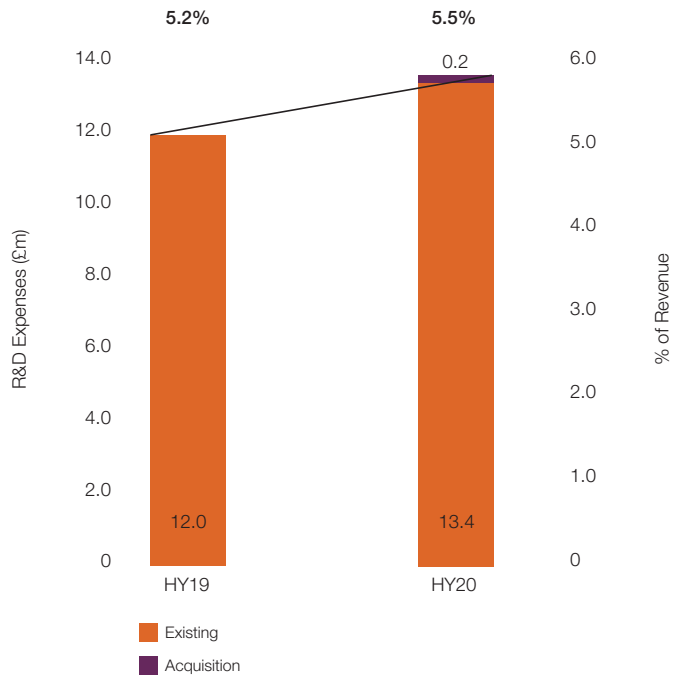
Strong comparator and temporary supply issues restrict performance



- **Revenue -2.5% to £88.9 million**
  - Existing: 3.8% decrease to £87.7 million
  - Ampharmco acquisition contributed £1.2 million
- **Underlying EBIT -7.9% to £29.9 million**
  - Existing: 7.6% decrease to £30.0 million
  - Ampharmco acquisition contributed a loss of £0.1 million
- **Underlying EBIT margin**
  - Consolidated: 200 bps decrease
  - Temporary supply issues and Zycortal comparator period impacted high margin CAP business

Pharmaceutical Research & Development

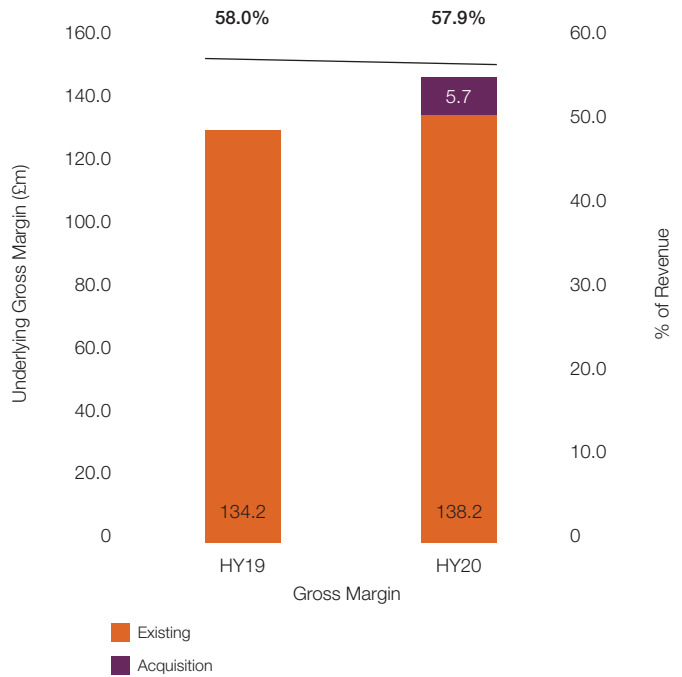
Confidence to invest in innovative new technologies



- **Investment increased by 11.7% to £13.6 million**
  - Expansion of pipeline projects and global registrations
  - Increased resource to facilitate the number of new novel projects
  - Growth of spend from 5.2% to 5.5% of revenue

