


Deal Terms	
1 DPH LN = 3875p	
Target: Dechra Pharmaceuticals	
Country	UK
Bloomberg	DPH LN
Sector	Specialty Pharma
Share price (GBP)	3748
Market cap (GBPm)	4,268
Free float (%)	99
Acquirer: EQT	
Country	Sweden
Bloomberg	EQT SS
Sector	Private Equity
Share price (SEK)	237.9
Market cap (SEKm)	285,027
Free float (%)	45
Price Chart	
	
Status: Sanction hearing in late-2023/early-2024	
Author	
Theodor Dan Le	
Event Driven Analyst	
t.ledan@chainbridgeresearch.com	
+ 36 1 720 5258 (direct line)	
Gabor Kokosy	
g.kokosy@chainbridgeresearch.com	
Gabor Szabo, CFA	
g.szabo@chainbridgeresearch.com	
Peter Szeman	
p.szeman@chainbridgeresearch.com	
Chain Bridge Research	
88 Pine Street 31st Floor	
New York, NY 10005	
Tel (New York): +1 646 839 5566	
Tel (New York): +1 212 233 0100	

Dechra Pharmaceuticals (DPH LN) / EQT (EQT SS)

Update

We don't expect extended regulatory reviews and expect the deal to close late this year.

Antitrust

- The deal requires antitrust approvals in the European Union, United States of America, Austria, Brazil, Germany and possibly in the UK and foreign investment approvals in Australia and Spain.
- The companion animal product market is largely affected by veterinary practices.** As in many of the cases, customers buy drugs directly from vets and tend to be less conscious in making decisions when compared to human pharmaceuticals.
- The success of animal pharmaceuticals is much reliant on their availability at veterinary practices.** We note however, that this market dependence seems to be changing with the arrival of online pet pharmacies.
- Animal pharmaceuticals businesses are generally less reliant on a small number of 'blockbuster' products.
- Dechra does not have a dominant position in the pet pharma market. It is not amongst the top 5 players globally and in each of its primary markets it has significantly larger players dominating the local markets.** Zoetis in US, UK and Canada, Boehringer Ingelheim in Germany and Vibrac in France.
- Dechra's revenue in 2022 was \$83 million in Germany, \$77 million in the UK and \$283 million in the rest of Europe. In comparison, market leader Zoetis had \$235 million in the UK, \$176 million in Germany and Vibrac had \$201 million in France.
- Veterinary practices are a highly fragmented market in Europe with the majority being independent veterinary practices. IVC's has its largest network in the UK where it accounts for a single digit market share.**
- We believe that the deal would not result in substantial lessening of the competition in the animal pharma space, given the size and number of competitors in both the veterinary and Companion Animal Product markets. Regulators might investigate possible vertical issues between Dechra and IVC Evidensia due to veterinary practices' role in the pet drug distribution. DPH's largest market is the US where IVC does not operate.** In Europe, it has its strongest presence in Germany and in the UK. In Germany, IVC only has 65 locations.
- The CMA's stance will be the key question regarding timing. Lately, the CMA has been paying attention to this space due to the rapid consolidation wave in the market also led by IVC. We note that the UK approval is not listed as a condition in the Scheme document.
- Earlier this year, IVC was subject to an investigation by the CMA about its acquisition of 8 independent veterinary practices in England and Wales. The CMA decided that the acquisitions would have resulted in substantial lessening of competition. As a result, IVC offered undertakings which involved divestment of one of these businesses which the CMA accepted as of June 30.
- Due to the vertical relationship, EQT will have the opportunity to increase Dechra's market share but the acquisition does not seem to materially affect the veterinary market where IVC competes. We do not expect an extended review as Dechra is not a dominant player.
- The expected deal close of late-2023/early-2024 seems to be explained by the number of regulatory approvals required. Based on our stance on the antitrust concerns, we believe that the deal might close this year and an expected deal close of December would be reasonable.

