



Half Year Presentation 2019



Dechra is an **international specialist 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**



Operational Highlights

Delivering our strategy



Portfolio Focus

— Outperformance in all key markets



Pipeline Delivery

— Several global registrations achieved
— New opportunities secured



Geographic Expansion

— Increasing footprint through acquisition and licensing



Acquisition

— Caledonian, New Zealand & Australia
— Laboratorios Vencofarma Brasil Ltda (Venco), Brazil

Financial Highlights

Strong revenue and EBIT growth



Revenue Growth

— 19.1% to £231.4 million



Underlying Operating Cash Generation

— 110.0% cash conversion



Underlying EBIT Growth

- 28.0% to £60.8 million
- Operating margin expansion of 190 bps to 26.3%



Shareholder Value

- Underlying diluted EPS: +11.4% increase to 41.76 pence
- Interim dividend: +29.6% increase to 9.50 pence

Underlying Financial Results

Strong revenue growth and EBIT leverage

	Six months ended 31 December		Growth at AER ⁽¹⁾ %	Growth at CER ⁽²⁾ %
	2018 £m ⁽¹⁾	2017 £m ⁽¹⁾		
Revenue	231.4	194.1	19.2%	19.1%
Underlying gross profit	134.2	108.2	24.0%	23.8%
<i>Underlying gross profit %</i>	58.0%	55.7%		
Underlying operating profit	60.8	47.4	28.2%	28.0%
Underlying EBIT %	26.3%	24.4%	190 bps	190bps
Underlying profit before tax	54.2	44.3	22.3%	22.3%
Underlying EBITDA	65.3	51.0	27.9%	27.7%
Underlying diluted EPS (pence)	41.76	37.58p	11.1%	11.4%
Interim dividend per share (pence)	9.50p	7.33p	29.6%	-

(1) Actual Exchange Rate

(2) Constant Exchange Rate

Underlying results excludes items associated with areas such as amortisation of acquired intangibles, acquisition expenses, 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.

Revenue by Segment

Growth from existing business and acquisitions

Revenue	Six months ended 31 December		Growth at AER ⁽¹⁾ %	Growth at CER ⁽²⁾ %
	2018 £m ⁽¹⁾	2017 £m ⁽¹⁾		
EU Pharmaceuticals – Existing ⁽³⁾	122.7	120.9	1.5%	2.2%
NA Pharmaceuticals – Existing	88.6	73.2	21.0%	19.3%
Group Total – Existing	211.3	194.1	8.9%	8.7%
EU Pharmaceuticals – Acquisitions ⁽⁴⁾	20.1	–	–	–
NA Pharmaceuticals – Acquisitions	–	–	–	–
Group Total – Acquisitions	20.1	–	–	–
Total	231.4	194.1	19.2%	19.1%

(1) Actual Exchange Rate

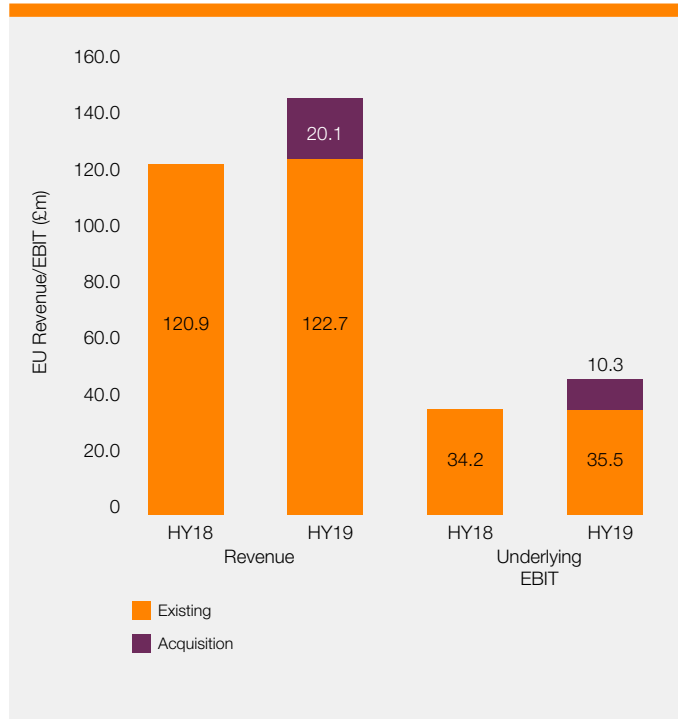
(2) Constant Exchange Rate

(3) EU Pharmaceuticals - Existing including like-for-like for RXVet and non-veterinary pharmaceuticals (strategic exit)

