

# DKSH Capital Market Day 2015

**150** YEARS OF MARKET EXPANSION SERVICES



## **150 years of DKSH – Key value drivers and operating insights**

Zurich, November 27, 2015

**Think Asia. Think DKSH.**

© DKSH

Welcome to our first Capital Market Day

**150**  
**YEARS** OF MARKET  
EXPANSION  
SERVICES

## Introduction of today's speakers



**Dr. Joerg Wolle**  
President & CEO

Industry  
experience  
since 1991



**Bernhard Schmitt**  
CFO

Industry  
experience  
since 1996



**Martina Ludescher**  
Head Corporate  
Development

Industry  
experience  
since 2003



**Bruno Sidler**  
COO

Industry  
experience  
since 1980



**Andrew Frye**  
Head Business Unit  
Healthcare

Industry  
experience  
since 2001

**More than 100 years of profound industry experience**

# Agenda

<b>Time</b>	<b>Presentation/Event</b>	<b>Speaker</b>	
09:00–09:30	Arrival and registration		
<b>09:30–10:00</b>	<b>Welcome and introduction</b>	<b>Dr. Joerg Wolle</b>	<b>President &amp; CEO</b>
<b>10:00–10:30</b>	<b>Market and industry trends</b>	<b>Martina Ludescher</b>	<b>Head Corporate Development</b>
10:30–11:00	Coffee break		
<b>11:00–11:30</b>	<b>Strategy update</b>	<b>Dr. Joerg Wolle</b>	<b>President &amp; CEO</b>
<b>11:30–12:15</b>	<b>Business Unit Consumer Goods</b>	<b>Bruno Sidler</b>	<b>COO</b>
12:15–13:30	Lunch break		
<b>13:30–14:15</b>	<b>Business Unit Healthcare</b>	<b>Andrew Frye</b>	<b>Head Business Unit Healthcare</b>
<b>14:15–14:45</b>	<b>Finance</b>	<b>Bernhard Schmitt</b>	<b>CFO</b>
14:45–15:15	Coffee break		
<b>15:15–16:00</b>	<b>Q&amp;A session</b>	<b>All DKSH speakers</b>	
<b>16:00–16:15</b>	<b>Closing remarks</b>	<b>Dr. Joerg Wolle</b>	<b>President &amp; CEO</b>
16:15–17:00	Refreshments and Farewell		

# **Introduction**

**Dr. Joerg Wolle – President & CEO**

## Another Asian crisis ahead?

### **World Bank cuts 2015–2016 East Asia growth forecasts**

Reuters, October 5, 2015

### **The worst ever golden week, retailers moan**

South China Morning Post, October 2, 2015

### **A slowdown among Asian economies**

The Economist, October 3, 2015

# 150 years of experience in Asia



**Trading companies**

**Specialized services provider**

**Market Expansion Services provider**



# No. 1 Market Expansion Services provider in Asia<sup>1</sup>



**No. 1**

Market Expansion  
Services provider  
with focus on Asia

**750**

business  
locations

**35**

countries

**28,000**

specialists

**9.8** billion

CHF net sales  
(2014)

**14,000**

jobs created since  
2002 worldwide

<sup>1</sup> Roland Berger Strategy Consultants, February 2015, based on transaction value



**Market and industry trends**

**Martina Ludescher – Head Corporate Development**

## How to capture growth in Asia

- Small and medium size companies lack financial and personnel resources in Asia
- Larger multinational companies focus on core competencies
- MES providers help clients to enter Asian markets with high entry barriers
- Expand access to knowledge and sourcing



**Drive revenues and market share – our definition of Market Expansion Services**

## Market Expansion Services (MES) – at every stage

**Entering Asia**



Enable market expansion  
into Asia

**Expanding in Asia**



Capture 'new' Asian  
markets

**Growing within Asia**



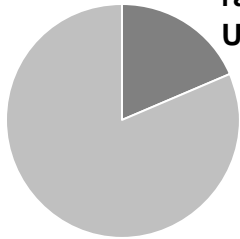
Grow business within  
existing Asian markets

# Asian MES market...

## Greater China

Total market size:  
USD 1.516 billion

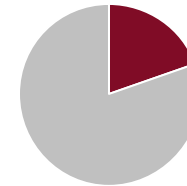
MES penetration  
rate 19% or  
USD 285 billion



## Northeast Asia

Total market size:  
USD 995 billion

MES penetration  
rate 20% or  
USD 201 billion



## Southeast Asia

Total market size:  
USD 469 billion






MES penetration  
rate 23% or  
USD 109 billion



...still offers significant penetration potential

Source: Roland Berger Strategy Consultants, February 2015

# Competitive landscape in Asia...

FMCG		Healthcare		Specialty chemicals		Engineered products	
		Prescription drugs & OTC	Medical devices				
#1	 DKSH	#1	Zuellig Pharma  DKSH	#1	Brenntag	#1	 DKSH
#2	LF Asia	#2	 DKSH Zuellig Pharma	#2	 DKSH	#2	Rieckermann
#3	PT Arta Boga Cemerlang	#3	Geoyoung LF Asia	#3	Connell Brothers	#3	Illies

## DKSH in Top 3

Cambodia  
Hong Kong  
Laos  
Malaysia  
Myanmar

Singapore  
South Korea  
Taiwan  
Thailand  
Vietnam

Cambodia  
China  
Hong Kong  
Laos  
Malaysia

Myanmar  
Singapore  
Taiwan  
Thailand  
Vietnam

Philippines  
Thailand  
Vietnam  
Taiwan  
Myanmar

Cambodia  
China  
Hong Kong  
Japan  
Laos  
Malaysia

Myanmar  
Philippines  
South Korea  
Taiwan  
Thailand  
Vietnam

**...is still highly fragmented**

Source: Roland Berger Strategy Consultants, February 2015

## Three major growth drivers of MES business...

**1** Growing middle class in Asia

**2** Increasing inner-Asian trade

**3** Trend towards outsourcing

**Overall consumption**

**MES penetration rate**

**...will increase consumption and penetration rate**

# Rising middle class boosts local consumption

## Asia Pacific middle class 2010

**572 million**  
people

 28% of global middle class

**4.8 trillion**  
USD spending

## Asia Pacific middle class 2030

**3.2 billion**  
people

 66% of global middle class

**32.6 trillion**  
USD spending

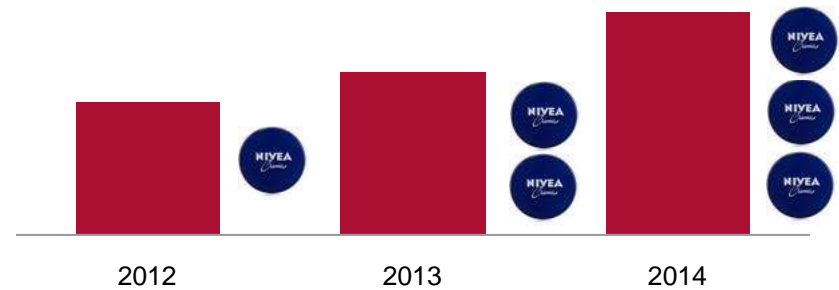
Sources: UnctadSTAT Roland Berger Strategy Consultants, The Economist

# Beiersdorf targeting growing middle class in Myanmar

## Background and results

- Collaboration started in 1988 in Thailand
- Partnership in Myanmar since 1997
- Middle class in Myanmar extremely underrepresented
- Distribution network of 28,000 points of sale to reach growing middle class
  - NIVEA largest skin care brand
  - Hansaplast synonym for plaster
  - Sales growth of Nivea Cream has potential to double by 2020

## Sales growth Beiersdorf through DKSH



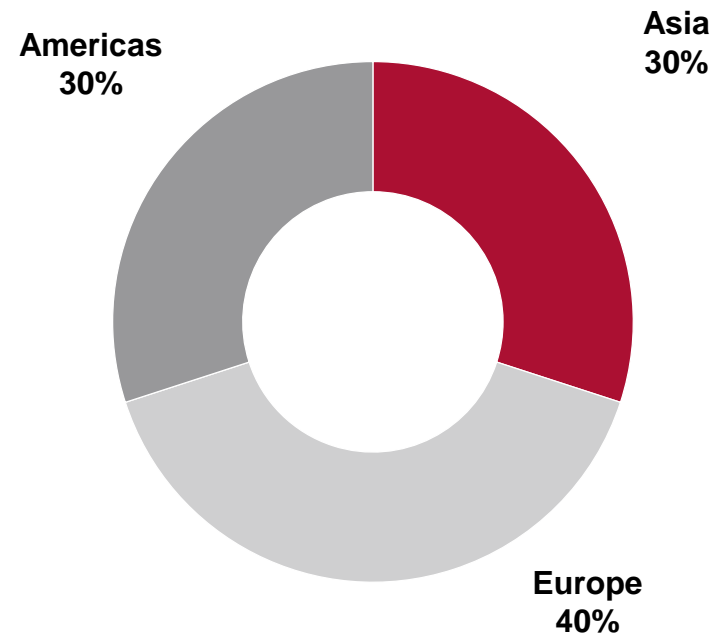


## Strong inner-Asian trade

### Trend of fast Asian trade to continue

- Asia is the second largest trading area after Europe, having overtaken America<sup>1</sup>
- Inner-Asian trade expected to grow fast:
  - Trade barriers fall
  - Local consumer markets develop fast
- Establishment of the ASEAN Economic Community (AEC) supports this trend

