



United Drug
In need of patients
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Executive Summary

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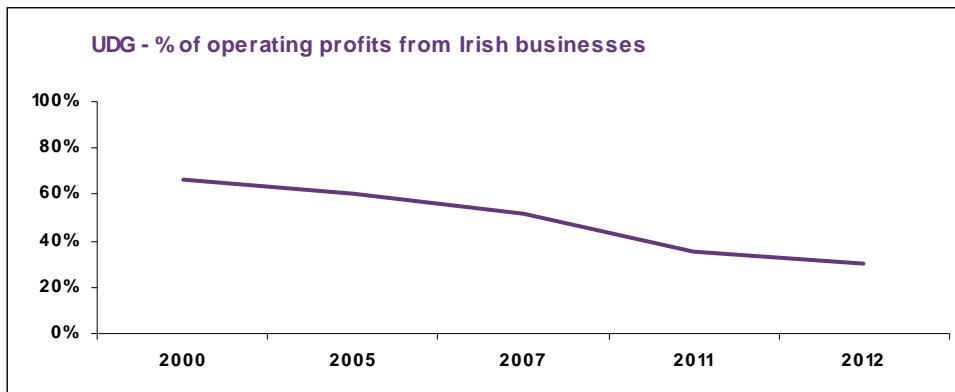
- United Drug offers a range of outsourced commercialisation services to international healthcare clients in the areas of distribution, packaging, sales & marketing and regulatory services. Since listing on the Dublin and London stock exchanges in 1992, it has used its balance sheet strength to maintain dividend payments while aggressively expanding its geographic footprint beyond Ireland and the UK into both Continental Europe and the US.
- In its 2011 financial year the group increased revenues by 1% to almost €1.75bn despite significant regulatory pressures in Ireland and the UK. Over the last ten years it has nearly doubled its PBT to €44.2m (2001: €23.3m), while its net debt to EBITDA has never risen above 2x. Management recently indicated that it has the capacity to spend up to €200m on acquisitions.
- The group has significantly reduced its dependence on Ireland over the last number of years as it attempts to minimise the effects of government austerity measures imposed on the healthcare sector. Its Irish businesses now produce just 30% of group operating profits, down from more than 50% in 2007 and 66% back in 2000.
- With a 55% share of the Irish wholesale market and its two closest competitors, UniPhar and Celesio, operating in a tough environment, United Drug has demonstrated that it can use its scale to squeeze costs and continue to grow even in adverse market conditions. A €9m exceptional cost was incurred in the FY11 accounts as part of a restructuring programme centred around Ireland, which will result in cost savings of up to €5m a year and maximise returns going forward.
- In recent years United Drug has used its substantial operating cashflows (FY09: €75m, FY10: €93m, FY11 €58m) to expand the business into the US outsourcing market and the UK niche market in order to broaden its service offerings and drive higher margins. Sharp Corporation, a US packaging company with a 20% market share that was purchased in 2008 for \$99m, had an excellent FY11 which has continued into H112, growing its market share to 25% and winning a number of significant contracts (Reckitt Benckiser and Bayer).
- InforMed, which was purchased in August 2010 and provides healthcare communications and consultancy services in the US and the UK, has performed ahead of targets due to outperformance in its communications and market research businesses.
- Based on its current share price of €2.03 United Drug trades on an FY12 EV/ EBITDA of just 6.0x. Historically it has traded at a premium of 25-30% to the sector but it is currently trading at a 10% discount. We believe this is due to its association with economically uncertain Ireland and the UK, as well as recent negative newsflow from its peers, even though none of these provide as vast a service offering. Based on the current share price the stock offers a dividend yield of 4.4% in FY12 (covered 2.3 times), rising to 4.5% in FY13. Stability in a weakening Irish market together with a successful acquisition strategy are key to driving United Drug's earnings.

