



DCC Healthcare Acquisition of Medi-Globe

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Donal Murphy

Chief Executive, DCC Plc

Welcome

Good morning, and welcome. I am Donal Murphy, Chief Executive of DCC. And I am joined on the call this morning by Kevin Lucey, our CFO, and by Conor Costigan, Managing Director of our Healthcare division.

Thank you for joining us this morning on this very exciting day for DCC, as we announced a significant expansion of DCC Healthcare in the medical devices sector, through the acquisition of Medi-Globe Group.

This is DCC Healthcare's largest acquisition to-date and creates a scaled platform in the European medical devices sector. Thankfully, I do not have to read the disclaimer this morning.

Our Strategy

So firstly, let me give you a quick reminder of our Group strategy and our capital allocation priorities.

DCC is a purpose-led organisation, and we are focused on the value we create for all our stakeholders. We focus on creating sustainable growth and superior value over the long term. We achieve this through a consistent, strategic objective to build a growing, sustainable and cash-generative business, which consistently provides returns on capital employed significantly ahead of our cost of capital.

We take a long-term sustainable view of value creation, which ensures our commercial strategies prioritise growth, and create value adding strategic positions in our chosen markets. Conor will outline later how Medi-Globe fits with this objective.

Our priorities for capital deployment

Our focus on capital allocation ensures our ability to reinvest into growth trends, and our capital allocation priorities are aligned with the growth trajectory of the sectors we operate in. Medi-Globe provides us with a strong position in a high growth sector of the healthcare market.

While organic growth is always our number one growth objective. Acquisitions are also a key pillar of DCC's growth strategy. Over the last two years, we have committed circa £1 billion on acquisitions with the majority of the spend in the technology and healthcare divisions.

We have created significant new synergistic platforms for growth across the energy, healthcare and technology sectors in recent years. We have built a scaled business and a material platform for further growth in North America in just four years. We believe that our capital deployment priorities will deliver substantial growth and are aligned with our growth trends in our chosen sectors, and our target to achieve net zero by 2050 or sooner.

We allocate capital to M&A, where we see opportunity to bring good businesses into the Group and improve them further, or improve our Group capability by bringing them in. We focus on delivering sustainable returns on capital well in excess of our cost of capital.

Our capital deployment priorities are aligned with the growth trajectories of the sectors that we operate in, with healthcare as our highest growth sector and our top priority for capital deployment.

Throughout the rest of this presentation, you will hear why we believe that Medi-Globe is an excellent strategic fit for DCC.

Largest Healthcare acquisition to date

The acquisition of Medi-Globe, DCC Healthcare's largest acquisition to-date, creates a scaled platform for DCC in the European medical devices sector. Medi-Globe is focused on single-use medical devices used in minimally-invasive diagnostic and therapeutic procedures, mainly in gastroenterology and urology.

It represents a further material expansion of DCC Vital's presence in the European healthcare market, following our expansion in the European primary care market through the acquisition of Wörner. The acquisition is based on an enterprise value of approximately €245 million on a cash-free, debt-free bases.

Together with DCC Vital's existing own brand medical device activities, the acquisition of Medi-Globe creates an international platform of scale in single-use devices, which Conor will outline to you shortly. The acquisition also creates meaningful synergy opportunities, in particular, through leveraging DCC Vital and Medi-Globe's respective product portfolios and commercial infrastructures.

Conor will now provide you with more detail on the Medi-Globe business and its strategic fit for DCC Healthcare. Kevin will then take you through the attractive financial profile of the transaction. And we will then open up to Q&A on this acquisition. Conor.

Conor Costigan

Managing Director, DCC Healthcare

Overview of Medi-Globe

Thank you, Donal, and good morning, everyone. We are delighted to be here to talk about this very important acquisition for DCC Healthcare. It is our largest acquisition to-date. We are very excited about Medi-Globe joining the Healthcare group.

I suppose the key attractions of this business for us are its high-quality portfolio focused on single-use devices for endoscopy in the gastroenterology and urology market segments, with its strong market positions, particularly strong positions in Germany and France, but additional direct operations in Austria, the Netherlands, Czech Republic, Brazil, and then a very strong network of international distributors.

Another key attraction for us is the product development and innovation capability of the business and the pipeline of products coming down the track, which will feed into the growth over the coming years.

The business has a super management team, very experienced, who have really led very strong growth and strengthening of the business, strategic focus over the last number of years.

So I suppose all of those ingredients create a very strong platform for future growth. And we will come on and talk about the synergy opportunities as well.