### Origin of DKSH's key clients



**DKSH enables and benefits from growing inner-Asian trade**

<sup>1</sup> Roland Berger Strategy Consultants, March 2013

## Taiho Pharma's expansion into South East Asia

### Background and results

- Taiho Pharma approached DKSH to expand its Asian footprint
- DKSH registered products in Hong Kong, Malaysia, Thailand and Vietnam
- Marketing, sales, distribution and logistic services
- Taiho enjoys double-digit sales growth

### Geographic reach in Asia



# Suntory heading to further Asian countries

## Background and results

- Partnership with Suntory started in the 1970s in Thailand
- Expansion to Hong Kong, Malaysia, Myanmar, Singapore and Vietnam
- DKSH showed strong track record to build brands in Asia
- Since 2015, DKSH as well supplies Suntory's Ribena fruit juices
- Full range of Market Expansion Services
- Double-digit sales growth across multiple markets

## Geographic reach in Asia



## Increasing trend towards outsourcing

- MES is one of the most promising sectors in the outsourcing industry
- Focus on core competencies and slower growth rates lead to increasing demand
- DKSH a reliable partner for a rapid and low-risk expansion to and within Asia
- The role of outsourcing has changed:
  - MES not only focuses on cost reduction
  - Drive top and bottom line growth



**Focus on core competencies leads to increasing demand for MES**

# BMS outsourced commercial business

## Background and results

- Bristol Myers-Squibb (BMS) reallocated resources
- DKSH took over commercial business of new hepatitis B product in Malaysia
- Product availability expanded to virtually 100%; government tender secured
- Outperformed market, captured market share and took over as market leader
- Collaboration in Hong Kong, Singapore, Taiwan, Thailand and Vietnam

