

# AMITY UK: COMPANY PROFILES



## 30 Years of Responsible Investing

### AMITY UK: PROFITS WITH PRINCIPLES

The Amity UK Fund was launched 30 years ago in March 1988. At that time, there was only one ethical equity fund in the UK, but 30 years on our suite of seven Amity screened funds for retail and charity continue to deliver long-term 'Profits with Principles' for our clients.

The EdenTree range of Amity Funds hold over 250 different company stocks and debt instruments across the portfolios. As well as having a strong and compelling investment case, each holding must be researched and approved by the SRI team. Here we profile two interesting Amity UK holdings that have been held by Fund Manager Sue Round for some considerable time and which have delivered strongly against our nine positive screens.

## Dechra Pharmaceuticals

### WHAT DO THEY DO?



The UK is a nation of animal lovers; 13 million UK households (45%) own a pet, whilst over half (53%) of all households with children own a pet. The UK is home to over 9 million dogs, 8 million cats and a rich variety of other pet types such as rabbits, birds, rodents and even snakes and lizards<sup>1</sup>.

**Dechra** is an international specialist veterinary pharmaceuticals and related products business, based in the UK. It was founded in 1819, originally as Arnolds & Son, as a prosthetic limb manufacturer. The company first turned its attention to veterinary medicine during the Crimean War (1854-56). In its modern form, Dechra was listed in 2000 after a management buy-out from Lloyds Chemists. The company now has a presence in 50 countries and employs 1,344 people. The global animal healthcare market is worth \$36bn<sup>2</sup>.

### WHAT DOES DECHRA MANUFACTURE?

Dechra is a pure, but specialist pharmaceuticals play, focused on 'companion animals', equine and food related animal products. The company with an integrated structure researches, develops and manufactures animal therapeutic products such as analgesics, lameness, anti-microbial, cardiovascular, skin care, endocrinology, gastrointestinal and ophthalmic. The company is well positioned across a range of treatment types

including tablets, creams, ointments, liquids and vaccines. Its customers are primarily veterinary practices and professionals.

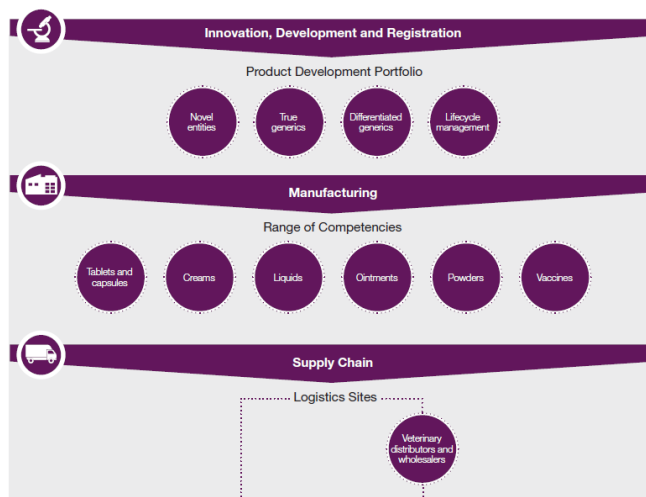
### WHAT FOOD RELATED PRODUCTS DOES DECHRA MANUFACTURE?

Dechra concentrates in the main on high-quality nutrition to support therapeutic conditions in dogs and cats. Areas of focus include obesity, allergies, heart and kidney disease. Food supplements are sold via veterinary practices as part of treatment. The wider pet-food market is large and dwarves the specialist pharmaceuticals market, but Dechra does not produce standard pet food which is a £3bn market in the UK alone.

### WHAT IS THE INVESTMENT CASE?

The company's global reach in a niche, high-margin area that is growing makes it an attractive long-term investment proposition. Barriers to entry are significant, and Dechra's focus gives it material advantage. The company's integrated approach from pipeline to delivery allows it to control costs and maximise margin revenues.

In 2016/17 revenues across its three businesses grew strongly with North American revenue growth of 93.7% and 7.9% in the EU. International sales other than North America and the EU account for 8.6% of total group sales and are growing steadily as Dechra seeks to penetrate new markets.