Key terms of the proposal

Transaction Details

Announcement Date	June 2, 2023
Offer terms	1 DPH LN = 3875p
Deal Size (Market Value)	GBP 4.63 billion
Offer structure	Scheme of Arrangement
Target's Board Recommendation	Yes "Dechra Directors recommend unanimously that Scheme Shareholders vote in favour of the Scheme at the Court Meeting and that Dechra Shareholders vote in favour of the Resolution to be proposed at the General Meeting"
Target Incorporation	UK
Scheme Document	Click here for the Scheme document

Indicated Closing Date

Dechra expects that the Scheme will become Effective towards the end of 2023 or in early 2024

Dividends

Bidco reserves the right to revise the consideration payable under the Acquisition by the amount of any dividend (and/or other distribution and/or other return of capital or value) which is paid or becomes payable by Dechra to Dechra Shareholders on or prior to the Effective Date.

Timetable

■ Deal Announcement	June 2, 2023
■ Publication of Scheme document	June 26, 2023
■ Court meeting	July 20, 2023
■ General meeting	July 20, 2023
■ Sanction Hearing (D)	late-2023, early-2024
■ Effective Date (D+1)	late-2023, early-2024
■ Long Stop Date	March 4, 2024

Key conditions to the offer

- Regulatory Approvals
 - Antitrust: European Union, United States of America, Austria, Brazil and Germany
 - Foreign investment: Australia and Spain
- Shareholder approval
- Court approval
- No MAC
- No material transactions, claims or changes in the conduct of the business of the Dechra Group
- Environmental liabilities
 - Bidco not having discovered that, in relation to any release, emission, accumulation, discharge, disposal or other similar circumstance which has impaired or is likely to impair the environment (including property) or harmed or is likely to harm the health of humans, animals or other living organisms or eco-systems, no past or present member of the Wider Dechra Group, in a manner or to an extent which is material in the context of the Wider Dechra Group
- Intellectual property
 - no circumstance having arisen or event having occurred in relation to any intellectual property owned or used by any member of the Wider Dechra Group which would be reasonably likely to have a material adverse effect on the Wider Dechra Group
- Anti-corruption and sanctions
- No criminal property

Governing Law

UK

MAC

- 3.13 since 31 December 2022, and except as Disclosed, there having been:
- 3.13.1 no adverse change and no circumstance having arisen which would be expected to result in any adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Dechra Group to an extent which is material to the Wider Dechra Group taken as a whole or to the financing of the Acquisition;
- 3.13.2 no litigation, arbitration proceedings, prosecution or other legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider Dechra Group having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Dechra Group or to which any member of the Wider Dechra Group is or may become a party (whether as claimant or defendant or otherwise) which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Dechra Group taken as a whole, and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Dechra Group having been threatened, announced

or instituted by or against, or remaining outstanding in respect of, any member of the Wider Dechra Group which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Dechra Group taken as a whole;

- 3.13.3 no contingent or other liability having arisen, increased or become apparent which is reasonably likely to adversely affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider Dechra Group to an extent which is material to the Wider Dechra Group taken as a whole
- 3.13.4 no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Dechra Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and reasonably likely to have a material adverse effect on the Wider Dechra Group taken as a whole; and
- 3.13.5 no member of the Wider Dechra Group having conducted its business in material breach of any applicable laws and regulations which in any case is material in the context of the Wider Dechra Group taken as a whole;

Key shareholders

DECHRA PHARMACEUTICALS PLC	%
Societe Generale SA	6,8
BlackRock Inc	6,0
National Bank of Canada	4,6
Vanguard Group Inc/The	4,6
Natixis SA	4,2
Norges Bank	3,4
BNP Paribas SA	3,0
Lazard Ltd	2,7
Barclays PLC	2,6
Brown Capital Management LLC	2,4
Other	59,8

Source: Bloomberg

Key risks

REGULATORY APPROVAL AND TIMING

The deal requires antitrust approvals in the European Union, United States of America, Austria, Brazil, Germany and possibly in the UK and foreign investment approvals in Australia and Spain.