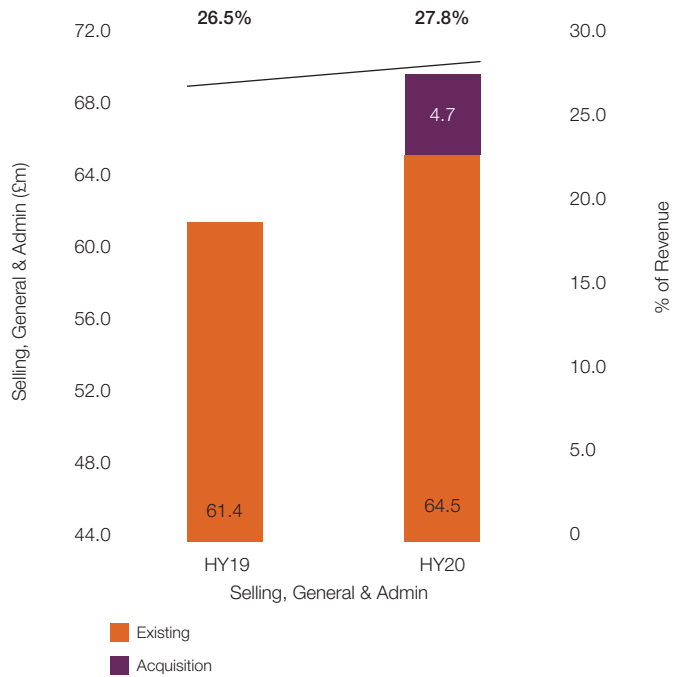
Gross Margin

Broadly flat against prior year



Selling, General & Admin

Investment to drive growth assumed full supply



Currency Exposure

Balancing currency flows with financing strategy

Income Statement	Balance Sheet
US$ profits	US$ assets and debt
Euro profits	Euro assets and debt
GBP and other currencies profits	GBP assets and debt

	Average Rates		
	HY 2020	HY 2019	% change
£/€	**1.1352**	1.1243	1.0%
£/$	**1.2593**	1.2954	(2.8%)

- **Euro€**
  1% variation in £/€ impacts underlying diluted EPS by approximately +/-0.7%
- **US$**
  1% variation in £/$ impacts underlying diluted EPS by approximately +/-0.5%

Current exchange rates are *c.* £/€1.2050 and £/$1.3034 (18 February 2020)

If these exchange rates had applied throughout the period, the underlying diluted EPS would be approximately 5.4% lower