### WHAT WERE THE LAST FULL YEAR RESULTS LIKE?

Dechra has a reporting year that ends on 30<sup>th</sup> June. For the full 2016/17 year revenues of £359.3m were reported (28.3% increase over 2015/16). Consolidated underlying operating profit of £81.3m represented a 36.9% increase on the prior

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year. Underlying EBIT margin increased to 22.6% with EPS growth of 35.1% to 64.33p. Its four reporting divisions made up the Group's revenues thus:

CAP1	62.3%
Equine	7.6%
FAP <sup>2</sup>	13.2%
Diet & Nutrition	7.7%
Other	9.2%

1 Companion Animal Products predominately dogs and cats

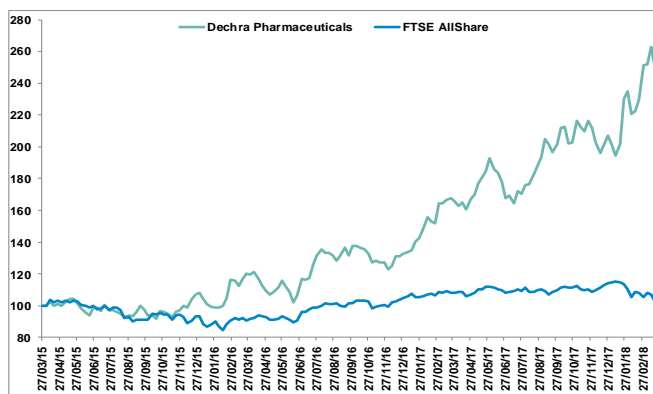
2 Food Producing Animal products e.g. pigs and poultry

## IS THERE A DIVIDEND??

The company pays a modest dividend of around 1% which has grown around 120%.

## HAS THE STOCK PERFORMED WELL?

The company has grown strongly since it sought a UK listing in 2000. The share price at launch was 120p and hit 1700p at 30<sup>th</sup> June 2017. However the stock is up nearly 50% over the past year and is currently trading at over £25 per share.



## WHAT IS THE SRI CASE?

The company is a strong proxy for our Health & Wellbeing thematic pillar, and scores well across the nine positive screens.

The company operates in a highly regulated sector, and operates to high ethical standards and has formalised this into a Code of Business Conduct, translated into nine languages and rolled out across its international facilities. The company has developed a position on Modern Slavery, but the risk from human rights violations is viewed as moderate. Dechra has a strong commitment to health & safety, reports its LTAFR<sup>3</sup>, and has seen a reducing number of incidents as a result of training.

The company's environmental footprint is relatively modest, however it generates hazardous chemical waste, and is placing efforts on reducing disposal to landfill. The company reports its Scope I & II emissions, which have grown in absolute terms owing to an acquisition, however carbon intensity expressed as CO<sub>2</sub>e per £m of sales revenue has decreased. The stock does not contribute materially to the Amity UK portfolio carbon impact.

The company has an active community programme, in the main supporting veterinarians and aligned animal causes.

## RELX Group

### WHAT DO THEY DO?

RELX is a global provider of information and data analytics for professional and business customers. The company is present in 180 countries and employs over 30,000 people. Its four market specialisms are scientific, technical & medical; legal; risk & data analytics and lastly, exhibitions.



In its present form, RELX is the result of a merger between UK based Reed International and Dutch based Elsevier in 1992, changing its name to RELX Group in 2015. The antecedents of each business go back to the 1880s and 1890s.

### WHAT DOES RELX PROVIDE?

RELX is a specialist provider of educational literature for the professions. RELX has been at the forefront of transitioning content towards digital with 74% revenues generated this way in 2017 compared to 22% in 2000. Print now accounts for just 11% of content delivery compared to 64% in 2000.

The company is #1 globally in scientific, medical and technical content and either #1 or #2 in legal. It is the world's largest events and exhibitions business, arranging over 500 events in 30 countries. Its specific disciplines include:

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- The world's largest database of peer-reviewed scientific and medical research
- Scopus is the leading abstract and citation database of research literature with over 70m publications and over 1.4bn citations
- Customers include scientists, academic institutions, researchers, medical and health practitioners, students and governments. The Lancet is among its stable of titles
- The legal segment assists lawyers and corporations win cases, frustrate tax avoidance and collate evidence against war crimes
- LexisNexis is a legal and news database containing 81bn documents, with 1.5m added daily, whilst Lexis News sources news from 40,000 premium sources in 30 languages
- The Exhibitions segment covers 43 industry sectors with 7m participants
- Finally, Risk & Business Analytics help customers with smart data interpretation across key markets as well as providing customer verification checks and transaction screening; 95 of the world's largest banks use RELX solutions

55% of all sales are generated in North America. Its reach into data analytics has also seen impressive growth and is now the second highest driver of income.

