Dechra Pharmaceuticals PLC

Strategic disposal to create a focused, specialist veterinary pharmaceuticals business

10 July 2013

Disclaimer

This presentation, which has been prepared by Dechra Pharmaceuticals plc (the “Company”), does not constitute a prospectus relating to the Company, nor does it constitute or form part of any offer or invitation to purchase or subscribe for, or any solicitation of any such offer to purchase or subscribe for, any securities in the Company nor shall this presentation or any part of it, or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor, nor does it constitute a recommendation regarding the securities of the Company. No representation or warranty, express or implied, is made by any person as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information or opinions contained in this presentation. In particular, there is no assurance that the disposal of National Veterinary Services Limited ("Disposal") will be completed. All statements (other than statements of historical fact) included within this presentation, including, without limitation, the strategies, plans, expectations and objectives of the Company, the markets and economies in which it operates and its intention to effect the Disposal, are forward-looking statements. A variety of factors could cause the actual results and events to differ materially from the expectations expressed in the forward-looking statements. These statements are illustrative only and do not amount to any representation that they will be achieved as they involve uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. The Company is under no obligation to update or keep current the information contained in this presentation or to correct any inaccuracies which may become apparent, and any opinions expressed in it are subject to change without notice. This presentation is being made only to qualified investors who are (i) in the United Kingdom and who are either Investment Professionals, Certified High Net Worth Individuals, High Net Worth Companies, Certified Sophisticated Investors and/or Self-certified Sophisticated Investors within the meaning of Articles 19, 48, 49, 50 and 50A respectively) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (SI 1529/2005) or (ii) to persons to whom it may otherwise be lawful to make it (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person may not attend this presentation. The distribution of this presentation in certain jurisdictions may be restricted by law and therefore persons into whose possession this presentation comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.

The content of this presentation is exclusively the responsibility of the Company and neither Investec Bank plc (“Investec”) nor their respective officers, employees, advisers, agents and affiliates nor any person acting on their respective behalves has or shall have any liability for any information, representation or statement contained in this presentation or any information previously or concurrently published by or on behalf of the Company and will not be liable for any decision to invest based on any information, representation or statement contained in this presentation or otherwise. Investec, who is authorised and regulated by the Financial Conduct Authority, are acting for the Company in connection with the Disposal and no one else and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for providing advice in relation to the Disposal or any other matter referred to in this presentation.

This presentation is being made on the basis that the recipients keep confidential any information contained herein or otherwise made available, whether orally or in writing, in connection with the Company. Any person attending this presentation should seek their own independent legal, investment and tax advice as they see fit.

By attending this presentation you agree to be bound by the foregoing limitations and conditions and, in particular, will be taken to have represented, warranted and undertaken that: (i) you have read and agree to comply with the contents of this disclaimer including, without limitation, the obligation to keep the existence of this presentation and the information presented are confidential; (ii) you acknowledge that the information contained herein is inside information and that receipt of this information will make you an insider and as such you will not make use of the information herein or base any behaviour on the contents of this presentation which would amount to insider dealing for the purposes of the Criminal Justice Act 1993 or market abuse for the purposes of the Financial Services and Markets Act 2000, as amended, or equivalent legislation in other jurisdictions; (iii) you will not at any time have any discussion, correspondence or contact concerning the information in this presentation with any of the Company's suppliers, customers, sub contractors or any governmental or regulatory body, or any other person, without the prior written consent of the Company and (iv) and you are a relevant person.

Nothing in this document should be regarded as a profit forecast or as expected earnings per share (“EPS”) enhancement and should not be interpreted to mean that the future consolidated EPS of the Company will necessarily be greater or equal than its historical earnings per share.