- The current deal spread is likely to be explained by regulatory concerns in the UK and EU.
- EQT's primary presence in the pet healthcare space is through its controlling stake held in IVC Evidensia. Further, EQT has smaller stakes in Manypets and Zooplus. EQT owns IVC Evidencia together with Silver Lake and Nestlé.
- IVC is currently present in Belgium, Canada (through VetStrategy), Denmark, Finland, France, Germany, Ireland, Norway, Portugal, Spain, Sweden, Switzerland, the Netherlands and the United Kingdom.
- The company's largest presence is in the following countries:
 - UK: 400+ locations
 - Canada: 359 locations
 - Netherlands: 308 locations
 - France: 256 locations
- Earlier this year, IVC was subject to an investigation by the CMA about its acquisition of 8 independent veterinary practices in England and Wales. The CMA decided that the acquisitions would have resulted in substantial lessening of competition. As a result, IVC offered undertakings which involved divestment of one of these businesses, which the CMA accepted as of June 30.
- **PetDrugsOnline, an online vet-run supplier of veterinary medication is also a part of IVC Evidensia. The company is based in the UK and holds an extensive portfolio of animal pharmaceuticals which includes Dechra products.**
 - **The site is among the 3-4 largest online pet pharmacies in the UK.**

Dechra's Market Share

- The companion animal product market is largely affected by veterinary practices. As in many of the cases, customers buy drugs directly from vets and tend to be less conscious in making decisions when compared to human pharmaceuticals. **The success of animal pharmaceuticals is much reliant on their availability at veterinary practices.**
- This market dependence seems to be changing with the arrival of online pet pharmacies.
- **Animal pharmaceuticals 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.

- **Dechra does not have a dominant position in the pet pharma market.** It is not amongst the top 5 players globally and in each of its primary markets it has significantly larger players dominating the local markets. Zoetis in US, UK and Canada, Boehringer Ingelheim in Germany and Virbac in France. Dechra's revenue in 2022 was \$83 million in Germany, \$77 million in the UK and \$283 million in the rest of Europe. In comparison, market leader Zoetis had \$235 million in the UK, \$176 million in Germany and Virbac had \$201 million in France.
- 75% of Dechra's revenues come from the Companion Animal Products, in other words, pet pharmaceuticals.

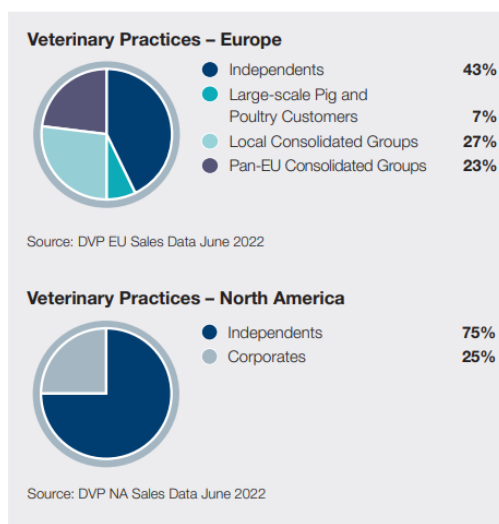


Source: 2021 Dechra Annual Report

- The geographic market can be defined as global, with a high fragmentation. **Dechra was not among the top 5 players in this market globally.**
- In online pharmacies in the UK Dechra has some bestsellers in non-prescription medication such as eardrops for cats and dogs and specialized dietary foods for pets.

