

Our Marketplace

Global Market Dynamics

The Animal Health Market

Animal health globally is generally described as comprising two segments: Food producing Animal Products (FAP) and Companion Animal Products (CAP). FAP continued to show global growth due to an increased demand for high quality protein production. CAP growth (a sector in which horses are generally included) is driven by the pet owners' compassion for their animals which has had greater emphasis during the COVID-19 pandemic, improved nutrition and a wider range of medical products and treatments.

Our Position in the Animal Health Market

There are only a small number of international businesses in our market, four of which have 42.7% of the world's market share. Dechra's objective is to continue to outperform the market and increase its market share, through the execution of its strategy.

Animal Pharmaceuticals vs. Human Pharmaceuticals

The business of developing and marketing animal pharmaceuticals shares a number of characteristics with human pharmaceutical businesses. These similarities include the need to conduct clinical trials to prove product safety and efficacy, obtain regulatory approval for new products, adhere to complex and highly regulated product manufacturing, and market products based on approved clinical claims. However, there are also significant differences between animal and human pharmaceutical businesses, including:

- **Generally faster, cheaper, more predictable and sustainable product development:** Development of animal medicines typically requires fewer clinical studies with fewer subjects and is conducted directly in the target species. Decisions on product safety, efficacy and likelihood of success can therefore be made more quickly.
- **Diversified product portfolios:** Animal pharmaceutical businesses are generally less reliant on a small number of 'blockbuster' products. Animal health products are sold across

different regions which may have distinct product requirements. As a result, animal health products often have a smaller market size and the performance of any single product typically has less impact on overall business performance.

- **Stronger customer relationships and brand loyalty:** Companion Animal Products are directly prescribed and often dispensed and sold by veterinarians which contributes to building brand loyalty, which continues after the loss of patent protection or regulatory exclusivity.
- **Lower pricing pressure:** Livestock producers and pet owners generally pay for animal healthcare themselves. Pricing decisions are not influenced by government payors that are involved in product and pricing decisions for human medicines.
- **Less price erosion by generic competition:** Generic competition in animal healthcare, whilst playing an important role, has a lower impact on prices compared to human pharmaceuticals because of the smaller average market size of each product opportunity, stronger customer relationships and brand loyalty.

Types of Veterinary Practices

The majority of our sales are made into veterinary practices that tend to specialise in either companion animal or food producing animal treatment; however, there are numerous practices that are classified as mixed and service all species. There are also an increasing number of equine practices and referral hospitals that provide high levels of specialisation. The veterinary profession is going through significant change as incorporated practice groups are consolidating practices at an increasing rate. In many countries, our relationships with these corporate groups are very important, and we continue to increase our focus through experienced key account managers and technical support services. With the ongoing integration of professional farming units, our FAP sales efforts are now often focused on these major integrators; however, the integrators themselves employ veterinarians who remain responsible for the prescribing and administration of our products.

Veterinary Practices – Europe



- Independents **51%**
- Buying Groups **29%**
- Corporates **20%**

Source: DVP EU Sales Data June 2020

Veterinary Practices – North America



- Independents **80%**
- Corporates **20%**

Source: DVP NA Sales Data June 2020

\$45.4bn
Market Size

Source: Grand View Research 2020

Market Share by Competitor 2020



Source: Animal Pharma 2021 & Grand View Research 2020

Data as at 31 December 2020 except Dechra (as at 30 June 2020)

Key Trends and Our Response

1 Distributors looking to change their historic veterinary supply route to provide a direct to consumer (dog and cat owner) model.

Our products are predominantly Prescription Only Medicines (POMs), so our ultimate partner in the supply chain will remain the veterinarian who will continue to write a prescription.

Through education, technical support and innovation, we endeavour to ensure the medicine prescribed and dispensed continues to be a Dechra product.

2 The veterinary profession has been going through a period of change for several years as corporates are continuing to consolidate independent practices.

Our relationship with these groups is very important; we are increasingly focused on key account management. We have modified our sales and marketing approach to focus on building relationships with our corporate and buying group customers and to understand better their needs and expectations. We have dedicated corporate account teams in Europe and North America.

3 We have seen growth in the companion animal market for many years due to veterinarians' capabilities, improved nutrition, increased longevity of pets and the owner's willingness to continue to increase spending on pets. This trend has historically been in Western Europe, North America and other selected markets; however, in the developing world we are now seeing the status of pets increase, creating new markets.

We will continue to innovate in specialist medicine and increase our portfolio in our key areas of therapeutic specialisations. To further the optimal use of our medicines we are increasing the provision of technical support services through experienced veterinarians. We are also expanding our geographical footprint and investing money in product registrations in new developing markets.

4 The veterinary market is seeing a continued increase in global regulatory requirements and quality production standards through more stringent site inspections.

We are strengthening our regulatory teams so we can comply with the respective medicines agencies' requirements and expanding our quality function to enable manufacturing sites to produce products which meet the highest standards.

5 With the global increase in population and the improvement in developing countries' economies, there is a huge increase in demand for high quality animal protein and dairy products.

We are consistently strengthening our FAP business both with new products and through international expansion. We are enhancing our range which includes our market leading swine and poultry water soluble antibiotics, and with our vaccines we are increasing our registration activity to obtain marketing authorisations in new markets.

We also own the global marketing rights to Animal Ethics' ethical pain treatment for farm animals, Tri-Solfen®, which we are registering for sheep, cattle and pigs in numerous global markets.