Introduction

- Strategic disposal of the Group’s Services Segment, comprising:
  - National Veterinary Services (“NVS”);
  - Dechra Laboratory Services (“DLS”); and
  - Dechra Specialist Laboratories (“DSL”).
- Consideration receivable is £87.5 million in cash, subject to customary completion adjustments
- Purchaser is Patterson Companies, Inc., a US based specialty distributor serving the dental, veterinary and rehabilitation supply markets across a number of international geographies (market cap: US$4.0 billion)
- Disposal is in line with the Board’s stated strategy to create a focused, high margin specialist veterinary pharmaceutical products business, operating in a global market
- Separately announced today pre-close trading update for the year ended 30 June 2013

Strategic rationale

- Board believes that the greatest opportunities for future growth and value lie in the Pharmaceuticals Segment, which is now of a size that permits the Group to focus entirely on its further development
  - contributed over 75.0 per cent. of the Group’s operating profits (excluding amortisation of intangibles and before allocation of central costs) in the half year ended 31 December 2012

- Board believes the Disposal is in the best interests of Shareholders
  - enables Dechra to focus on its key strategic own branded veterinary products businesses;
  - Pharmaceuticals Segment comprises higher margin, cash generative businesses, operating in a global market with attractive long term growth prospects;
  - provides additional resources to continue the development of the Pharmaceuticals Segment both organically and, potentially, through acquisitions;
  - no material synergies between the Pharmaceuticals Segment and the Services Segment; and
  - attractive opportunity to realise the value of the Services Segment, which competes in an increasingly international and competitive market

Further details of the Disposal

- Effective consideration of £87.5 million (£86.2 million after transaction expenses and tax arising on disposal) payable in cash in full on completion
- Represents historic 7.9x EV/EBIT (year ended 30 June 2012)
- Consideration subject to customary completion adjustments for net debt and movements to normalise working capital position; SPA has customary warranties and indemnities for transaction of this nature
- Disposal is a class 1 transaction for Dechra, conditional on shareholder approval
- Expected timetable

– Announcement of Disposal	10 July 2013
– Publication and posting of circular	as soon as practicable following announcement
– General meeting to approve Disposal	29 July 2013
– Expected date of completion	mid-August 2013

Summary information on the Continuing Group

- Following the Disposal, Dechra will be a focused, specialist veterinary pharmaceuticals business, operating through three of Dechra’s existing Pharmaceutical segments:
  - Product Development: develops and licenses Dechra’s own branded veterinary product portfolio of novel and generic pharmaceuticals and specialist pet diets
  - European Pharmaceuticals: comprises Dechra Veterinary Products EU and Dechra Pharmaceuticals Manufacturing
  - US Pharmaceuticals: comprises Dechra Veterinary Products US
- Expected that central costs will increase following the Disposal, reflecting certain additional costs and also the fact that central costs were previously allocated across both segments
- The Board will continue the development of a high growth, cash generative, specialist veterinary pharmaceutical products business to compete in a global market, with the intention to increase investment in the Group’s product development pipeline

Summary financial information on the Continuing Group

Income statement	Year ended 30 Jun 2010 (audited) £'000	Year ended 30 Jun 2011 (audited) £'000	Year ended 30 Jun 2012 (audited) £'000	Half year ended 31 Dec 2012 (unaudited) £'000
Revenue				
- European Pharmaceuticals	84,637	89,287	104,764	81,935
- US Pharmaceuticals	10,634	16,107	20,363	10,036
- Inter-segment	(11,377)	(12,225)	(14,240)	(7,128)
	83,894	**93,169**	**110,887**	**84,843**
Operating profit[1]				
- European Pharmaceuticals	21,412	22,506	28,904	21,171
- US Pharmaceuticals	1,311	4,838	5,863	2,963
- Research & development costs	(4,666)	(5,221)	(5,735)	(3,457)
	18,057	**22,123**	**29,032**	**20,677**
Operating profit margin	*21.5%*	*23.7%*	*26.2%*	*24.4%*

Notes.
1. Before allocation of head office costs
2. The historic financial information on the Continuing Group has been extracted without material adjustment from the consolidation schedules used in preparing the Group's audited consolidated financial statements for the financial years ended 30 June 2010, 30 June 2011 and 30 June 2012 and the unaudited financial information for six month period ended 31 December 2012.

Use of proceeds & financial effects of the Disposal

- Board intends to use net cash proceeds arising from the Disposal of £86.2 million (after transaction expenses and tax arising on disposal) to reduce Group's net debt through:
  - prepayment and cancellation of the Group's existing £50 million term loan facility; and
  - reduction in amounts drawn down under the Group's existing £65 million revolving credit facility ("RCF")

- Dechra will remain able to utilise the existing RCF, which expires in October 2016, on an ongoing basis to fund the future development of the business

- Following completion, Dechra is expected to have pro forma net debt of £15.7 million, based on the Group's net debt position as at 31 December 2012

- Whilst the Disposal will be earnings dilutive in the short term, it will create a focused, specialist pharmaceuticals business with additional resources to invest in its product development pipeline and other growth opportunities.