Year end 30 Sept	2010 A	2011 A	2012 F	2013 F
Revenue (€m)	1,726	1,746	1,779	1,809
EBITDA (€m)	88	92	97	98
EPS - Dil, Adj (c)	22.8	22.8	24.8	25.5
Dividend per share (c)	8.4	8.7	8.9	9.2
PE (x)	11.0	10.1	8.2	8.0
EV/EBITDA (x)	8.0	7.4	6.0	5.5
Dividend yield (%)	3.4	3.8	4.4	4.5
Net debt/EBITDA (x)	1.2	1.3	0.9	0.6

Investment Case

In its 2011 financial year United Drug increased revenues by 1% to almost €1.75bn despite significant regulatory pressures in Ireland and the UK. Over the last ten years it has nearly doubled its PBT to €44.2m (2001: €23.3m), while its net debt to EBITDA has never risen above 2x. Management recently indicated that it has the capacity to spend up to €200m on acquisitions. The group has financial covenants for net debt to EBITDA not to exceed 3.5x, which in FY11 was at 1.3x, and therefore provides comfortable headroom to ramp up M&A activity in FY12 if opportunities arise.

The group has significantly reduced its dependence on Ireland over the last number of years as it attempts to minimise the effects of government austerity measures imposed on the healthcare sector. Its Irish businesses now produce just 30% of group operating profits, down from 52% in 2007 and 66% back in 2000.



The focus on Ireland currently revolves around driving better cost efficiencies in order to maximise returns as austerity measures weigh on margins. A group restructuring programme was announced in August, including the outsourcing of all deliveries to third party operators, reduced working hours and staff redundancies. A €9m exceptional cost was incurred in the FY11 accounts to facilitate this, which is expected to result in savings of up to €5m a year going forward. With a 55% market share and its two closest competitors, UniPhar and Celesio, under competitive pressure United Drug has shown that it can use its scale to squeeze costs and continue to grow even in adverse market conditions.

A share buy back programme of up to five million shares, or 2% of the issued share capital of the company, was announced in May 2011 in order to neutralise the impact of the 2011 scrip dividend on its EPS (Scrip dividends are no longer available). The programme was completed on 26th October at a cost of €11.34m (average price paid €2.27 per share), which was marginally earnings enhancing (EPS +2% to 22.81c from 22.34c; PE from 10.3x to 10.1x).

Having consolidated its market leading position in the wholesale market in both the Republic of Ireland (55% share) and Northern Ireland (70% share), and also in the UK pre-wholesale market (55% share), the group has in recent years turned its attentions to the US outsourcing market and the UK niche market in order to broaden its services offerings. In 2008 the group purchased Sharp Corporation, a US pharmaceutical packaging company with a 20% market share, for \$99m, the group's largest acquisition to date. The company, the No.2 player in the market (Anderson is No.1), had a very strong FY11, growing its market share to 25% and winning a number of significant contracts (Reckitt Benckiser and Bayer). This trend has continued into the 2012 financial year and, coupled with the demise of Catalent, the No.3 player in the US packaging market, it leaves Sharp well placed to gain further market share.

InforMed, which was purchased in August 2010 for a total amount payable of £17.3m, and provides healthcare communications and consultancy services in the US and the UK, has performed ahead of targets following its first full year in the group. The outperformance was driven by the communications and market research businesses. The existing client base has grown and significant new business wins have also been achieved.

United Drug subsidiaries TSL and Craig & Hayward, which operate in the pharmaceuticals 'Specials' sector in the UK and together hold a 20% market share, continue to deliver strong results with margin improvements (margins can be as high as 20%) generated through improved sourcing and the recent ability to manufacture in larger batches. Innovation in this business continues with UDG developing new offerings for manufacturers and hospitals to assist with sourcing, regulatory requirements and distribution of unlicensed products, which will help to offset the recent introduction of a drug tariff by the NHS.

Valuation

There are no easy peers to compare United Drug against given the broad range of different products and services it offers. In Europe Celesio trades in the wholesale and pre-wholesale space on an FY12 EV/EBITDA of 6.9x, while in the US Cardinal Health is a peer in Sales, Marketing & Medical and trades on an FY12 EV/EBITDA of 7.2x. UDGs FY12 EV/EBITDA is 6.0x. Its share price is currently trading at a 52% discount to its high of €4.25 in May 2007 even though operating profits have remained stable, it has significantly reduced its dependence on Ireland and its divisions have all increased their market share during that period. We believe the current share price weakness is being primarily driven by macroeconomic factors affecting Ireland and the UK.