(4) EU Pharmaceuticals - Acquisitions includes Caledonia, Venco, AST Farma and Le Vet and the balance of RxVet

EU Pharmaceuticals Segment

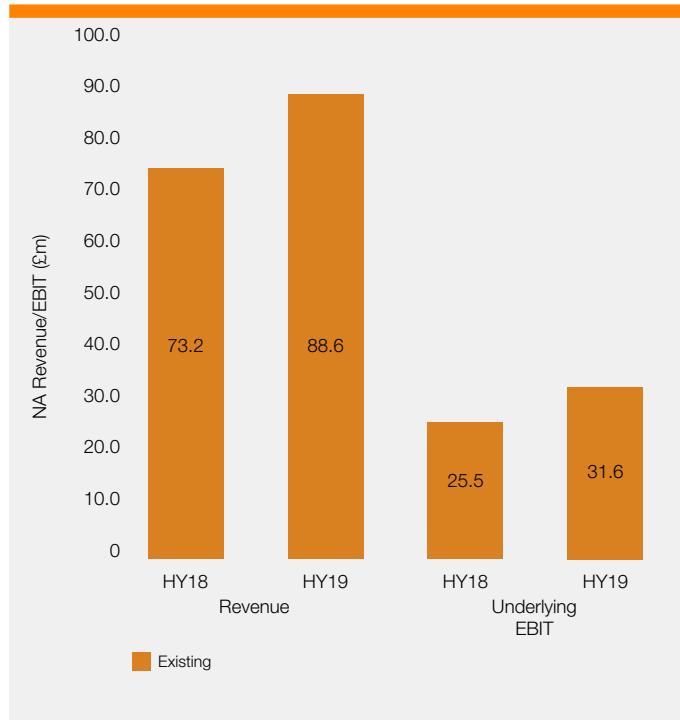
Existing business above market growth; acquisitions performing well



- **Revenue +18.9% to £142.8 million**
 - Existing: 2.2% increase to £122.7 million; 4.4% increase excluding third party contract manufacturing
 - Acquisition: £20.1 million contributed by RxVet, AST Farma, Le Vet and Caledonian
- **Underlying EBIT +34.7% to £45.8 million**
 - Existing: 4.6% increase to £35.5 million
 - Acquisition: contributed £10.3 million
- **Underlying EBIT margin**
 - Existing: Operating leverage up 60 bps to 28.9%
 - Acquisition: AST Farma and Le Vet main driver of 51.2% margin
 - Consolidated: 370 bps increase in margin to 32.0%

NA Pharmaceuticals Segment

Strong organic growth leveraging commercial investment



- **Revenue +19.3% to £88.6 million**

- Strong outperformance of the market

- **Underlying EBIT +22.0% to £31.6 million**

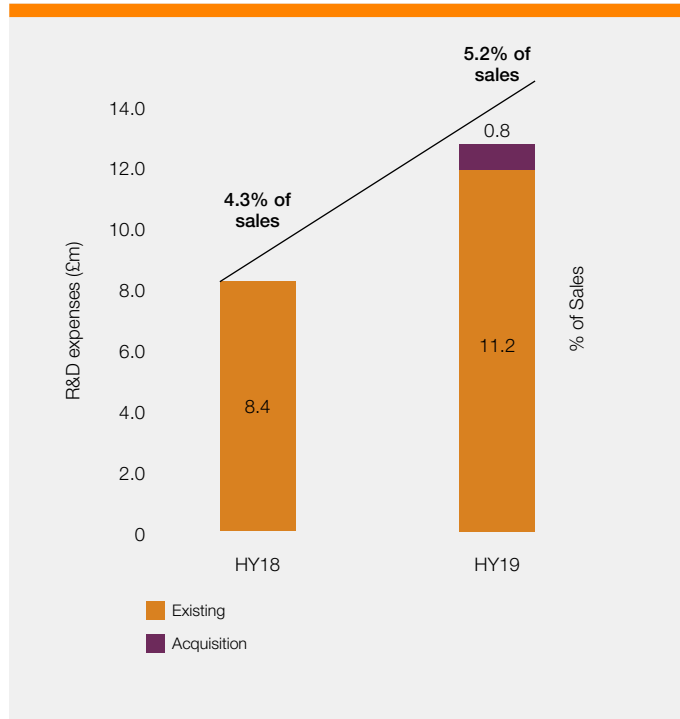
- 2018 investment in commercial team driving strong growth

- **Underlying EBIT margin**

- Increased operating margin by 80 bps to 35.7% after commercial investment in 2018