- Board intends to maintain progressive dividend policy, taking into account the underlying performance of the business and investment opportunities

Pre-close trading update

- Group revenue up by approximately 19% vs last year
- Top 5 products revenue increased by approximately 13%
- US trading performance impacted by third party supply issues, as referred to in the Q3 Interim Management Statement
- Trading in Q4 was good and a marked improvement over Q3, but it did not offset the impact of adverse weather in Q3 and supply issues in the US
- Eurovet expected synergies realised
- Investment in pharmaceutical pipeline increases as novel products reach maturity and new opportunities are identified

Note. All figures quoted in constant currency

Summary

- Disposal is in line with the Board’s stated strategy
  - enables the Continuing Group to focus on its key strategic own branded veterinary products businesses
  - provides the Continuing Group with additional resources to continue the development of the Pharmaceuticals Segment, both organically and, potentially, by acquisition
  - an attractive opportunity to realise the value of the Services Segment, which competes in an increasingly international and competitive market
- The Continuing Group will comprise a focused, high margin specialist veterinary pharmaceutical products business, operating in a global market
- Intention to increase investment in the Continuing Group’s product development pipeline
- The Board expects the quality of the Continuing Group’s business and prospects to be enhanced as a result of the Disposal

Appendices

Summary information on the Services Segment

- Services Segment comprises
  - National Veterinary Services – the UK market leader, in terms of market share, in the supply and distribution of veterinary products to veterinary practices and other approved outlets via its next day national delivery service
  - Dechra Laboratory Services – a multi-disciplined, independent commercial veterinary laboratory
  - Dechra Specialist Services – a primary and secondary referral, specialist veterinary immunoassay laboratory

Income statement	**Year ended 30 Jun 2010 (audited) £'000**	**Year ended 30 Jun 2011 (audited) £'000**	**Year ended 30 Jun 2012 (audited) £'000**	**Half year ended 31 Dec 2012 (unaudited) £'000**
Revenue	285,670	296,258	315,672	167,739
Operating profit	13,103	13,087	11,056	5,720
Operating profit margin	*4.6%*	*4.4%*	*3.5%*	*3.4%*
Profit before tax	13,468	13,437	11,146	5,723
Net assets			55,363	59,338

Evolution of Dechra's *Pharmaceuticals* businesses

Since 2000, Dechra's Pharmaceuticals businesses have grown both organically and through a number of key strategic acquisitions that have enabled Dechra to access new products or geographies. Key milestones in the successful development of the Pharmaceuticals Segment, include:

- **2001:** UK launch of Vetoryl®, a novel drug for the treatment of Cushing's syndrome in dogs;
- **2002:** acquisition of Anglian Pharma plc, which increased Dechra's contract manufacturing revenues;
- **2005:** received approval to market Vetoryl in 19 major European countries;
- **2007:** opening of Dechra US, a sales and marketing business, to capitalise on the acquisition of the marketing rights for a range of licensed veterinary pharmaceuticals from Nycomed US, Inc.;
- **2008:** £65 million acquisition of VetXX® Holdings A/S (subsequently renamed Dechra Veterinary Products), a developer, manufacturer and marketer of companion animal veterinary products in Europe, which broadened and strengthened Dechra's European footprint and range of licensed veterinary products;
- **2009:** approval and launch of Vetoryl in the US, and received approval to market Felimazole in the US;
- **2010:** $64.0 million acquisition of DermaPet®, Inc., a US based business which strengthened Dechra's position in the global veterinary dermatological market, as well providing greater scale in the US market;
- **2010:** £6.5 million acquisition of Genitrix® Limited, a private UK company with a range of products complementary to Dechra's existing product portfolio; and
- **2012:** €135 million acquisition of Eurovet® Animal Health B.V., a veterinary pharmaceutical business based in the Netherlands, which gave the Group a strong direct presence in the German market, as well as strengthening the Group's presence in a number of other European countries, access to a complementary companion animal product portfolio and a significant presence in the large farm animal pharmaceutical market.