### BMS core competencies:

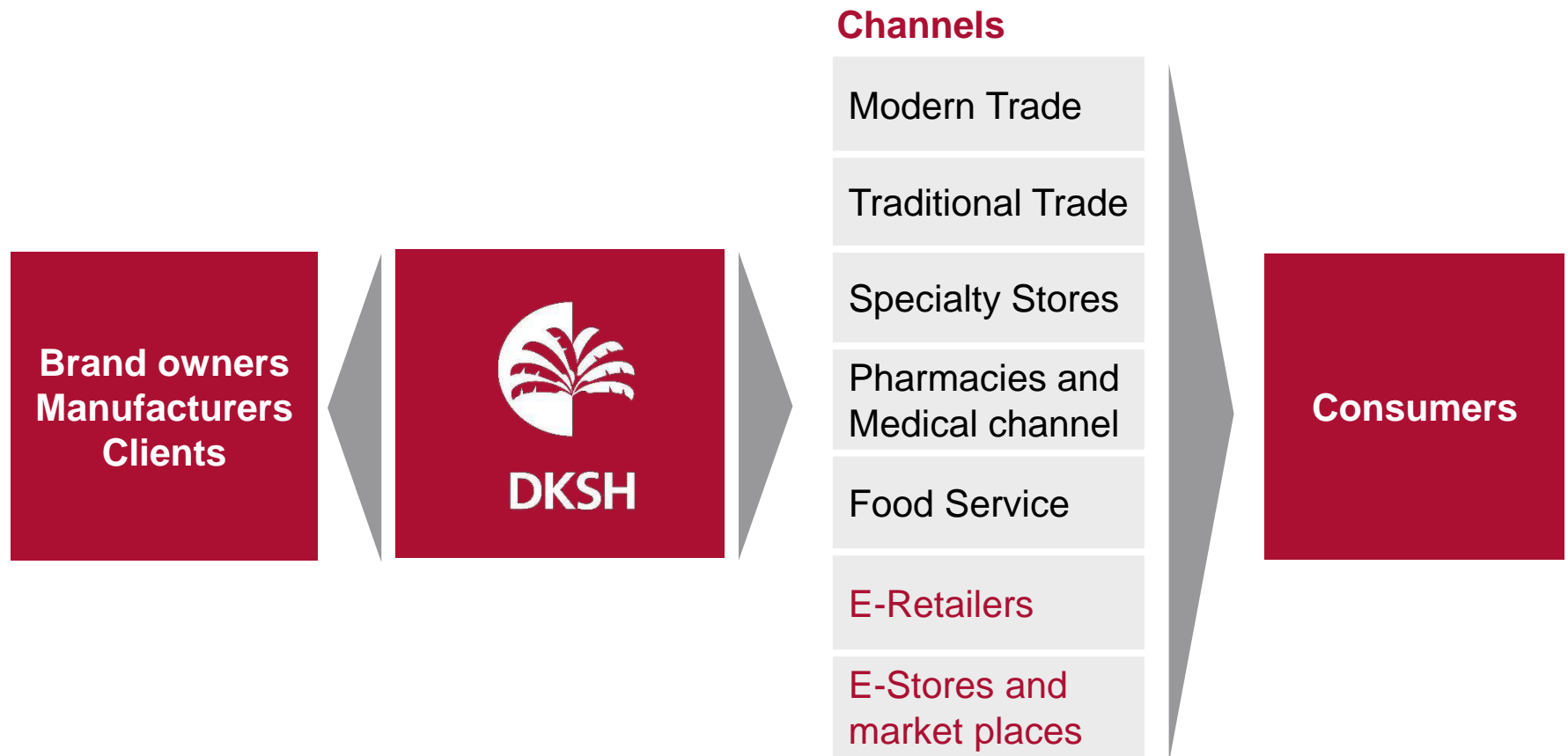


### BMS outsourced to DKSH:

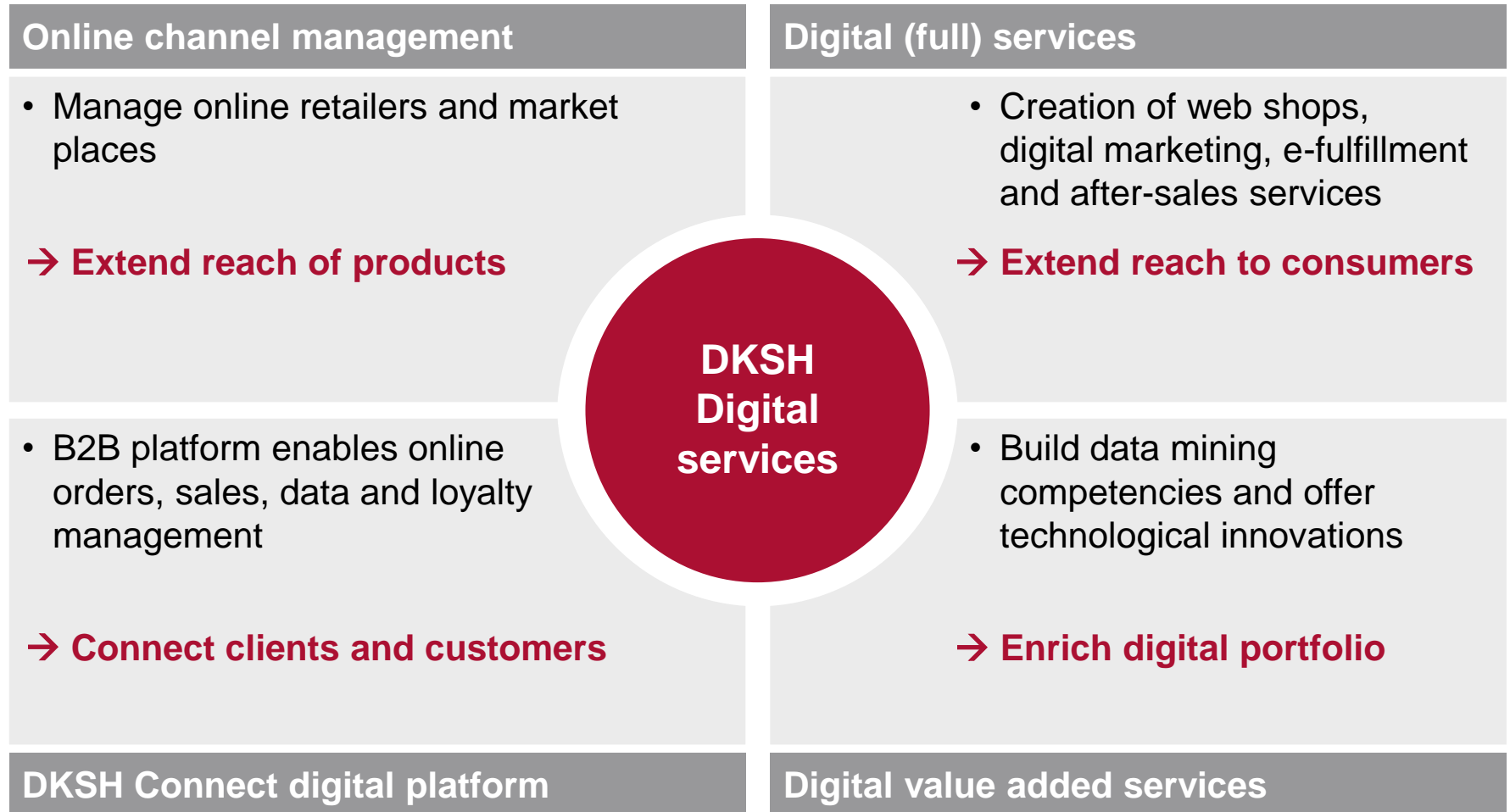


Bristol-Myers Squibb

# Omni channel approach of DKSH

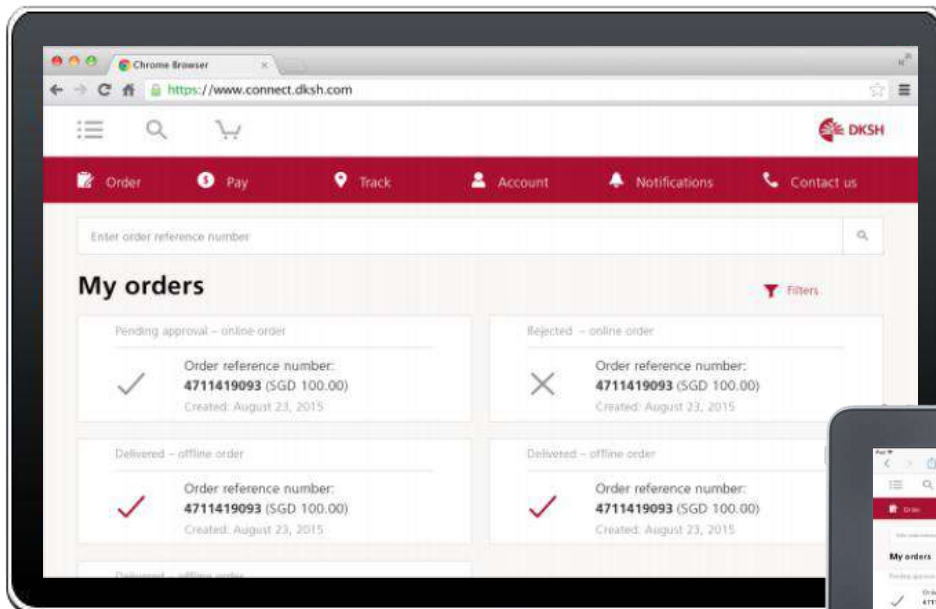


# Digitization enables MES players to offer new services

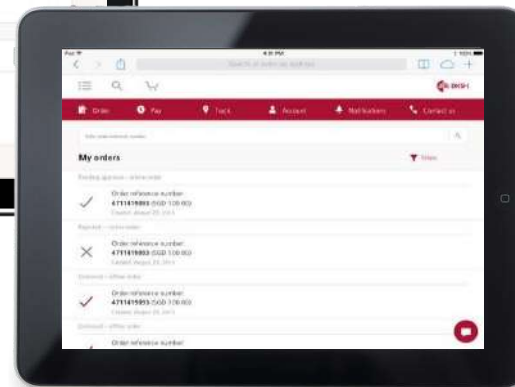


# DKSH Connect digital platform

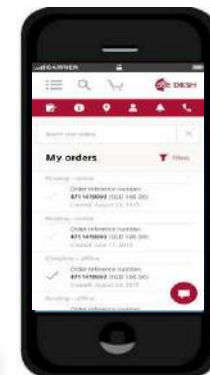
Accessible across all digital devices



Desktop/laptop



Tablet



Smartphone

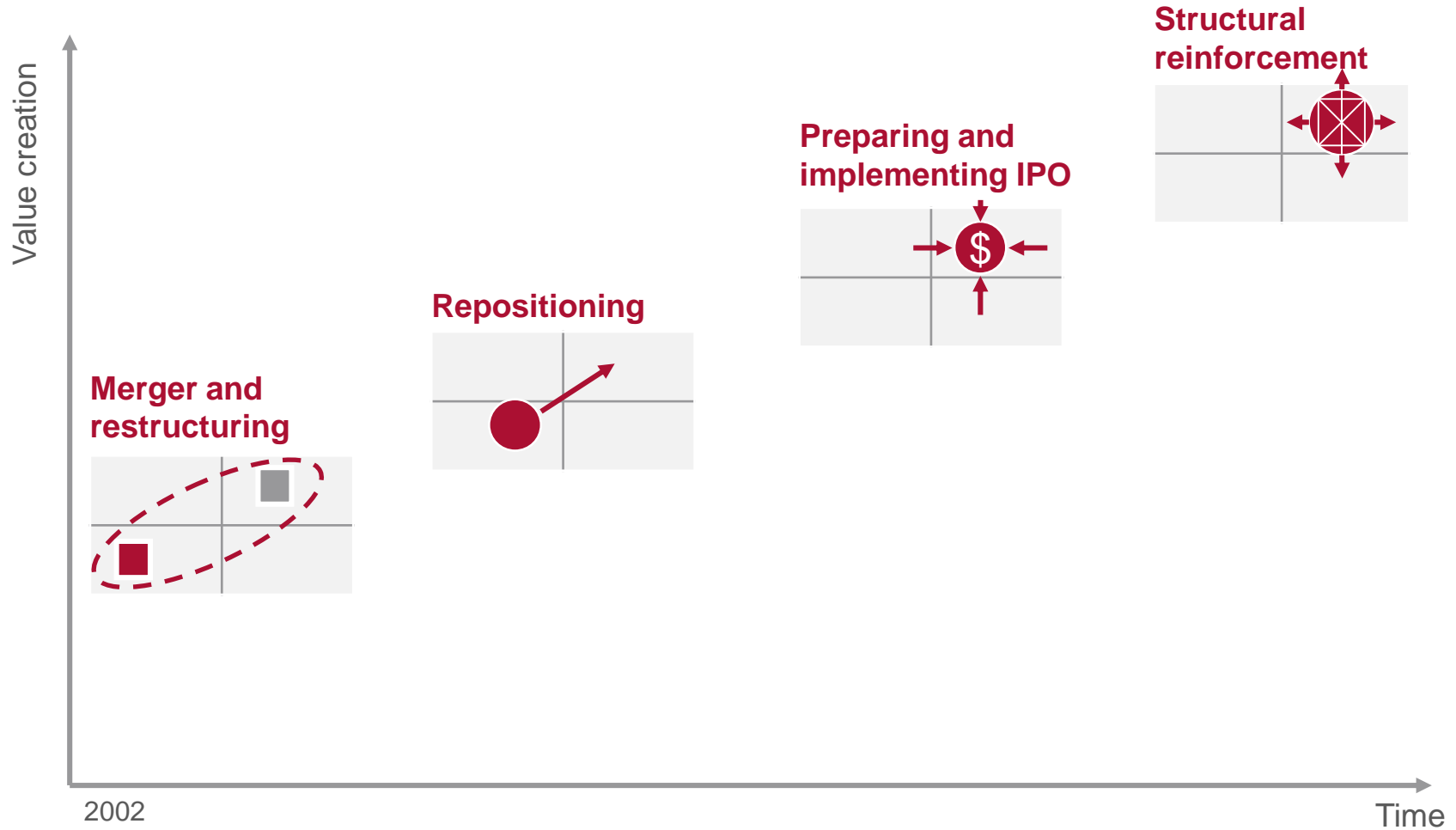


# Coffee break

**Strategy update**

**Dr. Joerg Wolle – President & CEO**

# DKSH has undertaken four stages of transformation



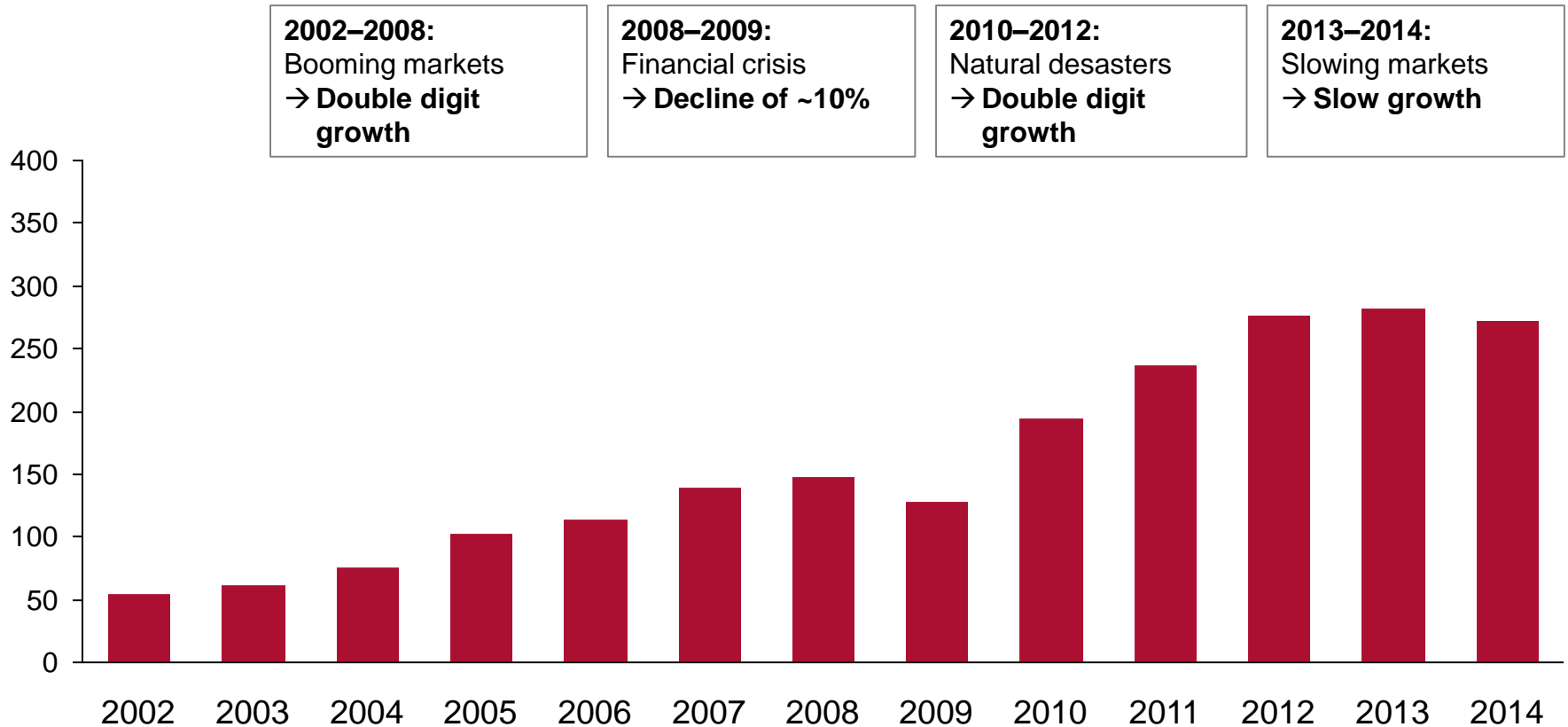
## Clear strategy for future profitable growth

Focus on existing markets and Business Units	Strengthen service offering	Increase operational efficiency
<ul style="list-style-type: none"> <li>• Focus on existing markets</li> <li>• Grow Business Units organically</li> <li>• Further drive industry consolidation</li> <li>• Focus on core competencies</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance service and solution competence</li> <li>• Selectively expand service value chain, e.g.:               <ul style="list-style-type: none"> <li>– Regulatory services</li> <li>– Field Marketing</li> <li>– Digital services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen market position to use economies of scale</li> <li>• Realize operational synergies</li> <li>• Improve operational excellence (standards)</li> </ul>