## WHAT WERE THE LAST FULL YEAR RESULTS LIKE?

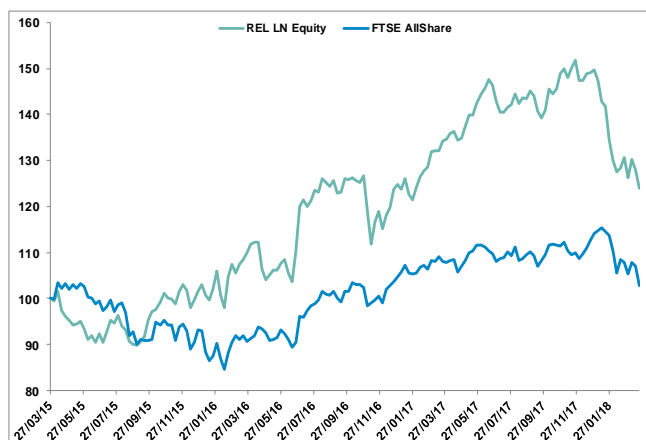
RELX Group has published full year results for 2017 with underlying revenue up 4% and underlying operating profit up by 6%. Reported revenues were £7.3bn in 2017 with adjusted operating profit of £2.2bn. EPS on an adjusted basis (constant currencies) grew 7% to 81p, with ROIC an impressive 13.1%.

## IS THERE A DIVIDEND??

The company pays an attractive dividend of 2.7% with the full year pay-out increased by 10%.

## HAS THE STOCK PERFORMED WELL?

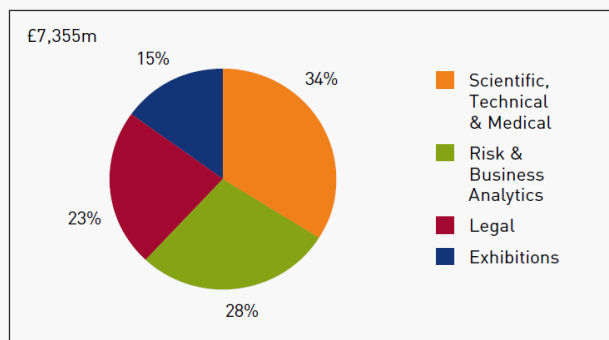
The company has performed well over the long-term and particularly over three, five and 10 years.



## WHAT IS THE INVESTMENT CASE?

The company is well diversified and strongly positioned in the high-margin, professional digital information space. Over half of revenues are subscription driven making recurring income an attractive factor. In many of its chosen fields it is either global #1 or #2. Transitioning early from print to digital in the key North American market has led to strong revenue growth:

### REVENUE



Source: RELX Group Annual Report 2017

## WHAT IS THE SRI CASE?

The company is a strong proxy for our Education thematic pillar, and scores strongly across the nine positive screens.

The company makes a unique contribution to the promotion and dissemination of knowledge to a student and professional clientele. In an age of 'fake news' and considerable mistrust, RELX operates to the highest standards of ethical integrity in data collection and evaluation to be a dependable agency for doctors, lawyers and other professionals. The company also makes much of its research expertise available to emerging economies, for instance through 'Research without Borders' that pairs expertise with the needs of the African science and medical communities. RELX is behind the ground-breaking

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SDG Resource Centre, a free resource to advance awareness and understanding of the 17 Sustainable Development Goals.

Importantly the company is a powerful advocate for the promotion of the rule of law, good governance and access to justice via its working partnership with the UN Development Programme. Other specific positives we like about RELX are:

- Mentoring programmes for high-potential women
- Responsible tax policy
- Donated £3.4m in cash and in-kind support of £9.2m
- 70% of Group energy needs sourced renewably
- Committed to reducing carbon by 40% by 2020
- 90% of waste to be diverted from landfill by 2020

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## SOURCES

1. Pet Food Manufacturer's Association 'Pet Data Report 2018'
2. Dechra Pharmaceuticals
3. Lost Time Frequency Accident Rate

All financial numbers either Dechra pharmaceuticals or RELX Group

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## THE EDENTREE SRI TEAM



**Neville White**  
Head of SRI Policy  
and Research



**Esmé van Herwijnen**  
Responsible Investment  
Analyst

We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity Funds. Headed up by Neville White, Head of SRI Policy & Research, and supported by Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

**We hope you enjoy this SRI Expert Brief and find it useful and informative. For any further information please contact us on 0800 011 3821 or at [ifa@edentreeim.com](mailto:ifa@edentreeim.com)**