Pharmaceutical Research & Development

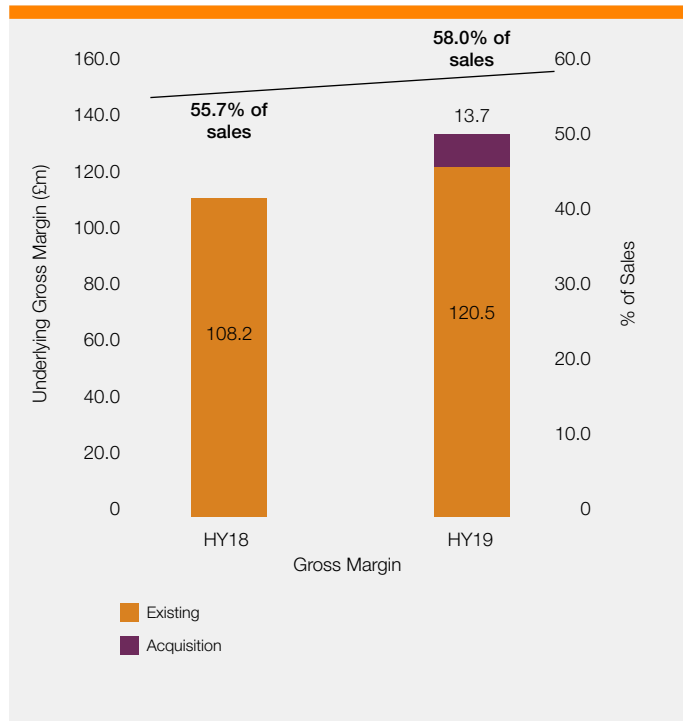
Confident investment in growing attractive pipeline



- **Investment increased by 41.7% to £12.0 million**
 - Expansion of pipeline projects and novel opportunities
 - Increase in registrations in new territories
 - Growth of spend from 4.3% to 5.2% of sales

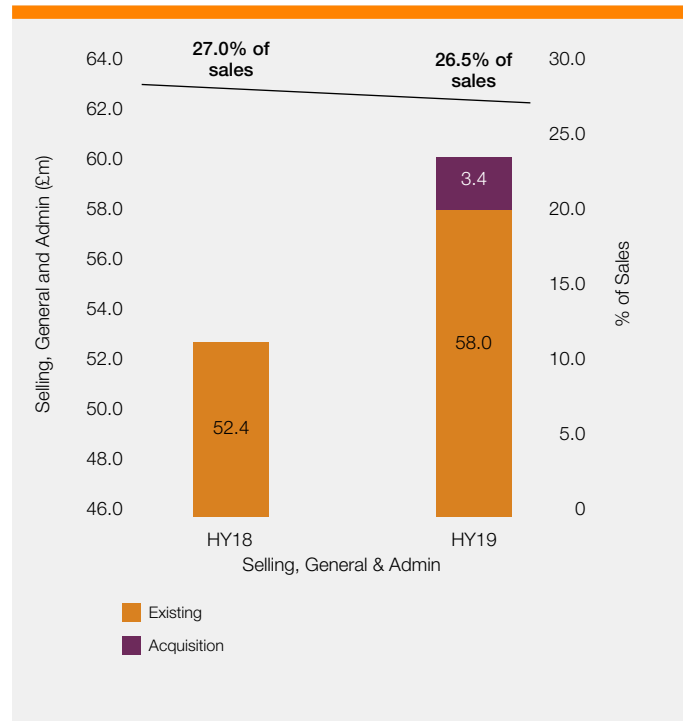
Gross Margin

Accretion from existing and acquisition



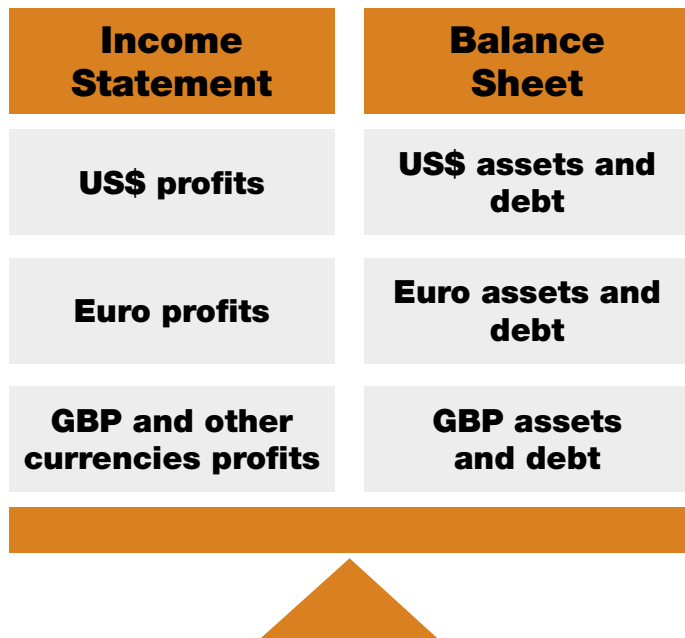
Selling, General & Admin

Ongoing operational leverage gains



Currency Exposure

Balancing currency flows with financing strategy



	HY 2019	Average Rates HY 2018	% change
£/€	1.1243	1.1205	0.34%
£/\$	1.2954	1.3176	(1.68%)