Other currencies starting to influence: AUD, HRK, BRL

Cash Flow

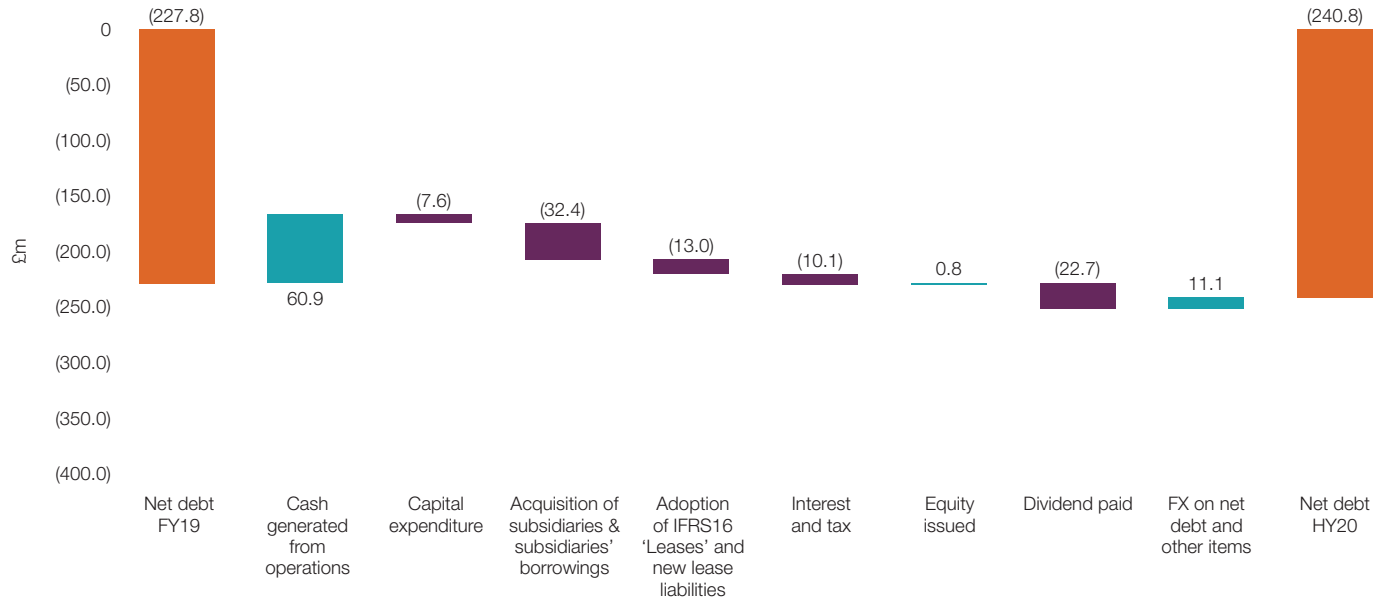
Strong cash conversion

	31 December	
	2019 £m	2018 £m
Underlying operating profit	**61.1**	60.8
Depreciation and amortisation	**6.8**	4.5
EBITDA[1]	**67.9**	65.3
EBITDA %	**27.3%**	*28.2%*
Working capital	**(3.3)**	3.7
Other	**0.3**	1.4
Net cash generated from operations before non-underlying items	**64.9**	70.4
Non-underlying items	**(4.0)**	(3.5)
Net cash generated from operations	**60.9**	66.9
Cash conversion %	**99.7%**	110.0%

(1) EBITDA benefits in H1 by £1.3 million as a result of adopting IFRS16

Net Debt

Net debt increases slightly as strong cash conversion more than offset by acquisitions and adoption of IFRS16



Tax

ETR broadly flat

- Underlying effective tax rate (ETR) up slightly to 21.1% (2019: 20.8%) reflecting regional mix of operating profits
- Expect underlying rate of 21% to 22% in 2021
- Reported ETR of 32.3% includes a one-off non-underlying tax charge of £2.7 million (2019: credit of £7.5 million) from revaluation of deferred tax liabilities and assets. This is due to an increase in the Netherlands tax rate over that previously enacted

Risk to ETR from:

- EU challenge of UK Controlled Foreign (CFC) legislation
- Expiry of patents reducing patent box and innovation box benefits

Other Financial Items

Further details

- **Non-underlying net charge of £37.3 million (2019: £45.2 million)**
  - Reduction of £3.2 million in amortisation of acquired intangibles to £35.0 million
  - Finance impact from unwind of discounts and foreign exchange gain on contingent consideration £1.0 million credit
  - Acquisition and integration costs of £2.2 million
  - Rationalisation of manufacturing organisation costs £1.1 million
- **Dividend**
  - Interim dividend increased to 10.29 pence per share (2019: 9.50 pence)
- **Dutch Pension Scheme**
  - Change in scheme resulted in £3.5 million non-recurring credit through income statement in H2 2019
- **Banking**
  - Net debt of £240.8 million at the period end (2019: £229.5 million)
  - Leverage covenant is 1.66:1 at the period end (2019: 1.82:1) maximum cannot be higher than 3.0:1
  - Interest covenant is 12.5:1 at the period end (2019: 13.1:1) minimum cannot be lower than 4:1
- **Refinancing**
  - Invoked Accordion on 1 October to increase committed RCF to £340.0 million
  - Successful US Private Placement in January raising €50.0 million (7 year) and $100.0 million (10 year)
  - Proceeds used to repay Term Loan current liability of £170.2 million which was due to mature on 31 December 2020

Portfolio Focus

Strong EU growth offset by decline in NA

EU Pharmaceuticals

- Existing pharmaceutical range increased by 9.2% at CER (excluding declining third party manufacturing)
  - International performing well
  - Le Vet disintermediation on track
  - Solid core performance
- Caledonian and Venco acquisitions added £9.3 million revenue and are performing well
- Consolidated growth 13.0% at CER
- Strong performance in Germany, Poland, Iberia and France driven by investment in these territories

NA Pharmaceuticals

- Existing revenue decline of 3.8% at CER
- Temporary supply issues impacting high margin CAP business
- Tough comparator period due to one-off benefit from competitor out of stock

Portfolio Focus

All product categories delivering growth

CAP

- Adversely impacted by supply issues
- Robust growth across most therapeutic sectors in Europe
- Le Vet disintermediation supporting growth