Focused on growing therapeutic areas

So the business is focused on growth markets, gastroenterology and urology. Those markets combined globally are worth approximately €3 billion today. And both of those sectors are growing ahead of the medical devices market generally, projected growth rates of 6-7%. And that is all underpinned by key macro trends, demographic trends that people would be familiar with, but also the increased screening, increased diagnostic procedures and also a preference for minimally invasive procedures such as endoscopy.

In terms of just to give people a flavour for the types of products we are involved in, and I do not know if people know what endoscopy is, but it is a minimally invasive procedure, which involves examining the inside of the body, mainly digestive tract, stomach, kidney, ureter with an instrument called an endoscope.

Medi-Globe is not involved in the capital equipment side of that, so not involved in the vision systems, but we are involved in or the business is involved in the devices that are inserted into the instrument port, which perform the diagnostic or therapeutic procedure. So on the gastroenterology side, we have products like guidewires, biopsy needles, catheters, typically used, for example, to take samples using fine needle biopsy needles from difficult to access parts of the body, such as the gallbladder or the pancreas.

On the urology side, one of the key areas of focus is stone management. So kidney stone, for example. And again, the product range would include guidewires, stone baskets, catheters, stents, cannulas. So all single-use products not on the capital side.

DCC Vital's medical devices strategy

It is a material step forward for DCC Vital's medical devices activities. As watchers of DCC Healthcare will know, over the last number of years, we have really sharpened up the focus of DCC Vital to focus on building international growth platforms in primary care supplies. Obviously, we had the acquisition of Wörner in May 2021, which, together with our existing market leadership position in Britain, has given us a very strong platform in the primary care supplies and services area.

And the acquisition of Medi-Globe in combination with our existing medical device activities will give us a very strong platform in our own brand medical devices activities.

Combining the two entities creates an international devices business of real scale. There are five big markets in Europe. We will have strong presences in three of them. We have got an enlarged product portfolio that obviously encompasses the gastro and uro areas within Medi-Globe. And then also obviously, the areas that we were already involved in terms of theatre consumables, cardiac monitoring, anaesthesia, IV giving sets, etc.

And combining, I suppose, the strength that we have in the British and Irish markets with the strength that Medi-Globe has, both in terms of its direct presence on its international distributor network, really creates a lot of synergy opportunities where we can cross sell each other's products through our distribution networks, and obviously will be a more attractive partner for our distribution partners in the indirect markets.

I think equally importantly, it is just the expanded capability we have in the business, in terms of the management team, the quality of the management team on a combined basis, the product development and regulatory capability that we have, and obviously, the commercial infrastructure.

So a lot of synergy opportunities, which we will be working hard to exploit over the next number of years. And on top of that, clearly having that strengthened platform will bring increased acquisition opportunities and capability to integrate acquisitions.

So I will just hand over to Kevin now to talk about the financial profile of the acquisition.

Kevin Lucey
CFO, DCC Plc

Attractive financial profile

Thanks, Conor. And I think this is our final slide before we open up the call to Q&A.

So just to recap briefly on some of the financial characteristics and other considerations. So clearly, this is a scaled platform for us in healthcare and medical devices, in particular, and it follows on from our expansion in the primary care sector into Europe a couple of years ago.

So those of you who know us well, and Conor mentioned this earlier, will know that we set out our stall in DCC Vital a number of years ago following the exit of some of our activities to really expand into continental Europe. And we were looking for scale businesses with good infrastructure and good management teams. And we are very happy that we have that now with this Medi-Globe acquisition.

We expect the transaction to complete before the end of the calendar year. So clearly, we will have the business in the Group for just one quarter this year. So it will be FY2024 before we see the full impact of the transaction. The business should contribute revenues of approximately €120 million in its first full year and reflecting the quality of the business, the products and the own brand nature of the products, the operating margin will be accretive to our current healthcare divisional margins.

We expect the transaction to generate a ROCE of around 10% initially, and we expect that the returns will grow from there, really reflecting the organic growth that the business is delivering today, and further new product additions to the line-up, the commercial synergies

in particular that Conor mentioned earlier. And obviously, then it also gives us capability to look at further bolt-on acquisitions as we add more scale into the business over time.

So we expect the returns from the business to increase over time and be generating a mid-teen ROCE in about three years.

So we will open the call up now to take any questions you might have regarding the acquisition.