**To do more of the same and... to do it more efficiently**

# DKSH value creation track record

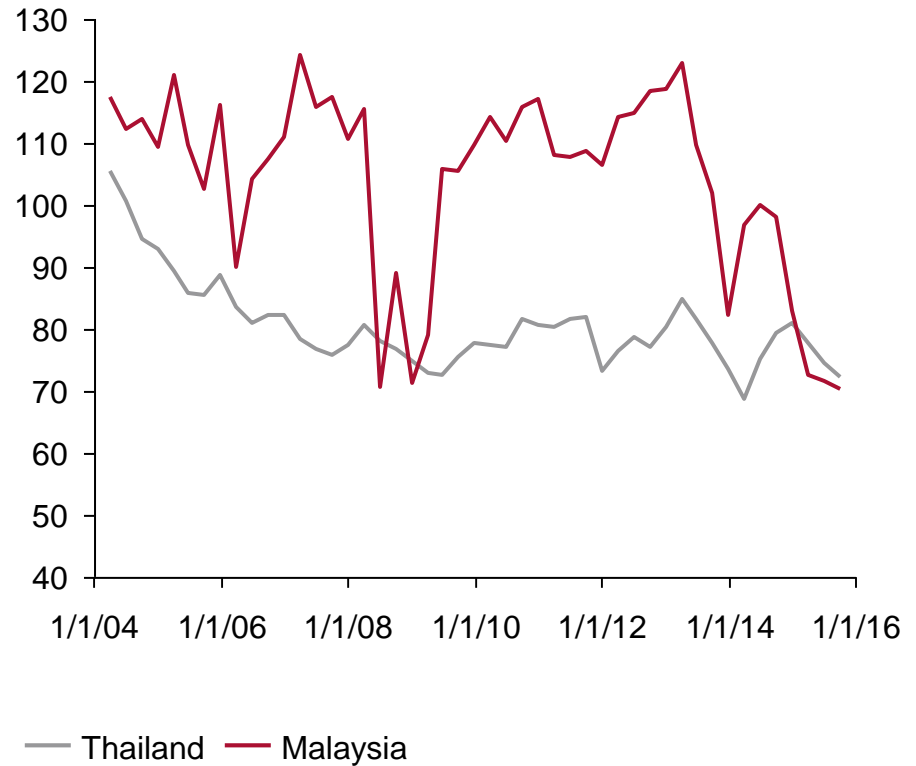
**EBIT** (in CHF million)



# Current impacts on Business Unit Consumer Goods

- 1 FMCG
- 2 Luxury goods business
- 3 Translational FX effects

## Consumer Confidence Index<sup>1</sup>



<sup>1</sup> University of the Thai chamber of commerce; Malaysian institute of economic research

## Chinese business of DKSH

### Limited impact on DKSH business

- DKSH successfully follows a niche strategy approach since many years
- Accordingly less than 10% of group net sales are derived from mainland China
- Present with all four Business Units with focus on Healthcare and Technology
- Anticipated economic slowdown in China with limited impact on DKSH
- Still higher economic growth in China than in Western world expected

### DKSH presence in mainland China



**Business Unit Consumer Goods**

**Bruno Sidler – COO**



## Leading consumer goods MES provider in Asia



CHF

**4.1** billion  
net sales

**14,560**  
specialists

**640**  
business  
locations

Note: Financial figures (FY 2014)

**Think Asia. Think DKSH.**

# Long-lasting client relationships in various categories

## Consumer Goods clients and categories

Personal care:







Confectionery and snacks:







Infant nutrition:<sup>1</sup>







Beverages:







Dairy and dry grocery:







<sup>1</sup> Partly consolidated in Business Unit Healthcare

DKSH is further active in the categories of consumer health, health and wellness, home care and car care