Equine

- Osphos sales recovering in North America
- Caledonian exceeding expectations

FAP

- Venco business contributing to increase
- Double digit organic growth from water solubles

Nutrition

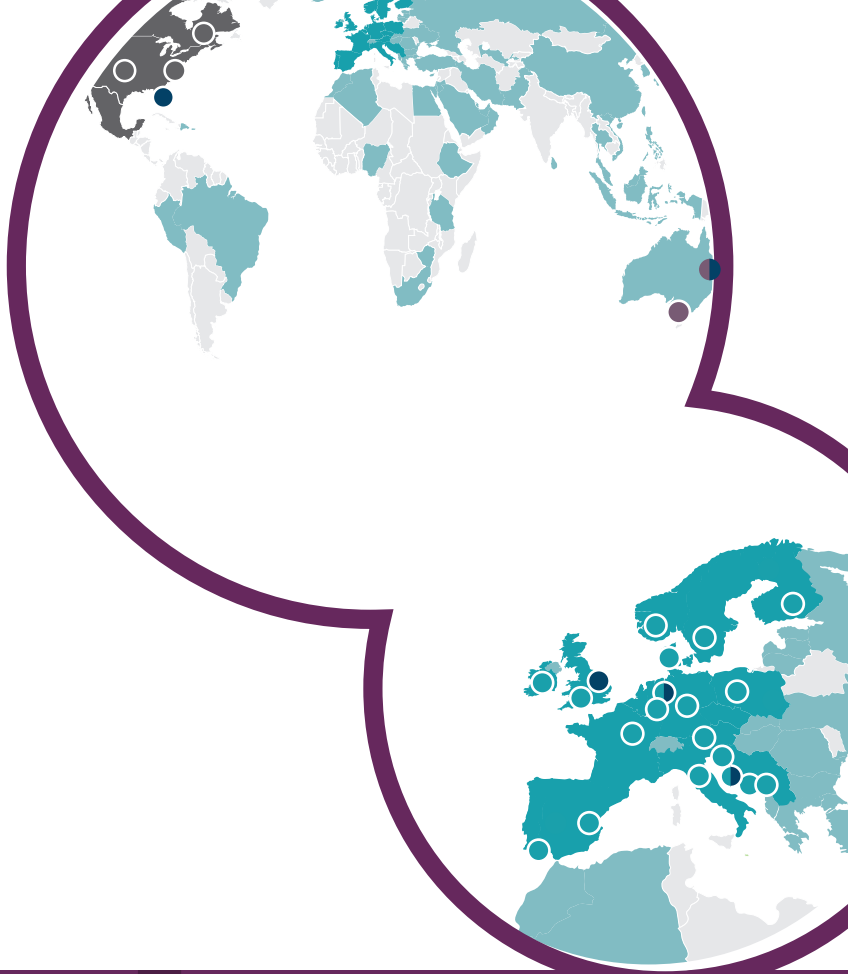
- Increased focus and relaunch of dog diet range in December 2019

Revenue	Six months ended 31.12.19 £m	Growth at CER %
CAP	**173.7**	**4.4%**
Equine	**19.7**	**20.1%**
FAP	**34.1**	**35.8%**
Subtotal Pharmaceuticals	**227.5**	**9.5%**
Nutrition	**14.0**	**2.2%**
Other	**7.0**	**(34.0%)**
Total	**248.5**	**7.1%**

Geographic Expansion

Strong performance in new territories

- South America and ANZ business growing well
- Global distribution business benefiting from increased marketing support
- Additional resources committed on international registrations



Pipeline Delivery

New products and innovation

- Cosacthen registered in 22 EU countries
- Numerous minor registrations in several EU countries, Mexico and New Zealand
- Akston dog insulin progressing well
- Akston cat insulin proof of concept study started
- Two additional novel projects added

Acquisition

Extending our portfolio and streamlining our supply chain

- **Osurnia, asset purchase agreement signed post period end**
  - Major product for the treatment of otitis externa in dogs with a turnover of $31.2 million (12 months to 31 December 2018)
  - Conditional upon approval by European Commission and the Federal Trade Commission
  - Extends our range of solutions for veterinarians to manage otitis externa
- **Ampharmco, completed August 2019**
  - Ampharmco, FDA registered facility, Fort Worth, Texas, USA
  - Cash consideration of $29.6 million US manufacturing base for solid dose, liquids, creams and ointments
  - Less reliance on third party CMOs
  - Integration plan well underway