Q&A

Colin Grant (Davy): Just initially on synergies. I wonder if you could just give us a bit more colour on how this would fit in both in terms of a product side with the existing DCC Vital businesses. You obviously have done an acquisition of Wörner in 2021. And just how that fits in with that business and others?

And then on the distribution side, how the new distribution platform you get with this Medi-Globe Group, the ability to leverage that in terms of selling products in the future, how you see that playing out and the benefits you might get from that? Maybe start with that, please.

Donal Murphy: Super. I will answer the question and hand it over to Conor to take you through the details. But as I said earlier, this is actually bang in the sweet spot for DCC in terms of our acquisition criteria because it does really two things for us. One, it brings us into a high growth segment of the healthcare market. So we are just going to drive obviously returns accretion.

But it also is materially synergistic for us and Conor and the team were out looking for opportunities. I think this business ticked all the boxes for us. So Conor, you may talk a bit more about that, the synergies?

Conor Costigan: Yeah. So, I mean, obviously, our existing medical devices business is very much focused on the British and Irish markets. We do have an international distributor network as well. But the vast majority of our sales are in Britain and Ireland, where we have very deep market penetration, very strong market coverage. And obviously, Medi-Globe is not directly present in those markets.

So that represents an opportunity. Similarly, on the flip side, Medi-Globe has about 150 customer facing people, sales reps, customer service people. The majority of those are focused on two large markets of Germany and France. We do not currently, in DCC Vital medical devices, have direct presence in those markets. So again, leveraging that commercial infrastructure creates significant opportunity.

The vast majority of what we are doing in Vital today is around the area of consumables for minimally invasive surgery, which obviously fits very well with – it's very complementary to the activities of Medi-Globe.

In terms of your reference of the Wörner acquisition. And obviously, we will have two material businesses based in Germany when this deal closes. So that is why there would not be a huge commercial overlap because they are addressing different parts of the healthcare market. It does give us a very strong position in the German healthcare market covering both primary care and acute care. And there will be opportunities coming out of that.

Donal Murphy: Thanks, Conor. Next question?

Oscar Val Mas (JP Morgan): I have a couple of questions. So the first one is really a bit more detail on Medi-Globe. Could you comment on how much of the revenue is own brand manufacturing versus external distribution? That is really the first question.

The second question going back on the earlier question on synergies? Could you give a bit more detail on, I guess, the path from 10% to mid-teens? And if that is really mostly cost synergies or revenue synergies?

And then the final question is around the type of contracts that you have in Medi-Globe. If you have a lot of government contracts in terms of selling into hospitals and healthcare providers. Do you have a sense if they can pass through inflation on the products? Is it very different to the Wörner business or to the other businesses you operate?

Donal Murphy: Okay. Thanks, Oscar. And Conor may take question one and question three. Kevin may deal with the synergy piece.

Conor Costigan: Yeah. So in terms of the owned brand versus distribution, I mean, approximately two thirds of the revenues are own brand products, where Medi-Globe owns the IP in the product. So there is a small element of distribution, which is mainly actually in the French market. And about half the revenues come from the in-house manufacturing facility in the Czech Republic.

In terms of maybe just to keep going on, from a contract point of view, obviously we have a lot of experience in the British market of working with the NHS, which has quite a sophisticated centralised procurement system through NHS supply chain. In Germany and France, there are general procurement organisations, which fulfil the same function probably in a more fragmented way, if you like.

But there are important GPOs and Medi-Globe has strong relationships with all of those. But there are no big dependencies. And obviously, one of the key things we have been focused on over the due diligence process has been their ability to pass through price increases. And we are very pleased with how the business has dealt with those challenges over the last 12 months.

Donal Murphy: Kevin?

Kevin Lucey: Yeah. Thanks, Oscar. I mean, I suppose first thing to say is that the existing DCC Vital business and Medi-Globe clearly operate in different geographic sectors, okay. So just as an overall context, when you think about where synergies can be identified, we operate different sales forces and different markets. So the strategic rationale for this transaction is not one at all of driving cost synergy out of the business.

And the Medi-Globe business is very well invested. So I think the key point for us really, when looking at this and thinking about returns progression going forward is that, the organic growth that we can deliver out of Medi-Globe, will be accretive to returns from capital, the business is well invested and why we need to invest in working capital to grow, all of that organic growth, even with the working capital investments would be strong returns.

So that really is the first point. And I suppose really the key point for us is about leveraging the commercial operations of both businesses to drive DCC Vital products through the medical

infrastructure and vice versa. And that is, again, really about getting the businesses working together and joined up and creating similar product lines. Of course, Oscar, there will be things that we will be looking at around procurement and new product developments to ensure that we are being efficient across both businesses as possible.