— **Euro€**
1% variation in £/€ impacts underlying diluted EPS by approximately +/-0.8%

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

Current exchange rates are c. £/€1.1470 and £/\$1.2954 (19 February 2019)

If these exchange rates had applied throughout the period, the underlying diluted EPS would be approximately 1.6% lower

Other currencies starting to influence: AUD, HRK, BRL

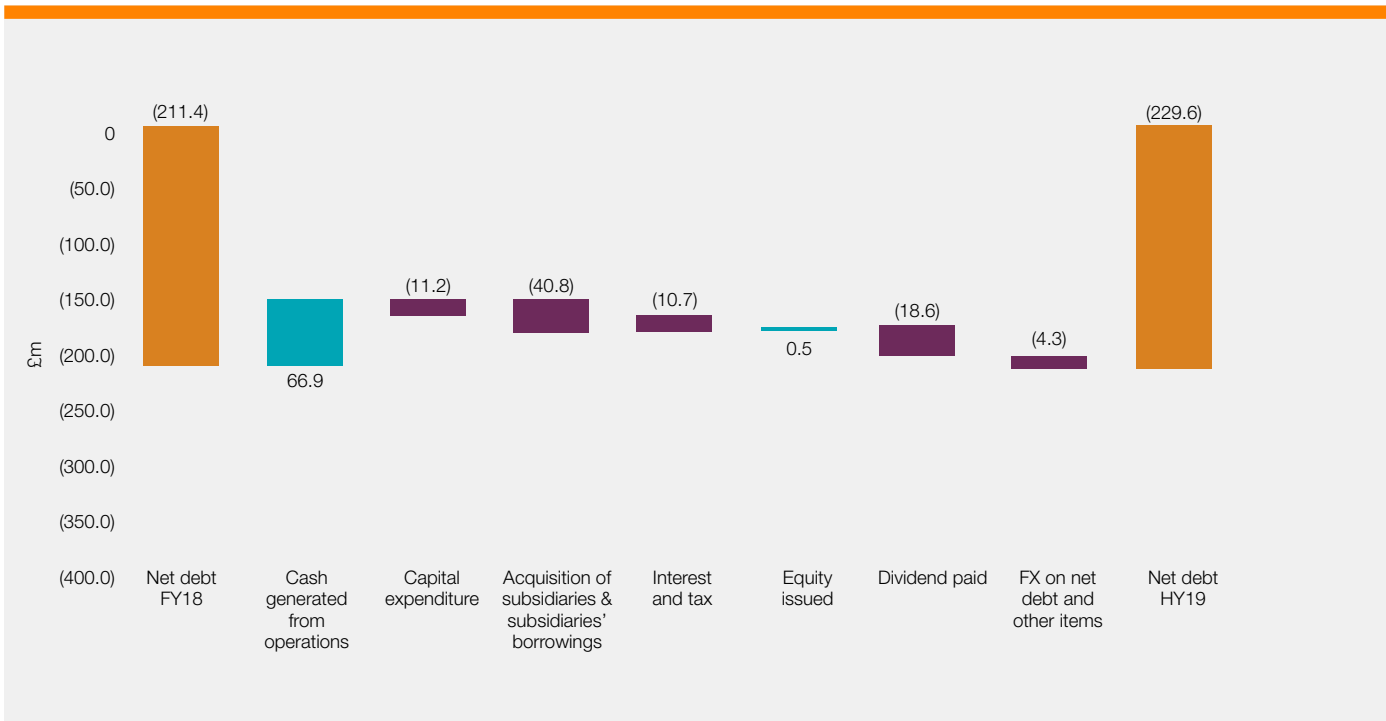
Cash Flow

Expected unwinding of 2018 working capital investment

	31 December	
	2018 £m	2017 £m
Underlying operating profit	60.8	47.4
Depreciation and amortisation	4.5	3.6
EBITDA	65.3	51.0
<i>EBITDA %</i>	28.2%	26.3%
Working capital	3.7	(6.4)
Other	1.4	1.1
Net cash generated from operations before non-underlying items	70.4	45.7
Non-underlying items	(3.5)	(0.2)
Net cash generated from operations	66.9	45.5
 Cash conversion %	 110.0%	 96.0%