# DKSH omni channel approach

Modern Trade



Traditional Trade



DKSH  
omni  
channel  
approach



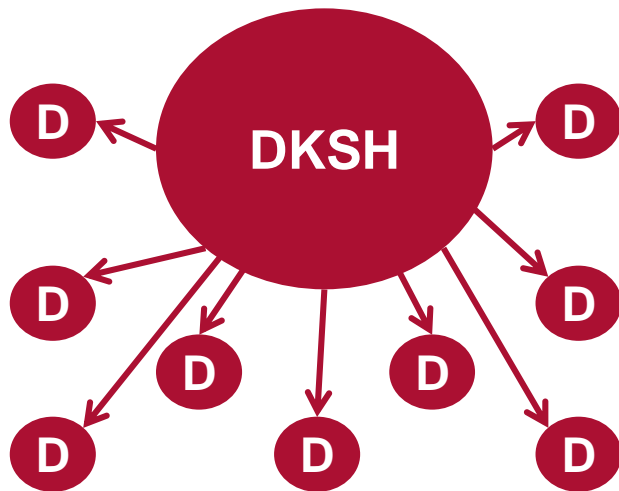
Specialized channels



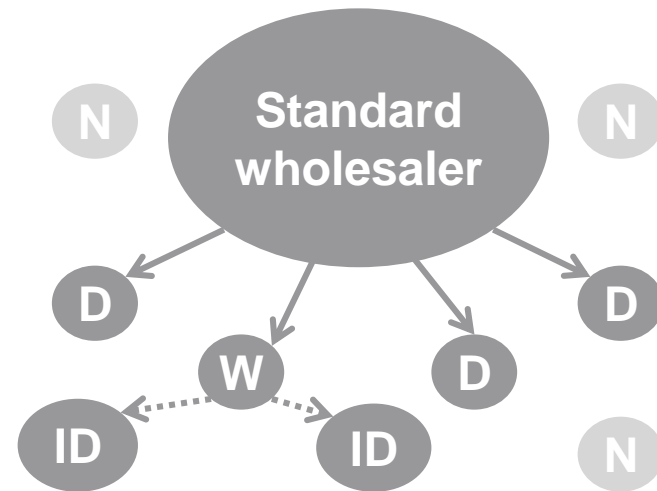
E-commerce

# The theory of capillary distribution

## Capillary distribution



## Non-capillary distribution



# Regional growth for Mars

## Background and results

- Partnership since 1987 in Malaysia
- Further partnership in Myanmar, Singapore, Taiwan, Thailand and Vietnam
- Through DKSH's capillary network, Mars products have broader reach
- Enhanced impact at point-of-sale through field marketing excellence
- Expand distribution to a potential of 100,000 outlets



## Reasons for Mars to work with DKSH



**Terry Seremetis**

General Manager – Mars Chocolate South East Asia & Thailand

# DKSH value chain

Comprehensive portfolio of services along the value chain



...by providing blanket market coverage across Asia

# Why is Field Marketing of increasing importance?

## Sales growth drivers



### Availability

- On-shelf availability
- Stock availability
- Channel ranging
- Shelf-life management

### Visibility

- Planogram implementation
- Product shelf display
- On-shelf display standards
- Point-of-sale marketing

### Implementation

- Promotions
- New innovation  
(*speed-to-shelf*)
- Pricing compliance
- Retail training



## DKSH Smollan Field Marketing (DSFM)

### DSFM team Singapore



- Founded in 2009 as joint venture of DKSH (51%) and Smollan (49%)
- More than 3,500 specialists in Asia servicing around 60,000 retail stores in seven countries
- Clients such as Mars, Nestlé, Friesland Campina or P&G

**DSFM is the largest Field Marketing provider in South East Asia**

## Field Marketing service offerings

### Category management science

- Range assortment
- Shelf space management
- Store layout optimization
- Demand forecasting

### Brand activation

- Promotional and event campaigns
- Point-of-sale management and design
- Shopper engagement
- Mystery shopping

**Turning  
shoppers  
into buyers**

- Order prompting
- (Visual) merchandising
- Promotional execution
- In-store KPI measurement and audits
- Shelf hygiene

- Operational and business intelligence
- Geographical Information Systems
- Image recognition
- Dashboard reporting and analytics

### Field sales and retail execution

### Information technology

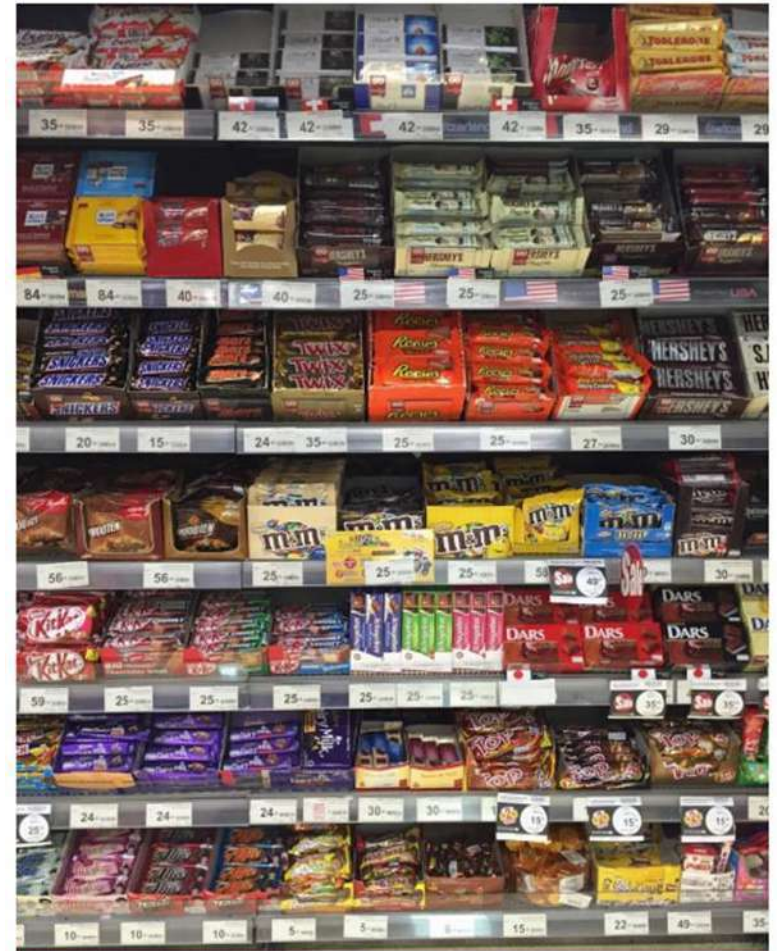
# Field Marketing insight reporting



## Showcase Field Marketing (during lunch break)

### What awaits you later

- Category management explanation
  - Why and how we plan
- In-field management: order entry and measurement demo
- Reporting explanation
- Activation



## Consumer Goods outlook

- Structural long-term growth drivers intact
- Focus on adding new clients and expanding existing client relationships
- Focus on demand creation through Field Marketing
- Focus on omni-channel access – providing access to the growing online channel
- Focus on scale efficiencies across all our operating platforms



Preparing for the future

# Lunch break

**Business Unit Healthcare**

**Andrew Frye – Head Business Unit Healthcare**

## Proven integrated MES leader in Asia in healthcare



**4,200**

Marketing and  
sales specialists

**150**

business  
locations

**4.5** billion

CHF net sales  
(2014)



## Three specialized Business Lines

### Selected Healthcare clients and Business Lines

#### Pharmaceuticals:



#### Over-the-counter (OTC) & Consumer Health:



#### Medical Devices:



# Covering all relevant channels

Medical channel



Traditional Trade



DKSH  
omni  
channel  
approach



Modern Trade



E-commerce

## Value chain integrity – product arrival

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12



# Product control

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# Relabeling

- 1
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# Storage

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# Cold chain handling

- 1
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# Picking in the cold chain area

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- 12





## Picking in the ambient area

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12



# Dispatching

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# Transport

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# Traffic control center

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# Delivery

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- 11
- 12



# Consignment inventory management

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11

12



## Two pillars of medical sales

### Demand creation



- Educating healthcare professionals on the technical benefits of a therapy
- Recommending prescription and/or correct usage of a medicine or device

### Order facilitation and customer mgt.



- Ensuring products are in stock and properly visible
- Actively engage consumers or manage the product displays in-store

