

# Investment Case & Strategy



## Investment Case

**Animalcare is a sustainable growing business in a growing market.** In the year ended 30<sup>th</sup> June 2014 Animalcare recorded revenue and gross profit growth of 6.3% and 5.2% respectively; continuing its track record of top line growth.

**Animalcare is cash generative and debt free**, hence in a strong financial position to invest in future growth.

**Animalcare is dividend paying** and given its strong balance sheet expects to maintain its current dividend policy during the investment phase.

**Animalcare has a clear strategy for growth** by investing in development of enhanced veterinary generic pharmaceuticals to accelerate its progress over the next three to five years.

## Strategy

In recent years UK veterinary practices have consolidated; be it by corporate acquisition or joint-venture partnership, joining buying groups and growth of the charitable sector.

The veterinary pharmaceutical sector has seen increased competition through numbers of suppliers and generic products.

Conversely, in part through M & A activity, there are now fewer high quality routes to market for those pharmaceutical licence holders without domestic sales channels.

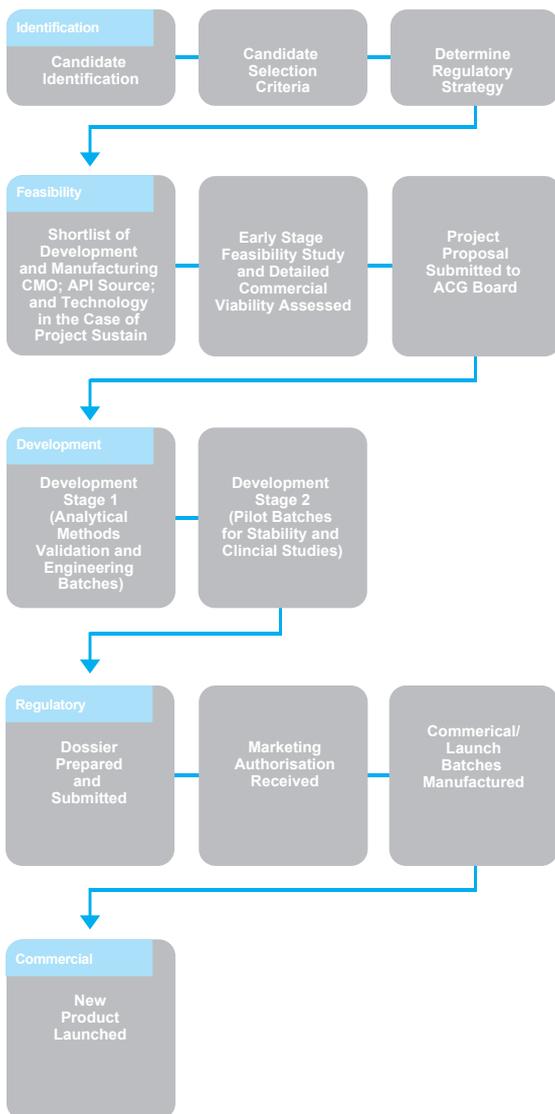
We have developed our internal capability, expertise and cash position to take advantage of these market conditions and opportunities to focus our strategy in the following areas.

Our strategy for 2015 to 2018 is to:

1. Continue development of differentiated generic medicines
2. Advance enhanced generic medicines (Project Sustain) into product development pipeline
3. Identify new candidates to maintain flow into the development pipeline
4. Increase the sales of our current products outside the UK
  - i. through existing distribution in current markets
  - ii. by adding geographic cover with new distribution in new markets
  - iii. building on the progress of the Companion Animal Identification range and explore opportunities to innovate and strengthen the range of products and services
  - iv. strengthening value creating products in the Animal Welfare Products range and further rationalise less profitable lines at appropriate opportunities

## New Product Development (NPD) Process

The varied nature of product development dictates that the exact process can be different for each project; however the diagram below explains some of the key steps in the Animalcare process.



## NPD Pipeline Monitoring

Regular project meetings are held with in-house teams and external partners, with progress monitored against the project timeline and budget using project management software. The development pipeline is reviewed by the Board at all Board meetings.

### Identification

Animalcare draws on many areas to identify product development candidates to be considered for the pipeline.