Net Debt

Net debt/EBITDA leverage increased from 1.75 times to 1.82 times from Venco acquisition



Tax

ETR broadly flat: further US tax reform for 2020

- Underlying effective tax rate (ETR) up slightly to 20.8% (2018: 20.5%) from AST Farma and Le Vet mix offset by US TCJA benefit
- Further US tax reform likely to impact debt interest deductibility from 2020 financial year
- Expect underlying rate 22% to 23% range in 2020
- Reported ETR of 72.2% (credit) includes exceptional tax credit of £7.5 million from change in Dutch corporate rate from 25.0% to 20.5% from 1 January 2019



Other Financial Items

— **Non-underlying items £45.2 million** **(2018: £25.3 million)**

- Increase of £19.0 million on amortisation of acquired intangibles to £38.1 million (AST Farma/Le Vet/Venco)
- Finance impact from unwind of discounts and foreign exchange rate on deferred consideration £1.3 million
- Acquisition related costs: acquisition and integration costs £1.8 million; non-cash inventory adjustment £2.8 million
- Rationalisation of manufacturing footprint costs of £0.9 million
- Brexit costs £0.2 million

— **Dividend**

- Interim dividend increased to 9.50p per share (2018: 7.33p)

— **Dutch Pension Scheme**

- Change in scheme results in £2.7 million non-recurring credit through income statement in H2 2019

— **Banking**

- Net debt of £229.6 million at the period end (2018: £98.8 million)
- Leverage covenant is 1.82 at the period end (2018: 1.0); maximum cannot be higher than 3.0:1
- Interest covenant is 13.0 at the period end (2018: 18.5); minimum cannot be lower than 4:1



Portfolio Focus

Strong growth in key territories

— **EU Pharmaceuticals**

- Existing pharmaceutical range increased by 4.4% at CER (excluding third party manufacturing) and treating Acquisitions like-for-like
- Consolidated growth 18.9% at CER
- Outperformance in key markets: UK, France, Germany
- Strong performance in Poland, Italy and Spain

— **NA Pharmaceuticals**

- Existing pharmaceutical growth 19.3% at CER
- Continued strong performance
- Benefiting from investment in sales team made in the prior year
- One off benefit from competitor out of stock



Portfolio Focus

CAP, Equine and FAP performing well

CAP

- Continues to drive growth
- Excellent delivery in main therapeutic areas
- Increased market share from Generics

Equine

- New product registrations

FAP

- Good growth continues against background of declining antibiotic markets
- Increased market share of water solubles
- New product introductions

	Six months ended 31.12.18 £m	Growth at CER %
Revenue		
CAP	165.1	30.1%
Equine	16.4	12.2%
FAP	25.4	5.4%
Subtotal Pharmaceuticals	206.9	24.9%
Nutrition	13.9	(4.7%)
Other	10.6	(25.0%)
Total	231.4	19.1%



Portfolio Focus

Nutrition continues to struggle

- Sales decline predominately in France and Nordics
- Veterinarians no longer proactive due to loss of sales to internet
- Dog diets refresh relaunch planned