Company	Cur	Price	Mkt Cap (m)	P/E Ratio		Div Yield (%)	EV/EBITDA		Price/book (X)
				FY12	FY13		FY12	FY13	
United Drug	Eur	2.03	484.4	8.2	8.0	4.4	6.0	5.5	1.2
Arseus	Eur	10.65	339.6	7.8	6.8	4.4	6.8	5.8	1.4
Celesio	Eur	14.74	2,418.0	10.7	9.7	2.7	6.9	6.2	1.0
Mediq	Eur	12.17	722.1	7.6	7.5	3.9	5.6	5.0	1.3
Oriola	Eur	1.98	320.6	14.4	9.8	4.0	7.0	5.0	1.0
Cardinal Health	USD	43.40	14,995.0	13.6	12.3	1.7	7.2	6.7	2.4
Sector				9.9	8.8	2.2	6.7	5.9	1.0

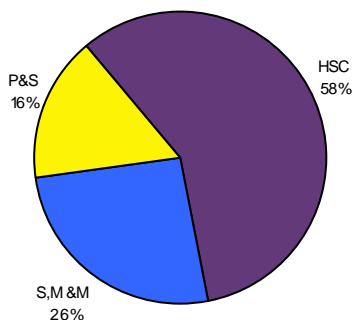
United Drug company profile

Business Breakdown	Healthcare Supply Chain				Sales, Marketing & Medical	Packaging & Speciality	
	Wholesale	Pre-wholesale	Medical & Scientific	Specials		Packaging	Speciality
% of Revenue	59%	16%	4%	2%	11%	6%	2%
% of EBITA	31%	11%	5%	11%	26%	15%	1%
Margin Range	2-3%	2-3%	6-10%	20%	8-12%	10%	2-4%
Geography	Ire, N.Ire	Ire, UK, Swe	Ire, UK	UK	Ire, UK, US	Eur, UK, US	Ire, UK
Market Share	55% Ire, 70% N.Ire	60% Ire, 55% UK	40% Ire, 8% UK	20%	70% Ire & UK	25% US	8% UK

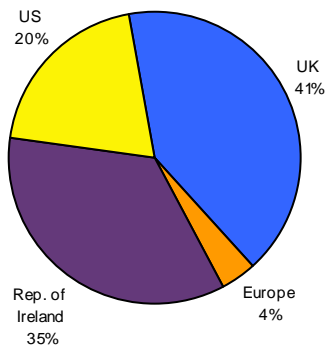
Company Overview

United Drug offers a range of outsourced commercialisation services to international healthcare clients in the areas of distribution, packaging, sales & marketing and regulatory services. Since listing on the Dublin and London stock exchanges in 1992 the group has expanded its geographic footprint beyond Ireland and the UK into Continental Europe and the US. The group operates in three core segments; Healthcare Supply Chain, Sales Marketing & Medical, and Packaging & Speciality.

FY11 Divisional Operating Profit Split



FY11 Operating Profit Geographic Split



Healthcare Supply Chain

The Healthcare Supply Chain division, which comprises four sub-divisions; Pharma Wholesale, Pre-Wholesale, Medical & Scientific, and Specials, is United Drug's largest division, accounting for 81% of group revenues in FY11, and combines all of the group's healthcare logistics based businesses. In the 2011 financial year the division recorded operating profits of €44.38m from revenues of €1.41bn, down 6.9% and 2.0% year on year respectively as government austerity measures, price reductions and reduced capital spending in hospitals all weighed negatively on the division. Despite this however, the group has managed to increase its market share as its main competitors, UniPhar and Celesio, have encountered competitive pressure.