Acquisition

Previous acquisitions performing well

- **Caledonian Holdings, New Zealand**
  - Fully integrated with ANZ business
  - Enhances our ANZ Equine portfolio
- **Venco, Brazil**
  - Three year investment plan progressing as expected
  - Planned upgrades to systems and processes in line with our strategy
  - Registrations of Dechra CAP portfolio ongoing
- **Pre-acquisition expectations being exceeded**

Strategic Enablers

Infrastructure to support growth

People

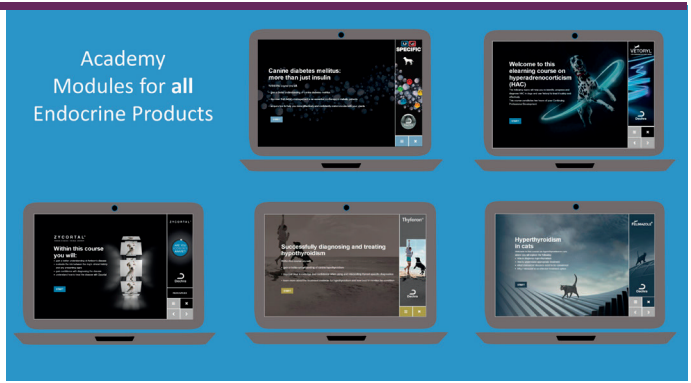
- Paul Sandland appointed as Chief Financial Officer
- Dr Susan Longhofer promoted to Group Chief Scientific Officer
- Employee engagement programme commenced to enable the views of our employees to be taken into consideration by the Board

IT

- Oracle upgrade in North America and DPM underway

Manufacturing

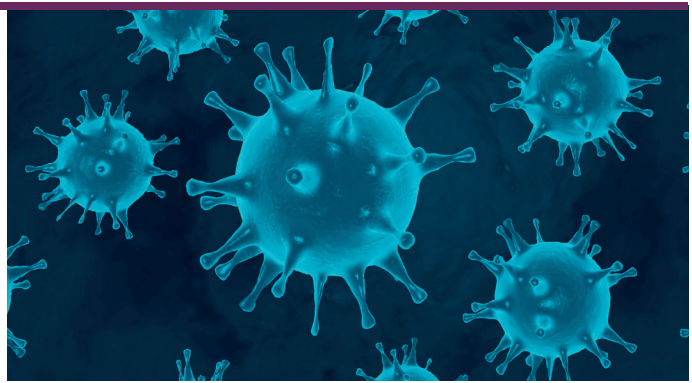
- Investment to strengthen Manufacturing and Supply Chain management team
- Quality control standards at Skipton site being improved to reflect current best practice
- Stock shortages encountered from our CMO network, especially in the US, plan underway to reduce reliance where possible



Potential COVID-19

Exposure restricted to API supply

- No direct or indirect revenues in China
- Main exposure is to FAP water solubles
- Sufficient inventory to deal with temporary disruption to supply
- Prolonged period of API shortage would result in out of stocks
- Team continue to assess impact on wider global supply chain

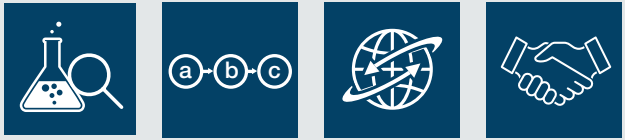


Outlook

Our strategy continues to outperform

- Management expectations for full year remain unchanged
- Numerous growth opportunities
- Acquisitions performing well and new targets identified
- Significant increase in potential future value of pipeline
- We remain confident in our outlook and strategy

Strategic Growth Drivers



Pipeline Delivery | Portfolio Focus | Geographical Expansion | Acquisition

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Appendices

Underlying Gross Margin

HY 2019 – Existing Business	**58.0%**
Product Mix	**0.1%**
HY 2020 – Existing Business	**58.1%**
Acquisition	**(0.2%)**
HY 2020 – Consolidated	**57.9%**

