

Q&A with Anne-Francoise Nesmes



Anne-Francoise Nesmes
Chief Financial Officer

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Q You have been in the business for over a year. What are your thoughts about the animal health market?

A The animal health market has been growing steadily over the last few years, despite a tough global economic environment. If you look at 2013, the animal health market growth is estimated to be around 4%. There are several factors that explain this: in the Companion Animal Products the growth is driven by an increase in pet ownership, but also pets living longer; and in the Food producing Animal Market, the growth is driven by the increase in the global population and the increased demand for high quality meat protein. And as you may know, Dechra competes in both of those sectors, so we are very well positioned to seize opportunities.

Considering the animal health market, it is quite interesting to draw the contrast with the human health market. Whilst there are many common characteristics, such as a regulated environment, there are also some key differences. One of the key differences is in terms of R&D. What we do is develop existing molecules for veterinary use and, obviously, this is a lot less risky than the human market. Similarly, when we look at our product lifecycle, they have a much longer lifespan, and generic penetration is a lot less than in human pharma.

So I think, all-in-all, this makes the animal health market very attractive for investors.

Q The year has seen a strong increase in gross margins. Do you expect this to continue?

A The improvement in gross margins is certainly one of the key drivers behind our very strong profit performance and, if you look at the gross margin, you will see it has improved by about 2.5 percentage points.

There are two main reasons for this. The first one is the synergies from the *Eurovet* acquisition. One thing we have done is brought ‘in-house’ sales which were previously made through third party distributors. And as we are now selling through our own sales force, we retain the margins that distributors used to make. The second reason is the product mix, with the split between our companion animal sales and our food animal sales.

Looking forward the margins will always fluctuate and depend first on the product mix, as I said, but also on the success of our pipeline. We see that Companion Animal Product sales are higher margin, they are higher value, whereas the Food producing Animal Product sales are higher volume, but lower margin. Therefore, we will always balance the two margins and the product mix. Looking at our pipeline, we are about to launch several products over the next few years which are of high value to us and therefore again that will drive the margin.

So, in summary, when I look forward, and at the margins, as a minimum I think we should maintain the margins where they are and try to improve them over the next few years.



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Q In your statement you make reference to a number of finance projects. Can you provide more clarity please?

A It has been a very busy year for the finance team in the Group, and I would really like to recognise the work that all the team members have done during the year. After the divestment of the Services Segment, and after the redefinition of our strategy, the finance strategy became very clear. It was very obvious that we had to preserve the strength of our balance sheet in order to execute the strategy and finance our expansion.

We started with tax, and did a full review of our tax strategy and our tax position. We are taking full advantage of government backed incentive schemes for innovation driven organisations like ours.

We then turned our attention to the treasury, and once we had repaid part of our debt, we looked at the funding requirements we will have in the future. We also did that because we wanted to take the opportunity of very favourable market conditions. We will now operate with a syndicate of three banks, which ensures that our cash management operations will be scalable for the future, and will be more robust.

In parallel to all this, we continued with the roll out of Oracle, our IT system for finance, to the rest of the business, and we continued to improve our control framework to make sure that it evolves as the organisation grows.

It is true that a finance strategy is important for any business, but I am particularly pleased that for Dechra it has contributed to the bottom line this year, and it will continue to help grow the EPS in the next few years.

Q What are your priorities for 2015?

A We said last year that we would refine our strategy, and we did. We are now focused on four strategic growth drivers, which are: delivering our pipeline, maximising our returns from the existing portfolio, expanding geographically and acquiring if there is a suitable opportunity.

So in 2015 the priority is to execute and deliver on our strategy. From a finance perspective, that means three areas of focus in terms of our work and our activities. The first one is allocating resources to drive returns. Secondly, maintaining or improving gross margins. And finally, building a business model that is scalable and that can accommodate for the growth in the future.

Taking the first point about allocating resources, it is really about ensuring that we put our resources, our money, behind the projects that will drive the growth. That means that we need to be able to support the product launches like *Ospinos*; we need to be able to fund our geographic expansion; we need to be able to continue to invest in R&D, while delivering returns to our shareholders. So that is very important.

With our second focus on improving or maintaining our gross margins, we will look at both our commercial offering but also our production costs. We will also look at our supply chain capabilities that we have identified as a key enabler in our strategy.

And finally, the last area has always been something of a key concern of mine, that is, how to build an organisation that is scalable as we continue to grow. For this, it is important that we implement the projects we have started, like the Oracle system and the treasury strategy I discussed earlier, because that ensures that everything we do is scalable and can grow with Dechra as we become a larger organisation.

So if we do all of these, the Board, the Senior Executive Team, Ian and myself are very confident that it will continue to strengthen Dechra's position in the global animal health market.