IVC'S market share

- Veterinary practices are a highly fragmented market in Europe with the majority being independent veterinary practices. IVC's has its largest network in the UK where it accounts for a **single digit market share**.
- There are 85 companies that operate in the healthcare sector in EQT's current [portfolio](#). This includes IVC Evidensia, a leading veterinary services provider in Europe and North America with more than ~2,500 clinics and hospitals across 20 countries. The Company also operates a successful online pet pharmacy.
- Veterinary practices



Source: Dechra annual report

- **IVC Evidensia' is not present in the US, Dechra's largest single market.**
- Companion Animal Products are directly **prescribed and often dispensed and sold by veterinarians**, contributing to building brand loyalty, which often continues after the loss of patent protection or regulatory exclusivity.

CBR View:

- We believe that the deal would not result in substantial lessening of competition in the animal pharma space, given the size and number of competitors in both the veterinary and Companion Animal Product markets. There appears to be a vertical overlap between Dechra and IVC Evidensia due to veterinary practices' role in pet drug distribution. DPH's largest market

is the US where IVC does not operate. In Europe, it has its strongest presence in Germany and in the UK. In Germany, IVC only has 65 locations.

- The CMA's stance will be the key question regarding timing. Lately, the CMA has been paying attention to this space due to the rapid consolidation wave in the market also led by IVC. We note that the UK approval is not listed as a condition in the Scheme document.
- **Due to the vertical overlap, EQT will have the opportunity to increase Dechra's market share but the acquisition does not seem to affect the veterinary market where IVC competes.** We do not expect an extended review as Dechra is not a dominant player. The expected deal close of late-2023/early-2024 seems to be explained by the number of regulatory approvals required. Based on our stance on the antitrust concerns, we believe that the deal might close this year and an expected deal close of December would be reasonable.

SHAREHOLDER APPROVAL

- Shareholders approved the deal on July 20, 2023

Appendix (from our initiation report)

Co descriptions

DECHRA DESCRIPTION

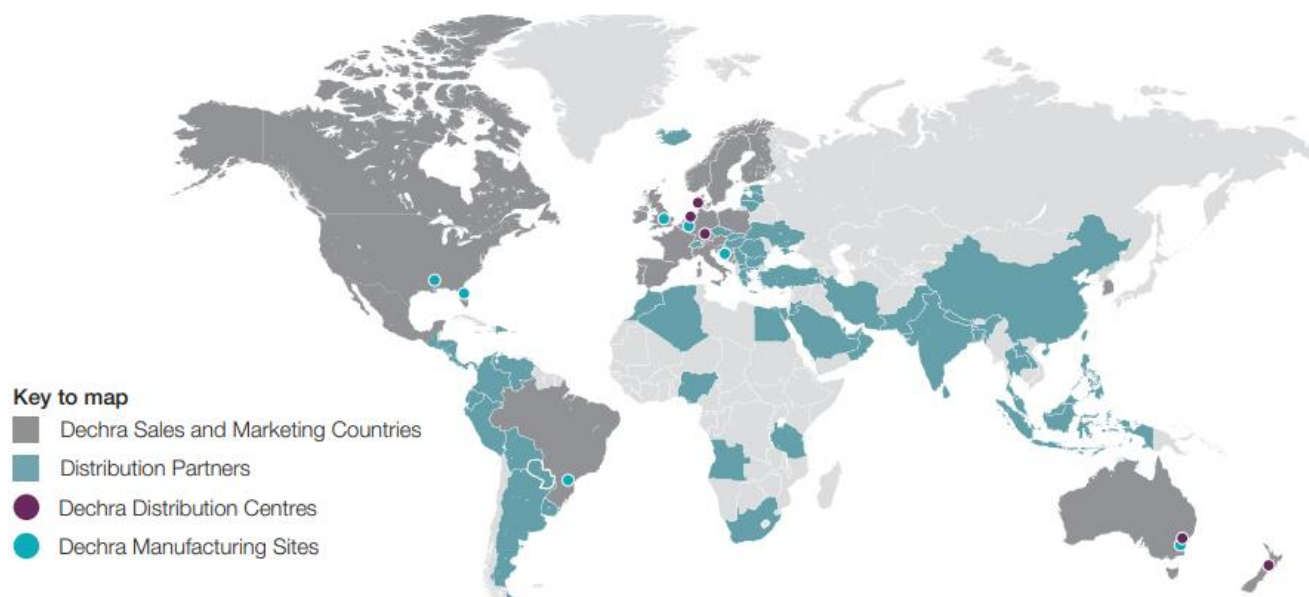
Dechra Pharmaceuticals is a global veterinary pharmaceutical company that develops, manufactures, and markets a wide range of animal health products. With its headquarters in the UK, Dechra operates in over 50 countries, including the US, Europe, and Asia-Pacific. The company focuses on developing innovative products for both companion animals and livestock, such as dermatology treatments, pain management drugs, and antibiotics. Dechra also offers services such as diagnostic testing, surgical equipment, and educational programs for veterinary professionals. The company prides itself on its commitment to animal welfare and sustainability, ensuring that its products are safe, effective, and environmentally friendly. Dechra's success is driven by a highly skilled workforce and strong partnerships with key players in the animal health industry. In recent years, the company has expanded its presence in emerging markets and made strategic acquisitions to further strengthen its portfolio.