SPECIFIC

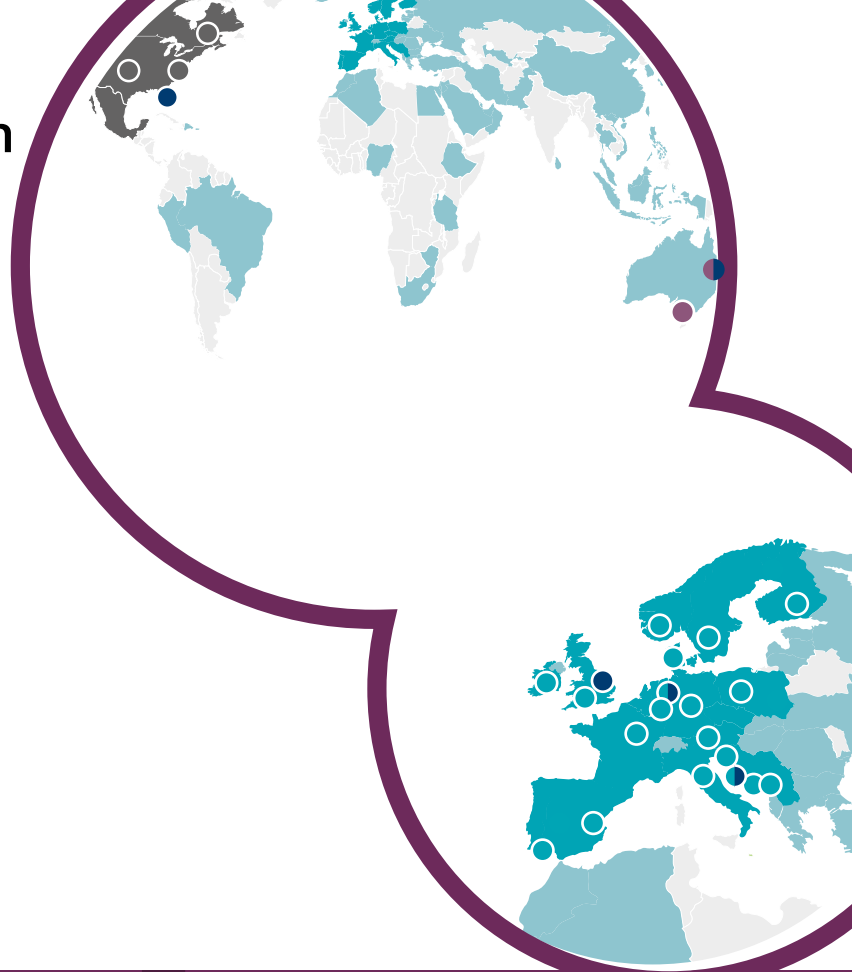
SPECIFIC® The power of **marine omega-3** to promote companion animal health



Geographic Expansion

Footprint extending through acquisitions

- ANZ performing well
- South America targeted for growth following Brazil acquisition
- Focus continues on international registrations
- Lost sales in Iran detract from performance





Pipeline Delivery

New products, new opportunities

- Cyclosporine capsules approved in USA
- Numerous EU registrations
- Product approvals in Australia, New Zealand and Mexico





- Five technology agreements signed
- Other significant opportunities under review
- Current risk adjusted pipeline, revenue at maturity £100 million plus
- Future speculative value £? million





Acquisition

Extending our geographical footprint

- **Caledonian Holdings, completed October 2018**
 - Small bolt-on, Australia and New Zealand
 - Cash consideration of £4.4 million
 - Enhances our ANZ Equine portfolio
 - Potential access to Asian equine market
- **Laboratorios Vencofarma do Brasil Ltda (Venco), completed December 2018**
 - Creates material presence in Brazil, fourth biggest global market
 - Wide range of FAP Vaccines, fastest growing therapeutic sector
 - Platform to register and launch Dechra CAP portfolio
 - Access to neighbouring South American markets
 - Three year investment plan





Acquisition

Previous acquisitions performing well

— **RxVet, New Zealand**

- Fully integrated with Australian Apex business
- Apex and Caledonian products launched

— **AST Farma and Le Vet**

- AST Farma completely merged with Dutch commercial team
- Full range of Dechra and AST products now on direct-to-vet platform
- Le Vet delivering significant synergies
- Significant proportion of distribution agreements terminated and product brought in-house

— **Pre-acquisition expectations being delivered**





Strategic Enablers

Infrastructure to support growth

— People

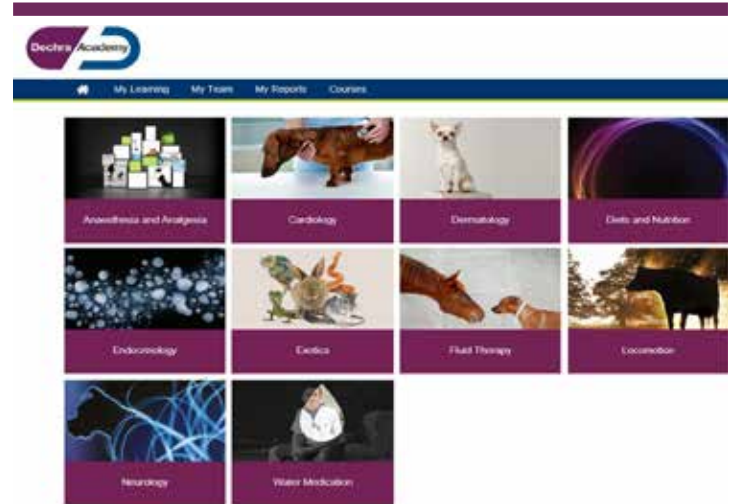
- Simon Francis, new Group Manufacturing and Supply Chain Director
- Lisa Bright, strengthening Board and Non-Executive Directors