We have experienced professionals across the business in sales, marketing, technical, regulatory and business development functions; their market and practical knowledge is a great source of ideas and innovation. Their combined time in the veterinary and healthcare industry is considerable and inevitably extensive personal networks have been built, offering further opportunities to generate and grow ideas. One such network is our group of partner companies in the major northern European markets.

The team also has access to market sales data and sector online resources and news feeds. Market research is carried out with trusted veterinary customers and more formally with agencies.

Each project is assessed against many criteria to determine its suitability to be taken into the next stage of the development process. The main criteria include:

- size of market
- technical and regulatory feasibility
- number of competitors
- competitor profile
- fit to existing and future range

## Feasibility

If an opportunity satisfies a mix of these criteria the team will start to put together a project file that will include the regulatory requirements and strategy, and a shortlist of facilities able to develop and manufacture the product. Where appropriate, early stage feasibility work is undertaken.

An investment proposal is prepared and submitted to the Board to gain approval for each development project. All necessary sections are covered to allow the Board to assess the investment case for the project including a detailed risk assessment and forecast financial return.



Buprecare

## Development

In most cases the product will be developed at the Contract Manufacturing Organisation (CMO) which will ultimately manufacture the product. Work will start immediately to source the Active Pharmaceutical Ingredient (API) and develop analytical methods. Small scale development batches will be manufactured for setting aside on stability under set temperatures and humidity levels and for use in any clinical studies required.

## Regulatory

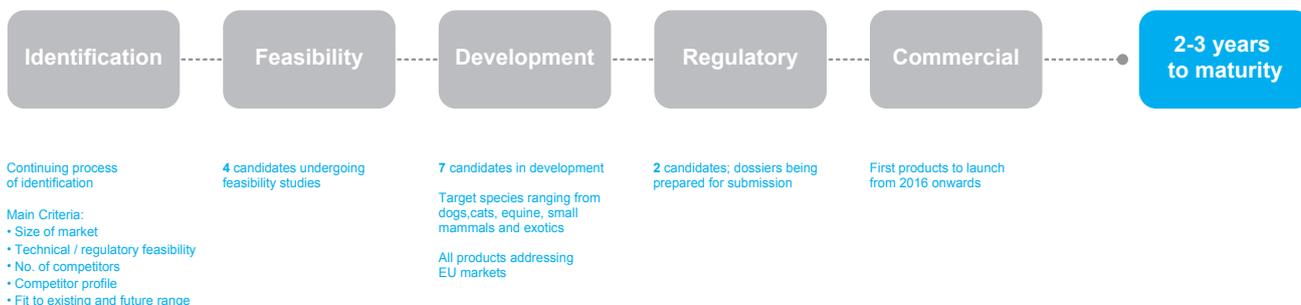
Once all necessary data has been compiled and meets the required regulations the dossier is assembled by the regulatory team and external consultants. The completed dossier is submitted to the regulatory authorities and is monitored through the process by the Animalcare team. The regulatory assessment process is controlled by a strict timetable; for most of our projects this is 210 days, typically with 30 to 60 days to respond to questions from the authority. Therefore in our experience it takes 12 months from submitting the dossier to launching the product on the UK market, be it for a new application for either an undifferentiated or enhanced generic.

## Launch

Once the marketing authorisation is received, and packaging layouts have been approved by the authorities, launch batches can be manufactured and packed ready for commercial launch.

In all, the process outlined above may take between three and five years depending on the project's complexity and the development and clinical trials required.

Projects currently in our development pipeline are listed in the table below.



### Existing Product Development

Whilst the model and stages outlined above are followed for new product development, from time to time we identify an opportunity to modify an existing pharmaceutical product in our range, which would provide additional features to increase sales or prolong the product life cycle.

These types of projects are termed Existing Product Development (EPD) and necessitate trials, studies and regulatory fees, therefore an investment proposal would still be considered by the Board as with the NPD process.

### New Product Distribution

Animalcare continues to attract novel opportunities across the three product groups.

Animalcare stands out in its market with a sales team of 16 field-based staff with an emphasis on technical and sales training. Furthermore, we strive to enhance our relationship with our veterinary customers through continuing professional development (CPD) provision and product support for practices and veterinary professionals, often with support materials for them to use with their pet-owning clients, making the veterinary practice and client bond stronger and helping to make the veterinary professionals life easier.

### Dog Health Check