Pharma Wholesale: United Drug Wholesale is the market leader in Pharma Wholesale in the Republic of Ireland with a 55% market share. Its fleet supplies a broad range of pharmaceutical medicines and front of shop products to approximately 1,600 pharmacies around the country, delivered twice daily. It acts as a full-line wholesaler servicing hospitals around the country and it also has the contract for the important National Cold Chain Delivery Service. Its nearest competitor is UniPhar with a 25-30% share of the market.

In Northern Ireland United Drug is the supply chain partner of choice with a 70% market share through its Sangers business. Pharma wholesale accounts for 53.2% of divisional EBIT, on margins of 2-3%.

Pre-Wholesale: In Ireland United Drug, through United Drug Distributors (UDD), is focused on the management of non-core activities of healthcare manufacturers. It imports, warehouses and distributes pharmaceuticals and OTC medicines to pharmaceutical wholesalers and hospitals in the Republic of Ireland on behalf of manufacturers. UniDrug Distribution Group is a 50:50 JV with Allianz Boots in the UK, which provides a total distribution partnership service for healthcare manufacturing companies. It is the leading pre-wholesaler in the UK.

Pre-wholesale accounts for 18.6% of divisional EBIT and, similar to wholesale, margins in this business are between 2% and 3%.

Medical & Scientific: This business sells, markets and distributes consumable and capital equipment to healthcare providers, industry and research institutions in the UK and Ireland. It has a 40% market share in Ireland and an 8% market share in the UK. Margins in the Medical & Scientific division are in the 6-10% range and make up 8.9% of EBIT in this division.

Specials: In the UK the group prepares and distributes 'Specials' medicines through its subsidiaries TSL and Craig & Hayward. A 'Special' is an unlicensed unique formulation of a commonly prescribed product prepared in response to a specific patient prescription requirement. United Drug has a 20% share of the 'special's market, where margins can be as high as 20%. The 'Specials' division accounted for 19.3% of divisional EBIT in FY11.

Sales, Marketing & Medical

United Drug is the leading provider of contract sales outsourcing services to pharmaceutical manufacturers in the UK and Ireland, providing services including call centres, database management, nurse advisors, vacancy management, training and recruitment.

The group has also built up a presence in the US in recent years, most recently through the acquisition of InforMed (August 2010), which provides healthcare communications and consultancy services to pharmaceutical and biotechnology companies. Core services include market research, business analysis, marketing and sales training.

Revenues in the Sales, Marketing & Medical division totalled €199m in FY11 (11% of group revenues), while EBIT grew 16.7% year on year to €14m. This was driven by continued strong demand in contract sales outsourcing from pharmaceutical companies in the UK and Ireland, while its US call centres, which provide regulatory, patient support and compliance programmes for manufacturers through both in-bound and out-bound calls, had an outstanding year with significant new business wins, and will look to grow further in FY12 with a strong pipeline already in place.

With a sales force of more than 1,200 the group has a 70% share of the UK and Irish market within this segment, where margins are in the region of 8-12%. Although the group has only recently entered this space in the US it is quickly gaining market share.