6 COVID-19 has had a wide ranging impact on the global economy.

Dechra has benefited from the strong market dynamics. There is conflicting evidence as to the reasons behind the growth. In Europe, it is believed that pet ownership is increasing; however, in the US there is strong evidence to say that veterinary consultations are slightly down on previous years, and the growth is due to people spending longer with their pets thereby identifying more illnesses and also having more disposable income to spend on their pets due to the lockdown.

Our Marketplace continued

Product Market Dynamics

Our products can be divided into four categories: Companion Animal Products (CAP), Food producing Animal Products (FAP), Equine, and Nutrition. All are targeted at providing veterinary professionals with solutions for their customers' needs.

Companion Animal Products (CAP)



72.8%
of Group Revenue

Species: Dogs and cats.

Key Therapeutic Sectors: Endocrinology, dermatology, analgesia and anaesthesia, cardiovascular and critical care.

Products: The majority of products in our portfolio are Prescription Only Medicines (POMs) prescribed, administered and dispensed by veterinarians working in companion animal practices. We also have a range of associated non-prescription products which complement the licensed pharmaceuticals, such as ear cleaners, dermatologically active shampoos and other topical and nutritional supplements.

Market Description: The principal driver of growth in companion animal markets is the pet owners' compassion for their animals. The market has historically been orientated around developed countries such as Western Europe, North America, Australia and Japan. However, with increasing wealth in several developing regions, the companion animal market is now also emerging, particularly in South America and Eastern Europe.

Key Trends Shaping Our Markets: Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition, increased competence in managing complex conditions by veterinarians, preventative healthcare and wellness, and by increasing availability of more specialist pharmaceuticals.

Our Market Position: This is the basis upon which Dechra established its market position and continues to be our strongest sector. Dechra has developed a strong reputation for providing specialist and clinically necessary novel products. We also supply a range of products which complement these products in key therapeutic sectors where we are seen as the company of choice by many veterinarians.

Margin: The highest gross margin category, averaging over 70%, with development costs high for relatively small volume sales. However, sales and marketing costs are relatively high compared to other categories.

Food producing Animal Products (FAP)



12.7%
of Group Revenue

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

Key Therapeutic Sectors: Water soluble antibiotics, vaccines, the treatment of mastitis, lameness and pain management.

Products: Our products are predominantly POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units.

Market Description: As over 60% of all global animal health sales are FAP, Dechra is underweight relative to the market and our competitors and it is an increasing area of focus.

Key Trends Shaping Our Markets: The key driver for growth in this sector is a huge increase in the global demand for high quality animal protein and dairy products. Vaccines are the biggest growth sector of the veterinary market and are anticipated to continue to outgrow therapeutic treatments. There is also a growing awareness of the need for better animal welfare standards, including pain control during procedures such as pig castration and tail docking in sheep.

Our Market Position: Dechra entered the FAP sector through the acquisition of Eurovet in 2012; it currently represents 12.7% of revenue. The majority of our sales are currently antibiotics which are sold mainly into Europe. Western Europe has been extremely proactive over the last five years in reducing antibiotic use due to concerns over antimicrobial resistance and 'super bugs'.

Dechra's portfolio is positioned to match current best practice prescribing habits. Additionally, our Brazilian vaccines business and Croatian poultry vaccines are providing growth and are anticipated to continue to provide growth opportunities in future years as we seek global registrations.

Margin: Relatively low gross margins at approximately 35%. However, volumes are high and sales costs are relatively low as the products are sold mainly into large farm integrators.

Equine



7.3%
of Group Revenue

Species: Horses and ponies.

Key Therapeutic Sectors: Lameness and pain management.

Products: Dechra offers a wide range of products supporting the equine veterinarian, from pain management to products for anaesthesia, dermatology, critical care, reproduction and euthanasia.

Market Description: Veterinarians that specialise in horses operate out of either mixed practices or, increasingly, specialist equine centres. There are approximately five million horses in the USA, approximately one million horses in France and Germany and less than one million in the UK. As such the market potential is limited. The market can be divided roughly into high performance sports horses, leisure horses and ponies.

Key Trends Shaping Our Markets: The market is variable and can be linked to the economy; however, high value, insured, sports horses will be treated at almost any cost.

Our Market Position: This is a sector in which few animal health companies specialise due to the relatively small number of horses in the world and the fact that in the majority of European countries the horse is classed as a food producing species which adds complexity to the licensing process.

Dechra has developed a strong position in lameness and pain management with unique products that have superior efficacy compared to historic treatments.

Margin: Similar margin returns to CAP; however, it is a relatively small marketplace.

Nutrition



5.2%
of Group Revenue

Species: Dogs and cats.

Key Therapeutic Sectors: Our pet diets are available to support the wellbeing of animals with numerous therapeutic conditions.

Products: Our range of pet foods is predominantly focused on high quality nutrition to support therapeutic conditions in dogs and cats such as allergies, obesity, heart disease and kidney disease.

Market Description: The global pet food market is huge and dwarfs the animal health pharmaceuticals market. The veterinarian's recommendation is respected by pet owners which allows these products to take a small but significant part of this nutrition market.

Key Trends Shaping Our Markets: Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition and increased competence in managing complex conditions in dogs and cats such as allergies, joint disorders, obesity, heart disease and kidney disease.

Our Market Position: Dechra's focus is predominantly therapeutic diets which are not available for self-selection through supermarkets and require advice from the veterinarian. There are very few competitors in this specialist sector of the pet food market and although we compete with huge global multinational companies, we are able to differentiate our position through the use of higher quality ingredients and through innovation. The ability to offer our wide range of products, branded Specific®, is necessary to remain competitive in this sector.

Margin: Highly competitive market where we compete with huge multinational retail companies. However, gross margins are robust at approximately 45%.