Products

Their products can be divided into four categories. All are targeted at providing veterinary professionals with solutions for their customers' needs.

- **Companion Animal Products (CAP)**
 - Species: Dogs and cats. Key
 - Therapeutic Sectors: Endocrinology, dermatology, analgesia and anaesthesia, antibiotics, cardiovascular and critical care
 - Percentage of Revenue: 74.6%
- **Food producing Animal Products (FAP)**
 - Species: Poultry, pigs and an increasing presence in cattle.
 - Key Therapeutic Sectors: Water soluble antibiotics, vaccines, locomotion (lameness) and pain management.
 - Percentage of Revenue: 11.6%
- **Equine**
 - Species: Horses and ponies.
 - Key Therapeutic Sectors: Locomotion (lameness) and pain management
 - Percentage of Revenue: 7.2%
- **Nutrition**
 - Species: Dogs and cats.
 - Key Therapeutic Sectors: Our pet diets are available to support the wellbeing of animals with numerous therapeutic conditions.
 - Percentage of Revenue: 5.1%

Global Presence



- They currently have sales and marketing organisations in 25 countries and market their products in 63 other countries worldwide through distributors or marketing partners.
- North America
 - Dechra Veterinary Products markets and sells Dechra’s products via its own sales and marketing organisations or via distributors in Canada, Mexico and the USA, the latter being the world’s largest animal health market. In addition, there are manufacturing sites in Florida and Texas. Product Development and Regulatory Affairs teams are also located in the three countries
 - Percentage of Revenue: 40%
- Europe
 - Dechra Veterinary Products markets and sells Dechra’s products in 39 countries either via its own sales and marketing organisations or via distributors. Its main distribution centre is in Denmark. There are manufacturing sites and Product Development and Regulatory Affairs teams in Croatia, the Netherlands and the UK.
 - Major geographies: : France, Germany, the Netherlands and the UK
 - Percentage of Revenue: 49%
- Rest of the World
 - Dechra Veterinary Products markets and sells Dechra’s products in 39 countries either via its sales and marketing organisations (Australia, New Zealand (ANZ) and Brazil) or via distributors. Dechra has manufacturing facilities and a Product Development and Regulatory Affairs presence in Australia and Brazil.
 - Major geographies: Australia, New Zealand, Asia and Brazil
 - Percentage of Revenue: 11%

EQT DESCRIPTION

- EQT is a Swedish private equity and venture capital firm that was founded in 1994. The company operates in Europe, Asia-Pacific, and the Americas. EQT has a diversified portfolio of investments in a wide range of industries, including healthcare, energy, consumer goods, technology, and infrastructure.
- EQT operates through a decentralized organizational structure, with investment teams based in 17 offices around the world. This allows the company to have a local presence in its target markets and to leverage its global network to identify investment opportunities and share best practices.
- EQT today has approximately EUR 71 billion in assets under management across 27 active funds within two business segments – Private Capital and Real Assets.
- Overall, EQT is a well-established and respected player in the private equity and venture capital space, with a strong track record of creating value for its investors and stakeholders through sustainable, long-term investments