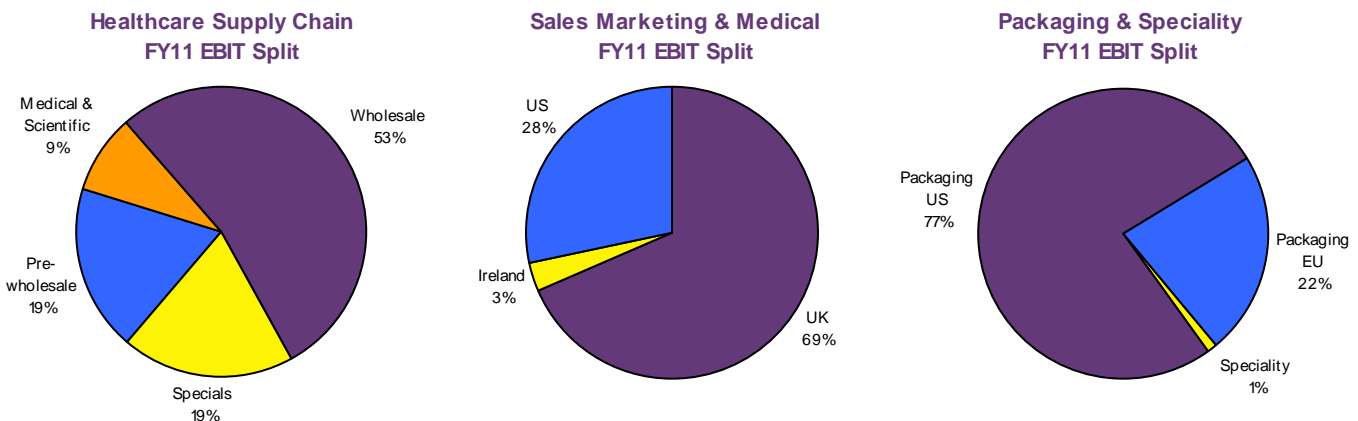
Packaging & Speciality Services

In the Packaging & Speciality division United Drug is a leading international provider of outsourced packaging solutions for pharmaceutical manufacturers with facilities in the US, the UK and continental Europe. Momentum for outsourcing has increased largely due to decisions taken by pharmaceutical companies to defer investment in, or eliminate, fixed cost infrastructure in a bid to reduce operating costs.

Up until recently the company also provided speciality distribution and homecare services for NHS patients in the UK through its JV with US homecare provider, *Medco*. Medco has since bought out United Drug's 50% share of the JV after it was acquired by Express Script. However, United Drug has maintained a positive relationship with the Medco board and will continue to offer clinical and logistical capabilities to the venture, while monitoring the UK homecare space for M&A opportunities, which is estimated to be worth in excess of £1bn.

Revenues in the Packaging & Speciality services division in 2011 were €138m (8% of group revenues), with EBIT of €12.4m, up 14.5% and 29.2% respectively year on year. The group's US packaging business, Sharp Corporation, performed very strongly during the year, benefitting from new contract wins, while the new business pipeline in European packaging is reported to be stronger than it has been for some time. With its European packaging division currently running at only 50% capacity there is significant potential for growth, some of which will flow from US customers looking to package product in Europe.

Margins in packaging are strong at around 10%, while in specialities the margins are closer to 3%.



Bull Points

Strong balance sheet: United Drug's current debt of €121m (1.3x Debt/EBITDA) is easily serviced by strong cash flows coming into the business (circa 50% of EBITDA is currently converting into free cash flow, pre acquisitions and dividends). With financial covenants not to exceed 3.5x net debt to EBITDA there is plenty of room for further accretive deals.

Scale: Given the fact that United Drug has number one market share positions in wholesale and pre-wholesale in Northern Ireland, the Republic of Ireland and the UK, it has been able to use its scale to reduce costs and squeeze competitors out of the market whenever government cuts have been implemented. Its nearest competitor in the Irish wholesale market, UniPhar, has had refinancing issues.

US market: Through its subsidiary Sharp Corporation, United Drug is the No. 2 player in the US pharmaceutical packaging market with a share of c.25%. The company has benefitted from increased volumes from existing clients and contract wins with new clients over recent months and as a result the business is now operating at a level where additional contracts won will greatly enhance return on capital.

UK niche market: The UK 'Specials' business generates margins in excess of 20% compared to margins closer to 2-3% in wholesale and pre-wholesale. United Drug currently has a 20% share of the specials market. We expect strategic growth from the group in this area as it attempts to take advantage of higher margin businesses.

Ageing populations: It is estimated that by 2041 the ROI will have 1.4 million people aged 65 or over, three times more than current numbers, while in Northern Ireland the number of people over the age of 65 as a percentage of the population is expected to more than double over the same period (Source: CARDI stats 2010). In the UK 10 million people are currently aged over 65. This number is expected to increase by 5.5 million over the next 20 years and reach 19 million by 2050. 75 million people in the US are aged over 55 and it is estimated that this age group accounts for 75% of total healthcare expenditure in the US.