So we will be looking at that to make sure that there is obviously no areas of duplication. But really the rationale and the increased returns over time is really about getting the two organisations together to create a really scaled business and platform. And obviously, we will then be looking at things like procurements. But they are certainly are the lesser components.

Donal Murphy: And I think they have a strong distribution reach as well, which we will be able to take our products, which will open up markets that we are not probably participating in today as well from a Vital perspective. So as said earlier, this is very much in the sweet spot of where one on one definitely makes way more than two. Thanks, Oscar.

Kate Somerville (UBS): Two from me, please. The first one is just about Medi-Globe's track record, particularly on organic growth. Just an idea of how high that has been. And whether it has been above market? And then obviously seems quite a high margin business, just some colour on why this is and why you are confident about sustaining and how you can improve it. And then the second question is just on how long the management lock-in period is.

Donal Murphy: Sure. Hi, Kate. Conor, over to you.

Conor Costigan: So yes, look, organic growth has been good and ahead of market rates. Obviously, the last few years has been an unusual period for the healthcare market, where you've had obviously PPE demand going through the roofs, and then routine procedures obviously being held back by the challenges of COVID. And I suppose, again, that would have been a key feature of our due diligence process.

The growth rates are modestly dampened by the impact of COVID and have been steadily recovering over the last 12 months. So we are very confident being ahead of market rate growth rates. And I think I mentioned earlier, market growth rates are in the 6-7% range.

In terms of the margins, the business has actually done a lot of good work over recent years, in part in preparation for the new regulatory regime and medical devices in Europe, where they have rationalised about 2,000 products out of their portfolio, and obviously, that has been focused on lower margin products. So there has been good improvement there.

And there has been increased investment in innovation. So, again, the pipeline of new products coming through which will improve the mix and improve the margin profile. So we are confident about the continued progression of high margins in this business.

Donal Murphy: Management team?

Conor Costigan: Yeah, sorry, the management team. We are buying this business from Duke Street, a UK private equity firm that we know well. And they did a super job putting together a strong team. So the leadership team is a combination of people brought into the business over the last six years of Duke Street's ownership and some strong talent coming up through the business.

And all of that team is committed to staying on with the business. I mean, obviously we do not operate in a private equity lock-in style. But there are incentive arrangements, which, together with the personal commitment of the management team, we are confident we are going to have a stable and high performing team there for the years to come.

Donal Murphy: Thanks, Kate. Next question?

Anvesh Agrawal (Morgan Stanley): I just got two questions. First, can you just comment on the dynamics of the German market? I mean, Medi-Globe obviously have quite a big business there. You acquired Wörner before, who is headquartered out of Germany. So anything specific in that market that makes it more attractive when your targeting?

And then just from a modelling perspective, you can comment on what is the difference between the margins in an own branded product versus the third-party distributor product?

And finally, what is the CapEx profile of this business? Because it is more own brand. Is it higher CapEx or not really?

Donal Murphy: Okay. Thanks. Conor, do you want to?

Conor Costigan: Yeah. I mean, the German healthcare market in medical devices is probably one of the more attractive markets. It has typically had better growth rates and projected to have better growth rates, and I suppose the government commitment to healthcare funding has been and continues to be strong. So it is certainly an attractive market to build a presence.

In terms of the own brand. Yeah, I mean, clearly the own brand side of the business is attractive from a gross margin point of view, although as with our own business, there is not a dramatic difference between the types of mid-tech, high-quality agency products that we typically distribute on our own branded products.

And then, finally on CapEx. We don't expect significant investment requirements in CapEx. Clean room environment, reasonably labour intensive, obviously, in a lower cost economy in the Czech Republic. So we do not see a huge requirement for CapEx.

Donal Murphy: Have big focus in the business on R&D investment, regulatory investment, it is more on from that perspective, and some big capital investments.

Super. Thanks, Anvesh. Next question, please?

Christopher Bamberry (Peel Hunt): So just some questions around market share. What is Medi-Globe's market share in the key geographies of Germany and France? What is the market positions there? And how fragmented are those overall markets?

Donal Murphy: Thanks.

Conor Costigan: Sure. So I mean, the gastro and uro markets, as you might expect, there are some big global players in there, Boston, Olympus, Cook would be the largest global players and probably have control 60%-plus of the global markets.

