

Our Marketplace

Market Overview

The animal health market is large, highly resilient and benefits from a number of long term structural growth drivers.

There is a wide range of estimates for the size of the global animal health market, likely due to the inclusion (or not, as the case may be) of certain areas of the market such as food, veterinary services and testing/diagnostics.

Grand View Research estimates that the total market, including key segments such as vaccines, pharmaceuticals, diagnostics, medical devices and feed additives along with other smaller revenue streams was worth over \$58 billion in 2022. Within this, pharmaceuticals is the largest product segment representing over 40% share, and it is here where Dechra mostly competes.

Animal Types

Animal health globally is generally described as comprising two segments of animals, with approximately two thirds of revenue generated from the Food producing Animal Products (FAP) segment and the remaining one third derived from Companion Animal Products (CAP), which also typically includes horses.

Our Global Markets

The geographical breakdown of the market differs between the FAP and CAP segments, but North America is the largest animal health market in the world, comprising over 30% of the global market overall.

Territory	Market trends	Our response	Outlook
North America 43.5% of Group revenue	Well developed CAP markets, with an acceleration in pet ownership supported by widespread adoption of hybrid working patterns.	Key focus area for future growth as we extend the reach of our portfolio through new product launches and a growing sales team.	Market has normalised against the heightened growth rates seen during the pandemic but is expected to remain in growth.
Europe 45.1% of Group revenue	Large numbers of livestock with an emphasis on increasing productivity.	Continue to leverage our heritage in markets where we already have a strong, established position.	Within Europe, pet ownership is becoming increasingly common in Eastern countries.
Rest of the World 11.4% of Group revenue	Emerging markets such as South America, Asia Pacific, the Middle East and Africa have a greater bias towards FAP revenues, with the companion animal market still maturing.	Steadily grow brand awareness and presence in selected countries, typically through FAP initially. Pursue registrations of existing products in new territories.	CAP markets are expected to develop at varying rates as the status of pets increases, whilst FAP growth will likely remain strong due to burgeoning populations.

Competitors

Over the past 25 years, the global animal health market has become characterised by a small group of large international businesses that have emerged via a series of mega mergers and together now account for over half of the overall market.

Beyond this concentration of large players, the market is very fragmented with a long tail of smaller sized companies operating on either a global or more localised basis and typically with an expertise in specific product segments and/or species.

Dechra is positioned within the top ten in terms of total market share, despite not operating in the high value 'blockbuster' categories such as regular flea, tick and worm treatments. Instead, the Dechra portfolio consists of a very broad range of products in niche therapy areas with an increasing emphasis on offering veterinarians novel treatments for a variety of conditions and with a strong bias towards prescription only medicines.

Routes to Market

In addition to manufacturers supplying direct to veterinary practices, the market is also serviced by a relatively small number of large veterinary wholesalers who play an important role within the animal health value chain.

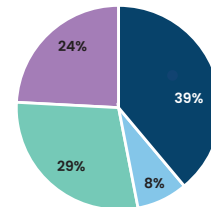
This wholesaler channel is the main route to market for Dechra, particularly in the US, Australia, New Zealand and many Western European countries, although there are instances where we supply direct or via pharmacies. Within less developed markets, international distributors act as a vital interface between the manufacturer and veterinary practice or farmer. These distributors can be both smaller, local players as well as larger conglomerates.

Types of Veterinary Practice

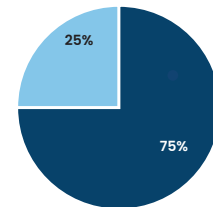
Most veterinary practices tend to specialise in either companion animals or food producing animals; however, there are numerous practices that are classified as mixed and service all species. There is also an increasing number of specialist equine practices and referral hospitals.

The veterinary profession continues to see a degree of consolidation as large corporate groups are increasing their share of companion animal practices. This has been a well established trend within the UK, but is also being seen in other developed markets such as the US and Western Europe, albeit from a relatively fragmented starting position. As such, our relationships with these corporate groups are becoming increasingly important and we continue to increase our focus through experienced key account managers and technical support services.

Dechra sales by type of Veterinary Practice



North America



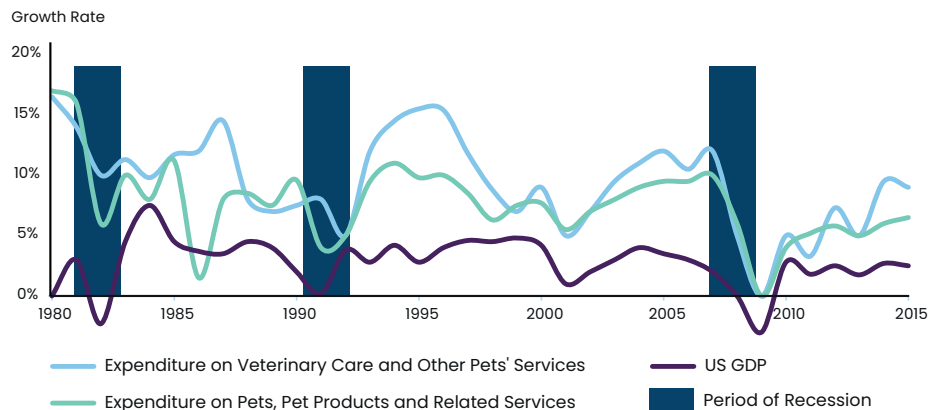
- Independents
- Large scale pig and poultry customers
- Local consolidated Groups
- Pan-EU consolidated groups

Source: Dechra sales data, June 2023

A Resilient Animal Health Market

Total veterinary care has proven itself to be highly resilient over a multi-decade time horizon.

The Dechra product portfolio is positioned at the most resilient end of this resilient market, given the largely non-discretionary nature of our prescription only medicines.