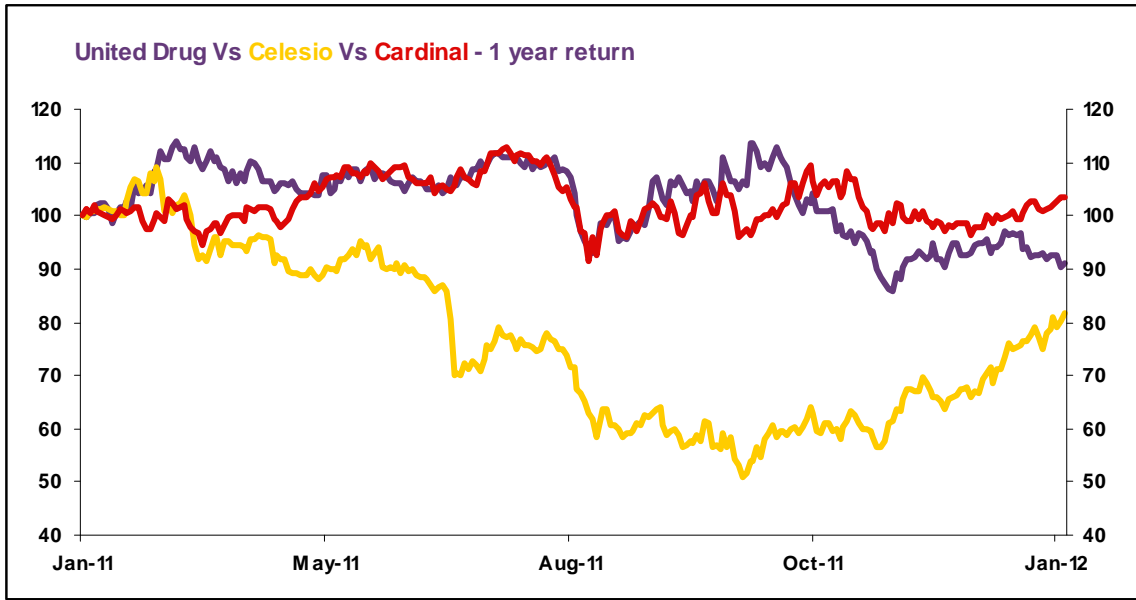
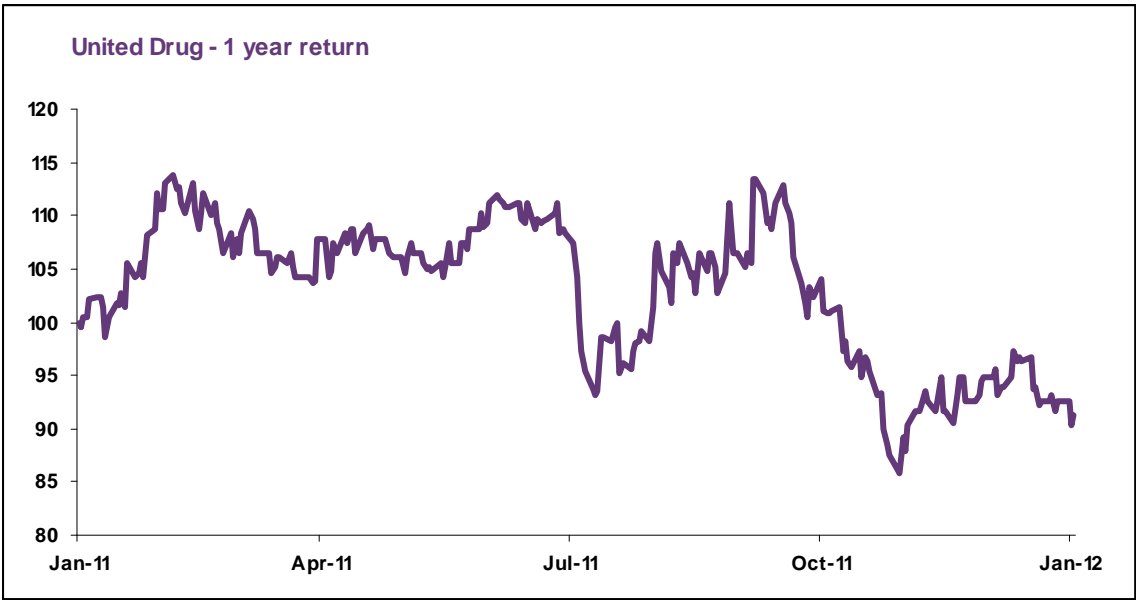
Bear Points