And then, when you look at individual countries, there are strong local champions, if you like. And Medi-Globe is one of the few that has a strong presence across a number of jurisdictions. And market shares in Germany would be around about the 9% in both gastro and uro, and in France around 5%. So plenty of scope to develop.

And obviously the business has been investing in direct presence in other jurisdictions. And we will be bringing our direct presence in Britain and Ireland to the picture, and we would expect to be able to build similar market positions in all of those direct markets.

Donal Murphy: Thanks, Chris. Next question, please.

Daniel Cowan (HSBC): First question is, is there any particular competitive advantage that Medi-Globe products have over the incumbents or the standard products in the markets? And the other question I have is, I do not think you split out the difference between the Vital and Health & Beauty return on capital employed. But I was just wondering how the Medi-Globe's return on capital employed might compare with that of the Vital segment, please?

Donal Murphy: Super. Thanks, Dan. Conor?

Conor Costigan: Yeah, I think in terms of the market positioning Medi-Globe is a very well-established credible player in the German and French markets. Boston Scientific, obviously, is the global leader across the two sectors. Olympus probably has more of a focus on capital equipment. And then Cook, similar model to Boston, maybe not as innovative.

So I think from Medi-Globe's point of view, as they are very well established in Germany and France, a fast follower approach on innovation. And obviously, a lot of ability to respond and agility as you would expect from a smaller business relative to those large competitors. And a broad portfolio of products, very good quality products and competitively priced. So we feel portfolio on the business is very well-positioned relative to the competition.

Kevin Lucey: Hi Dan, it is Kevin. Thanks for the question. On returns, I suppose the healthcare return, as you know, overall is at 19%. But there is actually very little difference between both sides of the healthcare business to Health & Beauty business and DCC Vital. The nature of the capital is quite different in that in DCC Health & Beauty Solutions, you have much more fixed capital investment. And in DCC Vital, a lot of the investment tends to be around working capital and related items.

So the capital base is different, but the returns are pretty similar across both sides of the division. As a result, clearly when we bring Medi-Globe in or indeed when we bring any acquisition into the DCC Group, it tends to be dilutive initially to the divisional return. So we would expect clearly Medi-Globe's returns to grow over time. And the healthcare return today is a function of the good organic growth that the guys have been delivering, having deployed capital at very similar levels, actually.

So all of our health and beauty acquisitions in the US, for example, would have targeted at a relatively similar return on capital employed. And the guys have just done a great job at leveraging the returns from there. So I think we would expect similar progression with this acquisition.

Donal Murphy: Thanks, Kevin. So we have time for one last question, I think.

Gerry Hennigan (Goodbody): Just in terms of the opportunity that may emerge from this deal. Would you see it along similar lines to Medi-Globe in terms of additional medical devices? Or would you see maybe leveraging off some of the relationships they have to expand the primary care business into some of the markets that they are already in, but do not necessarily in yourselves just the primary care?

Donal Murphy: Yeah, I think both, Gerry, is the answer, like we clearly know it is a super business that has a very good growth trajectory in front of it. So more products leveraging the own brand, the capability within the business, but also leveraging its distribution, infrastructure. So Conor, you want to add?

Conor Costigan: Yeah, I absolutely agree with Donal. And I suppose particular focus, obviously on the medical devices area. I think this obviously, the business and our strategy will be to have a direct presence in larger markets. And so there is an opportunity to learn those markets through the distribution route and then look for acquisition opportunities. And that is already part of the focus of the Medi-Globe team.

And then, obviously, filling out the portfolio further in the minimally invasive surgical area generally, there will be opportunities to bolt-in complementary acquisitions in that respect.

Donal Murphy: Thanks, Conor. And maybe I will just sum up, if that's okay. Just firstly, to thank everyone for joining us this morning at relatively short notice. I hope you found the call very informative. We are very excited about this opportunity. It is a material step forward for us in the growth and development of DCC Healthcare, bringing us very strongly into the high growth medical device sector.

It is bang in line with Group strategy. It is the business that we want to be acquiring and bringing into the Group, leveraging synergies and leveraging those growth trajectories. So we are really pleased to announce this acquisition today.

We are, over the next number of weeks doing a lot of IR. So hopefully, we will get to meet the people that are on the call today face-to-face over the next couple of weeks. But again, happy if you want to get further details, just contact Hollie or Rossa to set up some meetings, and look forward to seeing many of you soon.

So thank you all for joining us this morning. Thank you, Kevin and Conor, for joining me here today. And have a good day everyone. Cheers.

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