## Marketing and sales teams grow business

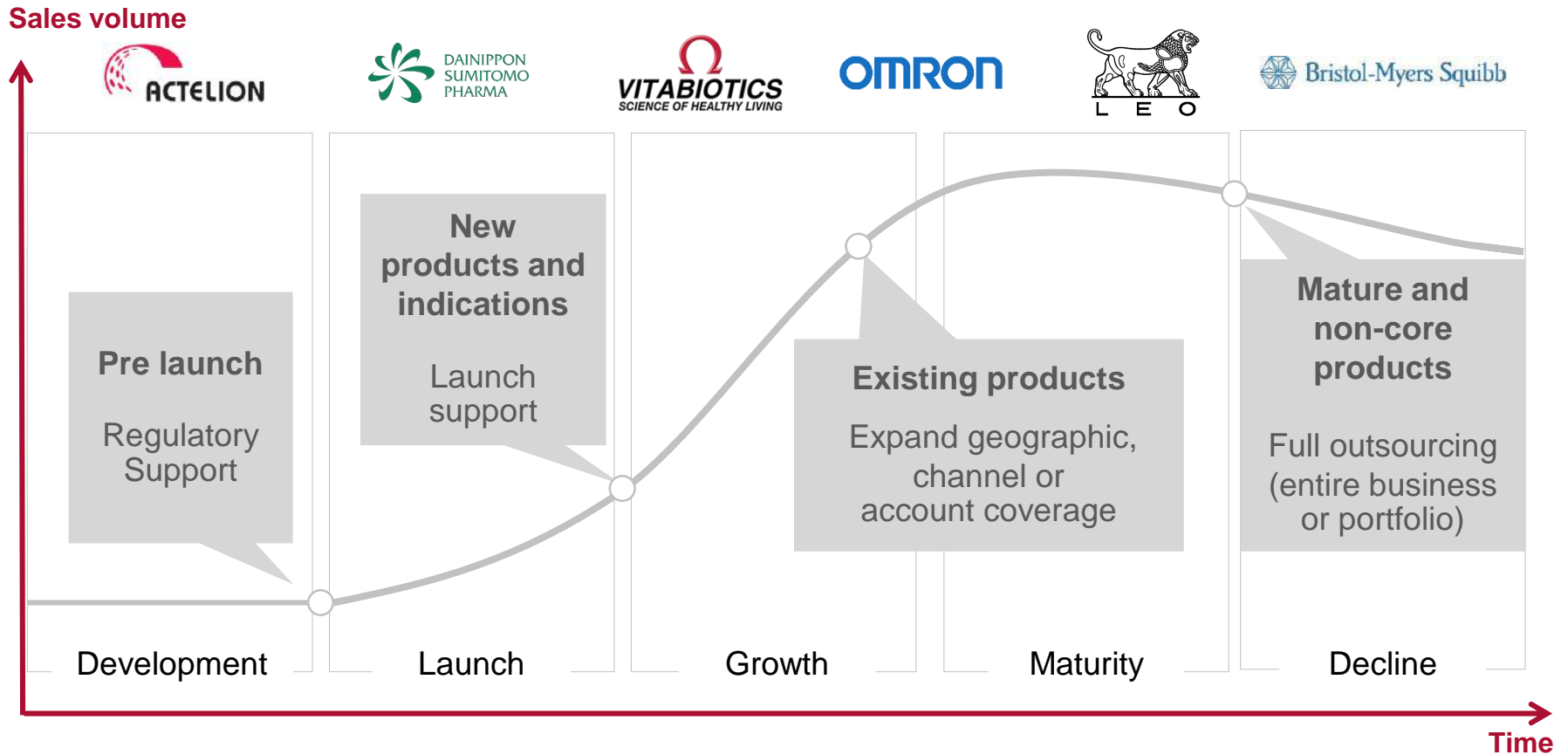
### Facts and figures

- More than 4,200 dedicated healthcare marketing and sales specialists
- Strong relationships with clients, customers and healthcare professionals
- EchoPlus, DKSH's proprietary mobile sales management and CRM tool
- More than 3,500 healthcare marketing authorizations in Asia





# From market entry to managing tail brands



## Bringing Dr. Wolff into the South East Asian markets

### Background and results

- Dr. Wolff outsourced the entire range of services to DKSH in 2013
- Markets covered: Hong Kong, Malaysia, Singapore, Taiwan and Thailand
- DKSH expanded revenue by leveraging relationships with chain pharmacies
- Continuous expansion of partnership, e.g. with Plantur products in Hong Kong



Market  
analysis and  
research

Marketing  
and sales

Distribution  
and logistics

## Cooperation with Dr. Wolff



**Eduard R. Dörrenberg**  
Managing Partner

## Healthcare outlook

- Markets continue to grow faster than in Europe and the Americas
- Market changes let clients outsource parts of their value chain
- More competition for lower margin, but high volume clients emerging
- Recent distribution center openings enable to serve more clients and customers
- Continued strong business development pipeline