— IT

- Oracle ERP now embedded
- Phase II commenced

— Manufacturing

- New leadership with global experience
- Five year efficiency plan paused



Outlook

Our strategy continues to outperform

- Numerous growth opportunities in play
- Acquisitions performing well
- Current trading commenced well in H2
- Confident in our outlook (despite Brexit)





Appendices

Underlying Gross Margin

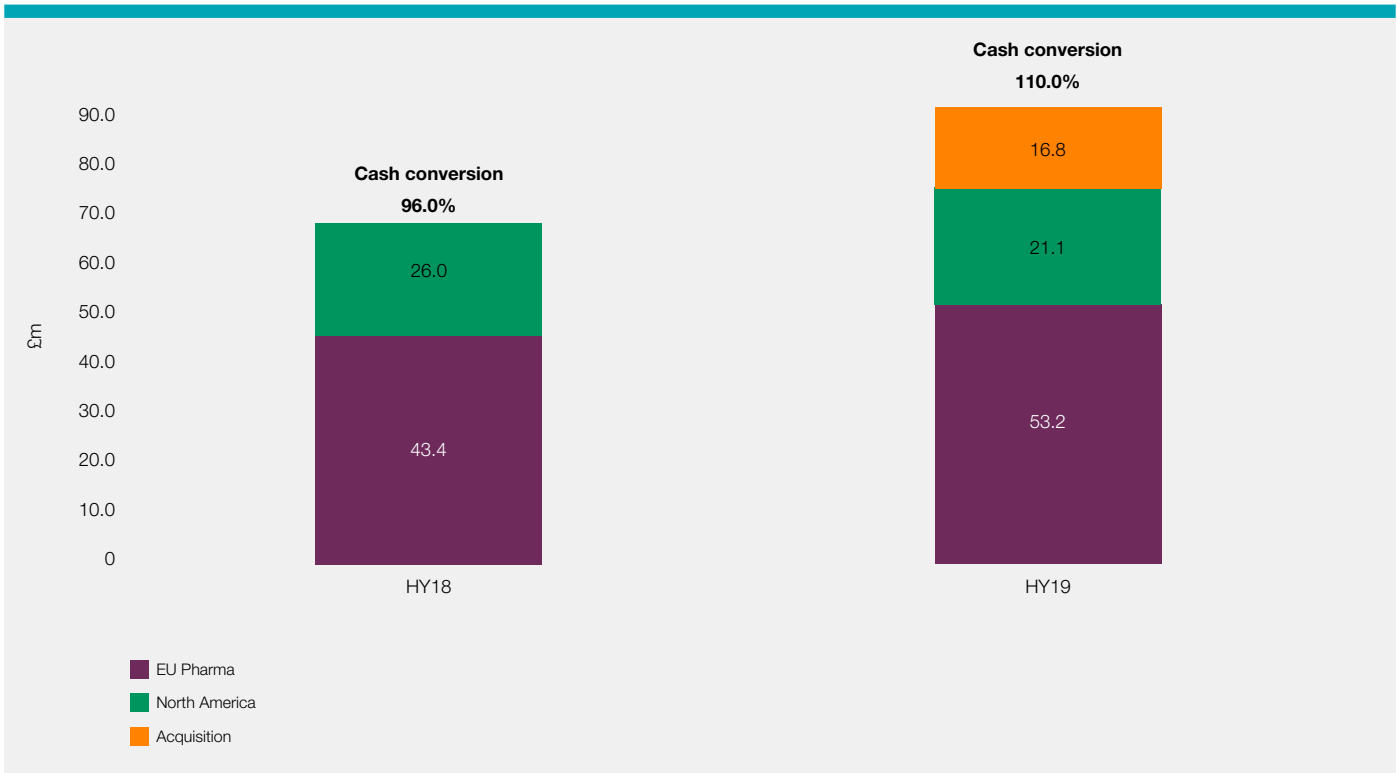
HY 2018 – Existing Business	55.7%
Product Mix	1.3%
HY 2019 – Existing Business	57.0%
Acquisition	1.0%
HY 2019 – Consolidated	58.0%

Balance Sheet

	31 December	
	2018	2017
	£m	£m
Total non-current assets (excluding deferred tax assets)	780.3	427.3
Working capital	91.1	69.4
Cash and cash equivalents	86.9	75.8
Borrowings	(316.5)	(174.6)
Corporate and deferred tax	(97.0)	(37.7)
Other liabilities	(40.7)	(44.9)
Total net assets	504.1	315.3
Net (debt)/cash	(229.6)	(98.8)
Leverage covenant* – maximum 3.0:1	1.82	1.0