Balance Sheet

	31 December	
	2019 £m	2018 £m
Total non-current assets (excluding deferred tax assets)	**726.4**	777.0
Working capital	**109.3**	87.6
Cash and cash equivalents	**64.4**	86.3
Borrowings	**(305.2)**	(315.8)
Corporate and deferred tax	**(80.5)**	(90.3)
Other liabilities	**(37.5)**	(40.7)
Total net assets	**476.9**	504.1
Net debt	**(240.8)**	(229.5)
Leverage covenant* – maximum **3.00:1**	**1.66**	1.82

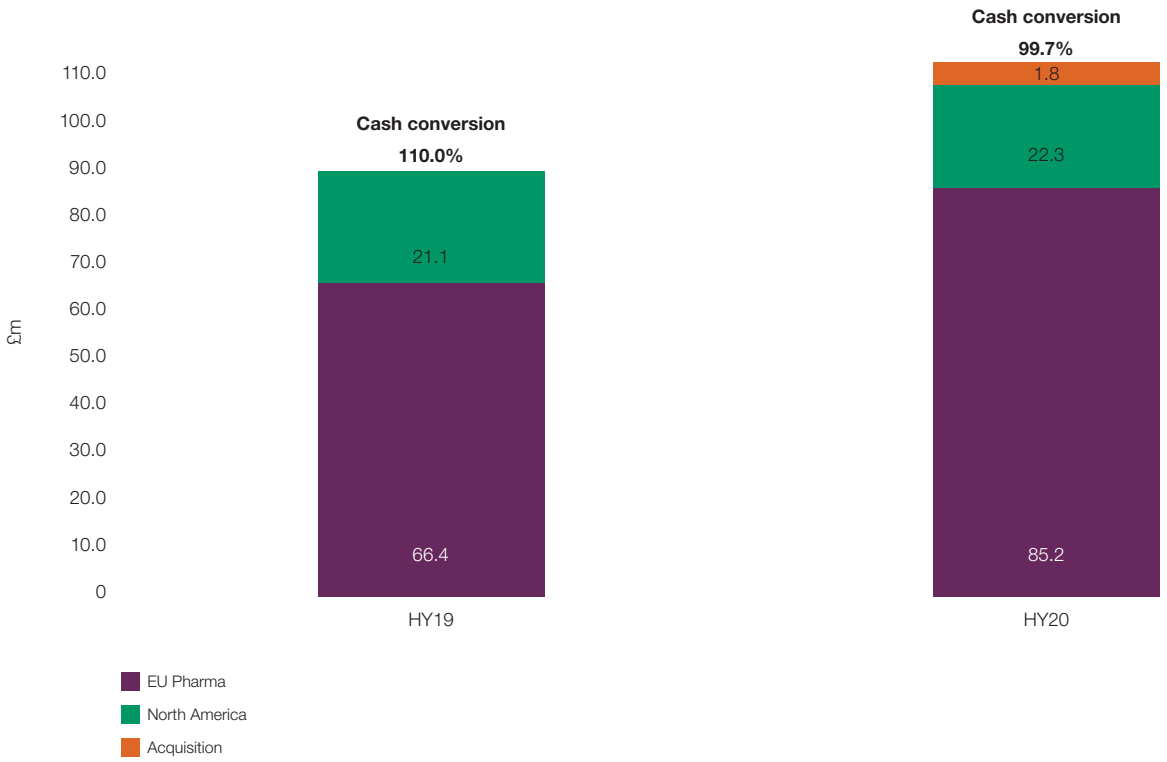
* Net debt/underlying EBITDA leverage ratio per the borrowings facilities leverage covenant, which includes the last 12 months EBITDA value (adjusted for the impact of acquisitions) and excludes the impact of IFRS16

New Accounting Standard adopted in H1 FY20 Period

IFRS 16 'Leases'

- IFRS 16 aligns the presentation of leased assets more closely to owned assets
  - in doing so, a right of use asset and corresponding lease liability are brought on to the balance sheet, with the lease liability recognised at the present value of future lease payments
- On adoption by the Group:
  - a right of use asset and a lease liability of £12.6 million were recognised at 1 July 2019
  - EBITDA is £1.3 million higher and EBIT £0.1 million higher in the current period compared to IAS 17

Working Capital



Our Strategy

To continue to develop our position as an international, high margin, cash generative, veterinary pharmaceuticals and related products business by:

- Maximising revenue from our existing portfolio
- Innovation, development and registration of new products
- Expanding our international footprint
- Acquiring complementary businesses

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 and related costs of acquired intangibles, 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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