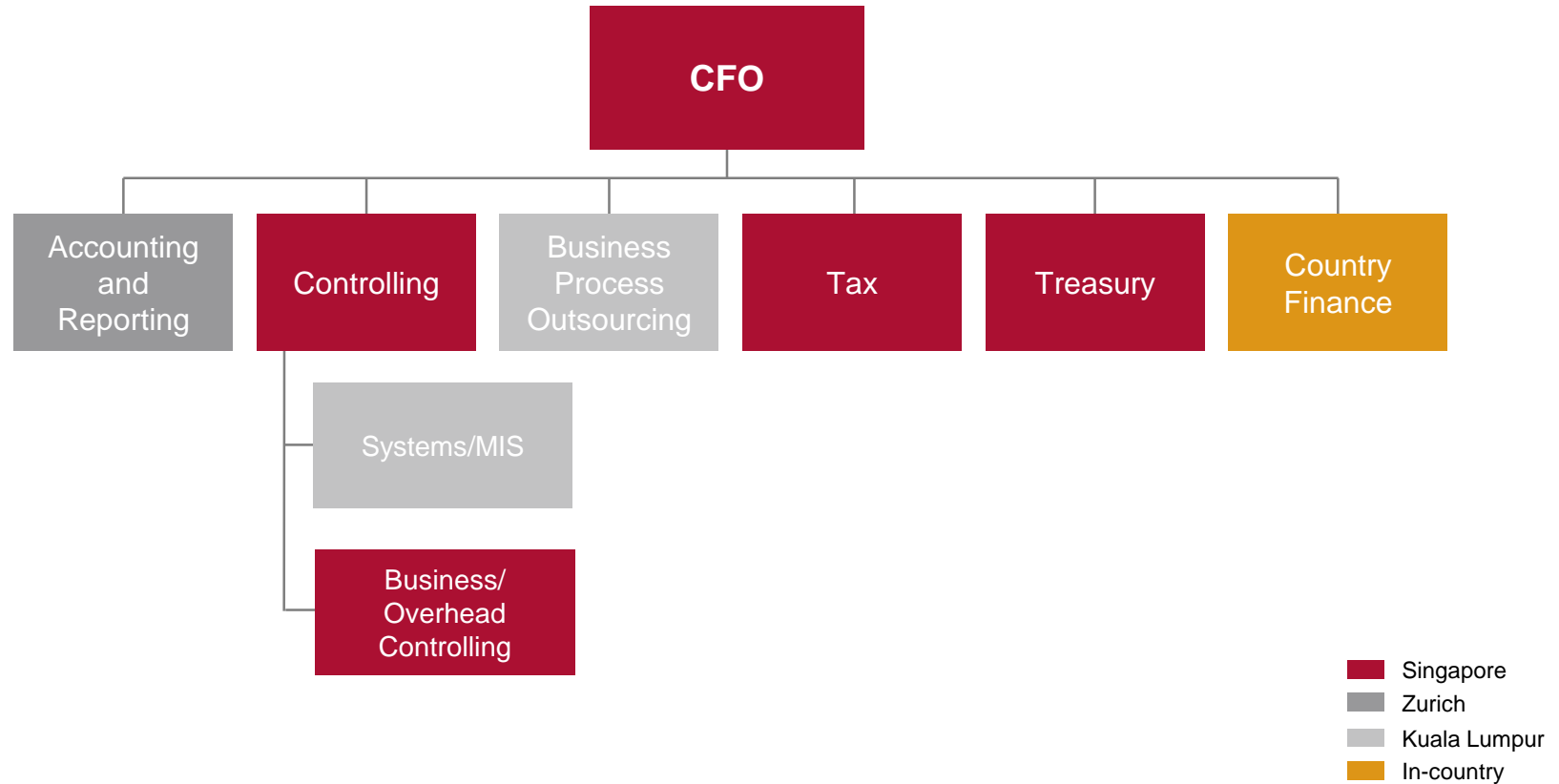


**Focus on expanding business**

**Finance**

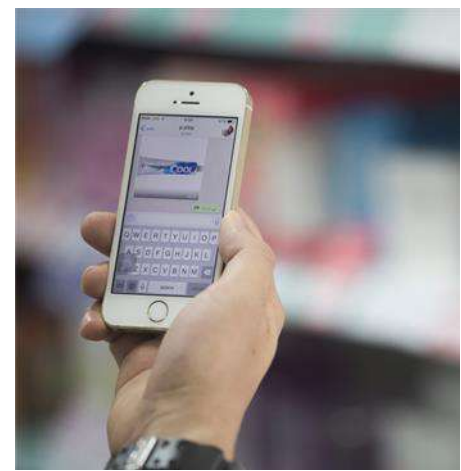
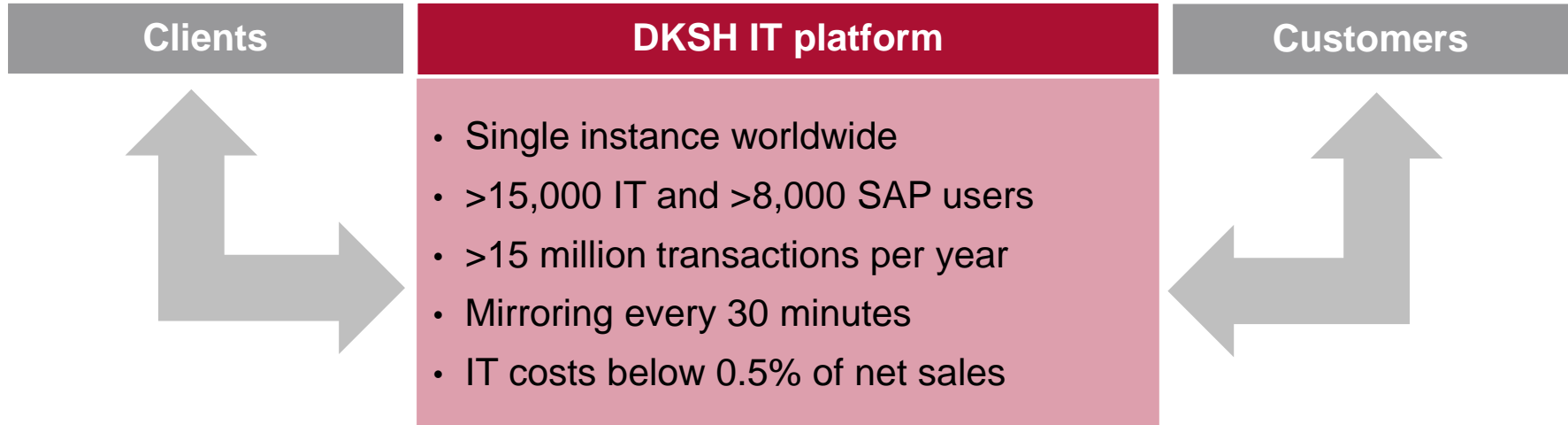
**Bernhard Schmitt – CFO**

## Our finance team's mission...



**...is to enable growth and safeguard assets**

# State-of-the art IT platform is the backbone for finance



## Risk management ensures safeguarding of assets





## Receivables management in Thailand

### Net sales

CHF 3.4 billion annually

**400,000 customer  
invoices a month**  
(20,000 a day)



**Rural collections  
a challenge**

**40% of collections  
in cash or cheque**  
(90,000 cheques a month)

# Process of receivables management in Thailand



**1** Credit assessment and credit limits



**3** Sort and re-distribute bills



**5** Customized bar-coded bank-in slips



**7** Same or next-day funding



**2** Delivery of goods and customers sign bills



**4** Customers pay collectors



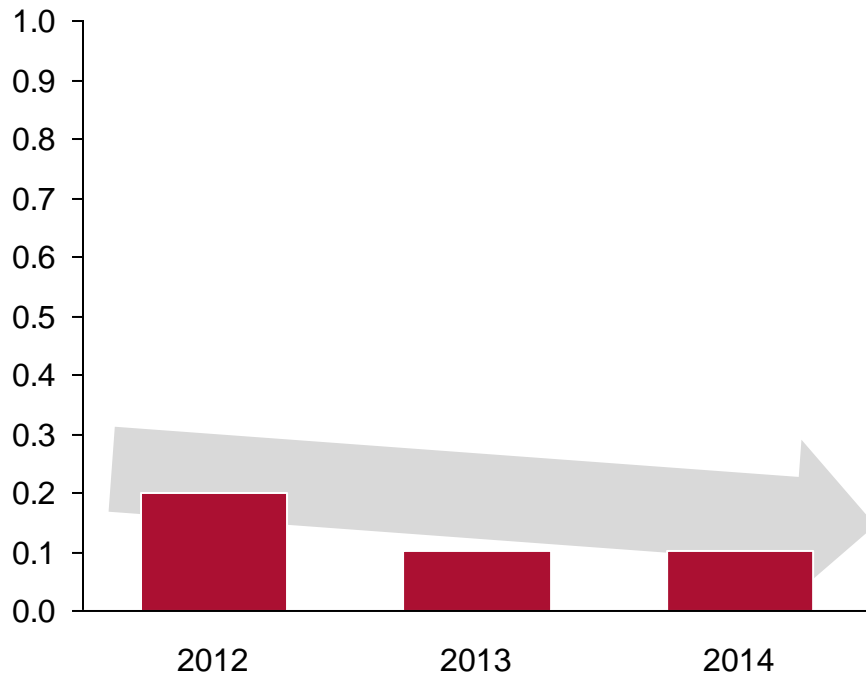
**6** Bank staff at over 400 branches



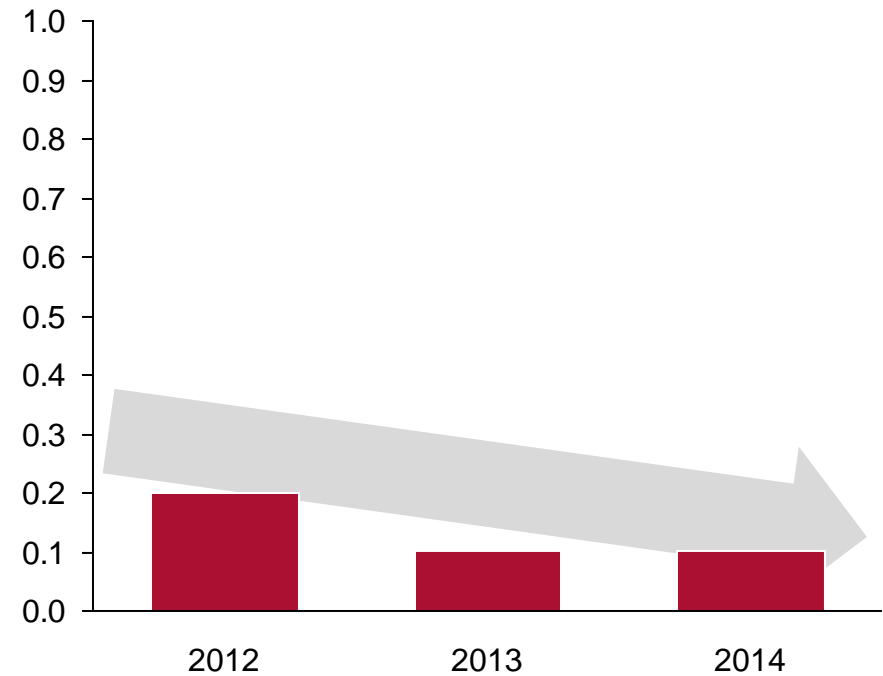
**8** Release or lower credit limit

# Successful receivables management

**Write downs of trade receivables (%)**



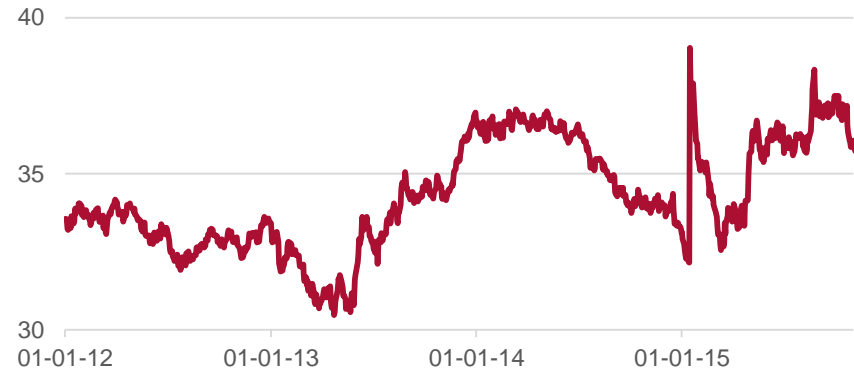
**Write downs of inventories (%)**



## Conservative currency risk management

- Conservative way to manage currency risks
  - In Consumer Goods and Healthcare
    - Purchase and sell in local currency
    - Hardly any transactional currency risk
  - In Performance Materials and Technology
    - Purchase in foreign currency
    - Weaker local currencies can result in temporary pricing pressure
    - Negotiation with clients and customers
- 
- Transaction risk minimal
  - All transaction exposure hedged