Disclosures:

This report was produced by Independent European Research, LLC dba as Chain Bridge Research ("Chain Bridge"), and is intended only for use by the recipient. All materials published by Chain Bridge are intended for use only by professional, institutional, buy-side investors. Use by the general investing public is prohibited. The information and analysis contained in these publications are copyrighted and may not be duplicated or redistributed for any reason. Chain Bridge reserves the right to refuse any subscription request based upon the above criteria. Companies and individuals residing in Hungary, and affiliates of firms based in Hungary are prohibited from subscribing to the services of Chain Bridge Research

Chain Bridge Research
88 Pine Street 31st Floor
New York, NY 10005
Tel (New York): 1 646 839 5566
Tel (New York): 1 212 233 0100
www.chainbridgeresearch.com

Neither the information, nor any opinion expressed, constitutes a solicitation by Chain Bridge for the purchase or the sale of securities. This publication does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are "eligible counterparties" or "professional clients", and may not, therefore, be redistributed to third parties without the express written consent of Chain Bridge. The information set forth herein was obtained from publicly available sources that we believe to be reliable. While due care is taken by Chain Bridge in compiling the data and in forming its opinions, Chain Bridge gives no warranty, express or implied, and it does not guarantee the accuracy or completeness of the information provided. Additional information is available upon request.

Chain Bridge manages conflicts identified through its confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from impartial investment research, and disclosure to clients via client documentation. Chain Bridge and/or persons associated with it may own securities of the issuers described herein and may make purchases or sales after this report has been disseminated to Chain Bridge institutional subscribers.

The following Research Analysts employed by Chain Bridge contributed to this report: Gabor Szabo, CFA, Peter Szeman, Gabor Kokosy, Theodor Dan Le. Chain Bridge's home office is at 88 Pine Street 31st Floor, New York, NY. Its branch office is located at 31 Felhevizi u. 1st Floor 4, 1025 Budapest, Hungary. The firm's branch office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, there are no planned updates to the recommendations. For previous recommendations concerning financial instrument(s) or issuer(s) mentioned in this report – if any – or other financial instrument(s) and issuer(s) during the preceeding 12-month period, please refer to our [website](#).

The reports published by Chain Bridge intend to provide clients with a view regarding the various risks and critical factors impacting the completion of certain mergers and acquisitions. Therefore, the opinions expressed do not fit with traditional buy, sell, and hold ratings.

PCS Research Group, LLC, an affiliate of Chain Bridge, is the exclusive marketer and distributor of this and other reports produced by Chain Bridge. Neither Chain Bridge nor PCS is an investment firm or a credit institution. Affiliates of Chain Bridge and PCS include investment firms that are SEC registered investment advisers and FINRA Member broker-dealers (together, "Affiliates"). The Affiliates have not performed and do not expect to perform investment banking services for the issuer(s); are not market makers, and are not party to any agreements with the issuer(s). The issuer(s) has not been a client of Chain Bridge, PCS or the Affiliates. Chain Bridge, the research analysts, PCS, and the Affiliates have not received any compensation from the issuer(s). Chain Bridge research analysts' remuneration is determined exclusively by Chain Bridge management, and is based on the quality and accuracy of the analyst's research. Investment firm Affiliates do not contribute to appraisals of Chain Bridge analysts. Remuneration from Chain Bridge to research analysts is not linked to investment firm activities of Affiliates. Conflicts of interest for employees of PCS and Affiliates are managed by a formal code of ethics and information barrier procedures which include, but are not limited to, policies related to restricted lists, personal trading rules, and the prohibition of misuse of material non-public information.

Copyright 2023 - Chain Bridge Research.