* Net debt/(cash) to EBITDA

Working Capital



Our History

- 1997** ● **MBO** of Lloyds veterinary division
- 2000** ● **IPO**: main listing of LSE
- 2008** ● **VetXX**: wider EU presence £61.7m
- 2010** ● **Dermapet**: new US Derm product range \$60m
- 2012** ● **Eurovet**: strengthens Dechra EU €126m
- 2014** ● **PSPC**: US bolt-on \$10m
- 2015** ● **Genera**: entry into poultry vaccines €37m
- 2016** ● **Putney**: transformational US deal €200m
- **Apex**: access to Australian CAP market AUD\$55m
- 2017** ● **RxVet**: access to New Zealand market NZ\$0.6m
- 2018** ● **AST Farma/Le Vet**: strengthened EU portfolio €340m; **Caledonia** £4.4m; **Venco** £37.8m

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**
 - Second year of new structure
- **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
- **Acquisitions giving access to ANZ and Brazil**
- **135 FTEs**



Our Structure

DVP NA

- **Range of specialist approved pharmaceuticals**
 - Five own developed products FDA approved (CAP, Equine)
 - Acquired ranges
 - In-licensed products
- **Ongoing investment in infrastructure**
- **Sales and marketing in US, Canada and Mexico**
- **204 FTEs**

Our Structure

Manufacturing & Supply Chain

- **Four major sites**
 - Skipton, UK
 - Bladel, the Netherlands
 - Zagreb, Croatia
 - Londrina, Brazil
- **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**
- **691 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 six countries**
 - USA, UK, Netherlands, Croatia, Australia, Brazil
 - Three development and formulation laboratories
 - Clinical trials in US and EU
- **Spend £18.3 million in 2018 is development, not research orientated**
 - Expertise in innovation, formulation, clinical trials and regulatory affairs
- **103 FTEs**



Worldwide Economic Drivers Create Sustainable Demand



Population growth

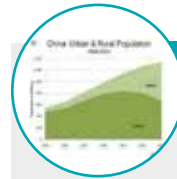
- Increased reliance on livestock
- Need for healthier and more productive animals
- 7 billion people consume animal protein
- Forecast CAGR to 2018 for livestock 5–6% ⁽¹⁾

(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

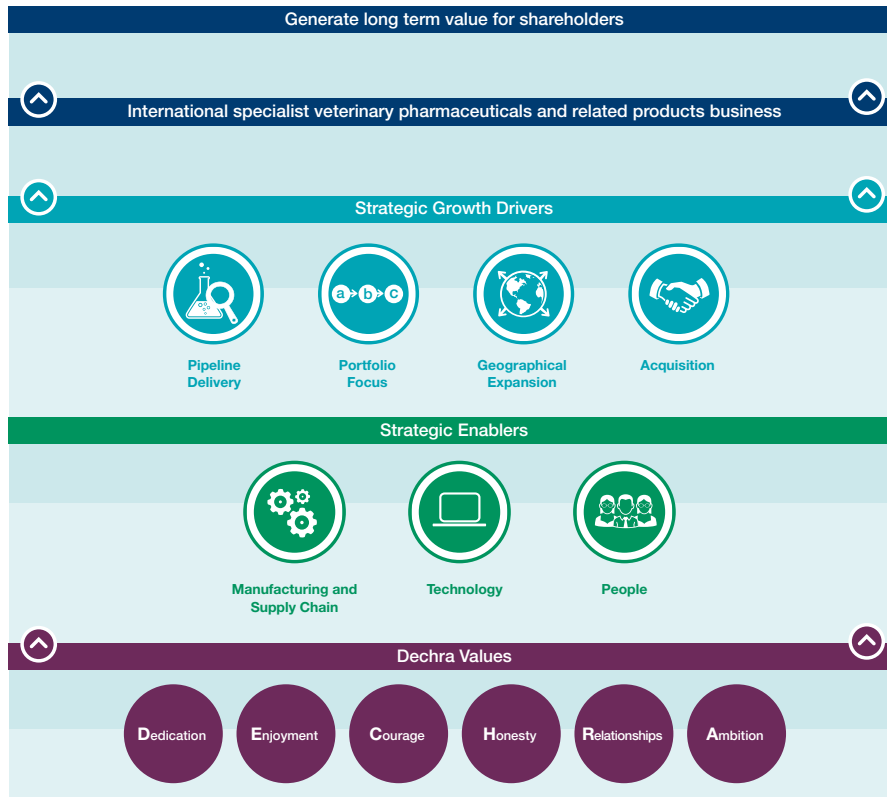
CAP

- + Increased demand for new treatments and medicines
- + Increase in owners' compassion for their pets
- + Little pricing pressure; generics do not devalue 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



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 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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