### THB / CHF



### MYR / CHF

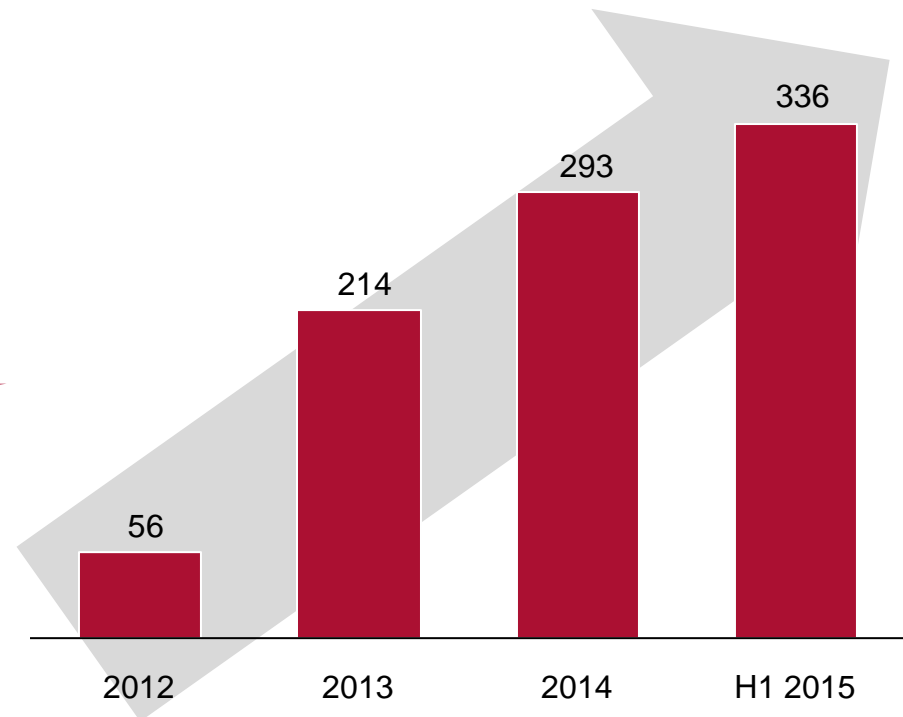


## Strong cash generation

- Tight working capital management contributes to strong cash generation
- More than CHF 335 million net cash position at the end of June 2015
- A committed syndicated facility of CHF 200 million (5+2) is available

- Capital strength and resilience is an important factor for our clients
- Well positioned for business opportunities

### Net cash development (in CHF million)



# Strong balance sheet

## Balance sheet as of June 30, 2015

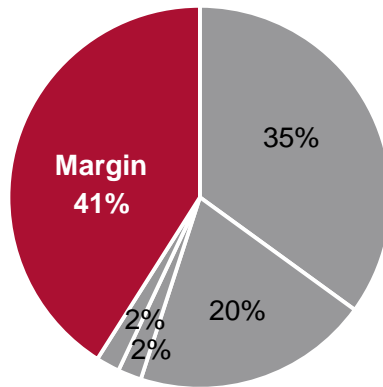
Assets	Liabilities and equity
<b>Net Operating Capital (NOC) CHF 1,086.7m</b>	
Cash CHF 432.2m	
Trade receivables 60 days/Net sales CHF 1,670.5m	Trade payables 77 days/Goods and materials purchased CHF 1,838.0m
Inventories 41 days/Goods and materials purchased CHF 983.9m	Other liabilities CHF 459.3m
Other current assets CHF 397.3m	Borrowings CHF 95.8m
Intangibles CHF 122.1m	Equity and minority interests CHF 1,445.2m
PPE CHF 122.7m	
Other non-current assets CHF 87.5m	
Financial assets CHF 22.1m	
<b>CHF 3,838.3m</b>	<b>CHF 3,838.3m</b>

## Extract from Mead Johnson 10K report

“Our products are sold principally to distributors and retail customers, both nationally and internationally. **Sales to two of our customers, DKSH International Ltd., a distributor serving primarily Asia (including sales to its regional affiliates), and Wal-Mart Stores, Inc. (including sales to Sam’s Club), accounted for approximately 16%, 16% and 15%, and approximately 11%, 10% and 11% of our gross sales for the years ended December 31, 2014, 2013, and 2012, respectively.**”

# Capillary distribution – Finance view

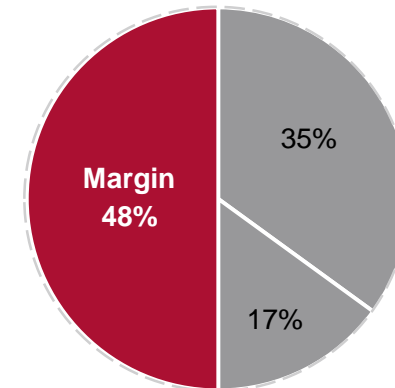
## Client sells directly



## Client sells with DKSH

Market intelligence

Less complexity



Reduced risk

	Client sells direct	DKSH cost only	...with Market Expansion Services		
			+5%	+10%	+20%
Sales	100	100	105	110	120
Variable production costs	(35)	(35)	(37)	(39)	(42)
In-country costs / DKSH costs	(20)	(17)	(18)	(19)	(20)
Account receivable losses	(2)	0	0	0	0
Inventory losses	(2)	0	0	0	0
<b>Margin</b>	<b>41</b>	<b>48</b>	<b>50</b>	<b>53</b>	<b>58</b>
<b>Margin grows at a faster rate</b>		<b>+17%</b>	<b>+23%</b>	<b>+29%</b>	<b>+40%</b>

## Finance – a look ahead

Manage age-old, entrenched market practices

Further drive benefits of modern technologies

FX translational impact of 2–3% on net sales<sup>1</sup>

Capex of around CHF 40 million

Tax rate in the range of 28–30%

<sup>1</sup> Assuming that FX rates stay the same as of October 31, 2015



# Coffee break

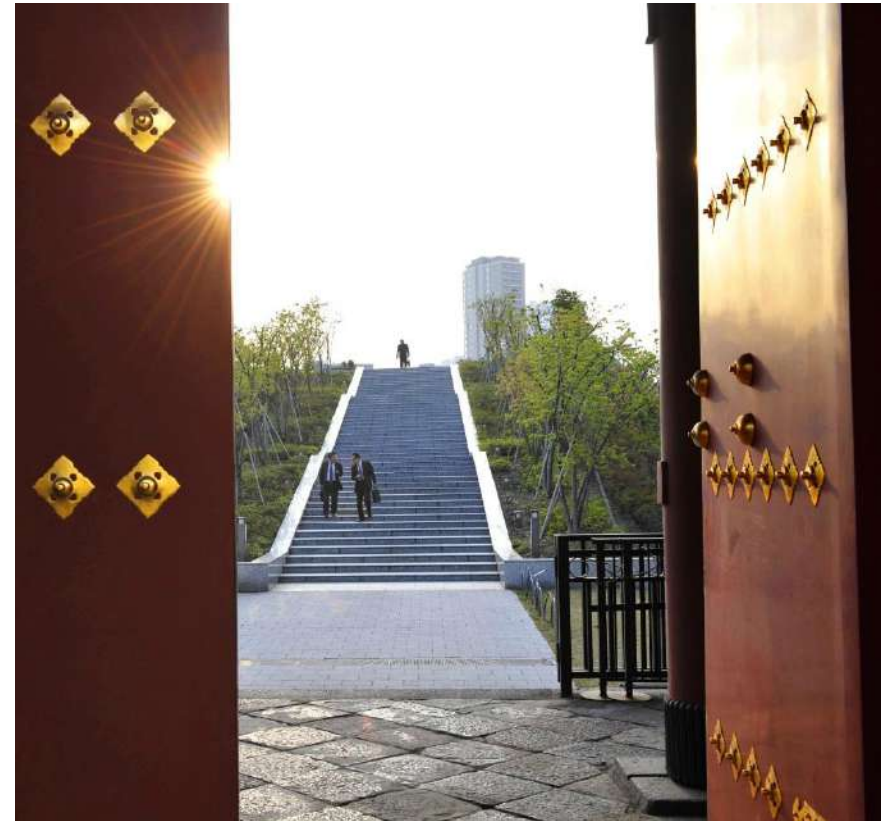
**Q&A session**

**Closing remarks**

**Dr. Joerg Wolle – President & CEO**

## Key takeaways

- Structural growth drivers are intact – expand leading MES position in Asia
- Balance sheet strength enables DKSH to drive industry consolidation
- DKSH weathers current market challenges
- Net sales and profit for 2015 expected to be similar to last year's levels
- Confident to achieve sustainable net sales and profit growth in our core business in 2016 and after<sup>1</sup>
- DKSH continues with its proven progressive dividend policy



**DKSH preparing for further sustainable, profitable growth**

<sup>1</sup>Assuming a mid-term recovery in most affected countries and at constant exchange rates

# Apero



**150** OF MARKET  
**YEARS** EXPANSION  
SERVICES



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**Think Asia. Think DKSH.**

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