Regulatory issues: Government austerity measures implemented in both the UK and Ireland have weighed heavily on the healthcare sectors. The NHS and HSE have both been forced to cut back on expenditure as they attempt to reduce costs. We believe there is more bad news to come in the form of further budget cuts.

Revenue driver: The Healthcare Supply Chain division still accounts for 58% of group profits. In our view an improved geographic and product mix, specifically building market share in the US, is required in order to become a true global player and to reduce the risks associated with Ireland.

Over reliance on UK & Ireland: Although the group has reduced its operating profit exposure to Ireland to just 35% of total group operating profits, it still derives 76% of total group EBIT from its combined UK and Irish businesses (based on FY11 figures).

Reduced prices as patents expire: Five of the world's top selling twelve medicines are produced in Ireland, and their sales are set to half from \$27bn to \$13bn between 2010 and 2013 as their patents expire. Once these patents expire the emergence of generic drugs manufactured in countries like India should put pressure on manufacturers top line, which could be passed on to distributors.



United Drug	2010A	2011A	2012F	2013F
Revenue (€m)	1726	1746	1779	1809
Healthcare Supply Chain	1439	1409	1395	1381
Packaging & Speciality	121	138	155	172
Sales, Marketing & Medical	167	199	229	256
Geographic split (€m)				
ROI	1125	1100	1085	1086
UK	454	464	480	489
US	113	133	160	181
Cont. Eur	34	49	53	54
EBITDA (€m)	88	92	97	98
EBIT (€m)	61	62	68	69
Pre tax profit (€m)	54	44	59	61
Attributable profit (€m)	45	36	49	51
EPS - Dil, Adj (c)	22.8	22.8	24.8	25.5
Dividend per share (c)	8.40	8.66	8.92	9.19
Shares out (m)	238	242	239	239
Tax rate (%)	18%	17%	17%	17%
Balance Sheet (€m)				
Property, plant & equipment	99	101	106	111
Goodwill & Intangible assets	253	263	248	234
Investments in JV's	22	20	20	20
Working capital	143	149	154	159
Other	14	22	22	22
Capital employed	532	554	550	545
Financed by				
Equity capital & reserves	368	380	407	436
Net debt/(Cash)	109	121	90	57
Other liabilities	54	52	52	52
Capital Employed	532	554	550	545
Cashflow (€m)				
EBITDA	88	92	97	98
Working Cap Changes	16	-15	-5	-5
Other	-1	-2	0	0
Cash generated from operations	103	75	92	93
Net Capex	-10	-17	-15	-15
Operating Cashflow	93	58	77	78
Dividends from associates	2	2	0	0
Interest	-6	-9	-8	-8
Tax Paid	-12	-9	-10	-11
Free Cashflow	78	42	58	60
Acquisitions & Investments	-15	-28	-5	-5
Dividends	-13	-18	-21	-22
Share Issue / (Buyback)	4	-6	-1	0
Other	1	-2	0	0
Debt (Increase)/Decrease	55	-12	31	33
Valuation				
PER (x)	11.0	10.1	8.2	8.0
EV/EBITDA (x)	8.0	7.4	6.0	5.5
EV/EBITA (x)	9.5	8.9	7.0	6.5
Dividend yield (%)	3.4%	3.8%	4.4%	4.5%
Dividend cover (x)	2.2	1.7	2.3	2.3
Price/Book (x)	1.6	1.5	1.2	1.1
Net asset value (c)	154.5	157.2	170.5	182.5
ROCE (%)	11.5%	11.2%	12.3%	12.6%

Share price € (c)	203
Market cap €m	484
EV €m	577
Free float	98%

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