Market Growth Drivers and Outlook

There has been growth in the CAP market for many years driven by a number of well established trends:

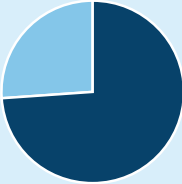


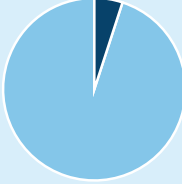
- **Increasing pet population** in both developed and developing markets driven by positive demographic trends, widespread adoption of hybrid working arrangements, improved pet nutrition and increased pet life expectancy
- **Humanisation of pets** by owners who are increasingly willing to spend on the wellbeing of their pet, regarding them as a member of the family
- **Growing awareness and knowledge** allows veterinarians to manage increasingly complex conditions through improved diagnosis and treatment
- **Greater medical innovation** providing an increasing choice of treatments available to veterinarians and pet owners

The FAP market also remains robust given the ongoing rise in the global population, which the United Nations predicts will reach 10 billion by 2050, and the growing awareness of animal welfare. This creates a corresponding need to ensure that food supply is capable of keeping pace through the heightened production of animal based food products, but in a responsible way.

Given these trends, the global animal health market is regarded as being highly resilient and able to overcome any short term challenges. Although growth of the market has normalised following the heightened levels seen during the COVID-19 pandemic, when increasing pet ownership fuelled exceptional levels of growth in the CAP market, the market is expected to remain in growth over the coming years. This expectation, despite the current macroeconomic uncertainties, is supported by the historical performance of the market through periods of recession during which spend on animal health remained robust, as illustrated above. Against that context, Grand View Research expects the market overall to grow at a high single digit CAGR over the coming years.

Our Marketplace

Product Market Dynamics

Our Products	Description of market	
<p>Companion Animal Products (CAP)</p>  <p>73.8% of Group revenue</p>	<p>Species: Dogs and cats.</p> <p>Key therapeutic sectors: Endocrinology, dermatology, analgesia and anaesthesia, cardiovascular and internal medicine.</p> <p>Products: The majority of products in our portfolio are Prescription Only Medicines (POMs) that are 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, which together create a broad offering within each therapeutic area.</p>	<p>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 in new territories.</p>
<p>Food producing Animal Products (FAP)</p>  <p>11.7% of Group revenue</p>	<p>Species: Poultry, pigs and an increasing presence in cattle.</p> <p>Key therapeutic sectors: Water soluble antibiotics, vaccines, locomotion (lameness) and pain management.</p> <p>Products: Our products are predominantly POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units.</p>	<p>With approximately two thirds of all global animal health sales being FAP, Dechra is underweight relative to the overall market and many competitors.</p>
<p>Equine</p>  <p>8.6% of Group revenue</p>	<p>Species: Horses and ponies.</p> <p>Key therapeutic sectors: Lameness and pain management.</p> <p>Products: Dechra offers a wide range of products supporting the equine veterinarian, from pain management to products for anaesthesia, dermatology, critical care, reproduction, euthanasia and vaccines.</p>	<p>Veterinarians that specialise in horses operate out of either mixed practices or, increasingly, specialist equine centres.</p> <p>Compared to companion and food producing animals, the number of horses in the world is relatively small and as such, the market potential is limited. The market can be divided roughly into high performance sports horses, leisure horses and ponies.</p>
<p>Nutrition</p>  <p>5.1% of Group revenue</p>	<p>Species: Dogs and cats.</p> <p>Key therapeutic sectors: Our specialist pet diets are available to support the wellbeing of animals with numerous therapeutic conditions.</p> <p>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.</p>	<p>The global pet food market is huge and dwarfs the animal pharmaceuticals market. The veterinarian's recommendation is highly respected and valued by their client, the pet owner, which allows specialist nutrition products to take a small but significant part of the overall pet food market.</p>

Key trends and our response

The principal driver of growth in companion animal markets is increasing pet ownership, particularly among younger demographics, and the pet owners' compassion for their animals.

Expenditure on companion animals continues to grow due to advances in nutrition, increased competence in managing complex conditions by veterinarians, and increasing options for preventative healthcare and wellness.

The key driver for growth in this sector is a huge increase in the global demand for high quality animal protein and dairy products due to the rise in world population. Vaccines are the biggest growth sector of the veterinary market and are anticipated to continue to outgrow therapeutic treatments.

There is also increasing awareness of the need for better animal welfare standards, such as pain control during procedures such as pig castration and tail docking in sheep.

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

Expenditure on companion animals continues to grow due to increasing pet ownership, willingness to spend on the pet's health, 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 position and growth opportunity

The CAP market was where Dechra established its market position and continues to be by far our main sector.

Dechra has developed a strong reputation for providing specialist and clinically necessary novel products. We also supply a range of complementary generic products in key therapeutic sectors where we are seen as the company of choice by many veterinarians.

We will continue to invest in R&D to develop our portfolio in key areas of therapeutic specialisations. We are also expanding our geographical footprint and investing in product registrations in developing markets to extend the reach of both novel and generic treatments.

Dechra entered the FAP sector through the acquisition of Eurovet in 2012 and it currently represents 11.7% of Group revenue. The majority of our FAP sales are our market leading swine and poultry water soluble antibiotics sold mainly into Europe.

We also have a growing vaccines portfolio, where we continue to seek marketing authorisations in new territories, particularly in those countries where livestock numbers are significant.

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 historical treatments.

Dechra's focus lies in therapeutic diets sold under the *Specific* brand, which are not available for self-selection through supermarkets and require advice from the veterinarian. Despite the highly competitive nature of the pet food market, we are able to differentiate our position through the use of higher quality ingredients, innovation and the complementary nature of our pharmaceuticals.